

Manhattan 2022 Year-End Commercial Real Estate Trends

by Ariel Property Advisors
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Investment Sales
Capital Services
Research

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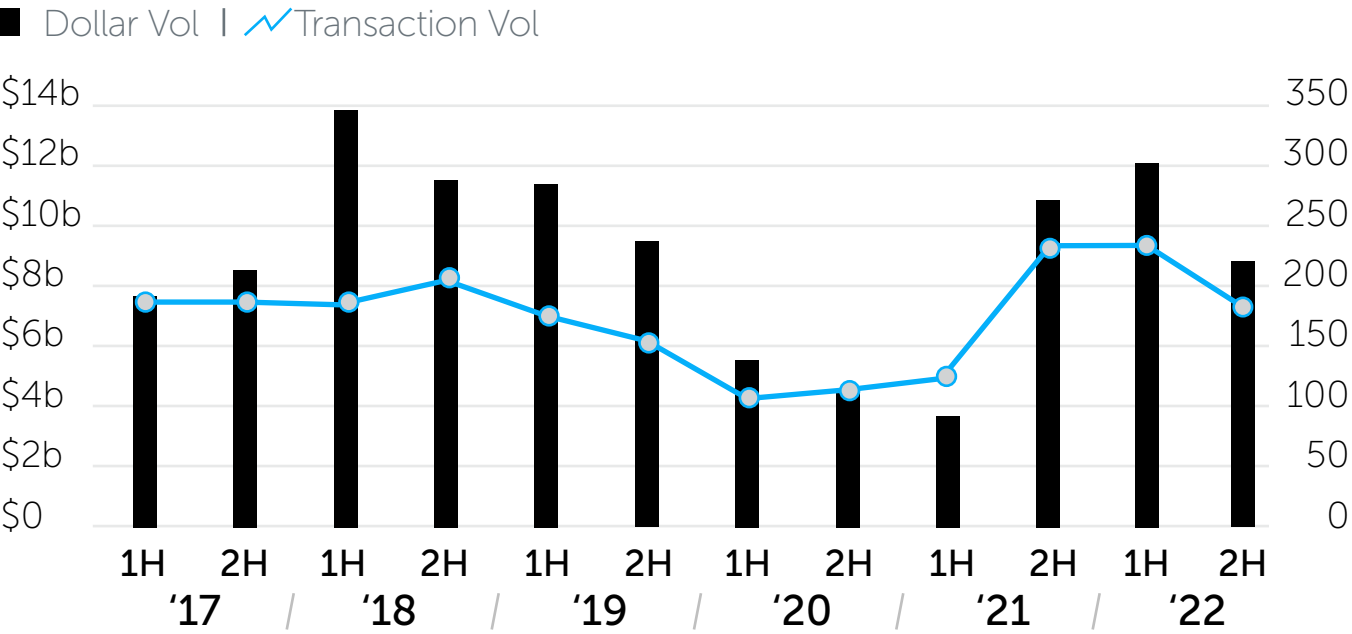
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2022 Year-End Overview

2022 was a year in which the real estate investment sales market experienced a strong rebound from the Covid pandemic with the multifamily, commercial and office asset classes showing significant increases in dollar volume in 2022 compared to 2021. In fact, the 419 total transactions for 2022 are the most in a single year since 2016 (449 transactions). This activity occurred despite the continuous rise in interest rates that caused investors to seek less-risk, cash-flowing assets, ultimately causing the market to slow down in the second half, as reflected by the 25% and 29% respective decreases from the first half of 2022 in transactions and aggregate spending. Geographically, Downtown West was the most transactional (22%, 92 transactions), while the most dollars were spent in Midtown East (29%, \$6.43 billion).

Real Estate Timeline



Volume 2022 vs 2021		40% ↑ Dollar	\$20.9b	14% ↑ Transaction	419	1% ↑ Property	534
Dollar Volume Comparison							
Product Type	2022	'22 vs '21	2021	'22 vs '20	2020		
Multifamily	\$7,910,330,512	115%	\$3,674,382,289	212%	\$2,534,393,610		
MF-MU 10+ resi units	\$7,207,111,431	154%	\$2,842,504,246	235%	\$2,150,475,745		
MF-MU 6-9 resi units	\$311,846,515	-21%	\$392,476,877	153%	\$123,334,465		
MF-MU Small	\$391,372,566	-11%	\$439,401,166	50%	\$260,583,400		
Commercial*	\$2,513,198,973	63%	\$1,544,447,645	79%	\$1,407,830,799		
Ind / WH / Sto**	\$64,778,761	-97%	\$2,331,687,636	N/A	\$0		
Development	\$2,685,120,602	98%	\$1,356,389,025	280%	\$706,139,232		
Office	\$7,351,560,931	53%	\$4,818,712,450	42%	\$5,160,051,508		
Special Purpose	\$411,336,956	-66%	\$1,199,749,277	6%	\$388,404,252		
GRAND TOTAL	\$20,936,326,735	40%	\$14,925,368,322	105%	\$10,196,819,401		

*Commercial includes retail and hotel properties
**Ind / Wh / Sto: Industrial / Warehouse / Self Storage

2022 Year-End Outlook

The outlook on inflation and the resulting direction of interest rates will be a major driver of sales activity and pricing throughout 2023. We saw buyer sentiment turn sharply negative in late 3Q22 when it became apparent that higher interest rates were not bringing down inflation fast enough, leading most to believe both elevated inflation and elevated interest rates would be present longer than many had hoped.

