RIPCO INVESTMENT SALES

PROPERTY SALES REPORT

NEW YORK CITY BOROUGHS

Q1 2024

RIPCO
INVESTMENT SALES

THE LEADING INDEPENDENT REAL ESTATE SERVICES FIRM WITH OFFICES IN

MANHATTAN BROOKLYN QUEENS LONG ISLAND MIAMI TAMPA NEW JERSEY CONNECTICUT

FLIGHT-TO-SAFETY AND DISTRESSED SALES BIFURCATED INVESTMENT SALES MARKET IN NEW YORK

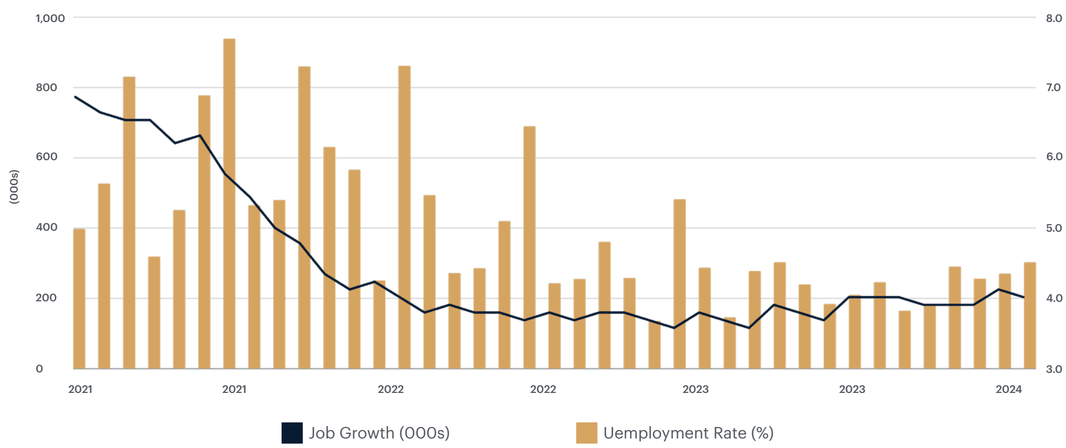
Despite speculation about an impending Fed-driven recession, the U.S. economy has proven remarkably resilient.

The Federal Reserve's mandate to maintain price stability and foster maximum sustainable employment has required a balancing act among policymakers. Despite this, the economy added 829,000 jobs in the first quarter of the year, though March's year-over-year inflation surged to 3.5 percent, well surpassing the 2.0 percent target rate. As the second quarter unfolds, the national economy presents a mixed picture, with robust job growth and low unemployment juxtaposed against elevated prices and tepid consumer sentiment. While indicators hint at a slowdown by year-end, there remains some optimism in the Fed's ability to orchestrate a soft landing.

ECONOMIC INDICATORS

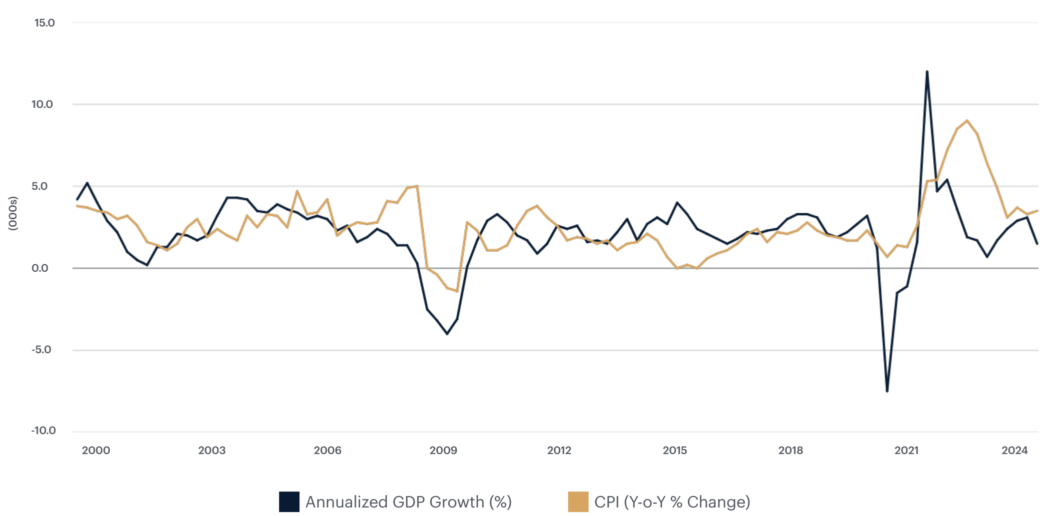
JOB GROWTH & UNEMPLOYMENT RATE

Job growth and low unemployment provides hope for soft landing.



