Gotham Commercial Real Estate Monitor

Looking Ahead: Prices, Demand, Risk, The Art of the Deal

Winter 2016 - 2017

MARKS PANETH

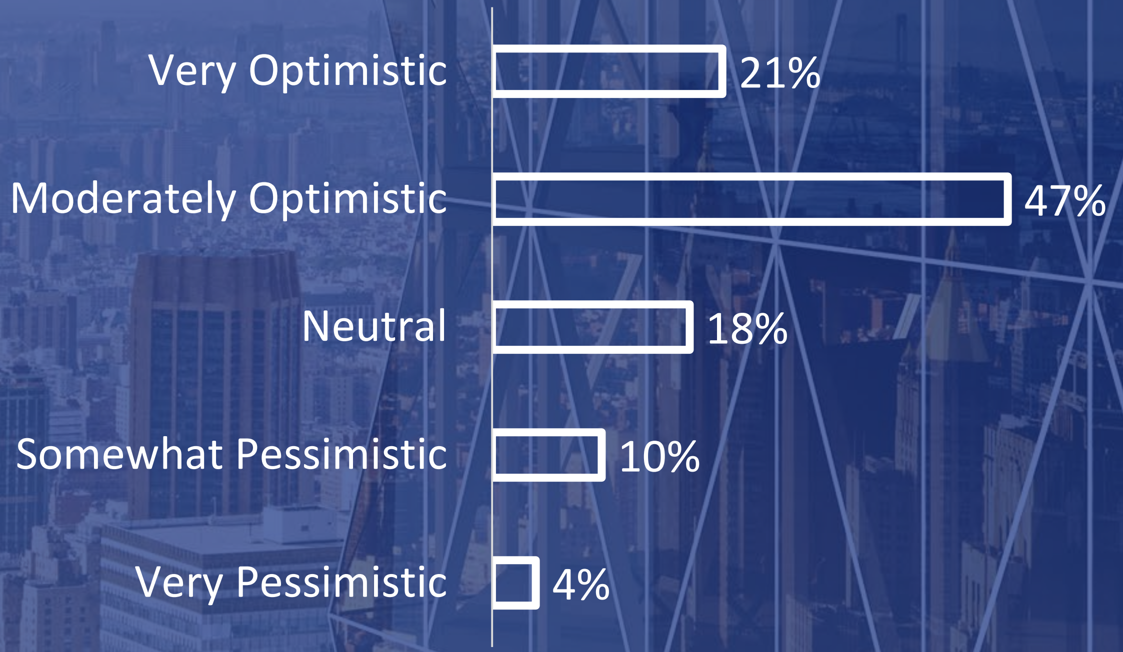
ACCOUNTANTS & ADVISORS

Introduction

Our Gotham Commercial Real Estate Monitor takes the pulse of New York's commercial real estate property owners and managers, brokers, agents, attorneys, accountants and other professionals in this sector three times a year. Findings from the Winter 2016 edition of the survey provide insights on price perceptions, risk, the complexity of negotiating deals and other important market-related topics.

Looking Ahead: Attitudes Upbeat

The majority of industry professionals are upbeat about CRE business prospects in NYC over the next 12 months, with 68% saying that they are optimistic about the future.



