CONCRETE THOUGHTS

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Reading Between the Lines

The Metrics Spiked, but, Alas, Property Sales Remain Uneven. Here's Why.

Generally speaking, the New York City property sales market has been trending positive. But despite the upward metrics, the road to recovery remains bumpy.

In 2011, investment sales totaled $25.6 billion citywide—in other words, 80 percent more than 2010's $14.25 billion and more than four times the $6.1 billion mark in 2009. These increases, while substantial, remain 58 percent below the 2007 peak of $62.2 billion.

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Last year alone, brokers sold 2,122 buildings, up 25 percent over the 1,696 that changed hands in 2010. This figure was 50 percent higher than the 1,410 properties sold in 2009, but remains 58 percent below the 2007 peak of 5,018.

The average sales price of property in New York City last year stood at $12 million, up 44 percent from the 2010 average of $8.4 million and nearly three times the $4.3 million average in 2009. Notably, the $12 million average is now approaching the $12.4 million average seen at the peak of the market in 2007.

On a citywide basis, overall property values increased by 6.1 percent in 2011, over 2010 levels, on a price-per-square-foot basis.

Larger transactions also returned to the market with gusto. To be sure, 58 sales reached $100 million or more, more than double the 28 sales in 2010 and more than eight times the meager seven buildings that sold in 2009.

Still, while all the statistics are positive, why did I refer to the recovery as uneven?

Comparing the sales metrics on a year-over-year basis, the marketplace looks fantastic. On a quarterly basis, the figures look OK-to-good. And if we dig deeper and look at the statistics on a monthly basis, they only look fair, at best.

This is because in the second half of 2011 the dollar volume dropped. This occurred between the second quarter, in which we saw $8.5 billion in sales, and the third quarter, in which we saw $7.1 billion. We saw the figures drop again in the fourth quarter, in which there was $6 billion in dollar volume, representing a 15 percent drop in activity.

In terms of the number of properties sold in New York City, we saw a peak in the third quarter, when 593 properties changed hands, and a 15 percent drop in the fourth quarter, when only 505 buildings shifted ownership.

This dynamic, in which both dollar volume and number of properties sold are both retreating, would normally have led us to believe that a double dip in the sales market might be starting. However, the observance of healthy appreciation in property values leads us to draw the conclusion that we are, and have been, in a supply-constrained market as opposed to a market that is sliding into a double dip.

We're not out of the woods yet, however. We've seen the rate of appreciation occur at a declining rate throughout the year: At the end of 1H11, the appreciation rate was running at more than 9 percent. By the end of the third quarter, the rate dropped to 7.3 percent. By the end of 2011, the rate lingered at 6.1 percent. It's worth repeating, however, that fluctuations in these metrics over a one-, two- or three-quarter period can be misleading due to large transactions that skew the numbers. Still, we'll be watching the numbers.

We do expect sales volume to be up significantly in 2012, both from a dollar-volume and number-of-properties-sold perspective. This is due to a natural regression toward long-term trend lines (which we remain well below) and a looming, perhaps major, increase in 2013 capital gains rates, which should drive hundreds of properties into the market.

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