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The Upper East Side Real Estate Market: 2009-Today

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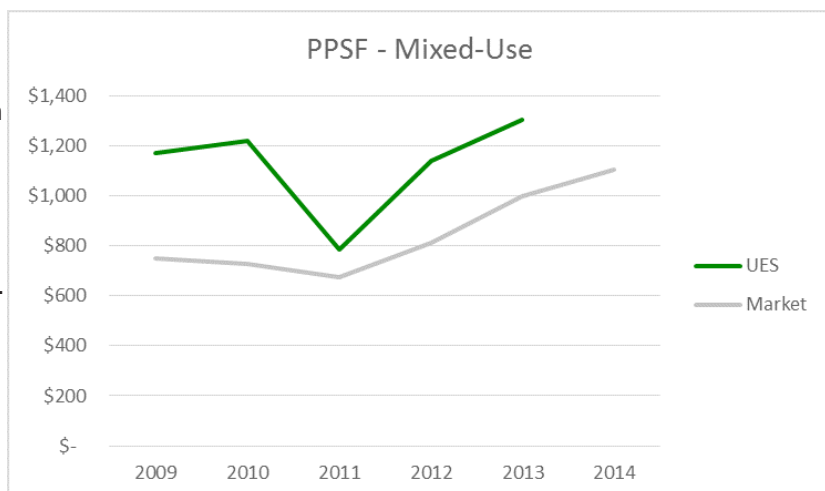
Bound on the west by Central Park and on the east by the East River, the Upper East Side has traditionally fallen between 59th Street on the south and 96th Street on the north. While the core of the market was once the narrow sliver located to the west of Third Avenue, the Upper East Side's high property values have been gradually expanding eastwards towards the river, with higher prices becoming the norm. Given the perceived stability of the Upper East Side, one might assume investors to expect limited price-appreciation. However, in some metrics, the Upper East Side has outpaced the overall Manhattan market over the past five years.

For the period from 2009 through the first quarter of 2014, Manhattan saw almost \$110 billion in sales activity (excluding residential condos and co-ops), approximately 4.1 percent of which came from the Upper East Side. Sales on the Upper East Side are distributed much differently than in the rest of the Manhattan. 1-4 family property sales are much more prevalent there than anywhere else in Manhattan and accounted for 37 percent of 1-4 family dollar volume sold. Additionally, the low turnover rate on investment grade product on the Upper East Side has led to pent up demand and an increase in pricing for these highly sought after asset classes - over the last five years the average price per transaction on the Upper East Side was \$23.5 million consisting of 192 transactions (218 buildings). Thus far in 2014, the average price per transaction on the Upper East Side is up 21 percent over its five year average equating to \$28.4 million per transaction with 12 transactions closed.

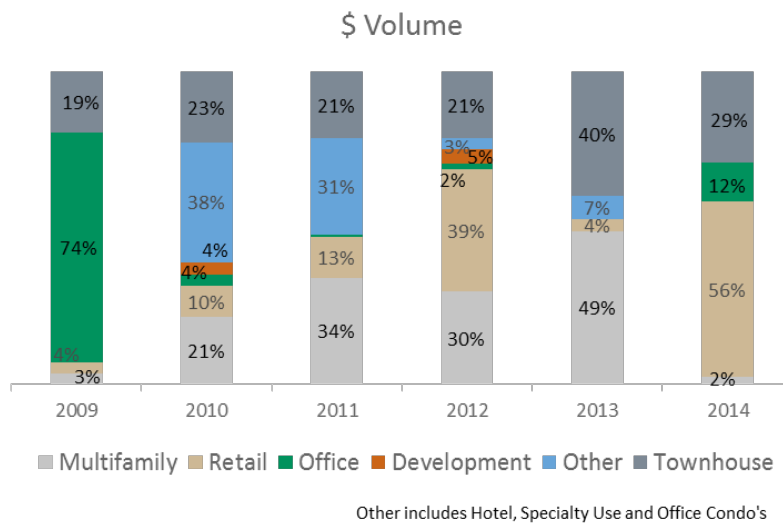
Looking at transactions for which cap rates were available across all Manhattan submarkets and property types, the average transaction between 2009 and the first quarter of 2014 traded at a 4.97% cap rate. On the Upper East Side, the average cap was 4.42%. There is a sense of stability on the Upper East Side which tends to attract long term investors looking for stable returns. This stability contributes to strong downward pressure on cap rates and higher prices. A dramatic example of this took place in March when Chanel bought its 3,700 square foot location at 733-739 Madison Avenue for \$123.8 million equating to a 2.78% cap rate and \$33,459 per foot.

Analyzing all property types, the average price per square foot ("psf") of properties sold between 2009 and 2014 in Manhattan was \$1,034 psf and is up to \$1,305 psf in 2014. Over the same five year time period the Upper East Side averaged \$1,576 per foot and is up to \$1,963 per foot in 2014; also 21 percent above the five year average. This growth rate is actually faster than that of Manhattan as a whole when comparing the growth from the market low in 2009 to prices seen in 2014. Values over the entire island grew by 40.3% from \$930 in 2009 while the Upper East Side grew 49% from

\$1,314 since 2009. The increase in price per square foot value on the Upper East Side is largely driven by single family townhome properties. On the high end of the market there have been four notable single family home sales recently that all exceeded \$3,500 per square foot. With an average price per foot of \$2,175 in 2014, this sector has seen an increase of 72% over 2009 and 11% from 2013.



From 2009 through the first quarter of 2014, Manhattan saw \$10.98 billion in new development while the Upper East Side saw just \$84.2 million. This represents less than 0.8 percent of the dollar volume produced in the development sector. Development sites accounted for 1.9 percent of dollar volume sold on the Upper East Side, compared to 10 percent that the sector generated in Manhattan south of 96th Street. This stat may be misleading because while ground-up development is not as prevalent on the Upper East Side, the area has had several notable condo conversions recently such as Manhattan House- 200 East 66th Street (534 units), 150 East 72nd Street (22 units), and The Marquand – 11 East 68th Street (26 units). Given the high demand for units and relative lack of new, competing ground-up development, the Upper East Side remains a relatively secure place to own.



The Upper East Side has historically been seen as one of the safest submarkets to invest in, showing consistent production both in terms of dollar volume and transactional volume. Also, the nearing completion of the Second Avenue subway (phase 1 scheduled for completion in December 2015) will only bolster activity and draw investors east as fundamentals improve and valuations begin to account for it. Traditionally, safer investments offer less return potential, however the Upper East Side has bucked this trend, offering a unique market which is less volatile than others in the city, while still outpacing the overall market in some metrics over the past five years.