Capital Starts Coming Off the Sidelines

Last Updated: July 14, 2010 05:23pm ET

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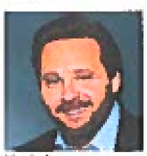

Knakal

NEW YORK CITY-Time to celebrate when the investment sales market citywide is off 82% year-to-date from the peak? It is when that figure represents a substantial improvement on the year prior.

The $6.5-billion YTD in sales of properties worth more than $500,000 each may be only a fraction of the dollar volume seen in 2007. But it's already $200 million more than the total for the entire year of 2009, Massey Knakal's principals said at a press briefing Tuesday morning.

"Clearly we're past the trough in terms of dollar volume, which very transparently was the second quarter of '09," said chairman Robert Knakal. Similarly, the number of closed deals is up by as much as 87% from the first six months of last year, depending on the borough.

Naturally, there are still negative indicators along with the positive. In the Bronx, for example, YTD volume is actually lower than the first half of '09, said Shimon Shkury, the Massey Knakal partner in charge of that market as well as Northern Manhattan. In Brooklyn and Queens, managing director Ken Krasnow said, the volume gains came at the expense of lower prices in several sectors.

Regardless, the pool of potential buyers is getting crowded again. "A lot of the capital on the sidelines isn't on the sidelines anymore," said Knakal. Foreign and domestic buyers, as well as institutional capital, all are becoming active again, he said.

Also re-entering the marketplace are sellers that aren't

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motivated by distress. "When we saw volume fall off the table in '09, it was symptomatic of the fact that volume is driven by discretionary sellers," said Knakal. "As prices began to decline, those who didn't absolutely have to get rid of a property took a look and said 'why should I sell now?'"

Distressed sales will begin happening more frequently, though, if not in the deluge once forecast. Founding partner Paul Massey said Massey Knakal's special assets activity currently encompasses 43 assignments worth a total of $125 million.

He said the company is enjoying particular success with non-performing loan sales, which it doesn't count as part of its property-sale tallies. They're averaging more than 82% of the estimated value of the collateral on these loans, said Massey.

Some of the influences on pricing haven't behaved YTD in quite the ways that forecasters thought at the outset of 2010, Knakal said. Inflation has generally been kept in check, and in fact deflation is more of a potential threat, he said. The Federal Reserve's exit from the market, which was predicted to have a negative influence on prices, thus far hasn't had that effect. However, the firm

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The volume of capital coming off the sidelines will boost pricing, Knakal said, as will the turmoil in European markets. The latter will not only bring European investors to what they see as the "safe haven" of quality US assets, but will also help keep interest rates down.

With these favorable influences in mind, coupled with the inevitable rise in distressed activity and the likelihood that capital gains tax hikes will motivate sellers, Massey Knakal has revised slightly upward its projections of property turnover for the year. The firm started off '10 by predicting turnover of 1.2% to 1.6% depending on the borough and property sector; on Tuesday, Knakal said those estimates now range from 1.2% to 1.3% generally and from 1.8% to 2% for Manhattan.