

Northern Manhattan 2022 Year-End Commercial Real Estate Trends

by Ariel Property Advisors
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Investment Sales
Capital Services
Research

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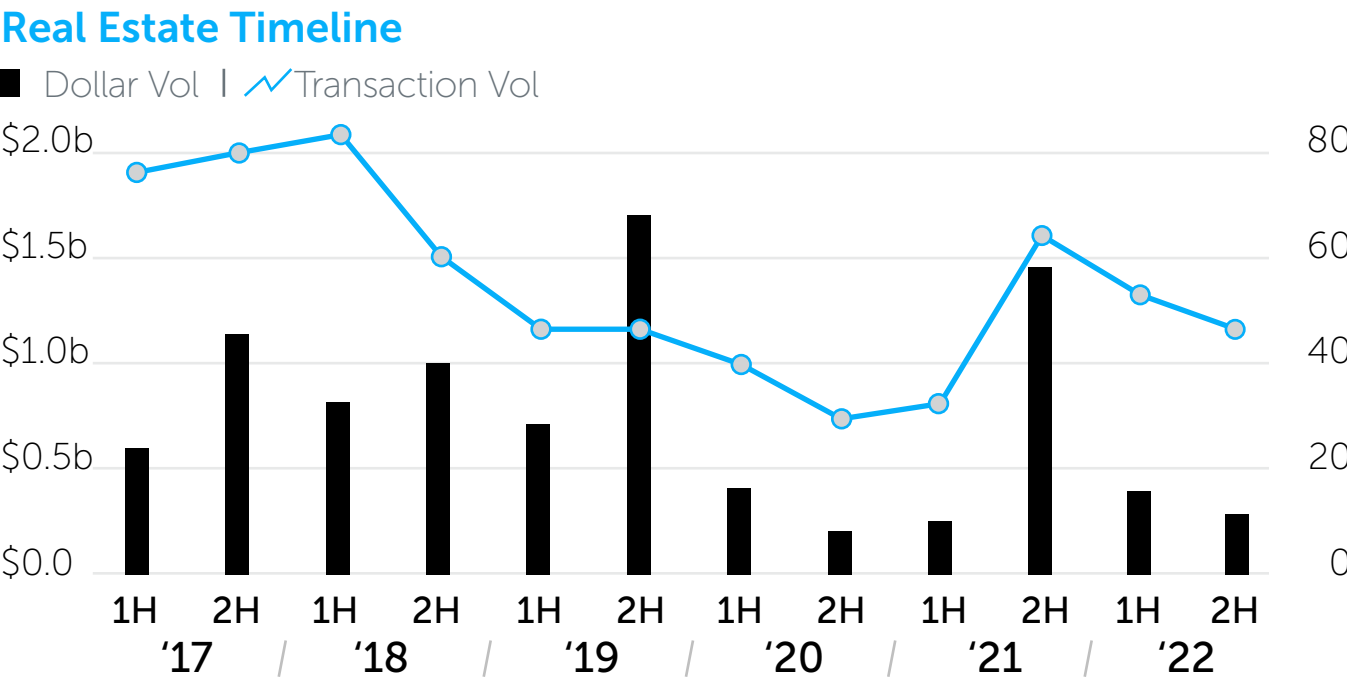
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2022 Year-End Overview

Northern Manhattan investment property transaction volume was even with 2021 levels, which is notable in that 2021’s sales activity was largely driven by a very strong 2H while 2022’s sales were more even between the two halves.

Consistent with the 1H21, Northern Manhattan saw few institutional caliber sales taking place north of \$20 million. The reliance on small to mid-size deals under \$20 million drove dollar volume down year-over-year, but still represented a notable improvement over Covid figures seen in 2020.

While still lower than transaction levels seen pre-HSTPA, multifamily transaction volume showed modest improvement on a year-over-year basis and was nearly double the amount seen during Covid. Higher rents and better condominium sales have improved the fundamentals for development site sales, but they were unfortunately hampered in 2022 by the expiration of the Affordable New York tax abatement program and subsequent uncertainty on its future.



