

Real Estate Forefront

Emerging Developments in the NYC Marketplace, #18

## **Manhattan Multifamily – The Safest Investment Over The Last Ten Years**

November 2011

**EASTERN  
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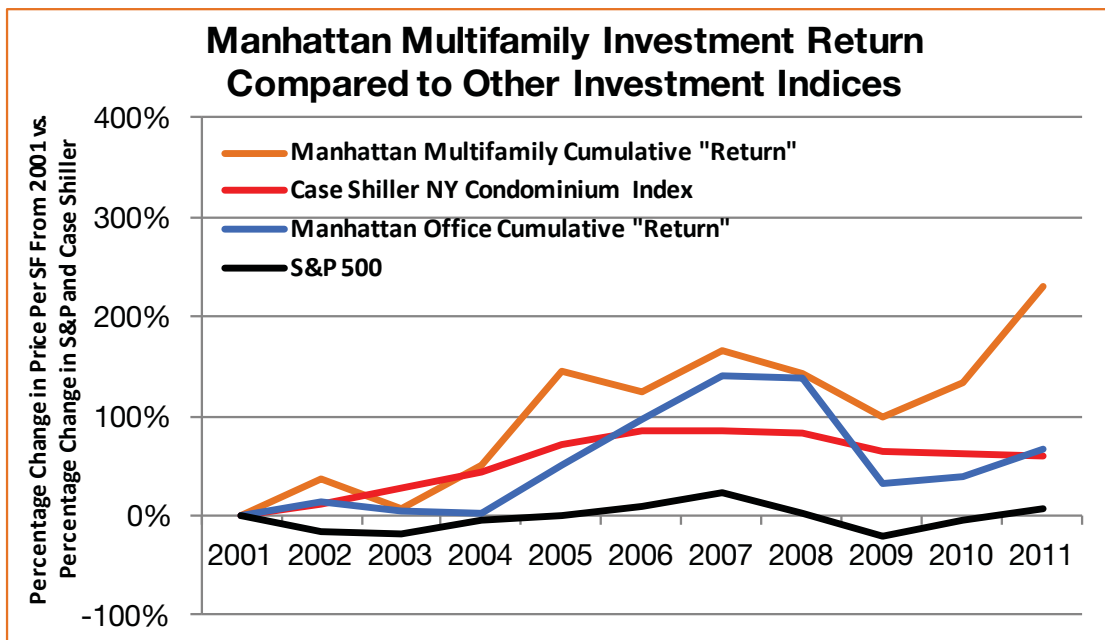
Real estate investment services

One unlikely parallel to the instability in the stock market this past quarter was that Manhattan multifamily property sales soared. Third quarter volume climbed to a three-year high in the third quarter to \$2.2 billion, from \$1.5 billion in the second quarter and a low of \$205 million in the first quarter of 2009. In all of 2009, multifamily sales volume was \$1.3 billion. While this year's sales are still far below the 2007 quarterly average of nearly \$3 billion a quarter, it is safe to conclude that buyers and lenders believe that the multifamily market has turned the quarter in Manhattan.

Given the backdrop of the debt crisis in Europe, tepid economic conditions in the U.S. and exceptional volatility in the stock market last summer, one could argue that more and more investors are shunning stocks in favor of real estate. It's a completely different asset type, but one in which the pros – stable cash flow – outweigh the cons of owning stock in a highly volatile and slow-growing economy. This recent quarterly increase could be a one-time fluke or the start of a real trend. While it would be premature to evaluate this question, a look at the historic data shows that from an investor's point of view, Manhattan multifamily properties outperformed the stock market and other indices by a significant margin over the last ten years, regardless of the neighborhood.

Many investors know the trade-offs to a real estate investment: it is preferred by those favoring a steady cash flow, seeking upside in rent growth and willing to manage the day-to-day maintenance and capital expenses. The pay-offs can be huge in an increasing rent environment but bad when assumptions of growth underperform the market. The biggest negative to real estate investing is liquidity: the secondary market for property does not exist as it does with stocks. Taking these into account, the risk premium on real estate should be larger than the stock market, but by how much?