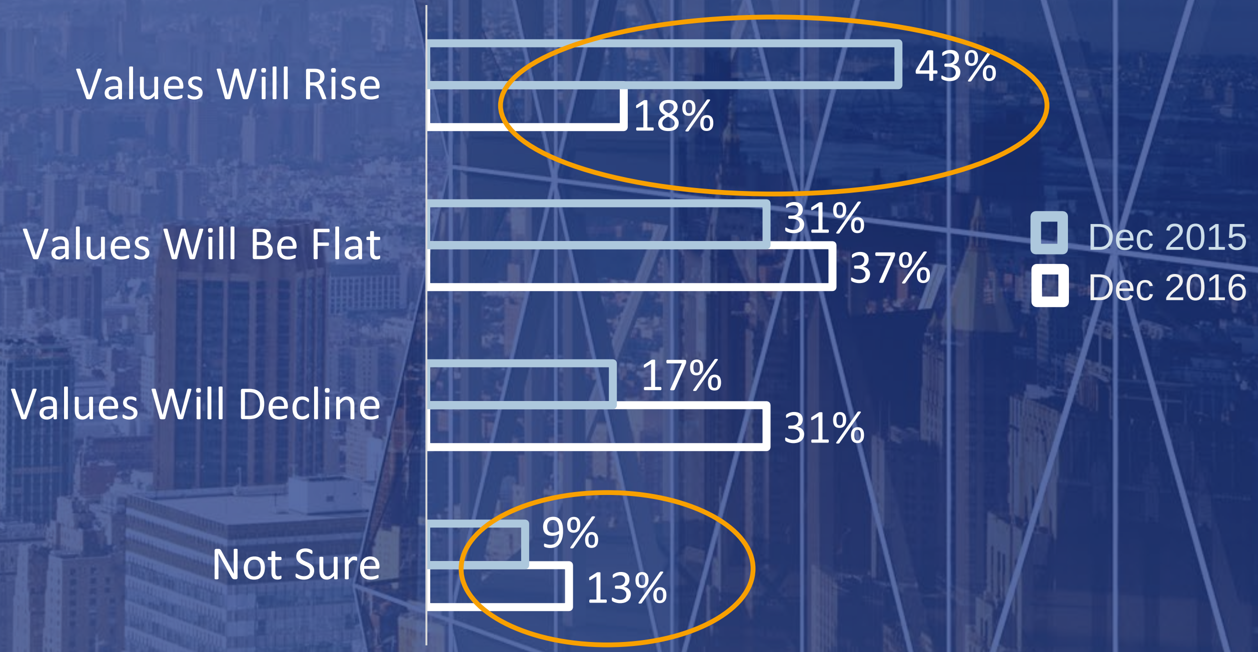
NYC Property Value Forecasts Less Optimistic

Only 18% of industry professionals expect property values to increase during the next 12 months, down 25 points from 4% in December 2015.

37% expect that values will be flat.

31% expect property values to decline next year.

Uncertainty is greater.



