## Manhattan Apartment Building Sales Slump. Thanks, Regulation Reform!

The performance of the New York City multifamily sales market has always been of great interest to the investment sales brokerage community given the significant number of multifamily assets that are so evident across

all the boroughs of New York. The new rent regulation reforms which passed in June have cast uncertainty over the market relative to where values are headed and have negatively impacted the volume of sales.

While it is still too early to know how the market will shake out based on these new regulations, it is interesting to see how the performance in the period leading up to

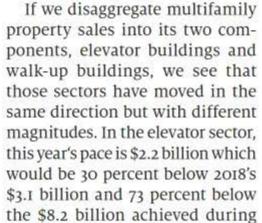
the reforms as well as within the quarter after passage — in this case, within the Manhattan submarket (below 96th Street on the east side and 110th Street on the west side).

Robert Knakal.

With regard to the dollar volume sales, multifamily property sales in excess of \$10 million in Manhattan are on pace for \$2.6 billion this year, a 42 percent drop from the \$4.5 billion which occurred in 2018. This total would be 78 percent below the record \$12 billion of sales that occurred in 2015. Taking the \$5.46

billion Stuyvesant Town / Peter Cooper Village transaction out of the 2015 statistics is appropriate given the massive size of that transaction. Removing that sale from the data, the present pace is still 61 percent below the activ-

ity seen in 2015.



the cyclical peak in 2015. Again, removing the Stuy Town transaction would lead to a 42 percent drop in this year's volume versus 2015.

In the walk-up sector, the pace of sales is a mere \$400 million this year which is on pace to be down 70 percent from the 2018 total of \$1.4 billion and an astounding 89 percent below 2015's \$3.8 billion total.

The sector's performance from a number of properties sold perspective has also been disappointing in Manhattan.

In the third quarter of 2019 (3Q19) there were 10 apartment buildings sold in Manhattan in excess of \$10 million. Annualizing the activity over the first three-quarters of the year puts the market on pace for 48 sales this year. If achieved, this would be 35 percent below the 74 transactions that closed in 2018 and 65 percent below the cyclical peak of 136 sales in 2015.

Within the elevator sector, the market is on pace for 23 sales in excess of \$10 million this year, just 8 percent below the 25 sales that occurred in 2018 and 34 percent below the cyclical peak of 35 sales in 2016.

In the walk-up sector, activity was more significantly impacted by regulation reform. Here, sales volume is on pace for 25 transactions this year which would be about 5 percent below the 49 transactions that occurred in 2018. This pace would be a whopping 76 percent below the 109 transactions that occurred at the cyclical peak in 2015.

Given the downward pressure on property values that reform has exerted, these performance metrics are not surprising. The extent to which values have fallen is yet to be determined as it is too early to know.

In the multifamily sector we have seen

an increase in cap rates and also an increase in price per square foot. This counterintuitive relationship made us look at the numbers a little more closely. In 2018, the average multifamily cap rate was 3.69 percent. This average rose to 4.41 percent in 2019, a 72 basis points increase (few of these sales had contracts signed after reform was passed). Simultaneously, the average price per square foot grew from \$754 per square foot in 2018 to \$891 per square foot in 2019. Intuitively, with an increase in cap rates, values can't be increasing so we must look at the composition of properties being sold to explain this divergence. As it turns out, in 2018 the average net operating income per square foot of the basket of properties sold was \$26. Thus far in 2019, the average net operating income of the basket of properties sold has increased to \$39 per square foot. This significant increase in net income per square foot within the sample of properties sold is the explanation why cap rates have been rising and price per squarefoot is going up as well.

Over the next few quarters we will begin to see the true impact of reform on property values as all market participants begin to settle into our new world.