

Gotham Commercial Real Estate Monitor

NYC Market Outlook: Prices, Foreign
Investment, Global Stock Markets,
Interest Rates, Taxes, Infrastructure

Spring 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS



Introduction

Mark Paneth's Gotham Commercial Real Estate Monitor takes the pulse of New York's commercial real estate professionals three times a year.

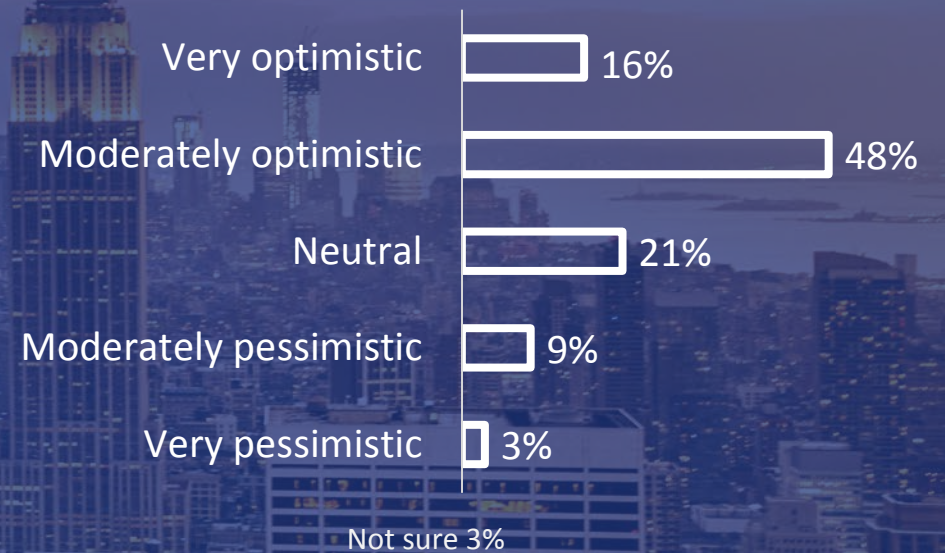
Findings from the Spring 2016 survey provide insights on the impact of foreign investment, stock markets, interest rates, taxes and infrastructure development on the commercial real estate market in NYC.

Executives are Optimistic

A significant majority (64%) of Commercial Real Estate (CRE) professionals are optimistic about market prospects in the coming year.

What's driving their optimism?

How do you feel about **CRE business prospects** in the next **12 months**?



Executives are Optimistic

The NYC economy is strong. Half a million jobs have been added since 2008 — more jobs than any growth period in the city's history.¹

In 2015, Manhattan was the number one market for residential property sales in the US.² The average apartment price hit a record \$2 million.³

