

# WELCOME TO COFFEE & CAP RATES

Home Edition | COVID-19



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Asset Evaluations  
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## LEGAL OUTREACH INFORMATION



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OPENING REMARKS

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# AGENDA

CURRENT STATE OF  
THE MARKET

PANEL  
DISCUSSION

## NYC MARKET ACTIVITY

\$9.65B (-48%)

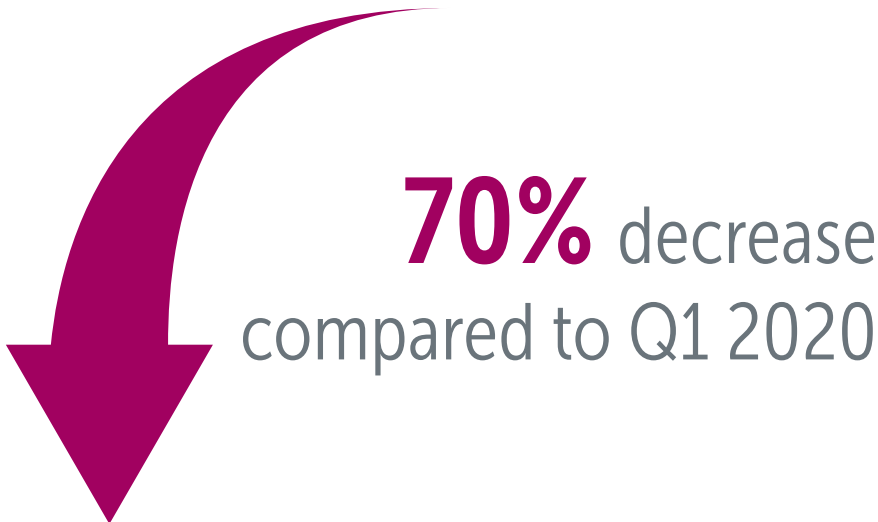
DOLLAR VOLUME  
VS. 1H 2019

653 (-40%)

