REBNY Research | 2023

Real Estate Broker Confidence Index

Q1 2023

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By the Numbers

Little Change in Residential Sentiment, but Commercial Broker Indexes Drop to Record Lows

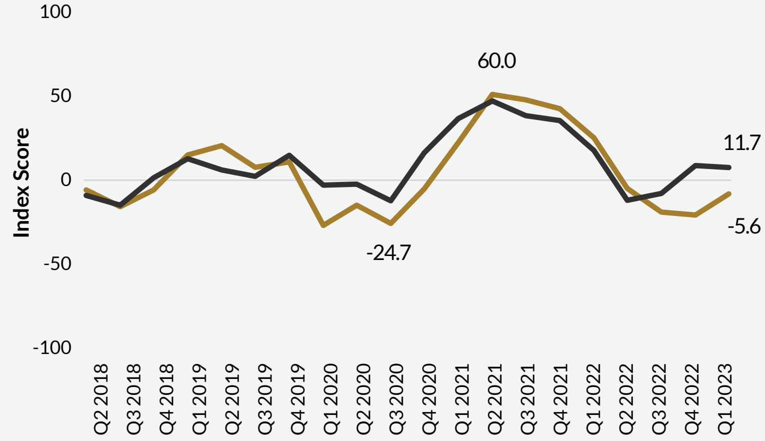
Commercial broker sentiment diverged sharply from residential sentiment in the first quarter of 2023. The commercial Current Confidence Index (CCI) fell to -74.7. The Expectations Index (EXI) also dropped, falling from -20.7 to -56.9. Both were new lows.

In contrast, the Q1 2023 residential broker sentiment held up relatively well. The residential Expectations Index (EXI) inched lower, dropping from 12.9 to 11.7. While it stayed in negative territory, the residential Current Confidence Index (CCI) increased from -19.4 to -5.6.

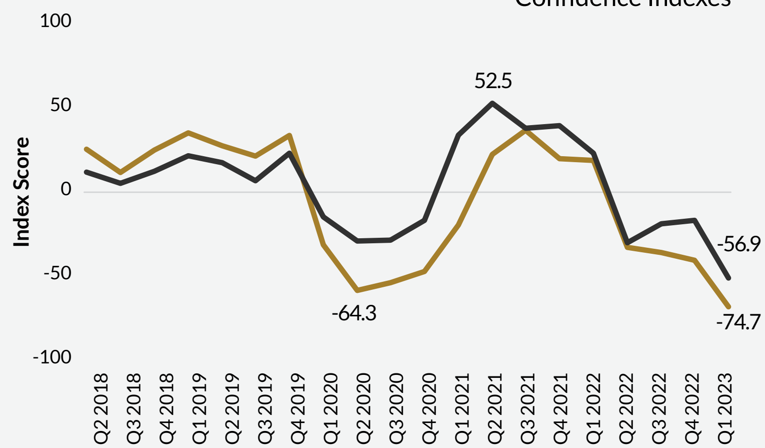
Challenging conditions in the office sector were to blame, with borrowing costs at their highest in more than a decade. As it is, most major banks are reluctant to expand their office loan portfolio. The office sector has overcome significant financial crises in prior cycles. The uncertainty regarding how quickly demand for office space will return to pre-pandemic norms is unprecedented, though.

Current Confidence Index (CCI)
Expectations Index (EXI)

Residential Brokers
Confidence Indexes



Commercial Brokers
Confidence Indexes



Market Trends: What's Behind the Numbers?

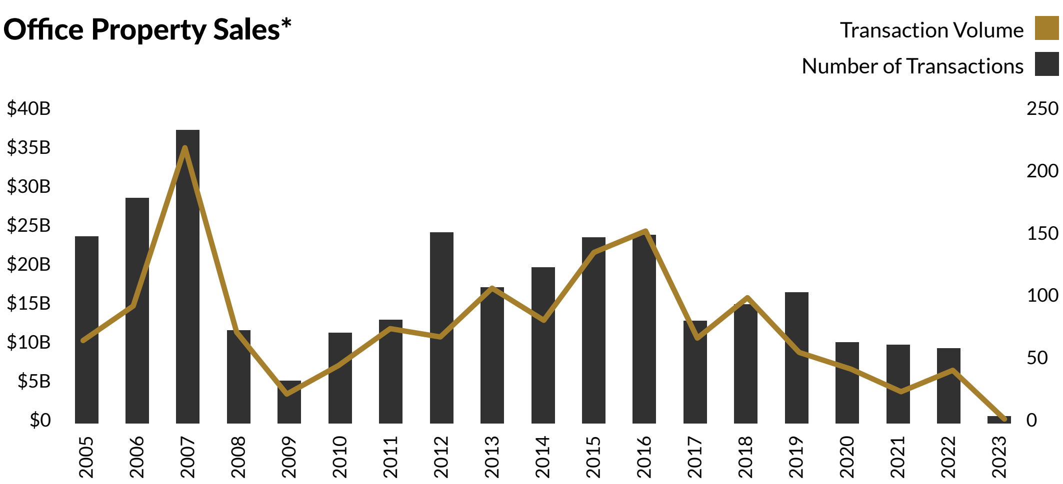
Commercial: Negative Conditions Converge

