The Boroughs and Building Sales

How they fared last year—and what that tells us about 2010

This is the final installment in a three-part series looking at the New York City building sales market in 2009. The first provided an overview of the entire market (excluding Staten Island), and the second analyzed sales activity in Manhattan, separating the borough along East 96th Street and West 110th Street.

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Today, we will take a look at 2009 sales activity in the Bronx, Brooklyn and Queens. Interestingly, of the 164,876 properties in our statistical sample, 79 percent are located outside of Manhattan. Although sales outside of Manhattan account for only 28 percent of total dollar volume, the 1,025 properties that changed hands in the boroughs in 2009 represent 71 percent of the 1,439 total properties sold. For reference purposes, all of our statistics pertain to sales over $500,000. It is important to note, too, that capitalization rates and gross rent multiples vary widely based upon many factors, and numbers presented here are simply averages.

The Bronx

In 2009, there were $400 million of building sales activity in the Bronx. This figure was down 56 percent from the $920 million of sales in 2008, and down 82 percent from the $2.2 billion achieved in 2007. Of this $400 million in sales, 60 percent was in the multifamily sector and a surprising 14 percent was in the industrial sector.

There were 202 properties sold in the Bronx in 2009. This figure was down 51 percent from the 409 in 2008 and down 71 percent from the 701 sales in 2007. These 202 sales represent a 0.94 percent turnover rate of the 21,376 properties in the submarket. Volume had hit a peak in 2007 at 3.28 percent.

The average price of a property sold in the Bronx in 2009 was $2 million. This was down 9 percent from the $2.2 million average in 2008 and down 35 percent from the $3.1 million average in 2007.

Capitalization rates on walk-up apartment buildings averaged 7.87 percent, up 47 basis points from the low; and gross rent multiples averaged 6.76, down 1.24 multiples from the peak. Elevator properties saw average cap rates of 8.1 percent, up 210 basis points from the low, and the average gross rent multiple dropped to 6.57, down 2.03 multiples from the peak. The GRM's in the Bronx are the lowest in the city. Mixed-use properties had an average cap rate of 9.1 percent.

On a price per square foot basis, walk-up buildings averaged $82 per square foot, down 38.4 percent from their peak. Elevator properties averaged $68 per square foot, down 19.1 percent from the peak, and mixed-use properties averaged $142 per square foot, down 40 percent from their peak.

As mentioned, the industrial sector in the Bronx was very active, with 31 sales averaging $178 per square foot. Retail properties saw 22 sales with an average price per square foot of $343.

The development market in the Bronx was more active than the Manhattan market. Here there were 17 sales for a total footage of approximately 760,000 buildable square feet. The average price per buildable square foot was $39 and most of these properties were acquired by affordable-housing developers.

There were two office buildings sold in the submarket for an average price of $113 per square foot. Specialty-use sales (those purchased by nonprofit groups, foreign governments, schools or foundations) averaged $161 per square foot.

Brooklyn

In 2009, building sales volume in Brooklyn reached $796 million. This was down 61 percent from the $2 billion in sales in 2008, and down 79 percent from the $3.85 billion in 2007. Thirty-one percent of this activity was in the multifamily sector, with 20 percent in specialty use and 15 percent in the industrial sector.

There were 478 properties sold in Brooklyn in 2009. This figure was down 57 percent from the 1,108 properties sold in 2008, and down 75 percent from a peak of 1,916 properties sold in 2006. The 478 properties sold represented a 0.73 percent turnover rate of the 65,919 properties in Brooklyn. This was the lowest turnover rate in any of the submarkets in New York City.

The average price of a building sold was $1.7 million (tied with Queens for the lowest average). This figure was down 6 percent from the $1.8 million average in 2008 and down 19 percent from the $2.1 million average in 2007.

Capitalization rates for walk-up properties averaged 7.64 percent, up 164 basis points from the low. Gross rent multiples for walk-ups averaged 9.58, a drop of 0.62 multiples. Elevator properties had a cap rate average of 6.41 percent, an increase of 201 basis points from the low. Gross rent multiples here were 8.66, down 2.25 multiples from the peak.

Mixed-use properties had average cap rates of 7.24 percent, up 104 basis points from the low.

