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NEW YORK

Long Island City Condos Catch Eye of Investors Cooling on Manhattan

At least a third of all new condos sold since 2017 in the neighborhood have been purchased by investors

Many of the new investors in Long Island City are looking for lower-priced apartments—those with tax abatements and low maintenance cost. PHOTO: RICHARD B. LEVINE/ZUMA PRESS

By Josh Barbanel

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As apartment sales slump, fewer investors are snapping up new condominiums in prime Manhattan locations, but they have been on the prowl for bargains in less expensive neighborhoods, such as Long Island City in Queens.

In Manhattan, many investors have been scared off by high prices, weakening sales and flat or declining rents, brokers say. But in Long Island City at least a third of all new condos sold since 2017 have been purchased by investors, according to a new study of sales there.

That is a far higher share of investor sales in Long Island City, a once-gritty neighborhood, just across the Ed Koch Queensboro Bridge from Midtown Manhattan, than in new developments across the city, and even in Long Island City a decade ago.

Many of the new investors in Long Island City, and other similar locations, are looking for lower-priced apartments—those with tax abatements and low maintenance cost—in places where rents and sale prices have been rising, said Patrick W. Smith, a broker at Stribling & Associates, who has studied investor sales trends there.

"There is a significant discount compared to Manhattan," he said. Investors, he said, are drawn to waterfront parks and new restaurants, just as owner-occupants are. "They feel the area has room to grow in terms of desirability."

Eric Benaim, founder and chief executive of Modern Spaces, which represents condo developers at the Harrison LIC, the Monarch, the Jackson, and other new developments in Long Island City, said that investors aren't looking to buy and flip, but are betting on the future of the neighborhood.

> "They like it because they get good rents when they rent it out and they believe in the appreciation of prices in the neighborhood," he said.

Measuring investor purchases is a knotty problem. Jonathan Miller, an appraiser and president of Miller Samuel Inc., said that during a peak luxury market around 2014, about 25% of new development sales were by investors, based on an internal survey of brokers at closing in one large Manhattan-based brokerage.

More recently the same survey showed the share falling roughly in half, he said. Many of these earlier investors bought expensive Manhattan apartments and made them luxury rentals, causing a glut of such premium units. Since then, many international investors, especially from China and Russia, have left the playing field, Mr. Miller said.

“It is pretty universal that investor activity isn’t what it once was,” he said.

The new figures for Long Island City by Stribling & Associates count a purchase by an investor if the same new unit was listed for rent within six months of the closing. It excludes investor units that many have been rented privately without a broker.

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During the first wave of development from 2006 to 2010, 8% of purchasers were by investors, the analysis found. Year to date in 2018, 33% were investor purchases.

Rising mortgage rates have raised the cost of ownership of an apartment, but about half of investor sales were cash only, without an initial mortgage, compared with 20% for owner-occupied units. Investor units were also more likely to be less-expensive studio and one-bedroom apartments than owner-occupied apartments.

Andrea Pedicini, a broker at Citi Habitats who works with many Italian investors, said that in the current market with weakening prices and rents, he favors lower-priced resale apartments, and new developments outside of Manhattan.

He said Manhattan new development prices have further to fall. “The market has changed deeply over the last 12 months,” he said.

Mr. Pedicini said his investors are typically looking for a 2.7% annual return on their investments, but in Long Island City, investors who purchased two recent apartments could expect a 3.5% return, while they wait for their condos to appreciate in value.

To get the higher return investors are relying in part on tax abatements, including a program known as 421-a that reduces tax bills that would otherwise take a big bite out of rental income. Most new condos in Long Island City have abatements but some newer ones don’t.

Of seven new Long Island City buildings with closings since 2017, 36% of those in the five buildings with the abatement were purchased by investors, compared with 9.4% in buildings without it.

Amber Barth, a senior program officer at a United Nations agency, lives in Long Island City, and in 2013 she bought a second apartment as an investment at the View, an 18-story building facing the East River.

Ms. Barth said that she is roughly breaking even on rental income from the three-bedroom unit, despite an abatement under which she currently pays no taxes. At the same time, she said the apartment’s value has shot up as the neighborhood changed.

“I am amazed,” she said.