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ACCOUNTANTS & ADVISORS

# Gotham Commercial Real Estate Monitor

WINTER 2017-2018

**Looking Ahead:** Uncertainty, Risk,  
Supply and Demand

# Introduction

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Our Gotham Commercial Real Estate Monitor takes the pulse of New York's commercial real estate property owners and managers, brokers, agents, attorneys and other professionals in this sector.

Findings from the Winter 2017/2018 edition of the survey provide insights on price perceptions, risk, and lending issues, with a special focus on the office and retail sectors.



# Skin in the Game: 65% of Respondents are Investors

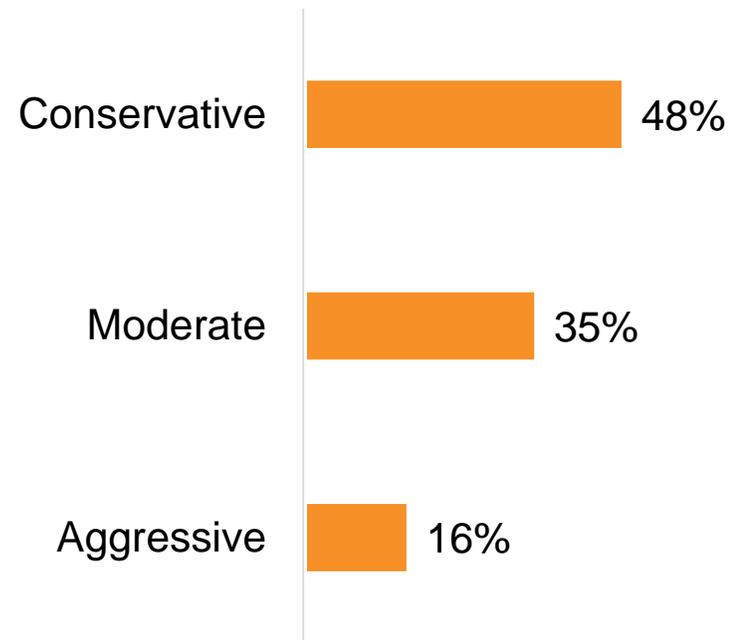
Those who are not investors, are professionals working in the industry.

Investment strategies vary. 31% of investors are conservative. They buy and hold prime property.

Twenty-three percent have a moderately risky investment strategy. They rebalance their portfolios periodically by buying and selling properties.

Eleven percent are aggressive investors. Their portfolios include distressed and value-add/opportunistic real estate.

## Personal Investment Style



Due to rounding, percentages may not add to 100%

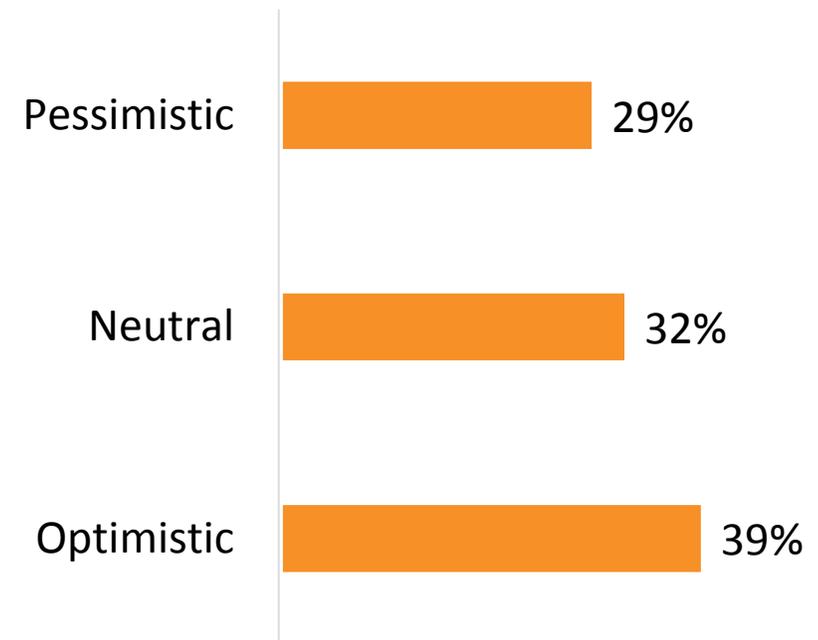
# Attitudes About the Future: It's a Hung Jury

2017 was a year of upheaval. Many of the events which occurred were completely unanticipated.

