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Development Sites Are Selling Again

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Knakal

NEW YORK CITY-First-quarter investment sales across Manhattan and the outer boroughs excluding Staten Island were up 45% year-over-year to $3.9 billion, Massey Knakal Realty Services chairman Robert Knakal said at the firm's quarterly press briefing Tuesday. Of particular note, development sites are on the investment sales map again, after virtually disappearing from view at the depth of the downturn. The increase is especially pronounced in the outer boroughs.

"New York City is fundamentally an under-built market," said partner James Nelson, in response to a GlobeSt.com question on whether the return of land-parcel sales portended a resurgence of interest in development. He cited the dearth of new office construction, and noted that even at the height of the multifamily building boom, New York City was adding new housing units at a far slower rate relative to its size than other markets nationwide.

However, even with lenders starting to come back into the construction-finance arena, developers will still need incentives to make projects viable. Noting the tax rate for multifamily properties compared to that for single-family homes, Knakal said an extension and expansion of the 421a tax abatement program would be necessary to spur apartment development. Currently large swaths of the city, including all of Manhattan, are outside the "exclusionary zone" for 421a benefits.

As for sales of existing properties, Knakal noted that the Q1 tally was 30% lower than Q4 2010, as expected. Helping to juice up velocity during the last three months of last year were banks' desire to get transactions off their books before Dec. 31 and investors' concerns over possible increases in capital gains taxes. "These things typically steal demand from future periods," he said.

Aside from Northern Manhattan, where volume declined more precipitously, the number of sales fell by an average of only 5% compared to the previous quarter. The gap between dollar volume and the number of transactions can be explained by smaller properties changing hands in a market that is still well below the level of 2007, when New York City saw $62 billion worth of properties trade in a 12-month period.

Even so, Knakal said values "are clearly trending up" on a price-per-square-foot basis. And that's true not only for core assets, at least in Manhattan, which accounted for 79% of the Q1 dollar volume with $3.1 billion worth of sales.

Among 10 trends to watch this year, Knakal projected an increase of 40% to 50% in annualized dollar volume compared to '10. The number of buildings sold will be up about 20% for the year, while inventory will be up between 30% and 35%.

The most active borough will actually be a portion of another borough: Northern Manhattan, while Manhattan will be the best performing. Retail "over-corrected" during the downturn, Knakal said, and there will be a 30% increase in retail values this year. A handful of retail deals north of $10,000 per square foot is a possibility, he said.

An "insatiable appetite" for multifamily will lead to a 50-basis-point compression in cap rates, Knakal predicted. Development site sales will increase this year, although the price per square foot will be down. Conversely, the per-square-foot price of Manhattan office assets will increase about 20% year-over-year.

The biggest concern, one that overshadows all of the positives Knakal cited, is the direction of interest rates. Driving that concern is the question of whether the Federal Reserve tightens interest rates faster than it should—a possibility if job-growth numbers are overstated, he said. Even so, said Knakal, the polarity of opinion in the market over pricing and values will lead to "a great trading environment" during 2011.

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