REBNY Real Estate Board of New York

REBNY Research | 2023

Real Estate Broker Confidence Index

Q4 2022

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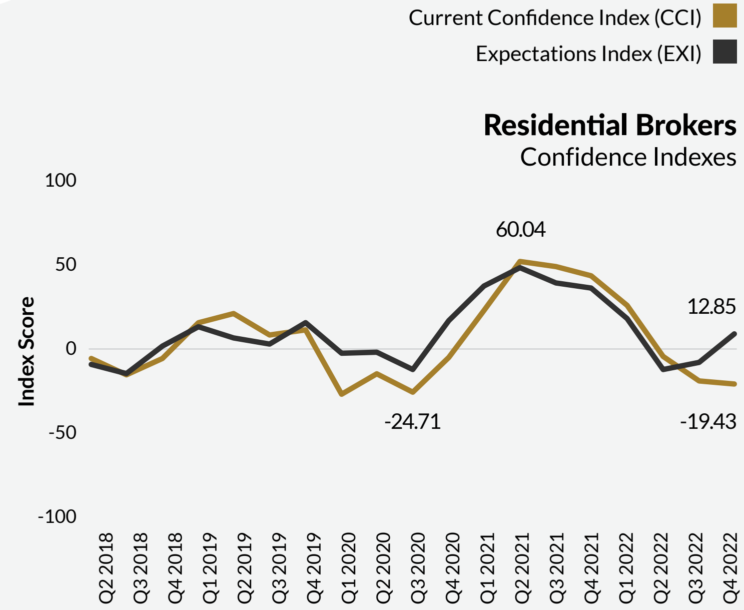
By the Numbers

Current Confidence Remains in Negative Territory, Residential Brokers More Optimistic in Their Six-month Outlook

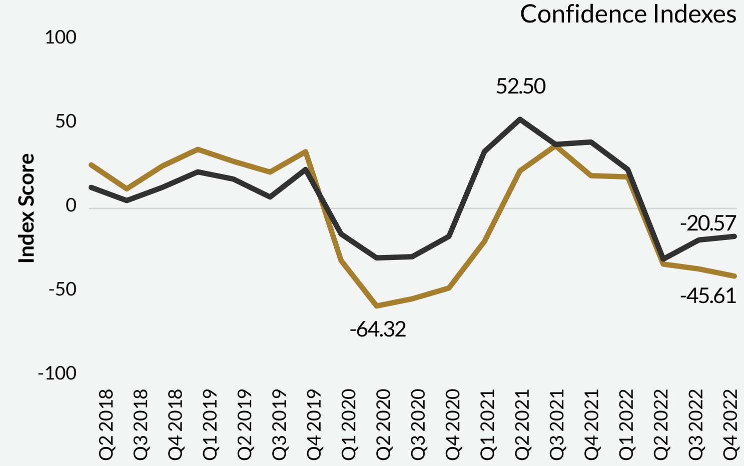
Residential and commercial broker confidence in current conditions fell for the fifth consecutive quarter as the residential Current Confidence Index (CCI) dipped from -17.41 to -19.43 and the commercial Current Confidence Index declined from -40.58 to -45.61. Rising interest rates, continued inflation, equity market volatility, and recently announced layoffs at some large employers all provided cause for current concerns.

Encouraged by the recent cooling in inflation and mortgage rates, however, residential brokers tended to see a light at the end of the tunnel in 2023. Commercial brokers noted continued strength in retail and hospitality but were less hopeful for rapid improvement in the office sector. During the fourth quarter, the residential expectations index (EXI) increased from -5.46 to 12.85, making it the first time it has been in positive territory since the first quarter of 2022. The commercial EXI also rose (from -22.83 to -20.57) but remained in negative territory.

Residential Brokers
Confidence Indexes



Commercial Brokers
Confidence Indexes



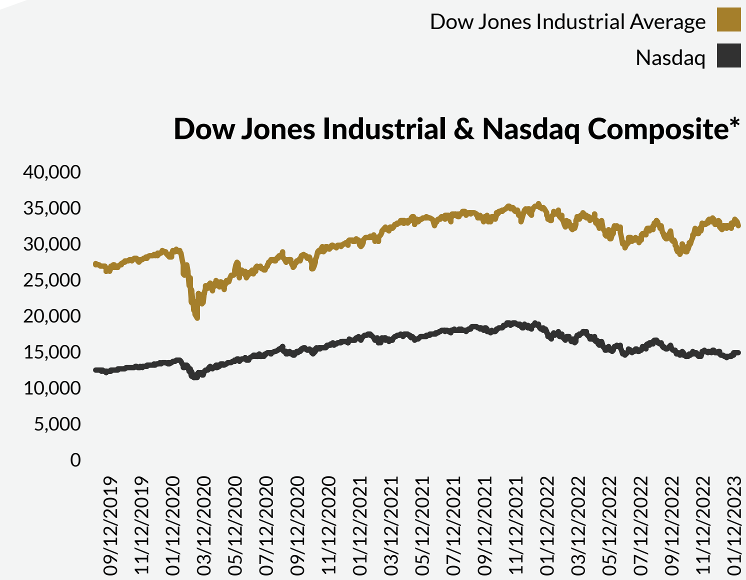
Market Trends: What's Behind the Numbers?

