

Real Estate Industry Report

August 2023

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Federal Reserve Bank of New York

Economic activity in the Second (New York) District held steady in the latest reporting period. While contacts noted some slowing in hiring, labor market conditions generally remained solid, with ongoing modest employment gains and steady wage growth. Inflationary pressures increased slightly after easing much of the past year. Supply availability continued to improve, though manufacturing activity contracted. Consumer spending grew steadily, led by spending on experiences, while spending on goods sagged. Tourism activity in New York City continued to grow through late summer, inching back toward pre-pandemic levels. Exceptionally low inventory continued to restrain home sales. Commercial real estate markets were mostly unchanged, with some further weakening in the office sector. Conditions in the broad finance sector stabilized following a period of pronounced weakness, though, on balance, loan demand continued to decline and delinquency rates edged up. Looking ahead, businesses have become somewhat more optimistic about the economic outlook.

Market Trends

The United States

- **[Economy]** The Fed may announce [more interest rate hikes](#) due to stubborn inflation.
- [North American capital](#) slows down investment in Europe, but North America cross-regional investment by 5% YoY, and New York is attracting the most inflows in H1 2023.
- [\\$205 billion of capital is waiting](#) for the lowest valuation of U.S. CRE.
- BlackRock executives predict an [18-month flatlined economy](#) ahead.

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- **[CRE]** U.S. [CRE investment volume fell](#) 64% YoY to \$75 billion, [office sales activity marginally picked up](#) in Q2 2023, [CRE lending volumes are estimated to drop](#) below \$500 billion or 38% in 2023, and [CMBS loan originations were down](#) 79% YoY. CBRE expects investment sales [improvements in H1 2024](#).
 - [Buildings constructed after 2010 recorded positive net absorption](#) in Q2 2023, performing better than other buildings.
 - [Coworking space stock](#) increased 10% in Q2 2023.
 - [Underused office demolitions](#) are gaining traction in California.

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- **[Multifamily]** [National rental apartment vacancy increased](#) while NYC continues to decrease.
 - The multifamily sector is slowly [reverting to pre-pandemic norms](#).
 - [Multifamily insurance rose](#) 13.6% YoY across the 50 largest MSAs.
 - Insurances, taxes, and utilities are [driving up multifamily operation expenses](#).
 - Multifamily developers are [optimistic](#) about Q3 and Q4 2023.

- **[Industrial]** [Data center](#) market has high demand but short supply.
 - The U.S. [self-storage](#) and [industrial](#) markets are starting to normalize.
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- **[Life Sciences]** [A supply glut for the life sciences sector is imminent](#), but the sector growth is bullish.
 - The [life sciences](#) market retreated to pre-pandemic levels.
 - [Cleantech companies](#) could fill empty life sciences lab spaces.

New York City

- **[General]** Comptroller Lander projected the [FY27 budget gap nearing \\$14 billion](#).
 - 11% of buildings are not on track to [meet LL97 requirements](#).
 - NYC remains a top global financial center but has [lost financial firms](#) that manage assets encompassing \$1 trillion to Texas and Florida.
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- **[Multifamily]** A new report says [8% more rent-stabilized units are vacant](#) than last year. Another state data review shows that [more than 13,000 units sat empty](#) due to “warehousing.”
 - [City-financed affordable housing deals were up](#) 46% YoY to 24,000, [exceeding the goal](#).
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- **[CRE]** The [full-time remote work](#) trend is ending.
 - [Office leasing](#) activity picked up, but lease sizes shrank.
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- **[Hotel]** NYC's [hotel occupancy and rates](#) rose 10% in July.

