New York City

Market Report
Third Quarter 2017

Avison Young's 2017 Third Quarter Manhattan Market Report includes our insights on office leasing, investment sales, debt & equity, valuation & advisory and retail activity. While there has been some pullback in investment sales activity and the debt & equity environment, at the same time positive influences have created opportunities within the other groups. In the following pages, we highlight not only the challenges, but also the bright spots that point to a New York City real estate market where the fundamentals overall remain intact.

The Manhattan office leasing market was heavily influenced by a greater flight to quality towards the newer and more efficient properties by the less price sensitive tenants committing to significant amounts of space in and around the Hudson Yards area in Midtown. While some members of our valuation and advisory team like to refer to the Hudson Yards area and its emergence as the new "Last Frontier," both Midtown South and Downtown have proven attractive to a growing mix of tenants including co-working and government/public administration agencies, which helped push leasing volume in these markets well above year-over-year levels. Healthy leasing demand overall has kept the Manhattan market in equilibrium with a 10.4 percent vacancy rate at the end of the third quarter, and plenty of space options remain suitable for all office occupiers regardless of price sensitivity.

A weak supply of availabilities led to a decline in investment sales activity when measured by both dollar volume and number of transactions. This trickled down to the debt and equity market, as acquisition financing declined in lockstep. With a tightening of bank standards, as well as a pullback in construction financing, the end result has been more conservative lending. Although more expensive due to higher interest costs, watch for alternative lenders to fill the void. Despite these challenges, enhanced by headwinds that include rising interest rates, foreign capital controls (in relation to China), and a depressed leasing market for brick and mortar retail, the bright side is there is a tremendous amount of capital seeking investment opportunities within a market with healthy business and steadily improving economic fundamentals. As a result, watch for year-end closing urgency for investment sales transactions to potentially generate a pick-up in activity.

For retail leasing, all is not doom and gloom. Despite third quarter-end big box and staple retail announcements of Chapter 11 bankruptcies, there is hope for those that are able to adapt to current times and incorporate experiential concepts into their business strategy. As Manhattan retail continues to stabilize after the rent declines seen during 2016 and so far into 2017, most corridors are now focusing on food, fitness and other experiential concepts. Couple this with innovation and technology, which is becoming a focal point of all new brick and mortar retail strategies, watch for vacant space to be divided up and served as a non-traditional retail use.

There are various positive factors in play that continue to benefit real estate within the Manhattan market. We welcome 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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AVISON YOUNG

Third Quarter 2017 / New York City

Office Leasing

Market Facts

12%
Year-over-year increase in 3Q17 Manhattan leasing volume

8.0M SF*
Third quarter Manhattan leasing volume

20%+
Percentage of co-working and PBS leasing activity in Midtown South

10.4%
Third quarter vacancy rate, Manhattan overall in equilibrium

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

Increasingly Diverse Tenant Mix Drives Manhattan Leasing for the Third Quarter of 2017; Flight to Quality Also a Focal Point

For Manhattan overall, what initially appeared as a slow start to the summer in regards to office leasing activity, ended up being a ramp up mid-season heading into the fall. Third quarter 2017 office leasing volume of 8.0 million square feet was up 12.0 percent year-over-year, as significant transactions were prominent among government and public administration agencies, as well as professional and business services (PBS) firms. The strong activity from these growing office-using industries, coupled with steady velocity from the traditional FIRE (financial services, insurance, real estate) and TAMI (technology, advertising, media, information) sectors, helped drive year-to-date leasing volume closer to that seen a year ago. This healthy leasing demand spread across a more diverse range of industries has kept the overall Manhattan market in equilibrium with a 10.4 percent vacancy rate at the end of the third quarter.

