New York City

Market Report
Fourth Quarter 2017

Avison Young's 2017 Fourth Quarter Manhattan Market Report includes our insights on office leasing, investment sales, debt and equity, valuation and advisory and retail leasing activity. After a year of uncertainty in 2016, greater confidence was seen in various aspects of the Manhattan real estate market, which made for a particularly strong fourth quarter and ultimately overall improvement among some groups by the end of 2017. In the following pages, we highlight both the challenges and opportunities that have risen during the year. Looking ahead to 2018, we also highlight trends to watch related to the potential impact that the economy, rising interest rates and tax reform could have on the New York City real estate market. Overall, we expect a continued preference towards the high quality product that the city has to offer.

By the end of the fourth quarter, the Manhattan office leasing market remained heavily influenced by a greater flight to quality towards newer and more efficient properties and we expect this trend to continue throughout 2018. In addition, job growth in office-using employment sectors such as financial services, technology, professional business services and government sparked strong leasing activity across the Midtown and Downtown markets. This helped push volume levels by the end of the year to new highs not seen since 2014. While job growth is forecasted to be on a positive but slowing trajectory, we watch to see if any savings as a result of the reduction in corporate tax rates will translate into either more job creation or a willingness from such occupiers to allocate more dollars to the leasing of new office space. We will also watch for corporate owners to put more money into property capital improvements for modernization, given the flight to quality we are seeing and in an effort to offer more competitive product.

Competition is also growing in the collaborative real estate space, with co-working and co-habitation being trends to watch for 2018. By the end of last year in Midtown South specifically, co-working tenant activity drove office leasing volume and rent gains in that market, pushing leasing velocity above year-ago levels. On the other hand, our valuation and advisory team is assessing whether the new WeLive environment will dramatically change pricing and the overall living concept within the New York City housing market.

Pricing and value continued to be a factor in the investment sales market, with bid/ask spreads still wide, causing gaping opinions of value between buyers and sellers. Although the fourth quarter of 2017 was the strongest in terms of both dollar volume and the number of sales transactions, it was not enough to improve velocity and both ended up weaker for the year, coming in at the lowest levels since 2010. However, the strong fourth quarter performance does leave our teams hopeful. As the macro economy proves healthy, this should urge sidelined investors into action. Our debt and equity team concurs that the recent uptick in not only sales, but also financing activity reinforce a more positive view for 2018. While interest rates are expected to rise in 2018, thus increasing the cost of capital, rates remain historically low and new debt funds have emerged. This in turn serves to provide more liquidity in the market for real estate transactions. In addition, the new tax bill provides for various tax breaks with regards to the better treatment of "pass-through" income for real estate businesses. This change, coupled with leaving the 1031 exchange rules intact, could potentially prompt more real estate transaction activity.

For retail leasing, rents are leveling off and there appears to be some stabilization in the market. Overall, landlords are agreeing to more concessions, lower rents, or combinations thereof. Across Manhattan, pop up shops remain on the rise and there is even some tax relief for smaller retail businesses. Looking ahead to 2018, our retail team anticipates more physical expansion of new e-tailers, particularly as these businesses utilize new technologies to engage with their customers and work to deliver the true omni-channel user experience.

There are various positive factors in play that continue to benefit real estate within the Manhattan market. What are your predictions for 2018? We would love to hear from you, and we also encourage you to reach out to any of our Avison Young service lines to assist you with your strategic real estate decisions.

Best,

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Fourth Quarter 2017 / New York City

Office Leasing

Market Facts

15%

Year-over-year increase in 2017 Manhattan leasing volume

50%

Committed under construction delivered between now and year-end 2018

66%

Percentage of government, PBS and TAMI Downtown leasing activity in 4Q17

10.2%

Fourth quarter vacancy rate, Manhattan overall in equilibrium

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

Growing Confidence and Diverse Tenant Mix Drives Manhattan Leasing Above Prior Levels

Economic Impact on Manhattan Office Leasing Remains Hopeful

Throughout 2017, the New York City economy showed signs of resiliency with private-sector employment growth up 1.8 percent year-over-year through November and above state and national levels of 1.4 percent and 1.7 percent growth, respectively. This brings the total number of such jobs added in New York City to 3.9 million through this period. The greatest number of these jobs added over the past year were in office-using sectors that included educational and health services, professional and business services, financial services, as well as technology. Including the addition of government jobs, this overall growth has translated into strong leasing activity for Manhattan, with some of the largest leases executed within these industries. This in turn has positioned 2017 office leasing volume at 32.0 million square feet, which is up 15.0 percent ahead of last year, representing the highest yearly level since 2014. At the end of the fourth quarter, this healthy leasing demand across a diverse tenant mix has vacancy at 10.2 percent and a market that remains in equilibrium.

