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CONCRETE THOUGHTS

# Solid Predictions

**As early as January, investment sales professionals, including our columnist, predicted a very notable fourth quarter.**

Robert Knakal

What a great year 2012 was for New York City's investment sales business! While the final statistics won't be available for a couple more weeks, I'm sure participants in the sales sector of the market will look back on the year as one of the great ones.

The fourth quarter of 2012 was, indeed, the fast and furious ride that was expected as far back as January of last year. I wrote a letter to thousands of property owners during the first week of January 2012 alerting them to the fact that the Bush-era tax cuts were set to expire at the end of the year and that a substantial increase in capital gains tax rates would tangibly impact after-tax proceeds of a sale (several times throughout the year, these potential dynamics were detailed in this very column. For instance, my Jan. 3 column was titled "Capital Gains Taxes: The Market's Biggest Concern"). Add to this a not widely talked about, covert capital gains tax increase imbedded in Obamacare that would kick in after December, and it became clear that, if a property owner was considering a sale within the next few years, pulling the trigger in 2012 would be beneficial.

Some discounted this as a self-serving position taken by someone who makes a living working with those who choose to sell. Many others saw the truth of the position and opted to take advantage of the then historically very low capital gains rates. There was, in fact, precedent to support this prediction, so it was no great revelation on my part. In 2010, the tax cuts were set to expire, and much of the rhetoric during the mid-term election campaigns revolved around the future of U.S. tax policy. This impacted seller behavior, resulting in nearly half of the $14.5 billion in New York City sales activity that year occurring in the fourth quarter of 2010.

To expect the same dynamics again would be no surprise. History has taught us that externalities of this type impact behavior. While these types of incentives may catalyze some decisions, the overwhelming impact they have is to accelerate the actions of market participants, effectively "stealing" activity from future periods and bringing that activity into the present. We observed this very mechanism at work in the auto industry during the cash-for-clunkers program. Auto sales spiked, only to fall off the cliff after the program ended. Similarly, the first-time home-buyers tax credit accelerated home sales, only to see them drop sharply after the program ended. Both of these markets have, fortunately, gained traction, but the swings were caused by the external incentives.

As a result of both the potential increases (Bush-era tax-rate expiration) and the actual increases (Obamacare) in capital gains rates, we began listing and selling investment properties for those who were primarily motivated by capital gains tax rates as early as January of 2012. By the middle of the year, almost everyone in the industry was talking about capital gains taxes, and a tangible surge in listings coming on the market was seen during the summer months with direction from the sellers indicating that the sale "must close by the end of the year." This process continued throughout the year and culminated in a fourth quarter with an activity level that was the equivalent of a college student cramming for a final exam for 120 days in a row.

Notwithstanding all of the talk about this issue all year long, I still received dozens of calls the Wednesday after the election from sellers wanting to put properties on the market and sell by the year's end. While it was too late for most, some of them were actually able to sell by year end without suffering discounts due to the time constraints associated with meeting the year-end deadline.

As a result, we expect that when the statistics are finalized, over 1,000 properties will have traded hands in the fourth quarter, with a total market value in the $11 to $12 billion range. If this occurs, it will be the first time more than 1,000 properties will have sold in a quarter, and the first time over $10 billion in quarterly sales volume will have occurred, since the peak year of 2007.

The year 2012 was one of the great ones, indeed!

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