# A Message from the Chairman:


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# Suggested HED: The Reasons Why Investment Sales will Set Records in 2014

After my column appeared in these pages last week, in which I forecasted a record year in New York's investment sales market, the emails came flooding in primarily asking me if I have lost my mind. Nearly everything written or discussed by market analysts, or participants, has predicted "flat", "moderating", "normalizing" or "more of the same" as the fate of the 2014 sales market. I strongly disagree with these positions **and will explain why I believe our sales market will produce record results this year.**

**The record results I am referring to relate to the dollar volume of sales, the number of properties sold and the value of properties on a price per square foot basis.**

Many of the comments questioning my forecast revolve around the many obvious headwinds the U.S. is facing. Among these headwinds are the vacuum that exists in political leadership within both parties, monetary policies which have resulted in unprecedented government intervention which has vaporized predictable rules within our capital markets, artificially low interest rates which have nowhere to go but up, an unemployment rate which only appears to be getting better because discouraged workers continue to drop out of the workforce, an ever eroding work ethic, massive budget deficits on federal, state and local levels and entitlement programs which are like nuclear torpedoes heading right towards the hull of our economy's ship. These are all valid observations and should be of concern to all of us. Notwithstanding these macroeconomic landmines, I stand by my forecast. Here's why:

## National Impacts:

While the U.S. economy has been recovering very sluggishly, it will eventually get into high gear as history shows us it always does. We are now 18 quarters into a recovery **and real GDP has exceeded its pre-recession high by 5.6 percent.** GDP growth will likely remain muted until some type of predictable rules are returned to our markets. That is, unless we have a game changer impact our economy.

Over the past 100 years, game changers have often kicked our economy into another gear. Railroads, assembly lines, immigration, civil rights and the emergence of women in the workforce have been some of these. I believe we are on the verge of another. Hydraulic fracturing and horizontal drilling, which have resulted in an explosion of shale gas and oil production in the U.S., are set to jump start our economy. Most people think of oil and gas as fuels but they actually are key ingredients in many things. Petrochemicals can be turned into plastics and related goods. To do this requires massive industrial plants. There are presently 10 such maga-facilities being built in the nation with many more sure to be on the way given all of the shale we have found and its relatively inexpensive cost (Governor Cuomo should get on the band wagon).

Notwithstanding a poor December jobs report, job creation has been trending up. We have still only regained about 90 percent of the jobs lost during the recession. There is tremendous pent-up demand to hire workers. As soon as the politicians get out of the way, this demand will be realized.

Although after-tax profits are at record levels, almost all other economic metrics remain well below their long-term trend lines. I believe that, over time, each of these metrics will revert to the trend line meaning well above trend growth must occur. Also, when we look at our economy, we must be cognizant of the diverse economic circumstances that exist in different cities and markets across the nation. Some markets are still stuck in deep recessionary conditions while others are red hot. We are fortunate that we are in New York City which, on a relative basis, is doing extraordinarily well.

## Local Impacts:

Tourism is expected to be at record levels, perhaps 55 million tourists this year. Even if you believe we will see an increase in crime under the new mayor, it is unlikely this will occur in 2014 so the tourists will keep coming.

Banks are making capital for real estate abundantly available. The market is perceived to be so strong here that several new lenders are entering the market each month. Thus far, lenders have shown discipline and have not gotten too aggressive. It is only after they get too aggressive (and at some point they will) that a downturn is likely to happen.

Interest rates are likely to remain low. The Fed's tapering program is not yet tangibly impactful. Last year, U.S. debt service was about $242 billion, 16 percent less than it was in 2008 when our federal debt was $6.7 trillion lower. The government will do anything it possibly can to keep rates low or the implications of poor policy will become transparent. To a significant extent, our low rates have masked the problems.

Underlying fundamentals have been consistently improving and will continue to improve as tremendous pent-up demand for commercial space and residential units will continue to diffuse into the market.

The residential market saw a record-smashing year end in 2013 with 3,297 transactions and a record median sales price of $1.32 million, a 14 percent increase year over year. The residential market tends to lead the commercial market.

The supply of properties for sale will rise significantly as value increases will make selling a compelling option for property owners. Within the past month, we have already seen a spike in inventory.

Demand for investment properties here appears to be at all-time highs as a greater number of new buyers are entering the market each month than at any time we have seen in the past 30 years.

For these reasons, I stand behind my forecast at the beginning of the year. We fully expect to see records set this year.

Bob

*You can read Mr. Knakal's "Concrete Thoughts" articles for the Commercial Observer at www.commercialobserver.com/topics/concrete-thoughts.*