First Quarter 2020 / New York City

Office Leasing

Market Facts

7.0 MSF
1Q20 Manhattan office leasing volume compared to 5.3MSF in 1Q09 during Great Recession

8
Number of significant Manhattan office properties to be delivered in 2020, but impacted by construction halt

>7.3 MSF
Amount of space leased by WeWork in Manhattan from 2013 to 2019

10.8%
First quarter vacancy rate; Manhattan overall just within equilibrium currently

*At Avison Young, we track office properties that are 20,000 square feet and greater

First Quarter 2020 Manhattan Office Leasing Market Amid COVID-19 Pandemic

Information and views were correct at the time of writing (April 8, 2020). However, given that the spread of COVID-19 and the containment policies being introduced are changing rapidly, some of the views expressed in this report in its entirety may not reflect the latest opinion of Avison Young.

Leasing: Impact of COVID-19 as Some Tenants Push the Pause Button

The global health pandemic is taking a toll on the Manhattan office leasing market, with many occupiers of space pushing the pause button on their real estate decisions. Office leasing velocity started out the quarter slow in January, followed by an uptick in February. The COVID-19 virus was declared a global pandemic on March 11, and by the end of the month, leasing volume was down by over 39.0 percent compared to March of 2019. For the full first quarter of 2020, Manhattan office leasing volume of slightly above 7.0 million square feet represents a new first quarter low since the 5.3 million square feet reached in the first quarter of 2009 during the Great Recession (which lasted from December 2007 to June 2009). Overall for the first quarter of 2020, Midtown posted leasing volume of 4.6 million square feet, which was down 14.0 percent from its five-year quarterly average. There were just six large-block transactions greater than 100,000 square feet executed this quarter versus 11 for the same period a year ago. For Midtown South, volume of just 929,000 square feet was

MARKET DATA POINTS

Manhattan Overall

Indicator	1Q20	1Q19
Vacancy	10.80%	9.70%
Rent	$83.30	$80.36
Absorption	(4,237,396) SF	(403,504) SF

Midtown Overall

Indicator	1Q20	1Q19
Vacancy	11.00%	9.60%
Rent	$90.29	$87.64
Absorption	(1,968,081) SF	(631,925) SF

Midtown South Overall

Indicator	1Q20	1Q19
Vacancy	10.30%	8.10%
Rent	$81.08	$81.78
Absorption	(1,359,967) SF	(401,468) SF

Downtown Overall

Indicator	1Q20	1Q19
Vacancy	10.40%	11.10%
Rent	$64.04	$62.13
Absorption	(909,348) SF	629,889 SF

Data as of 4/8/2020

down 23.0 percent from its five-year quarterly average and the largest deal recorded in this market was only 75,000 square feet. Meanwhile, leasing volume of 1.5 million square feet also softened for the Downtown market, which was off 24.0 percent from its five-year quarterly average.

The overall vacancy rate for the first quarter of 2020 was 10.8 percent, up 110 basis points year-over-year due to less leasing activity. Average asking rents were a record $83.30 per square foot, representing a 3.7 percent increase over the prior year due to higher priced space that came to market.

Now that April rent is due, feedback is that some Manhattan office tenants have asked to defer rent for the month and begin paying in July. In such instances, a landlord can take hold of the security deposit and adjust the lease terms, but the tenant runs the risk of losing certain rights (e.g. renewal or expansion rights, etc.). Also, as of the date of this writing, 30.0 to 50.0 percent of rent is being paid.

Although we may not see the full impact of COVID-19 on the office leasing market until the end of the second quarter, we can potentially expect to see a decline in average asking rents and an increase in the vacancy rate, especially if there is a rise in the amount of sublet space (currently at 27.0 percent of total vacant space) put on the market given the inability of some tenants to cover their rent payments.

New Product Deliveries: COVID-19 Prompts a Halt on Nonessential Construction, Delaying Product Delivery

At the end of the first quarter, Governor Andrew Cuomo of New York put forth an executive order to halt nonessential construction in the state. In accordance with the executive order, construction can continue only for infrastructure, hospitals, homeless shelters and affordable housing. Currently there are eight significant office properties (greater than 150,000 square feet)