In Q1 2016, the **average apartment price** in NYC was **\$2million**



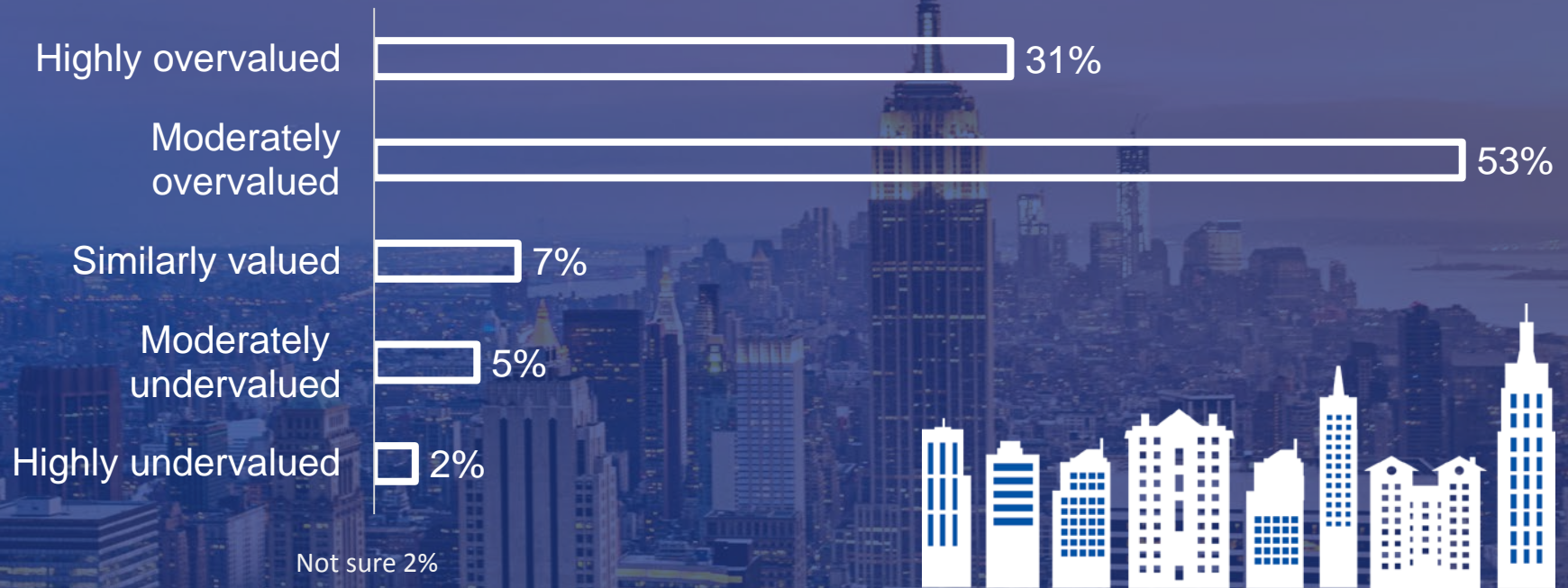
1. Crain's, The Largest Jobs Boom Ever, 2015
2. SVN, The Year Ahead in the CRE Market, 2016
3. The Elliman Report, 2016

Is NYC CRE Overvalued?

Over 84% of executives believe that NYC CRE is overvalued compared to other major cities around the globe. This is an eight-point uptick since January 2015.

- Almost one in three (31%) believe that CRE is now highly overvalued. This is a six-point uptick since 2015.
- Only 7% feel that NYC values are comparable to other major cities around the globe. In January of 2015, this number was 17%.

Compared to CRE values in other major cities around the globe, do you think NYC CRE is...?



Executives Increasingly Believe Values Have Peaked

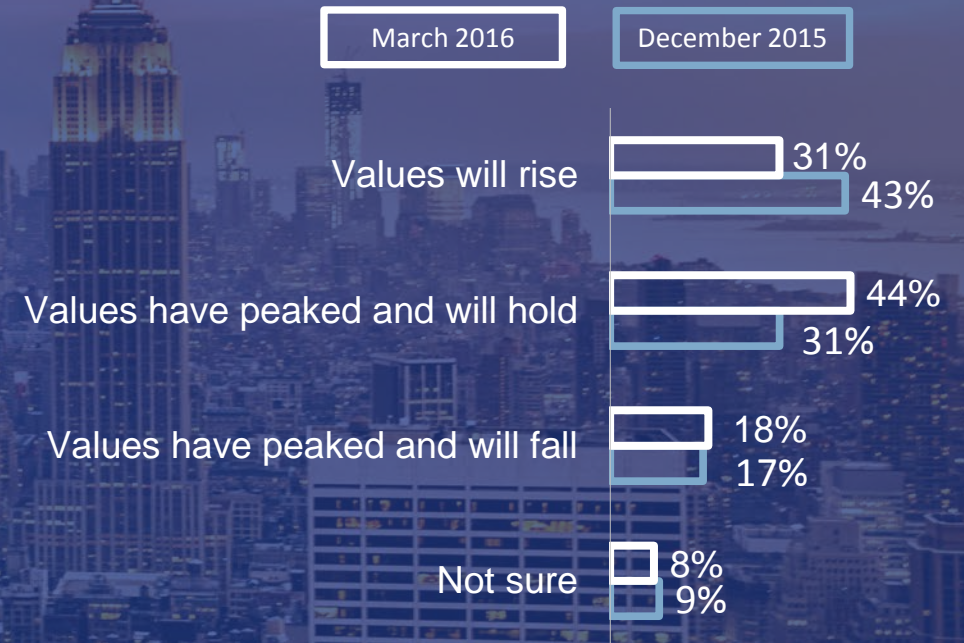
Fewer executives think that values will continue to rise, 31% compared to 43% just 90 days ago.

