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A nascent recovery and the role of the government

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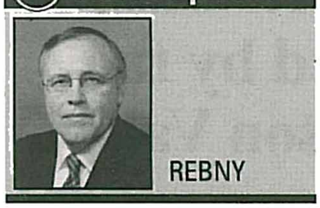

N.Y.C.'s real estate market has shown signs of recovery from the global economic crisis that rocked our city and industry at the end of 2008. However, our return to the prosperity of a few years ago faces serious challenges, as the failed bombing in Times Sq. and the Dow's nearly 1,000-point plunge recently should remind us. Government actions in our control from tax policy to business regulations could propel or derail our recovery. It is essential that our industry continue to be vigilant in Washington, Albany and city hall on legislative matters promote a business climate that encourages new investment and economic activity.

N.Y.C.'s unemployment rate declined in March to 10% from 10.2% and job losses appear to have abated. Further, our job losses (169,000 according to N.Y.C.'s Office of Management and Budget) were significantly lower than the 250,000 projected last year, resulting in a less significant impact on our local economy.

Modest job growth is returning to our city. Employment figures for March indicate a growth of 28,000 jobs (not seasonally adjusted), the second month in a row of growth. The positive change in employment will slowly trickle through our local economy. An important indicator of an improving office market has been the steady decline of available sublet space. This has helped stabilize the vacancy rate (13.5%) and the average asking rent ($50.41) in Manhattan. We have begun to see some owners increase asking rents for high-end space. However, we will need sustained employment growth for more significant office leasing and rent increases to occur. New York's office market remains the strongest in the nation, according to the mayor's executive budget documents released last week.

As tourists continue to flock to our city, hotel occupancy levels remain high and leisure and hospitality employment continue to rise. In March, national retail sales were up 7.6% over last year and 1.6% month on month. N.Y.C. retail employment in March was up 1.4% year on year. Similarly, April's consumer confidence index was at its highest since September 2008. As a result, REBNY's Spring Retail Report notes that average asking rents have started to increase in most of the retail corridors we surveyed. Likewise, homes sales in N.Y.C. in the first quarter of 2010 are up 52% over the last year, signaling that economic activity in returning.

Office rents are down 25% from the peak and vacancy rates are nearly twice as high today from the peak of the market in 2008. Large office building sales have been virtually non-existent for the most part since 2008 and financing has been largely unavailable for these transactions which have generated significant transaction tax revenue. In 2009 N.Y.C. transaction (transfer and mortgage recording) tax revenue was $1.25 billion, down $2 billion (62%) from 2007.

To avoid losing the momentum we are generating, we need to make sure that government proposals to address budget deficits do not depress our nascent recovery. REBNY has been engaged in a range of legislative matters to sustain economic growth.

As the real estate market slowly improves, it will continue to need the help of government to lower taxes, remove restrictions for investment and provide the needed stimulus for the economic activity that did so much to fund the services that are crucial to our city's future.

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