New York City

Q3-2022
Market Report

HKS REAL ESTATE ADVISORS

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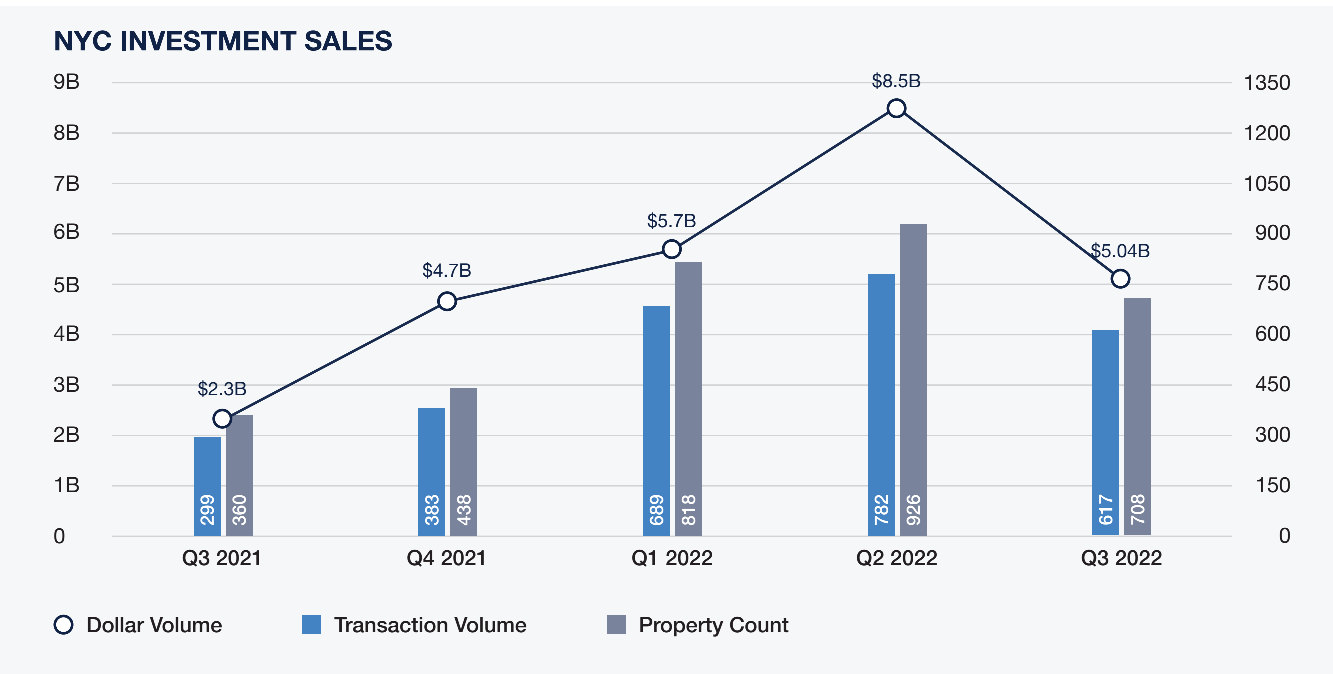
Overview

After a bumper Q2 2022 where New York City recorded over $8.5 billion in investment sales transactions, Q3 2022 was always likely to be less dynamic, and so it proved. The Federal Reserve, facing inflation pressures not seen in several decades, was forced to continue its ultra-hawkish bent and so raised its reference rate by 150 basis points during the quarter. Not surprisingly, the markets reacted negatively to this development and commercial real estate in NYC was no exception, logging a relatively meager $5 billion in transactions during Q3, with broad declines across boroughs and asset classes. Retail and multifamily showed some resilience while office and development suffered more. Overall transaction prices ($/SF), however remained quite steady with an NYC-wide average of around $700. Activity still remains elevated compared to the same quarter in 2021.

