REBNY Research

Real Estate Broker Confidence Index

Q3 2023

Table of Contents

By the Numbers

Residential Sentiment Declines, Little Change in Commercial Index

Negative sentiment prevailed during the third quarter as residential broker sentiment deteriorated. The residential Current Confidence Index fell to a record low, declining from -1.1 to -30.9. The prior low was -26.1 in the early stages of the pandemic (Q1 2020). Residential broker outlook for the next six months (EXI) also declined, falling to -11, also a record low.

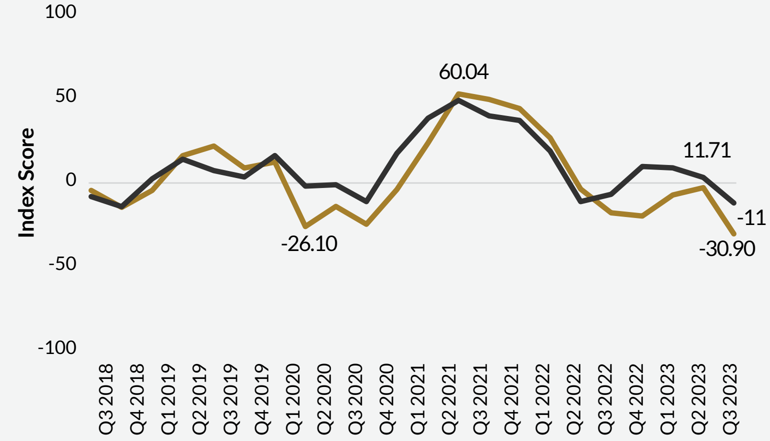
Commercial broker sentiment improved only slightly. The commercial Current Confidence Index (CCI) rose from -65.7 to -62.9. The six-month outlook ticked up from -45.3 to -44.4. Both indicators moved only marginally above the record lows seen during the height of the pandemic in 2020.

Commercial and residential brokers highlighted rising borrowing costs as their top concern. Additionally, both groups voiced frustration with policymakers on issues ranging from a lack of guidance on housing policy to potential changes to broker commissions.

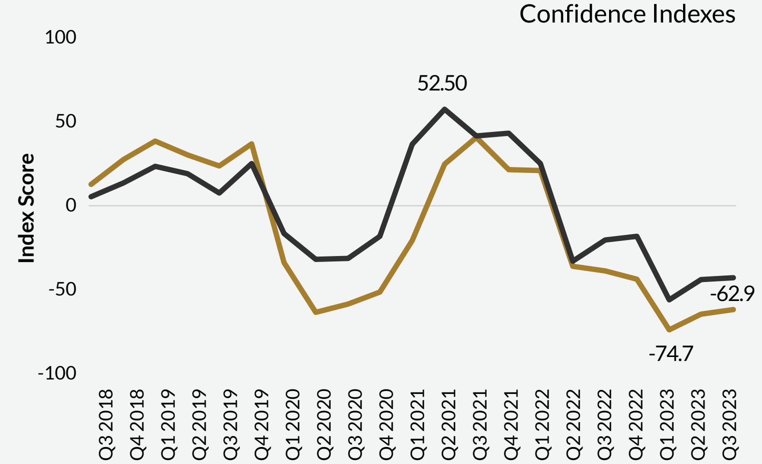
Current Confidence Index (CCI)

Expectations Index (EXI)

Residential Brokers
Confidence Indexes



Commercial Brokers
Confidence Indexes



Market Trends: What's Behind the Numbers?

The negative impact of soaring interest rates on sales depressed residential broker sentiment. Mortgage rates pushed to 20-year highs discouraging many sellers locked into a much lower existing mortgage from putting their properties on the market. Many buyers cannot qualify for mortgages. All-cash buyers are in a strong position, but they encounter reduced supply and may expect too much of a discount.

In the commercial sector, the office market has enjoyed only tentative improvement in leasing activity and building visitation rates. The retail sector, while still a bright spot compared to office, has lost some steam as concerns about consumer spending power, tight operating margins (exacerbated by inventory shrinkage), ongoing staff shortages, and quality of life offset strong leasing.

