What's Building With Development Sites?

Momentum! Transaction activity picking up; but values dropping amid economic angst

EXECUTIVE SUMMARY:

- This year, there has been $554.2 million in sales consideration.
- That's a 231 percent increase over 2009 totals on an annualized basis.
- Land value, however, has decreased about 15 percent relative to 2009.
- Larger economic uncertainty is holding values back; activity should continue to increase.

If you've checked out my Concrete Thoughts column for the past three weeks, you've read an in-depth analysis of first half 2010 (1H10) investment sales activity on both a market-wide basis and then broken down into Manhattan sales statistics, as well as those of the outer-borough submarkets.

From all of this data, it is quite easy to conclude that we are well past the bottom in terms of the low point in investment property sales activity. In 1H10, there was $6.488 billion in aggregate sales consideration, up 131 percent from the $2.8 billion in sales recorded in the first half of 2009 (1H09). More importantly, this level of activity already surpassed the $6.26 billion recorded in all of 2009.

My previous columns also showed that while it was clear that we were past the bottom of transaction activity, the value horizon was less clear, as product types in some markets are seeing values rise while product types in other markets are seeing values continue to slide. The development site market, which determines land value, is no different.

Robert Knakal
Columnist

Clearly, the number of land sales tumbled in 2009 in tandem with the rest of the market, as conditions continued to worsen throughout last year. In fact, in all of 2009, there were only 66 development sites sold in the New York City marketplace. This is a remarkably low number considering that, in 2006, Massey Knakal alone sold 217 development sites in New York City. There were hundreds of sites sold that year, which saw a peak in the number of land sale transactions.

With regard to development site activity, we see that the volume of sales is up significantly in the first half of 2010; however, the value of these sites is still dropping.

In the land market, we see that in 2009, there were 66 sites sold in the city (for the purpose of this analysis, we are considering only sites with a minimum of 10,000 buildable square feet). The Queens submarket led the way with 19 sites sold in 2009, followed closely by Brooklyn with 16 and the Bronx with 15. In 1H10, there have already been 36 sites sold, indicating a 9.1 percent increase over 2009 totals on an annualized basis.

If we analyze the total buildable square footage of the sites that have been sold, we see that in 2009, there were 2.77 million buildable square feet of development sites sold. In this category, the Queens submarket led the way with 818,000 buildable square feet of land sold, followed closely—and surprisingly—by the Bronx submarket, where there was 773,000 buildable feet of land sold. In the Bronx, the overwhelming majority of these sites were purchased for affordable and subsidized housing construction.

In 1H10, we have seen 2.64 million buildable square feet of development sites sold, a 90 percent increase over 2009 totals on an annualized basis.

For a more vivid comparison of activity, we analyze the total dollar volume of sales consideration. In 2009, there was $334.8 million in development site sales consideration. From this perspective, Manhattan always leads the way, and was the location that produced $192.5 million of this total transaction volume (for this study and all of our statistical analysis, we differentiate between Manhattan and northern Manhattan, which is delineated by 96th Street on the East Side and 110th Street on the West Side).

In 1H10, there was $554.2 million of sales consideration, a whopping 231 percent increase over 2009 totals on an annualized basis. The biggest surge here was in the Manhattan submarket, in which the 2009 total grew to $418 million in 1H10, a remarkable 334 percent increase. If this trend continues, the dollars spent on Manhattan development sites in 2010 will more than quadruple the 2009 level.

These statistics are not surprising given the significant decline in transaction volume seen in 2009. Coming off of these historic lows, we have seen enormous increases in activity across the board in all product types, in all submarkets. As I mentioned above, however, the value of land is continuing to fall. In fact, the figures in 1H10 show that on average, land has decreased by approximately 15 percent relative to its 2009 level. It is important to note that given the relatively low number of transactions, a single transaction or two can skew these numbers significantly in an individual submarket.

We will, however, look at value trends in each.

