REBNY
Real Estate Board of New York

REBNY Research | 2023

Real Estate Broker Confidence Index

Q2 2023

Table of Contents

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By the Numbers

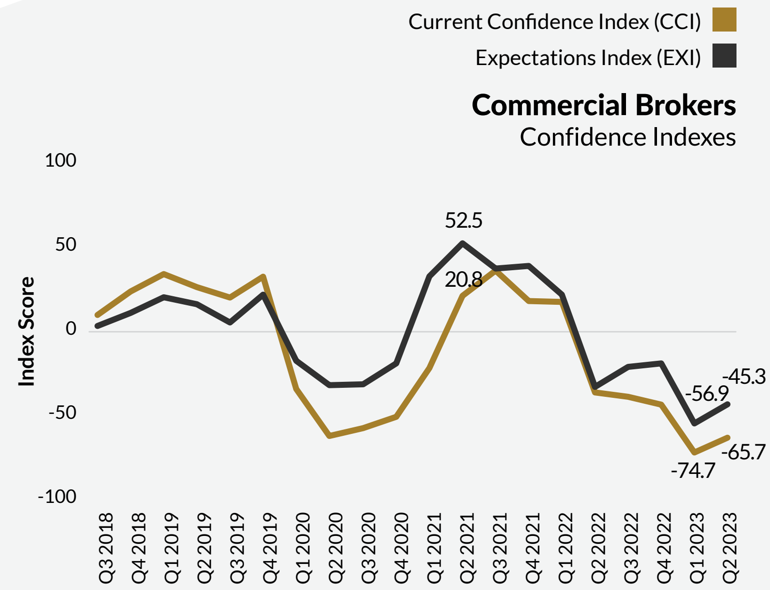
Slight Increase in Broker Sentiment, But Commercial Confidence Index Remains Very Low

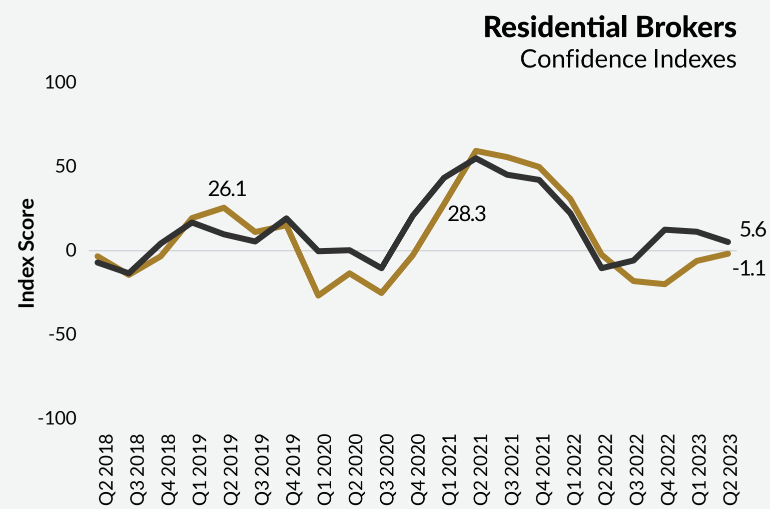
Commercial broker sentiment inched higher from the record lows reached in the first quarter as the commercial Current Confidence Index (CCI) rose from -74.7 to -65.7. The six-month outlook also ticked higher. The commercial Expectations Index (EXI) rose from -56.9 to -45.3. Both indicators were essentially even with the levels seen during the height of the pandemic in 2020.

The residential EXI fell for the second quarter in a row, declining from 11.7 to 5.6. While it stayed in negative territory, the residential CCI increased from -5.6 to -1.1.

The reasons behind the negative outlook in the commercial sector are clear: vacancy levels in the office sector are elevated, owners are facing financing challenges, and questions about long-term space needs for office space still prevail. In the residential sector, high interest rates and economic uncertainty are keeping some sellers and would-be buyers on the sidelines. A steady rental market is offsetting some of the negative outlook.

Of note, many commercial and residential brokers expressed frustration with aggressive regulatory proposals (such as potential changes to broker commissions or additional restrictions on apartment properties) as well as a lack of policy guidance on affordable housing and office conversions.





Market Trends: What's Behind the Numbers?