GROSS DOMESTIC PRODUCT & CONSUMER PRICE INDEX

GDP growth and robust inflation limits Fed's options.



CHANGES IN NEW YORK LAW SET TO IMPACT MULTIFAMILY REAL ESTATE

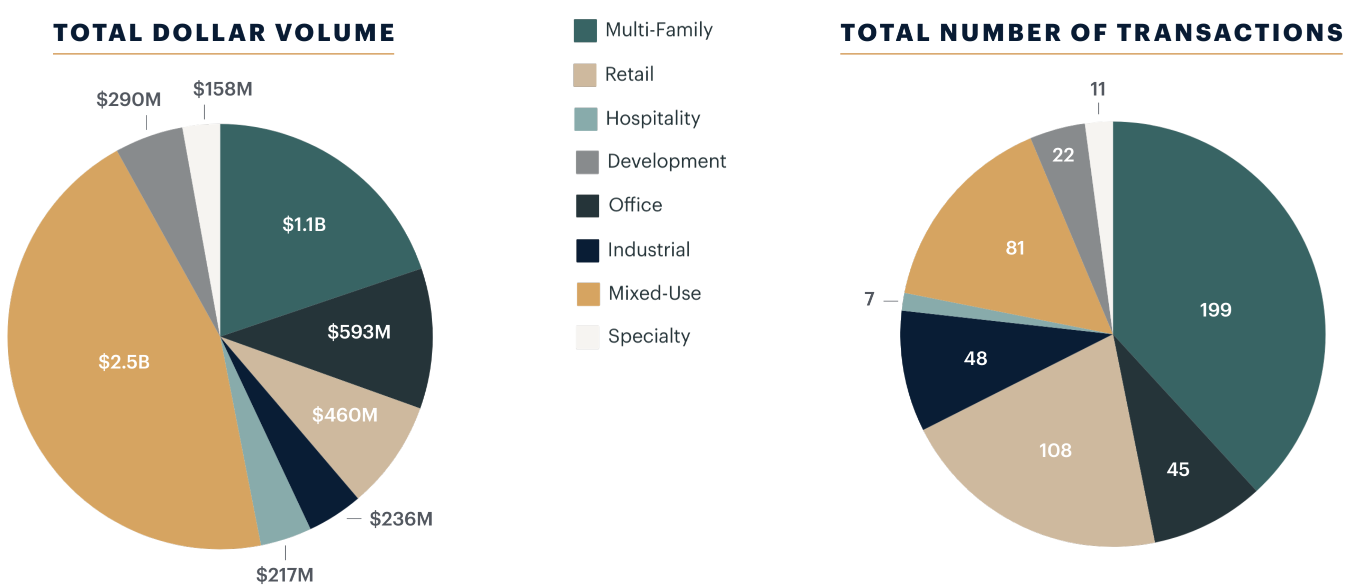
A new housing package tackling rent-regulated units, tenant eviction, and introducing the 485-x program to replace the expired 421-a program in the state has been enacted.

Several changes to the 2019 Housing Security and Tenant Protection Act are designed to incentivize landlords to upgrade apartments that have been vacant because rents did not justify construction costs.

- The cap for "Individual Apartment Improvements Increases" is doubling from $15,000 to $30,000 with rent increase becoming permanent rather than expiring when construction costs are recovered. If the property has been occupied for 25 continuous years or has been vacant since 2022, the cap jumps to $50,000 per unit.
- Good Cause Eviction, a more contentious issue in the housing package, includes which will now apply to market-rate units in New York City.
- Rent increases less than the Local Rent Standard are not considered unreasonable, though rent hikes above the standard can be challenged by a tenant.
- Lease renewals must be offered unless the apartment is being removed from the rental market.

