

Real Estate Industry Report

September 2023

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Executive Summary

In September 2023, all sectors continue to experience the effects of high inflation and interest rates. While investors have pulled back in recent months, investments continue cautiously and selectively, with several big companies betting big against current market trends. In contrast, international companies ramped up investment in the New York market. Rents in New York City started dropping in August but remain higher than a year ago.

According to the [September 2023 Survey of Consumer Expectations](#):

- Inflation expectations increased slightly at the short- and medium-term horizons, while they decreased at the longer-term horizon.
- The labor market expectations were mixed with unemployment expectations deteriorating and perceived job loss risk improving.
- Median expected growth in household income increased but remains below the series 12-month trailing average of 3.5%.

Market Trends

The United States

- **[General Market]** U.S. inflation [rose again](#) in August.
- [The global economy faces intensified headwinds](#) going into Q3 2023.
- According to CBRE's [2023 U.S. Real Estate Market Outlook Midyear Review](#), CBRE "pushed back the timing of a potential recession to late 2023 into Q1 2024... Industrial and logistics leasing has surpassed expectations... Multifamily new construction and absorption levels have surpassed forecasts made at the beginning of the year." CBRE [expects a prolonged recovery for commercial real estate](#).

- **[Commercial Real Estate]** [Suburban office is outperforming](#) downtown and core business district office.
- Proptech might see a [rebound in 2024](#).
- According to [BISNOW](#), "capital for CRE deals is now harder to obtain than at any time since the Global Financial Crisis."
- [CMBS delinquency rates](#) reached 5.07%.
- [\\$5.65 billion CRE loans YTD have been modified](#) with extensions.
- [Commercial property insurance premiums](#) increased 20.4% in Q1 2023.

- **[Multifamily]** [Housing affordability](#) remains at a record low. [Rents are stabilizing, but home prices continue to soar](#).
- [Rising insurance costs are threatening apartments](#), including affordable apartments.
- The CIM Group expects the [multifamily financial distress could increase over the next two years](#), but long-term fundamentals are encouraging.
- [Co-living and co-working housing](#) is trending in Phoenix.

- During the return to school season, [student housing reached 94% occupancy](#).
- [Senior housing faces uncertainties ahead](#), even with improving fundamentals.

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- **[Hotel]** [Hotel owners across the U.S. keep feeling pressure from maturing debt](#).
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- **[Healthcare]** JLL released the 2023 Life Sciences Industry and Real Estate Perspective [report](#), believing the life sciences market is "poised to bounce back."
- [Lab space developers are pausing projects](#) before they break ground. And for those under construction, developers see slow leasing.

New York City

- **[Multifamily]** New York [fell to the third biggest housing market](#) in the U.S.
- The [condominium market](#) in boroughs other than Manhattan will continue to grow. Brooklyn's condo sales volume may surpass Manhattan in 2028.
- [Rent-stabilized building owners continue to face troubles](#). [City Skyline Realty](#) defaulted on its \$26 million loan backed by four buildings.
- NYC's [co-ops](#) see rising maintenance fees by 19%.

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- **[Commercial Real Estate]** Boston Properties President said that rents would have to be [more than \\$200 PSF](#) to build new office towers in NYC.
 - NYC's [in-office occupancy is recovering](#) but is still about 50% lower than pre-pandemic levels.
 - [Brooklyn](#) is now more attractive to Proptech companies than Manhattan.

In the News

- **[Federal]** Bill [HR 5580](#) was introduced to the U.S. House of Representatives to [amend the tax code for commercial real estate loan maturities](#).
 - The White House released the [National Climate Resilience Framework](#).
 - The National Multifamily Housing Council (NMHC) launched the [Foundations for Rental Housing](#) with the White House, including a [Housing Help Hub](#) for renters and housing providers.
 - The National Institute of Building Sciences released [Resilience Incentivization Roadmap 2.0](#) to help businesses implement resilience incentives.
 - The FDIC started [selling \\$33 billion](#) of Signature Bank's commercial property loans.
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- **[New York State]** NYS Budget Director issued an annual call letter saying [budget requests should not exceed this year's \\$229 billion budget](#), facing a possible [\\$36 billion budget gap](#) over the next three years.
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- **[New York City]** Mayor Adams [announced](#) the "Getting 97 Done" plan, including [new rules to LL97](#). The new rules include waiving fines for building owners who have a decarbonization plan and are making progress.
 - [CPC approved 17 zoning changes](#) under the "City of Yes for Carbon Neutrality." The proposal is now awaiting the NYC Council's approval.
 - Mayor Adams launched the ["A Little More Housing in Every Neighborhood"](#) initiative to create an additional 100,000 homes for NYC.
 - Mayor Adams announced the [Atlantic Avenue Mixed-Use Plan](#) to create up to 4,000 new apartments.
 - [East Harlem](#) will get its first Business Improvement District (BID).
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- Mayor Adams [proposed 15% budget cuts](#) across all city agencies.
 - NYC will invest [\\$400 million](#) in the [Staten Island North Shore Action Plan](#).
 - Mayor Adams appointed Elijah Hutchinson as [Executive Director of the Mayor's Office of Climate and Environmental Justice](#).
 - EDC launched [New York City Mass Timber Studio](#) to promote the use of timber in development projects, and the program will issue a \$25K grant to selected designers and developers.
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- **[Request for Proposals]** ESD issued the [former Bayview Correctional Facility redevelopment RFP](#).
 - NYCEDC released the [Kingsbridge Armory Redevelopment RFP](#).
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- **[Notable Projects]** The [first net-zero school](#) was completed in Virginia.
 - Bally Corp. [acquired](#) the Trump Golf Links in relation to Bally's downstate casino bid.
 - [Amazon's new office](#) at 424 Fifth Ave opened.
 - Alexandria Real Estate Equities plans a third tower at [430 E 29th St](#) in its Kips Bay life science campus.
 - The plan to build a stadium in Van Cortlandt Park [ended quietly](#).
 - Goldman Sachs won the auction of [the Empire Outlets](#) in Staten Island. Goldman Sachs hasn't released any plans for the mall yet.
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- **[New Studies]** The Community Housing Improvement Program's new survey says there are more than [\\$1 billion in back rents for rent-stabilized buildings](#).
 - RPA released a new report analyzing the [New York Metro Area's failure to provide sufficient housing](#).