Looking ahead to 2018, the employment picture for office-using job growth is forecasted to be on a slowing but positive trajectory, coupled with 6.0 million square feet of new office construction being delivered between now and through the end of the year. Although 50.0 percent of this new construction is already committed, there is also over 3.3 million square feet of the largest blocks of contiguous space currently available as of the end of the fourth quarter. If leasing momentum continues, sparked by more diverse tenant activity and also a flight to quality such as that seen in 2017, then we can expect the overall Manhattan office leasing market to remain in equilibrium. If not, expect an increase in vacancy and downward pressure on some near-record high rental rates, particularly in those submarkets that lack newer and more efficient product. One bright spot could be that any new tax savings by corporate occupiers (with the tax rate being reduced by the Federal Administration from 35.0 percent to 21.0 percent) will translate into more job creation and the need or willingness to increase the leasing of more office space. From a corporate-owner perspective, additional money could be put into building capital improvements for the creation of newer and efficient product, which many tenants in the market crave.

Fourth Quarter Recap

Midtown Remains Prominent Among Largest Tenants; Flight to Quality Still a Big Factor

Midtown's fourth quarter leasing volume ended up over 55.0 percent year-over-year, with more than half as many large-block leases greater than 100,000 square feet executed than a year ago (14 versus six). In addition to the majority of these leases taking place in the Sixth Avenue/Rockefeller Center submarket, Times Square South also secured a large-block tenant where Avison Young represented Comcast in its 104,000-square-foot new lease at

1407 Broadway. While this was the only technology/advertising/media/information (TAMI) large-block lease executed in Midtown for the quarter, throughout the year we saw a continued flight to quality to new and efficient office space in Hudson Yards and the surrounding area among a diverse range of tenants. Given strong leasing activity in Midtown, particularly in the fourth quarter, the vacancy rate for this period declined to 10.2 percent from 10.6 percent a year ago. The overall (all classes) average asking rent for the fourth quarter of $86.22 is up less than 1.0 percent (relatively stable) from $85.69 a year ago and down 1.0 percent from the prior quarter.

Co-Working and Other Growing Diverse Tenant Activity Drive Further Rent Gains in Midtown South

Midtown South remains dominated by the TAMI sector, however, it continues to gain popularity among a growing diverse range of tenants. For the fourth quarter, two of the three large-block transactions in this market were executed by financial services tenant Mastercard (212,500-square-foot new lease at 150 Fifth Avenue) and health services tenant Flatiron Health (107,000-square-foot new lease at 161 Avenue of the Americas). In addition to this activity, throughout the year Midtown South has remained attractive to various co-working tenants. One such tenant, Knotel, was highly active in the 20,000 to 30,000-square-foot range within this market and secured 11 new leases totaling in excess of 200,000 square feet. For the fourth quarter, co-working tenant WeWork pulled off a significant new lease signing by securing 90,228 square feet at 135 Madison Avenue in the Gramercy Park submarket. The overall vacancy rate for Midtown South of 7.7 percent by the end of the fourth quarter is aligned with a year ago. The average asking rent for the period of $72.55 is up 4.0 percent from $69.60 a year ago, representing the highest year-over-year increase across the Manhattan markets, and is relatively stable with the prior quarter.

Government, Professional Business Services and TAMI Tenants Push Downtown Leasing Higher

The Downtown office leasing market experienced quarterly volume growth 2.0 percent above its five-year average and represented the highest level since the fourth quarter of 2013. The recent strong fourth quarter leasing velocity, which is up over 500.0 percent year-over-year, is attributed to a continued shift away from traditional financial services and smaller deal activity seen last year. The two new large-block leases signed in the market during the fourth quarter were executed by the New York City Economic Development Corporation and the Department of Small Business Services (government/public administration entity – 222,137 square feet at 1 Liberty Plaza) and McKinsey & Co. (professional business services entity – 200,000 square feet at 3 World Trade Center). In addition, many TAMI tenants commenced a large number of varying-sized leases. The overall vacancy rate for Downtown of 12.0 percent for the fourth quarter is up from 11.0 percent year-over-year. While this increase is partly attributed to availability at 3 World Trade Center, there are also significant amounts of direct space at 28 Liberty Street in the Financial District (Milbank – vacating 259,519 square feet and JPMorgan Chase – downsizing

MARKET DATA POINTS

Manhattan Overall

Indicator	4Q16	4Q17
Vacancy	10.20%	10.20%
Rent	$77.88	$78.51
Absorption	(2,459,717) SF	646,328 SF

Midtown Overall

Indicator	4Q16	4Q17
Vacancy	10.60%	10.20%
Rent	$85.69	$86.22
Absorption	(1,129,627) SF	321,192 SF

Midtown South Overall

Indicator	4Q16	4Q17
Vacancy	7.70%	7.70%
Rent	$69.60	$72.55
Absorption	(556,033) SF	112,340 SF

Downtown Overall

Indicator	4Q16	4Q17
Vacancy	11.00%	12.00%
Rent	$61.65	$63.74
Absorption	(774,057) SF	212,796 SF

by 105,909 square feet) being made available. The overall average asking rent for Downtown of $63.74 for the period, is up 3.0 percent from $61.65 one year ago and down just under 2.0 percent from the prior quarter.

