AVISON YOUNG

New York Market Report / Fourth Quarter 2020

Office Leasing

Quick Stats

19.4 MSF
2020 Manhattan office leasing volume, new record low since 2008, down sharply 51% year-over-year

19 MSF
Sublet vacant office space at 4Q20, which is now 29% of total vacant office space in Manhattan

2%-9%
Range of overall average asking rent declines across Manhattan office markets after the start of COVID-19

14.2%
4Q20 Manhattan overall vacancy rate, now at a record high

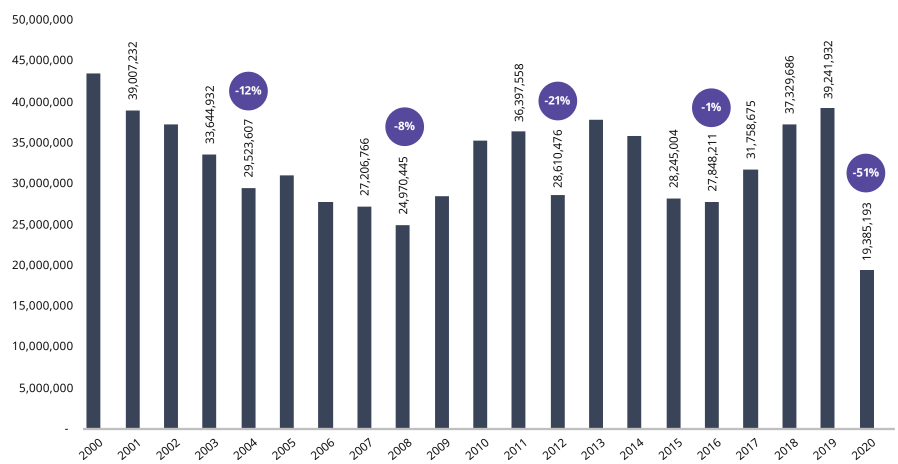
*At Avison Young, we track office properties that are 20,000 square feet and greater

New Record Low Lease Volume Posted for 2020; Vacancy Rates Rise Dramatically

In typical fashion associated with a U.S. Presidential election year, and this time exacerbated by the COVID-19 global pandemic, the Manhattan office leasing market experienced volume declines, setting new record lows in 2020. Full year office leasing volume for the city ended sharply down 51.0 percent year-over-year, coming in at 19.4 million square feet. This represents a new record low since 2008 when volume came in at 25.0 million square feet.

Leasing activity for the year included 29 large block transactions in excess of 100,000 square feet. Top activity within this category (where the lease term has averaged 15-20 years in duration) includes two deals over 600,000 square feet (Facebook's 730,000-square-foot new lease at 390 Ninth Avenue and NYU Langone Medical Center's 633,000-square-foot extension at One Park Avenue). The 29 larger transactions compares to the 63

Historical Manhattan Office Leasing Volume Declines in every Election Year, with 2020 Exacerbated by COVID-19



large block transactions executed in 2019, which included four deals over 1,000,000 square feet (Warner Media's 1.5 million-square-foot sale/leaseback at 30 Hudson Yards, Morgan Stanley's 1.3 million-square-foot renewal/expansion at 1 New York Plaza, Google's 1.3 million-square-foot new lease at 550 Washington Street, and Facebook's 1.1 million-square-foot new lease at 50 Hudson Yards).

Although it is evident that average transaction size has gotten smaller, and the number of transactions fewer for the larger tenants, overall renewals and subleases across various size occupiers together made up 25.0 percent of total leasing activity in 2020 (up modestly from the prior year). At the same time, expansion transactions declined and made up only 2.0 percent of total leasing in comparison to 11.0 percent in the prior year. As many companies continue to re-evaluate their business plans, and some tenants opt to take on less space, we can expect to see the percentage of expansion lease transactions remain in the single-digits in the near-term, contributing to lower leasing volume levels.

Vacancy and Pricing Continues to be Impacted by Competitive Sublease Product

At the end of the fourth quarter, the record high Manhattan overall office vacancy rate came in at 14.2 percent, up 420 basis points from 10.0 percent a year ago. Record high vacancy rates were reached in Midtown (14.2 percent), Midtown South (14.8 percent) and Downtown (13.6 percent). We attribute the overall increase not only to direct space on the market (the largest block being in excess of 850,000 square feet at 3 Times Square), but also to the availability of additional discounted sublet space put on the market during the fourth quarter. Since March 1, we have tracked sublease space additions to the market and there has been just over 7.3 million square feet of this space officially added during this time, of which 2.0 million square feet was added in the fourth quarter. Adding this 2.0 million square feet to the 17.0 million square feet of total sublet vacant space available at the end of the third quarter gets us to 19.0 million square feet of sublet vacant space available by the end of the fourth quarter (See our Markets by the Numbers chart). This 19.0 million square feet of sublet vacant space now represents 29.0 percent of total vacant space available. At this percentage level, we see the impact on direct average asking rents and downward pressure on overall pricing.