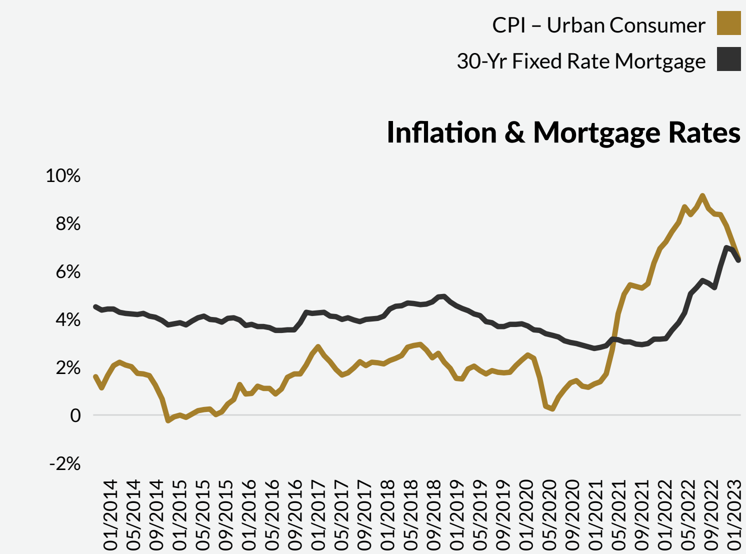
Residential: Home Sellers and Buyers Sit on Sidelines, Leasing Stays Relatively Strong

Rising interest rates and inflation were once again top of mind for residential brokers, but many brokers saw the recent slowing in mortgage rate and inflationary growth as a sign of coming improvement. Brokers highlighted layoffs and Wall Street losses as impediments to home purchases. Leasing brokers characterized activity as slower than a year ago, but generally healthy.

Residential brokers remained focused on mortgage rates but were encouraged by signs that rates may have peaked. The 30-yr fixed home mortgage pushed above seven percent by early October, its highest mark since 1982, but fell to 6.3 percent as of December.

Residential brokers were also more likely than their commercial colleagues to be encouraged by the recent drop in inflation. Inflation spiked by nine percent in June, the largest year-on-year increase since the late 1970s. Gas prices have tumbled in recent months, and supply chain challenges remain under control for the time being. In turn, the inflation rate fell to 6.4 percent as of late December. Brokers are hopeful that the Federal Reserve might limit the amount and the frequency of rate hikes in 2023.





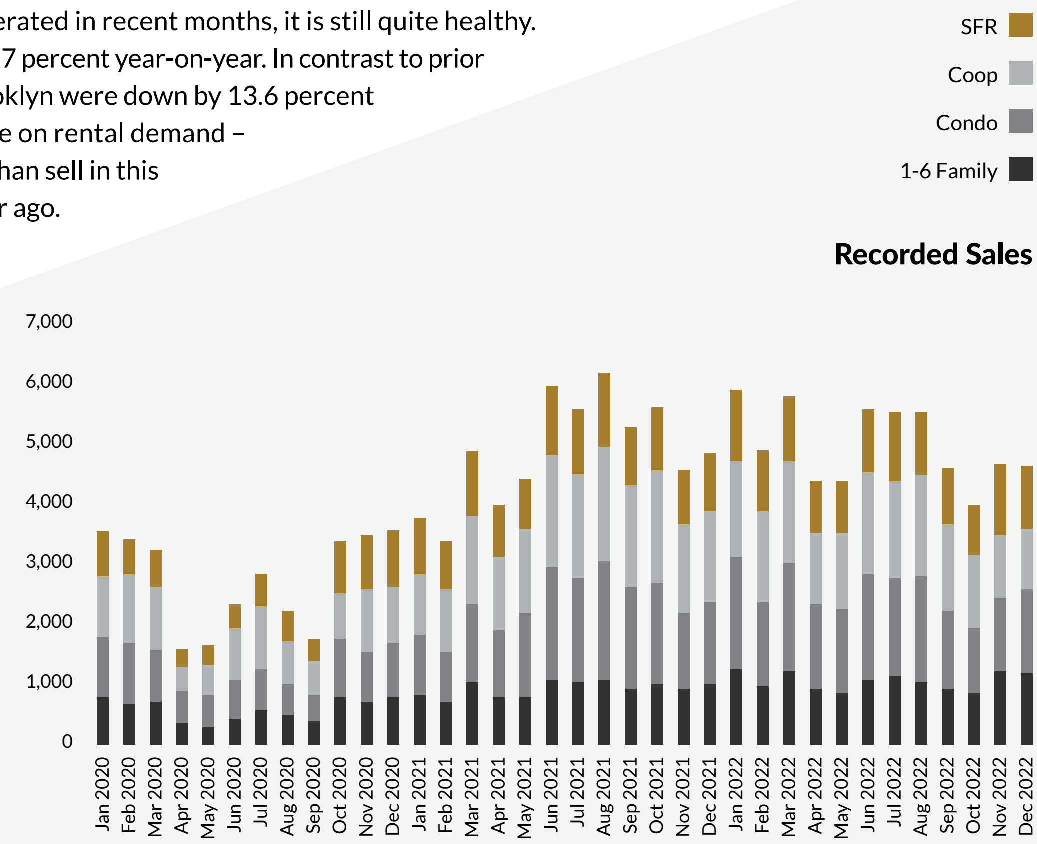
Source: Freddie Mac, Bureau of Labor Statistics
Source: St. Louis Federal Reserve

