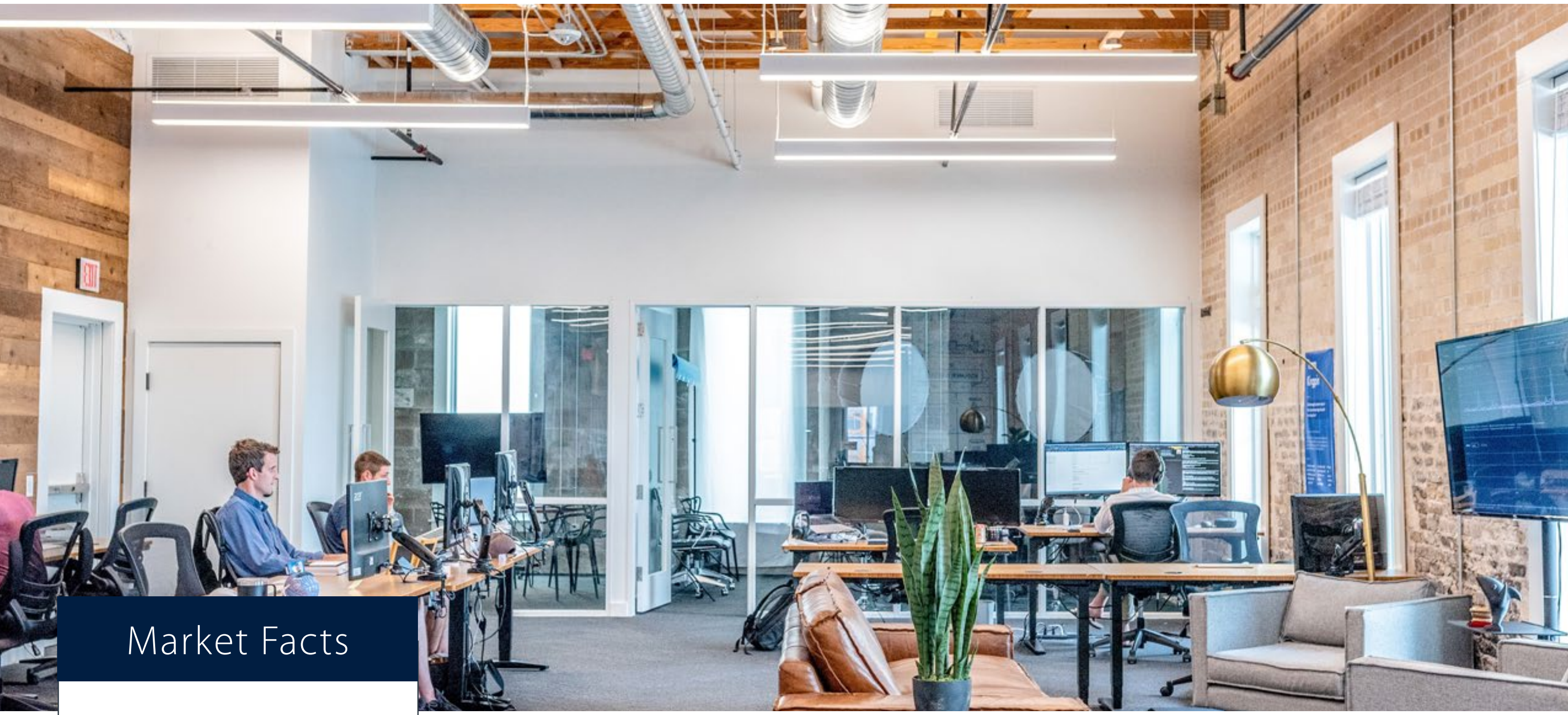
Fourth Quarter 2019 / New York City

Office Leasing



Market Facts

3
Number of TAMI lease transactions above 1 MSF for 2019 in Manhattan

8%
Percentage of Manhattan co-working leasing volume for 2019; contraction from 13% in 2018

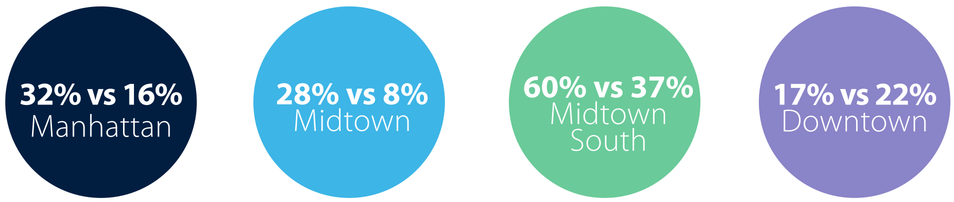
55%
Year-over-year growth in Downtown leasing volume for 2019

10.0%
Fourth quarter vacancy rate; Manhattan overall in equilibrium

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

Strong TAMI Demand Propels Manhattan Office Leasing to New Record High in 2019

By Market: TAMI as a Percentage of Total Leasing Volume for 2019 Versus 2018; Strongest in Midtown South and Doubles for Manhattan



Overview

Manhattan office leasing volume for the full year of 2019 soared to 39.1 million square feet, up nearly 5.0 percent from 37.4 million square feet in 2018. This is the highest since 2001, when 39.0 million square feet was reached.