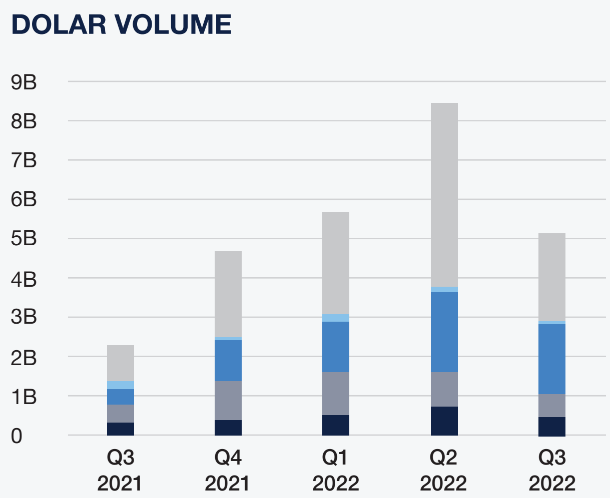
In general, we have seen fewer transactions at a lower average size. There is a widening bid-ask spread and little depth in the market (properties are getting fewer bids) as many sellers are not yet acknowledging the new reality until they are forced to reconsider; current valuations can no longer be based on an environment of much lower interest rates we grew accustomed to over the last 12 years. Another factor complicating the situation is that capital is taking a step back. The market looks very murky and there is too much uncertainty and a smaller risk premium of real estate over corporate bond yields which have spiked significantly, leading investors to look at other asset types.

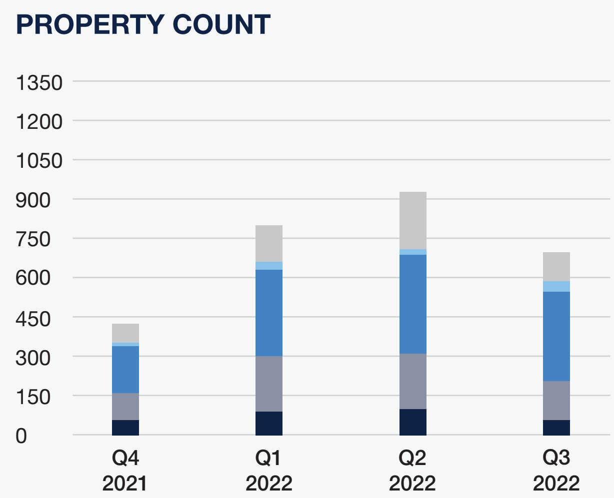
Despite all the recent gloom, it is important to have perspective. Most market participants agree that there is little chance of a 2008-stlye meltdown. Solid fundamentals like much stronger credit standards, the rising cost of homeownership supporting apartment demand and more muted supply underpin the status quo but gloomy days are ahead regardless. Having said that, it is important to remember that opportunities reveal themselves in a correction. Well-capitalized, savvy investors will find a bonanza of cut-price assets with strong fundamentals as loans come due and owners get squeezed by lower valuations, higher rates and less generous lending standards.



Dollar Volume	Transaction Volume	Property Count
$5.04B	617	708
-41% vs. Q2 22 / +119% vs. Q3 21	-21% vs. Q2 22 / +109% vs. Q3 21	-24% vs. Q2 22 / +97% vs. Q3 21