Market Trends:
What's Behind the Numbers?

Home sales in New York City clearly dropped off during the second half of 2022. While sales have volume has declined in New York City, prices have held stable. Residential brokers attribute falling sales more to sellers pulling properties off the market than the impact of rising mortgage rates. Many sellers are choosing to wait the market out rather than capitulate on buyer price expectations. A few housing analysts said that while there are fewer buyers, many in the market are paying record prices once they find their dream home. With this in mind, prices in New York City have held up better than in many other cities. Despite discussions of extensive movement of New York residents to Florida, pricing is down much more sharply in markets such as Miami and Tampa Bay.

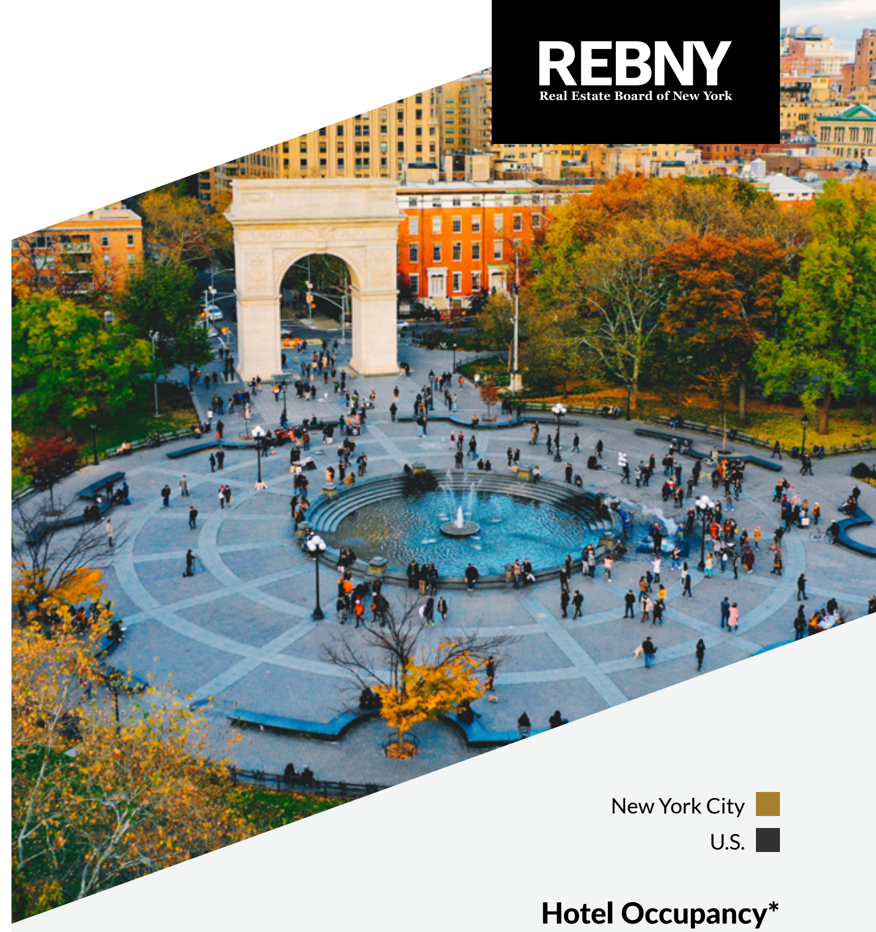
Finally, residential brokers also noted that while apartment leasing has moderated in recent months, it is still quite healthy. According to Douglas Elliman, the number of new leases in Manhattan fell by 4.7 percent year-on-year. In contrast to prior months, when new leasing activity rose in Brooklyn, new rental leases in Brooklyn were down by 13.6 percent year-on-year. Supply remains very tight. Declining sales puts added pressure on rental demand – but this may be offset in some cases by homeowners deciding to rent rather than sell in this market. Average rent may have peaked, but has fallen only slightly from a year ago.