In the News

- **[Federal]** The National Bureau of Economic Research published a [report](#) on converting offices to apartments with NOI predictions. 11% of office buildings nationally [could be converted](#) into housing.
 - HUD and the U.S. Dept. of the Interior announced plans to [sell federal land](#) to the State of Nevada to spur affordable housing construction.
 - HUD [increased](#) the large multifamily loan threshold.
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- **[NYS]** NYS launched a [\\$650 million Pro-Housing Communities Program](#) (apply [here](#)), a discretionary fund to localities to promote housing growth.
 - IRA tax credit will boost NYS' [nuclear power](#).
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- **[NYC]** City Council [approved](#) the Open Restaurants program with [restrictions](#), which was signed into law. See NYC Hospitality Alliance's highlights [here](#) and see eligibility [here](#).
 - NYC wants to [rezone more than 40 blocks](#) in Midtown South to [encourage office-to-residential conversions](#) as part of the "City of Yes." An [office Conversion Accelerator Team](#) was assembled.
 - NYC CM Crystal Hudson released [The Atlantic Avenue Mixed-Used Plan \(AAMUP\)](#).
 - NYC Council [approved but limited MSG's special permit](#) to five years with requirements to improve pedestrians. Meanwhile, MTA and Amtrak [seem to have some disagreements](#) regarding the redesign.
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- **[Notable Projects]** NYC and NYS committed \$200 million to [Kingsbridge Armory](#). An RFP will be issued in September.
 - The Public Design Commission approved [The Tibbetts Brook Daylight and Greenway project](#) in Van Cortlandt Park. The project is now [waiting for MTA approval](#).
 - LeFrak Organization plans a market-rate 322-unit project at [853 Jersey Ave](#) in Hoboken.
 - The Far Rockaway residential project at [29-32 Beach Channel Dr](#) [gained support](#) from CM Brooks-Powers after the developer committed to include affordable housing ownership opportunities.
 - The LeFrak City branch of the Queens Public Library will [relocate](#) to 95-15 Horace Harding Expressway after being flooded multiple times.
 - Developer Anthony Tortora is developing a 463-unit [rental complex in Coney Island using geothermal](#).
 - Legacy Investing is [converting](#) a 210 KSF office building in northern NJ to a life sciences facility.
 - Greenland USA reached a handshake deal with MTA to [build three residential towers](#) in Atlantic Yards.
 - Kinsmen Property Group filed plans to demolish [50-64 Third Ave](#). No new building plans have been announced yet.
 - Remica Property Group seeks to [rezone 1381 Atlantic Ave](#) for a mixed-use tower.
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- **[Casino]** NYS Gaming Facility Location Board released [round 1 Q&As](#) for the three downstate casino licenses bid.
 - WinStar World Casino and Saratoga Casino hired [former CM Recchia](#) for the Coney Island casino bid.

Corporate News

Business Strategies

- Despite interest rate hikes, [new REITs were launched](#). Meanwhile, Blackstone and KKR [stopped issuing new loans](#).
- [Alliance University](#) will close on 8/31. 2 Washington St. faces troubles as the University is its only tenant.
- The Community Housing Improvement Program (CHIP) is [considering merging](#) with the Rent Stabilization Association (RSA), which organizations are challenging New York's rent law.
- IKEA's parent company, [Ingka Centres](#), partnered with Industrious to launch a coworking business in the U.S.
- [TPG](#) has \$6 billion to spend on life sciences, data center, industrial, and student housing.
- CBRE expects [sold storage demand to rise](#). [Envision Cold](#), a new cold storage company, entered the competition with \$1.5 billion.
- [Jamaica Hospital Medical Center](#) is expanding its footprint by adding a new surgery center.
- [WeWork](#) may go bankrupt and is [trying to restructure](#).
- [NYU Langone Health](#) is looking to expand in the tri-state area.
- [KSL Capital Partners](#) acquired Hersha Hospitality Trust.
- [H&H Bagels](#) aims to expand nationwide.
- [Zoom](#) is calling its employees back to the office.
- Vornado:
 - Looking to sell the [Farley Building](#).
 - [Reuben Brothers](#) bought the \$124 million retail portfolio from Vornado.

Finance

- [The Metropolitan College of New York](#) is selling its campus at 60 West St.
- [Fortress Investment Group](#) acquired \$1 billion of office loans from Capital One.
- Boston Properties sold a 45% stake in [343 Madison Ave](#).
- The [Collective Paper Factory](#) was sold at a \$23 million loss after being converted into a migrant shelter.
- [Corebridge Real Estate](#) raised a \$1 billion value-add fund.
- [Blackstone](#) raised a \$7 billion clean energy fund.
- [IRA Capital](#) launched a \$500 million senior housing and healthcare fund.

Bankruptcy + Foreclosures & Defaults

- The [Row NYC Hotel](#) is facing foreclosure.
- [Margaritaville Times Square Hotel](#) filed for another bankruptcy.
- The CMBS loan on [681 Fifth Ave](#) is 30 days delinquent.
- Nightingale Properties, followed by fraud scandals, is no longer facing foreclosure on its [300 Lafayette St](#).
- [The Edition Hotel](#) at 20 Times Square faces foreclosure but [may get an extension](#).