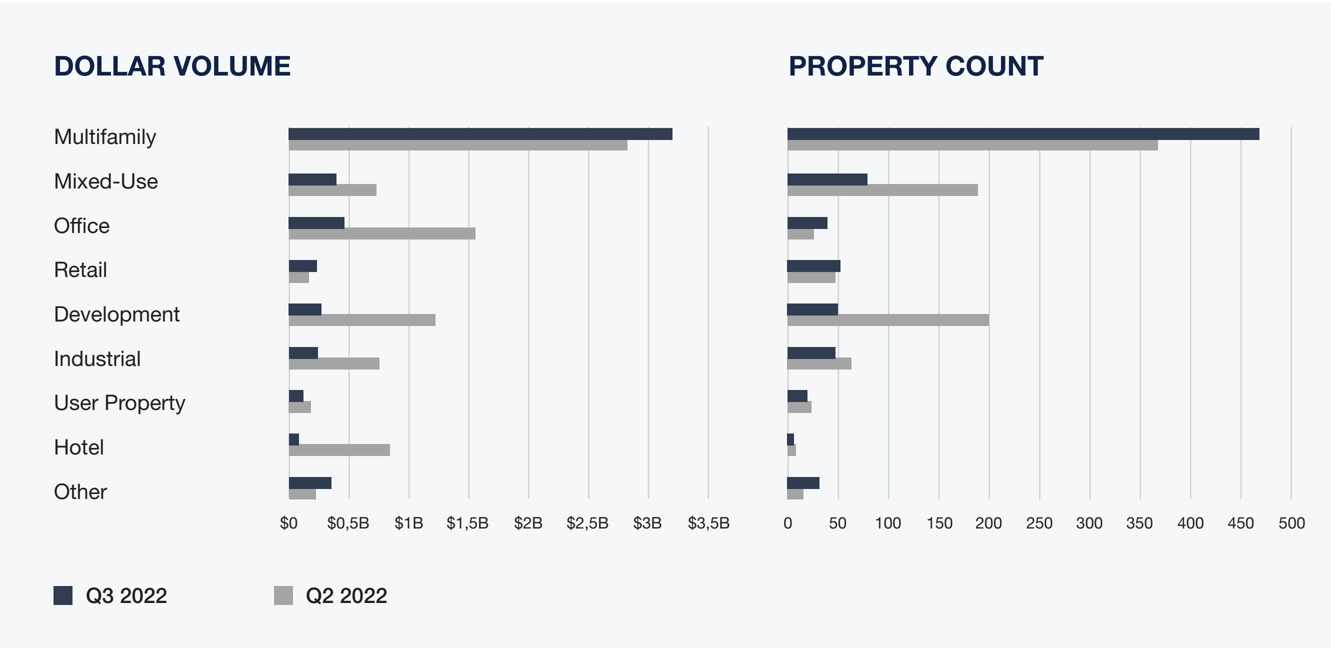
Breakdown By Borough





	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	QoQ	YoY
MANHATTAN							
Dollar Volume	$1,075,688,249	$2,223,326,554	$2,609,435,282	$4,601,834,834	$2,100,110,503	**-54%**	**95%**
Transaction Volume	63	80	106	141	106	**-25%**	**68%**
Property Count	70	84	137	174	111	**-36%**	**59%**
N. MANHATTAN							
Dollar Volume	$18,415,000	$47,707,776	$147,897,000	$76,643,762	$143,046,546	**87%**	**677%**
Transaction Volume	7	15	24	20	29	**45%**	**314%**
Property Count	8	19	27	25	42	**68%**	**425%**
BROOKLYN							
Dollar Volume	$415,751,447	$919,314,804	$1,316,124,447	$2,037,594,664	$1,781,871,452	**-13%**	**329%**
Transaction Volume	121	151	303	352	298	**-15%**	**146%**
Property Count	146	173	330	390	342	**-12%**	**134%**
QUEENS							
Dollar Volume	$489,946,430	$1,076,574,786	$1,108,348,149	$989,662,078	$672,967,513	**-32%**	**37%**
Transaction Volume	67	86	180	170	133	**-22%**	**99%**
Property Count	80	101	229	223	150	**-33%**	**88%**
BRONX							
Dollar Volume	$297,341,154	$449,089,438	$500,549,996	$769,878,461	$342,047,287	**-56%**	**15%**
Transaction Volume	37	50	77	91	51	**-44%**	**38%**
Property Count	55	58	96	114	63	**-45%**	**15%**

