Patiently waiting - by Shallini Mehra

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The combination of the rent laws, inflation and interest rates have put many investors in a stalemate and forced others to make some tough decisions about selling their New York City assets. For some, it's landlord fatigue with the regulations, rising operating costs and a decreasing bottom line. Normally, a broker must hunt for product to sell, however, as of late, landlords are instituting the notion that "everything is for sale." While there is still a significant disconnect in pricing, we should expect to see the gap close for motivated sellers in 2023.

The fed funds rate increased seven times in 2022, and we are all betting on the downward trajectory of inflation and a slowdown in interest rate hikes in 2023. Many real estate owners are facing loan maturities on their mortgages and will need to refinance. Unless leverage is less than 50%, an equity paydown is more than likely required to refinance due to the higher cost of capital, which affects the debt service coverage ratio. This, in tandem with the passing of the HSTPA 2019 rent laws which significantly and adversely impacted property values, create further momentum for owners to sell. Many may end up selling at or below the current debt levels. Investors who can still pull out some equity are investing in free-market, out-of-state assets, or diversifying into retail and NNN deals.

However, it is not all doom and gloom. Meridian Capital Group managing director, Judah Hammer, is directing many of his clients who have loans maturing mid-2023 with low rates in the 3% range to utilize forward rate locks of four to six months to protect themselves from future hikes while maintaining their current low rates for as long as possible. This hedge mitigates the downside and allows the investor to ride out their loan to maturity as opposed to refinancing earlier out of interest rate fear.

On the flip side, there are investors with a war chest of capital patiently waiting to buy into New York City. The key here is "low" basis. Many believe in a brighter future as it relates to the New York City rent laws over the long term. New investors, as well as long-time operators and established funds, who have strong management infrastructure, are poised to pick up rent stabilized assets at 6.5%-7.5% cap rates with gross rent multipliers in the 7-9x range. We haven't seen this pricing since the early 2000's. In a flight to quality and freedom from regulation, free-market buildings and 421-a buildings nearing the end of their term are the current favorites along with value-add opportunities.

Real estate players continue to be nimble, always looking to be creative. Meridian Capital vice president, Shlomo Weissberg has clients who are traditional real estate owners and are now providing rescue capital and preferred equity to owners who are in tough refinancing situations and want to keep their buildings. These deals are attractive because the basis is low, the interest rate provides a solid return for investors, and if for some reason, the borrower defaults, the investor is comfortable owning the bricks.

It is key to remember that New York City has a decades-long issue with housing supply. With the rates as high as they are, many renters are putting off home ownership in favor of renting, keeping vacancy at an all-time low. In the meantime, as we all remain patiently waiting, we should continue to set our sights on multifamily assets, which continue to remain a top-performing asset class.

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