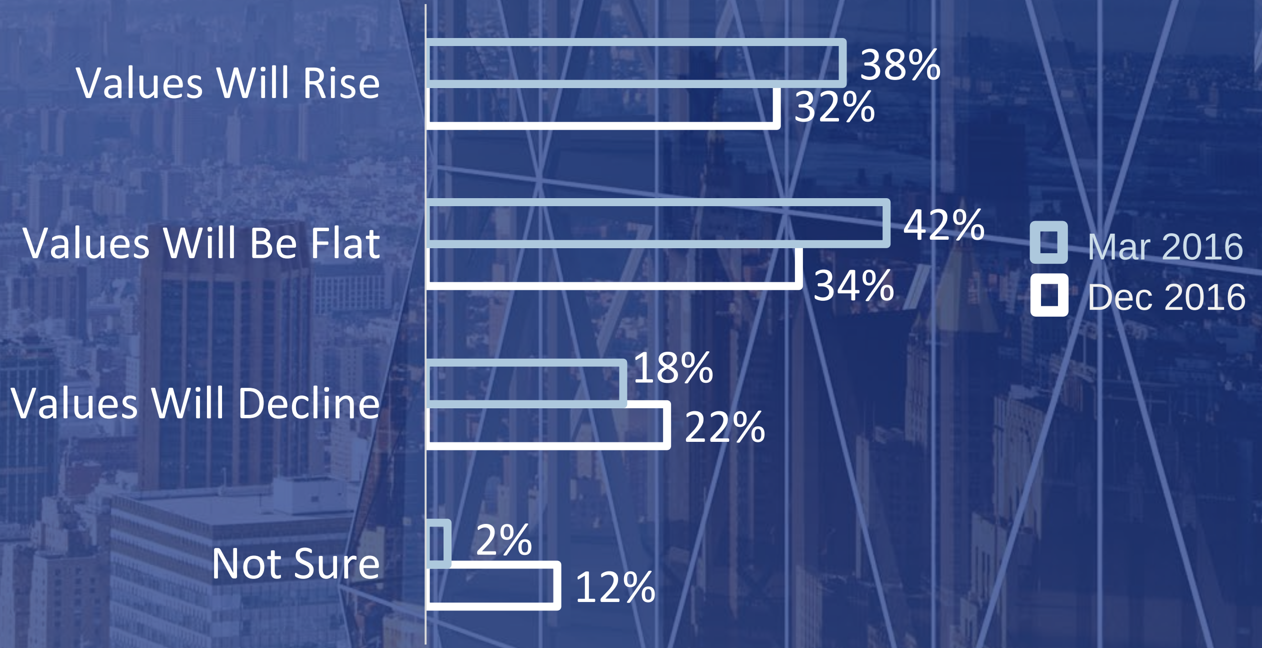
Office Property Values

Fewer industry professionals (32%) feel that office property values will increase in 2017 compared to nine months ago.

More industry professionals (42%) predict that office property values will be flat in 2017.

22% believe that office property values will decline in 2017.

Uncertainty is greater.

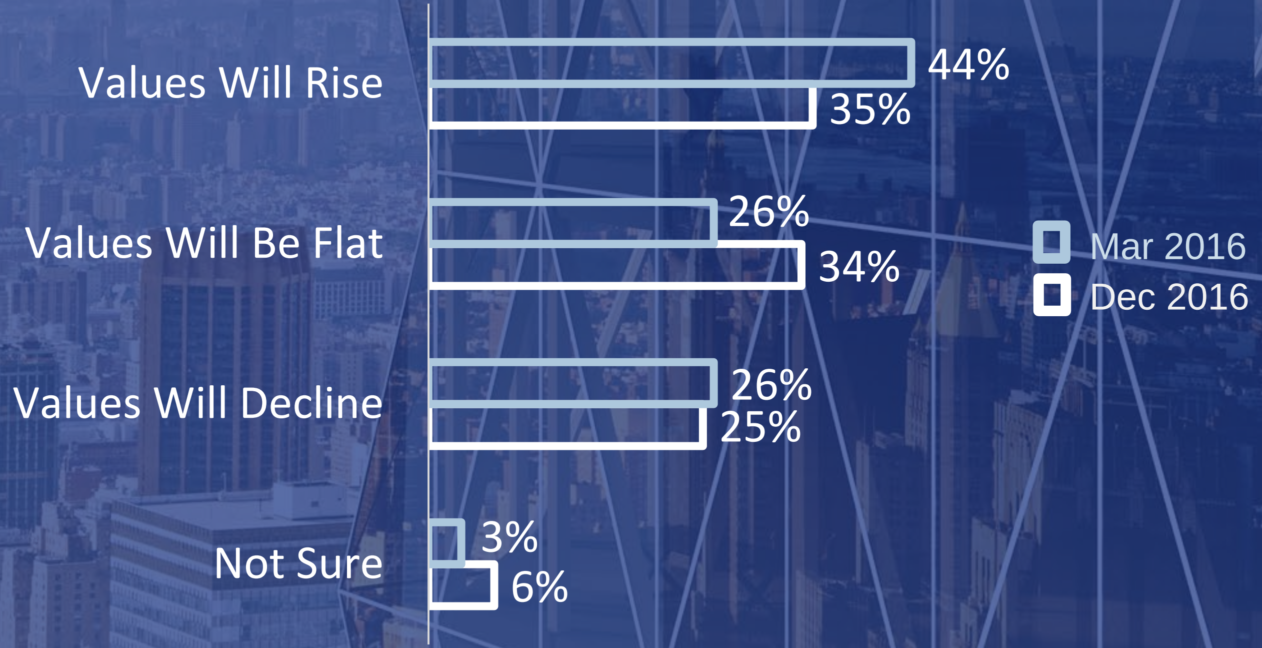


Residential Property Values

Fewer industry professionals (35%) predict that residential property values will increase in 2017 compared to last year.

