Is North Manhattan going north or south? - by Harris Sonnenklar

March 26, 2024 - Front Section

Harris Sonnenklar

In 2023, the North Manhattan multifamily real estate market continued to face significant challenges, primarily driven by the lingering effects of HSTPA and higher interest rates. These factors spurred caution among property investors, leading many to adopt a wait-and-see approach. As an investment sales broker specializing in North Manhattan, my daily interactions reflect the impact of these challenges on decision-making as to hold or sell.

We saw a good +100 to (in some cases) +200 BPS cap rate expansion in response to higher rates. Cap rates rose from a reported 5.2-5.5% range in 2022 to 6.3-6.6% in 2023. This surge was largely driven by 11 consecutive interest rate hikes starting in March 2022, effectively doubling rates. The higher cap rates posed a challenge for investors aiming to achieve their desired returns, given the increased cost of borrowing. Consequently, many property owners chose to remain on the sidelines, wary of investing in a market characterized by higher borrowing costs and reduced potential returns.

Despite these challenges, there were bright spots in the market. The dollar volume of multifamily transactions in North Manhattan increased by 35% in 2023, reaching $640 million. This increase suggests that despite the challenges, there is still significant activity and interest in the market. Several longtime owners also exited portfolios, signaling a shift in ownership, and potentially opening new opportunities for investors. A notable decline in pricing for rent-stabilized properties contributed to this increase in transaction volume. This shift suggests a change in market trends, potentially prompting property owners to reassess their strategies considering these developments. A considerable portion of transactions involved properties heavily impacted by rent stabilization, leading to a notable drop in the average price per s/f to $280 compared to the previous year. This decline highlights the impact of diminishing property values in the rent-stabilized segment, potentially influencing owners' decisions to stay on the sidelines.

From an investment standpoint, there are historical buying opportunities in the North Manhattan market at present. Properties are available at a basis as much as -50% less than peak pricing. Additionally, nearly a trillion dollars in commercial property loans are set to mature this year in NYC alone. This influx of maturing loans could potentially stimulate an increase in transaction volume as property owners consider refinancing or selling their properties.

Harris Sonnenklar is an associate at Besen Partners, Manhattan, N.Y.