Modernization and a Growing Array of Tenants Characterizes Midtown Leasing

Midtown's third quarter leasing volume was down moderately year-over-year, but the market continued to capture the lion's share of large-block activity for leases greater than 100,000 square feet. 10 out of a total of 14 large-block leases were signed in Midtown during the third quarter of this year, as in the same period last year. Notable transactions by a growing array of tenants included new lease signings executed by PBS firms 1199SEIU United Healthcare Workers East (580,000 square feet at 498 Seventh Avenue) and Accenture (250,000 square feet at 1 Manhattan West for occupancy in

2020), as well as a renewal by the United Nations government entity (187,000 square feet at 305 East 46th Street). TAMI tenant Amazon also executed a significant quarter-end new deal (360,000 square feet at 5 Manhattan West for occupancy in 2018). It is evident that a flight to quality towards new and efficient office space remains a focal point for the less price-sensitive tenants. We have not only seen this recently from Accenture and Amazon in announced future moves, but also from FIRE tenants Third Point Management and Guardian Life Insurance, in their upcoming relocations to the newer Hudson Yards area. Despite active leasing announced in Hudson Yards and the surrounding area, the third quarter overall Midtown vacancy rate rose modestly to 10.3 percent from 10.2 percent year-over-year. We attribute the slight increase to more Class A space that came on the market in the Plaza District submarket. The Midtown overall (all classes) average asking rent for the third quarter of $87.30 is up 3.0 percent from $84.79 one year ago, and remains stable with the prior quarter.

Beyond TAMI, Co-Working and PBS Firms Push Midtown South Leasing Higher

The third quarter leasing volume in Midtown South is up double-digits year-over-year due in part to the notable renewal and expansion deal by Group Nine Media (100,000 square feet at 568 Broadway) and other sizable TAMI transactions in the 40,000 to 60,000-square-foot range. Although TAMI activity made up over 60.0 percent of the total leasing volume in Midtown South during the quarter, real estate services (mostly co-working) and PBS companies together made up over 20.0 percent. This activity is representative of the growing diversity within this market (particularly in the mid-to-small size range transactions of 40,000 square feet and below). The overall vacancy rate for Midtown South of 7.9 percent for the third quarter, is up from 7.0 percent year-over-year. This increase is largely the result of direct space in excess of 380,000 square feet that came online during the quarter, mostly within the Hudson Square, Chelsea and Gramercy Park submarkets. The Midtown South overall average asking rent for the period of $71.95 (stable with the prior quarter), is up over 9.0 percent from $65.85 one year ago, representing the highest year-over-year increase across any of the markets in Manhattan.

New York City Government and Public Agency Leasing - Primary Driver of Downtown Volume Growth

The Downtown office leasing market experienced volume growth well above its quarterly five-year average, spurred by significant new lease signings executed by government and public administration agencies, as well as TAMI firms during the third quarter. Large-block leases included new signings by the New York City Housing Authority (461,000 square feet at 90 Church Street), the New York City Department of Investigation (276,000 square feet at 180 Maiden Lane) and Macmillan Publishers (261,000 square feet at 120 Broadway). In addition, the law firm of Lewis Brisbois Bisgaard & Smith rounded out the fourth large-block lease Downtown with its renewal/expansion (100,952 square feet at 77 Water Street). The overall vacancy rate for Downtown of 12.2 percent for the third

MARKET DATA POINTS

Manhattan Overall

Indicator	3Q16	3Q17
Vacancy	9.70%	10.40%
Rent	$77.17	$79.37
Absorption	(244,367) SF	1,410,885 SF

Midtown Overall

Indicator	3Q16	3Q17
Vacancy	10.20%	10.30%
Rent	$84.79	$87.30
Absorption	(232,834) SF	1,658,693 SF

Midtown South Overall

Indicator	3Q16	3Q17
Vacancy	7.00%	7.90%
Rent	$65.85	$71.95
Absorption	(128,628) SF	(143,538) SF

Downtown Overall

Indicator	3Q16	3Q17
Vacancy	10.20%	12.20%
Rent	$59.72	$64.88
Absorption	117,095 SF	104,270 SF

quarter is up from 10.2 percent year-over-year. In addition to availability at 3 World Trade Center, there are meaningful amounts of direct space also impacting vacancy that came on the market this quarter, primarily in the Financial District. The overall average asking rent for Downtown of $64.88 for the period, is up over 8.0 percent from $59.72 one year ago, and remains stable with the prior quarter.

Although vacancies are up across some of the submarkets within Manhattan, the overall picture shows a clearer image of a healthy and diverse leasing environment. With a flight to quality towards newer and efficient product for some tenants, plenty of space options remain suitable for all office occupiers regardless of price sensitivity.