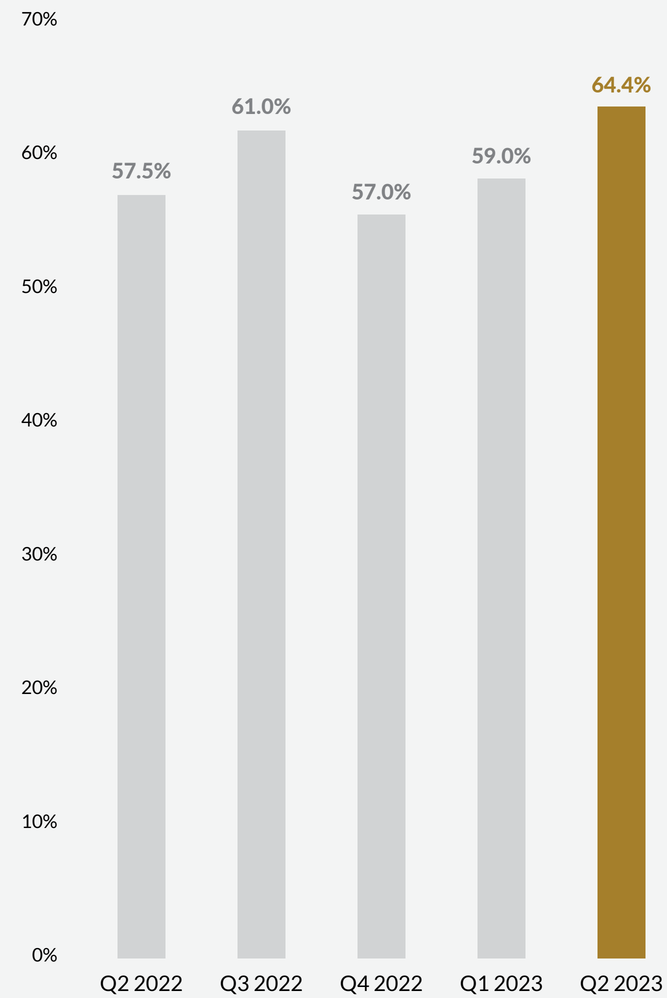
Commercial: Despite Some Modest Improvement, Office Sector Challenges Dominate Broker Sentiment

The first quarter of 2023 saw significant challenges in the office market. The combination of a capital markets crisis, slow leasing activity, and stalled return to office rates spurred the lowest commercial broker confidence sentiment on record.

During the second quarter, conditions generally stabilized. The crisis in the banking sector appears to have calmed since the May closure of First Republic Bank, allowing some sales and refinancing activity. Properties with significant current or near-term vacancy are selling at a hefty discount from pre-pandemic levels, but others with high occupancy and stellar tenant bases have achieved a strong return.

Office market fundamentals also showed some tentative signs of improvement. According to CBRE, leasing rose by 14% from the first quarter, but was still 22% below the five-year quarterly average. Employers have clearly renewed efforts to bring their team back into the office more frequently. Based on analysis of mobile device data from Placer.ai, mid-week visitation rates averaged 73% compared to 43% on Friday. The average overall visitation rate for office buildings in Q2 2023 was 64%, up significantly from the 56% rate in Q2 2022. Prime A+ buildings outperformed Class B buildings with an average visitation rate of 67%, but Class B and C buildings registered an increase in visitation rates to 65%.

Visitation Rates*
Q2 2022 – Q2 2023



**REBNY analysis of Placer.ai data. All rates based on Q2 2023 visitation compared to Q2 2019 visitation.*

Sustained Growth in Retail & Hospitality, Although Conditions Still Lag Pre-Pandemic Levels

Challenges in the office sector continue to overshadow strength in the retail and hospitality sectors. Top retail brokers in Manhattan and Brooklyn characterize conditions in prime neighborhoods as being healthy.

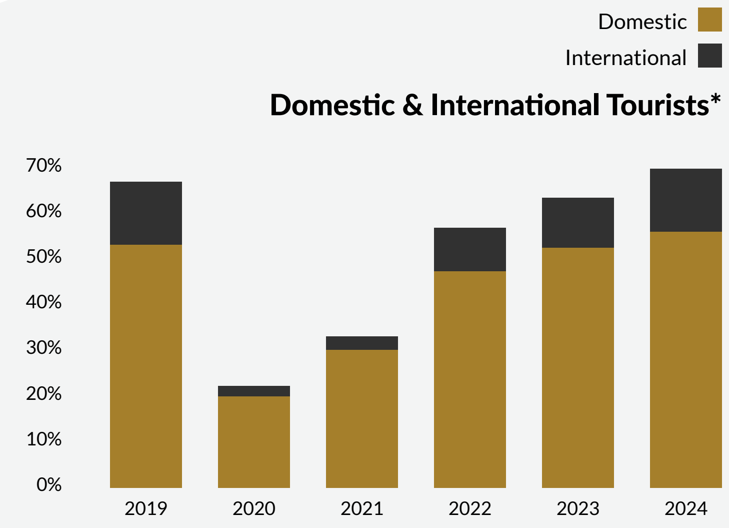
While demand from retailers for quality space has been brisk, activity and rent are both well short of pre-pandemic peaks. Retailers are active but they are often taking smaller footprints. Additionally, most businesses remain focused on efficiency and operating margins. Elevated operating costs and staffing shortages are encouraging adoption of grab and go or rapid pickup options.

Nevertheless, compared to a year ago, the supply of available storefronts is significantly lower in key corridors such as SoHo, Madison Avenue, and Flatiron. Rent remains 20% to as much as 50% below pre-pandemic peaks but has increased moderately relative to six months ago. With steady demand in most neighborhoods, landlords no longer have to offer the extraordinary lease flexibility as they did in 2020 or early 2021.

