New York City

Market Report
Second Quarter 2018

Avison Young's 2018 Second Quarter Manhattan Market Report includes our insights on office leasing, investment sales, debt and equity, valuation and advisory and retail leasing activity. As economic and financial impacts weigh on occupiers, owners and investors in their real estate decision-making, we hone in on some of the challenges and opportunities that we are seeing across the various property sectors and markets. In the following pages, we highlight our observations and remain optimistic as to what the future could hold for the New York City real estate market.

The Manhattan office-leasing market continued to benefit from the positive growth in office-using demand driven by job additions, which translated into second quarter transaction volume that was over 25.0 percent above its five-year quarterly average. For the full first half of 2018, leasing volume now sits slightly above its five-year average. Across the markets, some sizable occupiers have committed to take on new and more modern space, with the tenant mix overall becoming more diverse partly from those sectors where we are seeing the greatest employment growth (namely in education, health and professional and business services). At the same time, we have observed rising vacancies during the quarter, particularly within Midtown South and Downtown where companies have chosen to consolidate space.

For the investment sales market, we still see sub-4.0 percent cap rates in some instances and property values that are at or near all-time highs, particularly within the multi-family and office sectors. As a result, the number of these sales transactions has been soft (as also seen by our valuation and advisory colleagues in regards to the multi-family sector) and it is too early to tell if volumes will resume. Meanwhile, for the retail sector, sales volume has picked up year-to-date after a period of adjustment (which mirrors the noticeable increase in leasing activity observed by our retail leasing colleagues). Overall, buyers are now regaining confidence.

In regards to available capital and lending sources, foreign funds continue to target Manhattan's quality properties, while financing remains more abundant, particularly for those cash flowing assets located in all but the most of tertiary markets. Banks and life companies along with CMBS lenders, continue to have a strong appetite for such commercial assets, with varying degrees of leverage of up to 75.0 percent loan-to-value (LTV). Meanwhile, for leverage of up to 80.0 percent LTV, Freddie Mac and Fannie Mae remain a viable low-cost lending source for the multi-family sector.

Several opportunities remain in New York City across a variety of quality assets. Please reach out to any Avison Young team to assist you with your strategic real estate decisions.

Best,

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Second Quarter 2018 / New York City

Office Leasing

Market Facts

30%
Percentage of education, health and PBS leasing activity in 2Q18

25%+
Percentage of 2Q18 Manhattan leasing volume above its five-year quarterly average

10%
Percentage of co-working leasing activity in Manhattan through 1H18

10.6%
Second quarter vacancy rate, Manhattan overall in equilibrium

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

Focus Remains on Newer Product by Larger Tenants, but Watch for Rising Vacancies Across Some Markets

Private Sector Job Growth as of May

2.1% NYC

1.4% NY State

1.9% U.S.

Economy: Employment Sector Gains Bode Well For Leasing Volume

The greatest employment gains for the second quarter of 2018 were seen in the educational and health sectors, as well as the professional and business services sectors, translating into strong office leasing velocity, particularly among larger tenants across Manhattan. This activity represented 30.0 percent of the leasing volume during the quarter, with such transactions making up seven of the 15 large-block deals (greater than 100,000 square feet) completed. Meanwhile, financial services employment growth has surpassed its five-year average, with the sector also driving leasing activity among various-sized tenants.

While employment is a lagging indicator, though a good sign of continued office-using demand, by the end of the second quarter, leasing volume was over 25.0 percent above its five-year quarterly average. For Midtown, a fair number of large tenants have relocated to take up new and more modern space within the market, while a diverse tenant mix continued to drive rents higher in Midtown South. Some of these same attributes have benefitted the Downtown market in regards to leasing activity. Overall, office leasing volume for the first full half of 2018 now sits slightly above its five-year average and with the total vacancy rate ending at 10.6 percent by the end of June, the Manhattan market remains in equilibrium. We will, however, watch for rising vacancies across some markets where companies choose to consolidate space.

Midtown: Larger Tenants Continue to Target Newer Product

Second quarter leasing activity was up over 65.0 percent year-over-year, with volume for the total first half of the year up over 20.0 percent. This market captured twice as many large block leases during the quarter than a year ago, for a total of eight. While the largest of these transactions was the 1,100,000-square-foot lease currently being executed by Deutsche Bank at 1 Columbus Circle, which plans to relocate from Downtown in 2021 and shrink its footprint by 30.0 percent, some of the additional large block leases were executed by tenants who favor new construction and are relocating within Midtown.