Notable First Quarter Leasing by Market

Tenant Industry	New Address Submarket	Size (SF) Lease Type
Midtown		
Apple TAMI	**11 Penn Plaza** Penn Plaza/Garment	**222,279** New Lease
NYU Langone Medical Center Health Services	**601 Lexington Avenue** Plaza District	**193,926** New Lease
JLL Real Estate	**330 Madison Avenue** Grand Central	**139,440** Renewal/Expansion
Midtown South		
Hudson Yards Construction LLC Real Estate	**410 10th Avenue** Chelsea	**75,000** Renewal/Expansion
Fenwick & West LLP Legal Services	**902 Broadway** Gramercy Park	**60,696** Renewal/Expansion
Shinhan Bank Financial Services	**475 Park Avenue South** Gramercy Park	**32,250** New Lease
Downtown		
MDC Partners TAMI	**1 World Trade Center** World Trade Center	**200,000** New Lease
Thornton Tomasetti Professional Services	**120 Broadway** Financial District	**102,440** New Lease
Hana Real Estate	**3 World Trade Center** World Trade Center	**85,984** New Lease

Data as of 4/8/2020

with expected completion dates in 2020 where construction or renovation has been halted. While some of these buildings have no current pre-lease tenant commitments, there are sizable properties in Midtown where the opposite holds true. Citadel has committed to pre-lease space at 425 Park Avenue, and other tenants including TD Bank and the law firm of Greenberg Traurig have plans to move into One Vanderbilt upon that building's completion this year. If the construction halt prompted by COVID-19 is temporary and concludes by the end of the second quarter, then development plans can aggressively resume over the warm summer months with workers potentially making up for lost time. For the renovation of 550 Madison Avenue, it has been stated that although work will be delayed beyond the planned completion date for this year, the owner of the property (Olayan America) carries low debt on the building and should be able to weather the storm. Financial services firm Perella Weinberg Partners is a major tenant currently considering a move to the property.

Flexible Office and Co-Working Providers: COVID-19 Accelerates Decision for Some to Consider Lease Renegotiations and Resizing

In the wake of the spread of COVID-19, it was recently announced that WeWork is in talks to hire an advisor to help with the renegotiation of its global leases. A company spokesperson cited that the firm is "conducting an in-depth review of operations and assets globally in order to right-size the business and optimize its real estate portfolio." In Manhattan, the firm has leased over 7.3 million square feet between 2013 through 2019. Of the 7.3 million square feet leased, it is split primarily across Midtown (3.7 million square feet or 51.0 percent), Midtown South (2.5 million square feet or 34.0 percent) and Downtown (1.1 million square feet or 15.0 percent). While the total percentage of space leased in Manhattan by all flexible office and co-working providers amounts to 2.0-3.0 percent of total office inventory, it is too early to know definitively what the impact of COVID-19 will be on flexible workspaces. During the first quarter of this year, Industrious signed two major leases (pre-COVID-19) at 1 Penn Plaza (100,000 square feet) and 135 West 50th Street (61,623 square feet), the latter property was recently renovated. Post the COVID-19 virus outbreak, Industrious recently announced a 30.0 percent workforce reduction. Meanwhile, co-working provider Knotel recently announced a 50.0 percent reduction of its staff amid the COVID-19 pandemic. Whatever additional real estate portfolio changes lay ahead for flexible office and co-working providers, we do know that government mandated quarantines will continue to have an impact on such operators, as they are with so many other businesses across Manhattan and around the rest of the globe.

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Under Construction & Renovated Product | Expected Delivery/Completion: 2020

Estimated Delivery Date	Address	Developer/ Owner	RBA	Preleased	Major Tenants
Midtown					
2Q 2020	**550 Madison Avenue***	**HRH Construction/ Olayan America**	850,000	0.0%	Being considered by Perella Weinberg and Barclays Bank
2Q 2020	**390 Ninth Avenue - Farley Post Office***	**Vornado**	740,000	0.0%	Being considered by Facebook
3Q 2020	**425 Park Avenue**	**L&L Holding Company**	689,580	57.0%	Citadel
3Q 2020	**One Vanderbilt**	**SL Green**	1,657,000	69.0%	TD Bank, Greenberg Traurig
Midtown South					
2020	**57 11th Avenue (Pier 57 aka Super Pier)**	**RXR Realty/ Youngwoo**	263,835	100.0%	Google
3Q 2020	**145 Delancey Street**	**City of New York/Taconic Investment Partners**	174,623	0.0%	N/A
3Q 2020	**155 Delancey Street**	**City of New York/Taconic Investment Partners**	178,878	0.0%	N/A
Downtown					
2Q 2020	**74 Trinity Place**	**Trinity Real Estate**	410,000	0.0%	N/A

** Currently under renovation/redevelopment*

Largest Blocks of Contiguous Space Currently Available

385 Ninth Avenue
Hudson Yards/Manhattan West | 1,462,296* RSF

550 Madison Avenue
Plaza District | 797,505 RSF

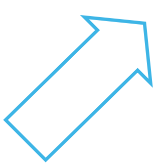
390 Ninth Avenue
Penn Plaza/Garment | 740,000 RSF

750 Third Avenue
Grand Central | 642,679 RSF

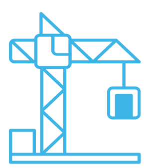
151 West 42nd Street
Times Square/West Side | 479,217 RSF

** Block of 714,492 SF and block of 747,804 SF to total 1,462,296 SF*

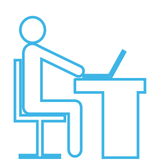
Trends to Watch



Expect a potential rise in the amount of sublease space put on the market, given the inability of some tenants to cover rent payments.



