Real Estate Is Still Cheap Despite Many Profits Which It Has Paid During the Current Year

By Robert C. Knapp
Of Douglas L. Elliman & Co.

Most great speculative movements, whether in real estate, stock or commodities, end in a crash. When the bubble bursts real estate and stocks have passed from strong hands to weak. After the smoke has cleared the innocent public is minus untold millions of dollars plus much sad experience.

My attention was drawn to a statement that within six months most of the properties which have been sold recently would belong to the mortgagees. Let us analyze the present boom, or more correctly speaking, the great activity in improved property to see whether it is founded on sand or rock.

We all know that during the last four years the city stopped building, but did not stop growing. How many people realize, however, that probably 90 per cent of the buildings were sold during the last year for less than their original cost and in a great many instances for 50 per cent of their replacement value? Take for example the sale of a dozen apartment houses on Park Avenue and the immediate vicinity and in almost every case the owners sold them at a loss. These same buildings in which there was not a single vacancy could not be duplicated for from 25 to 50 per cent more than their selling prices. The sellers were either estates or wealthy individuals who could afford to take a loss in order to cut down their income tax.

Examples of Low Prices

For example, a twelve story Park Avenue apartment house cost $1,100,000. The reproduction value would be about $1,500,000. It was sold three times during the present year, first for $850,000, second for $890,000 and third for $920,000.

A nine story apartment house in the 80's cost the owner about $275,000. The reproduction value would be $350,000 and it was sold for $230,000 and resold twice afterward for small profits.

Another nine story house in the 80's cost $375,000. It was sold for $290,000 and twice resold at small profit.

A nine story apartment in the 50's cost over $350,000, and was sold and resold for about $300,000.

The same thing has occurred in loft buildings and in downtown business buildings.

These are only a few examples which are typical of the apartment house sales made this year on the East Side.

Most of the cheap private houses have been purchased for occupancy, thus taking them permanently out of the market.

In the downtown sections many of the largest office buildings have been purchased by great corporations for executive offices and not for speculation.

Why Boom Is Substantial

A large percentage of the loft buildings being sold to the operators and speculators were owned by insurance companies, savings banks and other large lending institutions which became unwilling owners during the last five years through foreclosure proceedings. Many of the other properties were owned by estates which had been strong enough to carry them through the great depression of the last ten years in real estate between the City Hall and Thirty-fourth Street. These buildings are rapidly being resold to tenants for their own occupancy.

It would, therefore, seem that the present boom is a legitimate one, and that real estate, instead of passing from strong interests to weak speculative interests, is being purchased by strong interests and taken permanently out of the market.

The position which the large lenders on mortgage have taken is a further protection against inflation. Most of the mortgages now carry an amortization clause which forces the owner to pay off out of the earnings a portion of the mortgage every year. This is preventing many unscrupulous people from buying properties for the purpose of milking them.

Can Buy Cheaper Than Can Build

Five years ago a builder could erect a first-class nine-story apartment house on the East Side for between $2,500 and $3,000 a front foot. To-day it is costing at least $5,000 a front foot. In spite of the great activity it is still possible to purchase the best investment properties fully rented for less than the cost of reproducing them. Furthermore, most of the speculative builders who own many of the finest apartment houses in the city find it impossible to sell on account of the excess profits tax; therefore the supply of high-grade properties is limited, and they are rapidly being purchased by people who will hold them indefinitely for the excellent return which they are producing.

Overproduction Caused Slump

The principal reason for the great slump which occurred in real estate during the last ten years was overproduction. This situation has been completely reversed. In the forty high class apartment houses under our management, having a combined annual rental of over $2,500,000, there is not a single vacancy. Other real estate offices report the same condition.

Most of the builders have stopped building and are buying improved property, because they can buy cheaper than they can build; and they will not start to build extensively until prices begin to correspond with the cost of reproduction, or the cost of building drops to a point where they can successfully compete with existing buildings.

It is the opinion of the best builders, architects and material men that building costs will not come down to any extent for a great many years.

Different From Other Booms

In conclusion I would like to draw a comparison between the present boom and those of the past. Previous booms were almost entirely speculative usually in unimproved properties and were discounting the future. The 1920 market has not yet begun to discount the present; all the activity is in improved real estate. Vacant property is nearly as dormant as it has been for the last five years.

In the great speculations of 1905 and 1906, around the Pennsylvania Station, in The Bronx and in Queens, all the activity was non-income bearing properties, discounting enhancement in values which was expected to follow improved transit facilities. Prices rose to ridiculous figures and the land-crazed public suffered tremendous losses when the tide turned and the boom died out.

Conditions Could Not Be Better

I anticipate a healthy and very active market in improved real estate during the coming year, and the cheap properties are being rapidly picked up by discriminating buyers who need feel no cause for worry, even if the present activity dies out.

The demand for space was never greater and the net income larger and more uniform that it has ever been.

1919, Greatest Year in History of Real Estate Auction Market, To Be Eclipsed by 1920

By Joseph P. Day

The enormous liquidation of improved and unimproved real estate at public auction that has taken place this year has never before been equaled in the history of the realty market of New York. During the last year the results obtained at auction in the Real Estate Salesroom and at private treaty have borne out the prediction made by me soon after the signing of the armistice on November 11, 1918.