Market fundamentals have now recovered, but buyers and sellers are more cautiously pricing properties to account for elevated rates and the potential of a recession in the near term. This will likely drive prices down for income-producing properties in 2023. Sales volume, however, may actually increase as owners with loans coming due this year look to sell properties versus refinance, which would require them to accept higher interest rates and potentially pay down principal amounts.

We hope the legislature follows through on recent housing policy announcements by the NY State Governor Hochul and Mayor Adams. Despite improved market fundamentals, development site sales are hobbled by the higher interest rate environment. Clarity on a policy replacing the Affordable New York Program, efforts to streamline DOB operations, and fast-tracked rezoning initiatives are essential to improve development site transactions that ultimately lead to construction.

Transaction Volume Comparison

Product Type	2022	'22 vs '21	2021	'22 vs '20	2020
Multifamily	244	2%	239	94%	126
MF-MU 10+ resi units	137	17%	117	99%	69
MF-MU 6-9 resi units	51	-7%	55	168%	19
MF-MU Small	56	-16%	67	47%	38
Commercial*	80	95%	41	186%	28
Ind / WH / Sto**	1	-67%	3	N/A	0
Development	38	-5%	40	41%	27
Office	52	63%	32	44%	36
Special Purpose	4	-71%	14	-56%	9
GRAND TOTAL	419	14%	369	85%	226

*Commercial includes retail and hotel properties
**Ind / Wh / Sto: Industrial / Warehouse / Self Storage

Multifamily Highlights

- Multifamily remained the most transactional of all asset classes accounting for 38% of the aggregate dollar amount traded and capturing 58% of total transactions. With the most dollar transaction volume traded since 2015 and 2016, respectively, these increases reveal the market’s appetite for cash-flowing assets, even in a rising interest rate environment.
- Unlike years past when investors were attracted to the smaller properties with lower expenses and tax protection (i.e., tax class 2A or 2B), investors in 2022 were attracted to larger assets with a higher percentage of free-market units that allowed for the potential of uncapped revenue growth. 90% of all multifamily buildings traded in 2022 were less than 50% rent stabilized (or regulated by 421-a).
- Residential vacancy reached a low of 2.69% in December, marking a rebound in vacancy from the high of 5.04% in 2020, according to the Elliman Report. These optimistic vacancy levels, coupled with the steady increase in the cost of capital and lender’s desire to lend on cash-flowing assets, help explain investors’ attraction to multifamily assets.
- There has been a gradual recovery in price per square foot and price per unit across multifamily assets since the 2020 pandemic lows, highlighting the durability of this asset class during this extended period of volatility across macro environments. However, multifamily is still trading at a notable discount from 2019 levels with \$/SF off by 32% and \$/unit off by 44%.

Volume
2022 vs 2021

115%

↑

\$7.91b

Dollar

2%

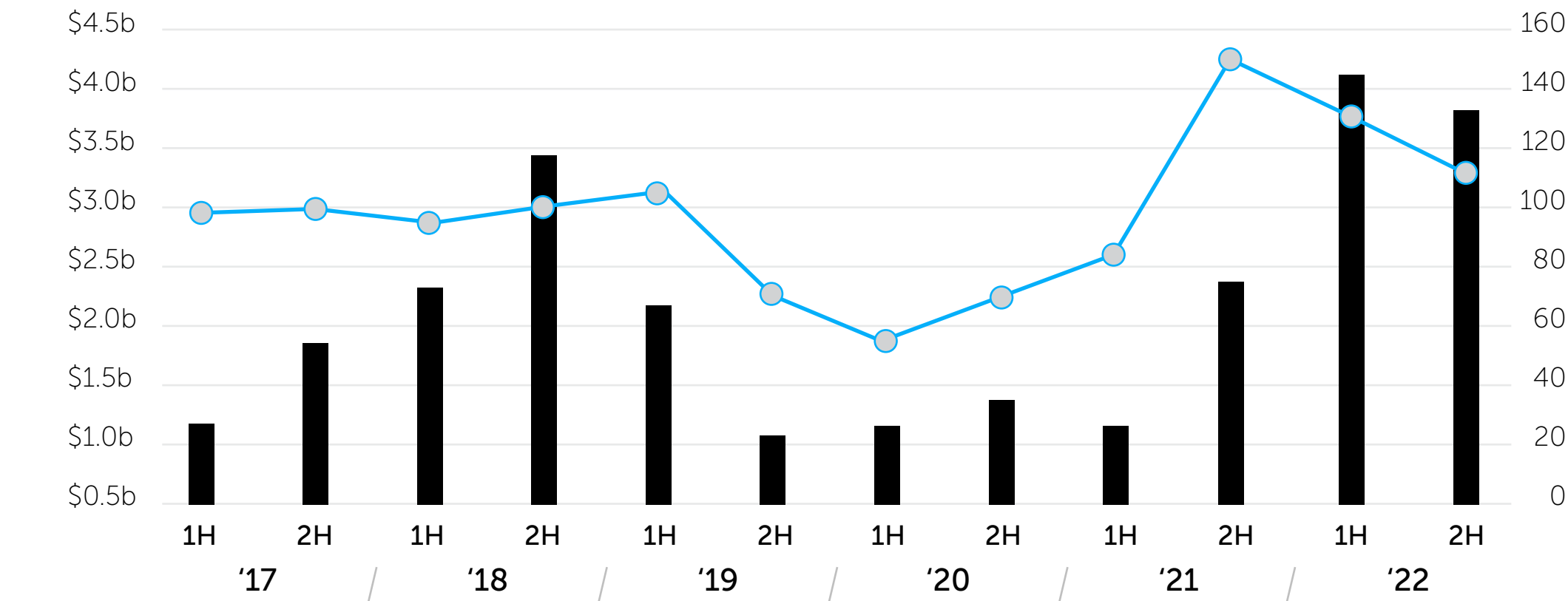
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244

