Third Quarter 2020 / New York City

Office Leasing

Market Facts

4.7 MSF
3Q20 Manhattan office leasing volume, sits above record low of 3.6 MSF in 2Q20

17 MSF
Sublet vacant office space at 3Q20, which is now 28.7% of total vacant office space in Manhattan

1%-6%
Range of overall average asking rent declines across Manhattan office markets after the start of COVID-19

12.7%
3Q20 Manhattan overall vacancy rate, now above equilibrium

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

Near-Term Uncertainty Continues to Weigh on Office Leasing Activity in the Third Quarter

Uncertainty Puts Office Leasing on Track to be the Lowest Volume on Record by Year-End

The impact of COVID-19 and many other uncertainties continue to weigh heavily on the Manhattan office leasing market. Concerns include ambiguity regarding the timing of an available and effective coronavirus vaccine, which continues to impact work from home policies, to an upcoming election that has cast doubt on a smooth road to an economic recovery and so much more. As a result, office space requirements are being re-evaluated by companies and leasing demand for the time being has slowed.

For the third quarter, total Manhattan office leasing volume of 4.7 million square feet ended above the record low of 3.6 million square feet in the second quarter, as top deals in Midtown (e.g. Facebook's 730,000-square-foot new lease at 390 Ninth Avenue and BNP's 322,586-square-foot renewal at 787 Seventh Avenue) offset new record low quarterly activity Downtown. Year-to-date through the end of September, Manhattan office leasing volume of 15.6 million

MARKET DATA POINTS

Manhattan Overall

Indicator	3Q20	3Q19
Vacancy	12.70%	9.80%
Rent	$78.90	$82.97
Absorption	(8,556,526)	(178,828)

Midtown Overall

Indicator	3Q20	3Q19
Vacancy	12.80%	10.20%
Rent	$84.63	$90.81
Absorption	(5,126,675)	(1,268,387)

Midtown South Overall

Indicator	3Q20	3Q19
Vacancy	12.50%	7.40%
Rent	$78.89	$80.28
Absorption	(2,175,416)	684,963

Downtown Overall

Indicator	3Q20	3Q19
Vacancy	12.70%	10.90%
Rent	$62.58	$63.40
Absorption	(1,254,435)	404,596

Data as of 9/30/2020

square feet (versus 27.4 million square feet executed this time a year ago), is down 43.0 percent and on track to be the lowest volume on record by year-end. Currently, renewals and extensions by some of the larger tenants, and subleases by the smaller ones, together make up 25.0 percent of leasing activity. The longer the route to an economic and health recovery, the longer we can expect to see more renewals and subleases (many short-term in duration) comprise a meaningful amount of the leasing activity.

Vacancy and Pricing After the Start of COVID-19, Impacted by Competitive Sublease Product

The record high Manhattan overall vacancy rate of 12.7 percent is now above equilibrium, after coming in at 10.9 percent the end of the last quarter. This indicates a highly tenant favorable market. Similar record high third quarter vacancy levels were reached in Midtown (12.8 percent) and Midtown South (12.5 percent), with Downtown (12.7 percent) coming in slightly below its 3Q 2018 high reached (when 3 World Trade Center hit the market with over 1.6 million square feet of direct space available during that period). We attribute the current record high vacancy levels to additional sublet space put on the market during the quarter, particularly as companies re-examine their business plans during the COVID-19 pandemic. Since March 1, we have tracked sublease space additions put on the market. Approximately 6.6 million square feet of this discounted sublease space was added during this time, of which 3.3 million square feet came on the market in the third quarter alone. Adding this 3.3 million square feet to the 13.7 million square feet of sublet vacant space available at the end of the second quarter gets us to the 17.0 million square feet of sublet vacant space available for the third quarter (See our Markets by the Numbers chart). The 17.0 million square feet of sublet vacant space now represents 28.7 percent of total vacant space available for the end of the quarter, which is above the 27.0 percent level for the quarters since 4Q 2019. At almost 29.0 percent of total vacant space,

Notable Third Quarter Leasing by Market

Tenant Industry	New Address Submarket	Size (SF) Lease Type
Midtown		
Facebook TAMI	**390 Ninth Avenue** Penn Plaza/Garment District	**730,000** New Lease
NBC Universal TAMI	**1221 Avenue of the Americas** Sixth Avenue/Rockefeller Center	**339,833** Extension
BNP Financial Services	**787 Seventh Avenue** Sixth Avenue/Rockefeller Center	**322,586** Renewal
Midtown South		
City of New York Government/Public Administration	**260 Eleventh Avenue** Chelsea	**174,186** Renewal
Quinn Emanuel Urquhart & Sullivan, LLP Legal Services	**51 Madison Avenue** Gramercy Park	**59,726** Renewal
BASIS Independent Schools Educational Services	**556 West 22nd Street** Chelsea	**34,500** New Lease
Downtown		
Remarkable Foods Retail/Wholesale	**4 World Trade Center** World Trade Center	**68,673** Sublease
FuseFX TAMI	**32 Old Slip** Financial District	**15,072** New Lease
Nathan Cummings Foundation Non-Profit	**120 Wall Street** Financial District	**13,751** New Lease

Data as of 9/30/2020

we anticipate seeing the impact on direct average asking rents, which translates into downward pressure on overall pricing.

