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Manhattan Multi-Family Market Topics and Trends – Q1 2021

Fundamentals in the Manhattan multifamily market were greatly altered in June 2019 following the Housing Stability Tenant Protection Act legislation. This law limited opportunities for landlords to raise rents on regulated units, which led to growing concerns over an aging building stock and the potential inability of landlords to cover expenses and make capital improvements. The market responded to the law with lower transaction volume and higher cap rates. The onset of a global pandemic in Mid-March 2020 only exacerbated these trends.

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. Conditions improved in the summer months, but a second surge in the fall brought about new restrictions and further economic hardship for individuals and businesses alike. On the forefront as we close out Q1 2021 is the rollout of three approved vaccines to the public and the short and long-term effects this has on the performance of different asset classes.

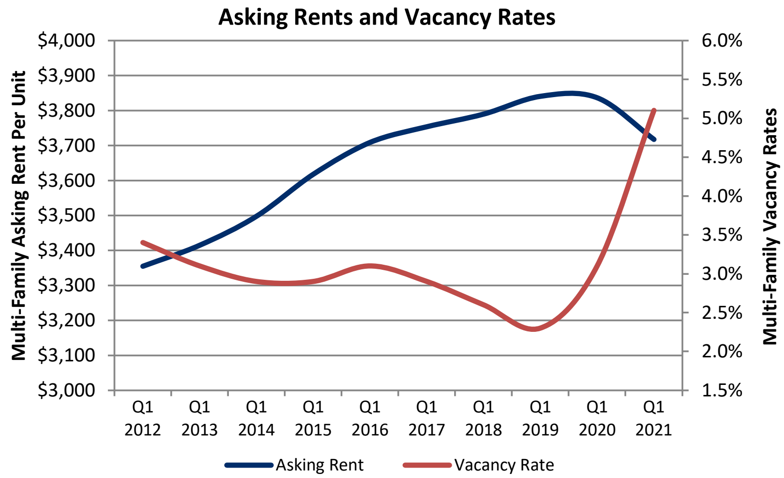
Short Term Impact

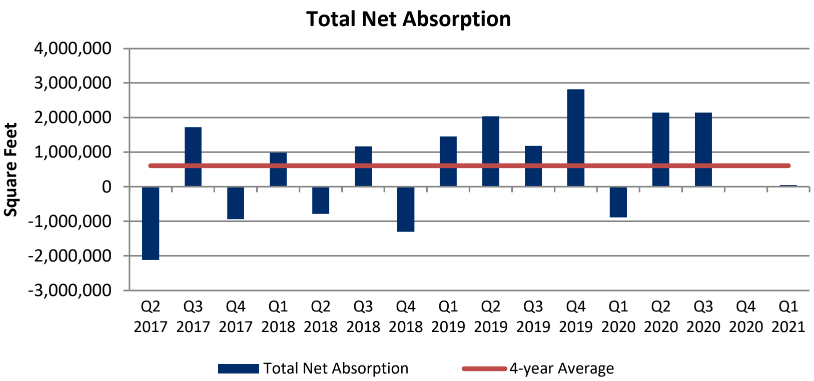
One particular bright spot in the Manhattan multi-family market has been leasing activity. Leasing activity has increased over the past year; however, much of this is due to a sharp decline in rents and more rent concessions given by landlords. As such, effective rents continue to fall. We are now fully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

