Location risk score

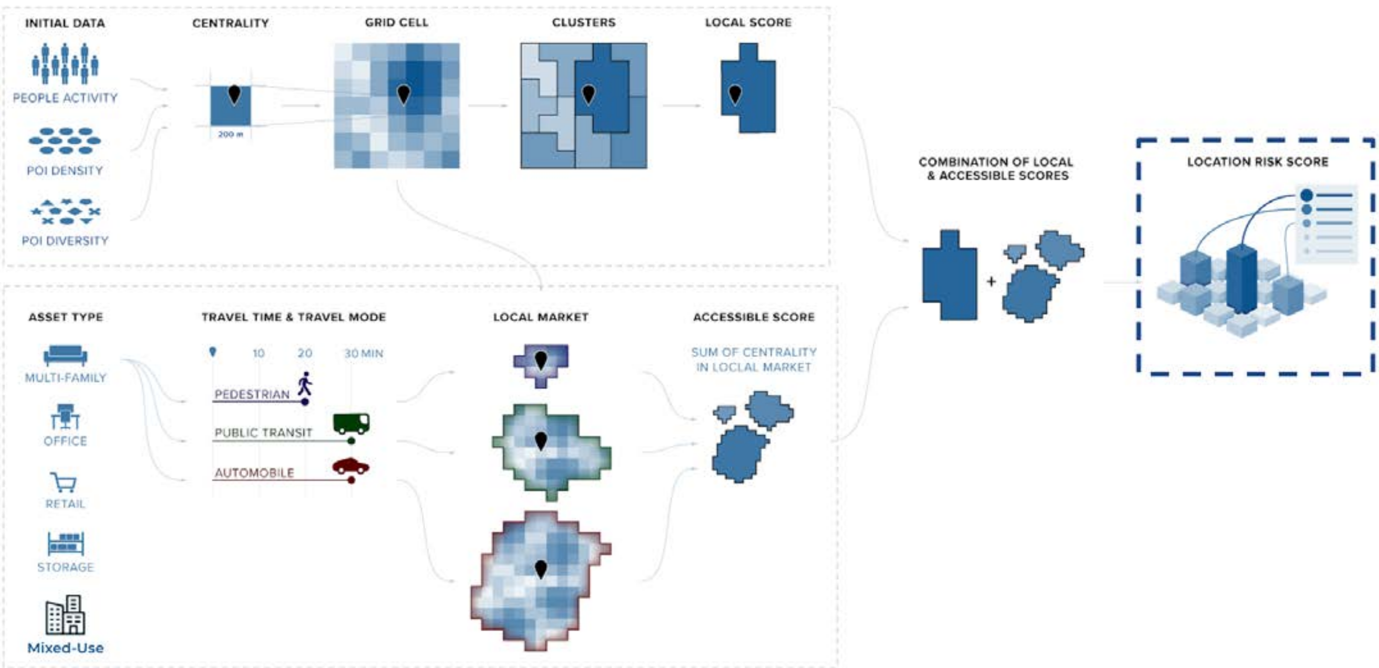
NY Offices Case Study – pricing analysis using the LRS

Habidatum's Location Risk Score (LRS) data feed helps to harness the power of the *hard to quantify* local market factors surrounding assets and asset valuation. According to Moody's Analytics, location is responsible for about 80% of the property value. CRE investors and industry analysts can use the LRS to quickly compare assets, and put them into context with peers for the purpose of location analysis. Not only is LRS incredibly effective for maintaining an appropriate risk profile for CRE portfolios as the name implies, it can also be used to evaluate a property's price and the location's risk premium.

In order to make LRS functional and instrumental, Habidatum "decouples" the location from the property, measuring commercial potential/risk associated with location separately from property. This is done by comparing similar listings on the basis of building quality, available space, and listing type. When location risk and price are the variable components, they tend to correlate inversely.

LRS in detail

The data feed is a composite of human mobility data, business volume, and business diversity. With numerous submetrics based on location accessibility to other locations, the LRS is adaptable to the complexities of geographically dispersed, multi-asset class portfolios. With granular location data and accessibility isochrones involved, LRS allows taking both the assets' localities (closest proximity) and local markets (catchment areas) into account.



