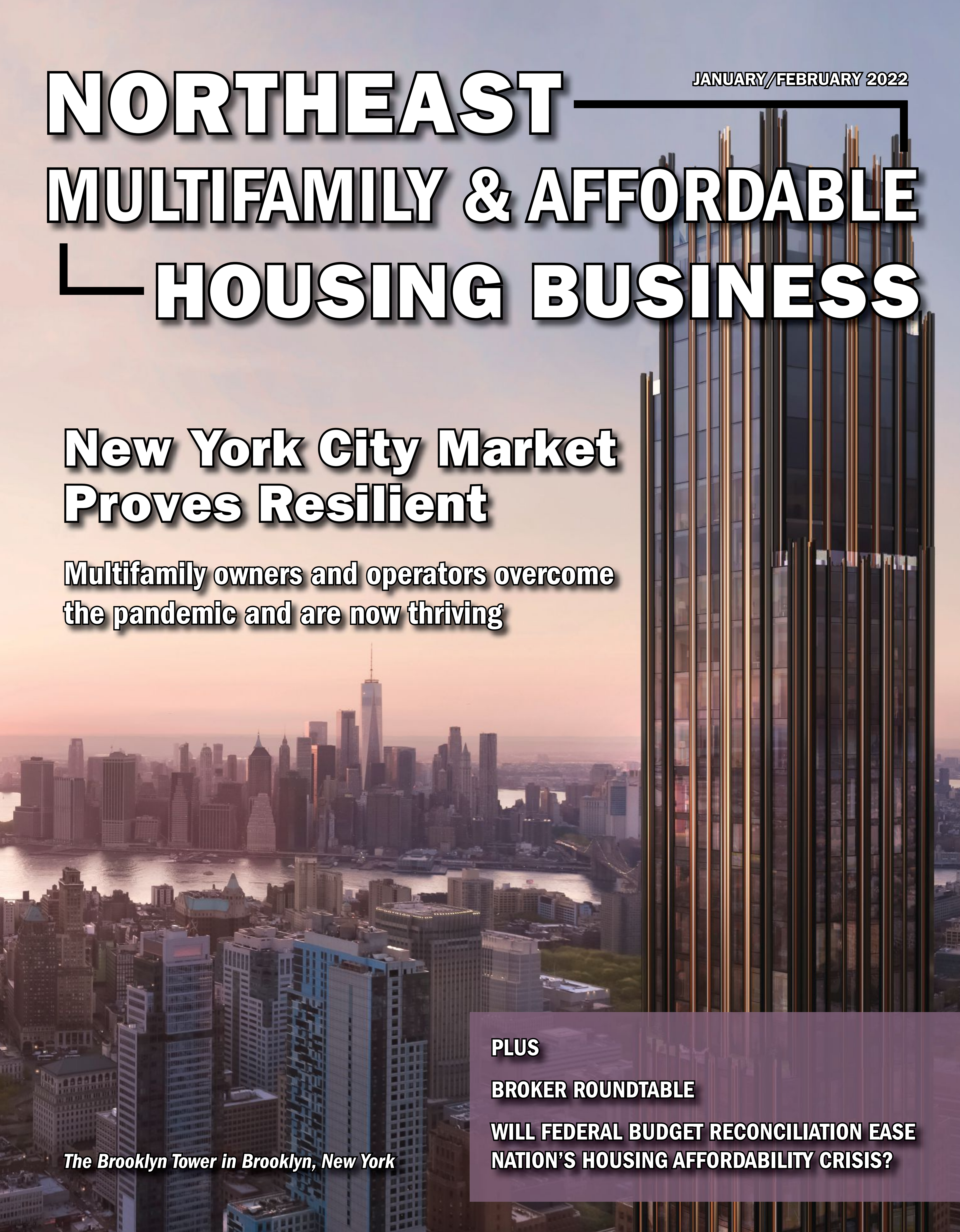
JANUARY/FEBRUARY 2022

NORTHEAST MULTIFAMILY & AFFORDABLE HOUSING BUSINESS

New York City Market Proves Resilient

Multifamily owners and operators overcome the pandemic and are now thriving



The Brooklyn Tower in Brooklyn, New York

PLUS

BROKER ROUNDTABLE

WILL FEDERAL BUDGET RECONCILIATION EASE NATION'S HOUSING AFFORDABILITY CRISIS?