Transaction

Real Estate Timeline

■ Dollar Vol | ▲ Transaction Vol

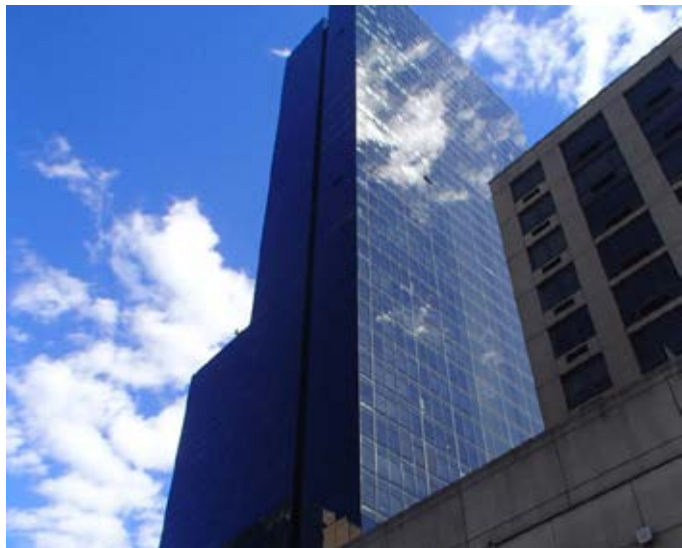


Property Value Metrics - Multifamily*

Year	2016	2017	2018	2019	2020	2021	2022
\$/SF	\$958	\$945	\$891	\$940	\$647	\$660	\$712
\$/Unit	\$675,522	\$669,315	\$693,251	\$758,217	\$490,607	\$452,380	\$525,856
Cap Rate	3.57%	3.61%	3.72%	3.98%	4.58%	4.56%	4.36%
GRM	20.53	19.49	18.35	16.01	14.25	13.53	13.83

*reflects multifamily transactions of 10+ residential units

2H'22 Featured Transaction



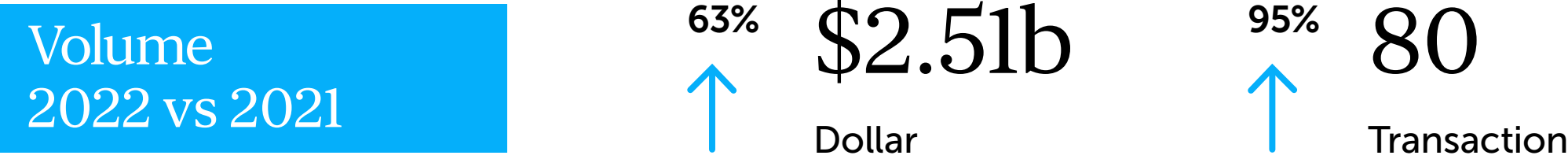
Upper East Side
421 East 60th Street;
525, 530 East 72nd Street
& 1113 York Avenue

Sale Amount:
\$825,000,000
\$/SF:
\$694
Buyer:
Black Spruce Properties
Seller:
Solow Building Co.

