Why Has Business Slowed Down?

In early 2013, I was a speaker on a panel dealing with how technology had changed the commercial real estate brokerage industry. In preparing for that discussion, I went back to thinking about what brokerage life was like back in the early and mid-1980s when I started my career selling buildings in New York City.

Back in those days, there were no computers on desks, fax machines or cell phones. We carried rolls of quarters around in case we had to make phone calls from the field. The newest technology at the time was the dot matrix printer that made mass mailings much more efficient. But, still, it was like the Stone Age, relative to today.

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In 1986, FedEx provided a service, essentially the first form of fax machine, called ZapMail. You would bring a document to a local FedEx office, they would fax it to another FedEx office, and then the document would be messengered to the recipient.

This service was provided at a cost of $8 per page!

By 2013, when I was on that panel, everyone was using cell phones, fax machines were already passé thanks to email, and the pace of business was faster than it had ever been.

The thesis that the moderator asked us to consider was how much more business was being done thanks to the technology that was making the doing of the business so much easier.

Given my proclivity for statistical analysis, I decided to take a look at sales figures from the '80s, '90s and 2000s to determine how much of an increase in activity was stimulated by the wide use of new technologies that accelerated things. The findings were very surprising.

As it turns out, the sales activity decade-to-decade had not increased at all and, in fact, had declined. In the 1980s, in the Manhattan submarket, 3.02 percent of the total stock of 27,649 buildings was sold. For the decade, 8,350 properties were sold, an average of 69 properties per month. During the 1990s, the total number of sales was 6,710, an average of 56 per month and in the 2000s, there were 6,080 properties sold for an average of 51 per month.

While technology had indeed increased the speed with which transactions could occur, it seemed technology did not lead to more business actually being done. My conclusion was that the advances in technology had allowed a smaller group of intermediaries to do much more than they ever could have done in the past and that, while technology empowered the individual, it did not create more activity.

Fast forward to today and we now have statistical data on the 2010s. During the decade, 7,742 properties were sold in the Manhattan submarket for an average of 64 properties per month. This data reflects a 27 percent increase over the prior decade, reversing the trend that we had seen previously.

So, the question we are trying to answer for today is: Why did this occur? Is it because technology has started to gain tangible traction and there is more commerce being done? Is it because commercial real estate is a much more widely accepted asset class for the general investor today? The real answer to this question probably will not be answered for many years to come.

The fact is that while activity in the 2010s was up significantly from the prior decade, it was still was down 7.3 percent from the robust activity that we saw in the 1980s. The 2.8 percent turnover rate in the 2010s is also just slightly above the long-term average of 2.6 percent that has been the long-term average.

So what will the 2020s bring? Will there be another version of the Roaring Twenties? Will activity return to what we saw in the 1980s? There are many questions to be answered but as we start on this journey, we have much to be excited about.

The city, in many ways, has changed for the better and we look forward to New York maintaining its standing as the greatest city in the world!

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