Manhattan Multi-Family Market Topics and Trends – Q4 2020

The results of the COVID-19 pandemic on the Manhattan multi-family market continued into Q4 2020. The market was upended in June 2019 when the Housing Stability Tenant Protection Act passed, limiting opportunities for landlords to raise rents on rent-controlled units.

With a significant decrease in transaction volume, $/SF, and space addition activity, the Manhattan multi-family market is feeling immense pressure. 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. The health of the nation seemed to be coming back throughout the summer months; however, COVID-19 cases have still been spreading, especially in the southern and southwestern states.

The timeline for a vaccine is still uncertain and given this, highly populated metro markets, such as Manhattan multi-family, have felt strong effects, and the suburbs have begun to absorb a lot of former city dwellers.

Short Term Impact

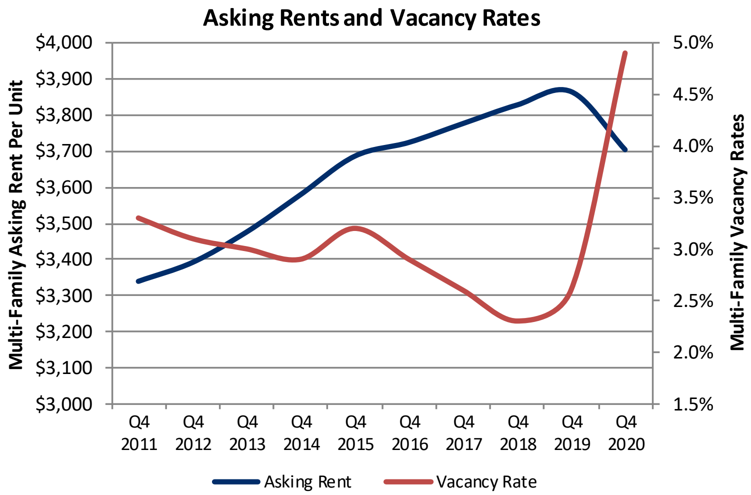
One particularly bright spot in the Manhattan multi-family market has been leasing activity. Leasing activity has increased over the past year; however, much of this is due to a sharp decline in rents and more rent concessions given by landlords. We are now fully in a tenant's market.

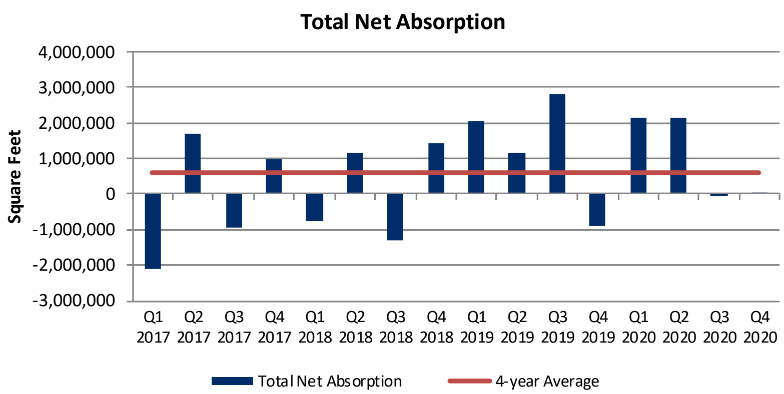
Construction has resumed after it was halted for a brief period, and as such, developers have been able to provide more clear timelines on deliveries.

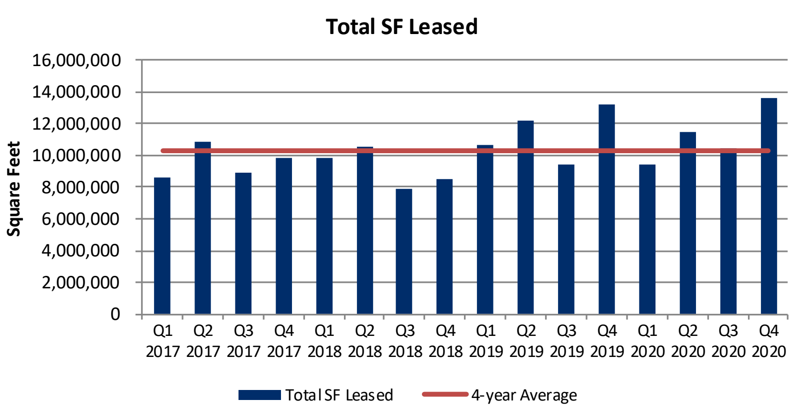
Long Term Impact

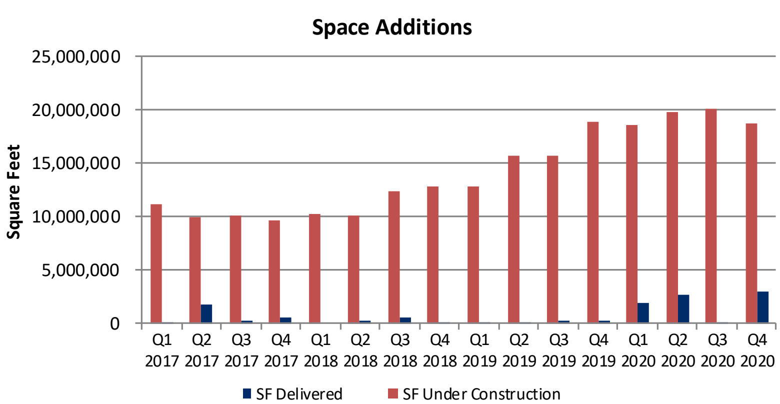
The impact of COVID-19 on the multi-family property type is going to unfold over time. Manhattan will always attract investment; however, with increased transit connectivity and less congestion, outer borough markets are attracting a lot of attention. This, combined with the June 2019 legislation regarding rent regulated units, raises a lot of questions for the Manhattan multi-family market.

