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Northern Manhattan real estate prices hold steady, but where did all the large deals go? - by Victor Sozio and David Baruch

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So far in 2018, the Northern Manhattan real estate investment market is looking quite similar to the second half of 2017, at least from a pricing perspective. Certain metrics, such as price per s/f, held steady and even set records in some regions. On a macro level, market trends impacting the overall NYC market have changed over the past few years, with a decline in institutional equity investment and the large transactions they fund perhaps one of the biggest shifts.

When analyzing Northern Manhattan's real estate investment landscape, three major market-wide factors need to be taken into consideration: 1) The retail sector appears to be in the middle of a multi-year reset; 2) Residential rents in the majority of NYC neighborhoods have remained roughly flat, and many landlords have been making concessions to attract tenants; 3) Lending institutions have become more conservative in their pursuit of low yield debt across all asset classes.

The convergence of the above factors, as well as general market uncertainty following the presidential election in late 2016, contributed largely to the main takeaways from the 2017 Northern Manhattan market – prices stayed stable, large deals disappeared, and transaction volume plummeted.

Northern Manhattan recorded only 1 partial interest transaction above $100 million and 1 between $50-$100 million in 2017. The rest of the market consisted solely of small to mid-sized deals priced below $50 million. In contrast, there were seven transactions over $100 million and four between

$50-$100 million in 2016, accounting for approximately 48% of the year's $3.56 billion in dollar volume.

The dearth of large deals over the past year can partially be attributed to more cautious underwriting from real estate's largest capital sources. Unlike 2015 and 2016, when institutional equity providers committed large equity allocations with the anticipation of hitting typical "value-add" fund-like returns, 2017 saw the same providers alter their underwriting assumptions in light of softening rents, increased taxes, and a more stringent regulatory environment.

Many firms attempted to remain active by participating in different parts of the capital stack and showed a preference to being lenders as opposed to buyers. With sellers resistant to adjust their pricing expectations, buyers struggled to justify the pricing on larger deals.

Smaller deals have recently had more success. That's because these transactions can occur with different, more private, sources of equity, such as capital from high net-worth individuals, as well as syndications of friends and family members. These purchasers often do not require the same five to seven-year returns that institutional investors typically require for their portfolios.

During 2017, Northern Manhattan saw 254 transactions consisting of 314 properties, totaling $1.94 billion in gross consideration. Compared with 2016, dollar and transaction volume dropped 46% and 14%, respectively, while property volume slid 29%, according to Ariel Property Advisors' recently released "Northern Manhattan 2017 Year-End Sales Report."

By asset class, multifamily assets ruled dollar and transaction volume, with a 76% and 47% market share, respectively, but the absence of large-scale deals conspicuously skewed results. Dollar volume for multifamily assets dropped 46% year-over-year to $1.47 billion, while transaction volume stumbled 21% to 120.

Nevertheless, most pricing metrics for multifamily assets remained strong, with the average price per s/f climbing 5.8% to $382, and price per unit rising 2% to $320,729. Average cap rates, however, rose marginally to 4.08% from 3.95% the previous year, and the gross rent multiplier (GRM) slipped to 15.24 from 15.87.

Some notable 2017 multifamily sales include 558-560 West 184th St. for $12.3 million, or $633 per s/f and $514,583 per unit. Also noteworthy was the sale of 1356-58 Saint Nicholas Ave. for $7.8 million, or $526 per s/f and $487,500 per unit

Meanwhile, development assets saw dollar volume fall 64% to $173 million and transaction volume slip 20% to 32 sites. The average price per buildable s/f decreased to $209, an 8% drop, but relatively minor considering it has consistently risen since 2012, when pricing averaged a mere $87.

The largest development site transaction of 2017 was 223-235 Saint Nicholas Ave., a distressed site that sold for $48.6 million. Another notable trade that took place in East Harlem was 110 East 125th St. & 1801 Park Ave., which traded for $18.15 million, or $194 per buildable s/f.

There are still reasons for optimism throughout Northern Manhattan. Investors are bullish on East and West Harlem due to Columbia University's Manhattanville campus expansion and the recently approved East Harlem rezoning plan, which has the potential to be a powerful catalyst for continued growth over the next few years.

Looking ahead, a noticeable pickup in bidding activity on active listings and contract signings in recent months indicate an uptick in transaction volume for 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. As the broader economy continues to strengthen and more projects near completion, Northern Manhattan should continue to lure residents and businesses to the neighborhood, indicating a strong commercial real estate market for years to come.

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