

## NYC's Multi-family Market, Submarket by Submarket

### Condo conversion strategy returns to Manhattan's elevator sector; other sectors remain uneven.

Last week we examined the multifamily market on a citywide basis and observed that, on the sales volume side, the number of properties sold and the number of apartment units sold were both on pace to be at about the same levels in 2011 as they were in 2010. However, the dollar volume of sales was on pace for a 55 percent increase, to about \$3.8 billion from \$2.5 billion last year. In 2009, this figure was a mere \$1.3 billion.

Values in the multifamily sector are rising modestly in 2011 from 2010 levels as we have seen an average price per square foot of about \$232 this year, up about 6 percent from last year's \$218 average. Generally, capitalization rates are dropping and gross rent multiples are staying at about the same levels, indicating that, even though rents are increasing, expenses are growing faster than rents are. Remarkably, price per unit in the elevator sector is up 85 percent from last year's total, indicating that a better quality asset, on average, is selling this year and buyers are once again underwriting these properties for a condominium conversion exit strategy.

Last week, we also broke down the sales activity in the multifamily market by differentiating walk-up properties from elevator buildings. These are two distinct asset classes in New York City. This week, we will get more granular in our analysis by comparing multifamily activity on a submarket-by-submarket basis.

### Manhattan

As one would expect, the overwhelming share of the activity in the multifamily sector on a dollar-volume basis has occurred in the Manhattan market. In Manhattan (defined as submarket south of 96th Street on the East Side and south of 110th Street on the West Side), we are on pace for over \$2.2 billion of elevator apartment sales, nearly three quarters of all elevator sales activity citywide.

In the Manhattan submarket,

the number of buildings sold in the multifamily sector is projected to be down slightly in 2011 versus 2010 totals. In the walk-up sector, there were 74 sales in 2010 and we are on pace for exactly the same number within this segment this year. The number of units sold, however, is projected to drop by 25 percent. In the 74 properties that sold last year, there were 983 apartments. In the buildings projected to sell this year, there will be about 735. This indicates that, in general, smaller properties are selling so far this year.

With respect to value, the average price per square foot for walk-up buildings is essentially unchanged, moving up 1 percent from a \$541 average in 2010 to an average of \$547 this year. The

average cap rate this year is, presently, down 38 basis points from last year's average of 5.78 percent, trending toward 5.4 percent. Average gross rent multiples in the walk-up sector are essentially unchanged, with an average multiple last year of 11.8 and a projection for this year of the same 11.8. Here again, we observe evidence that expenses are rising more quickly than revenue, mainly due to real estate tax increases.

The elevator sector has responded much differently. The number of buildings sold is on pace to be down 8 percent this year, as the 24 elevator properties sold last year is expected to drop to just 22 this year. The number of units, however, is up a surprising 44 percent, as the 24 buildings that sold in 2010 contained 2,459 apartment units and we are on pace for about 3,547 units sold this year. This is indicative of larger assets selling in this market sector.

The dollar volume, in the elevator sector, has more than doubled, as we are on pace for about \$2.2 billion in sales this year versus \$1.1 billion last year.

Values in this sector have shown some interesting trends. The average price per unit sold has almost doubled. The average price per unit last year was \$326,000 and this year is running at \$636,000. We are clearly seeing a return to

elevator buildings in Manhattan being underwritten for condominium conversion once again. This is very clearly illustrated in the average price per square foot, which has increased from \$440 per square foot last year to \$629 this year.

The average cap rate has dropped 45 basis points, from a 4.8 percent average to 4.35 this year, and the GRM is up over 3, from last year's average of 12.78 to this year's 15.86. It is interesting to note that for the first time in many years, the elevator building average price per square foot has exceeded the average walk-up price per square foot. The counterintuitive reality of walk-ups selling for more per square foot than elevator buildings is due to both the higher tenancy turnover rates experienced in walk-ups and the fact that average unit sizes in walk-ups tend to be much smaller than similar type units in elevators.