Manhattan overall average asking rents ended the fourth quarter at $77.00 per square foot, down 6.0 percent year-over-year. When we compare the current average asking rents to where they were at the end of 1Q 2020 (after the start of COVID-19), the declines range from 2.0 to 9.0 percent

Notable Full Year 2020 Leasing by Market

Midtown

Tenant	Industry	New Address	Lease Type	Submarket	SF
Facebook	TAMI	390 Ninth Avenue	New Lease	Penn Plaza/ Garment	730,000
NBC Universal	TAMI	1221 Avenue of the Americas	Extension	Sixth Avenue/ Rockefeller Center	339,833
BNP	Financial Services	787 Seventh Avenue	Renewal	Sixth Avenue/ Rockefeller Center	322,586

Midtown South

Tenant	Industry	New Address	Lease Type	Submarket	SF
NYU Langone Medical Center	Health Services	One Park Avenue	Extension	Gramercy Park	633,000
City of New York	Government/Public Administration	260 Eleventh Avenue	Renewal	Chelsea	174,186
Convene	Real Estate	601 West 26th Street	New Lease	Chelsea	69,772

Downtown Overall

Tenant	Industry	New Address	Lease Type	Submarket	SF
Justworks	TAMI	55 Water Street	Extension	Financial District	264,938
SEC	Government/Public Administration	100 Pearl Street	New Lease	Financial District	241,171
AIG	Insurance	28 Liberty Street	New Lease	Financial District	218,157

Data as of 1/6/21

(compared to the range of 1.0 to 6.0 percent last quarter). Due to additional competitive lower-priced sublet space on the market, with more to come, over time we can expect to see further decreases in average asking rents as well as continued increases in vacancy rates.

Tenants Take Advantage of Market Disconnect

One can make the argument that there is a disconnect or dispersion between where properties are pricing based on their location and quality versus market fundamentals (based on supply and demand metrics), which appear to be "distorted" due to the impacts of the COVID-19 pandemic. The increase in the supply of discounted sublet space on the market competing with overall direct space largely plays into this disconnect, as does the demand for office space, given varying employment levels as companies try to sort out their requirements.

Some tenants have been able to take advantage of this disconnect and secure some of the best space at a favorable price suitable for their bottom line. In terms of tenant preference, those buildings with high quality pre-built space (be it sublet or direct offerings) under 15,000 square feet have been highly sought after. For 2020 we observe that a "sweet spot" occurred for executed transactions of less than 15,000 square feet. This

Pre-COVID vs After the Start of COVID-19 Asking Rent Comparison as of 4Q2020

Manhattan Overall	4Q20	1Q20	% Change After Start of COVID (1Q20)
Overall Asking Rent	$77.00	$83.07	-7%
Class A Asking Rent	$81.75	$88.54	-8%
Class B Asking Rent	$61.12	$62.36	-2%

Midtown	4Q20	1Q20	% Change After Start of COVID (1Q20)
Overall Asking Rent	$82.51	$90.29	-9%
Class A Asking Rent	$87.13	$94.17	-7%
Class B Asking Rent	$58.50	$59.56	-2%

Midtown South	4Q20	1Q20	% Change After Start of COVID (1Q20)
Overall Asking Rent	$77.24	$81.07	-5%
Class A Asking Rent	$95.83	$99.72	-4%
Class B Asking Rent	$66.46	$68.75	-3%

Downtown	4Q20	1Q20	% Change After Start of COVID (1Q20)
Overall Asking Rent	$60.70	$64.17	-5%
Class A Asking Rent	$62.33	$66.17	-6%
Class B Asking Rent	$51.71	$51.61	0%

Market Data Points

Manhattan Overall

Indicator	4Q20	4Q19
Vacancy	14.2%	10.0%
Rent	$77.00	$82.06
Absorption	-6,850,628	-671,397

Midtown Overall

Indicator	4Q20	4Q19
Vacancy	14.2%	10.5%
Rent	$82.51	$89.32
Absorption	-4,049,797	-817,862

Midtown South Overall

Indicator	4Q20	4Q19
Vacancy	14.8%	8.3%
Rent	$77.24	$81.31
Absorption	-1,907,320	-793,996

Downtown Overall

Indicator	4Q20	4Q19
Vacancy	13.6%	10.0%
Rent	$60.70	$60.57
Absorption	-893,511	940,461

Data as of 1/5/21

category represented 82.0 percent of the closed deals for the year, up from 59.0 percent in 2019. Although an active part of the market, some of this smaller deal activity came with shorter term, with lease expirations of five years or less. In order for some landlords of larger spaces to compete, many continued to offer higher concessions that in some instances include a minimum of 16 months on average of free rent, or other forms of incentives in an effort to boost occupancy.

What Will a "New Normal" Look Like?