How Robust Will Property Sales Activity Be in 2022?

Transaction volume soared in 2021, but the outlook for this year is less certain amid concerns over inflation and interest rates.

Matt Valley

The apartment sector is unequivocally the darling of the commercial real estate investment community today. Multifamily property and portfolio sales nationally totaled $335.3 billion in 2021, up 128 percent over the prior year, according to Real Capital Analytics. The volume of multifamily sales in 2021 was slightly more than double the volume of industrial sales, the next most frequently traded property type.

In an uncertain world, the strong real estate fundamentals of the apartment market year in and year out have provided investors with a sense of security. U.S. apartment occupancy climbed 30 basis points in the fourth quarter of 2021, raising occupancy to 97.4 percent, reports RealPage Inc.

It's not as if developers have stopped building. More than 350,000 units were delivered nationally in 2021, but annual absorption totaled 674,000 units.

In light of such strong tenant demand, RealPage is forecasting effective rents for new leases to grow an average of 10 percent nationally in 2022. In November 2021, the annual increase in effective rents for new leases reached 13.9 percent, setting a record pace.

"Barring some black swan event, there is really no underlying change in the fundamentals to suggest that we should see a meaningful drop-off. Vacancy is still going to be fairly low. Renter incomes are in great shape," said Jay Parsons, deputy chief economist and vice president of asset optimization and renter engagement at RealPage.

Parsons' insights came during a recent webcast hosted by the property management software and real estate analytics firm to discuss the current state of the apartment market and the outlook for 2022.

The economist emphasized that while RealPage is projecting significant rent growth, it will be difficult to sustain the record level of annual rent growth the apartment market has recently experienced. As more supply hits the market, Parsons expects to see some compression in Class A rent growth, but nothing drastic.

One big wild card for 2022 will be the impact of interest rates on investment sales. The 10-year Treasury yield closed just under 2 percent on Feb. 11, up about 70 basis points from a year earlier. Interest rates are only expected to go up from here.

In 2021, Berkadia brokered the sale of Riverfront Landing, located in Nashua, New Hampshire. Completed in 2018, the Class A property in this secondary market enjoyed strong absorption, resulting in a stabilized asset in 2019.

Meanwhile, the Consumer Price Index (CPI) climbed 7.5 percent in January year-over-year, the highest rate in 40 years. That came on the heels of a 7 percent increase in the CPI in December. Goldman Sachs now predicts the Federal Reserve will hike interest rates seven times this year, up from earlier forecasts of five rate hikes, in an effort to curb inflation.

Against that backdrop, *Northeast Multifamily & Affordable Housing Business* reached out to several of the most seasoned investment sales specialists in the region to gain their insights into current market conditions and the outlook for 2022. Roundtable participants included Jennifer Athas and Matt Olson, senior directors, Berkadia, Boston; Adam Gillespie, principal, investment real estate brokerage, Avison Young, Philadelphia; Aaron Jungreis, founder and CEO, Rosewood Realty Group, Manhattan, New York; Lev Mavashev, managing principal, Alpha Realty, Brooklyn, New York; Jason Pucci, chief operating officer, The Kislak Company Inc., Woodbridge, New Jersey.

What follows are their edited comments.

Northeast Multifamily & Affordable Housing Business: How active was your firm on the investment sales front in the Northeast in 2021 and how did that compare with 2020 and the pre-pandemic year of 2019?

Aaron Jungreis: We did a little over $2 billion in 2021. In 2020, we did approximately $1 billion, and 2019 was just under that.

Adam Gillespie: Avison Young's Philadelphia office completed 23 transactions totaling $148 million in sales in 2021. This was a 146 percent increase in sales and 64 percent increase in transaction count over 2020.

Jason A. Pucci: In 2021, we closed 242 transactions, most of which were investment sales, valued in excess of $1 billion. Compared with 2020, our closed transaction count was up 70 percent and our sales volume nearly doubled. Compared with 2019, our closed transaction count was up 32 percent and our sales volume also nearly doubled.

This property, 792 Sterling Place, in the Crown Heights neighborhood of Brooklyn is currently under contract. Alpha Realty is representing both the buyer, a local private investor, and the seller. The five-story elevator building includes 82 apartments and a 58-car parking lot.