Sale Date: **11/23/2022**

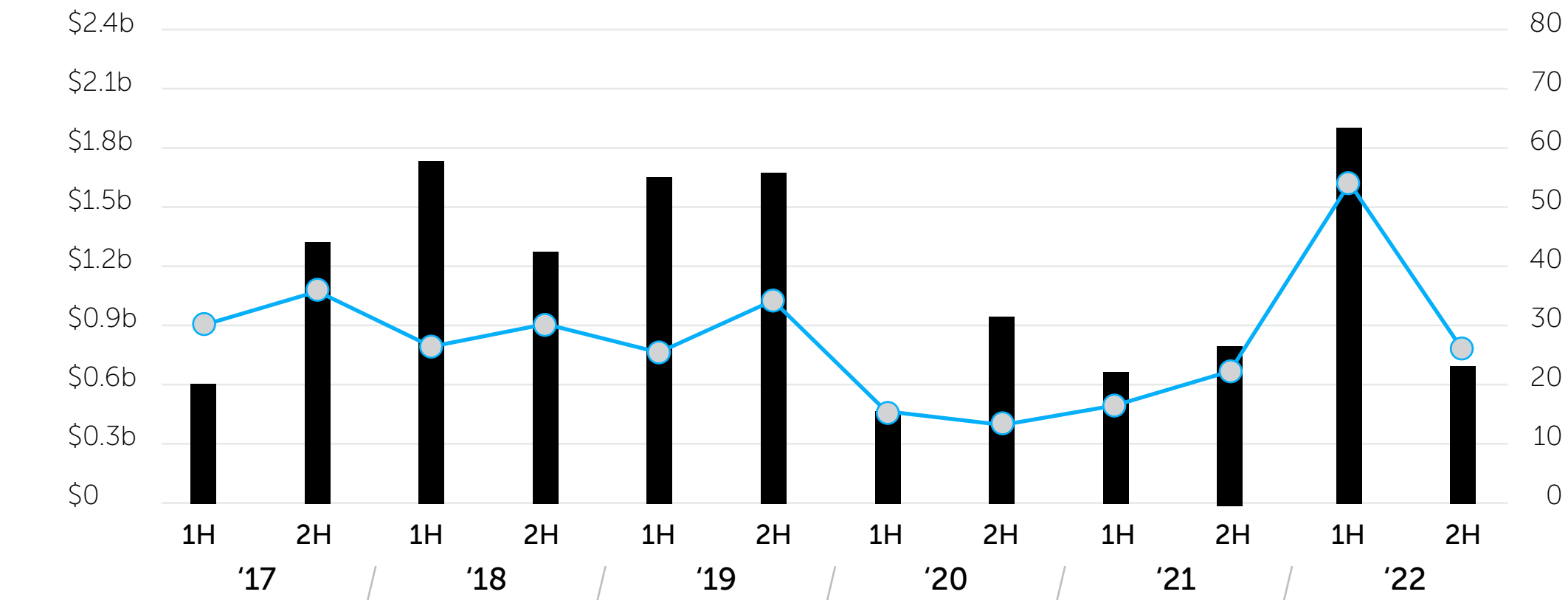
Commercial Highlights

- As an asset class that also includes hotels and retail properties, commercial activity saw an increase of 63% in dollar value transacted and an increase of 95% in total transactions compared to the previous year, offering a positive outlook on recovery in the hardest hit asset class during the pandemic. However, pricing remained low with a 52% decline in price per square foot, which can be largely attributed to discounted prices in hotel transactions as post-pandemic tourism rates remain lower.
- Supply growth remained steady during lockdowns and travel restrictions as hotel room inventory grew by 8.6% from January 2020 to September 2022, equating to an additional 10,035 rooms, according to CoStar Group. However, 8.9% of the total supply has remained off-line since the beginning of the Covid-19 pandemic, creating a deficit in inventory by as much as 400 rooms compared to pre-pandemic levels. With the easing of Covid restrictions, leisure and business travel rebounded heavily which will positively impact pricing metrics moving into 2023, as demand outpaces supply.
- With a positive outlook on hospitality for New York City, Hyatt increased its NYC portfolio by more than 30% with the acquisition of the Dream Hotel Group.
- Investor confidence in retail is increasing with 2022 performing the best of the pandemic-era years (2020 and 2021) across both leasing velocity and storefront availability, according to Cushman and Wakefield. The uptick in commercial activity is signaling healthy demand moving into 2023.



Real Estate Timeline

■ Dollar Vol | ▲ Transaction Vol



Property Value Metrics - Commercial*

Year	2016	2017	2018	2019	2020	2021	2022
\$/SF	\$1,987	\$2,146	\$2,313	\$2,543	\$1,671	\$1,902	\$1,251

*reflects transactions of commercial buildings

2H'22 Featured Transaction



Upper East Side
321 East 61st Street

Sale Amount:
\$185,000,000
\$/SF:
\$1,898
Buyer:
Memorial Sloan Kettering Cancer Center
Seller:
Joy Construction Corp.

Sale Date: **8/30/2022**

Office Highlights

- The 53% increase in dollar volume across all office transactions speaks to the gradual recovery in demand for in-person work, with a general sentiment that the market has room to improve as only roughly 10% of NYC workers are in the office full-time, according to Partnership for New York City. Aside from 2019, volume of transactions has been the most active since 2015, indicating investor confidence in office properties.
- There is a general flight to quality office space with rents on Class A new construction reaching a premium. This year saw the completion of The Durst Organization’s reposition of 825 Third Avenue office in Midtown Manhattan, offering a positive data point for the many landlords who have committed to revamping their struggling and outdated office towers to compete with the amenities offered in newly built class A buildings. It was announced in December that 55,000 square feet had been leased after completing their \$150 million upgrade.
- The 95% change in transaction volume from the 1st half of 2022 to the 2nd half of 2022 is reflective, not just of SL Green’s single \$1.8 billion acquisition of 245 Park Ave that skewed annual data figures, but of the more expensive capital environment that took hold in the 2nd half of the year that affected owners and tenants alike.