The reality is that nobody knows what will happen next. Only 39% of respondents were optimistic about the coming year, compared to 68% in 2016 who said they were optimistic about the next 12 months.

When asked about the bid-ask price of CRE in NYC, 63% agreed on one thing: the bid-ask price is growing.

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



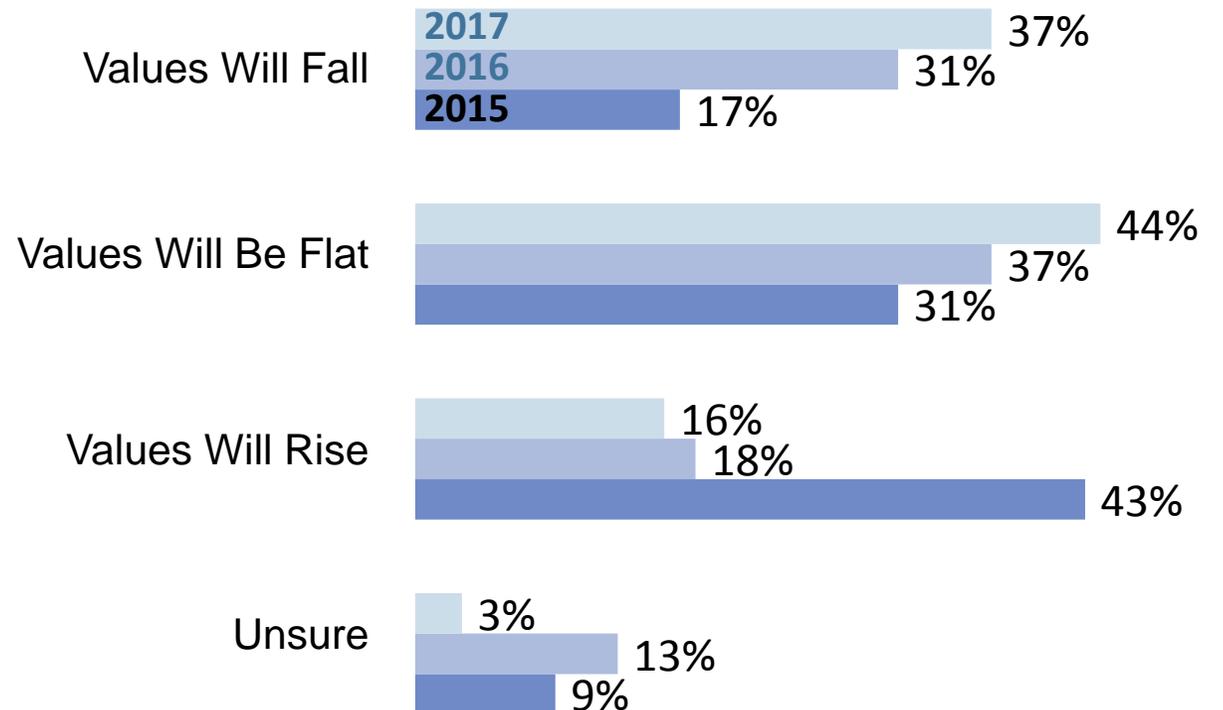
# Attitudes Increasingly Pessimistic About NYC Values

Far fewer industry professionals see CRE values rising than just two years ago, 16% compared to 43%.

Forty-four percent think prices will be flat.

Thirty-seven percent think prices will fall.

What do you think will happen to commercial real estate values in the next 12 months?



# Price Predictions by Sector

Seventy-five percent of industry professionals predict retail property values will decline more than other sectors. One in four predicts declines will be sharp.

When asked what they thought would happen to retail vacancy rates, 73% percent predicted that vacancies will increase.

What do you think will happen to property values in the next 12 months in each asset class?

