

CONCRETE THOUGHTS

Big Apple Retail

05/22/12

Two straight years of \$1 billion retail property sales—\$200,000 a square foot price tag to soon follow?

The volume of investment sales in New York City has increased dramatically since the low point the market hit in 2009. All property types have seen resurgence both in terms of the volume of sales as well as value, some performing better than others.

One that has performed the best, in addition to multifamily, is the retail sector. We have seen significant resurgence in job growth, consumer confidence and consumer spending in the city, which has helped fuel the retail investment sales markets.

In 2009, there were only 140 retail properties sold citywide, aggregating to a total dollar volume of about \$450 million. Last year, 197 properties changed hands, having an aggregate market value of approximately \$1.35 billion. This year, if we annualize year-to-date figures,

we are on track for about 228 retail property sales, with an aggregate dollar volume on course to remain about \$1.35 billion.



Robert Knakal

This means that, in 2012, retail property sales prices per transaction will be slightly lower than was observed last year.

On a citywide basis, annualizing the sales occurring thus far in 2012 will yield nearly two million square feet of retail property sales for the year. This figure would be up 34 percent from the 1.46 million square feet sold in 2011.

In terms of individual submarkets, the Manhattan market is performing best, with a projected 96 retail property sales this year versus just 56 in all of last year. The 96 that we are on pace for in 2012 would represent a 77 percent increase over last year's total.

If we continue on this pace, we

will have in excess of \$1 billion of retail property sales in Manhattan alone for the second year in a row. The increase in the number of properties sold is also on pace to nearly double the 516,000 retail square feet sold in 2011. If annualized, our current transaction volume will lead to about 930,000 square feet of retail property sales this year.

Another area that is showing surprising strength is the retail marketplace in the Bronx submarket. Here, 2012 activity is projected to be up 100 percent from last year, when only 18 retail properties sold. This year we are on pace for 36 trades, and the dollar volume of sales is anticipated to more than double, from \$18.3 million last year to nearly \$40 million this year.

The aggregate square footage of retail properties sold in the Bronx is also projected to be up about 82 percent, to 167,000 square feet from last year's 92,000 square feet.

Markets that are still facing chal-

lenges in the retail sector include Northern Manhattan, Queens and Brooklyn, areas where the number of properties sold is expected to drop this year based on what has traded year-to-date. We are also on pace to see drops in dollar volume and square footage of properties sold in these submarkets.

We are observing a retail property investment sales market in which different submarkets are performing much better than others, indicating that specific locations are becoming more important than they have in the past.

In particular, retail locations on Fifth Avenue and Madison Avenue along their most prime stretches are seeing significant increases in market rents. We are also seeing tangible changes on Fifth Avenue in the 40s as rents are likely to double over a 24-month period here. This is a result of the tremendous increases in rent levels being achieved on Fifth Avenue in the 50s.

There are similar dynamics playing out across the city, and we expect to see some record pricing from retail sale transactions. The retail space at 666 Fifth was sold for \$8,300 per square foot, which surprised many people in the industry as being an excessively high number. However, if you look at the fact that retail rents are approximately \$2,500 per square foot in this area, if net income per square foot is \$2,000, at a conservative 6 percent capitalization rate, this space would appear to be worth \$30,000 to \$35,000 per square foot. It would not be at all surprising to see some trades north of \$20,000 per square foot in the most prime stretches of Manhattan.

rknakal@masseyknakal.com

Robert Knakal is the chairman and founding partner of Massey Knakal Realty Services and in his career has brokered the sale of more than 1,200 properties, having a market value in excess of \$8 billion.