REBNY Real Estate Board of New York

REBNY Research

Real Estate Broker Confidence Index

Q3 2022

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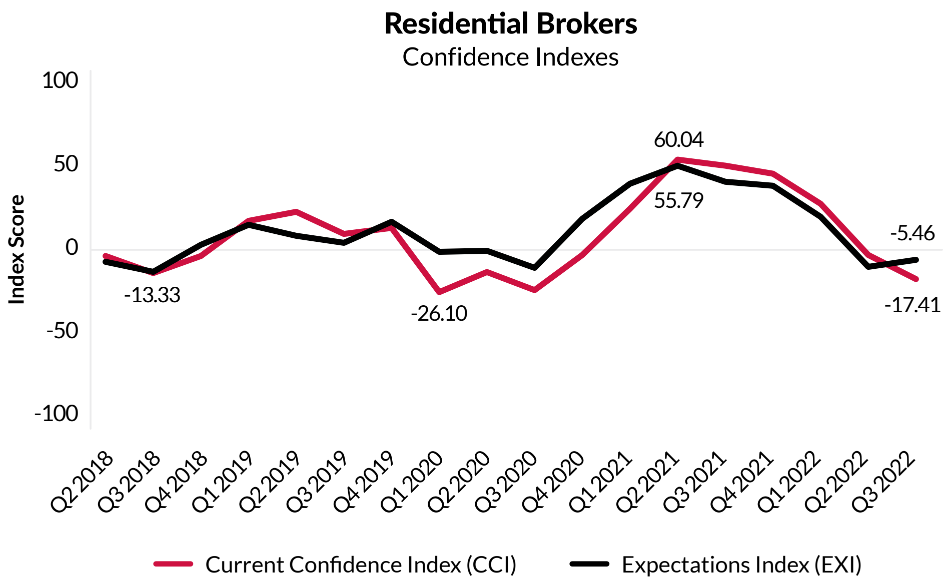
By the Numbers

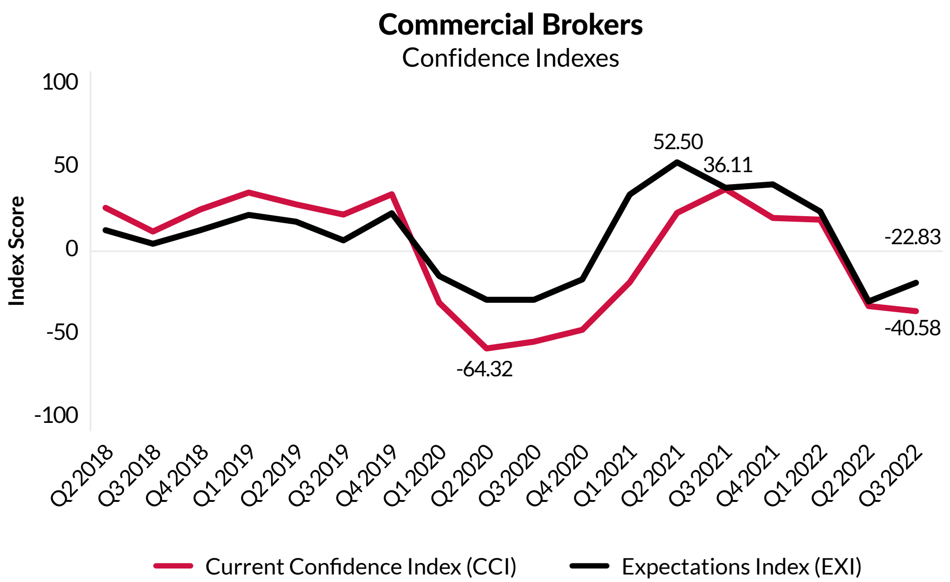
BROKER CONFIDENCE SIX-MONTH OUTLOOK RISES WHILE CURRENT CONFIDENCE DIPS SLIGHTLY, ECONOMIC CONCERNS AND COOLING RESIDENTIAL SALES DRAG INDEX DOWN

Broker confidence in current conditions fell for the fourth quarter in a row, but the six-month outlook improved slightly. Rising interest rates, inflation, and general economic uncertainty weighed on current market sentiment.