The office will continue to play a vital role in all aspects of business and the workplace eXperience must be able to support interaction and collaboration for both the in-office and remote worker. That said, great emphasis will be placed on creating an "X Factor" workplace, one that attracts employees into the office, creating an engaging experience for all employees. *See Avison Young's 2021 Forecast Report for more on the "X Factor" workplace*. Whether office tenants make the decision to expand or contract their space requirements for the near-term, many will take a more long-term view and work with landlords and brokers to create the optimal solution to support all facets of their business.

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Largest Blocks of Contiguous Space Currently Available

Address	Square Feet	Submarket
3 Times Square	881,167	Times Square/West Side
175 Water Street	647,964	Financial District
750 Third Avenue	618,520	Grand Central
919 Third Avenue	615,444	Plaza District
1301-1315 Avenue of the Americas	462,152	Sixth Avenue/ Rockefeller Center

Trends to Watch

Expect tenants in the near-term to take on shorter-term leases and smaller footprints, at least until we reach herd immunity against the COVID-19 virus. Meanwhile, those with a longer perspective and the ability to do so will take a page from Facebook and invest in larger space requirements now, in an effort to support their future growth and business needs.

Watch for tenants with short-term lease signings of one to three years to become active in the market sooner than they normally would, especially the faster we move towards suppressing the coronavirus.

Portfolio flexibility will be top of mind for some tenants. In an occupier's quest to attract and retain talent, thought will be given to the potential need for a "hub & spoke" model to support flexible working for employees. That said, watch for potential relocations to New Jersey and Connecticut, perhaps by more of the smaller financial services firms.

After the Start of COVID-19 Sublease Summary by Submarket

Manhattan Overall

Market	SF
Total Midtown	3,115,579
Total Midtown South	2,280,759
Total Downtown	1,939,631
Manhattan Total	**7,335,969**

Midtown

Market	SF
Grand Central	728,380
Plaza District	526,564
Sixth Avenue/ Rockefeller Center	331,721
Penn Plaza/Garment	671,977
Times Square South	390,464
Hudson Yards	260,318
Times Square/West Side	206,155
Total Midtown	**3,115,579**

Midtown South

Market	SF
Gramercy Park	559,107
Chelsea	1,289,749
SoHo/NoHo	120,889
Hudson Square	311,014
Total Midtown South	**2,280,759**

Downtown Overall

Market	SF
City Hall	43,315
World Trade Center	776,034
Financial District	1,120,282
Total Downtown	**1,939,631**

Market by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	4th Quarter 2020 Overall Vacancy Rate	4th Quarter 2020 Net Absorption (SF)	Year-to-Date Absorption	Current Under Construction* (SF)	Overall Average Asking Rent Class A	Overall Average Asking Rent Class B
Midtown									
Grand Central	69,942,819	8,420,405	2,340,451	15.4%	(1,619,310)	(4,367,246)	0	$75.77	$59.15
Penn Plaza/ Garment	21,410,638	1,429,177	1,519,414	13.8%	(670,118)	(150,783)	0	$74.27	$57.25
Hudson Yards/ Manhattan West	11,613,307	352,118	299,412	5.6%	(29,614)	(102,512)	9,719,950	$118.80	$47.00
Plaza District	71,623,230	8,955,269	1,950,054	15.2%	(124,540)	(1,616,871)	529,169	$100.94	$63.41
Sixth Avenue/ Rockefeller Center	50,364,114	4,733,986	1,043,420	11.5%	84,909	(980,988)	0	$84.77	$66.21
Times Square South	24,436,019	2,810,554	1,659,471	18.3%	(741,803)	(1,703,979)	0	$63.67	$57.39
Times Square/ West Side	37,017,023	3,721,748	1,544,614	14.2%	(949,321)	(1,862,023)	0	$80.26	$59.07
Total	286,407,150	30,423,257	10,356,836	14.2%	(4,049,797)	(10,784,402)	10,249,119	$87.13	$58.50
Midtown South									
Chelsea	23,843,786	2,167,332	1,456,424	15.2%	(808,742)	(1,714,435)	1,171,167	$107.65	$67.86
Hudson Square	14,600,547	975,147	904,781	12.9%	(320,109)	(1,033,508)	1,300,000	$90.02	$65.85
Gramercy Park	31,585,367	3,090,982	1,424,494	14.3%	(561,549)	(1,415,823)	0	$87.53	$63.41
NoHo/SoHo	9,672,667	1,429,266	383,986	18.7%	(216,920)	(797,947)	0	$107.57	$71.68
Total	79,702,367	7,662,727	4,169,685	14.8%	(1,907,320)	(4,961,713)	2,471,167	$95.83	$66.46
Downtown									
TriBeCa	3,600,632	184,575	12,459	5.5%	13,960	(4,314)	0	155.80**	$66.05
City Hall	9,327,251	1,023,398	176,436	12.9%	(99,835)	(463,262)	0	$59.44	$58.40
Financial District	63,568,400	5,581,055	2,983,009	13.5%	(586,821)	(2,008,679)	0	$56.85	$50.31
World Trade Center	22,064,287	1,943,145	1,473,201	15.5%	(220,815)	(863,262)	0	$69.78	$0.00
Total	98,560,570	8,732,173	4,645,105	13.6%	(893,511)	(3,339,517)	0	$62.33	$51.71
Manhattan Overall Total	464,670,087	46,818,157	19,171,626	14.2%	(6,850,628)	(19,085,632)	12,720,286	$81.75	$61.12