After being up a modest 1.0 percent year-over-year last quarter due to higher-priced inventory being left on the market, Manhattan overall average asking rents ended the third quarter at $78.90 per square foot, down 5.0 percent year-over-year. When we compare the current average asking rents to where they were at the end of 1Q 2020 (after the start of COVID-19), the declines range from 1.0 – 6.0 percent. Due to additional competitive lower-priced sublet space on the market, with more to come, over time we can expect to see further decreases in average asking rents as well as continued increases in vacancy rates.

Pre-COVID-19 vs After the Start of COVID-19 Asking Rent Comparison as of 3Q2020

	3Q20	1Q20	Percent Change After Start of COVID (1Q20)
Manhattan			
Overall Asking Rent	$78.90	$83.07	-5%
Class A Asking Rent	$84.02	$88.54	-5%
Class B Asking Rent	$60.56	$62.36	-3%
Midtown			
Overall Asking Rent	$84.63	$90.29	-6%
Class A Asking Rent	$89.56	$94.17	-5%
Class B Asking Rent	$57.88	$59.56	-3%
Midtown South			
Overall Asking Rent	$78.89	$81.07	-3%
Class A Asking Rent	$99.17	$99.72	-1%
Class B Asking Rent	$65.91	$68.75	-4%
Downtown			
Overall Asking Rent	$62.58	$64.17	-2%
Class A Asking Rent	$64.20	$66.17	-3%
Class B Asking Rent	$52.25	$51.61	1%

Data as of 10/1/2020

Landlords Reach to Do Deals, Getting More Creative

At the onset of COVID-19, many landlords were holding rents steady and then ultimately "sweetening the deal" by way of increased concession packages. These incentives were mostly in the form of additional free rent with less movement on tenant improvement (TI) allowances, but still lowering the net effective rent nonetheless. During that time, there were some instances where the amount of free rent was kicked up by an additional six months and security deposits were reduced from twelve months to five for space associated with higher quality Class A product. Fast forward to the third quarter, some landlords have been getting more aggressive and we are seeing this across markets. For example, a large technology tenant was recently able to secure a large block of space at a redeveloped property. While the deal began pre-COVID-19, by August the beginning taking rent was reduced by 3.5 percent, and free rent was increased by three months on 80.0 percent of the space and by eight months on 20.0 percent of the space. TI was increased by $50 per square foot. In another instance, for a 25,000-square-foot 10-year deal, free rent was bumped up by an additional 12 months free and TI up by $5 per square foot. Overall, for the 10-20 year deals associated with credit-worthy tenants in Class A product, we have seen an average of 14 to 18 months free rent and TI in the range of $100.00 to $130.00 per square foot. In other instances related to newer or redeveloped properties, landlords have cited their willingness to adjust pricing down by 10.0 percent, while increasing concessions. For the right longer-term credit-worthy tenant, landlords of newer higher quality properties will generally be more willing to reach to seal the deal and they will also get more creative other than with rents or other concessions (e.g. pay architect fees or include furniture, etc.).

Desires of the Shorter-Term, Smaller Tenant – It's All About the Add-Ons

For the third quarter, closed lease transactions for 10,000 square feet or less accounted for 75.0 percent of total leasing activity. Although overall leasing has slowed, a pocket of strength exists associated with such smaller tenants. Given so much uncertainty, many tenants are still slow to pull the trigger and have to be incentivized to execute a deal. Many occupiers are seeking short-term deals that are two to three years and they desire inexpensive pre-built space that is fully furnished. Some landlords recognize this and at one property the asking rent was reduced by $10 per square foot between pre-COVID-19 and the current COVID-19 environment. Furniture was also included. Additional incentives offered by landlords for these tenants include wiring and even naming and signage opportunities. If a sublease is sought, it is important for the subtenant to do their due diligence on the creditworthiness of the sublessor.

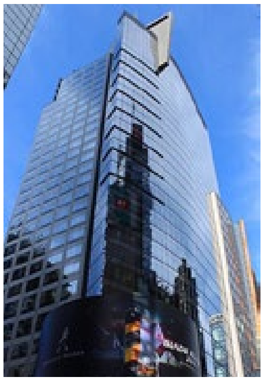
Marisha Clinton
Senior Director of Research, Tri-State
marisha.clinton@avisonyoung.com
212.729.1193

After the Start of COVID-19 Sublease Summary by Submarket

Submarket	SF
Midtown	
Grand Central	555,563
Plaza District	721,787
Sixth Avenue/Rockefeller Center	458,095
Penn Plaza/Garment	400,181
Times Square South	372,651
Hudson Yards	544,740
Times Square/West Side	314,915
Total Midtown	**3,367,932**
Midtown South	
Gramercy Park	463,498
Chelsea	968,084
NoHo/SoHo	66,389
Hudson Square	172,293
Total Midtown South	**1,670,264**
Downtown	
City Hall	10,713
World Trade Center	570,322
Financial District	995,225
Total Downtown	**1,576,260**
Total Market	
Total Midtown	3,367,932
Total Midtown South	1,670,264
Total Downtown	1,576,260
Manhattan Total	**6,614,456**

