

Breaking It Down by Borough

Not surprisingly, Manhattan leading way in investment-sales recovery; outer-boroughs struggling with mixed value performance; clear that late 2010 was trough in values

In last week's column, we took a look at the overall New York City building sales market and compared its recent performance with past periods. This week, we will take a similar look at the first half of 2011 (1H11) but will analyze the performance of each individual geographic submarket.

As I have written for some time, we fully expected the Manhattan market to lead the entire marketplace out of the downturn and are indeed seeing this happen. Sales volume picked up in Manhattan before it did in other submarkets, and we are starting to see value appreciation in Manhattan.

In the outer boroughs (including northern Manhattan), sales volume has been lagging and, in some cases, has only recently started to recover. Value in these areas

remains uneven with some product types experiencing continued slides in the price-per-square-foot metric.

A detailed look at each of these submarkets will highlight how each is performing.



Robert Knakal

Manhattan

In the Manhattan submarket (defined as south of 96th Street on the East Side and south of 110th Street on the West Side), there was approximately \$11 billion worth of investment sales in 1H11. This activity reflects a 124 percent increase over the same period last year, when \$4.9 billion traded. In 2Q11 alone, there

was \$7.9 billion in sales volume, the highest quarterly total going back to 4Q07.

If 1H11 activity is annualized, the

Manhattan submarket should experience a near doubling of last year's \$12 billion sales volume. This year's total will likely be five times the \$4.2 billion in 2009. At the peak of the market in 2007, there was \$52.5 billion in sales volume.

Regarding the number of properties sold in the Manhattan submarket, 277 properties traded in 1H11, which, if annualized, is up 17 percent from the 473 properties sold in 2010. At the peak of the market in 2007, 999 properties sold. Clearly, we still have a long way to go before hitting the activity levels seen at the peak.

Value in Manhattan is trending upward in almost all property segments. There is still some downward pressure exerted on development-site sales, but this has less to do with actual value and more to do with the number of transactions. Value of land on a price-per-buildable-square-foot basis is improving,

notwithstanding what comparable sales data indicate. With the number of sales increasing significantly, it is not surprising to have averages fall as we come off periods during which only those sites obtaining top values were trading. All other

What is somewhat surprising is that value per square foot is not recovering as quickly outside Manhattan as we would have expected.

property types are experiencing nice appreciation.

Overall, value is up almost 11 percent, on a price-per-square-foot basis, in 2011 versus 2010. Hindsight will show us that 2010 was the bottom of the Manhattan submarket in terms of value.

Northern Manhattan

In the northern Manhattan submarket, in 1H11 there was \$167.4 million in sales, significantly less than the \$335 million in 1H10. If we annualize the dollar volume in 1H11, the market is running about 34 percent below the \$509 million in sales in 2010. At the peak of the market in 2007, there was about \$1.5 billion in dollar volume in this submarket.

In terms of number of properties sold, 69 properties traded in 1H11 as compared to 66 in 1H10, an increase of 4.5 percent. Annualizing the 1H11 total would lead to an estimated 138 sales for the year, an anticipated increase of 9 percent for over 2010's 127 sales. At the peak of the market, in 2007, 327 properties sold.

Values in northern Manhattan remain uneven, with some property types showing increases in value per square foot with others continuing to show decreases.



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The Bronx

In the Bronx submarket, there was \$282 million in sales volume in 1H11, a total significantly higher than the \$194 million in 1H10. If we annualize the 1H11 totals, the \$565 million result will show an increase of about 16.5 percent over the \$485 million of sales last year. At the peak of the market in 2007, there was about \$2.2 billion in sales in this submarket.

In terms of number of properties sold, there were 114 properties sold in 1H11, up 21 percent from the 94 in 1H10. Annualizing the 1H11 total would yield 228 sales, which would be up 19 percent from the 191 total last year. At the peak of the market in 2007, 701 properties sold.

Value in the Bronx remains very mixed, with half the product types seeing slight increases in value and the other half seeing values continuing to slide.

Brooklyn

In the Brooklyn submarket, there was \$699 million in sales volume in 1H11, up 37 percent from the \$509 million in 1H10. If we annualize the 1H11 totals, the \$1.4 billion in activity would be up 45 percent from the \$963 million 2010 total. At the peak of the market in 2007, Brooklyn saw \$3.8 billion in sales.

In terms of number of properties sold, this submarket saw 336 sales, up 23 percent from the 274 in 1H10. On an annualized basis, the 672 sales would show an increase of 18 percent over the 569 properties in the borough last year. At the peak of the market in 2006, 1,916 properties were traded in this submarket.

As in other outer-borough submarkets, Brooklyn has been seeing mixed value performance with five product types showing continued reductions in average prices per square foot and three product types increasing in value.

Queens

Lastly, in the Queens submarket in 1H11, there was \$452 million in sales volume, up 73 percent from the \$260 million in 1H10. If we annualize the 1H11 totals, the \$904 million worth of expected activity would be up 62 percent from the \$558 million last year. At the peak of the market in 2006, there was \$2.6 billion in

sales activity in Queens.

In terms of number of sales, 164 properties sold in 1H11, down slightly from the 171 in 1H10. If we annualize the 1H11 totals, the 328 sales would be up 7 percent from the total of 307 sold in 2010. At the peak of the market in 2006, 1,191 properties sold in this submarket.

