REBNY Research

Real Estate Broker Confidence Index

Q4 2021

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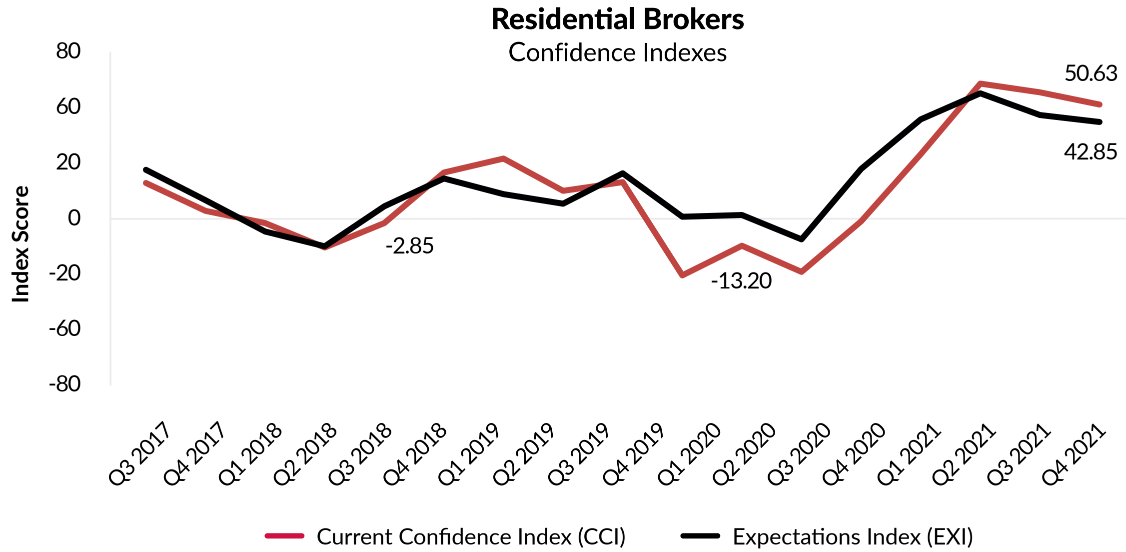
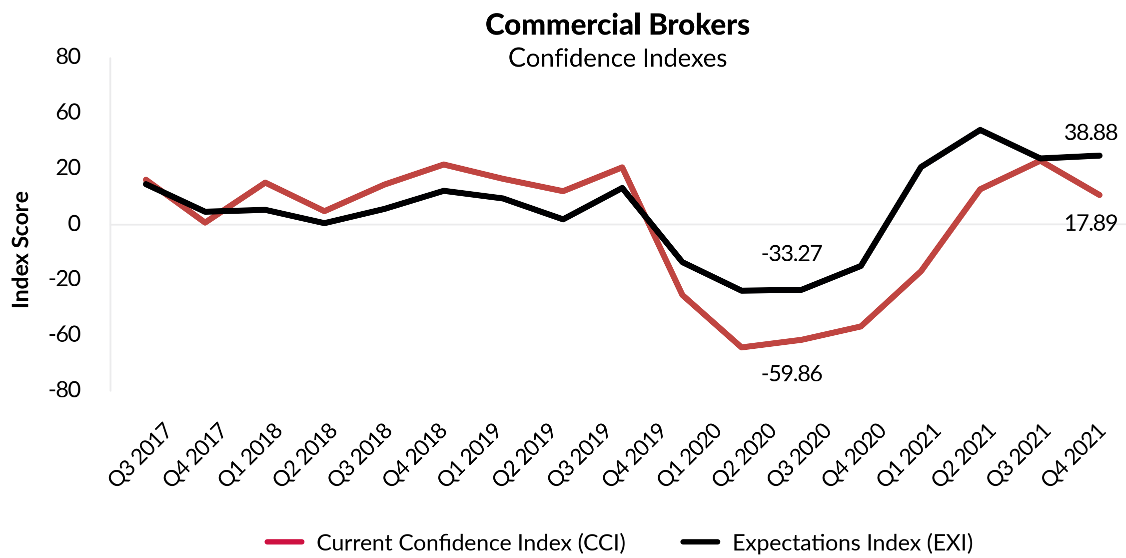
By the Numbers

OMICRON DAMPENS BROKER CONFIDENCE, MARKET UNCERTAINTY ELEVATED

The residential Current Confidence Index (CCI) posted a minor dip from 56.29 to 50.63. The commercial CCI registered a sharper drop, falling from 36.11 to 17.89, its lowest mark since the first quarter of 2021. Both indexes fell for the second straight quarter.