The **485-x Program**, meanwhile, addresses the number of affordable units required in new construction as well as wages paid to construction workers. In a nutshell, buildings with six-to-99 units require 20 percent affordable units, and projects with more than 100 units require 25 percent of units to be affordable. Office conversions to multi-family will also require 25 percent of units to be affordable. Investors willing to navigate the new laws could find opportunities if sellers begin to divest in the wake of the changes.

ASSET CLASS COMPARISON



NEW YORK CITY

TOTAL DOLLAR VOLUME	TOTAL NUMBER OF TRANSACTIONS
$5.554 B	521

RETAIL

TOTAL DOLLAR VOLUME

$460 M

TOTAL NUMBER OF TRANSACTIONS

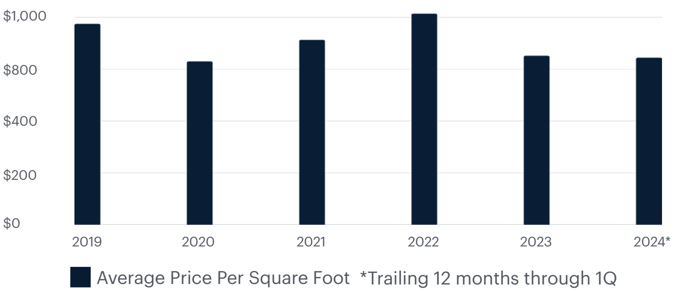
108

Retail buyers and sellers are still searching for a pricing floor. Hamstrung by higher interest rates, both dollar volume and transaction velocity decreased for retail investments last year. That trend has continued through the first quarter 2024. In a shift away from value-add spaces that attracted investors in the first two years following the pandemic, buyers are seeking stabilized properties supporting long-term cash flow, a preference that will persist through the first half of this year.

Cap rates for retail assets in the New York City market have remained within the 6- to 6.5-percent range and have upward pressure. However, the increase is partially due to the rise in private investors and lower rate of institutional activity. Opportunities are emerging near major office districts where traffic is increasing as workers return to their desks.

AVERAGE PRICE PER SQUARE FOOT

Retail prices inch lower as NOI falls upon lease renewals.



MARKET INSIGHT

ANDREAS EFTHYMIOU
Vice President
Investment Sales

DIVE INTO THE MANHATTAN RETAIL SUBMARKET

" In the first quarter, we saw an uptick in retail activity across the board. Cap rates in Manhattan increased by roughly 90 basis points compared to Q4 2023. As sales activity in the retail sector begins to increase, there are several trends contributing to this growth. One of the major drivers is tenants taking advantage of discounted prices to purchase buildings for their own use instead of renting them. A notable example of this was Kering's (Gucci's parent company) purchase of a multi-level retail condominium at 715-717 5th Avenue for $963M, which equated to approximately $8,400 per square foot. "

MULTIFAMILY

TOTAL DOLLAR VOLUME

$2.5 B

TOTAL NUMBER OF TRANSACTIONS

199

Continued troubles with rent stabilized assets continue to hamper the multifamily market. After being a stable asset class in New York City for decades, rent stabilized multifamily assets continue to struggle amid headwinds from all directions, including continued tax increases and political pressure from Albany. Transactional velocity fell more than 30 percent in 2023 as the cost of capital and instability within the debt markets muffled demand. Values declined at higher-end buildings, while the mid-tier assets saw better price stability and inched up in 2023 compared to 2022 due to robust tenant demand. Vacancy rates in New York City for rental units fell to a decade low of 1.4%, compared to 4.5% pre-pandemic, according to New York City's comptroller's office.

Albany's controversial tenant protection law passed in 2019 has led to tens of thousands of rent-stabilized units being taken offline as investors cannot justify renovation costs. Brooklyn saw the largest decrease in transactions at nearly 40 percent, while Manhattan experienced a less dramatic reduction in velocity, which was down less than 25 percent. Average cap rates increased 60 basis points to the low-6 percent range from 2022 to 2023. Brooklyn's lower rate of sales resulted in the largest increase at approximately 100 basis points.

