Buckle up, it’s 2024 - by Brian Sahn

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Welcome to 2024! Turbulent times is an understatement, with interest rate fluctuations, inflation, rising vacancy rates, and stretched municipal budgets. Think goal line adjustments.

The Fed

Sentiment says we are at peak rates, but staying put is problematic. Rates remain elevated, and even if more predictable, owners face struggles to refinance given increased operating expenses (OPEX), wobbling rental rates and shrinking tenant demand. Investors are holding cash for the turnaround. Add to that, regional banks are still pressured. Silicon Valley Bank and Signature Bank were last year's headlines; now we see issues confronting New York Community Bank (NYCB), impacted by higher deposit interest rates and lower earnings and net investment income.

Offices

There is flight to the class A+ buildings, but trophy buildings are a mere slice of the inventory. Companies are enticing employees back with hotel-type amenities: food and spa-like space; still, three-four days per week looks like the new norm. Even at the top of the market, rents and leasing rates are reported to be falling, while class B and C buildings remain far behind. Add in higher OPEX, the look is cloudy. The hit on sales tax revenue remains a problem for larger cities in particular, with added burdens imposed by housing migrants. Surely New York City's congestion pricing will only make matters worse.

Multifamily

While still attractive, hurdles remain. High expenses impact net operating income (NOI), project approval timelines and high construction finance rates, are a drag. However, demand is high, especially new construction, and lack of home sales buoys rentals.

Regulations

Energy efficiency is great, but at what cost? Take NYC's Local Law 97 greenhouse gas emission regulations. REBNY estimates in 2024, buildings that don't meet targets could result in fines up to $213 million. May be a great idea, but at what cost?

All said, be optimistic and hopefully things will go to the upside.

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