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POSITIVE SIGNS IN THE NEW INVESTMENT SALES MARKET

By Robert Shapiro, First Vice President of Sales, Massey Knakal Realty Services

Overall, the beginning of the 2009 investment property market was nothing to write home about. However, as we bring the second quarter to a close and head into the second half of the year, we have begun to see some positive signs within the marketplace. A modest pick up in velocity at the end of Q2 has provided hard comparable sales data for today's "new market". With this new information we can now begin to draw some significant conclusions. Many people in the real estate community believed that there would be a flood of foreclosure properties coming to the market place. This has not happened thus far and in-turn has had a stabilizing effect on market values. Multifamily property owners also received some positive news from the shake up of the New York State Senate. A change in power in the State Senate has dealt a significant blow to supporters of the Bill State Legislation to reform housing.

The pickup in closed transactions toward the end of the first half of 2009 provides this market with some much needed information. A lot of buyers and sellers were hesitant to get into the marketplace because limited sales data was available. It was impossible to know if they were underselling or overpaying. Now, with a number of real, arms length, transactions occurring much of the speculation has been removed. Firstly, brokers, owners, investors, and lenders now have true comprehensive data to back up values. It is also clear that investors and lenders are still willing to bet on upside in today's market. Furthermore, the buyer in today's market actually is not that new. Almost all of today's buyers have the same profile - small to midsize, local, well-capitalized real estate families, with a long term out look. Their conservative investment philosophy over the past few years has put them in a ripe position for expansion today.

The de-leveraging from institutional investors and lending institutions has slowly begun but has not flooded the market place with property. Part of our steady work flow has been providing lenders formal valuations on non-performing assets which they hold the debt. Lenders are taking a close look at everything they have and are trying to ascertain market value on their assets. Right now they are in the "collection of information" period and we expect them to be there for the remainder of 2009. We believe in the first half of 2010 a modest de-leveraging of assets through foreclosure

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or note sales will occur. With the New York foreclosure process being as lengthy and costly as it is, many lenders will either sell the note at a discount or option a work out with the borrower. We will definitely see foreclosures and bank R.E.O. properties hit the marketplace, but not in the dramatic fashion that some might believe. With the lack of supply of available properties for sale, investors are often found competing for any property that is available.

On the political front, in 2008 the Senate elected its first Democratic majority since 1965. One of the first topics on the Democratic agenda was to reform rent regulated housing throughout the state. Some of the proposed bills, if passed into law, were poised to have potentially catastrophic effects on the multifamily property owners and residents. The proposed legislation would have the potential to remove numerous incentives for owners to upgrade and modernize our aging housing stock. "Upside" in properties could disintegrate, causing cap rates to rise and values to plummet. Fortunately for the NYC multifamily owners and residents, a significant change in power occurred in the in the New York State Senate. Elected as a Democrat, State Senator Pedro Espada, of the Bronx, was chairman of the Senate Housing Committee overseeing the proposed legislation. Prior to his defection to the Republican Party, he had publicly stood in favor of the legislation passed by the Assembly. However, many supporters of the bill became suspicious after Senator Espada repeatedly delayed the voting. Now, standing on the other side of the aisle, he has come out publicly against the entire bill. The likelihood of any of the proposed changes in current rent stabilization laws taking place anytime soon is next to nil. This is a tremendous victory for landlords, investors and NYC tenants.

As we close the door on the first half of 2009 and wade into Q3 of the New York building sales market, I expect that we will continue to see velocity at current levels. Although it is far off from that of years prior, it is substantial enough to provide significant data that is invaluable today. This data is helping to alleviate much of the uncertainty. It is this uncertainty that has left many of would be buyers and sellers on the sidelines. The encouraging news from the State Senate has also provided a strong boost to morale and the stability of our regulated multifamily market. It is also unlikely that the market will be "flooded" with R.E.O. properties being sold at tremendous discounts to current market value in the near future. These assurances have helped to give us a

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glimpse of the new market place beginning to take shape. As we continue to steadily move forward, the market will solidify and uncertainty will continue to subside.