REBNY Real Estate Board of New York

REBNY Research

Real Estate Broker Confidence Index

Q2 2022

Table of Contents

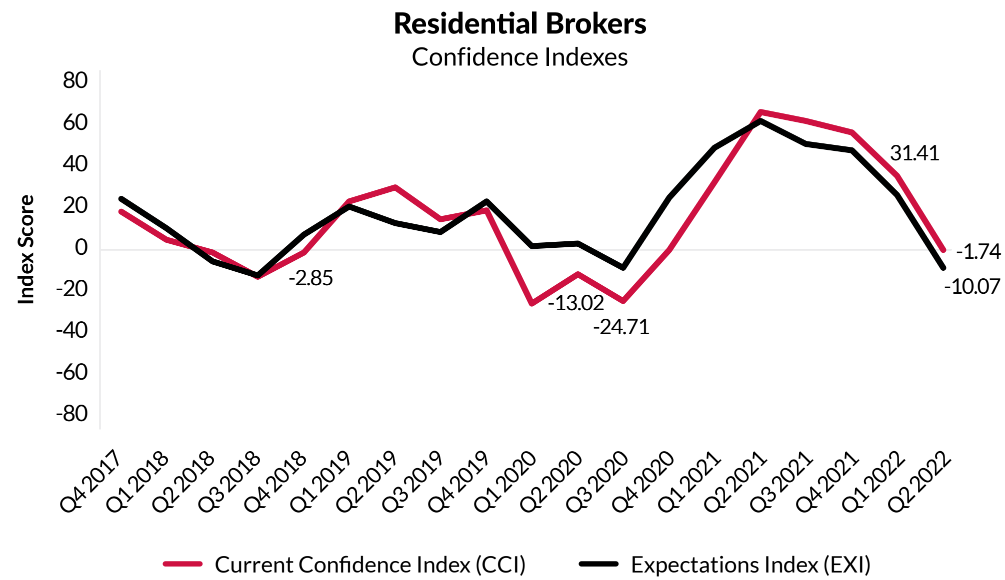
By the Numbers

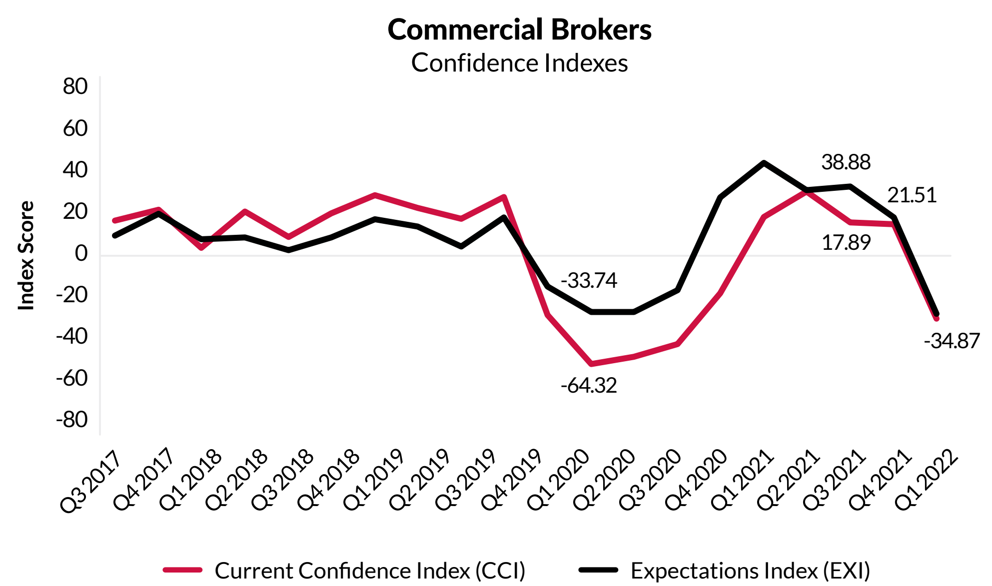
BROKER CONFIDENCE SLIPS INTO NEGATIVE TERRITORY AS INTEREST RATES AND INFLATION WEIGH ON MARKET SENTIMENT

Broker confidence fell for the third quarter in a row, dipping into negative territory for the first time since 2020. Rising interest rates, inflation, and general economic uncertainty weighed on market sentiment.

