REAL ESTATE ADVISORS

# 1H21

# 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.





# 1H21 - MARKET UPDATE

## Will optimism lead to post-COVID recovery sales?

- **NYC investment sales transactions in the second quarter increased 20% from the first quarter of the year and 16% from 2Q20**
- **Dollar volume for investment properties continues to yo-yo quarter over quarter with 2Q21 ending with $4.7 billion citywide, an increase of 104% from 1Q21**
- **Since the property recovery began in 4Q20, average monthly transactions have outpaced the monthly average of the first 3 quarters of 2020 by 10%**
- **We still expect transactional activity to return to the long-term quarterly average of 487 transactions beginning in 3Q21**

A sense of optimism and excitement is being felt in the investment sales property market following the easing of COVID restrictions and the reopening of many businesses in New York City. Employees are beginning to return to the office and individuals who left the City during COVID are returning, as evidenced by recent rental velocity picking up in the residential sector. While the transactional numbers have yet to fully demonstrate that optimism, there are promising signs indicating that the second half of the year should return to the transactional averages of 2018. Through July there have been 720 sales in New York City, with 392 occurring in the second quarter. The second quarter of this year was up 16% from the same time last year, when COVID's effects were tangibly felt on the property markets. On a bi-annual basis, the property markets have held a trend line around 720 sales in each of 1H20, 2H20 and 1H21, demonstrating the prolonged difficulties the property markets have faced over the last 18 months.

We do, however, expect the third and fourth quarters of the year to exceed 500 transactions per quarter, returning the investment sales market to its historic long term average.

## 2Q21 MARKET AND PROPERTY TYPE INFORMATION

| | | Development | Industrial | Mixed use | Multifamily | Office | Retail | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Brooklyn | Transactions | 17 | 12 | 38 | 36 | 3 | 11 | 27 | **144** |
| | Dollar Volume (in millions) | $76.8 | $84.1 | $72.6 | $115.1 | $66.8 | $40.1 | $106.2 | **$562** |
| | Price per SF | - | $459.0 | $550.0 | $352.0 | $550.0 | $507.0 | | **$484** |
| | Price per Buildable SF | $247.0 | - | - | - | - | - | - | **$247** |
| Bronx | Transactions | 12 | 3 | 4 | 7 | 0 | 3 | 9 | **38** |
| | Dollar Volume (in millions) | $175.8 | $120.6 | $6.6 | $37.6 | $- | $7.3 | $124 | **$472** |
| | Price per SF | - | $422.0 | $234.0 | $168.0 | $- | $610.0 | | **$287** |
| | Price per Buildable SF | $157.0 | - | - | - | - | - | - | **$157** |
| Manhattan | Transactions | 8 | 2 | 13 | 34 | 10 | 8 | 20 | **95** |
| | Dollar Volume (in millions) | $66.7 | $16.9 | $107.1 | $648.7 | $1,238.8 | $223.4 | $701 | **$3,003** |
| | Price per SF | - | $514.0 | $820.0 | $746.0 | $881.0 | $1,022.0 | | **$797** |
| | Price per Buildable SF | $272.0 | - | - | - | - | - | - | **$272** |
| Queens | Transactions | 10 | 19 | 18 | 14 | 5 | 21 | 28 | **115** |
| | Dollar Volume (in millions) | $28.1 | $214.9 | $32.9 | $43.1 | $7.7 | $86.5 | $258 | **$672** |
| | Price per SF | - | $563.0 | $476.0 | $280.0 | $686.0 | $126.0 | | **$426** |
| | Price per Buildable SF | $179.0 | - | - | - | - | - | - | **$179** |
| New York City | Transactions | 47 | 36 | 73 | 91 | 18 | 43 | 84 | **392** |
| | Dollar Volume (in millions) | $347 | $437 | $219 | $845 | $1,313 | $357 | $1,190 | **$4,708** |
| | Price per SF | - | $489.5 | $520.0 | $386.5 | $529.3 | $566.3 | | **$564** |
| | Price per Buildable SF | $218 | - | - | - | - | - | - | **$218** |