Volume
2022 vs 2021

53%
↑
Dollar

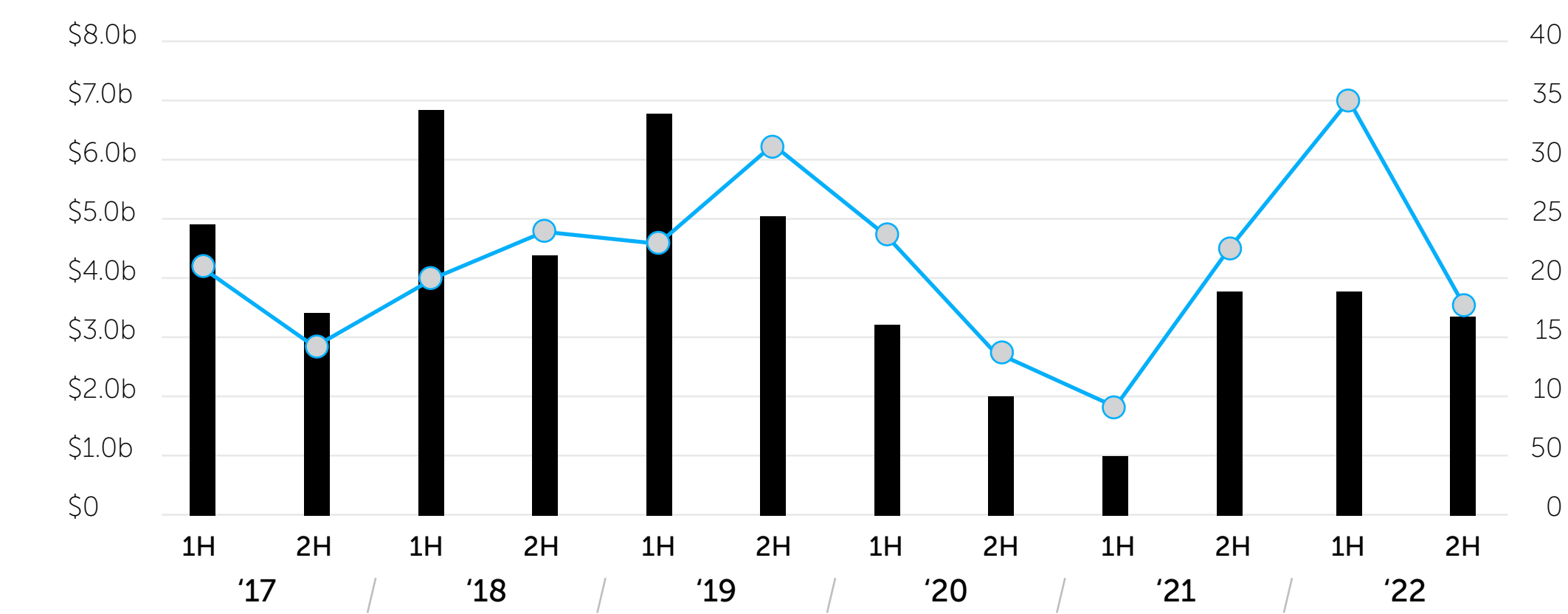
\$7.35b

63%
↑
Transaction

52

Real Estate Timeline

■ Dollar Vol | ✓ Transaction Vol



Property Value Metrics - Office pricing metrics

Year	2016	2017	2018	2019	2020	2021	2022
\$/SF	\$1,217	\$950	\$888	\$1,045	\$1,106	\$1,036	\$1,088

2H'22 Featured Transaction



Midtown
245 Park Avenue

Sale Amount:
\$1,769,900,601
\$/SF:
\$983
Buyer:
SL Green Realty Corp
Seller:
HNA Property Holdings LLC

Sale Date: **9/9/2022**

Development Highlights

- Development activity for 2022 compared to 2021 remained relatively flat when removing the \$931 million sale of the Upper West Side ABC Studios, an assemblage along the block of West 66th Street between Columbus Avenue and Central Park West, as well as including several properties on West End Avenue.
- The average price per buildable square foot saw an 11% drop from 2021 and is down 41% compared to 2019 pre-pandemic levels.
- Contributing factors to land pricing include:
 - The expiration of the 421-a tax abatement that incentivized developers to build affordable housing.
 - Rising interest rates.
 - Softening of the residential condo market evidenced by the fourth quarter of 2022 experiencing both, the lowest condo median sales price and transaction volume since Q1 2021, according to Douglas Elliman.
- Atlas Capital and Zeckendorf Development partnered on the acquisition of 570 Washington Street for \$340 million (\$618/BSF). With a mooptimistic outlook on the residential market and expection to capitalize on the property’s close proximity to Google’s new offices at 550 Washington, unit sellouts are projected to be approximately \$5,000 per square foot.
- A notable trend that bears watching in 2023 is the search for office-to-residential conversions as seen by the 25 Water Street transaction which entails a 22-story office building conversion into 1,300 residential units, totaling 1.1 million square feet of residential area.

