Do Manhattan's Latest Investment Sales Stats Herald a New Phase?

It is clear to any market watcher that the New York City investment sales market has been challenged for quite a while now. The correction began in October 2015, and continues to this day.

The question we are trying to answer is whether the 12-month period, including the second half of 2021 and the first half of 2022, was merely a brief pause in what would be the longest correction we have seen in 40 years, or if that 12-month period marked the end of that correction and a brandnew one began during the summer of 2022. Only time will tell, but all agree that the market is challenged today.

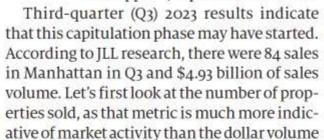
The Fed's interest rate increases are what precipitated the summer of 2022 phase of the market trends. Interestingly, the government is flooding the house with water trying to put out a fire that it started by pumping trillions into the economy. What

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did it expect to happen? Is anyone really surprised by high inflation?

Regardless of the cause, we have a challenging market, and it appears that transactions are getting even harder to get done as interest

rates are stubborn and cap rates are rising. As the market goes through its various phases, everyone is trying to figure out when the end of this correction will occur. Typically, when corrections come, the first thing is downward pressure on values. This causes downward pressure on volume. It typically takes 12 to 18 months for sellers to become in tune with the new market and, after that happens, capitulation occurs.



of sales.

Last year, there were 225 sales above \$10 million. This year, the market is on pace for 239 sales, a 6 percent increase. However, the most telling stat is that there were 47 sales in the first quarter and 48 sales in the second — and then in Q3 the number of trades increased to 84. As I always say, one quarter doesn't make a trend, but this could be an indication that sellers have begun to capitulate and accept today's lower values as the new reality and not likely to increase in the short term.

It is also important to look at the number of properties sold because this metric has historically moved before the dollar volume moves.

The \$4.93 billion volume of sales in Q3 was an increase of about 30 percent from the second quarter and puts the market on pace for \$15.3 billion for the year. This would be a decrease of 25 percent from the \$20.3 billion in sales last year.

For reference, the peak dollar volume was \$57.5 billion in 2015, so the current market is on pace to be 73 percent lower than the peak.

The peak in terms of number of properties sold was 484 in 2015, so the number of sales is trending toward a 2023 total that would be 51 percent below peak.

Given all that is going on today, we hope that this Q3 performance is indeed the start of the capitulation phase of the correction. It will probably be at the end of the first quarter of 2024 that we will know for sure.

I have pointed out in all my writing and interviews that each property sector is performing a bit differently, and that dynamic is indeed playing out. Retail may have already turned the corner, and Class B and C office will clearly be the last sector to turn. Everything else is somewhere in the middle.

For now, all we can do is keep plugging away, and take comfort in the fact that the market always has been, is, and always will be cyclical. There are indeed better times ahead, it is just a question of when.

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