

# Could NYC Investment Sales Be Turning a Corner?

Currently the New York City investment sales market is 52 months into a correction which has surpassed the 47-month correction experienced in the early 1990s during the Savings and Loan Crisis. Given the cyclical nature of the market, we will eventually pull out of the correction and things will be better. But when? The fourth quarter of 2019 (4Q19) sales market performance could be an indication that we are about to emerge from the correction.

At the end of 3Q19, the Manhattan sales market for sales over \$10 million was on pace for a depressing 34 percent drop from 2018 in terms of the dollar volume of sales and a 36 percent drop in the number of properties sold. These metrics were on pace to be down 67 percent and 69 percent respectively from the market peak in 2015. The 4Q19 numbers are in and have presented a very pleasant surprise and, perhaps, an indication that the market is about to turn for the better.



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In 4Q19 there was \$9.5 billion in sales volume. This was the best quarterly performance since 3Q16. Throughout 2014, 2015 and 2016 there were eight quarters in which sales volume exceeded \$10 billion and most of those quarters were dominated with bil-

lion-dollar transactions which can have a profound impact on the dollar volume metric. In 4Q19 there was only one transaction over \$1 billion. Interestingly, the number of transactions over \$10 million was just 50, the lowest quarterly total going back to 2Q13. This combination of metrics produced an average transaction size of about \$190 million, the highest quarterly average the market has

ever produced!

So what is causing these market conditions to exist? Volume metrics have been sliding consistently since the cyclical peaks in 2014 and 2015, mainly due to sellers not being able to achieve their pricing expectations. When the correction began in October

of 2015 there was downward pressure exerted on property values. As happens at the beginning of every correction, the negative pressure on values exerts significant downward pressure on volume as potential sellers simply do not capitulate. Some sellers are able to get their price so recorded values go up (as they did in 2016) but volume drops as most sellers don't get their price and decide not to transact.

This pent-up selling demand lasts only so long. In past corrections we have seen the period before the market really starts moving lasting 18 to 24 months. In this correction it has lasted much longer. But 4Q19 numbers might seem to indicate that the stagnation period is coming to an end. Our expectations are that the volume of sale in 2020 could get back to levels not seen since 2014 and 2015. Clearly, the dollar volume performance makes us feel pretty good but the reason we say the 4Q19 numbers "might seem to indicate" that the market is turning, is because the number of properties sold has not increased and for both 3Q19 and 4Q19

those numbers were poor. Yes, historically, dollar volume leads, and will move before, number of properties sold but we need to see movement in that metric before we can definitively say that the market has turned.

Another explanation of why 4Q19 performance was so strong is because the pent up selling demand is loosening as sellers become more in tune with market conditions and are recalibrating their expectations while at the same time our historically low interest rates are motivating buyers to be a bit more aggressive in their underwriting. This combination of factors is compressing the bid/ask spread and things are moving.

As I have always said, a single quarter does not make a trend but 4Q19 performance could be a foreshadowing of good things to come, from a volume perspective at least. The direction of value will be dependent on underlying fundamentals which are sending mixed signals at the moment. However, good news is good news and \$9.5 billion in the over \$10 million Manhattan sales market in 4Q19 is unequivocally good news!