CONCRETE THOUGHTS

The Multifamily Sector Keeps on Rolling

As cracks appear in certain sectors of the investment sales market, one of the asset classes doing the best is multifamily properties.

In New York City, multifamily properties are broken down into three different asset classes: elevator, walk-up and mixed-use. While multifamily properties are doing well thus far in 2016, 2015 was a record year for this sector.


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As we saw in the broader New York City investment sales market, where the number of properties sold declined last year from the year before and the dollar volume hit an all-time record, the multifamily market performed in much the same way. In 2015, if we aggregate elevator, walk-up and mixed-use properties, there was a total of 2,742 properties sold, down 14.6 percent from the 3,143 properties sold in 2014. But the dollar volume of sales in this sector last year did indeed achieve a new all-time high with $21.54 billion in sales. This total eclipsed the $16.78 billion sold in 2014 by 28.4 percent. And the number of apartment units sold in these properties hit a new cyclical peak of 57,308 units, 6.4 percent above the 53,886 units traded in 2014. This is quite a statistic given that the number of properties sold was lower by 14.6 percent. This means that, on average, larger properties were selling in 2015 versus 2014.

While these aggregate numbers followed macro trends in the marketplace, it is insightful to look at each of the different asset classes in this category.

The elevator group had a big year in terms of dollar volume in 2015 as there were $13.5 billion in sales. This total was assisted greatly by $5.3 billion sale of Stuyvesant Town-Peter Cooper Village. The $13.5 billion total was a whopping 46.1 percent above the $9.24 billion sold in 2014. There were 388 elevator buildings sold in 2015, up 4.3 percent from the 372 sold in 2014. Here, the numbers would be much lower if we did not include the 54 Stuy Town buildings. Total units sold hit a staggering 30,836, up 23.8 percent from the 24,911 sold in 2014. Because of the trend of larger properties selling, the average selling price of property with an elevator was $34.8 million, up 40.3 percent from the $24.8 million average the year before.

The four commonly analyzed value metrics all hit all-time or cyclical records. Capitalization rates in the elevator category dropped to an average of 4.09 percent, down 62 basis points from the 4.71 percent average in 2014. Gross rent multiples expanded greatly from 13.91 in 2014 to 17.01 last year. Average prices per square foot reached a new peak of $487, up from 2014's $413 average. And lastly, on a price per unit basis, another new record was attained at an average of $497,000, up from $470,000 the year before.

In the walk-up category, there were $4.82 billion in sales in 2015, up 12.1 percent from 2014's $4.3 billion. The number of properties sold decreased by 18.3 percent from 1,581 in 2014 to 1,291 in 2015. The increase in dollar volume and the decrease in the number of properties sold led to a 37.1 percent increase in the price of a property sold from $2.72 million in 2014 to $3.73 million last year. The number of units sold in walk-up properties dipped to a three-year low at 20,082, a 9.3 percent decrease from the year before.

Value metrics in the walk-up category were hitting record levels, just as we saw in the elevator category. Cap rates compressed to 4.73 percent last year, down 85 basis points from 5.58 in 2014. Gross rent multiples rose to 14.65 from 12.42 from the year before. Average prices per square foot climbed to $355 in 2015 from $292 in 2014. And price per unit sold rose to $266,000 from $217,000 the prior year.

In the mixed-use category, dollar volume and number of properties sold were down slightly, as were total units sold. All value metrics were up in 2015, from 2014, demonstrating the continued strength of the sector.

If current trends in the investment sales market are a foreshadowing of a looming correction in the market, then ultimately, the multifamily asset class will be negatively impacted like other classes. But for the meanwhile, the market keeps rolling. Demand is great, and financing remains plentiful. Notwithstanding the strong policy headwinds rent regulated assets have faced—and will continue to face—the sector continues to progress in a positive way, at least for now.

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