Sector	Sharp Decline	Moderate Decline	Flat	Moderate Increase	Sharp Increase
Residential	2%	36%	25%	29%	6%
Retail	25%	50%	15%	8%	2%
Office	1%	39%	29%	29%	2%
Hotel	3%	43%	38%	13%	3%



# Who Has The Most Clout, Buyers or Sellers?

It's a buyer's market in the retail sector, according to 81% of CRE professionals.

The majority say buyers also enjoy more power in the hotel sector.

Transaction power is more evenly distributed in residential and office sectors.

Who has the most transaction power in each asset class?

Sector	Buyers More Power	Power Equal	Sellers More Power
Residential	43%	23%	35%
Retail	81%	13%	6%
Office	41%	34%	24%
Hotel	51%	35%	14%

# Prediction: Office Supply and Demand in Next 12 Months

Industry professionals are bullish on Queens and Brooklyn, see lukewarm demand in Manhattan.

The majority expect supply of office space to continue to grow in Manhattan, Queens and Brooklyn.

In the next 12 months, what do you think will be the demand (supply) for office space in each location?

Demand for Offices	Decline in Demand	Flat Demand	Increase in Demand	Decline in Supply	Flat Supply	Increase in Supply
Traditional Midtown Manhattan	39%	47%	15%	10%	33%	58%
Midtown South Manhattan	26%	45%	29%	12%	35%	52%
Downtown Manhattan	29%	41%	30%	13%	32%	56%
Queens	24%	35%	41%	13%	36%	51%
Brooklyn	26%	28%	46%	10%	27%	63%



# Desirable Office Amenities for Buyers

Security and fitness were top-tier amenities most desired by buyers.

Second-tier amenities included an outdoor area, retail shops and bicycle storage.

Third-tier included event/conference space, a food court/cafeteria, natural light and a tenant lounge.

Nearly one in five wanted onsite daycare.

Office Amenities	Importance
24-hour Security Guards	57%
Fitness Center	51%
Rooftop/Outdoor Patio	38%
Retail Shops	30%
Bicycle Storage	30%
Event Space/Conference Center	28%
Café/Cafeteria/Food Court	28%
Natural Light in Common Areas	28%
Tenant Lounge	25%
Daycare Center	18%
Independent Copy/Print Center	4%
Medical Center	3%



