

The NYC Investment Sales Market – Back to 2010 Levels. Ugh!

As the New York City investment sales market entered 2019, market participants who were optimistic were not misguided. As of January, the sales market was 39 months into a correcting market, the volume of sales had risen in 2018, and it appeared values were poised to begin climbing. After all, about all corrections have lasted three to four years, so at some point in 2019 we would have expected market value to follow volume and begin turning upward. However, the implications of the elections in November of 2018 were underestimated and the impact on the market was unforeseen.

The fact is that most of the investment properties in New York City are multifamily apartment buildings. When the rent regulation reforms moved into front and center on the minds of investors in late 2018, the die was cast for a turnaround in the volume of sales market wide, based upon the setbacks in the most dominant product sector. While the reforms would not kick in until June of this year, the anticipation of the reforms — after Democrats won an

overwhelming majority of seats in the state senate — pushed investors to the sidelines as market participants waited for some certainty. While the numbers in the first half of 2019 (1H19) were muted, they were prob-

ably higher than they should have been based upon contract signings which took place prior to the elections and prior to the numerous policy proposals that began to be discussed publicly in March and April of this year. Let's take a look at the numbers.



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In 1H19, there was \$10.22 billion in investment sales over \$10 million which, on an annualized basis, is on track for \$20.44 billion for the year, a 23 percent drop from the \$26.4 billion total seen in 2018. If achieved, the \$20.44 billion pace would result in a total 63 percent below the all-time record of \$57.8 billion in 2015. This total is also on pace to be the lowest total seen since the \$11.9 billion in 2010, when the market had just started emerging from the doldrums of the Great Recession.

With regard to product types, office buildings and hotels performed the best, with office showing \$14.3 billion of sales,

up 10 percent from the prior year, and \$2.23 billion in hotel sales, up 42 percent from 2018. Other asset classes fell significantly with retail assets down 40 percent to 809 million, multifamily down 55 percent to a \$2.13 billion pace, and land hurting the most, on pace for \$819 million for the year which would represent a drop of a whopping 82 percent from last year.

If you're disappointed in the dollar volume of sales statistics, the number of properties sold metric performed a bit worse than the dollar volume did. In 1H19, there were 80 properties sold over \$10 million, on pace for 160, which would be 31 percent below the 232 which traded hands in 2018. If the pace holds, it would be 65 percent below the 457 properties sold in the peak year of 2015. The 160 sale pace would also be the lowest since 2010, when 117 properties over \$10 million traded hands.

With regard to product types, the only sector that's up is the office building sector. The office sector is on pace for 52 sales, which would be up 8 percent from last year. It's important to note that this pace would still be 37 percent below 2015's total of 82 office building sales. All other sectors are on paces lower than last year, with

land leading the pullback with a pace of 20 trades, down 64 percent from last year and 84 percent below the 129 sales in 2015. Unsurprisingly, multifamily assets were also significantly off last year's total, with a 46 trade pace, which would be 39 percent lower than 2018 and 66 percent below 2015's 136 multifamily sales.

Notwithstanding the slow start to 2019, we believe that — with the exception of multifamily properties — the market is poised to pull itself out of the correction which is currently 46 months into its slide. Had rent regulation reform not kicked in, we believe the health of the market would be more widely accepted and the psychology of market participants would be in much better shape.

The market has always been, and will always be, a cyclical one. With the remarkable health in the broader economy, it is curious why the New York City investment sales market has been in such a funk for so long. We remain hopeful that over the next couple of quarters the market will pull out of its long correction and get back on track; 2010 was a depressing year and with activity back to those levels, it's time for the market to "cycle" out of this malaise.