News

New York State of Market

4 Things N.Y.'s Commercial Real Estate Industry Is Watching For In 2020

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With just a few weeks left of this decade, the city's real estate community is looking back on 10 years of enormous growth and change, and forward to what the 2020s may bring.

Laws governing how buildings are built and run are top of mind, as are the kinds of businesses and industries that will drive New York City's economy and how development in the city can stand up to the headwinds in its path, experts discussed at *Bisnow*'s New York 2020 Forecast Wednesday.

Here are four big things the industry will be watching for as it moves into the 2020s.

Shifts In the Condo Market Are On The Way

Bisnow/Ethan Rothstein

Extell Development CEO Sush Torgalkar and Windels Marx Lane & Mittendorf LLP partner Sanjay Mody

The headlines for the city's condominium market throughout 2019 has been brutal — largely pointing to a flood of high-end product languishing on the market. There are reportedly around 9,000 for-sale units in Manhattan that haven't found buyers, according to appraisal firm Miller Samuel, a statistic that many developers find troubling, whether they say it publicly or not.

With some of the world's priciest residential homes in New York City, the shakeout of the supply glut is something the entire industry is watching with intense interest.

"I think there may be some distress and some interesting entry points, whether it's through [recapitalizations] or the like, it's certainly a space that we are focused on," Morgan Stanley Executive Director Michael Givner said.

He said that everyone has seen the reports of unsold apartments, and added that about 30% of the apartments sold have come on as shadow rental inventory.

"I do think we will see some repricing in the condo space," Givner said.

That is already happening, Extell CEO Sush Torgalkar said. The market is softer than in the past, but buyers are now responding to the decrease in asking prices and incentives, he said, which sponsors are now using in abundance — reportedly with limited results.

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"Too many buildings were built at the same time. But put supply aside, demand is continuing to be strong," he said. "What we are now seeing, post Labor Day, traffic has picked up, activity has picked up, prices have become negotiable and concessions are up."

Regulation Will Necessitate New Investment Strategies

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Bisnow's John Whitney, Durst Organization Vice President Philip Skalaski, CodeGreen principal Chris Cayten and Rosenberg & Estis Member Joshua Kopelowitz

Tectonic shifts are underway in the city's multifamily market after major rent reform passed this summer. Though welcomed by housing advocates, the real estate industry has slammed the new laws, and in terms of investment activity, the regulations — which limit the ways in which landlords can deregulate and raise rents — have already had a large impact.

Multifamily sales volume dropped 60% in the third quarter of 2019 from the year before, according to Ariel Property Advisors, falling from $2.2B last year down to $889.7M.

Rosenberg & Estis Member Joshua Kopelowitz said whole business models have been "blown up" by the regulation, but though the dust is settling, there are some new approaches starting to take shape. It is now an era of "do your homework," he said, meaning looking more closely at a building's leases, max exposure and ledgers in ways that were not as crucial in years gone by. There are also new opportunities presenting themselves, he said.

"I'm seeing a lot of people now, they're hunting through the weeds for rent-controlled units because, if you get a building with a bunch of rent-controlled units, if you can get that tenant out, that unit can go to a market rate," he said. "It's still going to be regulated, but the first rent is going to be at market."

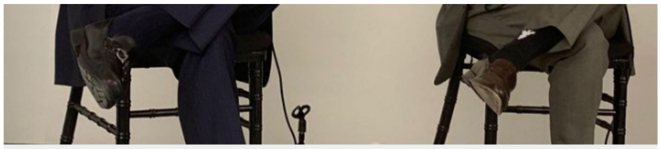
He said some investors are now targeting "mom-and-pop" owners who were affected by the law and are under pressure to sell.

"Maybe one of the units is vacant," Kopelowitz said. "I take care of the other tenants and I do a substantial rehab. And now I get the building out from regulation altogether."

Meridian Capital Group Senior Executive Managing Director Helen Hwang said there is now a huge focus on spending time on getting investors comfortable with the assets, but pointed out there is a greater change happening for which the industry should be prepared.

"This is a different political environment ... And people say real estate is at an inflection point, I think the world is at an inflection point," she said. "I think we have to be open to the fact that there's going to be some changes happening."

Midtown Needs A Rebrand To Survive The Office Leasing Market



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Colliers International NY Tri-State President Michael Cohen and MdeAS Architects principal Dan Shannon

For most of 2019, the city's office leasing market has been on fire, with record-high rents and better-than-expected leasing volume. Several office deals — like Facebook's decision to sign a 1.5M SF, three-building lease at Hudson Yards and Google's plan to establish an enormous headquarters in Hudson Square — are expected to define the city as it moves into the 2020s.

But major office moves to new buildings in Hudson Yards and Downtown have come at a cost: Midtown's perch as the city's dominant submarket.

"Midtown South is the preferred submarket for the millennials, so its path has become very clear. Midtown and Downtown are more complicated," Colliers International NY Tri-State President Michael Cohen said, adding in the last quarter, the availability in Midtown was higher than Downtown for the first time in 10 years.

"Midtown is roughly down 10M SF of tenancy over the last 10 years ... Most of the tenants that moved around this island have migrated out of Midtown."

He told the audience that the submarket is now dealing with a "terrible" brand problem.

"One of the millennials in my office said that Midtown is where fun goes to die," Cohen said. "2020 will be an interesting year to observe how Midtown rebrands itself. How long will it take, who will it attract and how will it evolve over the next 10 years?"

How Operators Will Adjust To The Flat Hotel Market

Bisnow/Miriam Hall

Envelope City Zoning Services Director Eldad Gothelf

It was more bad news for the hotel market this year, amid an environment of flat revenue per available room, rising costs and vast amounts of development in the pipeline.

In fact, in the words of Newmark Knight Frank co-Head of Lodging Adam Etra earlier this year, there was widespread optimism about 2019, but the first quarter turned about to be "really ugly."

But where there is pain, there is always opportunity, panelists pointed out.

"Capital deals are hard to get done in New York. There's a bit of an oversupply," Hodges Ward Elliot Managing Director Paul Gillen said. "But I think our guys would say that we've probably bottomed out, and there's probably some good opportunities there. There's plenty of product on the market."

Hidrock Properties CEO Abie Hidary, who has developed multiple hotels in Manhattan, said the hospitality market has been flat for the past three years. In response, Hidrock has stayed profitable by finding savings.

"The important thing that we found, in hospitality is managing expenses ... managing payroll, having people doing the right jobs and keeping a lean staff providing what guests want when they come to New York City," he said. "The hotels we are building have a great room, a clean bathroom, not a lot of amenity space and not a lot of staff, and what we found is that's a recipe for success."

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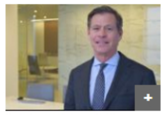
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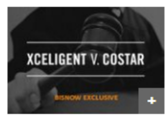

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