Recorded Sales



**Source: REBNY, MarketProof*

Market Trends:
What's Behind the Numbers?

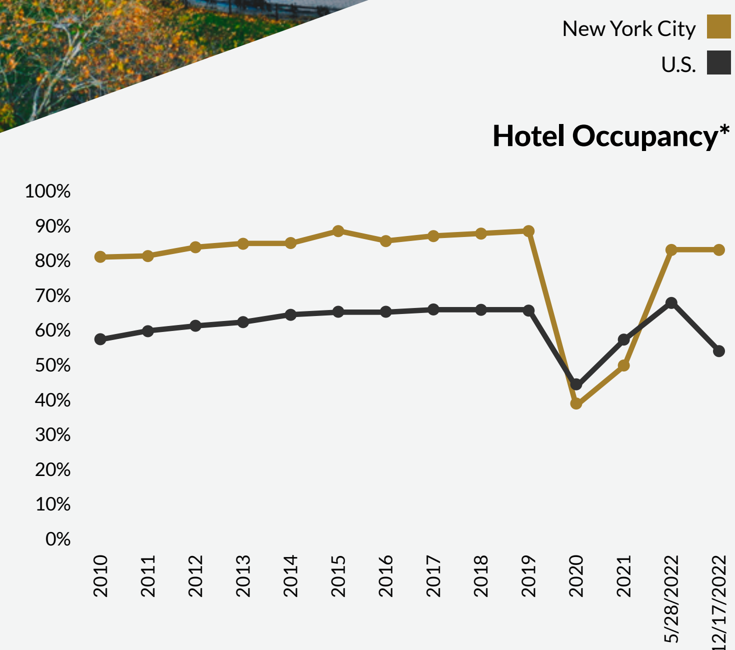


Mixed Commercial Sector Fundamentals: Retail and Hospitality Enjoy Sustained Demand, Office Sector Seeing Continued Flight to Quality

Commercial brokers reacted to mixed performance in their survey responses. Retail and hospitality capped off what has been an impressive recovery during 2022 with a strong holiday season. The office sector registered some modest gains in return to office after Labor Day, but demand for space is much stronger in prime Class A buildings than in Class B and C properties.

Sustained improvement in retail and hospitality offset some of the continued trepidation among office leasing brokers. Top retail brokers characterized demand for retail space as the strongest since 2016. A wide range of retailers were active, signing leases for storefronts in multiple retail corridors. Iconic international brands, long-standing retail chains, and innovative new direct-to-consumer concepts were active. In many neighborhoods, though, rent is still well below pre-pandemic peaks, and activity has come from local and regional businesses opening their second or third store, or in some cases, returning to brick-and-mortar retail after shutting down during the pandemic.

Hotel Occupancy*



*Source: STR

Market Trends: What's Behind the Numbers?

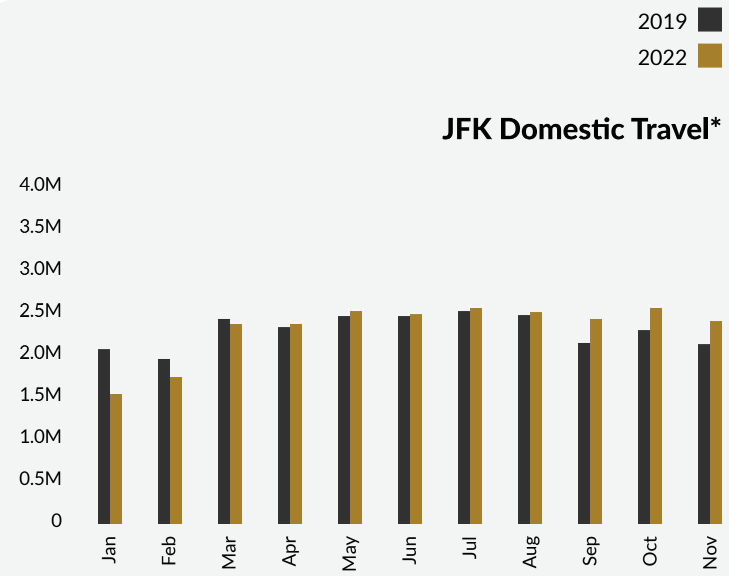
Sustained domestic travel and improving international tourism boosted activity in 2022. The tally for tourists in 2022 is expected to end up around 56 million, exceeding forecasts from a year ago. This has given hotels a much-needed boost. Hotel occupancy in New York City ended the week of December 17th at 82.9 percent of its 2019 levels (relative to the same week in 2019). This represents a sharp jump from the 50 percent 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 December 17th was 54.5 percent.