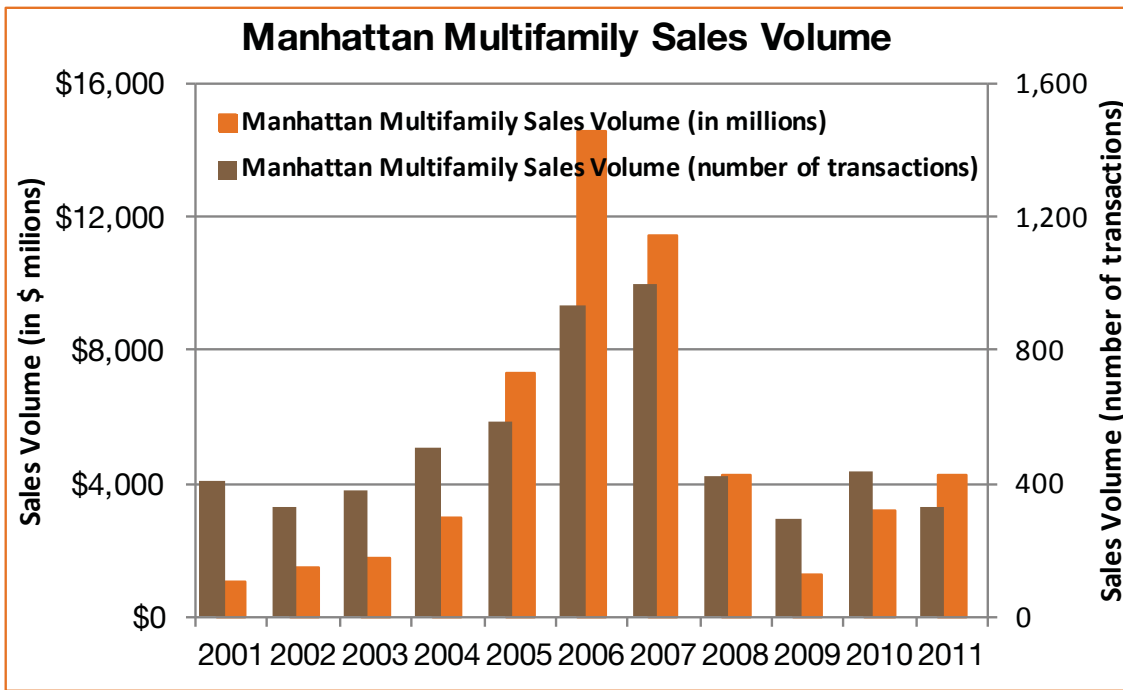
Judging by the data graphed in the charts below, this premium is more than 100%! To be fair, the stock market has done poorly over the last decade compared to the 1980s and 1990s when stocks climbed 180% and 430%, respectively. Real estate did not see those returns then. But Manhattan real estate was a solid investment in the 2000s as shown in the charts below.



Including more than 5,500 transactions, the orange trend line at left shows that an investor who purchased a multifamily building in 2001 would have, on average, seen his/her money multiplied 3.3 times or 231% by 2011.

Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Finance and Standard & Poors

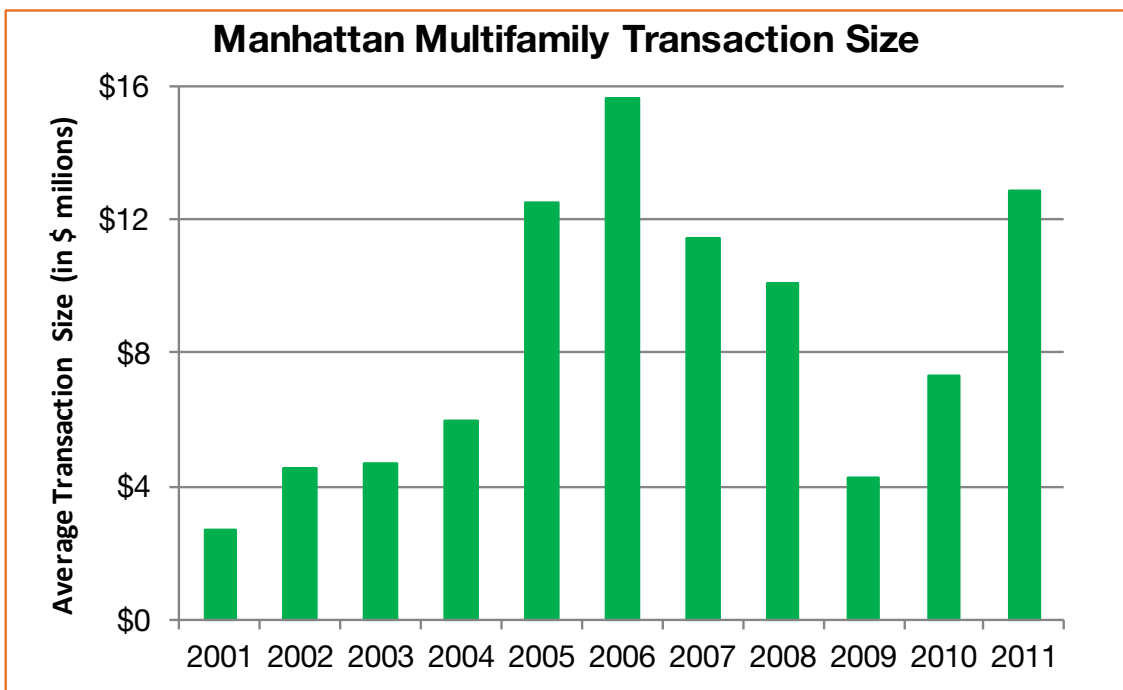
**Note that this derived "return" is based only on the cumulative average price per square foot of all the properties sold in a given time period.** The true return on a multifamily property investment includes the sale price minus the purchase price as well as the cash flow from rent payments less operating and finance costs which were not analyzed in this report.