The Residential Current Confidence Index (CCI) declined from 31.41 to -1.74. Commercial brokers were more pessimistic: the Commercial Current Confidence Index (CCI) declined from 17.05 to –37.72.

The six-month outlook also fell into negative territory. The Residential EXI dropped from 22.98 to -10.07. The Commercial Expectations Index (EXI) dropped from 21.51 to -34.87, the lowest mark since 2020.





Market Trends

WHAT'S BEHIND THE DECREASE?

Residential and commercial brokers agreed on the list of top concerns: interest rates, inflation, and unease about the economy. Residential brokers were very focused on rising financing costs. The average 30-yr home mortgage rose to 5.7% in early July, its highest mark since the autumn of 2008.

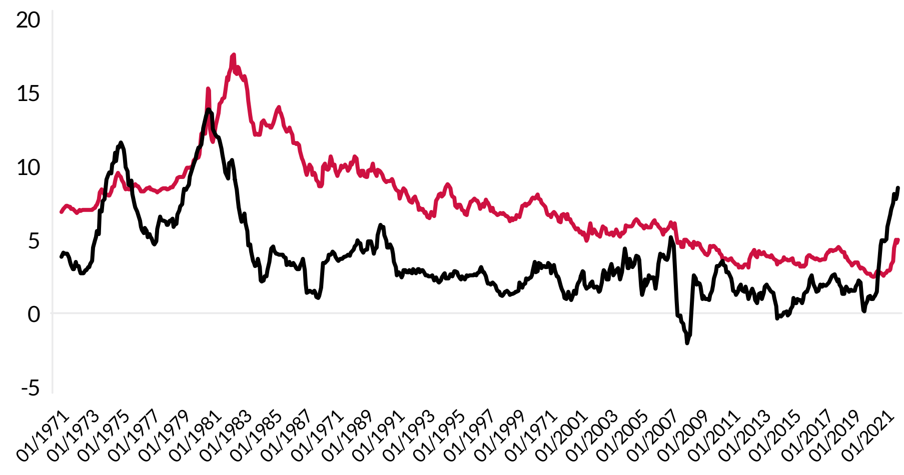
Inflation spiked by 9.0% in June, the largest year-on-year increase since the late 1970s. The spike occurred despite recent decreases in oil and gas prices. Businesses continue to struggle with rising costs associated with supply chain challenges, labor shortages, and building materials. Other operating costs, such as insurance premiums, are mounting. The Fed is expected to implement another large rate increase in late July.

Brokers highlighted the impact of elevated borrowing costs combined with rising costs for goods and services as a reason that some of their clients are acting more cautiously. Homebuyers face higher monthly payments. Some office tenants are either delaying decisions or opting for shorter lease terms.

Uncertainty and volatility also carried into equity markets. Residential brokers, much more so than commercial brokers, were tuned into the fluctuations of the stock market, which can have a significant impact on buyer confidence and willingness to transact.

