

# As Expected, for Investment Sales, Manhattan Is Leading the Way

In speeches I have given recently, I have opened with telling my audiences that the three things I want them to leave with, if nothing else, is that they should know: 1) to study historical trends in the market because history often repeats itself, if not identically, with just slight variation; 2) whatever is going to happen in New York City is going to happen in the Manhattan submarket before seeping into the outer boroughs, and, 3) tax policy tangibly impacts commercial real estate market participant behavior more than anything else.

Historical trends are eerily predictive of how market cycles are going to behave. And tax policy changes have created significant spikes in transaction volumes over the past 34 years, each of which were obvious based on the magnitude and timing of the changes.

For recent cyclical perspective, the volume of sales peaked in 2014 and 2015 respectively. The number of properties sold peaked at 5,534 in 2014 (an all-time record by more than 10 percent), which was followed up by an all-time record year in 2015 with \$80.4 billion in

dollar volume. These were the two best back-to-back years I have ever seen in the 34 years I have been brokering in New York.

A correction in the investment sales market began in October of 2015 and continues today, 32 months later. The dollar volume of sales has fallen significantly for two years in a row and the number of properties sold has dropped for three years in a row.

Coming into this year, we expected a transformational year in which the volume of sales increased while values bottomed out. We believe this forecast will come to fruition even though the first quarter was not fully on board with this. But the Manhattan submarket is behaving just as we expected.

For the purpose of this analysis, the Manhattan submarket is defined as south of East 96th Street on the East side and south of West 110th Street on the West side.

Last year, values in Manhattan, in every product type, turned red for the first time in the cycle. This was a very important step in the process of determining market direction.

At the end of 2017, values, on average, were still rising in the outer boroughs. While the average was up, 25 percent of the product types in the various locations were dropping. In 1Q18, market continuous began to transit towards where we thought it would, and that is signaling the end of the correction.

In 1Q18, the dollar volume of sales was \$12.4 billion. If annualized, this total is on pace for a 38 percent increase over last year. Moreover, on a quarter-over-quarter basis, the increase was 68 percent. In Manhattan, there was \$8.89 billion of sales, on pace for an annualized 62 percent increase over 2017 and on a quarter-over-quarter basis, the increase was an impressive 107 percent.

If the thesis that what happens in New York City happens in Manhattan first is true, volume should be rising in the outer boroughs and values should be falling.

The volume of sales did increase in the outer boroughs in 1Q18. Dollar volume was \$3.53 billion, on pace for \$14.1 billion this year. That would be a 2 percent increase over last year. While the increase hardly compared to the increase in Manhattan, the change in direction was telling.

With regard to values, the downward movement last year did an about-face and actually gained 2 percent in 1Q18, to an average of \$1,410 per square foot. While this seems positive, it is important to remember that one quarter does not make a trend and we still expect values in Manhattan to fall.

More importantly, the very negative value trends in Manhattan last year did, in fact, seep into the outer boroughs in the first quarter. For the seven major product types in the four outer-borough geographic locations at the end of last year, 25 percent of these sectors were in the red. At the end of 1Q18, 15 of the 28 sub-sectors had fallen into negative territory.

As we come out of this correction, we expected sales volume to rise while value bottomed. Thus far, the volume increases in Manhattan are leading the way and pulling the outer boroughs up along with it. Values declined across the board in Manhattan and, now, the outer-boroughs are on the way towards doing the same.

It appears the correction is on its way towards ending and, as history has shown us time and time again, Manhattan is leading us out of the darkness.



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