More now believe prices have peaked but values will hold, 44% compared to 31%.

Almost one in five (18%) think prices will fall.

A significant percentage (9%) are not sure what will happen next.

What do you think will happen to **commercial property values** in NYC in **12 months?**



Current Market By Asset Class

Prices are considered most stable in the Office market (42%).

Executives are more optimistic that Office building prices will rise (38%) rather than fall (18%) in the next year.

They also expect Residential building prices to increase (44%) rather than fall (26%).

Opinions are divided about prices of Retail and Hotel properties. More than 8% say that they are not sure what will happen in the Hotel market.

What will happen to property values in NYC over the next 12 Months?

Asset Class	Declining Prices	Stable Prices	Increasing Prices	Not Sure
Office	18%	42%	38%	2%
Residential	26%	26%	44%	3%
Retail	30%	25%	39%	5%
Hotel	27%	30%	36%	8%

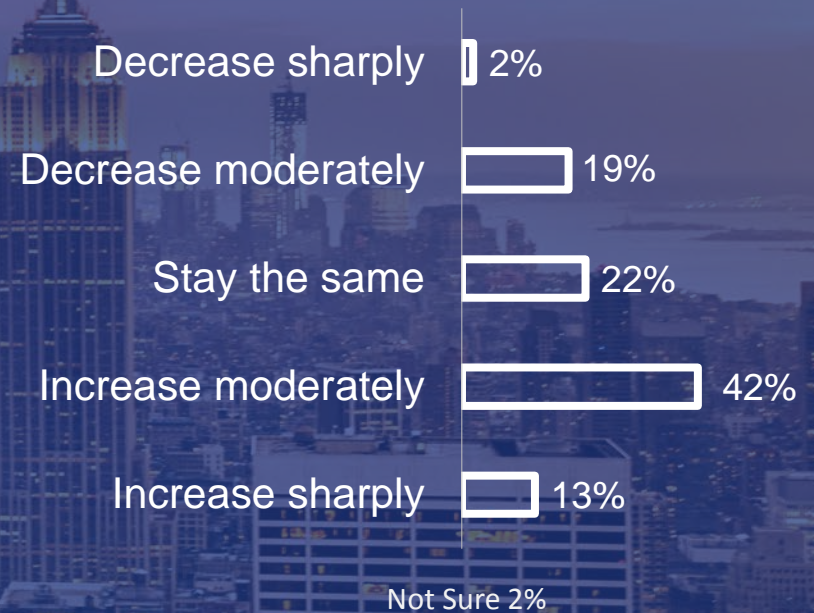


Foreign Investors Will Drive Prices in 2016

55% of executives believe that foreign investment in the NYC market will increase in the next year.

Who are they and what Asset Classes will be most affected?

In the next 12 months, do you believe that **foreign investment in NYC CRE will....?**



Foreign Investors Will Drive Prices in 2016

About a quarter of the capital invested in NYC CRE comes from foreign investors. The biggest investors are from the Middle East and Asia.⁴

In 2015, Chinese buyers spent \$8.6 billion in NYC CRE.⁵ One factor driving investment is the EB-5 Program, which grants green cards in exchange for investments made in the US. More than 92% of participants are Chinese nationals.⁶

In 2015, **Chinese buyers** spent **\$8.6 billion** in **NYC CRE**



4. Brevetis, NYC's Biggest Foreign Investors, 2016

5. Brevetis, NYC's Biggest Foreign Investors, 2016

6. Ibid.

Foreign Investors Will Drive Prices in 2016

A large majority of executives say that foreign buyers influence the market across all asset classes.

