REBNY Research

Real Estate Broker Confidence Index

Q3 2021

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By the Numbers

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RESIDENTIAL CONFIDENCE STAYS NEAR RECORD LEVELS, COMMERCIAL BROKERS MORE RESERVED IN THEIR EXPECTATIONS

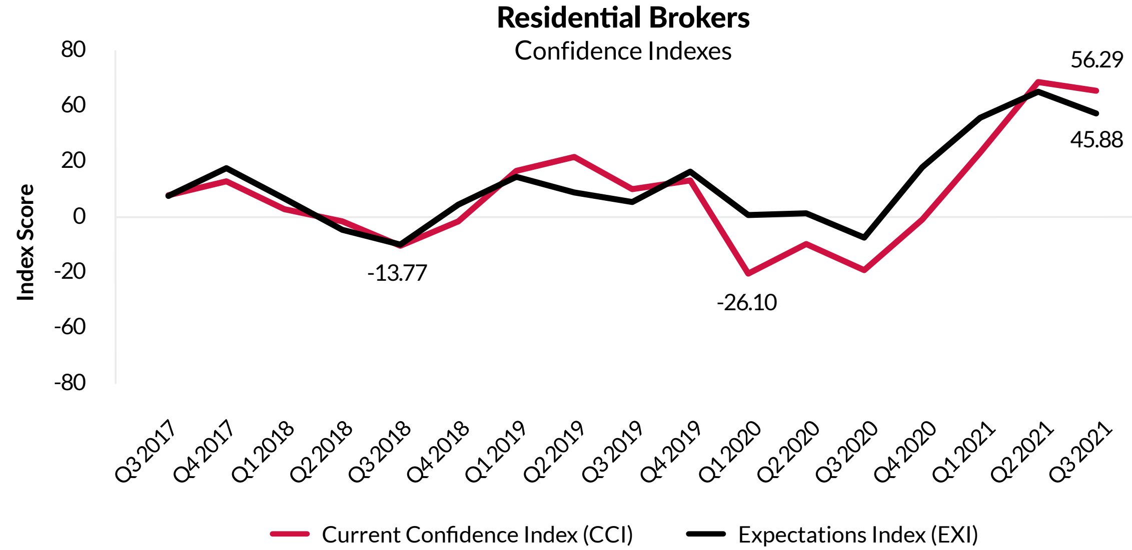
Following a record-setting second quarter, broker confidence fell slightly in the residential sector. While the indexes fell for both sectors, residential brokers are generally more optimistic, reflected in scores that are 10 to 20 points higher than in the commercial sector.

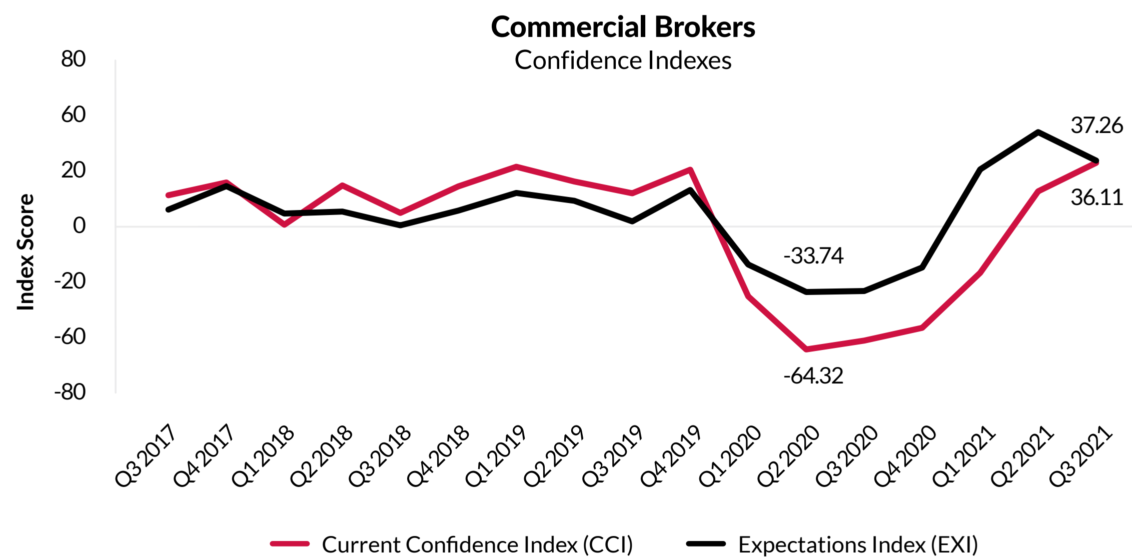
Residential Indexes Approach Second Quarter Records