Most brokers remained optimistic about the six-month outlook. The residential Expectations Index (EXI) barely budged, ticking down from 45.88 to 42.85. Commercial brokers maintained their positive outlook, pushing the commercial Expectations Index up from 37.26 to 38.88. The index is still below the record mark of 52.50 attained in midyear 2021.





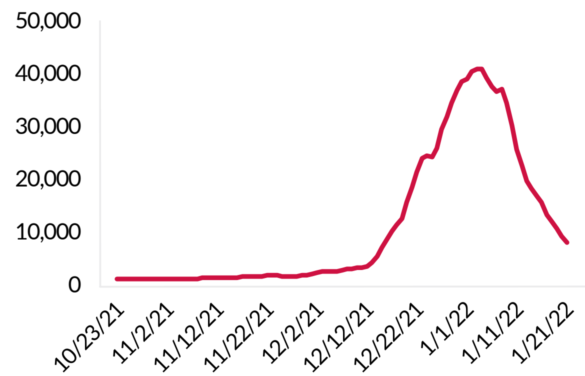
By the Numbers (Cont.)

WHAT'S BEHIND THE DECREASE?

The Omicron surge took some of the steam out of the momentum gained in the prior two quarters. Case counts surged in mid-December but were dropping off by the second week of January.

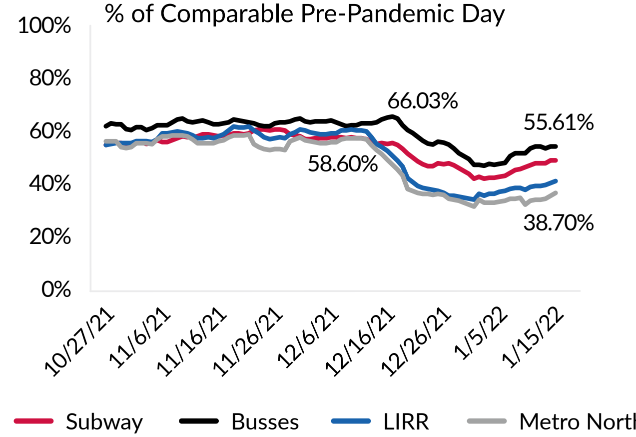
Reduced mass transit ridership reflected the decision by many firms to have employees work remotely as well as reduced tourism and travel. Of note, bus and subway ridership also fell, but remained closer to its pre-surge levels, perhaps reflecting ridership among essential and front-line workers.

Confirmed COVID-19 Case Count –NYC[1]

