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Homebound Buyers Ask: Is a Picture Worth $1 Million?

The coronavirus outbreak has exposed how the real estate industry's reliance on face-to-face deals can be a weakness.

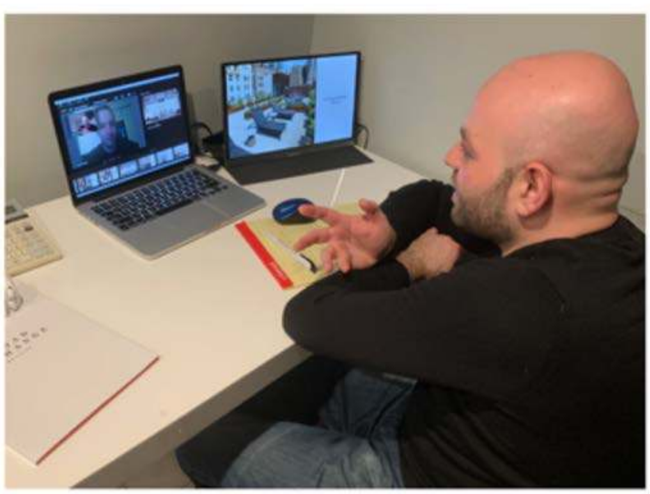
By Stefanos Chen April 10, 2020, 5:00 a.m. ET

The real estate industry, for all its newfound tech savvy, still relies on handshakes across mahogany tables.

The coronavirus pandemic has exposed that weakness: Real estate is a cheek-by-jowl business, methodical by design, lumbering until the final, crowded contract signing. And practically overnight, it has been forced to rethink the entire model.

New York State's stay-at-home order, and similar restrictions elsewhere, have complicated every part of the monthslong home-buying process, for buyers and sellers but also the movers, appraisers, back-office workers and lawyers who handle the physical stacks of paperwork still required by law to close a deal.

"There is B.C. and P.C. — before- and post-Covid," said Alex Vaynrokh, the sales manager at the Broad Exchange Building, a condo conversion in the financial district. In anticipation of the stay-at-home order, his firm shot 52 video tours on cellphones in two days in mid-March, expecting they would no longer have access to their sales office.



Alex Vaynrokh, the sales manager at the Broad Exchange Building in the financial district, presents a virtual tour of the building. Tanya Vaynrokh

“Virtual” is likely to be the operative word for the foreseeable future. From March 15 to 30, nearly 2,000 listings for sale in New York City included a link to a video walk-through — almost twice as many as in the two-and-a-half months prior, according to StreetEasy, the listing site.

But they’re a poor substitute for the real thing, said Frederick Warburg Peters, the chief executive of Warburg Realty.

“A picture may be worth 1,000 words, but only an in-person visit is worth $1 million dollars,” he said, adding that he expects signed contracts could fall more than 70 percent in the second quarter, compared to the same period last year.

Prices in New York real estate have been sliding since the peak of the market around 2016, but the extraordinary damage the pandemic has caused to the economy could push prices significantly lower. It is unclear how far prices might fall, but after the Sept. 11 terrorist attacks and the collapse of Lehman Brothers in 2008, real estate prices dropped 25 to 30 percent from the peak, according to Jonathan Miller, a New York appraiser. Already, buyers in contract are aggressively renegotiating prices, agents said.

Those who brave the market now could get some of the best deals in years, with near-record low mortgage rates, but the path is complicated by ever-changing guidance and all the minutiae that video calls fail to convey.

New York agents were banned in mid-March from showing apartments in person. That decision was seemingly reversed, but only to allow them to record virtual showings — a distinction without much difference, since most apartment buildings are refusing to admit nonresidents anyway.

Some lenders will accept “drive-by” or “desktop” appraisals that don’t require a physical inspection, but there is limited data on how far home values have fallen since the outbreak. The state is also permitting some forms of virtual notarization to prove that key documents were signed, but it remains unclear whether many banks will accept these standards.

Even the most pedestrian tasks have been transformed: How does a co-op board interview your dog over Skype? How do you read the room when the deal makers are talking heads on a screen?

