

Multifamily Strong (Kinda)

While sales volumes have been disappointing, values have been performing well, with the exception of the land and hotel markets where we are seeing values drop. The product type that appears to be doing the best is the multifamily market. Its sales volume is off significantly, but value remains elevated.

The sales market is on pace for \$32.9 billion of volume this year, down 43 percent from the \$57.8 billion of sales in 2016. This pace would result in a 57 percent drop from the cyclical peak year of 2015. The number of properties sold is set for 3,756 sales—a total that would be 14 percent below 2016's 4,376 sales. This pace would also put our market at 32 percent below the cyclical peak year of 5,534 in 2014.

On a market-wide basis, the average price per square foot thus far in 2017 has reached a new all-time record of \$570, 7 percent above last year's average. The increase in average price per square foot in the outer boroughs was 7 percent (\$407 vs. \$380) and in the Manhattan submarket, the appreciation rate is just 2 percent (\$1,483 vs. \$1,449).

It's not surprising that land and hotels are slipping in value, as those two product types are always the first to shift in a correction. Multifamily assets are almost always the last to budge.

Through the first half of 2017, the

multifamily market is on pace for \$7.12 billion worth of apartment building sales. This is on pace to be 47 percent below last year's \$13.45 billion. The number of properties sold is on pace for 1,336, 11 percent below last year's 1,508 sales. This is 32 percent below the cyclical peak in 2014, in which 1,957 properties were sold.

With regard to values, on a citywide basis, the average price per square foot has achieved a new all-time record thus far in 2017 at \$455 per square foot. Capitalization rates are up slightly at a 4.49 percent average. This is up 19 basis points from the 4.3 percent average observed in 2016. The average gross rent multiple has dropped

to 16.54 times, versus the 2016 average multiple of 16.73.

So the question is: Will values continue to rise in the sector? Several owners are reporting slight increases in market rents on the residential side. This would stop an almost two-year trend of downward pressure being exerted on residential rentals. If rents are actually increasing, this could bode very well for the future of multifamily and would likely lead to increased supply as owners look to take advantage of those additional increases in values. This would be a much-needed shot in the arm for the anemic sales volumes that we have seen of late.



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