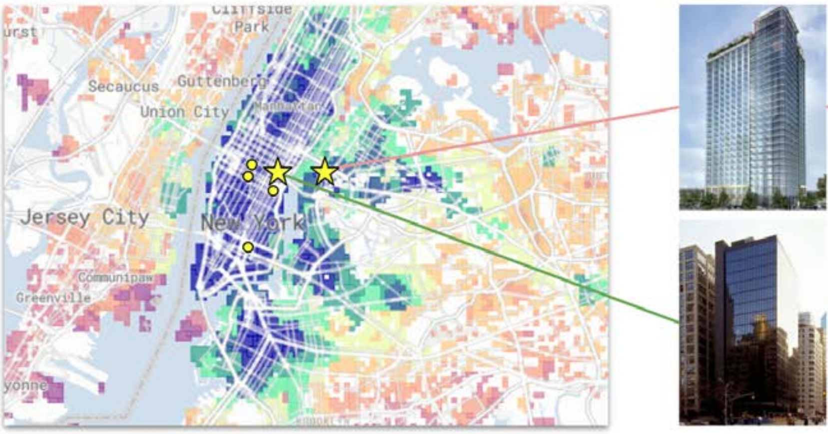
New York offices pricing analysis

To assess NY offices pricing, the dataset from on-market sales listings of office space in the New York Metropolitan Area was used. We eliminated all properties with less than 1,000sf, and any investment-sales type listings with a tenant credit component. We performed a detailed assessment of each building and sorted the data by quality of office. Remaining were three sets of comparable properties.

The accessibility mix used for NYC Office Listings (represented as Local score and accessibility scores in minutes: Walk 10, Auto 10/15/20, Public 10/15/20), encompasses many different modes of transportation and was chosen to reflect the preference of commuters to travel via car and public transport. The score also includes the local area score to account for the need for offices to be in high activity areas with options for food and entertainment.

1st class office analysis

The analysis of the 1st Class Office Listings revealed a consistent grouping of assets with strong locations *(1 is the best score, 5 is the worst)* and prices around $1,000/sf. These properties are typical NYC high-rises in historically office-heavy Midtown Manhattan. However, there were two properties that stood out from the rest. A new development in Long Island City and a centrally-located buying opportunity in Manhattan (fig.1).



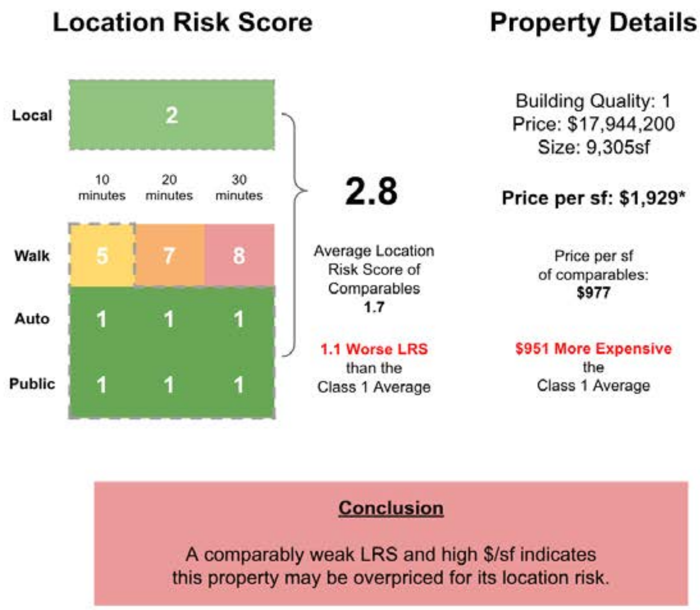
Address	$/SF	LRS
27-17 42nd Rd #C2, Long Island City,NY	$2,000	2.8
27-17 42nd Rd #C3, Long Island City,NY	$1,910	2.8
34-36 W 44th St #1208, New York,NY	$1,100	1.0
34-36 W 44th St #1205, New York,NY	$1,093	1.0
34-36 W 44th St #1215, New York,NY	$1,050	1.0
820 Second Ave #B, New York,NY	$1,042	1.0
10 W 46th St #4A, New York,NY	$959	1.0
10 W 46th St #, New York,NY	$897	1.0
101-105 Norfolk St #103, New York,NY	$818	1.2
866 Second Ave #1, New York,NY	$323	1.1

Fig. 1. 1st class office listings analysis.

27 42nd Rd Long Island City, NY

Either this asset may be **overpriced** for its location risk or the building stands in a quality-class of its own. The two listings in this building have a relatively weak LRS compared to Class A offices and are the two most expensive listings ($/sf) in the New York Metropolitan Area. While this building is brand-new and the asset quality is exceptional, the location is high-risk.

One possible alternative explanation to analyze this LRS outlier is that the market's appetite for new buildings is significantly higher than existing Class-A buildings. New buildings with updated air filtration systems may benefit from Covid-19 restrictions / sentiment and outperform the market.