### Northern Manhattan

In the Northern Manhattan submarket, the statistic that stands out most evidently is the fact that the elevator sector has seen a significant decrease in activity in 2011. In 2010, there were 34 elevator properties sold having a total dollar volume of \$315 million. Annualizing the activity thus far in 2011, we expect there to be 12 elevator buildings sold, a decrease of 65 percent. This sector is also on pace to achieve just \$28 million of sales volume, which would be down a whopping 91 percent from last year's total.

Similar to dollar volume drop, the sector is on pace for about a nearly comparable 89 percent reduction in the amount of units sold, from 2,795 in 2010 to just 317 expected for 2011. While the volume is expected to be down significantly, it appears that prices are holding, as the average cap rate is down about 33 basis points from an average of 6.27 percent in 2010 to an average of 5.94 percent this year. Consequently, we have seen the average price per square foot increase from \$179 per square foot last year to \$185 so far this year. The average GRM has sur-

prisingly dropped by 0.4 from last year's 8.75 to 8.35 this year. These trends indicate that sellers are holding out for their numbers and are simply not capitulating if buyers won't step up.

In the walk-up sector in Northern Manhattan, we are expecting to see about the same number of building sales this year as last. In 2010, there were 62 walk-up apartment buildings sold and, by annualizing the activity through August of this year, we are on pace for 63 sales, a 2 percent increase. The number of units sold in these buildings is expected to be down by about 4 percent, as there were 1,227 units sold last year and in 2011 we are on pace for approximately 1,179.

The dollar volume of sales is running at about 6 percent below last year's total of \$119 million. Annualizing this year's activity thus far, we expect to have about \$112 million of sales volume.

With regard to value, we have seen cap rates decrease by almost a full percentage point. Last year's average was 7.52 percent and this year's average is running at 6.6 percent, a 92 basis point drop. The average GRM is up by 0.2, from 7.51 last year to 7.71 this year.

### The Bronx

In the Bronx submarket, the walk-up sector is on pace to see the number of buildings sold by drop by 6 percent compared to last year's total. In 2010, there were 65 walk-up buildings sold and we are on pace for 62 sales this year. The number of units sold is also expected to be down by 6 percent, with 1,464 units sold in 2010 and a projected 1,373 this year. The dollar volume, however, is expected to increase by about 7 percent. In 2010, we had \$98 million of sales transactions and they are on pace for about \$104 million this year.

The average capitalization rate has expanded in the walk-up sector in the Bronx, going from the 2010 average of 8.08 percent up to 8.87 percent this year. While the average cap rate has gone up, the average GRM is down by more than 0.5, from a 2010 average of 6.59 to 6.02 this year. Both of these trends suggest that value in this sector is continuing to slide.

However, interestingly enough, the average price per square foot is up by about 10 percent over last year's total, moving from \$87 in 2010 to \$96 this year. This increase in price per square foot, in light of cap rate expansion and GRM contraction, can only be explained by a better quality asset selling in 2011 versus 2010, along with strong rental growth.

In the elevator sector, we are expecting the number of buildings sold to be down by about 5 percent from 2010's total. In 2010, there were 41 buildings sold and we are on pace for 39 this year. The number of units sold, however, is expected to be down about 26 percent. There were 3,031 in 2010 and we are on pace for just 2,247 this year. This is due to the fact that smaller properties are selling in the Bronx this year. This is also reflected in the total dollar volume of sales. In 2010, there were \$229 million of sales in the Bronx elevator sector and we are on pace for \$169 million this year, a 26 percent rate drop.

The average cap rate in the elevator sector has dropped 16 basis points in 2010, from 7.53 percent down to 7.37 percent. The average GRM is also down about 0.5, from a 2010 average of 7.25 to 6.8 so far this year.

The average price per square foot has increased versus 2010. The average was \$71 last year and this year is on pace for \$80, a 13 percent increase.

### Queens

In the Queens submarket, we have seen an interesting dichotomy and 2011 activity thus far. The volume of sales in the walk-up sector has fallen significantly while the elevator building submarket has seen remarkable increases.

