

A VIEW OF NEW YORK CITY IN 2022

BY JAY A. NEVELOFF



Photo courtesy of Kramer Levin

Jay Neveloff

For the past several months, we New Yorkers have been living through the absolute unimaginable. The COVID-19 unimaginable has far exceeded any prior unimaginable event that has occurred in generations.

Of the many topics we all ponder, one of them is what New York City will look like over the next two years. This, of course, assumes that there is no further uncontrolled outbreak of COVID-19 or any other pandemic.

A New Normal

There is no doubt that our lives have been changed forever and that when we do return to normal, it will be a new normal. We will need to adapt to the demands of social distancing, cleanliness and a new economic order. Lest there be any doubt, however, we will return! We have demonstrated as a city that we can adapt to the most horrible of circumstances and move forward. For example, 9/11 was a tragedy beyond the then-imagination, and our city did change forever, including in positive ways. The tragic loss of lives helped unite our city and caused New Yorkers to be that much nicer, more helpful to one another, less aggressive in the subways (far fewer sharp elbows and shoving, at least on the lines that I ride), willingness to provide directions to tourists and in so many other ways. We also learned to endure, although we complain about long TSA lines at airports and security screening at events. We will now get used to more space in restaurants, more room at a bar, less crowded elevators and so much else.

New York City is totally dependent on mass transportation, and people will continue to use and rely on the system. It is critical that we see great strides towards significant improvements in cleanliness on the subway. We may even find that, much like most other major cities in the world, our subway system will continue to be shut down each night for deep cleaning, as began in May. Restaurants of all types will reopen, but with new economic realities (although I'm not quite sure how that will work financially).

However, what will the effects be on real estate two years from now?

Reconfigured Real Estate

Retail has in recent years been economically challenged as mom-and-pop stores have closed and shopping malls are less frequented. The entire business model for retail throughout the city and nationally has been evolving. With people getting used to online shopping and restaurants and other retail establishments having lower capacity, the challenges of retail tenants paying rent will increase. Yes, we will see many more local distribution centers for online retailers (which will help the city traffic by decreasing travel of FedEx/UPS delivery trucks), and we will likely begin to see more professional offices in retail spaces. How else will vacant retail space be absorbed? What will become of malls? How can malls be readapted to new uses without demolishing them and starting all over again?

Office space in New York City will also change, although it's not clear by how much over the next two years. New work rules will be established; office layouts meant to encourage collaboration by grouping people together will adapt. Will conference rooms be as prevalent, or will Zoom-type meetings be the norm? Will the need for social distancing cause businesses to lease more office space, or will new rules that permit more remote work and the hoteling of offices or partitioned areas become more prevalent, thereby decreasing the amount of space leased?

There are numerous plans for monitoring the apparent health of people who will enter office buildings. For example, will office buildings require taking the temperature of everyone entering? Will there be thermal scanning? In either situation, will building management deny entry to somebody with a temperature above a designated level?

Within the office itself, a number of questions arise. Will elevators have designated spaces to control capacity, or will internal corridors have stated directions? Will people with offices be more apt to be working with their doors closed rather than opened? Will workers be assigned a rotational schedule? Will guests be discouraged? Will conference rooms and collaborative work areas be adapted to different uses or have partitions installed? How about telephone

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extensions in common areas? Keep in mind that whatever temporary precautions are implemented will likely loosen up when vaccines are available and the infection rate subsides. Co-working platforms will evolve. What had been marketed as collaborative spaces will now be re-evaluated.

Investment Outlook

For decades, New York has been the economic and cultural center of the world, a city that has attracted foreign investment as its real estate market has shown strength and durability, even during a downturn. Will that change? I don't think so. New York City will remain the economic center of the universe. New Yorkers will adapt to a new reality, and the real estate market will continue to attract investors from all over the world. I am also confident that Broadway will always be Broadway and that live theater and entertainment will always be an integral part of our city.

It is clear that, in addition to an enormous amount of domestic funds available for investment in New York real estate, groups from overseas are probing the market. These groups range from major investors looking at major properties or portfolios to groups of small investors looking at blocks of condominium units to buy at a lower price and hold for rental at a relatively low yield on the presumption that the sales market will rebound. A significant amount of transactions over the next two years will be recapitalizations of existing deals, bringing fresh capital to stabilize properties and comfort or even pay down lenders.

However, maintaining the strength of the real estate market will require state and city officials to essentially thread a needle. On a federal, state and local level, we simply need more funding to address the city's basic needs. Where will that funding come

from? If local government simply raises real estate taxes (which currently accounts for about half of the city's revenue), there's going to be a problem. Real estate values have declined as a result of COVID-19. There is an inevitable delay in the decrease in real estate values being reflected in lower real estate tax assessments, which will put more stress on real estate owners. We can't simply make up for a revenue shortfall by raising real estate taxes. Real estate owners were part of the solution during the New York City bailout in the 1980s and likewise should be an integral part of any COVID-19 recovery. Similarly, we cannot blindly raise our various other taxes (income, franchise, transfer, etc.) because that will cause a flight from the city. Other legislative challenges must be modulated to avoid chasing out the investment that has driven economic stability. With the loss of state and local income tax deductions and, now, the concern over density and cleanliness, it is incumbent upon our elected officials to not chase away our tax base.

Real estate development and ownership is an integral driver of the city's economy. Thoughtful solutions must be developed in a collaborative effort among the industry and local governments.

One thing I am certain of: New York City will return to economic vitality. It will be different; nobody will ever forget COVID-19. But we will live in a new — and hopefully improved — city. To do so, all factions and viewpoints must collaborate, and we need our local legislators to get past the “us against them” mentality. We are all in this together as we collectively figure out what the new normal will be.

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