Notable Large Block Tenants Targeting Newer Construction in Midtown

Tenant	New Address	Building Status	Relocating From	Relocating To	SF
Pfizer (Health Services)	66 Hudson Boulevard - The Spiral	Under Construction*	Grand Central	Hudson Yards/ Manhattan West	800,000
Blank Rome Tenzer Greenblatt LLP (Legal Services)	1271 Avenue of the Americas	Under Renovation (2019)	Grand Central	Sixth Avenue/ Rockefeller Center	138,000
McDermott Will & Emery (Legal Services)	One Vanderbilt	Under Construction	Grand Central	Grand Central	105,539

**Construction to begin July 2018*

10.2% OVERALL VACANCY RATE

The remaining Midtown leasing transactions during the second quarter included a great amount of other financial and legal services tenant activity, primarily within the 30,000 to 80,000-square-foot range and below. This attributed to the 80-basis point year-over-year decline in the vacancy rate to 10.2 percent. Meanwhile, the overall average asking rent of $83.09 for the second quarter is down 4.0 percent from one year ago and in line with the prior quarter, driven partly by less modern space being left behind.

Midtown South: Rent Increases Driven by Diverse Tenant Mix with Tech, Health, Education and Co-Working Activity

Second quarter leasing activity was up 85.0 percent year-over-year, with volume for the total first half of the year up over 65.0 percent. A market typically dominated by tech occupiers, Midtown South leasing activity continues to be bolstered by a mix of co-working, health and educational tenant transactions.

In the co-working space within Midtown South, WeWork executed two deals in the 30,000 to 45,000-square-foot-range, in addition to 100,000 square feet at 214 West

MARKET DATA POINTS

Manhattan Overall

Indicator	2Q18	2Q17
Vacancy	10.60%	10.70%
Rent	$76.80	$79.34
Absorption	(664,573) SF	629,668

Midtown Overall

Indicator	2Q18	2Q17
Vacancy	10.20%	11.00%
Rent	$83.09	$86.72
Absorption	370,290 SF	(85,348)

Midtown South Overall

Indicator	2Q18	2Q17
Vacancy	9.10%	7.70%
Rent	$78.03	$72.02
Absorption	(604,078) SF	74,034

Downtown Overall

Indicator	2Q18	2Q17
Vacancy	12.80%	12.10%
Rent	$62.71	$65.15
Absorption	(430,785) SF	640,982

29th Street. Knotel executed five deals in the 13,000 to 45,000-square-foot range. Throughout Manhattan, expect co-working to continue to increase. For the first half of 2018, co-working made up 10.0 percent of all leasing activity in the borough, up from 3.0 percent a year ago. Despite strong leasing velocity for Midtown South, the overall vacancy rate came in at 9.1 percent, above 7.7 percent a year ago with the increase due to vacant space being left behind at 345 and 375 Hudson Street by Penguin Random House (who is consolidating space into nearly the entire 1745 Broadway property in Midtown). The overall average asking rent of $78.03 for the second quarter is up 8.0 percent from one year ago and in line with the prior quarter, representing the highest rental increase throughout any of the Manhattan markets.

$78.03
OVERALL AVERAGE ASKING RENT

Downtown: Professional and Business Services a Key Driver of Leasing Velocity Rebound

Second quarter leasing activity was up over 80.0 percent year-over-year, with volume for the total first half of the year down over 35.0 percent given a soft first quarter. Significant professional and business services tenant activity was a key driver of the rebound in leasing volume for the most recent quarter, as such firms also favored new and modern product.

The average deal size of the majority of the remaining lease transactions during the second quarter was 30,000 square feet and below. The Downtown overall vacancy rate was 12.8 percent, above 12.1 percent a year ago with the increase partly due to over 300,000 square feet of sublease space on the market by Conde Nast at 1 World Trade Center where the company will consolidate. The overall average asking rent of $62.71 for the second quarter is down just under 4.0 percent from one year ago and down 2.0 percent from the prior quarter.

300,000+ SF
OF SUBLEASE SPACE AVAILABLE AT 1 WTC

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Notable Growing Diverse Tenant Mix in Midtown South

Tenant	New Address	Lease Type	Submarket	SF
Discovery Communications (Media)	230 Park Avenue South	New Lease	Gramercy Park	362,000
Facebook (Technology)	770 Broadway	Expansion	SoHo/NoHo	320,000
NYU Langone Medical Center (Health Services)	1 Park Avenue	Expansion	Gramercy Park	150,000
New York University (Education Services)	105 East 17th Street	Renewal	Gramercy Park	125,000