Data as of 1/5/2021
** Excludes 2.3 MSF coming online within the next 12 months*
*** Includes 15 Laight Street, which has an average asking rent of $165.00 PSF*

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Investment Sales

Investment Sales Summary

In the fourth quarter of 2020, Manhattan investment sales saw a significant increase in activity compared to previous quarters in 2020 with $2.2 billion in total dollar volume across 44 sales. In spite of the surge in both volume and transactions, market activity for the year still ended below pre-COVID numbers. Total dollar volume in 4Q20 declined 58% and sales fell 45% compared to 4Q19. For all of 2020, Manhattan saw just under $8.5 billion in total dollar volume and 160 in property sales, a decline of 51% and 44%, respectively, from 2019's numbers. Based off the 10-year average, 2020 dollar volume fell by 66% and sales dropped by 70%.

Multi-Family/Mixed-Use

The Manhattan multi-family and mixed-use market recorded just over $512 million in total dollar volume and 20 total transactions in 4Q20, a 35% increase in dollar volume but a 31% decline in transactions compared to the fourth quarter of 2019. Year-over-year, the average price per square foot declined by 15% to $834 in 4Q20 and cap rates rose by 51 basis points to 4.85% during the same period. For 2020, Manhattan multi-family and mixed-use dollar volume declined by 36% to $1.6 billion and sales declined by 42% to 69 compared to 2019. The leading transaction for the quarter was MKF Realty's purchase of 1 Union Square South. Sold by Related Companies, this property traded for just over $211 million, equating to $1,215 per square foot and a 4.25% cap rate.

Retail

The Manhattan retail market in 4Q20 recorded only $60.5 million in total dollar volume from four transactions, a decline of 68% and 67%, respectively, off 2019's fourth quarter. Compared to 4Q19, the price per square foot decreased 25% to $1,538, and cap rates increased by 40 basis points to 5.62%. For 2020, Manhattan retail sales totaled $372 million in dollar volume across 18 sales, a 47% and 49% decrease, respectively, from 2019. The leading transaction for the quarter was Thor Equities sale of 164 5th Avenue for $40 million, equating to $2,273 per square foot and a cap rate of 4.75%.

Office

In 4Q20, the Manhattan office sales market declined by 63% to just over $1.4 billion in total dollar volume and fell 67% to six transactions compared to 4Q19. For 2020, Manhattan office sales totaled $5 billion in dollar volume across 24 sales, a decline of 47% for both metrics compared to 2019.. The leading transaction for the quarter was SL Green and the Kaufman Organization's sale of 410 Tenth Avenue to The 601W Companies for $952.5 million, equating to $1,498 per square foot and a 4.60% cap rate. SL Green retained a 5% interest in the building.

Development

The Manhattan development market in 4Q20 saw $152.3 million in total dollar volume with 10 total transactions, which was higher than all the transactions in the second and third quarters combined. In comparison with the fourth quarter of 2019, however, this represents a 58% decrease in dollar volume, but a 100% increase in the transaction count. Development sales in 4Q20 totaled just over 289,000 BSF at an average of $394 per BSF, a decrease of 46% and 38%, respectively, from 4Q19. Comparing 2020 to 2019, the dollar volume of Manhattan development sales decreased by 18% to $925 million while sales were unchanged at 30. The largest transaction for the quarter was 504-510 East 74th Street for $70 million, a property with a total ZFA of 83,005, which equates to $843 BSF.

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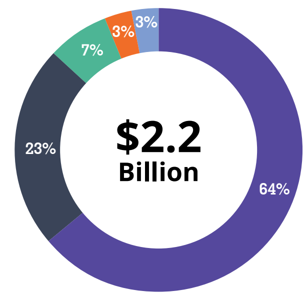
Avison Young's Tri-State Investment Sales group tracks confirmed transactions above $5 million ($1 for retail properties and office condominiums) sold in Manhattan below 96th Street.

Trends to Watch

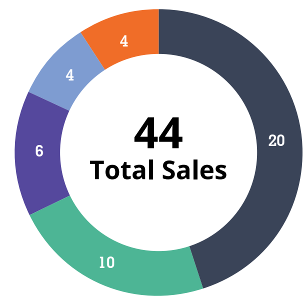
When will companies begin to require their employees to be in the office?	Will New York City get federal bailouts to relieve the budget shortfall?	Will the government extend the Eviction Moratorium and for how long?