Multiple challenges, including lender pullback from new commercial loans, higher borrowing costs, and looming loan maturations, coincided with uncertainty regarding return-to-office levels. This clearly depressed commercial broker sentiment and overshadowed sustained improvement in the retail and hospitality sectors.

The collapse of Silicon Valley Bank and related turmoil amongst regional and community banks increased the scrutiny faced by portfolios with exposure to office loans. Borrowing costs have soared in the last several months, creating challenges for owners with an upcoming loan maturity. Office property owners that acquired assets with record-low interest rates now face much higher borrowing costs, increased loan-to-value requirements, and lower asset values. According to Trepp, New York City has $16 billion in loans secured by commercial loans coming due in 2023.

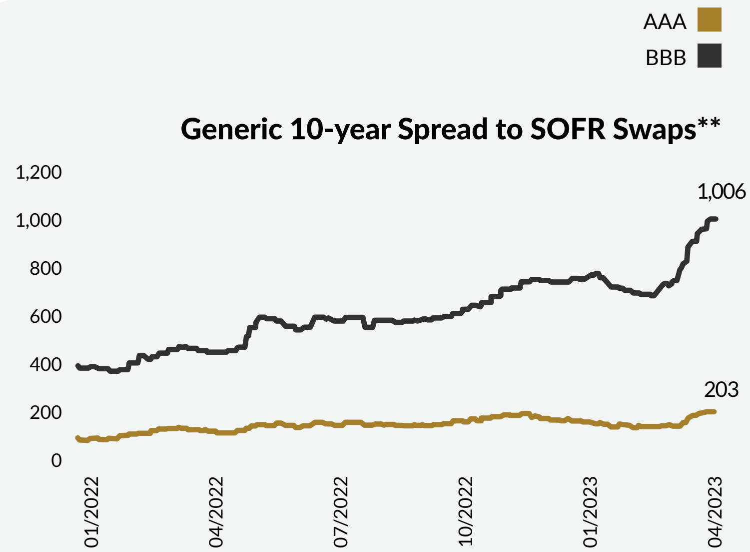
Challenging financing and uncertainty have kept sellers and investors off the market. Office property sales fell to $573 million year-to-date, the lowest total since 2009.

Office Property Sales*



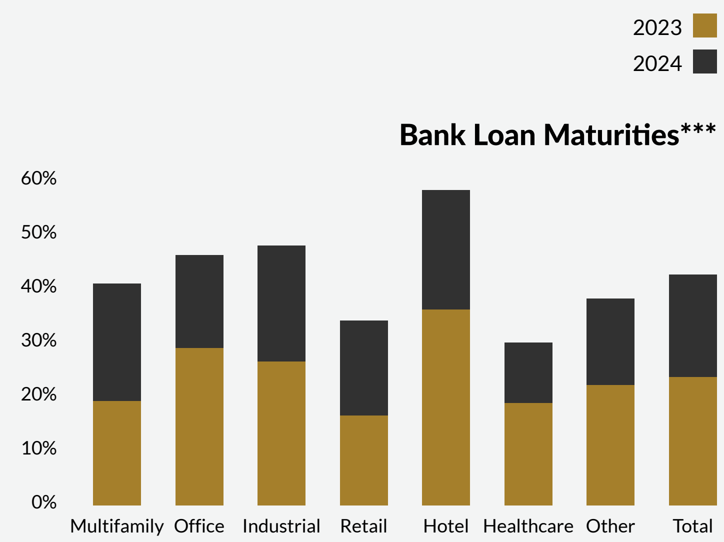
Source: Moody's Analytics/REIS

Generic 10-year Spread to SOFR Swaps**



***Source: Trepp*

Bank Loan Maturities***



****Source: Mortgage Bankers Association*

Market Trends: What's Behind the Numbers?