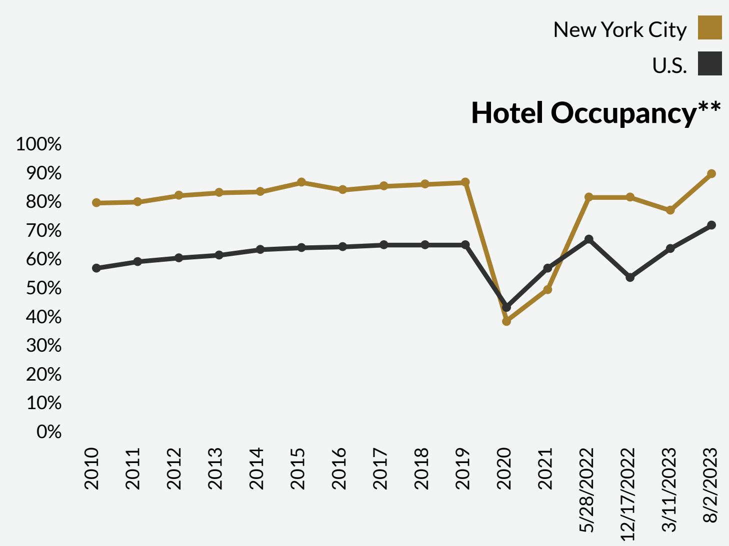
Retailers are responding in part to strong foot traffic from area residents and resurgent tourism. According to New York City & Company, 56.4 million tourists visited New York City in 2022. They project that 61.6 million people will visit New York City in 2023, which would put tourism less than 10% below the 2019 peak of 66.6 million.

Resurgent tourism has filled in some, but not all, of the void from reduced office commuters. Lagging retail corridors and the hotel sector will need something more – material gains in return to office and continued gains in tourism – to push them over the top to realize a more full recovery. Retail corridors that are most dependent on the office sector such as Grand Central and Midtown East continue to lag. Many of the large flagship and entertainment spaces on Fifth Avenue and in Times Square remain vacant.

Hotel occupancy in New York City ended the week of August 2nd at 90% of its levels during the same week in 2019, the highest rate since December 2019 and well above the U.S. rate of 73%. The number of rooms in New York City is down by 7% due to permanent closures and some rooms that are temporarily housing immigrants.



*Source: NYC & Company



**Source: STR

Tentative Gains In Capital Markets

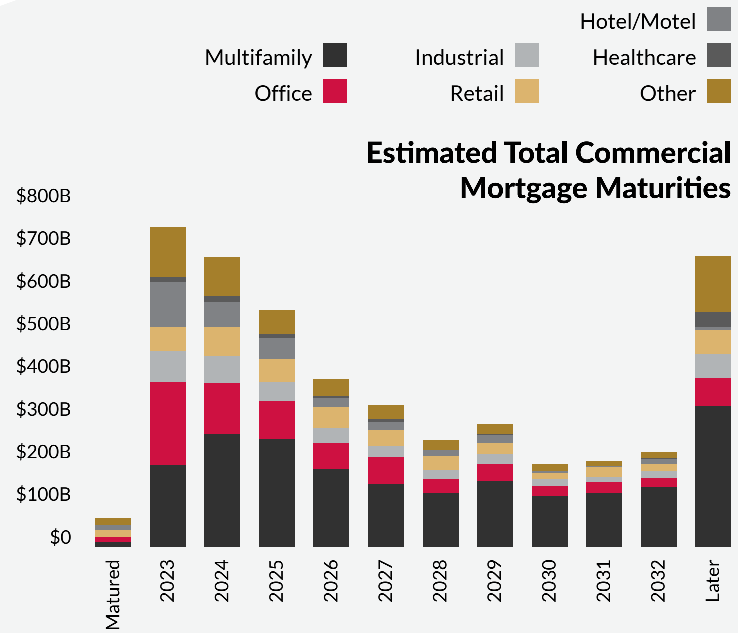
Capital markets remain constrained but showed signs of stabilization. During the first quarter the collapse of several banks weighed heavily on commercial broker sentiment. In the second quarter, commercial broker sentiment regarding current financing conditions was almost uniformly negative, but few brokers mentioned a banking collapse as a top concern.

The six-month outlook for financing improved slightly. Commercial brokers may be encouraged by signs that some owners and their lenders are trying to work out loan extensions. A report from the Mortgage Bankers Association shows just how bad the timing was for the market – there are $98 billion in office loans held by banks maturing in 2023. The volume of loan maturities drops off after 2025. While $98 billion is a significant amount, it is a small fraction of the $4.5 trillion in total commercial and multi-family loans outstanding.

