

Is Now the Time to Buy Retail Assets?

Based on what we are seeing in the New York City investment sales market, it may indeed be the time to start buying retail driven properties. We have seen a significant increase in the appetite for retail assets from the purchasing community of late and we anticipate that this positive trend will continue. Before diving into the retail market, let's take a look at the broader investment sales market.

The Manhattan investment sales market (looking at all sales over \$10 million) really got a shot in the arm in the fourth quarter of 2019 when the volume of sales rose sharply. Heading into 4Q19, the volume of sales was really hurting. Annualizing the first three quarters of the year produced a trend line which would have left the year down 35 percent from 2018 in terms of the dollar volume of sales and down 61 percent from the peak volume year of 2015. In 4Q19, there was \$9.4 billion of sales volume in this sector which brought the year up to just over \$26 billion, down only 9 percent from the \$28.7 billion observed in 2018.



Robert Knakal.

This total was down 55 percent from the \$57.5 billion in 2015. The \$9.4 billion 4Q19 total was the highest quarterly total in 13 quarters going back to 3Q16.

The number of properties sold metric also performed well. There were 50 sales over \$10 million in Manhattan in 4Q19 bringing the annual total to 216 for the year. This total was down 11 percent from 2018 and down 55 percent from the 481 total which was the cyclical peak in 2015.

So, broadly speaking, the Manhattan investment sale market has been in correction mode for 53 months now, since October of 2015 when the correction began. This is the longest correction we have seen in the market, surpassing the 47-month correction seen in the early 1990s during the Savings and Loan Crisis. However, the surge in sales activity in 4Q19 is a positive sign for a potential end to these correcting dynamics. Other signs that the end of the correction may be near are the positive trends we are seeing in the office building sales market as well as the industrial

sales markets. Another sector that appears to be poised to surge seems to be the retail property sales market. This sector includes retail properties, retail condo and co-ops as well as smaller mixed-use assets where retail rents make up the lion's share of the property's revenue.

The dollar volume of retail sales more than doubled in 2019, up to \$3.5 billion in Manhattan, up from \$1.45 billion in 2018, a massive 144 percent increase. Yes, there was one very large transaction that impacted the annual total but the sentiments about the retail market seem to be changing for the better. The number of retail assets sold was 34 for the year, the highest annual total since 2016. Some of this surge has been stimulated by the shifting appetite from the investment community. Investors are increasingly turning away from the multifamily market and deploying that capital into multifamily assets outside of New York City and other asset classes within the city, including retail properties.

We judge investor sentiment and appetite by the number of confidentiality agreements signed on current offerings as well as

the number of offers received on these properties. The numbers for both of these metrics are up sharply for retail assets as multifamily investors react to the rent-regulation reforms that went into effect in June of last year and grow concerned about what might come out of the current legislative session. Other asset classes, including retail properties, have been beneficiaries of the disruptions in the multifamily space.

Another aspect of the psyche of investors that is helping the retail market is that a growing number of investors are feeling that retail rents have stabilized and could, in fact, change direction soon. Increasingly, investors are realizing that a change in retailers' approach to business has helped boost the industrial last-mile market as retailers are conscious of not wanting to sell and warehouse goods in the same relatively expensive space. This shift demonstrates that the delivery systems for goods have change tangibly and market participants are reacting to these changes.

For these reasons, we are encouraged by the future of retail assets sales in New York and will continue to monitor this dynamic sector closely.