Volume
2022 vs 2021

-60%

↓

673.8M

Dollar

-1%

↓

99

Transaction

-9%

↓

141

Property

Dollar Volume Comparison

Product Type	2022	'22 vs '21	2021	'22 vs '20	2020
Multifamily	\$483,789,668	-15%	\$571,495,107	77%	\$273,282,610
MF-MU 10+ resi units	\$435,103,992	-19%	\$537,464,239	78%	\$244,002,610
MF-MU 6-9 resi units	\$21,080,038	6%	\$19,845,000	17%	\$17,975,000
MF-MU Small	\$27,605,638	95%	\$14,185,868	144%	\$11,305,000
Commercial*	\$48,265,396	-9%	\$53,300,000	35%	\$35,881,875
Ind / WH / Sto**	\$19,168,142	-97%	\$686,800,000	N/A	\$0
Development	\$104,148,319	-61%	\$264,538,978	-47%	\$196,248,732
Office	\$1,805,310	N/A	\$0	-97%	\$58,997,291
Special Purpose	\$16,655,238	-87%	\$128,565,000	39%	\$12,000,000
GRAND TOTAL	\$673,832,073	-60%	\$1,704,699,085	17%	\$576,410,508

*Commercial includes retail and hotel properties
**Ind / Wh / Sto: Industrial / Warehouse / Self Storage

2022 Year-End Outlook

The outlook on inflation and the resulting direction of interest rates will be a major driver of sales activity and pricing throughout 2023. We saw buyer sentiment turn sharply negative in late 3Q22 when it became apparent that higher interest rates were not bringing down inflation fast enough, leading most to believe both elevated inflation and elevated interest rates would be present longer than many had hoped.

Market fundamentals have now recovered, but buyers and sellers are more cautiously pricing properties to account for elevated rates and the potential of a recession in the near term. This will likely drive prices down for income-producing properties in 2023. Sales volume, however, may actually increase as owners with loans coming due this year look to sell properties versus refinance, which would require them to accept higher interest rates and potentially pay down principal amounts.

We hope the legislature follows through on recent housing policy announcements by the NY State Governor Hochul and Mayor Adams. Despite improved market fundamentals, development site sales are hobbled by the higher interest rate environment. Clarity on a policy replacing the Affordable New York Program, efforts to streamline DOB operations, and fast-tracked rezoning initiatives are essential to improve development site transactions that ultimately lead to construction.

Transaction Volume Comparison

Product Type	2022	'22 vs '21	2021	'22 vs '20	2020
Multifamily	72	22%	59	95%	37
MF-MU 10+ resi units	48	7%	45	109%	23
MF-MU 6-9 resi units	11	38%	8	22%	9
MF-MU Small	13	117%	6	160%	5
Commercial*	7	75%	4	17%	6
Ind / WH / Sto**	1	-67%	3	N/A	0
Development	16	-47%	30	-20%	20
Office	1	N/A	0	-67%	3
Special Purpose	2	-50%	4	100%	1
GRAND TOTAL	99	-1%	100	48%	67

*Commercial includes retail and hotel properties
**Ind / Wh / Sto: Industrial / Warehouse / Self Storage

Multifamily Highlights

- Total 2022 transaction volume was up a healthy 22% year-over-year and was nearly double what was seen in 2020. The increase in transaction volume was driven by multifamily transactions below 10 residential units.
- Dollar volume was down 15% year over year. With a majority of deals occurring under \$10 million and no multifamily transactions having occurred over \$100 million for the year, dollar volume remained subdued compared to pre-Covid activity levels.
- For the year, the average cap rate came in at 5.33%. While this is roughly even with 2021 levels, most sales occurred in the first 3 quarters of the year when buyers could lock in lower interest rates. With the significant shift in interest rates, the ongoing effects of the HSTPA legislation and negative buyer sentiment since September, we can expect cap rates to head higher next year.
- The 2022 average price per square foot of \$312 and average price per unit of \$212,971 are both relatively consistent with the levels seen since 2019.

