CONCRETE THOUGHTS

During the Pandemic, They Are 'Other Boroughs,' Not 'Outer Boroughs'

When it comes to the New York City investment sales market, the perception is, typically, that Manhattan is king and the outer boroughs are runners-up. However, during the pandemic, this long-standing perception has not been true. My friend, Josh Muss — who constantly reminds me that they are not the "outer boroughs," they are the "other boroughs" — surely is smiling today given the relative performance of the other boroughs compared with Manhattan.

And, while it is true that average prices per square foot for sales and rents are higher in Manhattan than they are elsewhere, on a relative basis, properties in the other boroughs are performing much better on a relative sense than they are in Manhattan.

If we take a look at Manhattan's investment sales market in 2020, we see that, by any measure, it was ugly. Sales volumes, both in terms of number of properties sold and the dollar volume of sales, were down significantly. Additionally, there was tremendous downward pressure on property values based upon the pandemic's market impacts.

To recap Manhattan's performance in 2020 in the over-$10 million investment sales market, we see that the year finished with $11.15 billion of investment sales activity. This was down 61 percent from the $28.7 billion in 2019, and was down 81 percent from the cyclical market peak in 2015 of $57.5 billion. With regard to the number of properties sold in 2020 above $10 million in Manhattan, there were 104 transactions last year, which was down 53 percent from the 220 sales in 2019. This total was down 79 percent from the 484 properties sold at the peak of the market in 2015.

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The performance of the other boroughs was not quite as negative as the Manhattan numbers. In the other boroughs in 2020 in the over-$10 million sector, the dollar volume of sales was $5.2 billion, down 36 percent from 2019, and down 58 percent from the cyclical peak of the market in 2016, when there were $12.3 billion in sales.

There are a couple of important observations in these numbers. First, the 36 percent drop from 2019 compares favorably to the 61 percent Manhattan drop. Second, the 58 percent drop from the peak also compares favorably to the 81 percent drop in Manhattan. Additionally, it is interesting to note that the cyclical peak in Manhattan was experienced in 2015, and in the other boroughs, it occurred in 2016.

When it comes to property type performance in the other boroughs, office properties took the biggest hit, with just $190 million of sales volume, down 70 percent from the $640 million in 2019, and down 90 percent from the $1.9 billion in 2016. Retail was the strongest-performing asset class in the other boroughs, with $375 million of sales volume, down just 7 percent from 2019, and down 35 percent from 2016's total.

With regard to the number of properties sold in the other boroughs in the over-$10 million category, in 2020, there were 140 property trades, down 36 percent from 2019, and down 63 percent from the cyclical peak of 383 in 2015.

The 36 percent drop from 2019 compares favorably to the 53 percent drop in Manhattan, and the 63 percent drop from the peak compares favorably to the 79 percent drop in Manhattan. The product type hardest here was multifamily with 42 trades, down 43 percent from 2019, and down 80 percent from the 205 that occurred in 2015. The best-performing product type was, again, retail, where there were 12 sales in 2020, the same total as in 2019.

With regard to values, in Manhattan, property values are down anywhere from 15 percent to more than 50 percent depending on property type. Given the sensitivities involved, I won't mention how each product type is performing, but the interesting fact here is that, in the other boroughs, the reduction in value is only 25 to 33 percent of the drop in Manhattan.

An explanation for the current dynamics is that there is historically more volatility in Manhattan than in the other boroughs. When times are good, things go up in Manhattan more than they do in the other boroughs; and, when times are not so good, the pain is more acute in Manhattan. That is exactly what we are seeing in the New York City investment sales market today.

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