



Are cap rates on the rise?

In a new feature, we put industry luminaries on the spot and get their take on the issues of the day.

This week, Massey Knakal chairman and founding partner Robert Knakal deliberates on the issue of whether cap rates will rise for commercial office buildings during the remainder of 2010? What about for multi-family housing?

During the second half 2009, we saw office building prices increase on a price per square foot basis over the first half of the year.

In 2010, cap rates have remained fairly steady in the office sector and, if anything, may be experiencing some downward pressure due to the acute imbalance between supply and demand.

Demand far exceeds supply as institutional capital has re-emerged after a couple of years on the sidelines, joining the high-net-worth individuals and families. They are being joined by foreign high-net-worth investors to create excessive demand relative to very short supply.

As the supply side loosens up throughout 2010, which we are beginning to feel, cap rates will experience some upward pressure. In the multi-family sector, cap rates have held up better than in any other product type.

From the low point in caps in 2007 in Manhattan, walk-up cap rates have increased only 105 basis points from 4% to 5.05%. In the elevator sector, they have increased 172 basis points, from 2.08% to 4.52%.

The larger increase in elevator properties relative to walk-ups is due to the evaporation of a condo conversion premium, which was prevalent in 2007.

We expect to see continued upward pressure on multi-family cap rates throughout the rest of this year.