Jennifer Athas and Matt Olson: In 2021, the multifamily investment team in Berkadia's Boston office recorded an annual gross volume of $151.5 million and a strong deal pipeline.

Lev Mavashev: My team and I sold 59 buildings in 2021. It was a record-breaking year for us. It was almost double our activity from 2020 when we sold 31 buildings. But both those years were better than 2019, which was just a bad year for New York multifamily. We only sold approximately 10 buildings that year. In 2019, New York State passed tough rent regulations, which pretty much brought multifamily transactions to a screeching halt.

NMAHB: Is there a segment of the multifamily sector, or a particular market, that you are most active in across the Northeast on the investment sales front? (Some examples include luxury Class A; Class B and C properties; value-add properties; workforce housing; high-rise/urban infill; garden-style properties in the suburbs.)

Athas and Olson: We do it all.

Jungreis: We touch every single asset class: core Class A assets; value-add Class B and C properties; workforce housing; high-rise; mid-rise; garden-style apartments in the suburbs. If you can name it, we're active in that segment.

Gillespie: The most active segment in Philadelphia multifamily sales is Class B, infill properties. This is the most abundant multifamily segment in Philadelphia. The properties in this segment also have larger floor plans, allowing for quick value-add opportunities such as washer and dryer additions.

Mavashev: We are multifamily specialists. We focus on New York City mid-market transactions, and we are very good at selling the asset class across the full spectrum — whether it's turnkey or value-add, whether it's a rent-regulated or free-market building.

Pucci: We are most active in Class B and C properties, value-add properties, and garden-style, suburban properties. We also handle the sale of Class A assets.

NMAHB: What do you think was the big story for buyers and sellers in the multifamily sector across the Northeast in 2021, and what were the driving factors?

Jungreis: Naturally, the incredible rental growth across the entire sector was an underlying factor for every deal. What we saw here in the Northeast was that as investors on one end of the spectrum left and followed the property boom in states like Texas and Florida, the other end saw renewed value here and doubled down.

Gillespie: The big story in the multifamily sector in 2021 was how inflation changed underwriting and pricing. Because multifamily has shorter lease terms than other real estate investment sectors, more buyers sought multifamily in hopes of capturing increased rents caused by inflation. We were surprised by how buyers aggressively underwrote lower going-in yields knowing they could increase rents soon after ownership based on inflation alone.

Mavashev: I can only speak for New York City. The biggest drivers of activity were the high prices and compressed cap rates in out-of-state multifamily deals. In 2019, after the new rent regulations passed in New York, most capital started flowing out-of-state. Investors were in search of better yields elsewhere as low cap rates and tight regulations in New York spooked investors. New York investors went out-of-state to New Jersey, Connecticut and obviously the Southeast. But in 2020, New York City multifamily assets experienced some of the highest cap rates in over a decade. This drove investors back into the city, resulting in immense sales activity during 2021.

Pucci: The continued and increased strength of the multifamily market throughout 2021 despite a turbulent economy was the big story.

Athas and Olson: Deliveries of new product were strong in 2021, mostly with Class A product in suburban markets. During the pandemic, the suburban markets thrived with more people working from home. Renters were drawn to new product, given all the amenities and high-end finishes new product offers. Therefore, new units were quickly absorbed.

NMAHB: Was there a particularly newsworthy multifamily investment sales transaction in the Northeast that came out of your shop this year that you'd like to highlight for our readers, and which perhaps speaks to the state of the industry?

Athas and Olson: Our sale of Riverfront Landing in Nashua, New Hampshire is a perfect example of how a newly constructed Class A property showed strong rental demand in a secondary market as well as institutional interest. The property was completed in 2018, and the units were quickly absorbed, resulting in a stabilized building in 2019. Even amid the pandemic, rents surrounding new leases and renewals have seen 10 percent increases, with continued high occupancy.

Mavashev: In February 2021 as the COVID-19 pandemic wrought unprecedented turmoil on New York City's multifamily and retail markets, we were retained to sell a three-building, mixed-use portfolio in Boerum Hill by a seller looking to redeploy capital. With renters still fleeing the city and COVID causing the reduction of market-rate rents, both residential and retail rents were in flux. The challenge was to identify an agile buyer with confidence in a gradual economic recovery.