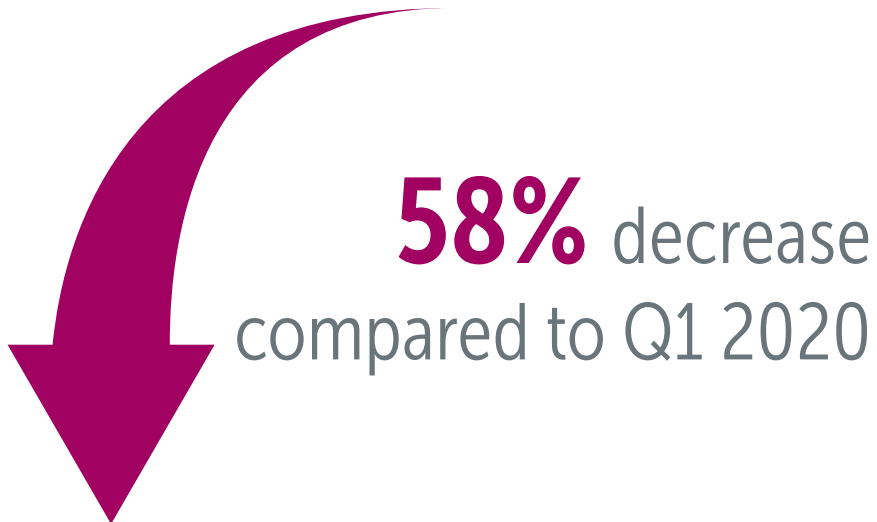
TRANSACTION VOLUME  
VS. 1H 2019

NYC Q2 ACTIVITY

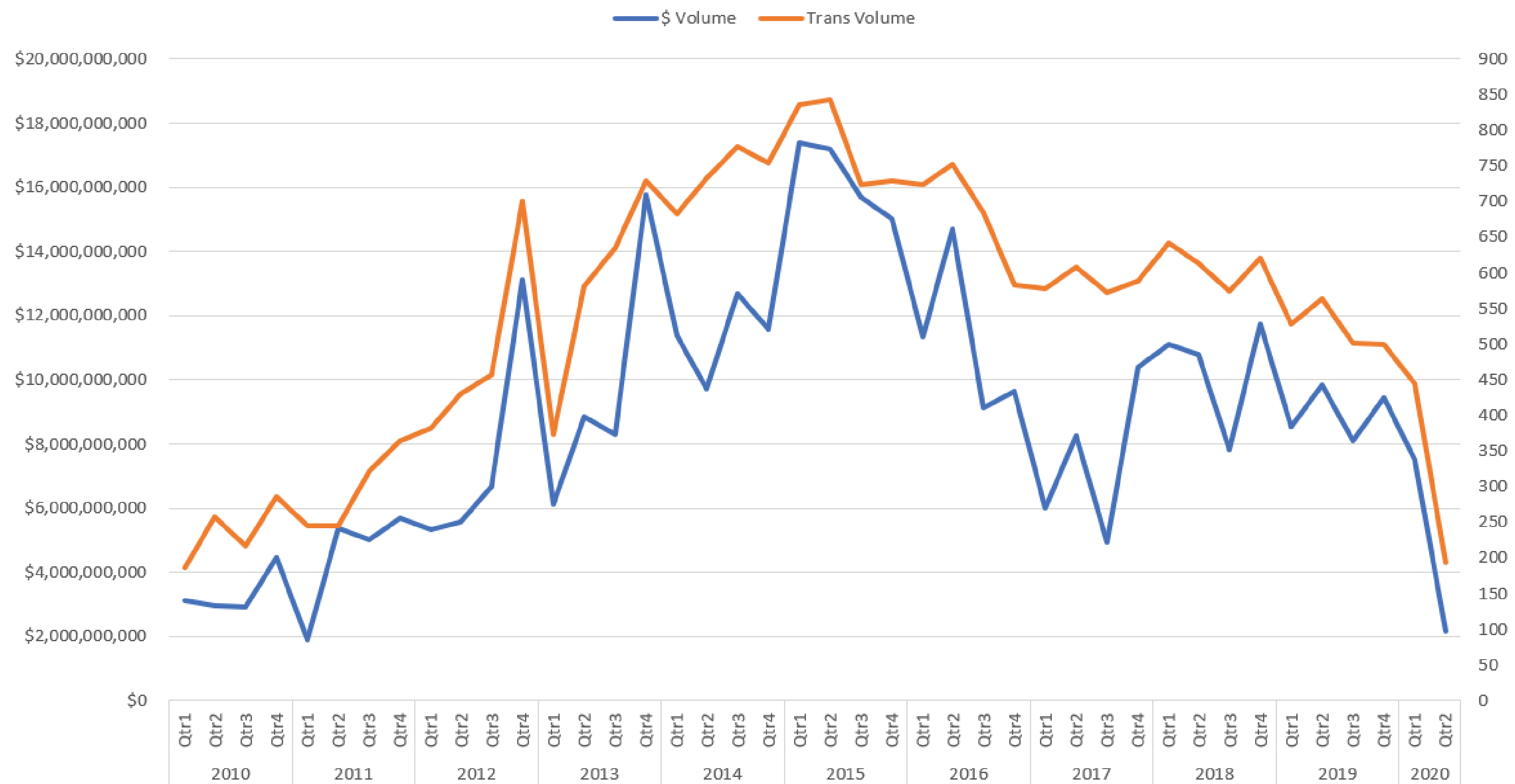
**\$2.13B**  
Dollar Volume



**189**  
Transaction Volume



# NYC QUARTERLY INVESTMENT SALES 2010 - Q2 2020





# NYC REAL ESTATE DECADE HIGHLIGHTS

2010



Google purchased an office building in Chelsea for \$1.9 billion



Co-working giant WeWork was founded and placed its HQ in NYC

2011

USCIS made a number of changes to the EB-5 program in hopes of increasing the number of applicants.