The past two quarters have demonstrated declines in pricing and dollar volume, and the declines continued into Q4 2020.









MARKET FUNDAMENTALS: Average Asking Rents & Vacancy

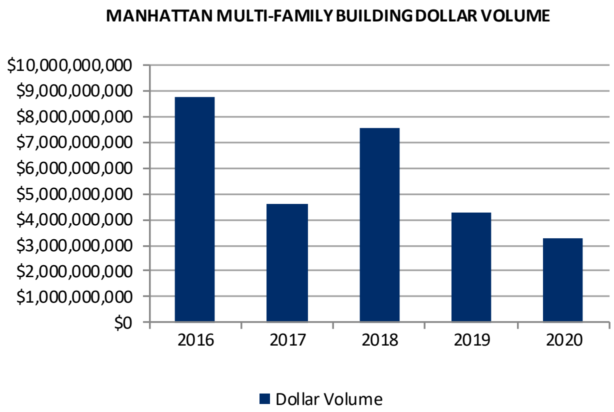
From Q4 2011 to Q4 2020, vacancy rates fluctuated between 2.3% (Q4 2018) and 4.9% (Q4 2020). Q4 2020 marks the highest vacancy rate over the entire analysis period. Asking rents increased steadily from 2011 to 2019, from $3,340 per unit to $3,863 per unit. Rents decreased sharply over the past year. Effective rental rates will most likely continue to trend downward in the near term, as availabilities increase, and landlords are forced to concede at lower rates.

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 generally been below the four-year average, with the most recent quarter representing a large increase, and the highest amount seen over the analysis period. With increased availabilities and rent concessions, leasing activity is likely to continue on an upward trend.

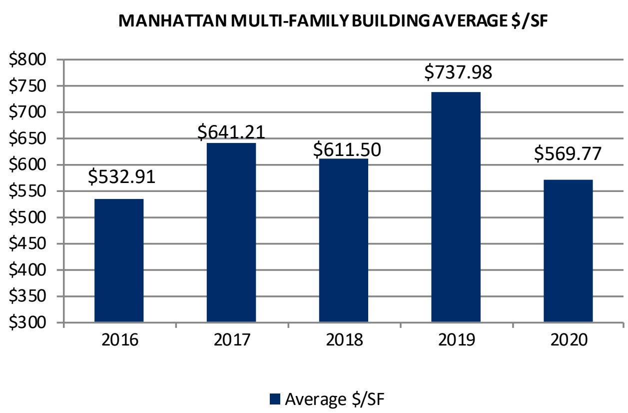
Space Addition Activity

Space addition activity has been increasing in the last several years; however, the most recent quarter indicates a drop off in space under construction. There is still a fairly large amount of space under construction that is waiting to be delivered, indicating an active construction pipeline. Construction activity has resumed in New York for quite some time now and developers will be eager to deliver on projects, as long as they remain feasible.



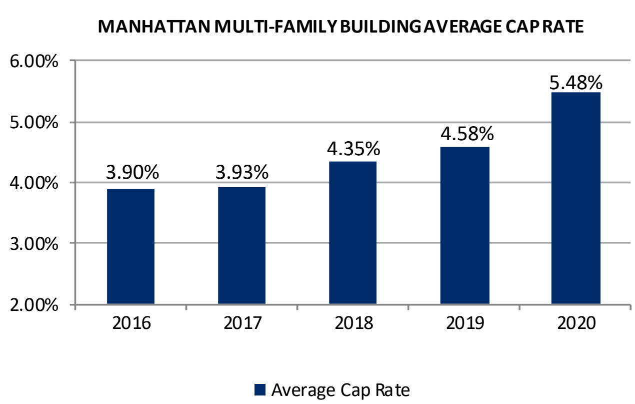
SALES (5 YEAR TREND): Volume

Total dollar volume for investment sales of multi-family buildings in Manhattan fluctuated from 2016 through 2019, with a significant overall increase in volume from 2017 to 2018. However, 2020 represents a significant decrease from the prior year, down to $3.3 billion compared to $4.3 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 NYC assets, and investors that were previously only active in NYC started to look at outside markets. As a result of this and COVID-19, the current year reflects the lowest volume seen in the past 5 years by a significant margin.



Average Pricing Per SF

Average pricing decreased from $737.98 per square foot in 2019 to $569.77 per square foot in 2020. Market participants will be watching this metric carefully in 2021.



Capitalization Rates

The average cap rate in 2020 was 5.48%. The Housing Stability Tenant Protection Act that passed in June 2019 is one of the reasons the average cap rate increased recently. The past year represents an increase of 90 basis points, the most significant jump seen over the analysis period. Previously, it was expected cap rates would remain stable due to a forecasted lack of transactions; however, the increase seen over the past year shows otherwise.

SOURCE: CoStar and Marshall & Stevens

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