

New York City

Q3-2023 Market Report

HKS REAL ESTATE ADVISORS

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Q3 2023 Quarterly Recap

NYC INVESTMENT SALES

OVERVIEW

New York City investment sales continued facing significant headwinds in the 3rd quarter. Transaction volume totaled \$3.94 billion for the period, well below the \$5.33 billion of Q2 (QoQ) and \$5.32 billion of Q3 2022 (YoY). All boroughs saw decreased transaction volumes, though Brooklyn and The Bronx experienced a slight uptick in transaction counts, albeit with smaller average transaction sizes. As with previous quarters, this illustrates the restrictive effect of recent monetary policy plus the corresponding rise in yields and market stress.

SECTOR PERFORMANCE

Trade volume has declined across property types; multifamily sales totaled \$1.41 billion, down by about 50% YoY. Hospitality (up 26% QoQ) proved a notable exception, with the \$155 million sale of the Mondrian Park Avenue Hotel driving the resurgence. Retail (up 47% QoQ) also outperformed prior periods, likely buoyed by post-pandemic rebounds in tourism and consumer retail spending. Valuations kept relatively steady, with city-wide transaction prices per square foot (PPSF) coming in at \$551 in Q3. Average multifamily PPSF were \$578 for the quarter.

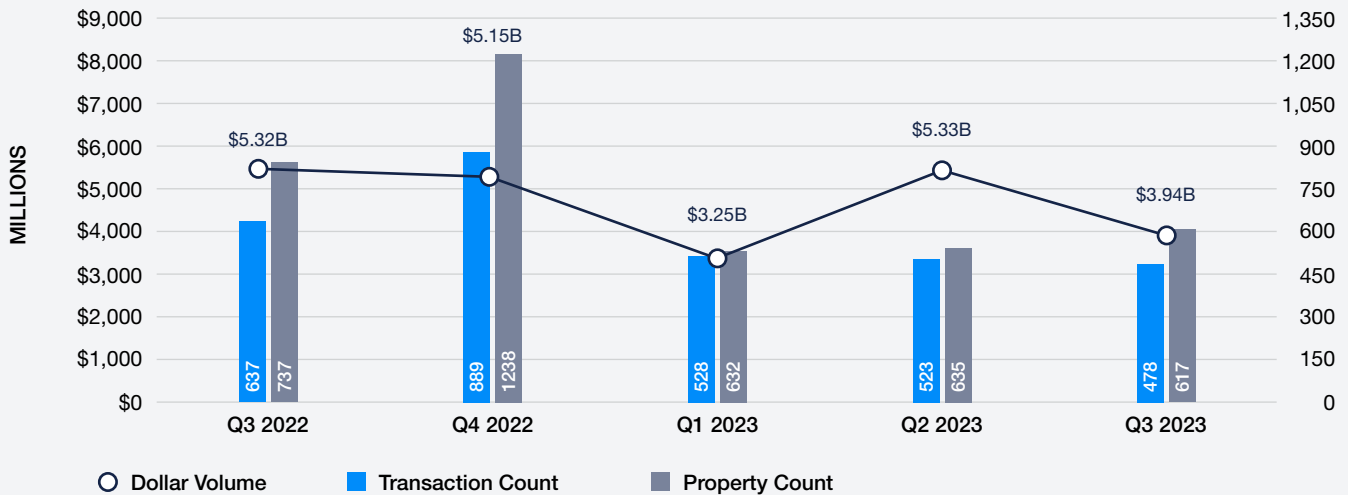
MARKET DYNAMICS

The market remains a complicated one, with bid-ask spreads and a lack of accretive financing especially problematic. Index rates continued their dramatic ascent, though a possible end-state is beginning to take shape. Successful acquisitions are having to accept very conservative lending standards, with low leverage plus high DSCR and debt yield hurdles. Very few non-distressed sellers are proactively participating at this time.

OUTLOOK

For this reason, we believe markets will begin to flush out early in 2024, even if monetary policy remains restrictive, which is likely. Loan maturities, distress situations and opportunistic buying will be a driving force. As we have been saying for a few quarters running, this will create great opportunities for well-capitalized investors to acquire strong assets at attractive valuations.

