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Real Estate Leaders Assess the State of the East End Market

Brendan J, O'Reilly | February 21, 2023

Town & Country CEO Judi Desiderio

A panel of Hamptons real estate professionals convened at Canoe Place Inn & Cottages in Hampton Bays last Thursday, February 16, to assess the state of the East End market, discuss the challenges and offer their reasons for being optimistic.

The conversation was the third in The Express News Group's "Pulse of the Market" series, moderated by Executive Editor Joseph Shaw.

Shaw started out by pointing out that 2022 has the least number of Hamptons homes sales of any year in the last decade and that the fourth quarter of 2022 was the slowest sales quarter in 14 years, according to The Elliman Report.

“Talk me off the ledge here that this isn’t a turning point, that this isn’t significant, that we aren’t at the end of something,” he told the panel.

Ernie Cervi, the regional senior vice president of the East End for The Corcoran Group, pointed out that 2022 followed a year that was unprecedented. “You’re being measured against a year that was record-breaking,” he said. “There was no precedent for what happened in ’21.”

Cervi said the market normalized in 2022 and is not a down market now.

“The market has never been better,” said Ed Bruehl, an associate broker with Saunders & Associates. “We have an inventory challenge, right, which is solvable, and prices have remained solid. So what part of the market has fallen off?”

Judi Desiderio, the founder and CEO of Town & Country Real Estate, pointed out that about 3,300 single-family homes worth a total of $9 billion traded on the South Fork in 2021.

She said that 2,500 homes trade in a “good year,” so comparing anything to 2021, “a year of years,” is unfair.

And then last year, rising interest rates, the war in Ukraine and other extenuating factors caused people to take a pause, she said. “We are selling a luxury item,” she noted. “So do they have to have it? No. Can they rent it? Yes. And it’s just another phase. We’ll be through this one.”

Joe Fuer, a senior managing director at Compass, agreed that the market has normalized.

“We are going to compare ourselves to 2020, 2021 for a very, very long time, and that’s unfair to do that,” he said. “We have normalized into what we can sell given the inventory that we have.”

Philip O’Connell, an executive managing director for Brown Harris Stevens, said when comparing this February to February 2018 and 2019, the numbers are a little bit down, but fairly similar.

“Inventory is the problem,” he said. “You have higher interest rates so people aren’t going to sell their house and trade down and pay more to be in a smaller home. And then you have people who want to trade up, but it’s too painful to trade up. So it’s keeping the inventory tight, which is going to keep our prices stable.”

10 Percent Do 90 Percent

The problem the inventory has now, according to Enzo Morabito, an associate broker with Douglas Elliman, is there are too many agents compared to the amount of inventory that’s available. “So it’s going to get a lot more competitive between the companies, between the individual brokers,” he said. “You have to really be on your game. … Whoever comes out of this will prosper.”

He said someone had said to him recently that business is off one-third, and he replied, "Well we deal with the other two-thirds."

Sotheby's International Realty associate broker Dana Trotter said down markets always weed out brokers who just got their license a couple of years ago and are trying it out. "It's always been that 10 percent of the brokers are doing 90 percent of the business," she said.

Fuer said many city agents came out to the Hamptons to sell during the pandemic, but have equally as fast retreated back to the city. "They don't want to work in this market," he said.

The Situation for Sellers

Shaw wondered if the situation for sellers is different now than it was prepandemic.

Trotter said sales always come down to price.

"You have to price things correctly," she said. "It's a little challenging for us right now to price things because there are a lot of outliers still from the pandemic, but I think if something is priced correctly, it's going to sell."

She said she is extremely optimistic, and the first quarter of 2023 has already been very busy for her, though the fourth quarter last year was quiet. "People just needed to take a pause from the excitement that was the last couple of years," she added.

Shaw asked the panel if sellers with a house that's not selling could benefit by being patient and waiting it out.

Cervi said if a house is not selling right now, the one and only reason is the price, and if homeowners want to sell, they should lower the price and get it sold.

"You're likely going to get less money the longer you wait," he said. He advised against trying to chase the market "because you don't know which way that's going to go."

Low Inventory, High Interest Rates

"A lot of people don't want to trade right now because interest rates are higher than what they have at the moment, so they're not going to trade from a 3 percent interest rate to a 5 or 6 percent," Trotter said. "But interest rates are still historically low, so we have to remember that even at 5 and 6 percent, it's really not so bad."

She said many of her buyers are paying cash right now and planning to finance the purchases later once rates come down.

“There’s still a lot of cash right now, and I think a lot of buyers want to invest in real estate versus the market at the moment because it’s a solid investment,” Trotter said. “Look at the history over the years.”

O’Connell said that prior to the pandemic, the inventory level reached 6,000 or 7,000 units, including “shadow inventory,” from Center Moriches east. “We went down in the pandemic to a low of 350 to 450 units,” he said.

“The COVID wave took away all the inventory that had sat on the market for years,” Desiderio said. “… The bottom line is we’re surrounded on three sides by water. They can’t make any more. There are no more subdivisions. If you want a little piece of East End dirt, you’re going to have to pay up for it. I hate to say it that way because it sounds so snotty, but that’s really the end of it.”