Trends to Watch

- Watch for more government and public administration lease signings to potentially close by year-end, given near-term expirations.
- As the tenant mix grows more diverse across the Manhattan office leasing market, time will tell if overall volume rises above that of last year by the end of 2017.

Largest Blocks of Contiguous Space Currently Available

Address	Square Feet	Market
3 World Trade Center	1,803,484	World Trade Center
550 Madison Avenue	852,796	Plaza District
330 West 42nd Street	661,960	Times Square South
1 World Trade Center	555,716	World Trade Center
32 Old Slip	323,554	Financial District

Notable Lease Transactions

Tenant	Address Submarket	Size Lease Type
1199SEIU United Healthcare Workers East	498 Seventh Avenue Times Square South	580,000 SF New lease
New York City Housing Authority	90 Church Street Tribeca/City Hall	461,000 SF New lease
Amazon	5 Manhattan West Penn Plaza/Garment	360,000 SF New lease
New York City Department of Investigation	180 Maiden Lane Financial District	276,000 SF New lease
Macmillan Publishers	120 Broadway Financial District	261,000 SF New lease

Markets By The Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	3rd Quarter 2017 Overall Vacancy Rate	3rd 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	5,206,377	978,972	11.3%	214,847	525,625	1,733,000	$78.30	$57.38
Penn Plaza/Garment	25,414,784	1,133,225	354,250	5.9%	586,516	765,447	6,716,000	$67.07	$61.37
Plaza District	76,819,890	7,494,891	1,985,169	12.3%	513,528	(1,345,798)	670,000	$106.02	$61.16
Sixth Avenue/Rockefeller Center	55,834,791	4,497,090	927,254	9.7%	180,188	276,594	0	$87.28	$55.26
Times Square South	24,493,961	2,326,415	546,721	11.7%	(26,235)	166,040	0	$75.28	$58.30
Times Square/West Side	37,234,925	2,465,518	479,773	7.9%	189,849	353,467	0	$81.70	$60.78
Total	**274,470,667**	**23,123,516**	**5,272,139**	**10.3%**	**1,658,693**	**741,375**	**9,119,000**	**$90.91**	**$58.95**
Midtown South									
Chelsea	22,910,054	1,157,268	670,326	7.9%	(20,121)	3,438	264,000	$135.91	$53.73
Hudson Square	13,749,608	898,335	349,426	9.1%	(18,157)	81,559	0	$91.90	$68.20
Gramercy Park	30,536,623	1,617,790	573,500	7.2%	(139,241)	(539)	0	$69.46	$63.11
SoHo/NoHo	8,624,666	589,596	164,817	8.7%	33,981	(133,841)	0	$90.76	$71.56
Total	**75,820,951**	**4,262,989**	**1,758,069**	**7.9%**	**(143,538)**	**(49,383)**	**264,000**	**$99.93**	**$62.24**
Downtown									
TriBeCa/City Hall	19,824,655	1,223,329	308,016	7.7%	(58,522)	(168,209)	0	$54.54	$63.21
Financial District	51,658,758	5,259,142	725,888	11.6%	(80,913)	(187,678)	0	$60.41	$49.27
World Trade Center	28,752,165	4,268,875	468,411	16.5%	35,165	(1,194,807)	0	$77.21	$47.30
Total	**100,235,578**	**10,751,346**	**1,502,315**	**12.2%**	**(104,270)**	**(1,550,694)**	**0**	**$66.76**	**$52.96**
Manhattan Overall Total	**450,527,196**	**38,137,851**	**8,532,523**	**10.4%**	**1,410,885**	**(858,702)**	**9,383,000**	**$84.13**	**$59.35**

Data as of 10/3/2017

Third Quarter 2017 / New York City

Investment Sales

Overview

The Manhattan investment sales market continued to struggle through the third quarter of 2017. Supply of availabilities remained weak leading to fewer sales. As a result, the market recorded one of the lowest dollar volumes and closed transaction counts since the previous cycle's trough in 2008 through 2010. When combined with the lackluster first and second quarters, 2017 is now shaping up to have one of the lowest annual totals of the past 15 years. From a statistical standpoint, the current cycle is charting a strikingly similar path as the previous cycle, despite the differences in the economic climates. Although the performance of the investment sales market seems especially poor when compared to the preceding years leading up to 2015, the market downturn is still proportionately less severe than the previous cycle. With many similarities between this cycle and last, the outlook for the investment sales market may remain optimistic based on business fundamentals and the growth potential of the overall market.