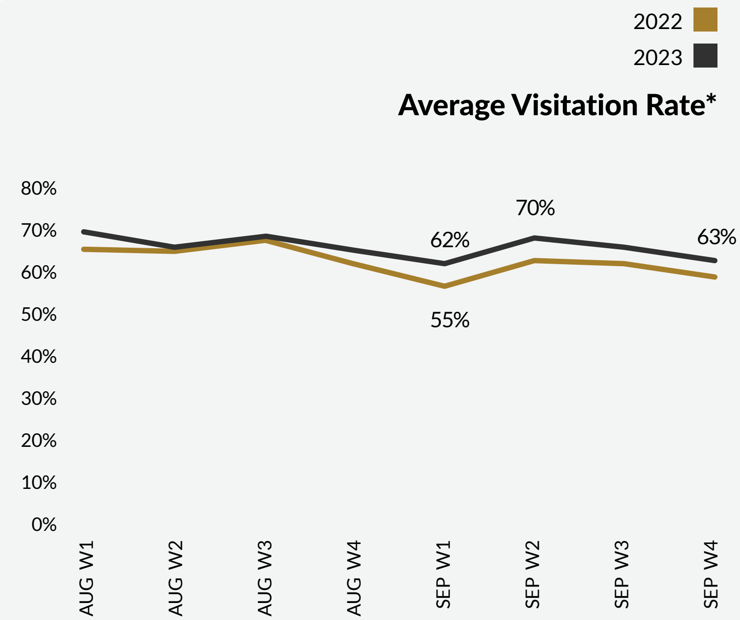
Commercial: Retail Optimism Moderates, Little Improvement at Best in Office Sector

Office markets seem to have stabilized in recent months. Availability has dipped slightly; CBRE reported that the availability rate dropped by 10 basis points to 19.8% in the third quarter. Leasing totaled 4.3 MSF in the quarter, representing a 33% decrease from Q3 2022.

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, visitation jumped the week following Labor Day, rising to 70%, the highest since the end of July. Visitation rates fell to the mid-60% range in the last two weeks of September, but appear to be increasing again in October.

Office visitation rates match similar trends in mass transit use. There were some spikes in transit use during the summer, (tied to summer events and holidays such as the Fourth of July) but as a percentage of pre-pandemic levels, subway use and Metro North has hovered between 60% and 80% since the start of the year. LIRR has shown signs of slowly pushing a bit higher, slightly outpacing trends for Metro North and MTA.

Average Visitation Rate*



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

The year-on-year gains for average building visitation rates and mass transit are positive, but they fall short of the levels hoped for. Residential and commercial brokers both seem to have accepted that many of the challenges, including elevated mortgage rates and steady but slow return to office, will take time to play out.

Despite Steady Demand, Retail Sector Loses Some Optimism

Demand for retail space along prime retail corridors such as SoHo and Madison Avenue remains robust. Consumer spending continues to exceed forecasts. The Census Bureau recently reported that total retail sales for September rose by 0.7% from August. Economists had forecasted an increase of only 0.2%. Spending at restaurants and bars rose by 0.9%. Of concern for brick-and-mortar retail, internet spending jumped 1.1%.

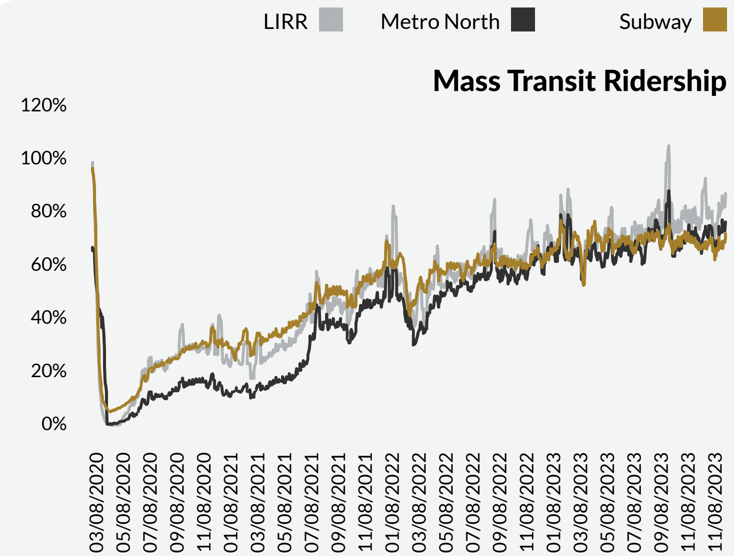
Nevertheless, some of the enthusiasm for retail recovery has dissipated. For the first time in several quarters, brokers highlighted concerns about how long consumers can maintain current levels of spending. Given inflation pressures, housing costs and growing credit balances, the sustainability of spending levels is a valid concern.

