

Profimex Market Research Update – June 23, 2020

NYC Freezes Rents for All Regulated Units in Response to Coronavirus

Last week, New York City voted to freeze rent for the roughly two-million New Yorkers living in rent-regulated units for one-year. This was voted in by the Rent Guidelines Board, which is a panel that sets the rent for New York City's one-million rent-regulated apartments. The rent freeze will be in effect from October 1, 2020 to September 30, 2021.

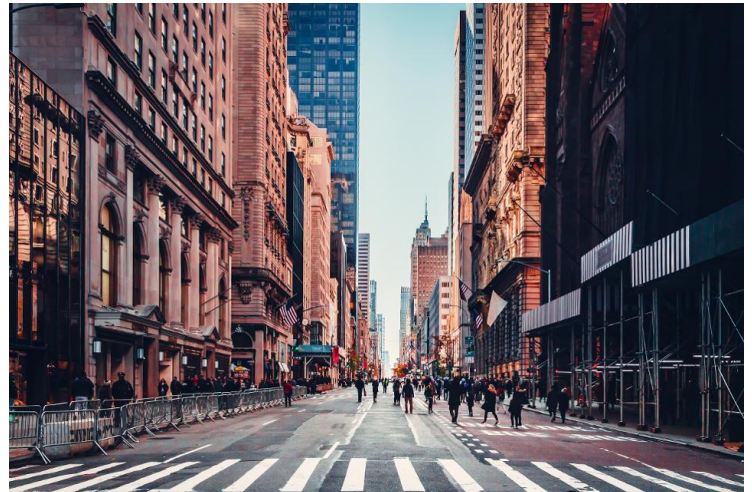
The rent freeze was requested by Mayor Bill de Blasio, who explained that “[Renters] desperately need relief and that’s why we fought for this rent freeze,” the mayor went on. “Now, more renters than ever before will get help keeping a roof over their heads. This is one step of many we have to take to get families through this crisis — but it’s a big one.” Many landlords in New York immediately criticized the Mayor’s move to freeze rent. They explained that the rental revenue generated is used for building improvements, jobs, and property taxes for the City.



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NYC Real Estate Looks for Post-coronavirus Comeback

With Phase 2 of New York City’s reopening beginning at the start of the week, real estate professionals are able to go back to business. During the shutdown, over the last three months, there were very few real estate transactions occurring in the City. Broker Rachel Lustbader, of Warburg Realty, explained that “There has been a dramatic decline in the number of deals made over the past three months, but there have been some. Since those deals have not yet closed, we do not have an official record of the contract prices. From what I have personally seen, the prices have varied depending on the market sector but on average they have between 5-7 percent



less than they would have been pre-COVID.” Due to the intense economic impact of the shutdown, investors with cash to invest, were able to negotiate, on average, between 20%-30% off purchase prices. The highest being offered for development projects that experienced liquidity shortfalls and were cash strapped.

Additionally, while many brokers explain that some people may choose to leave the city for the suburbs, New York will bounce back in the long-term and this may create an opportunity for larger residential units. These brokers explain that the unique culture of living in New York will continue to attract new residents and companies.

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Pandemic Fallout Could Spur 'Broad Experimentation' in Office Leases

According to a recent DBRS Morningstar report on the office market, the office market may experience a “fundamental rethinking” of the open office concept and learn to adapt to an increase in office vacancies nationwide. This will likely lead to experimentation in the usage of office space. While in the short-term, there won't be much of an impact from work-from-home arrangements and new social distancing norms; due to the fact, that office users typically sign for multi-year leases.



In the long term, however, the office market will need to adapt to social distancing norms. The reports mentions that some changes that will likely emerge many be positive for the office sector. One possible outcome is that companies will allow maintain the same space usage but allow workers the flexibility to work from home. This will cause a reconfiguration in the tenant's space. Another possible outcome is a major reduction in the amount of space the companies rent. REIS estimates that by the end of 2022, nationwide office vacancy will peak at approximately 20.2% and improve to 19.1% by the end of 2024. “The recession and trend toward leasing less office space could contribute to the nationwide increase in office vacancy that Reis is projecting,” the report said. A third possible outcome is that companies will lease more space to accommodate social distancing norms.

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