Is the hot New York real estate market sustainable?

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New York is a leading wealth haven for real estate investment by global capital. In an ever-expanding trend, investors from around the world are acquiring New York real estate in pursuit of both capital preservation and return on investment.

Increasing numbers of global investors are content with only modest returns on their capital invested in real estate–as opposed to higher risk/higher return investments–in order to secure the perceived safety of New York. The high demand for owning real estate assets in New York is reflected in the current valuation of New York properties at over $1 trillion.

Due to global instability in areas such as China, the Middle East, Eastern Europe and Latin America, both institutional and private investors, as well as sovereign wealth funds, are concerned about issues such as political instability and currency risks. Although New York City is perceived as a primary safe haven, other prominent cities in the U.S. including DC, Boston, San Francisco, Los Angeles, and more recently, Miami are also attracting billions of investment dollars.

This trend has major implications for real estate prices and sustainable levels of investment. Lower "cap rates" have become a new reality. The one part of the New York real estate market that is currently viewed as somewhat "overheated" and risky is high-end, high-rise condo development. Boutique condo developments or projects of 50 or less units (with a particular market focus or creative edge) priced at or under $3,000 per s/f, have been less affected. Although land prices remain at very high levels, values have also been impacted by the slow-down in high-end condo development. Other asset classes remain relatively stable with rental residential, mixed-use, office and retail being the most sought-after assets for foreign investors – although high-end retail is also beginning to be perceived as somewhat overpriced.

So back to the question: is the growth in the New York real estate market sustainable? So far, given the mix of risks and opportunities around the world, New York remains an attractive and compelling investment environment.

However, there are caution signs on the horizon, and access to experienced professionals who have been through the key real estate cycles over the past twenty years is of critical importance to understand the realities, implications and sustainability of the current cycle. Less experienced real estate professionals do not have as deep and realistic a view of the many factors that could affect the continued flow of investment capital into New York/U.S. real estate. If there are future events that affect global capital markets or substantive changes in interest rates, a "bubble" could be created which has the potential to rapidly burst.

All of the above are factors/realities that global investors should consider in evaluating real estate investment in New York and the U.S.

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Airbnb by Kennedy

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restrictions and penalties of the new law "will make it more difficult for city residents to use home-sharing to help pay their rent or mortgage, making the city less affordable for city residents, contrary to the laws purported justifications of addressing affordable housing issues…"

For those interested in numbers, Airbnb states in its complaint that there are approximately 46,000 hosts in New York who post listings on Airbnb, and that the typical New York host earns about $5,300 in income. Based upon those numbers, home-sharing hosts in New York are generating at least $244 million in revenue annually from these short-term rentals.

Airbnb is purportedly the world's fourth most valuable startup and was valued recently at $30 billion.

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