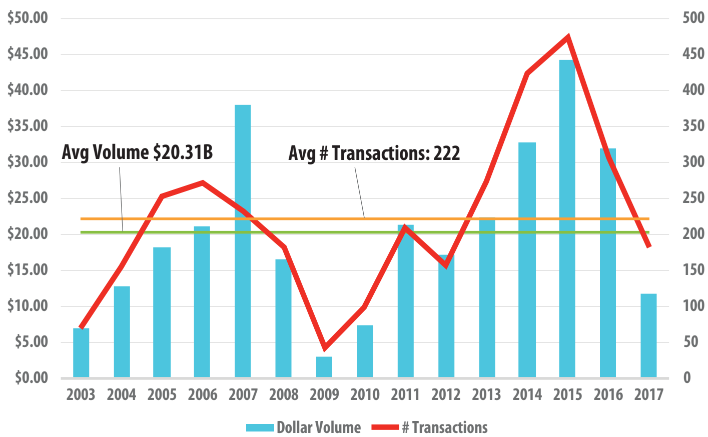
Third Quarter Falls Flat

After an uptick in activity from this year's first to second quarter, some optimism appeared to be returning to the marketplace. This mood seemed to be quelled just as soon as the third quarter began. The weakness in the quarter, when measured by both dollar volume and number of transactions, actually echoed the first quarter. The total transaction volume of $2.8 billion is the lowest of any quarter since the bottoming out of the last cycle in late 2008 through early 2010. Any thought that the sales volume would redeem itself was quashed by the 50.0 percent reduction witnessed in the second quarter. The dollar volume through the full three quarters of 2017 sets an annualized pace of $15.6 billion for the year, which would be the lowest of any year since 2010 and would represent a 60.0 percent drop off from 2016, and a 75.0 percent descent from 2015.

Conspicuously absent from the transaction log in the third quarter is one or more transactions with billion-dollar price tags, which typically helps to bolster the total quarterly dollar volume. The largest transaction of the quarter was the $580 million sale of 375 Hudson Street. In addition, there was only one other deal that fell within Avison Young's institutional transaction category of greater than $150 million. The first quarter had a similar profile with only two deals greater than $150 million, neither of which was greater than $1 billion. By comparison, the second quarter had the only billion-dollar deal of the year when HNA paid $2.2 billion for 245 Park Avenue at a price tag of well over $1,200 per square foot.

A more relevant measure of market activity is the number of deals getting done at prices that are insulated from the billion-dollar outliers. Avison Young tracks commercial investment sales in Manhattan greater than $10 million. The 59 completed transactions in the third quarter of 2017 was greater than the 56 recorded in this year's first quarter, but was the second lowest count for the past 26 quarters starting with the first quarter of 2011. The 182 transactions through three quarters is also the lowest since the first three quarters of 2012. Both the dollar volume and transaction count through the three quarters of this year are well below the market average. Although an analysis of the dollar volume and transaction count paint a picture of a depressed market, a silver lining may exist if we compare this cycle to the last.