Volume
2022 vs 2021

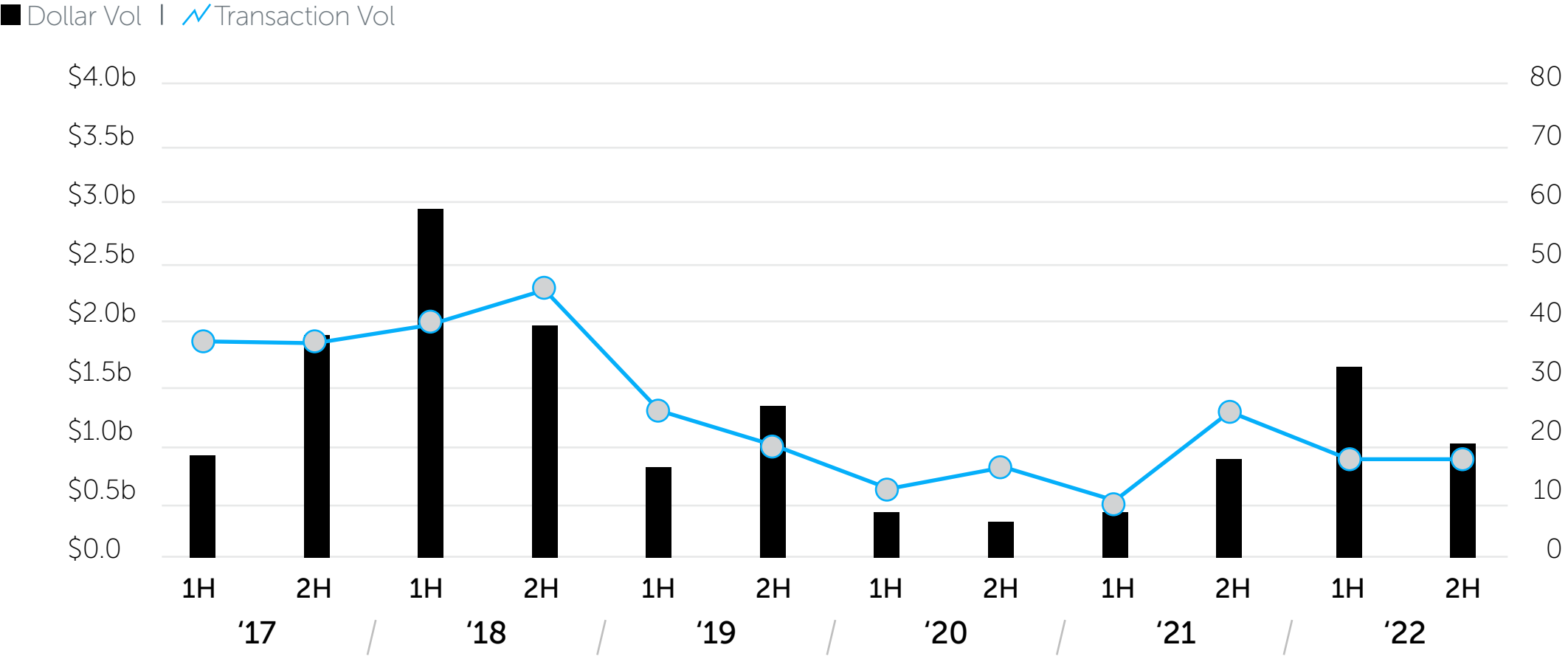
98%
↑
Dollar

\$2.69b

-5%
↓
Transaction

38

Real Estate Timeline



Property Value Metrics - Development*

Year	2016	2017	2018	2019	2020	2021	2022
\$/BSF	\$640	\$682	\$691	\$598	\$469	\$471	\$425

*reflects transactions of vacant land or equivalent development sites

2H'22 Featured Transaction



SoHo
532 Washington Street

Sale Amount:
\$340,000,000
\$/BSF:
\$618
Buyer:
Atlas Capital Group, LLC
Seller:
Westbrook Partners

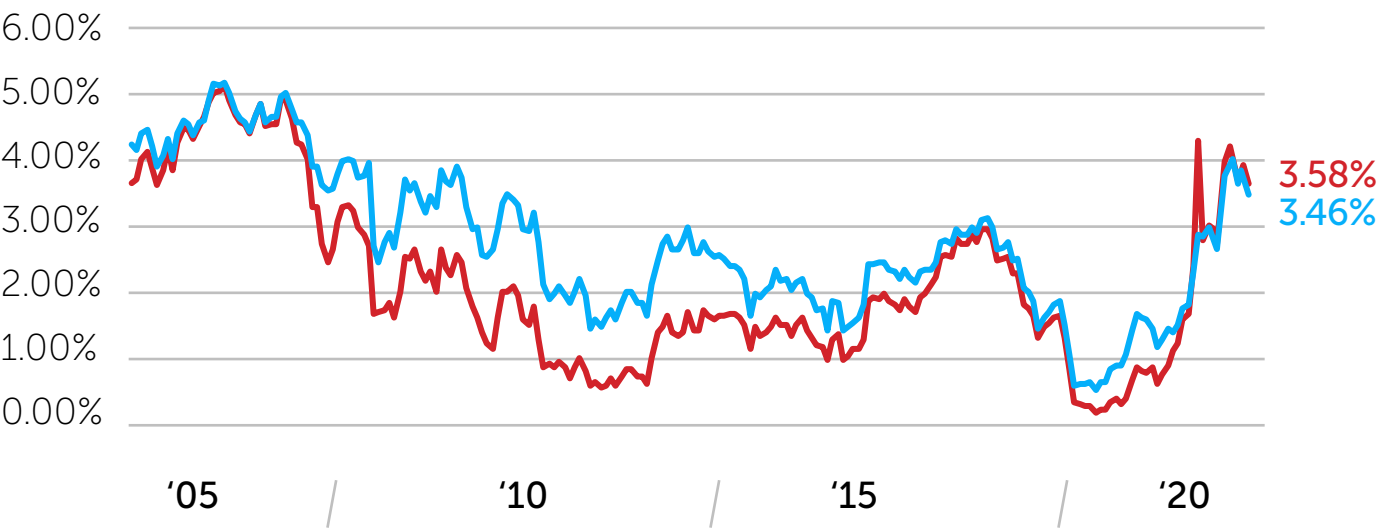
Sale Date: **7/8/2022**

Macro Economic Overview

A number of macro-economic indicators affect the bottom line of commercial real estate investments in New York City and, in turn, the pricing and demand for these assets during any given period. Ariel Property Advisors’ Research Division tracks national and local metrics to identify key market drivers influencing the real estate industry.