Still, many of the changes made over the next several weeks could actually improve the antiquated buying process. These are some of the obstacles ahead.

Buying Now

In the first quarter, the median sale price in Manhattan was $1,060,000, down 7 percent from the same period in 2016, when the market peaked, but a surge in sales in the early part of the quarter suggested the market was turning a corner. With the arrival of the virus in March, all momentum stalled.

“Everybody’s been waiting for the other shoe to drop, and now it’s dropped,” said Lisa Lippman, an agent with Brown Harris Stevens, who expects the market below $2 million to suffer the most, because of surging unemployment and a steep drop in the stock markets that will make buyers reluctant to cash out.

Many sellers have simply given up for now. In the second half of March, new listings in New York City were down 75 percent from the same time last year, with just 541 homes coming to market, according to Nancy Wu, an economist with StreetEasy.

“There’s this whole other part of the market, of these apartments in limbo,” said Melissa Leifer, an agent with Keller Williams NYC. “They haven’t listed, but are available.” Before the stay-at-home order, she recorded virtual tours of her five listings, and has six more properties that she would have listed before the pandemic.

Amanda Scoblick, a film producer living in Florida, has kept her one-bedroom condo in Carroll Gardens, Brooklyn, on the market, because she hopes serious buyers will continue to make bids. She has a tenant in place, which could be appealing to investors looking for rental income.

“I just want to wait it out a little bit,” she said, reasoning that the exposure is helpful, even if closing won’t be possible for some time.

Amanda Scoblick is still trying to sell her $699,000 one-bedroom in Carroll Gardens, Brooklyn, despite the obstacles to marketing. She plans to create a video tour for the property. Michael Weinstein

Before the stay-at-home order in New York, she had two offers on the $699,000 listing that were close to asking price, but both bidders tried to renegotiate their offers, and she declined.

The search continues for some, despite the inability to see apartments in person. George William Case, an agent with Warburg, said he has a client who is in the process of selling her apartment in Harlem, and had been attending open houses every weekend to find a new home downtown. Now she searches online, as Mr. Case scours to find her listings with video tours.

“We’re trying to keep her engaged, and she enjoys the listings,” he said about the client, who has shown interest in two properties. “But is she going to pull the trigger? I doubt it.”

New Development

New development was already on weaker footing than the resale market before the pandemic hit. Nearly half of new condo units in Manhattan that came to market after 2015, or 3,695 of 7,727 apartments, were unsold, according to a December analysis by Nancy Packes Data Services, a real estate consultancy and database provider. The median sale price for new development in the first quarter was $2.8 million, down 23 percent from a peak of $3.63 million in 2016, according to Mr. Miller, the appraiser.

New development that is still under construction will likely face delays because of a statewide halt on nonessential building.

And some projects facing sales deadlines set by their lenders will likely miss them now, but these exceptional circumstances could actually benefit those developers, because banks are now more likely to work out extensions, rather than seize properties in a moribund market, said Nancy Packes, the data firm’s principal.

The new development market is also accustomed to selling units based on plans and sales galleries, but never to this extent.

“We’ve been working 24 hours a day over the past weeks,” said Hunter Frick, a senior vice president at Halstead Development Marketing, which has 35 new residential projects, including some rentals, and has been creating virtual tours for the buildings.

The virtual sales pitch for the Broad Exchange Building in the financial district includes a history lesson on the Beaux Arts facade and the new amenities. Tony Garces

At the Broad Exchange Building, a 308-unit rental-to-condo conversion in the financial district, the sales team recorded 52 cellphone tours in two days, to supplement 20 professional videos they had already commissioned, said Angela Ferrara, the executive vice president of the Marketing Directors.

To encourage virtual showings, they recently started to offer brokers 4 percent commission on sales, higher than the typical 3 percent. Prices start at $830,000 for one-bedrooms, $1.295 million for two-bedrooms, and $5.31 million for the three-bedroom penthouse.

Since the virus lockdown, they have given 17 virtual presentations to possible buyers, many of whom had not stepped foot in the building. Two buyers who had agreed to buy before the outbreak needed coaxing, said Mr. Vaynrokh, the sales manager.