AVERAGE PRICE PER UNIT

Investors target mid-tier properties that will support stronger rent growth in coming months.

MIXED-USE

TOTAL DOLLAR VOLUME

$2.5 B

TOTAL NUMBER OF TRANSACTIONS

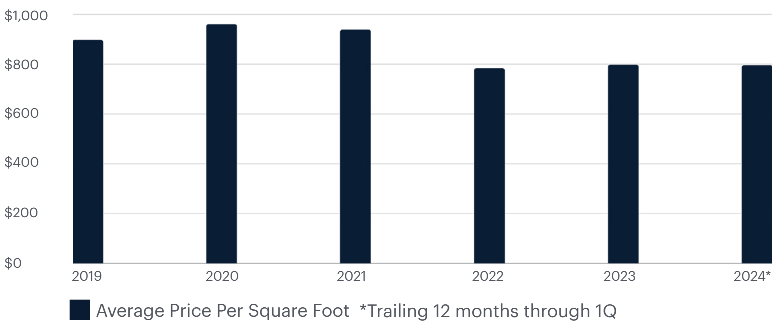
81

Mixed-use property sales keep transaction velocity stable. Transaction velocity for primary apartment buildings declined last year as owners were reluctant to part with assets with in-demand multi-family units. When available, these properties will attract strong bids and enjoy more readily available financing compared to other property types.

The **Bronx** and **Brooklyn** saw relatively stable deal flow from 2022 through 1Q24, while declines were recorded in Manhattan and Queens. Strong demand for medical space in mixed-use buildings is supporting buyer activity as the perceived strength of the tenant rosters keeps the bid-ask gap narrower than in other asset classes. Despite accounting for less than 30 percent of deals, owner-user activity has remained steadier than acquisitions by investors, though this trend may reverse course depending on the availability of debt financing for traditional loans.

AVERAGE PRICE PER SQUARE FOOT

Mixed-use prices have stabilized to post-pandemic norm; traditional market forces resume.



MARKET INSIGHT

BRIAN WHELAN
Executive Managing Director
Investment Sales

UPPER MANHATTAN SUBMARKET

" Upper Manhattan sales volume started 2024 with a whimper. In the first quarter, the total sales volume for the sector came in at ~$110M, representing a 20% decrease compared to the first quarter of 2023, and interestingly the lowest first-quarter dollar volume in the 'post-covid-era'. The dip in volume is predominantly driven by a lack of Multifamily trades which dropped by almost 50% compared to 2023.

Moving into Q2, politically, all eyes are on the new 421A and Good Cause Eviction. A new tax abatement will take developers back off the sidelines, but it may not be until later quarters that we see these sales come to fruition. "

LAND (DEVELOPMENT)

TOTAL DOLLAR VOLUME

$290 M

TOTAL NUMBER OF TRANSACTIONS

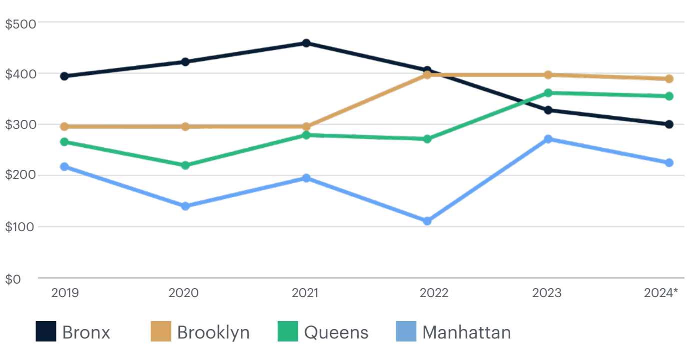
22

Developers remain cautious in New York City due to uncertainty in economic conditions and a lack of clear policy concerning tax incentives from Albany. Annual transaction velocity remains below pre-pandemic levels and has fallen during each of the past two years after a healthy 2021. Last year, the number of overall deals declined by 13 percent from 100 to 87 transactions as sales in Brooklyn overall declined.

Small pockets of optimism have emerged as annualized velocity in the first quarter of this year indicates stable demand despite the increase in the cost of capital. Developers are focused on prime locations to initiate the multi-year permitting process. The Bronx, North Brooklyn, South Brooklyn and South Queens accounted for more than half of the development sales in 2023. Opportunities to acquire development sites and go through the permitting process could put investors in a first-mover position as Albany replaces the popular 421-a program that expired.

