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Massey Knakal: Outer Boroughs Carried Q3

By Rayna Katz | New York

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Knakal: "As pricing for Manhattan properties has exploded, investors are stepping up the risk ladder."

Credit: Rayna Katz

NEW YORK CITY-A surge in pricing across Manhattan drove investors in the third quarter to focus on riskier investments, which—in many cases—meant buying property in the outer boroughs, according to Massey Knakal. The real estate services firm provided a briefing Tuesday in its Midtown East offices on the New York City CRE market's performance in Q3.

"The recovery in New York City's property sales market accelerated in the third quarter of 2013 but its dynamics have changed," said **Robert Knakal**, chairman and founding partner. "As pricing for existing Manhattan properties has exploded, investors are stepping up the risk ladder chasing yield and increasingly buying development and value-added properties as well as properties outside of Manhattan."

Using 2011 for comparison—in light of the heightened level of activity in Q4 that stemmed from capital gains tax concerns—Knakal noted that "all of the outer boroughs have seen significant increases in the number of properties sold." More specifically the Bronx posted a 47% uptick while Brooklyn and Queens each pulled in a 64% rise.

However, Knakal said, "the shining star this year has been Northern Manhattan," Knakal said. The uptown area—which the firm measures separately from the key Manhattan submarkets—soared, with a 157% boost in activity. "The average price per property in the area rose 18% year-over-year compared to 2011, from $205 to $313, according to **Robert Shapiro**, first VP of sales. And much like the outer boroughs, Northern Manhattan has experienced a "retail renaissance." In particular, the corridor of 148th street and Broadway, has gone from "stepped-down retail to packed coffee houses with kids using $2,000 laptops," Shapiro said, calling the street "the epicenter of the Harlem/hipster movement."

Brooklyn continues to flourish. The number of properties sold in the third quarter was in line with 2007/2008 quarterly averages, and the average cap rate is at an all time low of 6.5%, according to **Michael Amirkhanian**, director of sales. Development sites have emerged as the dominant property type in the borough, responsible for 27% of the total dollar volume.

In Queens, a surprising sector has emerged—industrial, according to **Adrian Mercado**, director of research. In total, 81 such properties were sold in the borough during the third quarter, he said. Among the tenants is a new type of industrial user, such as Amazon, noted CEO Paul Massey. Retail was also strong, with four of the five highest price per square foot deals being in that segment.

The Bronx is picking up steam, prompting Shapiro to suggest changing the phrase "the Bronx is burning," to "the Bronx is building." The average price per square foot jumped to $186 in the quarter, and major rezoning projects—such as the Kingsbridge Armory ice rink and Broadway Plaza are creating new retail development. "Increases in personal income and changing demographics have led retailers to take notice," added **Todd Korren**, executive managing director.

On the capital markets side, markets have calmed down and the treasury rate has stabilized in recent months following earlier spikes due to concerns over the possible end of quantitative easing and a subsequent rise in interest rates, according to **Garrett Thelander**, executive managing director.

CMBS issuance is on pace to come in at $80 billion for the year, he said. "We're approaching normalized CMBS levels, which bodes well for the markets."