Investment Sales Ticked Up in 2018 and Look Good in '19

As we head towards the end of the year, it is a great time to examine supply and demand drivers in the New York investment sales business.

Thus far, the year has been playing out as expected. Our forecast was that the volume of sales would increase and that underlying fundamentals would firm up to stop the downward slide in property values. Both of these forecasts are on track. The cyclical peak in the number of properties sold occurred in 2014 when 5,534 properties traded in the city, an all-time record by more than 10 percent. Since then, that metric has been in retreat with a total of about 3,660 last year. Tracking this year's activity through the end of October, the market is heading toward 3,800, about a 4 percent increase over last year.

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With regard to the dollar volume of sales, the cyclical peak occurred in 2015 at $80.1 billion citywide, also an all-time record. That metric has also been in retreat since then and finished last year at about $36 billion. This year the market is tracking toward about $47 billion, roughly a 30 percent increase over last year. The volume metrics are indeed performing as expected.

With regard to property values, they have been experiencing downward pressure since 2016. Fortunately, on average, values have only fallen by about 8 percent on a price-per-square-foot basis from their peak. The investment sales market correction that we are in is now 37 months running and it appears to be in the late stages. Tangible traction in the economy has been bolstering underlying fundamentals. Notably, in the residential sector, concession packages are no longer growing and in some areas are being reduced. Further, in neighborhoods where there are no supply issues, rents are rising. This is important because changes in residential rents have historically preceded changes in commercial rents. Value could be poised to begin increasing. We do not anticipate significant growth in values in the short term. However, we do expect them to increase.

The supply of available properties is expected to increase in 2019. This is based upon the number of valuations we are doing for clients who are considering a sale. For the past several years, we have averaged 1.35 valuations per working day and for the past three months that number has been 1.92. While this is a relatively small statistical sample, it is a barometer for expectations moving forward. This represents a potential 42 percent increase in the stock of available properties. Because supply is king in the supply/demand dynamic, this could have a profound impact on the market moving forward.

On the demand side, the most talked about trend is that large Chinese institutional capital has all but exited the market. However, this is only one slice of the total demand that exists for New York commercial real estate. Local and domestic core, core-plus and opportunistic buyers are still aggressively looking for places to park their cash. There is a virtual ton of dry powder looking for real estate investments from these institutional buyers. High-net-worth individuals and old-line New York families have been very active, particularly in the multifamily sector. And foreign investment is by no means dead because Chinese institutions have pulled back. Other countries have been picking up the pace. This is particularly true for foreign high-net-worth investors who seem to be coming into the market in increasing numbers. These investors are attracted to the relative political and economic stability that the U.S. offers. New York remains at or near the top of the list for almost all of these investors. And a new demand drive has been created by all the excitement about investing in Opportunity Zones.

Opportunity Zone investing should prove to be robust as commercial real estate market participants' activity is highly correlated to changes in tax policy.

These current dynamics lead to an outlook that is relatively positive for the local sales market in 2019. The volume of properties sold and the dollar volume should increase and, based upon strengthening fundamentals, values should have upward pressures exerted on them. The one caveat is: what will happen in the multifamily sector with rent regulation up for renewal in June and a swing in the balance of power in Albany. All-in-all, it is easy to feel good about where the market in heading in 2019.