

## **Market Analysis: NYC Counts the Costs of Covid**



New York City (NYC) is virtually synonymous with commercial real estate. It's a mega sector there, with legendary dealmakers and eye-watering costs. With an incredibly dense population and as a home to a huge number of global headquarters, the city was not only hit hard by the Covid-19 pandemic, but also responded with some of the strongest mitigation tactics seen stateside and in the world. A report from the New York State Comptroller Thomas DiNapoli (published late 2021) now shows the true costs of Covid on NYC's iconic commercial real estate (CRE).

### **Setting the Scene**

In 2019, reads the report, the office sector in NYC employed 1.6 million people, or a third of all city jobs. In the preceding decade, office market property values and billable values (on which property taxes are levied) had "more than doubled". Off this incredibly strong base, employment in the office sector shrunk by 5.7% in 2020 – certainly a blow, but less than the 11.1% drop in total employment.

The gap here lies in remote work as a mitigation strategy, but that resulted in reduced office space demand. "Asking rents are down 4.2% in the second quarter of 2021, while vacancy rates are at 18.3%, a level not seen in over 30 years in New York City," according to the report.



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### **Market Values Down**

The result is a steep drop in the full market value of office buildings (463 million square feet of inventory), which fell \$28.6 billion citywide – based on the 2022 financial year (FY) final assessment roll. This is the first decline in total office property market values since FY 2000.

In turn, Market Watch's analysis says, the declines "cost more than \$850 million in property taxes in the city's fiscal 2022 budget."

### **Charting the Return**

What the ledger numbers don't indicate, though, is "what next?". Partnership for New York says that while the labor market recovery "remains sluggish", NYC saw "strong income and sales tax revenues and pandemic-era highs in hotel occupancy and transit ridership" during Q3 2021.

The New York City Recovery Index – a joint project of Investopedia and NY1 – puts the state of the city's recovery at a score of 85 out of 100, or "over four-fifths of the way back to early March 2020 levels".

The CRE shakeup has also led to some much needed strategic thought and speculation about the future for NYC, including suggestions that empty office space be converted to residential to address the city's need for affordable housing.

