Boutique? C'est Chic!

Of late, the investment sales market in New York City has been more opaque than ever before in the 36 years I have been selling properties in New York. Some sectors are healthy; some are doing so-so; and others are hurting. Understanding what is really happening takes a lot of research and looking at comp sales and, more importantly, bidding activity on active listings.

From a macro perspective, the market faces some challenges. We are now 52 months into a market correction that began tangibly in October of 2015. The decoupling with the broader U.S. economy has been remarkable. All economic metrics have risen dramatically since then, but in New York City, the story has been different. The volume of sales has fallen each year since cyclical market peaks in 2014 for number of buildings sold and 2015 for dollar volume of sales. We believe 2020 could be a transitional year in which these metrics turn the corner.

One of the bright spots in 2019 and leading into 2020 has been the boutique office building sales sector. These are office buildings in Manhattan, south of 96th Street on the east side and south of 110th Street on the west side that sell for more than $10 million and include all sales of office properties of less than 150,000 square feet.

In this market sector, there was $1.96 billion of sales volume in 2019. This was an 84 percent increase over the 2018 total and just a 10.9 percent decrease from the $2.2 billion cyclical peak observed in 2015. It also represents the third highest total ever recorded.

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In 2019, there were 32 properties sold in this sector, up 60 percent from the 2018 total and down 28.9 percent from the cyclical peak observed in 2016 when there were 45 trades in this sector.

Perhaps the most interesting metric in this space is the fact that the average price per square foot of all sales rose to an almost all-time high of $1,076 per square foot. This mark fell short of the all-time high average of $1,103 per square foot attained in 2016 by just 2.4 percent and was up 21.9 percent from the 2018 average of $883 per square foot.

More impressive is the average price per transaction achieved in 2019 that rose to a remarkable all-time record of $61.3 million, which was 15 percent above the 2018 average and 11.4 percent above the 2015 previous record of $55.1 million.

So why has this sector performed so well when the broader investment sales market in New York City has been slumping?

The first indicator is the office leasing market. Leasing activity has been robust and net absorption has been positive. Geographic preferences have become diverse which has changed the market completely from past decades. Those are clearly good things for this market segment.

Another, and perhaps the most important, change in the boutique office building sales market has been the profound change in the buyer pool.

Due to the changes in the state's rent regulation system for apartment buildings, many decades-long multifamily investors have abandoned the sector in Gotham and are now buying multifamily assets in other low tax and low regulation states or are getting into other asset classes. The office sector has been a beneficiary of this shift and smaller office buildings have benefited most. After all, a first time buyer of office is not going to purchase a 500,000 square foot, class A office building to cut their teeth on.

Regardless of the reasons, there is no doubt that the boutique office sector is white hot today. Given where we have been over the past 52 months, we should take as much advantage as we can of a market sector that is surging. The boutique office building market is one of those.

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