NYC's Multifamily Investment Momentum Will Continue Into 2025

Recent deals and foreign interest suggest a busier 2025 ahead

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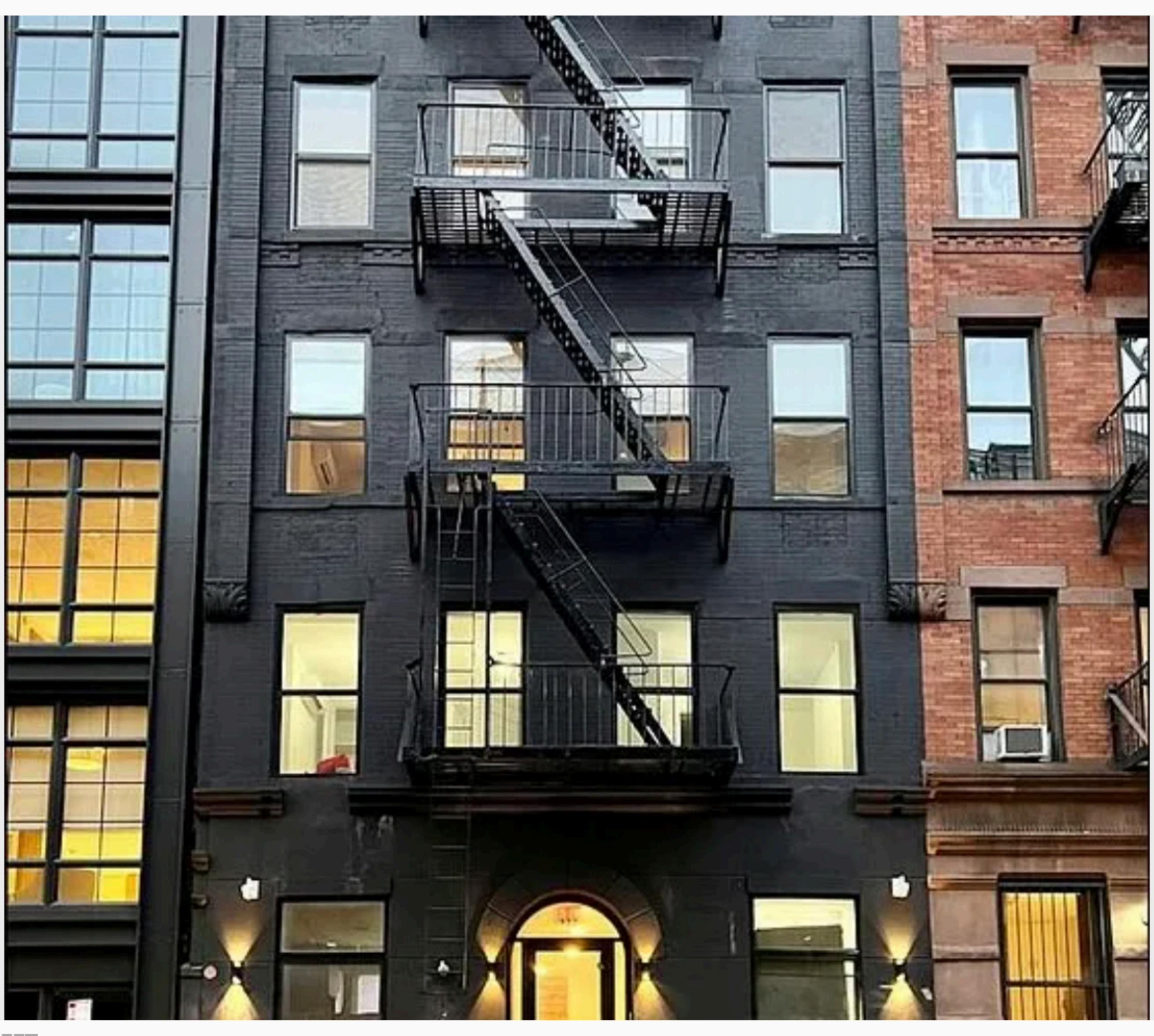

322 EAST 93RD STREET.
PHOTO: COURTESY OF ALPHA REALTY.

New York City's multifamily market is showing clear signs of revitalization. Over the past two quarters, transaction activity has gained significant momentum, particularly with buildings with at least 20 units. In the third quarter alone, transaction volume rose 12.8 percent over the second quarter, which had already seen a 9.2 percent increase. These consecutive back-to-back quarters of transaction growth signal that the multifamily sector is regaining its footing.

