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Bronx multifamily market shifting into high gear: Climb to continue for the forseeable future

June 23, 2015 - New York City

The first quarter 2015 figures are in and all signs are pointing to yet another spectacular year for Bronx multifamily assets. According to our research, the Bronx multifamily sector saw roughly $340 million sales across 49 transactions comprised of 68 buildings. While this is an improvement from 4Q14 figures, the strong pricing metrics coming in on a price per square foot and a cap rate basis.

Let's take a look at six-month trailing averages in our most recent report. Looking at the six months ending in March, the average price per square foot for Bronx multifamily assets came in at $135â€”this is a 12.5% increase over the $120 figure seen at the end of 2014 and continues a steady climb we've watched since 2011 when the average price per s/f was $96.

Cap rates compression is even more impressive, with the six-month average ending in March seeing 5.64%, a 123 basis point drop from the same measure one year ago and 43 basis point drop from the 2014 average recorded in January.

Such drastic price increases suggests investors are no longer investing in the Bronx to achieve higher yields, as most market participants have inferred. Rather, they are heading to the Bronx for the burgeoning long term investment opportunities.

Institutional and entrepreneurial private capital are driving much of this renewed interest in the borough. High profile real estate names such as Related Companies, L+M Development Partners and Arker Companies are together investing hundreds of millions of dollars to purchase, upgrade and preserve the borough's vast affordable housing stock. Related's recent purchase of 2001 Story Ave. in Castle hill for $66 million and Arker Companies $85.5 million purchase of the Morrisania Multifamily Portfolio are prime examples of this trend.

A number of entrepreneurial small and mid-sized companies are also playing a big role. Either by leveraging existing portfolios in the area or by syndicating through high net worth families and other private equity, such groups are growing their portfolios and reaching for higher value assets. Two recent examples include Stadium Holdings, who purchased 1749 Grand Concourse for $49.5 million, and Asden Properties who purchased 1777 Grand Concourse for $25.6 million, which represented a gross rent multiple over 11.

On both the institutional and entrepreneurial side, we're seeing new entrants from all over the city take a hard look at Bronx multifamily assets. This has been particularly evident with our company's recent marketing of the Continental Portfolio, a package of 13 buildings containing 612 units located throughout Fordham/University Heights, Mount Eden/Mount Hope, Concourse and Wakefield.

While we believe a number of factors will continue to push Bronx multifamily sales and prices higher, these same factors also make the area a ripe opportunity. On a macro level, interest rates are expected to remain low and financing is readily available. Public initiatives are also increasing opportunity for developers, such as the Special Harlem River Waterfront District. The district is projected to yield 2.8 million s/f of residential space over 4,000 units and 2.3 million s/f of commercial space.The Brownfield Remediation and Redevelopment program is giving developers an opportunity to redevelop areas that have "a long history of heavy industrial use and the need for planning and revitalization efforts."

Recent mega-developments such as Chetrit and Somerset's purchase at 101 Lincoln Ave. and 2401 Third Ave. are also reinvigorating the multifamily market with the promise of retail and other amenities in the area. There have also been several hotel and office developments in the Bronx, such as Savanna Investment Fund's recent purchase of a 175,000 s/f office building at 2417 Third Ave. for $31 million in Mott Haven, that are paving the way for a quickly changing landscape.

Lastly, the mayor's office has also initiated the Jerome Avenue Study as part of the Housing New York Plan. The goal is to revitalize the area to meet existing needs and plan for the future. By leveraging the corridor's strong transportation options, a successful rezoning of this area could have a profound, positive impact on the boroughs residential markets.

With the new investor interest, large quantities of capital in play and the public-private initiatives taking shape, the Bronx appears to be at a turning point. The positive trends we're seeing in the number of multifamily deals taking place and in pricing metrics suggest the market is catching on to this new reality. With so much in the pipeline, our sense is that this climb will continue for the foreseeable future.

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