More than 3,800 EB-5 applications had been filed by the end of 2011, compared to fewer than 800 applications in 2007

National 9/11 Memorial officially opened the day after the anniversary of the attacks



2012

Barclays Center, a multipurpose indoor arena, opened in September of 2012



President Barack Obama was re-elected for a second term

Hurricane Sandy, clocked in at a Category 3 storm, hit the eastern seaboard devastating New York by flooding homes, businesses and the New York City Subway system

Hudson Yards, the largest private real estate project in the history of the USA, broke ground in 2012 (opened in March 2019)

The High Line, a 1.45-mile-long elevated park, completed its second phase in 2012 (phase 3 was completed in 2014)

2013

The City Planning Commission and Industrial Development Agency approved plans by FreshDirect to relocate its facility from Long Island City to the vacant Harlem River Yards in The Bronx

Citi Bike, New York City's bike share system, launched with 6,000 bikes throughout Manhattan and Brooklyn



The Crown Heights West Rezoning was approved with the goal of maintaining the existing character of the neighborhood and to introduce height limits

Four World Trade Center opened with 1.8 million square feet of office and retail space

2014

One World Trade Center opened with 3.5 million square feet of space



Bill De Blasio elected Mayor of NYC

Significant capital improvements began at JFK and Laguardia airports





2015

## LARGEST TRANSACTION OF THE DECADE

### STUY-TOWN PORTFOLIO

Property Type: **Multifamily**

Sale Amount: **\$5.46B**



7-line subway expansion added a new stop in Manhattan at 34th Street and 11th Avenue

The Rent Act of 2015 changed the method for calculating rents on vacancy leases; high-rent deregulation; Major Capital Improvements (MCI's); and applicable penalties

Most Transactional Year of the Decade

2016

President Donald Trump elected

World Trade transportation hub, known as the Oculus, was completed



COLUMBIA UNIVERSITY  
IN THE CITY OF NEW YORK

Columbia University expanded in Northern Manhattan at Manhattanville campus

**CORNELL  
NYCTECH**

Cornell Tech Campus opened on Roosevelt Island

Mayor Bill de Blasio created the Mandatory Inclusionary Housing program

East New York in Brooklyn was rezoned with the plan to build 1,300 affordable units

421a Program Expiration

2017

Affordable NY program enacted to replace old 421A program

Second Avenue subway was created with three new stations on the Upper East Side



Amazon bought Whole Foods

East Harlem Rezoning approved to create affordable housing

Greater East Midtown rezoning approved, which allowed developers to build new Class-A commercial buildings

Downtown Far Rockaway rezoning approved to bring 3,000 residential units to the neighborhood

2018

Opportunity Zone program created to promote development in certain communities in return for tax credits



Amazon bid for HQ2 in Long Island City and then withdrew its plan

The Tax Cuts and Jobs Act (TCJA) made several significant changes to the individual income tax

92-block stretch across Jerome Avenue in the Bronx was rezoned

2019

Rent Law Regulations Enacted - The Housing Stability and Tenant Protection Act of 2019

Proposed Inwood rezoning annulled

US - China - Trade War

Unemployment at a 50-year low

The Federal Reserve cut the Fed Fund Rate for the first time since 2008

Amazon signed a new lease for 335,000 square feet on Manhattan's west side in the new Hudson Yards neighborhood, where it will have more than 1,500 employees

**facebook**

Facebook signed leases at both Hudson Yards and the Farley complex for more than 3 million square feet of office space

# OVERVIEW BY ASSET CLASSES



## April

- Occupancy rate approx. 20% <sup>(2)</sup>
- Closed hotels plan to reopen in July
- NYC leased 20 hotels to house medical staff and surplus patients
- Many hotels are offering their rooms for free or at-cost

## Current

- Occupancy rate approx. 47.1% <sup>(2)</sup>
- 25,000 rooms might not come back online <sup>(1)</sup>
- The dependence on foreign tourists could take the hotel market years to recover
- Daily room rates fell by nearly \$130 compared to 2019 <sup>(1)</sup>
  - The current ADR is \$122
- FEMA agreed to reimburse the cost of housing homeless people in hotels during pandemic

<sup>(1)</sup> New York Business Journal

<sup>(2)</sup> Real Deal





## RETAIL

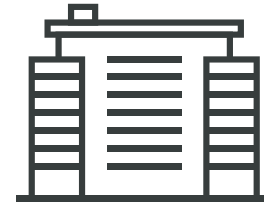
### April

- Collections at approximately 30%
- Forced shut-downs / unable to pay rent
- 90-day moratorium on evictions
- Vacancy rates expected to rise

### Current

- NYC entered phase 4
- Retail and outdoor seating is now open
- Retail vacancies are rising
  - Pre-pandemic retail vacancy held around 12% for the past three years <sup>(1)</sup>
- Landlords restructure leases and focus on filling vacancies
- Retail rents are driving downward

