Forecast 2021

New York, NY

AVISON YOUNG

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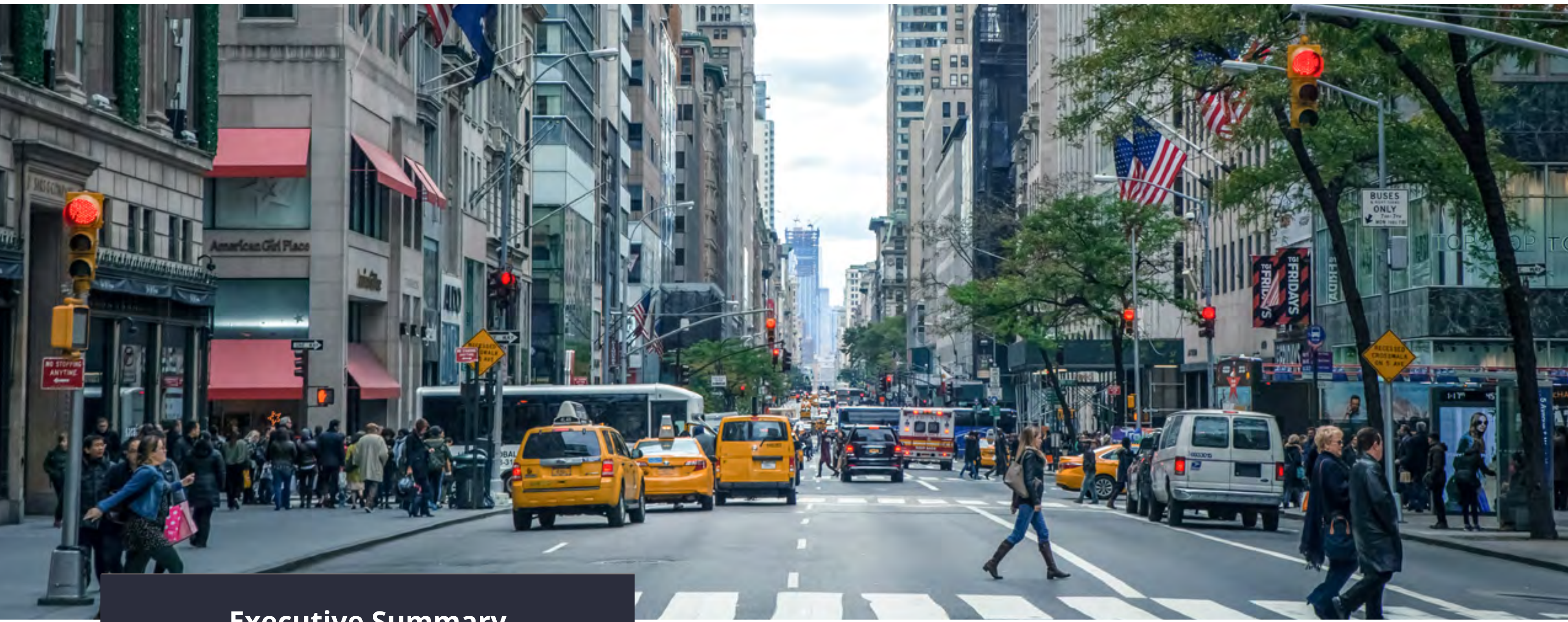


Executive Summary

- The 2021 outlook for real estate markets across the globe shall in part be influenced by the timing of wide-spread availability of an effective COVID-19 vaccine, and for New York City this is no exception.
- Although New York metro employees have been slower to return to the office when compared to other top national markets, occupiers will look to achieve the right balance of space to support their business.
- New York City is resilient, and while the near-term road to a recovery may be bumpy, many occupiers should take a more long-term view to create an “X Factor” workplace that will attract employees into the office.
- For the investor, a window of opportunity has also been created for buyers with a positive long-term view of the city, and the time is now to take advantage of low interest rates and lower property values.

The 2021 outlook for the New York City real estate market will in part depend heavily on suppressing the coronavirus, as well as much needed stimulus to support the local economy. These factors will impact decisions for both the occupier, particularly as companies re-evaluate their space needs for employees, and the investor.

As a result of COVID-related uncertainty, return to office policies at many workplaces have undergone amendments. By mid-November, 17.3% of New York metro employees had returned to the office. Whether or not this percentage could grow to 50%+ in April or June, remains to be seen. What we do know, however, is that the office will continue to play a vital role in all aspects of business and the workplace eXperience must be able to support interaction and collaboration at a variety of scales for both the in-office and remote worker. That said, great emphasis will be placed on creating an “X Factor” workplace, one that attracts employees into the office, creating an engaging experience that provides connectivity and flexibility, while driving innovation. ***See Avison Young’s 2021 Forecast Report for more on the “X Factor” workplace***.

