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NYC Apartment Building Sales Plummet With New Rent Law Scaring Off Investors

By Oshrat Carmiel
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Things looked promising for the sellers of a collection of Harlem apartment buildings, listed in April for $260 million. Almost immediately, 150 would-be buyers requested financial details on the 789 units, nearly all rent stabilized. About a dozen investors made offers.

Then the New York state legislature rewrote the rules on stabilized rents, capping the potential for increases, and slashing the property values overnight. Suddenly the suitors of the 28-building "Harlem Ensemble" disappeared faster than they came.

"They called us every day -- and then we couldn't reach them," said David Chase, partner at B6 Real Estate Advisors, whose team marketed the portfolio. The listing, still unsold, will expire at the end of the month, he said.

Multifamily deals came to a standstill as investors got scared away by New York's new tenants-take-all regulations. The rules, governing about 1 million apartments in the city, take direct aim at landlords' income -- and investment returns -- by making it almost impossible to raise rents, remove units from state regulation, or even recoup the costs of capital improvements.

In the first half of 2019, New York City apartment building sales fell 48% from the same period a year earlier, B6 said in a report. It was the biggest decline for any six-month period in data going back to 2009. In northern Manhattan, which includes Harlem, the drop in multifamily purchases led to a 61% slide in all commercial-property transactions, the firm said.

For the full year, the total of all commercial deals citywide -- a figure usually led by apartment buildings -- is on course to fall below 2,000 for the first time since 2011.

“Right now, it’s a shot in the dark on the multifamily side,” said Adrian Mercado, chief information officer at B6. “People are speculating as to what buildings should be trading at.”

One thing’s for sure: They’ll be trading for less than they would have before, said Adelaide Polsinelli, a vice chair overseeing commercial property sales at Compass. Just before the new law took effect, the owner of a Manhattan apartment portfolio, whose listing she had courted for a decade, finally decided to sell. There was one problem: the properties she earlier valued at $30 million were now worth just $20 million.

“I told him to re-evaluate his reasons for selling, and see if he can hold it another five years,” Polsinelli said in an interview, noting that the owner ultimately decided not to sell for now.

In a recent email blast to clients -- titled "What's an investor to do?" -- Polsinelli highlighted listings, such as retail condos and market-rate apartments, that "are not negatively impacted by the new regulations and are worth your serious consideration."

Landlord groups are challenging the rules in court. In a lawsuit against the city, they say the policy places an unfair burden on property owners and violates their constitutional rights.

Left unchanged, the law also would have a sizable impact on the city budget because owners of income-producing properties that have lost value would pay less in taxes, said Paul Massey, chief executive officer of B6 Real Estate.

"You're looking at a potentially $1.5 to $2 billion budget shortfall," said Massey, who sought the Republican nomination for New York mayor in 2017. "I think this administration is ill-prepared for that."