Residential: Sales Register Improvement in Some Price Tiers, Rental Market Steady

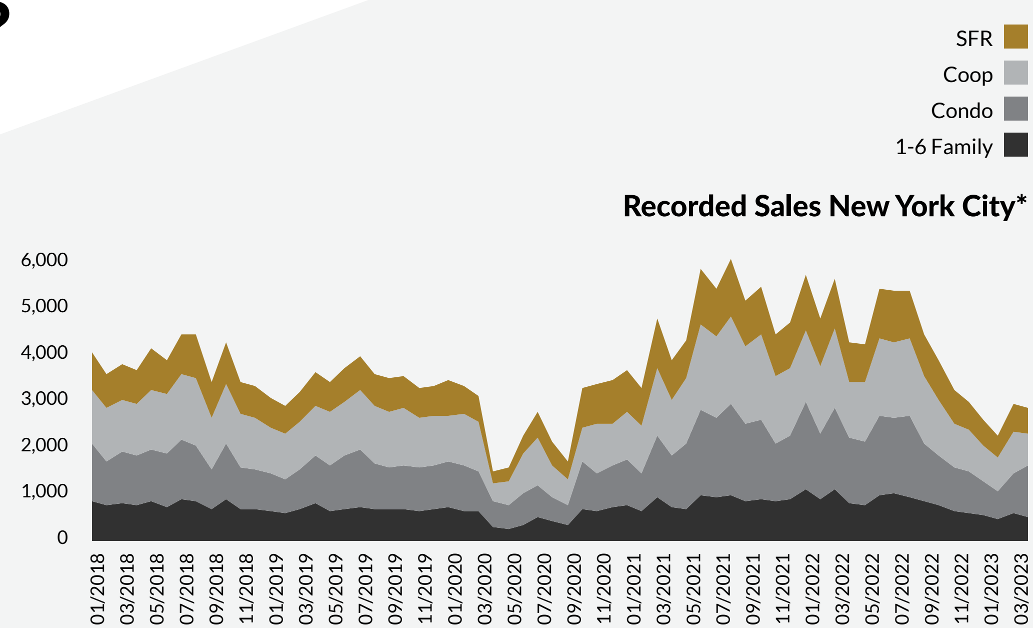
In contrast to office property sales, residential sales have fared better, with improved contract signings in some price points during the first quarter. Sales have moderated from the record levels of 2021 and first half of 2022, but according to The Olshan report, contracts signed in the $4 to $10 million range picked up in February and March. Sales in the ultra-luxury (more than $10 million) were sluggish.

Some would be homebuyers are delaying purchases due to elevated mortgage rates and concerns about a potential recession. Volatile equity markets also continue to impede transaction activity. Additionally, pricing in general has not fallen as sharply as some buyers anticipated. 30-Year mortgage rates have fallen from just over 7% in late 2022 to 6% as of March 2023.

Apartment leasing activity, like residential sales are not at the extraordinary 2021 levels, but did improve in the first quarter. The number of new leases in Manhattan spiked by 15.4% year-on-year (to 4,863) in March according to Douglas Elliman. In its March report, Douglas Elliman reported that the share of renters committing to two-year terms rose to 56.3%, the highest level in nearly two years. Renters anticipate additional rent increases next year and want to lock in current rents.

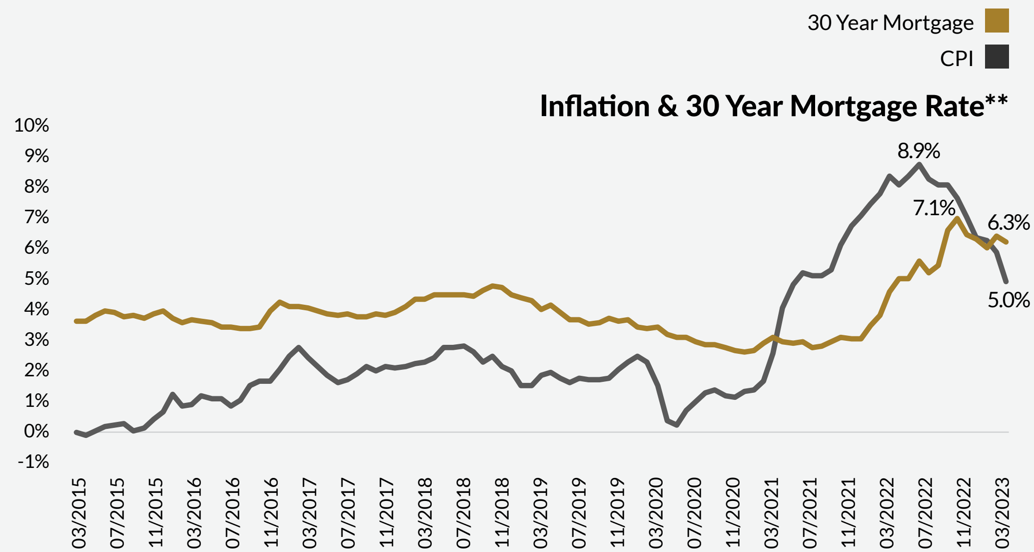
Renters in Manhattan and Brooklyn are locking in near-record high rents: the average median rent in Manhattan was $4,175 up by 2% from February.