Foreign buyers exert a great deal of influence on the Residential building market, followed by Hotels.

In March, the Chinese insurance company Anbang bought \$6.5 billion of properties from Blackstone Group and recently negotiated to buy Starwood Hotels and Resorts for \$14 billion.⁷

7. Global Finance, Behind Anbang's Curious Starwood Courtship, 2016

Perceived influence of foreign investors on NYC prices

Asset Class	Little or No Influence	Moderate Influence	Big Influence	Not Sure
Office	21%	37%	37%	6%
Residential	10%	27%	57%	6%
Retail	17%	46%	30%	8%
Hotel	11%	31%	47%	11%



Effects on Property Values of the L Train Closure

The majority of executives (71%) expect property values to decrease in areas of Brooklyn where residents are affected by the L Train closure.

Although 47% do not believe that these Brooklyn residents will move, 38% think that people will leave.

Over 8% say they are not sure.



Effects on Property Values of the L Train Closure

We asked executives what they thought would happen to prices in boroughs where residents were not affected by the L Train closure. Over one in five (26%) felt that property values could increase. Population out-migration could be a driver.

Where residents are affected by the **L train closure**, property values will...

Decrease sharply	22%
Decrease moderately	49%
Not change	18%
Increase moderately	2%
Increase sharply	1%
Not sure	8%

Impact of Rising Interest Rates

In Q4 2015, the Federal Reserve raised interest rates, setting federal funds at 0.25% to 0.50% percent, up from 0% to 0.25%. Chairperson Janet Yellen said that the Fed will likely raise interest rates again, slowly, as the economy improves.

Fed will likely **raise interest rates again**, slowly, as the economy improves

How will this affect the CRE market?

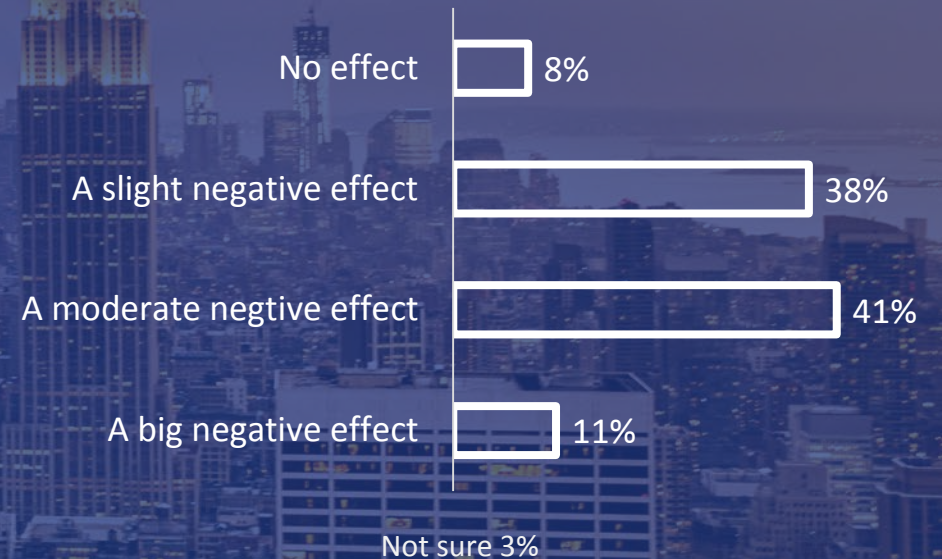


Impact of Rising Interest Rates

It is no surprise that increases in interest rates are negatively correlated with CRE market conditions. However, 46% of executives felt that the effect of a 1% - 2% rate increase would be negligible. Only 11% felt that such an increase would have a big negative effect.

