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NYC Bldg. Sales Outpace Economy

By Paul Bubny | New York

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Knakal: We may already be in a CRE "asset bubble."

NEW YORK CITY-The investment sales picture, especially in New York City, has belied the still-sluggish recovery in the broader economy, Massey Knakal Realty Services said Tuesday in a press briefing summing up the first half of 2013. It's also outperformed the underlying fundamentals in commercial real estate, said chairman **Robert Knakal**.

"The market really has been remarkable" and in fact has been performing better than the statistics would indicate, Knakal said. On the value side, there have been compression in cap rates and increases in price per square foot, "but the data don't yet accurately reflect that."

With property sales across Manhattan and the outer boroughs except for Staten Island totaling $13.3 billion for the first six months of the year, annualized volume of about $26.5 billion would be 35% below the 12-month total of $41 billion seen in 2012. Yet Knakal predicted that this year's second half would see a great increase in dollar volume, bringing the full-year tally into line with last year's.

He also noted that last year was exceptional, especially the fourth quarter, when concerns about increases in the capital gains tax fueled an explosion of investment sales. A more favorable basis of comparison would be with 2011, a year that began with a mood of optimism before events ranging from the euro zone crisis to a pullback in the CMBS market put the brakes on sales in the second half of '11.

Looking ahead, Knakal cited the **Federal Reserve**'s prediction of an acceleration in **GDP** growth to 3.3% in 2015. That would be nearly twice the anemic 1.8% growth rate seen in the first half of this year.

Eventually, he noted, interest rates would have to start accelerating, as well; the current low-rate environment is not sustainable given the federal government's fiscal policies. Knakal predicted that Fed chairman **Ben Bernanke** would continue sending out "trial balloons" such as his recent prediction that the Fed would begin "tapering" on its current round of **quantitative easing**—a prediction that caused the market to react violently. As market reactions to Bernanke's comments become less dramatic, Knakal said, the Fed would accordingly become less interventionist.

With much of the investment sales activity driven by the low cost of debt, and office now joining other property types in pricing that matches or exceeds the 2007 peak, Knakal said, the argument could be made that we're already in an "asset bubble" in CRE. However, buyers' motivations may be changing, noted **Guthrie Garvin**, VP of sales, who discussed Manhattan investment sales below 96th Street. "People are buying because they see future growth in the rents," Garvin said.

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About Our Columnist

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