After a year of uncertainty in 2016, tenants have shown greater confidence in the Manhattan office leasing market throughout 2017, largely in part to an improving economy and the availability of newer and more efficient product. Whether a large or small sized tenant, there are plenty of quality space options that remain suitable for all occupiers, keeping the overall demand across all Manhattan markets healthy.

Trends to Watch

- Will any new tax savings by corporate occupiers translate into additional job creation and the need to lease more office space?
- Watch for an increase in capital improvements by various owners for building modernization in an effort to offer more competitive product.
- Watch for increases in vacancy in those submarkets that lack new and efficient product. This in turn could put downward pressure on those rents.

Largest Blocks of Contiguous Space Currently Available

Address	Square Feet	Market
3 World Trade Center	1,603,484	World Trade Center
330 West 42nd Street	661,960	Times Square/ West Side
1 World Trade Center	435,631	World Trade Center
390 Madison Avenue	400,677	Grand Central
9 West 57th Street	278,200	Plaza District

Notable Lease Transactions

Tenant	Address Submarket	Size Lease Type
EY	1 Manhattan West Penn Plaza/Garment	675,000 SF New lease
Bank of America	1100 Avenue of the Americas Sixth Avenue/ Rockefeller Center	386,000 SF New lease
Sidley Austin	787 Seventh Avenue Sixth Avenue/ Rockefeller Center	347,672 SF Renewal
Ann, Inc.	7 Times Square Times Square/West Side	303,672 SF Renewal
WeWork	500 Seventh Avenue Times Square South	280,000 SF New lease

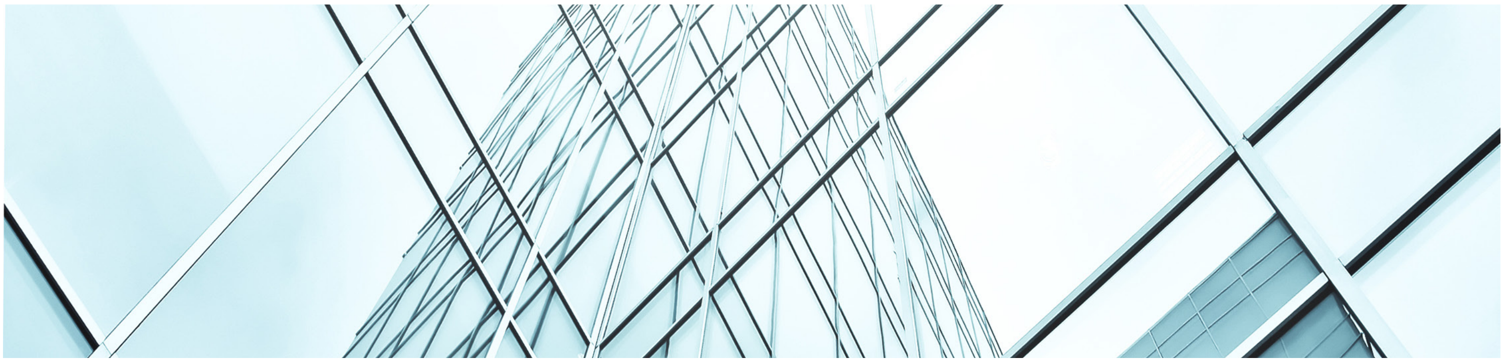
Markets by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	4th Quarter 2017 Overall Vacancy Rate	4th Quarter 2017 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	54,672,316	5,028,671	860,105	10.8%	296,573	822,198	1,733,000	$76.39	$58.92
Penn Plaza/Garment	25,414,784	1,227,662	720,306	7.1%	(311,005)	304,954	6,716,000	$70.93	$61.54
Plaza District	77,489,890	7,020,474	1,955,278	11.6%	504,308	(841,490)	200,000	$105.18	$61.63
Sixth Avenue/Rockefeller Center	55,834,791	4,407,610	855,539	9.4%	161,195	437,789	0	$87.48	$62.44
Times Square South	24,493,961	1,926,533	633,234	10.4%	318,946	479,409	0	$73.75	$57.28
Times Square/West Side	37,234,925	2,999,458	594,658	9.7%	(648,825)	(295,358)	0	$80.99	$67.92
Total	**275,140,667**	**22,610,408**	**5,619,120**	**10.2%**	**321,192**	**907,502**	**8,649,000**	**$90.05**	**$61.85**
Midtown South									
Chelsea	23,173,889	1,246,942	651,686	8.1%	(68,666)	(67,596)	138,900	$135.90	$54.92
Hudson Square	13,749,608	961,602	303,893	9.2%	(17,734)	63,825	0	$91.52	$71.38
Gramercy Park	30,536,623	1,527,187	533,856	6.7%	130,247	129,708	0	$69.49	$64.26
SoHo/NoHo	8,624,666	567,100	118,820	8.0%	68,493	(65,348)	0	$113.37	$71.40
Total	**76,084,786**	**4,302,831**	**1,608,255**	**7.7%**	**112,340**	**60,589**	**138,900**	**$101.51**	**$63.57**
Downtown									
TriBeCa/City Hall	19,824,655	965,240	267,016	6.2%	299,089	130,880	0	$56.59	$54.03
Financial District	51,658,758	5,186,175	900,447	11.8%	(101,592)	(289,270)	0	$58.76	$49.39
World Trade Center	28,752,165	4,136,813	585,174	16.4%	15,299	(1,179,508)	0	$75.84	$47.92
Total	**100,235,578**	**10,288,228**	**1,752,637**	**12.0%**	**212,796**	**(1,337,898)**	**0**	**$65.57**	**$49.72**
Manhattan Overall Total	**451,461,031**	**37,201,467**	**8,980,012**	**10.2%**	**646,328**	**(369,807)**	**8,787,900**	**$82.94**	**$60.98**

