HKS
REAL ESTATE ADVISORS

New York City

Q4-2022
Market Report

HKS REAL ESTATE ADVISORS

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Q4 2022 Quarterly Recap

INVESTMENT SALES

Not surprisingly, Q4 2022 was a continuation of the trend we saw emerging in Q3 2022. Transaction volume came in at a subdued $5.35 billion across all boroughs in NYC, which was nonetheless slightly above last quarter's $5.04 billion.

The narrative is essentially unchanged. Inflation has remained at historically elevated levels and the Federal Reserve continued to tighten monetary conditions in an effort to combat it. This has caused a readjustment in the capital markets that has filtered to the reality on the ground in the commercial real estate space. As cost of capital has gone up, valuations have necessarily had to adjust downward. Further, the continued uncertainty around a terminal Federal Funds rate has caused the market to feel a degree of trepidation when deploying capital, debt or equity alike, which has caused risk premia and required returns to rise commensurately. Sellers still have not adjusted to this new dynamic, which has caused a dislocation in the market.

Participants are expecting improving conditions in the next few quarters, with the Fed slowing rate increases and market liquidity increasing slightly. A note of caution, however, is that Fed chair Jerome Powell has consistently insisted that the tightening cycle will remain in effect until inflation is properly tamed. With that in mind, investors should not expect an immediate return to the historically loose policy we saw until last year. Further, there remains a relatively high likelihood of economic contraction in the coming quarters, which could have an adverse effect on real estate fundamentals.

This dynamic will present acquisition opportunities for assets with unsustainable debt burdens in the new market paradigm, or for those that have suffered from other factors relating to a weakening economy.

City-wide transaction prices came in at $413 per foot in Q4, with retail properties being the most expensive at $988, followed by office and multifamily at $674 and $492, respectively. Manhattan dominated other boroughs volume-wise, registering over 57% of all transaction volume at $3.02 billion, compared to less than 45% in Q3.

DEBT CAPITAL MARKETS

As benchmark rates rose in Q4 and more broadly throughout the year, we saw a number of emerging dynamics play out.

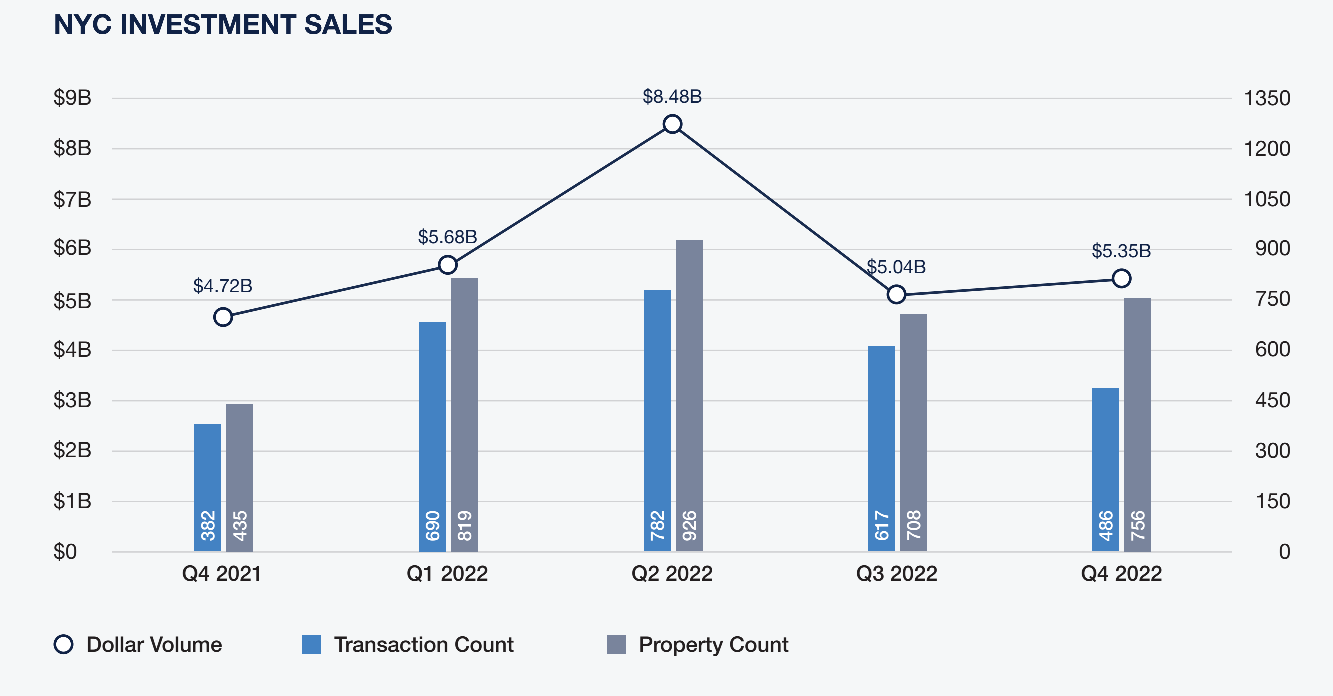
Cost of capital has spiked and that has squeezed a portion of borrowers while dampening discretionary demand for debt capital. Transaction volumes are muted as a wide disconnect currently exists between buyers and sellers, further dampened by the increased cost of interest rate caps which is making floating rate transactions less attractive.