The chart at left shows how rapidly the sales market climbed from 2001 through 2006 and 2007. The 2006 data includes the \$5.4 billion sale of Stuyvesant Town and Peter Cooper Village.

The chart also shows how the dollar volume climbed more dramatically than the number of transactions.

Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Finance and Standard & Poors



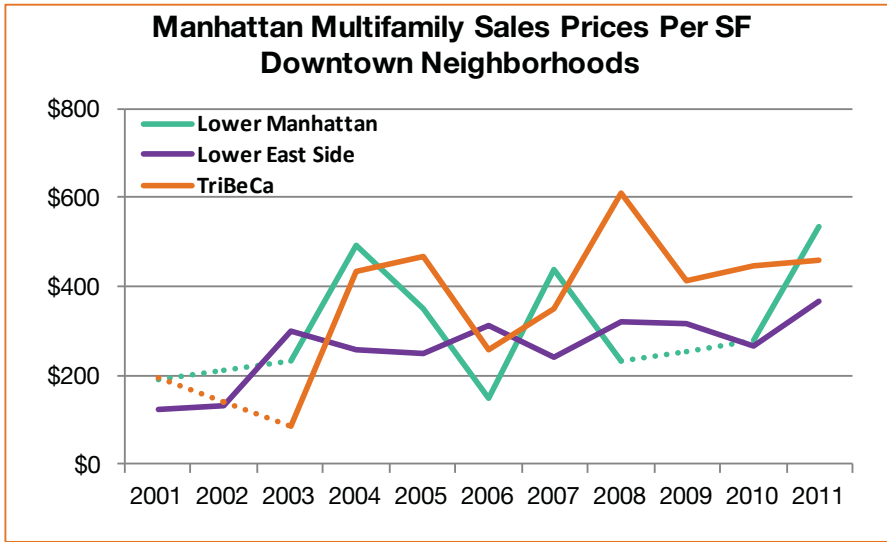
Indeed, the chart at left shows that the average transaction size climbed from less than \$3 million in 2001 to more than \$15 million in 2006. Without the sale of Stuyvesant Town, the 2006 average transaction size would have been \$10 million. The 2011 data is weighted by UDR, Inc.'s purchase of three buildings for more than \$200 million each.

Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Finance and Standard & Poors

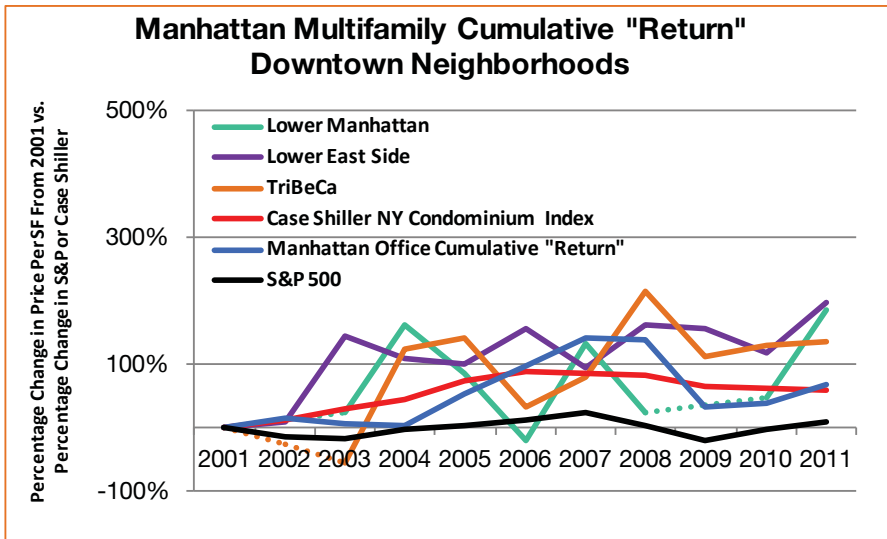
This cumulative data is compelling, but it warrants further scrutiny by neighborhood. Indeed, the charts below show that there was a wide disparity by neighborhood but only in terms of the volatility. Most neighborhoods show a similar upward trend in price per square foot.

