# How to Understand Manhattan's Investment Sales Market for 2023

After the first three quarters of 2022, the dollar volume of Manhattan investment sales was on pace to be up 38 percent and the number of properties sold was on pace to be up 12 percent. Given what was going on in the capital markets on the lending side since September, we expected those numbers to be lower at the end of the year. The dollar volume was as expected, and the number of properties sold was slightly more positive.

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When we look at activity in the Manhattan investment sales market for transactions over $10 million south of 96th Street on the East Side and south of 110th Street on the West Side, we carefully study the two most prominent value metrics: dollar volume and number of properties sold.

As we all know, the Federal Reserve began raising interest rates in March 2022. However, the impact on the commercial real estate market was not really felt until September. It was at this time that many lenders increased their lending rates and property values started to feel downward pressure. When this dynamic occurs, it normally leads to a reduction in sales volume, which was the case here.

In the fourth quarter of 2022, there was $4.1 billion of sales volume, down about 34 percent from the $6.2 billion in the third quarter. This quarterly total was also down by more than 50 percent from the $8.6 billion of sales volume in the fourth quarter of 2021. That fourth-quarter 2022 total resulted in a total for the year of $20.3 billion of sales volume, up 29 percent from the $15.75 billion in 2021. This is indeed lower than the 38 percent increase that was anticipated after annualizing the first three quarters' total.

The number of properties sold in the fourth quarter of 2022 was 64. This total was 12 percent below 2022's third-quarter number and 28 percent below 2021's fourth-quarter total, which was 89. For the year, there were 225 properties sold, up 18 percent from the 191 sales that occurred in 2021. This was the highest annual total going back to 2018 when there were 240 properties sold in Manhattan.

For perspective, the 2022 total of $20.3 billion was 65 percent below the cyclical peak of $57.5 billion in 2015. The number of properties sold in 2022 — 225 — was 54 percent below the 484 properties that traded hands in 2015, also a cyclical peak.

The most productive product type was the multifamily sector, which closed out the year with approximately $7.9 billion in sales volume, a 102 percent increase from the $3.9 billion in 2021. Disaggregating multifamily into its two component parts, elevator properties and walk-up buildings, elevator buildings showed an 84 percent increase, going from $3 billion in 2021 to $5.6 billion in 2022 while walk-up buildings' volume increased by 156 percent, going from $913 million in 2021 to $2.3 billion in 2022. Also, surprisingly, there was a 40 percent increase in the dollar volume of office buildings — from $6.2 billion in 2021 to $8.7 billion in 2022.

With regard to the number of properties sold, the multifamily sector was again the star performer. Here, there was a 68 percent increase in the number of trades, going from 63 in 2021 to 106 last year. Looking at the component parts, we see elevator building sales increased 64 percent, from 28 in 2021 to 46 last year. Walk-ups saw a 71 percent increase, from 35 in 2021 to 60 last year.

Where the market goes from here will be dependent mainly upon what happens with the 800-pound gorilla in the room for the market this year: refinance risk. Many of the mortgages maturing this year will require fresh capital to effectuate those refinancings as the proceeds that lenders will be willing to advance will likely be lower than the present mortgage balance. The questions will include: Does the owner have the capital necessary for the property to allow the refinance to happen? If they don't, the writing is on the wall. If they do, will they choose to put new capital into the asset to hold onto it?

Given the uncertainty in the market today, many owners have indicated an unwillingness to put fresh capital into existing properties. If this happens, the amount of available properties for sale will increase substantially and lead to increases in sales volumes — not the worst thing for those of us who rely on transaction volume, but not necessarily a good thing for property values as the number of options will increase for those looking to deploy capital into the market.

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