Practice

Experts Assess New York, National Real Estate Markets

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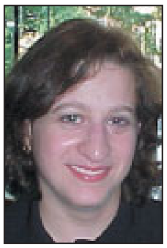

Economists and finance experts addressed the Congressional Real Estate Caucus at a Capitol Hill briefing October 4 to discuss the state of real estate markets in New York City and across the country in the wake of the September 11 terrorist attacks.

Caucus Cochairs, Reps. Phil English (R-Penn.) and Richard Neal (D-Mass.) moderated the briefing, which was sponsored by National Real Estate Organizations (NREO). Several members of the AIA national component staff, including Chief Operating Officer Jim Dinegar and Government Affairs Managing Director Lisa Blackwell, represented the Institute at the meeting. The meeting was also attended by allied organizations in the real estate community.

Stark numbers

First, the shear magnitude of destruction of the New York attacks was laid out in stark numbers by Owen Thomas, managing director, Morgan Stanley Realty. He said roughly 30 million square feet, representing about 28 percent of the downtown office space in New York City, was either destroyed or severely damaged because of the attacks. Of that, 13 million square feet of space was completely destroyed, "roughly the size of the CBDs of Atlanta or Miami."

Thomas elaborated: "The impact on downtown is greater than these numbers suggest. ... It's obviously an extremely different environment than what it was before the attack."

He noted that Manhattan is the largest office market in the country with 350 million square feet, with downtown representing 107 million square feet, making it the 10th largest in the country, if it were broken out. He said there is enough space in New York to accommodate all the tenants who need to relocate, but that it is not as simple as just finding comparable space in buildings in the same area.

Several issues complicate relocation in downtown Manhattan. One is that much of the space in Manhattan is in small pieces, and many of the firms, especially the financial organizations, have a need for more contiguous space. The second, Thomas explained, is that there is not much space available downtown, so a "tenant has to either go midtown, which is significantly more expensive, or go to the suburbs, which is obviously a negative for New York."

Not all tenants are re-leasing the same amount of space they originally had, Thomas said. "Also, interestingly, of the leases that have been signed, only 12 percent are in downtown, and 26 percent are in the suburbs, so 62 percent of the leases that have been signed are in other areas of New York. So there's a lot of moving going on around the city."

There is some concern that a movement toward the suburbs creates different implications for the marketplace. For example, Rep. Neal noted that it might create pressure on close-in areas that are already vocal opponents of sprawl.

Insurance Claims

"On the insurance side," Thomas said, "we think claims are in the $25 to $30 billion range."

He said the insurance companies would be able to cover the costs. Historically, acts of terrorism have not been excluded from insurance coverage. However he said that the re-insurance industry has testified that they will not be able to cover acts of terrorism from this point on.

Thomas said this would have a "big impact" on the real estate industry for both selling and refinancing buildings. Both he and Doug Duncan, chief economist at the Mortgage Bankers Association of America (MBA), said that real-estate funding sources may not want to finance buildings projects that are not insured against terrorist attacks.

Predictions vary by building type

Economists from National Association of Realtors (NAR), National Association of Home Builders (NAHB), and the MBA gave their predictions about areas of the economy that they thought would perform better and some that they thought would fare worse.

As has been widely reported, the hospitality and lodging industry has been drastically hard hit, as personal and business travel has declined. Layoffs in the sector are estimated at a half million people, Thomas said.

David Seiders, NAHB chief economist, said that preliminary data indicate that

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lower consumer confidence, a weaker economy and job market, and a falling stock market would lead to a significant fall-off in home-building activity, at least in the third and fourth quarters of this year and the beginning of next year. He said, however, that short-term losses because of economic conditions or a shock like the attacks are "virtually all regained later because the ultimate foundation for housing demand is housing formations."

The NAR chief economist, David Lereah, speculated that these factors would lead to negative growth of the GDP, but that the economy would bounce back next year. He indicated that the realtors are currently at 90 to 95 percent of pre-September 11 activity.

Duncan of the MBA said lower interest rates were good for people who want to refinance their homes. However, he said, the attacks have impacted the commercial real estate market, and particularly the commercial debt and securities market. As of the beginning of October, only 1.9 of the $10 billion in deals that were at the "potential stage" had come to market.

The transcript of the briefing is now available, *www.rer.org/caucus/testimony/transcript.htm.*