Last Updated: January 19, 2011 04:25pm ET

INDUSTRY RESEARCH

Sales Numbers Hold Some Surprises

By Paul Bubny

Knakal

NEW YORK CITY-"From a psychological perspective, there's a much better vibe in the market," Massey Knakal chairman Robert Knakal said Wednesday at a year-end media briefing, an assertion few would dispute. He added, however, "The numbers tell a different tale," one with a few surprise twists.

Dollar volume of property sales across Manhattan, the Bronx, Brooklyn and Queens for 2010 was $14.5 billion, up 131% compared to 2009, according to Massey Knakal. However, '09's total citywide volume of $6.3 billion was dwarfed by a single 2007 transaction—Macklowe Properties' $7.2-billion purchase of the Equity Office portfolio—so the increase this past year proceeded from a relatively small base. Dollar volume for '10 was still off the '07 peak of $52.5 billion by 77%, Knakal said, while the turnover rate of 1.01% of total inventory was better than '09's figure of 0.8% but well below the historical average of about 2.6%.

Mitigating that shortfall was note sales, which figured so prominently in the past year's investment sales market that the actual gain over '09 might have been more than 300%. Exactly how much more is difficult to ascertain, said Knakal, because note sales do not have to be recorded publicly, unlike property sales.

He estimated, however, that the '10 total across the city was on the order of $6 billion to $7 billion. As a frame of reference, Eastern Consolidated put this past year's investment sales tally for Manhattan alone at $15.3 billion, with note sales figured in.

A fact reflected both in Massey Knakal's year-end report and Eastern Consolidated's fourth-quarter summary was the great improvement Q4 represented over Q3. Knakal attributed the increase in large measure to investors' concerns about a capital gains tax hike that didn't actually occur and to banks' desire to clear distressed assets off their books by Dec. 31.

For Massey Knakal in particular, December's one-month total of approximately $221.2 million marked the company's best four-week period since March 2008. However, the quarter-to-quarter leap citywide pointed to what Knakal called the continuing volatility of the market.

Q3 was "disappointing" after a strong start to the year, with every borough except the Bronx weakening compared to Q2. Accordingly, Knakal predicted that Q1 of 2011 will represent a falling-off from the prior quarter, but that the market will gather strength as the year goes on, finishing with a projected $22 billion to $25 billion citywide.

Given the significant increase in bigger-ticket assets changing hands in '10, it would stand to reason that values were up across the board after bottoming out in '09. In fact, Knakal said that on a price-per-square-foot basis, they declined 8.4% compared to '09 and will continue falling throughout this year. "There are many more non-core assets than core assets in the market," he explained.

That continuing imbalance between demand and supply is one of the factors to keep an eye on this year. "If we had five times the number of buildings to sell, we'd sell five times as many buildings," said Knakal.

Other issues that could create turbulence in '11 include rising interest rates, the unemployment rate, the still-troubled housing market and an increase in distressed activity. The latter spells opportunity as well; Knakal predicted that note sales will be "great" this year before turning to REO liquidations by 2012.

The investment sales market also has a number of factors working in its favor, Knakal said. Despite the quarter-to-quarter volatility, transaction volume is trending upward, as are market fundamentals. Businesses have become far more profitable, although this has yet to translate to an increase in hiring. Households have been deleveraging "massively," shedding about $1 trillion in consumer debt in '10. Bank loan originations are up, albeit less so on the commercial lending side. The level of economic activity has not been commensurate with the nation's demographics, meaning that a rise in GDP is inevitable. Finally, the Federal Reserve's monetary policy has been largely successful, "if not always in the ways that they predicted it would work."

Categories: Northeast, Multifamily, Office, Acquisitions/Dispositions, New York

RELATED CONTENT

New York
- **WEBINAR**Around the World of Opportunity and Risk
- **Northeast DEAL-WRAP**Apthorp Retail Condo Trades for $37M
- Restaurant Leases Space in Durst Organization Tower
- **INDUSTRY RESEARCH**Trophies Regain Luster—and Pricing
- Plan for Homeless Shelter on Upper West Side Hits a Snag

Events & Networking
- Unearthing Opportunity in Retail
- IOREBA Annual NYAC Dinner
- RealShare Philadelphia
- NAIOP NJ Annual Meeting and Real Estate Forecast
- REBNY Annual Banquet

Webinars
- Understanding Distressed Asset and Real Estate: The New Paradigm LIVE Webcast

Distressed Assets
- What Lies Ahead?
- The National Distress Picture
- Digging for Distress

GlobeSt.TV Videos
- **CAMPUS APARTMENTS' BERNSTEIN**Student Housing: Not 'Animal House' Any More
- **ON LOCATION WITH HIDROCK REALTY'S HIDARY**Buying and Selling Isn't Slowing Down
- **ON LOCATION WITH FAITH HOPE CONSOLO**Expect a Bang-Up Holiday Retail Season
- **ON LOCATION WITH PREIT'S CORADINO**PREIT's Coradino Sees Less Tenant Distress
- **ON LOCATION WITH KEYBANC'S WOOMER**REITs Go on the Offensive