The impact of NYC’s housing crisis on commercial real estate and tenant mobility - by Nancy Zafrani

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New York City has long been one of the most expensive places to buy and own a home. Yet, there remains a housing crisis in the region. As the housing crisis grows in NYC, its ripple impacts the commercial real estate market and tenant mobility, hampering people's efforts to achieve their goals of financial freedom.

Consider the current details. In 2023, the rental vacancy rate in NYC was 1.4%, which is the lowest it has been since 1968. Just two years before, that vacancy rate stood at 4.54%. It is expected that by 2032, a shortage of 500,000 units is likely. The Regional Plan Association states that, in order to meet and overcome those shortages, the city will need to add at least 473,000 new units to its already-limited city footprint.

Data indicates that higher price points, high housing underproduction, and limited mobility with long-term leases drive tenants away. New Yorkers move outward to the surrounding communities to find jobs and people. Ultimately, as people disperse, that directly translates into a drop in the local business economy, which can result in lower commercial real estate prices.

Rising rents negatively impact the entire commercial real estate (CRE) market and all valuations of such locations. A CRE is owned for its income-producing potential. Commercial property values are driven by cap rates, which tend to correlate with interest rates. As the cap rate increases, the property values fall, assuming constant net operating income.

Higher interest rates make mortgages out of reach for many in New York City. However, they also impact tenant mobility rates. Tenants cannot remain where the cost of living is too high, and with costs rising as housing shortages increase, this is a very real concern for those renting in the city.

Higher costs drive people away, hurting commercial real estate because it needs those customers to keep the doors open. At the same time, workers and residents are moving out of the city, where life may be more comfortable in terms of financial requirements.

When tenants move, they use moving companies to help them relocate. Yet, for those who are "stuck" in a rent-controlled apartment in NYC, it can be difficult to find another location to live that offers affordability. Fewer people can afford to move (especially those who are faced with trying to buy a home with very high interest rates.

Ultimately, the NYC housing crisis makes it far more challenging for commercial organizations to remain open as their customers are driven away. Tenants who would move and perhaps purchase a home cannot afford to do so with the high interest rates. This cycle of never-ending complications could hurt any organization.

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