**The Breakdown by Neighborhood**

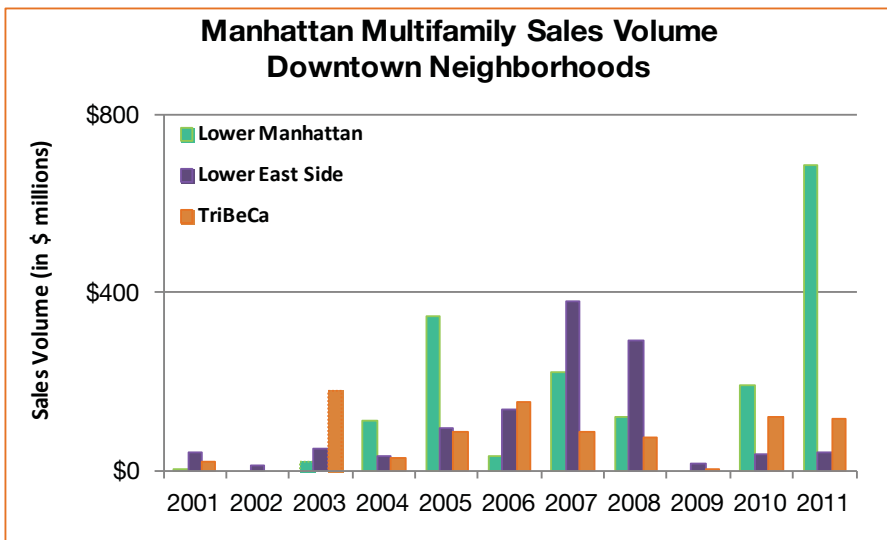
**Downtown**



The average price paid for multifamily properties in Tribeca fluctuated more than for Lower Manhattan (south of Chambers Street) and the Lower East Side. The dotted line appears in years when there was no transaction.



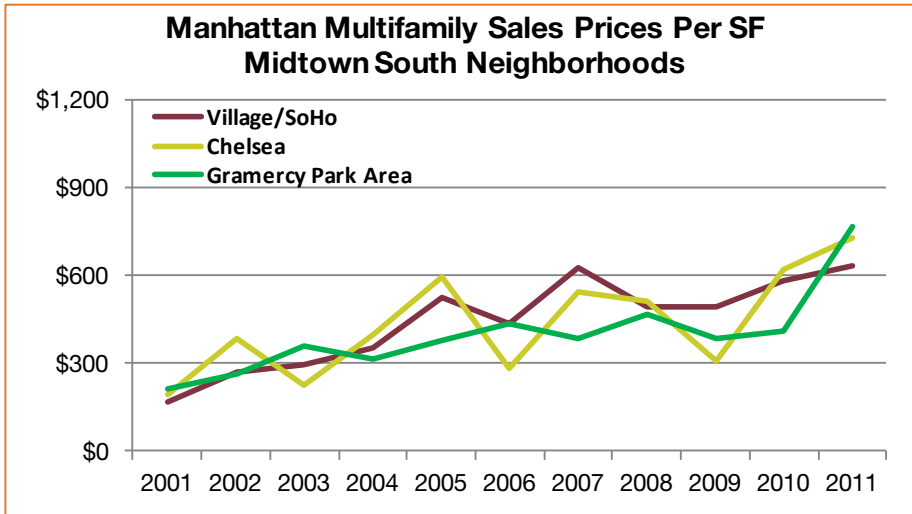
As shown at left, the cumulative returns for the 10 year period for Downtown Manhattan neighborhoods varied between 135% and 200%. These returns far exceeded the cumulative return for the S&P 500, Case Shiller and even the return for office property investments.



The volume of sales varied significantly by year. The 2011 data is heavily weighted by UDR, Inc.'s recent purchase of 10 Hanover Square and 95 Wall Street for \$259.8 million and \$325 million, respectively.

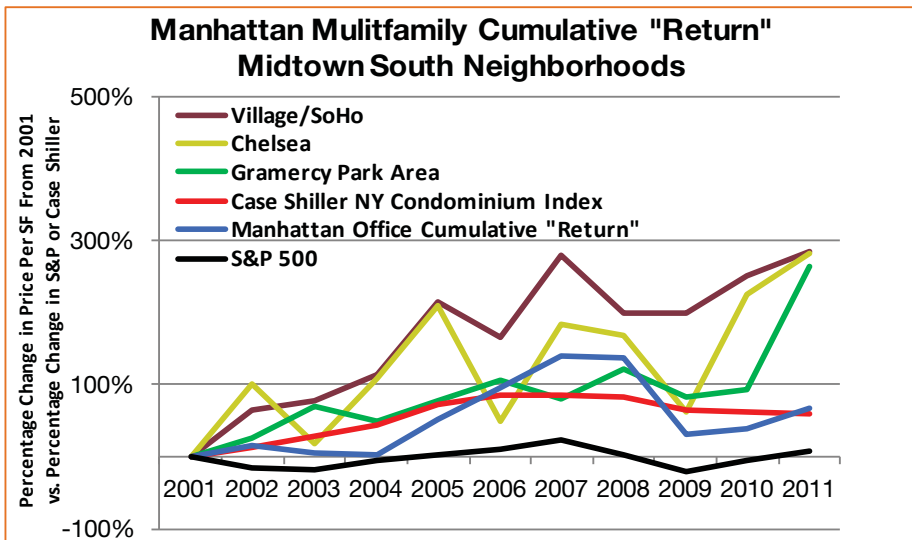
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**Midtown South**