866 Second Ave New York, NY

This listing is an example of a great opportunity highlighted by the LRS and our analysis. With a $/sf of only $323 and an extremely strong LRS of 1.1, it appears to be **severely**

underpriced relative to its location risk. As a larger space, this opportunity benefits even more from the possibility of subleasing. If the market rebounds post-Covid, this listing could have a huge upside.

2nd class office analysis

2nd Class Office Listings analysis revealed more consistency in the pricing of assets with comparable quality – strong locations are priced better and weak locations are priced lower. There was only one major outlier in this category, an underpriced listing in an excellent location with above average quality for the class.

__**200 Central Park S New York, NY**__

Similar to the listing on 2nd ave, this is another example of a buying opportunity highlighted by the LRS. With a $/sf of only $580 and a strong LRS of 1.4, it appears to be underpriced relative to properties with similar Location Risk Scores. Additionally, this listing could easily be considered a class 1 office, and when compared to *higher quality* assets still shows as **undervalued**.

3rd class office analysis

Our analysis of the 3rd Class Office Listings revealed even stronger correlation of LRS to price. The inverse relationship is clearly seen and helps highlight the three mispriced properties (fig. 2).

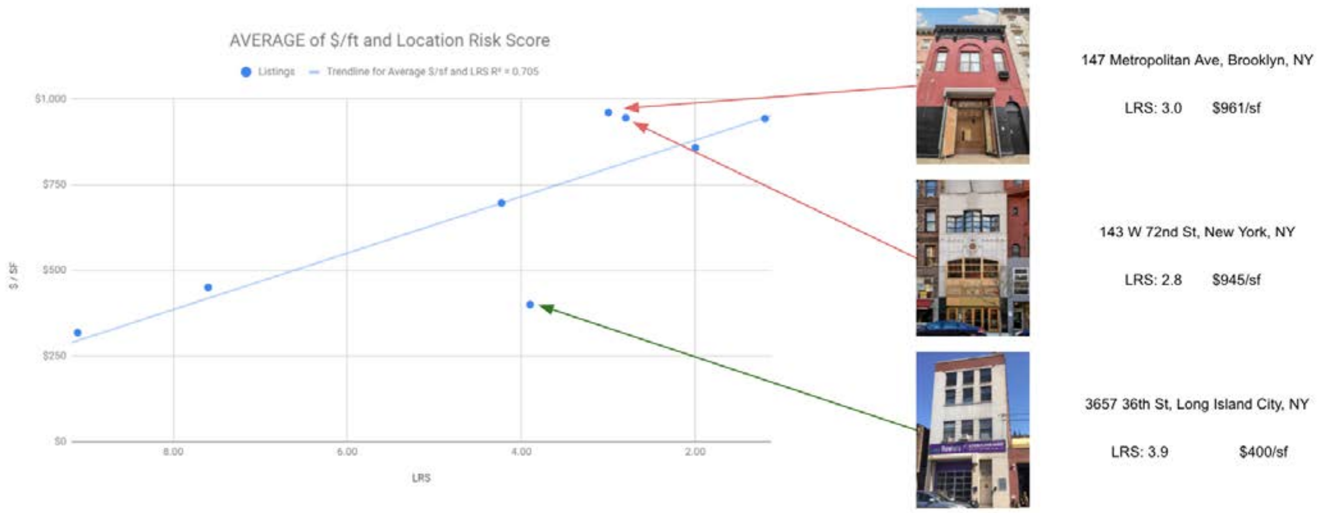


Fig. 2. 3rd class office analysis – average of $/ft and Location Risk Score

147 Metropolitan Ave Brooklyn, NY

The analysis shows that this asset may be **overpriced** for its location risk. While the location does have a decent LRS compared to other 3rd class offices, it is among the most expensive listings in the New York Metropolitan Area at $961/sf. While the score is not as bad as some others, the location is still high-risk compared to assets at similar price levels leading to believe that this asset may be overpriced.

Same works for the asset on 143 W 72nd St, New York.

<u>3657 36th St Long Island City, NY</u>

This listing in Long Island City is an example of a **buying opportunity** – with a $/sf of only $400, it is over $1,500/sf less expensive than the newly developed building provided as example 1, which is the same general area. The strong location scores in the 20 and 30 minute accessibility zones are indicative of the ability to reach high activity zones nearby.

While the location score has yet to improve significantly, the area has had increased property development in recent years and a LRS timeline analysis may show risk trending in a better direction.

Location risk is an operational benchmark for commercial portfolio management. Monitoring LRS, we connect it with the asset's finances or pricing and foresee if there are any changes in the local environment that may (or already) influence its value.

And as the above study shows, when like-kind listings are compared, LRS successfully highlighted trends and outliers in pricing.