<sup>(1)</sup> Newmark Knight Frank



## OFFICE

### April

- Collections at approximately 50%
- Co-working industry is the most affected due to short-term leases
- Decision making on leasing and acquisition is delayed

### Current

- Manhattan office leasing is the lowest since 2009 (72% decline) <sup>(1)</sup>
- Vacancy expected to rise 25%+ by 2021 <sup>(2)</sup>
- Downward pricing pressure
  - Office rents dropping by 20% <sup>(2)</sup>
  - Declining state of surrounding retail
  - Working from home shifts demand
- Co-working companies explore flex office opportunities

<sup>(1)</sup> Crain's New York

<sup>(2)</sup> Moody's Analytics



## MULTIFAMILY

### April

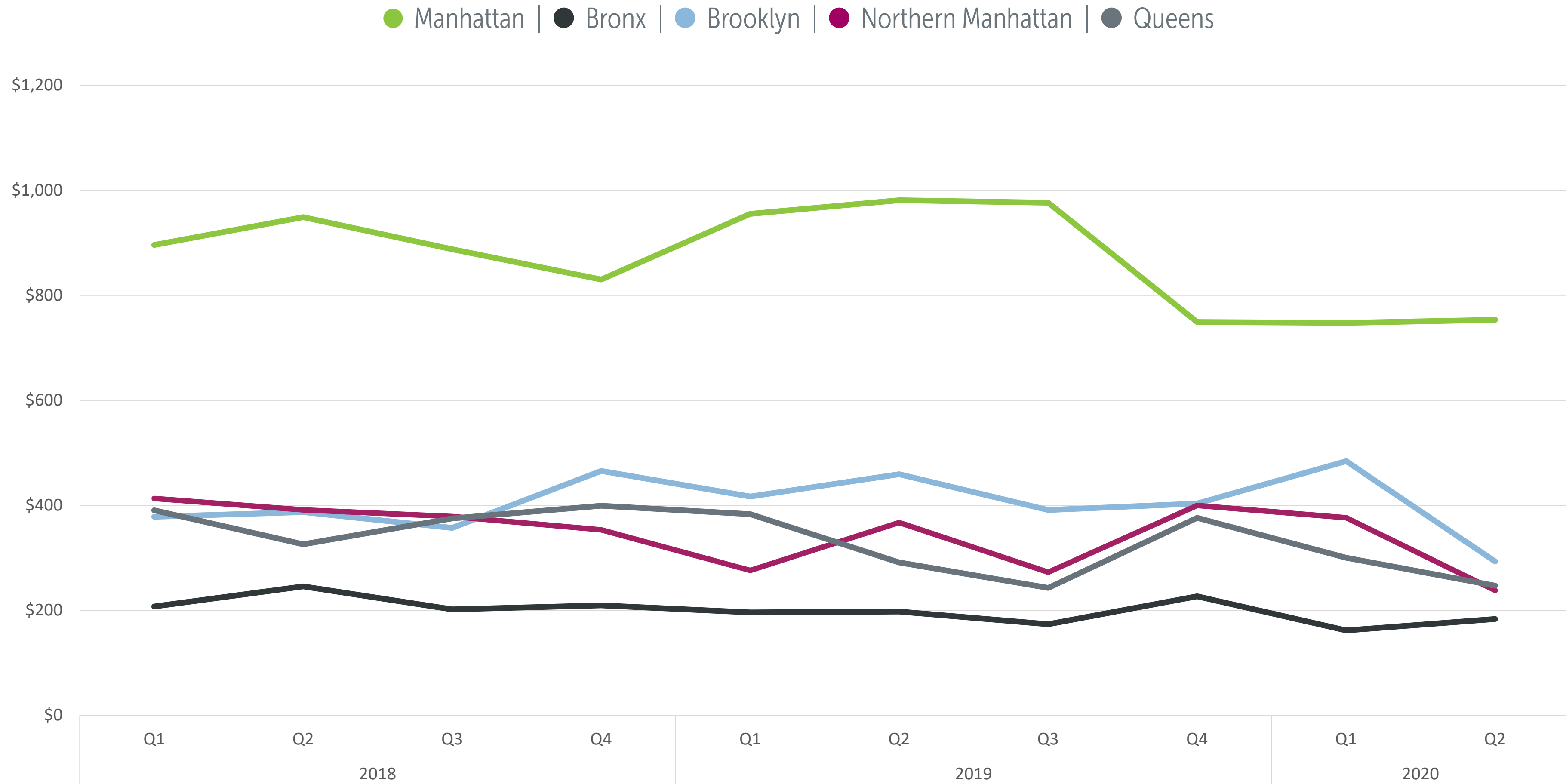
- Collections approximately 84%
- Rent strike
- Landlords offering partial deferrals or outright forgiveness

