

# INSIGHTS & INSPIRATIONS



## Top takeaways from ULI New York's Real Estate Outlook Conference last month

Last month, some 300 professionals in all segments of land use attended ULI NY's signature Real Estate Outlook conference. As always, this year's sellout event explored findings from our *Emerging Trends in Real Estate* report, produced in partnership with, and presented by Partners Bill Staffieri and Ricardo Ruiz of PwC, based on more than 1,200 polled in the industry and over 600 interviews. After the presentation, David Dishy, CEO of LMxD; Sonny Kalsi, co-CEO of BentallGreenOak (BGO); and Heather McGeory, head of Sustainability at Fifth Wall reacted to their observations and forecasts.

A few takeaways from the Response Panel are below:

### 1. The industry is adjusting to the new normal.

"It's been painful, but we'll get through it and likely emerge stronger. The current market dynamics have given rise to the adage 'Survive until 2025,'" said PwC's Bill Staffieri. "There's no fast fix, there's going to be pain. I don't want to sugar coat things. But over time, things will shake out," added Jessica Lappin of the Downtown Alliance for New York. "We have to take the long game, work together and push through."

### 2. We're past the initial flight to quality, which shone a light on a bifurcated office sector, with Class A clean, green, 'hotelified' office buildings commanding premium rents.

“There’s a dilemma. If you have a Class B office [building], what do you do?” asked Staffieri. “Class B office owners are facing a decision dilemma: Should they invest in upgrades with uncertain returns, consider limited conversion opportunities, or face potential loan defaults? We hear a lot about landlords considering returning keys to the bank.” Asked Sonny Kalsi of BGO, whose firm has selectively done just that: “Let’s just say office demand is down 20 to 25%. That means 75 to 80% of the demand is still there. Where’s that going to go? More likely to assets which are sustainably focused and futureproofed? Also, to assets which offer the work, live, play opportunity?” Added MaryAnne Gilmartin of MAG Partners, over her Fireside Chat: “Workers want interesting places, with light, air, and nature. Over the next few years, not a lot of new commercial buildings will be built. But I want to build one...imagine a boutique jewel box, one that reimagines the way we want to work.” Gilmartin added that she’d also like to build larger buildings with proximity to mass transit, “where we come together with our fellow coworkers to create, to make and to build.”

### **3. Meanwhile, industrials, data centers, hotels and select retail continue to perform well, plus medical and life sciences offices.**

Said Kalsi: “I am surprised that ‘other’ is not more front and center—data centers, cold storage, and the overlap between those and infrastructure – that is the big change. If you just follow the ‘housing good, office bad’ mantra, it will be hard to outperform.” Moreover, space optimization in all real estate categories will help. “How to use space all day?” he asked.

### **4. Lower valuations and a likely fall in interest rates are stoking cautious optimism and unleashing creativity about what to do with the (Class B and C office) rest.**

“The challenges of the bid-ask spread will shrink as we go forward,” said Staffieri. “We have guarded optimism.” One possibility: vertical retail. Some retailers in Times Square are considering this, Staffieri said. It is a common approach in Asia, observed Kalsi, also noting an absolute fall in asset valuations. “We should see more credit.” Added David Dishy of LMXD: “Many of our days are admittedly miserable. We vaguely stumble through a steady flow of problems. But the worst of 2023 is behind. And in many ways, this is the most interesting moment to be thinking about cities and real estate in our lifetime. How will cities reorganize themselves? We are obsessed with that question. It is a moment of transition that is scary and opportunistic. The world is resetting. Still, we are fundamentally optimistic about New York and the enduring appeal of living and working in dynamic cities.”

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