The biggest movement this quarter occurred amongst residential brokers, reflecting the moderation in sales. The residential Current Confidence Index (CCI) dipped from -1.74 to -17.41. Commercial brokers remained more pessimistic - the commercial Current Confidence Index (CCI) declined from -37.72 to -40.58, but remained above the all-time low of -64.32 in Q2 2020.

On the other hand, brokers' six-month outlook improved from the previous quarter. The Commercial Expectations Index (EXI) rose from -34.87 to -22.83, and the Residential EXI inched up from -10.07 to -5.46.





Market Trends

WHAT'S BEHIND THE DECREASE?

Moderation in Residential Sales, Leasing Could Eventually Slow As Well

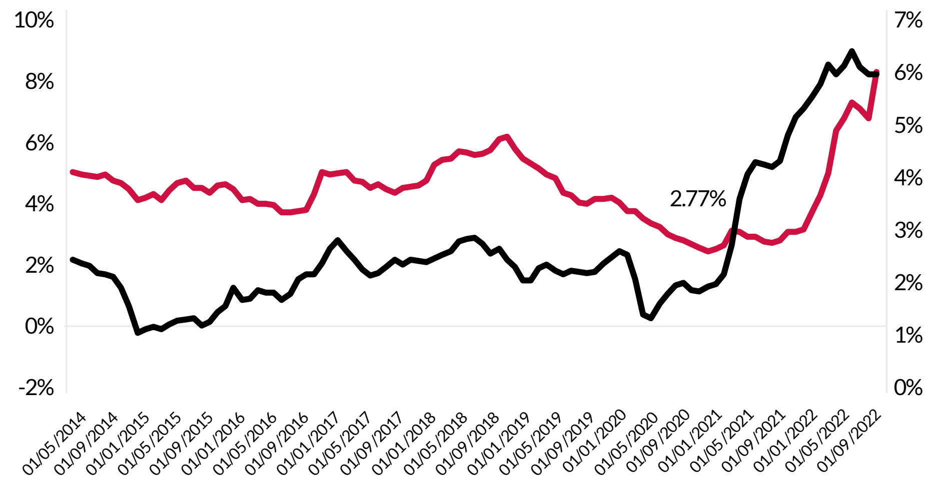
Rising interest rates, elevated inflation, and the uncertain economic outlook remained top of mind for brokers. Concerns about the slowing pace of residential sales rose during the third quarter.

Residential brokers were very focused on rising mortgage rates. The 30 year fixed home mortgage rate rose to 6.3% in early September, its highest mark since the fall of 2008, and pushed above 7% by early October. Homebuyers who were unable to make an all-cash purchase are feeling the impact of rising mortgage rates – research firm Black Knight recently estimated that every percentage point increase in the mortgage rate reduces affordability by about 12%. Since hitting a low mark of 2.8% in late 2020, mortgage rates have more than doubled.

The Federal Reserve will not take the brakes off rate hikes until it is convinced that the inflation curve has clearly been bent. Businesses and consumers received little relief from elevated costs during the third quarter. Inflation spiked by 9.0% in June, the largest year-on-year increase since the late 1970s, and still exceeded 8% in September. Gas prices have moderated, and supply chain logjams are not as severe, but businesses continue to struggle with rising costs associated with labor shortages, building materials, and a long list of goods. Other operating costs such as insurance premiums are mounting.

