



BOMA NY Asset Management Webinar, "Existing Real Estate Market Conditions & Future Outlook"

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A Panel of Commercial Real Estate Superstars Assess the State of New York City's Market

If there were such a thing as a recording of the Greatest Hits by a New York supergroup of commercial real estate experts, BOMA New York's recent asset management panel presentation entitled, "Existing Real Estate Market Conditions & Future Outlook" would certainly be one of those hits.

Introduced by Terri Clark, senior financial manager at Cushman & Wakefield and co-chair of the BOMA New York Asset Management Committee and moderated by Christa Hinckley, director of full service leasing at Columbia Property Trust and co-chair of the BOMA New York Asset Management Committee – the panel included Kenneth McCarthy, principal economist & applied research lead at Cushman & Wakefield; Raymond Sanseverino, partner & chair of the Real Estate Department at Loeb & Loeb; Rachel Palisin, vice president & director of engineering at Hoffmann Architects; and Travis Feehan, senior vice president, New York and transaction lead at Columbia Property Trust.

The star-studded cast of experts opened the discussion by reporting on their current work assignments. McCarthy said that CushWake has been tracking office occupancy for the past 35-years, and that the September 2021 vacancy rate of 19.1% was the highest ever. He said, "There has been a huge increase in inventory since 2010 – about 30 million s/f added since 2010 – with more product in the pipeline." This works well as long as the economy is growing, but that "demand fell out of bed" at the onset of the COVID-19 pandemic.

Palisin added that the pandemic created an unprecedented awareness of public safety issues, coupled with a new focus on energy efficiency. "Until 2010," she said, "There was no energy code." Now that New York City's government is committed to the Paris Climate Accord, building owners are acutely aware of Local Law 97, mandating massive reductions in carbon emissions from buildings. She said, "Class B and pre-war buildings are having a tough time to meet the new mandates," and that building enclosures will be major factors in complying with the law. She noted that the similar laws in other jurisdictions require energy benchmarking for buildings as small as 10,000 s/f and that may be in New York's future.

Feehan said that his company was “Spending a lot of time looking in the mirror,” using internal thinktanks to gauge supply and demand trends. “The acquisition climate is slow,” he said, and added, “There’s a big gap between bid and ask.” He said, tenants are paying their rent, and that owners used less leverage than previous cycles so aren’t as distressed. “Net effective rents are flat and maybe even higher for the best properties,” he said, so “Top end properties are trading at a good level.”

Sanseverino reported that he was witnessing “a flight to quality,” with office space in top tier properties such as 1 Vanderbilt and the Grace Building; both leasing well, “but it’s taking more time to negotiate” because prospective tenants are not worried that they will lose out to another prospect. He said, “Class B and C buildings are struggling due to Local Law 97” and other climate crisis concerns.

The discussion segued into the subject of rent relief, which all agreed was declining in importance. Sanseverino said, however, that some landlords are agreeing to delay the rent commencement date if a tenant is precluded from building out its initial alterations due to a pandemic related government cease work order.

Hinckley returned to the issue of government involvement, especially today when New York City would have a new mayor and a new state governor. Is there a connection between emboldened tenants and the government’s involvement in commercial real estate?

McCarthy said, “Quality of life issues, such as the present rising crime rate, is an important factor. Workers want to feel safe when they’re traveling around the city.” Sanseverino took this point a step further, adding, “We need a more business-friendly environment.” He opined that “Florida is doing great” in this regard, “but California is not.” He noted that a positive sign was that his law firm was not doing any rent deferral work at the present time. In fact, he said, “One retail tenant had five years for a rent deferral, and decided recently to pre-pay it.”

Hinckley then raised the issue of the New York City Council’s consideration of rent control on behalf of retail and manufacturing sector tenants, noting the scope of the legislation. McCarthy agreed that “This is the kind of legislation that challenges the market.”

Feehan pointed out that fixed rent increases and required renewals could influence landlords’ willingness to take risks on smaller, startup retailers. “If you don’t know what you’re getting in a (retail) tenant, you’ll go with a known quantity. You’ll rent to a Chipotle or tenant like that which can pay the highest initial rent and has the strongest financial base,” rather than taking a chance on a new concept restaurant. He added that he hoped the City Council would take that into consideration. Sanseverino joined in with, “Get rid of this. There’s too much government intervention. We’ll find a way.”

Local Law 97 forced itself back into the discussion when the panel opened the subject of lease negotiation itself. Sanseverino’s firm is negotiating Local Law 97 compliance issues in its lease

transactions. He said, “There’s lots of tension among tenants, landlords and the government. Who will pay for the compliance? Will it be cheaper just to pay the fines and penalties? Everyone is trying not to pay that dollar.”

In conclusion, the discussion returned to the fact that newer buildings are faring better with occupancy than older buildings. McCarthy said, “First, there are more tenants now. We have been surveying our clients around the world. One thing that we have found is that workers want to be in the office. They miss their colleagues.” Nonetheless, he added that 70% of the people who used to come into the office are still working from home. “We are moving in the right direction, but it will be a slow slog to get there.”

Feehan said, “It seems to me that most workers want to come into the office at least three or four days a week. Employers want (them) five days a week.”

How can owners improve their space to raise occupancy rates? The panel’s consensus was that today’s tenants crave outdoor space amenities. The panel cited buildings such as 799 Broadway, where 10 out of its 12 floors have outdoor terraces. Feehan said, “Having a nice office is important, especially with outdoor space available.” All agreed that office space will be re-designed to combat crowding, or “densification,” and provide more social distancing. Yet, as Sanseverino said, “Human beings are not meant to be isolated and alone.” He said, “It is necessary to have an office.”

Feehan said, “(Otherwise) you will miss those opportunities to learn and grow.” He cited occasions early in his career when a boss would pop into his office and say, “Jump on this call.” In a work-from-home situation, the boss would not have the time or space to make the offer.

McCarthy brought the discussion home by stating, “Just think, the last two years of college grads probably have never seen their boss, face-to-face.”