275 Madison Avenue, Third Floor
New York, NY 10016
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Shannon Krause, PR Coordinator
skrause@masseyknakal.com
www.masseyknakal.com

CLEAR SKIES AHEAD FOR WASHINGTON HEIGHTS AND INWOOD

By Robert Shapiro, First Vice President of Sales, Massey Knakal Realty Services

As with the rest of the New York City investment property market place, Manhattan's two most northern neighborhoods experienced a very trying year. However due to an abundance of medium sized, multifamily properties, they fared better than most. By thoroughly studying and dissecting real market data, neighborhood trends, and actively brokering properties everyday we are forecasting significantly clearer skies ahead in 2010. Readily available and attractive financing for this preferred asset class has also helped fuel a spike in activity in the Q4 2009 contract signings. The overall improved quality of life, decrease in crime, and geographical advantages, has also contributed to this sunnier outlook.

Early 2009 was filled with uncertainty that brought the investment market to a virtual stand still. Few transactions occurred and some market segments suffered worse than others. Those hit hardest were development sites and retail properties. But, as the year progressed the multifamily market began to emerge as the preferred asset class to own. In 2009, there were 24 transactions including 33 properties. Of those 33 properties, 26 (81%) were multifamily properties, two (4%) were development properties, and five (15%) were commercial properties. Over all the total number of multifamily properties traded was down 54% from 2008. The total aggregate sales value of multifamily properties traded was about $78.5 million, down 75% from 2008. Although this is a staggering drop off in velocity and volume, this was not reflected in the intrinsic value of the individual assets.

In 2008, the average cap rate was 6.07%, the average price per square foot was $145, the average gross rent multiple was 10.59, and the average price per unit was $122,792. In 2009, the average cap rate was 7.27%, an increase of 20% and the average price per square foot was $106, down 27%. The average gross tent multiple was 7.32, down 28%, and the average price per unit was $76,000, down 38%.

We can derive some conclusions from this information. Firstly, although the drop off in properties trading was off 75% from last year, properties have lost only 20% of value on a cap rate basis. If you factor in increased rents of below market rent regulated units, a property may have held its

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value even better. The drop off in the price per unit can be due to the fact the very few mixed use properties traded. Retail rents are superior to residential rents and therefore demand a higher price per unit. Due to the lack of properties trading with retail components, the price per unit drop off was more severe. This is applicable to the price per square foot analysis as well.

In our opinion, the delta between the large drop off in volume and the much smaller drop in values has led to a pent up demand that has already begun to show itself in the first quarter of 2010.

In the fourth quarter of 2009, I personally signed five transactions (seven properties) into hard contract. They will account for a combined aggregate sales value of approximately $41,000,000 (45% of total properties sold in 2009) all within the Washington Heights and Inwood boundaries. All of these transactions are due to close in the first quarter of 2010. Currently I am marketing approximately an additional $55,000,000 of Washington Heights and Inwood investments spread out over 15 properties. The majority of these properties are multifamily assets and are well along in the marketing process. I expect a significant number of these to be sold by the end of Q2 2010.

Even with the current downturn in the rental market, Washington Heights and Inwood properties remained relatively insulated. Almost all neighborhood properties are still predominantly rent regulated and their average rents are well below market. This has given investors a good level of comfort. In some neighborhoods free market rents were down as much as 15%. However through natural turnover of rent regulated tenants, owners were able to increase rents on these units and therefore cushion the blow of the market. Regulated tenants had their rents increased as well accordingly with the DHCR’s one and two year lease renewal guidelines. The 15% decrease in market rents did not negatively impact the bottom line of Washington Heights and Inwood assets. In comparison to other Manhattan neighborhoods, properties that operate with significantly free market rents faired much worse.

Lenders are still eagerly interested in providing financing for multifamily assets. Community banks are dominating the marketplace and are offering attractive rates. At the time of writing this article it is common for banks to use a 6.75% cap rate on a properties N.O.I to determine the appraised value. They have been aiming for a 1.25 – 1.30 debt service coverage ratio and offering five year

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fixed mortgages with 30 year amortization periods with interest rates in the mid 5%'s. Currently there is a Fannie Mae product being offered with a substantially lower interest rate. However, they require very thorough trailing documentation that can prove to be cumbersome as sellers may not have or be willing to provide.

The outstanding work that Mayor Rudy Giuliani did to clean up some of the toughest streets in Manhattan is still ever present. He emphasized strong enforcement on quality of life crimes and put a strangle hold on drug trafficking. The neighborhood rapidly began revitalizing itself. One must also credit Mayor Bloomberg with his affordable housing initiatives. These programs have turned many blighted buildings into homes where families can grow. Removing the stigmatism that is associated with some of those decrepit properties has helped propel fringe blocks and neighborhoods into the desirable category. New York City was recently named Americas Safest Big City by the FBI for the year 2009. The significant decrease in violent crimes in Washington Heights and Inwood is directly related to New York receiving this honor.

Geographically, Washington Heights and Inwood benefit from superior availability to public transportation. They rival almost any other neighborhood in Manhattan in ease and accessibility. The top of Manhattan is the islands narrowest section and is serviced by two subway lines, local and express bus lines, a Port Authority bus terminal, the George Washington Bridge and numerous bridges into the Bronx. The accessibility to public transportation has helped define values in New York City and in few areas is it as abundant.

Columbia's planned expansion to 135th Street is well under way on the west side. Although it does not directly involve land in Washington Heights (bound southerly by 155th Street), it significantly narrows the gap between the Columbia Presbyterian Medical Center on 168th Street and the current University boundaries. These blocks that are sandwiched in-between stand to benefit from the cross pollination these facilities will inevitably incur.

Clear sky's in 2010 is a welcoming forecast from the stormy days of 2009. It will be a substantially better year for investors and owners choosing Washington Heights and Inwood. Although the

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number of properties that traded was down significantly, property values have proven resilient during the most chaotic economic times since the great depression. As pent up demand begins to show itself, as it did with increased contract signings in Q4 2009, this markets strength will be emboldened by readily available, attractive financing for properties that are renting below market. The quality of life is still constantly improving and evolving. Institutional investments from the Columbia Universities expansion plan will only strengthen Washington Heights and Inwood as the public transportation lines run directly to it and down through the heart of Manhattan.