Investment Sales: The new “normal” in NYC multifamily investment sales - Michael Weiser

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In the late 1990s, prices for rent regulated apartment buildings ranged from four to eight times the rent depending on the borough and location. For most of the lower to middle income neighborhoods
at that time, the spread between rent-stabilized and free-market rents was minimal to none. Though not core type product, rent-stabilized housing in New York City is as core as it gets. The return expectations for investors at the time were akin to core returns, with bonuses coming every five years through cash-out refinances.

The improvement of New York City, led to gentrification of certain neighborhoods where an abundance of regulated units could be vacated and renovated to bring in significantly higher rents for the landlord. The “buyout” craze was born. The result was an asset class where landlords were content to earn core-type returns along with building wealth through long-term appreciation became a playground for high teens to low 20’s IRRs. This resulted in institutional money that had never really invested in rent stabilized buildings getting into the game because the returns were there, and it was in New York City.

Post the November 2018 election, it was obvious to most New York City real estate players that something was going to change, and in June 2019 it did. While New York City is still the “Capital of The World,” it is going to take some time for the investment capital to readjust to the returns and valuations that the new environment provides. 2020 will probably have a continued slowdown in the overall New York City investment sales market, particularly in the rent stabilized multi-family sector. At GFI, we are seeing huge demand from our clients for deals but they all say the same thing: “What do you have not in New York City.”

Michael Weiser is the president, investment sales at GFI Realty, New York, N.Y.