Does Multifamily Shed Light on Broader Sales Market?

If you are a frequent reader of Concrete Thoughts, you know that my general perspective on the New York City investment sales market is that many of the trends in volume and value are indicative of a transitional market (a correcting or negative market). After an all-time record number of properties sold in 2014 followed by an all-time record dollar volume in 2015, we anticipated that both of these metrics would drop in 2016. Additionally, we expected values to be lower on a price per square foot basis at the end of the year than at the beginning of the year. While many of the market's metrics are supporting these forecasts, the market remains opaque with regard to its direction as intermittent positive developments are flying in the face of a market in transition.


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Dynamics within the multifamily market are also behaving as they normally do when a transitional market takes hold and gains traction. This week, we will take a closer look at this property sector and will try to determine if it lends any clarity to the opaqueness observed in the broader market.

Property values within the market have varied by sector. Land and hotels have faced significant headwinds and values have dropped tangibly. Office buildings and multifamily assets have been performing very well, leaving retail assets somewhere in the middle with properties selling for the same high prices, as six to nine months ago but with fewer bidders at the highest end of the bidding range.

If we look closer at multifamily assets, we see that, thus far in 2016, the volume of sales has fallen (both in terms of number of properties sold and dollar volume). However, values continue to rise to all-time record levels. This dynamic, with falling volume and rising values, is also consistent with market conditions in this sector prior to a downturn.

The statistics used in our analysis are through the first five months of the year, so we have annualized all of this data to be able to draw comparisons to historical data.

If we look at the volume of all multifamily sales in the city, the market in 2016 is on pace for $14.15 billion, 24 percent below last year's $18.7 billion. The number of apartment buildings sold is on pace for 1,236 sales, down 28 percent from last year's 1,709. The number of units (total number of apartments in all of the buildings that traded hands) sold is dropping at a pace of 48 percent. If the present rate holds, there will be 27,433 units sold versus 2015's 52,479. And the total square footage of apartment buildings sold is also on pace for a massive reduction of 49 percent, currently tracking at 24.8 million square feet versus last year's 48.7 million square feet.

While volume is on pace to be down significantly, values are performing at all-time highs. Average cap rates are still compressing so far this year, averaging 4.37 percent, 20 basis points lower than the 2015 average of 4.57 percent. Gross rent multiples are increasing with the average multifamily GRM increasing by 0.81 multiples from last year, rising from an average of 15.26 to 16.07. These positive movements have resulted in the average price per square foot in the sector increasing by 13 percent to a new all-time record of $1,067. In 2015, the average was $971 per square foot. The average price per unit has also attained all-time record status at $337,000 per unit, an 11 percent increase from last year's average of $302,000.

In New York City's multifamily market, it is important to recognize that elevator buildings are considered a separate asset class from walk-up buildings. While these sectors are somewhat correlated, they have their own value metrics and should be analyzed separately. We have done that analysis, but the results of which are too granular to present here (by the end of June, my team will be publishing an analysis of the elevator and walk-up property sales in Manhattan, Northern Manhattan, Queens, Brooklyn and the Bronx going back to 1984). However, the dynamics for each of these sectors mirror the broader market with respect to general trends. The elevator sector has seen much larger drops in volume relative to walk-ups, and value metrics have increased but increased more modestly than the walk-up sector has experienced.

It is important to note that while values are increasing, the rate of increase is slowing, which, in conjunction with the reductions in volume, are indicative of a transitional market. These conditions would tend to support the idea that the broader market is correcting. However, the dreaded opaqueness in the market is not clarified by this data, and it appears we need several more months of data (at least) to determine if a clearer direction can be detected.