

Real Estate Industry Report

October 2023

The table of contents is [CLICKABLE](#)

Table of Contents

- Market Trends..... 2
 - The United States 2
 - New York City 2
- In the News 3
- Corporate News 4
 - Business Strategies 4
 - Finance 4
 - Bankruptcy + Foreclosures & Defaults..... 4
- Residential 5
 - Apartments..... 5
 - Condominiums & Co-Ops 5
- Commercial 6
 - Office 6
- Construction..... 7

Federal Reserve Bank of New York

Economic activity in the New York District weakened modestly during the latest reporting period. Looking ahead, businesses in the District expected little improvement in conditions in the coming months.

Labor market conditions remained solid with contacts reporting ongoing modest employment gains and steady wage growth. Inflationary pressures moderated slightly in recent weeks, though supply chain conditions were unchanged after nearly a year of steady improvement. Consumer spending increased at a slightly slower pace, with declines in spending on experiences offset by increases in purchases of apparel and home goods. Tourism activity in New York City was strong, as several events attracted record visitors. Despite rising mortgage rates, home prices have continued to edge up with still-solid demand and exceptionally low inventory. Commercial real estate markets improved slightly. Conditions in the broad finance sector weakened somewhat, with loan demand continuing to decline and delinquency rates edging higher.

Market Trends

The United States

- **[General Market]** U.S. GDP grew 4.9% in Q3 2023.
- Federal Reserve decided to [keep interest rates steady for now](#).
- Read here for an [analysis](#) of the [October 2023 Financial Stability Report](#) by the Federal Reserve System.
- [Worker Unions](#) started a winning streak at the end of last year.
- According to [ULI](#), construction costs, labor costs, and remote work will continue to be the top 3 real estate industry disrupters in 2024.

- **[Multifamily]** 72% of young renters between ages 22 and 35 think [social connections are very important](#). 46% of the same group are unsatisfied with their current apartments.
- Annual ULI and PwC [report](#) concludes:
The [10 top markets for 2024](#) are 1) Nashville, 2) Phoenix, 3) Dallas/Fort Worth, 4) Atlanta, 5) Austin, 6) San Diego, 7) Boston, 8) San Antonio, 9) Raleigh/Durham, and 10) Seattle. Brooklyn is #28, and Manhattan is #31.

Here is the full [Emerging Trends in Real Estate 2024 report](#).

- **[Commercial Real Estate]** U.S. commercial property Q3 2023 sales volume fell 53% YoY, marking the [weakest quarter since Q1 2010](#).
- [Educational institutions](#) are active in acquiring vacant offices.
- [The tech industry has been recovering](#) since Q1 2022, signing the most office leases in Q3 2023, majorly contributed by AI companies.
- [Experimental retail has grown by almost 400%](#) since 2021.
- According to [JLL](#), “just 1.7 MSF of new office construction broke ground in the second

quarter and just 7.9 MSF has broken ground year-to-date, signaling future supply constraints for tenants seeking high-quality product.”

- **[Industrial]** Savills devised [three trajectories to stress-test the industrial market](#). The highest probable scenario based on normalizing demand will cause the vacancy to peak at 6.4%, resulting in a 2.7% annualized rent growth through 2024.
- According to [Cushman & Wakefield](#), national industrial vacancies and demand continue to normalize due to record-high construction deliveries. But [key port markets such as New Jersey posted net losses](#).

- **[Life Sciences]** Life sciences leasing slows.
- [Life sciences venture capital funding in San Diego recovered \\$400 million to \\$1 billion](#).

New York City

- **[Multifamily]** Queens multifamily market fundamentals are softening.
- [Coney Island’s residential market](#) is growing.
- **[Commercial Real Estate]** The holiday season brought [Times Square’s retail activities back to life](#). The store closings and openings are now even since the start of the pandemic.
- **[Industrial]** Industrial spaces in NYC’s outer boroughs are now the most expensive nationally, but the [demand has also slowed](#).