Last year saw strong technology/advertising/media/information (TAMI) tenant demand, which doubled to 32.0 percent or 12.3 million square feet of total leasing volume in 2019 compared to only 16.0 percent or 5.9 million square feet a year ago. This strong tenant demand was propelled by three deals each over 1.0 million square feet (Warner Media's 1.5-million-square-foot sale/leaseback at 30 Hudson Yards, Facebook's 1.2-million-square-foot new lease at 50 Hudson Yards, and Google's 1.3-million-square-foot new lease at 550 Washington Street – aka St.

MARKET DATA POINTS

Manhattan Overall

Indicator	4Q19	4Q18
Vacancy	10.00%	9.70%
Rent	$82.06	$78.57
Absorption	(671,397) SF	2,638,775 SF

Midtown Overall

Indicator	4Q19	4Q18
Vacancy	10.50%	9.50%
Rent	$89.32	$85.52
Absorption	(817,862) SF	742,498 SF

Midtown South Overall

Indicator	4Q19	4Q18
Vacancy	8.30%	7.70%
Rent	$81.31	$81.19
Absorption	(793,996) SF	852,716 SF

Downtown Overall

Indicator	4Q19	4Q18
Vacancy	10.00%	11.80%
Rent	$60.57	$62.04
Absorption	940,461 SF	1,043,561 SF

Data as of 1/8/2020

John's Terminal). TAMI, as well as legal services tenant leasing activity, helped to partially offset a pull-back among large financial services occupiers in Midtown. Meanwhile, significant transactions by TAMI and healthcare services tenants offset weakness in the co-working sector in Midtown South and helped drive leasing velocity higher in the Downtown market. Many of these large tenants favored newer product and committed to relocations, in some cases on a pre-lease basis.

Despite the trend toward relocations, nearly 25.0 percent of total leasing in Manhattan throughout the year included transactions where select tenants renewed or expanded their footprint, at times in renovated space. Such activity included large-block leases above 250,000 square feet and were among the top five largest deals within some markets (e.g. Flatiron Health – 252,452-square-foot renewal/expansion at 161 Avenue of the Americas/233 Spring Street, and EmblemHealth – 440,000-square-foot-renewal at 55 Water Street).

At the end of the fourth quarter, overall office asking rents rose 4.0 percent year-over-year to an average of $82.06 per square foot (PSF), driven largely by new product being delivered at higher pricing. In addition, vacancy rose marginally by 30 basis points to 10.0 percent. The Manhattan office leasing market remained in equilibrium at year-end.

Midtown: Fewer and Smaller Significant Financial Services Transactions Drive Vacancy Higher

Midtown leasing activity of 22.6 million square feet in 2019 represented a 7.0 percent year-over-year decline. We attribute the decline in part to a pull-back in sizable financial services leases signed; some of these large companies (Deutsche Bank, Alliance Bernstein, and JP Morgan Chase to name a few) have announced downsizing or job relocations out of New York City over the past year. For 2018 there were 16 financial services large-block transactions (greater than 100,000 square feet) totaling 5.2 million square feet compared to only 13 totaling 2.3 million square feet for 2019.

Midtown continues to capture the lion's share of total large-block transactions (41 out of the total 63 in Manhattan for 2019), which has typically included a financial services occupier. However, by the fourth quarter there were no financial tenant lease signings within this significant 100K+ square foot size range. The largest was an 88,500-square-foot deal executed by American Securities Capital at 590 Madison Avenue.

Notable 2019 Leasing by Market | Midtown

Tenant Industry	New Address Submarket	Size (SF) Lease Type
Midtown		
Warner Media TAMI	**30 Hudson Yards** Hudson Yards/ Manhattan West	**1,500,000** Sale/Leaseback
Facebook TAMI	**50 Hudson Yards** Hudson Yards/ Manhattan West	**1,159,313** New Lease
Debevoise & Plimpton Legal Services	**66 Hudson Boulevard** Hudson Yards/Manhattan West	**530,720** New Lease
LinkedIn TAMI	**350 Fifth Avenue** Penn Plaza/Garment	**494,183** Renewal/Expansion
Cravath Swaine & Moore Legal Services	**2 Manhattan West** Hudson Yards/Manhattan West	**481,000** New Lease

Data as of 1/3/2020

Despite this, Midtown saw significant transactions from both TAMI and legal tenants, with many of these large occupiers securing space in new buildings. Two of the four largest deals in Manhattan for 2019 were each executed for over 1.0 million square feet in Midtown and included Facebook's pre-leasing of 1.2 million-square-foot new lease signed during the fourth quarter at 50 Hudson Yards, and Warner Media's 1.5-million-square-foot sale/leaseback at 30 Hudson Yards.

