REBNY Real Estate Board of New York

REBNY Research

Real Estate Broker Confidence Index

Q1 2022

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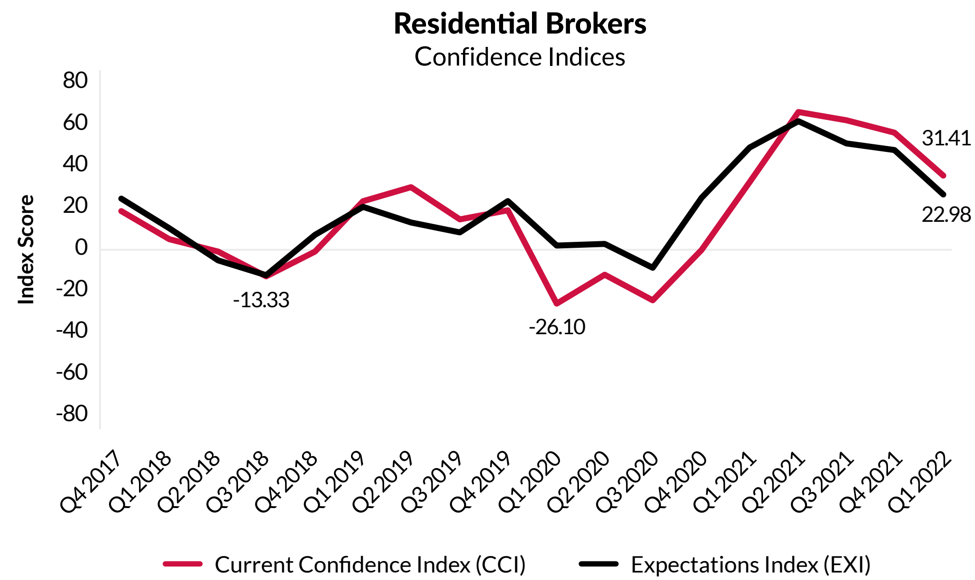
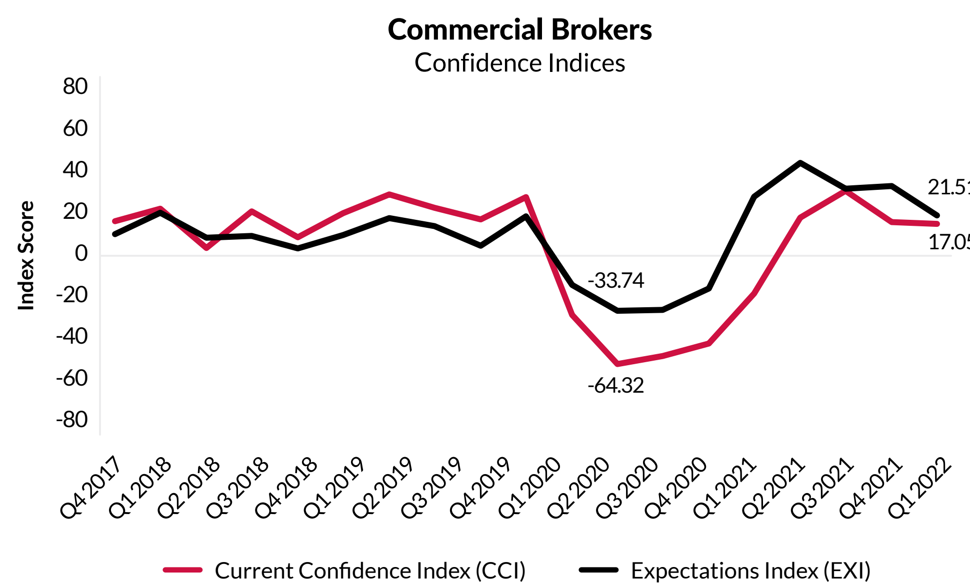
By the Numbers

BROKER CONFIDENCE STILL ELEVATED, EVEN AS INFLATION & RISING INTEREST RATES POSE CHALLENGES

Broker confidence stayed in positive territory, but fell for the third quarter in a row. Residential indices registered more noticeable declines than in prior quarters. The residential Current Confidence Index (CCI) declined from 50.63 to 31.41. The commercial CCI was essentially flat, inching down from 17.89 to 17.05, its lowest mark since the first quarter of 2021.