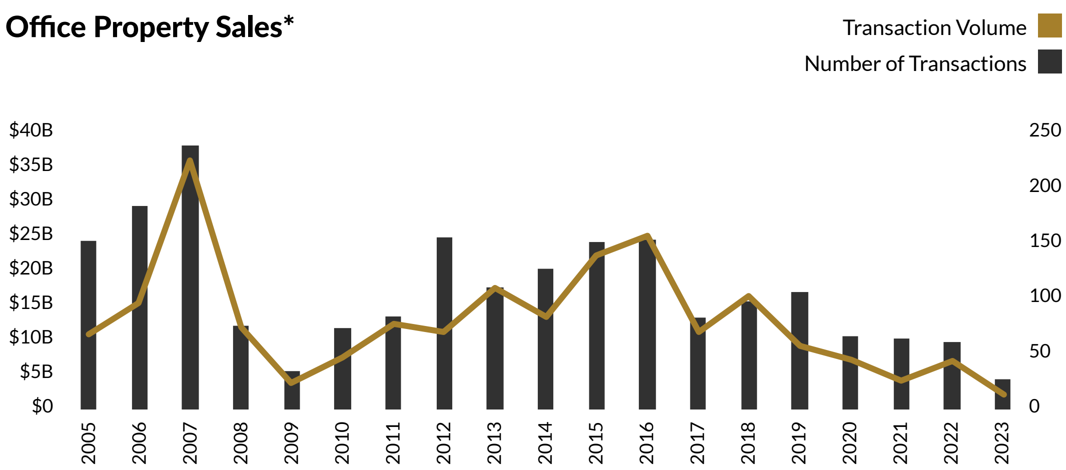
Even so, delinquencies in the office sector are rising. In June, Trepp reported that delinquencies for office buildings with CMBS debt rose by 48 basis points, to 4.5%. This rate is still well below the peak delinquency rate of 10.3% in July of 2012.

Challenging financing and uncertainty in market conditions kept many sellers off the market. As of mid-year, office sales totaled just over $2 billion, the weakest total since 2009.

Estimated Total Commercial Mortgage Maturities

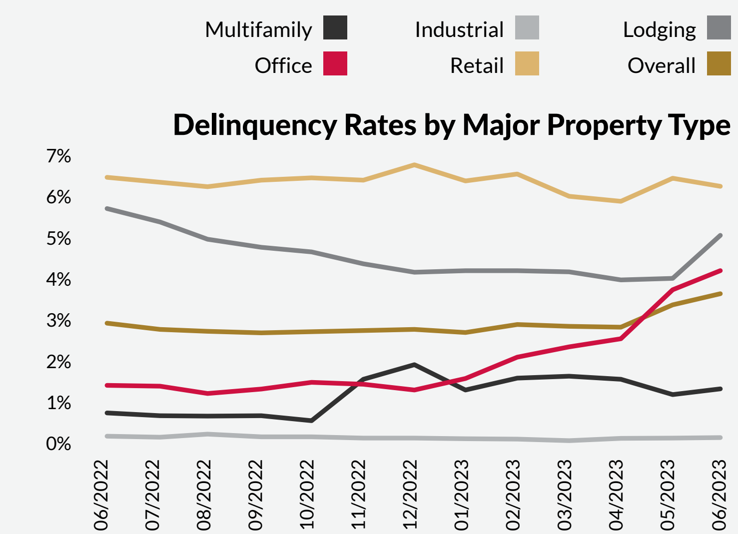


Office Property Sales*



*Source: Moody's Analytics/REIS

Delinquency Rates by Major Property Type



Residential: Sales Broker Sentiment Cools a Bit, Leasing Market Boosts Index

New York City's residential sector remains in far better shape than the office sector. Nevertheless, seller restraint, elevated interest rates, general uncertainty about the economy, and concerns about City and State government weighed on broker sentiment.

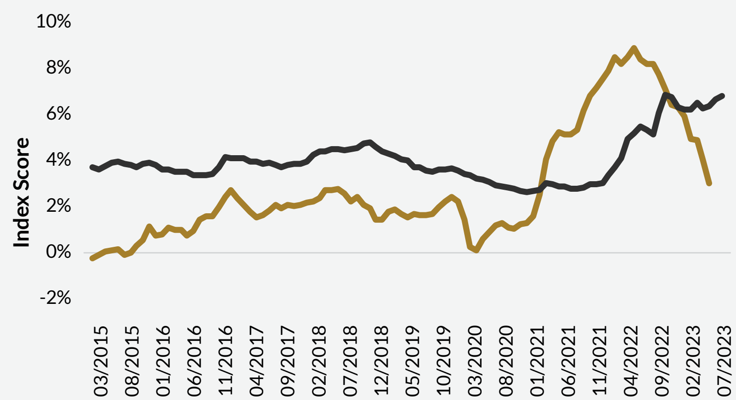
Multiple brokers described a negative feedback loop that is depressing the supply of available properties. Unable to achieve their desired sales price and facing higher financing costs for their next purchase, some owners are pulling their properties off the market. Buyers are withdrawing from the market due to a lack of value and concerns about interest rates. Leasing brokers noted that more would-be buyers are opting to lease instead, which in turn depletes the supply of lower and moderately priced rentals.

Interest rates play a critical role in slowing home purchases. While inflation growth has clearly cooled (falling to 3.1% in June) mortgage rates have not adjusted much yet, hovering around 7%.