The momentum we are observing now is expected to continue well into 2025, too.

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A major catalyst for this uptick is growing investor confidence in potential interest rate cuts. Both private and institutional investors are motivated by optimism that rates will soon decline. Following the recent election results, many investors feel even more positive about economic growth and the likelihood of future rate reductions.

This confidence, however, is causing a slight adjustment in the bid-ask spread in the market. Some potential sellers are pulling back, anticipating higher prices once rates improve. Nonetheless, many buyers and sellers are coming together to finalize deals, ensuring the market remains active.

Additionally, equity that had been sidelined is now reentering the market. Investors, buoyed by the improving economic outlook, are eager to capitalize on opportunities in the NYC multifamily market. This renewed optimism is also attracting a wave of new buyers, further strengthening market activity.

LEV MAVASHEV.
PHOTO: COURTESY ALPHA REALTY

The resurgence of international interest in NYC multifamily assets is another encouraging trend. For instance, 322 East 93rd Street, a new 20-unit multifamily building that we brought to market, recently attracted strong interest from international investors, particularly from Japan and Europe. And, in November, a group from Japan purchased 161-163 East 89th Street, a 30-unit walkup, for $22.5 million, representing a price per square foot of $1,136.

In Brooklyn, we are witnessing foreign capital penetrating deeper into the borough. Historically, international buyers have preferred Manhattan and prime areas of Brooklyn. However, they are now venturing into less traditional areas. A recent example is the sale of 352 Monroe Street, a newly constructed multifamily in Bed-Stuy, was purchased by a real estate investor from Taiwan.

New York's rental market remains a significant driver of this renewed activity and broad appeal. While rents nationwide have declined for 10 consecutive months due to oversupply, NYC has defied this trend. Both Manhattan and Brooklyn recently set new records, with average rents reaching $4,650 and $3,950, respectively. According to StreetEasy, rents in NYC have continued to climb.

This rental resilience, coupled with recent pro-real estate policy changes, is creating fresh opportunities. Initiatives such as the City of Yes and the new 485x tax abatement program aim to spur affordable and mixed-use development. These policies are particularly attractive to investors seeking steady cash flow and long-term appreciation, solidifying NYC's position as a top investment destination.

Despite these positive drivers, regulatory challenges remain a hurdle. The state's Good Cause Eviction bill, passed earlier this year, limits rent increases to the lesser of 10 percent or 5 percent, plus the Consumer Price Index (aka inflation). While the legislation's final form was less restrictive than initially proposed, it adds another layer of complexity to the market. On the bright side, its passage has removed uncertainty, allowing investors to adjust their strategies accordingly.

The lingering impact of the 2019 state rent law changes, however, continues to weigh heavily on the market. These regulations have significantly affected multifamily pricing, creating challenges for sellers. A recent transaction we brokered at 421 West 21st Street in Chelsea highlights this issue. The 36-unit elevator building, with a mix of rent-stabilized and free-market units, sold for $18.5 million —$4 million less than its 2015 sale price, despite income almost doubling over the past nine years.

Ultimately, the deal closed at a 5.75 percent cap rate, reflecting strong demand for cash-flowing assets in prime locations, but the rent-stabilized component clearly handicapped the pricing.

The optimism is nevertheless palpable. Conversations with investors reveal a growing consensus that the NYC multifamily market is on the verge of a strong recovery. The resilience of rental demand, coupled with strategic policy shifts and a favorable economic outlook, makes this an exciting time for the market.

Reflecting on past cycles, there are parallels to the recovery experienced in 2021. Coming out of the early pandemic, rents surged and transaction activity rebounded sharply from 2020's lows. Similarly, the current environment — marked by rising investor confidence, robust rental performance, and a clearer regulatory landscape — suggests we may be entering another period of significant growth.

By mid-2025, we could very well find ourselves in a hot market, akin to the post-pandemic boom. For those who have been waiting on the sidelines, now may be the time to act.

Lev Mavashev is founder and principal of Alpha Realty, a New York brokerage focusing on multifamily.