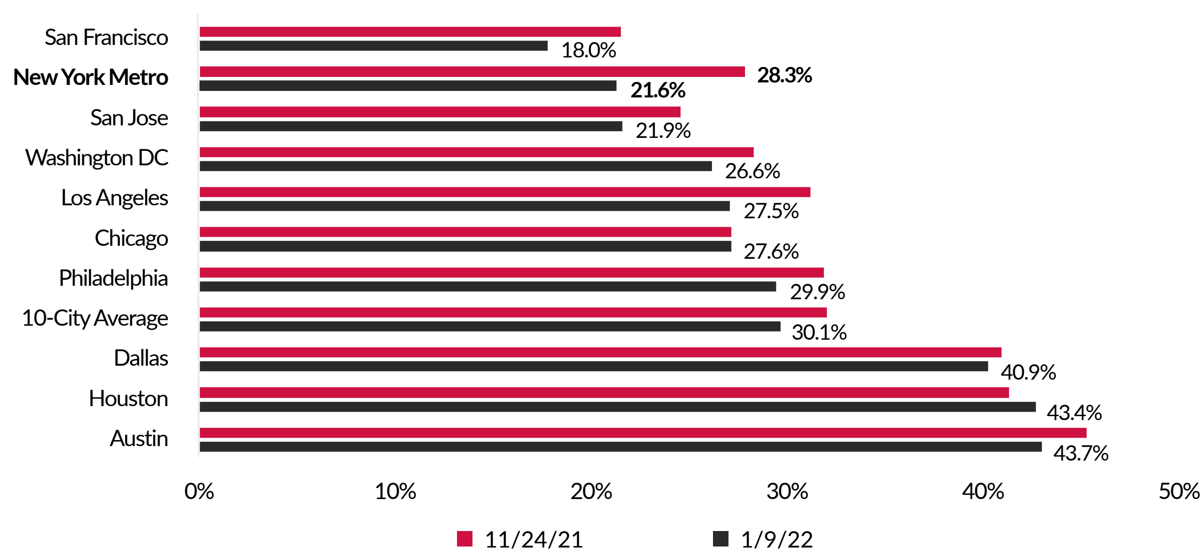


Ridership[2]

% of Comparable Pre-Pandemic Day



Office Occupancy Fell from 28.3% to 21.6%[3]



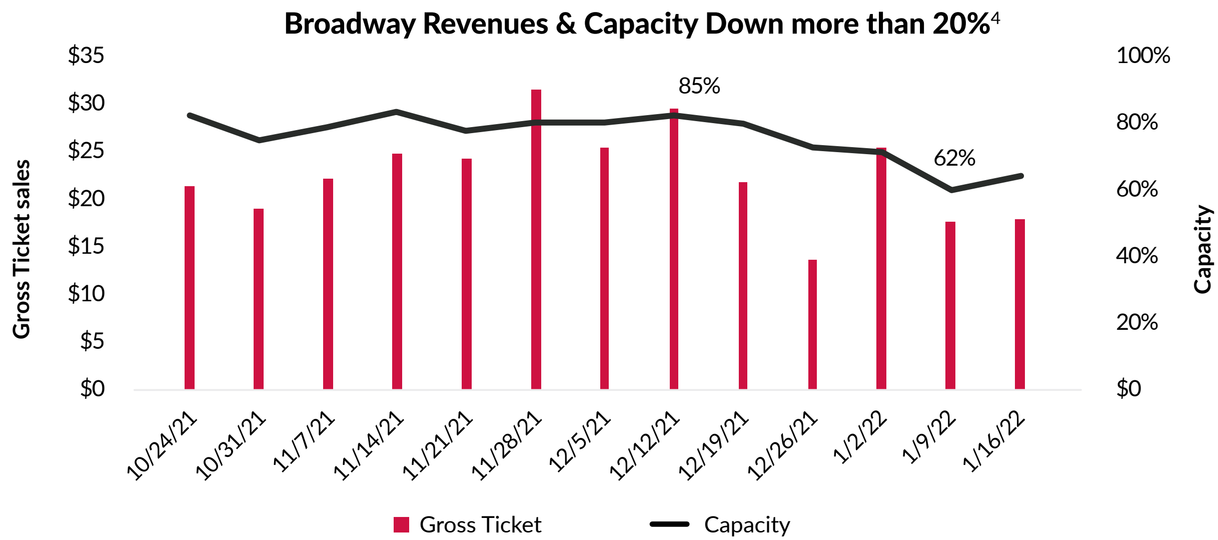
1) Source: Department of Health and Mental Hygiene (DOHMH)
2) Source: MTA
3) Source: Kastle Systems Back to Office Barometer

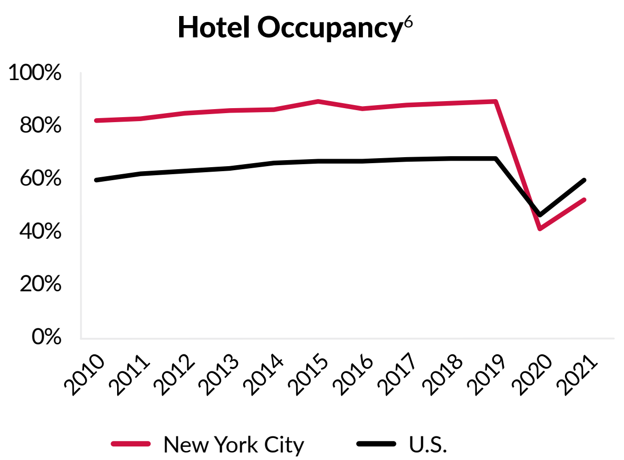
By the Numbers (Cont.)