100 BPS VACANCY RATE INCREASE

The overall softer leasing activity in Midtown, resulted in a 100-basis point increase in the vacancy rate to 10.5 percent from the previous year.

Large blocks of contiguous space currently available include nearly 800,000 square feet at 550 Madison Avenue, (which is under renovation and is being eyed by Barclays Bank and Perella Weinberg), as well as 740,000 square feet at 390 Ninth Avenue (The Farley Building), which is also under renovation and is being considered by both Facebook and Apple. In addition, more of the space at 151 West 42nd Street (rebranded as One Five One after renovation) being left behind by Skadden Arps after its move to the new 10 Hudson Yards is slowly being absorbed, with pharmaceutical company Roviant Sciences being the latest tenant to sign a lease here (82,384 SF in the fourth quarter). Average asking rents of $89.32 are up 4.0 percent from one year ago at year-end.

Midtown South: Sizable Tech Leasing Transactions Offset Co-Working Weakness

Technology maintained its dominance in Midtown South and provided an uptick in leasing velocity within this market. Leasing volume of 7.5 million square feet in Midtown South increased 4.0 percent year-over-year. Of the total, 60.0 percent or 4.5 million square feet of leasing activity was from TAMI tenants versus 37.0 percent or 2.7 million square feet a year ago.

This helped to offset the fall off in co-working tenant activity, which contracted from 28.0 percent of volume a year ago to 11.0 percent. Although the Midtown South market has historically garnered the most co-working volume across Manhattan, there was clear second half of the year weakness by some operators within the sector.

The third largest deal in Manhattan for 2019, was signed by Google, which leased 1.3 million square feet at 550 Washington Street (aka St. John's Terminal), as that company builds out its 1.7 million-square-foot campus within Midtown South. Additional notable leasing activity in Midtown South includes a fourth quarter deal signed by Dentsu Aegis Network (322,000 square feet at 341 Ninth Avenue on a pre-leased basis), as well as the 252,452-square-foot renewal/expansion by Flatiron Health, Inc. at the recently renovated 161 Avenue of the Americas and 233 Spring Street (aka One Soho Square East and West) buildings.

Although leasing velocity was up year-over-year, space added to the market resulted in a 60-basis point increase in vacancy in Midtown South to 8.3 percent by the end of the quarter, up from 7.7 percent a year ago. We attribute the increase partly to the Essex Crossing space put on the market during the year (174,623 SF at 145 Delancey Street – Office West and 177,969 SF at 155 Delancey Street – Office East).

$81.31 OVERALL AVERAGE ASKING RENT

Average asking rents in Midtown South were relatively stable compared to the prior year and were up 1.0 percent from the prior quarter, coming in at $81.31 per square foot. We expect new renovated product to continue to come to market at higher rents (e.g. 15 Laight Street - $175.00 PSF and 520 West 20th Street - $130.00 PSF). As a result, we expect further price increases in Midtown South, as it is Manhattan's tightest market.

Notable 2019 Leasing by Market | Midtown South

Tenant Industry	New Address Submarket	Size (SF) Lease Type
Midtown South		
Google TAMI	**550 Washington Street** Hudson Square	**1,300,000** New Lease
Publicis Groupe TAMI	**375 Hudson Street** Hudson Square	**960,222** Renewal/Expansion
Dentsu Aegis Network TAMI	**341 Ninth Avenue** Chelsea	**322,000** New Lease
Flatiron Health, Inc. Health Services	**161 Avenue of the Americas/ 233 Spring Street** Hudson Square	**252,452** Renewal/Expansion
WeWork Real Estate	**620 Avenue of the Americas** Chelsea	**212,937** New Lease

Data as of 1/3/2020

Downtown: Healthcare and TAMI Tenants Help Drive Strong Leasing Velocity and Vacancy Declines

Downtown leasing volume of 9.0 million square feet was up 55.0 percent year-over-year. As the market grows more diverse, the increase was in part driven by the commitment of many of the larger healthcare and TAMI tenants to occupy new or renovated space. Such activity included significant lease signings at renovated/rebranded 50 Water Street (NYC Health + Hospitals – 526,552 square feet), 55 Water Street (EmblemHealth – 440,000 square feet), and at the recently constructed 3 World Trade Center building (Uber – 307,970 square feet).

Historically, traditional financial services activity has been a prominent part of leasing in the Downtown market. Recent leasing was led by Morgan Stanley's 1.3 million-square-foot renewal at 1 New York Plaza. However, the combined demand from occupiers within the healthcare and TAMI sectors is now on par with the traditional financial services sector, each accounting for 30.0 percent of total leasing volume for the year.

