CONCRETE THOUGHTS

20/20 on Site Sales

What's ahead in an investment market where sales, dollar volume are increasing—along with construction financing for the right movers

The land/development-site market in New York City is one of the most difficult to figure out. The perception is that land values plummeted during the peak of the recession, in 2009, and that value increased in 2010 as the market started to comeback. The sales data, however, reflects a very different story.

The 2009 land market experienced a severe decline in the number of sale transactions due to challenging financing markets and conservative underwriting by developers. Interestingly, this reduced number of sales produced surprisingly strong average prices per buildable square foot. While 2010 data was erratic submarket to submarket, it generally shows reductions in value per buildable square foot in 2010 compared with that of 2009.

Robert Knakal

Moreover, average prices per square foot stayed relatively high throughout this market cycle. If land had a true economic value (as opposed to the value reflected in the small number of transactions that did occur) well below sellers' expectations, it did not trade. Sellers were simply not capitulating to what developers could afford to pay.

Therefore, a number of development sites were purchased by "user buyers"—those who bought the land to build a facility for their own occupancy. This dynamic kept average prices high even while volume dropped dramatically.

In 2010, we saw the number of development-site transactions citywide increase 22 percent, from 65 in 2009 to 79 in 2010. More remarkably, we saw the dollar volume of transactions more than double, reflecting an increase of 149 percent, from $372 million in 2009 to $928 million in 2010.

This increase in activity was very positive for the market; however, we saw price per buildable square foot decrease in four of the five submarkets we track. This was due to the fact that fewer of the sales were purchased by users and a greater percentage was purchased by developers, who need to make economically rational decisions with respect to what they could pay.

Let's take a look at each submarket individually.

Manhattan

The general perception in the Manhattan submarket was that land value fell from its peak, of $400 to $450 per square foot, down to about $100 to $150 per buildable square foot in 2009. Actually, the value per buildable per square foot in 2009 was a shockingly high $366. Here, the user dynamic played a significant role, as there were only 11 development sites sold in 2009 in Manhattan (south of 96th Street on the East Side and south of 110th Street on the West Side). Nine of these sites were purchased by user buyers.

The number of sales increased 136 percent, to 26, in 2010; however, the average price per square foot dropped 11 percent, to $325 per buildable foot. The level of activity in terms of dollar volume was up fourfold over 2009 totals, with total dollar volume increasing from $192 million to more than $800 million in 2010, a 320 percent increase.

More remarkable was the fact that the total buildable square footage purchased increased fivefold, rising from 459,000 buildable feet in 2009 to more than 2.3 million buildable feet in 2010.

Northern Manhattan

The northern Manhattan submarket saw a significant decrease in the total dollar volume of sales, dropping 57 percent, from $49 million in 2009 to $21 million in 2010.

There were four development sites sold in this submarket in 2009 and only five in 2010. However, the sites selling in 2010 were much larger, as there were 220,000 buildable feet of sites sold last year, versus 127,000 buildable feet in 2009.

Price per buildable foot took a significant hit, dropping from $238 per foot in 2009 to just $79 last year, a 67 percent reduction. Given the small number of sales in this sample, we must view these numbers accordingly.

The Bronx

The Bronx also experienced a very tough year in 2010 as the number of development sites sold dropped, from 13 in 2009 to just seven in 2010. The aggregate dollar volume of sales dropped from $22 million to $8.4 million, a 67 percent reduction.

The total buildable footage also dropped,

It seems like the days of underwriting for residential rentals passed in the blink of an eye. This could bode very well for land values as we move forward.

by 65 percent, from more than 700,000 buildable feet in 2009 to just 246,000 buildable feet in 2010.

Difficulty in obtaining public funds for affordable housing exacerbated the falling activity in this submarket. The value of land in the Bronx also dropped last year, as the average price per buildable foot was $42 in 2009 and just $35 in 2010, a 17 percent reduction.

Brooklyn

In the Brooklyn submarket, the number of development sites sold increased from 16 in 2009 to 27 in 2010; however, the total dollar volume of sales remained relatively unchanged, increasing just 5 percent, to about $60 million in 2010.

The total buildable footage of sites sold increased 63 percent, from 589,000 buildable feet in 2009 to 962,000 in 2010. In this submarket, average price per buildable foot dropped 17 percent, from $93 two years ago to $77 last year.

Queens

The Queens submarket showed an unusual pattern of a significant drop in activity but an increase in value.

In 2009, there were 21 development sites sold in Queens versus just 14 last year. The dollar volume of sales fell 29 percent, dropping to $37 million last year from $52 million the year before. The total buildable footage also dropped from 974,000 buildable feet to 481,000, a 51 percent decrease.

Value, however, increased a startlingly 52 percent, rising from about $64 per buildable foot in 2009 to $97 per buildable foot in 2010.

Thus far, what we have seen in 2011 is an extremely active land-sale market, with many sites trading and trading at numbers significantly in excess of 2010 levels. It would not at all be surprising to see the development market demonstrate increases of 50 percent in terms of the dollar volume of sales, with increases in average prices per buildable foot across the board.

Usually, when land values rise, they rise quickly and a "flipping" market often emerges, providing tremendous opportunities for risk takers.