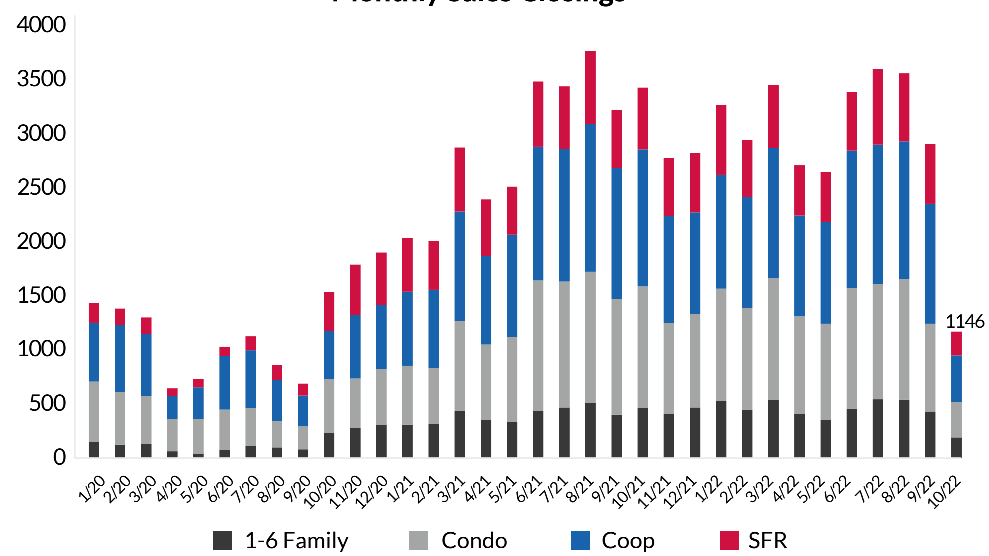
Rising mortgage rates are preventing some households from buying a home. Residential brokers also attribute the moderation in sales to sellers pulling their properties off the market as they receive offers falling short of their asking price.

Mortgage Rates & CPI



Source: Freddie Mac, Bureau of Labor Statistics

Monthly Sales Closings



Source: REBNY, MarketProof

Market Trends (Cont.)

Rental leasing brokers also noted some moderation in new leases, particularly in Manhattan. According to Douglas Elliman, new leases in Manhattan fell by 14.3% year-on-year in September. Renters have turned to boroughs outside of Manhattan, with new leases rose by 11.6% in Brooklyn during September. Barring a major contraction in the economy, most brokers still expect demand for multi-family product to remain relatively strong—particularly as potential homeowners face challenges financing housing. Rent data reflects this, falling only slightly in recent months.

Continued Improvement in Commercial Sector Fundamentals

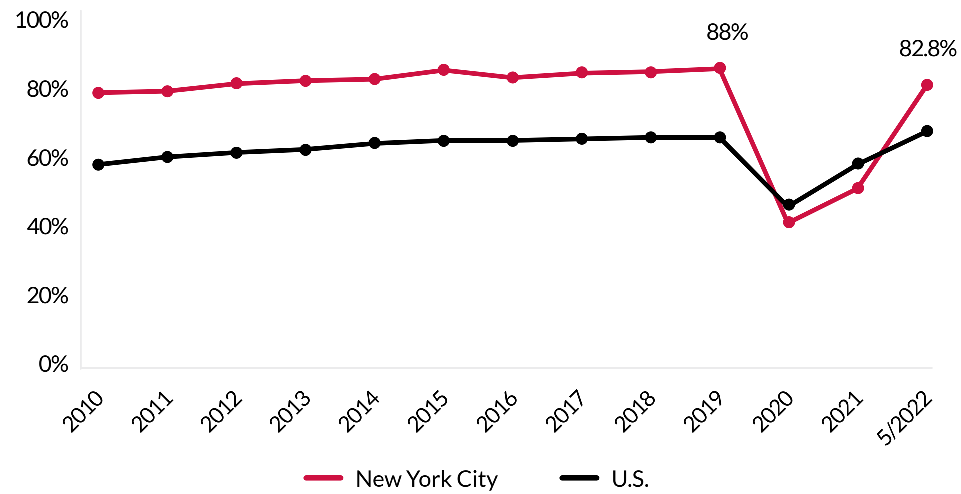
While the residential sector shows signs of being past peak, commercial sector fundamentals gained momentum – particularly in the retail and hospitality sectors.