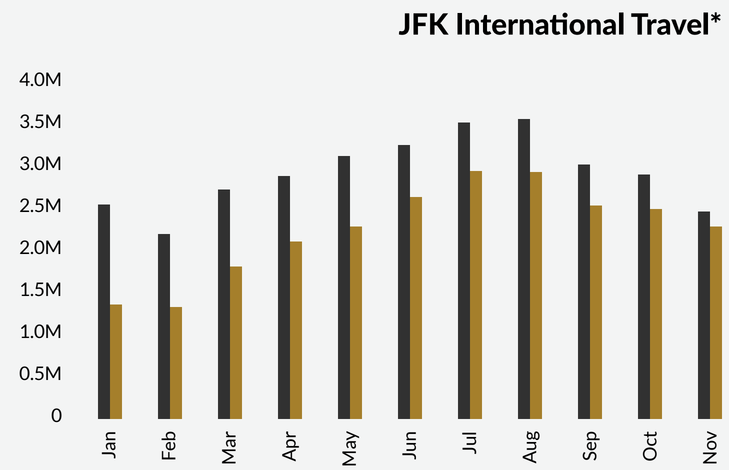
Domestic travel has pushed back to pre-pandemic norms. Domestic passenger traffic at JFK from January to November totaled 26.1 million, just above the 2019 total of 25.8 million during the same period. Year to date international passenger traffic (24.2 million) was 23.2 below the 31.6 million in 2019, but in recent months traffic has been nearly on par with 2019 levels.

The office sector was looking forward to more substantiative gains in return to office following Labor Day. In general, return to office appears to have increased during the fall, and is up by 10 percent from a year ago. The rate of return varies widely though from one building to the next and is stronger in Class A buildings.

Brokers have been documenting stronger activity in Class A properties for the last two years. Overall leasing was down slightly in the fourth quarter, but activity in Class A properties remained steady. Colliers reported a decrease in leasing from the third quarter to the fourth quarter, but leasing volume for all of 2022 was up by 16.1 percent.

But based on broker sentiment, the mixed performance within the office sector was not the sustained traction in return to office that they had been looking for. Additionally,





*Source: PANYNJ

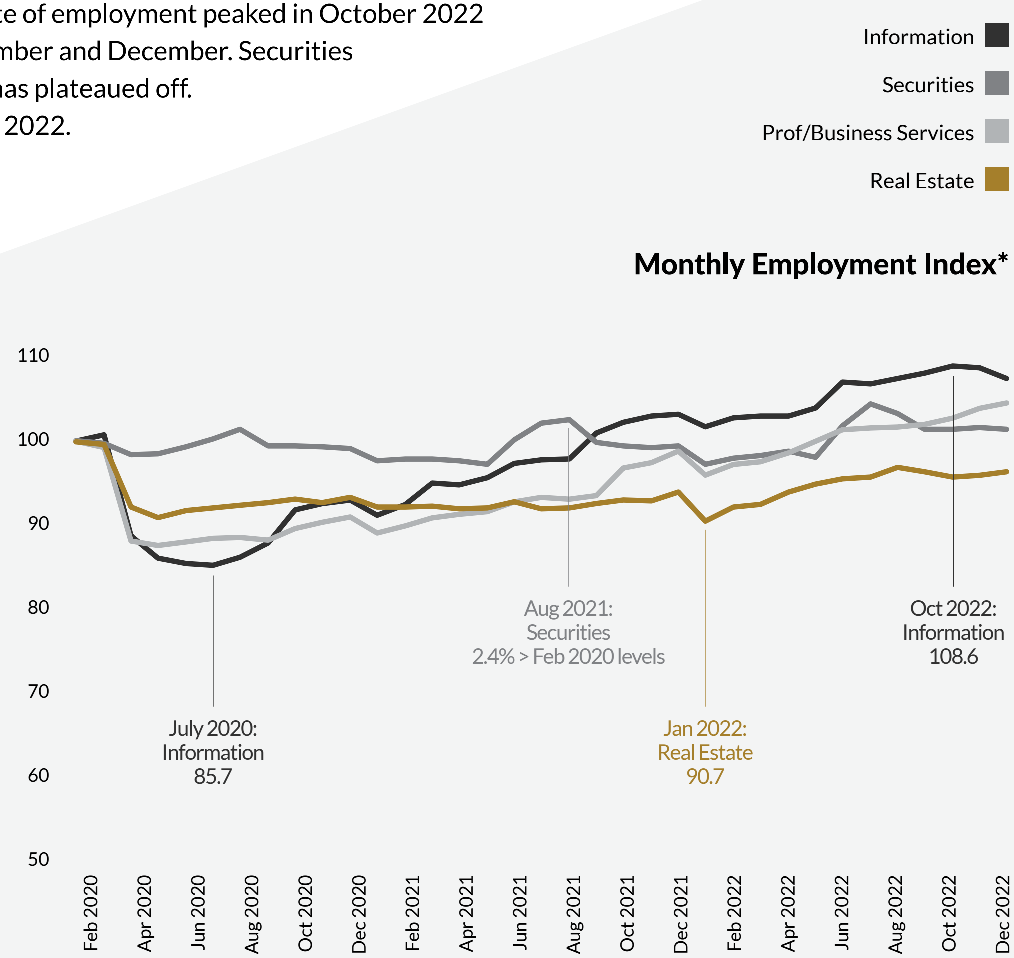
Market Trends:
What's Behind the Numbers?

commercial brokers (as well as their residential counterparts) expressed growing concern regarding layoffs in tech and finance.

