Investment Sales Report Card... Are You Sitting Down?

With the first-half numbers for 2017 in, it is clear that the New York City investment sales market is facing tremendous challenges and headwinds. The volume of sales is significantly hurting with no end in sight for the balance of this year.

There are two things that we must keep in mind when we look at our investment sales market. The first is that what happens in New York City will happen in Manhattan first. The second is that when looking at different property types, the land market is the leading indicator for how other real estate segments will perform.

Robert Knakal

If you are a frequent reader of Concrete Thoughts, you know that my perspective is that the market began changing, and correcting, at the beginning of the fourth quarter of 2015. It was then that we saw tangible shifts in both the land market and the hotel sector (hotels are also a leading indicator of fluctuations in the market given their high correlation to market movements).

Since then, we have seen market conditions similar to what we see in the quintessential market correction phase. Here, prices begin to plateau, while still increasing slightly (in some sectors values begin to drop), as the volume of sales plummets.

In the first half of 2017, the dollar volume of sales was approximately $16.9 billion. If annualized, the $32.9 billion pace that we are on would finish the year 43 percent below the $57.8 billion of sales volume we had last year—moreover, the 2016 total was 25 percent below 2015's all-time record of $77.1 billion. So in 2017, the market is on pace to be 57 percent below the 2015 record. It should be noted that this $32.9 billion pace is right about what we had in 2005.

With regard to the number of properties sold, we're currently expected to see 3,756 sales, which would be 14 percent below last year's 4,376 sales and 32 percent below 2014's all-time record of 5,534 trades. The 2017 pace puts us at the citywide market's long-term average of 2.3 percent of the total stock of investment properties in our statistical sample, which is approximately 165,000.

So, is there any good news? Well, values in the first half of 2017 have averaged $570 per square foot, a 7 percent increase over the $533 average in 2016.

But this market performance is indicative of a market correction, and the present one is in its 22nd month. As poor as these numbers are, a deeper dive is even more troubling. Remember one of our two "givens" about the sales market here—what happens in New York City happens in Manhattan first.

In the first half of the year, the dollar volume of sales in Manhattan is on pace to end at $19.8 billion, 50 percent below 2016's $39.6 billion and a whopping 67 percent below the $59.9 billion of sales that occurred in 2015. That $19.8 billion would be equivalent to what we had in 2008, which for those of you who remember, was an awful year. At the same time, in the outer boroughs, sales volume is running at $13.1 billion, only 29 percent below 2016's $18.2 billion. So, in the dollar volume we have a 67 percent drop from the peak in Manhattan and only a 29 percent drop from the peak in the outer boroughs.

With regard to the number of buildings sold, the Manhattan submarket is on pace for 616 sales, 43 percent below the cyclical peak in 2015, while in the outer boroughs, the market is set to reach 3,138 sales, just 31 percent below it's cyclical peak in 2014.

With regard to property values, in the Manhattan submarket, values have increased by 2 percent to $1,483 per square foot in 2017 versus the $1,449 average in 2016. In the outer boroughs, the average price in 2017 grows to $407 per square foot, a 7 percent increase over the 2016 average. If we look at a trend in Manhattan, it's apparent that values are plateauing where, in the outer boroughs, values appear to be on a steadily increasing slope. Further, if we look at first-quarter 2017 versus the second quarter , we see that in the outer boroughs values increased by 3 percent quarter-over-quarter, whereas in Manhattan, values actually decreased by 6.6 percent.

If our thesis holds that what happens in New York City happens in Manhattan first, we expect to see a slow down in activity in the outer boroughs and a corresponding reduction in values moving forward. We will look at the land market and what is happening there in next week's column.