

Real Estate Industry Report

November 2023

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Federal Reserve Bank of New York

Economic activity in the New York District continued to weaken during the latest reporting period. Labor market conditions cooled but generally remained solid. Though employment edged up slightly, labor demand softened and workers have become easier to find. Inflationary pressures were little changed after moderating in recent months. Consumer spending continued to slow. Manufacturing activity grew modestly, though orders were weak. Tourism activity in New York City slowly inched back toward pre-pandemic levels. Housing markets in parts of the region have started to show signs of becoming more balanced, though low inventory continued to restrain sales activity. Residential rental markets plateaued. Commercial real estate markets remained strained. Conditions in the broad finance sector weakened slightly, with loan demand declining and delinquency rates edging up. The outlook worsened, with businesses in the region no longer expecting economic conditions to improve in the coming months.

Market Trends

The United States

- **[General]** The Federal Reserve is [holding interest rates steady](#) and anticipates cutting rates in 2024.
- [CBRE's analysis](#) shows that higher Treasury yields will likely put more pressure on dollar-denominated debts abroad and increase pressure on banks.
- [Global investment volume will decrease by 44%](#) before stabilizing in 2024.
- McKinsey's analysis says [generative AI could generate \\$110-180 billion or more in value](#) for the real estate industry.

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- **[Multifamily]** More than [74% of all Americans are concerned about the lack of affordable housing](#).
 - [More rental units are offering concessions](#) than in previous years.
 - U.S. Census [might have over-estimated multifamily construction starts](#).
 - Origin Investment expects [rents to decline throughout 2024](#) before growing again in 2025.
 - CBRE identified a [\\$21.7 billion funding gap in the multifamily sector](#).
 - Multifamily properties are [being sold at discounts in Texas](#).
 - [Rents in Florida](#) started to fall, confirmed by [Yardi's Miami report](#).
 - [Hotel-branded luxury residences](#) gain investors' attention.
 - Senior housing market [fundamentals improved](#) but remain unaffordable.
 - [Universities are active in student housing development](#). The University of Texas at Austin, the ranked first school in student housing development in 2023, has 6,155 bedrooms under construction, with 97.2% preleased.

- **[Commercial]** Cushman & Wakefield and CBRE forecast that a [recovery won't happen until H2 2024](#). Values could fall for another 10% before recovering.
- Lenders issued a [record-high number of foreclosure notices](#) in 2023.
- Trepp found that [CRE prices are still falling, but at a slower rate now](#).
- [The retail landscape continues to change](#). Demands for space from different types of tenants shifted.
- [Retail property investment increased for the first time since Q3 2022](#) to \$11.86 billion.

New York City

- **[General]** See the NYS Comptroller's [report](#) on South Bronx's economy.
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- **[Multifamily]** The [Financial District](#) is converting empty offices into apartments on a larger scale than other neighborhoods.
 - [Rent-stabilized properties](#) are under foreclosure pressure, which is consistent with news from previous months, and the number of registered rent-stabilized units [keeps dropping](#).
 - Fannie Mae is foreclosing a group of rent-stabilized properties owned by [City Skyline Realty](#).
 - [788 Riverside Drive](#) was sold at a 26% discount.
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- **[Commercial]** NYC's [office usage](#) passed 50% of pre-pandemic levels.
 - [Brooklyn investment sales](#) dropped 50% YoY.
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- **[Hospitality]** [Hotel rates skyrocketed](#) this holiday season due to various factors.

