## The Mystical Decoupling of Our Investment Sales Market

There are times when the New York City investment sales market is in lockstep with the broader economy across the United States. There are other times when the two decouple, and there seems to be no correlation at all. Today, the dynamics clearly reflect the latter.

In a speech I gave a couple weeks ago, I asked the audience to close their eyes and go back in time with me to October 2015. At the time, we had come off a 2014 where there were more buildings sold in the city than ever before, with 5,534 properties traded, an all-time record. That year, the market finished with an amazing \$80.1 billion of total sales volume.

So, if we were sitting there in October 2015, trying to guess how the investment sales market in New York would be in December 2019, we would have had some historical reference to take into consideration (as we always do) but could only guess about where the market would go in the future. I told the audience I would give their 2015-selves the benefit of forward economic statistics to try to project what the market would be like in December 2019.

In October 2015, there were 142.61 million jobs in the U.S. As of December 2019, there's 152.22 million, an increase of 6.7 percent. The national unemployment rate during this period would fall from 5 percent to 3.6 percent. In New York, the job totals from October 2015 to December 2019 have increased from 4.33 million to 4.65 million, an increase of 7.4 percent. The unemployment rate in New York has fallen over this time period from 5.2 percent to 4.1 percent. The jobs numbers are critical for insight into commercial real estate markets as they have a more profound impact on underlying fundamentals than any other macroeconomic metric. These jobs numbers look great.

Gross domestic product numbers also increased very dramatically from October 2015, when GDP nationally grew to \$19.1 trillion in December 2019, a 9.5 percent increase. The local GDP in New York would increase from \$1.62 trillion in October 2015 to \$1.72 trillion through the fourth quarter of 2017; this was a 6.17 percent jump, exceeding the national growth rate, which was just 4.93 percent over that same period.

Interest rates are also an extremely important metric to look at when considering the health of the investment sales market. The 10-year Treasury in October 2015 was 2.05 percent. At the time I gave my speech, the 10-year Treasury was 1.73 percent. That's another very healthy indicator.

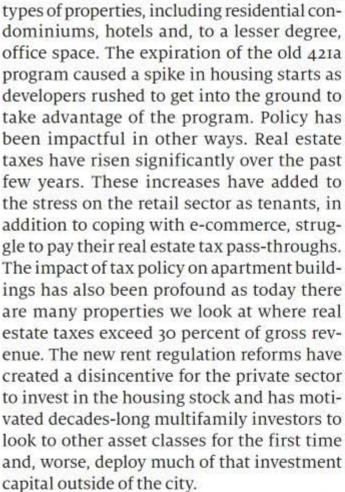
All three major equity markets have risen substantially. The S&P 500 index would rise from 1,923 in October 2015 to 3,113 in December 2019, a 61.9 percent climb. The Nasdaq rose 85.2 percent, from 4,627 to 8,567, and the Dow Jones Industrial Average climbed 70.7 percent from 6,272 to a record 27,783. The performance of the equity markets, generally, has a profound impact on, particularly, the high-end residential market in New York as bonuses are often directed towards luxury apartment sales.

Consumer spending grew by over a trillion dollars over this period, an increase of 8.6 percent. Consumer confidence reached an all-time high and the Small Business Optimism Index would grow by nearly 7 percent during this time period.

With all of this positive movement in the

local and national economy, I asked the audience what they would have guessed about the investment sales market in December 2019.

Why has our investment sales market decoupled from the broader economy? While we don't have a definitive answer today, there are some conditions that are clearly impacting the marketplace. The tremendous amount of construction has added to the supply of all



Whatever the reasons, the decoupling has happened, just as it did in the early 2000's, when the U.S. was in a recession, but city property values rose each year. The silver lining is that in the event the U.S. economy heads into recession in 2021 or 2022, as a small, but growing, number of economist think, it may not impact the local investment sales market. Our market correction has been with us for 51 months now, longer than anything we have seen in the last 35 years. Here's to hoping the cyclical nature of the market kicks in and we can reverse the trend line we've been on for far too long.