Notable Large Block Professional and Business Services Transactions Downtown

Tenant	New Address	Building Status	Relocating From	Relocating To	SF
McKinsey & Co. (Professional Services)	3 World Trade Center	Delivered 2Q 2018	Plaza District	World Trade Center	186,000
Wolters Kluwer (Business Services)	28 Liberty Street	Under Renovation (2019)	Chelsea	Financial District	130,000

Largest Blocks of Contiguous Space Currently Available

Tenant	SF	Market
3 World Trade Center	1,537,065	World Trade Center
330 West 42nd Street	661,960	Times Square/West Side
63 Madison Avenue	447,388	Gramercy Park
1 World Trade Center	435,631	World Trade Center
250 Broadway	313,996	TriBeCa/City Hall

Trends to Watch

- Watch for company consolidations of space to potentially impact vacancy levels more meaningfully across some markets.
- Expect more property owners to increase their capital spend on the modernization of their buildings in order to remain competitive in their offerings.
- Expect co-working tenant activity to become a larger percentage of overall leasing volume across Manhattan.

Markets by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	2nd Quarter 2018 Overall Vacancy Rate	2nd Quarter 2018 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	54,819,358	5,304,853	960,977	11.4%	(206,165)	(377,054)	1,733,000	$74.21	$58.24
Penn Plaza/Garment	19,969,798	1,776,036	855,767	13.2%	(495,993)	(683,835)	700,000	$69.82	$59.82
Hudson Yards/ Manhattan West	5,519,295	226,781	18,224	4.4%	(12,232)	(245,005)	7,483,000	$114.01	$0.00
Plaza District	76,861,806	6,368,150	1,772,025	10.6%	186,429	835,577	670,000	$100.18	$60.80
Sixth Avenue/ Rockefeller Center	55,985,260	3,989,512	741,365	8.5%	973,076	532,272	0	$88.44	$65.56
Times Square South	24,964,930	1,913,115	657,884	10.3%	134,569	(11,232)	0	$74.71	$57.47
Times Square/West Side	37,362,312	2,823,800	615,031	9.2%	(209,394)	155,285	0	$81.59	$63.10
Total	**275,482,759**	**22,402,247**	**5,621,273**	**10.2%**	**370,290**	**206,008**	**10,586,000**	**$88.10**	**$59.95**
Midtown South									
Chelsea	22,937,710	1,327,426	735,594	8.9%	(216,256)	(164,387)	138,900	$147.22	$59.35
Hudson Square	13,865,383	1,526,119	333,903	13.4%	131,697	(594,527)	0	$89.70	$73.03
Gramercy Park	30,743,242	1,725,773	670,003	7.8%	(551,794)	(334,733)	0	$71.30	$64.55
SoHo/NoHo	8,743,981	518,316	121,806	7.3%	32,275	45,798	0	$88.83	$71.01
Total	**76,290,316**	**5,097,634**	**1,861,306**	**9.1%**	**(604,078)**	**(1,047,849)**	**138,900**	**$99.22**	**$65.60**
Downtown									
TriBeCa/City Hall	19,351,851	1,180,066	285,322	7.6%	(316,348)	(233,132)	0	$60.12	$69.03
Financial District	53,199,740	5,194,323	1,228,690	12.1%	137,129	(150,079)	0	$58.17	$50.08
World Trade Center	26,459,533	3,820,571	935,882	18.0%	(251,566)	(261,388)	0	$72.57	$48.23
Downtown Total	**99,011,124**	**10,194,960**	**2,449,894**	**12.8%**	**(430,785)**	**(644,599)**	**0**	**$64.08**	**$55.00**
Manhattan Overall Total	**450,784,199**	**37,694,841**	**9,932,473**	**10.6%**	**(664,573)**	**(1,486,440)**	**10,724,900**	**$81.29**	**$61.17**

Data as of 7/5/2018

Investment Sales

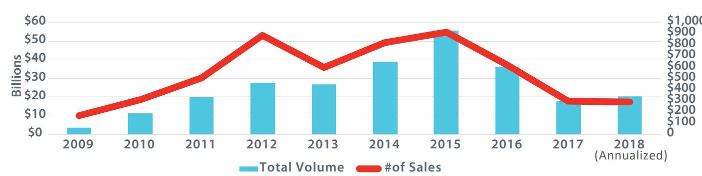
Market Report – 2Q 2018

The second quarter of 2018 exemplifies the complex nature of the Manhattan investment sales market. After a strong first quarter signalized a rebound in activity, the second quarter tempered the trend with a mixed bag of results. Based on the results thus far, the transaction count for 2018 is on pace to rank ninth, and the projected $20.17 billion in annual sales volume would rank sixth relative to the past 10 years. To understand where the market is headed, one must examine the parts of the whole and in this analysis is where the tale of two markets is found.

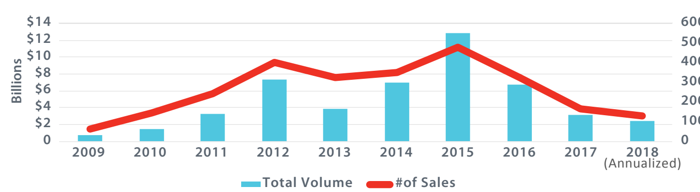
Multi-family Disconnect – High Prices and Low Activity

Multi-family sales activity is down year-to-date in 2018, with projected year-end sales volume on pace to drop 22.0 percent from last year. The number of trades and the total dollar volume represent 27.0 percent and 19.0 percent of the 2015 peak of 480 trades and $12.8 billion, respectively. While trades may have slowed, the property owners who put their real estate on the market are getting great pricing. Price-per-square-footage for multi-family properties hit a high at $1,086 per square foot in trades tracked by Avison Young and cap rates are holding near a 10-year low around 3.55 percent. The fewer opportunities may be increasing the competition for the

Manhattan Transaction Volume and Number of Sales Chart



Multi-family Transaction Volume and Number of Sales Chart

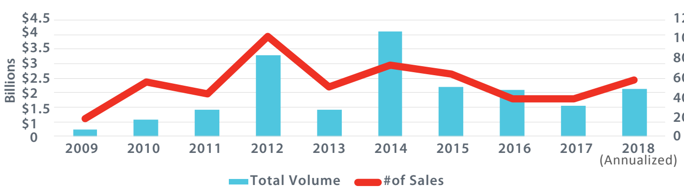


available deals, or conversely, the high pricing may be keeping more investors on the sidelines, resulting in less activity.

Retail Corrects – Low Pricing Fuels Trades

Manhattan retail properties may find 2018 to be a bright spot in what has otherwise been an uncertain future. On one hand, pricing per square foot fell from $2,620 PSF to $2,089 PSF in the past year, representing a 20.0 percent drop. Meanwhile, cap rates have climbed toward 5.00 percent, a rate the retail sector hasn't seen since 2012. Though dollar volume has dropped from the peak in 2014 by 54.0 percent, sales volume has picked up significantly. Since 2017, sales volume has risen 55.0 percent over the 2017 low of $1.06 billion to a projected $1.64 billion, placing it squarely in line with years such as 2015, and fourth relative to the past 10 years. Meanwhile, the projected 68 retail transactions expected in 2018 suggest that owners are actively putting their retail properties on the market, albeit with lowered pricing expectations.

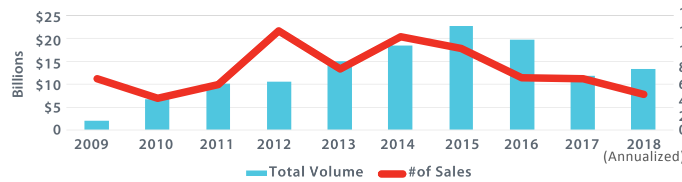
Retail Transaction Volume and Number of Sales Chart



Office – Big Deals Become the Norm

The Manhattan office market has continued its relatively steady performance over these past few years, with a slight trend downwards. The projected $13.34 billion in office property sales expected in 2018 represents 41.0 percent of the 2015 high of $22.6 billion in sales, and while the number of transactions are expected to come in lower than previous years, office fundamentals appear stable. With pricing per square footage at $1,027, representing a 10-year high, and cap rates of 3.99 percent representing a 10-year low, we can hypothesize that the market is dominated by a few high-priced transactions. Evidence of this claim includes major sales from this second quarter, such as 1065 Avenue of the Americas, which at $640 million, boasted a cap rate of 4.00 percent, as well as 222 East 41st Street - sold for $332.5 million, and 950 6th Avenue, sold for $270 million. In a few unique cases in 2018, price per square foot hit double the average, including the four-story office building at 204 Fifth Avenue, which traded for $2,919 per square foot; an art studio at 537 West 26th Street which sold for $3,181 per square foot (Vornado, the purchaser, has indicated it may be part of an expansion play); and Google's purchase of Chelsea Market at 75 ninth Avenue, which sold for $2,017 per square foot. The office sector may be suffering from a similar affliction similar to the multi-family sector. The high pricing and low activity is reminiscent of a chicken-or-the-egg scenario, where the trend has yet to shake out in any direction.

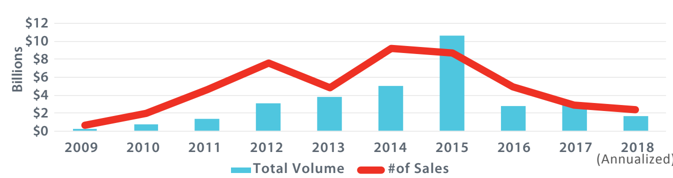
Office Transaction Volume and Number of Sales Chart



Development – Location, Location, Location

Development sites sales in Manhattan in 2018 are averaging $589 per buildable square foot. This comes as land sales were hit amongst the hardest after the last market peak. With trades declining in dollar volume more than 41.0 percent to a projected $1.68 billion and 50 trades within the year, Manhattan is experiencing a slowdown in development sites trading. However, this market segment needs further examination as well. This pricing is significantly down from the highs of 2014-2016, where land traded closer to the $645 per square foot on average, with a high water mark in 2016. However, relative to recent history, this pricing is a continuation of 2017's $583 price per buildable numbers, suggesting the pricing for land is continuing a familiar trend. For well-located development sites, the demand and pricing are amongst the strongest ever, while locations with greater sellout/lease-up uncertainty have developers hesitating to enter at high a basis.

Development Transaction Volume and Number of Sales Chart



China – Upside Potential

With the trade war stealing headlines, little attention was paid to a China story that may portend an increase in available capital for New York's real estate investors. A recent amendment by the National Development and Reform Commission, China's macroeconomic management agency, lifted hard-to-obtain government approval for certain offshore spending. Among these categories: certain types of infrastructure, development, and borrowing less than $300 million from overseas banks. While it is unlikely that we will see Chinese companies such as HNA Group invest the $5.8 billion they have into Manhattan real estate, the future of Chinese money in New York real estate suddenly seems brighter.

As a percentage of foreign capital, China had historically provided significant capital to Manhattan real estate projects. In 2015, China invested more than $12 billion into Manhattan real estate projects. Since then, as capital controls have begun to take hold, China's position as a percentage of foreign capital has dwindled year-over-year. Among the top 10 countries investing in Manhattan real estate, China dropped to 46.0 percent in 2016, and then 33.0 percent in 2017. So far, 2018 has yet to see any major Chinese transactions take place, while Canada has taken a major role in Manhattan real estate, providing 73.0 percent of the foreign capital year-to-date. However, with the loosening of capital controls taking place, we expect the flow of Chinese money to correct and resemble previous years.

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Top Second Quarter 2018 Sales

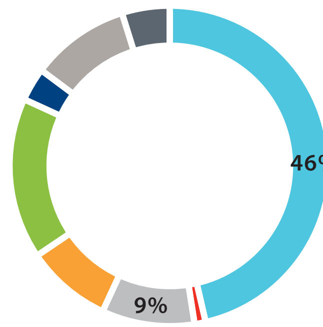
Buyer Address Seller	Size Type	Price Price/SF
Savanna **1065 Avenue of the Americas** Equity Office (Blackstone), Swig Company	681,575 SF Office	$640.0 million $939
HausInvest **222 East 41st Street** Columbia Property Trust	386,500 SF Office	$332.5 million $854
SL Green **950 Avenue of the Americas** Sitt Asset Management	362,191 SF Office	$274.0 million $745

Trends to Watch

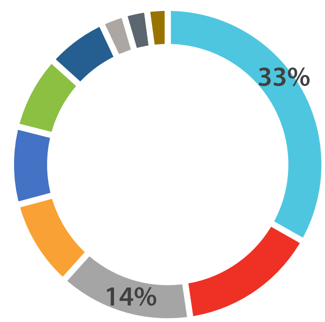
- This tale of two markets, with slight volatility among some asset classes, will likely continue to track with the success of the economy.
- As investors continue to see that from economic unknowns come healthy growth and strong market fundamentals, more and more will come off of the sidelines.
- As a result, expect to see significant growth in investment sales and dollar volumes throughout the rest of the year.

Percentage of Top 10 Foreign Capital Sources for Manhattan Real Estate

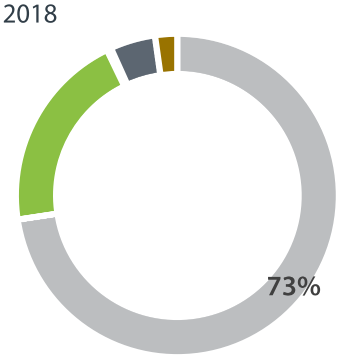
2016



2017



2018



China
Cananda
Norway
Japan
Isreal
Singapore
Hong Kong
Germany
United Kingdom
Sweeden

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Debt & Equity

Bifurcated CRE Lending Landscape, with Interest-Only Options Still Achievable

The lending arena for commercial real estate (CRE) remains bifurcated. If you have a cash flowing asset, financing deals for all but those located in the most tertiary of markets are getting closed. CMBS volume overall has increased, while spreads have simultaneously tightened to roughly 170-180 basis points over 10-year swaps for roughly 65.0-70.0 percent LTV, with many shops giving full-term interest only. Some CMBS lenders have also been pushing leverage to 75.0 percent LTV for financing across many property types, achieved by imbedding a small mezzanine tranche. Class B malls, on the other hand, continue to be the one exception to being the beneficiary of the strong lender demand we are seeing. Meanwhile, the multi-family sector continues to have Freddie Mac and Fannie Mae closing low coupon loans of roughly 5.0 percent, at up to 80.0 percent LTV also with some level of interest-only still achievable.

Construction Lending Update…Bank and Non-Bank Options

For construction loans, there are still difficulties if the borrower does not possess a strong balance sheet. Non-banks have happily filled the void, but their interest rates are in the high single digits. With Dodd-Frank regulations having their first rollback in May (and more to come), the speculation is that banks will slowly get more aggressive. In early June, all 35 bank-holding companies subject to annual Dodd-Frank Act Stress Tests proved that they held enough capital and have developed sufficient plans to weather financial shocks.

"Buy-For-Rent" Gains Momentum Outside of NYC

When Blackstone Group started snapping up thousands of homes nationwide in 2009, eyebrows were raised. With the collapse of the subprime market, the groupthink at the time was that there would be an almost endless supply of homes that could be purchased for pennies on the dollar. Blackstone simply accelerated its buying even as the market recovered, eventually spinning off its Invitation Homes subsidiary in a $1.54 billion IPO in 2017. During the end of the year, Invitation Homes merged with Starwoods' Waypoint Homes, creating the largest single-family home owner in the country – a combined 82,000 homes.

What's Next?

The trend is far from over. Dozens of well capitalized companies with insatiable appetites are either entering the market or ramping up their buying. American Homes 4 Rent, Tricon American Homes, Progress Residential and many other players simply can't find enough product. They have resorted to giving firm contracts to builders who have yet to start construction, with the contracts to close 90 days before the issuance of the Certificate of Occupancy. Cap rates are in the 4.0 to 5.0 percent range and there are multiple bidders in the market place. What do they all see? Rising rents as the economy recovers and millennials who eschew home buying. Even if they are dead wrong and the economy collapses, it simply means that still more people will be renters if owners were to get foreclosed out of their homes.

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Trends to Watch

- CMBS, banks and life companies all have a voracious appetite for cash flowing assets, particularly as spreads tighten both quarter-over-quarter and year-over-year. Watch for this trend to persist, as long as spreads continue to narrow.
- Construction lending remains conservative, with only strong borrowers with targeted assets in primary markets being able to get reasonable bank deals. The partial rollback of Dodd-Frank restrictions will hopefully open the spigot for more construction lending by banks.
- Outside of New York City, "buy-for-rent" companies continue to gobble up product as that trend gains more momentum nationally.

Second Quarter 2018 / New York City

Valuation & Advisory

Manhattan Residential Market Overview

The Multi-family (Rental) Market

The Manhattan multi-family market has been treating landlords well for the past few years, particularly after its recovery with relative ease from the turbulence of the 2009 Great Recession. Market rents in 2008 and 2009 had dipped to just below $4.00 per square foot, a low not seen since breaking through the $4.00 barrier previously in late 2006. Vacancy spiked during this time, but never to a level higher than 4.0 percent. Despite the recession, rental rates did not stay down for long and, with a few minor plateaus, have risen steadily for the past eight years. As rents rose during this period, vacancy rates plummeted to 2.0 percent. The last time vacancy rates hovered around this level was in early 2000.

One of the more interesting trends is the studio vacancy, which now hovers below 2.0 percent. Studio units have historically had the lowest vacancy rate of any unit type. Recently, however, studios have experienced an increase in vacancy from the middle of 2016 through the third quarter of 2017. Our clients tell us that this is a reaction to young people seeking to reduce the cost of apartments by having roommates and then transitioning to their own places. One-bedroom units do not fit into the trend of having more than enough space for a single occupant and not enough space for roommates. What does fit into this trend are three-bedroom units that are ideal either for young families who are not moving out to the suburbs or for occupants looking for roommates. For the first time in many years, our clients are telling us they are seeing resistance to rents and that when tenants move out, units are taking more time to re-lease.

The Multi-family Investment Market

The investment market reveals some interesting trends. Our clients are informing us that they are becoming more conservative in their underwriting despite the most recent transaction statistics. The average market cap rate had been declining steadily since the first quarter of 2014, having compressed from 4.5 percent to just over 3.5 percent. With a two-basis point uptick to 3.7 percent from last quarter, we may be seeing a reversal in this trend. Lenders are feeling over-allocated in the multifamily sector and growth appears to be limited. This means an increase in capitalization rates is likely. Changes in the average price per unit are becoming clear. Pricing has been above $400,000 per unit since 2014, peaking at well over $500,000 per unit in mid-2015, before declining through the second quarter of 2017. The second quarter of 2018 has since seen some of the highest pricing, yet with average prices at $660,000 per unit. However, there are deals valued at $750 million looking to close in the next few months priced significantly lower in the $550,000 to $570,000 per unit range. Deal flow has been declining from the highs in 2015, with far fewer transactions happening in 2017 than at any time since 2011. The data for the first-half of 2018 shows a similar decline year over year.

Pricing Comparisons

The source of these changes appears clear. Although the market is very tight, there are small demographic trends that are having an over-sized impact. The flight of some tenants to the outer boroughs and New Jersey seeking lower rents and larger living quarters is having a toll. New product that competes with Manhattan is attractive to tenants that are tired of rapidly rising rents. In Jersey City and Hoboken (NJ), more than 7,300 units have been introduced since the beginning of 2017. Most of the rents are well below $4.00 per square foot, particularly for projects situated well away from the waterfront. A good example of this in Jersey City is Journal Square. Located in the Journal Square market in the center of Jersey City, this project was completed about a year ago and has reached full occupancy at rents averaging $3.51 per square foot. Brooklyn and Queens have seen significant development. A total of 12,500 units have been added from the beginning of 2017. Average asking rents for these projects are generally higher than New Jersey, topping $5.00 per square foot. Although Manhattan's overall rents are still near the $4.00 per square foot level, new product is commanding rents upwards of $7.00 per square foot. Concessions in the boroughs are much higher around 5.0 percent, in addition to the vacancy also being higher at around 7.0 to 8.0 percent.

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Trends to Watch

- Watch for multi-family vacancy to creep up very slowly.
- While we initially see rents stabilizing for market rate units, with some form of concessions being the norm, note that the rent control board recently approved increases of 1.5 percent on one-year leases and 2.5 percent on two-year leases for stabilized apartments.
- Expect already high cap rates to slowly continue to rise with an attendant decline in transactional prices on a per unit basis, due in part to more rate hikes anticipated by the Fed.

AVISON YOUNG

Second Quarter 2018 / New York City

Retail Leasing

State of the Retail Market

Across Manhattan, while the supply of retail space continues to outweigh tenant demand, there has been a noticeable increase in leasing activity. With asking rents continuing their average 10.0 – 27.0 percent descend in many of the retail corridors and property owners showing a willingness to participate in the cost of a store build-out, retailers are once again venturing out to test the waters. During the second quarter, while food operators continue to take the lead in leasing activity with over two dozen completed retail deals throughout the city, several non-food and other notable tenants have also secured long-term leases.

Notable Second Quarter NYC Retail Transactions

Tenant	Building	SF	Lease Type
Peloton	5 Manhattan West	32,000	New Lease
Puma	609 Fifth Avenue	24,000	New Lease
Target	520 Second Avenue	21,000	New Lease
DreamWorks Trolls the Experience	218 West 57th Street	12,000	New Lease
Coty (CoverGirl)	719 Seventh Avenue	10,040	New Lease
Michael Kors	90 Prince Street	2,850	New Lease
Allbirds	73 Spring Street	2,500	New Lease

National Score Card

As of mid-year 2018, the number of U.S. store closure announcements stood at 4,136, representing an additional 972 closures since the end of the first quarter when the number stood at 3,164. Meanwhile, there were 186 store openings since the end of the first quarter, bringing the total to 1,885 by mid-year. Store closures have been led by Toys "R" Us and openings have been led by Dollar General. Dollar General continues to benefit from the rising cost of essentials for Americans with lower income who seek out lower cost, value-driven options.

Given the increase in the number of store closures, particularly for the larger retailers, we are finding that more landlords have also been willing to either slice up their space or come up with alternate uses. In doing so, several smaller retailers or even those new to the market are benefiting. This in part correlates to some of the non-food activity we have been seeing, which has been highlighted in the notable lease transactions above.

E-Commerce – Enhancing the Customer Experience

Retailers are integrating chatbots and virtual personal assistants into their existing platforms to give a "human" face to online interactions with consumers. It is becoming increasingly important to give customers the reassurance that personalized help and advice is available whenever and wherever desired. In doing so, retail brands need to embrace tech and data-driven personalization initiatives through their operations in order to provide customers with a true omni-channel experience. This will require an investment in technology, but the cost of not doing so could be much higher.

Survival of the Fittest?

In addition to the cost associated with investing in technology, taxes on online sales would be an additional expense, which could negatively impact smaller e-commerce retailers. In a recent June ruling, the U.S. Supreme Court widened its reach of sales tax for online retailers and will collect taxes on e-commerce sales regardless of the physical location of the online retailer. The consequence to the small retailers revolves around numerous factors, which includes having to devote the time to comply with over 10,000 state and local taxing jurisdictions, to ultimately deciding if staying in business is worth the hassle of ensuring compliance with the vast number of individual tax jurisdictions. This may be easy to achieve for a large retailer with the resources to devote such time and energy but, for a small business, it could be detrimental.

Looking Ahead

Overall, these are fascinating times in the world of retail for many. The amount of energy and creativity that is being deployed by existing and new retailers is unprecedented. The need to survive has brought out the best in all of them. Keep an eye open for many new and exciting concepts to hit the streets of Manhattan in the months and years ahead. If technology continues on its accelerated path, we can expect to see and experience retail formats that are currently unimaginable. The future of retail remains challenging for some and a land of opportunity for others.

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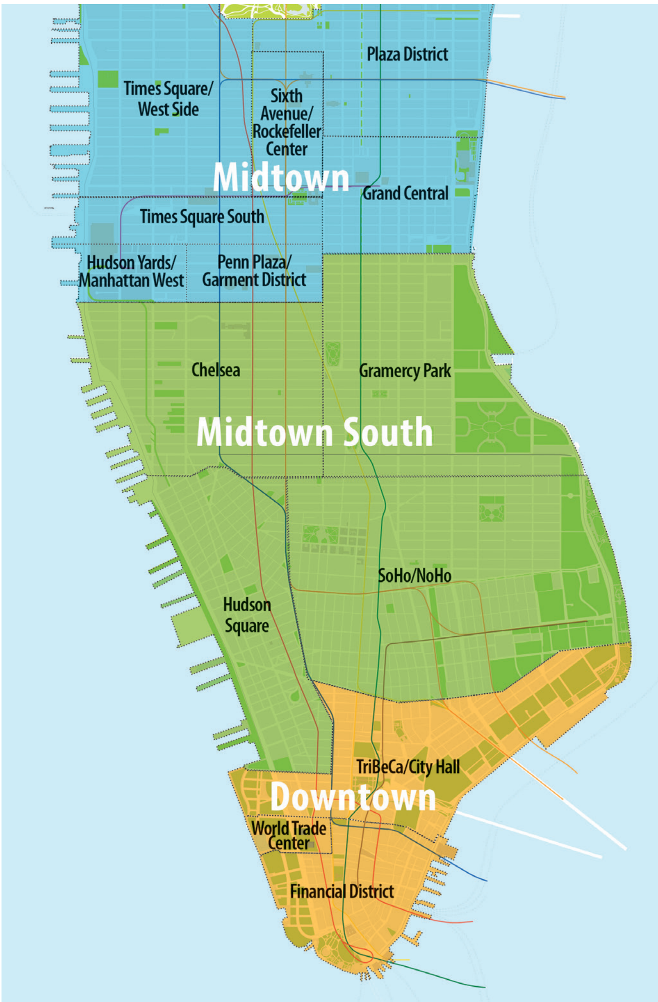
Trends to Watch

- Retailers will continue to discover and implement new technology into their online and physical platforms to enhance and secure their relationship with the consumer on a personal level.
- Online retailers will continue to open brick and mortar locations, while brick and mortar retailers will focus on developing their online presence and re-evaluating their need for existing and future locations.
- The Internet of Things (I.T) will continue to astound us with its capabilities and ability to change the way we conduct business on every level.

About the Market



Midtown

Plaza District: Borders East 62nd and West 59th Streets on the north, Seventh Avenue on the west, East 47th and West 56th Streets on the south and the East River on the east (includes prior Park Avenue submarket)

Grand Central: Borders East 47th 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 56th Street on the north, Seventh Avenue on the west, West 41st Street on the south and 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, the Hudson River 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 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: Borders Morton Street on the north, the Hudson River on the west, Chambers Street on the south and Sixth Avenue/Avenue of the Americas on the east

SoHo/NoHo: 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/City Hall: Borders Canal Street/East Broadway on the north, West Street on the west at Warren Street, Ann Street on the south and the East River on the east (all of upper-lower Manhattan); (includes prior insurance submarket)

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 Albany and Ann Streets 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)

Notes

New York City

Market Report
Second Quarter 2018

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