Market Sectors Perform Differently

One of the most important things that we can do as investment sales brokers is to try to identify trends within the sales market before they are widely known by the broader marketplace. The best way to do this is to constantly look at transactions, analyze them to determine if what is actually happening in the market is supporting—or flying in the face of—the perceptions that we might have relative to trends we might be feeling but no one is necessarily discussing.

When we analyze the New York City investment sales market, we are always looking at numbers in different ways to try to interpret why we are seeing certain things occurring and why our perceptions may differ from what the statistics say.


Robert Knakal

In a recent session with my research team, we looked at the market in terms of different price points and how performance within each of those strata may shed light on what we are observing in the market. A startling trend emerged when we looked at the New York City sales market.

First, we should recap the way the broader market has performed.

In 2014, more buildings were sold in New York City then ever before by more than 10 percent. This was followed in 2015 with an all-time record in terms of the dollar volume of sales in excess of $80 billion. At the beginning of the fourth quarter we noticed the beginning of a New York City investment sales market correction.

Since then, the market has been following the path of a quintessential market correction. Initially, values appear to be going up, but at a declining rate, while the volume of sales plummets. It takes 18 months to two years before sellers understand that there is a disruption in the market and then they begin to capitulate. When this starts to occur, value finally illustrates the reductions in real value that are symptomatic of the conditions that lead to the correction in the first place. Last year, values and our property types across the board in Manhattan were negative and, increasingly, value trends in the outer boroughs are becoming more negative quarter after quarter.

Coming into this year, we anticipated an increase in the volume of sales, in both the dollar volume and the number of properties sold, and a bottoming out of property values. So far, this forecast seems to be on track.

However, the differences between the markets under and over $100 million stand in sharp contrast to each other.

Dollar volume citywide is up sharply so far this year at a pace which is 38 percent higher than last year. In Manhattan, the market is on pace for a 62 percent increase over last year and a modest 2 percent increase in the outer boroughs. This is because of the tremendous activity seen in the above $100 million market.

In the over $100 million investment sales market, the dollar volume is on pace for $29.6 billion this year, an 85 percent increase over last year's total. If we look at the Manhattan submarket, the pace is on track to more than double (102 percent) last year's total, reaching an anticipated $27.7 billion this year.

Conversely, the activity is very different in the under $100 million market where the dollar volume is on pace to be flat from last year at approximately $20 billion. In Manhattan, the dollar volume is slated to be 7 percent lower than last year.

When it comes to the number of properties sold, we see the same type of relationship emerging. Citywide, the number of properties sold over $100 million is expected to be up 33 percent to 72 this year. In Manhattan, this statistic is on pace for a 54 percent increase.

In the under $100 million market, the number of properties sold citywide is on pace to be down 9 percent to approximately 2,500 and, in Manhattan, this statistic is on pace to be down 20 percent from last year, showing a trajectory towards 384 this year.

With regard to property values, (and it is important to note that these averages of values can be very different than those of any individual asset), there have been different dynamics. In the under $100 million market, values citywide (excluding retail assets) are likely to be down 4 percent from where they were last year to an average of $455 per square foot this year. In Manhattan, they are on pace to be down by 12 percent from their 2016 peak of $1,165 to $1,029 this year.

However, in the over $100 million market, citywide values (again, excluding retail assets) are up 19 percent from last year at $864 a foot this year. This sounds good, but the only reason this metric is rising is because last year values dropped by 23 percent from the year before in this sector. This year's average of $864 per foot is on pace to be 9 percent lower than the 2016 average of $946 a foot. In Manhattan, the average this year is $924 per square foot, 12 percent below 2016's $1,047 average.

So these markets appear to be going in two different directions. The drop in value in the larger property market, combined with pent up selling demand, has stimulated a huge increase in volume as sellers decide to sell and take the prices that are available to them today.