Construction financing, while not exactly free-flowing, is available from many more sources than it was a year or two ago. Lenders today are requiring heavy equity contributions, and most construction loans contain a recourse component. However, for the right projects and right locations, it appears that construction financing is readily available. This is particularly true if a developer has a proven track record. The novice developer, of which there were many in the 2005-2007 bubble years, would find obtaining this financing extremely challenging today, if not impossible.

Lastly, perhaps the biggest surprise in the land market is that many developers are underwriting residential sites for construction of condominiums. It seems like the days of underwriting for residential rentals passed in the blink of an eye. This could bode very well for land values as we move forward.

rknakal@masseyknakal.com

Robert Knakal is the chairman and founding partner of Massey Knakal Realty services and in his career has brokered the sale of more than 1,125 properties, having a market value in excess of $7 billion.

Development Comps: 10,000 BSF+

2009

Market	Transactions	Price	Total BSF	Avg $ / BSF
Manhattan	11	$ 191,814,441	458,797	$ 366.44
Northern Manhattan	4	$ 49,067,000	127,224	$ 238.40
Brooklyn	16	$ 56,644,500	588,674	$ 93.17
Bronx	13	$ 22,365,865	708,667	$ 41.89
Queens	21	$ 52,450,238	974,148	$ 63.80

2010

Market	Transactions	Price	Total BSF	Avg $ / BSF
Manhattan	26	$ 802,355,485	2,304,792	$ 325.13
Northern Manhattan	5	$ 20,954,168	222,563	$ 78.87
Brooklyn	27	$ 59,730,200	961,965	$ 77.49
Bronx	7	$ 8,428,000	245,828	$ 35.49
Queens	14	$ 36,788,000	481,346	$ 96.95

2009 v 2010 % Changes

Year	Transactions	Price	Total BSF
2009	65	$ 372,342,044	2,857,510
2010	79	$ 928,255,853	4,216,494
% Change	***22%***	***149%***	***48%***

This data reflects sales of sites containing a minimum of 10,000 buildable square feet. The average price per buildable square foot (Avg $ / BSF) is a straight average of all sales within each submarket. The numbers are not the weighted average that would be obtained if the aggregate price were to be divided by the total buildable square footage.

SOURCE: MASSEY KNAKAL

PROSPECTIVE TENANTS *Dick's Sporting Goods*

Dick's First City Spot?

Sporting goods giant set to take big Blackstone hole; room left at 1095 Sixth

BY LAURA KUSISTO

Any golfer will tell you: Sometimes you just get tired of staring at an empty hole.

At long last, **Dick's Sporting Goods** wants to fill **Blackstone**'s cherished 36,000-square-foot, two-floor empty retail space at 42nd Street and Sixth Avenue, multiple sources said.

The prime spot in the 41-story Bryant Park tower, at **1095 Sixth Avenue**, is technically in the Times Square district and thus in the path of at least a few errant tourists; it also boasts 16 feet of ground-floor frontage with wrap-around glass. But ever since Blackstone bought the building in 2007 and slapped on a minty fresh facade, the landlord has searched for *the* perfect retail tenant and has rebuffed pretenders.

"This is an unbelievable opportunity, and in fact a once-in-a-generation chance, to re-imagine and reposition a long stretch of 42nd Street and create an exciting, retail-friendly link between Times Square and the dynamic Bryant Park neighborhood," said **Cushman & Wakefield**'s **C. Bradley Mendelson** in a statement when he took over the leasing assignment in September 2010.

Another 44,000 square feet of above- and below-grade retail space in the building, fronting 42nd Street and unrelated to the likely Dick's move, still appears to be available, which the landlord is marketing to restaurant or entertainment tenants. Blackstone has also struggled with shrinking office tenants and falling rents.

Brokers say that Dick's Sporting Goods, which was started in upstate New York by an avid fisherman in 1948, can afford to pay well for the space. "This is not like a T-shirt store," Prudential Douglas Elliman retail queen Faith Hope Consolo said. "This is the real deal."

The chain has more than 300 stores and has been looking for 15 years for a place to make its New York City debut, according to Ms. Consolo, who said the tenant has also looked on the East Side, in downtown and in Chelsea.

Ms. Consolo noted that sport stores, such as Modell's, have been growing—an unsurprising corollary to the post-millennium fitness fad and even the recession. "There are a lot of staycationers, a lot of people that wouldn't travel that are home in the summer," she said, many of whom are (or have been forced out of boredom to become) huge golfing and tennis enthusiasts. In fact, a trio of sports stores are said to have competed for the space, also including Texas-based Golfsmith and Recreational Equipment Inc. (REI), which is opening in Soho.

The ball doesn't seem to be in the hole yet. Mr. Mendelson declined to comment. Robert K. Futterman's Ariel Schuster, who previously had the listing, also declined to comment. The following parties didn't respond to calls: Blackstone; SRS Real Estate's Patrick Smith, who has helped Dick's scout for New York space; and Dick's itself.

lkusisto@observer.com

Ever since Blackstone bought the building in 2007 and slapped on a minty fresh facade, the landlord has searched for the perfect retail tenant and has rebuffed pretenders.