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Three months into COVID-19: Where are we now? - by Shallini Mehra

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We get calls from investors looking for a pandemic discount every day. One thing is clear: There is no shortage of buyers with war chests ready to pounce on a bargain. Pre-COVID valuations for New York City multifamily rent-stabilized product were already down 30-40% after the passing of the HSTPA 2019 rent laws, driving cap rates into the 5-6% range. From our vantage point, it is too early in the cycle for distressed deals, and many investors continue to be in “pause” mode. However, we see light at the end of the tunnel in other areas of the market.

Over the past three months, we have experienced a meaningful decampment of people from New York City. However, the middle and working-class individuals and families - the true New Yorkers - still need affordable housing and are not going anywhere. The good news? Lending doors are, once again, open for real estate investors, particularly for multifamily assets with stable cash flow. This is in stark contrast to the lending environment of just a few months ago when the CMBS market was effectively shut down and banks were handling Paycheck Protection Program loans and forbearance requests. Adding to the challenges, fears over rent collections further spooked the lending market. However, overall collections have remained solid - a result of various government stimulus measures put in place. Having digested all of the above, lenders are now actively back out in the market and focused on originating new deals.

According to Morris Betesh, senior managing director at Meridian Capital Group, investors can now obtain agency debt for a 10-year term below 3% today with a healthy period of interest-only. Betesh recently completed a refinance of an affordable housing property in New Jersey at approximately 50% leverage and was able to obtain a 10-year deal with full-term interest-only at a 2.65% rate for his client.

With regards to retail, which was severely impacted by the pandemic, activity is steadily picking up. Ben Biberaj of Meridian's Retail Leasing division recently negotiated a lease on the Upper West Side with nine months of free rent, followed by 50% of annual rent payments, with the remainder phasing in over the next two years. The Retail Leasing division is focused on finding creative and flexible solutions that provide short-term viability and long-term value for both the tenant and landlord, according to James Famularo, president of New York Retail Leasing at Meridian.

Investment sales are also beginning to find its place in this market. Our team recently closed a multifamily transaction in Northern Manhattan at a 5.3% cap rate. David Schechtman of Meridian's Investment Sales division recently signed a land deal in DUMBO for a healthy $370 per buildable s/f. By all measures, the pricing on these deals was fair and respectable.

Although the city is re-opening, working from home and going remote could evolve into a new workplace model. In the interim, this will address safety concerns for businesses and result in some overhead savings. However, creativity, transformation and success all thrive on in-person engagement, noted Amit Doshi, senior managing director at Meridian Investment Sales. We may experience increased 'flexibility' in this model, but the practicality of the remote work approach will eventually plateau and the need for human connection will prevail back in the office.

We are, without question, living in unprecedented times on a number of frontiers – economic, political, and social. It is inevitable, we will all be witness to historical change. Doors will close for some and open for others. The ability to stay nimble and innovate will help many to move ahead, particularly so for New York's real estate players. We have witnessed co-working, co-living, last mile, pop-up and in-store diners and cafes all blossom and show us novel ways to use space and create value. And despite the uncertainty and reticence in the air, the show must go on. There are still deals we are seeing every day that boast strong fundamentals and feature a solid operating track record. New York City is again open for business and it is time to let go of the "pause" button.

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