Total Dollar Volume by Asset Class



↓ 58% From Fourth Quarter 2019

Number of Sales by Asset Class



↓ 45% From Fourth Quarter 2019

- Office
- Multi-family
- Office condos
- Conversion
- Development
- Retail

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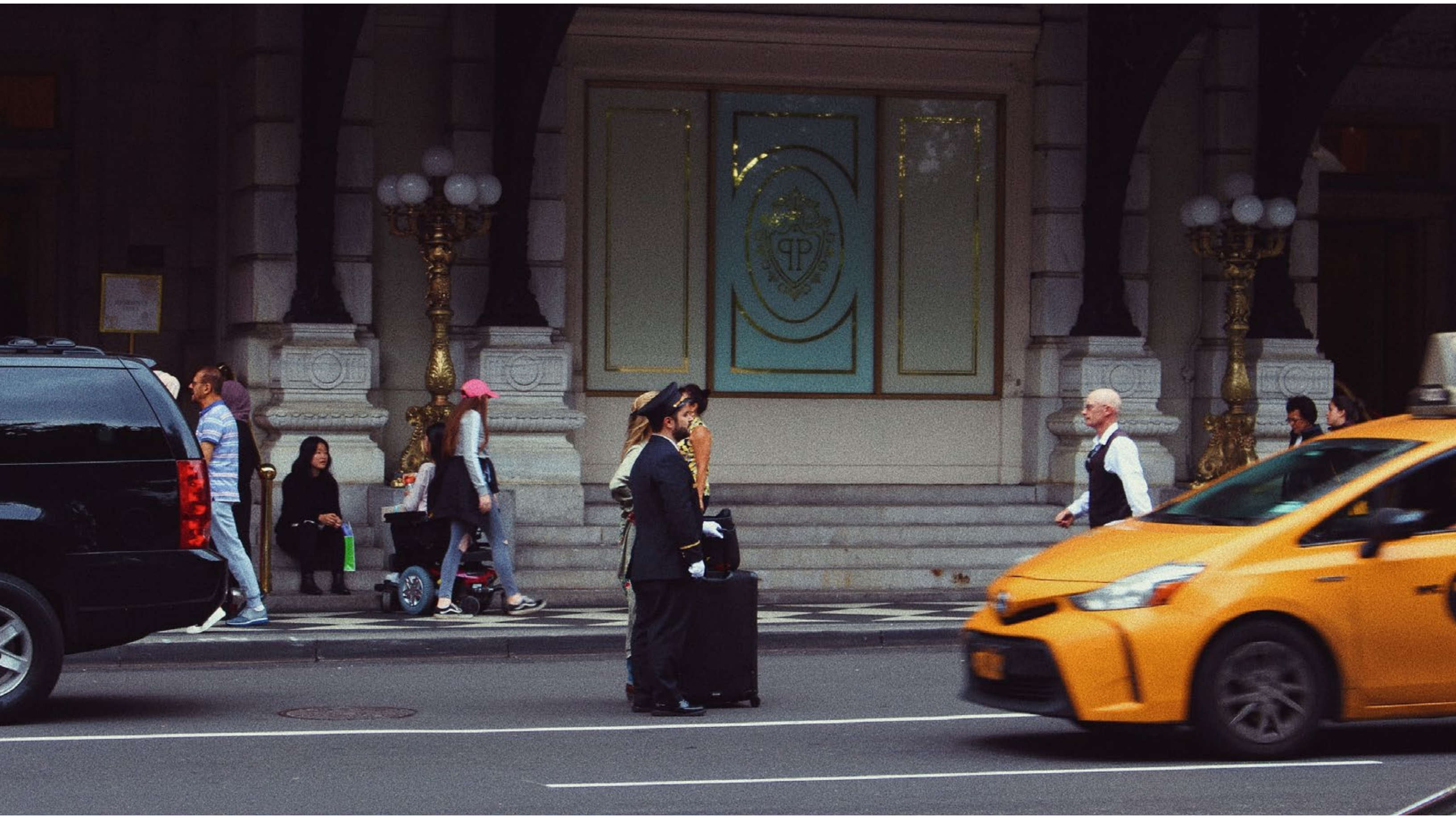
Debt & Equity



There is a Very Clear Bifurcation in the Capital Markets

Even before COVID-19, we have previously talked about the capital markets being bifurcated between the haves and have nots. As we commence 2021, that bifurcation has become extreme. For industrial buildings or workforce housing multi-family, there is huge demand from equity and debt capital alike. For hospitality, most retail, and much of the office markets, capital has suddenly become scarce for that which is lower cost. This scarcity is exacerbated by legacy issues for most capital sources. As an example, we deal with dozens of debt fund lenders; any of them that had hotels or retail as part of their asset mix, now have bad loans in that sector. These debt fund lenders certainly aren't going to be open to new loans in those sectors until the troubled loans on their books within those property types are paid off. And if you didn't previously do hotel or shopping mall loans, you aren't suddenly going to add those property types into the teeth of sharply declining markets. As a result, only high-octane debt providers and opportunistic equity players are willing to capitalize those property types.