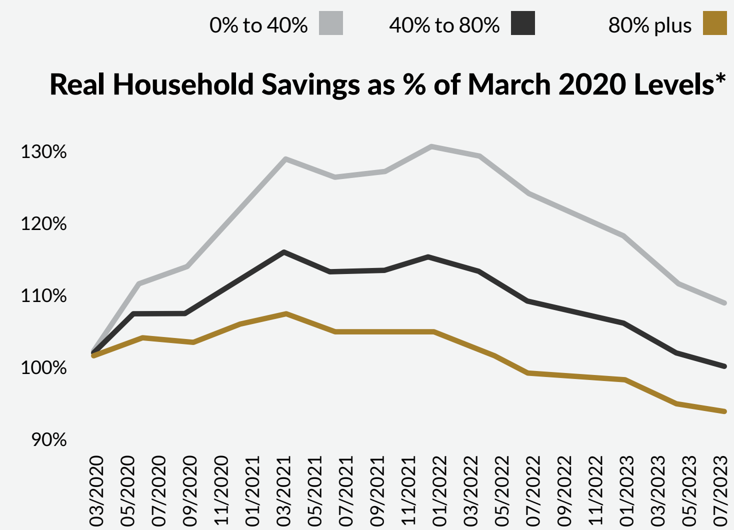
Most households (excluding the highest income households) have burned through the excess savings they accumulated during the pandemic. The Federal Reserve Bank of San Francisco recently reported that as of June 2022, U.S. households held less than $190 billion in excess pandemic savings, down sharply from more than $2 trillion in August of 2021.

Many households have expanded credit card balances to maintain spending. In October, the Federal Reserve Bank of New York's Household Debt and Credit report showed that credit card debt exceeded $1.0 trillion for the first time on record rising to $1.08 trillion. This was a $154 billion year-over-year increase (the largest annual increase since 1999). Delinquencies have jumped across multiple age groups, with a large jump among millennials aged 30 to 39.

Of larger concern, particularly for residential brokers, Wall Street bonuses are poised to decline for a second straight year. This could further hamper condo sales.

A significant decline in discretionary spending by U.S. households, as well as European consumers, could jeopardize the optimistic forecast for the city's tourism sector. Manhattan's surging tourism has been essential to its retail resurgence. According to New York City & Company, 56.4 million tourists visited New York City in 2022. They project that 61.6 million





Note: March 2020 = 100
**Source: Federal Reserve, Bloomberg calculations*

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 the void from reduced office commuters.

Leasing has improved in office-dependent retail districts but remains below pre-pandemic levels. Many of the large flagship and entertainment spaces on Fifth Avenue and in Times Square remain vacant. Other corridors such as 125th in Harlem and a few residential neighborhoods have lost a bit of momentum. Issues that never went away, like high business costs, tight operating margins, inventory shrinkage, and quality of life, are coming back to the forefront. Many business owners also mention staffing shortages and safety as reasons for more limited business hours. These challenges also encourage the shift to smaller formats and pop-up stores. Finally, bar and restaurant owners are concerned about changes to the outdoor dining program.

Hotel Occupancy at 90%

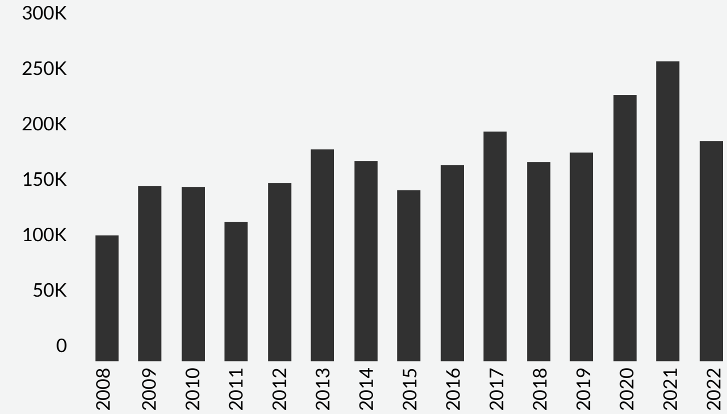
The hotel sector has been a real bright spot for the region. It can be challenging to find a hotel room – a remarkable recovery considering where conditions were just a year ago. Occupancy in New York City ended the week of August 2nd at 90% of its levels during the same week in 2019, the highest rate since December 2019. New York City occupancy remains well above the U.S. rate of 73%. Of note, the number of rooms in New York City is down by 7% due to permanent closures and some rooms that are temporarily housing immigrants.

Capital Markets Remain Challenging

The banking sector appears to have stabilized in recent months. However, lenders remain extremely risk averse. Most major banks are avoiding adding any office properties to their portfolio. Owners requiring refinancing or a construction loan face the highest borrowing costs in two decades. Some owners may have to bring more funds to the table to keep assets, fortunately some banks prefer loan workouts to taking the keys back.