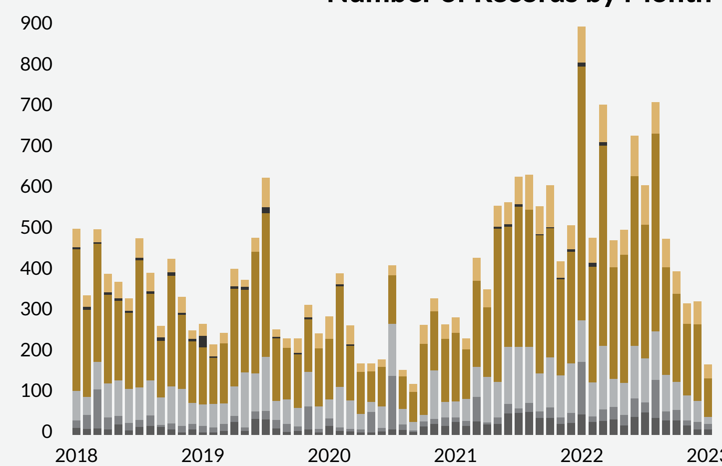
The Q2 2023 Douglas Elliman Report for Manhattan showed a sharp 39.4% year-over-year decrease in condo and co-op sales. Listing inventory dropped by 3.4% year-on-year. Douglas Elliman also noted that a record percentage (approximately two-thirds) of sales were all cash. Sales in Brooklyn posted a similar 31.9% year-on-year decrease but were on par with long-term historical averages.

On a positive note, equity markets posted consistent gains during the second quarter. Brokers are hoping that a sustained rally in equity markets will support the wealth effect, particularly in the luxury sales sector.

Demand for apartments remains robust. The summer months are typically among the busiest for leasing activity in New York City. According to the June Elliman Rental Report, the number of new leases in Manhattan in June rose by 3% to 5,165 in June. Multiple leasing brokers noted that the limited supply of units continues to present challenges.



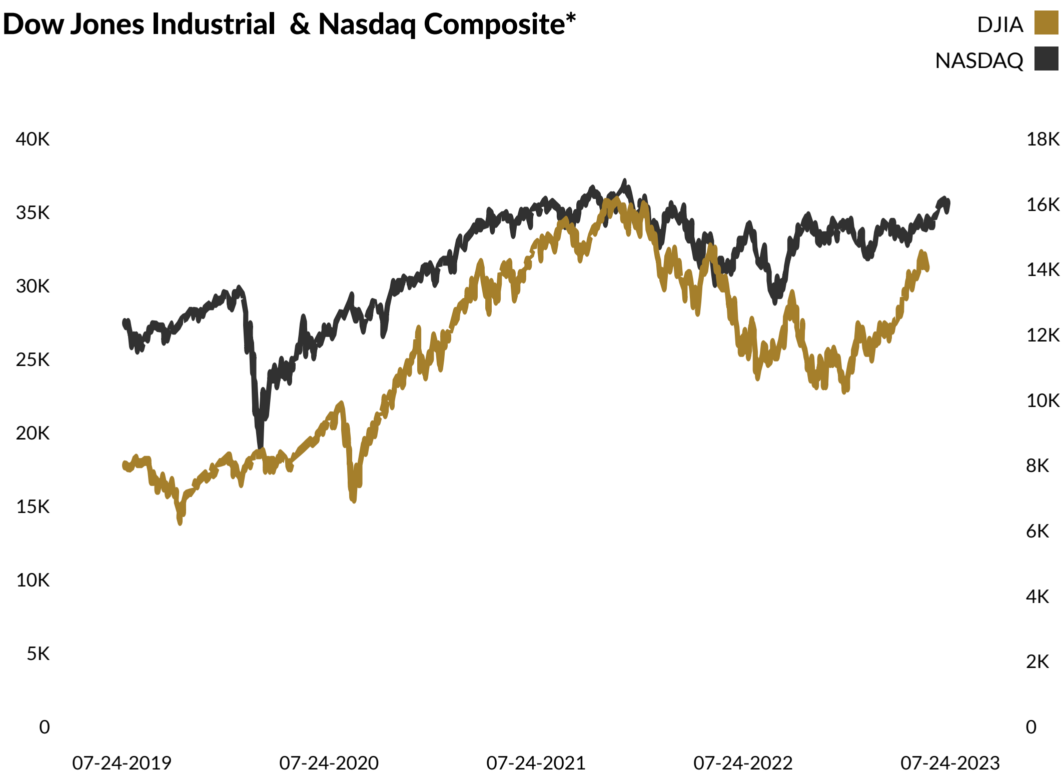
*Source: Freddie Mac, Bureau of Labor Statistics



**Source: REBNY, MarketProof

Following three consecutive months of record-setting rent, net effective median rent dropped to $4,268, the second highest median rent ever for Manhattan. Concessions fell and "bidding wars" (defined as a lease in which renters pay more than the landlord's asking rent) were at record levels. Brooklyn registered similar trends.