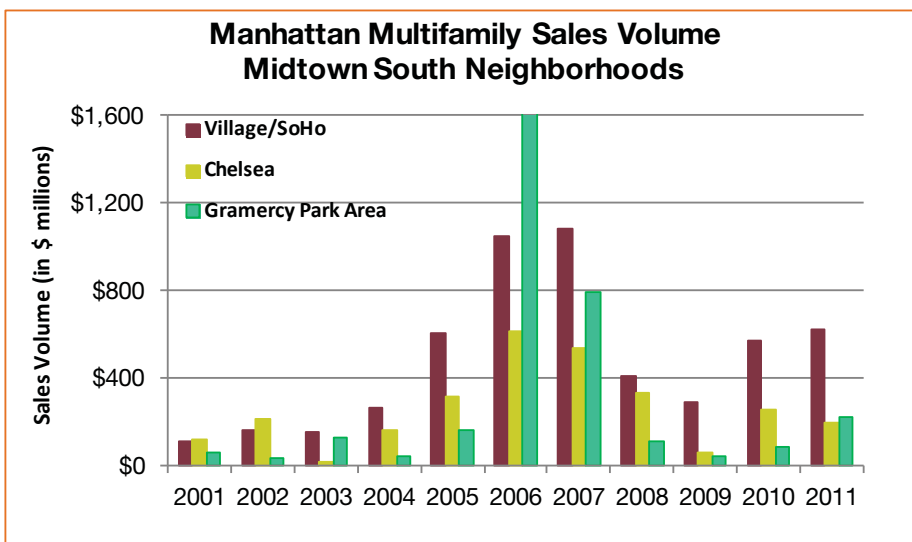


The trend line for the prices paid per square foot in Midtown South neighborhoods climbed steadily over the last ten years.

In 2011, prices increased in all three neighborhoods.



The cumulative "return" for multifamily investments in the Midtown South neighborhoods climbed to 265% to 285% in 2011, more than three times the return of the S&P 500, Case Shiller and Manhattan office properties.

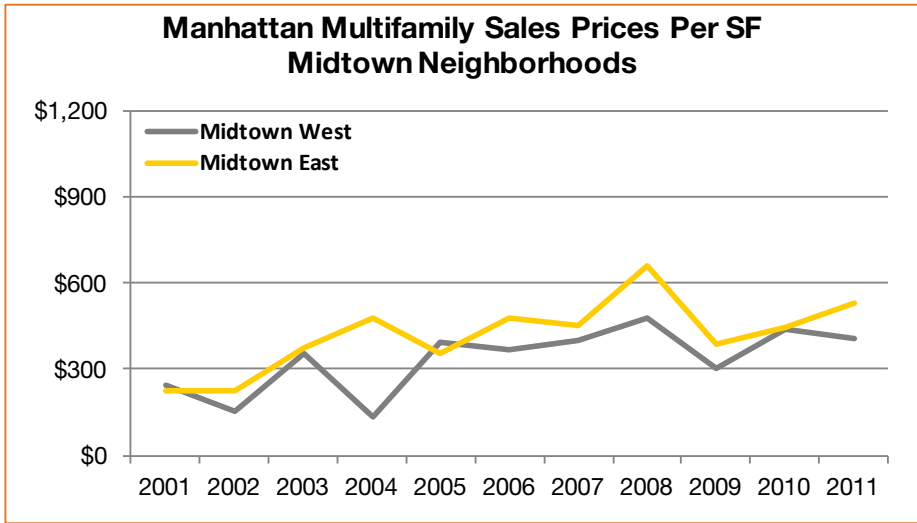


Sales volume in the Gramercy Park Area climbed to \$5.9 billion in 2006 due to Tishman Speyer's \$5.4-billion purchase of Stuyvesant Town and Peter Cooper Village.

In Midtown South, sales were considerably higher in 2006 and 2007 before declining in 2008, but sales in the Village/SoHo rebounded in 2010 and 2011.