Recorded Sales New York City*



Source: REBNY, MarketProof

Inflation & 30 Year Mortgage Rate**



***Source: Freddie Mac, Bureau of Labor Statistics*

Market Trends: What's Behind the Numbers?

Commercial Sector Market Fundamentals: Office Sector Challenges Dominate Broker Sentiment, Overshadowing Sustained Gains in Retail and Hospitality

As recently as the last report, commercial brokers were still holding out hope that 2023 would bring another ramp up in leasing and return-to-office. These expectations were dashed as leasing activity moderated in the first quarter and some tenants reduced both the size and length of their lease. Return to office also plateaued in recent months.

The rate of return varies widely though from one building to the next, and is stronger in prime Class A buildings.

Office leasing in 2022 made a big jump relative to the previous year, but the number of deals stagnated in recent months. During 2022, CBRE reported 23.2 million in leasing activity, up 71% year-on-year. Leasing slowed during the first quarter, though, totaling 3.9 MSF, down by more than 30% from the first quarter of 2022, and 35% from the first quarter average since 2018.

Return-to-office remains a closely monitored indicator of office market health. REBNY recently released the **Q1 2023 Office Building Visitation** report. The report tracks mobile device visits in 250 office buildings across Manhattan. The analysis matches several leasing trends, showing increased visitation in 2022 with a slight decrease in early 2023.

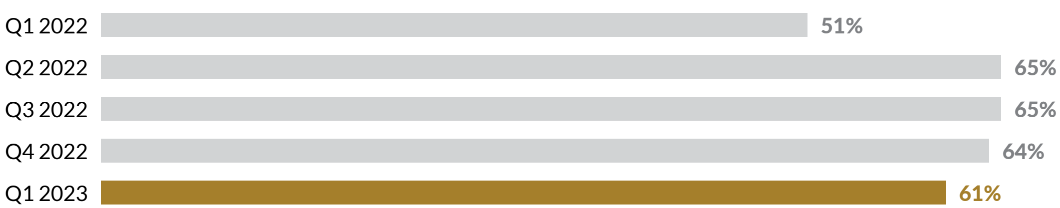
**All rates based on Q1 2023 visitation compared to Q1 2019 visitation.*

Market Trends:
What's Behind the Numbers?

The average overall visitation rate for office buildings in Q1 2023 was 61%, up significantly from the 51% rate in Q1 2022. The rate was down though from 62% in Q4 2022 and 65% in Q3 2022. Prime A+ buildings continue to outperform Class B buildings with an average visitation rate of 68%.*

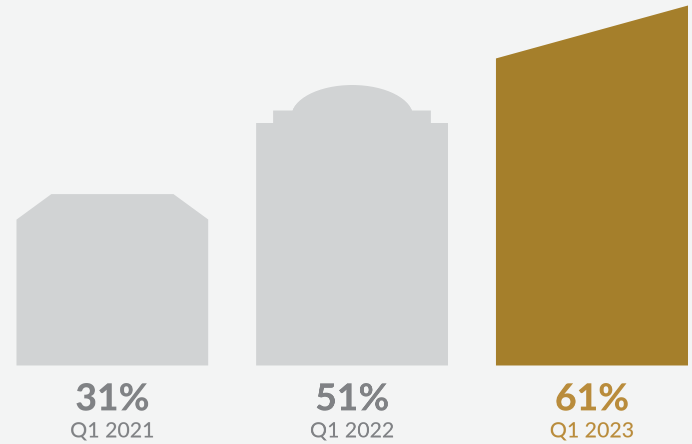
On a final note for the office sector, space tours surged in March. VTS's VODI index tracks unique on-line space searches by brokers in the firm's online leasing platform. The index is the earliest measure of changes in demand for office space. Tenants understand this is a good time to upgrade their space. With New York City vacancy approaching record levels, tenants understand this is a good time to upgrade their space. Colliers recently estimated that there is approximately 93 MSF for tenants to choose from. While tenant interest improved, it remains to be seen whether tenants will commit to leases, and whether they will add or shed space.