Residential in Manhattan has Seen Declining Rents

The five boroughs of New York City have seen multi-family rents decline by 22.0 percent in November year-over-year due primarily to the pandemic (source: Douglas Elliman). Inventory of empty units hit 14-year highs with a vacancy rate around 6.14 percent. In November, landlords offered incentives on 57.0 percent of all leases. This property type was previously seen as bulletproof and the local banks couldn't get enough on their books. With interest rates near historic lows, many banks are reluctant to put new loans on their balance sheet until they get runoff from previous loans. And borrowers aren't prepaying early because of a lack of alternatives, so the domino effect continues. The same effect holds true for condo inventory loans, as condo prices have fallen by an even greater rate than rental rates.

Exodus to the Suburbs from Metropolitan Hubs

The exodus from the cities to the suburbs isn't unique to New York. This is a national trend that accelerated once the pandemic hit. As more people started working from home, many people are making the permanent switch to the suburbs even after the vaccine. Naturally, some businesses are adjusting and following their employees to the suburbs, though this trend seems to be more of a “wait and see” with only anecdotal evidence and it seems to be isolated to smaller companies.

New Construction has Slowed Down

With declining rents across all property types, new construction is on pause except for those projects that had already started pre-COVID-19. Similar to the 2008/2009 downturn, this will eventually lead to a recovery in the market once supply dries up and demand catches up.

CMBS Provides a Mixed Picture

With regards to CMBS, Trepp reported that delinquencies declined for the fifth straight month after the spikes in May and June. This improvement must be tempered by the fact that some of the decline is due to forbearances and servicers allowing some borrowers to use reserves to pay debt service. This phenomenon is especially true for hotel loans where servicers have been entering into widespread forbearances. Further, the number of hotel loans on servicer watchlists has increased. Retail also continues to experience high delinquency rates which are exacerbated by the wave of store closings. In the retail sector, there is guarded optimism that with the combination of stimulus and the vaccine rollout, this delinquency rate will drop in the coming months. Office loans have held up well, for the moment, as long-term leases have buffered any potential decline. However, those loans with a lot of near-term lease rollover are vulnerable as companies reassess their possible reduction in square footage due to the work-from-home effect. Historically low interest rates and the pending rollout of the vaccine give optimism to issuers and bond buyers alike.

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CMBS loan delinquency overview*

	November - 30+ Days Delinquent		October - 30+ Days Delinquent	
Property Type	Rate	Volume	Rate	Volume
Hospitality	19.7%	$17.4B	19.4%	$17.0B
Retail	14.2%	$18.3B	14.3%	$18.5B
Multifamily	3.1%	$3.8B	3.0%	$3.7B
Office	2.3%	$3.3B	2.5%	$3.4B
Industrial	1.1%	$200.0MM	1.5%	$300.0MM
Total	8.2%	$47.0B	8.3%	$43.0B

*Source: Trepp

CMBS delinquency outlook per asset class*

Asset Type	November - 30+ Days Delinquent	October - 30+ Days Delinquent
Hospitality	19.7%	19.4%
Retail	14.2%	14.3%
Multifamily	3.1%	3.0%
Office	2.3%	2.5%
Industrial	1.1%	1.5%

*Source: Trepp

Trends to Watch

Rents continue to decline for residential in New York City with a 22.0 percent decline year-over-year. Will the decline stop with the implementation of the vaccine?

Work-from-home is the new mantra which is weighing on office building forecasts. Will this reverse once people return to the offices on a wide scale basis?

Hotels and non-grocery anchored retail continue to be problematic due to the lockdown and closings. How many can survive and for how long?

CMBS continues to improve but much of that may be due to forbearance agreements. With the rollout of the vaccine, there is optimism that lending conditions will improve.

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Valuation & Advisory

Challenges Associated with Performing Manhattan-based Valuations During the COVID-19 Pandemic

Performing accurate and fair valuations in Manhattan at the height of the COVID-19 global pandemic requires appraisers to adapt to this new set of circumstances. Local and state-wide lockdown orders, closures, and the subsequent reopening of schools, restaurants, bars and offices in Manhattan have led valuations of all assets to consider adjustments to basic valuation inputs in both the short and long term. With the approval of a $900 billion stimulus for 1Q21, viable COVID-19 vaccines being actively distributed, Evercore ISI has elevated Q1 GDP forecasts to +5.0 percent from +3.0 percent. However, COVID-19 news changes on a near daily basis, so valuations need time to readjust and incorporate variables such as the vaccines and federal stimulus as they become available. There are some key points to acknowledge when analyzing valuations in Manhattan as we enter a new year and the 10th month of this pandemic.

New York City's Evolving Nuances

New York City has gone through several transformations since March of 2020, and each closure and reopening influences valuations for individual assets differently. Currently, the rollout of the COVID-19 vaccine is affecting both valuations and projections for 2021 and beyond. According to Dr. Ronald Scott Braithwaite, of the NYU Grossman School of Medicine, once 10.0 to 20.0 percent of the city has received the vaccine, new cases will drop dramatically. The *New York Times* estimates 1.0 percent of the city, or 88,140 citizens have been vaccinated over the first 17 days of the vaccine rollouts, as of January 1, 2021. Forecasting for the impact of the vaccine rollout as it relates to valuation metrics will be integral for appraisers who are looking to stay up to date with assumptions.