*Source: B6 Real Estate Advisors*

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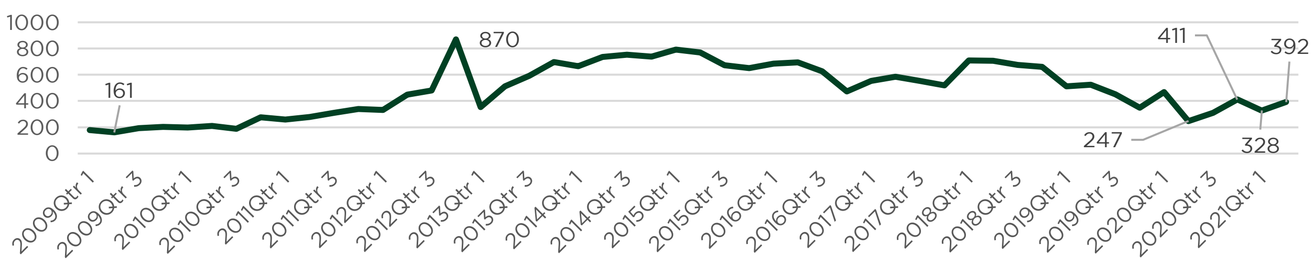
## Transactional Activity

There were a total of 392 transactions across Brooklyn, The Bronx, Manhattan and Queens in the second quarter of 2021. This is an increase of 19.5% from 1Q21, but 20% off the long-term average (2009-2021) of 487 transactions per quarter. On a dollar volume basis, the market rebounded from a weak first quarter ($2.3 billion) to finish 2Q21 with $4.7 billion in activity. 2Q21 was anchored by a few large sales in Manhattan, such as 520 Broadway for $324 million and 11 East 26th Street for $235 million.

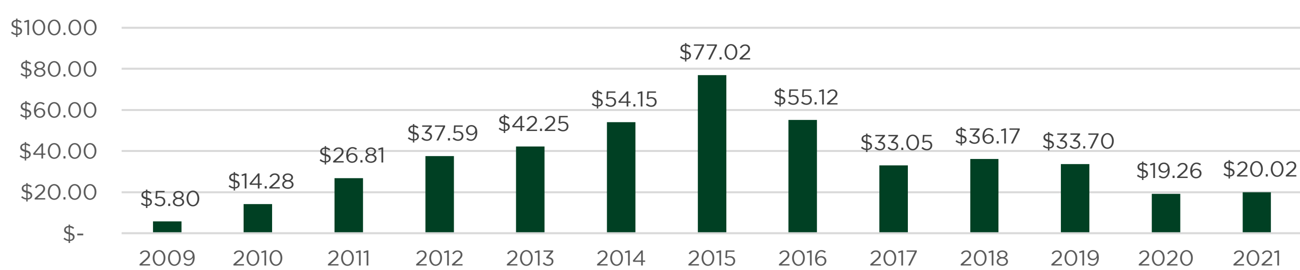
Unsurprisingly, Manhattan accounted for most of the dollar volume in New York City, with $3 billion in sales, or 63% of total sales volume, while contributing 25% of total transactions. In the outer boroughs, Brooklyn led all markets with 144 sales for $562 million, with multifamily and mixed-use contributing over half of the sales. The Bronx recorded 38 transactions for the quarter for $472 million, while Queens saw 115 sales for $672 million. Queens has been the steadiest market during the COVID era and the only market to record increases in transactions every quarter since 2Q20.

Price per square foot citywide saw a positive uptick, primarily from the retail and office sectors that pushed pricing to $550 through the second quarter. While pricing has risen from the drop in 2Q20, it still remains below 2019's year-end average of $629. We expect pricing to modestly increase as more office and retail properties are sold. However, mixed-use and multifamily pricing will continue to under perform 2019 levels and may drop further, particularly affecting the Brooklyn and Bronx markets.

### NEW YORK CITY - QUARTERLY TRANSACTIONS




### NEW YORK CITY - ANNUALIZED DOLLAR VOLUME (IN MILLIONS)




*Source: B6 Real Estate Advisors*

# 1H21 - MARKET UPDATE

## From the blocks of...

## Brooklyn

**DJ JOHNSTON**
Partner, Sr. Managing Director
Investment Sales

"Brace for a hyperactive second half as investors build confidence due to rising rents, inexpensive debt, and readily accessible equity. Sellers should meet in the middle as they gear up to transact before the looming tax bill goes into effect in 2022.