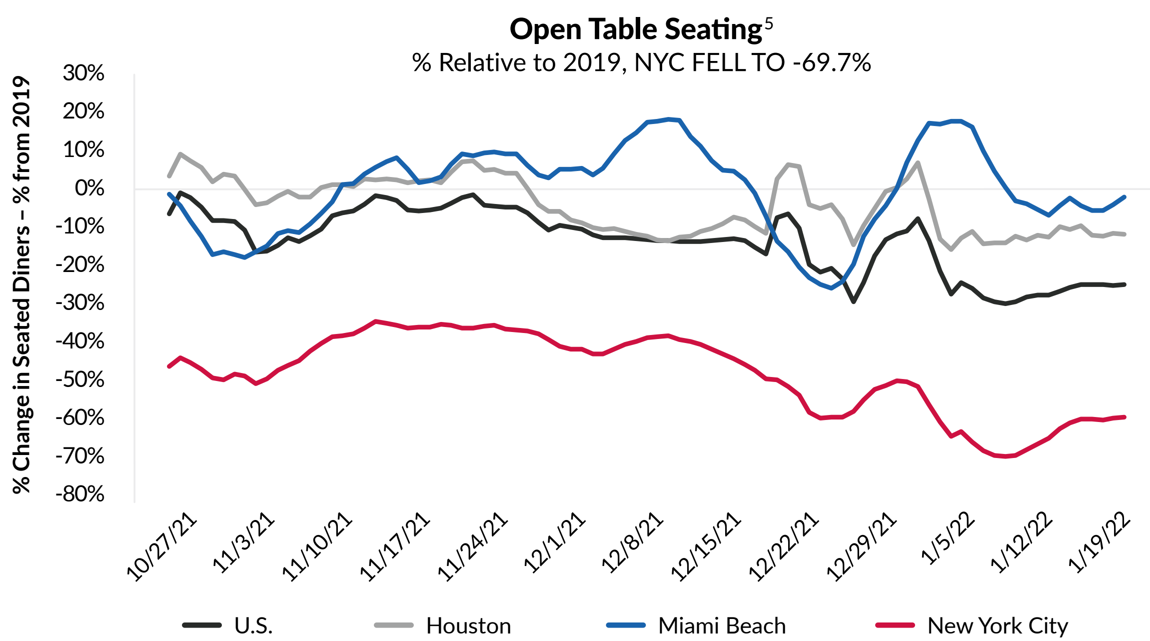
Despite signs that Omicron maybe short-lived, the damage was done. Broadway's comeback, foreign travel and the anticipated return to the office all stalled a bit.

Retail traffic in restaurants slipped. According to data from OpenTable, seated diner volume in early January was 69.7% below the pre-pandemic levels. In October and November this metric hovered around 40% below 2019 levels. The absence of foreign tourists and closure of some Broadway shows were contributing factors.

Prior to the pandemic, New York City posted hotel occupancy rates that were consistently above 80% – exceeding occupancy rates across the U.S. by more than 20 percentage points. This dropped precipitously after the onset of the pandemic, but was steadily ticking up throughout 2021 before the Omicron surge.







Percentage greater than 0% indicates seated diner that exceeds pre-pandemic (2019) levels.

4) Source: Broadway League
5) Source: OpenTable
6) Source: STR Research

Insights

RESIDENTIAL BROKERS REMAIN MORE CONFIDENT THAN COMMERCIAL COUNTERPARTS

Stronger sentiment among residential brokers makes sense. The residential sector enjoyed record sales tallies in 2021. Sales more than doubled from 2020. REBNY reported $23.7 billion in sales during the first half of 2021, and analysis of the second half of the year shows even stronger volume. Multi-family leasing surged in the Summer and Fall. In December, Douglas Elliman reported that the median rent reached $3,392, a 21% spike from December of 2020. It also put median rent 0.1% above the pre-pandemic median average – the first time median rent has exceeded 2019 levels.

