

Where, Oh Where, Did Investment Sales Go?

While the title of this column may be a bit dramatic, the fact is that the activity in the investment sales market is continuing on its downward trend as political headwinds grow and the direction of underlying fundamentals remains opaque.

Policy changes have profoundly impacted the multifamily sector in New York City, which is the largest in terms of number of properties, and the office sector has been impacted by worries about the future of the coworking sector and tax policy. This month marks the four-year anniversary of the onset of the investment sales correction in New York City which so obviously began in October of 2015 when the land market turned, seemingly, overnight. This correction has now matched the length of the longest correction I have witnessed in my 35 years of brokering here which occurred during the Savings & Loan Crisis from 1989 to 1992.

That four-year slide in the volume of sales hit the market very hard and was accompanied by a 58 percent drop in average property values on a price-per-square-foot basis. During the Great Recession, property values

dropped by an average of 38 percent, but the volume of sales only dropped over a three-year period from 2007 to 2009 with volume picking back up in 2010. The reduction in values during this correction have been much

more benign than we observed in those other corrections, but it may last longer than any of those others. So, we are heading into uncharted territory in terms of the length of the correction. Let's take a look at the current investment sales market's performance in the Manhattan submarket from a statistical perspective.



Robert Knakal.

In 3Q19, there was a total of \$3.3 billion of sales volume in the

Manhattan submarket (defined as south of 96th Street on the east side and south of 110th Street on the west side) in the market for assets trading for \$10 million or more. This total was 42 percent below the \$5.6 billion of sales in 2Q19. If we annualize the first three quarters of 2019, the volume is on pace for an annual total of \$18.7 billion, a 34 percent drop from the \$28.4 billion total achieved in 2018 and a significant 67 percent below the market peak of \$57.5 billion in 2015. It is important to

note that the \$3.3 billion of sales in 3Q19 was the lowest quarterly total on record for 36 quarters, going back to the third quarter of 2010.

Based upon the turmoil that the new rent regulations have imposed on the multifamily market, one would think that activity in that sector would be the most adversely effected by the current market conditions. However, it was the land sales market that has been most adversely impacted. In 3Q19, there was just \$263 million of land transactions in Manhattan. Through the first three quarters of the year, we are on pace for \$987 million of land sales, a whopping 82 percent below 2018's total of \$5.45 billion and a massive 89 percent below the peak of \$8.58 billion achieved in 2015. The reduction in the sale of retail assets also eclipsed the drop in multifamily assets as there were a total of just \$113 million of retail properties sold in Manhattan in 3Q19. Retail property sales are on pace for \$709 million which is tracking to be 50 percent below last year's \$1.42 billion total. The reduction in multifamily volume is on pace to be 48 percent below last year's total. In the last two quarters, total apartment building sales total just over \$400 million in each quarter as compared to the \$1.1 billion that occurred in

1Q19 and the \$1.5 billion that occurred in each of 4Q18 and 3Q18. We expect 4Q19 totals to be even lower in the new world of onerous rent regulation reform.

With regard to number of properties sold, the numbers are slightly worse than the dollar volume numbers. In 3Q19, there were 31 properties sold in Manhattan in excess of \$10 million. The 31 trades made for the worst quarterly total in six years. Through the first three quarters, this metric is on pace for 155 sales in 2019 which, if achieved, would be 36 below last year's total of 242 and 69 percent below the 505 sales which were achieved in 2015. Just as in the dollar volume metric, land sales were hit hardest with just two sites trading in 3Q19 and an annual pace of 17 for the year which would be 65 percent below the 2018 total and 86 percent below 2015's 124 total. The multifamily sector is on pace for 48 sales this year, a total that would be 41 percent below last year's 82 sales and 68 percent below the 148 achieved in 2015.

While this news is certainly not uplifting, it is important to note that the market has always been, is, and will always be, cyclical. What goes down will eventually go back up. Here's to hoping that eventuality occurs sooner than later.