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# Building Sales Bonanza

## 2012 marked a record year for investment sales market

I gave three speeches last week about the results of the 2012 property sales market. I began all three by asking the audiences, "Do you believe last year's sales market in New York City was great, good, fair or not so good? Judging by a show of hands from those I had already not put to sleep, there was about equal sentiment for each of the choices. In certain ways, they all were correct.

Why were they all correct? Because it really depends on your perspective and what your role was in the market. My three audiences consisted of mostly brokers, mostly bankers and lawyers, and mostly multifamily property owners, respectively. Each group looked at things differently.

For many, particularly if they wanted to buy properties, the year was frustrating because of the tremendous competition for assets that drove cap rates down to very low levels, thus making it harder to justify paying the price necessary to win the bid. Many buyers felt the year was plain lousy. For others, such as the bankers, they thought the year was fair or average, as they put out enough money to meet their annual goals but all wished they could have put out a lot more. For brokers, it really de-



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pendent upon what type of brokers they were. Mortgage brokers and retail leasing brokers generally had good to very good years. Office leasing brokers and sales brokers who sell large office buildings wish things had been a lot better, as weak fundamentals in most office leasing markets caused a slowdown in trophy office trades.

Building sales brokers, if their focus was on the outer boroughs, had a very solid year, if not their best ever (depending on their tenure in the business). And lastly, for sales brokers who focus on the Manhattan submarket, the year was epic. Let's take a look at the numbers.

In 2012, there was \$39.1 billion of investment sales activity citywide. This was up 43 percent from \$27.4 billion in 2011. This activity level represented a whopping increase of 6.5 times 2009's paltry \$6.1 billion, but remained 37 percent below the record year of 2007, in which the total was over \$62 billion.

With regard to the total number of properties sold, in 2012, 3,699 properties traded hands. This marks a tremendous 66 percent increase over 2011's 2,222 properties sold, and we believe this was a direct result of the threat of capital gains increases, which tangibly impacted market participant behavior last year. The total sold in 2012 marked a 162 percent increase over 2009's 1,436, but remained 26 percent below the 2007 market peak of 5,018 properties sold. The citywide turnover ratio—the number of properties sold divided by the total number of properties in the statistical sample of about 165,000 assets that Massey Knakal tracks—was 2.24 percent in 2012.

In the outer boroughs and northern Manhattan, the number of buildings sold was up significantly from 2011 but remained anywhere from 35 percent to 50 percent below market-peak levels.

In the Manhattan submarket, however, an all-time record was established: 1,148 properties traded, up about 15 percent from 2007's cyclical peak of 999. This activity represented a turnover ratio of 4.2 percent of the 27,649 properties south of 96th Street on the East Side and south of 110th Street on the West Side. The previous

all-time high, 3.9 percent, was achieved in 1998, the year after the Clinton administration dropped the capital gains rate from 28 percent to 20 percent. It was an unbelievable year indeed!

Property values citywide, aggregating all property types, rose by about 13 percent last year, making property owners (those who were not frustrated because they were trying to purchase properties) very happy.

This year, we expect the dollar volume of sales to rise as the office sector regains traction, but the number of properties sold will drop tangibly. These dynamics will cause even greater increases in value, as low interest rates and low supply will exert continued upward pressure on pricing. It looks like it will be another year in which your perspective and position in the market will determine which adjective you will raise your hand for in January of 2014.

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