Dow Jones Industrial & Nasdaq Composite*



*Source: St. Louis Federal Reserve

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Broker Sentiment Summary

Challenges in Office Sector Dominate Commercial Sentiment, Residential Brokers Highlight Lack of Supply

Despite some modest gains in office visitation rates and stabilization in the banking sector, the office sector still faces record availability and uncertainty about future demand. Owners with an imminent loan maturity are facing cautious lenders and may have to bring more equity to the table to refinance. Sellers of assets with significant vacancy are taking a major haircut. These challenges overshadowed sustained leasing activity in the retail sector as well as strong hotel occupancy.

Commercial brokers remained focused on the challenging capital markets and subpar return to office.

- ***"General uncertainty of financing, return to office efforts, safety, and overall economic feeling are having a negative impact on sentiment and effecting reality of the market. There needs to be some new confidence in these areas to help the NYC market."***

In contrast to prior quarters, more commercial brokers noted quality of life problems and the need for more support and guidance from the City and State to boost return to office.

- ***"Rampant crime in NYC... Sidewalks are for pedestrians only - not bicycles, scooters etc. All other impediments to pedestrians must be removed. Businesses and citizens fleeing to business-friendly states and low/no-tax states."***

Some residential brokers also highlighted quality of life concerns as a potential drain on buyers and residents.

- ***"Crime is spiking and it's unsafe at night in premium Manhattan neighborhoods. [This] is hurting real estate sales because people feel unsafe."***
- ***"Lack of policing making areas of the city less desirable."***

There are still a wide range of opinions on how the city is faring, from negative to confident.

- ***"Ultimately, we will become San Francisco in the next couple of years."***
- ***"Working from home, although improved, will be negative. Surplus of sublease space on the market will be negative. On the positive side, I believe that NY will recover slowly and steadily due to its diverse industries and the desire of companies to remain in NY."***

Many of the comments, whether it is quality of life or interest rate levels, are relative to recent conditions. Low interest rates and concerns for public safety have been the norm for quite some time. Several brokers noted that people need to keep current conditions in perspective.

- ***"A better understanding on historical interest rates and how they compare to today."***
- ***"Number one is all of the terrible PR New York continually gets in the press about how 'dangerous' the city is (when it's not) and how no one is ever coming back (which is untrue)."***

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Broker Sentiment Summary

Residential sales brokers were a bit more optimistic than commercial brokers, but this sector also faces headwinds. Many brokers highlighted a lack of supply and "a lack of urgency" caused by several factors: elevated interest rates, general malaise, or hesitance among sellers thinking they could command a higher price later.

- ***"It's a strange market. High mortgage rates, political loud noise, owners are wary of selling now and fear they will lose money, instead of making money on a sale. Normally pent-up demand would come to the rescue, but that is not happening yet."***
- ***"Recent layoffs of high paying jobs in major companies. Buyers are waiting for interest rates to come down which may not happen. There are fewer listings available."***

Based on some broker comments, there seems to be potential for a rebound in sales once interest rates stabilize. Sellers may put their properties back on the market. Until then, supply remains low, particularly for mid-range apartments.

- ***"Higher rates have definitely impacted supply as people loath to move due to higher payments relative to prices which have not declined to offset these payments. There is still strong demand for apartments and houses in NYC but the $4-$5 million and above range seems less impacted than the starter apartments in the $1-2 million range."***

Rental brokers were among the most consistently optimistic as limited inventory (particularly of lower to mid-range housing) pushes more residents to lease instead of buying. Leasing brokers also mentioned the lack of housing as a challenge.

- ***"Very difficult to buy so rentals are taken quickly and at high prices."***

Outlook

Commercial and leasing brokers both noted a range of policy issues as potential concerns. These have remained consistent for several quarters and include:

- Substantive and sustained return to the office
- Improving quality-of-life issues (crime, sanitation, and transit)
- Clarity on the incentives for housing development, including affordable housing and potential office-to-residential conversions
- Trepidation about potential regulations both in the housing sector and related to broker fees

Market Commentary Supplement

Please read below for further details regarding broker comments during the Q2 2023.

Return To Office

1% Residential
18% Commercial

A quarter ago the banking crisis was a top concern of many brokers. With the sector appearing to have stabilized, this concern faded a bit. For commercial brokers, return to office understandably was top of mind.

- ***"The work force must return to the office for the real estate market to come back."***
- ***"We must get people back to work in their offices."***

While it was not the top concern of most residential brokers, a few did mention the potential for an office market default crisis to spread to the residential market.

- ***"The commercial market also is a concern for investors and end users. There is a belief that defaults will impact the residential market."***

Interest/Mortgage Rates

51% Residential
12% Commercial

Elevated mortgage rates were the top concern for slightly more than half of residential brokers who noted that higher borrowing costs are an impediment to purchases. Higher borrowing costs are having the effect that the Fed intended – creating a negative feedback loop, curbing supply and sales as sellers and would-be buyers both realize how much higher monthly payments would be.

- ***"Interest rate hikes, which in turn are limiting supply, which are keeping prices pinned to a level buyers can't afford because of interest rate hikes, which in turn are limiting supply..."***

Based on residential sales brokers' comments, the impact of interest rate fluctuations varies by different segments of the market.