34% predict that residential property values will be flat over the next 12 months.

One in four think that residential property values will decline.

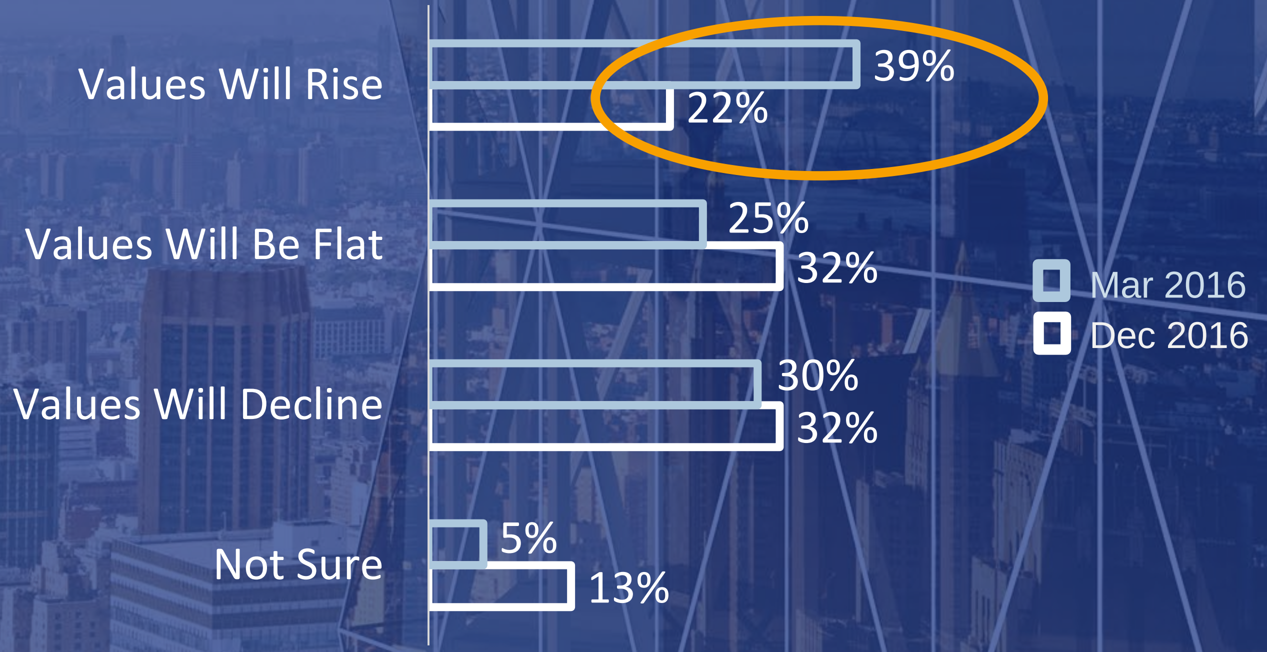


Retail Property Values

The percentage of professionals who predict that retail property values will increase in 2017 (22%) has fallen double digits in just nine months.

32% think that retail property values will be flat this year.

32% predict that values will decline.



