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Brokers focus on West Wing

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The New York City real estate industry is generally assumed to focus more on the West Village than on the West Wing. Yet in recent weeks, real estate brokers here could have passed for TV pundits with their constant talk of the presidential race.

"It's the biggest election since Kennedy — people are definitely concerned about it," said broker Darren Sukenik, an executive vice president at Prudential Douglas Elliman.

Summing up an oft-repeated mantra in the real estate community, he predicted that buyers will start returning to the market in the months after the election, regardless of who occupies the Oval Office.

"Of course the upcoming election is having an effect," Sukenik said. "They all seem to want to wait to see the result of the election."

Despite the massive financial meltdown, the John McCain-Barack Obama showdown has been one of brokers' go-to explanations for the recent slowdown in sales activity, with some even predicting that the market will pick up once the race is over.

But experts say that the impact of presidential elections on the New York real estate market is often greatly exaggerated, and that other factors have historically been far more important in buyers' decisions. In this case, those factors are more obvious than they are in most election years: the tempestuous stock market, impending layoffs and the slowing economy.

"I've never seen any statistical analysis that supports that," said Terra Holdings chief economist Gregory Heym of the popular theory that sales slow before presidential elections and then pick up afterward.

"I think there tends to be more important factors going on," Heym said. "Right now, it's the economy and the war in Iraq. An election would make maybe a small group of people wait, but I don't think it's at the top of anyone's list in terms of what's driving their decision."

Behind the presidential-election theory is the argument that the real estate market, much like the stock market, is driven largely by emotional decision-making.

"For more people, buying a home is still the biggest financial transaction that they'll ever enter into in their lives," said Wayne Heicklen, a partner at Pryor Cashman. "People's emotions are a big part of the decision."

A major source of uncertainty, like a new president, can make both buyers and sellers less likely to pull the trigger, Heicklen said.

"There's a natural psychological pause before an election," he said. "If you're about to put money down on a house, which is a big investment, you want to wait to see what direction the country's going in."

The perceived effect has less to do with the policies of individual candidates, and more about the uncertain outcome, explained Shaun Osher, founder and CEO of CORE Group Marketing.

"There's an unknown entity coming in to replace one of the most powerful political positions in the world," Osher said. "It's not whether it's McCain or Obama — it's the uncertainty."

D. Kenneth Patton, a dean and clinical professor at the NYU Schack Institute of Real Estate, said the real estate market is driven largely by long-term trends, and that presidential elections affect New York real estate only insofar as politicians implement urban-friendly policies.

"Real estate is helped by predictability in the longer term," he said. "It's not about war and peace; it's about infrastructure, transit … long-term problems we have to solve."

Because New York City is a primary residence market, Heym said, buying and selling decisions are usually based primarily on housing needs, and are thus little affected by an election.

"In Manhattan, most buyers are buying because they need a place to live," he said. "This isn't going to change that."

For a little history, look at the market after past elections.

The real estate market was, for example, on the rise in the fall of 1992 — a fact that had much more to do with the end of the early 1990s recession than the contest between Bill Clinton and George H.W. Bush, Heym said.

And a drop in sales prices at the end of 2000 likely had more to do with the fact that "the tech bubble had just burst" than the resolution of the race between Al Gore and George W. Bush. "You have to acknowledge the other factors that go in," he said.

In the fourth quarter of 2004, when Bush was running for his second term, the median sales price for a Manhattan apartment reached $670,000, the second highest level on record at the time. Meanwhile, inventory nosedived between the third and fourth quarters of that year, from roughly 5,000 units to 3,922, reaching the lowest point in three years. The numbers suggest that electing a president didn't have much of a positive impact on the market, and that larger economic forces were at play.

John Jones, a vice president at Homewood Mortgage in Texas, found similar results when he looked at historical data on mortgage rates in order to analyze the age-old adage that mortgage rates dip after an election.

"You hear that all the time — that rates go down after an election," he said. He found little evidence to support that hypothesis, finding, for example, that rates increased sharply in the months after Ronald Reagan's first election in 1980. They went from 14.2 percent to 15.1 percent three months after the election and then jumped to 16 percent six months later. But, after Reagan's reelection four years later, rates decreased from 13.6 percent to 12.9 percent three months later. "There are times when the rates have gone down, but it's usually part of a trend that's already been in progress," Jones said.

Osher said while elections do seem to have a psychological impact on the real estate market, the overall economy trumps that effect.

In a weaker market, he noted, the impact of an election seems heightened.

The difference between the 2008 election, for example, and the 2004 election was "night and day," he said.

The last election "was definitely not as much of a factor as it is now. The economy was booming, the real estate market and the stock market were at historic highs."

He said he saw a similar effect in 1992, when the economy was also in an upswing. "When there's weakness in the market, everything gets magnified," he said.

Wall Street's economic woes have been obscuring all else in buyers' minds, said Deanna Kory, a senior vice president at the Corcoran Group. She said sellers were reluctant to put homes on the market and buyers were reluctant to make a decision about what to buy because of the tumultuous market. "People are really focused on the economy," she said. "The election is really secondary."

A few months ago, many of her clients seemed concerned about the results of the election, but that recently took a backseat to economic woes. "People are only talking about the election at the moment in terms of limited optimism that the markets will stabilize," she said.

Brokers' constant references to the stock market may have more to do with optimism than anything else, Kory said.

"No one is certain as to what's going to make a difference, so everybody's guessing," she said. "We all want to believe that after the election things will propel forward. But there's no way of knowing."

Instead, she advocated being cautiously optimistic that the election's end would help the market, rather than relying on it to produce good results.

"My feeling is, it's better in some ways to be cautious and have some hope that there might be some impact, but not have a high expectation," she said. "If it does help, we could use that. What a great surprise that would be."
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