Bruehl concurred: “If you don’t pay up for it, you’re going to miss it.

Cervi said one issue with seeing all the inventory that is available is that it’s not all in the same listings system: “You can’t find it because people put it on different listing systems. So the inventory is not in one place that you can look and get a full breadth of what’s actually available. You have to check three or maybe four places.”

Fuer said low inventory issues are a problem across the country.

“We have to take control right now and create our own inventory,” he said, “And this is something we’ve been talking about for a long time: Looking at old inventory as new inventory. We’ve had a lot of success lately revisiting things that have been on the market that haven’t had price reductions because the sellers are afraid to go there, or they’re difficult conversations. But when we come back with a buyer, it’s a whole new process and then the seller is ready to engage.”

Desiderio said interest rates were 18 percent when she started in real estate and never should have gone as low as they did during the pandemic. Rates have now come back up from that “artificial low,” and are getting into more of a normal zone, she said.

“We used to say, ‘As long as it’s below 10, you’re good,’” Desiderio said. “So imagine that. Now they’re at 5 percent. It’s just sticker shock. This too shall pass. People will realize that’s not a crazy amount of money. When you’re looking at buying a house and you’re doing it on a 20- or 30-year basis, it’s not crazy.”

The Rental Market

Morabito said that so many people bought houses in 2020 and thought they could rent out those houses easily, but then found it’s not that easy. One reason it’s hard to find tenants, he explained, is that those new homeowners were formerly the renters — so now there are fewer people to rent to.

He said that especially in the range of around $2 million, owners who bought during the pandemic are back to their normal lives and now looking to sell, and he expects that to accelerate.

Trotter attributes a quieter rental market last year to pent-up travel demand being released.

“I went to Italy last July, and it was like the Hamptons in August. I mean, it was crazy,” she said.

This year, she is not seeing the same struggle with filling rentals.

The Artificial Player in the Market

O’Connell said the Hamptons is unique because it has an artificial player in the market: the Community Preservation Fund.

The CPF is funded through a 2 percent tax on real estate transactions, and the money goes toward open space preservation and water quality protection, among other related purposes.

“You buy up a piece of land that’s waterfront between two other pieces of land, all of a sudden now you’ve raised the prices of those pieces on either side,” O’Connell said.

Desiderio added that the CPF also takes bulk acreage off the market that could have been subdivided, but she said this is good: “The infrastructure gets strained, so it’s good that they’re taking some of these things off the market.”

Trotter said last year the CPF purchased for $10 million a viewshed on a well-traveled road.

“As a local, I’m happy to see the CPF spending money on that because I don’t want to see houses everywhere,” she said. “So we were thrilled to do that deal.”

The Community Housing Fund

South Fork voters passed in November 2022 a new Community Housing Fund, which increases the real estate transfer tax by half a percentage point, with the revenue dedicated to creating affordable housing opportunities.

“This has the potential to be significant to the local market in the same way the CPF was significant,” Shaw said. “I’m curious whether you think, as observers of the market, the CHF may create more inventory and thus become a driver of the economy even as it starts to address the impacts that it’s had on the local market.”

Trotter said teachers, office staff and service staff can’t afford to live on the East End, and it needs to be addressed.

Desiderio suggested that the towns purchased properties prior to the creation of the CPF and that those properties could be on the table for development.

“The towns have been buying the properties forever,” she said, “and there’s tons of it. I think if somebody took a master plan of the East End — North Fork, South Fork, east end, west end — took a look at what was purchased before CPF and really wanted to tackle this problem, they would. In fact, in all my years, twice the towns hired outside consultants, and they said: ‘You must allow for accessory structures. You must allow for mother-daughter. You need to increase your affordable housing.’

“They didn’t say you need to tax people. They said you need a plan. Where’s the plan?”

Overcoming Buyer Trepidation

Raphael Avigdor, an associate broker who was part of the audience, raised the issues of consumer confidence and buyer trepidation.

“A lot of the Wall Street guys that have fed our markets so strongly all have a doom and gloom perspective of the economy and what it will be in the future,” he said. “And therefore, those that are out there are waffling on their offers, and I’ve got a bunch of things going sideways and backwards right now. And I think that it comes down to a general consumer confidence and a general consumer psychology.”

Avigdor said once the market stabilizes and the press can present an optimistic picture about the future, people will come out of their “fear shells” and will start to purchase more.

Buyers are not on the same page with sellers in terms of market valuation, and the “COVID bump” has not found its new balance, he said.

Bruehl disagreed. “It’s the broker’s responsibility to get in front of their clients and tell them before the media does it,” he said. “I’m not waiting for the media to affect the market.”

But Avigdor said brokers can only touch the buyers who have already come to the table, whereas the media can influence hundreds of thousands more.

“When they see the penguins jumping toward the Hamptons again, it will open that wave of greater activity,” Avignor said.

Morabito did not see it as simply a confidence issue when there are young people on Wall Street who are out of work.

“It would be ludicrous for us to say, ‘Oh, this is psychological.’ It’s not,” he said. “They don’t have the money right now to do that. They don’t have the security to do that within a certain price range.”