Financing:

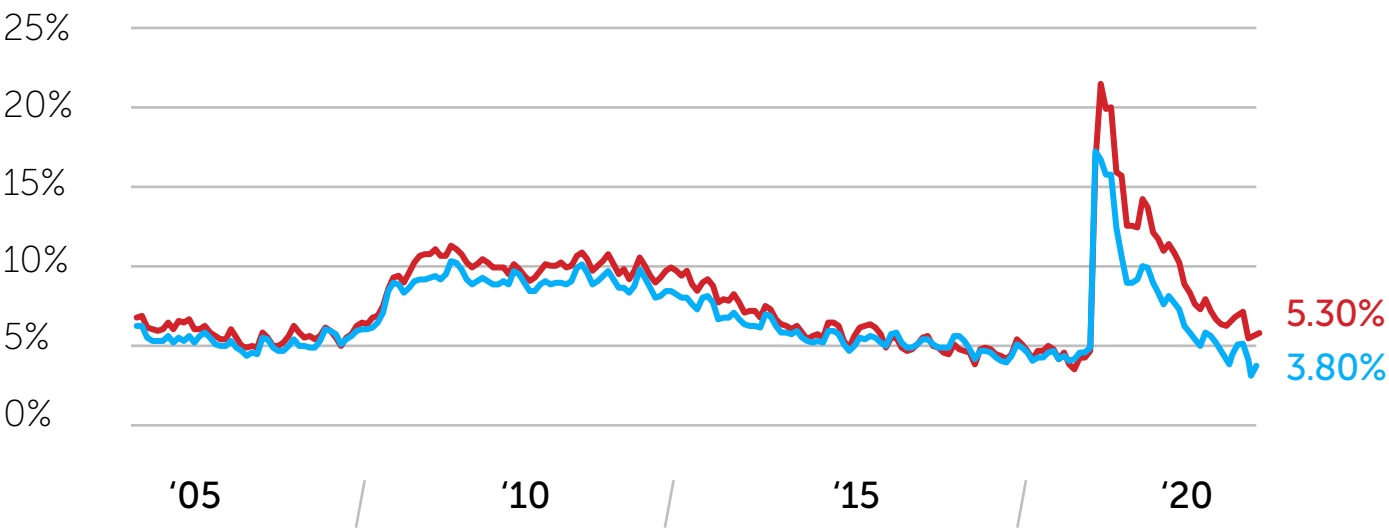
10-Year: 3.46% | 5-Year: 3.58% | As of January 24th, 2023
Treasury Yield Curve Rates 10-year | 5-year



Source: U.S. Department Of The Treasury

Unemployment Timeline:

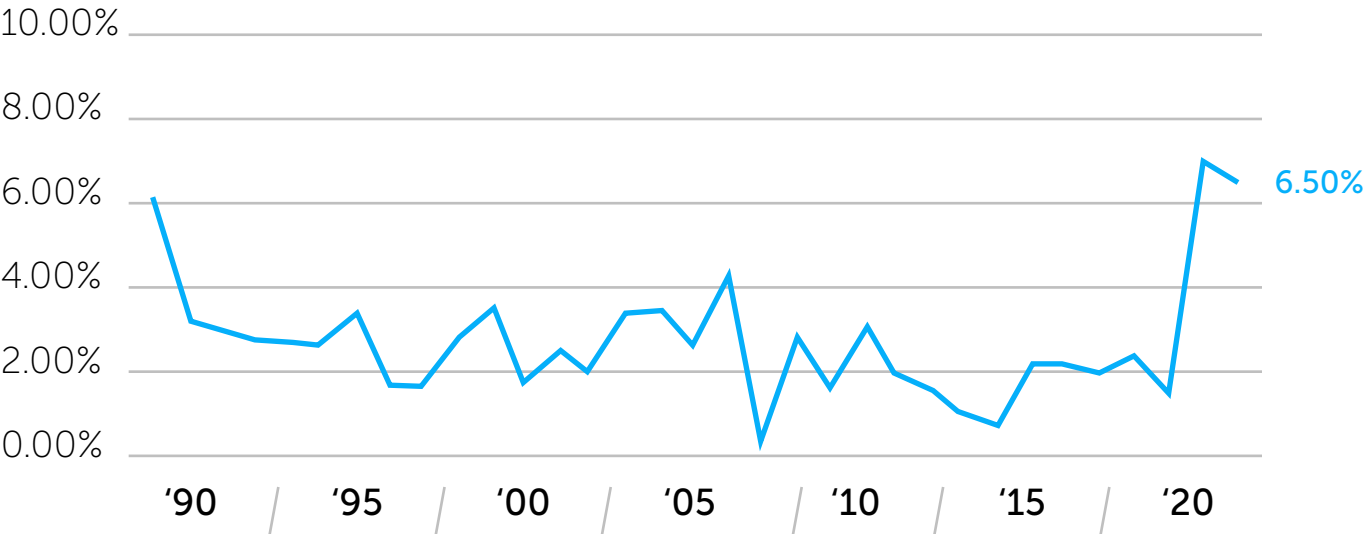
NYS: 3.80% | NYC: 5.30% | As of December 2022
Unemployment Rate History | NYS & NYC (Not Seasonally Adjusted)