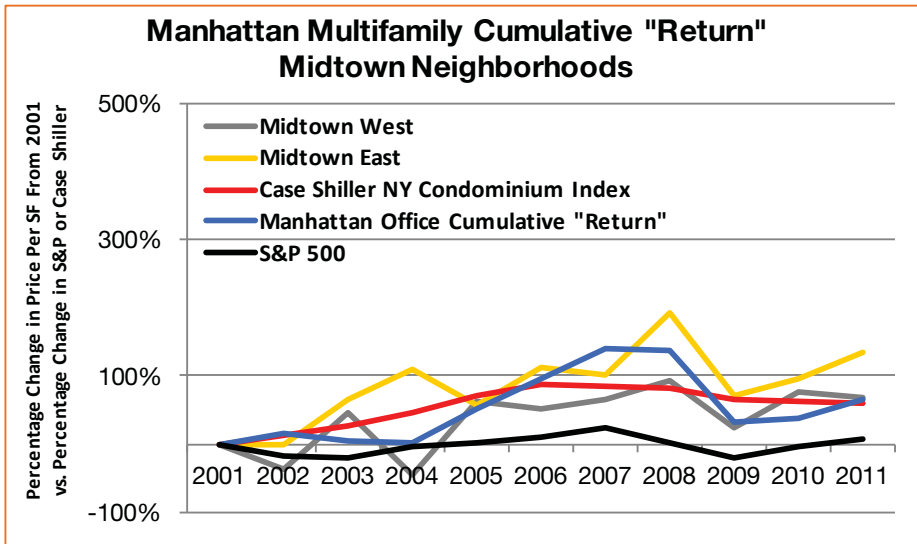
Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Finance and Standard & Poors

**Midtown**

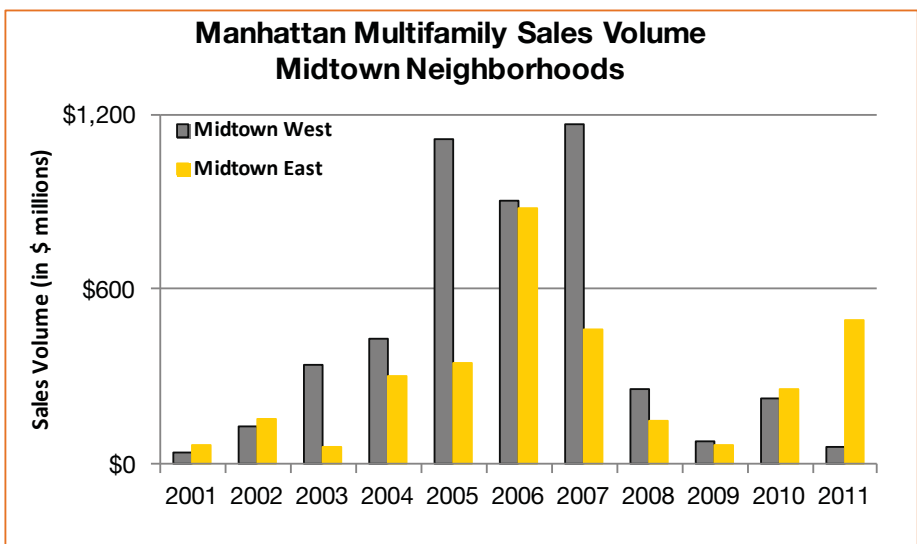


The average prices paid in Midtown West and Midtown East increased slowly but steadily over the last ten years.

In 2004, Related purchased Manhattan Plaza for less than \$100 per square foot which brought down the average price paid in Midtown West that year.



While the prices were steadier in Midtown East and West than in almost any other Manhattan neighborhood, the overall return was lower. Still, the return was higher than the other non-multifamily indices.

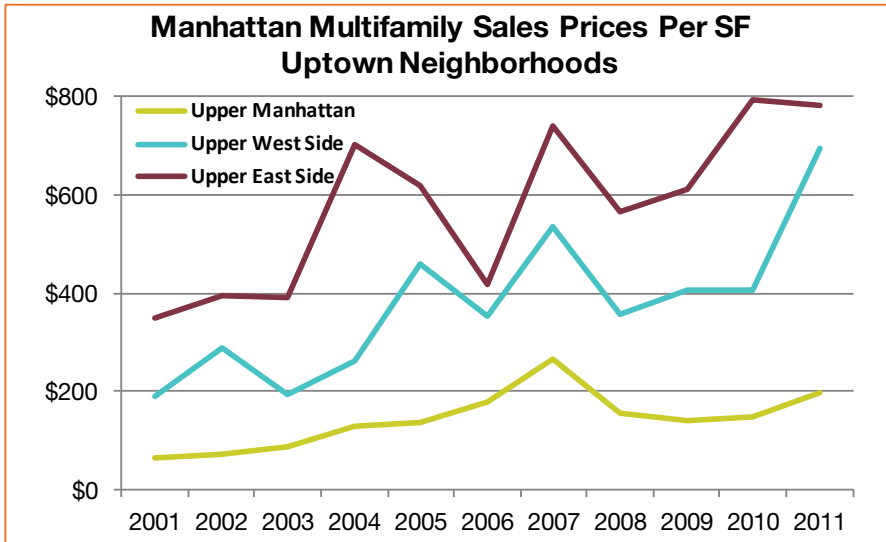


The sales volume data tells a much different story in Midtown; that is, in some years, the number of transactions was so small that one or two deals skew the numbers. In 2011, UDR, Inc. purchased 401 East 34th Street for \$443 million.

