Outer-Borough Investment Sales at Midyear

Boroughs are past sales bottoms but still struggling in parts—hello, Bronx

EXECUTIVE SUMMARY:

- → Seventy-two percent of New York City properties sold in 1H10 were in the outer boroughs.
- → The annualized turnover rate for outer-borough properties was just 0.85 percent.
- → All borough markets, however, appear past their bottoms in terms of sales.
- → Queens had the lowest turnover rate; northern Manhattan had the highest.
- → The Bronx was only the submarket with a negative transaction volume in 1H10.

The outer boroughs have long been ignored and considered submarkets into which many Manhattan brokers would not dare venture. The boroughs do, however, make up a significant component of the New York City investment sales market and should not be overlooked. Therefore, we will conclude our three-part midyear series on the New York City investment sales market with a focus on first-half 2010 (1H10) borough activity. (The earlier two columns can be found at Observer.com/Concrete-Thoughts.)

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Columnist

For the purpose of our analysis, we consider northern Manhattan (north of 96th Street on the East Side and north of 110th Street on the West Side) as a submarket outside of Manhattan.

In the statistical sample in New York City that Massey Knakal uses to analyze all market statistics, there are 164,876 properties. Of these, 137,227, or roughly 83.3 percent, are situated in the outer boroughs.

In 1H10, there was a total of $6.5 billion in investment property transactions. Of this total, $5.2 billion occurred in Manhattan, with the remaining $1.3 billion happening in the boroughs. The $1.3 billion in borough transaction represented approximately 20 percent of the total, reflecting an almost inverse relationship to the distribution of buildings within the marketplace. This has been the case historically as well. Going back to 2005, in terms of aggregated dollar value of sales, the outer boroughs have represented an average of 21.2 percent of total dollar volume.

This is not surprising given the disparity between the average property sales price in the outer boroughs versus Manhattan. From 2005 through 1H10, the average property sold in Manhattan carried a price of $29.7 million; the average in the boroughs, over the same period, was just $2.21 million.

As one can imagine, there is significant volatility within the Manhattan market based upon the number of very large transactions that occur. For instance, in 2007, at the peak of the market, when large financings were readily available, the average property sold in Manhattan attained the record level of $52.5 million. This average dropped to just $12.9 million in 2009. In the outer boroughs, over the same period, the average sales price per property at the peak of the market in 2007 achieved a level of only $2.41 million. This average fell to just $1.88 million in 2009. Given the significant disparity in average property prices, it is not surprising that an overwhelming majority of the dollar volume of sales occurs in Manhattan.

Not surprisingly, when property value dropped in 2009 and obtaining large transaction financing was challenging, the total consideration in the boroughs reached a high point of 33 percent of the total sales volume, as $2.1 billion of the city's total of $6.3 billion occurred in the outer boroughs. The low point for the borough's contribution toward the city's total dollar volume of sales occurred in 2007, when $9.7 billion of outer-borough sales accounted for just 16 percent of the $62.2 billion in total transaction volume.

It is clear, from all the statistical evidence, that the boroughs are tangibly rebounding and will add significantly to the recovery in the New York City market.

When we examine turnover in terms of number of buildings sold, the boroughs perform more in line with their statistical contribution to the total stock of buildings. From 2005 through 1H10, the boroughs have contributed, on average, 79 percent of the total number of properties sold annually. This percentage ranges from a high point of 83 percent in 2006, when the boroughs saw 4,059 buildings sell out of a total of 4,875 in the city, to a low point of just 72 percent in 1H10. Then, 588 properties sold in the outer boroughs out of the total of 818 citywide.

This dynamic is not surprising, as Manhattan has always led the city out of economic downturns. In fact, if we look at the number of properties sold as a percentage of the total stock of buildings, we see that, thus far in 2010, Manhattan's turnover rate is twice that of the outer boroughs. In 1H10, 230 Manhattan properties sold out of the total of 27,649, leading to an annualized turnover of 1.66 percent. In the outer boroughs, the 588 sales in 1H10 represented just 0.85 percent of the 137,277 outer-borough properties.

The rebounds from the dearth in sales volume (in terms of number of properties sold) also support the fact that Manhattan leads the city out of downturns. On a quarter-over-quarter basis, 2Q10 has been the sixth consecutive quarter of volume increases in Manhattan.

In northern Manhattan, there have been four consecutive quarters of positive turnover. In 1Q10 Brooklyn, Queens and the Bronx remained negative as turnover totals remained, remarkably, below prior periods. In 2Q10, Brooklyn and Queens turned positive for the first time in many quarters, leaving the Bronx as the only submarket still on the decline. Its performance was only slightly negative, with the number of buildings sold just 4 percent below 1Q10. We fully expect that turnover will

Combined Borough Turnover (# of buildings sold)

	2005	2006	2007	2008	2009	2010
Total NYC Sales	4,443	4,875	5,018	3,144	1,436	818
Manhattan Sales	860	816	999	636	322	230
Borough Sales	3,583	4,059	4,019	2,508	1,114	588
Manhattan Turnover	3.11%	2.95%	3.61%	2.30%	1.17%	1.66%
Borough Turnover	2.61%	2.96%	2.93%	1.83%	0.81%	0.85%
Borough Sales / Total	81%	83%	80%	80%	78%	72%

All information courtesy Massey Knakal Realty.