Visitation Rates
Q1 2022 – Q1 2023

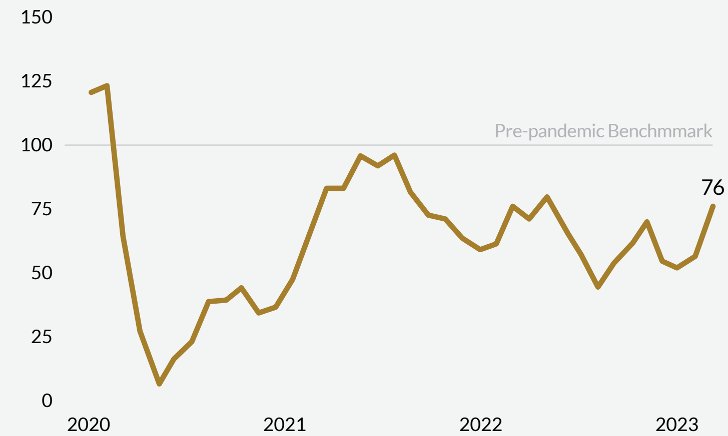


Based on comparison to Q1 2019 visitation

Visitation Rate Average
Q1 2020 – Q1 2023
Compared to Q1 2019 Pre-Pandemic



New York City VODI: VTS Office Demand Index*



Source: VTS

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Market Trends: What's Behind the Numbers?

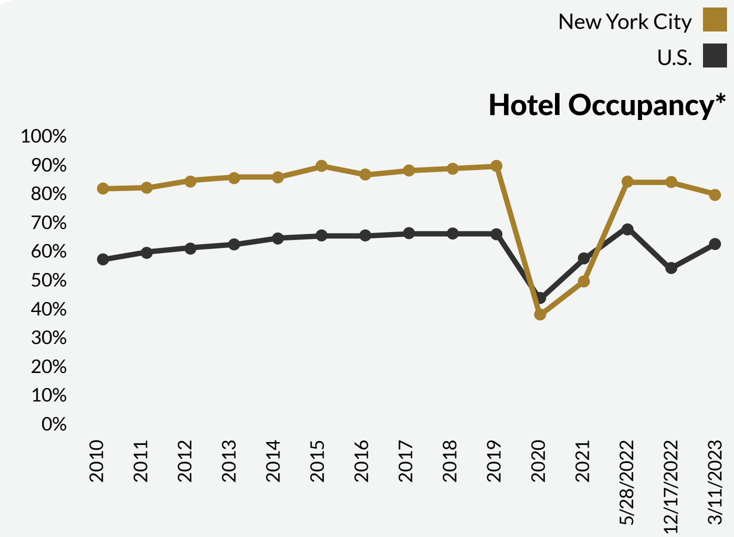
Retail & Hospitality Recovery Pushing Forward

Unlike the office sector, which lost some momentum during the first quarter, the retail and hospitality sectors sustained activity in early 2023. Brokers described 2022 as the strongest year since 2016 with surging demand as a wide variety of retailers committed to new stores. In early 2023, retailers turned their attention to corridors such as Fifth Avenue and Times Square that had lagged Flatiron, SoHo, and Madison for much of 2022. Rents are still well below pre-pandemic peaks (typically seen in 2016 and 2017).

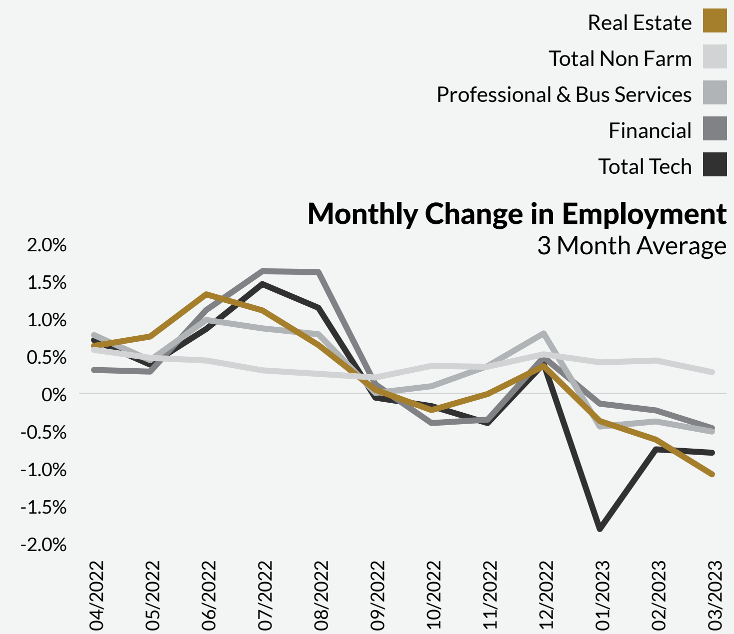
The continued slow improvement in office visitation impedes retail recovery for office and daytime commuter dependent retail corridors. It also negatively impacts business-oriented hotels in areas like Midtown East. Fortunately, tourism successfully filled in some of the void during 2022. According to New York City & Company, 56.4 million tourists visited New York City in 2022 (right on track with the company's forecast.) They project that 61.6 million will visit New York City in 2023, which would put tourism less than 10% below the 2019 peak of 66.6 million.