Residential brokers remained very optimistic as sales and leasing activity continued to surge. The Current Confidence Index (CCI) was 56.29 in the third quarter, inching lower from the record mark of 60.04 in the second quarter. The Expectations Index (EXI) dipped from a record mark of 55.79 in 2Q 2021 to 45.88 this quarter.

Commercial Brokers Voice Confidence in Market Outlook

Commercial Brokers expressed record confidence in the current conditions – the CCI jumped to 36.11, just above the prior peak mark of 32.56 in Q4 2019. Lingering concerns about COVID-19 and a delayed return to the office pulled the EXI down to 37.26, a decrease from the record mark of 52.50 in the second quarter.





WHAT'S BEHIND THE SLIGHT DECLINE?

An increased number of brokers straddled the fence (providing neutral responses to questions), dragging down the scores. Commercial brokers were optimistic about current conditions, but largely split on their expectations. The pullback in expectations among commercial brokers is understandable given delays in a return to the office and spillover impacts for the retail and capital markets sector.

One broker's comments summed up the uncertainty among commercial brokers nicely: ***"The shadow of COVID still hangs over the market. Some of the improvement is a response to the earlier slow down. Some of neutrality has to do with not really understanding yet the new normal. How will we work? This is a market still very much in flux – though the improvement we are seeing is the result of the COVID shutdown."***

In addition to the return to office, quality of life issues such as crime and public safety were top concerns among commercial brokers. They also mentioned specific proposals such as commercial rent control as a potential impediment to the recovery.

Residential brokers were generally more optimistic than their commercial counterparts. They acknowledge the same challenges as commercial brokers but are more likely to have benefitted from strong market conditions. One said: ***"I'm very fortunate in this regard my business is thriving.... the buyers who by the very act of going through with their purchases show their confidence in the city coming alive again."***

This same broker also noted a long list of regulations and potential impediments to sustained momentum in the residential sector.

Residential brokers were more likely to express concerns about market dynamics such as tightening inventory, the challenges it creates for buyers and tenants, and the potential for sales to slow as buyers encounter higher pricing. Sellers are likely to view this as a positive trend.

Residential brokers and commercial brokers shared concerns regarding the change in state and local governments and the potential for increased taxes, interest rates and onerous regulation. Inflation and equity markets were also frequently cited as possible obstacles.

Economic & Market Context

The slight moderation in confidence comes as the New York City economy struggles to gain traction. Employment growth has slowed and concerns about city revenue shortfalls persist. As of late summer, the U.S. had recovered just over 90% of its pre-pandemic employment mark. In contrast, employment growth in New York City stalled this summer, and was still 470,000 jobs shy of its 2019 peak – leaving it more than 50% below this key mark. The real estate sector, like the broader economy, displays varying rates of growth by geography and sector. Retail corridors outside of core Manhattan business districts are improving at a steady pace. In contrast, office occupancy and retail sales in core business districts is still well below pre-pandemic levels.

At the same time, the region has made some key positive steps forward over the last three months. Broadway shows resumed in September. Hotels and stores took heart in the news that fully vaccinated visitors from abroad will be allowed back this fall. This is music to the ears for culture, retail, and the luxury condo market.