10.0%
THREE YEAR VACANCY RATE LOW

As a result of the diversity in leasing, the Downtown overall vacancy rate hit a three-year low, dropping to 10.0 percent by the end of the fourth quarter, down from 11.8 percent a year ago. Average asking rents of $60.57 are down 2.0 percent from one year ago. We attribute the declines to higher priced space being leased, leaving lower-priced floors on the market.

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Notable 2019 Leasing by Market | Downtown

Tenant Industry	New Address Submarket	Size (SF) Lease Type
Downtown		
Morgan Stanley Financial Services	**1 New York Plaza** Financial District	**1,342,288** Renewal/Expansion
NYC Health + Hospitals Health Services	**50 Water Street (7 Hanover Square)** Financial District	**526,552** New Lease
State of New York Government/Public Administration	**60 Broad Street** Financial District	**523,000** Renewal/Expansion
EmblemHealth Health Services	**55 Water Street** Financial District	**440,000** Renewal
Uber TAMI	**3 World Trade Center** World Trade Center	**307,970** New Lease

Data as of 1/3/2020

Largest Blocks of Contiguous Space Currently Available

550 Madison Avenue
Plaza District | 797,505 RSF

390 Ninth Avenue
Hudson Yards/Manhattan West | 740,000 RSF

11 Penn Plaza
Penn Plaza/Garment | 638,921 RSF

1675 Broadway
Times Square/West Side | 601,242 RSF

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

Trends to Watch

For 2020, expect the Manhattan office leasing market to continue to benefit from strong demand by TAMI firms. This strength should help offset weakness by co-working operators.

Expect new development to further drive up pricing within the market. New amenity-rich construction will also continue to experience some amount of pre-leasing.

VOTE

Since the turn of the century, office leasing volume has declined in U.S. Presidential election years as some tenants have taken a "wait and see approach" before making their occupier decisions. The same is expected to hold true in 2020.

Market by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	4th Quarter 2019 Overall Vacancy Rate	4th Quarter 2019 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	56,785,198	4,094,738	1,184,354	9.3%	(144,032)	582,515	0	$77.04	$60.10
Penn Plaza/ Garment	20,207,808	806,362	1,289,007	10.4%	26,961	(339,456)	0	$72.54	$54.92
Hudson Yards/ Manhattan West	11,356,905	1,164,345	78,908	10.9%	266,099	(373,034)	9,712,418	$137.10	$0.00
Plaza District	77,927,280	8,017,055	1,874,483	12.7%	(348,186)	(2,242,336)	0	$106.17	$58.88
Sixth Avenue/ Rockefeller Center	56,543,539	4,148,796	1,073,517	9.2%	(195,992)	(748,429)	0	$87.55	$64.40
Times Square South	25,151,115	1,582,300	1,183,746	11.0%	(316,419)	(534,105)	0	$66.50	$54.72
Times Square/ West Side	37,826,242	2,091,130	1,310,978	9.0%	(106,293)	327,671	0	$82.78	$64.98
Total	**285,798,087**	**21,904,726**	**7,994,993**	**10.5%**	**(817,862)**	**(3,327,174)**	**9,712,418**	**$94.57**	**$58.21**
Midtown South									
Chelsea	23,495,460	1,127,598	667,723	7.6%	(224,402)	(163,878)	1,002,943	$130.09	$70.43
Hudson Square	14,479,245	761,384	181,867	6.5%	(410,366)	103,695	0	$119.86	$75.83
Gramercy Park	31,206,525	1,908,073	994,780	9.3%	(220,771)	(126,546)	268,560	$83.17	$61.56
SoHo/NoHo	9,629,283	753,119	170,726	9.6%	61,543	(466,378)	0	$100.36	$78.24
Total	**78,810,513**	**4,550,174**	**2,015,096**	**8.3%**	**(793,996)**	**(653,107)**	**1,271,503**	**$101.40**	**$68.26**
Downtown									
TriBeCa/City Hall	19,271,567	1,281,460	210,680	7.7%	(118,237)	(179,600)	0	$63.26	$52.39
Financial District	53,121,426	3,853,513	1,443,927	10.0%	243,588	722,943	0	$57.03	$51.89
World Trade Center	26,137,946	1,955,896	1,064,954	11.6%	815,110	1,315,698	410,000	$70.32	$50.58
Total	**98,530,939**	**7,090,869**	**2,719,561**	**10.0%**	**940,461**	**1,859,041**	**410,000**	**$62.17**	**$51.71**
Manhattan Overall Total	463,139,539	33,545,769	12,729,650	10.0%	(671,397)	(2,121,240)	11,393,921	$86.68	$61.17

Data as of 1/8/2020
* Excludes 5.1 MSF coming online within the next 12 months.