Financial sector layoffs will clearly impact New York City, but so far most of the cuts in the tech sector have been concentrated in other cities.

Based on New York City employment data, the tech and information sectors rate of employment peaked in October 2022 (and was 8.6 percent above its levels in February 2020) but fell slightly in November and December. Securities and commodities brokerage employment remains above early 2020 levels but has plateaued off. Professional and business services employment has grown steadily throughout 2022. Real estate remains stuck about five percent below its February 2020 levels.

Monthly Employment Index*



**Source: NYS Department of Labor*

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Broker Sentiment Summary

Residential Brokers Remain Focused on Mortgage Rates, Commercial Brokers Highlight Mixed Signals

Rising interest rates, persistent inflation, and layoff activity were front and center for both residential and commercial brokers. Nearly 50 percent of residential brokers mentioned interest rate hikes as their top concern. Among commercial brokers, concerns were spread across a wider range of areas: 27 percent listed the economy (inflation, layoffs, and Wall Street) and 25 percent listed interest rates and financing as their top concern.

Time and again brokers highlighted reduced sales activity, financing, and development as well as business setup and office leasing. They often illustrated businesses and developers waiting out the market due to equity market losses, the inability to arrange financing, and a lack of regulatory clarity or general uncertainty. At this point, few brokers noted cases of distress; rather, the prevailing perspective questioned whether conditions would turn negative (recession and layoffs) or positive (increased spending power and resurgent return to office) in 2023.

In general, residential brokers were more likely to see tailwinds (reduced inflation and mortgage rates) and to discount chances for a recession.

- ***"The economy will be much better in 2023 than expected. I believe the economists are talking down and trying to convince the markets that we are heading into a downturn."***

In contrast, commercial brokers highlighted headwinds such as business immobilization and uncertainty.

- ***"Spiking interest rates, staring at a recession, layoffs from tech and banks, work from home: all factors putting downward pressure on office utilization and the ability to finance projects."***
- ***"General uncertainty about office returns, potential recession, interest rates, and safety/crime in NYC."***

In some ways residential brokers have fewer signals to monitor. If inflation growth slows and mortgage rates fall, it should set the stage for improved sales conditions. During the fourth quarter, residential brokers saw some early signs that conditions for financing could improve next year.

- ***"A bit concerned on the short term, long term I'm confident and that NYC will come back stronger than ever before once rates cool off a bit. Cash is currently key in this market."***
- ***"Government, inflation, mortgage rates: these are negative. We are, however, in a better place now than we were in the beginning of the year."***

Several residential and commercial brokers acknowledged that either headwinds or tailwinds could dominate 2023.

One commercial broker noted:

- ***"Negative: interest rate increases, recession, no 421a type program, frozen debt markets, companies holding off decisions. Positive: retail coming back, COVID ending, more people returning to work, amount of dry powder."***

This residential broker provided a good summary of the uncertainty, the good and the bad, heading into 2023:

- ***"Negatives: significant bear market for stocks lessens wealth effect and buyer sentiment; too much talk about a recession that hasn't happened yet; buyer prospects are less likely to make a decision on large purchases in a time of high uncertainty. Positives: Job market is still relatively strong; interest rates are historically still relatively low, and the rate increases are mostly behind us. This could be a tailwind in 2023."***

Outlook

Residential Brokers Seeking Further Containment of Inflation and Mortgage Rates, Commercial Brokers Waiting for Clear Signs of Sustained Return to Office and Housing Policy

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
- Policies that provide clarity on the incentives for housing development, including affordable housing and potential conversion of office buildings
- Avoiding additional fees and taxes at time when operating costs are still very high

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The recent focus from public officials on the housing shortage and the potential for the converting some office properties has clearly impacted brokers. Several respondents mentioned this as a key requirement to making headway in the housing shortage.

Market Commentary

Please read below for further detail regarding broker comments during the 4th Quarter of 2022.

Interest/Mortgage Rates

52.2% Residential
25.5% Commercial

More than half of residential brokers noted elevated interest rates as their first concern. Interest rate growth, for example, is a further drag on sales, particularly for first-time buyers.

