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NYC Network Group Inc. and Real Estate Weekly presented the Real Estate Mega Forum at the New York Bar Building. Pictured above is the first panel from left to right: Richard Mack, North America CEO of AREA Property Partners; Robert Knakal, chairman of Massey Knakal Realty Services; Joel Seiden, a managing partner at Stonehenge Partners; Anthony Kazazis, director of NYC Network Group; Inc., Daniel Geiger, staff reporter Real Estate Weekly, who moderated the event; and Robert Ivanhoe, chair of Greenberg Traurig's Global Real Estate Practice and chairman of its New York Office.

Massey Knakal: market sending mixed messages

By Daniel Geiger

The city's real estate investment sales market has led an uneven turnaround according to data released this morning by the brokerage firm Massey Knakal Realty Services, rising by many measure after a dismal year in 2009 but still a shadow of its boom years.

Roughly $6.5 billion of sales were completed in the first half of 2010 according to Massey Knakal, a noticeable uptick from 2009 when a total of about $6.3 billion of property was sold over the entire year and only $2.8 billion of deals were done in the first half.

The jump in sales activity year over year was even more dramatic comparing the second quarters of 2009 and 2010, when the volume of transactions during each three-month period increased from $800 million, a record low, in 2009 to a much healthier $3.3 billion this year.

"The troughs and peaks of the market cycles are always clear in hindsight and I think that the second quarter of 2009 will be seen as the bottom of the market," said Robert Knakal, Massey Knakal's chairman.

Massey Knakal tracks a number of property types in its data including the sale of multifamily apartment buildings, office buildings, mixed use and retail properties and development sites.

Although the city's sales market improved from last year, the number of investment deals remained on par with past low points in the market that the company has tracked over the past 25 years.

In Manhattan for instance, where the investment market is healthier than other areas of the city, only 1.66 percent of the borough's stock of buildings changed hands, a statistic that mirrored the anemic 1.6 percent turnover rate of past downturns in 1992 and 2003. In Brooklyn, Queens and the Bronx, the turnover was even lower.

"Supply is usually created by discretionary sellers and, during downturns, is filled by distressed deals," Knakal said. "But bank regulators have not yet forced banks to begin to acknowledge losses, which is why we haven't seen as many distressed sales as anticipated."

The dearth of transactions has created pent up demand among investors Knakal said, helping to drive up prices for a number of property types.

In Manhattan, a total of $5.2 billion of properties were sold in the first half 2010, up 170 percent from the same period last year, but still 83 percent below the market's peak in the first half of 2007. Prices rose for walk up apartment buildings, going from $517 per square foot on average in the second half of 2009 to $591.

For elevator buildings, the prices dropped from $547 per square foot on average to $406 per square foot. Knakal explained that walkup buildings had become more popular with investors because they have a higher turnover rate of tenants and can more easily mark rental rates to the market. Prices also increased for mixed use properties, lifting from $681 per square foot on average to $749.

Yet office buildings in Manhattan declined during the period, falling from $565 per square foot on average in the second half of 2009 to $488 in the first half of 2010. Retail condos also dropped, declining from $1,137 per square foot on average to $1,111.

Development sites remained essentially flat after falling precipitously during the downturn, going from $322 per buildable square foot in the second half of 2009 to $326 in the first half of 2010.

The city's residential rental market has largely weathered the downturn and properties of this type have attracted a multitude of investors, including institutional dollars interested in investing back in real estate assets and foreign buyers, which Knakal and other Massey Knakal executives said were particularly active because of economic uncertainty in other areas of the world such as Europe.

Office properties meanwhile have offered a mixed bag of investment opportunities. Knakal said that the statistics, are deceptive in that some properties have fallen more dramatically in value than others. Well leased buildings for instance declined far less than buildings with substantial vacancy or pending openings because the city's commercial leasing market has remained slow. Yet buildings with in place cash flow have maintained value.

Knakal and other executives felt the market was on an upswing.

"Warren Buffet is famous for selecting investments that have a consistent internal rate of return between seven and nine percent," Paul Massey, Massey Knakal's CEO, said. "Right now in the city there are plenty of opportunities to invest in properties at that rate. We're bullish on the market."