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Buyers queue up for apartment buildings

Prices per rental unit surpass 2007 peak.

By Amanda Fung
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The Beatrice—a luxury apartment building atop the Eventi hotel on Sixth Avenue and West 29th Street that boasts penthouse apartments fetching as much as \$22,000 a month—will be getting a new owner. Equity Residential, a huge Chicago-based real estate investment trust, is in contract to buy the 301-unit Chelsea glass tower for nearly \$250 million, sources said. The seller is J.D. Carlisle Development Corp., which completed the building just two years ago.

When the deal closes, it will join a lengthening list of big rental apartment buildings that have recently traded hands. With rents in Manhattan setting records, and with vacancies and interest rates hovering near historic lows, buyers have both the motive and the means to snap up multifamily residential properties.

"The apartment building market is very hot right now," said Peter Von Der Ahe, a first vice president at brokerage Marcus & Millichap. "You have rent growth that doesn't seem to be going away anytime soon."

Over the 12 months ended March 31, \$5.2 billion worth of such properties sold, more than double the amount over the same period a year earlier, according to Real Capital Analytics. Although that sales volume is still far from the 2007 peak, when \$12 billion worth of apartment building sales took place, prices have surpassed peak levels. During the first quarter, the average price per unit worked out to \$490,151—29% above the heights reached in the first quarter of 2007.

"If values have come back this far this fast with current [economic] uncertainties, imagine what we would be seeing if those clouds cleared," said Dan Fasulo, managing director at Real Capital Analytics.

The steep run-up in prices has some people concerned. "There is way too much money chasing few assets," said Peter Hauspurg, CEO of Eastern Consolidated.

'It is pretty frothy'

He and others note that the high prices make it difficult for would-be buyers to earn a decent return on their investment, unless they start banking on big rent increases for years to come. That is a bet many buyers made in the boom years, with disastrous consequences.

"We have been looking, and it is pretty frothy," said David Schwartz, co-founder of Waterton Associates, a Chicago real estate investment firm. "In the past 12 months, things have heated up as far as competition and supply and demand."

That is why, after snatching up 88 Leonard St., a 334-unit luxury rental in TriBeCa, for \$210 million last year, he says he hasn't found any more apartment buildings to buy. With many buyers still in the market, however, sellers are having a field day, and many owners who have been sitting on the fence are thinking about cashing in.

Last month, Forest City Ratner and partner National Real Estate Advisors announced they were weighing the sale of a minority interest in their Frank Gehry-designed, 899-unit luxury rental tower overlooking City Hall and the Brooklyn Bridge. It's currently 79% leased, including a penthouse renting for \$60,000 a month. There are 28 more apartments on the highest floors that have not been marketed or built out.

"It's a rare trophy that will get big money," said Mr. Fasulo of the 76-story tower, officially called New York by Gehry.

Many other buildings have already been scooped up. In January, real estate investment trust UDR Inc. and insurer MetLife together bought Columbus Square—paying \$630 million for the 4-year-old, five-building complex on the Upper West Side with 710 units—from seller Chetrit Group and Stellar Management.

Even older buildings with rent-regulated apartments are flying off the shelf. A 140-unit rental building between Central Park West and Columbus Avenue at 21 W. 86th St., built in 1927, is in contract less than three months after CBRE Group Inc. began marketing it, according to sources. In February, CBRE told *Crain's* that the building could fetch at least \$90 million.

Rising rents are helping to stimulate buyers' appetites. For a third month in a row, average monthly rents in Manhattan set a new record, hitting \$3,438 in May, according to brokerage Citi Habitats.

With a vacancy rate of less than 1% and a paucity of new rental buildings scheduled to come to the market this year, Manhattan rents look like they will continue to rise.