



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

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NYREJ recently sat down with Shimon Shkury, president of Ariel Property Advisors, a New York City investment property sales firm, who shared some of the highlights from Ariel Property Advisors' Multifamily Year in Review: New York City | 2014.

Q: During your presentation at the New York City Real Estate Expo last November, you predicted that the New York City multifamily market would end 2014 with dollar volume as high as \$12 billion, did that occur?

A: We were very close. With 2014 ending with \$12.6 billion in total dollar volume, the market actually performed slightly better than we expected, showing tremendous 39% growth from the previous year.

Q: How did multifamily transaction and building volume in 2014 compare to 2013?

A: Citywide, transaction volume rose 8% to 761 and the number of buildings traded increased 13% to 1,413 in 2014 compared to 2013.

Q: Did multifamily prices continue to climb in 2014?

A: Definitely. The strong sales volume and elevated demand for multifamily assets pushed prices higher throughout the city.

In Manhattan, cap-rates fell below 4% and the average price per s/f rose 25% to \$866 as investors were willing to pay ever higher premiums to own core Manhattan. The Bronx had an especially good year in terms of pricing, with the average cap rate dropping 100 basis points year-over-year to 6.07% from 7.15%. It's worth noting, however, that the average cap rate in the Bronx is still higher than all the other submarkets in the city. In Northern Manhattan the average price per s/f rose 22% to \$266 from \$218, and in Brooklyn the average price per s/f also rose 22% to \$289 from \$237.

Q: What factors contributed to such a robust year?

A: Larger transactions in Manhattan and the outer boroughs played a significant role in making 2014 a stand-out year. Transactions \$20 million and above accounted for more than 50% of all the multifamily dollar volume in every submarket but the Bronx where at 47% it was close.

Funds looking to write big equity checks are placing a premium on larger transactions in all asset classes. Equity from international and national sources continues to pour into New York City because investors perceive the city as a safe haven and want to take advantage of our healthy economy.

Q: How did the submarkets perform in 2014?

A: We saw increases in every category in Northern Manhattan, the Bronx, and Brooklyn, and year-over-year increases in dollar volume in Manhattan.

Manhattan - Dollar volume for multifamily transactions in Manhattan increased 15% to \$5.138 billion, despite a 12% drop in the number of transactions to 139. The most active neighborhood in

Manhattan last year was the Upper East Side, which saw 47 buildings trade in 34 transactions valued at \$1.764 billion. As noted before prices continued to rise in Manhattan, reaching \$866 per s/f last year. Some of the price pressure came from buyers seeking to convert existing rentals to condominiums as well as investors seeking a safe haven.

Brooklyn - Brooklyn had a tremendous year with more than \$2.35 billion in multifamily sales, a year-over-year increase of 88%, and 222 transactions, more than any other submarket. Brooklyn also claimed some of the most active neighborhoods in the city including Bedford-Stuyvesant where 39 buildings traded for \$127 million, Crown Heights where 46 buildings traded for \$167 million, Flatbush where 45 buildings traded for \$241 million, Prospect Heights where 34 traded for \$232 million, and Williamsburg where 27 buildings traded for \$237 million.

Bronx - Transaction volume in the Bronx rose 18% to 186 and dollar volume increased 49% to \$1.625 billion compared to 2013. The burgeoning South Bronx attracted a slew of investors, developers, and tenants to pair with a strong pipeline of residential and hotel developments, which had a positive effect on the entire borough's pricing. More buildings traded in the South Bronx neighborhood of Melrose than any other neighborhood in the borough - 41 properties over 18 transactions valued at \$192 million.

Northern Manhattan - With catalysts such as the 125th St. revitalization, rising prices in core Manhattan, and an improving retail scene, investors continue to flock to Northern Manhattan as they looked to capitalize on rising rents. The submarket saw dollar volume jump 116% to \$2.591 billion, transactions rise 27% to 145, and the number of buildings traded increase 57% to 319. East Harlem accounted for the highest dollar volume, reflecting the sale of the \$1.04 billion Urban American East Harlem Portfolio to Brookfield.

Queens - Queens followed up on a robust 2013 with a solid year, totaling \$884 million multifamily sales - down 17% from last year. Rents continued to climb throughout the borough, most notably in the neighborhoods of Northwest Queens like Astoria, Long Island City, and Sunnyside. Queens has traditionally been known as a submarket that sees relatively few multifamily buildings change hands. The sale of the Pinnacle Group Kew Gardens Hills Portfolio, 12 buildings for \$216 million, boosted the dollar volume of sales in Kew Gardens to \$230 million, the highest in the borough.

Q: What are you forecasting for 2015?

A: Our forecast is bullish, but we've identified a few headwinds including rising construction costs, the unknowns in the mayor's housing policy, the sustainability of the luxury market, rents leveling off, interest rates, and global uncertainty, and the strengthening dollar. The positive factors include low oil prices, increased job creation, improved consumer spending, tight inventory, New York City's reputation as a safe haven, the diversification of tenancy into the tech industry and student housing, and the increased equity in deals today. Overall, we believe that the positives in 2015 will outweigh the negatives.

Q: Where can we get a copy of Ariel Property Advisors' Multifamily Year in Review: New York City I 2014?

A: Copies of the Multifamily Year in Review and all of our research reports are available on our website at <http://arielpa.com/research/reports/>.

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

