Why 'Stay Alive Until '25' Rings Truer in NYC Investment Sales

At the end of the third quarter of 2023, I wrote that we may have begun the "capitulation phase" of an investment sales recovery. This is when sellers accept the fact that the market has dropped and things are not getting better in the short term — and they finally throw their hands up and sell.

This clears out all the pent-up demand for selling as the market reaches the right prices. This phase must be achieved in order for the market to get back on track. Unfortunately, I also added a caveat by mentioning what I always do: A trend is not made in one quarter. We must have two to three quarters to determine that a trend is tangible.


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The thought that we might be entering the capitulation phase was certainly a reasonable assumption following the third-quarter results. After all, after $2.8 billion of sales volume for Manhattan properties of at least $10 million in the first quarter of last year, followed by $3.7 billion in the second quarter, the third quarter came in with $4.9 billion in sales. The number of properties sold reacted the same way, with 47 sales above $10 million in the first quarter, 48 in the second quarter and 84 in the third quarter.

All signs were pointing to the fact that things could be turning around. However, the fourth quarter produced dismal results: just $2.6 billion in dollar volume, the lowest quarter of the year by 7 percent and with only 33 sales above $10 million. That was also the lowest quarterly total in 2023, this by more than 30 percent.

To determine the reasons for this lackluster performance, we need to look at market conditions toward the end of the summer and early third quarter, as the deal life cycle typically plays out over many months. Interest rates were nudging up. Deep-pocketed investors were still saying, "Yeah, it sounds like a great deal, but it will be cheaper in three months," and potential sellers with debt maturing were still trying to figure out if their lenders would play ball with them. The Fed had not yet telegraphed there might be interest rate cuts in 2024, and that confluence of factors chilled activity, resulting in poor performance in the year's last quarter.

These fourth-quarter numbers impacted the entire year, and the 2023 year-end results were similarly — but not entirely unexpectedly — weak. The year ended with just $14.1 billion of sales volume, 31 percent below 2022 and just 26 percent above 2020, which, due to the pandemic, was about as bad as it could get. The $14.1 billion was about 75 percent below the cyclical peak of $57.5 billion in 2015. In terms of the number of properties sold, the year ended with 212 sales, 6 percent below 2022 and 56 percent below the 2015 cyclical peak.

So, where do we go from here? The Fed has indicated that there are likely to be rate cuts in 2024, and this was, originally, well received by the market. A deep sigh of relief that rates will stop going up was welcome news. Debt has been very expensive and rates have been very volatile. Some stability and certainty in the market will naturally help things.

While this was welcome news, it did have a dual impact on market participants. The uber-wealthy investors who, for a couple of years, have said, "Yeah, that sounds like a good deal, but it will be cheaper in three months" are no longer saying that. They are ready to get back into the market and make moves. The counter to this is that potential sellers who were reluctant to take today's low prices to begin with are now hoping that interest rate decreases will increase their properties' value, and they may be less willing to sell.

However, early January's announcement that inflation is running at 3.4 percent, which is well above the Fed's comfort zone, may either eliminate or delay the rate cuts that the central bank was telegraphing before that announcement. Some certainty would be helpful. Even an announcement that rates won't go up any further would have benefits.

Until then, 2024 is looking like it may not bring the robust recovery we are all looking, and hoping, for. "Stay alive 'til '25" might be the mantra that rings true. Until then, there are deals to make, clients to help, and hard work to do to take advantage of the recovery whenever it comes. And, if history teaches us anything, it's that it will indeed come!

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