Data as of 1/4/2018

Fourth Quarter 2017 / New York City

Investment Sales



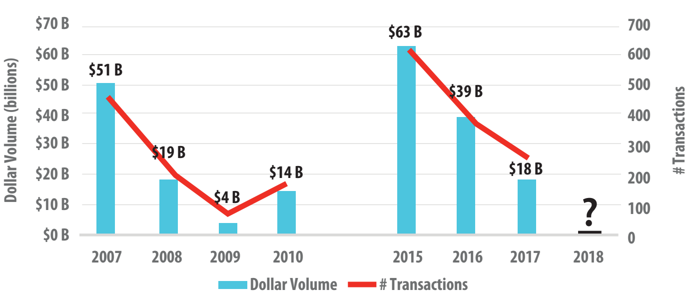
2017: Bottomed Out

The fourth quarter of 2017 was the strongest of the year in terms of both dollar volume transacted as well as the number of transactions completed in Manhattan. The $6.5 billion across 78 transactions was a welcomed uptick in a year where the first three quarter's performance ranked the three lowest of any quarter in the last five years. For 2017, the total tally for volume and transactions each were the lowest of any year since 2010, recording $18.2 billion and 260 sales, respectively. The low totals are not surprising in an investment sales market that has hesitated, if not stalled, due to the discrepancy in market perspective between buyers and sellers. The pervasive hope throughout the real estate industry is that 2018 proves to be the upswing of a new cycle.

Rebound Ready: The Final Comparison

With the 2015 market peak in the rearview mirror, the course of the market is no clearer than it was a year ago. Hopefully, we are on the verge of ending both the market languor and the prolonged comparisons between the last market cycle and the current one.

Peak to Trough Cycle Comparison



Sparked by the housing crises, the 2007 peak gave way to back-to-back years of declining sales activity. The $51 billion and 456 transactions of 2007 soon fell by 93.0 percent and 85.0 percent, respectively, creating an environment that would make 2017 look strong. After the hangover and bottoming out years, the market rebounded in 2010 to activity levels approximately 80.0 percent of the first post-peak year. From there the market settled into a run up at a compound annual growth rate of 28.0 percent until reaching new heights in 2015.

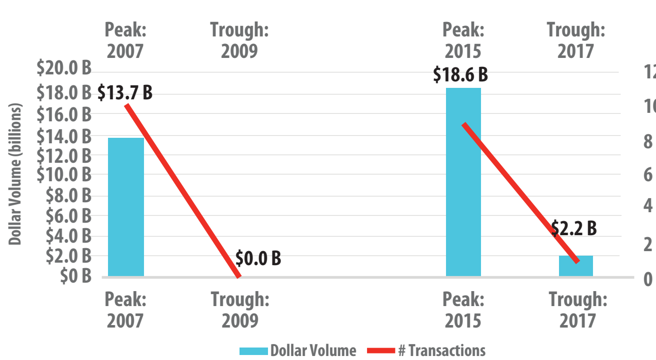
The record of $63 billion in 2015 sunk 71.0 percent to $18 billion by 2017, while the number of transactions declined by 58.0 percent from 613 to 260 over the same period. Which brings us to today: an underperforming market spurned by buyers and sellers with gaping opinions of value. With strong local real estate fundamentals and a solid macro-economic environment, the market activity is at the mercy of the players within, rather than external forces. Should 2018 perform similar to last cycle's rebound, the year could see dollar volumes in the mid $30's billion and the number of transactions in the 300's. However, without clear cause for the slowdown, there is equally no explicit reason for the market to trend in any direction – up, down or flat. Lacking a catastrophic catalyst like the previous correction, this cycle's lethargy has been less severe and the road to rebound less clear. One thing is certain, Manhattan will continue to be a global playground for elite real estate investors and this singular focus may be enough to close the bid-ask spread and set the course for new heights.