Residential Sector Tight & Challenging

Residential property sales in New York City have been a bright spot for the sector in 2021. Sales of 1-3 family homes, condos and co-ops approached $20 billion in the first half of 2021, eclipsing the $11.5 billion in the first half of 2020. Sales in Manhattan have surged in the last few months, catching up with the improved activity that started in boroughs outside of Manhattan earlier in the year. The strong sales, coupled with surging leasing, make it clear that demand for property in the city is alive and well.

Insights (Cont.)

Commercial Sector Lags, but Shows Resilience

The residential sector is enjoying a surge across all boroughs, but the rebound in the commercial sector is still uneven. Retail corridors in Brooklyn and Queens are several quarters into recovery, with steady foot traffic and competition for prime space. Demand is gaining momentum in Manhattan as landlords display growing flexibility. Madison Avenue and SoHo completed several significant leases during the summer. The market is picking up slowly in office dependent retail corridors such as Grand Central and Midtown East, as well as tourist dependent areas like Times Square. Tenants are seizing opportunities for discounted fully built spaces.

Opportunity in the commercial sector remains elevated in many submarkets – a very different situation from the residential sector. Office occupancy was expected to make an exponential leap forward after Labor Day. *According to Kastle Systems*, the rate is still well short of pre-pandemic ranges (in the mid-30% range).

While some firms have pushed a hard required return to office date off until 2022, recent leasing activity suggest that employers, like their counterparts in the retail sector, are moving ahead with leases. CBRE reported that leasing activity reached nearly 6.0 MSF, up by 70% from the prior quarter and just 5% below the long-term quarterly average of 6.1 MSF. Of note, tech firms continued to account for much of the activity. Additionally, many firms are taking advantage of opportunities to find space in locations that optimize commuting convenience for employees – even if they will not require in-office attendance until 2022.

Outlook

OPTIMISM TEMPERED BY QUESTIONS

Residential and commercial brokers remain optimistic, but uncertainty still hangs over the market – particularly for commercial brokers. When will workers return to the office in more substantial numbers? Will new City leaders provide clarity and support, or will they add to the challenges facing businesses?

On a positive note, businesses – ranging from retailers and small tech startups, to established law firms are betting big on the long-term value of New York City. Residents are matching this vote of confidence.

Last quarter we said that brokers agree on the core issues that are critical to expediting the emerging rebound:

- Local government and incentives that supports businesses
- Resolving quality-of-life issues (crime, sanitation, and transit)
- Preventing another COVID outbreak

These issues remain critical to the maintenance of the City's recovery and continued confidence among brokers.

Market Commentary & Analysis

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Please read below for further details on broker sentiment from 3Q 2021.

In addition to answering survey questions, brokers submit written comments. They identify issues and challenges that could impact market performance. As brokers operate in what appears to be the beginning of a post-pandemic world, their focus is shifting to a wider array of issues. This is particularly true of residential brokers – as this sector continues to enjoy strong sales, the brokers highlight mortgage rates, taxes, and typical market dynamics as top challenges.

REAL ESTATE MARKET (RESIDENTIAL – 26%, COMMERCIAL – 12%)

As mentioned previously, residential brokers focused on real estate market dynamics more than their commercial counterparts. The recurrent themes of low mortgage rates, tightening supply and high demand underscores how much more confident residential brokers feel. ***"Low interest rates and no sign of them going up anytime soon, COVID recovery is on schedule which means people are coming back to NYC and demand is strong, inventory is not sufficient which will keep the market competitive and strong."***

Residential brokers have the benefit of strong leasing and sales, and some have encountered enough tightening to have concerns about pricing challenges.

"It's a bit of a challenging time with a shortage of inventory. Right now, I'm seeing a lot of competition amongst buyers. There are several listings going to highest and best. It takes the right amount of marketing and strategy to get more properties out on the market and alleviate this competition in the market."

COVID-19 (RESIDENTIAL – 23%, COMMERCIAL – 29%)

It is no surprise that this time a year ago COVID-19 was the top concern of brokers. While vaccination efforts and re-opening are pushing the City back to normalcy, COVID-19 was still the top first response for commercial brokers, with nearly one in three brokers tagging this as the top challenge.