Our price-per-square-foot analysis shows that walk-up buildings averaged $148 per foot, a drop of 21.7 percent from the peak. Elevator buildings averaged $107 per square foot, down 5.3 percent from their peak. Mixed-use properties averaged $236 dollars per square foot, down 10.3 percent from their peak.

Value, on a price per-square-foot basis, held up better in Brooklyn than in any other submarket in the city. Based upon Brooklyn having the lowest turnover and the lowest reduction in value, it appears that sellers were more discriminating there than in other markets.

In 2009, the average price per square foot for the 59 industrial properties sold was $160, and the retail sector saw average property values of $349 per square foot. The development market in Brooklyn was relatively active with 31 sites changing hands at an average price of $113 per buildable square foot. The total buildable footage of all 31 sites combined was, however, a mere 613,000 square feet.

We are seeing a tangible shift in market dynamics as average rent-per-square-foot levels continue to escalate in walk-ups due to the relatively higher tenancy turnover versus elevator buildings.

Queens

In 2009, the dollar volume of sales in the Queens submarket was $586 million. This figure was down 69 percent from the $1.9 billion in 2008, and down 77 percent from the $2.6 billion in 2006. Industrial properties made up the largest percentage of sales in the Queens submarket at 26 percent.

There were 345 properties sold in Queens in 2009. This total was 59 percent lower than the 846 sold in 2008, and 71 percent below the 2006 total of 1191. The 345 properties represented 0.79 percent of the 43,765 properties in the Queens submarket.

The average price of a property sold in Queens in 2009 was $1.7 million. This was down 26 percent from the $2.3 million dollar average in 2008, which was also the peak.

Capitalization rates for walk-up buildings averaged 6.32 percent, up 82 basis points from the low. Gross rent multiples averaged 10.66, down three-quarters of a multiple from the peak. Elevator properties had average cap rates of 6.04 percent, up 74 basis points from the low and gross rent multiples of 9.14, down 3 multiples from their peak. Mixed-use properties had average cap rates of 6.46 percent, up 46 basis points from the low point.

In terms of price per square foot, walk-up buildings average $179, down 21.1 percent from the peak. Elevator properties average $137 dollars per foot, a reduction of 18.9 percent from their peak; mixed-use properties averaged $251 per square foot, down 16.1 percent from the peak.

Retail properties performed solidly in Queens, with an average price per square foot of $377. Eighteen office buildings sold, at an average of $249 per square foot. There were 50 development sites sold in 2009. However, if we eliminate those with buildable square footages under 10,000 square feet, there were 22 sales, with an average price per buildable square foot of $65.

Conclusion

Perhaps the most interesting statistics are those that show that the average price per square foot for walk-up buildings exceeded the price per square foot for elevator buildings across all submarkets. This is the first time that we have seen this dynamic at work; and the question we ask ourselves is whether this is symptomatic of very poor-quality elevator buildings being sold or whether this is a sustainable shift based upon the high tenancy turnover level in walk-up buildings relative to elevator properties.

Our inclination is that we are seeing a tangible shift in market dynamics as average rent-per-square-foot levels continue to escalate in walk-ups due to the relatively higher tenancy turnover versus elevator buildings. If this is a trend that continues, it could be the first concrete sign that the inevitable stresses that regulated elevator properties will suffer are setting in. Decades of operating expenses, particularly real estate taxes and water and sewer charges, growing at a much more rapid rate than regulated rent increases, places these properties on a slippery slope on which net operating income will evaporate without structural changes to the rent regulation system.

Another noticeable trend in 2009 was the fact that prices per square foot increased in the second half of the year from the first half. Upon casual observation, one could conclude that this is an indication that pricing has bottomed and an upswing will occur in 2010. We do not believe this is the case. We think that an overshoot to the downside occurred in the first half of 2009, as most sellers were very distressed, and a generally better-quality asset came to market in the second half.

We also believe the constrained supply of properties for sale has created a large imbalance in the supply/demand dynamic. There are many investors fighting over few assets, which drives the prices higher than fundamentals would dictate. This is transparently observed in the note-sales market where prices represent 95 percent to 100 percent of collateral value. By the time a foreclosure process is completed and the deed is obtained, the note buyer is into the property for more than 100 percent of its value. We expect supply to increase as banks and special servicers loosen their grip on distressed assets. We have already seen this happening in the past four months and expect the trend to continue.

We certainly expect 2010 to be a better year than 2009. Heaven help us all if it's not.

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