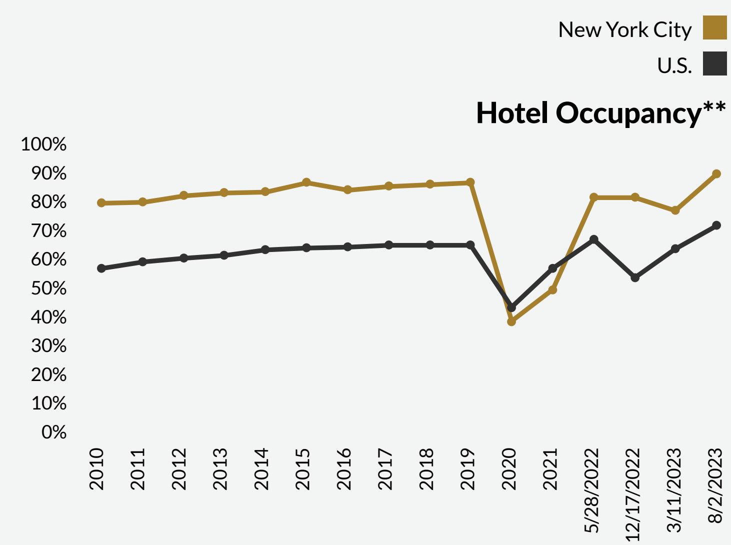
Data from Newmark Capital Research underscores the extent of the challenges as well as the magnitude of the lending contraction. Commercial and multifamily loan originations were down 49% year-on-year as of the third quarter of 2023. The data also highlights 2023

Average Wall Street Bonus*



Source: New York State Comptroller

Hotel Occupancy**



Source: STR

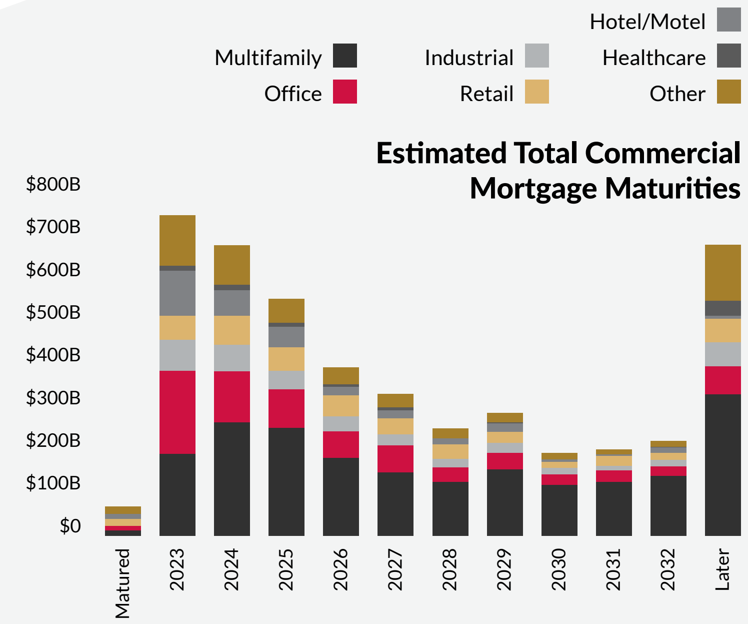
to 2025 as a particularly elevated period of loan maturity, with more than $729 billion maturing in this time frame. The volume of loan maturities drops off after 2025 – one reason that many industry members are pushing the strategy of make it to 2025. Newmark also highlights the significant reduction in lending from smaller and regional banks as a problem. Additionally, the Mortgage Bankers Association notes that 5.1% of the balance of office property loans were delinquent, up from 4.0% at the end of Q2 2023.

Delinquencies in the office sector are rising. In late September, Trepp reported that delinquencies for office buildings with CMBS debt rose by 51 basis points, to 4.96%. The delinquency rate has increased by 350 basis points since the end of 2022.

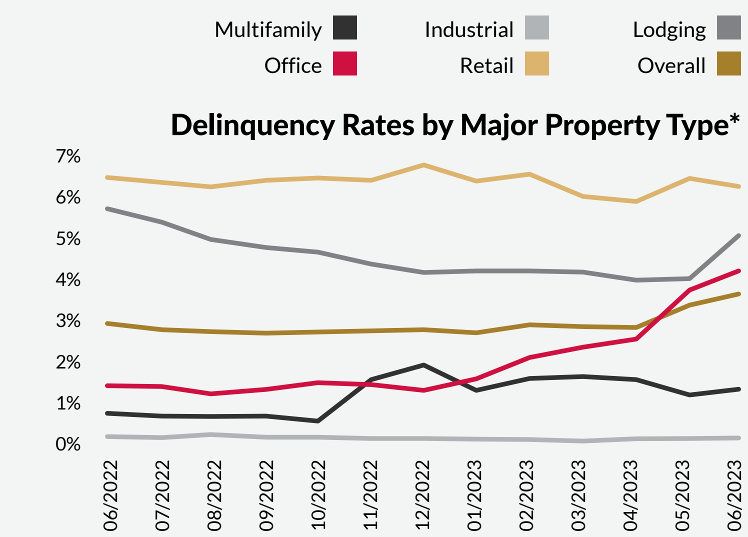
Unfortunately, larger banks may soon see even more reason to be conservative. The Basel III Endgame Capital proposal guidelines, which are proposed to be implemented in 2025, will require banks with more than $100 billion in total assets to increase capital requirements. Many industry experts expect the requirements to impair commercial lending even more.