In Queens, the number of walk-up buildings sold is on pace to be down 18 percent from last year's total. In 2010, there were 65 buildings sold and, annualizing what has occurred through August 2011, we expect 53 sales in 2011. These 53 sales would equate to \$77 million of total sales volume, a large 61 percent drop from the \$196 million of sales volume in 2010.

The number of units sold is expected to be down 36 percent from



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the 877 units sold last year, as we are on pace for 561 units to be sold this year.

With regard to value, the sales that have occurred in the walk-up sector thus far this year are at exactly the same \$202 per square foot that the market experienced in 2010. This is surprising given that cap rates have dropped by 52 basis points, from an average of 7.45 percent in 2010 to 6.93 percent this year. Average GRMs are up about 0.66, from 9.28 last year to 9.57 this year.

While the activity in the walk-up sector is off substantially from 2010, the elevator sector is up very significantly. There were 14 elevator buildings sold in 2010 in the Queens submarket and we are expecting 19 sales in 2011, a 36 percent increase. The number of units sold, however, is scheduled to be more than double the 2010 total of 679 units. If we annualize 2011 activity through August, we are on pace for 1,485 units sold, a 119 percent increase. Moreover, the dollar volume of sales is expected rise a massive 250 percent this year. In 2010, there was \$85 million in sales volume in the elevator sector and we are presently on pace for \$296 million in sales in 2011.

In the elevator sector, we have seen very positive pricing trends as the average capitalization rate has dropped 71 basis points, from 6.08 percent last year to 5.37 percent this year. Average GRMs are up nearly 1.5, from a 2010 average of 9.66 to 11.1 in 2011. The average price per square foot is also up

**Remarkably, price per unit in the elevator sector is up 85 percent from last year's total, indicating that a better quality asset, on average, is selling this year and buyers are once again underwriting these properties for a condominium conversion exit strategy.**

about 14 percent from last year's average, from \$176 to \$201 so far this year. While there is only a \$1 difference, elevator buildings in Queens continue the recent trend of walk-up buildings selling for a higher price per square foot than elevator buildings.

## Brooklyn

In the Brooklyn submarket, we have seen increased volume of sales across both product sectors but have seen prices dropping simultaneously. In this submarket, the statistics are the most volatile and the most difficult to interpret.

In the walk-up sector, we are expecting a 19 percent increase in the number of buildings sold. There were 149 walk-ups sold in Brooklyn in 2010 and, by annualizing 2011 activity through August, we are expecting 178 buildings to be sold this year. This activity will lead to a significant increase in the number of units sold, as there were a total of 1,551 sold in 2010 and we are on pace for 2,455 units sold this year, a 58 percent increase.

With regard to dollar volume, we anticipate a nearly 200 percent increase in the dollar volume of sales. In 2010, there was \$123 million of sales volume and we are on pace thus far to see \$355 million in 2011, a 189 percent increase. This trend would tend to indicate that much larger assets are trading in the borough this year.

The average cap rate is down by 33 basis points from last year's average of 7.17 percent, to 6.84 percent. Interestingly, however, the average GRM had dropped by 1.33, from 10.11 last year to just 8.79 this year. This drop has led to a reduction in the average price per square foot, with last year's average of \$194 dropping 23 percent to \$150 per square foot this year.

In the elevator sector in Brooklyn, we are expecting a 50 percent increase in the number of buildings sold. In 2010, there were 18 elevator buildings sold and, annualizing activity through August, we expect 27 buildings to sell this year, an increase of 50 percent. The number of units sold will increase by an even greater percentage as last year there were 783 units sold and the sector is on pace to see 1,287 this year, a 64 percent increase. We also expect a doubling in the dollar volume of sales. We expect last year's total of \$105 million to increase to \$215 million this year, a 105 percent increase.

In terms of value, capitalization rates have expanded by 59 basis points, increasing from a 6.79 percent average last year to 7.38 this year. Average GRMs have increased by 1.5, from 8.63 last year to 10.19 this year. The average price per square foot has remained relatively unchanged from last year's \$171 average, coming in at \$169 this year.

