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2020: A year to remember like no other - by Richard DiGeronimo

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2020 will certainly go down in history—a global pandemic; political and social unrest; a newly elected President; a first quarter stock market downturn followed by a record breaking year end; anti-trust litigation on big tech – Facebook; residual impact of the pandemic resulting in high unemployment and numerous business closures; and the recent release of the COVID-19 vaccine – Pfizer Bio N Tech.

Now to my focus, real estate and the economy. Recent fourth quarter indices are trending downward. This trend can be primarily attributed to the recent surge in the virus which will translate to a slower-than-forecasted growth cycle during the first quarter of 2021 in conjunction with potential changes in the administration especially the forthcoming results of the Georgia Senate race.

The unemployment rate of 6.7% is not truly reflective of declines in the work force. In fact, payrolls remain at 9.8 million below the February peak and the workforce is reportedly four million below its level before the pandemic. Other factors influencing personal income growth and unemployment is the lack of an additional Federal stimulus package which would extend unemployment benefits, lengthen the moratorium on evictions and tax liens, and provide more jobs and small business loans through the extension of PPP loans.

As for real estate, the major driver remains the historically low interest rates which is expected to remain so for the foreseeable future. Moreover, December reported the strongest month for global equities reaching record breaking highs.

Multifamily in the wake of the pandemic has resulted in significant rent delinquencies. Recent reports by NCSHA and Moody's Analytics project rent debt of $34 to $70 billion in past due rent by January with 8-12 million Americans missing payments. Home ownership reports indicated more than three million home loans—5.9%—in forbearance.

Another recent topic, is there an “Urban Exodus” and will working remotely add to this trend?

The debate is whether the shift to remote work be a short-term or long-term structural change? Several major companies have already adopted permanent work-from-home policies for all or part of their staff: Siemens, Square Twitter, Zillow, Nationwide and Facebook to name a few.

Another emerging trend which has accelerated due to the pandemic is large investors moving into the single-family home rental market. As a result, single-family rental homes reportedly now account for 34% of the rental housing stock.

Locally, NYC hotel employment is down 82% and reportedly four out of every five hotels surveyed according to the Hotel Association of NYC experienced a more than 80% drop in NOI. This trend will result in permanent hotel closures and the association predicts 20% of the city's 124,000 hotel rooms will not reopen.

Monthly data for NYC multifamily indicated average rents in Manhattan falling by 15% in November, while Brooklyn experienced a 12% year end loss. Queens average rent according to MNS fell 4%. Another concern is maintenance fees for some co-ops to cover their loss of commercial rents—a vital source of income. The result is co-op shareholders must pick up the short falls by either one-time assessments or higher monthly maintenance fees.

The Pied-A-Terre tax has resurfaced and now a priority for the legislative session next year. The new plan would impose a 10% to 13.5% tax on second residences having a market value in excess of $5 million with one-to-three-family homes included at a possible rate of 0.5% to 4% if their market price is above $5 million.

A recent New York Times article suggested Midtown offices be converted to apartments and reports nearly 14% of Midtown office space is vacant, the highest rate since 2009. Adding to this downturn is the high ratio of vacant retail stores in Midtown. My reaction is "yes and no" and not a "catch-all" solution for more affordable housing. So yes, possibly older class C or dated office buildings that will require extensive capital refits to compete in the post-COVID office market. No as it relates to the class A and B office markets, especially the class A space which is under supplied and in both cases are needed to support commerce and service needs of Manhattan. Without a return to the office environment Manhattan will have diminished demand for residential housing and retail resurgence. As for the class C office space, its focus should be affordable and work force housing with certain tax benefits to promote their conversions.

Looking forward the capital markets have ample liquidity with limited investment alternatives. This will provide different opportunities in terms of distressed sales or debt re-purchases and investments outside of core property types.

On the positive side, low interest rates have a been a benefit to new home buyers; refinancing is at all-time highs; and commercial borrowers still benefit in the low cost of long-term debt and a healthy pool of lenders. Commercial real estate will remain a strong investment alternative and continue to provide long term yields and shelter net cash flow on a pre-tax yield basis. The emergence of the vaccine approval and its mass nationwide inoculation will hopefully provide a healthy return to normalcy in 2021. The light at the end of the tunnel and yes, it is not a train—instead a ray of hope for a healthy and safe 2021!

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