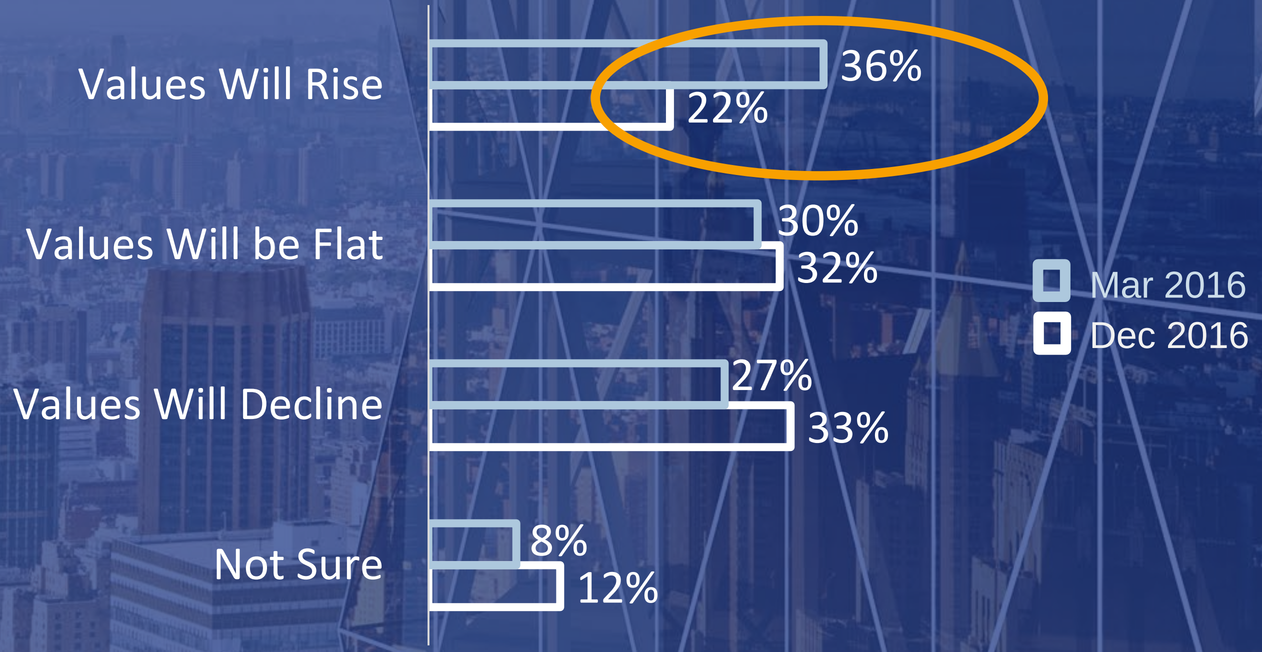
Hotel Property Values

The percentage of professionals who predict that hotel property values will increase in 2017 (22%) has fallen double digits in nine months.

32% predict that property values will be flat over the next 12 months.

One in three think that values will decline.

Over one in ten are uncertain.



