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Land: They Aren't Making Any More of It

With the market sizzling hot, it could be possible to see $1,000 per buildable square foot by the end of the year

The land rush is on.

And along with the pandemonium in the development site market comes values that are rising rapidly. All of this activity points toward a palpable optimism from developers about the future of New York City.

In 2012, development site activity exploded. There were 552 sites sold citywide, with an aggregate sales value of $4.4 billion. The 552 development properties sold represents about 15 percent of the approximately 3,700 sales last year, and the $4.4 billion represents about 11 percent of the approximately $40 billion of sales volume. Both of these percentages represent the highest rates going back to 2006, the last cyclical peak in the development market.

To provide some relative perspective on how active the land market was last year, let's take a look at recent history. In 2011, there were 142 sites sold, with an aggregate market value of $1.8 billion. The 2012 totals reflect a dollar volume of about 2.5 times the 2011 total and a number of sites sold that was nearly four times that of the previous year. These increases are massive by any measure.

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In 2010, there were 81 sites sold for a total of $850 million, and in 2009, there were just 64 sites sold, with a total dollar volume of only $356 million. Clearly, the development site market is in a different universe than it was in 2009.

The value of development land in the city has also been rising rapidly this year. Value in the land market is one of the more difficult metrics to understand. In the broader property sales market, value peaked in 2007 and hit bottom in 2010. The volume of sales bottomed out in 2009 (both in terms of the dollar volume of sales and the number of properties sold), but overall average prices per square foot across most market segments bottomed out in 2010. The land market was different.

Across all submarkets in the city, land values bottomed out in 2009 at an average price per buildable square foot of $125. This average rose to $159 in 2010 and $173 in 2011. In 2012, the average will likely rise into the $200 range (the data is still being verified based upon year-end activity and should be finalized within the next couple of weeks). While this citywide average shows nice increases, it is somewhat less statistically significant than it might otherwise be, because of the enormous difference between the average in the Manhattan submarket compared with the other submarkets (although the best areas in Brooklyn are starting to show some sales that are rivaling some neighborhoods in Manhattan).

If we look at just the Manhattan submarket, land value per buildable square foot hit bottom in 2011. The 2009 average was $373 per buildable square foot. This average dropped to $326 in 2010 and to $311 in 2011.

You may be asking, how could this happen? In 2009, there were only 14 development sites sold in Manhattan, and 11 of them were purchased by user-buyers who were going to construct buildings for their own occupancy. Basically, if the sellers in 2009 didn't get pricing they felt was compelling, they simply didn't sell. The lack of transactions played havoc with the averages. As the number of sales increased, the average value began to drop. This trend will reverse in 2012 with an average that will rival an all-time record.

In fact, we fully expect to see a site sold for over $1,000 per buildable square foot this year, as the land market in lower-density districts like Chelsea, the West Village and Tribeca is blazing. With end-user residential sales hitting $3,000 and $4,000 per square foot, a land price of $1,000 per buildable square foot is feasible.

The most impactful takeaway from all of this activity is that there are many developers out there who believe that the end-user market for apartments, office space and hotel rooms will be great two to three years from now when this product will be delivered to the market. Let's hope their optimism is well-placed.

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