INTRODUCTION

While no real estate sector or portfolio is immune from the negative effects of the coronavirus pandemic, we believe certain sectors and strategies are better positioned in these uncertain times. Because of the dispersion of coronavirus’s impact across sectors and cities, investment conviction in where to deploy capital will be more important than ever with the potential to take advantage of short-term pricing opportunities. During the next several years, we expect pricing dislocations across New York City will provide generational investment opportunities.

CAPITALIZING ON NEAR-TERM OPPORTUNITIES

Coronavirus caused unprecedented damage to the U.S. economy. New York City was the epicenter of the pandemic in the U.S. with over 21,000 deaths, accounting for 20% of total U.S. deaths, as of early June. New York City cases and deaths per capita were vastly higher than the U.S.: 2,500 vs. 590 cases per 100,000 inhabitants and 250 vs. 30 deaths per 100,000 inhabitants. As a result, New York City is experiencing a prolonged economic shutdown. Due to coronavirus’s unprecedented impact on the metro’s economy and real estate market, we believe New York City is positioned for greater re-pricing than most major cities.
Given coronavirus’s immediate impact on the U.S. economy, this real estate downturn is expected to be much more abrupt than the global financial crisis downturn. Therefore, investment decisions that benefit from re-pricing will need to be made in the near-term. According to Green Street Advisors’ commercial property price index (‘CPPI’), office prices in New York City are expected to fall ~20% by the end of 2020 and rebound in late 2021 (Figure 1). New York City office values were already falling before the coronavirus pandemic, according to NCREIF. In Q1 2020, annualized capital appreciation for New York City office properties totaled -1.1%, the lowest since 2010. However, immediately after the last two downturns capital appreciation in New York City was stronger than the U.S. average. Figure 1 shows that Green Street Advisors’ CPPI tends to lead the values reflected in NCREIF by 6-12 months. We believe there will be continued, sharp depreciation in the near term as the apex of the pandemic’s economic destruction occurred in Q2 2020. After the last downturn, the New York City commercial real estate market rebounded stronger than other U.S. major markets, according to Real Capital Analytics (Figure 2). We expect that the next several years will provide unique buying opportunities as valuations drop and competition for value add and opportunistic deals weakens.

Fig.1: Annualized capital appreciation

Fig.2: YoY change in commercial real estate transaction volume

There is great uncertainty in the office sector as leasing in the near term is likely to continue slowing as businesses take a wait-and-see approach. This economic recession is likely causing most businesses to re-think their space needs, causing fewer renewals and demand for space. New York City office leasing activity in Q1 2020 totaled 4.5 million sq ft, a 46.9% decrease compared with the prior 10-year quarterly average and the weakest leasing activity in at least 25
years, according to JLL. Despite the uncertainty, several leading office occupiers continued to show confidence in the long term fundamentals and a metro area recovery. Amazon closed on their purchase of the Lord & Taylor building near Bryant Park, Disney continued with their Hudson Square HQ development, and the most downloaded app as of June 2020, TikTok, signed a 255,000 sq ft lease in the Times Square submarket.

For several years, the public market has signaled sharper than average price declines in the New York City office market (Figure 3). This has largely been due to the older office stock, particularly in the Midtown submarket, that has and will continue to require significant capital expenditures. Since the beginning of the coronavirus pandemic, New York City office has been trading at an average 21% discount to intrinsic value in the public market. Real-time rent data from CompStak has not yet indicated a pronounced decline in New York City office rents, but it has shown a slight decline in retail starting rents. Alternatively, StreetEasy residential rent data signaled a downturn in the early weeks of the coronavirus pandemic.

Manhattan, Brooklyn and Queens experienced a deceleration of rent growth starting in March 2020, when the coronavirus pandemic initially impacted New York City’s economy. In our view, a deceleration of rent growth across all property types in New York City is likely to occur in subsequent months. Amidst the uncertainty, we expect there to be investment opportunities across New York City.

Fig. 3: Premium/discount to assets by office REIT

<table>
<thead>
<tr>
<th>REIT</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>SL Green Realty</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vornado Realty Trust</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office average</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Green Street Advisors, June 2020

**CONCLUSION**

Undoubtedly, New York City is experiencing unprecedented economic shock that has impacted all real estate property types. We believe that pricing dislocations as a result of the coronavirus pandemic coupled with the movement and clustering of talented millennials into new and upcoming areas will provide opportunities for investors in tomorrow’s world.
For more information, please visit us at nuveen.com

This material is provided for informational or educational purposes only and does not constitute a solicitation in any jurisdiction. Moreover, it neither constitutes an offer to enter into an investment agreement with the recipient of this document nor an invitation to respond to it by making an offer to enter into an investment agreement. The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on factors such as market conditions or legal and regulatory developments. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This material may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions made in preparing this material could have a material impact on the information presented herein. Past performance is no guarantee of future results. Investing involves risk; principal loss is possible. This information does not constitute investment research as defined under MiFID.

Nuveen, LLC provides investment advisory solutions through its investment specialists.