In most cases, borrowers only enter the market out of necessity and so extensions and restructurings are becoming more predominant. Further, as underwriting standards have become more restrictive in this uncertain environment, higher quality assets in premier markets backed by more reliable sponsors will drive the bulk of deals.

CRE CLO issuance, CMBS issuance and money center bank lending is down significantly YoY which has opened the window for higher-yield transitional capital such as mezzanine, bridge and preferred equity, or for smaller, more nimble local banks or private debt which are better able to offer customized solutions. Shorter term paper is gaining traction in the market because it offers more upside flexibility for borrowers and reduced credit risk for lenders.

Debt transaction volumes are expected to recover once interest rate uncertainty, particularly clarity around the terminal Federal Funds rate, abates and transaction velocity picks back up. In the meantime, there aren't signs of widespread distress in the market, but this could easily change if restrictive monetary policy stays in place for an extended period.

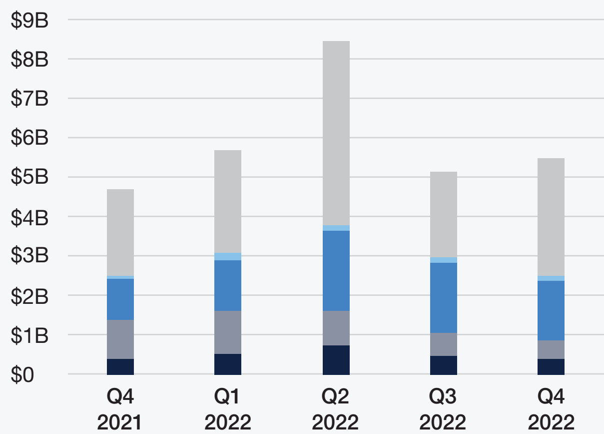
Q4 2022 Quarterly Recap



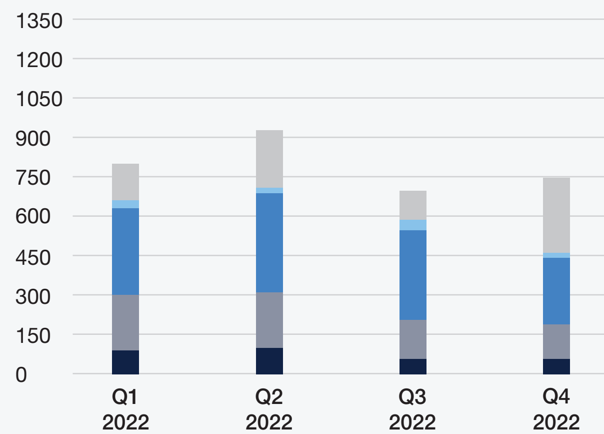
Dollar Volume	Transaction Count	Property Count
$5.35B	486	756
+6% vs. Q3 22 ↑ / +13% vs. Q4 21 ↑	-21% vs. Q3 22 ↓ / +27% vs. Q4 21 ↑	+7% vs. Q3 22 ↑ / +74% vs. Q4 21 ↑

