

2015 Investment Sales Set New Records

The final numbers for the New York City investment sales market are in, confirming that 2015 was one for the record books. The dollar volume of sales achieved a new record, while the number of assets sold came close but could not quite top last year, in which a new all-time record was established. Values also achieved new highs in 2015, but began to show signs of softness as the year came to a close. While there was uncertainty creeping into the market, there is no arguing that last year was a fantastic year for investment sales. Let's take a look at the statistics.

In the fourth quarter of 2015 there was \$18.3 billion in sales volume, bringing the annual total to \$74.5 billion, a new record. This total eclipsed the prior record of \$62.2 billion set in 2007 by approximately 20 percent. Back then, the CMBS market was shattering records with \$230 billion of issuances that fueled mega-deals, resulting in the massive amount of dollar volume. Last year, the CMBS market was not nearly as robust, but large transactions played a big



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role in the new record. There were 113 transactions over \$100 million (surpassing the 99 in 2014), nine of which were over \$1 billion (there were only five in 2014). In fact, more than half of the 4Q15 dollar volume consisted of only two transactions, and about 30 percent of all dollar volume came from transactions over \$1 billion, which is both positive and negative.

The 2015 total exceeded 2014's \$57.9 billion by 28.7 percent. Given the excessive demand from buyers and the additions to the supply of properties for sale created by escalating values, which encourage potential sellers to take advantage of them, we were not surprised to see this new record established. In fact, 2015's result was 13 percent higher than our January 2015 prediction of \$65 billion for the year.

With regard to the number of properties sold, a total below 2014's record was expected and came to pass. In 2014, 5,533 properties traded hands in New York City besting the prior record of 5,018 established in 2007. We always have considered

the number of properties sold as the metric that much more accurately reflects the health of market activity, as dollar volume can be skewed significantly by very large sales. While last year's total was lower than the year before, this fact should not leave you thinking that last year was not great.

In 2015, there were 5,083 properties sold. This was indeed lower than 2014's total by 8 percent, but is still the second best total we have ever recorded. In the absence of 2014's boom year, we would be doing cartwheels down Park Avenue for the 2015 performance. We anticipated the reduction, as our forecast for the year was a 10 to 15 percent reduction. The rationale for this was that we have never had two cyclical peak years in a row and this metric has always reverted to the mean, which is well below the totals for the past few years. To our delight, 2015's actual performance was not quite as low as we expected.

Property values also hit what we expect to be cyclical peaks. The average price per square foot of a property sold citywide in 2015 climbed to \$549, a new record. Capitalization

rates also hit what are likely to be cyclical lows, reaching a citywide average of 4.81 percent. While these averages were impressive for the entire year, a quarter by quarter analysis shows that prices per square foot are falling and cap rates are rising.

With regard to how the market will perform in 2016, there is much uncertainty and a lot to be concerned about. However, there are also a lot of positive indicators, making a forecast for this year extremely challenging. In fact, over the years, our forecasts have been fairly easy with regard to the direction of the market—it was simply the magnitude of the moves that we needed to scratch our heads about. Not since 1998 have market conditions been such that forecasting the coming year's direction has proved so difficult. While it could go either way, cracks in the market are becoming increasingly vivid and a correction in overall values would not be a surprise. We will be watching many indicators carefully as the year progresses for insight.

Meanwhile, cheers to a great 2015!

Robert Knakal is the chairman of New York investment sales for Cushman & Wakefield.