

## Supply/Demand Dynamics as we Move into 2015

As we enter 2015 with the wind at our backs in the investment sales market, I thought it was a good time to visit the supply / demand dynamics at work today.

Between the two, the metric that is most important to market activity is supply. During the 31 years I have been brokering in New York City, the only year in which supply exceeded demand was 1992. That was the year in which the Resolution Trust Corporation was dumping wheelbarrows full of distressed properties from failed banks by the hundreds. In those days, few investors had money and those that did, were hard pressed to spend it on commercial real estate. Values in those days were about 70 percent lower than they were at the top of the market in 1988. As challenging as the recent Great Recession was, the 38 percent drop from 2007 to 2010 was a walk in the park compared to the early 1990s.

Supply is king because there is never much supply and demand always seems to be robust in New York City. In fact, over the past 31 years, the average turnover ratio of properties sold out of the total stock of properties has been just 2.6 percent. This means that, on average, when an investor purchases a property here, they own it for 40 years before selling. While supply is generally low, it has been picking up of late which has made buyers very happy. Why has supply been picking up? Because of the positive feedback loop that the market is currently experiencing. The tremendous demand that exists in the market is exerting significant upward pressure on values. As values rise, a new group of potential sellers find these values compelling and decide to sell. As these folks put their properties on the market, the massive demand that exists competes vigorously for the assets, exerting further upward pressure on values. As values rise further, a new group of potential sellers decide it is time to enter the market. So, supply has been good and continues to be.

On the demand side, we are seeing an amount of demand unlike anything we have ever seen. In the 2005 thru 2007 bubble inflating years, institutional capital crowded out other investors. As the market started to turn downward, high-net-worth individuals and families reemerged and became the go-to buyers in 2008 and 2009. By 2010, the institutions, which had been sitting on the sidelines for a couple of years, got back in the game with opportunity funds and value-added funds. They were joined by a host of foreign buyers who have been pouring into the market in numbers not seen since the 1980s. While the institutions and foreigners have been very active, the high-net-worth individuals and families have been holding their own and competing successfully with other market participants.

A new class of “foreign buyer” has been the first-time buyer from around the US. Many of these folks are real estate investors in other cities who have seen how well NY investors have done and want to get their piece of the Big Apple. It has been remarkable how impactful these investors have been on our local market. Moreover, the majority of the truly foreign investors we have seen are non-real estate professionals who have made riches in other businesses and have decided to preserve that capital by purchasing investment properties in the US, specifically New York. In the last three and one-half years, Massey Knakal sold investment properties to investors from 51 countries. Now with Cushman & Wakefield, we anticipate taking advantage of 260 worldwide offices to increase that number greatly. These investors continue to care much more about capital preservation than yield. And can you blame them? Yields on many government bonds in the Eurozone are returning negative returns. This is reminiscent of the 1800s when Americans with means would pay banks a monthly fee to keep their gold in bank vaults. Under these circumstances, even miniscule returns on investment properties here look great.

As we sit here today, there seem to be no end to these dynamics. We all know the market will indeed turn as the cyclical nature of the market is a given. However, we are hoping to squeeze every minute out of these fantastic market conditions that we can. If the demand side is indicative of how things will go, we should be in good shape for quite a while.



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