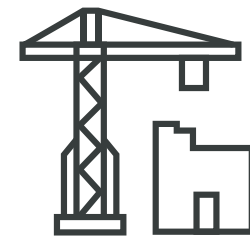
### Current

- Steady collections for FM units between 80-90%
- FM units battle higher vacancies
  - Residential leasing decline
- RS unit collections between 50-75%
- RGB freezes one-year leases
- Project Based Section 8 is considered a stable asset
- Eviction moratorium extended through August



# MULTIFAMILY PRICING \$/SF





## DEVELOPMENT

### April

- Supply chain problems
- New York on Pause orders
- April 1st developers were allowed to file applications to be labeled essential
- Multifamily developments with at least 30% affordable units are considered essential

### Current

- Dollar volume: \$1.7 billion (-40%) vs 1H 2019
- Transactions: 111 transactions (-56%) vs 1H 2019
- Construction timelines delayed and capacity reduced
  - Non-essential sites resumed construction on June 8th
- 36k new residential units filed in 2019 <sup>(1)</sup> will be coming online over the next two years

<sup>(1)</sup> YIMBY



## WAREHOUSE / INDUSTRIAL

### April

- Considered a stable asset
- E-commerce will drive demand for last mile logistic centers

### Current

- Last mile logistic centers and warehouses are in high demand due to spike in online shopping
- Amazon signed the two largest leases in Q2 <sup>(1)</sup>
  - 26-66 Metropolitan Ave
  - 1055 Bronx River Ave
- Industrial vacancy rates fell to 4.8% <sup>(2)</sup>
- Average asking rents remained consistent at \$23 per square foot <sup>(2)</sup>

<sup>(1)</sup> BISNOW

<sup>(2)</sup> CBRE



## LENDING ENVIRONMENT

- The Federal Reserve announced that they will keep interest rates near zero until 2022
- Lenders are aggressively selective based on product type, sponsorship, and certainty of collections
  - Some lenders are requiring “COVID-19 reserves” at closing
    - 6-12 months of any combination of principal, interest, or taxes
- CMBS lenders completely paused in March & April, but are now beginning to close loans again

