

# A Message from the Chairman:

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## Sales Up Slightly, But High Demand Foreshadows Good Times

New York City's investment sales market, in the first half of 2012, (1H12), had a much more positive and uplifting feeling to it than the statistics reflect.

The reason for this incongruity is mainly because the volume of sales has increased marginally but the number of buyers in the market has been overwhelming which has precipitated a significant increase in value. This was particularly true in the second quarter; however, this influence will not be reflected until 2H12 numbers are in as those transactions close. It is, however, interesting to look at what has transpired with investment sales volume in the first two months in the year.

In 1H12, the total dollar volume of sales in the city was \$14.2 billion, reflecting a 3 percent increase over the \$27.4 billion total in 2011, if annualized. We expect that this \$14.2 billion of activity will more than double before the end of the year as we expect more robust activity in the second half of the year as additional supply comes on the market from sellers hoping to take advantage of this year's low capital gains rates. Interestingly, in the second quarter of 2012, the total dollar volume of sales was \$6.9 billion, the first time the quarterly total has dipped below \$7 billion since 1Q11.

In terms of sub-market performance, the Manhattan market had \$11.3 billion in sales volume in 1H12 which, if annualized, would yield a lower total volume for the year than we saw in 2011 by about 3 percent. The weakest performing sub-market was Queens in which there were just \$539 million of sales activity versus \$1.35 billion last year. If this trend continues, Queens will see a 20 percent reduction in the total dollar volume of sales this year.

The strongest performing sub-market in terms of the total dollar volume of sales was clearly Northern Manhattan, which had \$441 million of sales volume in 1H12. This total already exceeds the annual total of \$363 million in all of 2011.

On a market wide basis, the annualized total of \$28.3 billion in sales volume for this year would be more than 4 times the \$6.1 billion at the low point of the market cycle in 2009, but would remain 54 percent below the 2007 peak of \$62.2 billion. It is important to note that based upon the supply increases we anticipate in the second half of the year, we expect dollar volume will well exceed \$30 billion dollars for the year.

In terms of the number of buildings sold (which we think is a more accurate reflection of the market), activity looks a lot more positive. In 1H12, there were 1,310 properties sold citywide reflecting an annualized increase of about 18 percent over the 2,222 properties sold in 2011. Notably, there were 728 properties sold in 2Q12, which is the highest quarterly total going back to 2Q08.

The sub-market leading the way here again was Northern Manhattan with 118 properties sold in 1H12 as compared to just 124 in all of 2011. Therefore, the Northern Manhattan market is on pace to nearly double last year's activity.

The projected annualized total of 2,620 sales for year would be nearly double the 1,410 sales occurring at the bottom of the market in 2009 but would remain about 48 percent below the peak activity level in 2007 where we saw 5,018 sales.

In terms of property value, 1H12 saw cap rate compression within all sub-markets and within all property types. The cap rate compression was modest in most of these sectors thus far as the recently very heated activity, created by mortgage rate reductions in 2Q12, will not tangibly be reflected in the numbers until the second half of the year as those contracts close.

As we have reported for 10 quarters now, the investment sales market can accurately be described as "much better than it was in 2009, but not nearly as good as it was in 2007."