Under current market conditions most office property owners are avoiding the sales market. Sales through the third quarter totaled $3.1 billion, down by more than 20% from the recent low of $3.8 billion completed in 2009 following the collapse of Lehman Brothers.

Estimated Total Commercial Mortgage Maturities

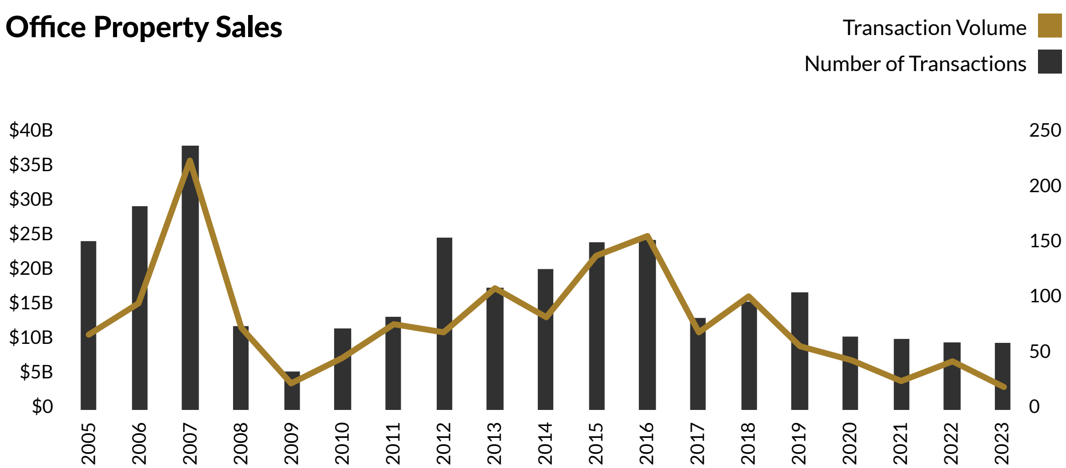


Delinquency Rates by Major Property Type*



Source: Mortgage Bankers Association

Office Property Sales



Residential: Sales Broker Sentiment Falls to Record Low, Interest Rates & Uncertainty Weigh on Sales

Inflation rose slightly late in the third quarter but remained below 4% the entire quarter for the first time since early 2021. Mortgage rates on the other hand pushed above 7% for the first time since 2001.

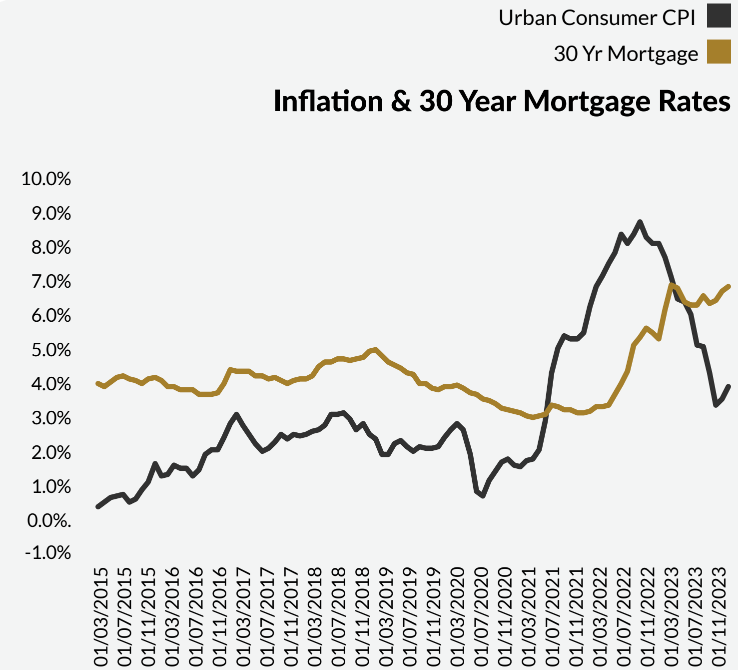
The highest mortgage rates since 2001 pushed residential broker sentiment to its lowest mark on record. More sellers are opting to sit the market out – in the words of several brokers, owners are handcuffed to their existing 3% mortgage rate. Buyers continue to either struggle to qualify for loans or can't find product at the price they want. All-cash buyers are taking their time and pursuing very particular product. Multiple brokers mentioned that buyers are looking for larger units, but available product remains limited.