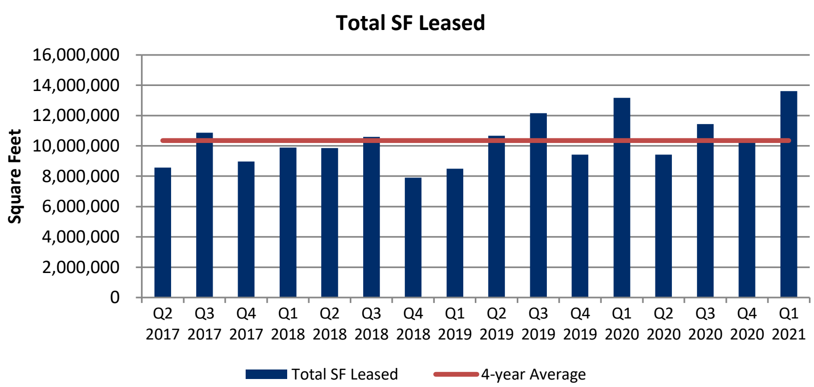
Construction has resumed after it was halted for a brief period. The market has begun to deliver on some of these projects, and there remains a substantial amount of space under construction.

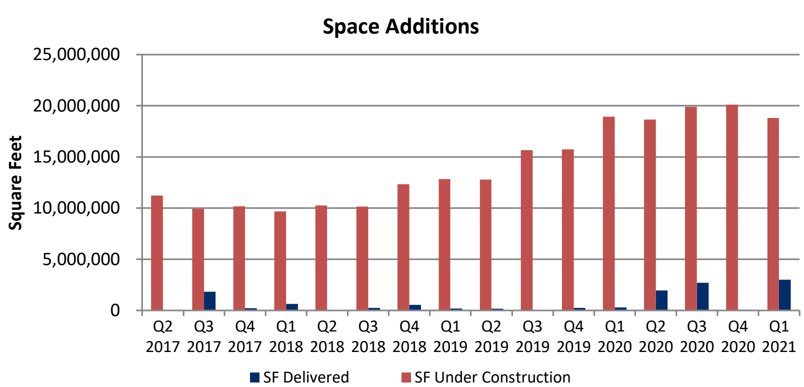
Long Term Impact

The impact of COVID-19 on the multi-family property type will differ from market to market. The multifamily market has witnessed some of the devastating effects that have besieged other asset classes during COVID, and trends stemming from the June 2019 legislation regarding rent regulated units and from COVID-19 may exist for some time. Manhattan will remain a beacon for investment; however, increased transit connectivity, remote working, and more space adds to the appeal of outer borough markets as well.









MARKET FUNDAMENTALS: Average Asking Rents & Vacancy

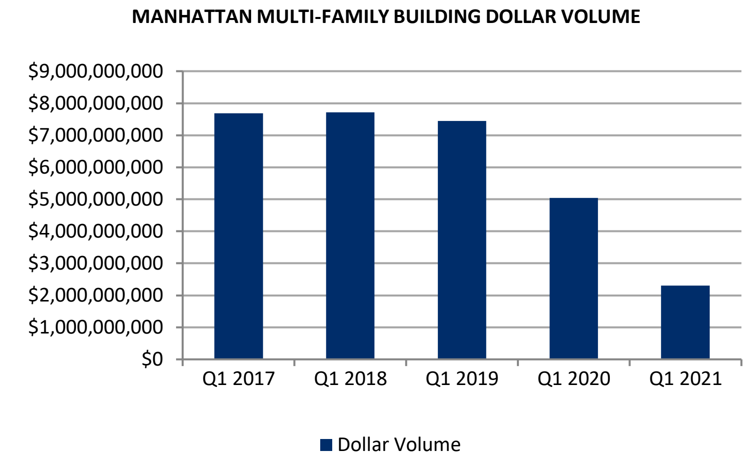
From Q1 2012 to Q1 2021, vacancy rates fluctuated between 2.3% (Q1 2019) and 5.1% (Q4 2020). Q1 2021 marks the highest vacancy rate over the entire analysis period. Over the same period, asking rents ranged from $3,355 (Q1 2012) to $3,841 (Q1 2019). Rents increased steadily from 2012 to 2019 before falling off slightly in 2020 and dropping off more significantly in 2021. Effective rental rates will most likely continue to trend downward in the near term, as landlords will offer more concessions to prevent further losses in occupancy.