In the News

- **[Federal]** FHA will [exempt certain workforce housing loans in 2024](#) from the lending limits.
- **[New York State]** Gov. Hochul [abandoned her ambitious housing plan](#).
- NYS is facing a \$4.3 billion budget deficit next year, and [elected officials are trying to avoid key investment shortfalls](#).
- **[New York City]** Mayor Adams released the [November 2023 Financial Plan Update](#), stating the challenging fiscal situation and [budget cuts](#). NYC Council Committee on Finance hosted a [hearing](#) on 12/11/2023. [NYS is trying to find ways to help](#).
- NYC Council [passed The City of Yes for Carbon Neutrality Zoning Amendment](#).
- NYC Council [passed the Fair Housing Framework](#), which requires city agencies to develop five-year housing production targets for each community district.
- NYC Council approved [Int 1012-2023](#), a bill in relation to developing a citywide industrial development strategic plan.
- DCP proposed a [zoning text amendment to allow more gaming facilities](#) in NYC.
- NYC HPD launched the [Plus One ADU pilot program](#).
- Manhattan BP Levine is [fast-tracking new housing projects](#).
- **[Notable Projects]** Steve Cohen and Hard Rock International [released their casino proposal site plan](#).
- NYCEDC will issue an RFP for the [conversion of the Downtown Manhattan Heliport](#) into a last-mile and maritime freight distribution facility.
- NYC and NYS officials [announced the Science Park and Research Campus \(SPARC\) Kips Bay Master Plan](#) with an [RFP](#) from NYCEDC for the design.
- Developer Totem [filed rezoning plans for a new 1.7 MSF project](#) in Broadway Junction, including 596 affordable units.
- [Syracuse University](#) plans to convert the Sheraton Hotel into student housing.
- [Willets Point Phase 2](#) starts ULURP.
- **[Notable Studies]** See the Manhattan Institute's [analysis of NYC's "Zoning for Housing Opportunity" proposal](#).
- A new [study](#) by NYU Professors shows that a new housing supply can slow rent growth and not lead to significant lower-income household displacement.
- Enterprise's new [report](#) on repurposing underutilized strip malls analyzed how it can create housing.
- See Empire Center's new [analysis of NYS' electrification effort](#). New York may not be able to meet the goals with current circumstances, according to the Public Power New York Coalition's newest [estimation](#). High costs and [LL97](#) are putting a heavy burden on homeowners. New York ISO identified a [short-term reliability challenge](#).
- See Arup's analysis on [the sustainability impacts of commercial to residential conversions](#).
- Read here for [JLL's newest research on building sustainability](#): risks to specific portfolios, case studies, and more.

Corporate News

Business Strategies

- Here is Multi-Housing New's new [top 2023 multifamily property owners list](#).
- [Nordstrom Rack](#) decided to close its Downtown Brooklyn store.
- [Weill Cornell Medicine](#) continues its expansion by signing a 200 KSF lease at 1334 York Ave.
- [Amazon](#) restarts physical grocery expansion while [delaying the opening of its South Florida distribution center](#).
- [Walgreens and Target](#) focus on order delivery in stores rather than warehouses.
- [Starwood Capital](#) plans to allocate 20-30% of its latest fund to data centers.
- Google and Lendlease [ditched the \\$15 billion Bay Area development plan](#).

Finance

- FDIC [kicked off the process to sell Signature Bank's debt](#). So far, Blackstone is the highest bidder. However, the Adams administration [sent a support letter to FDIC for the Related Fund Management, CPC, and Neighborhood Restore team](#).
- [Capital One](#) is selling \$200 million worth of New York commercial real estate debt.
- [Japan's government pension fund](#) invested \$1 billion in Brookfield and Blackstone's funds.
- [Brookfield Asset Management](#) announced the company is ready to invest \$102 billion in attractive market opportunities. [Brookfield Infrastructure Partners](#) acquired Cyxtera's assets for \$775 million.
- [Chelsea29's](#) mortgage was downgraded even though the building is fully occupied.
- Gindis secured \$20 million to [redevelop the](#)

[former Century 21 store in Bay Ridge](#).

- A KKR venture purchased [540 Fulton St](#) for \$240 million, near the face value of the project's construction loan.
- After Fitch [downgraded](#) 280 Park Ave, analysts say [SL Green might just sell it](#).
- Developer Joe Torres is selling its Brooklyn waterfront property at [25 Jay St](#).

Bankruptcy + Foreclosures & Defaults

- WeWork's bankruptcy continues to cause consequences in the NYC office market, [impacting 1.5 MSF of office spaces](#). It is trying to negotiate a reduced space and a significantly reduced rate with landlords.
 - [Impacting \\$1.8 billion CMBS loans](#). [SoftBank](#) lost \$14.3 billion on WeWork investments.
 - Might exit as many as [163 leases](#) globally, with [40 in NYC](#). Some landlords have [filed objections](#).
 - Stopped paying rent to [Dock 72 in Brooklyn](#).
 - Handing back spaces at [the Jacx](#) to Tishman Speyer in Queens.
 - One of the previous WeWork buildings at [980 Sixth Ave will be converted into apartments](#) by the owner.
 - [IWG](#) and [Industrious](#) took over some of the spaces.
- [Pacific Park Phase 2's](#) auction is scheduled for 1/11/2024.
- Joel Schwartz may lose his newly developed East Williamsburg hotel at [101 Bogart St](#).
- [Signa](#), the co-owner of the Chrysler Building, filed for insolvency.
- [230 Park Ave](#) is at risk of defaulting.
- Nightingale Properties may lose [20 E 46th St](#).
- Loans on [40 Wall St](#) go into special servicing.