Breakdown by Property Type



Q3 2022 / VS Q2 2022

PROPERTY TYPE	TOTAL AMOUNT		# OF SALES		# OF PROPERTIES		AVG. $/SF	
Multifamily	$3,195,504,297	+12%	418	+23%	463	+21%	$562	+5%
Mixed-Use	$359,464,947	-104%	67	-167%	77	-142%	$600	+6%
Office	$459,695,500	-242%	28	+18%	38	+34%	$638	-57%
Retail	$236,211,871	+21%	46	+26%	51	+8%	$760	+25%
Development	$291,784,297	-318%	34	-315%	48	-317%	$322	+23%
Industrial	$247,458,616	-209%	36	-19%	47	-28%	$457	-11%
User Property	$130,912,168	-47%	20	-5%	20	-5%	$1,760	-16%
Hotel	$92,000,000	-769%	5	-60%	5	-60%	$472	-41%
Other	$357,126,552	+43%	23	+52%	27	+52%	$728	+57%
GRAND TOTAL	**$5,370,158,248**	-58%	**677**	-16%	**776**	+28%	**$700**	-6%

% change vs Q2

Top Highlighted Transactions

160 RIVERSIDE BOULEVARD, MANHATTAN

Multifamily

Price: $415,000,000
Price/SF: $791
Date: 7/14/2022
Keys/Units: 459
SF: 524,466

114 FULTON STREET, MANHATTAN

Multifamily

Price: $487,500,000
Price/SF: $1,107
Date: 9/23/2022
Keys/Units: 485
SF: 440,553

126 WEST 46 STREET, MANHATTAN

Hotel

Price: $49,500,000
Price/SF: $434
Date: 9/23/2022
Keys/Units: 2
SF: 113,969

6010 BAY PARKWAY, BROOKLYN

Other

Price: $81,500,000
Price/SF: $563
Date: 9/9/2022
Keys/Units: 17
SF: 144,764

3 METROTECH CENTER, BROOKLYN

Office

Price: $122,000,000
Price/SF: $266
Date: 8/31/2022
Keys/Units: 4
SF: 457,966

1859 BRONXDALE AVENUE, BRONX

Industrial

Price: $6,000,000
Price/SF: $437
Date: 9/12/2022
Keys/Units: 1
SF: 13,720

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Debt Markets Analysis

The debt capital markets have been experiencing significant turbulence as steeply rising rates and geopolitical turmoil take their toll. Using CMBS data as a proxy for the broader lending ecosystem, we see that origination volumes have experienced precipitous declines in the New York City metro area. We saw two deals each for multifamily and office for the entirety of Q3 2022, totaling $484 million. This is a 94% decline from the recent peak we saw in Q4 2019. Rate movement has been less telling, though there is an undeniable upward trend. Through Q3, debt and equity markets have begun to realize the downward trend in the economy and have reacted accordingly, both via raising rates and lenders being more selective on deals. In anticipation of further rates increases over the next 24 months, borrowers have been proactive in locking in rates.

BANKS

Despite the turbulence in the capital markets and broad expectation for it to continue in the short term, banks remain liquid and active in the market for assets that fit their credit boxes. We have been prioritizing execution efficiency and the ability to lock interest rates at LOI when deciding which banks to deal with. Borrowers have remained on the sidelines and are only transacting on an as-needed basis, mostly when their current debt matures.

BRIDGE AND CONSTRUCTION

We are still seeing demand for bridge debt, with the spread between traditional and private lending rates tightening in recent weeks. Many investors in value-add deals have been working with debt funds which are able to deploy capital efficiently. Construction debt has also remained a strong component of our pipeline with multifamily rents nationwide remaining historically strong. We have had success identifying lenders that are not only available but also flexible on terms and can tap into their balance sheet, both in the New York metro area and other MSAs across the country.

AGENCIES

Fannie/Freddie remain an expensive option compared to regional and community lending institutions, even if they still have ample capital available to be an effective multifamily resource for situations where liquidity isn't as prevalent.

CMBS

The uncertainty for CMBS remains a concern, primarily due to the difficulty in offloading securitized products in the secondary markets. CMBS products remain available for blue chip assets with strong sponsorship, although currently not ideal due to high pricing, ancillary costs and uncertainty of execution.

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