AVERAGE PRICE PER BUILDABLE SQUARE FOOT

Price per buildable square foot drops as financing and political uncertainty cloud decision making.



OFFICE

TOTAL DOLLAR VOLUME

$593 M

TOTAL NUMBER OF TRANSACTIONS

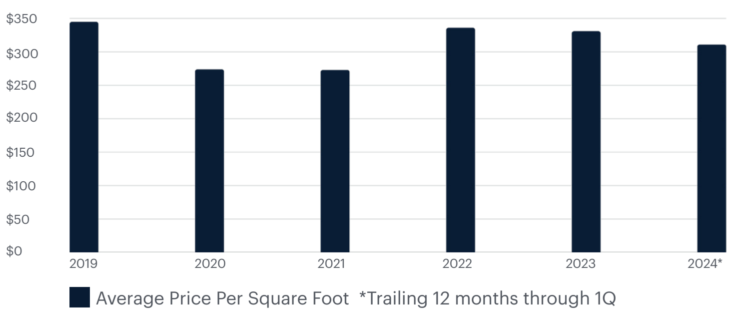
45

The office sector, particularly in Manhattan, continues to struggle through the new norm. The Manhattan market particularly has bifurcated into a tale of two worlds between strong demand for new class A office product and limited interest for class B product. Momentum failed to materialize during the first quarter of this year as buyers await more clarity on return-to-office policies and the trajectory of the national economy. Even if more firms require workers to be present at least some days of the week, which is anticipated, an economic downturn could result in staff cuts or hiring freezes.

Buyers searching for stabilized assets or where leasing activity is strongest may find opportunities to acquire high-end assets near major public transportation in prime Manhattan. Smaller office users are taking space in these locations to take advantage of discounted rents. Overall, however, most investors are waiting for opportunities to materialize from the distress in the capital markets. More traditional buyers could remain on the sidelines well into 2025 as greater clarity on lease renewals, interest rates and overall economic conditions emerge.

AVERAGE PRICE PER SQUARE FOOT

Office prices previously buoyed by flight to safety; rising distressed sales impacting current prices.



MARKET INSIGHT

MITCHEL FLAHERTY
Executive Managing Director
Investment Sales

BRONX SUBMARKET

"The real estate market in the Bronx had a slow start in the first quarter resulting in 48 transactions and ~$206M in dollar volume, with an average deal size of $4.2 million*. This marked a 26% decrease in dollar volume and a 38% decrease in the number of transactions compared to the previous quarter. Retail properties were the most active, with 11 transactions and an average price per square foot of $595. Investors are attracted to this asset class due to its ease of management and less government policy than rent-stabilized buildings. We expect the second quarter to follow suit with a consistent interest in those investments.
*Transactions exclude residential 1-4 families and above $1M"

HOSPITALITY

TOTAL DOLLAR VOLUME

$217 M

TOTAL NUMBER OF TRANSACTIONS

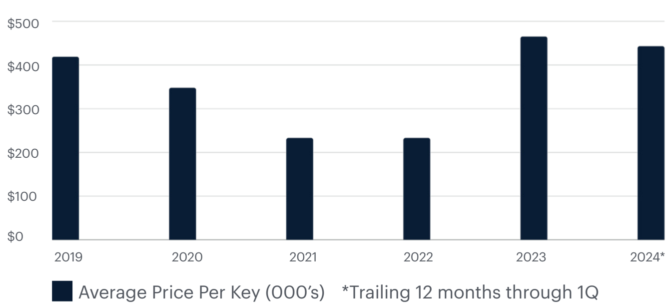
7

The hospitality investment market remains a bright spot for New York. However, the lack of product availability hampers deal flow. Buyer enthusiasm was buoyed by rising RevPAR over the past year, which increased as a broad spectrum of hotel guests visited New York City, lifting occupancy. Mid-week demand has returned as business travelers attend meetings and conferences while weekend leisure visitors are returning in greater numbers. International travel saw a 14.9% increase year over year, but remains below the pre-pandemic average, signaling more demand potential.