“We had to resell to those people — they were shook up, like everybody else,” he said, though both eventually signed.

For the developer, LCOR, every sale counts, because it is required to sell 15 percent of the building’s 308 units to primary residents by July, or else their plan to convert the rental tower to a condo would fail and they would have to return all the buyers’ deposits, according to rules set by the State Attorney General’s office.

If they failed to meet that deadline, it’s highly unlikely they could attempt the conversion again, because a law passed last summer now requires substantially more buyers to convert a rental to a condo — 51 percent of all tenants, up from 15 percent.

They have 43 condos under contract, and need at least 47, Ms. Ferrara said, adding that she was confident they would find enough buyers. Investors don’t bring them closer to that goal, since only primary residents count under the state guidelines, so they are focused on selling the amenities, finishes and neighborhood to prospects through their virtual tours.

“If someone comes to us now, would we be more flexible? I think the answer is yes,” said Ms. Ferrara.

The New Closing Process

For those who make it to the contract signing, deals are still getting done, but nearly every step in the process has been affected.

“I literally have not caught my breath. I have gone from crisis to crisis,” said Neil B. Garfinkel, the broker counsel for the Real Estate Board of New York, a large industry trade group.

Mr. Garfinkel hosts a daily hotline to answer questions from brokers, who were already buzzing before the pandemic, because of a series of recent legislative changes to taxes and rent regulations. The biggest obstacles to closing in a virtual setting have been addressed in principal, but he said further guidance was needed.

For instance, New York used to require a notary to be physically present to witness the signing of key documents, but an executive order in March authorized the use of audio/video apps so the notary need not be in the room, said DeAnna Stancanelli, the principal at National Granite Title Insurance Agency.

But many lenders may not accept this standard of virtual notarization, because they believe the security features of several popular video apps are lacking. A more stringent protocol called Remote Online Notarization, which includes multifactor authentication and stricter encryption, has not been adopted by New York. “This was kind of a stopgap, but unfortunately it doesn’t fit,” Ms. Stancanelli said.

Since New York still requires “wet ink,” original signatures on important documents, lawyers and title agents have had to be creative. A closing that would have required 10 people in a conference room can now be held, in part, in two idling cars in a parking lot, where one party signs papers and passes it through the passenger side window of the recipient.

A backlog of requests to property managers and to county clerks’ offices, some of which are closed or are working shortened schedules, has made it harder to determine what is currently owed in taxes or unpaid utilities, so title companies are holding estimated fees in escrow to help move deals forward, said Yariv Ben-Ari, a partner at Herrick, Feinstein. Despite the hurdles, deals are still proceeding, he said.

The concept of “force majeure” — akin to an act of God or superior force — is making its way into more closing contracts, to indemnify parties from missed deadlines or other forms of liability caused by the pandemic, agents said.

The most immediate question for buyers and sellers is figuring out how prices have been affected.

“Nobody knows exactly what’s going to happen to values,” said Cathy Taub, a Sotheby’s International Realty agent and co-chairwoman of New York Residential Agent Continuum, an agent advocacy group. “It was already a difficult market before Covid.”

Heather McDonough Domi, a Compass agent and co-chairwoman of the same group, said she has already received an opportunistic offer, in which the prospective buyer saw the property before the outbreak reached New York, and is now offering 20 percent below the asking price.

Even though real estate appraisers are considered essential workers, nearly all inspections are now being done remotely, using recent sales and neighborhood data to determine value, said Mr. Miller, the appraiser. But sales before the outbreak are no longer a reliable basis for comparison, he said, so appraisers are adding caveats to their reports, like they did after Sept. 11 and the 2008 financial crisis, citing the unknown effect of the outbreak.

The hope is that pent-up demand will help mitigate the damage done during what would have been a busy spring buying season.

“My position as an appraiser is I’ve got to get through the next six months, and we’ll have more business than we know what to do with,” Mr. Miller said. “Lots of refinance, foreclosures, workouts, and, I’m assuming, a lot of divorces.”

https://www.nytimes.com/2020/04/10/realestate/coronavirus-virtual-real-estate.html