Predicted Demand for CRE in 2017

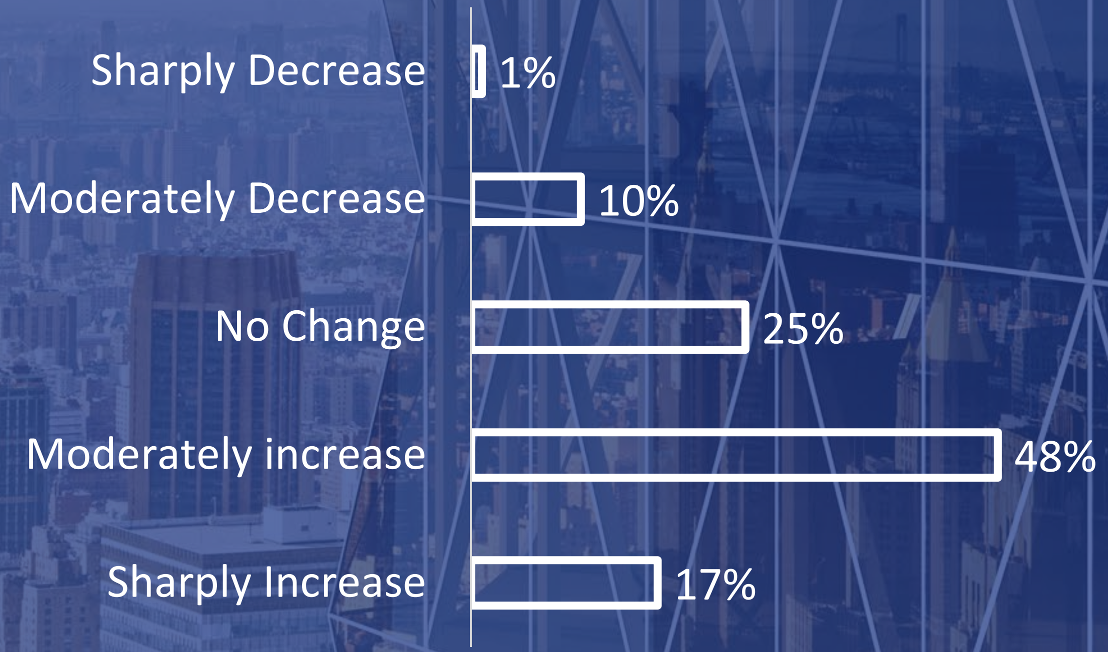
- 64% say demand for **Senior Housing** will increase.
- 70% say demand for **Affordable Housing** will increase.
- 74% say demand for **Millennial Micro Units** will increase.
- 46% say demand for **High-End Housing** will decrease.
  24% say demand will be flat.

Demand From Foreign Investors

The majority of industry professionals predict that foreign investment in NYC CRE will increase over the next 12 months.

One in four predict that demand will not change.

Few industry professionals see foreign investment in NYC CRE declining in the next year.



The Art of the Deal: Difficulty Closing

Will deals be more difficult to close in the next 12 months?

Although about half say there will be no change, a significant number of industry professionals say yes, across the board.

In the future, these professionals say deals will take longer to close, be more complex and include more contingency clauses.

Sector	Easier	No Change	More Difficult
Office	10%	50%	40%
Residential	7%	56%	38%
Retail	7%	48%	45%
Hotel	11%	44%	45%

The Art of the Deal: Time to Close

A significant percentage of industry professionals say that deals will take longer to close in the future.

Stock market volatility, the Brexit vote and uncertainty about interest rates have roiled the global markets and created more underwriting caution by buyers and lenders. These conditions make deals take longer to close.[1]

[1] Market Watch, 10-Q MARCUS & MILLICHAP, INC, 2016.

Sector	Less Time	No Change	More Time
Office	4%	49%	47%
Residential	9%	42%	49%
Retail	5%	44%	52%
Hotel	4%	40%	56%

The Art of the Deal: Complexity

A significant percentage of industry professionals say that deals will become more complex in the future.

As investment capital across borders grows, CRE markets are becoming more sophisticated. Structuring deals is becoming more complex and requires professionals with an increasingly broad array of skills.[1]

[1]IRC Research Partners, Growth and Complexity of Real Estate, Jan 2015

Sector	Less Complex	No Change	More Complex
Office	10%	48%	42%
Residential	7%	61%	32%
Retail	7%	47%	47%
Hotel	5%	51%	44%

The Art of the Deal: Contingency Clauses

A significant percentage of industry professionals predict that there will be an uptick in investors using contingency clauses in contracts that allow them to back out of a deal.

