



THE COMMERCIAL OBSERVER

July 23, 2013

THE WEEKLY NEWSPAPER OF NEW YORK'S COMMERCIAL REAL ESTATE INDUSTRY • COMMERCIALOBSERVER.COM

\$7.00

CONCRETE THOUGHTS

Property Sales Volumes Down, Values Continue Soaring

First half of 2013 performing as expected; second-half upswing underway

The recovery in the property sales market continues to outpace the recovery in the broader economy and is, in fact, performing better than the recovery in commercial real estate's underlying fundamentals would dictate. Last year was a banner year and therefore this year is lagging comparatively, but activity is better than we had in 2011, a year in which we were all feeling very happy.

In the first half of 2013, there was \$13.3 billion of investment sales activity. On an annualized basis, this \$26.6 billion figure is running at a pace that is about 35 percent below last year's \$41 billion. It is, however, comparable to 2011, when there was about \$28 billion in sales. In 2012, we saw significant increases in volume due to many sellers rushing to beat the capital gains tax increase. While dollar volume is lower thus far in 2013, it is important to remember that in 2011 participants in the property sales market in New York City were feeling great, and we are on about that same pace this year. Additionally, we believe that activity will pick up significantly in the second half of the year, and we stand by our projection, made at the end of 2012, that investment sales volume will be about \$40 to \$41 billion this year.

Not surprisingly, the Manhattan



Robert
Knakal

submarket accounted for 79 percent of the dollar volume of sales in the first half of 2013. What was a surprise was that the northern Manhattan submarket accounted for \$550 million in sales, more than the total in both Queens and the Bronx. Only about 4 percent of the buildings in New York City are in northern Manhattan, as opposed to 13 percent

and 27 percent, respectively, for the Bronx and Queens. Therefore, the sales volume in northern Manhattan is a noteworthy statistic.

With respect to the number of buildings sold, there were 1,343 properties sold in the first half of the year. This leads to an annualized projection of 2,686, which is running about 34 percent below the 4,066 that traded in 2012 but is well ahead of 2011's 2,031 properties sold. Of the properties sold in the first half of 2013, the majority were in Brooklyn, which had 526 sales. This is not surprising given that there are more buildings in the Brooklyn submarket than

anywhere else (39 percent of all properties in the city).

With respect to the total turnover in the market, the annualized total of 2,686 would lead to a turnover ratio of about 1.6 percent of the total stock of about 165,000 properties in Massey Knakal's statistical sample. This figure is down from last year's 2.5 percent turnover ratio but is ahead of the 1.4 percent turnover in 2011. With respect to individual submarkets, Manhattan was running at about 2.3 percent of the total stock of properties, below the long-term trend of 2.6 percent. Remarkably, northern Manhattan had a 3.8 percent turnover ratio in the first half of the year, the highest turnover ratio ever seen in the northern Manhattan market. Queens and the Bronx had extraordinarily low turnover, at 1.1 percent and 1.2 percent respectively.

With regard to the average price of a property sold in the first half of 2013, the average was \$9.9 million, down just slightly from the \$10.1 million average observed last year. We expect this average price to increase significantly in the second half of the year, as there are several large office transactions pending that will add to the average tangibly. In 2011, the average sales price hit an all-time record of \$12.5 million.

With respect to values, oddly, the average value per square foot seen citywide in the first half of this year was \$470 per square foot, exactly matching the 2012 average. This is difficult to rationalize, and we believe, based upon the transactions that were closed in May and June and those presently under contract, that the statistics will show a sharp rise in average value in the second half of the year. The first-half average was produced by an average for the first quarter that was actually lower than the 2012 average. The only way to rationalize this is that lower-quality assets made up a disproportionate percentage of sales in that quarter. In the second quarter, values were well over \$550 per square foot on average. We expect this dynamic to continue and that values will be up over 2012 totals this year across the board, with each product type in every geographic submarket, hitting new all-time records on a price-per-square-foot basis.

rknakal@masseyknakal.com

Robert Knakal is the chairman and founding partner of Massey Knakal Realty Services; in his career he has brokered the sale of more than 1,300 properties with a market value in excess of \$9 billion.