NYC INVESTMENT SALES

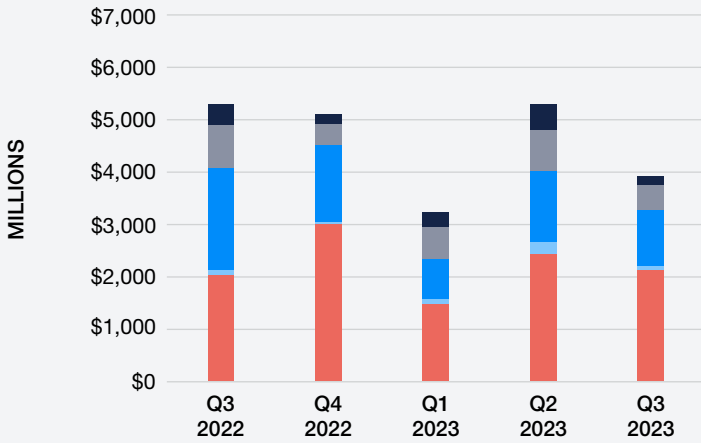


Dollar Volume	Transaction Count	Property Count	Average Price/SF
\$3.94B	478	617	\$551
-26% vs. Q2 23 -26% vs. Q3 22	-9% vs. Q2 23 -25% vs. Q3 22	-3% vs. Q2 23 -16% vs. Q3 22	-1% vs. Q2 23 -4% vs. Q3 22

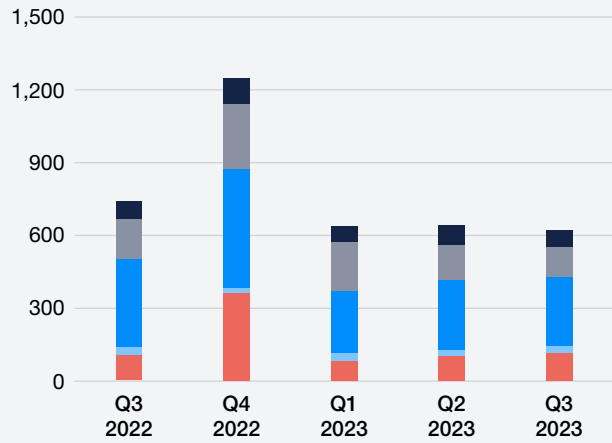


Analysis By Borough

DOLLAR VOLUME



PROPERTY COUNT



	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	QoQ	YoY
MANHATTAN							
Dollar Volume	\$2,014,569,633	\$3,027,197,681	\$1,477,643,663	\$2,438,192,841	\$2,128,682,156	25%	-69%
Transaction Count	96	156	72	82	81	-1%	-16%
Property Count	103	357	80	101	112	11%	9%
N. MANHATTAN							
Dollar Volume	\$119,714,967	\$40,757,996	\$106,781,768	\$244,694,994	\$92,390,339	-62%	-23%
Transaction Count	23	20	19	24	17	-29%	-26%
Property Count	36	20	30	24	28	17%	-22%
BROOKLYN							
Dollar Volume	\$1,964,107,622	\$1,478,888,737	\$768,740,446	\$1,367,040,443	\$1,072,645,376	-22%	-45%
Transaction Count	314	425	235	240	232	-3%	-26%
Property Count	362	486	256	286	283	-1%	-22%
QUEENS							
Dollar Volume	\$816,510,588	\$398,448,638	\$598,407,607	\$773,774,544	\$469,997,816	-39%	-42%
Transaction Count	145	216	146	123	92	-25%	-37%
Property Count	164	268	199	141	121	-14%	-26%
BRONX							
Dollar Volume	\$408,964,487	\$199,854,270	\$296,824,368	\$504,762,695	\$179,835,575	-64%	-56%
Transaction Count	59	72	56	54	56	4%	-5%
Property Count	72	107	67	83	73	-12%	1%
NYC TOTAL							
Dollar Volume	\$5,323,867,297	\$5,145,147,321	\$3,248,397,852	\$5,328,465,517	\$3,943,551,261	-26%	-26%
Transaction Count	637	889	528	523	478	-9%	-25%
Property Count	737	1238	632	635	617	-3%	-16%

Analysis by Property Type



PROPERTY TYPE ANALYSIS:

