Manhattan Multi-Family Market Q1 2020 Topics and Trends

After many years of growth, the Manhattan multi-family market is entering a time of uncertainty. The market was upended in June 2019 when the Housing Stability Tenant Protection Act passed, limiting rent growth potential in rent controlled units. As a result, sales volume in the year ending Q1 2020 was down considerably compared to prior years. Fundamentals for market rate units remained relatively strong through the end of 2019 and early 2020, but since the recent coronavirus outbreak, the outlook for demand has fallen and the threat of a potential global recession is looming. This report analyzes the trends in market fundamentals and investment sales in the Manhattan multi-family market.

FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the world to a halt. The spread of the virus was so rapid, that nations, states and local municipalities were forced to take drastic measures. In addition to the health risk itself, there is ongoing societal angst with most US citizens living under state mandated lockdown orders. Further impacting the economy is that the lockdown orders typically involve closing down businesses that are considered non-essential.

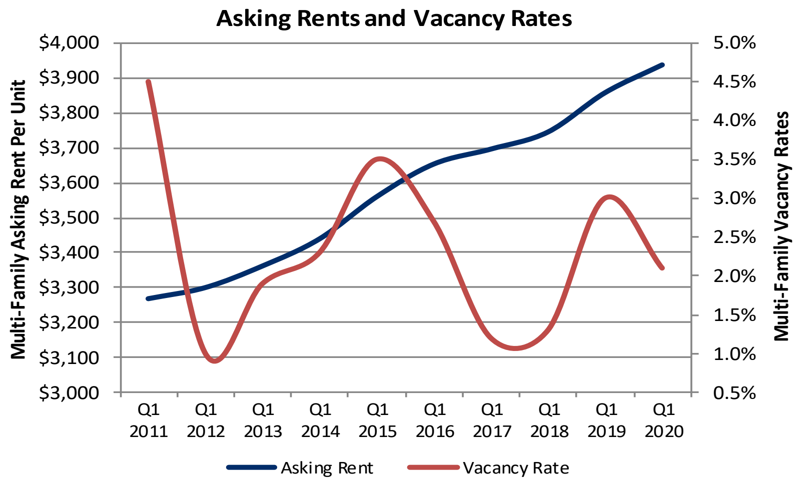
Short Term Impact

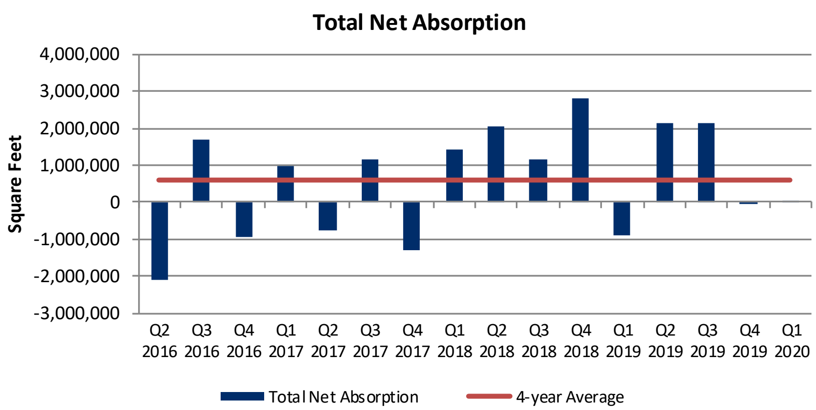
Due to the nature of COVID-19, New York mandated a lockdown that encourages all people to stay home. The closure of restaurants, retail stores and hotels have displaced millions of workers. Even the construction industry has been shuttered. With business closures, and with thousands unemployed or furloughed, there is an immediate concern about how tenants will be able to continue paying rent.