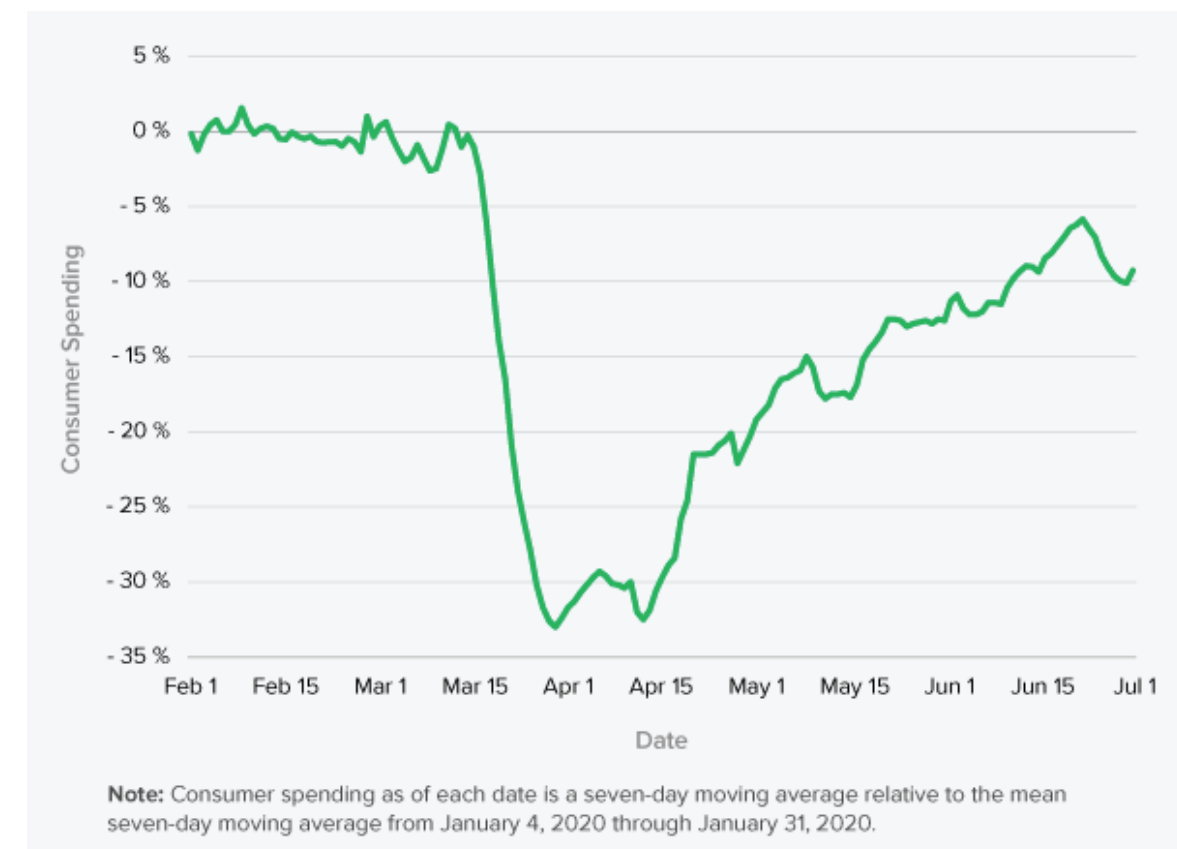
## MACRO

- The government increased spending in order to address the economic downturn from COVID-19 and enable growth in the long term
  - CARES Act
  - Payment Protection Program
  - Commercial Paper Funding Facility, Fannie Mae, and Freddie Mac are all backed by the Federal Reserve
- The stock market is climbing back
- Reopening of the economy
- Presidential election



Source: Forbes

## TOTAL CONSUMER SPENDING COMPARED TO JANUARY 2020



Source: Economic Tracker

## NYC REITs

- Share value fell by 54%+ for Empire State Realty Trust, SL Green Realty, Vornado, and Paramount <sup>(1)</sup>
- Equity Residential leases high-end apartments making it less vulnerable to the negative effects of COVID-19
  - EQR was able to raise their first quarter earnings by 6% <sup>(3)</sup>
    - Achieved higher collection rates than competitors
- Avalon Bay hit a 5-year low in share value. (-30%) <sup>(3)</sup>
  - The REIT's dividend held steady or increased each year since 1993

**EMPIRE STATE**  
REALTY TRUST

**SL GREEN**  
REALTY CORP.

**VORNADO**  
REALTY TRUST

**AvalonBay**  
COMMUNITIES, INC.

**PARAMOUNT**  
GROUP, INC.

 Equity Residential

<sup>(1)</sup> Real Deal <sup>(2)</sup> Million Acres <sup>(3)</sup> Motley Fool



## MICRO

- New York entered into Phase 4
  - Schools are able to open pursuant of state guidelines
    - Columbia, NYU, Fordham, CUNY schools, and other NYC schools plan to reopen in the fall
- Shifting political environment
  - NYC is projected to lose \$9 billion in tax revenues
    - \$457 million cut made to the HPD budget
  - Defund NYPD movement
  - Upcoming mayoral and governor elections

## CONCLUSION

### SHORT TERM (12 MONTHS)

- Rising cap rates / downward pricing pressure
- Vacancy rates rising in retail, office, and FM units
- Bright spots
  - High demand for warehouse
  - High demand for Project Based Section 8

### MIDTERM (12-24 MONTHS)

- Price discovery will lead to lender/buyer comfortability, thus leading to more transactions
- Demand for affordable housing will continue to increase

### LONG TERM (TIME TBD)

- Affordable rental rates will entice young people to move back into the city
- The hotel market will return as tourism becomes prevalent in the city again
- Office market will recover as companies reposition themselves for the long term

## PANEL DISCUSSION



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# THANK YOU FOR ATTENDING

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