Residential

Apartments

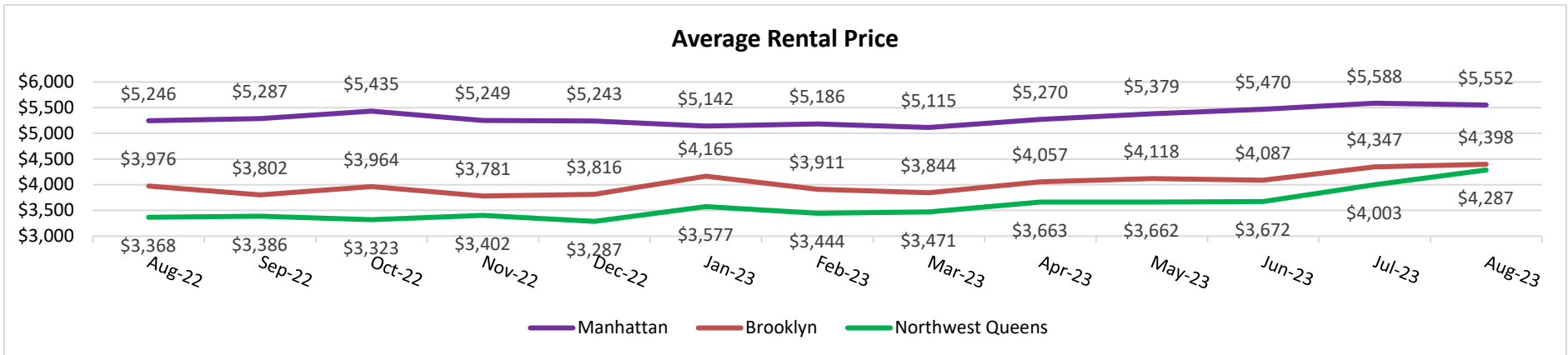
August Rentals	Manhattan	Brooklyn	Northwest Queens
Rental Price PSF	\$81.69	\$57.02	\$65.43
%Δ MoM	-3.6%	2.6%	18.1%
%Δ YoY	2.3%	7.8%	23.0%
Average Rental Price	\$5,552	\$4,398	\$4,287
%Δ MoM	-0.6%	1.2%	7.1%
%Δ YoY	5.8%	10.6%	27.3%
Listing Inventory	5,637	1,848	168
%Δ MoM	-23.6%	-45.2%	-54.7%
%Δ YoY	-16.0%	-53.9%	-61.2%
Vacancy Rate	2.42%	-	-
%Δ MoM	-0.21%	-	-
%Δ YoY	0.25%	-	-

Source: Douglas Elliman, August 2022 Manhattan, Brooklyn & Northwest Queens Rentals

Condominiums & Co-Ops

According to the August 2023 New Signed Contracts report by Douglas Elliman:

The year over year decline in newly signed contracts still reflected the momentum of last year’s pandemic-era housing boom despite sharply rising mortgage rates, yet new listings declined annually for the past thirteen months, keeping the market pace brisk.



Commercial

Office

According to the August 2023 Market Snapshot: Manhattan Office [report](#) by Colliers,

Net sublet availability decreased by 0.31 million square feet in August to 21.00 million square feet and was the lowest level of sublet supply since January. Yet, Manhattan’s total sublet inventory increased by 6.1%, year-over-year, and by 76.4% since March 2020. The asking rent average grew by 0.2% in August to \$75.70/SF. This was the fifth consecutive monthly increase, the longest since January 2022. Although this was Manhattan’s highest asking rent average since October 2020, it was still 4.7% below the March 2020 average of \$79.47/SF.

August Manhattan Office	Leasing Activity (SF-Monthly)	Availability Rate	Average Asking Rent (\$/SF/Yr)
Midtown	1,320,170	15.8%	\$79.65
%Δ MoM	39.0%	-0.2%	-0.1%
%Δ YoY	-1.2%	0.2%	0.1%
Midtown South	770,626	18.3%	\$72.78
%Δ MoM	71.0%	0.0%	-11.3%
%Δ YoY	-50.6%	2.2%	-10.0%
Downtown	445,224	21.3%	\$58.24
%Δ MoM	-51.7%	0.1%	-0.2%
%Δ YoY	-13.4%	1.4%	-1.6%
Manhattan	2,536,020	17.8%	\$75.70
%Δ MoM	9.3%	0.0%	0.2%
%Δ YoY	-25.6%	1.1%	0.8%

Source: Colliers, Manhattan Monthly Snapshot August 2022

Construction

- Due to difficult office market conditions, [Lendlease](#) halted its \$1.2 billion project in San Francisco.
- According to REBNY’s [Q2 2023 Construction Pipeline Report](#), new building filings increased by 7% in Q2 2023 but are still 30% less than Q2 2022. The [declines were expected](#) due to the expiration of the 421-a tax incentive.



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