

MAY 27, 2009

1Q09 NYC Investment Sales Extraordinarily Abysmal

I've been selling investment properties in New York City for 25 years and have never seen anything like the low level of sales that the market experienced in the first quarter of 2009.

In order to know just how abysmal the volume of sales has been, let's review a little history. In order to study volume of sales we track a sample of 125,000 properties which fall into the C, D, S & K classes of properties which include multifamily apartment buildings, retail and mixed-use properties. **During the last 25 years, the average annual volume of sales has been 2.5% of this total stock of properties or about 3,125 sales per year. The best years we have seen were 1986 and 2006 with 3.4% turnover, 1988 with 3.5% and a pinnacle in 1998 at 3.9%.**

On the other side of the coin, we experienced the lowest level of turnover in both 1992 and 2003 which were both years at the end of recessionary periods and were years in which we reached cyclical highs in New York City unemployment. The volume of sales in those years was 1.6%. We had always thought that this 1.6% level of turnover was a baseline representing only those sellers who had no choice but to sell due to reasons such as death, divorce, taxes, insolvency, partnership disputes and the like. Our assumption was that volume would never get lower than the 1.6% threshold. Enter 2009.

If we annualize the turnover the market experience in the first quarter of 2009, in which there were only 233 sales closed, the volume of sales would be only 0.7%!

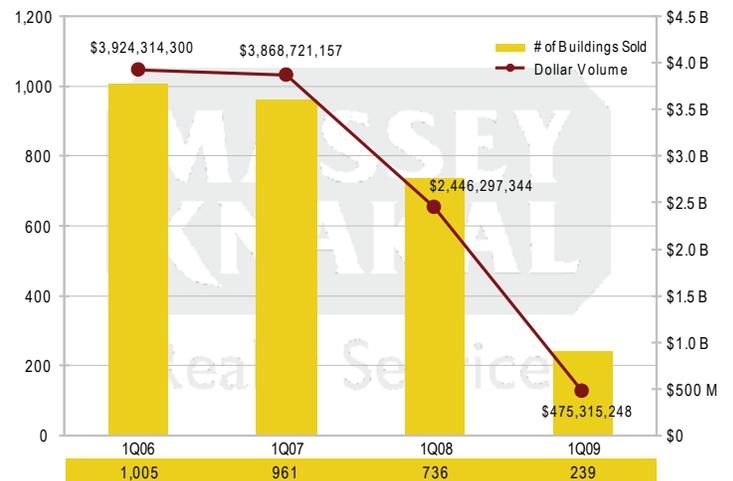
We certainly do not expect this trend to continue to



This article, and all other Commentaries by Bob Knakal, can be found on [The Massey Knakal Reel](http://www.masseyknakal.com/blog) – a blog for breaking sales, listing and neighborhood real estate news – at www.masseyknakal.com/blog

For weekly observations on the New York City Investment Market, please visit Robert Knakal's blog, [StreetWise](http://www.knakalstreetwise.wordpress.com) – a joint initiative of Massey Knakal and GlobeSt.com – at www.knakalstreetwise.wordpress.com

NYC BUILDING SALES* - Total
Comparing 1st Quarters of Each Year (2006-2009)



* Multi-Family (Elevated and Walk-Up) and Mixed-Use Properties

COMMENTARY - BOB KNAKAL

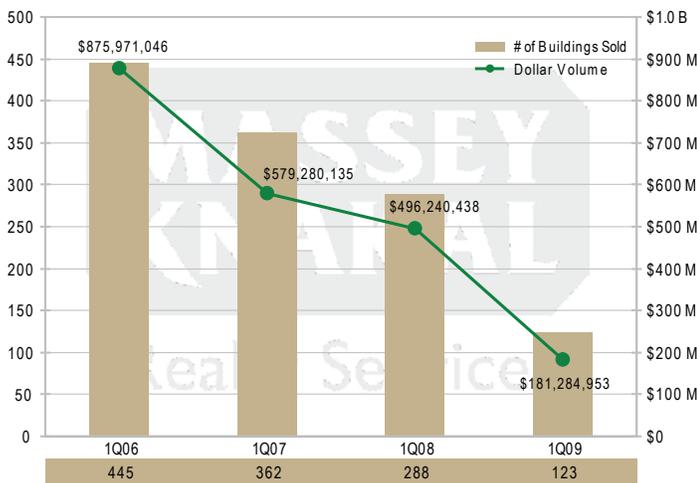
an annual level of 0.7% but it is very likely that we may not see enough activity to hit the 1.6% level. We believe that this extraordinarily low level of sales was created by the virtual paralysis that the market experienced after the fundamental dismantling of Wall Street on September 15th. Contract executions evaporated in the fourth quarter of 2008 as investors became timid and credit markets froze which resulted in the enemic number of closings in 1Q09.