- ***"Interest rates/inflation are still providing a huge barrier for the under $2MM buyer. First-time buyers are especially very nervous. "***
- ***"Interest rates continuing to rise into the first quarter of '23 will pull buyers further to the sidelines and force sellers to make firm price adjustments."***

Some brokers point out that sellers may not necessarily have to adjust prices. Many have already pulled their properties off the market and will continue to wait until conditions improve.

- ***"Buyers/sellers remaining on the sideline with little urgency, unless motivated by significant life events – a lack of actual distress leads to a lack of motivation."***

Commercial brokers were more likely to express concern about business profits. Interest rate increases have a spillover effect as well on commercial sectors, putting employer profits at risk, and curbing hiring in small businesses.

- ***"Rising Fed rates to curb inflation will greatly impact financing and companies' ability to remain profitable."***

Economy (Inflation/Layoffs/Stock Market)

30.0% Residential
29.1% Commercial

A myriad of economic concerns weighed on broker sentiment. Brokers have shifted their focus a bit from inflation to layoffs and equity market losses.

- ***"The biggest unknown factor in the real estate market right now is whether or not there will be a recession, and what effect this recession will have on jobs and spending."***
- ***"Wall Street layoffs are putting a strain on the start to the 2023 sales cycle."***
- ***"Large scale layoffs in tech, financial services, and other industries."***

A few brokers noted that some would-be-buyers lost their down payments in stock market corrections or due to reduced bonuses.

- ***"The falling stock market has definitely impacted my buyers and sellers at this time, more so than the rise in rates. Bonuses are down and stock market performance is down."***

Inflation, interest rates, and volatility in equity markets all combine to put a drag on move-up home purchases.

- ***"Buyers unable to move up staying put. Savings investments are disappearing."***

Some hopeful brokers highlighted a potential upside that could emerge in 2023: spending power and buyer confidence may be boosted due to a continued decrease in prices for goods and housing, as well as lower mortgage rates and an eventual decrease in mortgage rates.

- ***"I think if the interest rates go lower, the real estate market could get better. This is related to decreasing inflation in the first quarter of the new year."***

Market Commentary Supplement

Please read below for further detail regarding broker comments during the 4th Quarter of 2022.

Real Estate Market Dynamics

6.1% Residential
16.4% Commercial

A couple of quarters ago, buyers had a sense of urgency. That rush to market has clearly dissipated. Many buyers see themselves as being in the driver's seat.

- ***"Buyers are very particular on what they buy. No one wants to do work. Cash is king."***
- ***"Sellers aren't ready yet to process the decline in their market value."***

Increased borrowing costs, elevated labor and material costs, and delays in renovation also impede sales of homes that may need work.

- ***"Consumers are also reluctant to take on any renovations other than simple cosmetic. The spread in price between mint, and units that are original or were renovated over eight years ago has increased dramatically."***

In the leasing market, brokers characterized leasing activity as moderating but still relatively healthy, with rents still very elevated.

- ***"Interest rates and general uncertainty are not good for sales, but the market for rental apartments is quite strong."***

In fact, some brokers are expecting the record rents of 2021 and early 2022, coupled with potential moderation in home prices as a catalyst for renters to re-enter the sales market in 2023.

- ***"I think the people who locked in high rents in February-September 2022 are going to be looking to buy early next year, so I think we are in for a strong second quarter (contrary to what people think!)"***

In the commercial sector, brokers noted that retail remains strong.

- ***"We've seen increased demand for prime spaces all over Manhattan for various uses and sizes, we expect that to continue throughout 2023."***
- ***"Work from home and the macroeconomic environment is not conducive to the commercial real estate environment in 2023. But retail is outperforming."***

Legislation, Regulation & Taxes

3.9% Residential
9.1% Commercial

Some brokers continued to highlight excessive regulation, permitting challenges, and obstacles to business setup as a key concern. The recent focus on the housing shortage clearly impacted broker outlook with some stating the need for clarity and guidance on housing policy.

- ***"We have a small number of clients as the price of housing is too high due to supply and demand. Less housing built coupled with over regulation in NYS and NYC has not helped this at all."***
- ***"Government needs to streamline the conversion process for office to residential. Too much obsolete inventory."***
- ***"City's disinterest in encouraging development and supporting building owners has further resulted in both disinvestment and deterioration of the housing stock, limited development, and lower transaction volume and affecting city tax."***

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Please read below for further detail regarding broker comments during the 4th Quarter of 2022.

Quality Of Life

3.9% Residential
10.9% Commercial

A fair number of commercial brokers, and a few residential colleagues, mentioned quality of life as an added challenge in market conditions.

- ***"Locally, the City Council needs to work more diligently on quality of life issues and housing."***
- ***"Crime, homelessness, and dirty streets are preventing some people from moving forward with purchasing."***
- ***"And people have started to look outside New York to relocate due to tax, crime, and remote work options."***

While quality of life was more frequently framed in a negative light, a couple of respondents noted New York City's appeal to buyers, including foreign buyers, as a driver of leasing and sales.