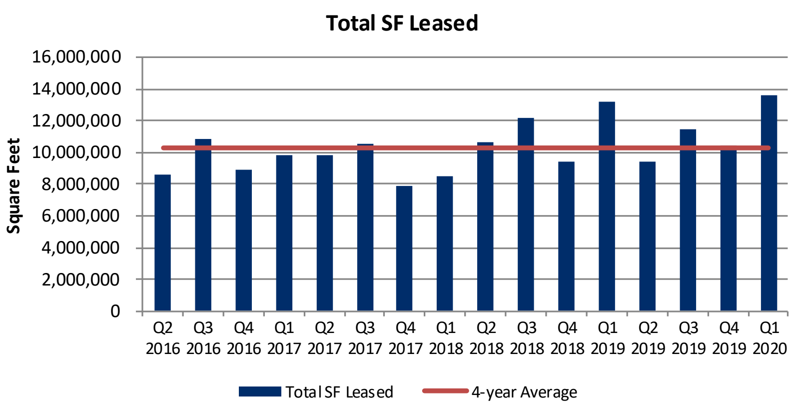
Long Term Impact

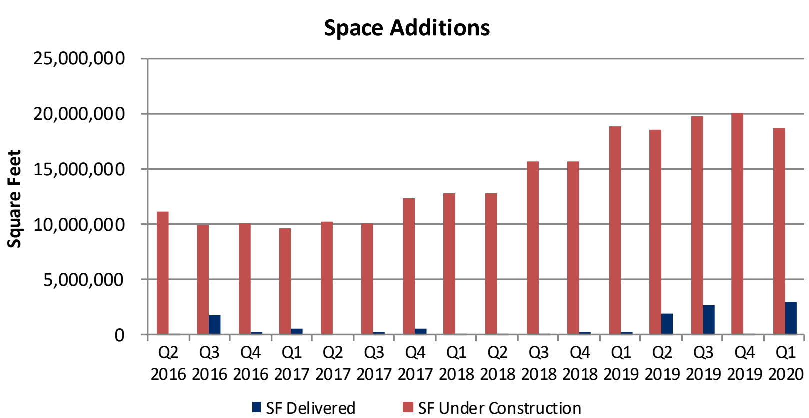
The impact of COVID-19 on the multi-family property type is going to unfold over time. Some basic factors that will come into play are location and the status of the property itself. Income producing properties that were stabilized pre-crisis will be better off, but those existing buildings that have vacant space, or projects that are under construction or proposed, may struggle. The fairly new concept of co-living could fade out as long-term preferences shift away from communal living and towards less socializing.

Compared to property types such as hospitality, retail and office, multi-family market fundamentals are not likely to be hit too hard in the long term.









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MARKET FUNDAMENTALS: Average Asking Rents & Vacancy

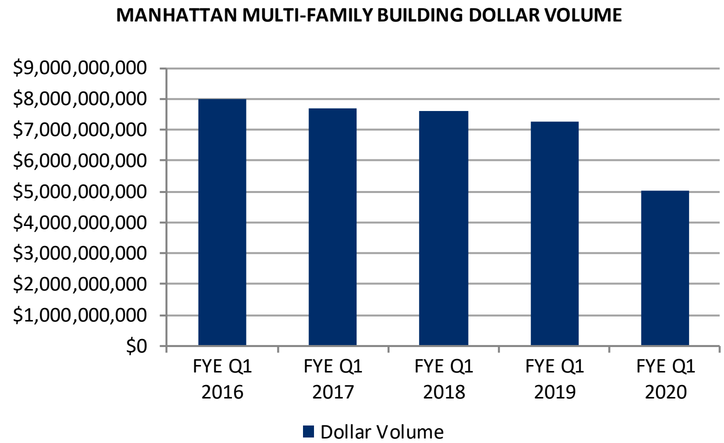
From Q1 2011 to Q1 2020, vacancy rates fluctuated between 1.0% (Q1 2012) and 4.5% (Q1 2011). Over the past year, vacancy rates decreased to 2.1%. Asking rents increased steadily over the past ten years, from $3,267 per unit (Q1 2011) to $3,939 per unit (Q1 2020). In the short term, rents are not likely to fall too far but payment issues could pose a problem. Moratoriums on evictions and foreclosures should help maintain occupancy, but the ability for tenants to pay rent will likely be the biggest hurdle.