With prices per square foot relatively unchanged, the increased GRM and increased

cap rate are indicative of a market where income is dropping relative to previous years. This would lead to the conclusion that a large percentage of the elevator buildings sold in Brooklyn this year probably have a very significant percentage of free-market units in them.

Perhaps the most notable trend across all market segments appears in the elevator sector in the Manhattan submarket. Here we are clearly seeing a sign of recovery in that elevator buildings are once again commanding a condominium conversion premium. Several large transactions have been purchased to remain rentals but, with interest rates so low, the cap rates on these transactions have been microscopic, rivaling what convertors would have paid.

In other submarkets, the data are uneven with multiples and cap rates often going in the same direction, which is not indicative of a stabilized market. Particularly in the elevator sector in the outer boroughs, the statistical sample of transactions is somewhat limited, indicating that the numbers can be skewed significantly by one or two transactions that are anomalies.

We continue to see tremendous demand for regulated properties and expect that lenders are still looking favorably on this asset class as we move into a period where we will see slowing sales volume based on macroeconomic pressures. We therefore believe that year-end totals are likely to fall short of the extrapolations made in this analysis as we have already begun to feel a tangible slowdown in market activity by the end of the third quarter of the year.

Also, for the last sentence, the total of my properties sold is now in excess of 1,175 and the total dollar volume is over \$7.8 billion.

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### MANHATTAN WALK UP

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	74	\$ 277,570,714	\$3,765,494	\$547	735	\$433,988	5.40%	11.87
2011	YTD	43	\$ 161,916,250	\$3,765,494	\$547	429	\$433,988	5.40%	11.87
% diff 10-11 annualized		0%	-5%	-4%	1%	-25%	10%	-30.00	0.04
2010	YEAR END	74	\$ 290,715,439	\$3,928,587	\$541	983	\$373,315	5.78%	11.83
2009	YEAR END	76	\$ 252,563,208	\$3,323,200	\$530	1,088	\$373,877	5.19%	12.49

Source: Massey Knakal Realty Services

### MANHATTAN ELEVATOR

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	22	\$2,221,726,857	\$99,692,927	\$620	3,547	\$936,870	4.35%	15.86
2011	YTD	13	\$1,296,006,750	\$99,692,927	\$620	2,069	\$936,870	4.35%	15.86
% diff 10-11 annualized		-3%	108%	124%	43%	44%	95%	-45.00	3.08
2010	YEAR END	24	\$ 1,069,409,181	\$44,558,710	\$440	2,459	\$320,325	4.80%	12.78
2009	YEAR END	12	\$ 230,675,000	\$19,972,917	\$507	850	\$504,155	4.71%	13.30

Source: Massey Knakal Realty Services

### NORTHERN MANHATTAN WALK UP

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	63	\$1,204,109	\$1,765,931	\$180	1,179	\$95,720	6.03%	7.71
2011	YTD	37	\$5,335,730	\$1,765,931	\$180	698	\$95,720	6.03%	7.71
% diff 10-11 annualized		2%	-2%	-2%	2%	-1%	-1%	-22.00	0.20
2010	YEAR END	62	\$1,231,275	\$1,923,408	\$193	1,227	\$104,627	7.52%	7.81
2009	YEAR END	42	\$4,100,552	\$2,242,493	\$167	1,032	\$109,170	7.04%	8.16

Source: Massey Knakal Realty Services

### NORTHERN MANHATTAN ELEVATOR

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	15	\$29,242,857	\$2,953,571	\$185	317	\$98,784	5.94%	8.95
2011	YTD	7	\$16,745,900	\$2,953,571	\$185	195	\$98,784	5.94%	8.95
% diff 10-11 annualized		-37%	-31%	-25%	5%	-69%	-23%	-32.00	-0.40
2010	YEAR END	24	\$15,579,919	\$9,291,648	\$179	2,795	\$127,910	6.27%	8.75
2009	YEAR END	29	\$7,995,900	\$5,541,275	\$39	619	\$57,820	6.55%	8.47

