INVESTMENT FORECAST

Office

New York

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Market Maintains Rapid Supply Growth Despite High Vacancy; Investors Waiting For Reopening Offices

Metro office fundamentals face a protracted recovery. New York City's submarkets maintain bifurcated metrics entering this year. Core submarkets in Manhattan and Brooklyn that recorded the sharpest declines in asking rent through the health crisis observed fundamentals lagging behind pre-2020 norms. The Bronx, much of Queens and Outer Brooklyn reported rents close to or even surpassing pre-pandemic peaks. Rent growth headwinds in the areas most impacted by lockdown measures could persist as employers may find that a hybrid workforce is more economical in high-cost submarkets. Over one-third of New York City employers expect a decreased need for square footage over the next half-decade, signaling remote work as a lingering negative demand factor for office space. However, metro stock continues a phase of rapid expansion. Developers are projected this year to finalize the second-highest amount of square footage in an annual period since 2007. Of the 8.8 million square feet set to open in 2022, 5.8 million stem from two amenity-rich developments located in the Hudson Yards district. As of the beginning of this year, the majority of this space remained unleased. Brisk inventory expansion will create downward pressure on rent growth as the office sector continues its recovery.

Sales rebound remains dependent on return-to-office timelines. A series of delays last year as companies pledged to return to leased New York City spaces coincided with lower investment activity. Trading velocity in 2021 was unable to reach the previous year's level, even after a steep decline from 2019. Breaking from market trends, Queens reported elevated transaction activity relative to 2020, and it was the most popular borough with investors searching in the $1 million to $10 million tranche, followed by Brooklyn. Potential sellers of high-end properties will likely benefit from growing use of amenities spurring leasing in Class A properties. However, overall suppressed occupancy as the health crisis continues may convince some investors to move capital out of the market.

2022 Market Forecast

Employment up 3.5% — Staff counts will rise by 150,000 as the city's recovery continues this year, including 60,000 jobs in office-using sectors.

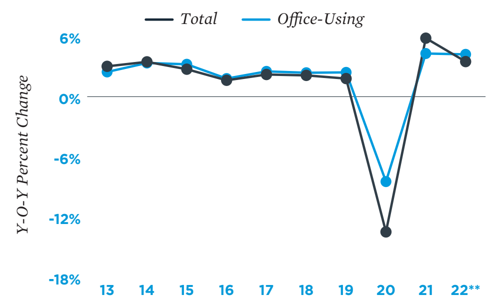
Construction 8,750,000 sq. ft. — The majority of this year's stock will come online in Manhattan. Chelsea follows Hudson Yards as this year's second-fastest growing district with over 1 million new square feet of space.

Vacancy down 80 bps — Vacancy declines for the first time since the onset of the pandemic to 15.8 percent. Still-depressed employment means availability nevertheless remains under pre-2020 norms.

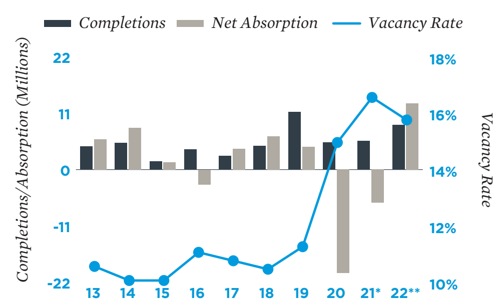
Rent up 2.5% — Office rents begin an upward trajectory, reaching $57.50 per square foot. New York's extended reopening timeline means some time may be needed before rents reach previous highs.

Investment — Sales velocity will be most stable in the outer boroughs, though large employers committing to 2022 return-to-office dates may spark a revival of investment activity in Manhattan.

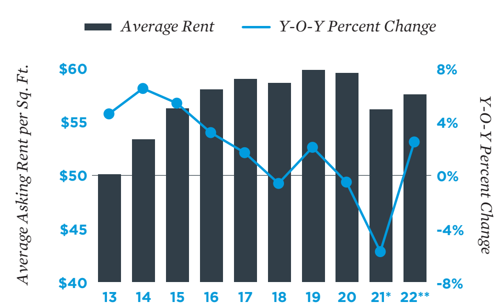
Employment Trends



Supply and Demand



Rent Trends



** Estimate; ** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.