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2008 building sales market predictions: Buyers and sellers are adjusting to the new lending environment

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There may be a light at the end of the tunnel for the Manhattan building sales market under $100 million. The credit crisis of 2007 has certainly changed the way we do business. However, the "crisis" portion of the term may well be behind us. While we continue to feel the effects of the previous slowdown, it seems the market may have started looking up again.

The first half of 2007 was a record breaking year, both citywide and for our office. From January through July, Massey Knakal's Manhattan office signed 112 contracts with an aggregate value of $1.1 billion. However, the number of contract executions fell off sharply in August, with our office signing only half the amount of contracts on average. This trend continued through November. The good news, however, was contract execution in December showed a slight up-tick. We attribute this to both buyers and sellers adjusting to the new lending environment. It remains to be seen if our outer borough offices will see a similar increase since their August drop off.

Contract executions are a strong leading indicator for sales, which typically occur about three months afterward. With that being the case, the beginning of 2008 should be slower for sales volume in our office as a result of the fall slow down. Assuming that December's increase was not an anomaly, we are optimistic that activity will return to much healthier levels by the spring of 2008.

This predicted recuperation in sales can be attributed to the market's adjustments to post-crunch lending standards. During the beginning of the credit crunch, some of our buyers complained of being re-traded after receiving a term sheet from the lender. In one example, a multifamily buyer on the Upper East Side had his loan amount and interest rate altered three times after receiving a term sheet; ultimately he received a loan at less than 50% of the sale price. Today, buyers realize the equity requirements that a bank will expect before trying to secure financing, which leads to fewer false starts.

Another indicator of the market is the number of listings that Massey Knakal is handling. This number has dropped from 790 last year to 719 this year. We believe this reflected the sellers' hesitancy to enter a slowing market. However, since the beginning of the New Year, an influx of property owners have requested valuations for their properties. We feel this is due to an increased comfort with the state of the market.

As for pricing levels, we do not anticipate any decrease for 2008, as values have already held through the worst of the credit crisis. For example, we recently sold 86 University Place, a mixed-use building off Union Sq., for $1,249 per s/f, or a 4.81% capitalization rate. The price was well above 2006's average mixed-use price of $907 per s/f. As with many other recent sales, a 1031 buyer prevailed, supplying over 50% equity and assuming an existing loan.

In another example, we recently sold an elevatored mixed-use building at 204-08 14th St. for $597 per s/f, which represented a 3.29% capitalization rate and over 21 times rent roll. The buyer once again had a 1031 to overcome the financing challenge, ultimately producing a purchase price in line with values earlier last year.

In some cases, we have even seen bidding at higher levels for some properties that have remained on the market since the credit crunch. After listing 9 Christopher St., a walk-up mixed-use apartment building, in April of last year, bids have actually increased from 16 times the rent roll to now over 17 times. The same has held true for 96 Morton St., an office building we are handling in the Village. Buyers are now bidding at around a 4% capitalization rate.

While the new lending practices certainly have put upward pressure on capitalization rates across the board, the increase in rents in both the office and multifamily sectors have more than made up for this, continuing to drive prices per s/f higher. In addition, product still remains relatively scarce keeping this a seller's market.

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