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November 4, 2013

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Queens: The Best Is Yet To Come

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More than just the most diverse community in the world, the borough of Queens is also a promising place for multifamily investors. It has a strong history of performance, supported by a large stock of rental properties and by renter-heavy demographics. While the community is always changing, some areas of the borough are creating unique opportunities for investors to participate in projects that are leading to significant potential increases in both rent levels and per-unit values. At the same time, the rest of the borough continues to enjoy some of the lowest vacancy rates in all of New York City.

The Queens multifamily building market consists of smaller properties. Most of the borough is zoned for low-density housing, so many of the multifamily assets consist of 10 or fewer units. This leads to more opportunities for private investors, since the 100+ unit properties that are usually in the purview of institutional investors and old-line families are relatively rare in the borough.

The borough is also marked by a shortage of available properties. Historically, about 25 percent of the multifamily inventory has been controlled by a few families that are long-term holders. This group has also been very competitive on acquiring any assets that come on the market. While this market condition has historically created barriers to entry for new investors, it also serves as a backstop to protect property values, since the long-term investors typically have cash reserves and an extended view that enables them to buy at competitive prices in just about any market.

Now, Queens is also attracting a new buyer profile. These older families that have been active on just about any asset are now focusing more on trophy assets, many of which they have been waiting years or decades to buy. At the same time, investors that have been active on smaller six to ten unit multifamily properties or mixed-use properties are finding new competition. While Queens' smaller properties remain challenging for institutions which need to achieve certain returns on a five-to-eight year hold, mid-sized funds are coming to the market and buying portfolios of smaller buildings in blocks of approximately ten properties at a time. This concentration lets them achieve enough economies of scale to make the smaller assets work for them.

Queens has historically provided multifamily building owners with occupancy rates above 99 percent. The borough remains a mecca for incoming immigrants, many of whose first stop in the United States is Queens. According to NYC.gov, it is the most ethnically diverse urban area of the world, with 48% of its population foreign-born, representing over 100 different nations and featuring close to 140 different languages. In addition, the high rate of immigration leads to a large uncounted population. The Census Bureau's official population projections put Queens at 2.27 million people as of July 2012. Unofficial estimates, like school enrollment data, project Queens' population to be even larger, potentially as high as 3 million people. There has been an overall 15.2% increase in the Queens population from 1990-2011. Given that immigrants are typically renters; this demographic trend will continue to contribute to extremely high occupancy rates.

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When comparing the third quarter of 2013 to the same quarter of 2012, Queens experienced the biggest jump in effective residential rents. Queens' effective rents increased 5.6%, which was the biggest increase out of all five boroughs, Northern New Jersey, Fairfield County, CT and Long Island. According to the Council for Community and Economic Research's Cost of Living Index (COLI), apartment rents in Queens rose 12.4% overall from 2011 to 2012.

Queens weathered the overall downturn in the country's real estate market relatively well. While sales velocity slowed and shifted to an all-cash basis during the last part of the previous decade, values held up relatively well and well-located properties were able to transact. Challenging and undesirable properties, however, still experienced lengthy times on the market. Many transactions today are being driven by lack of supply and by attractive financing as opposed to being solely based on the investment merits of the property being sold.

Digging deeper into Queens exposes some communities that are undergoing significant change. While Queens has not achieved the same attention as Brooklyn, it is going through redevelopment and will be on people's radars in the near future. Waterfront communities, typified by Long Island City, are undergoing major new development. High-rise properties, art galleries, high-end dining and even gourmet supermarkets are being built. Astoria's waterfront is also benefiting from this tendency. Adjacent communities like Woodside and Sunnyside are advancing from spillover effects. In 2010, New York Magazine named the small but thriving neighborhood of Sunnyside one of "The Most Livable Neighborhoods in New York."

While many of the most desirable areas of Queens lay north of Queens Boulevard, southern parts of the borough that border emerging parts of Brooklyn are also benefiting. Ridgewood, which abuts Williamsburg and Bushwick, is a prime example of this. In markets like these, per-unit prices could range from $120,000 to $200,000. Investors are beginning to view these types of areas not in terms of their present day value but based on a projection of where they will be five years from now. This creates the opportunity for near-term appreciation as upside is priced into these neighborhoods and even greater longer-term growth in the areas where the projected upside actually occurs.

While the fundamentals that drive the Queens economy remain unchanged, new upside is entering the market. This enables investors to speculate on properties that are likely to increase in value in the future with market fundamentals potentially limiting their down-side risk. With the ongoing growth and evolution of parts of the borough and of adjoining communities, the best is yet to come for Queens.