Pent-up demand for travel and leisure is still being released. The tally for tourists in 2022 is expected to end at around 56 million, exceeding forecasts from a year ago. Passenger traffic from domestic travelers at JFK International during July (2.62 million) exceeded the 2.57 million during July of 2019. International travelers (2.9 million) fell short of 2019 levels (3.45 million) by 15.4%.

This has given hotels a much-needed boost. Hotel occupancy in New York City ended the week of September 24th at 89.9% of its 2019 levels (relative to the same week in 2019). This represents a sharp jump from the 50% occupancy rate at the end of 2021. New York City has consistently enjoyed the highest occupancy rate for a major U.S. market since this summer – **the U.S. occupancy rate for the week of September 24th was 70%.**

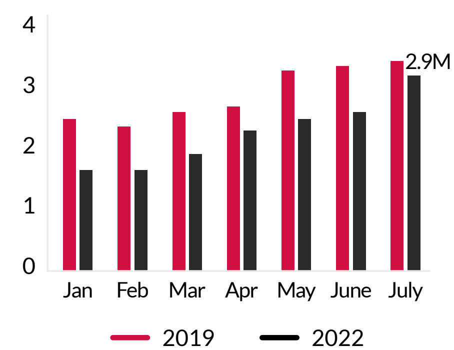
The retail and hospitality rebound gathered added momentum in the quarter. The U.S. re-opened its borders to foreign travel in mid-June. International travel is still falling short of its pre-recession peak, but is continuing to grow.

Hotel Occupancy Rate

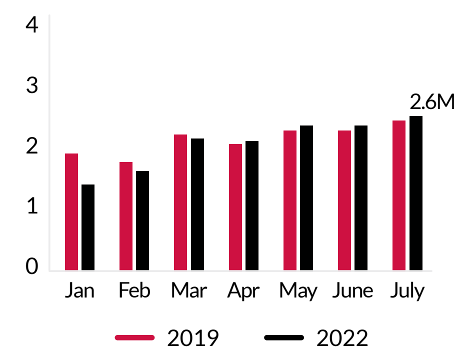


Source: STR

JFK (International Travel, Millions)



JFK (Domestic Travel, Millions)

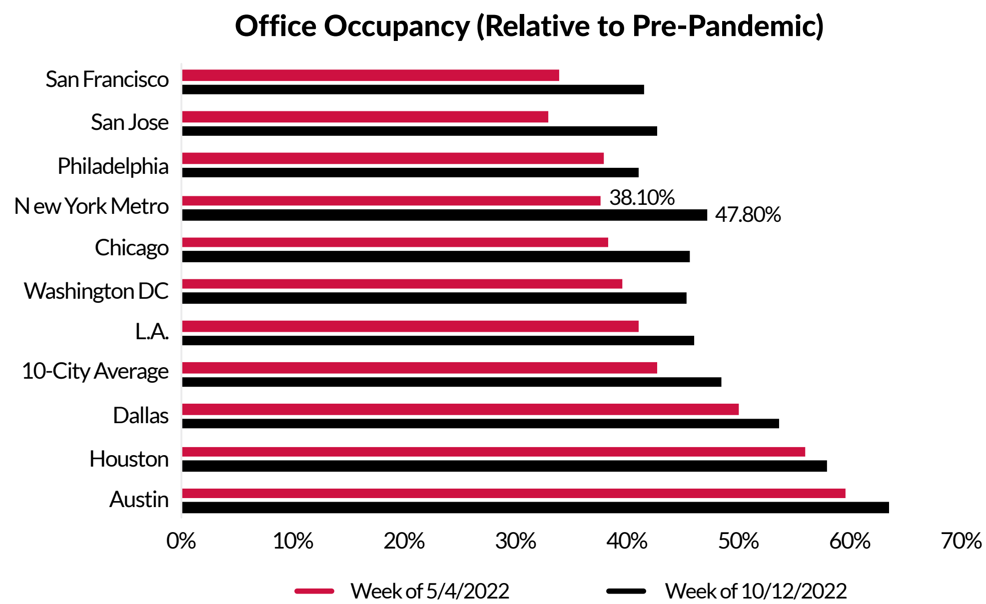


Source: PANYNJ

Market Trends (Cont.)

