Real Estate Industry Alerts Tracker - January 22, 2021 Issue

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Investor Optimism Indicates Beginning of Rebound

In a new video address, John Chang, senior vice president and director of research at Marcus & Millichap, indicated that increased optimism by investors marks the beginning of a recovery. According to Mr. Chang, investors have shifted their focus from downside risk to upside potential. Increased optimism, together with increased capital, low interest rates and increased debt financing are expected to increase investment in 2021. However, Mr. Chang warned that major metropolitan areas and destination markets are going to take longer to recover and that the office, senior housing, retail, and lodging sectors will also take longer than other sectors to reach pre-pandemic levels.

Additional information may be found here.

Real Estate Firm Expects $200 Billion in Available Capital Will be Deployed in 2021

Mark Seale, principal and director of brokerage services at Avison Young, believes that a substantial amount of capital will hit the commercial real estate investment market in 2021. According to Seale, "[b]y most estimates, there is more than $200 billion in capital sitting on [the] sidelines coming into 2021. We believe that capital will be deployed in 2021 as we come out of the downturn. Some properties are distressed and will provide higher cap rates of at least a percent which will attract value-add investors." This is not to say that the capital will be invested in the same areas as prior to the pandemic. For example, Seal believes that multifamily in the Phoenix market will be attractive for investors in 2021 given the Phoenix "population continues to grow and there are no rent control measures as there are in other top markets such as California and New York." He also believes that Phoenix will be an emerging market for office opportunities given investors are "looking beyond Silicon Valley for start-up investment capital."

Additional information may be found here.

Manhattan Retail Rents Suffer Historic Decline

According to research conducted by the Real Estate Board of New York (REBNY), asking rents in the retail sector have declined in all 17 retail corridors within Manhattan over the past year.

- “Broadway - Houston Street through Broome Street” section, where asking rents declined 25% year-over-year, to $367 per square feet.
- “Fifth Avenue - 14th Street through 23rd Street” section decreased 22% since last year
- “West 34th Street - 5th Avenue through 7th Avenue” section suffered a 17% decline in asking rents, to $441 per square foot.

REBNY also reported that the spread between asking rates and actual rates has increased, with actual rents charged being 20% lower than the already reduced asking rates. In addition to reduced asking rates, 11 of the 17 retail corridors within Manhattan have seen a rise in available space year-over-year.

Additional information may be found here.

Vacancy Rates Climb While Rents Fall

A new report from Moody’s Analytics revealed that, nationally, vacancy rates climbed in multiple sectors while effective rent declined. According to Moody’s, the national vacancy rates for apartments increased year-over-year from 4.7% in the fourth quarter of 2019 to 5.2% in the fourth quarter of 2020, while rents declined during the same period. Overall, apartment rents declined by 3.1% for the year, but this is largely attributable to the rent declines suffered by the major metropolitan areas such as New York City and San Francisco where rents dropped 12.2% and 14.9%, respectively, as compared to last year. Office vacancy rates increased from 16.8% last year to 17.7% this year, while office rents only fell slightly for the year as compared with last year. The retail sector also experienced a decline as compared with last year, but only slightly as vacancies increased from 10.2% to 10.5%, while retail rents decreased 1.2% for the year.

Additional information may be found here.

Property Values Declined by 8% Last Year

According to Green Street, commercial property values declined by 8% last year with property value changes varying depending on industry. While some sectors saw pricing decline between 15% to 25%, others, such as industrial properties and manufactured homes saw price increases of about 10%. As economic activity began to increase towards the end of the year, prices also increased slightly by 1.8%. Prices for apartments and industrial properties increased by 2% in November, while student housing properties and self-storage facilities increased in November by 6% and 5%, respectively.

Additional information may be found here.

Pandemic Expected to Result in $2.5 Billion

Decrease in New York City Property Tax Revenues

According to Mayor de Blasio, New York City property tax revenues are expected to decline by $2.5 billion in the coming year due to the sharp decline in the value of office and hotel properties. New York City officials reported that the market value of the tax class that includes hotel, office, and retail properties decreased by 15.8% as a result of pandemic-related shutdowns and other restrictions.

Additional information may be found here.

PPP Redux: What's New for 2021 in the SBA Loan Program

Shortly before the new year, Congress passed another COVID-19 economic relief package, re-opening the Paycheck Protection Program (PPP) administered by the Small Business Administration. The new law both funded the U.S. government for the remainder of FY 2021 and made available a wide range of COVID-19 relief support, including The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (Economic Aid Act).

The new law allows businesses to apply for a loan for the first time or, in some cases, allowing existing PPP borrowers to apply for a second loan. In general, new first-time PPP borrowers will be subject to the PPP's original eligibility rules as amended by the Economic Aid Act, and second-time PPP borrowers will be subject to the requirements outlined below. The Act includes significant modifications and extensions of the Paycheck Protection Program (PPP) including:

- extending the program until March 31, 2021;
- increasing the list of eligible borrowers and the permitted uses of PPP loans;
- creating a new "second draw" loan program aimed at providing additional assistance of up to $2 million to PPP borrowers that have exhausted their original PPP loan for permissible purposes; and
- making significant changes to the interaction between the PPP loan programs and various tax incentives provided by the Cares Act.

Additional information may be found here.

New Stimulus Legislation Affects Health and Welfare Plans, including Flexible Spending Arrangements

On December 27, 2020, the President signed into law the Consolidated Appropriations Act, 2021 (the "Act"), the latest major piece of legislation passed by Congress in response to the coronavirus pandemic. This Kelley Drye advisory describes certain provisions of the Act affecting health and welfare plans, including health and dependent care flexible spending arrangements ("FSAs").

To read our full advisory, click here.

2021 Labor & Employment Law Webinar Series

With a new president and a flipped Senate, there are many changes on the horizon, and with COVID-19 still raging on, it is important to be aware of the new statutes and lawsuits stemming from the pandemic. To help employers comply with new laws and navigate today’s complex employment challenges, Kelley Dryer's Labor and Employment group will be offering five complimentary webinars covering hot topics such as COVID-19 leave laws, NDA’s, wage and hour class actions, and more.

Our programs are designed to inform and provide best practices for in-house counsel, management, and HR professionals. We will kick off the series on January 26th with “Lawsuits In Vogue: What to Keep an Eye on 2021.” For program information and registration, click here.