Volume Slows But Values Rise in Manhattan

A few weeks ago, my column focused on the third-quarter 2016 New York City investment sales market performance. It also, for the first time in about a year, projected a sense of optimism that I am feeling, given how well property values are holding up despite the reductions in volume that we have seen across the board.

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To recap, through the first three quarters of this year, the dollar volume of sales was on pace for approximately $59 billion. This is a 23 percent reduction from the $77.1 billion achieved in 2015. With regard to the number of properties sold, the market is on pace for 4,603, which is an 11 percent reduction from the 5,191 sales that occurred last year.

Not withstanding these reductions in sales volumes, property values are not only hanging in there but, in many cases, are rising. In the outer boroughs (including northern Manhattan), property values this year are averaging $379 per square foot, a 14 percent increase from the $332 per square foot average last year. In Manhattan, the appreciation rate is currently 16 percent, with an average of $1,545 per square foot versus last year's $1,332.

In today's column, we will take a close look at Manhattan specifically as it is seeing an even larger pull back in the volume of sales but, as stated above, is experiencing an even greater increase in property value appreciation.

In Manhattan, through 3Q16, the dollar volume of sales is on pace for $40.3 billion. This is 32 percent lower than the $59.9 billion of sales volume last year. It ranks fourth all-time in terms of dollar volume for Manhattan behind 2015, 2007 ($52.5 billion) and 2014 ($42.1 billion). The number of properties sold is on pace for just 775 this year, a 29 percent drop from the 1,089 properties sold in 2015. Over the past 12 years, there were only four years with fewer properties sold in Manhattan, and those all occurred in the 2008-2011 Great Recession.

As we have discussed, values in Manhattan have hit an all-time record high in 2016 of $1,545 per square foot. This is 16 percent above last year's $1,332 per square foot average. (It is noteworthy that if we eliminate two retail condo sales, which occurred on Spring Street in Soho and had over $17,000 per square foot each, the adjusted average price per square foot in Manhattan this year is $1,384—a 4 percent appreciation rate over last year.) Also on the valuation front, capitalization rates so far this year have compressed but not by much. The 2016 average is 3.72 percent versus 2015's 3.77 percent average, a compression of just 5 basis points, indicating that value appears to be plateauing.

The very positive aspects about Manhattan revolve around the tremendous demand that still exists from investors locally, nationally and internationally. The reason for the reduction in volume is not because of a lack in demand but rather because of a tangible lack in the supply of available properties for sale. Those properties that are on the market are generally seeing positive demand, and we are being positively surprised by some of the bidding activity we have had on offerings recently.

Demand and value fluctuations are completely dependent upon product type however. The hotel and land markets are facing the most challenging headwinds. Land, for instance, is on pace for $3.1 billion of activity which would be a 72 percent reduction from the approximately $11 billion of development activity last year. While market participants generally feel land values are off by 20 to 25 percent, statistics on closed transactions show an increase of 6 percent to $691 per buildable square foot (this is likely overstated due to the hangover of 2015 contracts which closed this year). In the office sector, dollar volume is on pace for $18.9 billion, a 23 percent drop from last year. Values, however, are up to an all-time record level of $1,147, 10 percent above last year's $1,042 a foot. The retail property sector has been very strong with anticipated dollar volume on pace for $1.96 billion, 17 percent above last year. Multifamily properties are experiencing strong demand, even though dollar volumes are lagging behind last year's totals (the Stuyvesant Town-Peter Cooper Village transaction greatly inflated last year's totals) but values continue to rise.

We anticipate that the volume metrics will continue to drop in 4Q16 leading to even lower totals for the year. However, values are generally remaining strong and are performing much better than they would be if this was a traditional correction. In Manhattan, values are holding up particularly well with average prices per square foot for all product types at levels no one projected we would attain several years ago. With the tremendous influx of capital coming into the market, upward pressure continues to be exerted on value, leading to an optimistic outlook for the foreseeable future.

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