Hotel occupancy in New York City ended the week of March 11th at 78% of its levels during the same week in 2022. In comparison, the U.S. occupancy rate was 63%. New York City had one of the largest gains in REVPAR compared to the 2020-2022 period, REVPAR jumped by 33% to $181.

Despite widespread volatility in the financial markets and tech sector, employment in New York City has held up relatively well. Overall employment in New York City has nearly fully recovered relative to its pre-pandemic peak. Some sectors are starting to show signs of contraction including the financial and tech sectors, as well as real estate. So far, layoffs in New York City have not been as severe as in San Francisco, Seattle, and other West Coast cities.



*Source: STR



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Broker Sentiment Summary

Financing Constraints, Loan Maturation and Office Uncertainty Loom Large

Substantial challenges in the office sector depressed commercial broker sentiment. Some owners face a looming loan maturation, just as banks pull back from most commercial loans. Meanwhile, the level of office space demand is uncertain. These challenges overshadowed sustained leasing activity in the retail sector, as well as elevated hotel occupancy.

In Q4 2022 some commercial brokers still expressed a perspective that accounted for both positives and negatives. A quarter later, it was hard to find perspectives that included much optimism.

- ***"Interest rate volatility, working from home movement, failure to come up with affordable housing plan, political dysfunction in Albany and City Council."***
- ***"Continued increase in interest rates, slow decision making on the part of tenants to lease space, increasing availability of office space, work from home for at least two days a week not going away, more layoffs by tech companies. These are but a few issues that will further hamper leasing activities."***

Commercial brokers are no longer simply hinting that an increase in return to office is needed. More are stating bluntly that occupancy must rise.

- ***"Occupancy in office buildings has to increase."***
- ***"Work from home. Companies need to get people back in the office. Even if only four days a week."***

Challenging financing conditions, bank volatility, and economic uncertainty were top of mind. The following comment summed up the order of concerns among brokers nicely:

- ***"Interest rate increases, inflexibility of banks to modify loans, slow return to office activity, dirtiness of streets and security concerns.***

Residential Brokers Were Not as Pessimistic as Their Commercial Counterparts

Sales improved in some segments of the market and demand for apartments remained strong. Even so residential brokers expressed growing concern about the potential for the banking sector challenges to spill over into the housing market, as well as general uncertainty.

While residential brokers maintained their more positive outlook relative to commercial brokers, they did highlight nervousness among some clients.

- ***"I think it's a combo of all: the interest rates, the economy, tech layoffs, uncertainty. People are hesitant to buy in this market wondering if they overpaid. I think the general public is scared."***

Despite growing uncertainty, some brokers maintained optimism regarding sales potential in the coming quarters. A few residential brokers maintained this optimism.

- ***"Interest rates subsided and inflation might be under control, somewhat. Buyers are infused with cash, looking for alternate investments; real estate makes sense. More inventory is coming, albeit slowly. Spring market, and hopefully the summer and fall market, should hopefully prove well for sales."***

Outlook

Residential & Commercial Brokers Both Seek Housing Policy Direction

Brokers repeatedly expressed concerns about several issues with potential policy implications:

- 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
- Concerns that additional regulation such as rent control may turn away property investors and impede property maintenance

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The recent focus among New York City public officials regarding the housing shortage, as well as the potential for the conversion of some office properties, continues to spark hope among brokers that this will improve challenges in finding housing options for their clients.

Market Commentary

Please read below for further detail regarding broker comments during the first quarter of 2023.

Banking Sector/Lending

7% Residential
12% Commercial

The banking turmoil that emerged in mid-February weighed particularly heavily on commercial brokers, but was also mentioned by a few residential brokers. Lender pullback has much larger implications for commercial owners with significan loans.

