Private Real Estate Investing
Post-Pandemic Office Market Outlook

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By Dave Freudenberg, *Director*

Pathstone recently held a panel discussion on the outlook for private real estate investment in 2022 as major metropolitan areas look beyond pandemic-related slowdowns. Pathstone's Dave Freudenberg, director of private markets research, was joined by executives from Savanna, a New York City-based real estate manager.
While our conversation focused on the New York City market, our panelists highlighted several notable trends relevant to private real estate investors in other major markets. Below is a brief summary of the key takeaways; please click here to access the full replay.

State of the real estate market today
Not surprisingly, the NYC real estate market was upended by the pandemic. Institutional investment activity practically halted in the second and third quarters of 2020. However, in the first quarter of 2021, conditions began to stabilize, and by Q4, the market had regained around 90% of pre-pandemic activity, a good proportion of which is driven by very large tenants – in recent months, at least ten lease transactions have exceeded 240,000 square feet.

How is work from home impacting private real estate?
Given the many predictions of a paradigm shift in how people work – namely, the "death of the office" – the swift recovery in NYC might seem surprising. Savanna cited several trends that run counter to this narrative:

- Hybrid working was already a well-established pattern at many companies. Post-pandemic, even companies that were reluctant to allow hybrid arrangements are keeping them in place as a benefit.
- Many employees prefer to be in the office at least part of the time, even with this flexibility. Importantly, they want to be in the office *at the same time* as their colleagues.
- This dynamic, together with the general unpopularity (and now health concerns) of "hotel desk" approaches to space management, are leading tenants to plan for maximum occupancy.

The panel also addressed a related concern, namely that metropolitan areas such as New York City would be permanently affected by pandemic-inspired moves to the suburbs. According to Savanna, major companies still want to be in cities like New York, which tends to attract top talent.

Is the recovery lifting all boats?
Savanna highlighted a notable bifurcation in the market, with a "flight to quality" being the prevalent trend. Tenants are seeking "better buildings" — higher-quality assets such as new construction, buildings with fully modernized HVAC systems, desirable locations, superior transit access, and sustainable materials. While heightened awareness of health over the past year may be contributing to this focus, the Savanna team noted that a sea change has been underway for the past several years, with both tenants and investors increasingly emphasizing environmental, social, and governance considerations in their leasing decisions. Notably, while approximately 60% of commercial inventory in New York City consists of older, non-modernized buildings, 75% of 2021 leasing activity (above 50,000 sq ft) involved so-called better buildings.

Focus on quality
In sum, the trends seen in New York City may differ somewhat from other markets but are likely to be seen in other major metro markets. This suggests that investors in private real estate need to ensure they are investing with high-quality, forward-looking managers who dig into the details of each opportunity rather than treating the sector as a commodity.

In case you missed it, here is a link to the full replay**.** If you have any questions or would like to discuss private real estate, please contact us.

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