In addition to sustained momentum in the retail and hospitality sector, the office sector registered its largest increase in occupancy in several quarters. Based on card swipe data from Kastle Systems, occupancy in the subset of properties tracked by the firm approached 50% following Labor Day.

Businesses remain committed to New York City. In August, CBRE reported that leasing activity for the month totaled 2.93 million square feet – the highest level since December of 2019. Year-to-date leasing totaled 16.6 million, a 71% increase from the first eight months of 2021.



Source: Kastle Systems

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Broker Comments

RESIDENTIAL BROKERS FOCUSED ON MORTGAGE RATES, COMMERCIAL BROKERS POINT TO MIXED SIGNALS

Rising interest rates, soaring inflation, and economic uncertainty were front and center for both residential and commercial brokers. Residential brokers were primarily concerned about the cure (interest rate hikes) while more commercial brokers were focused on the problem (high inflation). Nearly 50% of residential brokers mentioned interest rate hikes as their top concern. In comparison, 23% of commercial brokers listed interest rates first, but nearly 30% listed general concerns about the economy, equity markets, or inflation.

As mentioned previously, signings appear to be dropping off due to a mismatch between seller and buyer expectations. Some owners are pulling their properties off the market. This creates supply shortages and keeps prices from falling. Several brokers mentioned a bit of a standoff taking place.

"Buyers and their agents are trying to make it a buyer's market, but unsuccessfully. Properties are still trading at the same pace. Patience is the key!"

Commercial brokers referenced a wider array of indicators – some positive, others less so - as their top concern. This broker captured the mixed signals prevailing in the commercial market:

"Stock market fluctuations and inflation are affecting consumer confidence. Increased street crime, and the perception of it, have some on edge. More positively, more are back at the office, but still apparently below 50%. Some larger retail deals are being done mostly in the food market group. Apparel retailers in the middle and aspirational price ranges are struggling still. Colleagues in the luxury zone say that the luxury retailers in Soho are actually doing business. In many of the neighborhoods, there are still many vacancies and the asking rents seem unrealistically high."

Many brokers see an end in sight for inflation. Rising interest rates are tough medicine, but some view it as a helpful brake on unsustainable price and cost runups.

"While increased mortgage rates will create lower prices, I believe it will help stabilize the market and the frenzy of bidding wars. While mortgage rates appear high, historically, they are still relatively low."

"Although the rates have gone up there are still buyers out there ready to buy, especially in NYC."

Outlook

RESIDENTIAL MODERATION LIKELY TO CONTINUE, SUSTAINED RETURN TO OFFICE, RETAIL, AND HOSPITALITY MOMENTUM THROUGH THE HOLIDAYS IS ESSENTIAL

Brokers relayed a high degree of uncertainty surrounding a wide array of issues, including:

- resolving quality-of-life issues (crime, sanitation, and transit)
- sustained return to the office
- local government and incentives that support businesses, including zoning code clarity
- more clarity on licensing and permitting oversight as city agencies undergo change
- avoiding additional fees and taxes at a time when operating costs are spiking

Market Commentary Supplement

REBNY Real Estate Board of New York

Please read below for further detail regarding broker comments during the 3rd Quarter of 2022.

INTEREST/MORTGAGE RATES (RESIDENTIAL – 48.3%, COMMERCIAL – 22.7%)

Brokers were even more focused on interest rates in the third quarter than in the second quarter. Many buyers anticipate pricing discounts given the mortgage rate hikes, creating a misalignment of seller and buyer expectations.

"Increased interest rates and sellers' reluctance to recognize how much more per month it now costs a potential buyer to buy their home. Prices need to adjust to reflect the new reality."

"Developers will start working with buyer incentives to encourage deals. Sellers will need to understand listings need to be priced accordingly and set expectations."

Brokers agree that mortgage rate increases will negatively impact first-time homebuyers. Financing challenges will create an opening for all-cash buyers.