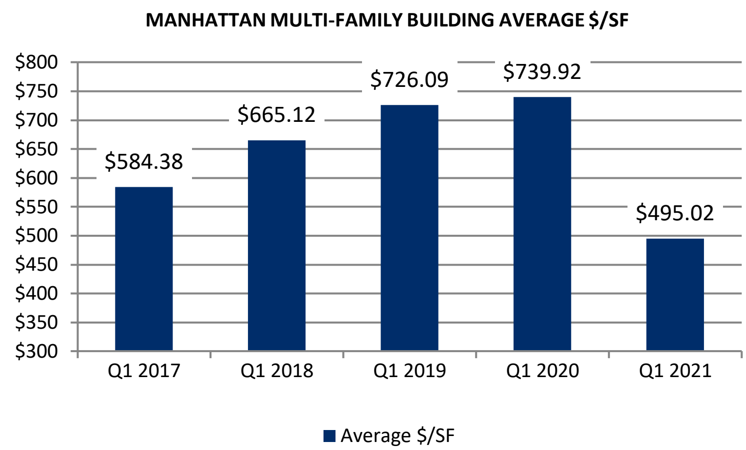
Net Absorption and Leasing Activity

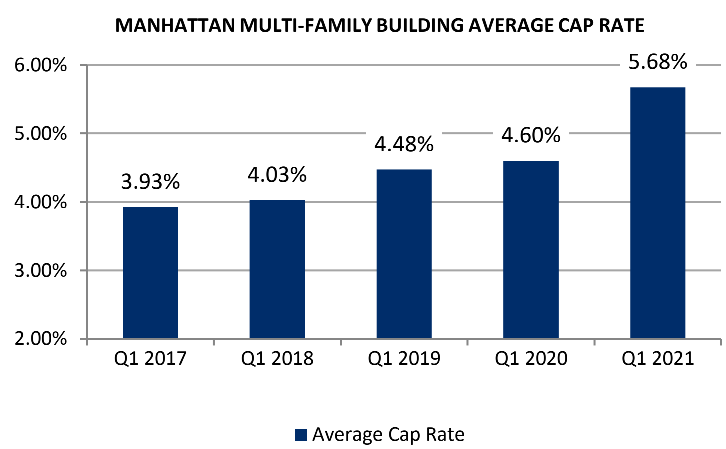
Total net absorption in the Manhattan market has generally been above the four-year-average, with the two most recent quarters exhibiting little to no net absorption. Total square feet leased in the Manhattan market has generally been below the four-year average, although the last three quarters have seen a rise in leasing after the initial COVID shockwaves in Q2 2020. Q1 2021 represents the greatest amount of leasing activity over the past sixteen quarters.

Space Addition Activity

Square footage under construction has generally increased over time and has been consistent over the last year. There is still a substantial amount of space under construction that is waiting to be delivered, indicating an active construction pipeline Developers will look to profit on these projects over the upcoming quarters, so long as they remain financially feasible.







SALES (5 YEAR TREND - YE Q1): Volume

Total dollar volume for investment sales of multi-family buildings in Manhattan was consistent from 2017 to 2019, ranging from $7.45 billion to $7.69 billion. Dollar volume decreased by 32% to just over $5 billion in the Year Ending Q1 2020. 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. COVID-19 contributed to an even more significant drop in transaction volume, as dollar volume fell roughly 54% from $5 billion to $2.3 billion from 2020 to 2021.

Average Pricing Per SF (YE Q1)

Average pricing decreased from $739.92 per square foot in 2020 to $495.02 per square foot in 2020. Rising vacancy and falling rents, coupled with a rise in capitalization rates has led to substantially lower pricing per square foot. Market participants will be watching this metric carefully in 2021.

Capitalization Rates (YE Q1)

The average cap rate in the year ending Q1 of 2021 was 5.68%. The Housing Stability Tenant Protection Act that passed in June 2019 is a key contributor to the rise in vacancy rates from Q1 2019 to Q1 2020. The most recent spike from 2020 to 2021 is attributable to changing market fundamentals in the COVID-19 era. 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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