In the News

- **[Federal]** The US Supreme Court [rejected challenges to New York's rent control system](#).
 - The White House announced [31 Regional Tech Hubs](#), including the [New Energy New York \(NENY\) Battery Tech Hub](#) and [NY SMART I-Corridor Tech Hub](#).
 - The White House announced new actions to [support commercial-to-residential conversions](#).
 - Fannie Mae launched the [Sponsor-Dedicated Workforce \(SDW\) Housing program](#).
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- **[New York State]** NYS Public Service Commission [rejected requests to boost subsidies for renewable energy projects](#).
 - [Gov. Hochul signed three housing bills](#) that 1) authorize NYC to adopt a new affordable housing rehabilitation program to replace the former J-51 program, 2) establish the "Housing Affordability, Resiliency, and Energy Efficiency Investment Act of 2023," and 3) increase NYCHDC's bonding capacity. But [many other bills have yet to be signed](#).
 - DHCR is looking to [amend various rent stabilization regulations](#).
 - NYS Comptroller released an [audit report on NYC's transit system](#), addressing extreme weather conditions' effects.
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- **[New York City]** Mayor Adams launched a new initiative to [create 60 miles of greenway corridors](#) in outer boroughs.
 - CPC's [public review process on the "City of Yes for Economic Opportunity"](#) kicked off.
 - NYC officials announced a [future casino zoning text amendment](#).
 - NYC officials announced the first Long Island City neighborhood study, "[One Long Island City](#)."
 - Brooklyn BP Reynoso released "[The Comprehensive Plan for Brooklyn](#)."
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- A total of \$300 million is ready to launch the new [Chan Zuckerberg Biohub New York](#). The organization will soon start looking for a spot in NYC.
 - Construction worker unions are pushing for [new wage requirements](#).
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- **[Notable Projects]** The Soloviev Group [revised its proposal](#) to include more than 510 affordable apartments in its downstate casino bid. [CB6 rejected the previous proposal](#) due to traffic concerns.
 - Related Group and W5 Group announced the [first co-living residential project](#), i5 Wynwood, in Miami.
 - [Weill Cornell Medicine](#) announced a new \$260 million student residence hall in the Upper East Side.
 - The Georgetown Company, Beacon Capital Partners, and ZoE Life Sciences announced plans for a new life sciences facility at [707 11th Ave](#).
 - Taiwanese philanthropist plans to redevelop the church at [340 W 53rd St](#) into housing.
 - After planning it for months, the Brodsky Organization officially announced plans to [convert the Flatiron building to luxury housing](#). The whole conversion is expected to take three years, requiring CPC approvals.
 - [Vornado](#) exited the downstate casino bid war and plans to focus on Penn District office leasing.
 - CPC approved 970-unit Bronx affordable housing complex at [1460-1480 Sheridan Blvd](#).
 - Alexandria Real Estate Equities is building a pilot life sciences center in Seattle [using the sewer system to heat the buildings](#).

Corporate News

Business Strategies

- [Healthpeak Properties and Physicians Realty Trust](#) are under agreement to merge.
- [Related Companies](#) launched its new full cold chain logistics firm.
- [Cushman & Wakefield](#) continues cost-cutting efforts and considers selling properties.
- [CBRE](#) is planning more cost cuts.
- [Starbucks](#) plans to add 17,000 U.S. stores by 2030.
- [Toys R Us](#) is making a comeback with further plans for expansion globally.
- [Macy's](#) plans to open 30 new small-format stores next year.
- [T.J. Maxx](#) is closing two stores in NYC.
- [Uniqlo](#) plans to increase its U.S. store count to 200 over three years.
- [HSBC](#) is reviewing its global footprint and cutting costs.
- [Walgreens](#) announced plans to reduce capital expenditures, close dozens of clinics, and exit five markets.
- [Rite Aid](#) filed for bankruptcy.
- [Alphabet](#) is investing in technical infrastructure.
- [Toyota](#) is doubling investment in North Carolina to meet hybrid car demands for \$14 billion.

Finance

- UBS began to [sell \\$180 million of Credit Suisse](#) real estate fund.
- [Brookfield Property Partners L.P.](#) faces heightened refinancing risk over the next two years. Brookfield is [being sued in Los Angeles](#) for unpaid construction works.

- Rudin is selling its [80 Pine St](#) for about \$200 million.
- Extell Development is selling [1710 Broadway](#) for \$173 million.
- Sovereign Partners is contracted to acquire [100-104 5th Ave](#) for \$125 million from Clarion Partners.
- Related is selling an [affordable housing portfolio in the Bronx](#).
- Sherwood Equities sold the [Renaissance New York Times Square Hotel at 2 Times Square](#) for \$165 million.
- Como Holdings is selling the [Avalon Hotel](#) at 16 E 32nd St.
- [The Cachet Boutique Hotel](#) at 510 W 42nd St will permanently close.