"For the average buyer, and certainly the first-time homebuyer, the increasing interest rates are having a negative impact. Cash buyers have leverage."

Opinions vary, though, on the ability of foreign buyers to fill in some of the gap.

"However, tension in other countries may cause an uptick in foreign buyers who want to get money out of their country."

"Interest rate hikes, and a strong US dollar against the euro is making NYC more expensive to foreign buyers."

Interest rate increases have a spillover effect on commercial sectors, adding to the already elevated costs of doing business and eroding household spending power.

"Higher interest rates will impact consumer spending negatively. This hurts retail."

The overall impact of elevated borrowing costs on the broader economy and commercial sector is still open to debate. Brokers question whether higher unemployment will force more workers back to the office, or if it will spur more companies to shed office space.

"Fed raising rates is difficult, and unemployment may go up, which will negatively impact the market in the immediate term, but as control shifts back to employers more return to office may occur."

ECONOMY (INFLATION/RECESSION/STOCK MARKET) (RESIDENTIAL – 20.9%, COMMERCIAL – 27.3%)

Although the commercial sector offered positive trends during the last three quarters, office brokers are taking a wait-and-see approach regarding the longevity and strength of return to office. Commercial brokers continued to mention uncertainty and general economic concerns as an obstacle to the completion of sales and leases.

"Very mixed signals. Inflation and interest rates are continuing to grow. Businesses are laying employees off. Although deals are getting done, many of the companies are taking less space."

"Complete loss of confidence. Tenants don't know what to do and are afraid to commit to anything."

A retail broker noted:

"Inflation, supply chain, gas prices, etc. are affecting retail performances. One could exclude the Uber luxury sector which is doing quite well."

Although some commercial brokers are convinced that a recession is imminent, most seem to assume that it will be short-lived.

"Imminent recession makes me have a negative outlook for the short term six to 12-month market."

Residential brokers noted the volatility in equity markets.

"A crazy stock market and increasing interest rates are making buyers jittery. The ones who are looking are seeking value which sellers aren't ready to offer just yet."

Market Commentary Supplement (Cont.)

REAL ESTATE MARKET DYNAMICS (RESIDENTIAL – 14.2%, COMMERCIAL – 16.7%)

Following a trend from the first half of the year, residential sales brokers and office brokers both mentioned that clients were delaying decisions.

"Inflation, higher interest rates, and a falling stock market are causing people to delay making their decisions."

"Consumers are now aware of the imminent recession and starting to hold off on purchases/big moves to wait for what the near future brings. Everyone expects tomorrow's prices to be better than today's and are starting to enter into a holding pattern."

In a shift from the prior report, residential leasing agents also highlighted some signs of a market shift. Demand for apartments remains robust, and rents still exceed pre-pandemic marks. But a few brokers suggested that rental demand has peaked, setting the stage for more material deceleration in rental rate growth.

"No inventory, and still the prices are too high - no concession from owners, and hard to rent for the younger generation."

"Rental market is softening from the summer highs. Will soften even more once all covid discounts expire in Q1/Q2 of 2023. I'm doubting that landlords can maintain these meteoric prices for much longer with the stock market."

Several brokers underscored return to office as the top priority.

"Number one: resolution of return-to-work vs. work-from-home trends."

LEGISLATION, REGULATION & TAXES (RESIDENTIAL – 6.4%, COMMERCIAL – 10.6%)

While onerous regulations and proposed legislation are hot button issues, the focus on interest rates and economic concerns pushed this category further down the list. In comparison, 20% of commercial brokers and 16% of residential brokers listed this category as their top concern a year ago.

In the commercial sector, brokers mentioned the end of 421a, as well as ongoing impacts from the 2019 HTSPA act, and potential for additional rent regulations.

"End of 421a is a major issue."

"2019 rent laws forced us into a cash-on-cash market (post debt service returns). Increased rates have had a huge impact on cap rates on RS multifamily product, as much as 40%. Recent proposed changes by the DHCR have indicated they don't intend on lightening their stance any time soon. Rising rents on FM units have helped absorb the rate impact, but a recession would suggest those rent hikes may not be sustainable."