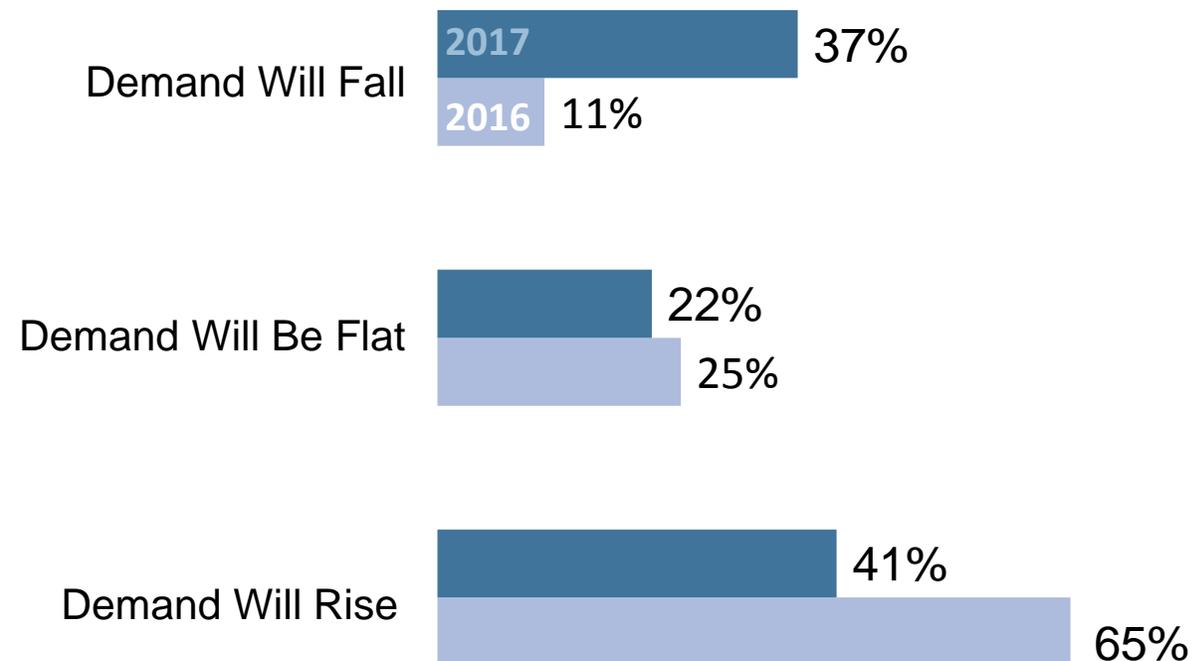
# Demand From Foreign Investors

The number of industry professionals predicting that demand from foreign investors will increase this year was 41%, compared to 65% 12 months ago.

About one in four predict demand will be steady.

Thirty-seven percent predict demand will fall, compared to only 10% in 2016.

In the next 12 months, what do you think will happen to demand from foreign investors?

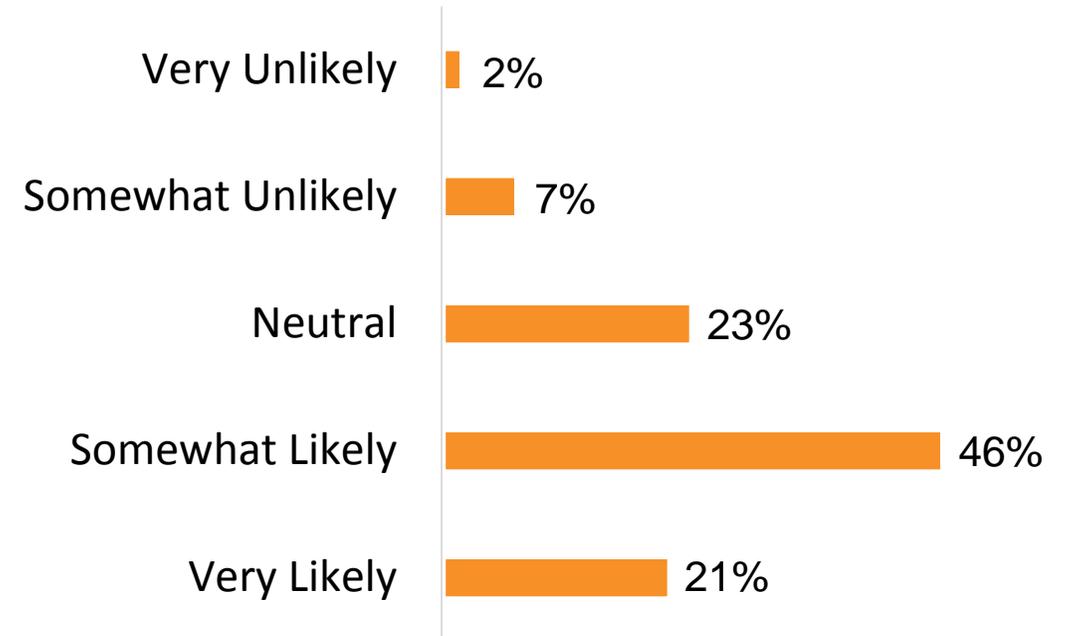


# Interest Rates Put Pressure on Developers

The Federal Reserve raised interest rates for the third time in December and stated that they plan to raise them again to 2.8% in 2018.

Sixty-seven percent of CRE professionals predict that developers will move ahead to secure funding more quickly before rates increase again.

How likely do you think interest rate increases will put pressure on commercial real estate developers to secure project funding more quickly?



# Tax Reform Uncertainty in CRE

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Tax reform was a hot topic when the Winter Survey was fielded in October/November 2017, but whether the bill would pass was an unknown.

Tax reform was the biggest unknown in commercial real estate at the time the survey was fielded, 60% of respondents agreed.