Omicron had a more direct impact on the commercial sector, reversing the return to the office and keeping retail traffic subpar in office-dependent corridors. As recently as mid-December the office sector has been building momentum with reductions in sublet supply and improved leasing volume. Several major lease commitments such as Morgan Stanley's 400,000-sf lease and 105 leases with a rent exceeding $100 PSF boosted confidence in strong demand for Class A space. Additionally, leasing in key retail corridors such as SoHo and Madison Avenue intensified as domestic and foreign retailers witnessed a rebound in foot traffic as well as the return of foreign tourists. Omicron curbed this momentum.

Broker Comments

In addition to focusing on Omicron, residential and commercial brokers expressed a shared sense of uncertainty regarding economic trends such as inflation and interest rates, as well as regulations and taxes, changes in City leadership and quality of life.

Residential and commercial brokers have very different comments about their respective market dynamics. Residential brokers noted concerns that tightening supply and elevated pricing will likely curb sales as well as leasing. In contrast, commercial brokers were more likely to highlight oversupply and unrealistic tenant expectations.

Outlook

CONFIDENCE COULD TURN EITHER WAY, COVID FATIGUE WEARING ON BROKER CONFIDENCE

The core issues that are critical to preventing a reversal of the market progress of 2021 remain:

- Resolving quality-of-life issues (crime, sanitation, and transit)
- Effective approaches to living and working with a shift of COVID from pandemic to endemic
- Local government incentives that support businesses

Heading into 2022 brokers have a heightened sense of urgency regarding quality-of-life improvements. These concerns were prevalent in 2020 and much of 2021 but have become more vocal in recent months.

The challenges in the commercial sector continue to be driven by the pandemic and employer decisions about bringing workers back to the office. However, brokers report that confidence is poised to jump as workers return in greater numbers this spring. In the residential sector, uncertainty is driven by market conditions including the potential for a slowdown in sales and leasing due to undersupply as the market potentially adjusts after a record year in 2021. For both the commercial and residential sector, the potential for policy changes to either help or hinder the market continue to be closely watched.

Market Commentary & Analysis

Please read below for further detail regarding broker comments during 4Q 2021.

COVID-19/OMICRON (RESIDENTIAL – 36%, COMMERCIAL – 47%)

Nearly 50% of commercial brokers mentioned the negative impacts from the Omicron surge as their first concern. They highlighted tenant uncertainty or hesitancy, slower decision-making as well as the continued delay in the return to office and weakness in CBD retail districts.

"Omicron is causing a slight slowdown in decision making for those tenants that were planning on taking space."

"Surge in COVID is yet another delay for workers back to the office, especially for those commuting from outside Manhattan. Also kids at home being sick requiring quarantine for whole family."

Some residential brokers also noted Omicron as an impediment to sales.

"Potential clients who expressed an interest in buying and selling are less eager to move forward."

Most brokers were hopeful that Omicron would be a short-lived obstacle.

"Market has improved and will continue to do so as Omicron fades in a couple of months."

More respondents appear to have accepted that the complete eradication of COVID is not likely in the short-term. They are embracing the notion that learning to live with the virus that has become endemic is key.

"Omicron will put a dent in the momentum we have made to date though once decision makers come to the realization that we will be living with this COVID phenomenon for the foreseeable future, they will stat firming up their office plans and start leasing space again."

"While COVID continues to be a part of our lives, people are learning to navigate and that hasn't stopped them from thinking about purchasing a new home."

ECONOMIC TRENDS (INFLATION/INTEREST RATES (RESIDENTIAL – 24%, COMMERCIAL – 12%)

Residential brokers were twice as likely as commercial brokers to list economic issues such as inflation or interest rate policy as potential concerns for future market activity. This shift in concerns is an improvement from a year ago when fears of elevated unemployment and tight household spending were still prevalent.

Some brokers expect a rush to market in anticipation of rate hikes.

"Interest rates are expected to rise so a good deal of buyers want to lock in those rates which is good for sales."

"Interest rate movement can hasten buyers plans to buy before pending rate hikes."