Bankruptcy + Foreclosures & Defaults

- [WeWork](#) filed for bankruptcy, creating a ripple effect for office owners. Three office buildings owned by [APF Properties](#) face challenges with ties to WeWork, and CIM Group and QSuper handed over keys to [1440 Broadway](#) to lenders.
- [Delshah Capital](#) is filing for bankruptcy.
- Arden Group took over the [Margaritaville Resort Times Square Hotel](#).
- Hana Financial Group took over land under Marriott's Times Square Edition at [20 Times Square](#).
- [The Cachet Boutique Hotel at 510 W 42nd St](#) will permanently close.
- The \$35 million mortgage tied to [252 W 37th St](#) hit special servicing.
- [The Kingswood Center](#) in the Bronx is having a distressed loan sale.

Residential

Apartments

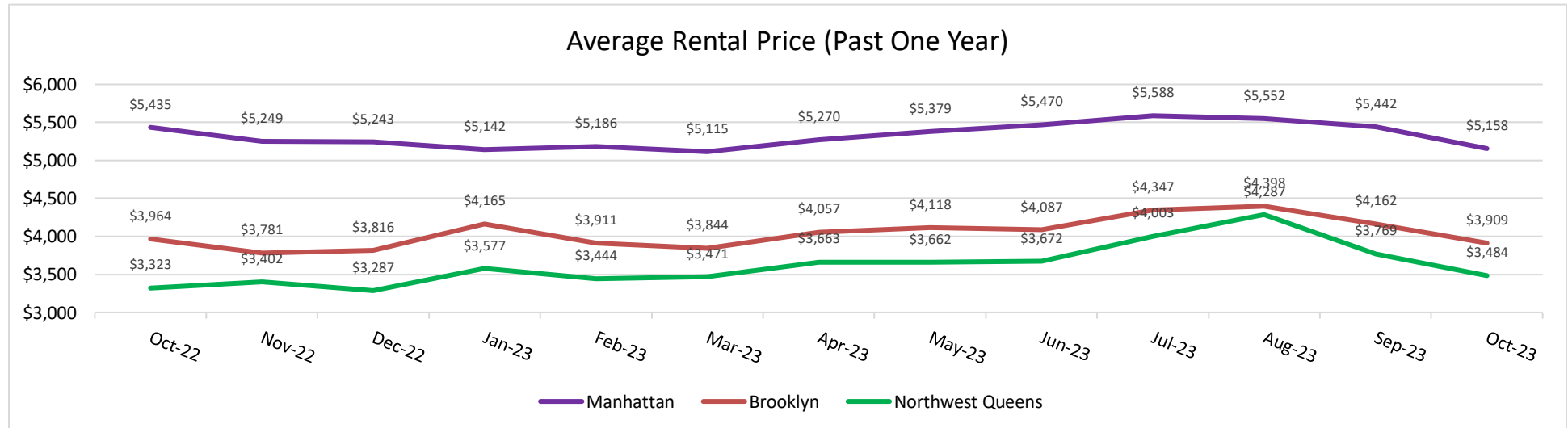
October 2023 Rentals	Manhattan	Brooklyn	Northwest Queens
Rental Price PSF	\$84.12	\$54.69	\$51.66
%Δ MoM	0.6%	-3.3%	-9.0%
%Δ YoY	2.6%	4.9%	-2.8%
Average Rental Price	\$5,158	\$3,909	\$3,484
%Δ MoM	-5.2%	-6.1%	-7.6%
%Δ YoY	-5.1%	-1.4%	4.8%
Listing Inventory	8,291	4,324	572
%Δ MoM	-8.7%	-18.7%	-10.6%
%Δ YoY	31.3%	30.3%	39.5%
Vacancy Rate	2.75%	-	-
%Δ MoM	-0.32%	-	-
%Δ YoY	0.40%	-	-

Source: Douglas Elliman, [October 2023 Manhattan, Brooklyn & Northwest Queens Rentals](#)

Condominiums & Co-Ops

According to the Douglas Elliman [New York October 2023 New Signed Contracts](#) report,

While newly signed contracts increased year over year for the first time in a year and a half, new listings increased for the first time in sixteen months. All property types saw significant annual gains in newly signed contracts above the \$1 million threshold.



Commercial

Office

According to the October 2023 Market Snapshot: New York City: Manhattan Office [report](#) by Colliers,

At 2.60 million square feet, Manhattan's October 2023 leasing volume jumped by 57.8% since September and increased by 63.2%, year-over-year. Nearly half of the demand stemmed from four separate large (100,000+ sq. ft.) lease transactions.

Despite Manhattan's increased leasing volume during the month, the year-to-date 2023 leasing total was 16.1% below the same period in 2022.

Although Manhattan's sublet inventory expanded by 73.8% since March 2020, the net sublet availability decreased – for the fifth consecutive month – to its lowest level since January.