Judging by these numbers, investors have clearly not returned to Midtown West as they have in other neighborhoods.

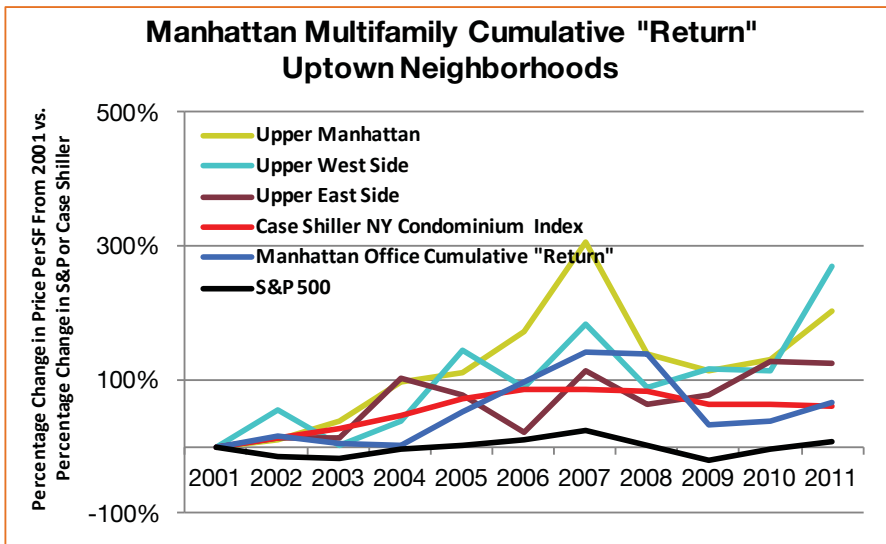
Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Finance and Standard & Poors

**Uptown**



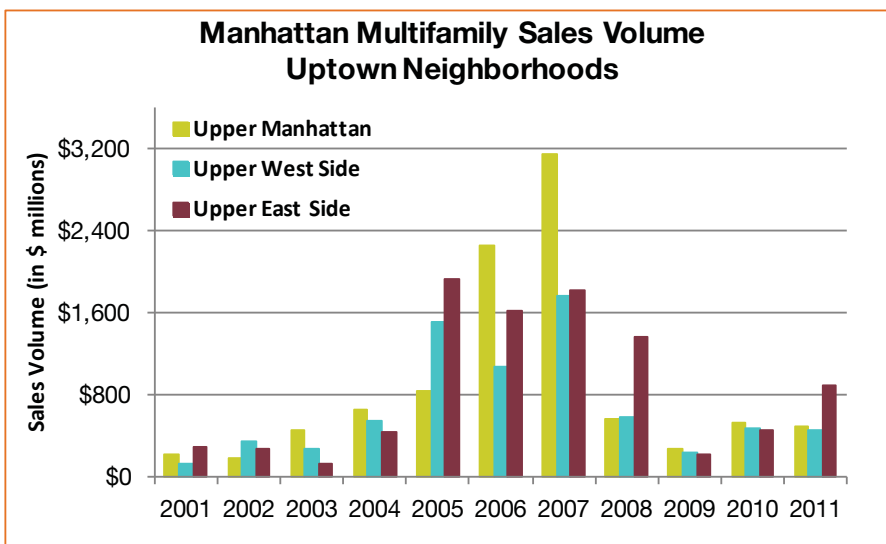
As shown at left, prices for Upper East Side properties varied widely over the years. This was due to the disparate size and quality of buildings sold over this period.

In August 2011, Macklowe Properties bought 737 Park Avenue for \$253 million or more than \$1,100 per square foot. In May 2011, TIAA-CREF bought 200 West 72nd Street also for more than \$1,000 per square foot.



These two transactions pushed up the average price paid per square foot in these two neighborhoods as well as the cumulative "return" as measured by the growth in the average price per square foot over the ten-year period.

Note how the trend in Upper Manhattan is very smooth but steady: investors would have tripled their money in Upper Manhattan.