This brings us to portfolio flexibility, which will be top of mind for some tenants. In an occupier’s quest to attract and retain talent, thought will be given to the potential need for a “hub & spoke” model to support flexible working for employees. Could this be a temporary phenomenon? Part of this decision will depend on the overall cost per employee, as COVID-19 has forced many tenants to take a closer look at cost reduction.

The bottom line is that while a “new normal” may have been created, New York City has time and again proven its resiliency. Whether office tenants

"By mid-November, 17.3% of NY metro employees had returned to the office. Will this percentage grow to 50%+ by mid-2021? While employees in metros with the most reliance on public transportation (e.g. the MTA in New York and the BART in San Francisco) are slower to return, the integration of technology and safety will bode well for buildings and tenant spaces overall."

make the decision to expand or contract their space requirements for the near-term, many should take a more long-term view and work with landlords to create the optimal solution for all employees.

The cascading effects of the pandemic on the New York Investment Sales Market exacerbated what was already forecasted to be a turbulent election year. The persisting lockdowns have caused flawed real estate fundamentals where shortfall blame is passed up and down the capital stack from occupier to tax burdens. The suburban migration left a hole in the New York residential market, where rents have dropped while concessions and vacancy rates increased. A similar trend is present in the other asset classes where a reset of operating income rates will flow through to lower value potentials. When combined with a greater likelihood of decreased risk appetite, assets will be re-priced with both lower incomes and higher capitalization rates.

Along with decreasing property values, the city's anticipated budget gap of $10.4 billion will add to an already difficult environment. Property taxes have approached 30% of gross income, and due to the financial hardship brought on by COVID-19, this percentage has inflated. These two scenarios create a window of opportunity for buyers with a positive long-term view of the city. With a low interest rate environment and a decrease in values, buyers will benefit from the unique opportunity of owning a cash flowing asset in New York City.

Trend watch

Workplace eXperience

Includes the creation of an "X Factor" workplace, which is one that will attract employees into the office, time and again, to enjoy a space that truly supports the full range of their needs – and help companies win in the war for top NYC talent.

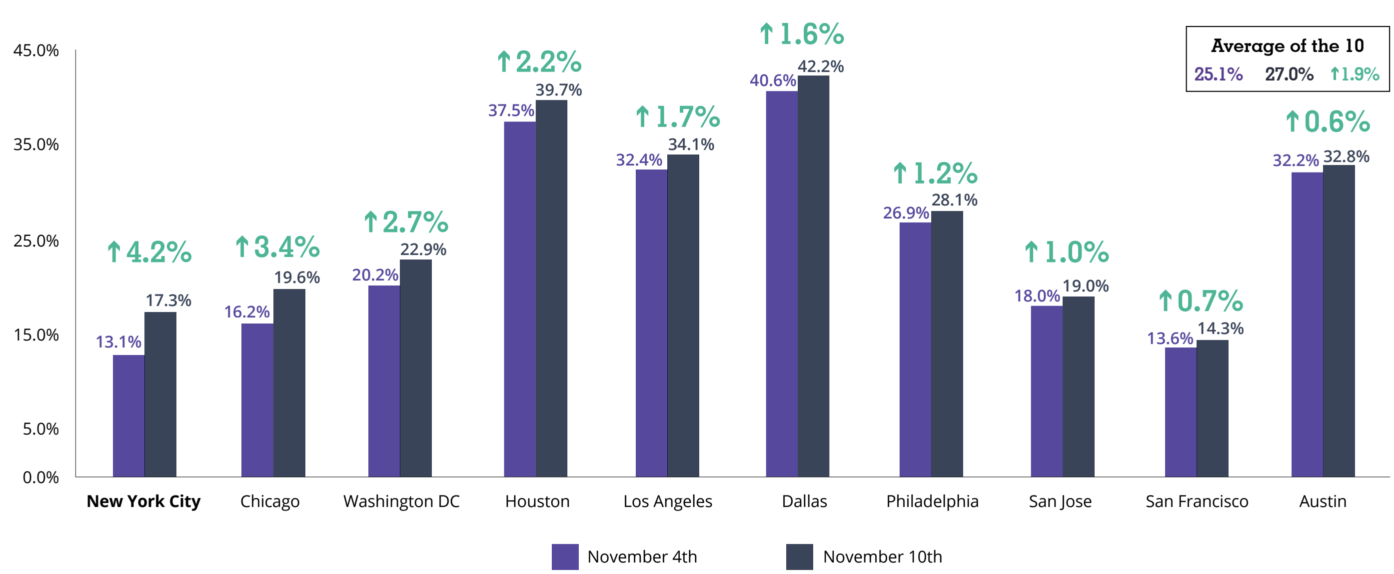
Managing expectations

With occupiers fixated on delivering the highest quality working environment for their employees, and landlords working harder than ever to attract rent-paying tenants, closer collaboration in delivering workplace experience at the building level is a high priority.

Click here for a complete list of Avison Young's Trends for 2021

Percentage of Employees That Have Returned to a Physical Office

Source: Kastle Systems - based on daily access keycard swipes, summarized weekday



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