LEGISLATION, REGULATION & TAXES (RESIDENTIAL – 11%, COMMERCIAL – 18%)

Under normal market conditions this category is generally one of the top two concerns. Omicron crowded out this healthy criticism during the fourth quarter.

"The new rental laws have made it difficult for tenants to secure homes if they do not have stellar financials. With only one month rent and one month security many owners are concerned."

Market Commentary & Analysis (Cont.)

REAL ESTATE MARKET DYNAMICS (RESIDENTIAL – 13%, COMMERCIAL – 4%)

Residential brokers were much more concerned about undersupply and overheated pricing. In fact, quite a few hinted that the current pace of demand may be unsustainable given the lack of inventory and surging pricing.

"Buyers are more picky regarding what they are getting for their money. They tend to hold out for what they want."

"Banks are taking over 110 days to clear to close. Buyers are burnt out from losing in bidding wars."

"Sellers being completely unreasonable with their expectations on pricing AND low inventory."

In contrast, commercial brokers were more likely to mention tenants with unrealistic expectations – underscoring the divergence in market performance between the residential and commercial market.

TURNING THE PAGE ON CITY LEADERSHIP (RESIDENTIAL – 9%, COMMERCIAL – 11%)

Most brokers expressed a wait and see approach regarding the new Mayor.

"Eric Adams as Mayor will have a positive impact on morale, business and the under-served populations of NYC."

"The impact of the new mayor can be a positive; impact to be determined."

A handful of brokers expressed negative reactions to Alvin Bragg's announcement regarding non-prosecution of some crimes. The New York County District Attorney issued some clarifications in January.

QUALITY OF LIFE (RESIDENTIAL – 2%, COMMERCIAL – 6%)

Brokers are seeking many things from the new City government – improvement in core quality of life and public safety issues are clearly top of their agenda. Although it was the first issue mentioned by a small portion of brokers, those raising it felt very strongly. A few brokers said quality of life and public safety either reduced showings or kept buyers from reaching a decision.

"Focus on quality of life issues is critical for future of the City."

"Let's clean up the city – let's all work together to make NYC shine brighter."

Market Commentary & Analysis (Cont.)

Other Notable Concerns

MARKET DISCONNECTS, INFRASTRUCTURE BILL, WALL STREET & TECH

Every market has its blind spots. Fortunately, there always seem to be at least a couple of brokers to point them out. In prior quarters, despite significant weather events such as unprecedented flooding, only one or two brokers out of several hundred mentioned issues of sustainability.

During the fourth quarter a couple of respondents mentioned the disconnect between multiple markets – between commercial and residential markets and between Class A office product and the rest of the market. A handful of brokers connected the dots on the performance of commercial and residential markets. The longer the return to office is delayed, the more retail and quality life will suffer.

"I'm extremely concerned about how the office and retail situation is going to impact the residential market."

One broker pointed out the gap between Class A office performance and the rest of the market.

"The trophy properties that are renting represent a small part of the overall market. There are millions of square feet available of "commodity office product" that continue to languish regardless of price or amenities being offered."

Finally, it is easy to lose sight of some of the more positive trends that unfolded as 2021 was wrapping up. As mentioned by a few brokers these include: Wall Street bonuses, strength in the city's tech sector and upcoming infrastructure investment.

Wall Street Bonuses (The IBO projects the average bonus will exceed $210,000, exceeding a 2006 record by $20,000).

"Strong equity markets (Wall Street bonuses… 2nd highest) more direct positive impact on resi/luxury."

