

Investment sales off to a strong start in 2007.

Nelson, James
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After a sluggish 4th quarter for Manhattan investment sales, it appears that 2007 is off to the races.

Without question, 2006 was a record year with over \$30 billion in investment sales. However, our office began to detect a slowdown for multi-family and mixed-use contract executions in the 4th quarter of 2006.

Part of this could be attributed to less inventory, as owners had already taken advantage of the heated marketplace. Another explanation is that buyers tried to catch their breath and determine whether they wanted to accept capitalization rates, which in many cases were dipping well below 4%. All of the negative media speculation about the status of the consumer condominium market may also have been a factor.

In fact, Massey Knakal's Income Property Market Report--prepared by the appraisal firm Miller Cicero--reported that the average walk-up apartment building in Manhattan south of 96th traded for a 4.6% capitalization rate and 14x rent roll, or \$476 per foot in the first half of 2006.

Meanwhile, elevatored apartment buildings traded at a 2.8% capitalization rate and 18.4x rent roll, or \$426 per foot. We feel that the surging residential rental market had allowed investors to accept these lower returns with hopes of more future upside.

As transfers have not come in for March 2007, we compared January and February 2007 sales versus the same period in 2006. We found that across the board there were fewer trades in these two months in 2007. Since most sales take three months to close, this would confirm that there were fewer contracts signed in the last quarter of 2006 than in the last quarter of 2005.

According to PropertyShark, there were 33 walkup multi-families that closed in January and February of 2007 compared to 43 in 2006; for elevatored multi-families, there were only seven trades in this period of 2007 verse 19 in 2006; finally, for mixed use property sales, the number of sales dropped to nine from 14 for this period.

The only category that we saw a rise in volume was the much talked about commercial office sector, which saw an increase of almost three fold in this period from 10 to 28 sales.

The positive news is that the average price per square foot for every product type was up for these January and February 2007 sales compared to that period for 2006.

According to Miller Cicero's information, the average multi-family sale during this 2007 period was \$723/ft as compared to \$684/ft in 2006. The elevatored buildings traded on average for \$607/ft compared to \$478/ft, mixed-use buildings traded for \$886/ft versus \$781/ft, and commercial sales leaped to \$765/ft from \$561/ft. Our office has seen the first quarter of 2007 provide record breaking months.

Our Manhattan office, which typically signs 1015 contracts per month, signed a record 21 contracts in February, the shortest month of the year. We just followed this performance up with 20 contracts signed in March. During this period last year, we signed nine and eight contracts, respectively. It appears that buyers have come back from the 4th quarter of 2006 with a vengeance.

We have witnessed condo converters re-emerge based on very positive news from the residential broker reports that all agree Manhattan condo prices are up this quarter as compared to last.

However, we would like to clarify that these developers are only looking for premium locations. For prime locations, we have still seen land sales signed at over \$600/buildable square foot with vacant buildings traded for \$700 to even over a \$1,000/ft for conversions.

Meanwhile, the commercial office building market is soaring. We recently signed a contract for a downtown loft building, where leases would roll in the next two years, at over \$700 per foot. Rents in that building were projected at \$50/ft. This building was resold from last year when it was bought for almost half of the price.

Finally, we just signed a multi-family portfolio at a 3.3% cap or close to 18x rent roll. This portfolio was a mix of walk-up and elevator buildings.

In all, we believe it is safe to say that 2007 will not only yield more record prices, but sales volume will surge making up for the slow last quarter of 2006.

JAMES NELSON, MANAGING PARTNER,

MASSEY KNAKAL REALTY SERVICES

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