REAL ESTATE ADVISORS

1H20

BLOCK BY BLOCK

B6 Real Estate Advisors NYC Market Insights.

A comprehensive data analysis providing macro and micro market trends for NYC commercial real estate.





1H20

Market Update

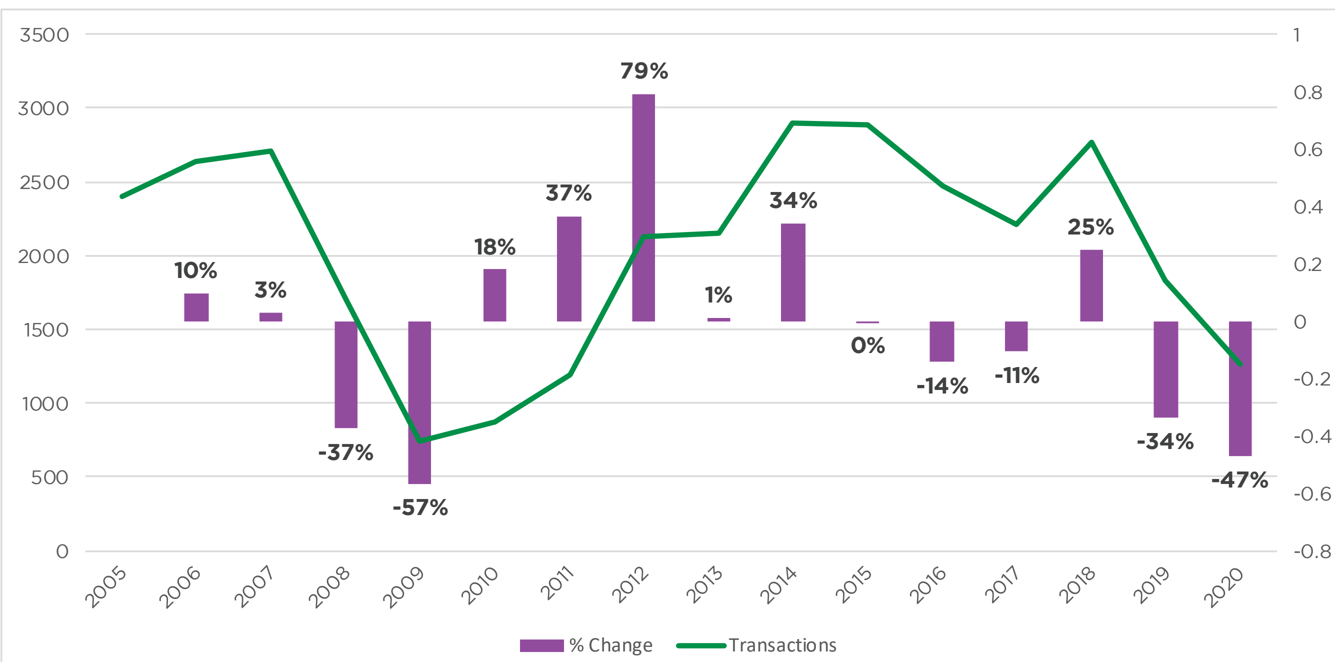
After a challenging year in 2019, 2020 started off in positive fashion with the first quarter showing promising returns in both dollar volume and transactions. The market finally began to show signs of life following the rent regulation changes in June 2019 as dollar volume and transactions appeared to be trending back towards long-term averages. The first quarter saw an increase in quarter over quarter transaction activity for the first time since 3Q17, logging a 33% increase in sales from 4Q19.

4Q19 to 1Q20

↑ 33%

The first quarter saw an increase in quarter over quarter transaction activity for the first time since 3Q17.

Annual Transaction Growth 2005-2020*



Source: B6 Real Estate Advisors

**2020 is an annualized figure*

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Market Update

However, with the rise of COVID-19, any optimism for a property market recovery in 2020 has all but disappeared as the city and property owners struggle to combat the virus and the financial impact the crisis has delivered.

