

Home » Deals & Dealmakers, Featured

Investment sales volume up 45% to \$3.9 billion in first quarter

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Robert Knakal, Massey Knakal

By Roland Li

Citywide investment sales volume increased by 45% to \$3.9 billion in the first quarter of 2011, compared to the same period of time in 2010, according to a report released on Tuesday by Massey Knakal Realty Services.

In Manhattan, 137 properties were sold, an increase of 10% compared to the previous quarter, but dollar volume was down 37% to \$3.07 billion, compared to the fourth quarter of 2010.

Still, Massey Knakal said that price and volume trends indicated a continued resurgence in the sales market, but a stubbornly low turnover rate of just under 2% has led to a perpetual lack of inventory

"The big challenge for us has been lack of inventory," said James Nelson, a partner of Massey Knakal. He said the firm's listings have dropped in recent years from 750 buildings to its current portfolio of 475

properties.

Office buildings accounted for 41% of Manhattan's sales by dollar amount, while one-to-four family properties were 19% of the number of transactions, with investors described as having an "insatiable appetite for multifamily."

Manhattan retail was described as a surprisingly strong market, comprising 16% of sales by dollar value.

Robert Knakal, chairman of the firm, described retail as a segment of the market that had "overcorrected" during the downturn, but had since returned in force. Strong retail corridors such as Fifth Avenue and Madison Avenue have retained their status as premier investments, as evidenced by the record-breaking deal at 666 Fifth Avenue, where the Spanish company Inditex Group purchased a retail condo occupied by Zara for \$400 million, or roughly \$8,000 per sq ft, a record high.

The relative scarcity of downtown condo buildings have led developers to buy commercial buildings with the intention of converting them to residential, such as 18 Gramercy Park, a building purchased from the Salvation Army that is planned for condo. The Related Companies' Superior Ink has demonstrated that downtown locations can command high prices per sq ft.

Development sites have traded at a diverse range of prices per sq ft, with pricing based highly on location and zoning. Land in neighborhoods that allow for residential development are particularly valuable, while manufacturing zoning has less profit potential.

The outer boroughs also saw major gains compared to 2010. There were \$282 million of first quarter sales in Queens, over double the value of the first quarter of 2010. Brooklyn had \$324 million in sales, also over twice the amount of 2010, while the Bronx had \$147 million, a similar increase compared to 2010.

Knakal said that if first quarter citywide data was extrapolated for the rest of the year, there would be an increase of 7% in the dollar volume of sales, compared to 2010. However, Knakal said that he expected an annual increase of 40% to 50% in the dollar value of transactions, up to an estimated \$20 to \$22 billion for

the year. In context, that amount would be close to the \$25 billion in sales for 2008, but still less than half of the \$62 billion in sales during the peak of 2007.

There were 422 buildings sold in the first quarter, according to Massey Knakal data, which would forecast an annual increase in volume of sales to 4%, compared to 2011. However, Kankal predicted a 20% increase in annual sales.

"We think the whole year will perform much better than the first quarter indicated," said Knakal.

One major uncertainty facing investment sales was interest rates, said Knakal. Although they remain at historic lows, encouraging buyers to lock in fixed rates, there was concern that the Federal Reserve would increase rates, leading to more expensive loans. Long-term interest rates had already begun creeping up, said Massey Knakal brokers.

Knakal described buyer psychology as bifurcated, with some seeing a time to buy, while others sought to act more conservatively. The result of the disparity in attitudes is many opportunities for transactions, said Knakal.

In a major listing, Massey Knakal was recently retain to sell a large portfolio in Upper Manhattan, totaling 200,000 sq ft and including six development sites and an assortment of buildings, valued at roughly \$100 million.

"This is going to be a very exciting year," he said.