

Buyers, Sellers See Different Multifamily Markets. Thank Goodness!

Now that the elections are over, there are a lot of conversations going on about what is going to happen to the rent-regulation system and the apartment building sales market. Fortunately, there is probably going to be continued activity in the apartment building sector.

Some sellers are selling because they have management fatigue. Legislative headwinds have been blowing against property owners for many years, even when Republicans controlled the state senate, which, according to multifamily property owners, kept rent regulation from moving too far in opposition to owners interests. Now that the recent elections have provided the Democrats with a wide majority, many owners fear the headwinds will turn into tornados. Much has been written about the elimination of vacancy decontrol that has allowed owners to bring units—which have been well below market levels for decades—up to where they should be. There have

also been proposals to make Major Capital Improvements and Individual Apartment Improvement increases merely temporary, until the expense has been recouped, and then the rent will drop back to the pre-investment levels. Some owners will not stomach these changes.

Some sellers are selling because they are concerned that we are so late in the cycle that the market is likely to turn down and values will fall. They want to capture the appreciation they have achieved since the 2010 low point.

Some sellers feel now is the time to realign their portfolios. They are selling assets in B and C locations to purchase assets in A locations. Or they want to sell smaller assets and purchase larger ones. They want to upgrade the quality of their portfolios and make these changes now.

Some sellers want to achieve geographic diversification. Many sellers, who have been purchasing multifamily assets in New York for decades, have been purchasing assets in other

cities across the country and have been getting as much as 50 to 75 percent higher yields than they can get in New York. Almost all of these investors know that their appreciation rates outside New York will not come close to what they will get here, however, if they are long-term holders, cash flow is much more important than appreciation.

On the flip side, here is why buyers of multifamily assets will continue to purchase them.

Some buyers are buying because they believe the impact of the recent elections will not be as impactful as others do. They feel the city is so dependent upon revenue from the real estate industry in the form of real estate taxes, transfer taxes and mortgage recording taxes that elected officials won't want to too negatively impact the golden goose. They believe cooler heads will prevail and the tide will not swing too far against owners given how much private sector capital flows into the market. They believe that electeds would be foolish to stop this flow of capital because it would deteriorate the quality of the housing stock, which has benefited tremendously

from this private sector investment.

Some buyers are buying because they believe we are in the early stages of a growth phase of the market. They, as I do, see a 37 month correction in the investment sales market in New York City coming to an end and believe the market will rise moderately.

Some buyers are buying because they know lenders willing to lend on apartment buildings in New York than any other type of real estate here. They love the access to capital these assets provide and the relative liquidity they have as owners of the most highly demanded product type in our market.

Some buyers are buying because they believe rent regulation limits the downside of these assets. They also believe the projections of population growth for New York City over the next 20 years and know that if that growth comes to fruition, people will have to live somewhere and historically limited supply will exert upward pressure on rents.

This divergent perspective should be good for sales volume—much better, in fact, than if everyone thought the same way.



Robert Knakal