Investment Sales in 2016 and the Outlook for 2017

In PowerPoint presentations prepared for speeches I have given over the past six months or so, I start out with a quote from the great American business writer, Tom Peters, who once said, "If you're not confused, you're not paying attention."

When trying to determine what is happen-

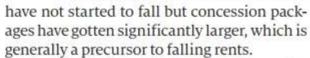
ing in New York City's investment sales market, this quote certainly rings true. From my perspective, the investment sales market started a correction at the beginning of the fourth quarter of 2015. Since that time, we have seen corrections in pricing for hotel land, always the first of the product types to correct when the market is in transition. However, throughout 2016, we did not see other product segments' values correct.

Heading into 2016, we anticipated a reduction in the volume of sales of 20 percent to 30 percent in terms of dollar volume and 30 percent to 40 percent in terms of number of properties sold with values ending the year lower on a price-per-square-foot basis than they started the year.

Now that the 2016 numbers are in, and are almost final, it appears that we were partially right with our forecast but remain confused in terms of where the market is headed. Sales volumes have indeed dropped, but values ended the year above where they were one year ago.

One of the reasons that we expected value

to finish 2016 lower than it started the year was because of the deterioration that was anticipated with respect to underlying fundamentals. By the middle of last year, it was clear that residential rents were dropping. By the beginning of the fourth quarter, it became apparent that the tremendous vacancies seen in the retail sector were exerting downward pressure on retail rent levels. In the office sector, rents



One of the things that leads to the confusion we are experiencing is that while fundamentals are weakening, we have seen a tangible increase in optimism since about mid-October (prior to the election results).

This optimism seems to have grown of late within the capital markets sector.

Let's look at how 2016 finished and what we anticipate in 2017.

In 2016, there was approximately \$60 billion of investment sales activity in New York City, 25 percent below the \$77.1 billion of activity in 2015. Notably, the Manhattan submarket saw approximately \$40 billion of sales activity, 34 percent below the \$59.9 billion the market experienced in 2015. There were approximately 4,400 properties sold citywide last year, a 15 percent drop from the 5,191 sales in 2015. In Manhattan, there were approximately 764 (the lowest total since 2011) sales in 2016, 30 percent below the 1,089 sales that occurred in 2015. The reductions in dollar volume and the number of properties sold were more severe in Manhattan than in any other submarket citywide

The reduction in dollar volume in 2016 was exactly where we had anticipated it would be but the number of properties sold actually performed better than we anticipated.

With regard to property values, on a priceper-square-foot basis, 2016 finished the year with a citywide average of \$538 per square foot, a 10 percent increase over the \$491 average in 2015. The largest gain was in the Bronx where average prices reached a new all-time record of \$222 per square foot, 21 percent greater than 2015's average. The most modest increase in value was in Queens where average prices hit \$370 per square foot, a 5 percent increase over 2015's \$353 average.

Given the optimism that we are seeing from market participants today, we anticipate that values will continue to stay relatively flat this year, or if anything, increase modestly. I view flat pricing this year as a positive given where we believe we are in the market cycle. With respect to the volume of sales, we expect the first half of 2017 to also be somewhat muted relative to the levels we saw in 2014 and 2015 with a pick up in activity during the second half of the year. It is likely that tax reform will be attempted early in 2017 which, given the market's high correlation to changes in tax policy, could significantly impact market performance if implemented.

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