Investment Sales Through Three Quarters

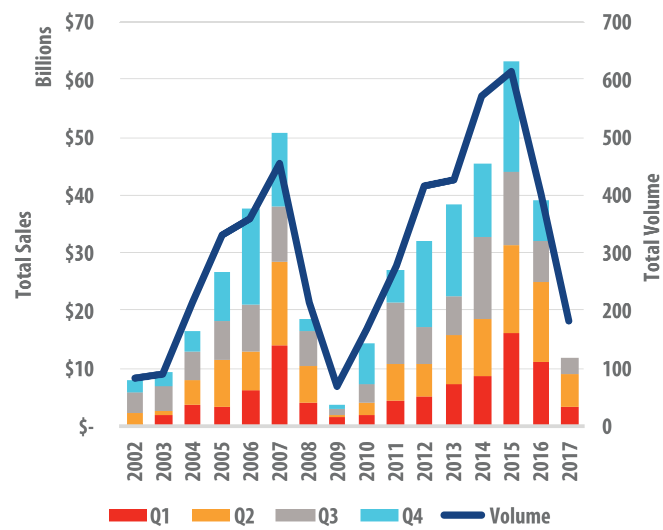


History Doesn't Repeat; It Rhymes

It is a commonly held opinion among industry players that the investment sales market is in a corrective phase. Since the 2015 peak, when 613 transactions created $63 billion of dollar volume, there has been a slowing of transactional pace combined with a shrinking average deal size. Investors are willing to make fewer bets as they become more concerned about the pricing environment; and the bets they are prepared to take get smaller. Although the depressed activity of the market is currently apparent, it is not everlasting. After the 2007 market peak, the dollar volume fell 63.0 percent in 2008 and then 80.0 percent in 2009 before rebounding. The number of transactions fell 53.0 percent and 67.0 percent respectively. Now, nearly two years after the 2015 peak, the volume fell 38.0 percent in 2016 and we are on pace to fall another 60.0 percent in 2017. The number of transactions follow a similar trend, off 35.0 percent and trending down 40.0 percent from 2016.

Looking for a possible bright side in current market trends is the tremendous amount of capital seeking investment opportunities and a hopeful upswing from the slow but steady economic growth that is projected by the Fed. It is also likely that if some sort of tax plan is approved in the near term from Washington, then a rosier growth outlook can occur. Of course figuring out when this upswing occurs is the key. After the poor 2008 and abysmal 2009 markets, the market began picking up in the first quarter of 2010 at a modest pace and then continued a strong non-linear growth pattern through the 2015 peak. If the 2008 and 2009 years are any indication of what to expect in the two post-peak years of 2016 and 2017, then the market's slumping times are not long for this cycle. It is idealistic to compare the graphs of two cycles that rose and fell at similar paces, but for different reasons the current market statistics do not entirely paint the whole picture. Among a number of factors for the downturn in the previous cycle was the massive global recession caused by a catastrophic event – the mortgage backed security crisis – that led to the bottom falling out. The present cycle feels more like a grinding slowdown of the market due to a shortage of assets for sale and a widening bid-ask spread along with an overall pessimistic sentiment among investors based on the course of interest rates. Clearly these cycles are not identical, but if history does not repeat itself, hopefully it rhymes, and the slump is near its end.

Annual Total Dollars & Transactions



Market Headwinds

An optimistic outlook on the market forecast based on the cycle's natural timeline must be grounded with honest reflection of the market headwinds. It is not impossible for the market, trending toward $15.6 billion in annual dollar volume, to slump further. Though it is unlikely 2009's $3.6 billion in volume will be experienced this cycle. Unlike 2009, there is no catastrophic event causing the current market correction. Instead, there are a myriad of market forces slowing the pace of transactions, which includes rising interest rates, foreign capital controls (China), a weak residential condominium and development land market, a depressed leasing market for brick and mortar retail, governmental tax and infrastructure plans, and a general negative investor sentiment. As these factors are better understood and quantified in the coming quarters, the market should pick up confidence and in turn steam.

Trends to Watch

- 3Q 2017 may prove to be the worst quarter of this cycle. As a result, year-end closing urgency could generate a pick-up in activity.
- Although still a major force nationally, foreign capital pulls back under greater scrutiny, leaving the billion-dollar bets temporarily out of vogue for a long period of time.
- The cycle is nearing a turnaround and consistent growth may resume within 24 months.

Top Third Quarter 2017 Sales

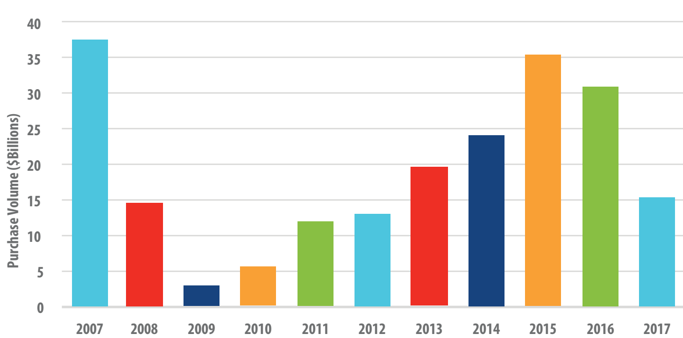
Buyer Address Seller	Size Type	Price Price/SF
Hines, Trinity Real Estate, Norges Bank (NBIM) **375 Hudson Street** Tishman Speyer	1,088,180 SF Office	$580.0 million $533/SF
Estate Four **50 Varick Street** New York REIT	136,502 SF Office	$135.0 million $989/SF
Savanna **31 West 27th Street** Westbrook Partners	143,019 SF Office	$126.0 million $881/SF
Aurora Capital Associates **405-409 West 13th Street** Richard Copell	32,004 SF Office	$65.0 million $2,031/SF
Drake Street Partners, APF Properties **163 Varick Street** Heritage Realty	45,007 SF Office	$64.9 million $1,442/SF