Some contingencies, such as environmental contingencies, are becoming increasingly important, especially when there are concerns about environmental hazards from prior use of commercial property.[1]

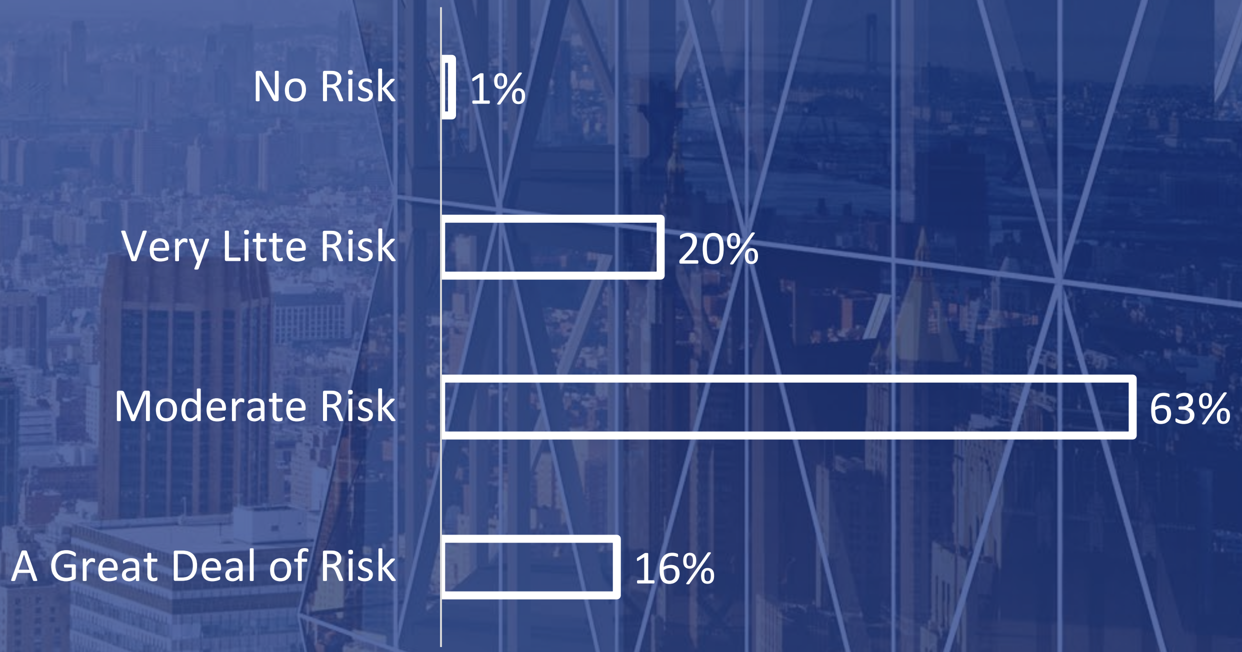
[1] National Law Review, Important Contract Contingencies, May- 2015

Sector	Less Frequent	No Change	More Frequent
Office	10%	32%	58%
Residential	14%	40%	46%
Retail	7%	36%	58%
Hotel	8%	36%	56%

Private Funds and Perceived Risk

Less regulated, private funds are playing an increasingly significant role in commercial real estate as buyout firms, real estate investment trusts and hedge funds expand lending.

The vast majority of industry professionals felt that these funds only somewhat increased risk.



Methodology

The results reported in this summary are based on 116 self-administered survey questionnaires using online and in-person intercept interviews. Surveys were fielded in December 2016.

Industry professionals included brokers, agents, investment bankers, real estate attorneys, property owners, property managers, fund managers and other professionals who focus on commercial real estate in NYC.

The majority of these individuals also maintain a private portfolio of real estate investments.

- Of these, 30% describe themselves as conservative investors who buy and hold prime properties and avoid riskier real estate assets.
- 60% have portfolios that reflect a moderate risk tolerance. These investors rebalance their portfolios periodically by buying and selling assets.
- 10% are aggressive investors whose portfolio includes distressed and value-add real estate. These individuals have a high risk tolerance and trade assets frequently.

For More Information

If you have any questions, please contact William Jennings, Partner-in-Charge of the Real Estate Group, or any of the other partners in the Marks Paneth Real Estate Group.

Click here to read highlights of the Summer 2016 *Gotham Commercial Real Estate Monitor*.

To participate in future surveys and receive results, please email us at contacts@markspaneth.com.