QUALITY OF LIFE (RESIDENTIAL – 2.4%, COMMERCIAL – 15.2%)

Quality of life was mentioned by many brokers, but commercial brokers addressed this more frequently.

"New York City's administration needs to refocus their efforts on crime and quality of life issues. People in my firm regularly hear concerns from tenants about safety on the street and in the subway."

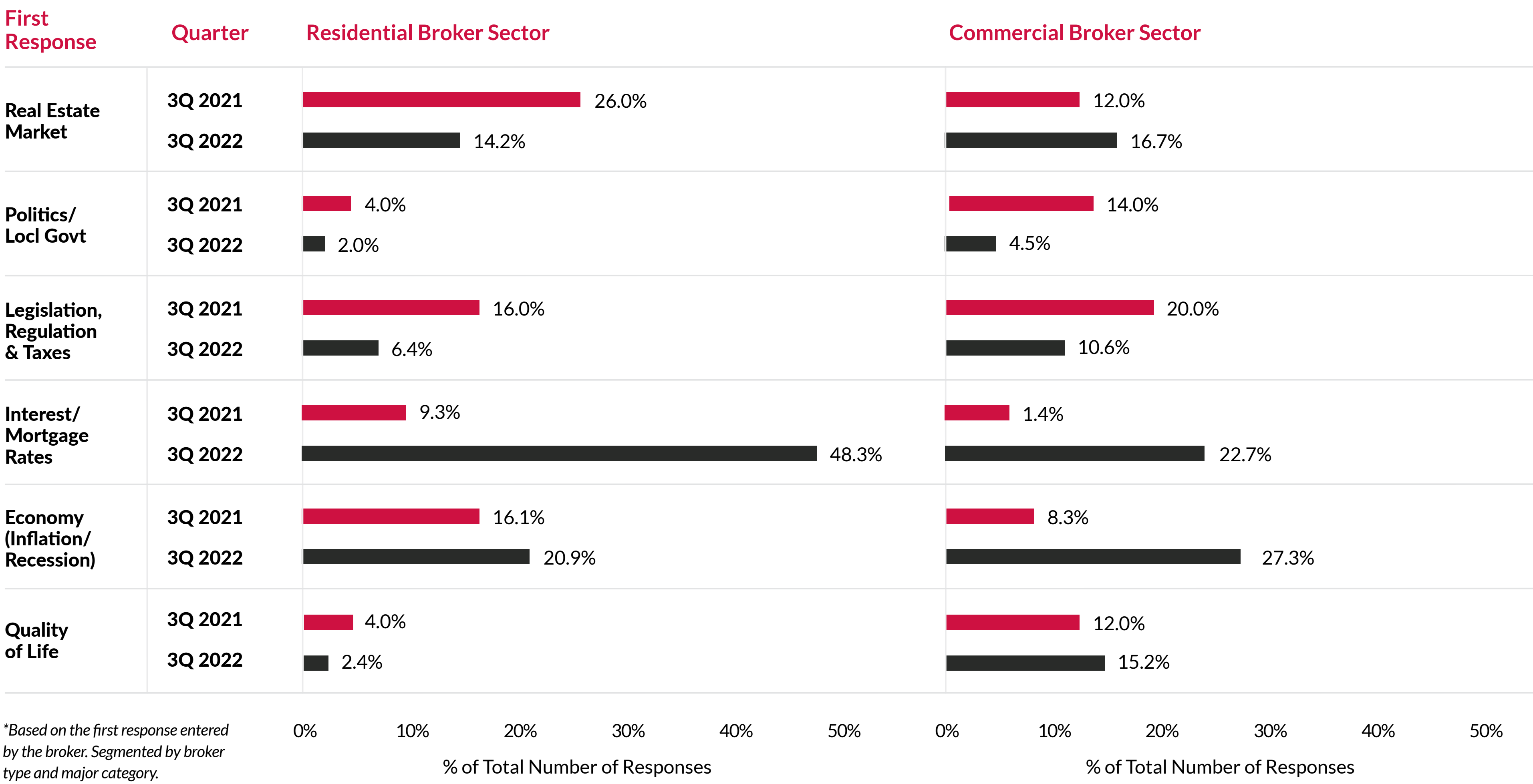
As did a few residential brokers.