Corporate News

Business Strategies

- Amid Kroger and Albertsons' merger, the two stores agreed to [sell 413 stores to C&S Wholesale Grocers](#).
- [Hyundai Motor America](#) is expanding its NYC presence with another acquisition: 500 W 14th St. Hyundai bought [another building](#) in Tribeca in February.
- [Cipriani](#) plans to raise \$526 million for global expansion.
- [Allen Matkins](#), a CRE law firm based in California, is expanding to NYC.
- [Marriott International](#) continues expansion throughout COVID-19.
- [W.P. Carey](#) is looking to exit the office market.
- [Target](#) is closing stores due to theft.
- [Burlington](#) is expanding its footprint by adding some former Bed Bath & Beyond stores.
- [Rite Aid](#) is closing up to 500 stores.
- [Mount Sinai](#) will close the Beth Israel campus at 281 Fifth Ave in stages.

Finance

- [\\$7 billion in value could be lost](#) attributed to WeWork. WeWork is facing lawsuits from DivcoWest for \$30 million unpaid rent at [311 W 43rd St](#).
- [Nuveen](#) secured a \$1.1 trillion impact housing fund.
- Silverstein Properties is selling its ownership at [619 W 54th St](#).
- [MediaWill](#), a Korean company, acquired 110 W 32nd St for \$37 million.
- [Barberry Rose Management](#) sold 16 rent-stabilized buildings in NYC at a 44% discount.

- SC Holdings is contracted to purchase the landmarked [Bowery Savings Bank building](#) for \$25.7 million.
- Starwood and Onyx Acquisition IV purchased a [10-building industrial portfolio near JFK International Airport](#).
- [Kayne Anderson Real Estate](#) acquired a \$1.3 billion medical office loan from Synovus Bank.
- The [American Dream mall](#) lost \$245 million in 2022.
- The [Mondrian Park Avenue Hotel](#) at 444 Park Ave South is on sale for \$150 million.
- Sam Chang's McSam Hotel Group sold another hotel, [the Hilton Hotel at 150 W 48th St](#), for \$160 million.

Bankruptcy + Foreclosures & Defaults

- [3 Park Ave](#) is facing a downgrade.
- [245-249 W 17th St](#), home to X (formally Twitter), was downgraded.
- The [former P.S. 64](#) at 605 E Ninth St heads into auction.
- Churchill Real Estate's [263 W 34th St](#) was sold for \$16.5 million (about [25% of construction costs](#)) at a foreclosure auction to Marathon.
- Special service CWC Capital will soon start to sell [1740 Broadway](#), a Blackstone-owned building.
- Shorenstein Properties is 30-day delinquent with its \$350 million CMBS loan on [1407 Broadway](#).
- Xin Development Group International's [615 10th Ave](#) property is being foreclosed.
- RFR and Kushner Companies defaulted on loans for its [Dumbo office portfolio](#).