Breakdown By Borough

DOLAR VOLUME



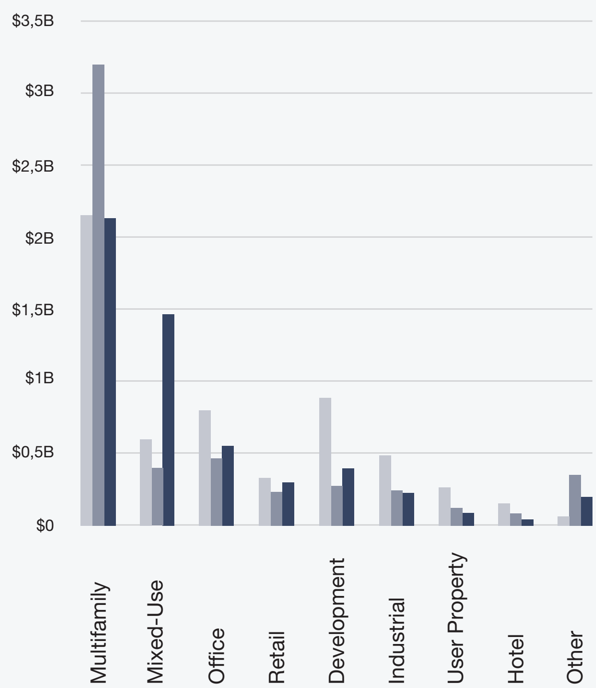
PROPERTY COUNT



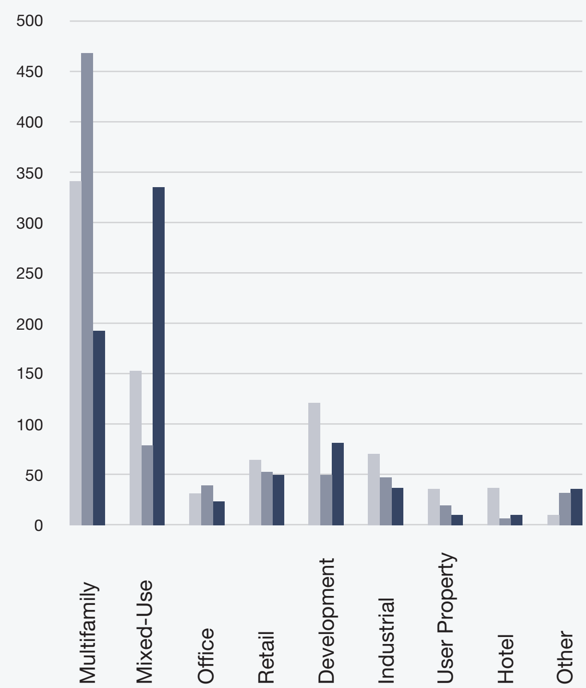
	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	QoQ	YoY
MANHATTAN							
Dollar Volume	$2,223,326,554	$2,609,435,282	$4,601,834,834	$2,100,110,503	$3,010,813,393	+43%	+35%
Transaction Count	80	106	141	106	95	-10%	+19%
Property Count	84	137	174	111	286	+158%	+240%
N. MANHATTAN							
Dollar Volume	$47,707,776	$147,897,000	$76,643,762	$143,046,546	$38,207,996	-73%	-20%
Transaction Count	15	24	20	29	10	-66%	-33%
Property Count	19	27	25	42	10	-76%	-47%
BROOKLYN							
Dollar Volume	$919,314,804	$1,316,124,447	$2,037,594,664	$1,781,871,452	$1,495,065,737	-16%	+63%
Transaction Count	151	303	352	298	227	-24%	+50%
Property Count	173	330	390	342	261	-24%	+51%
QUEENS							
Dollar Volume	$1,076,574,786	$1,108,348,149	$989,662,078	$672,967,513	$491,087,502	-27%	-54%
Transaction Count	86	180	170	133	111	-17%	+29%
Property Count	101	229	223	150	138	-8%	+37%
BRONX							
Dollar Volume	$449,089,438	$500,549,996	$769,878,461	$342,047,287	$310,109,270	-9%	-31%
Transaction Count	50	77	91	51	43	-16%	-14%
Property Count	58	96	114	63	61	-3%	+5%

