

They May Not Be Making More Land, But...

In last week's column, I looked at the performance of the New York City investment sales market in the first quarter of 2016. To recap, after coming off of two record years for sales in 2014 and 2015, our forecast for this year includes reductions in the number of properties sold, the dollar volume of sales and the expectation that values would finish the year lower than they started. Thus far, this forecast appears to be on track.

In 1Q16, there was \$12.9 billion of investment sales activity. If annualized, we are on pace for \$51.5 billion, which would reflect a 31.2 percent reduction from last year. On the properties-sold front, there were 1,228 sales that, if annualized, reflect a drop of 5.3 percent from last year. Importantly, because it is a leading indicator, the Manhattan submarket saw a 40 percent drop in both of these metrics.

Property values appear to be reacting differently depending on product type. I mentioned that development sites and hotels have been negatively impacted the most in the first quarter. Office and multifamily

properties have continued to do well, and retail assets are performing somewhere in the middle. Lately, much has been written and talked about regarding the land market. Much of it has been negative and, I believe, has overlooked the positive aspects of this submarket. In this column, I would like to dig deeper into what is happening in the land market today.

In 1Q16, the metrics in the land market certainly took a step back. The dollar volume of development-site sales dropped 60 percent from last year. There were \$1.44 billion of land sales in the first quarter. If annualized, the \$5.76 billion pace would be well below last year's \$14.3 billion total.

In the Manhattan submarket, the dollar volume dropped a whopping 75 percent. With regard to the number of development transactions and the total buildable footage of those sites, interestingly (and simply coincidentally), both of these metrics were down 34 percent.

The number of transactions was 103, and if annualized, the 412 total would

come in well below last year's 629 transactions. The total buildable square footage of those transactions was just 4 million square feet.

If annualized, the 16 million feet would be about one-third below last year's 24.4 million square feet.

Values, based on the sales that have closed, show a reduction of just 8 percent in terms of price per buildable square foot (in some geographic submarkets, values actually rose in 1Q16). However, this statistic does not accurately reflect the true state of land values. There are two main reasons for this misleading statistic.

First, many of the land sales that closed in 1Q16 had sales contracts that were executed prior to the tangible signs of a land market correction, which became transparent toward the end of last year.

The second is explained in the reduction in the number of transactions. When land values fall, land simply stops trading. In the last cycle, development site sales peaked in 2006 with 321 sales. This number dropped to just 14 in 2009. Back then, values dropped only about 12 percent based on what actually traded. Real values dropped even further

because offers on sites that were on the market fell to a point at which sellers did not capitulate.

The same thing is happening today. The actual reduction in land values has been in the 20 percent to 30 percent range. This is based on the offers being received on sites that are on the market. As sellers are not taking these offers, this drop has not, and will not be, reflected in any statistical analysis, which is always based on closed transactions.

This being stated, it is extremely important to note that these value reductions are not occurring in an across-the-board fashion. The best development sites in the best locations are holding their value fairly well and will certainly outperform the broader market on a percentage basis. There remains tremendous demand for land sites from local, national and international developers, and this demand should help to prop up the market—at least temporarily.

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



Robert Knakal