Land Values Are Down, but Don't Worry—Volume Will Pick Up!

If you are frequent reader of Concrete Thoughts, you know that I believe the investment sales market in New York City is in its 27th month of a market correction. The reason that I believe this is because, from my

perspective, the market changed very significantly at the end of the third quarter of 2015. At that time, the land market in Manhattan seemingly shut off. After years of a rallying development market, offers on development sites that we had on the market all of a sudden were 20 percent below expectations, and many sellers simply decided not to sell. This was profoundly important as land and

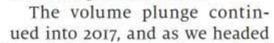
hotels are historically the first two product types to experience change when market direction changes, and the broad drop in bid levels signaled a correction in the making. That foreshadowing proved to be accurate.

If you looked at the Manhattan land market value statistics for 2016, you would not have thought there was a reset in land values. In fact, values rose to \$681 per buildable square foot in 2016 from \$643 per buildable square foot in 2015, a 6 percent increase. So how could my perception of the market have been so far off?

Robert Knakal.

My opinion of a correction in land value was based upon all of the bidding activity on the Manhattan sites we were marketing. This is one of the advantages of having a signifi-

cant inventory of properties for sale at any one time. I believe that value actually did drop in fourth-quarter 2015; it just didn't show up in the statistics in 2016 because an overwhelming percentage of sellers did not capitulate and sell at the new lower values. This lack of capitulation resulted in a drop in sales volume of 74 percent in 2016.



toward the end of the year, Manhattan land sale volume was tracking toward less than \$2 billion for the year. This total would be 83 percent below 2015's \$10.86 billion. At the end of 2017, Manhattan land values were averaging \$567 per buildable square foot, 17 percent below 2016's average. (All year-end data represent an annualization of year-to-date figures as of mid-November.)

Land markets in the outer boroughs were mixed, some performing positively and others not so much. This is not uncommon as Manhattan normally leads the way in terms of trends and market direction.

In Queens, the volume of sales is expected to reach \$340 million for all of 2017, down 70 percent from 2016. Values here averaged \$181 per buildable square foot as 2017 came to a close, up 3 percent over 2016's average.

In northern Manhattan, land sales appeared to be headed to a full-year sum of \$104 million, 64 percent down from 2016. This result is not unexpected as many potential sellers held off until the East Harlem rezoning was completed at the end of November. The rezoning will increase values and should catalyze a large increase in volume in 2018. Values in northern Manhattan at year end averaged \$239 per buildable square foot, 5 percent higher than the year prior.

In the Bronx, land sales volume was slated to reach \$114 million, 45 percent below 2015's \$210 million total. Average values here were \$63 per buildable square foot near the end of last year, a 5 percent increase over last 2016's \$60 average.

Lastly, Brooklyn is on pace for \$1.26 billion in 2017, which is *only* 40 percent below 2015's \$2.12 billion. This reduction in volume is the lowest outside Manhattan and values in Brooklyn reflect this. Perhaps it is because Brooklyn is more like Manhattan than any other submarket or maybe it is because, on a relative basis, values in Brooklyn have increased during this cycle more than in any other submarket, but values at the close of 2017 averaged \$229 per buildable square foot, 7 percent below 2016's \$246 average.

The silver lining in all of this is that the drop in Manhattan land values caused a jump in activity in the sector. Bidding activity and contract executions have been up tangibly over the last couple months or so. Very few of these transactions, if any, were slated to close last year so the statistics for 2017 will continue to look grim for the sector. However, in 2018 activity should pick up considerably as these recently signed contracts close.

With volume likely to pick up, the big question is, What will happen to land values? It is likely the outer boroughs will take Manhattan's lead and decline in 2018. For Manhattan, the direction of movement in land values will, to a great extent, be dependent on what happens with underlying fundamentals. Will residential, retail and office rents stabilize? Or will they continue their downward trend? The answer to that question could determine what happens with Manhattan land values in 2018.