"A lot of concern I feel, and also get from my clients, is the safety in the city."

On a side note, fewer than 10 brokers mentioned COVID. The coronavirus accounted for 30% of initial responses by brokers in the 3rd quarter of 2021.

Market Commentary Supplement (Cont.)

Broker Top Responses (3Q 2021 vs 3Q 2022)*



**Based on the first response entered by the broker. Segmented by broker type and major category.*

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Data Appendix

Table 1: Residential Broker Confidence Indexes

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
Q3 2022	-17.41	-5.46
Q2 2022	-1.74	-10.07
Q1 2022	31.41	22.98
Q4 2021	50.63	42.85
Q3 2021	56.29	45.88
Q2 2021	60.04	55.79
Q1 2021	28.25	44.12
Q4 2020	-2.10	21.44
Q3 2020	-24.71	-10.21
Q2 2020	-13.02	0.76
Q1 2020	-26.10	-0.08
Q4 2019	15.70	19.76
Q3 2019	11.88	5.99
Q2 2019	26.13	10.13
Q1 2019	20.00	17.37
Q4 2018	-2.85	4.77
Q3 2018	-13.77	-13.33
Q2 2018	-2.84	-6.78
Q1 2018	2.74	7.63
Q4 2017	15.33	21.18
Q3 2017	8.97	8.76

Table 2: Commercial Broker Confidence Indexes

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
Q3 2022	-40.58	-22.83
Q2 2022	-37.72	-34.87
Q1 2022	17.05	21.51
Q4 2021	17.89	38.88
Q3 2021	36.11	37.26
Q2 2021	20.81	52.50
Q1 2021	-23.29	32.53
Q4 2020	-52.70	-20.71
Q3 2020	-59.86	-33.27
Q2 2020	-64.32	-33.74
Q1 2020	-35.82	-18.73
Q4 2019	32.56	21.41
Q3 2019	19.64	4.20
Q2 2019	26.29	15.50
Q1 2019	34.10	19.86
Q4 2018	23.33	10.04
Q3 2018	9.24	2.24
Q2 2018	24.18	9.74
Q1 2018	2.94	8.49
Q4 2017	25.72	23.45
Q3 2017	18.52	10.71

Methodology

Gathered during the last several weeks of each quarter, the Residential Brokerage Confidence Index (RBCI) and Commercial Brokerage Confidence Index (CBCI) are based on surveys completed by brokerage members of the Real Estate Board of New York (REBNY). Brokers are asked about their sentiment regarding current market conditions (CCI) as well as their expectations for the next six months (EXI) broken out by residential and commercial real estate sectors.

Brokers are prompted to select either a positive, neutral, or negative response for the set of questions below:

1. What is your assessment of the residential/commercial real estate market?
2. What is your expectation of the residential/commercial real estate market six months from now?
3. What is your assessment of the current financing market for residential/commercial real estate sales?
4. What is your expectation of the financing market for residential/commercial real estate sales six months from now?
5. What is your assessment of the current residential/ commercial real estate rental market?
6. What is your expectation of the residential/commercial real estate rental market six months from now?
7. What is your expectation of total residential/commercial commissions six months from now?

In prior reports, the score was reported on using a scale from 0 (all negative responses) to 10 (all positive responses), and a score of 5 represents all brokers entering a neutral response, or an equal proportion of positive and negative responses. Recently, REBNY changed the scale to -100 (meaning uniformly negative responses to all questions) to 100 (uniformly positive responses). A score of 0 now represents all brokers entering a neutral response, or an equal number of brokers responding with positive and negative sentiment.

All historical data in the report has been revised to feature the updated scale, along with the Present Situation and Future Confidence indices being renamed to the Current Conditions Index (CCI) and Expectations Index (EXI).