The Outlook for Multifamily Real Estate Development

Looking skyward in Manhattan, you’re likely to see cranes swarming around apartment buildings under construction. Walking along, you’re likely to find yourself under one of the sidewalk bridges that seem ubiquitous in four of the five boroughs.

These projects are the welcome signs of a multifamily real estate market that is experiencing lengthy, unprecedented growth.

The dollar volume of all recorded investment sales in the city was up 20% for the first half of this year compared with the first half of last year, after a slight two-year decline, the Real Estate Board of New York found. Citywide, the volume of investment sales hit $21.6 billion, up from $18 billion for the first half of last year.

While dollar volume was up, the number of transactions was down 9%. In the first half of this year, there were 2,200 transactions compared with 2,419 in the first half of last year. Of those, 138 were sales of rental buildings with an elevator for total sales of $4.2 billion, more than double the $1.9 billion sold in the first half of last year, according to the board’s figures.

Residential sales in the five boroughs continued its streak of year-over-year declines, dropping by $1 billion in the second quarter of 2018 over the second quarter of 2017. REBNY research shows. That decrease however was half the $2 billion decrease recorded the year before. Total sales of $12.3 billion in the second quarter of 2018 were among the highest recorded since 2006 and the sixth highest of all 49 quarters REBNY has analyzed.

To get an analysis of the market’s trends, and where they will lead New York, Crain’s Custom spoke to two industry experts.

**D. Hara Perkins** is a Partner in the New York office of Goulston & Storrs PC, a full service law firm with one of the largest and most highly acclaimed Real Estate practices in the United States.

Perkins co-chairs the firm’s Multifamily Housing Industry group and is a nationally recognized authority on housing and economic development. She helped structure some of the more significant neighborhood-transforming real estate transactions in New York City in recent years, including Essex Crossing (on the public side) and Cornell Tech’s Roosevelt Island Campus (on the private side). Perkins has also negotiated more than $1 billion worth of affordable-housing tax credit transactions for developers and investors around the country.

**Paul Massey** is the CEO of B6 Real Estate Advisors, which specializes in middle-market investment sales in the $1 to $200 million range.

Massey launched the firm in June after leaving his post as president, New York investment sales, at commercial brokerage Cushman & Wakefield.

He became part of C&W in 2014, when it acquired Massey Knakal Realty Services, which he founded with partner Robert A. Knakal. Massey Knakal was New York’s No.1 investment sales firm for 14 consecutive years. Massey is a member of the Real Estate Board of New York. Last year he ran for New York mayor.
Crain’s: What are some of the newer developments coming on board that will reduce fuel costs and fuel consumption in the future? Is it becoming easier to institute energy-saving programs as the public becomes better versed in these issues and how much money they can save?

Perkins: Manufactured timber. Multifamily towers more than 30 stories high, built with cross-laminated timber rather than steel. It’s pretty amazing. We see the type of construction popping up in Europe and now gaining attention here. Two years ago I was on a panel with the CEO of Urban Villas, a development firm exploring timber high-rise construction who described the energy and cost savings of mass timber. Sadly, I still have not heard about a mass timber building breaking ground around the U.S.

Crain’s: Rising interest rates will certainly have an impact on the multifamily housing sector? I often think about the reasons for this unprecedented period of growth, and some indicators of a softening commercial real estate market notwithstanding, transaction transparency may be a greater market disruptor than we realize. 

D. HARA PERKINS
Co-Chair, Multifamily Housing Industry Group

goulstonstors.com

Paul Massey, CEO, B6 Real Estate Advisors

“Rates continue to increase from the historical lows we have been seeing over the last few years, but the overall cost of capital remains low compared to historical levels. Those low rates continue to produce compelling opportunities to refinance, reposition and/or develop real estate assets.”

PAUL MASSEY
REAL ESTATE ADVISORS

Crain’s: What factors will influence continued growth in the multifamily housing sector?

Perkins: I anticipate that multifamily will continue to be strong, even if there is a correction. In 2012 we were at the highest level of new supply since the 1980s—about 200,000 new units per quarter or 380,000 new units for 2017. Rising development costs, tighter construction financing, and mounting caution levels all help keep the pace of new additions to closer to 350,000 new units in 2018. Steady job creation, healthy demographics and new, accelerated pace of household formation all help sustain demand.

Masssey: Despite the recent boom in residential development, New York City is in a period of substantial “housing shortage,” especially when you consider the lack of affordable housing and with steady population growth, more of this is likely to change. Another factor is the increase in urbanization. Older generations moved out of the city earlier to start a family, but we don’t see that as often anymore. Manhattan currently priced more per condo than multifamily which results in higher overall land costs. It’s challenging to do a rental of scale, it’s also challenging to find rental sites in Manhattan. But as land values stabilize and the condo market begins to cool off, the sidelines are there. The city will keep attracting people for a long time to come.

Crain’s: What will be the institutional buyers’ role in shaping the future of the multifamily market? Will they help or hinder investment in energy efficiency or green programs and costly equipment upgrades?

Perkins: Environmental, social and governance (ESG) issues are increasingly important investment considerations for institutional buyers. We are seeing more REITs and funds track ESG goals and provide public accessibility. Our client, AvalonBay, for example, includes ESG data in their overall financial results.

Masssey: Institutional investors will lead the way in those forms of investment programs. They often have the capital and resources in place to institute investment programs aimed at battling the day-to-day issues of the people who purchase or rent in their developments. I think that because of this, developers like RVR, Brookfield and others will be instrumental in the next, more sustainability focused phase of residential development.

I think the commitment to institute energy-saving and sustainability-focused programs is becoming the norm. Developers continue to seek those opportunities for their tenants’ and communities in order to enhance sustainability and a smaller carbon footprint on the community.

Developers such as Brookfield, Related Companies and Extell Development are spearheading programs geared towards curtailing energy consumption. They’re incorporating a lot of smart home technology like Nest, where you can control the home environment and temperature from the outside. They make it easier to lower shades or prevent over heating in the summer. It’s all very exciting, and can see it really taking off in the near future. It will become very efficient—something people will be willing to pay a premium to have in their homes.