



N.Y.C. building sales market: Income producing property under \$50 million and "everything else"

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The buildings sales market in New York City today can accurately be described as two very distinct market segments. The first is the income producing property market under \$50 million and the second is "everything else." The "everything else" market consists of land, conversion properties and properties in excess of \$50 million in value. This market has been affected the most by the challenges currently faced in the credit markets. The conservative underwriting of lenders has created an environment in the large transactions sector where banks need to work together in "clubs" to provide large amounts of capital. Given current economic conditions and the large write-offs many of them are facing, getting these transactions done is very difficult. Conversely, it is almost business as usual in the income producing building sales market for properties with values under \$50 million. While additional equity is definitely required, there is still plenty of debt available for these transactions. The days of 10 to 20% equity are long gone as 50 to 60% loan-to-value ratios are more the norm today. The multifamily market has held up best, as the artificially low rents created by rent regulation that lead to properties' cash flow are viewed very positively by lenders. Notwithstanding the economic conditions, these properties will not see reductions in cash flow and have embedded in them significant upside potential. We are seeing cap rates staying at relatively low levels (with slight upward pressure base on the additional equity requirement) and prices per s/f continually increasing for properties in the multifamily sector. This is the case because of the double digit annual rental appreciation we have observed over the last few years.

Smaller land transactions are also holding their value well, particularly in very prime locations. Sites in fringe areas have seen values fall by 10 to 20%, depending on their size. Smaller sites, which require smaller aggregate capital structures, are still seeing significant demand and pricing has been holding up well. Manhattan land has clearly held up better than land in the boroughs.

Smaller office buildings are continuing to benefit from the extremely low vacancy and high average rents in class A and B larger office product. The greatly increasing office rents over the last couple of years has forced many tenants out of prime buildings into secondary and tertiary office buildings, thus increasing the achievable rents in these properties. Occupancy levels are high and average rents are continuing to increase. Office properties with longer lease terms are viewed as more favorable by the buying community as the outlook for the next couple of years is uncertain.

With regard to the hotels, this sector is benefiting perhaps the most from the weak U.S. dollar. With foreign exchange well out of balance, it is relatively inexpensive for foreigners to travel to New York and fill our hotel rooms. Additionally, foreign locations for domestic travelers are financially out of reach, resulting in more Americans traveling to cities like New York for their vacations. Therefore, we are seeing extremely high occupancy levels in New York City hotels with increasing average

room rates. This dynamic should continue as the Fed continues to reduce rates in response to a weak national economy. With falling interest rates, the dollar cannot strengthen relative to foreign currencies.

All of these conditions are leading to healthy stability in terms of pricing within the building sales arena. We have seen a reduction in the volume of sales, which is currently off by 30% from the activity experienced in the first half of 2007. We expect this trend to continue mainly because the supply of available properties is currently low. We are also seeing that the average offer being made on a particular property is much lower relative to the ultimate sales price. This dynamic indicates significant downward pressure on pricing, although prices have had significant inertia.

It will be interesting to see how the Fed's \$200 billion stimulus package for banks will affect their willingness to increase their lending allocations. The key economic indicator to watch for in the future will be employments, as these trends will indicate how long our economy stays in recession mode.

All things considered, we are expecting 2008 to continue on its steady course the remainder of the year.

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