# Bright Spots in the Investment Sales Market

Last week, I gave the keynote speech at the Asian America Real Estate Association conference in Midtown. The title of my speech was "Bright Spots in the New York City Investment Sales Market." Normally, preparing for speeches is relatively straightforward for me. Based on the title I selected, it was more of a challenge than usual.

Robert Knakal.

If you are a frequent reader of Concrete Thoughts, you know that from my perspective, the New York City investment sales market is now 50 months into a correcting market cycle. This current correction began in October of 2015 and continues today.

What is difficult to understand is that this correction in New York City investment sales, particularly in Manhattan, has taken place simultaneous with a booming broader U.S. economy and a robust local economy. In October of 2015, the U.S. economy consisted of 142.6 million jobs. As of October of 2019, the economy had 151.9 million jobs, an increase of 9.3 million jobs or 6.55 percent. The unemployment rate during the same period has fallen 1.4 percent from 5.0 percent to 3.6 percent. In the local New York City market, in October of 2015 there were 4.33 million jobs and as of this past September there were 4.65 million jobs, an increase of 320,000 jobs or 7.39 percent. Local unemployment during this period has dropped 1.1 percent from 5.2 percent to 4.1 percent.

Over the period in question, national GDP has grown from \$17.46 trillion to \$19.11 trillion, a 9.45 percent increase. Locally, GDP growth has gone from \$1.62 trillion to \$1.72 trillion (through 4Q17, the most recent data available), a 6.17 percent growth rate.

Interest rates have also been very positive during this period as the 10-year treasury has fallen from 2.05 percent in October of 2015 to 1.86 percent as of Nov. 6. The stock market has also performed extraordinarily well with the S&P 500 index increasing from 1,923 to 3,073, a 59.8 percent increase. Simultaneously, the Dow Jones Industrial Average has risen from 16,760 to 27,720, a 65 percent increase. Consumer confidence is up and consumer spending is also up — by 8.6 percent. And the Small Business Optimism Index has risen from 96.1 to 103.1, a 7.28 percent increase.

Still, the number of properties sold in Manhattan over \$10 million in the first three quarters of the year is down, on an annualized basis, 69 percent from the peak and the total dollar volume of sales has dropped by 67 percent from the peak. Property values are down, on average, about 10 percent on a price per square foot basis. (It is important to note that the diminution in multifamily asset values is yet to be determined based on the new rent laws.)

Notwithstanding the realities mentioned above, there are bright spots in the investment sales market. The activity on development sites has picked up tangibly over the last few months with robust bidding activity on most sites, albeit at lower price points per buildable square foot than we have seen over the past few years.

This interest is across the board for all product types: residential rental and condo, hotel, office and medical uses. Bidding is strong, and contracts are being signed. We are also starting to see significant traction in the Class B, C and D office building market as traditional office investors are active and many of the traditional multifamily buyers who have given up on that sector are now looking for other product types to invest in and these classes of office buildings is attracting them. There is also renewed interest in retail assets as many market participants believe retail rents have now bottomed out and are stabilizing. Another positive sign is the amount of foreign capital that continues to come into our market. Removing the two boom years of foreign investment in 2015 and 2016, this year's total is on pace to exceed the five-year average excluding those two peak years. The industrial market is also performing extraordinarily well with a citywide vacancy rate of just 3.2 percent and a net absorption total of 1.5 million square feet this year. And perhaps the most positive thing to remember about the New York City building sales market is that it has been, is, and will always be, cyclical. What goes up must go down and what goes down must go back up again. We are now in the longest correction we have seen in the last 35 years and it's about time we come out of it. Cheers to that!