Investment Sales

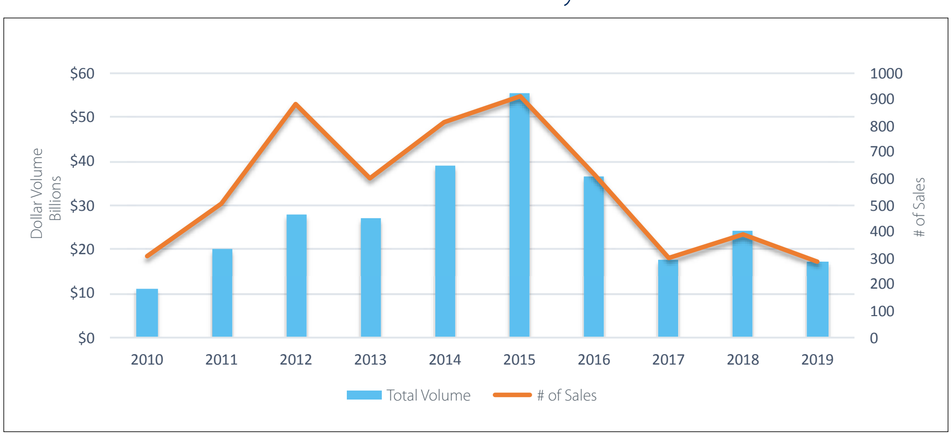
Fourth Quarter 2019 Summary

The Manhattan investment sales market failed to keep the momentum going from 2018 to 2019. The 2019 total tallies for transaction count was 27 percent off the 2018 figures and dollar volume was 28 percent off as well. For the 10-year average, these numbers were off 37 percent and 49 percent, respectively. The restrictive rent regulations passed in June stalled the multifamily market, while slumping luxury condominium sales brought pause to the development segment. The year ended with a strong fourth quarter which had 80 transactions representing 30 percent of the year's total. Meanwhile a number of ground lease transactions purchased by Safehold helped push the dollar volume to $5.2 billion, the highest of any quarter in 2019. Safehold's transactions accounted for $1.3 billion of the dollar volume. Excluding these transactions, the total dollar volume decreased by 12 percent based off the four-quarter average.

Multi-Family

Regulated multifamily assets were given a major blow with the passing of the Housing Stability and Tenant Protection Act of 2019. The 29 transactions for $381 million in the fourth quarter was capstone to the slowest multifamily market in ten years. In comparison to the fourth quarter of 2018, cap rates rose by 56 basis points to 4.32 percent, a signal of reduced risk appetite. The quarter's only transaction to breach $25 million was The Olnick Organization's purchase of 201 West 77th Street for $106 million which traded at a 2.5 percent cap rate, representative

Transaction Volume and Number of Sales by Year



of the value-add strategy for the primarily free market building. The threat of good cause eviction (universal rent regulation) in the legislature may continue to depress the multifamily market into 2020.

Retail

The retail market in the fourth quarter was steady with $187 million in dollar volume and an average price of $2,164 per square foot. Cap rates compressed slightly to 5.06 percent and the number of transactions nearly doubled to 12, however the relatively low number of trades reduces the significance. Retail transactions today share a combination of qualities that may include below market rents, substantial frontage, prime locations, and easy to back-fill layouts if a tenant vacates. Three transactions dominated the quarter; the $39 million sale of 285 Lafayette Street, $35 million sale of 429 7th Avenue and the $30 million sale of 427 7th Avenue.

Office

With total volume of $3.96 billion across 18 transactions, the fourth quarter's dollar volume and number of transactions rose by 88 percent and 71 percent, respectively. On the same comparison timeframe, the average price per square foot of $815 was a 19 percent decrease and the average cap rate of 4.75 percent was a 37 basis-point increase. The leasehold sale of 195 Broadway from JP Morgan Chase to L&L for $800 million was the high point for the quarter and the structured transaction also included the sale of the leased-fee to Safehold for $275 million. For the year there were 45 office transactions and $9.5 billion in dollar volume, 16 percent and 27 percent off the 2018 totals, respectively.

Development

The fourth quarter saw a 10 percent decrease in dollar volume to $36 million and a 55 percent decrease in property sales to five, while the dollar per buildable square foot dropped nine percent to $606. The 2019 development market dipped to near 10-year lows, with dollar volume dropping around 65 percent off the 10-year average. According to a StreetEasy analysis published by the New York Times, about one in four condo units constructed since 2013 have remained unsold. This unexpected increase in inventory has led to developers offering incentives to buyers, cutting into their profits. A notable transaction for the quarter included hotel developer Sam Chang's purchase of 150 West 48th Street for $140 million.