Volume
2022 vs 2021

-15%

↓

\$483.8M

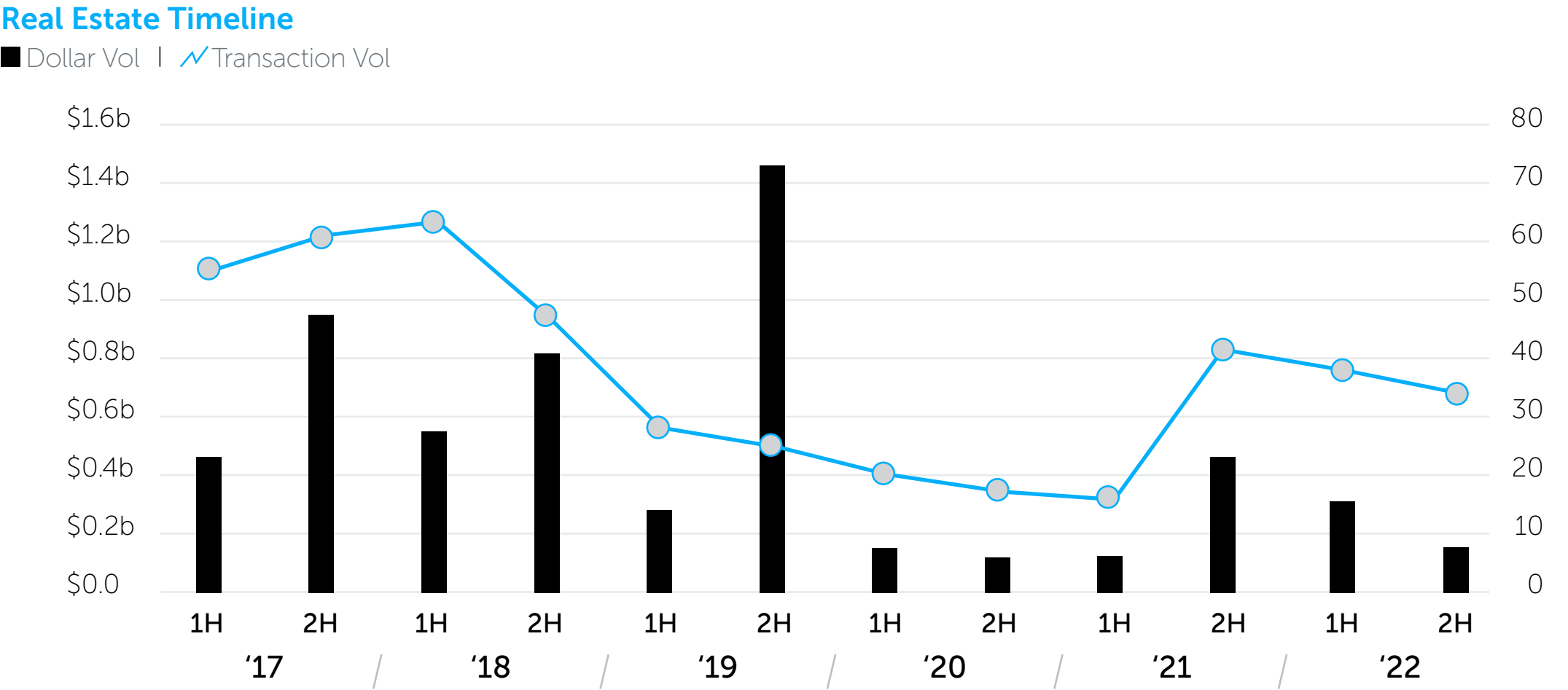
Dollar

22%

↑

72

Transaction



Property Value Metrics - Multifamily*

Year	2016	2017	2018	2019	2020	2021	2022
\$/SF	\$361	\$382	\$376	\$353	\$321	\$283	\$312
\$/Unit	\$315,261	\$320,729	\$314,012	\$307,738	\$220,654	\$214,364	\$212,971
Cap Rate	3.95%	4.08%	4.06%	4.73%	5.25%	5.41%	5.33%
GRM	15.87	15.24	15.36	13.72	10.08	10.06	10.45

*reflects multifamily transactions of 10+ residential units

2H'22 Featured Transaction



Central Harlem
KLM Construction MU
Harlem Portfolio

Sale Amount:
\$32,000,000
\$/SF:
\$159
Buyer:
Elysee Investment Corp
Seller:
KLM Construction

Sale Date: **7/28/2022**

Development Highlights

- 66% of development site transaction volume and 75% of development site dollar volume occurred in the first half of the year as buyers sought to lock in Affordable New York tax benefits and get ahead of rising interest rates.
- Dollar and transaction volume is below levels seen even during Covid and is similar in market activity to 2012.
- Buyers and sellers need clarity on what, if any, new development tax abatement program will be enacted by New York State. Until then, we expect development site sales to be lagging compared to recent historic trends, despite strength in the residential rental and condominium markets.
- Though the small sample size and Mandatory Inclusionary Housing (MIH) zone trades add to volatility in this figure, it is telling that the average price per buildable square foot of \$163 is marginally down from 2021 and 2020 levels. This represents a 28% decline from 2016's high of \$228.