In the Queens submarket, most product types are still experiencing value reductions in average price per square foot. Within five product types here, values dipped in 1H11 from 2010 totals, while within three segments, values increased.

All of this data lead to conclusions that are not necessarily unexpected. The Manhattan submarket is clearly leading the recovery and should help pull the other submarkets along with it. What is somewhat surprising is that value per square foot is not recovering as quickly outside Manhattan as we would have expected.

It appears that our real estate recovery is following the sluggish economic recovery that the nation is facing. We are lucky that we are in the New York City marketplace, which is doing relatively well compared with other locales. Notwithstanding how well we are doing here, things are still not all blue sky ahead. In June, the state unemployment rate rose to 8 percent from 7.8 percent in May. In New York City, the jobless rate increased from 8.6 percent to 8.7 percent. This is a troubling sign for the market given how impactful jobs are on our underlying fundamentals.

Even with a pace of activity that's slower than we would like, and the outer boroughs on a difficult footing value-wise, we expect the second half of 2011 to firm up. We believe we are still on pace to see very healthy volume increases and values appreciating in Manhattan and stabilizing in the other submarkets.

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Robert Knakal is the chairman and founding partner of Massey Knakal Realty services and in his career has brokered the sale of more than 1,150 properties totaling over \$7.4 billion in value.

**Robert Knakal's
Concrete Thoughts
will return after Labor Day.**

Buildings Sold							
Queens	2005	2006	2007	2008	2009	2010	2011
Q1	200	308	305	283	105	82	87
Q2	278	319	264	235	54	89	77
Q3	304	274	294	187	90	58	
Q4	253	290	253	141	96	78	
Total	1,035	1,191	1,116	846	345	307	328*

Sale Dollar Volume (Billions)							
Queens	2005	2006	2007	2008	2009	2010	2011
Q1	\$0.446	\$0.540	\$0.696	\$0.775	\$0.181	\$0.139	\$0.295
Q2	\$0.462	\$0.652	\$0.418	\$0.513	\$0.075	\$0.121	\$0.157
Q3	\$0.915	\$0.638	\$0.611	\$0.335	\$0.119	\$0.087	
Q4	\$0.456	\$0.760	\$0.491	\$0.280	\$0.216	\$0.210	
Total	\$2.279	\$2.589	\$2.216	\$1.903	\$0.591	\$0.558	\$0.904

Buildings Sold							
Northern Manhattan	2005	2006	2007	2008	2009	2010	2011
Q1	75	72	81	51	18	35	41
Q2	55	79	78	34	19	31	28
Q3	111	73	100	40	24	35	
Q4	74	71	68	20	28	26	
Total	315	295	327	145	89	127	138*

Sale Dollar Volume (Billions)							
Northern Manhattan	2005	2006	2007	2008	2009	2010	2011
Q1	\$0.278	\$0.580	\$0.403	\$0.270	\$0.039	\$0.117	\$0.108
Q2	\$0.182	\$0.237	\$0.352	\$0.147	\$0.077	\$0.218	\$0.060
Q3	\$0.661	\$0.329	\$0.422	\$0.172	\$0.103	\$0.105	
Q4	\$0.211	\$0.278	\$0.292	\$0.078	\$0.078	\$0.070	
Total	\$1.332	\$1.424	\$1.468	\$0.667	\$0.290	\$0.509	\$0.335

Buildings Sold							
Bronx	2005	2006	2007	2008	2009	2010	2011
Q1	126	154	191	118	48	40	59
Q2	157	204	190	124	60	54	55
Q3	123	134	156	94	53	35	
Q4	117	165	164	73	41	62	
Total	523	657	701	409	202	191	228*

Sale Dollar Volume (Billions)							
Bronx	2005	2006	2007	2008	2009	2010	2011
Q1	\$0.401	\$0.492	\$0.932	\$0.263	\$0.080	\$0.069	\$0.181
Q2	\$0.372	\$0.515	\$0.488	\$0.202	\$0.122	\$0.125	\$0.102
Q3	\$0.334	\$0.272	\$0.397	\$0.304	\$0.124	\$0.119	
Q4	\$0.292	\$0.422	\$0.372	\$0.152	\$0.075	\$0.172	
Total	\$1.399	\$1.700	\$2.189	\$0.921	\$0.400	\$0.485	\$0.566

Buildings Sold							
Brooklyn	2005	2006	2007	2008	2009	2010	2011
Q1	388	531	506	289	142	104	164
Q2	440	469	526	380	93	170	172
Q3	445	493	460	206	122	130	
Q4	437	423	383	233	121	165	
Total	1,710	1,916	1,875	1,108	478	569	672*

Sale Dollar Volume (Billions)							
Brooklyn	2005	2006	2007	2008	2009	2010	2011
Q1	\$0.732	\$1.153	\$0.863	\$0.708	\$0.209	\$0.160	\$0.340
Q2	\$0.778	\$0.873	\$0.901	\$0.520	\$0.100	\$0.349	\$0.360
Q3	\$0.774	\$0.908	\$1.228	\$0.408	\$0.214	\$0.209	
Q4	\$0.838	\$0.749	\$0.851	\$0.388	\$0.274	\$0.245	
Total	\$3.121	\$3.683	\$3.844	\$2.024	\$0.797	\$0.963	\$1.400