Don't Believe the Sales Market's Dipped? Here Are the Numbers

In the last Concrete Thoughts column that I wrote about market conditions, I mentioned that for the first time in this cycle we are seeing values in the Manhattan submarket dropping across all product types. This fact was questioned and discussed by many of my readers through texts and emails to me. Today, we will take a closer look this recent troubling trend.

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The volume of sales in Manhattan has been falling for years. The dollar volume of sales has been dropping steadily since the end of 2015 and is now on pace in 2017 to be about 70 percent lower than the 2015 sales volume. This year we are running at a $19.2 billion pace versus the $63.2 billion achieved in 2015. The volume in terms of number of properties sold has been falling steadily since 2014 and is presently on pace to be about 45 percent lower than the 2014 total. Throughout this period of dropping volumes, values had continued to rise, albeit at a decreasing rate of increase, indicating that they were in the process of hitting a plateau. That trend has finally reversed, and the plateau appears to be behind us.

The end of the third quarter of the year was the first time we have seen falling values across the board in all major product type sectors in Manhattan since 2010. This condition exists because of value drops in the multifamily and office sectors, both of which were still appreciating at the end of the second quarter, finally succumbed to downward pressure on underlying fundamentals.

Land values in Manhattan have been hardest hit and are presently down 17 percent from peak pricing levels last year. This year's average price is currently averaging $567 dollars per buildable square foot. The volume of development site sold is also down significantly, on pace to be down 35 percent from last year's total and down a whopping 83 percent from the cyclical peak in 2015.

Retail properties in Manhattan are currently averaging $3,207 per square foot, an 8 percent decline from the $3,485 per square foot average in 2016. Average capitalization rates here are down 22 basis points this year to 4.24 percent. A compression in cap rates sounds good. However, this statistic is deceiving because last year cap rates in the retail sector increased significantly from 3.51 percent in 2015 to 4.46 percent in 2016.

Office building values in Manhattan have dropped 4 percent this year, to an average of $1,022 per square foot from last year's average of $1,065 per square foot. Cap rates in this sector have remained relatively flat over the past three years at just under 4 percent on average.

Mixed-use buildings in Manhattan, those with at least 25 percent of the square footage used for retail use with residential above, have seen their values drop 4 percent to an average of $1,324 per square foot this year. Last year the average price per square foot was $1,376. Cap rates in the mixed-use sector are up 37 basis points to an average of 4.01 percent.

Lastly, in the Manhattan multifamily sector, values have dropped also. In the elevator sector, average prices per square foot have dropped 3 percent to $931 per square foot from last year's $964 average. Average cap rates are up 20 basis points to 3.53 percent. While still relatively low by historic standards, recent activity should see this average increase tangibly over the next quarter or two. In the walk-up sector, values are performing better than in any other sector. They are down just 1 percent to an average of $1,016 per square foot. Cap rates are up marginally by 8 basis points to an average of 3.75 percent. The counterintuitive dynamic of walk-up properties selling for more per square foot than elevator buildings continues to hold.

These reductions in value are modest. How low they will go is still anyone's guess. But because nothing other than the normal cyclicality of the market catalyzed this shift, it is not likely to be significant. And the silver lining in this is that sale volumes should increase. We are seeing a meaningful pick-up in contract execution activity over the past two months or so, and we hope that trend continues.

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