When forecasting and evaluating budgets for 2021, appraisers must take a wide range of information into consideration. Understanding the types of tenants and how they relate to the asset is essential to performing an accurate valuation. For instance, it is now abundantly clear that many offices and companies will need to evaluate their business plans and determine the feasibility of work-from-home models and come up with a plan. This will have major implications and send ripples through valuations of each asset class as rent and occupancy levels stabilize. Another major factor to consider is how to value an asset's ability to operate through and rebound from the shutdowns seen across all of

Manhattan. The ability to effectively manage costs and cash flows, while offering accurate projections is key to valuing the individual assets.

Modeling projections using a scenario-based approach is a good way to forecast what managers cannot easily project. This type of diligent analysis is one way to improve accuracy and the ability to adapt to changing situations. Another way to increase adaptability when performing valuations is by shortening the time frames from quarters to months for all projections. These controls can help eliminate the potential of any one change having too large an effect on the overall valuation.

Income Shortfalls and Lacking Sales Data

New York City valuations will need to strongly consider short-term income losses from stabilized values due to the COVID-19 pandemic. Property valuations can incorporate explanations as to how the current market conditions are altering valuations, and if there are income shortfalls, summarizing the steps taken to justify the valuation makes assumptions much easier to understand. However, the effect of the vaccine rollout and any new stimulus package could lead appraisers to recalibrate these shortfalls as new information becomes available in the coming weeks. The National Association for Business Economists found that 73.0 percent of surveyed forecasters believe the economy will return to pre-pandemic levels by late 2021. A few months ago, only 38.0 percent of surveyed forecasters believed this V-shaped recovery was possible. In New York City, effects of the vaccine rollout are being felt as well. In November, residential rental vacancies declined for the first time since the onset of the pandemic, as the number of new apartment leases signed in November 2020 jumped 30.0 percent from November 2019 totals, the most November lease signings in 12 years, according to Douglas Elliman.

With several asset classes experiencing prolonged times of distress and uncertainty, property values are constantly adjusting. Admittedly, it's hard to compare current values to pre-pandemic values due to the lack of recent sales data. Although the news of vaccine availability has brought encouragement to transaction volumes, there was a 54.0 percent drop in third quarter sales nationally, according to CoStar. Pricing of larger asset sales in core markets has shown disparity between asset classes as well. Office and retail markets showed declines in pricing of 3.2 percent and 5.2 percent respectively, while industrial and multi-family pricing increased 7.3 percent year-over-year in the third quarter, according to Costar. However, the lack of actual transactions during COVID-19 makes sales approach-based valuations difficult and potentially less meaningful. Real-time discussions with brokers who are listing properties and getting current feedback from potential buyers is a vital part of the process, given the lack of other sources of data.

Valuations Going Forward in 2021 With the Uncertainty of COVID-19

The COVID-19 vaccine and the federal stimulus package passed at year-end will have major impacts on property valuations in Manhattan and across the nation, but so far it looks like a recovery could be on the horizon in late 2021.

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Trends to Watch

The effect of the COVID-19 vaccines and recent federal stimulus legislation could lead to a V-shaped recovery for property values by the end of 2021

COVID-19 derived income shortfalls and sales data will be impacted significantly by the ability to roll out the vaccine quickly, so expect revenue streams to bounce back fast in office and retail markets if the roll out is successful

Once there is a clear path to recovery, expect cap rate compression in valuations due to favorable financing rates and limited supply

New York Market Report / Fourth Quarter 2020

Design & Construction

Design & Construction in New York City

Throughout 2020, the COVID-19 pandemic caused unprecedented disruption in the construction industry, sparking a shift in the way space is designed, built and occupied, and few places were more affected than New York City. As it always has, New York City persevered by modernizing and embracing technology to overcome the social distancing, teleworking and broken supply chain challenges. With a different focus on how we work and collaborate, designers and builders have begun to form a new foundation of standards, in hopes of achieving self-sustaining work environments required to keep businesses thriving both in and out of the office.

Designing for a Safe Return

In New York City, millions of office workers were forced to work remotely with little notice as pandemic lockdowns were enacted. While companies that had previously invested in tech-enabled flexible working solutions were prepared for such a situation, the rest scrambled to identify and implement the required technology to support remote capabilities. Although it was an initial challenge, working from home became the status quo and companies initially struggled to attract more than 20.0 percent of their employees back to the office when the time came. However, after nearly a year, the appeal of working from home has started to wear off. Companies are looking to return to the office to reestablish their identity and culture, as well as combat the challenges that displacement has had on recruitment, training and development.

To date, returning to the workplace has only been successful when employers have implemented a range of measures that demonstrate safety for their employees to operate. Some have been able to do this within their existing office layout. Meanwhile, others have had to undertake significant changes. The most effective changes for safe office environments have been the development of multi-use spaces that spread out touch-down points, the reduction of common gathering spaces, restrictions on circulation paths, reorientation of workstations to ensure social distancing, and the addition of AV/technology to all meeting spaces to continue to support full or partial work-from-home operations.