Combined Dollar Volume of Sales (in billions)

	2005	2006	2007	2008	2009	2010
Total NYC Aggregate	$32.6	$44.2	$62.2	$25.3	$6.3	$6.5
Manhattan Aggregate	$24.5	$34.8	$52.5	$19.8	$4.2	$5.2
Borough Aggregate	$8.1	$9.4	$9.7	$5.5	$2.1	$1.3
Borough Percentage	25%	21%	16%	22%	33%	20%

Average Sales Price per Property Sold (in millions)

	2005	2006	2007	2008	2009	2010
Manhattan	$28.5	$30.4	$52.5	$31.1	$12.9	$22.6
Boroughs	$2.26	$2.32	$2.41	$2.19	$1.88	$2.21

trend positively for the Bronx in 3Q10, thereby positioning all submarkets for volume momentum in positive directions. We believe that, in terms of number of properties sold, we are well past the market bottom that occurred, very clearly, in 2Q09.

To give some perspective to the turnover rates discussed above, the annualized Manhattan turnover in 1H10 of 1.66 percent compares positively to the 1.17 percent experienced in 2009. However, it doesn't come close to the 3.61 percent seen at the peak in 2007. It also compares unfavorably to the 2.6 percent annual average turnover realized in Manhattan since 1984. In the outer boroughs, the 1H10 turnover of 0.85 percent is well below the peak of 2.96 percent achieved in 2006.

From peak to trough, the Manhattan market saw a reduction of 68 percent, as the number of properties sold dropped from 999 in 2007 to 322 in 2009. In the outer boroughs, this percentage reduction was 73 percent as, at the peak, there were 4,059 sales in 2006; this figure dropped to just 1,114 in 2009.

In terms of individual outer-borough submarket performance, some have clearly functioned better than others recently.

Northern Manhattan

In 1H10, there was $325.4 million in investment sales transactions, up 180 percent from 1H09. This figure was, however, down 60 percent from the peak of the market in 1H06. The 2Q10 total of $208.4 million was the highest quarterly total going back to 1Q08.

There were 64 properties sold in 1H10, a 73 percent increase from the 37 properties sold in 1H09, but a 60 percent reduction from the 159 sales in 1H07.

The turnover rate in northern Manhattan, measured as the 64 transactions divided by the total stock of 6,967 properties, on an annualized basis, is 1.84 percent, the highest total of any submarket, including Manhattan. Elevator apartment buildings led all product types with $213.7 million in sales, representing 66 percent of the total. If we add to this the $75.2 million of walk-up apartment building sales, we see that the multifamily sector represented a whopping 89 percent of the dollar volume of sales in northern Manhattan in 1H10.

Brooklyn

In 1H10, there was $495.4 million in investment property transactions. This figure was up 60 percent compared to 1H09. This figure was, however, 76 percent below the peak in 1H06. In 2Q10, the $33.4 million in sales was the highest quarterly total since 4Q08.

There were 267 properties sold, an increase of 14 percent from the 235 properties sold in 1H09. This figure was, however, down 74 percent from the peak of 1032 properties sold in 1H07.

The 267 properties sold equates to a 0.82 percent turnover rate, on an annualized basis, of the 65,199 properties in the Brooklyn submarket. Elevator and walk-up apartment buildings in the multifamily sector together registered $175 million, which represented 35 percent of total dollar volume. Retail properties were the runner-up product type, with $123.5 million of sales in 1H10, representing 25 percent of total sales volume.

Queens

In 1H10, there were $271.9 million in investment sales transactions. This figure was up 6 percent from 1H09 but down 79 percent from the peak in 1H08; and, in a surprising trend, the $130.9 million of volume in 2Q10 was actually lower than the total in 1Q10. Queens was the only submarket in which this drop was experienced.

The 165 properties sold in 1H10 represent a 4 percent increase from the 159 properties sold in 1H09. This total is, however, down 74 percent from the 627 properties sold in 1H06. These 165 properties sold represent a 0.75 percent annualized turnover rate out of the 43,765 properties in the Queens submarket. This turnover rate is the lowest of any of the submarkets in the city.

The multifamily sector was the most active, with $86.1 million in sales, representing 32 percent of the total $271.9 million in the marketplace. Industrial buildings were the second-most-active sector with $76.9 million of sales, equating to 27 percent of the total market.

The Bronx

In 1H10, there were $192.5 million in total transaction volume in the Bronx submarket. This figure was down 4 percent from 1H09, leaving the Bronx as the only submarket in which transaction volume remains negative. The 1H10 total is 86 percent below the peak in 1H07. The $123.4 million in transaction volume in 2Q10 was, however, the highest quarterly totally since 3Q09.

In the Bronx, there were 92 properties sold in 1H10, a 15 percent reduction from the 108 properties sold in 1H09 and 76 percent below the peak of 381 properties sold in 1H07. The 92 properties sold represented an annualized turnover percentage of 0.86 percent of the total stock, which consists of 21,376 properties.

The multifamily sector was clearly the dominant product type, with $137.6 million in sales volume, representing a whopping 72 percent of the total transaction volume in the marketplace.

It is clear, from all the statistical evidence, that the boroughs are tangibly rebounding and will add significantly to the recovery in the New York City market. The boroughs remain integral components of the local investment sales market and, at Massey Knakal, we are enthusiastic to be continuing our focus on sales in these vital areas.

While the recovery in the outer boroughs has lagged behind the rebound within Manhattan, all signs are positive for these submarkets and we continue to view their future optimistically.

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