It was quite a challenge, but ultimately we attracted 12 solid offers and closed the transaction with a stunning $1,004 price per square foot, a record for the Boerum Hill neighborhood. The buyer was a foreign family fund looking to increase its presence in the New York City area. Since then, we've had many record-breaking sales, but that was the first in its market, and

I think it was one of those deals that gave everyone else confidence in the New York City market.

Pucci: In April 2021, we handled the off-market sale of The Pinnacle, a new luxury apartment building in Fort Lee, Bergen County, New Jersey, for $55.3 million. The property is located along the Palisades on New Jersey's Gold Coast overlooking the Hudson River and New York City.

Completed in 2020, The Pinnacle is a 15-story luxury high-rise apartment building with 142 units offering all modern luxury amenities, and many units have sweeping views of New York City.

Kislak marketed the property on an off-market basis with Senior Vice President Scott Davidovic leading the assignment on behalf of the developer-seller. Senior Vice President Justin Lupo procured the purchaser.

The Gold Coast continues to command the attention of both private and institutional investors nationwide, and our assignment began in the middle of the pandemic and lease-up of the building.

Gillespie: We sold a handful of complexes that were a direct result of COVID-19 affecting owners to the point that they decided to sell. For instance, we sold a portfolio in Philadelphia and Montgomery counties that had been in a family for over 60 years and was self-managed. The family was severely affected by COVID. This led to a family decision to sell the portfolio and enjoy retirement earlier than originally planned. The point is that COVID made people take stock in what's important, resulting in altered life plans.

Jungreis: A deal that comes to mind was a $103 million deal in Norwalk, Connecticut that we sold for Avalon Bay. It really highlighted what I said previously about finding renewed value here in the Northeast while other investors are looking elsewhere.

AARON JUNGREIS
Founder and CEO, Rosewood Realty Group

NMAHB: Are the asking prices for multifamily properties on the market in the Northeast getting too frothy, or is the pricing spot-on given the strong demand from buyers? Stated another way, is there a gap between the bid and the ask, and if so, how big is that gap?

Jungreis: Prices are at all-time highs here, but investors are smart and finding value everywhere. The gap is small enough that deal flow is extremely high.

Gillespie: Our job as brokers is to predict where pricing is headed. Yes, pricing is aggressive. However, our expected pricing when pitching business to sellers has been spot-on in 2021 and 2022. Typically, this pricing is more aggressive than what is supported by recent comparable sales. However, I expect this to level out in 2022 with increasing interest rates.

Pucci: Pricing is generally high, but the bid-ask gap varies by location and property type. We are seeing the strongest demand for value-add properties in or near desirable transit-oriented locations, and the bid-ask gap for these properties is narrower. On the contrary, we are seeing a wider bid-ask gap for certain Class A properties in more tertiary markets where rent growth potential is more limited.

Athas and Olson: With most Class A institutional multifamily assets, deals are getting exe-

cuted 5 percent higher than the guidance. Given the market fundamentals, we anticipate this to continue well into 2022.

NMAHB: Is there any one group of investors (REITs, private equity, high-net worth individuals, closed-end funds, or other) that have been particularly active in the apartment sector across your region this year or that stand out for one reason or another?

LEV MAVASHEV
Managing Principal, Alpha Realty

Mavashev: After passage of the 2019 rent laws and COVID-19 hammering the city, we are finally seeing institutional capital coming back into the NYC multifamily market. In October 2021, Carlyle Group acquired the six-story Knitting Factory Lofts in Clinton Hill for $34 million, and a month later it purchased 22-22 Jackson Avenue, one of Long Island City's newest apartment buildings, for $85 million.

HUBBNYC paid $105 million for the 141-unit rental building at 56 W. 125th Street last September, and a group of institutional investors sold a 71 percent stake in the 5,881-unit Starrett City in a September deal that valued the complex, now known as Spring Creek Towers, at $1.8 billion. It was the biggest property trade in the city since 2018.

Gillespie: Private investors are always the most active in our region (greater Philadelphia area). They are quicker to act and more entrepreneurial in seeing opportunity.