Cycle Stage	Peak to Bottom	Bottom to Rebound
Years	**2015 > 2017**	**2017 > 2018?**
Dollar Volume	-71%	?
# Transactions	-58%	?
Years	**2007 > 2009**	**2009 > 2010**
Dollar Volume	-93%	295%
# Transactions	-85%	140%

The Market: In Parts

The Manhattan sales market, as tracked by Avison Young, includes closed transactions greater than $10 million and is broken up into a middle market subsection consisting of deals $10 million to <$150 million and an institutional market from $150 million and greater. Over the last 15 years (approximately two cycles) an average of 63.0 percent of the dollar volume and 15.0 of the transactions came from the institutional subsection of the market. In boom years, the dollar volume skews further towards the institutional segment as investor sentiment encourages large bets, often times greater than a billion dollars at a time, which can heavily shift the distribution. In fact, there have only been two periods in the last 15 years that the institutional percentage of dollar volume has been greater than 69.0 percent; the peak years of 2007 and 2015 which were 75.0 percent and 72.0 percent, respectively. On the flipside and indicative of negative perception of the market, a participation of 6.0 percent in 2009 and 7.0 percent in 2017 were the only two years that institutional transactions dropped below 12.0 percent. Billion-dollar deals have considerable contributions to the dollar volume and in 2015 there was greater billion-dollar volume than all transactions of 2017.

Billion-Dollar Transactions Activity Contribution



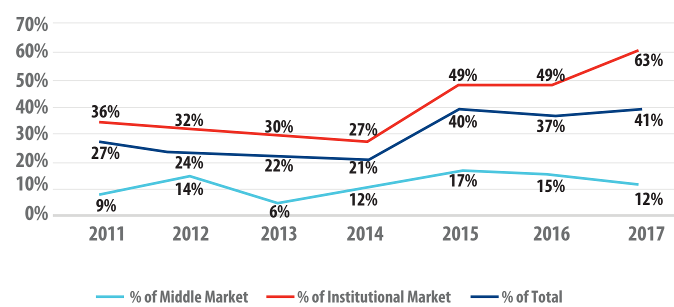
There were two deals in the fourth quarter of 2017 that were valued greater than a billion dollars: 825 Eighth Avenue 48.7 percent interest valued at $1.725 billion and 1515 Broadway 43.0 percent interest for $1.95 billion.

Market Drivers: Gas and Brake Pedals

The Gas:

Cross Border Capital: Foreign investment will continue to be a primary driver of transactions in Manhattan. It is the destination for the "who's who" of real estate investors where trophy assets are perceived as one of the safest global savings accounts. International capital sources have been responsible for more than half of the 26 billion-dollar transactions in the last five years, including the only transaction in 2017.

Foreign Capital as a Percentage of the Manhattan Real Estate Market



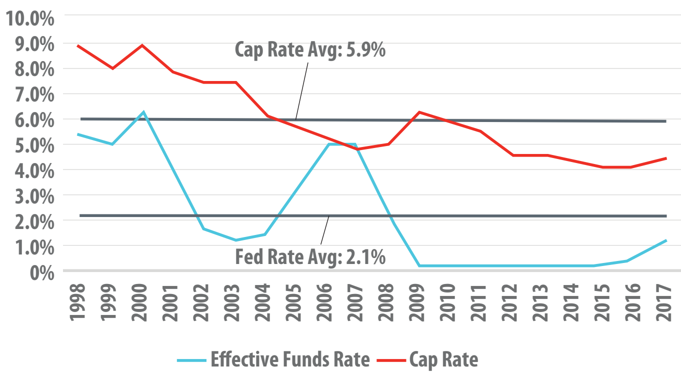
The Economy: The city, state and national unemployment rates of 4.9, 4.8 and 4.1 percent, respectively, are all historically strong. New York City tourism is expected to continue its predicable growth estimated to tally 61.8 million visitors in 2017. The equities markets are strong, inclusive of the Dow, recording multiple record highs in 2017.

Taxes: The real estate industry avoided an uppercut when the final tax plan kept the 1031 exchange and mortgage deduction provisions that were rumored to be on the chopping block (the latter with slight modification). In addition, the depreciation period for multi-family and commercial properties was shortened to 25 years from 27.5 years and 39 years, respectively. A late revision to the plan added a 20.0 percent deduction for pass-through income for which many real estate companies will qualify and benefit.

The Brakes:

Rising Interest Rates: The Fed Funds Rate increased for a third time in December which should creep into the real estate market by way of increased interest rates and cap rates. Although the cost of capital will likely increase in 2018 – with three more rate hikes anticipated – the interest rate environment remains very low by historical standards. (Chart Source Data: CoStar and federalreserve.gov)

20 Year Comparison: Fed Funds Rate and Manhattan Cap Rates



Retail: Online retail's continued growth, when combined with changing consumer habits, has dramatically changed the playing field for brick-and-mortar stores. Large swaths of vacancy will challenge landlords who do not have the financial wherewithal to weather retailing's reinvention period and potentially create distressed situations.

