CONCRETE THOUGHTS

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The Manhattan Review

A look at how the submarkets fared in 2011

As Manhattan always sets the pace for New York City, this week we will take a look at how its leading submarket performed last year.

Robert Knakal

In 2011, the dollar volume of sales in the Manhattan submarket (defined as south of 96th Street on the East Side and south on 110th Street on the West Side) showed dramatic improvement over 2010 levels. There was $21.7 billion in investment sale transactions last year, up from the $11.6 billion that occurred in 2010, an 87 percent increase.

Last year's total was also up a whopping 425 percent from the meager $4.1 billion that occurred in 2009. Demonstrating the volatility of the market in recent years, the $21.7 billion remains 59 percent below the all-time high of $52.5 billion at the peak of the market, in 2007.

With respect to the number of properties sold, there were 666 buildings sold in the Manhattan submarket in 2011. This figure was up 35 percent from the 492 sales occurring in 2010, and more than double the 305 sales that occurred in 2009. Last year's total is only 33 percent lower than the 999 properties that were traded at the peak of the market in 2007.

While these figures show outstanding year-over-year growth in activity, we are concerned that we have observed steady reductions in dollar volume over the past three quarters and a relatively weak fourth quarter in terms of properties sold. As was seen in the citywide data presented in last week's column, Manhattan has also seen dollar volume slip.

In 2Q11, there was $7.8 billion in sales, which dropped to $5.9 billion in 3Q11 and $4.9 billion in 4Q11. Similarly, the number of properties sold in the Manhattan submarket dropped from 209 in 3Q11 to 162 in 4Q11.

While it is difficult to draw conclusions from monthly or quarterly statistics without seeing a relatively long-term trend, these quarterly drops have been of concern to us. Fortunately, for the Manhattan submarket, appreciation has occurred very tangibly and we are seeing increased values across the board for all product types.

We expect activity to pick up as we progress through 2012; however, we would not be surprised to see muted activity in 1Q12.

The main reason for this slowdown in activity is a very acute supply constraint market where there are simply not that many properties for sale. We expect this condition to reverse throughout the year. In his State of the Union speech last week, the president indicated that he would like to see capital gains tax rates doubled to 30 percent. If he is leading in the polls, or even close, by mid-year, we expect to see a dramatic increase in the number of properties coming to market, and while that would make for an outstanding 2012, it certainly would create depressed selling levels in 2013, 2014 and beyond.

Fortunately, for the Manhattan submarket, demand appears to be at an all-time high. With buyers becoming more active and new buyers coming into the market on what seems like a daily basis, there appears to be no end to an overreaching demand for properties of all kinds. These buyers originate from a broad spectrum of sources, including domestic high-net-worth individuals and families, as well as foreign buyers coming from dozens of foreign countries. In fact, counterintuitively, the economic volatility in Europe has actually driven more foreign investors from the E.U. to New York to deploy capital, as the city is viewed as a safe haven for capital. Add to this tremendous domestic and international demand from institutional investors and the market is poised for continued growth.

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