Although buyer demand outstrips supply, some of that pressure will be relieved in the coming quarters. The pipeline of flagged properties under construction will undoubtedly include several assets that are put on the market upon completion. Furthermore, New York's "right to shelter" law quietly expired at the end of last year. As government contracts to house the influx of migrants expire, some of the 16,000 rooms off the market will return to traditional operations.

AVERAGE PRICE PER KEY

Hotel values recover as tourism and business travel gain traction.



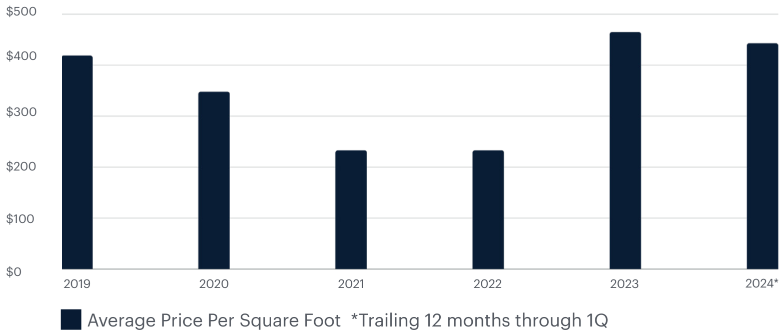
INDUSTRIAL

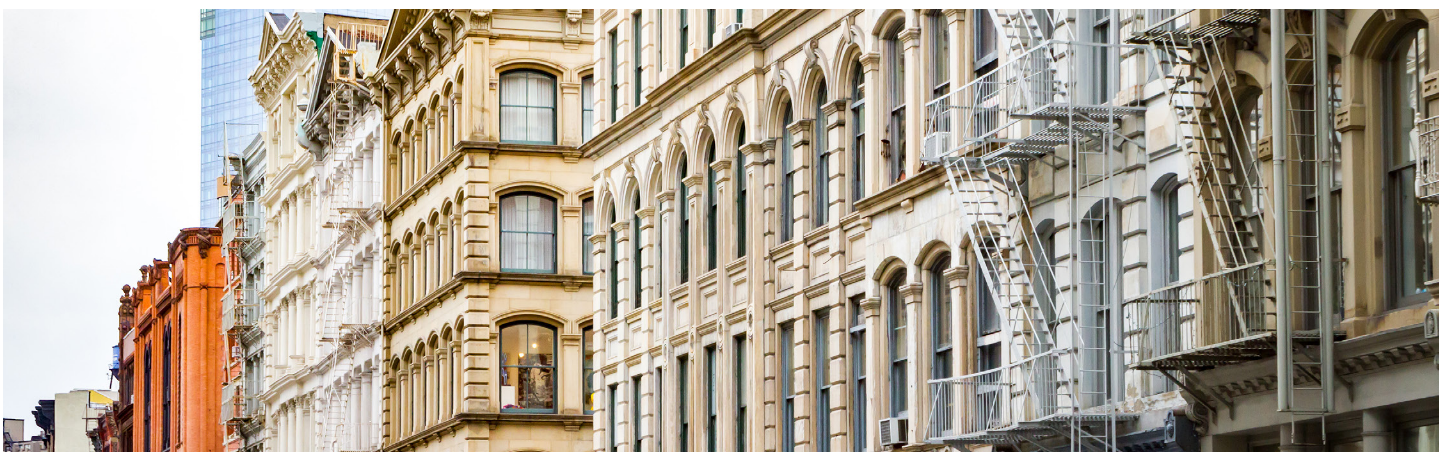
TOTAL DOLLAR VOLUME	TOTAL NUMBER OF TRANSACTIONS
$236 M	48

Industrial investors search for core properties in the market. Although the fervor for industrial properties in the wake of the pandemic faded, owner-users remain particularly active in core areas searching for assets priced below $5 million. These deals changed hands at more than $500 per square foot and averaged 22,000 square feet during the 12-month period ending in the first quarter of 2024. Many of these opportunities are in North Brooklyn, Gowanus and the Bronx, where warehouses make up the lion's share of deals. Market wide, the average price was $296 per square foot last year, down modestly from the prior year, though the decrease can be attributed to some large institutional transactions and not a retreat in value. First-year returns, meanwhile, were 6 percent last year, though valuations vary significantly and are typically more correlated with tenant and lease terms rather than market dynamics.