According to the Q3 2023 Douglas Elliman Report, prices have fallen only slightly. In Manhattan closed sales fell by 22.8% quarter-on-quarter and by 22.7% year-on-year from 3,692 to 2,854. Listing inventory dropped by 5.9% during the same period. The median sales price fell by 4.2% from the prior quarter to $1.15 million. Closed sales in Brooklyn rose by 3.6% to 2,632 in the third quarter but was down by 25.7% year-on-year.

Given the challenging conditions in the sales market, more would-be buyers have been renting apartments for much of 2023. Demand slipped slightly in September. This was expected, as the summer months are typically among the busiest for leasing activity in New York City. According to the September Elliman Rental Report, the number of new leases in Manhattan dipped from 5,025 in August to 4,405 in September – a 12.3% decline. The number of new leases was down 1.9% year-on-year.

Median rent (with concessions) dropped to $4,312, falling by 1.3% from the record set in 2022. Vacancy pushed above 3% for the first time in two years, inching up to 3.07%. In Brooklyn the median rent (with concessions) dropped by 3.9% to $3,670. Despite the recent moderation in rents in Manhattan and Brooklyn, availability is still tight in both boroughs, pushing more renters to lease apartments in Queens.

Inflation & 30 Year Mortgage Rates



Source: Freddie Mac, Bureau of Labor Statistics

Broker Sentiment Summary

Residential & Commercial Brokers Both Highlight Borrowing Costs, Elevated Uncertainty and Policy Concern

Despite some modest gains in office visitation rates and availability leveling off, commercial broker sentiment remained near record lows. Demand remains subpar in the office market. Lenders remain highly cautious and concerns about looming property defaults are prevalent. Meanwhile, some of the positive sentiment in the retail sector dissipated.

As one commercial broker expressed it, it is a challenge to find a silver lining in the commercial sector:

- ***"Not much positive! Real estate taxes keep going up and up, not at all aligned with dramatic drops in value."***

Another commercial broker sums up the situation:

- ***"Lack of back to work, lack of 421a programs, lack of financing for office, rising cap rates."***

For the first time in several quarters, a few commercial brokers noted the possibility that consumer spending power may be losing momentum:

- ***"Higher interest rates and decreasing liquidity (disposable income) seem to be creating an increasing headwind for consumer spending and confidence."***

One broker is looking for sidelined capital as an eventual potential rescue for the market:

- ***"Negative: Current interest rates, work from home. Positive: Capital liquidity. ($320B on sidelines)"***

Residential brokers expressed real malaise about a wide range of issues – starting with mortgage rates, general concerns about the economy, and frustration with multiple policymaking decisions:

- ***"1. Constant mortgage rate hikes. 2. High interest rates. 3. Overextended NYC economic conditions. 4. High inflation. 5. Lack of planning for migrant population. 6. Dearth of inventory."***
- ***"Right now, there are only downsides on the NY panoramic map of real estate, such as: high interest rates, cut of abatement laws, and brokers commission omission are the major issues."***
- ***"Good quality product will remain offline as owners won't trade-in low-rate mortgages for higher ones."***

Even with all these challenges there were still a handful of brokers looking towards the long-term and providing a helpful voice of patience:

- ***"I think the market will adjust to the new norm of higher rates, but it's going to take time for the impact of the fast pace of increases and lower property valuations to work its way through the system before we see prices and demand increase."***
- ***"May see relief in 2027. 5-6.50%+ rates are new reality. Rental markets will continue to be stellar; however, commercial maturities will separate the good and bad operators."***

Outlook

Brokers Express Broad Array of Policy Concerns

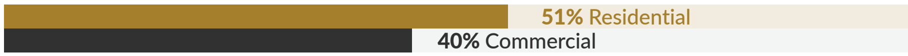
Residential and commercial brokers both expressed concerns with a wide array of policy issues – ranging from frustration with a lack of guidance on housing policy and conversely fears about misguided broker commission proposals.

- Deterioration in quality of life
- Migrant crisis
- Frustration with proliferation of cannabis sales
- Lack of affordable housing program
- Limited potential in office-to-residential conversions
- Permit approval delays
- Concerns about the impact of congestion pricing
- Changes to the Open Streets/ Outdoor Dining Program

Market Commentary Supplement

Please read below for further details regarding broker comments during Q3 2023.

Interest/Mortgage Rates



Residential and commercial brokers both listed interest rate increases as their top concern.

