Outer-Borough Investment Sales Performance in 2018

The investment sales market in New York City is now it is 32nd month of a market correction. Beginning in October 2015, the bull market ended and a correction phase within the market began.

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At the onset of the market correction, we saw an immediate and tangible change in the land and hotel markets, which have historically been the first sectors to be impacted by a change in market direction.

Since then, the investment sales market has performed just like Market Correction 101 would indicate it should. The dollar volume of sales has dropped for two consecutive years and the number of properties sold has fallen for three years in a row. Over the same period, values continued to climb, albeit at a reduced rate each year.

By the end of 2017, values in the Manhattan submarket had all turned negative for the first time in this cycle. In the outer boroughs, values had declined in 7 of the 28 different property types and geographic sectors we track.

In the first quarter of 2018, the market began to trend towards our Jan. 1, 2018, forecast. Remembering that what happens in New York City happens in Manhattan first, we expected property values to drop more broadly in the outer boroughs. That has occurred as, by the end of the quarter, 15 of the 28 outer-borough property sectors turned negative.

Our forecast of increased sales volume this year also appears to be on track, particularly from a dollar volume perspective. In Manhattan, dollar volume is on track for a 62 percent increase. Meanwhile in the outer boroughs, dollar volume is on pace for a 2 percent increase this year. We expect this metric to continue to increase as we progress through the year.

Notable market sectors in the outer boroughs include Queens where dollar volume is up 19 percent this year as well as Northern Manhattan where the pace is on track to show an increase of 44 percent.

The only metric that is not performing as expected thus far has been the number of properties sold. In the Manhattan submarket, this metric is expected to be down 5 percent for the year. In the outer boroughs, the number of properties sold is on pace to be down 10 percent for the year. We expect this metric to turn around as we progress through the year and to end the year on an upward trajectory. The notable exception to this trend in the outer boroughs was, once again, Northern Manhattan where the number of properties sold is slated to be up 9 percent for the year.

The tip-off we had that volume would increase this year was the increased contract negotiation and execution activity that we observed in fourth quarter of 2017. That increased activity was mainly on Manhattan assets but in the first three months of this year, that trend continued into the outer boroughs, hence our expectation that sales volumes will rise this year.

We fully expect that our initial 2018 forecast of increased sales volumes and property values bottoming out will hold as we progress throughout the year.

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