



Multifamily investors rediscover the Upper East Side: A good value with rental upside

April 27, 2015 - New York City

Multifamily investors rediscovered the Upper East Side in a big way last year snapping up 47 properties valued at \$1.764 billion, a 168% increase in dollar volume from the previous year.

In fact, trading on the Upper East Side was so robust that it accounted for 34% of the \$5.138 billion in multifamily sales in Manhattan below 96th St. in 2014, and 14% of the \$12.59 billion in multifamily sales citywide, according to Ariel Property Advisors' Multifamily Year in Review: New York City 2014. The Upper East Side claimed four of the top 10 largest multifamily deals in New York City last year, and nine of the neighborhood's 34 transactions were above \$20 million.

Several factors contributed to this spike in dollar volume. One is the city's surging condominium prices, which led to several large Upper East Side multifamily transactions where the buyers intend to convert the existing rental properties to condominiums. Examples of this trend include an 85,839 s/f multifamily at 12 E. 88th St. that sold for \$105 million, or \$1,223 per s/f, and a 241,274 s/f, mixed-use property at 1033 3rd Ave. that sold for \$240 million, or \$995 per s/f.

Second is the neighborhood's perceived stability, both for residents and global investors looking for safe haven investments that generate cash flow.

But perhaps most importantly, many investors are gravitating to the Upper East Side because when compared to the rest of Manhattan, its large supply of multifamily rental properties presents a good value with rental upside. For example, nearly half of the multifamily properties on the Upper East Side sold last year below Manhattan's average of \$866 per s/f.

Investors clearly see future rent increases on the horizon as value-conscious tenants flee pricier, trendier locations downtown. Upper East Side free market rents currently average \$55 to \$65 per s/f, while luxury apartments rent for up to \$80 to \$90 per s/f.

With a median rent of \$2,450, the Upper East Side has a way to go before catching up to rents in other East Side neighborhoods such as Midtown East (\$3,200); Murray Hill (\$3,150); Gramercy/Flatiron (\$3,800); and even the Lower East Side (\$2,900), according to Citihabitats' February 2015 Report for Manhattan. Only Harlem and Washington Heights in Manhattan reported lower median rents, \$2,400 and \$1,825, respectively.

We're also hearing that an increasing number of investors cite the near completion of the long-awaited 2nd Ave. Subway as a factor driving purchasing decisions. Properties along 2nd Ave. and closer to the East River will undoubtedly benefit from the completion of the project, and owners are already starting to figure the new subway into their retail rents. Phase I of the project is scheduled to be completed in December 2016.

Recent transactions serve as a testament to strong market demand for Upper East Side properties. Two mixed-use elevated buildings consisting of 818,835 s/f at 1660-1680 2nd Ave. and 160 E. 88th St., sold for \$485 million, or \$592 per s/f. The buyers, a partnership between the Chetrit Group

and Stellar Management, are renovating the properties with plans to maintain them as rental buildings with ground floor retail.

Another portfolio of four properties totaling 69,740 s/f at 413-417 East 81st St. and 427-431 East 83rd St., between First and York Ave., sold for \$47 million, or \$674 per s/f.

In line with this pricing, Ariel Property Advisors is marketing a five-story, 11,526 s/f mixed-use property with 14 apartments and two retail units at 349 East 82nd St. for \$9.2 million, and a development property with 22,150 buildable s/f at 515 East 86th St. for \$12.5 million. Both assets are receiving tremendous interest from a diverse pool of buyers.

The multifamily transactions included in Ariel Property Advisors' Multifamily Year in Review: New York City 2014 occurred at a minimum sales price of \$1 million, with a minimum gross area of 5,000 s/f, and with a minimum of 10 units. For a copy of the report, please see <http://arielpa.com/newsroom/report-MFYIR-2014>.

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