For residential sales brokers, the impact of 7%-plus mortgage rates has a dual negative impact – impeding loan qualifications and as one broker put it "handcuffing" sellers who have a 3% rate locked in at their current property.

- ***"The rise of interest rates is trapping people in their homes. They don't want to move because their next mortgage rate will be over 7%. This is also hurting first time home buyers that need to have a low DTI to be accepted by any co-op in NYC."***

Unfortunately, as this residential broker noted, the Federal Reserve may not be ready to end its rate hikes:

- ***"The rise of mortgage interest rates to a more than 20-year high is putting a damper on both supply and demand which will last until at least the spring. With the surprisingly strong jobs report, the Fed may not ease up on increasing the overnight rate which will delay any uptick even longer."***

One commercial broker noted:

- ***"Fed could raise two more rates this year, I heard. This is not a good sign for commercial and residential markets."***

Economy/Inflation

A quarter ago, residential brokers were markedly more optimistic than their commercial counterparts about economic fundamentals. Some of this optimism faded in the third quarter.

- ***"Economics and market conditions have stymied my customers from making offers especially in NYC, with the belief that numbers will decline substantially in the next several months."***

In addition to noting the poor economy, one commercial broker noted that the population and office occupancy are not going to rebound to pre-pandemic levels:

- ***"Poor economy. Office occupancy/population will not return to pre-pandemic levels."***

Real Estate Market Dynamics

13% Residential
14% Commercial

With only modest gains in leasing activity and at best a stabilization in office availabilities, commercial brokers remained negative about the fundamentals underlying the office market. In particular:

- ***"Interest rate increase and CAP rate returns rising to 9% killing the investment market."***

An office broker summed up the mood as:

- ***"Terrible market fundamentals."***

Residential sales brokers were not positive about the short-term prospects for a turnaround in property sales. The list of impediments to sales continues to grow.

Sellers continue to pull properties off the market.

- ***"People not listing because they have a low interest rate now, and their next one will be so much higher – this is decreasing inventory dramatically – especially in the townhouse market."***

Some residential brokers highlighted high pricing as an impediment to sales. Additionally, some buyers are delaying purchases due to borrowing costs and belief that prices will come down.

- ***"Irrationally high pricing in parts of the market is dragging down sales activity."***
- ***"Purchaser fears of overpaying, high mortgage rates, sellers feeling they cannot scale up or size down comfortably due to lack of available product."***

Brokers also noted that given the challenges associated with higher mortgage payments, other fees such as co-op charges may be too much for some would-be buyers to take on. This puts some co-ops in a tough position.

- ***"Reasonably priced condos will fare very well. Also, those with limited common amenities.... investors need lower commons to make deals work. Co-ops will finally see large correction.... those with overarching mortgage maturities in next two years will face higher commons due to refinancing costs and elevated reserves by lenders."***
- ***"The typical movement of selling and then buy is completely disrupted, making most buyers renters instead."***

Leasing brokers underscored that extremely tight inventory and high rents curbed leasing.

- ***"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."***

Retail market fundamentals are not as challenging as in the office market, but more brokers highlighted a slowing in discretionary spending:

- ***"Retail shoppers spending less on items other than necessities."***

Legislation, Regulation & Taxes

11% Residential
12% 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 that included the lack of a substitute for 421-a, the impact of migrant shelters, rising taxes, congestion pricing and the lack of policies for affordable housing and office conversion. One residential broker summed it up as:

- ***"Incredibly high City spending leading to higher real estate taxes and City rules – local laws 11 and 97 causing assessments – all are negative for real estate values in Manhattan."***
- ***"Delays in construction permitting, aging infrastructure."***
- ***"Congestion pricing is a disaster for the city."***

Residential and commercial brokers both continued to note the absence of 421-a as a serious impediment to much needed relief to the housing shortage.

- ***"Need to incentivize developers of affordable housing or government should build them."***

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."***
- ***"State and local legislation trying to regulate commission, de-coupling of commissions is all very concerning."***

Quality of Life

15% Residential
13% Commercial

For the first time in several quarters a slightly higher percentage of residential brokers, than commercial, mentioned quality of life as their top concern.

- ***"Quality of life criminal activity. Unlicensed motorized two wheeled vehicles on sidewalks, shoplifting, failure of the sanitation department to perform adequately, permissive prosecution of criminal activity."***
- ***"The mayor needs to clean up the city and really address the homeless problem. The city feels very unsafe."***

Some brokers expressed frustration with the proliferation of unlicensed cannabis sales.