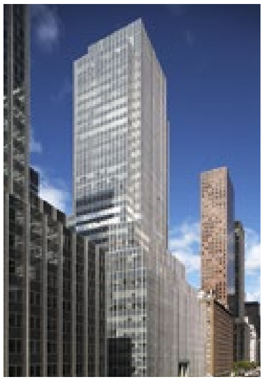
Data as of 9/30/2020

Largest Blocks of Contiguous Space Currently Available

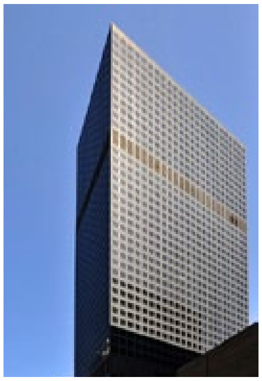


3 Times Square
Times Square/West Side
881,167 RSF

175 Water Street
Financial District
647,964 RSF



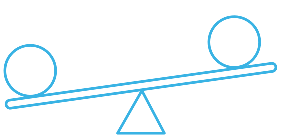
750 Third Avenue
Grand Central
643,044 RSF



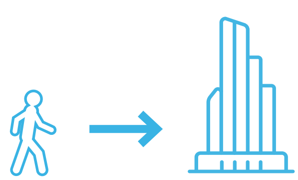
919 Third Avenue
Plaza District
615,444 RSF

1301-1315 Avenue of the Americas
Sixth Avenue/Rockefeller Center
462,152 RSF

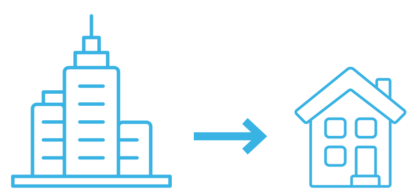
Trends to Watch



Expect the amount of sublease space put on the market to continue to increase and keep vacancy rates above equilibrium in the near-term.



Given a lot of uncertainty affecting work from home policies, it is still too early to tell what the ultimate outcome will be on tenant demand requirements. Currently in Manhattan about 10.0 to 12.0 percent of workers have returned to a physical building post-Labor Day, and an uptick is expected each week.



Although the majority of tenants will wish to remain in Manhattan with easier access to top diverse talent, a large number of financial institutions are considering three-year branch offices in the suburbs. We have yet to see them execute on this hub/satellite strategy, except for small financial services deals executed in Connecticut.

Market by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	3rd Quarter 2020 Overall Vacancy Rate	3rd Quarter 2020 Net Absorption (SF)	Year-to-Date Absorption	Current Under Construction* (SF)	Overall Average Asking Rent Class A	Overall Average Asking Rent Class B
Midtown									
Grand Central	69,942,819	7,246,752	1,894,794	13.1%	(1,765,117)	(2,747,936)	0	$80.04	$58.31
Penn Plaza/ Garment	21,410,638	859,208	1,419,265	10.6%	270,590	519,335	0	$72.68	$57.13
Hudson Yards/ Manhattan West	10,977,263	417,302	204,614	5.7%	(144,740)	(72,898)	9,719,950	$126.99	$49.00
Plaza District	72,040,740	9,052,963	1,727,820	15.0%	(1,258,280)	(1,492,331)	529,169	$102.18	$63.85
Sixth Avenue/ Rockefeller Center	50,364,114	4,561,207	1,301,108	11.6%	(492,518)	(1,065,897)	0	$85.70	$65.86
Times Square South	25,051,801	2,291,217	1,437,005	14.9%	(1,059,949)	(962,176)	0	$62.25	$55.59
Times Square/ West Side	37,017,023	2,711,497	1,605,544	11.7%	(676,661)	(912,702)	0	$79.62	$60.75
Total	**286,804,398**	**27,140,146**	**9,590,150**	**12.8%**	**(5,126,675)**	**(6,734,605)**	**10,249,119**	**$89.56**	**$57.88**
Midtown South									
Chelsea	23,843,826	1,812,472	1,002,542	11.8%	(711,824)	(905,693)	1,171,167	$116.33	$68.46
Hudson Square	14,600,547	852,894	706,925	10.7%	(584,512)	(713,399)	1,300,000	$86.64	$64.55
Gramercy Park	31,585,367	2,686,745	1,267,182	12.5%	(567,364)	(854,274)	0	$89.48	$61.32
NoHo/SoHo	9,672,667	1,237,499	358,833	16.5%	(311,716)	(581,027)	0	$112.57	$74.18
Total	**79,702,407**	**6,589,610**	**3,335,482**	**12.5%**	**(2,175,416)**	**(3,054,393)**	**2,471,167**	**$99.17**	**$65.91**
Downtown									
TriBeCa	3,600,632	186,376	24,618	5.9%	(18,774)	(18,274)	0	$160.37**	$70.70
City Hall	9,327,251	990,116	109,883	11.8%	(129,465)	(363,427)	0	$64.74	$56.91
Financial District	63,568,400	5,295,863	2,681,380	12.5%	(836,353)	(1,421,858)	0	$56.76	$50.73
World Trade Center	22,064,287	1,942,069	1,253,462	14.5%	(269,843)	(642,447)	0	$75.04	$0.00
Total	**98,560,570**	**8,414,424**	**4,069,343**	**12.7%**	**(1,254,435)**	**(2,446,006)**	**0**	**$64.20**	**$52.25**
Manhattan Overall Total	**465,067,375**	**42,144,180**	**16,994,975**	**12.7%**	**(8,556,526)**	**(12,235,004)**	**12,720,286**	**$84.02**	**$60.56**

Data as of 9/30/2020
** Excludes 4.1 MSF coming online within the next 12 months*
*** Includes 15 Laight Street, which has an average asking rent of $170.00 PSF*

AVISON YOUNG

Third Quarter 2020 / New York City

Investment Sales

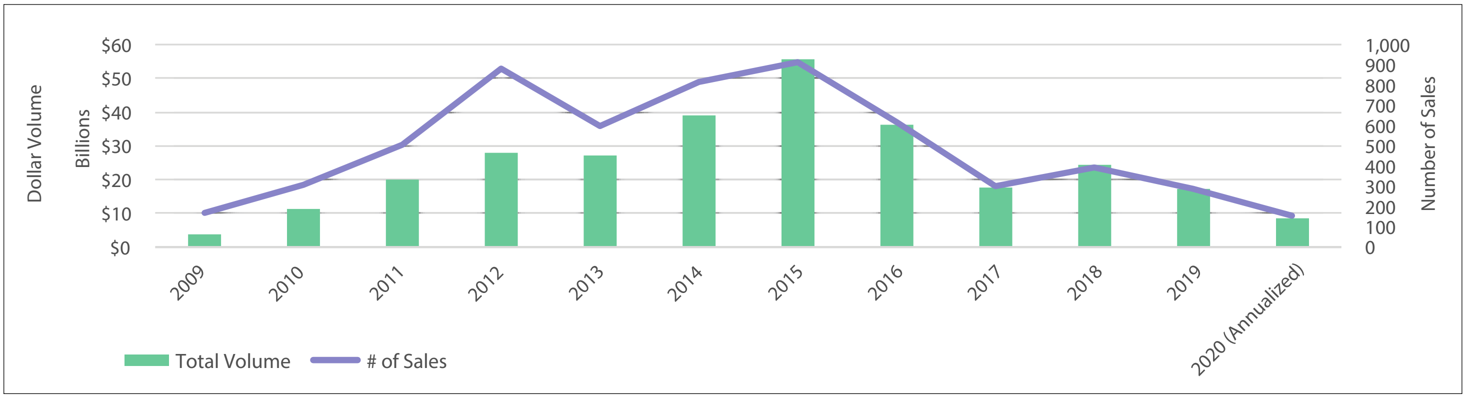
Third Quarter 2020 Summary

In the third quarter of 2020, Manhattan investment sales experienced a continued decline in activity due to the fallout from the COVID-19 virus. Manhattan saw 21 transactions, the lowest number of sales since the third quarter of 2009 and a 64 percent decline from the third quarter of 2019. The total dollar volume amounted to $1.1 billion, a 74 percent decrease off the third quarter of 2019 and the lowest since the first quarter of 2010. Two transactions, 1375 Broadway and 522 Fifth Avenue, which went into contract before COVID-19, accounted for 68 percent of the total dollar volume. Year-to-date through the end of the third quarter, there were 44 percent fewer transactions and 48 percent less dollar volume compared to the same period last year, the slowest three quarters since 2009. The annualized pace of transaction velocity forecasts that 2020 will end with 155 sales and $8.4 billion in dollar volume, which is a 72 percent and 69 percent decrease off the ten-year average, respectively. Of note, these totals are 46 percent and 52 percent lower than 2019's tallies, which marked the previous 10-year low.

Multi-Family/Mixed-Use

The third quarter of 2020 only recorded nine multifamily/mixed-use transactions for a total of $121 million in dollar volume, a decline of 55 percent and 82 percent, respectively, compared to the third quarter of 2019. Pricing fell to $553 per square foot, which is a 40 percent decrease off the third quarter of 2019 and a new

Transaction Volume and Number of Sales by Year



low for the year. Average cap rates rose to 5.01 percent, an increase of 67 basis points from the third quarter of 2019. However, with only nine transactions this quarter, these numbers may not perfectly represent market pricing. The leading transaction for the quarter was 400 East 58th Street. The mixed-use building located at the corner of First Avenue in Sutton Place was sold by SL Green to A&E Real Estate Holdings for $62 million, equating to $443 per square foot and a cap rate of 5.00 percent.

Retail

The third quarter of 2020 only saw one retail transaction for $1.5 million. Certainly, COVID-19 was the driving force behind the lack of activity taking place in Manhattan, as owners were forced into triage mode with respect to their lenders and tenants. While the outer boroughs saw the bulk of New York City's retail sales volume, the activity was depressed across the board. The sole transaction for the quarter in Manhattan was 152 Franklin Street, a vacant retail condo in Tribeca that sold $417 per square foot and was bought out of foreclosure.

Office

The third quarter of 2020 saw only one office sale for $435 million, while the office condo market recorded three sales for $412 million. Like retail, COVID-19 halted office market activity. The unknown of when companies will be returning to the office and the likelihood of tenants paying their full rent has left investors unsure of values. The 513,401 RSF office building at 1375 Broadway, which went into contract in February, was purchased by Savanna Partners for $847 per square foot and a 4.80 percent cap rate. Rents in the building are below market, which allows for a value-add opportunity.

Development

The third quarter of 2020 saw six development sales for a total of $141 million, a 50 percent increase and a 56 percent decrease, respectively, off the third quarter of 2019. Based off the third quarter of 2019, the price per buildable square foot decreased by 22 percent to $483, while the total number of buildable square feet decreased by 56 percent to 253,617. The leading transaction for the quarter was Real Estate Equities Corp.'s 99-year ground lease purchase of an assemblage at 156-166 Bowery for $50 million. The assemblage has a total of 90,000 BSF, equating to $556 per buildable square foot.

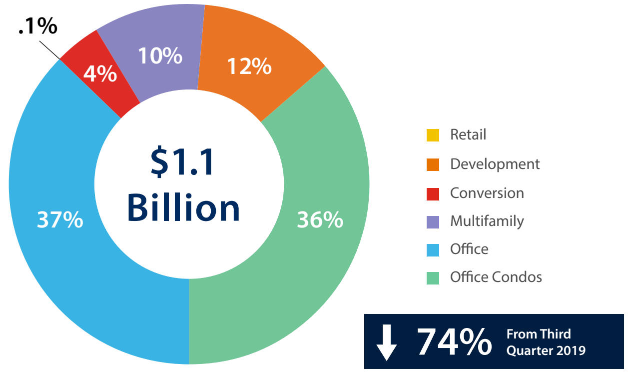
Conversion

The third quarter of 2020 saw just one conversion sale for a total of $51 million. Jason Carter bought 305-307 East 61st Street via a bankruptcy auction. Plans for this stalled condo conversion project call for 14 residential units and a commercial component totaling around 14,800 square feet.

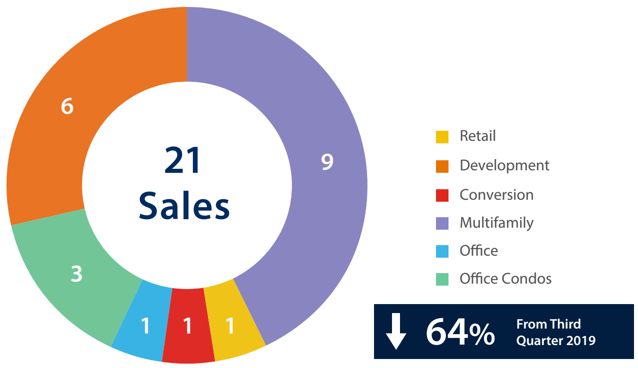
Sean Noone
Analyst
Tri-State Investment Sales Operations
sean.noone@avisonyoung.com
917.999.0019

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.

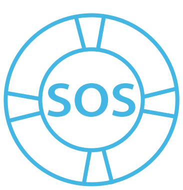
Third Quarter Total Dollar Volume by Asset Class



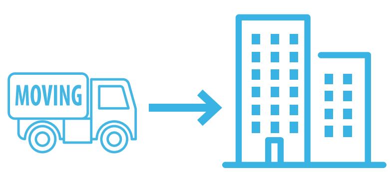
Third Quarter Number of Sales by Asset Class



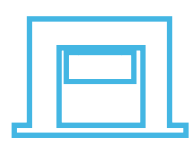
Trends to Watch



When will distress hit the market and how will it affect pricing?



When will people and business move back into the city?



Will investor appetite for retail pick up steam in the coming quarters?

Debt & Equity

Third Quarter 2020 – Debt, Joint Venture Equity and Structured Finance

Real Estate Lenders Re-Engaging in September

The real estate lending markets felt the impact of COVID-19 almost immediately. Commercial real estate, unlike most other financial assets, failed to benefit from a Fed bailout or backstop. Banks and other lenders tended to legacy issues with tenants withholding rent which, in turn, had borrowers withholding mortgage payments which, in turn, led the banks to put a pause on new lending activity. Post-Labor Day, one can sense the change in lender attitudes. They are collectively way behind on their lending quota for the year and are trying to make up for lost time. However, things aren't anywhere near back to where they were. Many banks are looking to only lend to existing clients. Debt funds are holding firm on their pricing since, in many cases, they can't lay off the senior tranche. As we mentioned last quarter, most debt funds use warehouse lines to enhance their returns by selling off the 0-50 percent LTV tranche at bank rates and keeping only the junior tranche at a resulting higher rate. These warehouse lines were frozen when COVID-19 hit but there has been some thawing as those banks providing the lines come back into the market. These same banks may look to sell any foreclosed or delinquent loans by year-end in order to have improved metrics going into 2021.

Bifurcation by Product Type

What is clear in the lending space is that there is a bifurcation among product types. Multi-family and industrial are in the good bucket. Retail, hotels and office are in the less desired bucket. For the product types in the latter, a de-leveraging will have to take place before they can recover in earnest. Hotels are in dire trouble. Since mid-February, hotels have lost $46 billion in room revenue, according to the American Hotel and Leisure Association. Average occupancy across the U.S. in August was 48.6 percent. Clearly, many hotels will be foreclosed, many CMBS securitizations will be impaired, and this will have a domino effect across the sector.

CMBS Remains Hard Hit with More Problems on the Horizon

CMBS has been especially hard hit by the recent downturn. Since servicers can't simply grant forbearances or rent "holidays," delinquencies have increased substantially. Retail and hospitality have been especially hard hit. In mid-September, a high profile CMBS issue defaulted – Starwood Retail Property Trust 2014-STAR. It is an almost $700 million loan collateralized by several malls owned by Barry Sternlicht's Starwood Capital. The core property of the portfolio, The Mall at Wellington Green in Florida is worth less than half of its 2019 value due to Nordstrom and other anchors either leaving or filing for bankruptcy. The AAA tranche, which historically trades only 0.5 percent or less over Treasuries, is trading for 69 cents on the dollar. The Starwood CMBS is only one of the 17.3 percent of total retail loans that are in special servicing as of August. Notwithstanding the delinquencies in the accompanying charts, the CMBS lenders continue to quote deals and do securitizations. The caveat is that 65 percent Loan to Value is the new mantra. For borrowers that don't need maximum leverage though, interest rates in the mid-three's make this still very palatable.

REITs and Other Real Estate Stocks Declined in September

After a strong rebound from their March lows, real estate stocks have declined across the board in September. JC Penney being bought by Simon Properties and Brookfield was a reason for optimism, but it wasn't enough to battle the perceived lasting effects of COVID-19 that have weighed on the real estate stocks since the crisis began.

Dan E. Gorczycki
Senior Director
Debt, Equity, and Joint Venture Structuring Group
dan.gorczycki@avisonyoung.com
212.729.7087

CMBS Loan Delinquency Overview*

	August - 30+ Days Delinquent		July - 30+ Days Delinquent	
Property Type	Rate	Volume	Rate	Volume
Hospitality	23.0%	$20.0B	23.8%	$20.5B
Retail	14.9%	$19.1B	16.1%	$21.0B
Multifamily	3.0%	$3.7B	3.3%	$4.2B
Office	2.3%	$3.1B	2.4%	$3.5B
Industrial	1.2%	$230.0MM	1.2%	$240.0MM
Total	**9.0%**	**$47.0B**	**9.6%**	**$50.6B**

*Source: Trepp

Top 10 MSAs by Deliquent Balance (August 2020)**

MSA	Delinquent Balance ($B)	Delinquency Rate
New York City	6.15	6.20%
Chicago	2.24	13.90%
Los Angeles	1.84	65.50%
Miami	1.75	13.90%
Minneapolis	1.61	42.60%
Washington DC	1.57	10.30%
Houston	1.39	11.90%
Philadelphia	0.98	10.70%
Dallas	0.95	9.30%
Las Vegas	0.86	7.50%

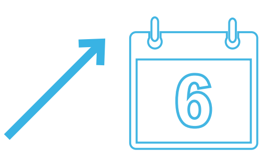
*Source: Trepp

Large MSAs with Highest Delinquencies (CMBS) by Asset Class***

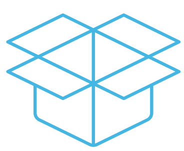
MSA	Retail	Lodging	Mixed-Use	Multi-family	Office	Industrial	Overall
Minneapolis	76.2%	59.0%	2.0%	0.0%	3.0%	36.3%	47.9%
Chicago	29.6%	49.7%	5.8%	5.0%	3.6%	2.1%	13.8%
San Bernardino	18.2%	12.7%	0.0%	0.0%	0.7%	0.0%	
Houston	3.7%	72.7%	0.0%	1.2%	13.5%	0.0%	10.8%
Washington DC	7.3%	25.0%	23.4%	1.1%	8.7%	0.0%	9.7%

*Source: Trepp

Trends to Watch



CMBS has been hard hit by delinquencies which are likely to increase throughout the year. However, CMBS shops continue to lend albeit at more conservative terms.



There is a very two-tiered market when it comes to product types: Multi-family, Industrial, Senior Housing and Self-Storage are the remaining hot sectors. All others have become challenging with retail and hotels being especially hard hit.

Banks have slowly come back into the lending market as they eye their lending quotas for the year. Underwriting remains conservative though with most of their dry powder reserved for existing customers.

Valuation & Advisory

Rising CMBS Delinquency Rates and Percentage of Loans in Special Servicing Expected to Contribute to Increased Demand for Property Appraisals

The coronavirus pandemic has pushed CMBS delinquency rates to all-time highs. Although overall CMBS delinquency rates declined in August, they are highly bifurcated, and the percentage of delinquencies varies greatly depending on asset type and length of term. Additionally, the Paycheck Protection Plan (PPP) Loan Program is coming to an end and a second round of relief is not certain as of the time of this writing (on October 5th). The lack of additional relief and stimulus could push CMBS delinquency rates even higher. This spike in delinquency rates will further increase the need for property appraisals. As a result, a wave of new appraisals is expected over the next six months. These new appraisals are expected to be much lower than historical values.

Relief Arrangements Needed to Cure Some, But Not All Loans

According to Trepp, the overall CMBS delinquency rate for August was 9.02 percent, representing a 58-basis point decline from July. At the same time, approximately $6.5 billion in loans were cured in August, which includes loans that were made current or entered into a grace period. Cured loans resulted from a number of different arrangements. Some loans became current as a result of granted forbearances and/or borrowers being authorized to use reserves to make the loan current. Other loans were brought current without relief.

Loans in Special Servicing Also on the Rise, With Lodging and Retail Comprising the Majority

Trepp also reports an increase in the percentage of loans with a special servicer, rising to 10.04 percent in August, from 9.49 percent in July. A large percentage of this pool is made up of lodging and retail loans. In total, 25.0 percent of all lodging loans and 17.3 percent of all retail loans are in special servicing.

Specifically, in New York City, there are $1.47 billion worth of CMBS loans on hotel properties that have gone unpaid, according to Crain's. This is the largest amount of hotel delinquencies in the country, which has pushed the greater New York market's delinquency rate to nearly 39 percent, compared to the usual 1.0% rate nationally. Occupancy rates in New York City hotels stood at 41 percent in late August, which represents a 54 percent decline from the same time last year.

As more loans enter special servicing, the need for current appraisals increases. Industry professionals are bracing for a large percentage of these new appraisals to be much lower, specifically over the next six months as special servicers work through the increasing volume of troubled loans.

Impact of Lower Appraised Values

Lower appraised values can have a direct impact on the relationship between B-piece CMBS investors, special servicers and operating advisors during the loan workouts. B-piece holders are at risk to lose their unilateral authority to appoint or remove the special servicer without cause.

To date, there have not been a significant amount of appraisal reductions, despite the increase in delinquency rates. This is likely because the appraisals have not been completed or ordered as of yet. However, appraisal reductions are expected to rise significantly into Q4 2020 and beyond.

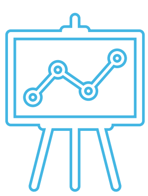
Conclusion

Industry experts would be keen to understand how PPP loans are affecting both property values and delinquency rates for CMBS deals. PPP loans have helped many businesses stay afloat during the coronavirus pandemic. However, the money is running out and there is a lack of certainty on an extension or replacement for these loans. If there is no second round of relief for small and medium sized businesses, many more will fail. This could create a domino effect, causing more loans to fall into delinquency as borrowers lose income and fall behind.

Even with the assistance of PPP loans, *The New York Times* estimates that at least 1,000 eating and drinking establishments have already closed in New York City. This number is at risk of increasing significantly as the PPP program may come to an end and also as outdoor dining potentially slows due to the weather. The status of increasing indoor dining in the future is also uncertain, given the risks of spreading the virus within enclosed establishments. A lack of expanded indoor dining will contribute to a wave of additional permanent foreclosures in New York City.

Eric Falvo
Associate
Valuation Advisory Services
eric.falvo@avisonyoung.com
212.735.8556

Trends to Watch



CMBS delinquency rates, specifically in the lodging and retail sectors are expected to rise further, as the status of PPP and future relief remains uncertain.

The end result will include a wave of new appraisals completed and ordered for properties associated with loans in special servicing.

Industry experts expect a large number of these appraisals overall to be lower than historical values. Watch for the magnitude of the declines, as well as how these lower appraisals shake up the relationship between B-piece CMBS investors, special servicers and operating advisors.

Design & Construction

Design and Construction in New York City

Since the non-essential construction restriction was lifted in June, the design and construction industries have utilized a wide range of project strategies that have created unpredictable schedule and cost impacts. Some continue to plan projects as before, with minor adjustments, while others are creating new ways to design and build space.

State of the Office

While some are taking a "wait-and-see" approach to building/renovating space hoping for a return to normal practices, others are using the opportunity to re-think what an office can be and how to deliver a new environment for tenants and their employees. Some of the health precautions that have come out of the pandemic will become common practice in design and construction moving forward.

Even when considering change, there are short-term plans being used to entice employees to return sooner than later, with long-term visions of how they will function in the future still being fleshed out. For tenants in existing space, it has been largely a wait-and-see approach with minimal changes beyond touchless fixtures and hand-sanitizer stations. Companies are often not willing to invest the capital because we may return to traditional practices sometime next year. However, these short-term measures have not reassured much of the workforce to return to office, as many businesses are still permitting full or part-time work from home options through at least the end of the year.

Designs That Work

Office space design has historically varied across industries and been specific to each company, but this is true now more than ever. Each business has had to do some soul-searching to balance a safe space for their employees while providing an environment for collaboration and productivity. Previously, architects would either offer a typical "open office" layout or traditional closed offices and conference rooms around common space and corridors. As companies envision their new state of working, hybrid designs have emerged that remain open for proper air circulation but divided to prevent spread of germs across long distances. Larger privacy panels, fixed open wall systems, and break-out rooms with opposite-facing work surfaces are just a few of the options being proposed to achieve this. New designs have seen kitchens shrinking and circulation paths expanding to maintain proper distancing and reduce the unnecessary gathering of people.

Even within an organization, employees are being offered different work options such as full-time office, full-time from home or a mix of each, requiring less fixed desk layouts. Desk-sharing has been a popular trend even prior to the pandemic and continues to be as more people want touch-down space only when their work requires their presence in an office. With increased standards of desk-clearing and increased cleaning, this has been a successful approach to keep offices as functional as possible without radically changing space for this potentially temporary issue.

Tech Perspective

Virtual meetings with Zoom, Webex and MS Teams are now commonplace across all industries, but competing products and services have popped up, providing companies with options. Architects are wary of specifying unfamiliar equipment, even though tenants are enticed by cheaper solutions and the introductory subscription offers. Regardless of what software solutions are elected, conference rooms, breakout rooms and phone booths have seen a major uptick in hardware upgrades to incorporate virtual meetings into everyday office function. Speaker-targeted video cameras, distributed microphones/speakers and increased screen sizes are becoming necessary in the video conference environment. Of all the capital investment options being considered, this seems to be the most common, as most agree virtual meetings are here to stay. With all of the players in the tech market competing in this race, end users are benefiting with lower prices and new technologies.

Building Differently

For those forging ahead with construction, it has been a tumultuous process with new standards for permitting, safety and access. A typical self-certified Alteration-Type 2 permit that would have

typically been issued within one week is now experiencing a three to four week turnaround due to NYC Department of Building's (DOB) reduced workforce. Other departments, like the Landmarks Preservation Commission and the Fire Department, have always been a major schedule consideration, and now have even longer lead times to review plans and issue comments. In some cases, this slowing down of the permitting process is causing hesitation to undertake major construction when delivery of a space is critical.

The state mandated health and safety measures that were implemented when the restrictions were lifted continue to be part of everyday construction practice. Temperature scans and health surveys prior to entering a site were slowing down the average work-day production at first, but methods and processes have largely been normalized, and access is only a challenge in very large buildings with multiple projects ongoing simultaneously.

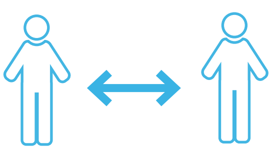
The order to reduce the density of workers on site, however, continues to affect schedules. Even when contractors get creative with phasing and "work zones", the former practice of heavy-loading manpower on a site is not permitted. DOB inspectors have been deployed to spot-check construction projects to confirm adherence, and fines are issued for those violating state mandates. To cover this practice, contractors are typically extending schedules 10 to 15 percent. Contingency schedules are critical when it only takes one positive test to shut down a site for two to three days. Some have seen this occur multiple times, extending the overall delivery schedules by weeks or even months.

Forging Ahead

The biggest drag on the market is not the lack of a vaccine or the cost to create a different work environment, but instead, simply the uncertainty of when changes will come. Despite the challenges of the new way of designing and building, there is significant activity in New York, the city that refuses to quit. Each month that passes, more permit applications are being submitted and architects are seeing new projects trickle in. Now more than ever, it is best to plan for the worst, but hope for the best.

Robb Davidson
Director
Project Management
robb.davidson@avisonyoung.com
858.775.5875

Trends to Watch

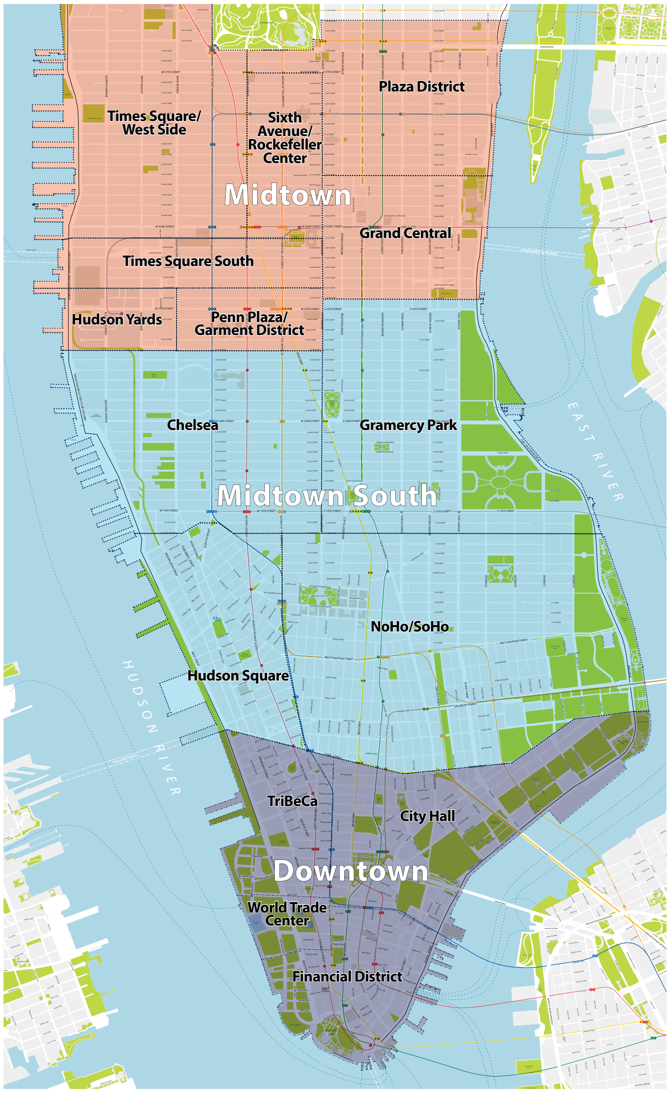


Some of the health precautions that have come out of the pandemic will become common practice in design and construction moving forward.

Each business has had to balance a safe space for their employees while providing an environment for collaboration and productivity. Hybrid designs have emerged that remain open for proper air circulation, but divided to prevent the spread of germs across long distances.

Expect a major uptick in hardware upgrades to incorporate virtual meetings into everyday office functions.

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 Seventh Avenue on the east (includes Columbus Circle)

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

Penn Plaza/Garment: 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 41st 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 south and the East River on the east (includes prior Union Square/Madison Square/Park Avenue South submarkets)

Hudson Square: West 12th Street on the north, the Hudson River on the west, Canal Street on the south and Sixth 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
Third Quarter 2020

AVISON YOUNG

avisonyoung.com

For more information, please contact:

A. Mitti Liebersohn
President and Managing Director, NYC Operations
212.729.7734
mitti.liebersohn@avisonyoung.com

Marisha Clinton
Senior Director of Research, Tri-State
212.729.1193
marisha.clinton@avisonyoung.com

Jonathan Roberts
Research Analyst
212.729.1293
jonathan.roberts@avisonyoung.com

530 Fifth Avenue
4th Floor
New York, NY 10036
212.729.7140

CANADA BEST MANAGED COMPANIES
Platinum member