When asked how the uncertainty surrounding tax rates is affecting their personal investment strategy, 70% said their strategy had not changed – a number that reflects the high percentage of conservative, buy-and-hold investors in the survey. 20% said they were delaying transactions. 9% percent said they were accelerating transactions.



# Impact of Risk Retention Regulations on CRE Finance

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Risk retention rules, part of the Dodd-Frank Act that took effect last September, now require originators of commercial mortgage-backed securities (CMBS) to retain a five percent interest in transactions they originate. We asked executives how these regulations would change CRE finance.

- Seventy-three percent think that demand for non-traditional lending sources will increase as traditional CMBS lenders face capital constraints.
- Sixty-seven percent said that risk retention requirements will increase the price of CMBS lending.
- Fifty-five percent believe that traditional CMBS lenders will become more cautious about lending.
- Half believe that loans will be more challenging to close with a single bank.
- Over one in three predict that loan amounts from CMBS lenders will become smaller.
- With regard to their personal portfolios, 60% said it would not change their investment strategy. 31% percent said it would delay real estate transactions. Only 8% said it would accelerate transactions.



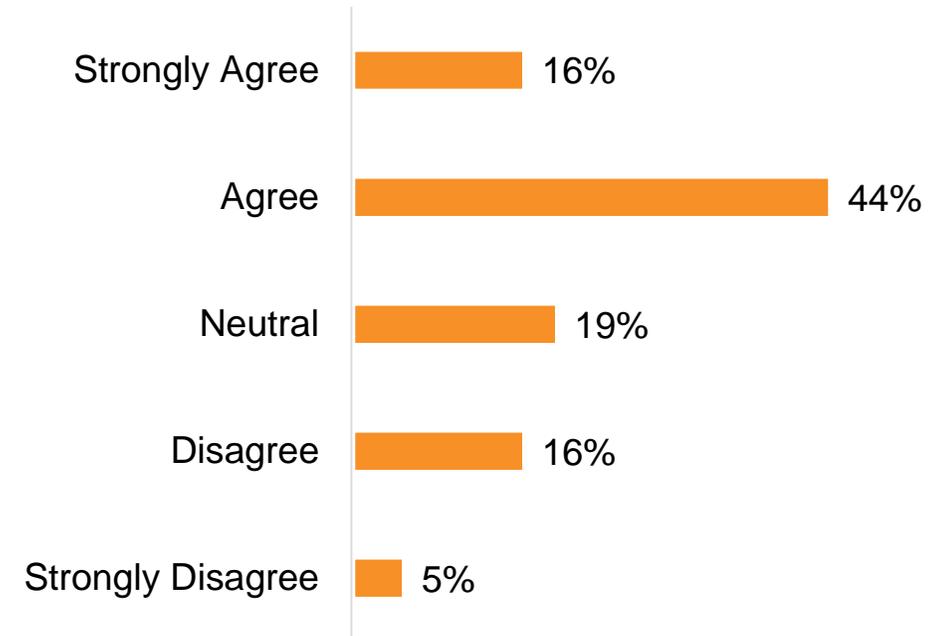
# What to Do When a Property Doesn't Sell

Sixty percent of CRE executives say refinancing when a property doesn't sell can be a better option than lowering the price or taking it off the market.

The primary reason to refinance is to lower the interest rate, but with interest rates climbing, the incentive is reduced.

However, savings is a function of more than just the interest rate. It is also a function of the term of the new loan and tax consequences.

When a property doesn't sell, refinancing can be a better option than lowering the price or taking it off the market. (Agree/Disagree)



# Methodology

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The results reported in this summary are based on 114 self-administered online surveys. Surveys were fielded in October and November, 2017.

Marks Paneth supervised the survey design. The sample included real estate clients of Marks Paneth, *Commercial Observer* readers, and other CRE professionals.

Business Research Solutions managed the research project, including fielding, data analysis and reporting of findings.

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.

Sixty-five percent of respondents also maintain a private portfolio of real estate investments.



# For More Information

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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](#).

For additional insights on the commercial real estate industry, [read more](#) from the real estate professionals at Marks Paneth.