Quarter Over Quarter | Year Over Year

PROPERTY TYPE	TRANSACTION VOLUME			TRANSACTION COUNT			PROPERTY COUNT			PRICE/SF		
	Current	QoQ	YoY	Current	QoQ	YoY	Current	QoQ	YoY	Current	QoQ	YoY
Multifamily	\$1,411,265,763	-21%	-52%	235	-17%	-35%	297	-8%	-25%	\$578	0%	6%
Mixed-Use	\$192,621,875	106%	-52%	69	44%	-12%	75	50%	-19%	\$656	12%	12%
Office	\$965,339,520	-44%	64%	22	-12%	-31%	21	-28%	-49%	\$573	-9%	-3%
Retail	\$311,662,627	47%	23%	39	-11%	-24%	55	4%	-4%	\$603	-29%	-19%
Development	\$522,011,799	-36%	44%	66	27%	106%	107	9%	143%	\$276	43%	-9%
Industrial	\$164,112,350	-48%	-49%	26	-42%	-38%	38	-27%	-33%	\$662	34%	46%
Hotel	\$292,160,327	26%	218%	8	100%	60%	9	125%	80%	\$618	-28%	31%
Other	\$84,377,000	-44%	-79%	13	-41%	-63%	15	-44%	-65%	\$522	14%	-45%
TOTAL	\$3,943,551,261	-26%	-26%	478	-9%	-25%	617	-3%	-16%	\$551	-1%	-4%

Top Highlighted Transactions

20 HUDSON YARDS, MANHATTAN

PARTIAL SALE



Office Conversion

Price: \$550,000,000

Price/SF: \$1,375

SF: 400,000

Date: 9/20/2023

MONDRIAN PARK AVENUE HOTEL

444 PARK AVENUE SOUTH, MANHATTAN



Hotel

Price: \$155,798,139

Price/SF: \$1,294

SF: 120,400

Date: 07/03/2023

Keys: 190

38 W 19TH ST, 31 E 31ST ST, 449 E 83RD ST, MANHATTAN

PARTIAL SALE



Multifamily (Portfolio)

Price: \$142,400,000

Price/SF: \$561

Lots: 11

SF: 253,655

Date: 8/9/2023

55 BROAD STREET, MANHATTAN



Residential Conversion

Price: \$172,500,000

Price/SF: \$425

SF: 406,025

Date: 7/28/2023

125 THIRD STREET, BROOKLYN



Development

Price: \$30,466,125

Date: 09/12/2023

Buildable SF: 101,852

Price/SF: \$290

Debt Capital Markets

MACRO ENVIRONMENT

Yields rose and spreads widened during the third quarter, as markets belatedly accepted the Fed's longtime rhetoric around their commitment to control inflation. Gone are market expectations of rate cuts in 2023, with "higher for longer" now the consensus. The 10Y Treasury surged over 71 bps during the period (from 3.858% to 4.571%). 5Y yields also jumped significantly (from 4.191% to 4.604%), although less so than the 10Y, indicating a slight un-inversion of the yield curve. SOFR also rose as a result of the Fed's latest 25 bp rate increase, reaching 5.32%.

ISSUANCE AND LENDING CLIMATE

CMBS issuance showed some signs of life, with a slight uptick over Q2 figures, though still well below historical levels. This channel has represented a viable option for many borrowers seeking non-recourse financing without bank deposit requirements. CRE CLO issuance has similarly slowed to a trickle. Regional and community bank lending remains tight, with many institutions on pause or deploying funds only with a risk-off mentality. Most banks are prioritizing existing clients, large deposits for new clients, and largely sticking to non-complex, "bread and butter" transactions involving multifamily properties or fully stabilized real estate.

For existing floating rate loans, borrowers are faced with the difficult quandary of renewing rate caps at prohibitive prices, or refinancing their debt in this inhospitable market, which often involves paying down the existing principal balance.

As maturities continue arriving, a larger share of investors will be faced with this dilemma. The picture is different in the private credit space, where there is a saturation of capital. Private lenders are trying to gain an advantage in a now-competitive landscape by stretching on proceeds and providing other generous terms, in exchange for more expensive pricing. There is significant capital on the sidelines awaiting distressed debt and competitive acquisition opportunities.

CONSTRUCTION FINANCING

We continue to actively finance construction projects, working primarily with debt funds. Similar to the multifamily refinancing market, regional and community banks are shying away from construction lending, with the occasional exception for existing clients. Construction capital, of one flavor or another, remains available for deals with an attractive basis and a strong business plan.

OUTLOOK

Expect the current market conditions to continue into Q4 and the early part of 2024, with ongoing scrutiny and selectivity in lending practices.





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