Market Disruptions: Past and Present

With most people working from home these days, it is providing an opportunity to think back on other significant disruptions that we have had in the New York City investment sales market and see how our current circumstances compare to events that we have had in the past. While there are some differences, there are also some similarities. This week we will take a look at disruptions that we have had in the past and how those events unfolded and altered the marketplace.

My brokerage career began in July of 1984. At that time, the marketplace was on the upswing, coming out of the dire times of the mid-1970s (when New York City nearly went bankrupt) with tangible traction emerging from the early 1980s when interest rates were extraordinarily high at nearly 18 percent. As interest rates started to decline, it created a boost to the marketplace and we saw an increased volume of sales in the early 80s into the mid-1980s. There was a steady increase in the number of properties sold in Manhattan from 1981 through 1986. Volume dropped in 1987 but that was due to the Tax Reform of 1986 which "stole" volume from 1987 and accelerated it into 1986. The true cyclical peak occurred in 1988 when the turnover ratio peaked at 3.5 percent of the total stock of properties in Manhattan. The turnover ratio is the number of properties sold divided by the 27,649 properties in Manhattan south of 96th Street on the east side and south of 110th Street on the west side. The average Manhattan turnover ratio in Manhattan going back to 1984 has been 2.6 percent.

Robert Knakal.

The first major disruption I saw in my career occurred when the stock market crashed in October 1987. That clearly had a profound impact on the market, however, the impact that the stock market crash had on the market was really not felt until several years later. Perhaps it was the lack of social media, or that things just did not move as quickly at that time, but in the wake of that October 1987 stock market crash, 1988 and 1989 were both relatively good years for the New York City investment sales market. The impact of the 1987 event was really not tangibly felt until 1990 when the volume of sales slowed to a crawl. In 1989, the turnover ratio was 3.1 percent which fell to 2.2 percent in 1990. In 1991 and 1992, the turnover ratio in Manhattan fell to 1.7 percent and 1.6 percent respectively. Not surprisingly, unemployment peaked in 1992 with a national unemployment rate of 7.5 percent and a New York City unemployment rate of 11.1 percent. During this period, commonly known as the Savings & Loan Crisis, average property values in Manhattan dropped by a jaw-dropping 58 percent on a price per square foot basis. This was, without a doubt, the most challenging time I have ever seen in my career given the depth of the value drop as well as the four years of sales volume declines.

The next major disruption occurred in the early 2000s when we had a combination of the dot.com bubble bursting, a credit crisis along with the tragic events of September 11, 2001. The national recession occurred in 2001 and 2002. The volume of sales in Manhattan remained consistently low from 2001 to 2004 with a turnover ratio ranging between 1.6 percent and 1.9 percent during that period. Interestingly, property values in Manhattan rose consistently throughout that period as property values were not highly correlated to the broader US economy at that time. During this period, unemployment peaked in 2003, nationally at 6.0 percent and locally at 8.4 percent.

The most recent major disruption in our market occurred during the Great Recession in 2008 and 2009. In 2006 and 2007, the turnover ratio in Manhattan was 3.4 percent and 3.0 percent respectively. This ratio dropped to 1.8 percent in 2008 and an all-time low of 1.2 percent in 2009. The unemployment rate locally was 9.4 percent and the national unemployment rate rose to 10.0 percent. During this crisis, property values dropped by 38 percent on a price per square foot basis. The first two disruptions happened over a relatively long period of time. The Great Recession was caused by the financial crisis and the housing bubble and unfolded over a relatively short period of time. After 2009, there was a tremendous growth period that our market experienced from both a volume and value perspective.

The present crisis we are experiencing is, thus far, looking more similar to the Great Recession than to the previous major disruptions. However, our current crisis is still unfolding and is changing day by day. Only time will tell in terms of how it plays out.

Meanwhile, stay safe and healthy.

Robert Knakal is the chairman of New York investment sales for JLL.