Volume
2022 vs 2021

-61%

↓

\$104.1M

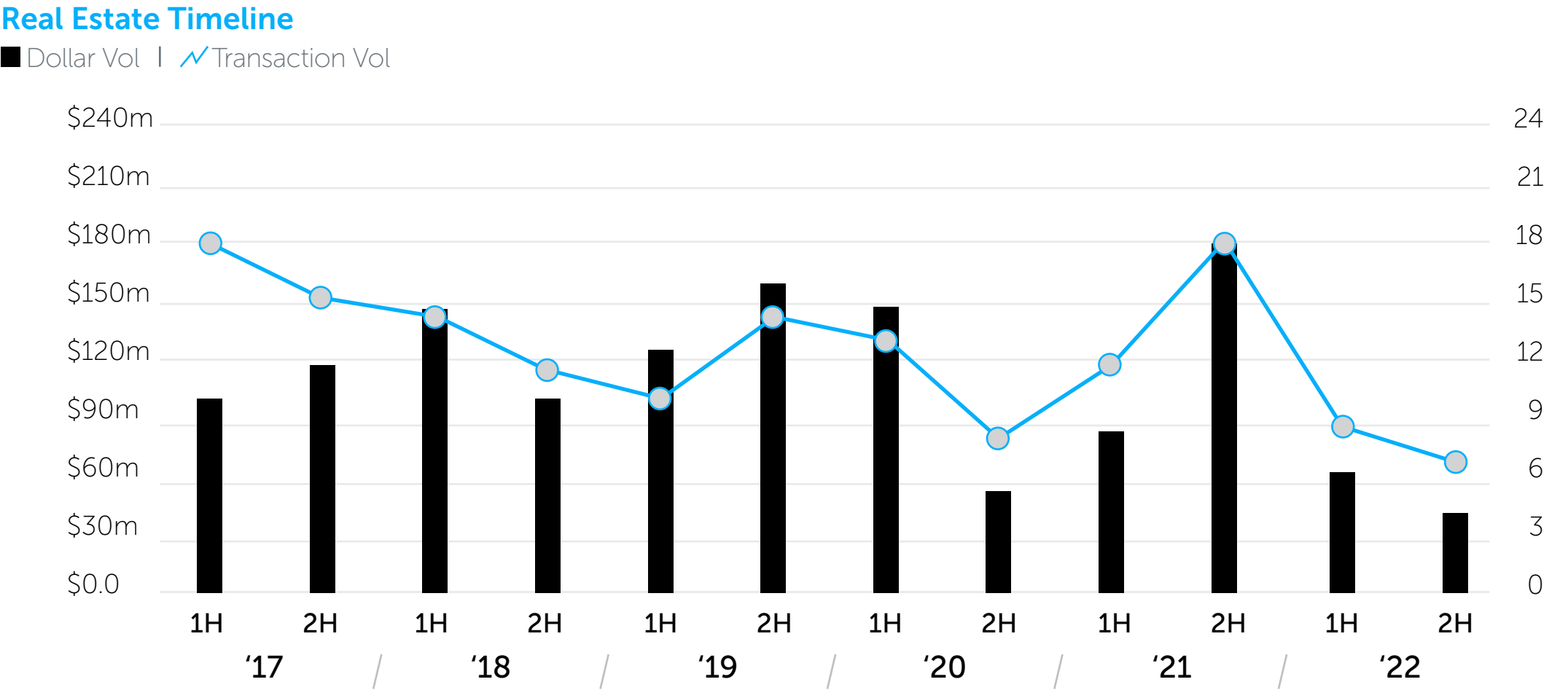
Dollar

-47%

↓

16

Transaction



Property Value Metrics - Development*

Year	2016	2017	2018	2019	2020	2021	2022
\$/BSF	\$228	\$209	\$218	\$216	\$169	\$176	\$163