Chinese Capital Controls: The leading cross-border capital source over the last five years has been China, which includes $11 billion in 2015/2016 alone. The increased capital controls from the Chinese government may have been partially at fault for that figure to drop to $2.5 billion in 2017. A lack of major Chinese investment will leave a clear hole in a recovering market if other sources do not fill the gap.

Capital Source	2017 Volume	5-year Total
China	$2.50	$16.61
Canada	$2.01	$16.39
Singapore	$1.09	$3.82
Germany	$0.84	$4.66
Norway	$0.62	$4.79

Top Fourth Quarter 2017 Sales

Buyer Address Seller	Size Type	Price Price/SF
SL Green, RXR Realty **825 Eighth Avenue** NY REIT	2,049,533 SF Office	$1.725 billion $842/SF
Allianz RE of America **1515 Broadway** SL Green	1,750,000 SF Office	$1.95 billion $1,114/SF
CIM Group **1440 Broadway** NY REIT	740,000 SF Office	$520.0 million $703/SF
Unizo Holdings Co Ltd **685 Third Avenue** Future Fund, TIAA	651,429 SF Office	$467.5 million $718/SF
Invesco **80 Broad Street** Broad Street Dev LLC, RXR Realty	423,403 SF Office	$235.0 million $555/SF

Trends to Watch

- Anticipate a market rebound after two years of declining sales
- Dwindling Chinese investment is replaced by a number of foreign nations
- Investor sentiment improves, as healthy macro economy urges sidelined investors into action

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Debt & Equity

A Walk Down "Real Estate Pricing" Memory Lane

The softness in the real estate market started in 2015 when prices of prime property declined off their highs in major cities like New York, Paris, London, Singapore and Dubai. In Manhattan, the decline was most apparent in the luxury residential market as foreign buyers that were paying upwards of $100 million for the best buildings in the city, suddenly stopped showing up. Initially, the decline was explained as a healthy pullback for a market that has gotten ahead of itself. The Chinese and Russian buyers had bid up the prices and then became absent. In 2016, the market seemed to flatten out and bifurcate as certain growth areas actually appreciated while others, like those high-end condo units, continued to see softness. At that time, the market malaise was written off as pre-election jitters. However, here we are almost a year after the election in an economic environment where the stock market has soared to all-time highs while interest rates and unemployment remain low. Logic follows that the real estate market should also be at or near all all-time highs, right? Well, that's not quite the case at all as prices remain, for the most part, significantly below their high mark.

Sellers Sit Tight

An optimist might say that while transaction volume is at a low ebb, pricing hasn't declined much at all. The bid/ask spread for properties for sale is very difficult to measure but we would contend that it is at its widest since the 2009 crisis. Sellers want the all-time highs of a couple of years ago. Buyers only want to buy at much lower prices. Paying capital gains taxes, not knowing what to do with sales proceeds, and seller remorse if the market ticked back up are the most logical reasons why sellers are sitting tight. If anything, sellers are pivoting and taking advantage of the continued low interest rates and refinancing their properties to pull out cash. Debt capital remains plentiful with new funds emerging almost daily.

Recent Capital Trends

Construction spending and lending had paused after the expiration of 421a tax benefits. However, a new version of this legislation is now in place and has caused construction overall to resume its rise. Meanwhile, capital that is looking for yield, is entering the construction sector, and even REITs have entered the fray.

As for hospitality, hotels declined in 2017 with the average price per room falling almost 56.0 percent in the last two years (source: HVS). This could reverse in 2018 since supply has slowed while a strong economy can spur an increase in demand.

Optimistic Outlook

So where do we go from here? Barring exogenous events or Black Swans, our view is that the market should bounce along here and eventually resume its rise in 2018. The recent uptick in both sales and financing activity at year-end reinforces this view.

Trends to Watch

- Transaction volume was down in 2017, decreasing 9.0 percent nationally year over year. However, hope remains as listings have picked up in the last two months of the year.
- The Fed's interest rate increase in December was expected, but the trend is in place and may lead to higher rates across the board in 2018.
- New debt funds have emerged, giving borrowers more options. While most of these funds are looking for yield and thus invest in riskier assets, they serve to provide liquidity to the market.
- The new tax bill will allow real estate businesses to take advantage of a new tax break for partnerships, limited liability companies and "pass-through" businesses.

Valuation & Advisory

WeWork is Changing How WeLive

With 75.4 million people, the Millennial generation has surpassed the Baby Boomers (74.9 million) in 2015. Now aged 18 to 34, the impact of this generation is starting to be seen on the multi-family residential real estate market. Created by WeWork, a new concept of daily urban living has come to reality in 2016 with WeLive, which is now available in Manhattan and Washington, DC.

