Queens investment property prices edge up in 1H17, multifamily assets flourish in Flushing - by Daniel Wechsler and David Baruch

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Queens real estate investors relished positive returns in the first half of 2017 as property prices appreciated despite a slowdown in sales activity. With few roadblocks ahead, the “World’s Borough” should continue to be a favored destination, particularly the neighborhood of Flushing, where multifamily assets offer value and considerable upside.

Queens Investment property sales slowed in the first half of 2017, a trend witnessed throughout New York City, as investors focused on an array of factors and events, namely the new presidency, rising interest rates, revisions to rent regulation, and the new iteration of the 421-a tax abatement, according to Ariel Property Advisors' "Queens 2017 Mid-Year Sales Report." Concerns about the absorption of a flood of new residential units about to hit the market also impacted the market.

During 1H17, Queens saw 262 transactions consisting of 366 properties, totaling approximately $1.65 billion in gross consideration. Compared with 2H16, transaction, property and dollar volume decreased 12%, 11%, and 33%, respectively. Year-over-year the drop was more pronounced, with transaction and property volume dropping 25% and 23%, respectively, while dollar volume slid 27% compared to the same period in 2016.

Multifamily properties were the most transactional asset type during 1H17, snagging 48% of the transaction volume in Queens. During 1H17, Queens saw nearly $600 million of multifamily assets trade over 125 transactions and 184 properties. Those numbers reflect a 24% drop in dollar volume, 5% decline in transaction volume, and a 16% increase in property volume versus 2H16.

Nevertheless, while year-over-year transaction volume decreased versus 1H16, the first six months of 2017 saw several transactions above $20 million, with Astoria, Elmhurst, Flushing, Holliswood, Jackson Heights and Ozone Park all registering institutional-level transactions. The most notable multifamily transaction in the first half of the year was Kushner Companies' sale of a 4-building package in Astoria for $76.25 million.

Demand for multifamily assets continued to outpace supply as average rents are still below many other parts of the city and the borough's neighborhoods are established, safe and serviced by good transportation. With limited available inventory, the average price per s/f for multifamily assets climbed 9% in 1H17 from 2016s average, reaching $377. Price per unit edged 1% higher to $287,000 during the same period.

As is the case with all New York City sub-markets, Queens pricing metrics for multifamily properties have steadily increased over the years as investors poured capital into commercial real estate. In fact, since 2012, price per square foot and price per unit have risen an astonishing 111% and 107%, respectively.

Flushing Flush With Demand

As multifamily investment properties get gobbled up in Queens, investors have actively been looking for neighborhoods with the most upside. Flushing is one of those areas, both for investment and residence purposes. With its close proximity to the 7 subway line, residents also enjoy a swift commute to Midtown Manhattan and Hudson Yards as well as easy access to other areas in Queens.

Widely called the Chinatown of Queens, residents of Flushing also benefit from a safe environment, a variety of grocery stores and plush green parks. With its unique cultural background, people from around the world trek to Flushing for its authentic Asian cuisine.

While multifamily transaction volume in Flushing declined in the first half versus the same period a year earlier, to 9 from 21, the average transaction size nearly doubled, leaping to $11.1 million from $5.8 million. Dollar volume also fell in the first six months of 2017, however the decline was lower than Queens' overall trend, dropping 17% to $100.3 million.

A notable transaction was Treetop Development's $57.6 million sale of 132-40/133-21 Sanford Ave. to Pinnacle Group, which represented $366 per s/f $318,000 per unit, a reported cap rate of 3.13%, and a gross rent multiple of 17.79.

Meanwhile, the impending shutdown of the L-train in Brooklyn, and continuing integration of Hudson Yards, has the neighborhoods along the 7-train, such as Flushing, primed to see a shift in demographics, which should ultimately push rents higher. Flushing is a mere 30 minutes away from Hudson Yards, so it should increasingly attract young professionals to the area.

Looking ahead, the outlook for the rest of the year is more uncertain than it has been in recent years, but the Queens multifamily market remains positive, with limited supply likely to keep prices firm. The U.S. economy continues to strengthen, and the borough's relative affordability bodes well for the Queens real estate market. Furthermore, major infrastructure projects, and new demand coming from the 18-month shutdown of L-train, should buoy near-term growth in the borough.

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