Source: Massey Knakal Realty Services

### QUEENS WALK UP

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	53	\$8,564,295	\$1,448,371	\$202	591	\$148,065	6.93%	9.57
2011	YTD	31	\$4,637,590	\$1,448,371	\$202	327	\$148,065	6.93%	9.57
% diff 10-11 annualized		-40%	-33%	-29%	0%	-25%	4%	-32.00	-0.29
2010	YEAR END	65	\$15,324,468	\$3,914,223	\$202	677	\$149,939	7.45%	9.29
2009	YEAR END	65	\$3,375,575	\$1,284,237	\$184	459	\$189,444	6.32%	10.60

Source: Massey Knakal Realty Services

### QUEENS ELEVATOR

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	19	\$295,752,789	\$15,604,386	\$291	1,485	\$199,957	5.37%	11.10
2011	YTD	11	\$173,529,217	\$15,604,386	\$291	809	\$199,957	5.37%	11.10
% diff 10-11 annualized		86%	242%	187%	145%	119%	42%	-71.00	1.44
2010	YEAR END	5	\$4,782,533	\$19,958,500	\$133	638	\$108,361	6.04%	9.14

Source: Massey Knakal Realty Services

### BROOKLYN WALK UP

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	176	\$359,102,660	\$1,992,294	\$190	2,455	\$180,200	6.94%	9.79
2011	YTD	104	\$207,195,485	\$1,992,294	\$190	1,432	\$180,200	6.94%	9.79
% diff 10-11 annualized		19%	188%	141%	-23%	58%	13%	-31.00	1.32
2010	YEAR END	149	\$123,110,671	\$820,240	\$134	1,931	\$132,978	7.17%	10.11
2009	YEAR END	132	\$165,440,737	\$1,253,333	\$125	1,317	\$153,213	7.50%	9.32

Source: Massey Knakal Realty Services

### BROOKLYN ELEVATOR

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	27	\$19,308,892	\$7,949,722	\$192	1,287	\$187,397	7.38%	10.19
2011	YTD	16	\$12,505,553	\$7,949,722	\$192	751	\$187,397	7.38%	10.19
% diff 10-11 annualized		60%	105%	34%	-1%	64%	33%	-59.00	1.58
2010	YEAR END	18	\$10,152,503	\$5,611,806	\$171	783	\$140,564	8.79%	9.03
2009	YEAR END	20	\$12,201,400	\$5,530,155	\$192	1,132	\$120,722	8.10%	8.33

Source: Massey Knakal Realty Services

### BRONX WALK UP

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	62	\$4,531,143	\$1,693,792	\$208	1,573	\$93,991	5.97%	9.02
2011	YTD	38	\$3,078,500	\$1,693,792	\$208	901	\$93,991	5.97%	9.02
% diff 10-11 annualized		-3%	7%	18%	10%	14%	78.00	-0.77	
2010	YEAR END	65	\$5,039,423	\$1,539,293	\$207	1,404	\$73,578	6.98%	8.69
2009	YEAR END	67	\$11,811,917	\$1,375,640	\$201	1,035	\$77,493	7.85%	9.14

Source: Massey Knakal Realty Services

### BRONX ELEVATOR

Period	# Buildings	Dollar Volume	Average Price	Average Price Per Bldg SF	Units	Average Price Per Unit	Average Cap Rate	Average GRM	
Year									
2011	Annualized	30	\$18,933,236	\$4,281,538	\$300	2,047	\$85,379	7.37%	9.80
2011	YTD	23	\$9,514,370	\$4,281,538	\$300	1,511	\$85,379	7.37%	9.80
% diff 10-11 annualized		3%	23%	31%	15%	28%	47%	-16.00	-0.43
2010	YEAR END	41	\$23,261,132	\$5,691,739	\$311	3,031	\$73,227	7.83%	7.28
2009	YEAR END	31	\$18,689,780	\$4,372,379	\$303	2,002	\$71,691	8.10%	8.58

Source: Massey Knakal Realty Services