CONCRETE THOUGHTS

Manhattan: The Leading Indicator for the Sales Market?

For decades, the Manhattan investment sales market has been the leading indicator for changes in direction. This submarket, defined as south of 96th Street on the eastside and south of 110th Street on the west-

side, has generally started to rise first after a correction and has started to fall first when a correction begins. Today, the market in Manhattan is performing more negatively than other submarkets, so the question today is if this submarket remains a leading indicator as it has in the past.

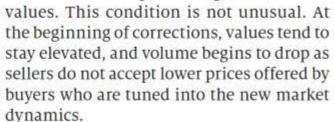
To recap, the investment sales market in New York City has just come off of the two best back-to-

back years we have ever seen. In 2014, more properties were sold than ever before. The 5,533 properties sold was an all-time record by more than 10 percent. In 2015, the dollar volume of sales also achieved an all-time record with \$75.5 billion, topping the previous record of \$62.2 billion, set in 2007, by 8 percent. After these two record setting years, we anticipated that these metrics would turn downward as reflected in our 2016 forecast.

We also expected property values to be lower at the end of the year than they were on Jan. I. Thus far, the market has been following this trajectory.

Through the first quarter of 2016 (IQ16),

the dollar volume of sales is on pace for \$56.4 for the year, which would reflect a 25 percent decrease from last year's total. The number of properties sold in IQI6 was 1,205. If annualized, the 4,820 pace would reflect a 7 percent reduction from last year. Thus far, property values, on average, have continued to rise, but certain property type sectors have been experiencing reductions in



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Much has been written and discussed about a potential correction in the market. There are two schools of thought here.

The first is that what we have been seeing

for the last few months has been the beginning of a major correction in the market. While there has not been a single event or a catalyst for it, believers in this path suggest that values simply got too far ahead of where underlying fundamentals dictated they should be, and a major correction is nothing more than a natural regression to where values should be.

The second view is that the market is simply taking a deep breath, and it is poised to continue an upward surge for many years to come.

If we are looking for clues as to which of these is correct, the performance of the Manhattan submarket has historically provided some insight.

In 1Q16, there were 178 properties sold in the Manhattan submarket. At this pace, there will be 712 properties sold this year. A total that would be 34 percent lower than 2015, which unfavorably compares with the 7 percent reduction citywide. This quarterly total is the lowest seen since 1Q13. With respect to the dollar volume, there was \$9.1 billion of sales in 1Q16 (the lowest total since 3Q13), a pace which would

result in a total 38 percent below last year. Citywide, the reduction was 25 percent. Both of these figures represent the largest reductions in these two volume metrics. If fact, the reduction in dollar volume was the only downward movement within any of the geographical submarkets. As seen in the broader market, values, on average, rose in the first quarter. This makes two quarters in a row of positive movements after the three previous quarters showed reductions in values.

Based on this performance, it would appear that the Manhattan submarket is leading a turn in the market. However, many indicators, and generally accepted economic relationships, are not as highly correlated as they once were. This makes the horizon even more opaque and could mean that this seemingly reliable trend will be meaningless given today's realities. As with all things, time will tell. Until then, we continue to monitor all metrics very closely.

Robert Knakal is the chairman of New York investment sales for Cushman & Wakefield.