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IS THE CURRENT SAMPLE OF COMPARABLE SALES RELEVANT?

Valuating and Executing in a Stalled Market

By Brock Emmetsberger, First Vice President of Sales, Massey Knakal Realty Services

So how does one go about valuing a property if benchmarks based on prior sales do not exist? As weeks and months have passed without neighborhood properties trading hands, are we even sure a market exists? This is a problem that is now riddling investors, owners, sales brokers and appraisers alike.

Since comparable sales are lagging indicators to begin with, a significant sampling from the third and fourth quarters of 2008 is now all but relics of better days. Without relevant comparable sales, the next applicable indicator would be recent neighborhood contract signings for similar properties. During the fourth quarter of 2008, inventory remained stagnant as the bid-ask spread between buyers and sellers was too wide for contracts to be executed. Without a sufficient sample of contract signings, we turned our attention towards current bidding activity as the most practical way to determine a property's value.

We used this pricing method in November of 2008 for the marketing and sale of 217-19 West 16th Street; a forty unit, primarily rent regulated building located in the heart of Chelsea. The challenge from a valuation standpoint was that neighborhood comparable sales information was now irrelevant. No rent regulated multifamily properties of that size had traded in Chelsea since the collapse of Lehman Brothers, which for all intents and purposes was first in a string of events that turned the New York City commercial real estate world on its head. Fortunately, at the time we had been selling two other multifamily buildings within three blocks of the property and had over twenty-five active offers. Although contracts had yet to be signed for either building, the market feedback from the two properties proved to be priceless when valuing 217-19 West 16th Street. We applied real time market feedback to our

opinion of value, settling on an asking price of \$7,250,000 which was appropriate to generate the multiple offers needed to execute a sale. At first sight, the asking price seemed a bit ambitious for a “Post-Lehman” world, yielding just over a 5% return to a potential buyer. However the building’s rents had plenty of upside, averaging around 50% of market value.

Within the first ten days of marketing, we had procured fifteen offers and a contract was issued. This was in November of 2008... New York City was approaching the eye of an economic hurricane and absolutely nothing was supposed to sell. The contract was signed within thirty days and the property ended up selling for just over the asking price, at a return of 5.08% or just under thirteen times the gross annual rent. By having substantial market share in the neighborhood and gauging the response of local buyers to similar properties currently on the market, we were able to run an abbreviated yet efficient sales process. Obtaining multiple offers gave our client the confidence that maximum value had been achieved. This was despite the market’s inability to produce relevant comparable sales data to use as a benchmark.

As of the start of the second quarter of this year, 217-19 West 16th Street had been one of only two sales to take place out of approximately 1,300 Chelsea properties, including townhouses, multifamily, mixed-use, commercial, industrial property and development sites. As the market adjusts to the Post-Lehman world, activity in the short term will remain low and the shortage of market data will persist.

Our firm recently assisted in the contract signing of a Chelsea elevator building after just fourteen days of marketing. The bids produced by the marketing of 217-19 West 16th Street and other neighborhood buildings previously marketed by Massey Knakal certainly contributed to the swiftness of the process. So while there are signs that price levels are resetting and that a market does exist, we will only be able to rely on comparable sales information once a substantial sample of Post-Lehman sales has been recorded. Until then, current bidding activity will remain the most accurate indication of value.