Source: Department Of Labor

Consumer Price Index (CPI):

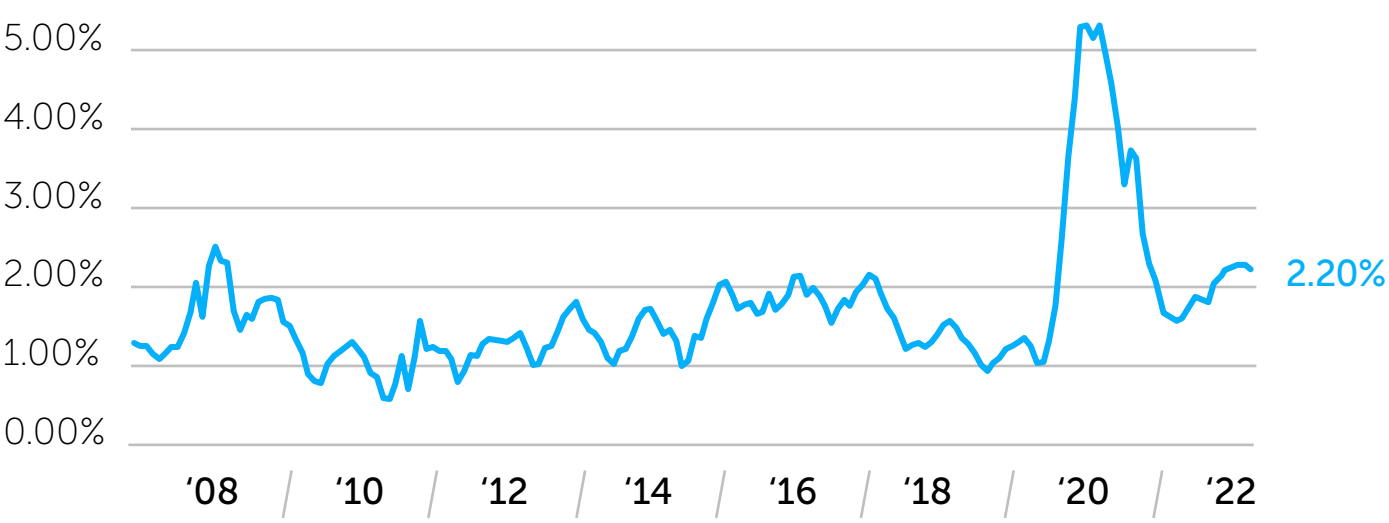
National CPI
Growth - December 2022 Y-O-Y



Source: U.S. Bureau Of Labor Statistics

Rental Market / Vacancy:

Manhattan Residential
Rental Vacancy January 2008- December 2022



Source: Corcoran

Thought Leadership Featured in Forbes

Ariel Property Advisors has been a regular contributor for Forbes. Here is the list of the five latest articles.



Sep 9, 2022
The Bronx Is Back: Institutional Money Is Chasing Yield

The Bronx saw record dollar volume and the second most transactions ever recorded with \$1.54 billion investment sales across 191 transactions, according to research produced by Ariel Property Advisors.



Oct 7, 2022
New York City Real Estate: Top Trends That Are Moving The Needle

New York City is once again demonstrating its resiliency. Office workers are returning, the workforce is growing, tourists are back, lunch hour lines are forming outside eateries, and trains and buses are filling up. The first half of the year the city saw \$22.1 billion in investment sales, slightly lower than the last six months of 2021 but significantly higher than all of 2020 and 1H 2021.



Oct 24, 2022
Brooklyn’s Investment Sales Reach \$5.56 Billion

Brooklyn’s investment sales totaled \$5.56 billion in 1H 2022, a slight dip of 8% from the record \$6.1 billion in 2H 2022, but up 213% year-over-year, according to Ariel Property Advisors Mid-Year Brooklyn Report.




Nov 9, 2022
New York City Multifamily Sales Totaled \$3.57 Billion In 3rd Quarter

Despite continuing economic headwinds, the New York City multifamily sector posted surprisingly impressive results during the third quarter, according to Ariel Property Advisors’ Q3 Multifamily Quarter in Review report.



Dec 13, 2022
NYC’s Perfect Storm: Rent Stabilized Opportunities in the Face of Mortgage Resets and Maturities

New York City owners of rent-stabilized apartment buildings are facing a perfect storm as a tidal wave of mortgage maturities and resets is fast approaching for properties purchased before the passage of the Housing Stability and Tenant Protection Act (HSTPA) of 2019.

Read More
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