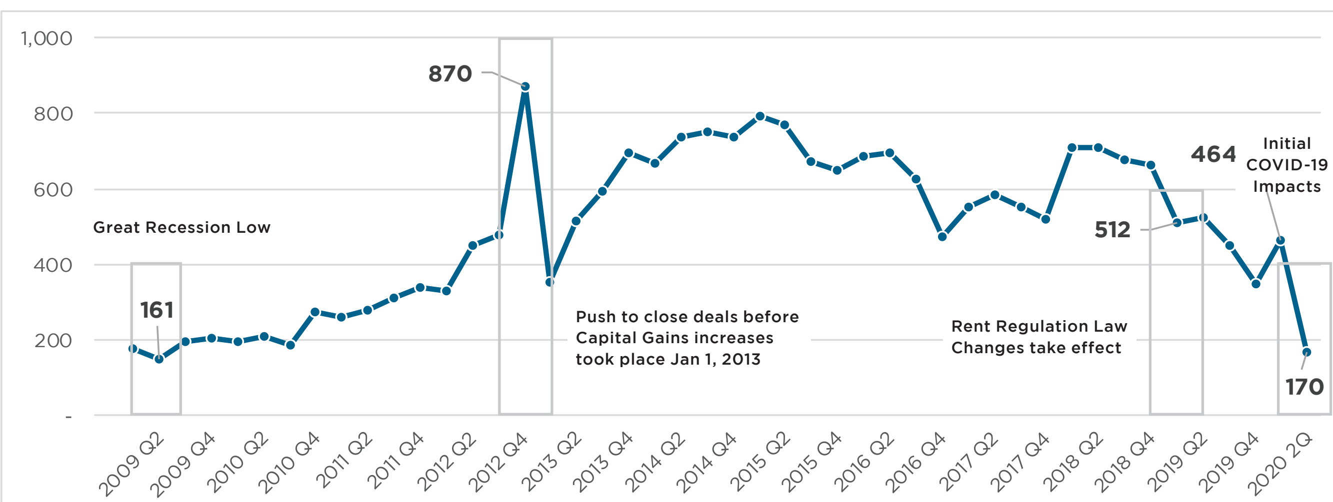
With New York City entering mandatory quarantine in March, 2Q20 delivered the worst quarterly property market performance in more than 11 years with just 170 transactions closing citywide, barely eclipsing the all-time low set in 2Q09 of 161 transactions. The second quarter's performance was 66% off the quarterly average of the last 10 years and fell short of 1Q20's performance by 63%. With 3Q20 expected to produce similar results to 2Q20, we expect New York City to see fewer than 1,000 annual transactions for the first time since 2010 as investors and landlords focus on liquidity preservation and portfolio management through the next quarter rather than acquisitions.

1Q20 to 2Q20

↓ 63%

The second quarter's performance was 66% off the quarterly average of the last 10 years.

Quarterly Transactions 1Q09-2Q20



Source: B6 Real Estate Advisors

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Market Update

Powered by 1Q20, the first half of 2020 had 634 transactions for $11.16B of activity. Transaction volume for the first half of the year was down 39% and 55% when compared with 1H19 and 1H18. Total dollar consideration reached $11.16B, with only $3.5B of that occurring in 2Q20. The second quarter of 2020 was the lowest dollar tally since 1Q11, 85% off the market peak of $24.4B set in 4Q15 and 60% off the average quarterly dollar volume for the past 10 years.