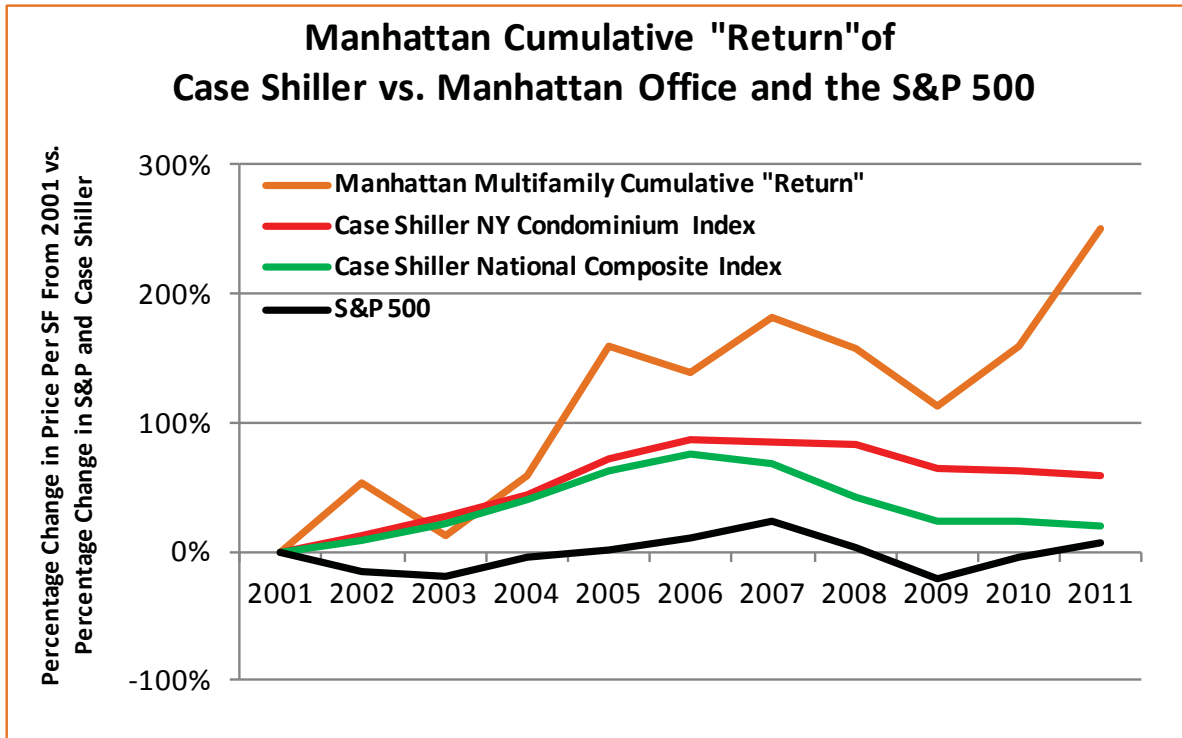


The volume of activity climbed steadily in these three neighborhoods from 2001 through 2007 – especially in Upper Manhattan. But all three saw activity plummet in 2009. Note that the vertical axis for these three neighborhoods is much higher than the others above; in other words, activity was heaviest in Uptown Manhattan in each of the last ten years.

Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Finance and Standard & Poors

## Conclusion

The upward trajectory in the trend lines shown above is no surprise to anyone who lives or works in New York City. Manhattan is a desirable place to live and it has gotten more and more expensive to live here. The value of housing increased across the country, but not like in New York as the chart below indicates. The Manhattan multifamily return clearly outperformed the National Case Shiller Home Price Index as well as the New York Condominium Index.



Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Finance and Standard & Poors

The economics underlying the trends shown above suggest that prices may have risen due to increased demand as well as limited supply. The true supply of multifamily properties listed on the market depends largely on landlords' desire to sell, not on the actual supply of properties. Nevertheless, the data on new developments shows that Manhattan added more than 480 new residential buildings with more than 50,000 units from 2000 through 2011. Between 200 and 240 of these new buildings are rental buildings. Indeed, the recent census data shows that the number of housing units in Manhattan grew by 49,000 or 6.1% between 2000 and 2010. In other words, prices rose more from high demand than from a lack of new supply. Moreover, the new housing units suggest that developers were clearly motivated to build in an ever increasing rental market.

No one can refute the fact that New York City has truly undergone a renaissance over the last decade not only in terms of real estate development, but in terms of quality of life, reduced crime rates and many other measures. Recent reports from local real estate firms told of declining residential vacancy rates and increased rents despite the concerns from Wall Street, the national economy and Europe. In short, the demand for housing in Manhattan has been steady and has defied broader economic trends. This steady demand should continue against the headwinds of economic uncertainty and the multifamily investment market should remain healthy for the foreseeable future.

<sup>1</sup>The S&P/Case-Shiller U.S. National Home Price Index is a composite of single-family home price indices for the nine U.S. Census divisions. The S&P/Case-Shiller condo indices measure the average change in condominium home prices in a particular geographic market.



Real estate investment services

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