We believe the volume of sales will increase as the year progresses as it simply could not get any lower. A factor which will artificially add to the low volume will be the fact that many lenders will opt to sell notes rather than going through the foreclosure process and then selling the assets. If the lender wants to maximize their note sale proceeds, they will sell the notes to real estate investors who will want to own the assets on a long term basis. Many properties which were financed in the 2005-2007 period have negative equity to an extent that it is highly unlikely that the borrower will be able to payoff the loan or would even want to. This will result in the buyer of the note foreclosing and holding the asset. This “shadow” sale market will not be reflected accurately in the 2009 numbers.

While all of the percentages mentioned above related to number of transactions, we track the aggregate sales price volume as well. Let’s compare the first quarter of 2009 with the first quarter of 2008 and the height of this market cycle – the first quarter of 2007.

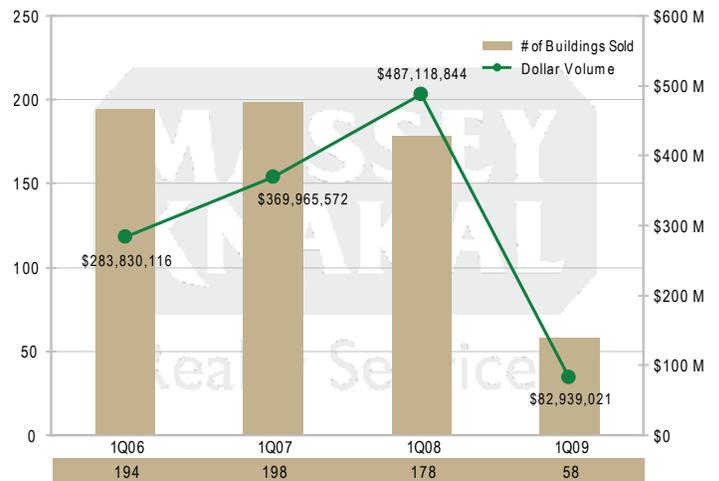
The best performing submarket was Brooklyn which was down by “only” 56.5% in the number of sales and 63.5% in aggregate sales price from 1Q08. When comparing 1Q09 with 1Q07, the number of sales was down by 65.6% and aggregate price was down by 68.7%. Remarkably, those numbers were the most positive.

NYC BUILDING SALES* - Brooklyn
Comparing 1st Quarters of Each Year (2006-2009)



* Multi-Family (Elevated and Walk-Up) and Mixed-Use Properties

NYC BUILDING SALES* - Queens
Comparing 1st Quarters of Each Year (2006-2009)

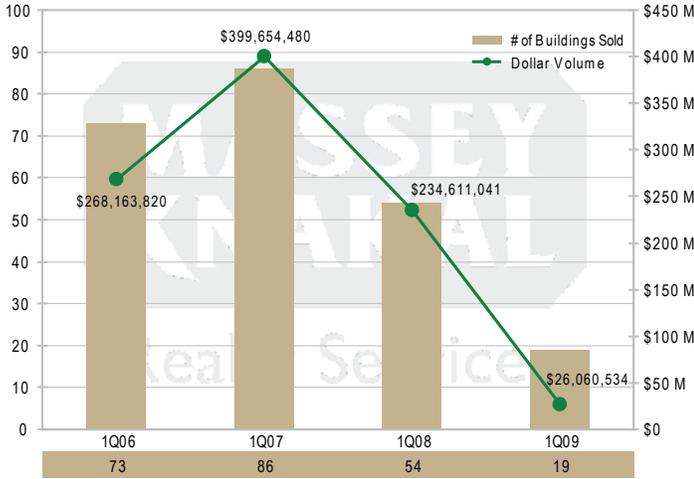


* Multi-Family (Elevated and Walk-Up) and Mixed-Use Properties

In Queens, 1Q09 number of sales was off by 68.5% and aggregate sales price was down by 82.9% from 1Q08. When comparing 1Q09 to 1Q07, the number of sales was down by 71.5% and aggregate prices by 77.6%.

