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Buying for the Future

Investors Are Bullish on the Upper West Side Despite Low Cap Rates

By CARMEL MELOUNY

It may not be as fashionable as Chelsea or as hip as the Lower East Side, but to property investors, the Upper West Side is where it's at right now.

Investors have flocked to the neighborhood, despite very low capitalization rates. The cap rate is calculated by dividing the annual net income of a property by its price to determine what an investment in a building yields.



Andrew Hinderaker for The Wall Street Journal
A view of the five-tower apartment complex at Columbus Square, a portion of which was recently sold for \$530 million.



Andrew Hinderaker for The Wall Street Journal
The exterior of the Chatsworth, a Beaux-Arts building on West 72nd Street that sold for \$150 million.



Andrew Hinderaker for The Wall Street Journal
The commercial real estate at Columbus Square at that same complex.

In terms of commercial real-estate investment sales activity, the Upper West Side is far outpacing the East Village, Chelsea and Williamsburg, according to a report by Eastern Consolidated, a brokerage and research firm.

Multifamily sales volume on the Upper West Side averaged 2.6% of the total Manhattan sales volume between 2005 and 2011, but in 2012, it was 7.1%.

Sales of multifamily rental properties increased threefold in 2012 over 2011. Total volume in all of Manhattan increased only 3% for the year.

While investor interest in the Upper West Side was strong in 2005, it started to drop off in 2006 when other areas such as Chelsea and the West Village drew more attention, said Eastern Consolidated chief economist Barbara Byrne Denham.

"It doesn't have the trendiness of Chelsea, or the night life, but it has families, and long-term residents," Ms. Denham said of the Upper West Side's stability. "Despite low cap rates, investors know it's a good deal. It's definitely a long-term strategy."

Hall Oster, first vice president of sales at Massey

Knakal, closed 12 Upper West Side deals in 2012, the strongest year since the downturn.

"We had properties that traded at almost nil cap rates based on very low rents," Mr. Oster said. "But [buyers] see the future investment potential, they're not looking at it based on today's rent roll."

Massey Knakal is currently handling 14 assignments representing 21 properties in the neighborhood. Wedged between Central Park and Riverside Park, with Columbia University to the north, the geographical limits of the neighborhood mean investors know they are

buying into constrained supply, and their investments will be protected.

Currently, cap rates for elevator buildings on the Upper West Side are between 2% and 3.5%, while walk-up buildings are ranging between 3.5% and 4.5%, said Mr. Oster.

Despite low returns right now, investing in property in areas like the Upper West Side is a stable option, said Mark Scott, president of Commercial Mortgage Capital, one of the most active multifamily mortgage brokers in the tri-state area.

"What are the alternatives? Treasury bonds for 2%, or you could buy [Procter & Gamble](#) stock and earn 4%, or you can invest in real estate and get 3% or 4% now, then when these existing rent-controlled tenants are out, get a much better return," Mr. Scott said.

On New Year's Eve, Manhattan-based property owners Albert and Robert Gilardian of the Gilar Group paid \$47 million for the 12-story building at 2410-2418 Broadway at a cap rate of 1%.

The building, which has 46 apartments and 4,300 square feet of retail space and is situated on the corner of West 89th Street, was sold below the asking price of \$52.5 million. It had been owned for 70 years by a 13-person partnership, M.E. & A. Realty Co.

"There's a very simple answer as to why investors would buy this property at a cap rate of 1%—it has tremendous upside potential. These are five- and six-room classic apartments," said Amit Doshi, executive director of Besen & Associates who handled the deal along with brokers from Eastern Consolidated.

Mr. Doshi said the building has 46 residential units, 71% of which are rent regulated with average monthly rents of \$1,294.

"These apartments have very, very low rents but can go for \$5,000 to \$7,000 a month," Mr. Doshi said. "In the short term you're making 1%, but this building will have a higher cap rate than other buildings being sold at higher rates now within the next five years," he said.

Robert Gilardian, asked why he would invest so much in a property with a 1% cap rate, said: "Basically, we buy for the future."

He added, "We think the rent on that neighborhood is coming up. The appreciation real estate has compared with any other business is really much brighter."

Both real-estate investment trusts and institutional investors have bought into the Upper West Side, said Ms. Denham.

In early 2012, UDR Inc., a multifamily real-estate investment trust, joined with MetLife Inc. to purchase the multifamily portion of the five-tower apartment complex at Columbus Square along Columbus Avenue between West 97th and 100th streets. The price was \$630 million, or \$890,000 a unit.

At the end of the year, Eastern Consolidated brokered the sale of the Chatsworth, the 139-unit, 200,000-square-foot Beaux-Arts building at West 72nd Street. HFZ Capital bought the building for \$150 million from owners who had held the property for more than 70 years.

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