Athas and Olson: REITs led the way with buying strength in the market with the following notable transactions:

• LivCor paid $325 million for AvalonBay's 529-unit property in Cambridge, Massachusetts.
• Through the first three quarters of 2021, DSF Group made five separate asset purchases totaling over $365 million.
• Pantzer Properties disposed of two assets and made two acquisitions in the Boston market.

Newcomers to the New England market, Pacific Urban Investors and TruAmerica made a strong entrance with two asset purchases totaling $221.3 million and three assets totaling $180.25 million, respectively.

It's important to note the significance of portfolio sales occurring in 2021, a trend likely to continue into 2022. While many of these portfolio sales occurred in the Sun Belt and other parts of the country, they typically included one to two assets in the Northeast.

Greystar's $3.6 billion portfolio sale of 30 properties to the Canadian real estate investment firm Ivanhoé Cambridge included the Avana in Weymouth, Massachusetts, an asset built in 1972 with 418 units.

JASON A. PUCCI
Chief Operating Officer, The Kislak Company

Pucci: We work with a variety of client types including high-net-worth individuals, families, family offices, REITs and various investment funds. All remain active in our markets. One significant change since the start of the pandemic is the interest of previously New York City-centric clients in markets new to them throughout New Jersey, eastern Pennsylvania and southern New York State.

Jungreis: Honestly, no. The market has been so hot at every level that there simply has been a buyer for everything, whether that buyer is coming from institutional groups or small family offices.

NMAHB: Do you think multifamily cap rates in your region will likely fall from their current levels, hold steady, or rise over the next year?

Jungreis: I believe cap rates will hold steady. Although we see rising cap rates on the horizon, multifamily rental growth will continue to outpace them.

Gillespie: Cap rates will hold steady in 2022. The increase in interest rates will be offset by increases in rental rates caused by inflation.

Pucci: Cap rate fluctuations will vary based on property type, location and interest rates. Given where we are today, they will likely either fall or hold steady, but there will be certain property-specific instances where they may rise.

Athas and Olson: Given the abundance of capital from both international and domestic sources — in addition to constrained supply and rising construction costs — we anticipate cap rates to remain low.

Mavashev: The aforementioned transactions are a sign that cap rates will further compress in New York City despite possible interest rate hikes. Despite all the multifamily investment activity in the southern U.S., New York City is still the country's largest multifamily market with over 2 million apartment units, and it's proving to be resilient. I think we will see cap rates compressing in New York City.

NMAHB: What are your expectations for multifamily investment sales volume and velocity in 2022 across the region compared with 2021, and what might be the determining factors?

Gillespie: 2022 sales won't be as strong as 2021 due to rising interest rates.

Pucci: Based on our pipeline and early demand indicators, I expect sales volume and velocity to hold steady in our markets.

JENNIFER ATHAS
Senior Director, Berkadia

Athas and Olson: The multifamily sector performed superbly during the pandemic, offering stability going into a potential downturn. Multifamily investment sales volume and velocity will continue to increase in 2022. This velocity is driven by continued new product being delivered in 2022, some of which is delayed from 2021 deliveries due to supply chain issues. The projected number of apartment unit deliveries in the Northeast for 2022 is 57,000, only slightly below 2021 with 68,000 units.

Jungreis: The velocity doesn't show signs of slowing down. In fact, based on the deals we currently have in the pipeline, I think we'll be able to almost double our 2021 production.

NMAHB: Do you expect the low interest rate environment of the past several years to continue in 2022, or have we reached an inflection point?

Jungreis: The Federal Reserve has confirmed that rates will rise, but people seem to forget that even if rates hit 3 or 4 percent, those rates are still historically low numbers.

Gillespie: Interest rates are already on the rise. The 10-year U.S Treasury yield is up more than 60 basis points since this time last year.

Pucci: As we have seen lately, I expect there will be some interest rate fluctuations throughout 2022, but I do not expect a dramatic increase.

Athas and Olson: With the Federal Reserve planning to taper asset purchases sooner rather than later, it could lead to further upticks in interest rates. However, the lending environment is so competitive — and expected to remain so in 2022 — that it still may keep actual borrowing costs lower as lenders compete for deals.

Mavashev: Interest rates are definitely a driver of value of multifamily assets. This Fed is hawkish, and I expect to see a 50- to 100-basis point increase by the end of 2022. But I also think larger cities such as New York City will not see a spike in cap rates this year. In fact, I think cap rates will compress.