If the construction halt in Manhattan is temporary, look out for aggressive development plans to resume over the warm summer months, as workers make up for lost time.



Expect to see the full impact of COVID-19 on leasing, new development and the flexible office and co-working space by the end of the second quarter.

Market by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	1st Quarter 2020 Overall Vacancy Rate	1st Quarter 2020 Net Absorption (SF)	Current Under Construction* (SF)	Overall Average Asking Rent Class A	Overall Average Asking Rent Class B
Midtown								
Grand Central	70,227,345	5,418,431	1,815,219	10.3%	(840,040)	0	$87.10	$59.22
Penn Plaza/ Garment	20,645,823	1,621,936	1,150,792	13.4%	25,080	0	$101.25	$58.60
Hudson Yards/ Manhattan West	10,977,263	448,388	82,722	4.8%	9,249	9,712,418	$124.22	$60.52
Plaza District	72,040,740	7,723,707	1,848,459	12.9%	(283,714)	0	$106.55	$64.88
Sixth Avenue/ Rockefeller Center	50,364,114	4,092,503	1,173,755	10.5%	(469,840)	0	$87.81	$64.50
Times Square South	25,190,834	1,755,134	915,748	10.6%	95,164	0	$66.73	$57.32
Times Square/ West Side	37,017,023	2,514,720	1,393,599	10.4%	(503,980)	0	$82.13	$63.99
Total	**286,463,142**	**23,574,819**	**8,380,294**	**11.0%**	**(1,968,081)**	**9,712,418**	**$94.17**	**$59.56**
Midtown South								
Chelsea	23,843,826	1,261,867	929,477	9.2%	(282,023)	1,140,000	$127.34	$70.62
Hudson Square	14,600,547	641,389	399,469	7.1%	(194,438)	0	$98.14	$72.67
Gramercy Park	31,585,367	2,841,274	992,451	12.1%	(734,072)	0	$91.40	$64.24
SoHo/NoHo	9,672,667	965,507	199,232	12.0%	(149,434)	0	$101.57	$77.84
Total	**79,702,407**	**5,710,037**	**2,520,629**	**10.3%**	**(1,359,967)**	**1,140,000**	**$99.72**	**$68.75**
Downtown								
Tribeca	3,601,580	178,661	12,159	5.3%	1,900	0	$164.93**	$73.51
City Hall	9,327,251	797,536	62,726	9.2%	(123,690)	0	$66.08	$55.57
Financial District	63,568,400	5,443,264	1,843,954	10.5%	(731,833)	0	$60.12	$50.17
World Trade Center	22,064,287	1,563,372	1,045,437	11.2%	(55,725)	0	$74.57	$0.00
Total	**98,561,518**	**7,982,833**	**2,964,276**	**10.4%**	**(909,348)**	**0**	**$66.17**	**$51.61**
Manhattan Overall Total	464,727,067	37,267,689	13,865,199	10.8%	(4,237,396)	10,852,418	$88.54	$62.36

Data as of 4/8/2020
** Excludes 5.1 MSF coming online within the next 12 months (subject to removal of COVID-19 construction halt).*
*** Includes 15 Laight Street, which has an average asking rent of $175.00 PSF.*

AVISON YOUNG

Investment Sales

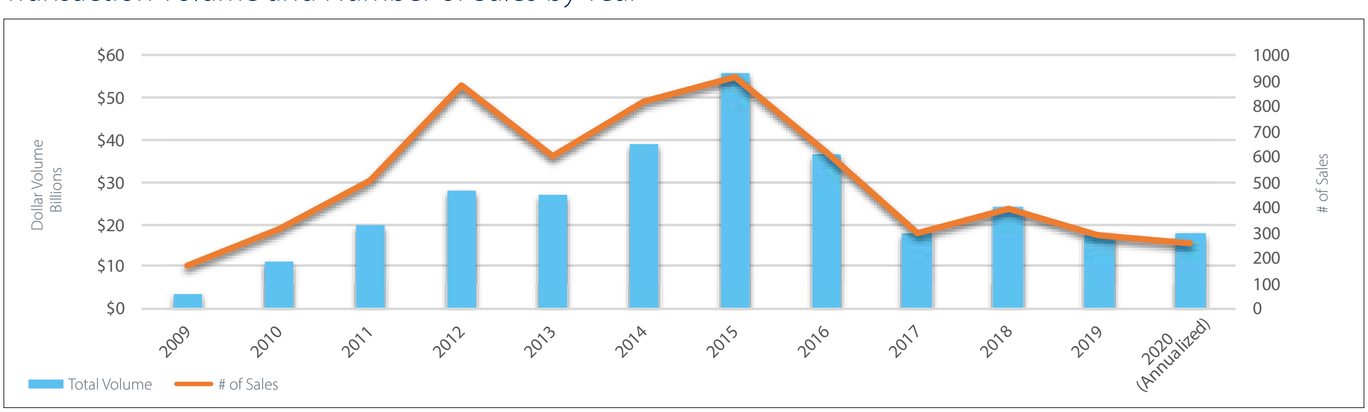
First Quarter 2020 Summary

Through much of the first quarter of 2020, the Manhattan investment sales market was already tracking at a slower pace than 2019 in terms of the number of transactions. This was largely due to the recently passed and continued threat of increased regulations. Now with the rapid spread of COVID-19, which is now concentrated in New York, the market will likely suffer even more. Due to the lagging nature of a real estate transaction where terms are agreed upon months before a closing date, the statistical significance of the first quarter's numbers may be minimally apparent as compared to the anticipated second quarter. In 1Q20, the investment sales market saw just over $4.4 billion in dollar volume with 65 total sales which is a 1.0 percent increase and a 10.0 percent decrease respectively, compared to the trailing four quarter average. Total dollar volume was propped up due to four large transactions which accounted for 56.0 percent of the total. Although the first quarter tallies would indicate that 2020 wouldn't be vastly different than 2019, the COVID-19 pandemic will depress the market severely for at least the second quarter and likely keep 2020's totals the lowest in over a decade.

Multi-Family

The first quarter of 2020 recorded only 26 multi-family and mixed-use sales totaling $811 million. The 26 sales represent a 13.0 percent decline off the trailing four quarter average. Only 7.6 percent of the multi-family properties sold were rent regulated, indicating a preference for free market assets which is likely due to the more restrictive regulations in the Housing Stability and Tenant Protection Act of 2019. The price per square foot continued to drop from the trailing four quarter average, falling by 27.0 percent to $752 per square

Transaction Volume and Number of Sales by Year



foot. The largest transaction for the quarter was Global Holdings Management Group's purchase of 10 East 29th Street for $381 million.

Retail

The retail market saw a steep decline in dollar volume, dropping by 70.0 percent off the trailing four quarter average to $53 million. Prior to COVID-19, the retail market was already fragile, faced with rising cap rates, low volume and empty storefronts which will likely continue into the next quarter. COVID-19 will likely change the retail landscape as we know it, despite government interventions to delay mortgage payments and prop up small businesses and maintain payrolls. The leading transaction for the quarter was 37 Greene Street, a retail condo purchased by Acadia Realty Trust for $15.4 million.

Office

The first quarter of 2020 was another strong period of transaction activity in the Manhattan office sector with the total dollar volume coming in just under $3 billion over 13 total sales. The price per square foot and cap rates remained steady at $1,060 and 4.51 percent, respectively, while dollar volume saw a 26 percent increase and total sales saw a 16.0 percent increase off the trailing four quarter average. There was a wide variety of transaction types, including newly renovated and fully leased properties, buildings in need of a gut-renovation, as well as several end-users opting to purchase. This quarter's most significant transaction was Amazon's purchase of WeWork's vacant building at 424 Fifth Avenue for $978 million.

Development

Development saw a rise as total dollar volume was just above $499 million, which was 77 percent higher than the trailing four quarter average, and total sales numbered 12, which was 60.0 percent above the trailing four quarter average. The average price per buildable square foot was $514, a 22 percent decline from the trailing four quarter average. As the new development luxury condo market struggles, this drop in land pricing may indicate an adjustment in expectations from developers. 417 Park Avenue was the largest transaction in the first quarter. Klovern AB and GDS Development Management paid $184 million for the 29 co-op units.

Conversion

The conversion market saw $41 million in total dollar volume across four trades. This is an 81.0 percent decrease in dollar volume and 47.0 percent decline in the number of sales from the trailing four quarter average. The leading transaction for the quarter was 137 Ludlow Street, which will be used to expand the popular hotel and club, Soho House.

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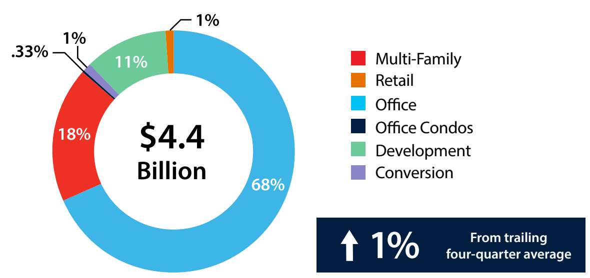
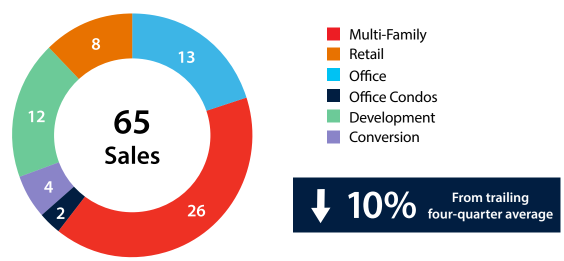
Avison Young's Tri-State Investment Sales group tracks confirmed transactions above $5 million ($1 for retail properties and office condominiums) sold in Manhattan below 96th Street.

First Quarter Total Dollar Volume by Asset Class

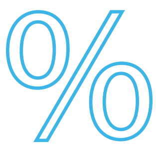


First Quarter Number of Sales by Asset Class



Trends to Watch

How will the COVID-19 pandemic effect transactions in the second quarter? Will we see a delay in closings, with a recovery in the third quarter?



With lower interest rates, will opportunistic buyers seek distressed assets?

Will the fallout of COVID-19 cause a reset in the eyes of legislators as they begin to see how susceptible landlords are to market changes?

First Quarter 2020 / New York City

Debt & Equity

Taking a Pause

In light of the shutdowns due to the Coronavirus (COVID-19), many lenders are hitting the pause button on deals not already in the term sheet phase. Even for those deals that have been approved by an Investment Committee, the Force Majeure clause could potentially be used to delay (or cancel) funding of a deal. The Force Majeure clause states that no lender is responsible or liable for any failure or delay in the performance of its obligations under any extreme and unforeseen circumstances. This usually relates to acts of war or terrorism, but also includes strikes, work stoppages and acts of God. COVID-19 and the resulting severe economic downturn could easily be used to withhold funding under this clause, as the economic impact could be similar to the adverse one endured in the 2008 Great Recession. Clearly, lenders could make this argument in our current economic circumstances since so many companies have been forced to shut down. It is too early to tell how many will invoke this clause as many are waiting to see if it becomes clearer as to the length and severity of the crisis.

Measuring the Potential Impact by Property Type

Certain property types will be harder hit than others. Hotels, for example, will find extreme difficulty in getting financed for the balance of 2020. Most lenders will have legacy issues from existing hotel loans and won't want to take on additional sector risk. CMBS, which typically has approximately 20.0 percent of any individual pool made up of hotel loans, may want to omit hotel loans from the next several securitizations to enable smooth execution. In the short term, this will leave hotel loans to hard money or high yield bridge lenders, thus affecting cap rates and suppressing their value.

Retail may only be slightly better off than hotels in the short term since many stores have closed for the next few weeks and sales will clearly be impacted and rents will, in many cases, need to be forgiven during the time of closure. These closures may be the impetus that pushes consumers, who otherwise preferred bricks-and-mortar retail, to eCommerce. Once they rely on eCommerce in the short term, they may not go back to traditional retailers longer term. Many stores are also experiencing supply chain disruptions which could have a longer impact than just this phase of the shutdown.

Multi-family loans may be the least impacted since people need to live somewhere. However, with an unemployment spike, renters may have a much higher than usual default rate and collections of rent during this period may be difficult for landlords to enforce. As it is, the Federal Government has already disallowed foreclosures for 90 days. As for lending, even Freddie Mac and

Fannie Mae have frozen new lending. For those lenders that remain active, they will likely take a "risk off" approach with only the most conservative loans being closed. Construction and other deals with lease-up risk, entitlement risk, or, frankly, any risk at all will be on the back burner until it is clear what the lending environment looks like when we emerge from this crisis. There is also the practical constraint of lenders performing due diligence and inspections on prospective loans, further incentivizing them to buy existing loans from lenders looking to liquidate, as an alternative.

"Black Swan" Effect on CLOs and Other Lenders

Last quarter, we talked about the proliferation of CLOs and their impact on lenders who utilize those lines to leverage their own lending efforts. The "Black Swan" effect was discussed as to how those lines being pulled could have an adverse effect on lending. We are at that Black Swan event and if CLO lines get pulled, the lenders who rely on them are out of business. They might not only stop funding new loans but could also look to sell existing loans at a discount to obtain liquidity and pay back some of their lines. This could have the unintended consequence of lenders still in the marketplace preferring to buy these loans at a discount versus making new loans at par with all of the administrative hassle that often comes with originating a new loan.

Mezzanine and bridge lenders in particular may also prefer to preserve their funds for distressed loans with potentially very high returns versus simply getting a roughly 10.0 percent return on a new opportunity. If 20.0 percent yields are out there on existing loan opportunities, why wouldn't they want to preserve their powder for those deals?

The Federal Reserve stimulus program will help CMBS as it is included in the $125 billion of securities that the Fed pledges to buy each business day (along with corporates and municipals). Further, any stimulus to borrowers or back-stopping to lenders will have a favorable impact on the industry, however, it is uncertain right now whether those programs will be implemented or the form that they will take.

Last, the capital markets (like the world) are drastically changing on a daily basis. Any lending guidelines, programs or directives from even a week ago may have already been superseded or changed abruptly without notice.

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Cumulative Results COVID-19 Stress Scenario For CRE Loans

5-Year Scenario Forcasts			
	Default Rate	**Loss Severity**	**Expected Loss Rate**
All	8.0%	31.7%	2.5%
By Property Type			
Lodging	34.8%	37.7%	13.1%
Retail	16.0%	32.8%	5.3%
Office	4.3%	27.1%	1.2%
Multifamily	3.3%	24.2%	0.8%
Industrial	3.0%	26.2%	0.8%
By Vintage			
2019	11.9%	32.7%	3.9%
2018	11.2%	33.0%	3.7%
2017	8.6%	31.5%	2.7%
2016	7.0%	30.1%	2.1%
2015	5.6%	28.9%	1.6%
Prior Years	4.0%	30.4%	1.2%

Source: Projections provided by Trepp, LLC (TALLR Loan dataset and TreppDM Default Model)

Trends to Watch

Most lenders are hitting the pause button until the crisis gets near a resolution as to how long-term the effects will be.

Certain properties like hotel and retail will be especially hard hit and will have a corresponding impact to the lending on those sectors.

Many lenders may prefer to buy existing loans or distressed loans versus writing new loans which will be logistical nightmares due to due diligence limitations and, most likely, lower yield than can be achieved.

Federal Reserve stimulus program could somewhat help to assuage the fears of the CMBS market.

Valuation & Advisory

Prices, Valuations and Transactions – What Can You Expect During This Pandemic?

Since COVID-19 was announced as a global pandemic on March 11, 2020 real estate transactions have sharply declined. This is a response to the significant increase in uncertainty surrounding valuations and pricing. This decrease in transactions is consistent with other periods of heightened uncertainty. According to Reis, total transactions across the nation fell 90.0 percent between 2008 and 2009. Additionally, looking at specific quarters, transaction volume fell 41.3 percent quarter-over-quarter in the first quarter of 2009 due to concerns related to the Great Recession. In addition, transactions fell 21.0 percent quarter-over-quarter(in the first quarter of 2012 in response to the Greek Debt Crisis, and transactions fell by 23.0 percent quarter-over-quarter in the first quarter of 2017 following President Trump's inauguration. However, the COVID-19 pandemic presents unique challenges from both the supply and demand side that place this crisis outside of recent historical data, making it difficult to model with confidence. This will contribute to the uncertainty of valuations and pricing in the near term.

Real estate valuations and pricing over the near and medium term will be directly tied to the severity of the pandemic and the resulting economic impact. If the global response in the immediate term (social distancing, closing nonessential businesses, etc.) proves successful in "defeating" the virus, transaction volume will recover rather quickly, and real estate prices might not experience much of a decline. However, in the event of a pandemic-induced recession, an increasingly likely scenario, transaction volume could be suppressed over the next 18-36 months. Valuations will likely decline in the short to medium term as tenants begin to struggle meeting rent obligations and landlords struggle to keep buildings occupied. This has prompted some in the commercial real estate community to call for a suspension in mark-to-market accounting. Although a full analysis on mark-to-market accounting and its impact on the health of the commercial real estate industry under a worst-case scenario is beyond the scope of this discussion, the concern over this accounting method expressed by well-respected members of the commercial real estate community gives credence to the predicted decline in valuations and the severity of the anticipated declines.

Predicted Performance by Asset Class Under a Recession

While the commercial real estate world awaits and searches for clarity on a variety of factors and issues, it is useful to attempt to model performance in a variety of scenarios and look at historical data as a guide. Moody's Analytics has taken the initiative to predict the performance of various asset classes under different scenarios. The company's predictions under a "protracted-slump" scenario mimic economic conditions similar to those experienced during the Great Recession. Under these conditions Moody's predicts multi-family vacancy to rise from a current level of 4.7 to 6.6 percent in 2020, before declining to 6.0 percent in 2021. Moody's does mention that they expect markets to balance between managing vacancies and achieving higher rents, with decision making being made at the regional and property level. It should be noted that according to Moody's, the multi-family vacancy rate hit 8.1 percent in 2009. However, under their protracted-slump scenario, they do not believe that level will be matched due to the overall strength of the asset class and a predicted decline in new construction.

Moody's predicts office properties will be hit particularly hard, stating that they believe vacancies will reach historic highs and jump over 20.0 percent in 2021. They also project asking and effective office rents to decline by 2.9 percent and 5.0 percent in 2020 and 2021, respectively, before rebounding. Moody's expects retail fundamentals to deteriorate at record levels, citing the current troubles the asset class is already facing. Vacancies are expected to rise to 14.6 percent by the end of 2021, much higher than the near historic current level of 10.2 percent. Asking and effective rents are expected to fall by 3.9 percent and 6.4 percent in 2020 and 2021, respectively. It should be noted that Moody's retail predictions are based only on neighborhood and community shopping centers. Industrial assets face unique headwinds due to a wave of new supply. Moody's believes under a protracted-slump scenario this will lead vacancies to reach 14.3 percent in 2021, with asking and effective rents falling 3.0 percent and 6.2 percent in 2020 and 2021, respectively. Moody's fails to cite specific projections for hospitality assets, although predictably states this asset class will be hit the hardest and fundamentals will sharply decline in the near and medium term.

Price and Valuation Comparison – Great Recession

While forecasts in fundamentals can inform investors and lenders only to a certain extent, these predictions do signify the growing belief in the real estate community that valuations and prices will decline in the short to medium term. Although the COVID-19 pandemic is fundamentally different than the Great Recession, comparisons to this time period are relevant given its severity and recency. According to the national Green Street Commercial Property Index, presented by Green Street Advisors, real estate prices fell 36.7 percent from peak-to-trough during the Great Recession. This index uses appraised values and tracks a weighted blend of property types. Similarly, Moody's/RCA's Core Property Price Index for the nation cited a peak-to-trough decline of approximately 40.0 percent. This index tracks repeated sales of core assets (apartments, industrial, office, retail). Should COVID-19 pandemic cause a pronounced recession, these historical data provide a baseline for investors and lenders on where valuations and prices could end up. However, it is again important to note that COVID-19 presents extremely unique circumstances and direct comparisons to any time period in history are not without faults.

Look for More Clarity in the Coming Weeks

In short, any prediction on short-term and medium-term valuation and price behavior will need to be specific to the expected severity of the pandemic and the resulting economic response. The current sentiment in the industry is that transactions, valuations and prices will all decline in the near term. The question becomes how severe these declines will be and how long they will last. It is too early to predict with any certainty the answers to these questions, however, the environment is changing rapidly. Investors and lenders should receive more clarity on these issues as governments, consumers and real estate investors navigate this crisis in the coming weeks. Data in the first quarter of 2020 on transaction volume, valuations and price will not tell the full story on the impact of this crisis.

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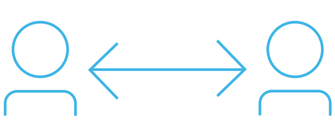
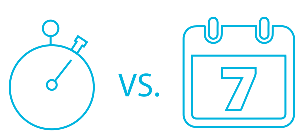
Trends to Watch



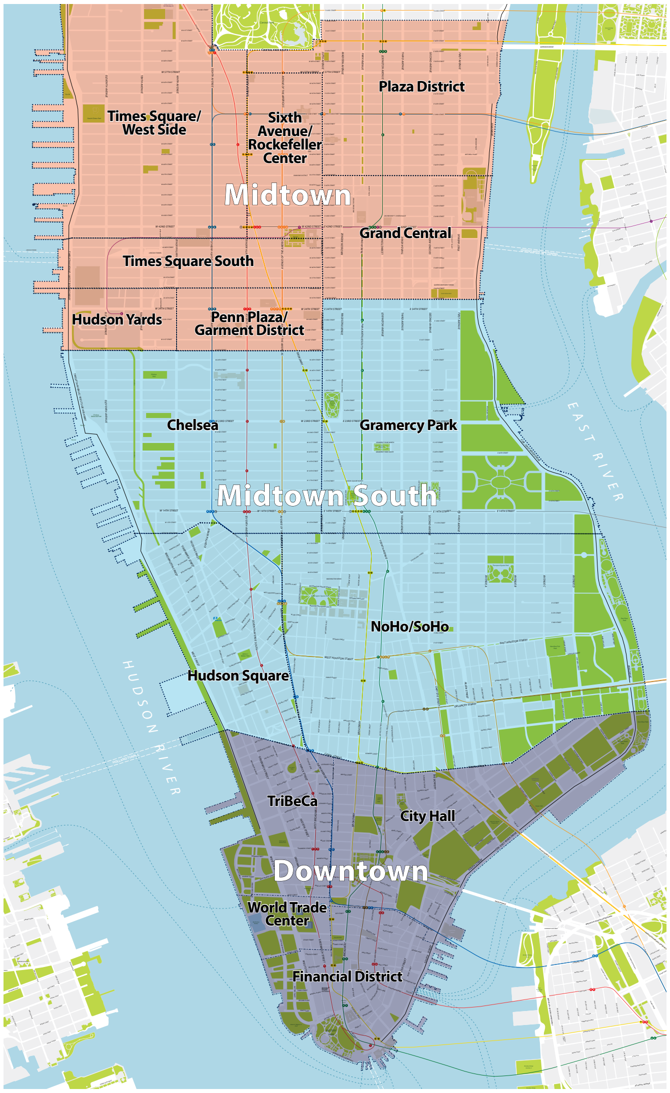
Watch to see if the impact of social distancing and closing non-essential businesses will prove successful in "defeating" the virus in the intermediate term. If so, real estate prices might not experience much of a decline.



Any prediction on short-term and medium-term valuation and price behavior will need to be specific to the expected severity of the pandemic and the resulting economic response.

Data in the first quarter of 2020 on transaction volume, valuations and price will not tell the full story on the impact of this crisis. Data on these metrics will likely become more available in the second quarter of 2020.

About the Market



Midtown

Plaza District: Borders East 62nd and West 59th Streets on the north, Seventh Avenue on the west, East 49th and West 57th Streets on the south and the East River on the east (includes prior Park Avenue submarket)

Grand Central: Borders East 49th Street on the north, Fifth Avenue on the west, East 35th Street on the south and the East River on the east

Sixth Avenue/Rockefeller Center: Carved out section that borders west 57th Street on the north, Seventh Avenue on the west, West 41st Street on the south and the mid-block of Fifth Avenue on the east

Times Square/West Side: Borders West 64th Street on the north, the Hudson River on the west, West 41st Street on the south and Fifth Avenue on the east (includes Columbus Circle)

Times Square South: Borders West 41st Street on the north, the Hudson River on the west, West 36th Street on the south and Fifth Avenue on the east

Penn Plaza/Garment District: Borders West 36th Street on the North, Ninth Avenue on the west, West 30th Street on the south and Fifth Avenue on the east

Hudson Yards/Manhattan West: Carved out section that borders West 36th Street on the north, the Hudson River on the west, West 30th Street on the South and west side of Ninth Avenue on the east

Midtown South

Chelsea: Borders West 30th Street on the north, the Hudson River on the west, West 12th Street on the south and Fifth Avenue on the east (includes prior Flatiron submarket)

Gramercy Park: Borders East 35th Street on the north, Fifth Avenue on the west, East 12th Street on the nouth and the East River on the east (includes prior Union Square/Madison Square/Park Ave south submarkets)

Hudson Square: West 12th Street on the north, the Hudson River on the west, Canal Street on the south and 6th Avenue/Avenue of the Americas on the east

NoHo/SoHo: Borders East 12th Street on the north, Sixth Avenue/Avenue of the Americas on the west, Canal Street/East Broadway on the south and the east River on the east (includes Greenwich Village)

Downtown

Tribeca: Borders Canal Street/East Broadway on the north, the Hudson River on the west, Vesey Street on the South and Church Street on the east

City Hall: Borders Canal Street on the north, Church Street on the west, Fulton Street on the south, and the east River on the east

World Trade Center: Borders Vesey Street on the north, the Hudson River on the west, Albany Street on the south and Church Street/Trinity Place on the east

Financial District: Borders Fulton Street on the north, the Hudson River on the west, South Street on the South and the East River on the east (rest of lower Manhattan)

New York City

Market Report
First Quarter 2020

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