Commercial brokers noted that:

- ***"Instability in the banking system is negatively affecting the real estate market."***
- ***"Local regional banks perceived or real risk due to mortgage exposure are all harmful to real estate."***
- ***"Foreclosures on commercial office buildings and defaults on said mortgages."***

Residential brokers were more focused on mortgage rates and most viewed commercial loan challenges as a secondary issue, if the problem is contained.

- ***"The banking crisis is still impacting the market negatively in small pockets."***

Others expressed concern that there could be widespread negative impact if bank failures spread.

- ***"Bank uncertainties is the biggest factor now."***

Interest/Mortgage Rates

48% Residential
32% Commercial

The impact of dramatic financing challenges is very apparent among commercial brokers. Borrowing costs (interest rates) were the first concern listed by only 8% of commercial brokers in Q1 2022. That quadrupled to 32% in Q1 2023. In contrast, mortgage rates were already the top concern in early 2022 with 44% of residential brokers noting it.

- ***"Interest rate directionality, whether the economy lands soft or hard, whether there are more bank failures and how the government deals with them to maintain/promote confidence."***
- ***"Interest rates seem to have put buying (attainable properties) on the backburner in NYC."***

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."***

Market Commentary Supplement

Please read below for further detail regarding broker comments during the first quarter of 2023.

Economy/Inflation

20% Residential
25% Commercial

During the first quarter, 20% of residential brokers listed economic indicators such as employment, inflation, or fear of a recession as their foremost concern. This was essentially even with a year ago.

Residential brokers appear to be divided on their view of whether the inflation curve has been successfully contained.

- ***"Inflation easing. Stock market picking up. Outlook is more positive."***
- ***"Inflation not contracting quickly or significantly enough leading to the likelihood that the Fed will increase rates again."***

Commercial brokers continue to mention general economic uncertainty, tech layoffs, and some new concerns such as decline in corporate profitability.

- ***"Corporate layoffs, increased interest rates, and weakening corporate earnings."***
- ***"Most buyers are in state of fear from the economy and the market status of the limited inventory, which makes performances of sales reluctant."***
- ***"Large scale layoffs in tech, financial services, and other industries."***

Real Estate Market Dynamics

14% Residential
14% Commercial

While residential sales brokers noted that the availability of homes to purchase has increased, some mentioned that buyers are still waiting for prices to come down.

- ***"Buyers' market and very few buyers."***

This is even more true for the office sector. Office brokers noted that current market conditions make it a great time for a tenant to sign a lease. Unfortunately, tenants continue to be hesitant, or are cutting space as they sign leases.

- ***"Slow decision making on the part of tenants to lease space, increasing availability of office space, work from home for at least two days a week not going away, more layoffs by tech companies. These are but a few issues that will further hamper leasing activities."***

Several retail brokers noted sustained strength in this sector, but this was generally tempered by growing concern about the negative impact of reduced office occupancy.

- ***"Retail leasing improved with tenants back in the market. Office is down as changed norms for back to office and remote work."***

A few residential brokers also noted that transaction time has increased.

- ***"It is a difficult market, but deals are getting done. It takes a lot of stamina and negotiating skills these days!"***
- ***"Buyers are afraid that the reports of a poor economy, price inflation and negativity will decline prices. Sellers do not want to lower prices or do not need to sell. The market is stagnant."***

Limited inventory remained a frequent concern among residential brokers.

- ***"I find that the biggest risk to my long-term business is the lack of housing that matches the income of the largest population of people in NYC. Our service workers and entry level employees have nowhere to live and many no longer qualify for most rents in the city."***
- ***"In Brooklyn the market is strong. Biggest issue is low inventory."***

Market Commentary Supplement

Please read below for further detail regarding broker comments during the first quarter of 2023.

Legislation, Regulation & Taxes

4% Residential
7% Commercial

While it was overshadowed by other concerns, brokers cited regulations such as HTSPA as an impediment. Additionally, they mentioned a lack of clarity surrounding permitting as well as high hurdles in business formation. Housing policy remains a particular area of focus as developers, leasing brokers, and owners remain eager to tackle the City's chronic housing shortage.

- ***"Slow city administration makes construction or renovation difficult."***
- ***"Needed: More incentives and less restrictions on housing developments."***
- ***"Good cause eviction legislation: bad for landlords and potential investors."***

Quality of Life

4% Residential
11% Commercial

Commercial brokers were three times as likely as their residential counterparts to highlight quality of life issues such as crime, sanitation, transit.

