Spotlight shines bright on Bronx in 2017; Strong demand drives multifamily prices sharply higher - by Jason Gold and David Baruch

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Jason Gold, Ariel

David Baruch, Ariel

Real estate investors were enamored with the Bronx last year as multifamily property prices notched the strongest gains of any sub-market. Property values are poised to move even higher in 2018 as buyers continue to set their sights on the high returns and steady cash flows offered by assets in the borough.

Volume in the Bronx, echoing NYC's overall trend last year, slumped, but the declines were far less pronounced than other sub-markets. For the year, the borough saw 300 transactions consisting of 452 properties totaling approximately $2.17 billion, according to Ariel Property Advisors' recently released "Bronx 2017 Year-End Sales." To view, click on: http://arielpa.com/report/report-APA-Bronx-2017-Sales-Report

The figures represent a modest 2% decline in dollar volume, and a 15% drop in both transaction and property volume compared to the previous year. Geographically, at 48%, southwest Bronx captured the lion's share of overall dollar volume in 2017, while northwest Bronx, southeast Bronx, and northeast Bronx, comprised 30%, 15%, and 7%, respectively.

Multifamily properties comprised 59% and 50% of the borough's dollar and transaction volume, respectively. Dollar volume slid by a relatively modest 12% to $1.27 billion, with year-over-year transaction volume dropping 24% to 152. Property volume, meanwhile, slid 29% to 222.

With demand eclipsing supply, multifamily price appreciation in 2017 was significant, climbing 7% year-over-year. Pricing metrics reflected broad strength, with gross rent multiples jumping 8% to 11.89. In addition, price per unit and price per s/f both soared 7% to $176,000 per unit and $196 per s/f, respectively.

Even more impressive was the steep compression of the borough’s cap rates, which dropped below 5% for the first time. Cap rates fell 25 basis points to 4.94%, marking a 38% fall from where they were in 2012. Despite the firming, the Bronx’s cap rate remained relatively high compared with other sub-markets.

For example, cap rates on multifamily assets in Manhattan, Northern Manhattan, Brooklyn and Queens stood at 3.61%, 4.08%, 4.43%, and 4.25%, respectively, in 2017, according to our newly released report: “Multifamily Year In Review.” To view, click on: http://arielpa.com/report/report-MFYIR-2017 The Bronx’s alluring cap rates has been a big draw for investors, due largely to the potential of strong income and high return.

The ravenous appetite for multifamily properties in the Bronx was abundantly evident with the recent sale of 1417 Longfellow Ave. Located in the highly popular neighborhood of Morrisania, where eateries and retail shops are ubiquitous, the 38-unit property, marketed by Ariel Property Advisors, sold for $9.875 million, which translates into an above-average $350 per s/f.

Affordable New York Buoys Development Assets

The Bronx development market accounted for 31% of the borough’s overall transaction volume in 2017, but after several years of rapid growth, transaction volume fell, albeit modestly, year-over-year. With the introduction of Affordable New York, an iteration of the expired 421-a tax exemption program, property volume for the asset class rose 7%. The popular tax incentive drove a multitude of development assemblages, resulting in the sale of 161 properties, totalling $430.35 million.

Dollar volume for this segment was up 9% compared to 2016, bolstered by Extell’s sale of Whitestone Multiplex Cinemas at 2505 Bruckner Blvd. to institutional investors Innovo Property Group and Square Mile Capital for $75 million. The transaction was meaningful for its price, as well as its potential. Along with increasing the lot size by demolishing the theatre, the buyers plan to include as much as 740,000 s/f of industrial space at the site to cater to the ever-expanding need for e-commerce companies, a trend that is gaining steam in the borough.

Nonetheless, rising construction costs, and a challenging financing environment, among many factors, contributed to a slight decline in average prices, which stood at $63 per buildable s/f versus $64 in 2016.

As properties in prime locations in the Bronx become scarcer, sites that offer sizeable air rights and ample gross footage are getting gobbled up. A perfect example would be 840 Westchester Ave., which has been getting a lot of attention. The five-unit, two-story retail/office building is located between Longwood and East 161st Sts. The asset, which Ariel Property Advisors has been retained to market the leasehold, spans 53,705 gross s/f, and includes 83,231 s/f of air rights for further development.

The Bronx's improving economy is another reason why investors have flocked to the borough. Indeed, NYS data shows the unemployment rate stood at 5.5% in December. While that is above the national and NYC average, it is sharply below the borough's year-ago level of 6.1%.

Looking ahead, a noticeable pickup in bidding activity on active listings and contract signings in recent months indicate things appear to be turning around in NYC's investment sales market. Investors have a firmer grasp on the risks and rewards that the current market presents, which should translate into more deals this year. As the broader economy continues to strengthen and more projects near completion, The Bronx should continue to lure residents and businesses to the neighborhood, indicating a strong commercial real estate market for years to come.

Jason Gold is a director - investment sales and David Baruch is a senior analyst at Ariel Property Advisors, New York, N.Y.