- ***"The Fed's pause on the interest rate hike definitely improved buyer's confidence. High value buyers are coming back in droves."***
- ***"Mortgage rates are destroying the middle-class market."***

Economy/Inflation

14% Residential
18% Commercial

According to most economists the chances for a recession have declined a bit. Employment has held up and inflation growth is slowing. Residential brokers were more optimistic than commercial brokers, noting the rebound in equity markets as well as signs of controlled inflation.

- ***"Economic data seems to be staying positive, and the stock market has risen recently which will positively impact the real estate market."***

Still, not all residential brokers were positive, and some continued to underscore nervousness among their clients.

- ***"Uncertainty in the economy and rising interest rates have drastically slowed down market activity."***

In addition to inflation, the shortage of qualified employees is still a challenge to business setup or expansion.

- ***"Inflation is definitely a concern in the marketplace nationally. Hiring is also challenging if one is looking for people with some real estate experience."***

Real Estate Market Dynamics

13% Residential
12% Commercial

Residential sales brokers expressed a wide range of sentiment regarding market dynamics. Some focused on slowing demand, while others noted strong activity. One common theme was limited inventory as an obstacle to stronger sales activity. Leasing brokers focused on extremely tight inventory and high rents as curbing leasing. Within the commercial sector a few brokers noted that while demand for office space was strong, rents are down significantly.

One broker highlighted that sellers are being very particular, seeking rare finds.

- ***"Mint condition/newly renovated apartments that are in great locations and priced below the market can get multiple bids. The rest of the market is not seeing activity. Buyers are very hesitant, almost fearful, to make offers."***

Supply is far from the issue in the office market.

- ***"Surplus of sublease space on the market will be negative."***

One office broker noted that steady leasing comes at a discounted rent. A tenant office representative highlighted growing concerns about the ability of owners to fund tenant improvements.

- ***"Another [concern] is financial viability of buildings where we are negotiating deals."***
- ***"I have had an uptick in leasing activity in the properties I manage but the rents are 25-40% below pandemic levels as we are kicking the can down the road."***

Limited inventory remained a frequent concern among residential leasing brokers.

Legislation, Regulation & Taxes

14% Residential
21% Commercial

Commercial brokers mentioned regulation and taxes, as well as a lack of guidance and clarity from city agencies, as an obstacle to activity. Concerns covered a litany of issues including the end of 421-a, migrant shelters, rising taxes, congestion pricing, and the lack of policies for affordable housing and office conversion.

- ***"NY State legislature needs to a) create real incentives for conversion and b) resolve housing package."***

One commercial broker summed it up as:

- ***"Government, taxes, migrants, continued drug legalization"***

A residential broker highlighted the disincentive for multi-family investment due to heightened fears of additional regulation of rents.

- ***"Investors afraid to buy rental properties are concerned the City can one day dictate rental amounts or force them to rent for low below market rates."***
- ***"Rent-stabilized apartment legislation...[Landlords] have to do improvements on older apartments, but with the restrictions that do not allow them to increase rent in conjunction with improvements. Landlords lose money and keep stabilized apartments empty which in turn create a lack of apartments."***

In addition to a lack of much-needed policies in the housing and office sector, brokers were also concerned about new potential policies that would have a negative impact on the industry.

- ***"Politics around the multifamily space are corrosive to the industry."***
- ***"Residential rent laws [have] tremendous negative impact on rent regulated properties."***
- ***"Proposed legislation in NYC that will affect broker commissions, not passing 421a which will impact new development."***