*reflects transactions of vacant land or equivalent development sites

2H'22 Featured Transaction



East Harlem
1984 3rd Avenue

Sale Amount:
\$13,500,000
\$/BSF:
\$176
Buyer:
188 Throop LLC
Seller:
376 PLG Holdings LLC

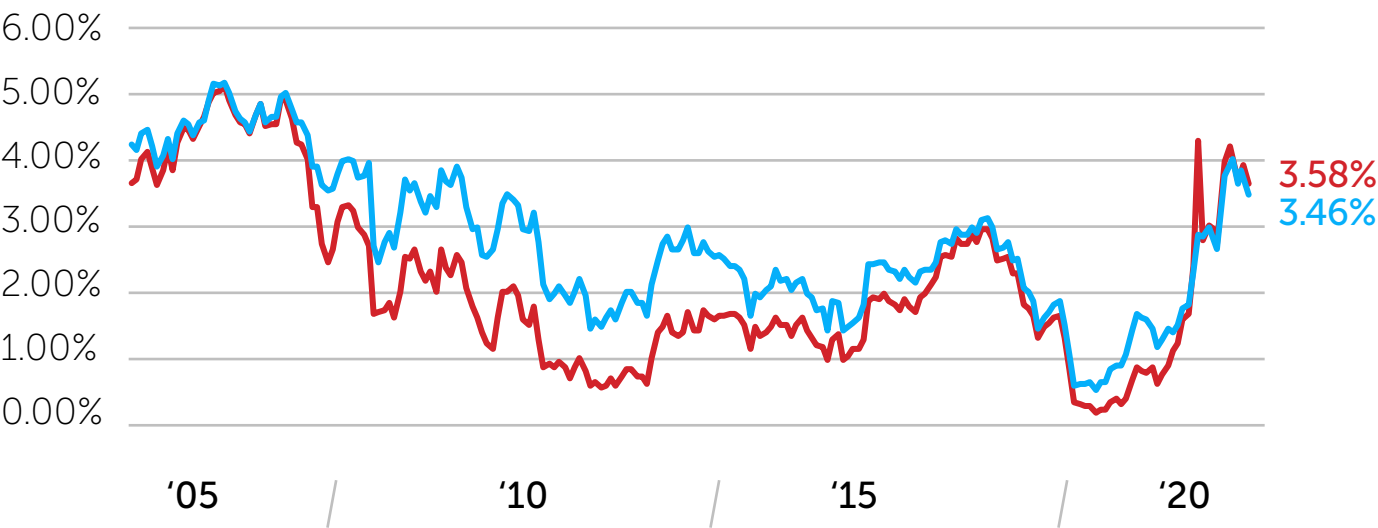
Sale Date: **12/16/2022**

Macro Economic Overview

A number of macro-economic indicators affect the bottom line of commercial real estate investments in New York City and, in turn, the pricing and demand for these assets during any given period. Ariel Property Advisors’ Research Division tracks national and local metrics to identify key market drivers influencing the real estate industry.

Financing:

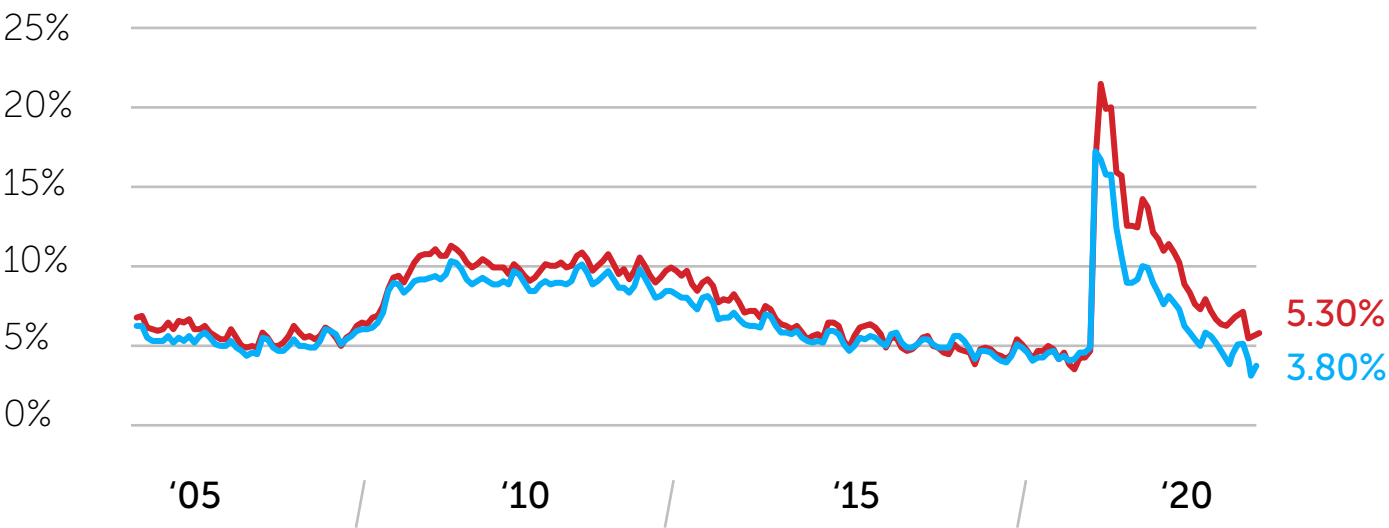
10-Year: 3.46% | 5-Year: 3.58% | As of January 24th, 2023
Treasury Yield Curve Rates 10-year | 5-year



