Manhattan commercial real estate in the Pandemic: Where are we now? - by Justin Conway

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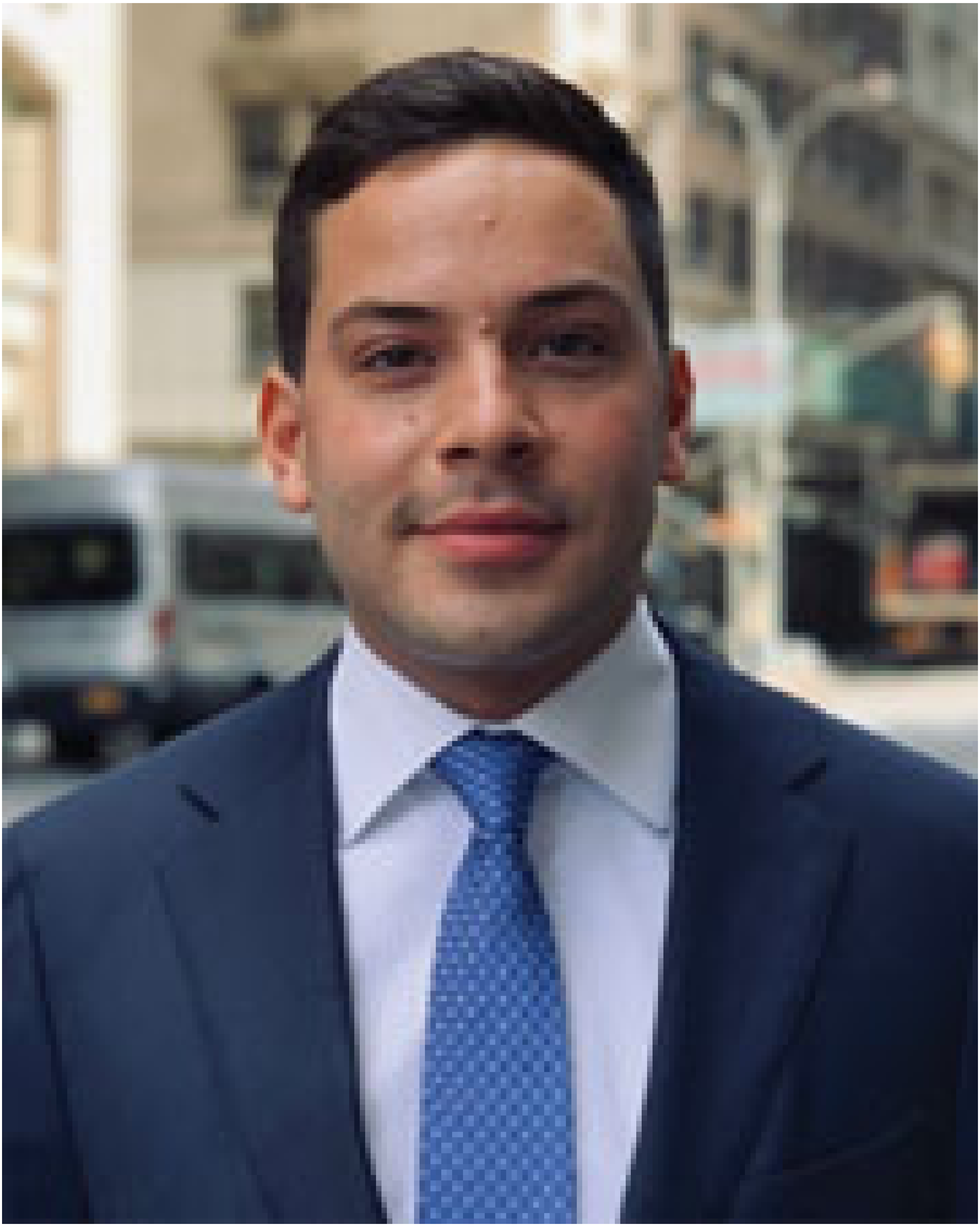

Justin Conway

Since March 2020, when the COVID-19 outbreak took over the country and world, I have been spending a majority of my time walking the streets while living in Manhattan. Many building owners and investors in New York have been voicing very similar concerns to me over the past few months.

When looking across the country, New York was hit hardest by the first wave of the COVID-19 pandemic. Many building owners saw their retail tenants close their businesses and stop paying rent. In addition, many New York residents moved to less congested areas like New Jersey/Connecticut/Florida due to social distancing requirements and safety. Building owners in New York are in a difficult position with property taxes increasing, tenants negotiating reduced or no rent, retailers and restaurants closing and a mass migration out of the city to more affordable neighborhoods. All this along with operating expenses continuously increasing with little to no assistance from the local, state and federal government.

In addition to all of the above factors mentioned making it difficult to sustain profitability, potential investors in New York commercial real estate have changed the way they underwrite properties. Given all of the new risk factors, some underwriting changes include investors upping vacancy percentages to 9%+, increasing capitalization rate percentages, decreasing retail/residential rents and increasing future property tax increases into their models. New York City and New York State have a budget shortfall of $9 billion and $60 billion respectively. Many purchasers find it hard to resolve this shortfall without continuously raising property taxes.

Given all of these new risk factors and record low interest rates, investors consider the current market a very strong buyers' market. Many owners are deciding to either hold onto their buildings or sell their buildings at discounts and move their money to a more investor friendly state with stabilized returns. We are starting to see owners accepting lower pricing so they can move their capital out of New York.

We are beginning to see an increased amount of activity as we enter Phase 3 of the COVID-19 pandemic. Our firm was recently hired on an exclusive basis to sell a portfolio of 12 free-market multifamily and mixed-use buildings in Brooklyn, Queens and the Bronx. As pricing continues to decline, we will see an increase in transaction volume for long-term buy and hold New York investors with excess capital to deploy.

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