In Lower Manhattan, there is something "new" going on at 110 Wall Street with a combination of WeWork on floors two through six and WeLive on floors seven through 27. Conceptually, WeLive is a form of co-habitation that provides a living environment for both short-term and long-term, with modern amenities and more, at affordable prices. For example, you can rent a unit, or bedroom (dorm-style), for a night, few days, a week, month, or several months up to one year.

A Deep Dive into WeLive Accommodations

There are 197 apartments of which 27 units are devoted to nightly/transient stays, which is considered to be less than 30 days, and the other 170 units are devoted to one month or longer stays. The apartments range from studios to four-bedrooms with one to two bathrooms and are fully furnished all the way down to linens, plates, glasses, utensils and a 55-inch flat screen TV. All you need is to bring your clothes, pet, and iPhone to download the mobile app, which allows access to the internal network and communication with your fellow neighbors. Every three floors are connected by an open interior stairway to create a theme-oriented "neighborhood" for those residents living on the respective floors. Shared amenities for all the residents include lobby concierge/ security desk; laundry room; outdoor deck with BBQ, lounge chairs and two jacuzzies; combination workout/screening (movie) room; yoga and workout classes; unlimited coffee, tea, and fruit water; bike room; mailroom, and lounge with a full bar, and more. The laundry rooms have two ping pong tables, a pool table, several arcade video games, iPhone connection for personal music and seating areas. There are also spacious communal rooms with chef-equipped kitchens for cooking events, happy hours and family dinners. The entire building is equipped with WiFi, which allows residents to stay connected for events, functions, and neighbor communications.

So…you are wondering how this all works and is it a motel, hotel, extended-stay, or just a "plain ole apartment building?" Well, the building has a tax classification of D7, Elevator Apartment Building.

WeLive Pricing, a Cheaper Value Proposition than an Apartment

On a monthly basis, studio units currently start at $3,350, and increase to $3,520 for a unit that sleeps two, and $4,200 for an XL-studio for two. One bedrooms are $4,200 and $5,300 per month, which accommodate two and three persons, respectively. Two bedrooms rent for $5,940 per month, three-bedroom units rent for $7,425, and four-bedrooms range from $8,360 to $8,800 per month. The leases can range from anywhere between one to 11 months, and a 9.0 percent discount is given for a one-year lease. From an affordability perspective, an XL-studio rents for $2,100 per person, a three-bedroom rents for $2,475 per person, and a four-bedroom/two-bath rents for $2,200 per person. Monthly utility charges are $125 per person, which pays for water, electric, personal WiFi, premium cable (includes HBO and Showtime), and monthly cleaning. As opposed to paying multiple thousands of dollars in "pre-costs" (i.e., a 12.0-13.0 percent broker fee, and first and last month security) for a typical Manhattan apartment, there is only a one-month required security deposit and just a one-time $250 upfront payment for an application fee/ background check and unit turnover. Once a person becomes a member, he or she has the flexibility to renew as often as they like for any length of time and, depending on availability, can move anywhere throughout the building.

There is an outside company that screens individuals for both credit check and/or possible occupancy arrangements if required, or one can occupy units with pre-arrangements such as with a family member(s) or friends. The average age is reported to be 28 years old, but ranges from the young to retirees. Building occupancies typically range from 100.0 percent in the summer months and approximately in the 92.0 to 93.0 percent range during the other times of the year.

Next stop is reported to be San Diego. I guess "we are not in Kansas anymore."

Trends to Watch

- Over the past years, office demands have changed to become more urbanized and retail has been in a state of flux. Will the residential market be the next product to revolutionize?
- Traditionally, leases are signed for one and two years in the New York City rental market, will the WeLive concept become a game-changer for the housing market?
- With lower costs associated with fees and no high broker commissions, will this force both landlords and residential real estate brokers to rethink the application process?

Fourth Quarter 2017 / New York City

Retail Leasing

Retail Leasing Market Overview

As 2017 comes to a close, the year saw some leveling out on rents, and what looks like some stabilization to the retail market. Landlords have been able to recognize the needs of retailers, and have agreed to more concessions, lower rent, or combinations thereof. Retailers have begun to understand how to properly balance their e-commerce business with brick and mortar locations, each one working to supplement the other.

According to the REBNY Retail Report in the Fall of 2017, it stated that asking rents have declined in 13 of the 17 high profile corridors. In fact, experts credited a simple lack of supply as the explanation for two of the corridors (Fifth Avenue between 49th and 59th streets and East 86th Street between Lexington and Second avenues) that saw increases year-over-year.

Pop-Ups Remain on the Rise

In previous quarterly market reports, we've covered several e-tailers that have opened physical locations, most starting on a pop-up basis and then some transition into long term leases with expansion and growth plans. Some of the more notable examples are Warby Parker and Bonobos. Landlords have recognized that pop-up deals are a critical step for tenants to determine a viable long-term location.