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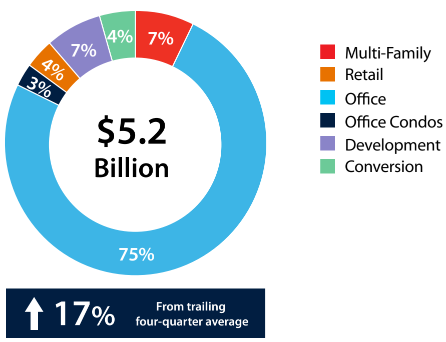
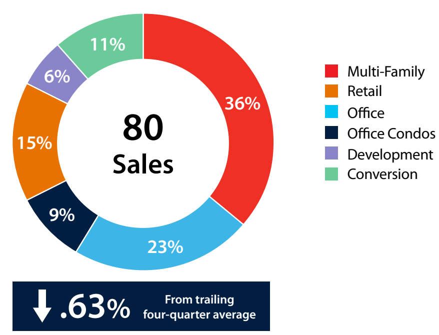
Avison Young's Tri-State Investment Sales group tracks confirmed transactions above $5 million ($1 for retail properties and office condominiums) sold in Manhattan below 96th Street.

Fourth Quarter Total Dollar Volume by Asset Class



Fourth Quarter Number of Sales by Asset Class



Trends to Watch

Will continued legislative risk influence Multifamily investors out of NYC?

Can the development market regain steam without first a luxury condominium market recovery?

Will prime retail get the attention of Multifamily investors as a pivot in strategy?

AVISON YOUNG

Retail Leasing

State of the Retail Market

Throughout 2019, the supply of retail space across Manhattan has consistently outweighed tenant demand, while leasing activity has continued to increase around the city. Although asking rents have dropped by as much as 22.0 percent in some retail corridors such as along Madison Avenue, landlords remain flexible. In doing so, owners still offer concessions such as short-term leases, tenant allowances, free rent and participation in store build-outs to attract tenants. Accordingly, some once vacant retail spaces continue to be leased up by food, fitness and entertainment occupiers. A number of these tenants have executed some of the largest leases during the year, with the fourth quarter being no exception.

Winners of the Holiday Season

During the holiday season (between November 1 and December 24), national retail sales rose 3.4 percent year-over-year, while online sales grew 18.8 percent. According to the Mastercard Spending Pulse report, annual sales gains were seen within apparel (up 17.0 percent), jewelry (up 8.8 percent), and electronics and appliances (up 4.6 percent), where successful online platforms were utilized. The day after Christmas, Amazon announced that independent third-party sellers sold more than 100 million items by using its free one-day delivery service during the holidays. In addition, more than five million new customers started Prime free trials or paid memberships in just one holiday week. The increased change in consumer behavior toward online shopping will continue to benefit those retailers that embrace a successful e-commerce strategy.

In addition to growth in online sales, many tourists flocked to New York City to take advantage of holiday markets and pop-up shops that sprung up in the area. With an estimated 65 million visitors to New York City annually, millions showed up between November and January 1. This activity did bode well for the local holiday markets and bazaars. The big Manhattan seasonal markets and bazaars situated around prime transit hubs – Grand Central Terminal, Bryant Park, Union Square and Columbus Circle all did well as a result of the sheer volume of tourists who were able to easily access their locations and also take advantage of various family activities.

National and Local Score Card

The retail sector continues to adjust pricing to reflect the impact of e-commerce on traditional brick-and-mortar stores. Given the shift in the industry, the number of store closures hit a new record in 2019 and exceeded 9,300 for the year. Accordingly, closings rose 60.0 percent from the 5,844 tracked by Coresight in 2018. Payless, Gymboree and Dress Barn topped the list. If more traditional retailers are slow to adopt the optimal click and brick strategy, the number of closures could increase for 2020.

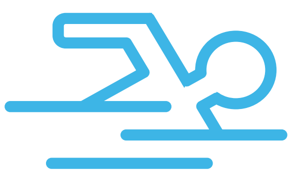
As a way to bounce back in the new year, U.S. department stores and apparel retailers seek to close more unprofitable locations, shrink their footprints and focus greater on experiences to attract customers. Nordstrom is one such company that comes to mind that is doing just that in New York City, with its recent introduction of Nordstrom Local (an 1,800-square-foot "neighborhood hub" at 1273 Third Avenue) created to provide differentiated express services and experiences to customers on a smaller scale. At the

Notable Fourth Quarter Retail Transactions

Tenant	Building	Submarket	Size (SF)	Lease Type
Best Buy	535 Fifth Avenue	Grand Central	40,839	New Lease (electronics retailer)
C3 (Citizens)	5 Manhattan West	Hudson Yards/Manhattan West	40,000	New Lease (food hall)
RAD Entertainment Group	1515 Broadway	Times Square/West Side	39,436	New Lease (1st Manhattan location)
Equinox	31 West 27th Street	Chelsea	39,025	New Lease (health club)
Fasano Hotel and Restaurant Group	280 Park Avenue	Plaza District	20,000	New Lease (Italian Eatery set to open)
Major League Baseball	1271 Avenue of the Americas	Sixth Avenue/Rockefeller Center	17,000	New Lease (1st flagship store)
New York Public Library	285 Lafayette Street	SoHo/NoHo	16,000	Renewal
Urbanspace	135 West 50th Street	Sixth Avenue/Rockefeller Center	15,000	New Lease (additional food hall location)
Club Monaco	597 Fifth Avenue	Plaza District	13,000	New Lease (high-end retailer)
CVS	140 Church Street	Tribeca/City Hall	12,000	New Lease (pharmacy)

Trends to Watch

E-commerce trends will continue to change shopping behavior over the next 3-5 years. Accordingly, we expect some sort of online shopping experience to complement more brick-and-mortar strategies and vice versa.