We believe any effect will depend on the timing of interest rate increases, as well as the size of the increase.

What effect would a **rise in interest rates** of one or two percent have on the **NYC CRE market?**



Impact of Global Stock Market Volatility

A majority of executives (55%) feel that increasing volatility in stock markets will have a negative effect on NYC CRE. However, 29% believe that the effect will be positive.

Who is right?

55%

SAY THAT INCREASING
VOLATILITY IN STOCK
MARKETS WILL HAVE A
NEGATIVE EFFECT ON
NYC CRE

29%

BELIEVE THAT THE INCREASING
VOLATILITY IN STOCK
MARKETS WILL BE
POSITIVE ON
NYC CRE

Impact of Global Stock Market Volatility

One of the effects of volatility is diversification into other asset classes, including real estate. There is, however, a bigger picture.

We predict effects will vary by asset class, buyer citizenship and economic conditions in their country. Buyers from oil-producing countries will shift from high-end Residential to income-producing properties, including Office space and Retail. While much of the capital flight from China is going into the Residential market, large Chinese pension funds and insurance companies will continue to invest in Hotels.

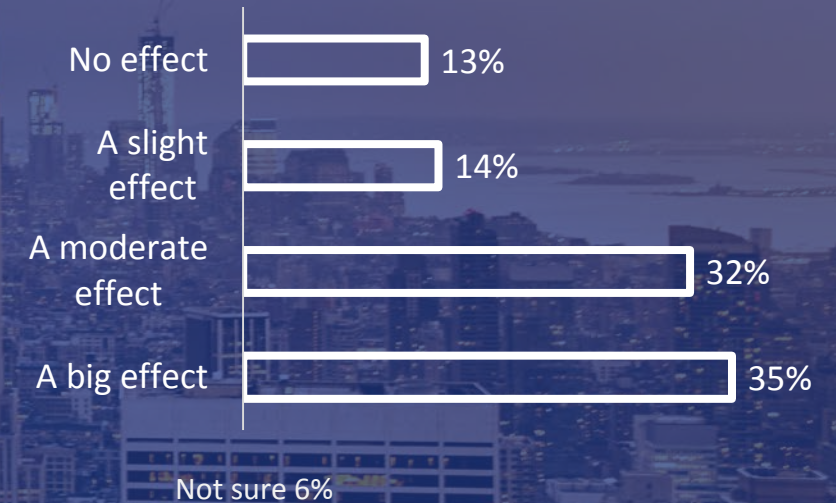
Capping 1031s Will Affect Investment Portfolios

Under IRS Section 1031, no gain/loss is recognized when “like-kind” business or investment properties are exchanged. The government is considering capping the gain deferral at \$1 million.

Over half of our CRE experts have real estate portfolios. A huge majority of them say that capping 1031s will significantly change how they invest.

Furthermore, there were no differences based upon investment styles, from conservative to aggressive.

Effect of capping 1031s at \$1M on investment strategies



Methodology

The results reported here are based on completed self-administered questionnaires using two data collection methods — online and in-person intercept interviews.

Surveys were fielded in late February and early March, 2016.

Marks Paneth staff supervised the intercept interviews and online surveys. Galloway Research hosted the data collection site and tabulated paper questionnaires. Business Research Solutions managed the research project, analyzed the data and reported the findings.

The survey was completed by 145 commercial real estate professionals working in NYC CRE, including legal counsel, bankers and lenders, brokers and agents, developers, property managers and property owners.

Approximately 52% of the industry experts who completed this survey also maintain real estate investment portfolios. Of these, 32% describe themselves as conservative investors, while 51% say they are moderate and 17% say they are aggressive investors.

Recommended Meta Tags

Marks Paneth, commercial real estate, CRE, office, residential, retail, hotels, value, price, investors, investment strategy, foreign investors, stock market, interest rates, Section 1031, L Train

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](#).

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

Media: To schedule an interview, contact John McKenna at (203) 682.8252 or john.mckenna@icrinc.com.