The rent law changes of 2019 are going to continue to drag down price per square foot, but transaction volume will rebound in a big way. The rent laws and pending expiration of the abatement program in June of 2022 is going to create a supply issue for free market units in NYC. That is bad for tenants, but good for landlords that own free market units, as those rents should rise due to increased demand. Free market properties that already have long-term abatements, or benefit from a protected tax class, should really appreciate in value the next few years."

## The Bronx

**MITCHEL FLAHERTY**
Director
Investment Sales

"The Bronx market has proven to be resilient throughout COVID. Neighborhood retail and the industrial (5-25k square feet) market have been pockets of strength and market values and transaction volume in these asset classes have been consistent. There is a great deal of affordable housing under construction, and the renewal of the 421A tax abatement and fluidity of HPD city funding are essential to making sure the ongoing affordable housing targets are met.

Real estate is believed to be an extremely effective inflationary hedge, given that leases mark to market on an annual basis. Going into what many predict will be a period of higher inflation, that is an extremely attractive investment characteristic and, along with looming tax and policy changes, will drive transactional activity for the remainder of the year."

# 1H21 - MARKET UPDATE

## From the blocks of...

"In Manhattan, the first half 2021 resembled much of 2020 - muted transaction volume, lower prices, and lack of inventory on the market for sale. Buyers flush with capital trying to pencil deals were faced with headwinds, most notably the after-effects of COVID, rising taxes and an uncertain political/regulatory environment.

The numbers seem to tell an unimpressive story for Q2, but what they do not show is the palpable optimism around the second half of 2021 and 2022 that we are hearing from our clients and market participants. For the first time since 2020, speculation has returned to the Manhattan building sales market.

Transactions that closed in the last six quarters (excluding those that closed in Q1/Q2 of 2020 which were under contract pre-COVID) were executed by investors confident in their "base-case" business plans. They were not underwriting rent growth, aggressive leasing timelines, tenant buy-outs or improving market fundamentals. Today though, with COVID apparently receding in the rear-view mirror, investors are beginning to speculate, once again, that the future market will be better than the current one. When investors can model higher rents and less downtime, they are willing to pay more for assets, thus driving activity.

Improving market fundamentals, looming capital gains increases, and people returning to the office in September all point to increased transaction volume in Manhattan moving forward. And while it may not play out all at once, we are optimistic for the second half of 2021."

## Manhattan

**ALEX WOODLIEF**
Director
Investment Sales

# 1H21 - MARKET UPDATE

## From the blocks of...

## Queens

**THOMAS A. DONOVAN**
Partner, Vice Chairman
Investment Sales

"In the second half of 2021 we anticipate velocity to increase in Queens. With the rise in vaccinations, and people returning to their pre-COVID lifestyles, consumer confidence is rising. A surge in consumer confidence will undoubtedly lead to more transactions.

There are still some concerns among some investors heading into the end of the year. The new rent laws drastically affected the multifamily market and, despite recent traction, rent-stabilized properties are still struggling to recover to pre-2019 levels. Additionally, the future of both Affordable NY, which is set to expire in 2022, and of the 1031 Exchange, remains in limbo. Should capital gains taxes increase or 1031 Exchanges be eliminated, there may be a flurry of activity in the market.

We expect the next two quarters to be busy as many real estate investors look to take advantage of the city opening back up, while others deal with the uncertainty of the near future."

## Capital Markets

**PETE CABRERA**
Director
Capital Advisory

"The commercial real estate capital markets are poised to continue their recovery though the second half of 2021.

Over the past six months, as travel and indoor dining restrictions have been lifted and vaccination efforts have expanded, embattled asset classes such as retail and hospitality have attracted desperately needed liquidity in the form of debt or equity recapitalization.

As we look towards the end of 2021 and into 2022, we expect these asset classes to capitalize on this positive momentum and stabilize.

With interest rates still at historic lows and institutional equity sources off the sidelines, we expect the Industrial, Life Sciences, Self-Storage and Multifamily asset classes to continue to outperform, with Office, Retail and Hospitality assets continuing their recovery towards pre-COVID levels."

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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, 2021. 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 east-side and 110th Street on the west-side. 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:

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

*[1] Core asset types are Multifamily, Office, Mixed use, Industrial and Retail*

**FOR MORE INFORMATION, PLEASE CONTACT:**

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