Food, fitness and entertainment concepts should bode well for both occupiers and landlords, particularly when it comes to backfilling vacant retail space.

Expect landlords to continue to offer concessions such as short-term leases, tenant allowances, free rent and participation in store build-outs to attract tenants.

same time, however, during the fourth quarter Nordstrom opened a new 320,000-square-foot flagship store on 57th Street and Broadway in Manhattan. Along with new products and services, this larger location offers in-store restaurants and bars, using food and beverage to appeal to consumers during their overall shopping experience.

State of the Chains in New York City

According to the Center for an Urban Future, national retailers have reduced their footprint in New York City by 304 locations, declining from 8,136 in 2018 to 7,832 stores in 2019 – a 3.7 percent decrease. The biggest losers included those traditional retailers that sell jewelry, pet supplies, and footwear and apparel, but lack an online strategy. Stiff competition from Amazon and other e-commerce operators led to most of the closures.

On the other hand, Manhattan has the largest number of chains, comprising many quick service food and pharmacy businesses with offerings that include health and well-being choices. Dunkin' Donuts and Duane Reade/Walgreens had numerous openings in New York City in 2019, as did Dig Inn and Sweetgreen on a smaller scale. For 2020 expect more food and health chain openings, given a greater emphasis on the success of plant-based food options that have been introduced.

Looking Ahead to the Future of Retail

For retail, location matters more than ever before. New York City is over-retailed, and as a result, there is likely to be some attrition and phase out. Prime locations with many backfill options will see a disproportionate share of occupier and investor interest, along with premium pricing. Considered a positive trend, 2020 will welcome more alternative uses of space that include greater experiential options for consumers.

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Debt & Equity

Increases in CLO's

Collateralized Loan Obligations ("CLOs") are a $600 billion market. CLO funds sell bonds to finance the purchase of leveraged loans to a range of already highly indebted corporate borrowers. In the context of mortgage loans, the CLOs act essentially as credit lines that finance debt funds making senior mortgages. Since the CLO is diversified and is only taking the senior portion of a lenders' portfolio, the pricing is very low (Libor plus 100-200 basis points). Barring a "2008 event," the CLO is simply providing the debt fund with leverage. The debt fund, in turn, can price more aggressively on higher leveraged loans as the fund thus retains the B piece, or junior tranche, of the loan. The obvious danger is that a 2008 event is not necessarily a once in a lifetime event when CLO lines are pulled across-the-board, which cause them to request immediate redemption from the debt funds. So, if some "black swan" event causes the CLOs to not renew their credit lines with their respective lenders, this could have a domino effect as the debt fund will not extend loans and will otherwise stop lending, thus drying up liquidity in the market. For now, though, CLOs have added fuel (liquidity) to the debt markets by making it easier for borrowers to obtain higher leverage and lower pricing on transitional or value-add properties. This added leverage trickles down to cap rates, which compress in the short-term with the caveat that the liquidity remains.

Loan Delinquencies Continue to Decline

CMBS production was predicted to be down in 2019 after an improved 2018 (versus 2017). However, except for a few minor blips, interest rates have stayed near historical lows. This has, helped aid refinances, causing CMBS volume to increase yet again with delinquencies declining across the board. As you can see in the accompanying chart, loan delinquencies have been in steady decline for the last ten years. Besides low interest rates, more conservative underwriting and compressing cap rates have helped ease delinquencies. These blue skies will remain in effect until and unless interest rates spike or, like at the market peak of 2005, underwriting becomes more and more aggressive.

Construction Lending is a Two-Tiered Marketplace

Despite the positives in the current lending environment, construction lending remains bifurcated into the haves and have-nots. Banks are happy to finance well-heeled existing customers, while lesser capitalized borrowers need to resort to debt funds for construction financing. These debt funds provide the necessary liquidity, but price at a high single-digit rate versus the mid-single digit rate of bank lending. Paying 300 to 400 basis points more annually during construction can be a problem should oversupply occur within any sub-market. This sector of the market is particularly vulnerable to any increase in interest rates as the construction loan could possibly not be refinanced upon completion of the construction and it is time for a permanent loan.