- ***"Desire of people to be in NYC."***
- ***"I am noticing an influx of inquiries from foreigners who have liquidity and are focusing on New York and Miami markets."***

Only one broker out of several hundred brokers mentioned another potential concern: New York City's fiscal gaps. None mentioned similar financial shortfalls for the MTA. Spending and service cuts from either (both unlikely until 2024) could impair the quality of life in the City.

- ***"NYC is on a tight financial budget. It's not encouraging to invest in the city."***

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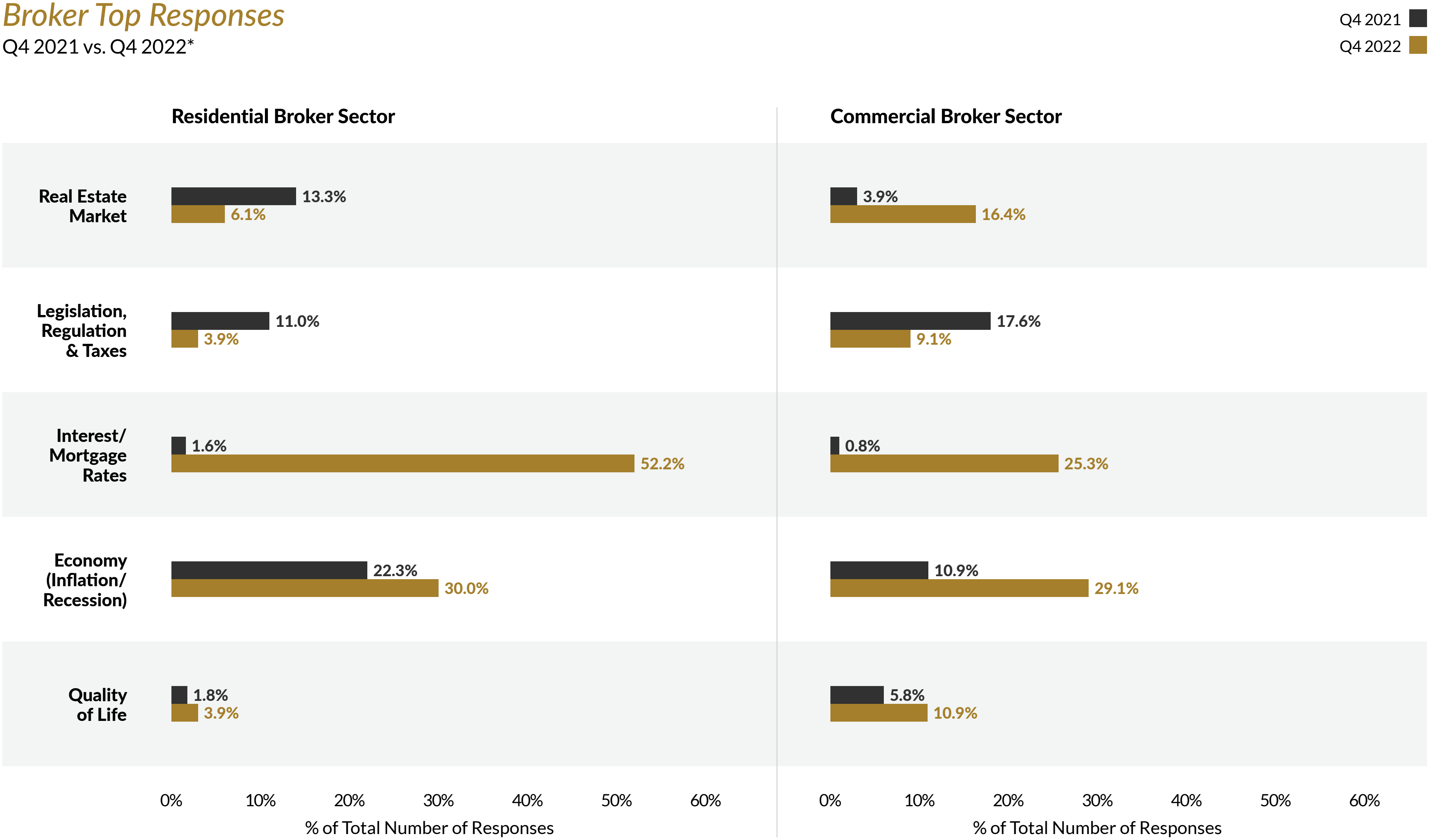
Broker Top Responses

Q4 2021 vs. Q4 2022*



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)
Q4 2022	-19.43	12.85
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

Commercial Broker Confidence Indexes

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
Q4 2022	-45.61	-20.57
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

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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?