How will America’s new rating affect owning multi-family buildings?

The recent S&P downgrade of the United States debt is symbolic in nature, as the threat of a downgrade has been on the table for months. It is common knowledge that the United States was going to have trouble paying its future obligations. We need to remember that the debt is AA+, not junk, and it is unlikely the country is going to default tomorrow.

What impact will the downgrade have on the ownership of NYC multi-family buildings? We do not see any added risk due to the downgrade of the USA debt. While American homeownership continues to decline, at the end of the 2nd quarter it stood at 66%, down from a record of 69% in 2004. Every 1% decline represents a movement of 1 million households into the rental market, an optimistic outlook for the landlords in the future.

This ongoing demand for rental housing has enabled landlords of multi-family buildings to raise rents in many markets across the nation. A USA credit downgrade may slightly raise financing costs, however purchases of multi-family buildings located in New York City remain one of the few, if not the only, real estate asset class that have many willing lenders able to extend low fixed rate financing with no recourse to the borrower.

We remain buyers of New York City based multi-family buildings with existing rent roll well below free-market rates. We model each deal on a conservative basis with rent roll only increasing 2 to 3% a year. History however shows it is realistic to expect a higher return. Just last year the NYC Rent Guidelines Board voted to increase annual rent for rent-stabilized leases by 3.75% for one-year renewals. There also exists more upside in the natural turnover for many rental units that operate under rent regulation.

Please contact us if you are interested to learn more about investing in NYC multi-family real estate assets.

Sincerely,

Michael Mikelic, CCIM
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