Transaction Volume

↓ 39%

Compared to 1H19

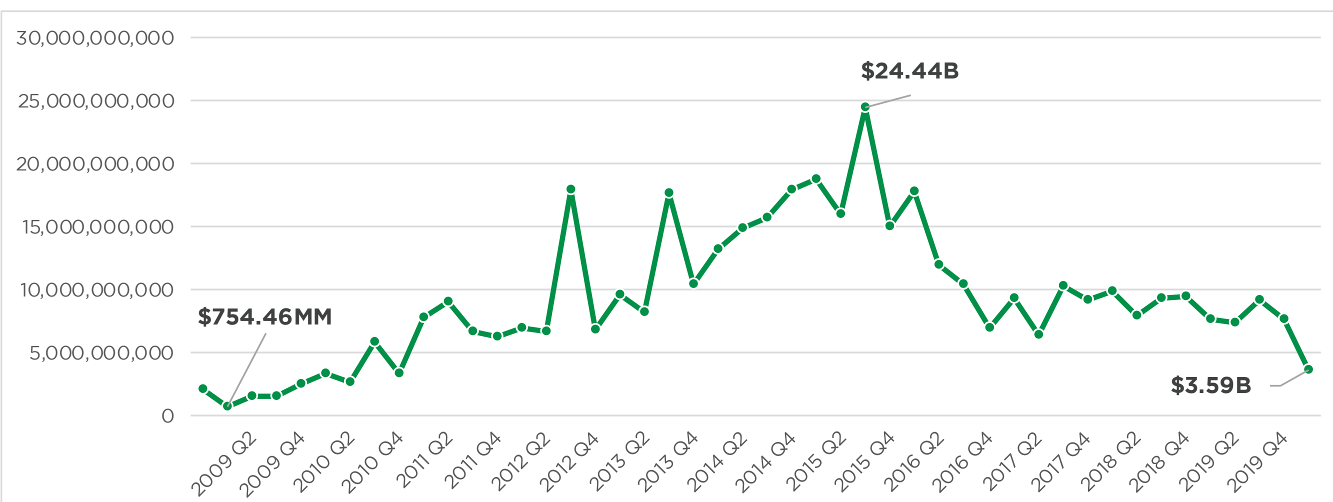
Transaction Volume

↓ 55%

Compared to 1H18

On a market level, Manhattan accounted for over 70% of total dollar volume with $8.05B of the $11.16B in 1H20. Brooklyn recorded 291 transactions through the first half of the year or 45% of total transactions, with only 76 of those closing in 2Q20. This is the first time since 2011 that Brooklyn failed to log more than 100 transactions in a given quarter. Manhattan saw its worst ever quarter of production since 2009 with only 43 sales in 2Q20 for a total of 140 for the first half. The Bronx and Queens rounded off 1H20 results with 81 and 122 sales, respectively.

Quarterly Dollar Volume 1Q09-2Q20



Source: B6 Real Estate Advisors

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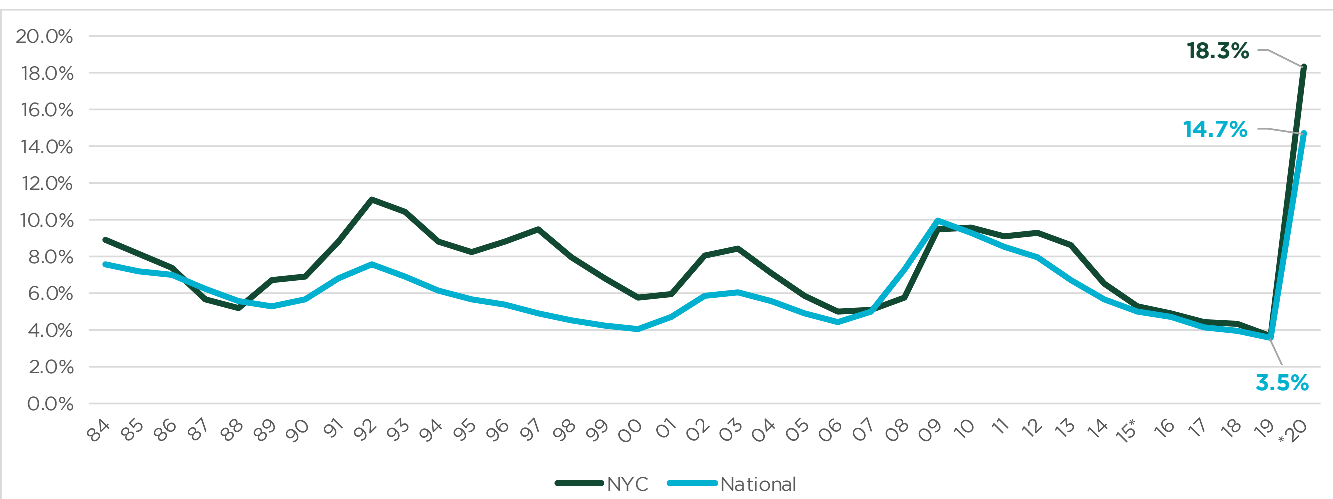
Market Update

What are the drivers affecting the market during COVID-19

With COVID-19 affecting not only the property sector but the broader global markets, questions over commercial real estate's performance have become a growing concern for investors and real estate professionals alike. While the volume of transaction activity has fallen in a similar fashion when compared to the start of The Great Recession, the drivers and outcomes of COVID-19 are different from The Great Recession.

