Multifamily market: Industry's little ray of sunshine

BY JASON TURCOTTE

New development is non-existent. The hospitality sector is losing revenue due to frugal travelers. With leasing at a standstill and firms forgoing expansion, the office market outlook remains bleak.

Analysts say the industrial market is no better, and Jonathan Miller, author of the Urban Land Institute and Pricewaterhouse Cooper's Emerging Trends report, calls the retail market downright "ugly."

So where does that leave the opportunistic real estate broker? It leaves them scrambling for apartment assignments.

According to Miller, the multifamily market is the only real investment opportunity of 2009, as the credit crunch continues to steer people away from home ownership.

In fact, the trend is already underway. Since the end of August 2008, multifamily transactions have accounted for most New York City transactions in this slow season of sales; investors have quickly lost interest in office, retail and hotel assets.

This fall, Massey Knakal closed a $54 million Upper Manhattan multifamily portfolio consisting of 500 units throughout 21 walk-up buildings; Capin & Associates closed a $58 million portfolio of 10 multifamily buildings in the Inwood and Washington Heights sections of Manhattan; Rosewood Realty Group steered the $38 million sale of five Brooklyn multifamily properties; and Capin & Associates also closed a $277 million portfolio of multifamilies, which included 814-816 Madison Avenue.

And let's not forget the bidding wars ensuing sin[illegible] mid summer over Brook[illegible] gargantuan Starrett City the largest federally sub[illegible] housing complex in the country.

With today's economic uncertainty, investment is really a question of comfort. Investors aren't in a risk-taking mentality right now and it makes more sense to invest in below $50 million multifamily properties than it does footing several hundred million on an office property occupied with cost-cutting tenants.

Robert Knakal, chairman of Massey Knakal Realty Services, commented on the strength of the multifamily market in a recent newsletter. He said apartment buildings have historically been a safe bet in New York — even those on the lower per-square-foot rent spectrum.

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regulated units in a building, the more interest is generated from the marketplace," Knakal said.

While home and commercial values are anticipated to drop 15-20%, Knakal notes that apartment building values are down just 5% from midyear 2007 to midyear 2008. Further enhancing the attractiveness of the multifamily market, he said, is the high number of tenants compared to just a handful of tenants that typically lease in an office property. The proposition of losing a few residential tenants is far less risky than losing a commercial enterprise.

Continued on Page 10S

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[illegible]ultifamily market also attracts significantly less competition from overseas investors, who are often uninterested in the "intensive" management needs of such residential buildings. Furthermore, lenders are more receptive to backing a multifamily investment.

"Multifamily not only is the most highly sought after product type by investors, but is the most highly sought after asset class for portfolio lenders," Knakal said.

And the viability of multifamily investment [illegible] boroughs.

According to a third quarter apartment research report from Marcus & Millichap, job loss and constrained consumer budgets have given the multifamily market a city-wide boost. And current economic conditions are creating even greater demand in New York's most populous borough, particularly around downtown Brooklyn.

"Buyers continue to target assets in and around the CBD, as reflected by both sales prices and deal flow," said J.D. Parker, regional manager of Marcus & Millichap's Brooklyn office.

The report cites several reasons for the increasing investment interest in the Brooklyn multifamily market. First, rents remain low and that's bringing down apartment vacancy rates. Additionally, owners can only go up with asking rents: landlords with rent-stabilized units can raise rent up to 4.5% for one-year leases and as high as 8.5% for two-year leases.

The lack of construction capital also bodes well for multifamily investors. ULI's Miller quipped that developers will spend more time on the golf course than at the office in 2009. With lenders taking conservative practices to a whole new level, that leaves little in the real estate pipeline. While demand for rental units remains here in New York, few developers will have the funds to do anything about it. Therefore, multifamily buyers can continue banking on a supply-constrained market. ■