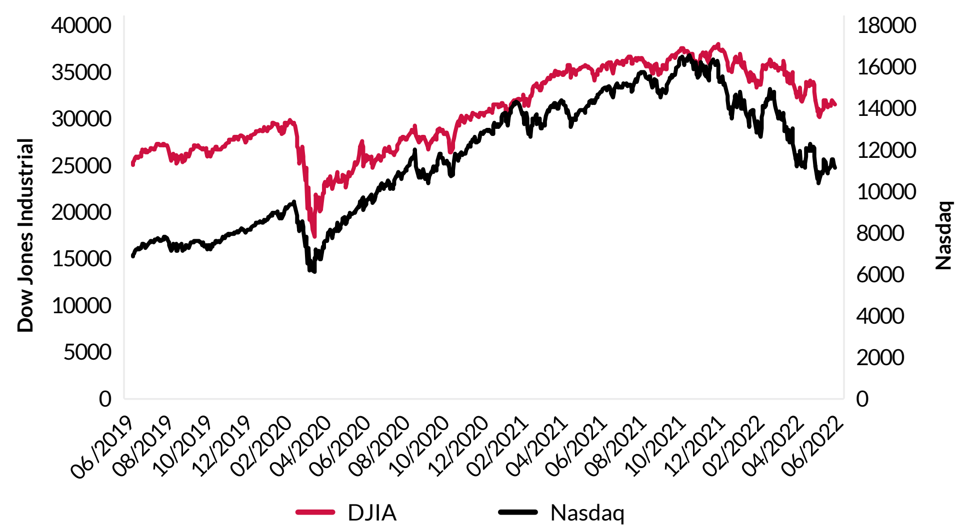
Unease about the direction of the economy overshadowed some of the continued strength in New York City's real estate market during the second quarter. The Residential Current Conditions Index fell only slightly into negative territory, thanks largely to continued competition for apartments in a very tight market. Additionally, sales have remained relatively steady, and pricing has not yet adjusted significantly.

Mortgage Rates & CPI



Source: Freddie Mac, Bureau of Labor Statistics

Dow & Nasdaq

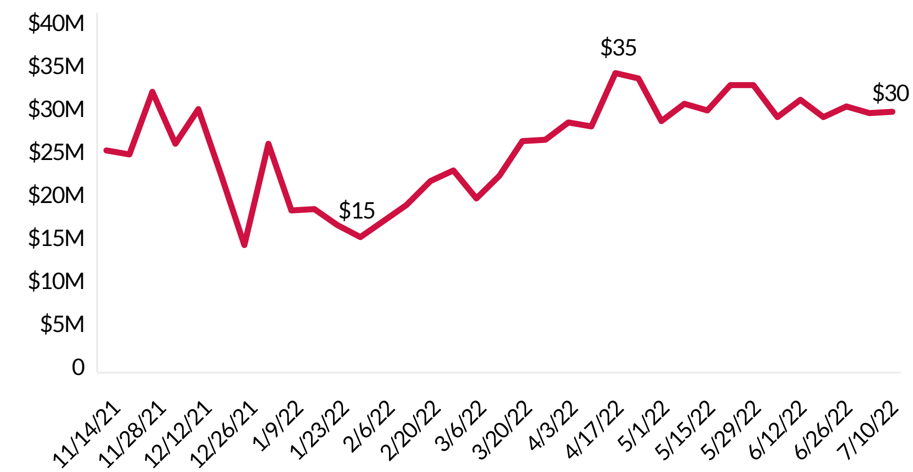


Market Trends (Cont.)

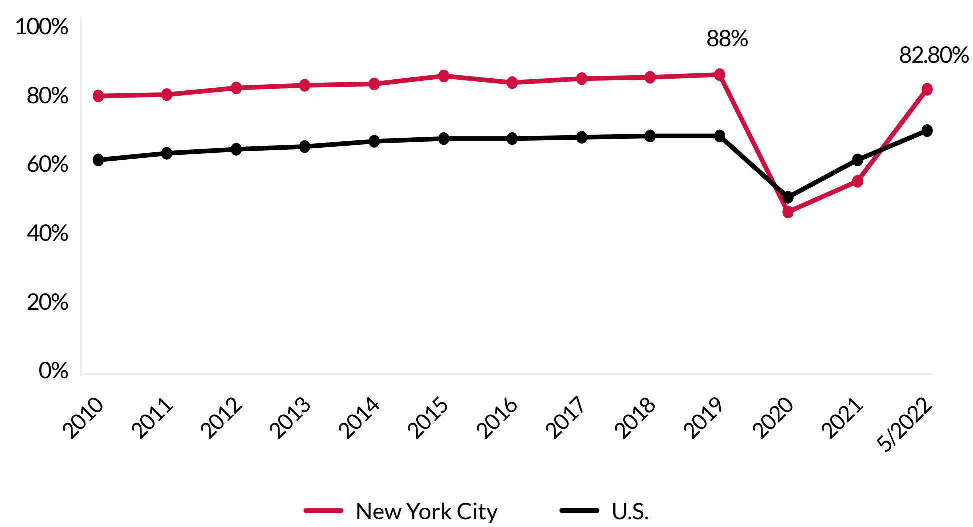
The residential sector is holding up relatively well because the desire to live in New York City remains strong. Similarly, the demand to visit New York City and to shop, dine, and see world-class entertainment is robust. According to the Broadway League, gross ticket sales have more than doubled from $15.03 million during the last week of January to more than $34 million by mid-April. Sales have come down slightly during the summer months, in part due to competing venues.

The resurgence of the hotel sector is one of the most positive stories of 2022. Hotel occupancy in New York City pushed above 80% this spring, placing it as the top U.S. city for occupancy.

Broadway Gross Ticket Sales



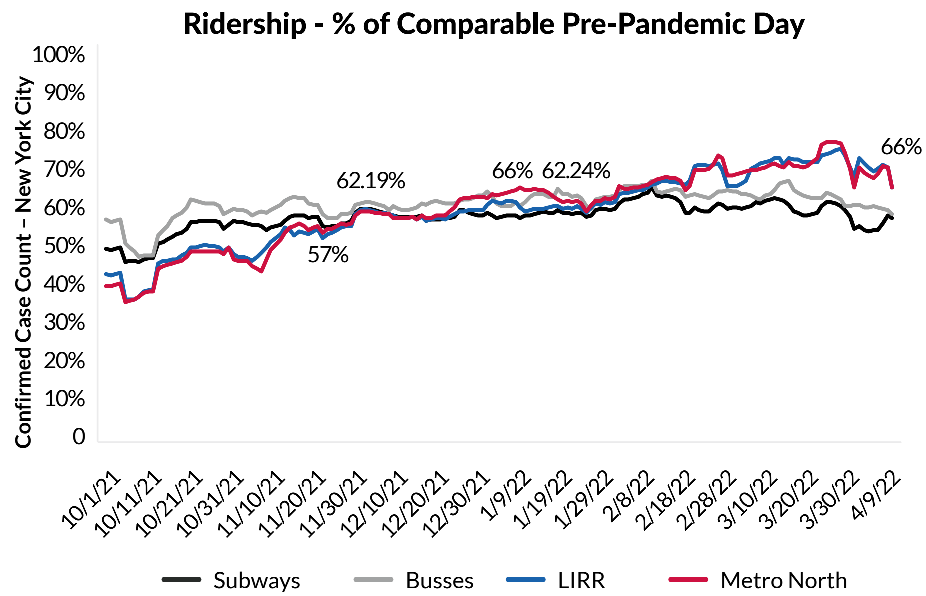
Hotel Occupancy Rate



Market Trends (Cont.)

Steady domestic tourism supported rising hotel occupancy and retail sector gains. Mass transit ridership continues to push higher in part due to suburban residents visiting the city and a modest increase in commuters. Ridership (as a percentage of pre-pandemic trends) on Metro North and LIRR has exceeded ridership on subways and buses since Memorial Day. This reflects decreased concerns about COVID, and the return of more professional and business service workers who live in suburban locations. LIRR and Metro North ridership may also be boosted by higher activity on weekends as suburban residents come into the city for events.

The office sector is moving in different directions, with some segments gaining traction during recent months. Demand for the highest-caliber space remains steady. In June, CBRE reported that year-to-date leasing in Midtown Manhattan totaled 6.16 million, double the amount during the first six months of 2021. On the other hand, brokers note tenant hesitancy in some older Class B buildings. The level of sublease space has stabilized, but that could move in either direction depending on the decisions that office tenants make in the coming quarters.

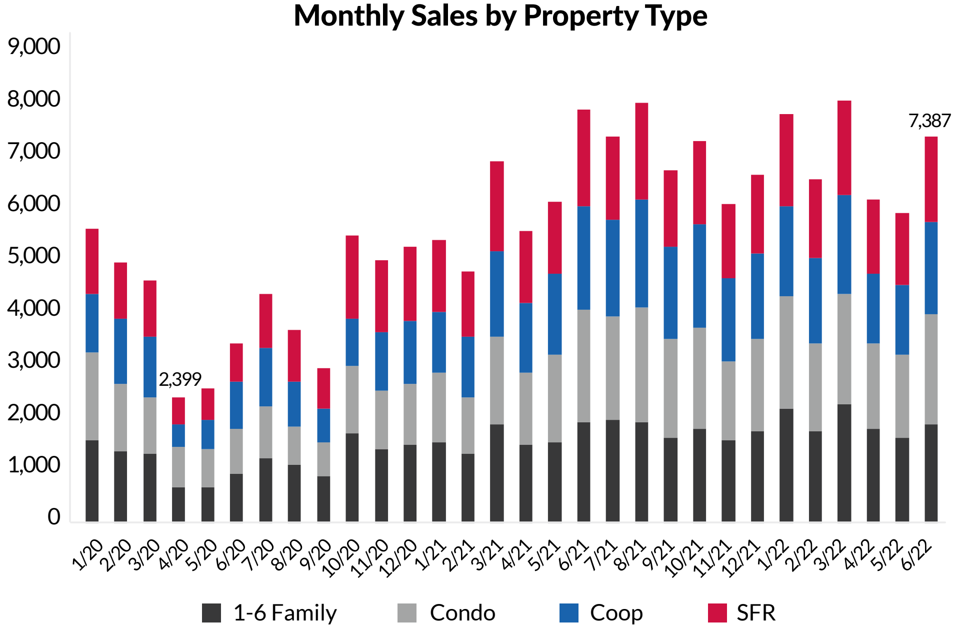


Broker Comments

RESIDENTIAL AND COMMERCIAL BROKERS SEE EYE TO EYE ON ECONOMIC CONCERNS

Rising interest rates, soaring inflation, and economic uncertainty were front and center for both residential and commercial brokers. More than 40% of residential brokers mentioned interest rate hikes as their top concern. Nearly half of all commercial brokers identified inflation and economic worries as their top concern. With inflation still elevated, there is little doubt about the direction of rates in the short-term.

So far, mortgage rates appear to have had little impact on residential sales. As of early July, nearly 35,000 residential sales have occurred in New York City during 2022, outpacing totals from the first six months of 2021. Sales dropped slightly in April and May but still exceeded the monthly sales average since 2018.



Multi-family leasing surged in the summer and fall of last year. The number of new leases slowed as well, particularly in Manhattan, and was down by 46.7% year-on-year in June. Supply remains tight, though. In turn, rents continued to push higher. In June, Douglas Elliman reported that the median net effective rent reached a record amount of $3,995.

In the commercial sector, the retail and hospitality sectors registered significant improvement in the second quarter. Businesses are still clearly committed to the office – evidenced by steady leasing, particularly in the highest-caliber properties even as office occupancy levels remain below pre-pandemic norms. The market is once again looking to Labor Day as another critical juncture to gauge whether return to office is gaining momentum.

In general, most residential and commercial brokers expressed concerns about a potential cooling in demand:

"There is a perception in the brokerage community that a recession is evident and therefore all deals should be repriced at much lower numbers. It becomes a self-fulfilling prophecy and will have a severe, negative impact on the leasing market."

"Interest rates and fear of recession – buyers are wanting lower prices and holding off altogether."

"Higher interest rates might deter the first-time home buyer or result in their decreased starting price point. It also might make the investor buyer wearier."

This quarter's negative index finding is due to more brokers with a negative outlook than with a positive outlook. Nevertheless, some brokers remained positive about the market's long-term prospects:

"Rising interest rates could negatively affect the market. In general, I believe the NYC market may cool off a bit but will still be strong."

"Strong job market, lots of money still in the system, real estate is a good hedge against inflation."

Outlook

RESIDENTIAL SALES LIKELY TO MODERATE, RESTRAINED RETURN TO OFFICE, RETAIL & HOSPITALITY REBOUND HOPEFULLY MAINTAINS MOMENTUM

Brokers highlighted several key issues as critical to sustaining the recovery:

- a more substantial and sustained return to the office
- local government and incentives that support businesses
- 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
- resolving quality-of-life issues (crime, sanitation, and transit)

Market Commentary Supplement

Please read below for further details regarding broker comments during Second Quarter 2022.

INTEREST/MORTGAGE RATES (RESIDENTIAL – 43.2%, COMMERCIAL – 26.7%)

The broker focus on interest rates rivals the degree to which COVID-19 was the top concern in 2020.

"The very fast rise in interest rates and volatility in debt credit spreads have made acquisitions, development and refinancing much more challenging than since the beginning of the year."

"Further interest rate hikes or a recession—or fear of these conditions—may have a negative impact on future business."

During the first quarter, some residential brokers adopted a glass-half-full view of the interest rate hikes.

"I think we will offset the interest rate hikes by refinancing later on. I see a high demand from buyers, but more buyers appear to want to take more time as opposed to last year.“

There were fewer even-handed views in the second quarter, but some brokers recognized that reduced home sales will probably boost demand in an already hot multi-family market. Others noted that the impact depends on home prices.

"Rising rates will put pressure on buyers who need financing and growth in the market will be dampened. However, the rental market seems to be picking up the slack."

"Differentiation by pricing, with sales being negatively impacted above certain price points"

"The new mortgage rates are becoming a negative. My clients below $500K are still buying."

INFLATION & ECONOMIC TRENDS (RESIDENTIAL – 31.3%, COMMERCIAL – 42.2%)

Commercial brokers were more likely to highlight inflation and other economic indicators. They also noted that performance varied across different market segments.

"Inflation is making people feel skittish about the economy and in turn moving, selling or buying homes. Should help the rental market though in the short term."

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."

REAL ESTATE MARKET DYNAMICS (RESIDENTIAL – 9.7%, COMMERCIAL – 15.5%)

Residential sales brokers and office brokers highlighted a moderation in sales as clients backed away from transactions.

"Buyers are scarce, and sellers aren't listing, endless saga."

In the commercial sector:

"Tenants are holding off on any commitments that are not driven by present lease expirations."

A few brokers offered a longer-term view, noting the path to recovery in the office sector -- reduced rents and elevated concessions will eventually bring back opportunistic tenants.

Market Commentary Supplement (Cont.)

"Firms adding more sublease space to the market will continue to put downward pressure on pricing, and may force landlords to drop their asking prices, however, this will bring more prospects back looking to take advantage of the market."

Many residential brokers continue to mention the challenge of limited supply.

"Co-op/Condo 1 bedrooms below $1 million being in short supply!"

"Rentals impacted due to inventory (not enough options.)"

In contrast, commercial brokers were more likely to mention remote work as an impediment to lease completion.

"Continued hybrid approach to working has left a much larger hole to fill in landlord's attempt to lease space. Economic conditions have also given tenants a reason to pause when making leasing decisions."

LEGISLATION, REGULATION & TAXES (RESIDENTIAL – 3%, COMMERCIAL – 9.1%)

Rising interest rates and inflation rates pushed this category lower down on brokers' radar screen. Even so, several mentioned regulations as an additional impediment to sales and leases.

"All regulation confuses and inhibits transactions."

One broker mentioned the expiration of 421a and its different short-term and long-term impacts on development.

"Elimination of 421a will temporarily hurry development in NYC until another program to incentivize builders returns in some form."

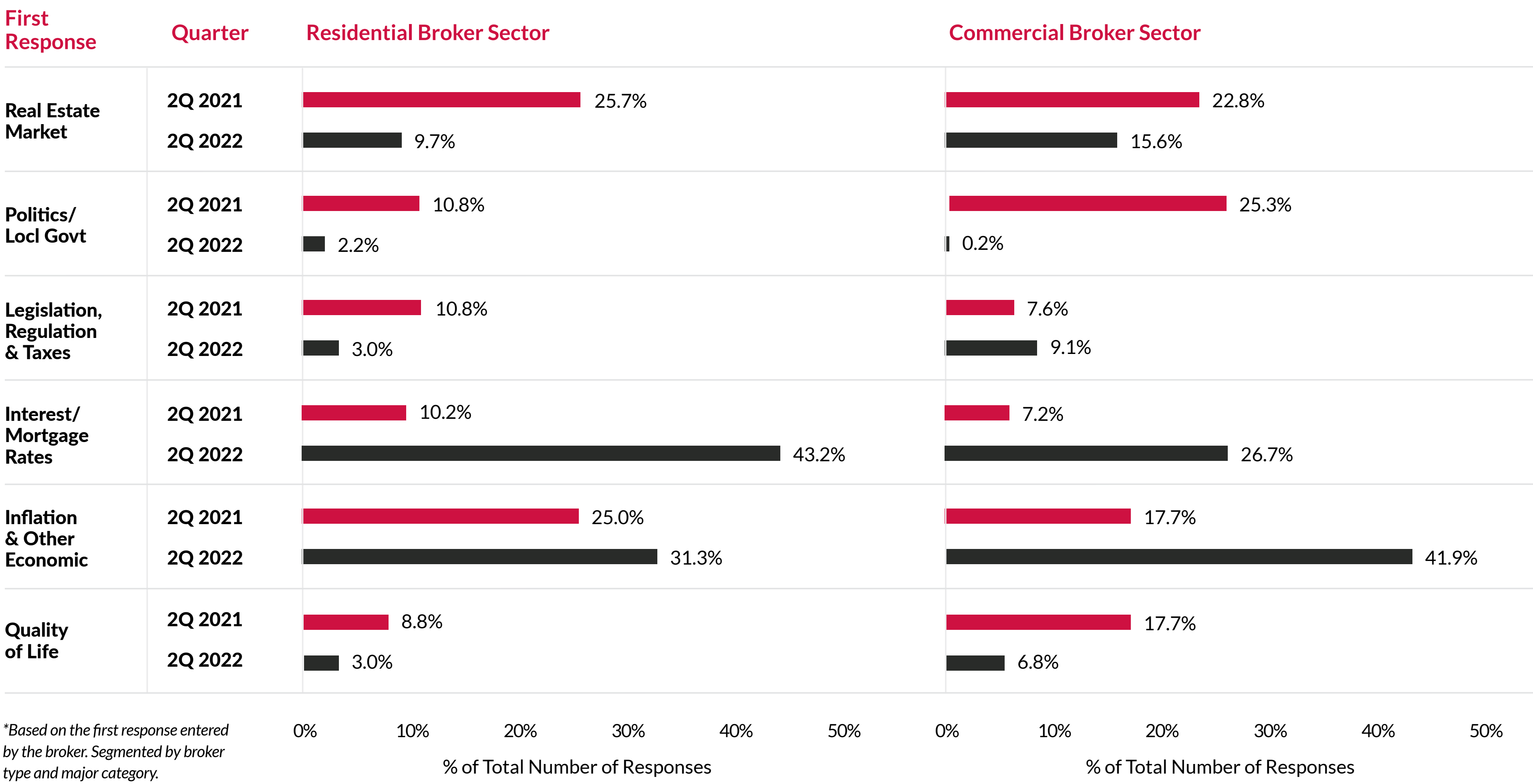
QUALITY OF LIFE (RESIDENTIAL – 3%, COMMERCIAL – 6.8%)

Continuing the trend from several quarters, quality of life remained on brokers' list of issues.

"Quality of life on streets and subways remains an issue. Crime a concern."

Market Commentary Supplement (Cont.)

Broker Top Responses (2Q 2021 vs 2Q 2022)*



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

REBNY
Real Estate Board of New York

Data Appendix

Table 1: Residential Broker Confidence Indices

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
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 Indices

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
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).