In Northern Manhattan, 1Q09 number of sales was down 62.3% and aggregate sales price was off by 88.9% from 1Q08. Comparing the numbers to 1Q07,

NYC BUILDING SALES* - Northern Manhattan
Comparing 1st Quarters of Each Year (2006-2009)

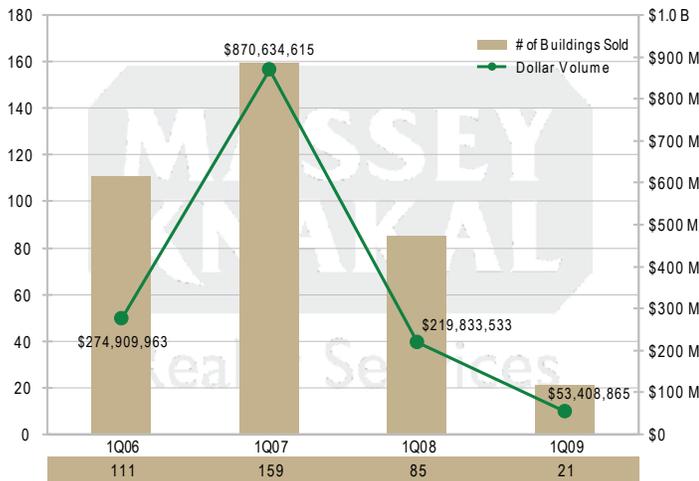


* Multi-Family (Elevated and Walk-Up) and Mixed-Use Properties

the number of sales was down by 77.1% and aggregate sales price dropped by a staggering 93.5%.

The Bronx experienced a reduction of 74.4% in the number of sales and a reduction of 75.7% in aggregate sales price in 1Q09 from 1Q08. Comparing 1Q09 to 1Q07, the number of sales was down by 86.7% and aggregate sales price was down by a whopping 93.8%.

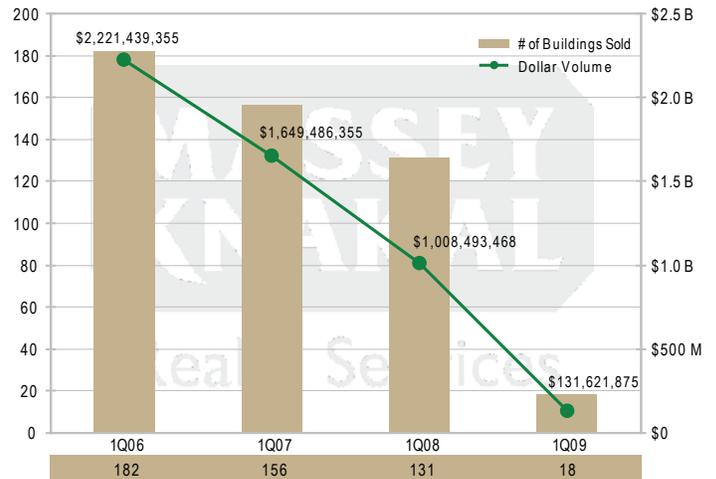
NYC BUILDING SALES* - Bronx
Comparing 1st Quarters of Each Year (2006-2009)



* Multi-Family (Elevated and Walk-Up) and Mixed-Use Properties

Manhattan activity has fallen off a cliff as comparing 1Q09 to 1Q08, the market experienced reductions of 85.5% in the number of sales and 86.9% in aggregate sales price. Compared to 1Q07, these numbers were down by 88.2% and 92.0% respectively.

NYC BUILDING SALES* - Manhattan
Comparing 1st Quarters of Each Year (2006-2009)



* Multi-Family (Elevated and Walk-Up) and Mixed-Use Properties

Clearly, there is nowhere to go but up from here but the question is: How rapidly will the rate of activity increase? The degree of seller capitulation we see and the availability of debt will be two important factors in answering this question.

If you have any questions about this commentary, please feel free to call me at 212-696-2500 or on my cell at 917-509-9501.



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During Mr. Knakal's almost 25-year career, he has sold over 1,000 buildings having an aggregate market value of over \$5.8 Billion. He was the top salesman, with partner Paul Massey, at Coldwell Banker Commercial (now CB Richard Ellis) in New York in 1986, 1987, and 1988 prior to forming Massey Knakal. In 1990, he was awarded Crain's New York Business "40 Under 40" awarded annually to 40 business people under forty years of age for outstanding achievement in the New York business community. In 2001, Mr. Knakal was named one of "The Top Dealmakers" by Real Estate New York Magazine. He has twice been the recipient of the Robert T. Lawrence Award in the Real Estate Board of New York's Most Ingenious Deal of the Year Contest. First in 2002, for the assemblage of the easterly blockfront of Second Avenue between 54th and 55th Streets. Then again in 2004 for the sale of the historic Gotham Book Mart at 41 West 47th Street. In 2008, Real Estate Forum Magazine named Mr. Knakal one of the Top 10 Real Estate Investment Sales Brokers in the United States.

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