Adding 1:1 breakout spaces has also enabled the return to in-person collaboration, without subdividing previous conference rooms. In instances where it is necessary to meet in larger groups, conference rooms are being expanded to accommodate social distancing standards.

Design standards will continue to evolve as post-COVID-19 human behavior resumes back in the office and the industry is able to gather data, collaborate on ideas, and assess how new concepts are received.

Looking to the Future of Workplace

The mandated shutdowns and office restrictions forced designers and tenants to re-evaluate what a productive work environment looks like.

The common practice trend of open-plan working, (originally designed to encourage collaboration, provide various workspace types, and drive a more efficient use of space), did little to protect employees in a pandemic environment. Combined with the dissatisfaction of noisy/depersonalized space, survey data has shown divisions and changes in space/orientation are needed to meet a middle ground of open versus closed office layouts.

To accommodate reduced daily occupancies due to increased remote working, companies are creating shared desks that employees can reserve online as needed. While remote working does not exclusively mean work from home, it has redefined where work can be done and could now be accepted as a “third place” with the likes of coworking/satellite office locations. This has huge implications for workplaces and property portfolios.

As companies contemplate workplace re-design, air quality has been a high priority for the health of employees. The attention to air quality is not new to design since we know poor conditions lead to headaches, dry cough, difficulty concentrating, and dizziness. As such, we’ll continue to a see a focus on air sealing as a means to control air barriers, ventilation, and indoor air quality. The conversion of systems to maximize natural ventilation will help prevent sickness in the short term and will create long term gains in the overall workplace experience.

Building Safely

Safety is always a concern on construction sites, but in the COVID-19 environment it is impossible to ignore the impact that new measures have had on projects. Adjustments to mitigate the spread of the disease have primarily focused on separation of workers and enhanced equipment and cleanliness protocols. Separation is a particularly difficult thing to achieve on a jobsite, where cooperation and teamwork are the norm. Thus, we can anticipate the continuation of smaller crews and the use of staggered shifts to keep job sites less crowded. These new processes have pushed build costs higher and made schedules longer, slowing the industry to levels not seen in NYC in years. This is evident in the more than 50.0 percent decrease of NYC Department of Building (DOB) permit applications in 2020 versus the number seen in 2019. The work of the construction industry is tied to

one thing: capital and the current climate is making it difficult to finance projects, particularly large scale ones.

Supply in High Demand

The largest global impact of the virus on the design and construction industries has been its effect on supply chains. As some have forged ahead with new projects, major hurdles are experienced when sourcing the materials and equipment that are required. Research indicates that 85.0 percent of all supply chains have been impacted in some way by the virus, highlighting our dependency on a small number of countries to source construction equipment or materials such as China whose pivotal role as a major global supplier was tested while they were at the center of the virus control early in the pandemic. While New York City has historically enjoyed its relative proximity to Europe to procure many resources, uncertainties abroad have resulted in an increased demand for US made products.

To ensure that projects are executed as planned, designers and builders have had to shift focus from the typical "best price" or "quick procurement" mentality to one emphasizing more resilient sources that can sustain shutdowns and extreme demand. This has inevitably driven the cost of construction higher and extended lead times to account for the varying aforementioned factors. Unfortunately, experts predict these effects will be felt throughout the industry for the next three to five years. It will take meticulous coordination from contractors, designers, suppliers, installers and owners to make timely, informed decisions on alternatives to avoid potential disruptions in this volatile environment.

Getting off the Sidelines

With fewer numbers of projects, the construction bid market is extremely competitive and some have found this to be the ideal time to invest in current spaces, including IT/AV equipment installations, mechanical upgrades or furniture changes as the slowed economy has caused the industries to reduce margins to keep the lights on.

The key for planning in uncertain times is to adopt flexible designs and phase construction for what is needed immediately to keep business running but to do so in a way that designs can evolve as needed in a "post-vaccination" workspace. An example of this is to incorporate video conferencing through furniture solutions that are equipped to support AV equipment without having to build enclosed rooms that demand upfront cost and strict scheduling.

A key factor for successful employee flexibility will be the seamless integration of remote workers into meetings and conversations. As different spaces expand and contract, acoustics becomes a focal point for those joining remotely and new measures will need to be incorporated so that meetings can remain productive. Technology that enables this will become a mainstay of office fitouts. Zoom rooms and spaces where "displayed knowledge" can be captured, and more importantly, shared in real time with virtual participants will be the norm.

Evolution is driven by data of how space is being used and the success of newly implemented concepts. It is important to get feedback and monitor usage so that it can be adjusted as we all learn how to get back to 'typical' office interaction. Since there is no "one size fits all," optionality around spaces and technology will enable owners to make maximum use of space without long-term commitments to construction plans.

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Trends to Watch

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Get more market information

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