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Property Sales Volumes Down, Values Continue Soaring

First half of 2013 performing as expected; Second half upswing underway.

The recovery in the property sales market continues to outpace the recovery in the broader economy and is, in fact, performing better than the recovery in commercial real estate's underlying fundamentals would dictate. 2012 was a banner year, therefore, comparatively this year is lagging but activity is better than we had in 2011, a year in which we were all feeling very happy.

In the first half of 2013 (1H13), there was $13.3 billion of investment sales activity. On an annualized basis, this $26.6 billion figure is running at a pace which is about 35 percent below the $41 billion which occurred last year. It is, however, comparable to 2011's $28 billion in sales (in 2011 there was about $28 billion in sales). In 2012, we saw significant increases in volume due many sellers rushing to beat the capital gains tax increase. While dollar volume is lower thus far in 2013, it is important to remember that in 2011 participants in the property sales market in New York City were feeling great and we are on about that same pace this year. Additionally, we believe that activity will pick up significantly in 2H13 and stand by our projection, made at the end of 2012, that investment sales volume will be about $40 to $41 billion this year.

Not surprisingly, the Manhattan submarket accounted for 79 percent of the dollar volume of sales in 1H13. In what was a surprise, the Northern Manhattan submarket accounted for $550 million in sales; more than the total in both Queens and the Bronx. Only about 4 percent of the buildings in New York City are in Northern Manhattan as opposed to 13 percent and 27 percent, respectively, for the Bronx and Queens. Therefore, the sales volume in Northern Manhattan is a noteworthy statistic.

With respect to the number of buildings sold, there were 1,343 properties sold in the first half of the year. This leads to an annualized projection of 2,686 which is running about 34 percent below the 4,066 that traded in 2012 but is well ahead of 2011's 2,031 properties sold. Of the total number of properties sold in 1H13, the majority occurred in Brooklyn which had 526 sales. This is not surprising given that there are more buildings in the Brooklyn submarket than anywhere else (39 percent of all properties in the city).

With respect to the total turnover in the market, the annualized total of 2,686 would lead to a turnover ratio of about 1.6 percent of the total stock of about 165,000 properties that are in Massey Knakal's statistical sample. This figure is down from a 2.5 percent turnover ratio last year but is ahead of the 1.4 percent turnover in 2011. With respect to individual submarkets, Manhattan was running at about 2.3 percent of the total stock of properties, below the long-term trend of 2.6 percent. Remarkably, Northern Manhattan had a 3.8 percent turnover ratio in 1H13, the highest turnover ratio ever seen in the Northern Manhattan market. Queens and the Bronx had extraordinarily low turnover at 1.1 percent and 1.2 percent respectively.

With regard to the average price of a property sold in 1H13, the average was $9.9 million, down just slightly from the $10.1 million average observed last year. We expect this average price to increase significantly in the second half of the year as there are several large office transactions pending which will add to the average tangibly. In 2011, average sales price hit an all-time record of $12.5 million.

With respect to values, oddly, the average value per square foot seen citywide in 1H13 was $470 per square foot, exactly matching the 2012 average. This is difficult to rationalize and we believe that based upon the transaction that were closed in May and June, and that are presently under contract, the statistics will show a sharp rise in the average in 2H13. The first half average was produced by a 1Q13 average that actually was lower than the 2012 average. The only way to rationalize this is that lower quality assets made up a disproportionate percentage of sales in that quarter. In the second quarter, values were well over $550 per square foot on average. We expect this dynamic to continuer and expect that values will be up across the board this over year over 2012 totals with each product type, in every geographic submarket, hitting new all-time records on a price per square foot basis.