Big cities such as New York still have the most job opportunities as well as entrepreneurial and investment opportunities. And history has shown us that every time there is a dip, big cities come roaring back with a vengeance.

NMAHB: To what extent is the Northeast experiencing a shortage of affordable rental housing, and what needs to be done to remedy the situation?

Athas and Olson: Construction costs, supply chain issues and labor shortages continue to exacerbate the shortage of affordable rental housing in the Northeast. In addition, in areas such as the urban core of Boston, the demand and pricing for life sciences sites and developments may continue to squeeze out multifamily developments.

Gillespie: The extent is so large that it can't be quantified. This is an education issue more than a housing issue. We need to address the root cause, which is our declining public-school systems producing more renters that qualify for affordable housing.

Jungreis: There needs to be deeper incentives to build affordable housing. Overtaxing developers simply curbs the supply. Given the inelastic demand we have in the Northeast, that will only push prices up, further exacerbating the housing shortage.

Pucci: There are shortages in certain locations. Generally, I feel there should be more public and private partnerships to remedy the situation.

NMAHB: Why do we read and hear so much about workforce housing today, and how do you define workforce housing?

Athas and Olson: Workforce housing is essential because it allows critical workers, emergency responders and others to live in the communities in which they work. We hear so much about workforce housing because in a competitive housing market with rising construction costs, environmental regulations that contribute to these costs, and limited availability for desirable sites, it is becoming increasingly difficult to create new supply.

MATT OLSON
Senior Director, Berkadia

Pucci: There is a need for workforce housing, especially in more expensive markets. Most recent multifamily developments have been of Class A properties geared toward higher-income earners, and these apartments are out of reach for much of the workforce. Workforce housing is for middle-income earners.

Last spring, The Kislak Company arranged the $55.3 million sale of The Pinnacle, a 142-unit high-rise apartment building in the Northern New Jersey community of Fort Lee. Built in 2020, the 15-story building features studio, one-, two- and three-bedroom units. Kislak represented the seller and developer, 69 Main Street Fort Lee Urban Renewal, in the transaction. Kislak also procured the buyer, a joint venture between Blue Diamond Equities and Skywood Properties.

Gillespie: I define workforce housing as having rental rates that equate to 80 percent of the area's median income. Typically, these units are affordable to teachers, police and firefighters in a community.

Jungreis: I'd define it as housing for middle-income households, those traditionally earning 50 to 120 percent of the area median income — think teachers, retail workers, police officers.

NMAHB: What questions are you most often fielding from multifamily buyers and sellers across the Northeast today, and what is typically the advice you offer?

Mavashev: The most common question I get from buyers that have been investing out-of-state for the past few years is whether it's a good time to get back into buying multifamily assets in New York. I tell them one thing: New York City is resilient. Past market shocks, including the 9/11 terrorist attacks and the global financial crisis in 2008-2009, demonstrated New York's resilience. I would bet on New York City coming back, which we all see is already happening.

Athas and Olson: The main question we get asked is, "What can we buy?" Most buyers we speak to want to acquire more multifamily property in greater Boston, and the consensus is there hasn't been enough product to satisfy the existing demand.

Sellers are experiencing historic sell-out numbers on both a price per square foot and cap rate basis, and enough buyers are still willing to acquire at those figures because they believe in the market fundamentals. The expectation is the current dynamic will continue well into 2022, assuming no geopolitical risks enter the equation to affect investor appetite.

Gillespie: We spend a lot of time underwriting how real estate tax expenses might increase after the sale if the sales price is more than the assessed value. Our advice is for buyers to research the handling of this issue by the counties and school districts when formulating their offering price. This will be a bigger issue heading forward as municipalities might put more tax burden on multifamily than the struggling office, hospitality and retail sectors.

ADAM GILLESPIE
Principal, Investment Real Estate Brokerage, Avison Young

Jungreis: The question I get most is, "When will this bull run in the multifamily market end?" My answer is that as long as the political climate remains somewhat stable, the runway is long, and it will continue.

Pucci: The most frequent question is, "Where is the market headed?" None of us has that answer. But we know that multifamily properties have been, and likely will remain, relatively safe and lucrative investments despite positive and negative changes in the economy. ●