Residential

Apartments

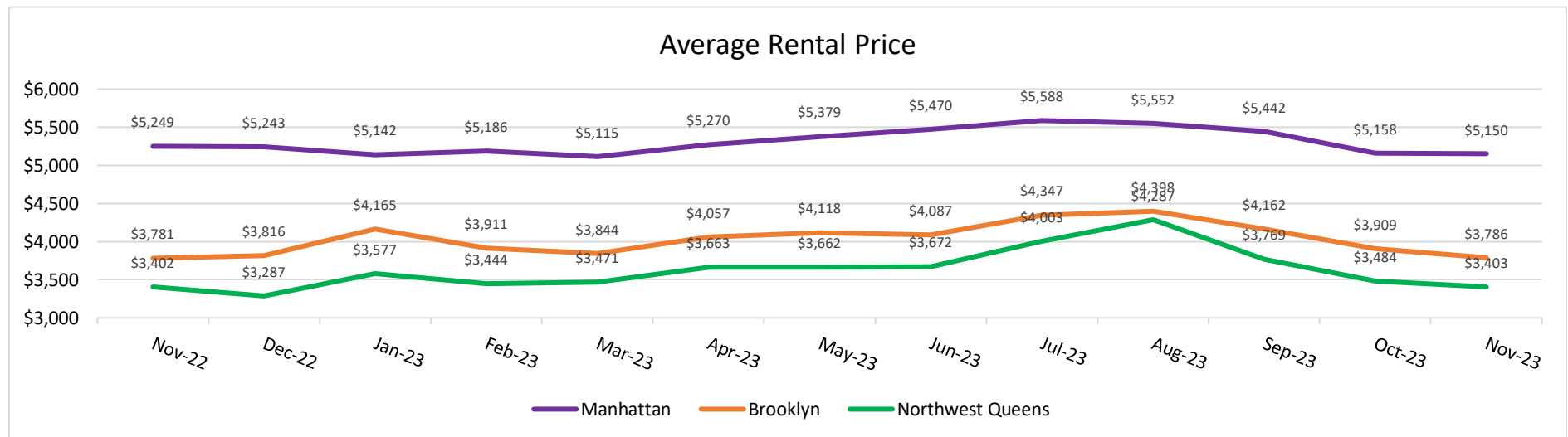
November 2023	Manhattan	Brooklyn	Northwest Queens
Rental Price PSF	\$86.08	\$51.10	\$51.22
%Δ MoM	2.3%	-6.6%	-0.9%
%Δ YoY	6.8%	1.9%	4.7%
Average Rental Price	\$5,150	\$3,786	\$3,403
%Δ MoM	-0.2%	-3.1%	-2.3%
%Δ YoY	-1.9%	0.1%	0.0%
Listing Inventory	8,422	4,160	573
%Δ MoM	1.6%	-3.8%	0.2%
%Δ YoY	29.9%	10.8%	0.2%
Vacancy Rate	2.93%	-	-
%Δ MoM	0.18%	-	-
%Δ YoY	0.51%	-	-

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

Condominiums & Co-Ops

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

Newly signed contracts slipped year over year, yet above the \$1 million threshold, newly signed contracts showed stability over the same period. Most of the decline occurred below the threshold due to greater dependency on mortgage rates.



Commercial

Office

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

At 2.13 million square feet, Manhattan's November 2023 leasing volume was lower by 17.8% since October but increased by 44.2%, year-over-year.

November 2023 NYC Office	Leasing Activity (SF-Monthly)	Availability Rate	Average Asking Rent (\$/SF/Yr)
Midtown	1,086,456	15.9%	\$ 79.05
%Δ QoQ	10.3%	0.1%	-1.1%
%Δ YoY	65.5%	0.5%	0.5%
Midtown South	938,308	18.8%	\$ 81.67
%Δ QoQ	12.4%	0.2%	-0.1%
%Δ YoY	62.3%	1.8%	-1.0%
Downtown	107,894	20.9%	\$ 57.75
%Δ QoQ	-86.1%	0.0%	-0.1%
%Δ YoY	-55.9%	0.3%	-2.1%
Manhattan	2,132,658	17.9%	\$ 75.02
%Δ QoQ	-17.8%	0.1%	-0.5%
%Δ YoY	44.2%	0.9%	-0.2%
Brooklyn	1,086,456	15.9%	\$ 79.05
%Δ QoQ	10.3%	0.1%	-1.1%
%Δ YoY	65.5%	0.5%	0.5%

