The Performance of the Manhattan Land Market in 2016

The land market in Manhattan was one of the most interesting to watch during 2016. Stresses were felt and activity slowed significantly, but could the market be turning for the better today? This week, we will take a look at how the land market in Manhattan performed last year and what we anticipate in 2017.

Before we get started on land, it is important to review how the entire market performed in 2016 to provide some perspective.

In 2016 the total dollar volume of sales citywide was approximately $57.8 billion, down 25 percent from the $77.1 billion achieved in 2015. The total number of properties sold was 4,360, down 16 percent from the 5,191 that sold in 2015 and down 21 percent from the all-time record of 5,534 that sold in 2014. While, on a relative basis, the 2016 performance seems poor, it is important to look at the absolute numbers. At $57.8 billion, 2016's total is essentially tied for the third best year on record. Additionally, the 4,360 properties sold in the city were tangibly more than the long-term average of 3,825 properties sold (this is out of our statistical sample of about 165,000 properties).

With regard to property values, the 2016 average price per square foot citywide was $534, a new all-time record that showed a 9 percent increase over the 2015 average of $491 per square foot. Interestingly, the first half of 2016 had a much higher average than was seen in the final six months of last year.

While the statistics presented above are for all properties within the marketplace citywide, Manhattan saw numbers that were weaker than other submarkets with the dollar volume of sales down 34 percent and the number of properties sold down 30 percent from 2015 levels. Values in Manhattan, however, increased by 9 percent in 2016 to an average of $1,450 per square foot. However, if we eliminate two retail condominium sales on Spring Street, which occurred at prices in excess of $17,000 per square foot, the overall average value in Manhattan actually dropped by 1 percent from 2015 levels.

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Within the basket of properties sold in the city last year, the activity in the land market was perhaps the most interesting to watch.

Softness in land actually started in the beginning of fourth quarter 2015, a trend that was exacerbated by the expiration of the 421a tax abatement program at the beginning of last year. In 2016, the Manhattan land market saw a drop in the number of development sites sold, from 119 in 2015, down to 77 in 2016, a 35 percent reduction. If we dig into the statistics on development site sales, we see a striking reduction in activity over the past two years on a half-year over half-year basis with 1H15 at 66 sales, 2H15 at 53 sales, 1H16 at 45 sales and 2H16 at just 32 sales.

However, more strikingly, there was $2.8 billion of sales activity within the Manhattan land market, down a whopping 74 percent from the $10.9 billion seen in 2015. Looking more closely at these numbers, we see that there was $2 billion of sales activity in 1H16 and only $800 million worth of development site transactions in 2H16. If we annualize the 2H16 total, the land market volume was off by 85 percent from the prior year.

The average land value in Manhattan in 2016 increased by 5 percent to $681 per buildable square foot versus the $649 average observed in 2015. We believe that land values actually fell in 2016 as the average was skewed upward by transactions closing in the early part of the year on contracts had been signed in 2015. This is also a dynamic seen in a correcting market where the volume of sales will slow, but values remain elevated as the only sellers who transact are those that are able to achieve their desired pricing. Potential sellers, who come up short, simply do not transact.

So, with these downward trends in activity, what will get the land market going again? In order to increase the volume of sales, we need to see increases in supply and there are four reasons why new supply could come to the market. These include 1) rising values, which always bring additional supply, 2) potential tax law changes, which, if taxes are reduced, will bring additional supply to the market, 3) people who have to sell, which represent about 1 percent (out of the 2 percent to 4 percent turnover ratio) of the sellers in the market, and 4) special sites in great locations will always be highly sought after and sellers know they can always get a great price for them.

Lastly, we are seeing more optimism in the market these days and foreign capital continues to flow our way. A combination of these factors could bode well for Manhattan land, particularly in the second half of this year. We certainly hope so.

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