- ***"Continued leasing of cannabis places, is ruining the retail landscape.***
- ***"Quality of life issues i.e., crime, marijuana on the streets"***
- ***"Increased crime -unchecked homeless and drug use - migrant influx is hurting commerce and tourism."***

Return to office

1% Residential
4% Commercial

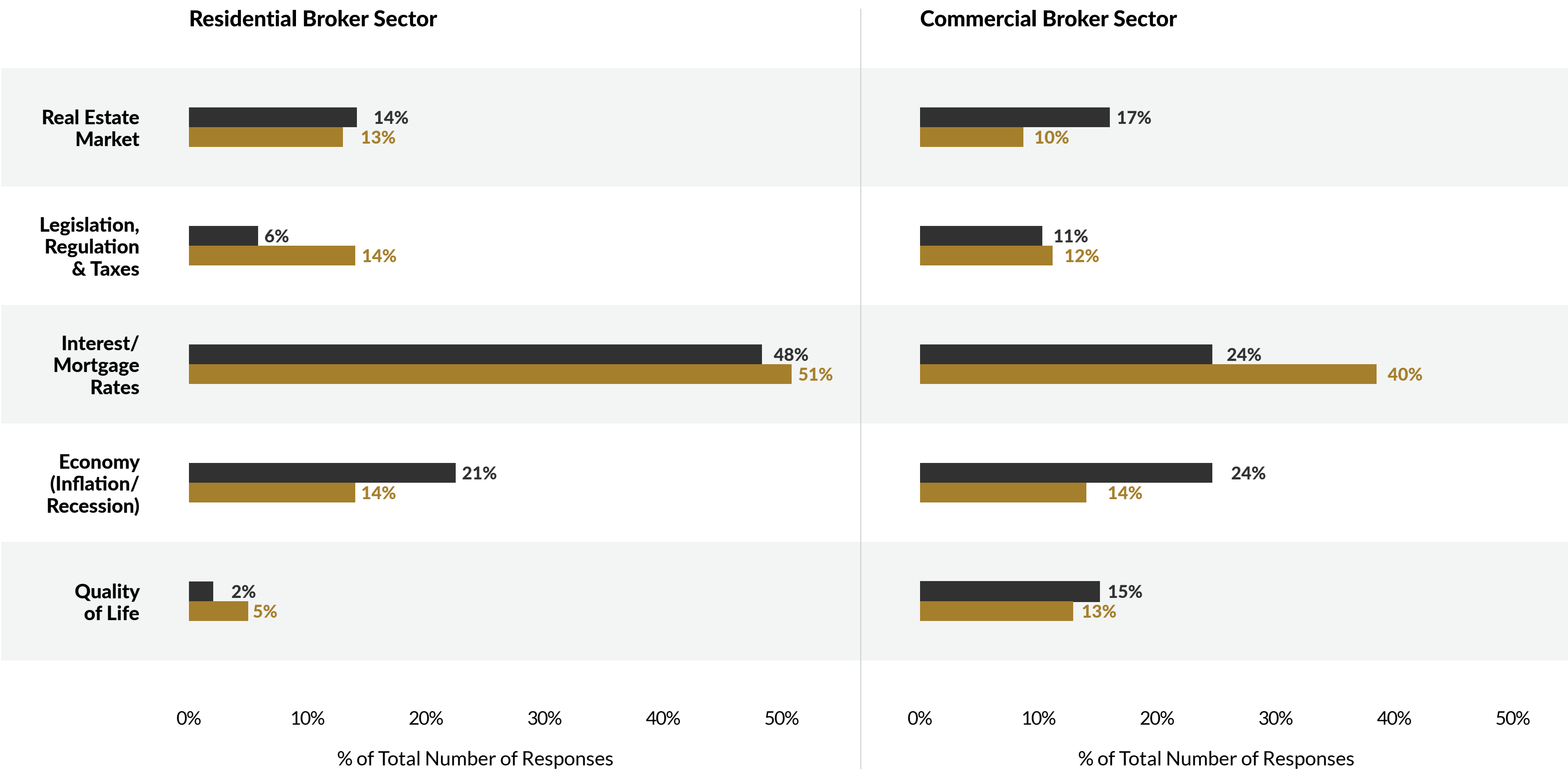
A few commercial brokers mentioned return to office as being critical but far fewer than in prior quarters. Brokers seem to have accepted that return to office will be a protracted process:

- ***"The lack of small businesses as well as the 79 million square feet of empty office space will continue to depress the market."***

Broker Top Responses

Q3 2022 vs. Q3 2023*

Q3 2022
Q3 2023



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

REBNY
Real Estate Board of New York

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?

REBNY
Real Estate Board of New York

Data Appendix

Residential Broker Confidence Indexes

Quarter	Current Confidence Index (CCI)	Expectations Index (EXI)
Q3 2023	-30.9	-11.0
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)
Q3 2023	-62.9	-44.4
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

Stay in Touch: