

# Focus on the Fundamentals for a Window Into 2016

## Sales Volumes and Property Values

As 2016 begins, trying to figure out how the investment sales market will perform is no easy task. Within the next week or so, we will be making our forecast for the year and we will look at several metrics to craft our projections.

An important component of the data for review will be the 2015 year-end sales statistics. While the figures are not yet compiled, it is a safe bet that last year will set a new all-time record for dollar volume of investment sales. The previous peak was \$62.2 billion in 2007 and last year will end up significantly above that threshold. The number of properties sold will likely not eclipse 2014's all-time record but will be extremely strong, likely recording a second-strongest-year-ever total.

With respect to making our 2016 forecast, we always try to learn from history. In 1988 and 1998, there were cyclical peaks in the number of properties sold. Similarly, it appears 2014 will represent this cycle's peak year. After 1988 and 1998, the market

reacted in two very different ways. After the former, the market went into a tailspin, but after the latter, it ran positively for another nine years before correcting. However, as the years following the peak years, 1989 and 1999 were both very strong. Therefore, a very strong 2015 was completely expected and is in no way surprising after the 2014 peak. The question becomes how the market will perform in 2016.

Our present circumstances are unique. Since 2008, we have had massive and unprecedented government intervention in our financial markets. Additionally, we have seen events around the world that continue to tangibly impact global capital flows. These conditions, and the way the markets have responded, have economists scratching their heads. U.S. long-term debt got downgraded and, counter to everything we ever understood about economics, rates went down. The government nearly quadrupled the money supply; prior to this, every economist on the planet would have projected

significant inflation. Today, inflation has evaporated and, at 0.09 percent, is lower than it was during the period when Bear Stearns and Lehman Brothers were failing. These things shouldn't happen; and they make us wonder about the future of our markets and if generally accepted market principles will hold. History tends to repeat itself, but generally a bit differently. Perhaps things could be very different this time around.

If a downturn occurs, will it impact the entire investment sales market as it has in the past? Or, counter to what is typically expected, could it impact only certain product types? This has never happened before, but current conditions support this. The land and hotel markets are hurting, retail is hanging in there and office and multifamily assets are presently solid. In most market corrections, land and hotels are first to turn. Land turns because developers become pessimistic about what market conditions will be like in two to three years when their new product will be coming to the market. Hotels turn because with leases that

typically are for only a few days at a time, occupancy reacts immediately to changes in the market, either actual or perceived. These segments, which are first to react, have started to exhibit stress. Will the other product type segments follow or will the weaker segments pivot and get healthier as we move further into 2016?

We will watch several things to determine how the investment sales market is likely to play out: the residential condominium market (which seems to be slowing, creating concerns for developers), 4Q15 sales statistics (including cap rates and values), interest rates (which ticked up for the first time in nearly a decade) and rents (including residential, retail and office). How these fundamentals perform will greatly impact the direction of sales volumes and property values this year. For the past several years, creating our forecast was relatively easy and most results were in line with our projections. This year will be among the most challenging to forecast given our present conditions. Stay tuned for our forecast shortly...

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