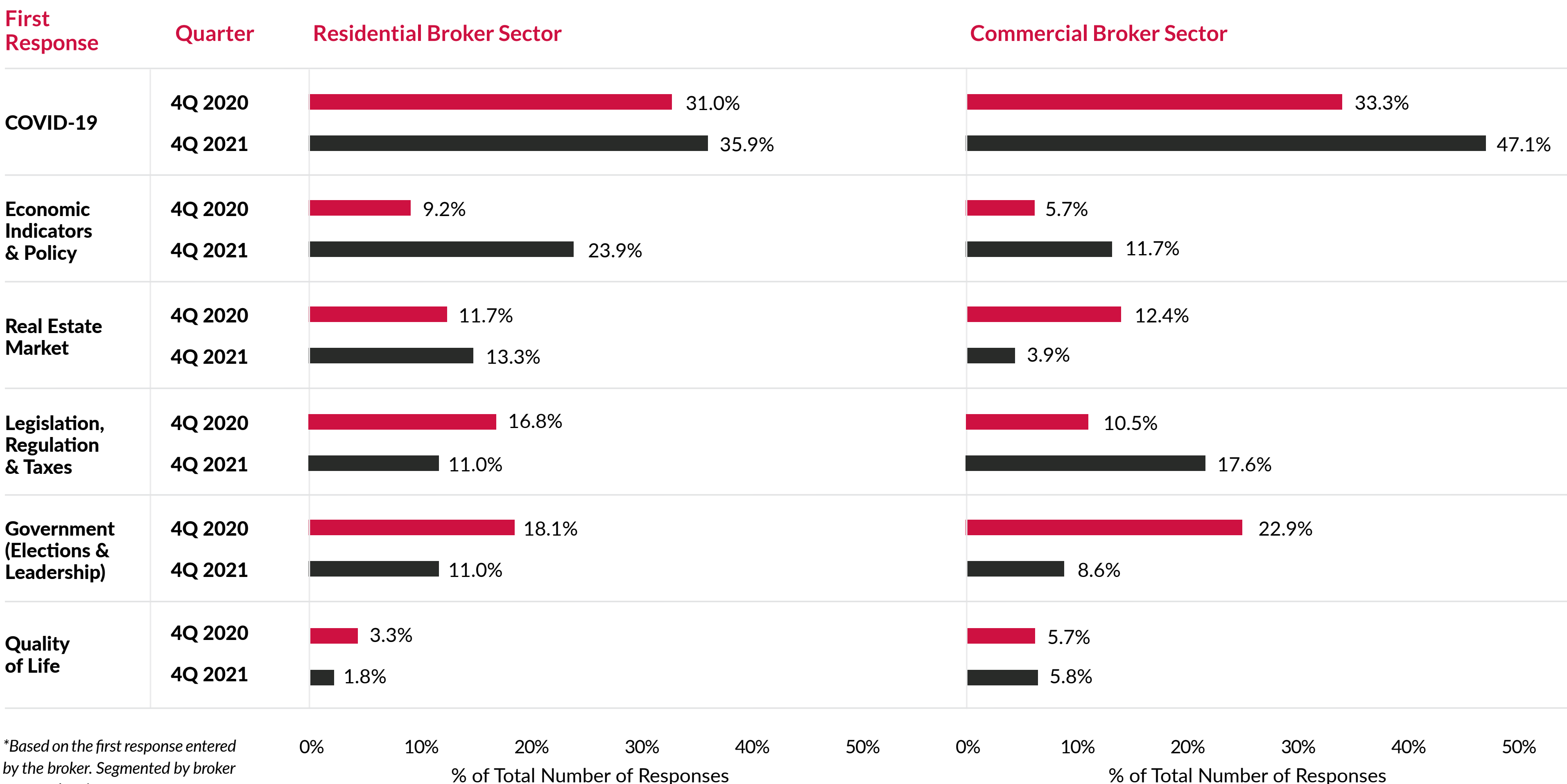
Strong Investment from the City's Tech Sector (Venture capital firms invested $36 billion in New York City startups in 2021, up from $19 billion in 2020).

Infrastructure Funding to Add Jobs and get Key Long-Term Improvements Rolling (Gateway Hudson Tunnel, New JKF terminal, Penn Station, new Metro-North train stops in the Bronx).

"Mass transit improvements: Penn Station renovation/expansion is critical. Opening East Side Access at the end of this year is also essential."

Market Commentary & Analysis (Cont.)

Broker Top Responses (4Q 2020 vs 4Q 2021)*



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

Data Appendix

Table 1: Residential Broker Confidence Indexes

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

Table 2: Commercial Broker Confidence Indexes

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

REBNY
Real Estate Board of New York

Methodology

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 Confidence Index (CCI) and Expectations Index (EXI).