Some Tax Relief for Smaller Retail Businesses

The City Council has also tried to alleviate some expenses for tenants, in order to increase retail activity. Before the fourth quarter, there was a 3.9 percent surcharge on rents above $250,000 paid by businesses south of 96th Street. The tax was introduced in the 1960s, but as rents have increased, more and more tenants became subject to the charge. Collections on the tax reached $850 million per year and became a burden on small businesses. Under the new bill, which passed on November 30, 2017, businesses that take in less than $5 million and pay less than $500,000 in rent per year receive exemptions.

Noteworthy Transactions in the Prominent Manhattan Retail Corridors…and in Brooklyn

The combination of retailers figuring out how to optimally operate the brick and mortar portion of their business and landlords reducing the rent and being open to a variety of concessions has paved the way for several deals this quarter in prominent retail corridors. F.A.O Schwarz leased 19,000 square feet in Rockefeller Center, Levi's took 17,000 square feet in Times Square, Alo Yoga signed for 14,000 square feet in SoHo and Vans rented 8,000 square feet on Fifth Avenue.

The food industry continued to flourish as it has led the charge over the past year. Morton Williams, Dumbo Market and Westside market each signed new deals at 1 West End Avenue, 66 Front Street (Brooklyn), and 170 West 23rd Street respectively.

Outlook

Looking ahead to 2018, we anticipate hearing about the physical expansion of new e-tailers, as they utilize new technologies to engage with their customers and work to deliver the true omni-channel user experience.

Notable Market Quotes

Deloitte said it expects retailers to see holiday sales growth of as much as 4.5 percent. Last year, total sales for the season climbed 3.6 percent, matching results in 2015.

The good news is retail is thriving, and it is the proliferation of new, niche retailers that is resulting in share constantly changing hands.

– Rod Sides, Head of Deloitte Retail & Distribution

E-commerce sales, meanwhile, are expected to increase 18.0 to 21.0 percent during the 2017 holiday season, the firm found. Digital sales climbed 14.3 percent in 2016.

"Early Forecast Calls for Stronger Holiday Season for Retailers," *CNBC*

New York is a booming city somehow plagued by vacant storefronts, pockmarks on the streetscape that are casualties of urban evolution: Higher rents are forcing smaller shops out of business, and in their place follow a series of ubiquitous banks, chain drugstores and coffee shops.

"Tax Break Could Help Small Shops Survive Manhattan's Rising Rents," *New York Times*

One of the greatest resources that any business owner — and especially those in retail — can hope to tame is time. Taking control over your schedule, your admin, and ultimately the successful operation of your business means equipping yourself with the necessary tools to handle the job so you can get back to dealing with what is most important: your customer.

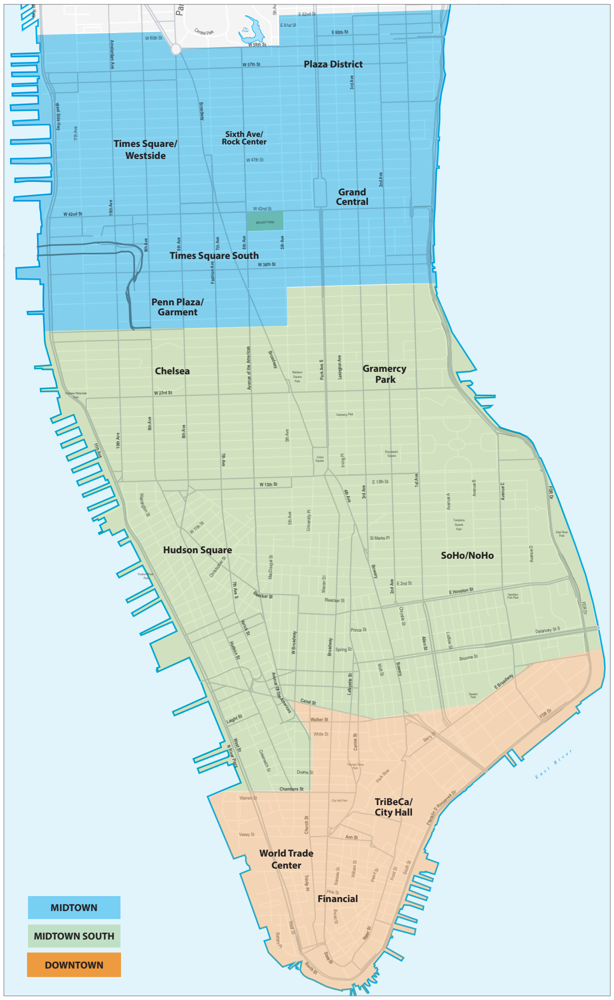
– Ryan Baker, Co-Founder and CEO, Timely

"12 Forecasts for the Retail Industry in 2017," *Vend*

Trends to Watch

- Smaller format concepts will expand, while larger ones struggle
- Same or next-day shipping will become more popular, both online and in-store
- The shopping experience will be enhanced with more customization and personalization

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 (includes Hudson Yards and Manhattan West)

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
Fourth Quarter 2017

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CANADA'S BEST MANAGED COMPANIES