Brokers were less optimistic about the six-month outlook. The residential Expectations Index (EXI) dropped from 42.85 to 22.98 its lowest mark since late 2020. Commercial brokers also adjusted their outlook slightly lower, pushing the Commercial EXI down from 38.88 to 21.51. Of note, all brokers expressed negative outlooks for financing in the six-month outlook.





Market Trends

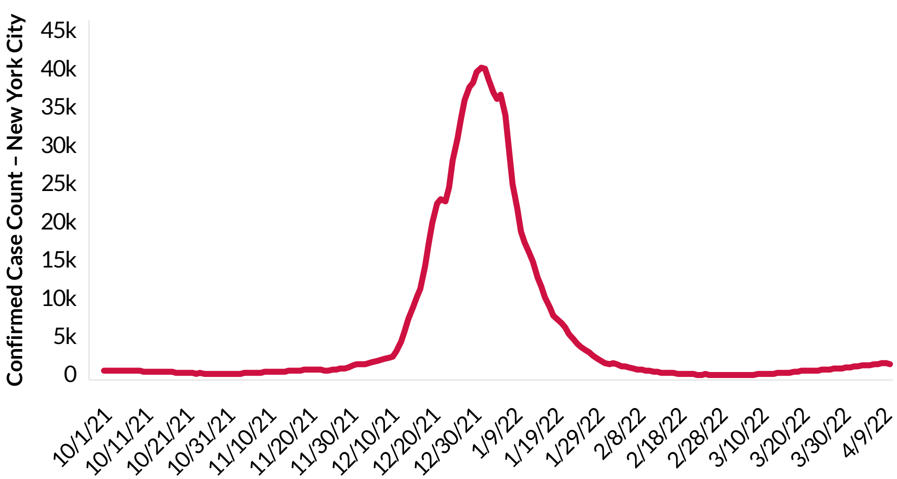
WHAT'S BEHIND THE DECREASE?

For the first time in a while COVID-19 was not the dominating factor.

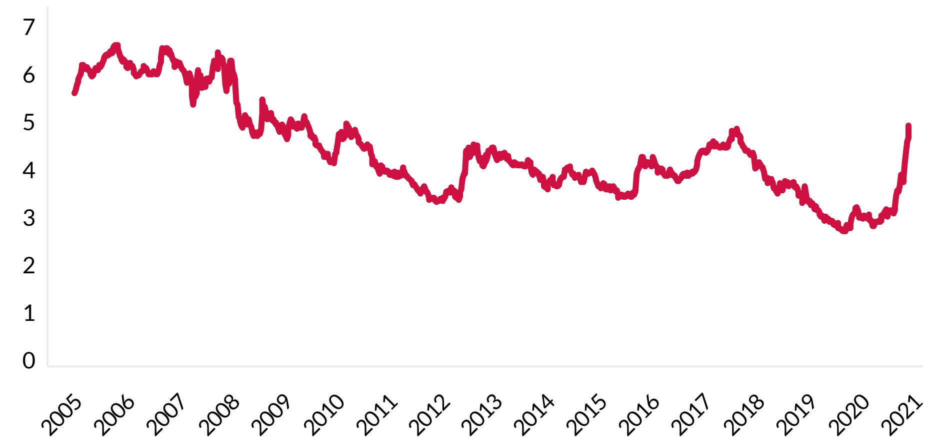
While COVID-19 seems to be largely contained, it still remains a serious health risk that warrants close monitoring. Positivity rates started to rise again by late March. The seven-day average exceeded 1,000 cases per day for the first time since mid-February. In comparison, the 7-day average exceeded 10,000 in early January.[1]

With the attention shifted away from COVID-19, residential and commercial brokers had different key concerns that lowered their respective indices. Residential brokers were clearly focused on rising interest and mortgage rates. By late March, the average 30-year home mortgage hit 5.0%, its highest mark since the fall of 2018. The Fed has made it clear that several additional rate hikes are likely as the central bank tries to curb inflation.

Confirmed Case Count[2]



Average 30-Year Mortgage[3]



1) Source: The 1Q Broker Confidence Index survey was closed in early April. As of early May, the seven-day confirmed case count average pushed above 3,000 for the first time since late January. Of note, hospitalizations (7-day average of less than 60) remained low. https://www1.nyc.gov/site/doh/covid/covid-19-data.page#daily

2) Source: City of New York, Department of Health

3) Source: Freddie Mac

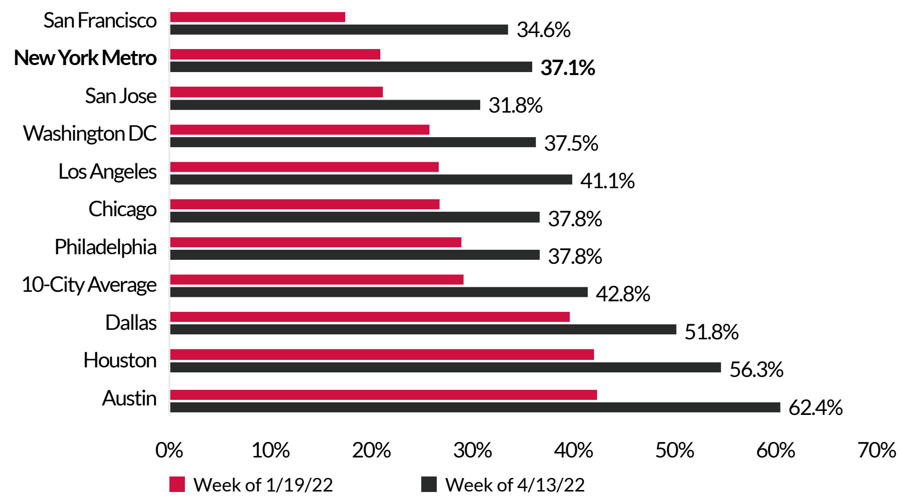
Market Trends (Cont.)

Commercial brokers cited a delayed return to office and quality of life issues as their top concerns. The return to office was just starting to show some momentum by early April. Several major employers announced that they would re-open their offices in March, and begin asking employees to come back to the office several days during the week:

Company	Month Announced	Details
Goldman Sachs	February 1st, March 11	Office re-opened Feb 1st – only 50% of employees reportedly returned, the bank continued to push for a full return in early March
JPMorgan	February, April 4th	Bank backed away from mandatory RTO in early April, switching to ½ full-time office, 40% hybrid, 10% fully remote
BONY	March 3rd	Early March, managers determine hybrid schedule
Citi	March 2nd	Employees return mid-March with flex schedule
Apple	March 4th	1 day week starting April 11, 3 days by May 23rd, option to work remote up to 4 weeks per year

As of late March, Kastle Systems reported 37.1% occupancy in the New York Metro region, up from 22% in January.

Office Occupancy (April 13th)[4]

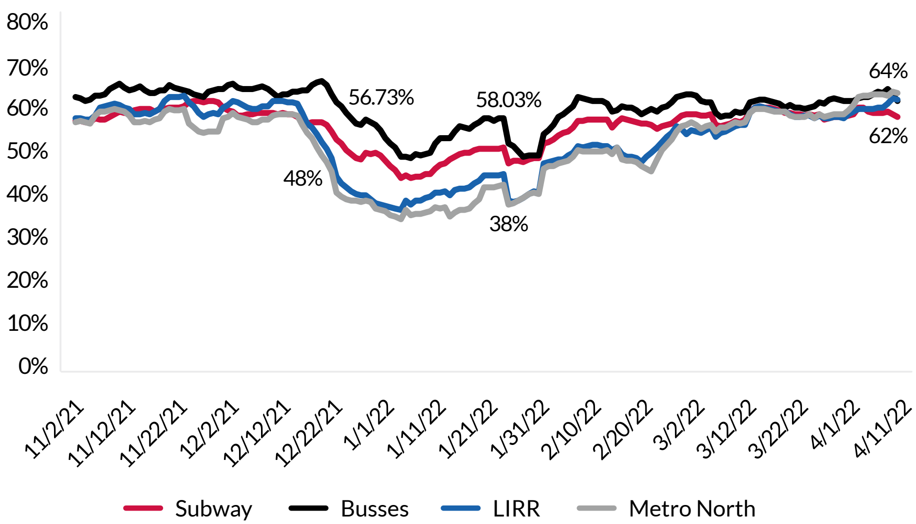


4) Source: Kastle Systems

Market Trends (Cont.)

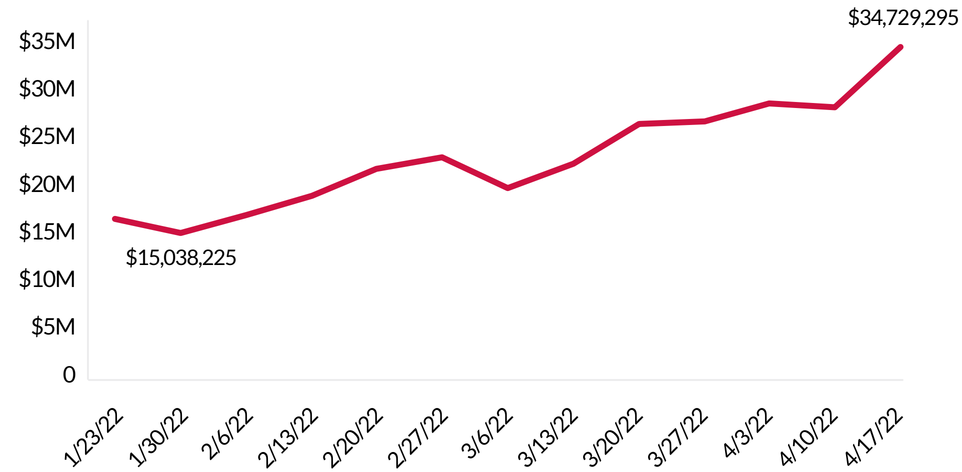
Mass transit ridership also has shown some modest gains since January. The gap between ridership on the subway and buses and ridership on the LIRR and Metro North started to narrow in March; and by the first week of April ridership (as a percentage of pre-pandemic trends) was higher on Metro North than in the subway. This may reflect decreased concerns about COVID, and the return of more professional and business service workers who live in suburban locations.

Ridership[5]
% of Comparable Pre-Pandemic Day



According to the Broadway League, gross ticket sales more than doubled from $15.03 million during the last week of January to to $34.7 million by mid-April.

Gross Ticket Sales[6]

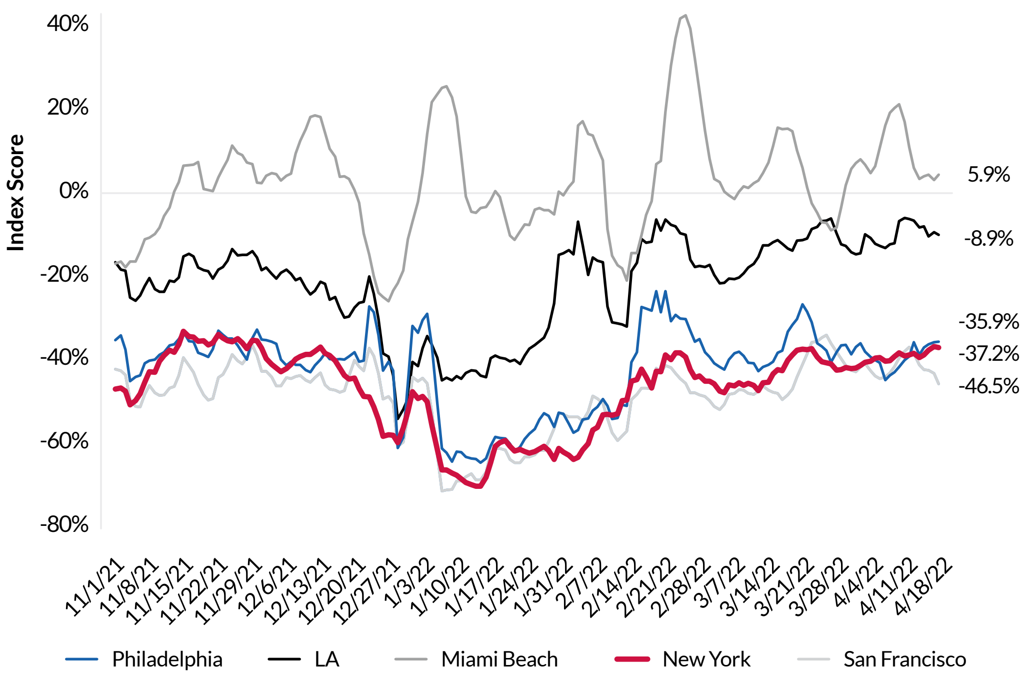


5) Source: MTA
6) Source: Broadway League

Market Trends (Cont.)

Restaurant occupancy has improved as well this spring, rising from 70% below its pre-pandemic levels in January, to approximately 40% below its pre-pandemic levels. This puts it nearly even with levels from October and November of last year. The absence of foreign tourists and the closure of some Broadway shows were contributing factors. Seated dining in New York City is on par with Miami Beach and slightly better than in San Francisco.

Open Table Seating – Heading Higher
% Relative to 2019



Broker Comments

RESIDENTIAL BROKERS FOCUSED ON MORTGAGE RATES, COMMERCIAL BROKERS CONCERNED ABOUT RETURN TO OFFICE & QUALITY OF LIFE

Residential and commercial brokers remained concerned about typical local challenges – regulation, taxes and quality of life. National economic trends such as interest rates and Inflation, as well as geopolitical concerns entered the conversation in early 2022. One residential broker summed up the sentiment nicely:

"Lack of inventory. Inflation and global fear of war I think have made people just a little more cautious to buy in the current sales market."

Nearly half of the residential brokers mentioned interest/mortgage rate hikes as their top concern, both for current conditions and the six-month outlook. With the Fed expected to move rates higher several times in the coming quarters, more brokers now see rising rates as at least a short-term obstacle for some buyers. In the leasing market, brokers listed limited supply, rising rents and other cost pressures as impediments.

Residential and commercial brokers' comments about market dynamics reflect the continued divergence in their respective markets. Residential brokers noted concerns that tightening supply and elevated pricing or rents will likely curb sales as well as leasing.

Residential sales and leasing activity both enjoyed record years in 2021. So far in 2022, residential sales remain very strong. Sales exceeded $14 billion in the first quarter, increasing by 42% compared to 1Q 2021. This builds on the record tally of $54 billion sold in 2021. Sales were still robust in the first quarter of 2022 (with more than 13,000 sales, compared to 12,500 in the first quarter of 2021).

Multi-family leasing surged in the summer and fall with only modest signs of moderation in early 2022. In March, Douglas Elliman reported that the median net effective rent reached $3,644, the highest on record. The annual growth rate was slowing though.

In contrast, commercial brokers were more likely to highlight oversupply and the limited return of employees to the office. Omicron was under control by mid-January, but return to office did not start to gain momentum until late February/March – and it has been far from a full, throttled return. Nevertheless, businesses remain committed to the office – evidenced by steady leasing, particularly for the highest-caliber properties. Additionally, retail leasing has clearly taken off, building on the momentum seen last summer and fall.

"Leaders of companies and other organizations want their people back in the office. Many companies are signing long term leases for space in the best buildings. Class B buildings are also starting to see demand for space."

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Outlook

RESIDENTIAL SECTOR FACES MORE ADJUSTMENT, STRONG RETURN TO OFFICE WOULD BOOST COMMERCIAL

Brokers, like their clients, relayed a high degree of uncertainty surrounding a wide array of issues.

The core issues that are critical to sustaining the recovery in 2022 include:

- Resolving quality-of-life issues (crime, sanitation, and transit)
- A more substantial and sustained return to the office
- Local government and incentives that support businesses
- Keeping inflation and financing costs under control

Commercial confidence is poised to jump once the return to office renews in earnest. In the residential sector, the potential for a slowdown in sales and leasing due to undersupply and high pricing warrants close attention. With the Rent Guidelines Board meeting this spring and the expiration of 421a in June, the multi-family market will need to monitor City and State legislators.

Market Commentary Supplement

Please read below for further details regarding broker comments during 1Q 2022.

Economic Trends

INTEREST/MORTGAGE RATES (RESIDENTIAL – 44%, COMMERCIAL – 8%)

Residential brokers turned their view in one clear direction: the impact of significant mortgage rate hikes in the next several quarters. Brokers agree that mortgage rates are the top issue, but still question how rates will impact buyers.

Residential brokers were five times as likely as commercial brokers to list interest and mortgage rates as the top impact in the next six months. In mid-2021 more brokers were likely to see rising interest rates as potentially pushing more people to expedite their purchase. Now, more see it as an impediment.

"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."

"If mortgage rates rise significantly from current levels prices may eventually drop."

"Rising interest rates could conceivably slow things down in the sales market but even though interest rates are going up they are still very low. It's a matter of perception and we'll have to see how buyers will react."

INFLATION (RESIDENTIAL – 14%, COMMERCIAL – 14%)

Some respondents may be conflating inflation and rising interest rates – both create barriers to sales for some buyers. That said, investors with more funds may view high inflation as a good time to assume debt.

"Inflation will have a definite impact on the Manhattan market. Especially for the middle-class renter and buyer."

"Inflation and rising interest rates might be creating a pause by those buyers who were already on the fence."

REAL ESTATE MARKET DYNAMICS (RESIDENTIAL – 18%, COMMERCIAL – 14%)

Limited supply is a top concern for many residential brokers - creating challenges for many multi-family tenants. On the other hand, tight supply favors property sellers. Of course, the tight supply is a positive for sellers of residential properties.

"Lack of entry level, starter rental apartments. There's no true replacement for Mitchell Lama or 421a to create enough new construction or conversion to meet current market demand."

"The extremely limited inventory has made the last quarter extremely difficult. That being said, after a down quarter I see a rise in inventory and significant rise in movement as most rental "deals" from the past years are ending and with that will come waves of movement."

"Inventory is low. NYC market is active, but some have reservations about buying during volatile society."

"Sellers who understand today's economic trends of interest rates going up and inventory decreasing are reaping benefits IF they are realistic."

In contrast, commercial brokers were more likely to mention the threat of remote work – ironic that even as Covid seems to be under control and become endemic – seems to be resignation among some that work from home is also here to stay.

"More companies adopting remote work even as we emerge from COVID."

"Perception that employees don't have to come to the office to achieve the same results pre-pandemic."

Market Commentary Supplement (Cont.)

GEO-POLITICAL (RESIDENTIAL – 13%, COMMERCIAL – 14%)

International conflict is adding to the sense of uncertainty, and for a few brokers it is negatively impacting their sales.

"Economic disruption caused by Ukraine conflict creating declining confidence."

"Rising interest rates & energy costs & war in Ukraine are likely to temper the current exuberant market."

"Russian invasion of Ukraine is likely to add uncertainty to the market going forward."

"Buyer angst about world affairs, inflation and rising interest rates."

LEGISLATION, REGULATION & TAXES (RESIDENTIAL – 7%, COMMERCIAL – 11%)

In prior quarters, Covid-19 crowded out this normally hot-button issue. During the first quarter, inflation and rising interest rates pushed this category lower down on brokers' radar screen.

"The more pro real estate measures we will have the better the overall economy will be (so many industries depend on real estate, so many jobs...)"

One commercial broker noted the impact of rent caps:

"Tough times for the multifamily owners with rent stabilized regulations without any incentive to renovate and rent vacant below market rent stabilized apartments. Huge loss of tax revenue all around."

QUALITY OF LIFE (RESIDENTIAL – 5%, COMMERCIAL – 17%)

Along with the potential for a resurgence in COVID, commercial brokers also mentioned quality of life as the key top concern.

"Crime in city and subways, homeless issue and possible future pandemic issues."

"The financial issues will take care of themselves, but quality of life issues such as mental illness, crime, cleanliness are of paramount importance."

"Crime is rampant. Repeat offenders are let out on the street, not being prosecuted. That is making the public feel unsafe, and it IS unsafe."

