

# Real Estate Update

## Should you Own Multifamily buildings in this Market ?

Michael Mikelic, portfolio manager for King Penguin Properties, believes the timing couldn't be better to get involved financially in multifamily dwellings.

Out of the past 16 years 2010 was the best year nationwide for multifamily leasing. Expecting that 2011 could be even better, Mr. Mikelic feels its time to buy - and is doing just that. King Penguin Properties is now under contract on its fourth property this year. Mr. Mikelic's main focus is buildings in Upper Manhattan . Here he feels he can find tremendous growth opportunity.

According to the National Association of Home Builders there were 267,700 new units leased last year in the entire United States, second only to 2009 with 283,400 units leased. With the credit markets still tight many potential homeowners are restricted from obtaining traditional financing and therefore are being forced into the rental market. This trend will spur growth in that sector. Mr. Mikelic feels that demand for multifamily housing will continue to remain strong.

The "American Dream" of owning a home in the United States, in place since the end of World War II and promoted and encouraged by politicians, is now being reevaluated.

Many Americans today cannot afford the sufficient down payment and can't get traditional financing. Many former homeowners are now disenchanted with owning a home or have had a bad experience with homeownership. King Penguin believes these trends in preference for renting vs. owning could stay in place for a generation. A basic human need is shelter and people will need to live somewhere.

King Penguin views this as an opportunity for those who own multifamily buildings. Demand is now outpacing the supply of rental housing causing rents to increase. This trend should now remain in place for some time.

This phenomenon is also occurring in other parts of the world that have seen a massive decline in home property values. For instance rents in central London can expect increases of eight to 10% in 2011 following a record increase of 19.1% in 2010. Expect NYC to trend much higher as well, says portfolio manager Michael Mikelic.

### Manhattan Report

Recent sales in  
Upper Manhattan

During the most recent month's data ( April) there was a total of 11 properties that changed hands in Upper Manhattan at a price of one million or more.

These properties represent a total value of \$37.74 million at an average price per square foot of \$131.00. The average price per unit is \$123,441.



## WHAT'S HAPPENING IN THE FIVE BOROUGHS

**The vacancy rate in Manhattan fell again** in May to 0.7%, the lowest level in five years. Average rental prices in Manhattan are now near their 2007 peak at \$3,353 per unit (this includes averages for all one-bedroom, two-bedroom, and three-bedroom units).

**L+M Development plans to build** almost 200 new units on Fifth Avenue and East 117th Street raising protests from local Community Boards in the area. They say this development will tear down the basketball courts that now are present on that location earmarked for development.

**Hamilton Heights is hot** as Columbia University is breaking ground on a satellite campus in Manhattanville, a massive Columbia expansion project. Hamilton Heights encompasses the area from the Hudson River to Edgecombe Avenue, from West 133rd Street to West 155th Streets. You can buy the existing square footage including finishes for less than half the price of comparable buildings in the West Village or Chelsea. With this massive

Columbia expansion will come many developers ready to build new luxury housing. Expect this area to trade higher in values over the next five years.



### NYC DUBBED "SILICON PARK"



NYC continues to diversify employment away from the financial industry. Since 2005, tech related jobs have become an increasing percentage of the overall jobs in the Big Apple. Finance related jobs now account

for less than 50% of the total jobs in NYC, down from over 65% of the total in 2005. Since 2009, \$3.4 billion in new capital has been raised for technology related companies that are based in NYC. This money used to flow back to Silicon Valley in California but now an increasing portion of it is staying right here in NYC.

"Silicon Park" is the new nickname being given to tech companies located in the 10016 zip code and along Park Avenue South in streets located in the 30s.

Gilt Group is one of the largest of this new group as they now command over a one billion dollar valuation.



### NEW YORK CITY'S FIRST CASINO

is now being built at the Aqueduct Race Track in Ozone Park, a neighborhood in southern Queens. This casino resort will be called Resorts World New York and will sit on 192 acres and be developed by Genting New York. The casino is expected to bring in 1,150 new permanent jobs.



*Multi family - 20 unit building located in High-bridge Park.*

**KING PENGUIN PROPERTIES IS A BUYER!**

We are currently looking at this 20 unit residential building located in upper Manhattan near the Yeshiva University and High-bridge Park . we are able to bring these below market rents closer in line to current market levels.

All 20 units are rent stabilized with 50% being significantly below free market rents .

The free market rent for a typical large 3-bedroom unit for a walkup building is well above \$1650 a month while the average rent in this building is 50% below this.

KPP would seek to acquire this 17,500 square foot property for around \$100 per a foot or for under 7x the Gross Rents that this property now generates on an annual basis.

This price would represent a 6.3% capitalization rate with upside if

**Newly Constructed Mixed-use 13 unit building**



This 15,250 square foot newly constructed building with an elevator is fully occupied and consists of five ground floor retail spaces, three second floor office spaces, and five free market residential units. This building is near the New York Botanical Gardens and the Bronx Zoo and only a block away from the subway.

KPP would seek to acquire this building for a higher capitalization rate of above 9%. This building provides less potential upside on the exit strategy compared to other Upper Manhattan deals we are looking at, but will provide a higher current cash flow component.

## King Penguin Host a private gathering at Le Cirque in NYC



### Upcoming Events

#### August-

*Bridge Hampton Library-*

Learning the ins and outs of commercial real estate.

#### September-

*Bobby Van's Steak House-*

Buying Distressed Notes

#### December-

To be determined- Holiday Party

Please email us at [info@kpp.us.com](mailto:info@kpp.us.com) for more information on any of these



For More Information about King Penguin please visit our website at

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