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Investment Sales: New York City real estate is still alive - by Michael Weiser

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NYC commercial real estate investment is still alive! The new NYS rent regulation laws affect approximately one-million stabilized units. However, there are still approximately two million free market apartments many in wholly free-market or largely free-market buildings. In addition, let's not forget mixed use, office, industrial, retail and general commercial properties. Historically, rent stabilized buildings provided slow steady returns. It is only over the past decade that gentrification and tenant buyouts provided outsized return opportunities which resulted in rent-stabilized apartment building prices skyrocketing, thereby becoming a much larger piece (by volume and number of deals) of the overall NYC investment sales market and of course grabbing headlines.

Investors focused on stable long term returns don’t need to leave NYC, they just need to re-focus. The 421A tax benefit, providing a tax break for developers who set aside 25-30% of their units as affordable, was revisited as the legislature removed the unintended consequence of the new laws that market-rate units would remain regulated. The result is that development, with an affordable component, is still a viable vehicle for investment. New buildings not subject to the new rent regulations will be outsized beneficiaries of the recently passed restrictive regulations as the demand for the new units will increase overtime due to their quality exceeding that of rent-stabilized units.

Office leasing has been strong for that last two years. Although, there may be some signals that the market may soften right now NYC continues to be the business capital of the world and businesses big and small want to be here. This continues to make investing in NYC office a solid long term play.

Despite some visible vacancies on certain avenues and high-profile closures, retail is still a sector that is alive and kicking. Consumer confidence is high and although there has been a shift to online shopping, retail remains an “activity” for many residents and tourists. Traditional retail is changing into experiential retail; consumers want a customized experience. Rental correction in that sector will shrink the inventory thereby increasing demand. The result is retail deals trading at cap rates ranging from 5.5% to 6.5%. With the recent drop in interest rates purchasing these properties provides investors with solid levered returns.

The recent volatility of the stock market may also provide a boost to NYC real estate as investors have historically turned to hard assets at such times.

Although many investors viewed themselves as rent-stabilized multifamily players, the reality is, they were investing in NYC real estate, which has always been a solid long-term play. Owning and operating regulated apartments in NYC is no walk in the park. Investors should not think of themselves as one trick ponies. If they can successfully own and operate these apartment buildings they can manage any NYC building. Some of the rules have changed, as have some of the landscape, but there is still much that hasn’t–deals are trading and there is plenty of opportunity in NYC real estate.

Many years ago when justifying investing in the South Bronx one investor said, “The buildings will stay, the dealers will go away.” Perhaps it’s time to modify that to “The buildings will stay, the politicians will go away.”

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