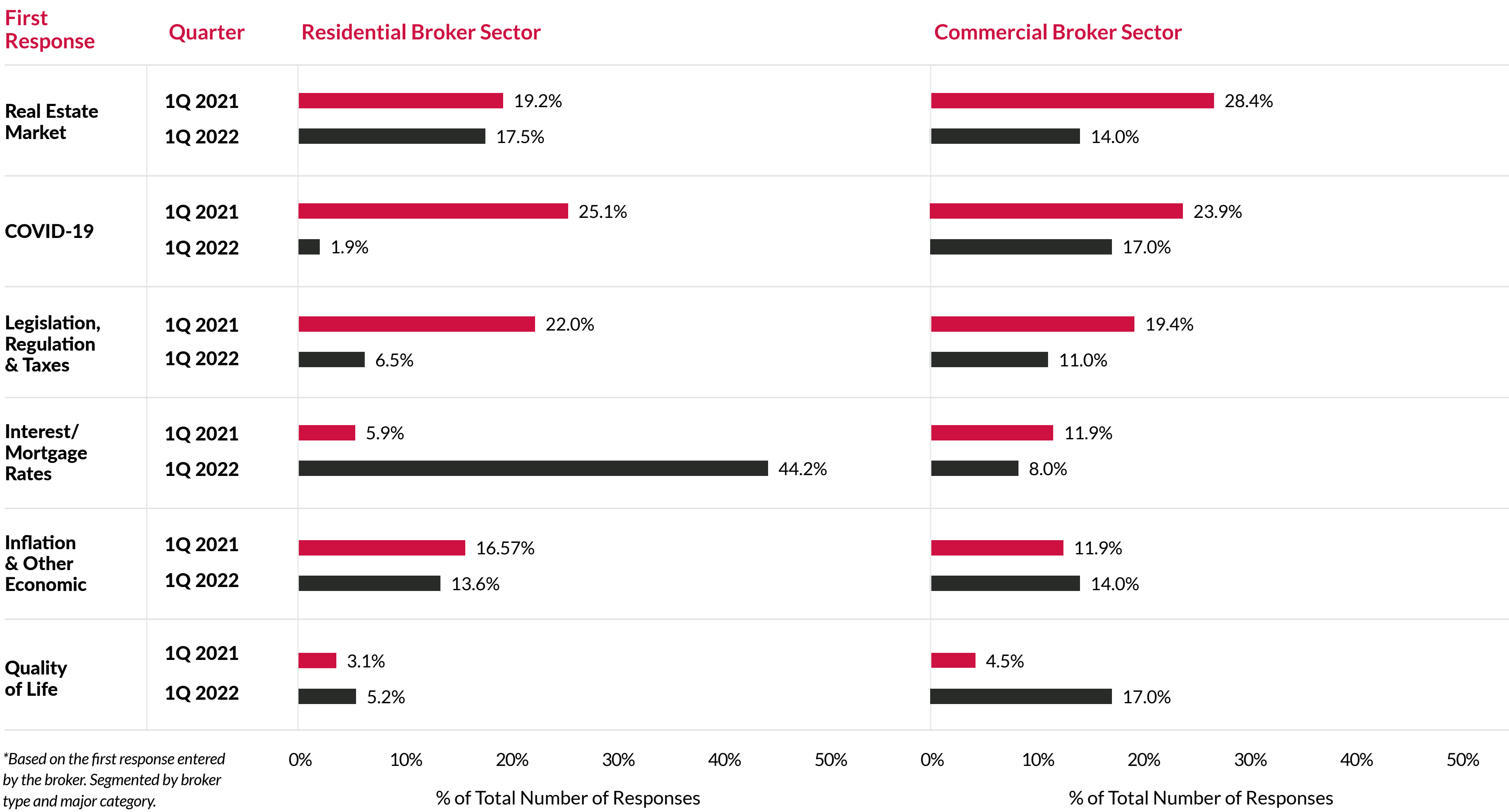
COVID-19/OMICRON (RESIDENTIAL – 2%, COMMERCIAL – 17%)

Expectations among many brokers in the first quarter that Omicron would be short-lived, fortunately came to fruition. With the Omicron surge well in the rear view mirror by February, Covid-19 was the top concern for only a handful of brokers – a sharp shift from the prior quarter when nearly 50% of brokers listed COVID-19 as the top concern. Commercial brokers were more likely to mention a resurgence in a new variant as a potential threat than residential brokers. Some retail tenants did delay leasing decisions earlier in the quarter as they waited to see if the Omicron curve was truly flattened.

"Movement back to the cities now that the virus seems under control."

Market Commentary Supplement (Cont.)

Broker Top Responses (1Q 2021 vs 1Q 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 Indices

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
Q1 2022	26.59	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)
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 Commercial Brokerage Confidence Index (CBCI) and Residential Brokerage Confidence Index (RBCI) is based on surveys completed by brokerage members of 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 Index) 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. With this release, 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).