The submarket experiencing

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the biggest drop in value has been northern Manhattan, in which the average site sold for $155 per buildable foot in 2009; in 1H10, the average has been just $91, a 41 percent reduction in value.

In the Brooklyn submarket, land value has dropped from an average of $93 in 2009 to $80 in 1H10, a 14 percent reduction. In Manhattan, the 2009 average was $384 per buildable square foot, which dropped to $345 in 1H10, a 10 percent reduction. Not surprisingly, the $345 average was the highest in all submarkets.

A similar 10 percent reduction was observed in the Bronx, where value dropped from a 2009 average of $39 per buildable square foot to a 1H10 average of $35.

The only market that showed an increase in land value in 1H10 was the Queens submarket. Here, we saw a 10 percent increase to $75 per buildable square foot, up from a 2009 average of $68. These numbers are, however, skewed by one transaction that Massey Knakal closed in March of 2010: 74-41 Queens Boulevard sold for $150 per buildable square foot. This site was unusual in that rarely does a Queens Boulevard development site become available and particularly not one with its characteristics.

"The site had 237 feet of Queens Boulevard frontage, which was perfect for retail development," said Thomas Donovan, my partner at Massey Knakal, who brokered this transaction. "The zoning in this neighborhood was changed, prompting several new residential developments, which resulted in a substantial need for retail space."

If this single sale were removed from the statistics, the Queens market would have averaged $65 per buildable square foot in 1H10. This would have resulted in an average price per square foot 4 percent below the 2009 average.

It is anticipated that the increase in the volume of land sales will continue as lenders and special servicers look to rid their balance sheets of distressed assets, many of which are land parcels and development sites. We have seen an increasing number of these stalled sites come to market recently, and we expect this trend to continue as the deleveraging process moves forward.

We believe that the reason land values have continued to fall is because of the perception of weaker fundamentals as the market moves forward. Anyone buying development land must project what they believe fundamentals will be two or three years down the line, when a newly constructed building is ready to be sold or leased. With so much uncertainty surrounding recent economic indicators, it is no wonder that conservative projections, relative to future fundamentals, abound.

On a positive note, we have recently seen the availability of financing for construction become more plentiful than in recent memory. While there has always been financing for new construction, even during the worst of times during this recession, we are now seeing more lenders moving into that niche, and banks are starting to compete to deploy capital for new projects. These lenders are even beginning to underwrite projects that are slated for condo construction—a refreshing, and greatly needed, sign for the marketplace.

As the famous adage about land goes, "They ain't making any more of it." Because of this, we fully expect land values to increase at some point during the next several quarters.

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For the complete archive of Robert Knakal's Concrete Thoughts columns, go to Observer.com/concrete-thoughts.

Development Site Sales Activity (2009 v. 1H10)

	Number of Sites Sold		Buildable Square Footage (Thousands)		$ Consideration (Millions)	
	2009	1H10	2009	1H10	2009	1H10
Manhattan	11	9	455	1,043	$192.5	$418.0
Northern Manhattan	5	4	134	61	$13.1	$20.4
Bronx	15	4	773	181	$23.7	$6.6
Brooklyn	16	10	589	625	$56.6	$66.1
Queens	19	9	819	729	$48.9	$43.1
TOTAL MARKET	66	36	2,770	2,638	$334.8	$554.2
	+9.1%		+90%		+231%	

source: Massey Knakal Realty Services

Development Site Value (2009 v. 1H10)

	Average PPBSF*			Low PPBSF*		High PPBSF*	
	2009	1H10	% CHANGE	2009	1H10	2009	1H10
Manhattan	$384	$345	-10%	$129	$141	$576	$642
Northern Manhattan	$155	$91	-41%	$40	$53	$276	$138
Bronx	$39	$35	-10%	$19	$27	$107	$47
Brooklyn	$93	$80	-14%	$36	$35	$175	$106
Queens	$68	$75	+10%	$26	$29	$138	$150

*Price Per Buildable Square Foot

source: Massey Knakal Realty Services