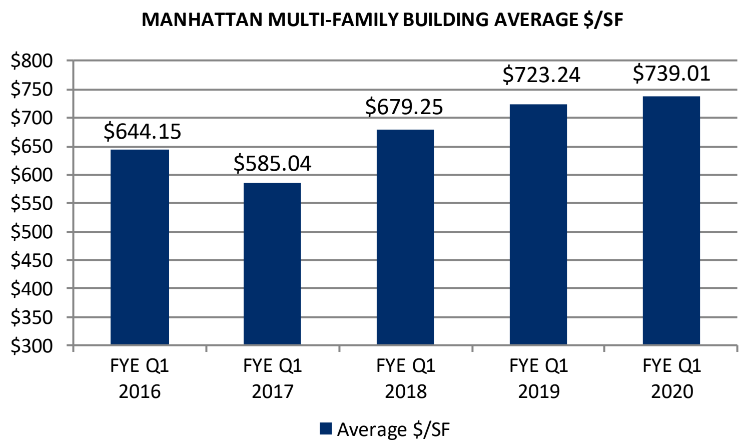
Net Absorption and Leasing Activity

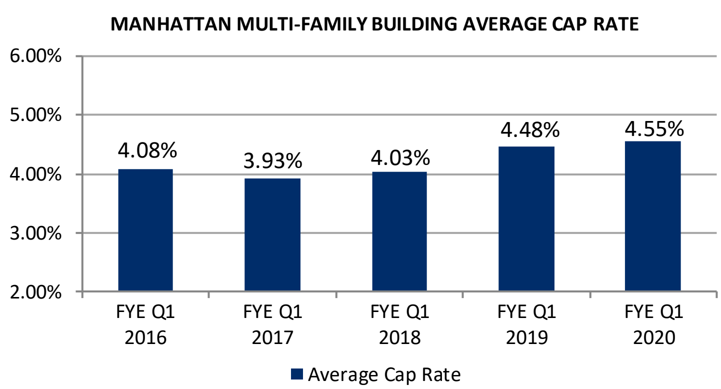
Total net absorption in the Manhattan market has generally been above the four-year-average, with the two most recent quarters exhibiting little to no net absorption, indicating a potential contraction in the market. Total square feet leased in the Manhattan market has been above and below the four-year average an equal number of times, with the three most recent quarters fluctuating but trending upward. It can be expected that leasing activity will slow in the near future, since apartment tours are not considered an essential activity and tenants are currently more likely to stay in place than move to a new apartment.

Space Addition Activity

Space addition activity has been increasing in the last several years and there is a fairly large amount of space under construction that is waiting to be delivered, indicating an active construction pipeline. New York and New Jersey have banned all non-essential construction activity, although work is allowed to continue on luxury projects that have an affordable component.







SALES (5 YEAR TREND): Volume

Total dollar volume for investment sales of multi-family buildings in Manhattan was relatively consistent from 2016 through 2019, with just a slight overall decrease in volume each year. However, 2020 represents a significant decrease from the prior year, down to $5.0 billion compared to $7.3 billion in 2019. The Housing Stability and Tenant Protection Act upended the market in June 2019. This legislation stifled interest in value-add plays for assets comprised of stabilized units and investors that were previously only active in NYC started to look at outside markets. As a result, the current year reflects the lowest volume seen in the past 5 years.

Average Pricing Per SF

Average pricing increased slightly from $723.24 per square foot in 2019 to $739.01 per square foot in 2020. Market participants will be watching this metric carefully for the remainder of 2020.

Capitalization Rates

The average cap rate as of 2020 was 4.55%. The Housing Stability Tenant Protection Act that passed in June 2019 is one of the reasons the average cap rate increased recently. If the COVID-19 pandemic stretches on for a long time, it can be expected that cap rates will shift upward, although this metric will be watched closely by market participants as things continue to evolve.

SOURCE: CoStar and Marshall & Stevens

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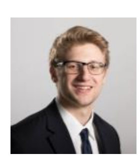

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