The Great Recession's lack of available liquidity from over leveraged banks led to the seizing of the property market over a 24-month period from 2008-10. COVID-19 has resulted in immediate shock waves for sectors already facing external threats such as retail (fight against e-commerce) and multifamily (rent regulation law changes) as a record number of American's lost their jobs and NYC unemployment reached 18% in May. In addition, according to The Real Deal 25% of residential tenants and 64% of ground floor retail tenants did not pay rent in May.[1]

National & NYC Unemployment Rate*



Source: U.S Bureau of Labor Statistics https://www.bls.gov/regions/new-york-new-jersey/data/xg-tables/ro2xglausnyc.htm

[1] *The Real Deal, Kromrei, Georgia https://therealdeal.com/2020/05/19/about-25-of-nyc-renters-didnt-pay-in-may-survey/*
**Through May 31, 2020*

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Market Update

What are the drivers affecting the market during COVID-19

Investor confidence has been shaken in ways never seen due to COVID-19. In a recent poll by the Pension Real Estate Association, 74% of respondents said they have temporarily shelved CRE investment plans as social distancing and fears of a second wave keep retail, office, and hotel sectors viability muted for the duration of the year.[2]

Despite a considerable amount of 'dry powder' on the sidelines prior to the outbreak, 2020 will see a continued reduction in transaction volume. Capital sources will monitor their liquidity and investors will prioritize portfolio management and capital conservation, as the threat of a prolonged and deep crisis looms. We anticipate retail and multifamily in New York City to continue to struggle and dampen transaction volumes. In June, the CMBS retail delinquency rate spiked 793bps to 18.07%. The overall CMBS delinquency rate jumped 317bps to 10.32% from May, the largest month over month uptick since 2009, and second highest default rate in history behind July 2012 according to Trepp.[3]

CMBS June Retail

↑ 793bps (18.07%)

Retail Delinquency Spike

CMBS Overall

↑ 317bps (10.3%)

Largest Uptick Since 2009

Trepp[3]

Both retail and multifamily accounted for nearly 65% of all transactions in 2019. E-Commerce related industrial properties such as warehouses should realize significant attention along with retail properties where pharmacies and grocers operate. We believe the broader economy's effect on liquidity within the capital markets will dictate how the property markets are able to navigate the crisis and ultimately bounce back from it.

[2] *Pension Real Estate Association, PREA.org*
[3] *Trepp, TREPP.com*

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Methodology

All metrics presented in this report — Dollar Volume, Transactions, Price per Square Foot, and Price Per Buildable Square Foot — are based on closed sales that occurred before June 15, 2020. Only portfolios located within Manhattan, Brooklyn, Bronx, or Queens with a sale price of at least $1,000,000 were included in our calculations. We consider the divide between the Manhattan and Northern Manhattan markets to be 96th Street on the eastside and 110th Street on the westside. Data comes from Reonomy, RCA, ACRIS, NYC Open Data, and our own data repositories.

We used the following definitions to record the property type of each transacted building:

- C1, C2, C4, C5, C9
- D1, D2, D3, D5, D8, D9
- K4 and all "S" classes (S0, S1, S2, S3, S4, S5, S9)
- select "K" classes (K1, K2, K3, K5, K6, K9) / select "R" classes (R5, R7, R8, RK)
- All "O" classes: (O1, O2, O3, O4, O5, O6, O7, O8, O9) and RB
- All "E" classes (E1, E3, E4, E6, E7, E9), all "F" classes (F1, F2, F4, F5, F8, F9) and RW
- G0, V0, V1, and other properties purchased for development

FOR MORE INFORMATION, PLEASE CONTACT:

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