Quality of Life

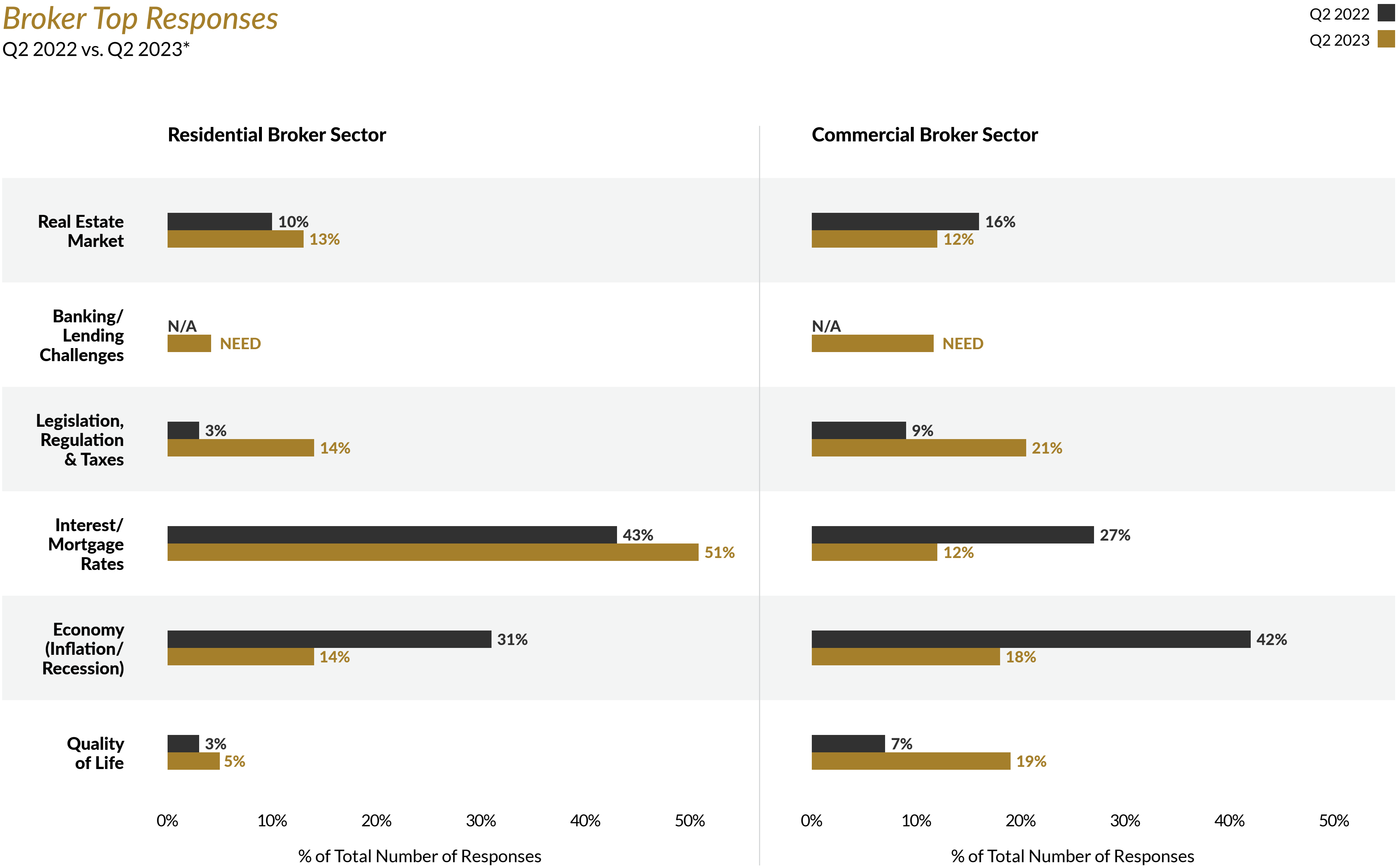
5% Residential
19% Commercial

Commercial brokers were more than three times as likely as their residential counterparts to highlight quality of life issues such as crime, sanitation, and transit. Some of the concerns were reactions to migrant shelters. In contrast to prior quarters, more brokers expressed fears that quality of life will contribute to the loss of businesses and residents.

- ***"The city needs to get a handle on crime—this will drive business out."***
- ***"Rampant crime in NYC lacking arrest and certain punishment especially for recidivists."***

Broker Top Responses

Q2 2022 vs. Q2 2023*



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

Data Appendix

Residential Broker Confidence Indexes

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
Q2 2023	-1.1	5.6
Q1 2023	-5.6	11.7
Q4 2022	-19.4	12.9
Q3 2022	-17.4	-5.5
Q2 2022	-1.7	-10.1
Q1 2022	31.4	23.0
Q4 2021	50.6	42.9
Q3 2021	56.3	45.9
Q2 2021	60.0	55.8
Q1 2021	28.3	44.1
Q4 2020	-2.1	21.4
Q3 2020	-24.7	-10.2
Q2 2020	-13.0	0.8
Q1 2020	-26.1	-0.1
Q4 2019	15.7	19.8
Q3 2019	11.9	6.0
Q2 2019	26.1	10.1
Q1 2019	20.0	17.4
Q4 2018	-2.9	4.8
Q3 2018	-13.8	-13.3
Q2 2018	-2.8	-6.8
Q1 2018	2.7	7.6
Q4 2017	15.3	21.2
Q3 2017	9.0	8.8

Commercial Broker Confidence Indexes

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
Q2 2023	-65.7	-45.3
Q1 2023	-74.7	-56.9
Q4 2022	-45.6	-20.6
Q3 2022	-40.6	-22.8
Q2 2022	-37.7	-34.9
Q1 2022	17.1	21.5
Q4 2021	17.9	38.9
Q3 2021	36.1	37.3
Q2 2021	20.8	52.5
Q1 2021	-23.3	32.5
Q4 2020	-52.7	-20.7
Q3 2020	-59.8	-33.3
Q2 2020	-64.3	-33.7
Q1 2020	-35.8	-18.7
Q4 2019	32.6	21.4
Q3 2019	19.6	4.2
Q2 2019	26.3	15.5
Q1 2019	34.1	19.9
Q4 2018	23.3	10.0
Q3 2018	9.2	2.2
Q2 2018	24.2	9.7
Q1 2018	2.9	8.5
Q4 2017	25.7	23.5
Q3 2017	18.5	10.7

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.

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).

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?