With the signing of the armistice the entire business world got busy and "cleared decks for action." The reconstruction period was at hand; there was big work to be done by every good American citizen, and to be done immediately.

The first to respond to the good effect of the armistice was the real estate market, and early in January, 1919, there was inaugurated the enormous buying movement which has since materialized.

Leaders in the world of finance, industry and manufacturing led in the purchase of big and costly buildings for their own occupancy. Coincident with this movement came the buying of additional properties for the enlargement of old quarters. Business space, especially in the downtown districts, was in such great demand and so scarce that offices, lofts, etc., soon went to premium.

Shortly after this movement started I negotiated the sale by private treaty to Judge Gary for the United States Steel Company of the twenty-one story Empire Building for about $5,000,000. Soon after the purchase of this building for occupancy I negotiated a similar sale to Mr. Sinclair for the Sinclair Oil Company, involving the thirty-one story Liberty Tower for a price of about $2,500,000.

Rents are now at levels never even dreamed of, and they are still soaring. Manufacturing and industrial space prices have followed suit. Apartment rentals are very high, and there are practically no vacancies. Private houses, for several years a drug on the market, have been brought well within the scope of the demand, and are now being sought assiduously by homeseekers and by those who see in them an unusual opportunity to convert them into profit-making, multi-family houses.

The winter of 1918 and spring of 1919 passed without any very marked activity in the offering of prominent properties by public auction. Lots were a drug on the market, and the only commodity that could be purchased for about 50 cents on the dollar, or even less.

Then one fine day in May came the announcement of the forthcoming sale of the holdings on Washington Heights belonging to the estate of the late James Gordon Bennett. This great sale, which I had the honor of conducting, marked the actual opening of the lot auction market in the year 1919.

The success of the Bennett sale swept the pessimists of the real estate market completely off their feet. A more important effect, however, was the fact that it demonstrated to the world at large that there was plenty of money available for investment in real estate, provided the property to be sold was to be purchased by the bidders at their own price, and that the sale was liberally and honestly advertised, promoted and conducted.

Keen observers of conditions in the real estate world at once became cognizant of the fact that the lot market was in the grip of an entirely new group of investors, most of whom were of the thrifty, savings-bank variety, and truly representative of the great wage earning and middle classes.

The Bennett sale sufficed to encourage property owners, and it was followed almost immediately by the offering of other prominent estates, such as those belonging to the late H. B. Claflin and John D. Crimmins. In addition, there were the other big sales held by me for the Estate of Long Beach, Howard Beach Estates, the owners of the Guttenburg racetrack, Nepperhan Heights and Bryn Mawr Park, Yonkers, the Sound Realty Company, the Bronx Terminal Corporation, and the estates of the late Anthony N. Brady, the late Hugh J. Grant and the late George F. Johnson. Meanwhile, I held numerous sales conducted on the Pacific Coast, in various parts of Canada, in Florida, at Buffalo, Baltimore and elsewhere throughout the country. These were in addition to the various sales of properties located in the suburbs of New York, in New Jersey, Westchester County and on Long Island.

The net result of all this huge liquidation of real estate and its absorption by the investing public was the disposal of over 12,000 lots for a total of over $15,000,000. The lot selling season of the year 1919 practically was brought to a close with the three-day sale, on November 3, 4 and 5, of the properties in the East Bronx, in the Longwood Avenue and Hunt's Point section of the East Bronx, owned by the Bronx Terminal Corporation, and by the Brady, Grant and Johnson estates.

One of the important deciding factors in the success of these three great sales of more than 1,250 lots, and a large amount of valuable water frontage, was the purchase, by private treaty, on the eve of the auction sale, of a large portion of the Bronx Terminal property by the Robert Dollar Steamship Company for the establishment of a New York and Shanghai steamship terminal.

As a result of these sales, the Longwood Avenue section of the Bronx will be further developed, while the undeveloped section of the Hunt's Point district is now held in the hands of hundreds of large and small investors, none of whom will be slow to take advantage of the quick development assured by the Dollar Steamship Company purchase.

It has been a matter of deep satisfaction to me personally to have observed that a great number of the buyers at the sales held during the last twelve months have been numbered among the buyers at sales conducted by me in former years. This is a good sign, the importance of which cannot be overrated, as it affords concrete evidence of the confidence in which New York City real estate is held by thrifty investors.

Many Big Auctions Next Year

In the year 1920 I expect to see a continuation of the dissolution of large estates, and I firmly believe a number of extremly important properties will be offered to the public "at their own price" within the next twelve months.

The most important sale now on the horizon is that of the estate of the late Mrs. Margaret Olivia Sage, widow of Russell Sage, all of which property I will sell, by absolute sale, next month.

Included in the offerings are many valuable properties in Manhattan and Queens boroughs. It is the longest and the most interesting schedule of improved real estate that has been offered by public auction, by any estate, in the last decade. More than thirty prominent institutions will benefit from the results of this sale. In fact, the entire residue of Mrs. Sage's estate, under the terms of her will, is divisable among these institutions. The Sage estate sale will be a splendid beginning for the new year, and will give investors and homeseekers a most unusual opportunity to buy, at their own prices, properties of almost any and every class and value.