Residential

Apartments

September 2023 Rentals	Manhattan	Brooklyn	Northwest Queens
Rental Price PSF	\$83.64	\$56.55	\$56.74
%Δ MoM	2.4%	-0.8%	-13.3%
%Δ YoY	0.4%	11.8%	5.6%
Average Rental Price	\$5,442	\$4,162	\$3,769
%Δ MoM	-2.0%	-5.4%	-12.1%
%Δ YoY	2.9%	9.5%	11.3%
Listing Inventory	9,085	5,320	640
%Δ MoM	61.2%	187.9%	281.0%
%Δ YoY	39.9%	42.7%	14.7%
Vacancy Rate	3.07%	-	-
%Δ MoM	0.65%	-	-
%Δ YoY	0.73%	-	-

Source: Douglas Elliman, September 2023 Manhattan, Brooklyn & Northwest Queens Rentals

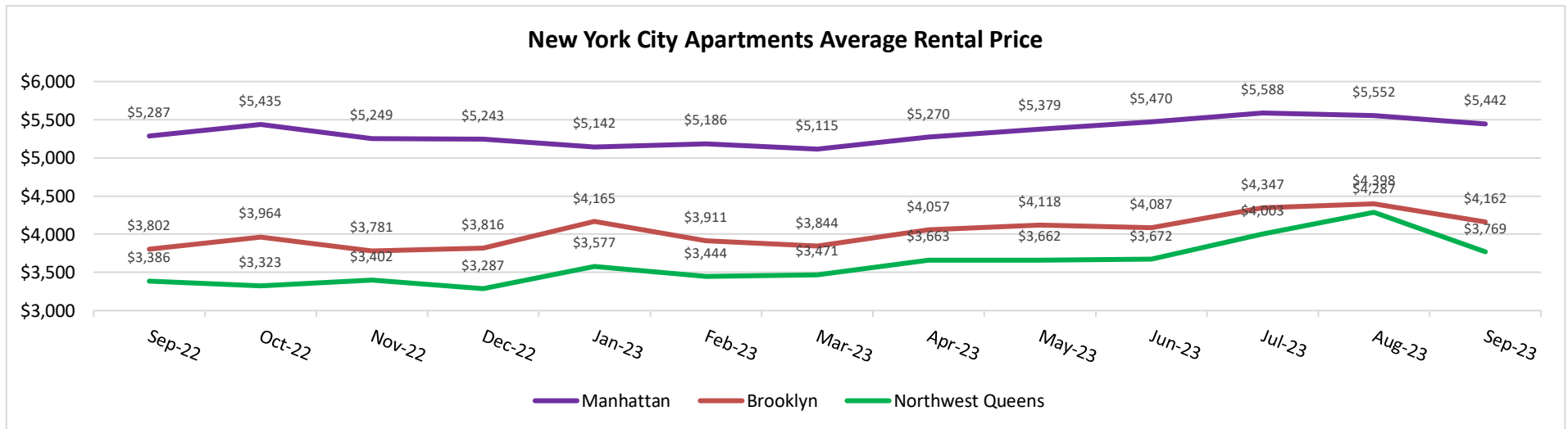
Condominiums & Co-Ops

According to the Douglas Elliman Q3 2023 [Manhattan](#), [Brooklyn](#), and [Queens](#) Co-Op, Condo, and 1-3 Family Sales reports,

Manhattan: Prices in the Manhattan co-op and condo market are beginning to stabilize as listing inventory continues to fall.

Brooklyn: The borough-wide median sales price in Brooklyn remained flat for the fourth consecutive quarter and the third highest on record.

Queens: Listing inventory and sales continued to slide in Queens. Median sales price declined year over year at a diminishing rate for the second time.



Commercial

Office

According to the Q3 2023 Research Report: Manhattan Office [report](#) by Colliers,

Manhattan's leasing volume increased by one-fourth, quarter-over-quarter. Meanwhile, availability grew with negative absorption and lower pricing.

Manhattan's asking rent average decreased by 0.2% during Q3 2023 to \$75.28/SF. This was largely driven by a mix of below-average priced large blocks (100,000+ sq. ft.) of space added to the available inventory along with cases of lower-repricing. The asking rent average also decreased in Midtown South and Downtown but increased in Midtown. Nonetheless, Manhattan's asking rent average grew by 1.6%, year-over-year, but was 5.3% below the March 2020 average of \$79.47/SF.

Q3 2023 NYC Office	Leasing Activity (SF-Monthly)	Availability Rate	Average Asking Rent (\$/SF/Yr)
Midtown	3,068,520	16.0%	\$79.74
%Δ QoQ	-1.5%	0.0%	0.2%
%Δ YoY	-31.0%	0.7%	1.4%
Midtown South	1,902,377	18.6%	\$81.99
%Δ QoQ	43.3%	0.4%	-0.1%
%Δ YoY	-45.1%	3.0%	2.8%
Downtown	1,530,544	21.3%	\$57.47
%Δ QoQ	114.9%	-0.1%	-1.4%
%Δ YoY	16.2%	1.1%	-2.1%
Manhattan	6,501,441	17.9%	\$75.28
%Δ QoQ	26.1%	0.1%	-0.2%
%Δ YoY	-29.5%	1.5%	1.6%
Brooklyn	609,467	22.2%	\$52.33
%Δ QoQ	306.8%	-0.8%	3.1%
%Δ YoY	129.9%	1.1%	0.8%

Source: Colliers, NYC Q3 2023 Office Market Reports

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