Source: Colliers, NYC November 2023 Office Market Reports

Retail

According to the [U.S. Retail Outlook Q3 2023 report](#) by JLL,

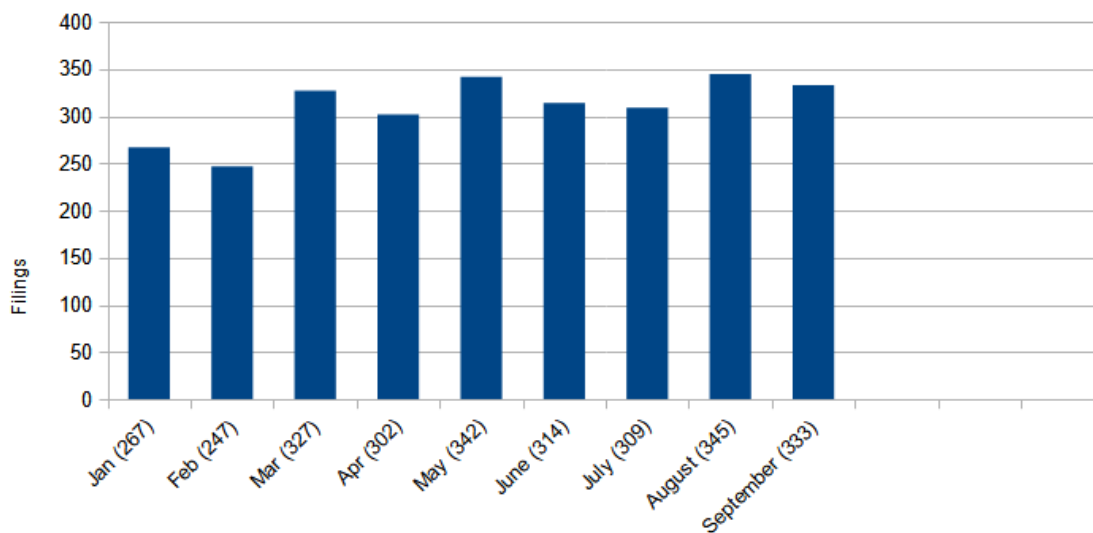
Despite concerns over inflation and high-interest rates, retail sales continue to grow. However, leasing activity is constrained by the limited availability of desirable retail space, higher operating costs, labor shortage, and increased interest rates. Retail real estate is experiencing a significant shortage of available space, with the availability rate below historical averages. M&A transactions buoyed retail capital markets activity, while power center deliveries remained low, leading to low vacancy rates and steady rent gains. Overall, there is a shift in consumer spending towards experiences and the need for retailers to adapt to changing consumer behavior.

Construction

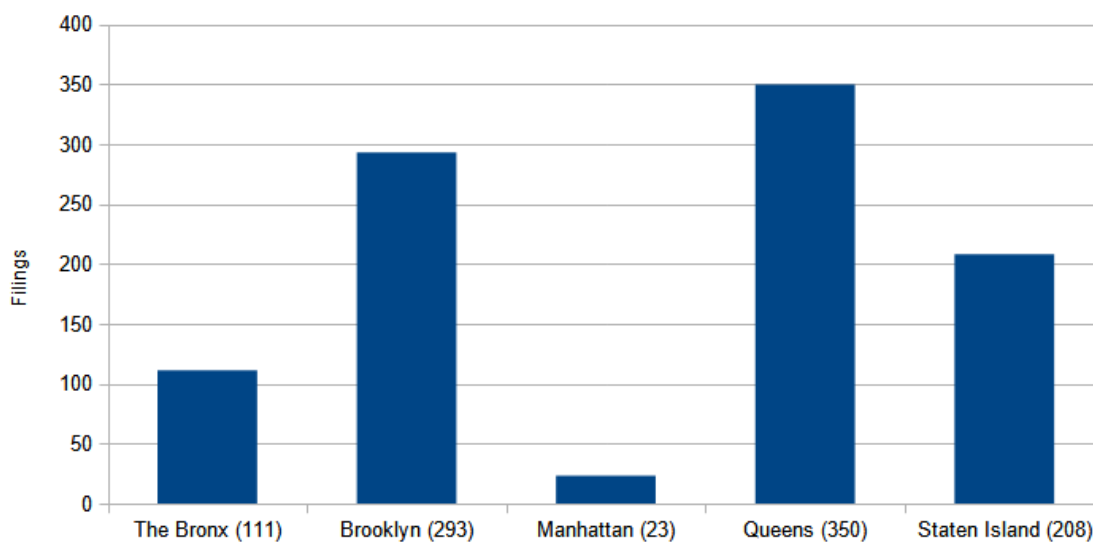
According to the [2023 Third-Quarter Construction](#) report by YIMBY,

Despite a slight dip, Q3 had strong totals of 986 filings (a 3-percent increase over Q2), 18.3 million square feet filed for (a 21-percent drop from Q2), and a total of 14,010 filed-for residential and hotel units (a 14-percent drop from Q2). The quarter also registered a new monthly filing count record for the entire three-plus year period during which YIMBY has tracked monthly totals.

NYC Dept. of Buildings 2023 Q3: Number of permit filings per month in July, August, and September
Monthly filing count average: for Q3: 329



NYC Dept. of Buildings 2023 Q3: Number of permit filings by borough in July, August, and September
Total project filings: 986; Borough filing count average: 197



Capalino Real Estate Services

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