



Quarterly Market Report: Executive interview with Shimon Shkury, president of Ariel Property Advisors

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The NYREJ recently sat down with Shimon Shkury, president of Ariel Property Advisors, a N.Y.C. investment property sales firm, for a question and answer session.

Q: Ariel Property Advisors is a leader in N.Y.C. investment property sales. What are your brokers on the ground seeing so far this year?

A: As has been well documented, there was a crush of closings at the end of the fourth quarter because investors were seeking to close deals before the capital gains tax increased in 2013. Some of the residual activity from the fourth quarter spilled over into the first few months of 2013, but overall inventory was unusually low as owners adjusted to the new tax environment. Recently, however, we've observed that contract signings are on the rise and believe there will be an uptick in institutional sales in the second and third quarters of 2013, which will translate to higher multifamily dollar volume in the next few months.

Q: What fundamentals are you and your sales team seeing in the multifamily market today?

A: Multifamily prices are rising and are doing so at a faster rate than in recent years. Several factors like low interest rates, rising rents, and a positive economic outlook are contributing to this trend but we think the strongest value driver of late has been scarcity, both of existing multifamily product and alternative investments. In fact, we have a number of owners who recognize that today's prices are very high, but they are choosing not to sell because they don't see enough attractive 1031 exchange opportunities. So owners are opting to refinance at today's low rates instead of putting their properties on the market, which is further constraining supply and contributing to ever rising prices.

Q: What's the best piece of advice you can give to buyers of multifamily properties in today's market?

A: Today's market is flush with well-financed, capable buyers but the ability to transact quickly remains a key differentiator. This means buyers must be able to quickly underwrite deals after receiving information and they must be prepared to finish their entire pre-contract due diligence. A streamlined due diligence process is essential to compete in today's market.

Q: Who are the most active multifamily buyers in N.Y.C. today?

A: The majority of deals are being closed by private equity companies backed by institutional capital, syndicators, and high net worth families. During the last cycle, the market saw many new entrants that utilized high leverage. Today's buyers typically have long-term outlooks and are buying with relatively low loan-to-value ratios.

While international capital is also playing a major role in today's market, it is usually being deployed in a more passive position that relies heavily on a domestic investor with local market and managerial expertise. The uncertain economic outlook outside of the United States continues to drive a great deal of investment towards N.Y.C. properties, which are seen as a safe haven for

capital, and we expect this to continue especially with a sluggish Europe and concerns about a slowdown in Asia.

Q: In addition to selling multifamily buildings, Ariel Property Advisors has a research division. What are the latest trends in pricing?

A: We recently released our Multifamily Quarter in Review: N.Y.C., Q1 2013, which showed that most metrics in all boroughs, but especially Manhattan, experienced substantial average price increases in the six months ended March 31, 2013, compared to the six months ended March 31, 2012. In Manhattan, the average price per unit increased to \$535,813 and the average price per s/f rose to \$589 in the six months from October 2012 to March 2013, up from \$416,531 and \$477 in the six months from October 2011 to March 2012.

Q: What are the most recent trends in sales volume?

A: Our multifamily report shows that N.Y.C. saw 120 transactions comprised of 204 buildings totaling \$1.103 billion in gross consideration in the first quarter in 2013. This represents a 10% decline in transaction volume, a 4% decline in building volume, and a 41% decrease in dollar volume compared to the first quarter of 2012, which saw 134 transactions comprised of 212 buildings totaling \$1.856 billion in gross consideration. The drop in dollar volume, however, can largely be attributed to three institutional sales that took place in the first quarter of 2012, one of which was worth over \$600 million.

The fourth quarter of 2012 saw 244 transactions comprised of 383 buildings totaling \$2.908 billion in sales. In the first quarter 2013 compared to the last three months of 2012, transaction volume fell 51 percent, building volume declined 47 percent, and dollar volume dropped 62%. As noted before, because of the unusual burst of year-end sales that accompanied an eventual rise in capital gains taxes, we do not consider the quarter-over-quarter decline to be a major indicator of the multifamily sector's overall health.

Q: What was sales activity like outside of Manhattan in the first quarter?

A: Northern Manhattan stood out from the other submarkets as the only area to post year-over-year gains across the board, according to our multifamily report. Compared to the first quarter of 2012, transaction volume in Northern Manhattan increased 16 percent while building volume and dollar volume both increased by more than 60%. Much of this increase can be attributed to portfolio sales. In the Bronx, transaction volume showed a miniscule decline of 4%, building volume was down by 13%, but dollar volume showed a slight 1% increase. With 34 multifamily transactions in the first quarter, Brooklyn had more transaction volume than any other submarket.

Q: Where can we get more information about the multifamily market in the first quarter?

A: Ariel Property Advisors' Multifamily Quarter in Review: N.Y.C., Q1 2013 and our other research reports can be downloaded from our website at <http://arielpa.com/research/reports/>. Our multifamily reports track multifamily transactions 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 in every neighborhood of Manhattan, Northern Manhattan, the Bronx, Brooklyn, and Queens.

Shimon Shkury is founder and president of Ariel Property Advisors, New York, N.Y.

Ariel Property Advisors' Multifamily Quarter in Review: New York City, Q1 2013 showed the most metrics in all boroughs, especially Manhattan, experienced substantial average price increases in the six months ended March 31, 2013, compared to the six months ended March 31, 2012.

New York City multifamily volume was lighter in the first quarter 2013 because of the unusual burst of year-end sales activity caused by investors seeking to close deals ahead of the capital gains tax

increase. (Chart from the Multifamily Quarter in Review: New York City, Q1 2013.)

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