Source: U.S. Department Of The Treasury

Unemployment Timeline:

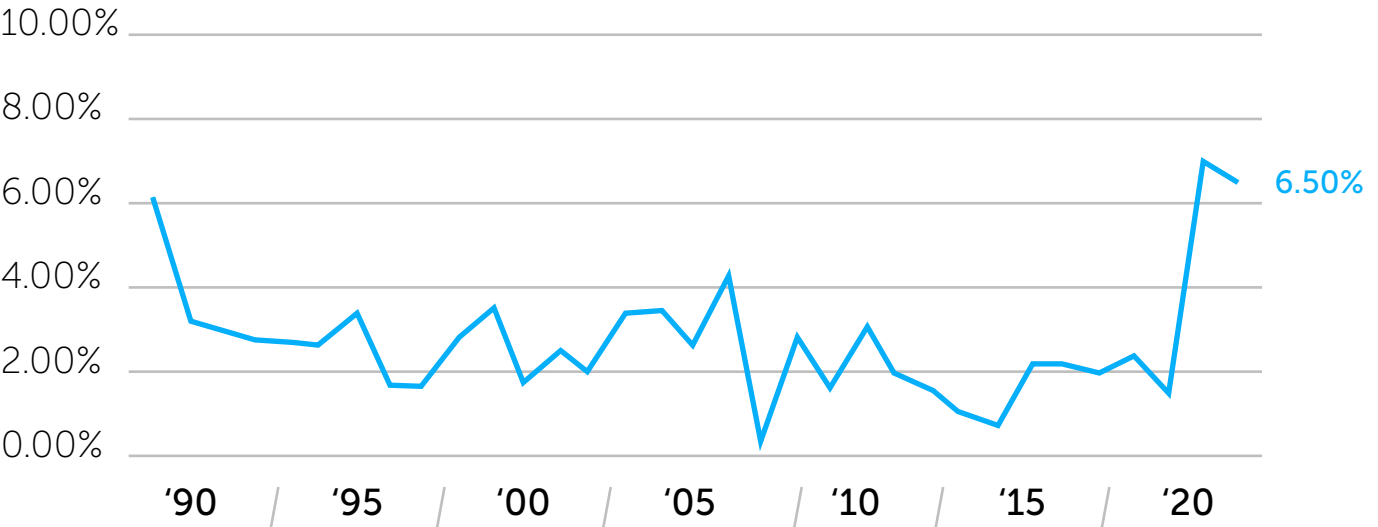
NYS: 3.80% | NYC: 5.30% | As of December 2022
Unemployment Rate History | NYS & NYC (Not Seasonally Adjusted)



Source: Department Of Labor

Consumer Price Index (CPI):