Breakdown by Property Type

DOLLAR VOLUME



PROPERTY COUNT



Q4 2022 Q3 2022 Q4 2021

Q4 2022 | MoM & YoY

PROPERTY TYPE	TRANSACTION VOLUME			TRANSACTION COUNT			PROPERTY COUNT			PRICE/SF		
	Current	Q3 22	Q4 21	Current	Q3 22	Q4 21	Current	Q3 22	Q4 21	Current	Q3 22	Q4 21
Multifamily	$2,118,520,195	-34%	-1%	168	-60%	-43%	191	-59%	-44%	$492	-13%	-4%
Mixed-Use	$1,465,402,461	+308%	+149%	141	+110%	-5%	334	+334%	+120%	$327	-41%	-33%
Office	$553,295,418	+20%	-29%	21	-25%	-22%	21	-45%	-25%	$674	+6%	+33%
Retail	$264,658,987	+12%	-11%	42	-9%	-24%	50	-2%	-23%	$988	+30%	+27%
Development	$381,593,107	+31%	-57%	51	+50%	-26%	82	+71%	-31%	$233	-28%	-6%
Industrial	$221,883,772	-10%	-55%	27	-25%	-51%	34	-28%	-48%	$451	-1%	-2%
User Property	$95,024,999	-27%	-65%	7	-65%	-74%	7	-65%	-77%	$2,572	+46%	+40%
Hotel	$49,759,958	-46%	-68%	4	-20%	-85%	6	+20%	-81%	$460	-2%	-26%
Other	$175,785,000	-51%	+240%	24	+4%	+300%	31	+15%	+288%	$1,254	+72%	+272%
TOTAL	**$5,325,923,897**	+6%	+13%	**485**	-21%	+27%	**756**	+7%	+74%	**$828**	+5%	-6%

Top Highlighted Transactions

525 E 72ND STREET, 420 E 61ST STREET, 1113 YORK AVENUE & 530 E 73RD STREET, MANHATTAN


Source: Google Street View

Multifamily Luxury Portfolio

Price: $820,000,000
Price/SF: $689
Date: 11/23/2022
Units: 858
SF: 1,189,297

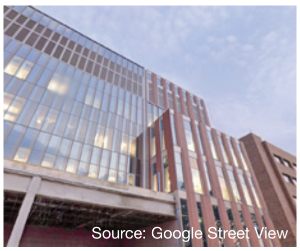
1330 AVENUE OF THE AMERICAS, MANHATTAN


Source: Google Street View

Office

Price: $320,000,000
Price/SF: $640
Date: 11/17/2022
SF: 500,177

355 HICKS STREET, BROOKLYN


Source: Google Street View

Multifamily

Price: $92,083,019
Price/SF: $593
Date: 10/20/2022
Units: 100
SF: 155,198

9006 MERRICK BOULEVARD, QUEENS


Source: Google Street View

Development

Price: $51,450,000
Date: 10/31/2022
$/BSF: $115

960 FRANKLIN AVENUE, BROOKLYN


Source: Google Street View

Industrial

Price: $42,350,000
Price/SF: $477
Date: 11/2/2022
SF: 88,800

159 BROADWAY, BROOKLYN


Designed by Stonehill & Taylor Architects

Multifamily/ Hospitality

Price: $32,000,000
Price/SF: $286
Date: 11/14/2022
Residential Units: 21
Hotel Keys: 235
SF: 112,041

2022 Annual Recap

INVESTMENT SALES

2022 can only be described as a year of two halves. The first two quarters had very high transaction volumes as commercial real estate and the broader capital markets experienced an extended period of strong appreciation and optimism following the end of the Covid-19 pandemic. A raft of Manhattan employers stepped up their efforts to bring staff back to in-person work, causing a rush in the apartment market and historic YoY rental rate increases, further boosted by the end of pandemic-era concessions. The industrial market also saw unprecedented demand, driven by e-commerce adoption, which caused rents and valuations to rise dramatically. Office, hotel and retail all experienced more difficult conditions due to structural challenges which may take some time to resolve.

The second half of the year was a different story, however. As described in the quarterly analysis, persistent inflation and historically aggressive monetary tightening proved to be a strong headwind for the market, causing transaction volume to suffer as a result of valuation and funding uncertainty.

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