Another broker noted the moving deadlines, questioning how much longer a return to normalcy can be pushed off. This time a year ago, people were asking. When will the re-opening occur? By the Holiday season of 2020? Now 2022 is the new goal line. ***"Much of the recent activity has been based on the expectation that tourists and office tenants will be returning soon. If their return is pushed back beyond 2022, I'd expect a softening of the market."***

LEGISLATION, REGULATION & TAXES (RESIDENTIAL – 16%, COMMERCIAL – 20%)

Residential and commercial brokers found a lot of common ground here. This category covers a wide array of concerns – ranging from specific proposals such as commercial rent control and good cause legislation to general worries about anti-business permits. Brokers were very adamant that now is not the right to introduce commercial rent control.

"Price controls on retail spaces hurt mom and pop owners of small buildings which are still suffering from continued governmental overreach and control, especially at the state and local level. Will not see New York return to its vibrancy until all restrictions are rescinded and no manipulation such as commercial rent control is imposed and how businesses are permitted to operate."

"Commercial rent control. Would harm tenants as much as landlords."

"New Rental laws are a disaster. Inability to collect extra security deposit or prepaid rent make it very difficult to help rental clients without credit/work history and who don't have personal guarantor. Not every landlord accepts institutional guarantors and/or applying to third party makes process lengthier and more expensive. It seems to interfere with co-broking as encounter more non-cooperation."

GOVERNMENT, ELECTIONS & LEADERSHIP (RESIDENTIAL – 4%, COMMERCIAL – 14%)

Commercial brokers continue to look to city and state government for steady leadership and clarity on policy. The change in city leadership and in the Governor's office adds to uncertainty. Several brokers noted Congress' standoff on the debt ceiling as a hazard for debt markets.

"My feeling is that if the government doesn't come to an agreement regarding the debt ceiling it will impact the market and interest rates."

Market Commentary & Analysis (Cont.)

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ECONOMIC INDICATORS & POLICY (RESIDENTIAL – 16%, COMMERCIAL – 8%)

Residential brokers were also much more focused on broad economic indicators such as employment, inflation, and equity markets. Despite some volatility, the continued strength of equity markets has also given additional boost to residential sales.

This residential broker offered a good assessment of the range of different directions that the macro economy could take: ***"Pros: growing inflation may mean somewhat higher prices; political gridlock will keep DOW stable; but stock market correction may mean more money shifting to real property. Cons: Chinese housing crises, among other issues, will hurt DOW; inexplicable hesitancy in buyer activity despite stable pricing; COVID fears will continue but won't affect housing market as significantly as 2020."***

RETURN TO OFFICE – (RESIDENTIAL – 4%, COMMERCIAL – 9%) (OTHER NORMALIZATION STEPS) ARE KEY

Several brokers (but perhaps not as many as anticipated) mentioned return to office, as well as the re-opening of Broadway as essential. Commercial brokers were more than twice as likely than residential to see this as a key factor.

"Offices opened back up and many young people are returning, and many others are new hires or transferees and want to be back in the vibrant city of New York! Hallelujah!"

Other brokers mentioned Broadway's re-opening as a key positive as well.

"The upcoming election for mayor cannot happen soon enough. The opening of Broadway should have a positive effect on the market because it exemplifies a return to normalcy. Why own in NYC if you can't comfortably go to the theater and museums."