Midtown and Downtown's availability rates both tightened in October. Meanwhile, Midtown South's record-high availability rate was unchanged since September.

Despite a 1.3% pricing gain, year-over-year, Manhattan's asking rent average of \$75.40/SF was still 5.1% below the March 2020 average of \$79.47/SF.

October 2023 Manhattan Office	Leasing Activity (SF-Monthly)	Availability Rate	Average Asking Rent (\$/SF/Yr)	
Midtown	984,675	15.8%	\$	79.90
%Δ QoQ	23.3%	-0.2%		0.2%
%Δ YoY	70.6%	0.2%		1.4%
Midtown South	834,974	18.6%	\$	81.75
%Δ QoQ	22.6%	0.0%		-0.3%
%Δ YoY	8.3%	2.5%		1.7%
Downtown	775,887	20.9%	\$	57.82
%Δ QoQ	371.8%	-0.4%		0.6%
%Δ YoY	219.1%	0.5%		-2.0%
Manhattan	2,595,536	17.8%	\$	75.40
%Δ QoQ	57.8%	-0.1%		0.2%
%Δ YoY	63.2%	1.0%		1.3%
Brooklyn	984,675	15.8%	\$	79.90
%Δ QoQ	23.3%	-0.2%		0.2%
%Δ YoY	70.6%	0.2%		1.4%

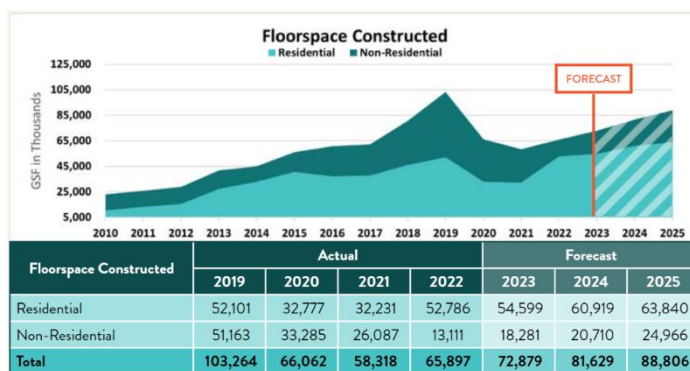
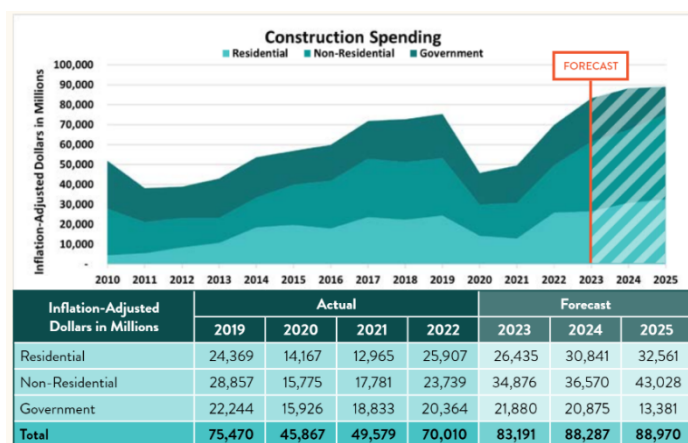
Source: Colliers, Market Snapshot: New York City: Manhattan Office

Construction

According to the [New York Building Congress](#),

The New York Building Congress forecasts \$83 billion in New York City construction spending by the end of 2023. This represents development growing \$13 billion in inflation-adjusted dollars year-over-year. Even when compared to pre-pandemic levels, spending is still showing a meaningful 10% increase, up by \$7.7 billion from 2019 in inflation-adjusted dollars (a result of completing the pandemic-delayed projects and surge in new industrial, life sciences, and school projects). Fueling this rise, labor and material prices continue to escalate, though at a slower pace than in 2022.

2022 saw 66 million gross square feet (GSF) built. The Building Congress predicts this year will see a modest increase to end the year with 73 million GSF built – a 10.6% year-over-year increase.



According to [REBNY](#),

The current pace of residential development is far below that is needed for the city to meet the 500,000 goal, or 50,000 units a year, over the next decade.

The quarterly Construction Pipeline Report showed 323 new building filings in Q3 2023. This represents a 14% decrease compared to the previous quarter and a 25% decrease compared to the previous year. Those filings represented a total of 6 million square feet of proposed construction in Q3. This was on par compared to the previous quarter and a 14% decrease compared to the previous year.

Capalino Real Estate Services

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