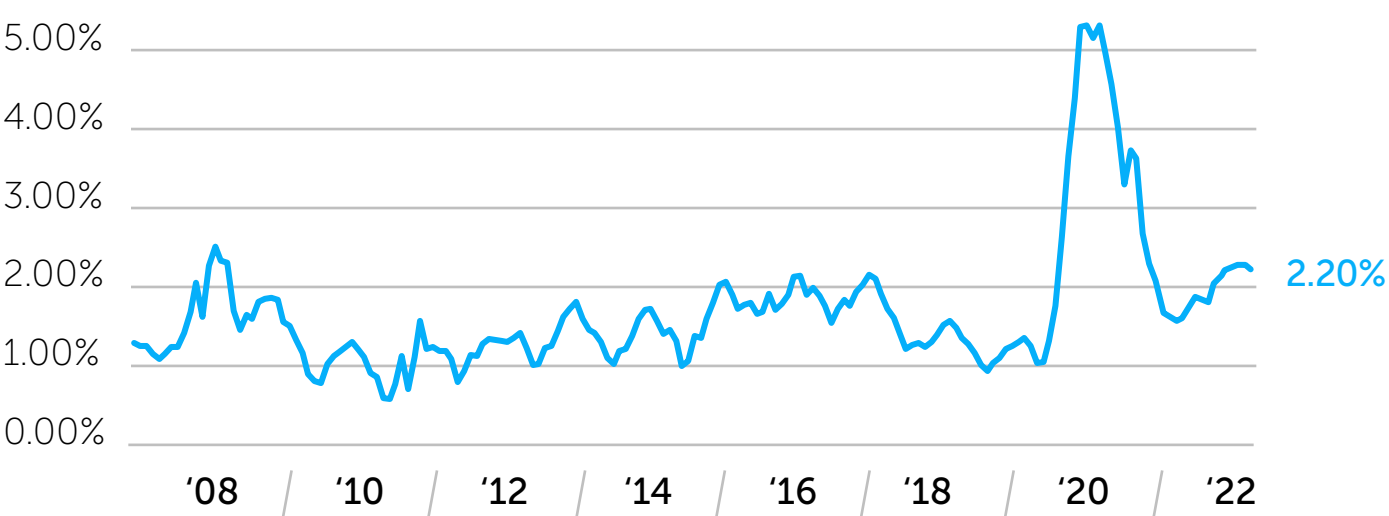
National CPI
Growth - December 2022 Y-O-Y



Source: U.S. Bureau Of Labor Statistics

Rental Market / Vacancy:

Manhattan Residential
Rental Vacancy January 2008- December 2022



Source: Corcoran

Thought Leadership Featured in Forbes

Ariel Property Advisors has been a regular contributor for Forbes. Here is the list of the five latest articles.



Sep 9, 2022
The Bronx Is Back: Institutional Money Is Chasing Yield

The Bronx saw record dollar volume and the second most transactions ever recorded with \$1.54 billion investment sales across 191 transactions, according to research produced by Ariel Property Advisors.



Oct 7, 2022
New York City Real Estate: Top Trends That Are Moving The Needle

New York City is once again demonstrating its resiliency. Office workers are returning, the workforce is growing, tourists are back, lunch hour lines are forming outside eateries, and trains and buses are filling up. The first half of the year the city saw \$22.1 billion in investment sales, slightly lower than the last six months of 2021 but significantly higher than all of 2020 and 1H 2021.



Oct 24, 2022
Brooklyn’s Investment Sales Reach \$5.56 Billion

Brooklyn’s investment sales totaled \$5.56 billion in 1H 2022, a slight dip of 8% from the record \$6.1 billion in 2H 2022, but up 213% year-over-year, according to Ariel Property Advisors Mid-Year Brooklyn Report.




Nov 9, 2022
New York City Multifamily Sales Totaled \$3.57 Billion In 3rd Quarter

Despite continuing economic headwinds, the New York City multifamily sector posted surprisingly impressive results during the third quarter, according to Ariel Property Advisors’ Q3 Multifamily Quarter in Review report.



Dec 13, 2022
NYC’s Perfect Storm: Rent Stabilized Opportunities in the Face of Mortgage Resets and Maturities

New York City owners of rent-stabilized apartment buildings are facing a perfect storm as a tidal wave of mortgage maturities and resets is fast approaching for properties purchased before the passage of the Housing Stability and Tenant Protection Act (HSTPA) of 2019.

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Ariel’s unique company structure, with separate divisions for Investment Sales, Capital Services and Research, ensures outstanding service for our clients. Whether it’s implementing a strategic marketing process, compiling a comprehensive Asset Evaluation, securing financing or providing timely market information, every assignment is served by a team of specialized professionals.

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