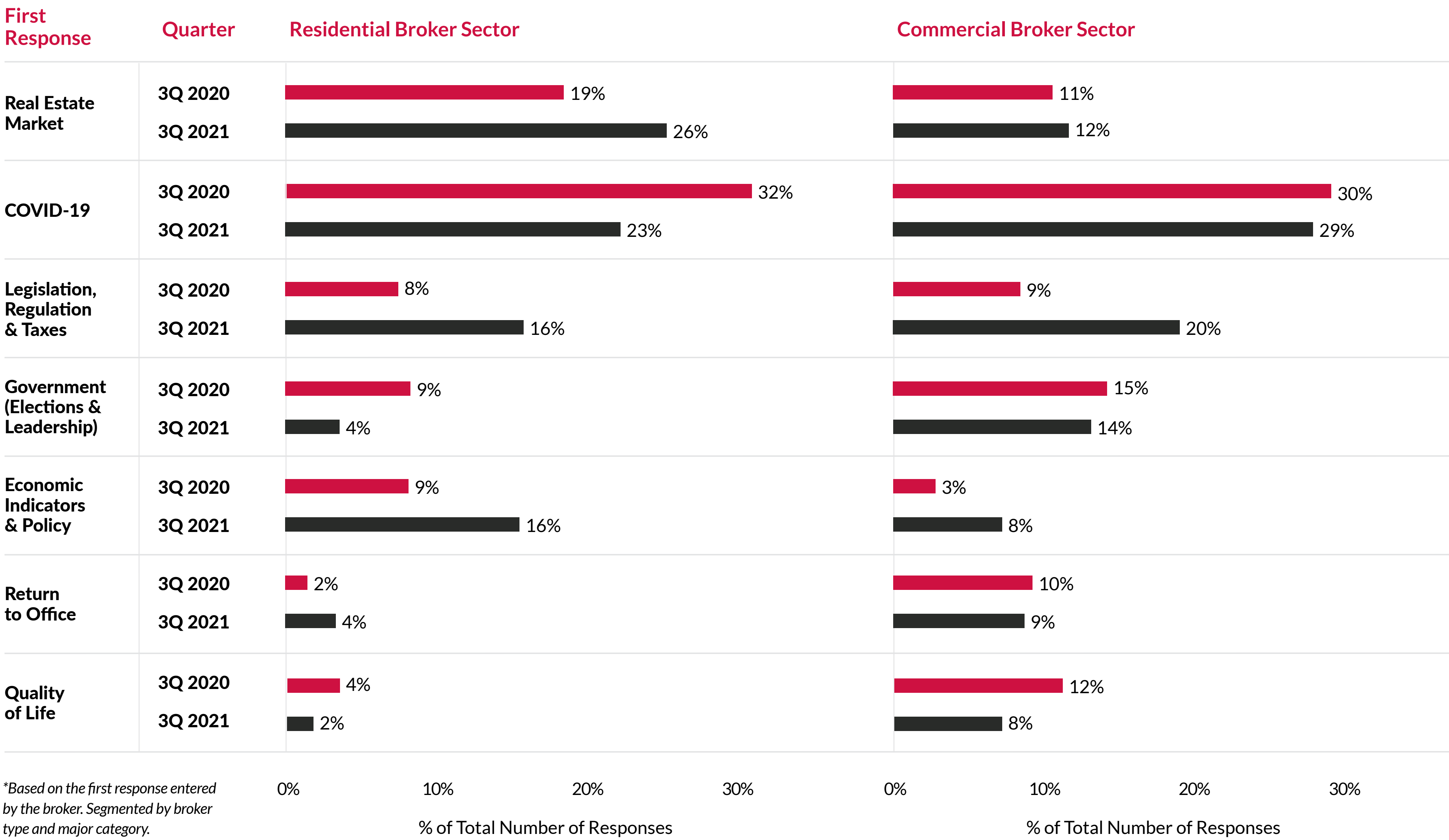
QUALITY OF LIFE (RESIDENTIAL – 2%, COMMERCIAL – 8%)

Brokers note that greater focus on reducing crime and improving public safety is important to the market.

"Crime and quality of life issues are the most significant factors mentioned when speaking to prospective clients."

Market Commentary & Analysis (Cont.)

Broker Top Responses (3Q 2020 vs 3Q 2021)*



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

Data Appendix

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Table 1: Residential Broker Confidence Indexes

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
Q3 2021	56.29	45.88
Q2 2021	60.04	55.79
Q1 2021	28.25	44.12
Q4 2020	-2.1	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 2021	36.11	37.26
Q2 2021	20.81	52.50
Q1 2020	-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

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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 indexes being renamed to the Current Conditions (CCI) and Expectations Index (EXI).