New York Real Estate Journal
nyrej
THE LARGEST COMMERCIAL/INVESTMENT NEWSPAPER COVERING THE STATE
Tuesday, November 13, 2012 NYREJ.COM

Ariel Property Advisors presents panel on Value-Added Opportunities


Shown (from left) are: Dishy, Dansereau, Shkury, Mermelstein, Shah and Verner.

More than 200 real estate professionals attended Ariel Property Advisors' panel presentation on Value-Added Opportunities in the NYC Multifamily Market at the recent NYC Real Estate Expo. Close to 3,000 individuals attended this year's expo, which was held on October 18 at Columbia University.

Moderated by Shimon Shkury, president of Ariel, the panel featured Richard Dansereau, managing director of the investment management division of Stonehenge Partners; David Dishy, executive vice president for acquisition & investment for L+M Development Partners; Adam Mermelstein, a managing member of Treetop Development; Michael Shah, the founder of DelShah Capital; and Adam Verner, founder and president of Springhouse Partners.

In a ranging discussion, the panelists said they expected interest rates to remain low in the next 18 months, which will drive deal flow; believed current rents are sustainable; were optimistic about the diversification of the New York City economy, and bullish on the multifamily market in 2013.

Dansereau predicted that rents will remain where they are or increase because the barriers to new residential construction have led to a supply constraint, and there continues to be a tremendous influx of newcomers from all over the country and world who want to live in New York City.

Mermelstein said he also is forecasting an increase in rents and said that for professionals living in Treetop's buildings, an annual increase of $50 to $100 is not that significant.

Verner said he believes rent growth will slow down, especially in Manhattan, but that the demand for multifamily buildings will continue to rise, in part because of capital from international investors. He said in today's environment, investors can find an asset with a 5 cap that can be financed in the mid-3 percent range, and with hands-on management the property will appreciate and provide a return in the mid to high teens.

The construction of the CornellNYC Tech Campus on Roosevelt Island may become one of the most significant government initiated projects in the city for owners and operators of multifamily properties because it will result in a more diversified economy that isn't as dependent on Wall Street salaries, Dishy said. Because of its close proximity to the Tech campus and Midtown, he said L+M is bullish on Queens, especially Long Island City and Astoria, he said.

Verner said he's also encouraged by the development of the city's high tech sector and noted that many of the young professionals renting in his buildings in Williamsburg, East Williamsburg, and Fort Greene work in Silicon Alley.

The panelists also shared their observations about how the market is different today than it was before the financial crisis.

Shah said the pipeline for distressed deals is closing and isn't what it was two years ago. He said during the recession his firm sought out properties with special situations--lawsuits, bankruptcies, or foreclosures. DelShah Capital actively purchased non-performing CRE loans in the New York region, completing $100 million in acquisitions since the beginning of the recession.

Investors are more realistic today than they were pre-Lehman and they have reduced their expectations for returns, Mr. Verner said. While before the financial crisis, investors wanted a 20 percent plus return, today they are looking for the mid-teens plus. Also, investors are willing to take lower returns because they know their capital is safer in New York City than in other parts of the world, he said.

Mermelstein said the commercial real estate market in New York City has gone through three stages in the last five years. From 2007-08, there was an irrational exuberance with investors chasing deals with proformas featuring returns in the mid-20 percent range. Post-Lehman, when interest rates were around 6 percent, investors sat on the sidelines and deals were hard to come by. When interest rates began falling, the market heated up again. He said there is a sense of normalcy in the market today and that while prices are high, they make sense.

Dansereau said Stonehenge has adjusted its investment parameters to reflect a broader array of risk, and Dishy said that clarity of the story, a coherent strategy, and a strong management team matters more today than before.

The panelists were optimistic about the future of the multifamily investment market in New York City.

Dansereau noted that New York City is the top or one of the top three destinations for capital in the world and that international investors gravitate to residential investment because it is historically the least volatile of the asset classes. However, international investors lack hands-on management and are, therefore, seeking local partners that can provide expertise.

Dishy observed that in the last five years there has been a transformation in renters in New York City because young professionals are beginning their apartment searches outside of Manhattan below 96th St. — in Brooklyn, Long Island City, or Northern Manhattan. As a result, real estate investors are looking at more neighborhoods.

When it comes to financing multifamily deals, some panelists said they preferred the inexpensive capital provided by Fannie and Freddie, while others preferred to work with savings banks and regional banks such as Investors Bank, Signature Bank, and New York Community Bank.

The panelists also said they have worked with their investors to create exit strategies than make sense so that they aren't forced to sell properties at an inopportune time.

For a gallery of photos from the event, please see http://events.arielpa.com/?value-added-opportunities.

Ariel Property Advisors is a New York City investment property sales firm with an expertise in the multifamily market. The firm also produces a number of research reports including the Multifamily Month in Review: New York City; Multifamily Quarter in Review: New York City; Multifamily Year in Review: New York City; Brooklyn Mid-Year and Year-End Sales Reports; Northern Manhattan Mid-Year and Year-End Sales Reports; and the Bronx Mid-Year and Year-End Sales Reports. More information is available at arielpa.com.