- ***"City's taking a tougher position on crime would be positive."***
- ***"Making the city clean and safe is still the most important action the city can take to improve the market."***

While respondents highlight quality of life concerns, no brokers mentioned city finances and growing signs that the City may have to cut back services. Similarly, no brokers highlighted similar financial shortfalls for the MTA.

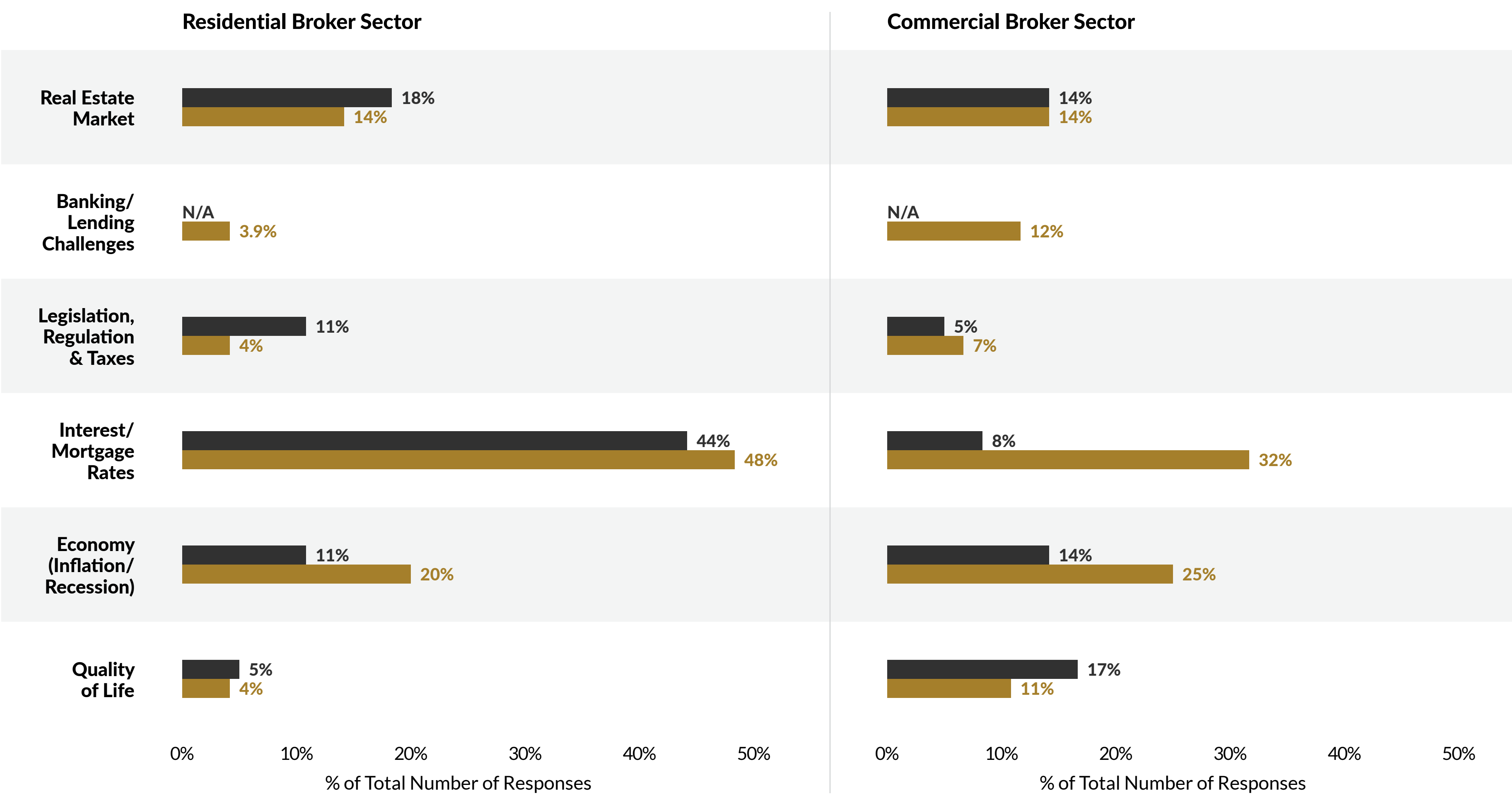
- ***"NYC is on a tight financial budget. It's not encouraging for investing in the city."***

Market Commentary Supplement

Broker Top Responses

Q1 2022 vs. Q1 2023*

Q1 2022
Q1 2023



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

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Data Appendix

Residential Broker Confidence Indexes

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
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)
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	-59.9	-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

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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?