AVERAGE PRICE PER SQUARE FOOT

Industrial demand for smaller properties in core locations remains robust.





MARKET INSIGHT

STEPHEN R. PREUSS SR.
Vice Chairman
Investment Sales

NYC MARKET

"The first quarter of 2024 served as an indicator of the trends we started to see in the last two quarters of 2023. As the uneasy banking state continues, we expect the second quarter to follow suit, keeping the spread between the bid and ask a moving target with a constant distance between the two marks. However, while we saw a general slowdown in the first quarter, we see positive movement elsewhere.

As predicted at the end of 2023, we are seeing an increasing interest in certain investments with a true and deliverable value-add component and within a more manageable 'small to mid-cap' price range. There is a shift in investor allocations to assets with tangible, long-term cash flow, optionality, and supported clear NOI growth – this includes neighborhood retail, medical-driven occupancies, and higher-quality hospitality. Despite the obvious headwinds, we see activity escalating. These real-time market measures plus a clear value proposition of the highly discounted metrics can lead to further green shoots in 2024."

CAPITAL MARKET SNAPSHOT

The financial markets continue to face uncertainty in the near term as the Federal Reserve works to manage economic growth. The yield on the 10-year Treasury bond has risen by ~70 basis points, climbing from 3.96% in early January to 4.66% as of April 26th, 2024. Despite the Federal Open Market Committee's (FOMC) decision to keep the Fed's key benchmark rate steady at 5.25%-5.50%, which marks a 23-year high, due to the sluggish pace of inflation, there are forecasts of potential rate hikes to further combat inflationary pressures. The consensus among most Fed members however, is a projected decrease of at least 75 basis points by the end of the year to promote market liquidity and increase borrower confidence.

From a lending perspective, financing has generally been stagnant from where it was at the end of Q4 2023. The main difference now is that there are fresh allocations to work with, so lenders are more eager to provide term sheets than they were several months ago. While deal flow remains below historical averages, sellers have adjusted their expectations, resulting in a slight increase in completed transactions. Sellers are being creative where they can, offering options like assumable low-interest debt or seller financing to facilitate deals.

Financing options differ across property types, with multi-family and industrial assets having more favorable lending conditions due to their strong fundamentals. Multi-family properties typically secure loans with LTV ratios between 55% and 70%, and DSCRs ranging from 1.15 to 1.30x. Hospitality properties usually secure financing at lower LTV ratios (65% or less) and higher DSCRs (1.35x+). Debt for industrial tends to fall in the middle of the spectrum as the market has seen some cooling following pandemic highs. Office and retail are largely property specific as buyers, sellers and lenders seek a valuation floor. Trophy offices and nearby retail proximate to transit stations find more willing debt providers, while distress requires a sizeable cash commitment by the buyer. Triple-net and grocery-anchored retail are also attractive to lenders, especially when in-line space has several creditworthy tenants secured under long-term leases.

THE RIPCO CAPITAL MARKETS ADVANTAGE

Founded in 1991, RIPCO is a full-service firm specializing in commercial real estate, combining experience in owner, tenant retail representation and property management to advise our clients along every step of their journey. By applying our expertise and a detail-oriented approach to our recommendations, we enable our partners to make wise and educated decisions.

With the addition of Capital Markets, RIPCO has taken the brand to the next level. Investment Sales and Debt & Structured Finance allow our clients to approach their assets from every angle. With over 800 properties transacted and over $35B in capital markets experience, our team provides our clients with expertise, knowledge, and experience in every facet of the commercial real estate transaction across all asset classes.

800+
PROPERTIES SOLD

$7.5B
INVESTMENT SALES TRANSACTIONAL ACTIVITY

$35B+
REAL ESTATE FINANCING TRANSACTIONS

30+
YEARS OF EARNING TRUST

**Some of these transactions preclude our agents joing RIPCO*

CONTACT FOR MORE INFO

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RIPCO INVESTMENT SALES

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[Sources: RIPCO, CoStar Group, Inc., Federal Reserve, Trepp, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Census Bureau]