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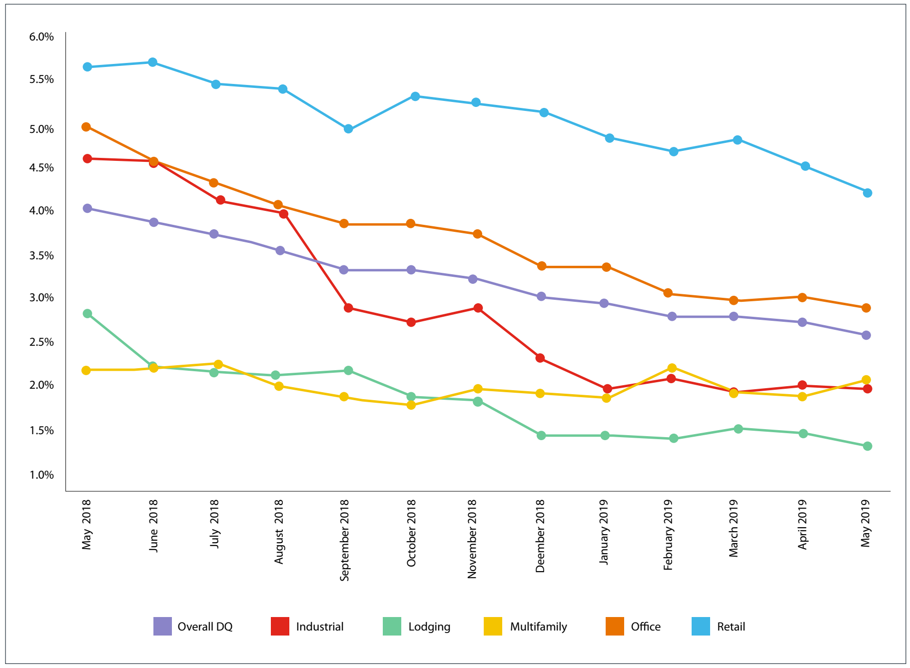
Year-Over-Year Delinquency Rates by Major Property Type

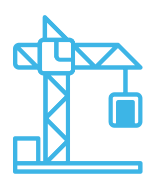


Source: Real Capital Analytics, US Treasury, International Valuation & Advisory and RJM Worldwide, https://www.rjm-worldwide.com/articles/cap-rates

Trends to Watch

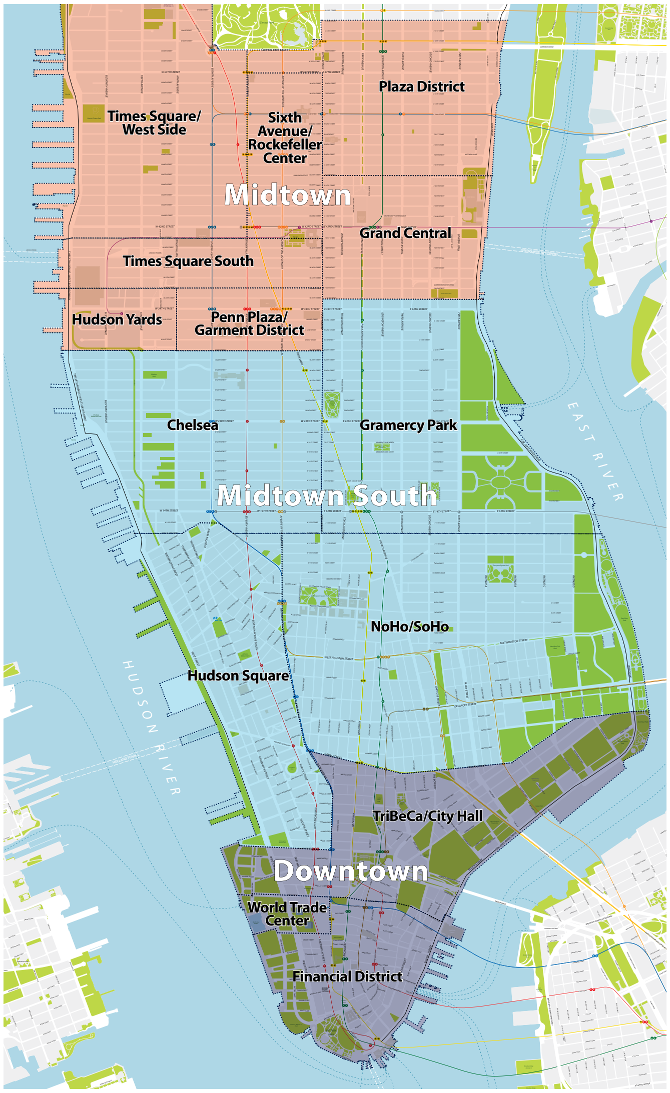
CLOs are becoming more prevalent in the capitalization of lenders. This is causing lenders to become more aggressive in terms of both leverage and interest rate.

Loan Delinquencies remain very low and have spurred CMBS production to be stronger than expected.



Construction lending remains two-tiered with banks and funds bifurcating the market into two distinct tranches.

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, Ninth Avenue on the west, West 30th Street on the South and Fifth Avenue on the east

Hudson Yards/Manhattan West: Carved out section that borders West 36th Street on the north, the Hudson River on the west, West 30th Street on the south and 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)

New York City

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