Debt & Equity

Impact of Decline in Investment Sales Transaction Volume on Acquisition Financing

We have previously discussed the increasing spread between the bid and the ask in investment sales in New York City and the corresponding decrease in sales volume. The statistics now show how dismal the situation is with investment sales volume of $15.4 billion in the first half of 2017 representing a 50.0 percent decrease in activity versus the same period last year. The third quarter is still being compiled but the statistics, according to Real Capital Analytics, will reflect roughly the same trend. This trickles down to the financing market, as acquisition financing thus decreases in lockstep.

New York City Commercial Property Purchases



Construction Lending Pullback

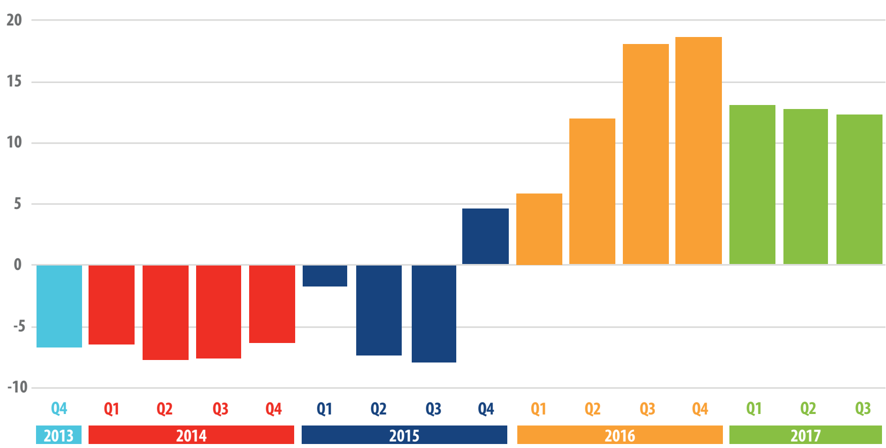
Meanwhile, construction lending has become increasingly more difficult in 2017. Of course, there are examples of high profile construction loans like Children's Investment Fund (TCI) lending $1.25 million to HFZ this summer and several new construction loans in Hudson Yards. However, several factors have simultaneously converged to suddenly make construction lending scarce for "non-institutional" borrowers to obtain low interest rate financing at moderate leverage. At first, market participants chalked up the pullback in construction lending to skittishness from banks and that the market was potentially repeating its past transgressions of overbuilding. The herd mentality kicked in as well, as no bank wanted to be seen as the one that was being overly aggressive or even careless, despite the desperate need to put deposits to work.

Supply/demand factors are also in play as increased construction has caused banks, insurance companies, and private lenders to suddenly be "full up" on construction loans in their portfolio because of deal volume. At first, many banks restricted construction originations to only their existing customers but now, they are requiring "run off" or repayment of existing loans before they would consider any construction loans at all.

Tightening Bank Standards Lead to Higher Project Costs

The impact of foreigner investor appetite is another reason for the decline in real estate sales velocity. In 2016 and prior there was an influx of Asian foreign capital, particularly from China, as well as from Russia that flooded the market. This healthy activity propped up Class A markets across all property types. Now with these groups clearly pulling back, demand as a whole has fallen along with it. A few exceptions exist, as with China-based HNA Group's acquisition of 245 Park Avenue for $2.2 billion ($1,227 per square foot) that closed the second quarter of this year.

Net % of Banks Tightening Standards for CRE Loans



As our accompanying chart from the Federal Reserve illustrates, banking standards have also become much tighter across the board, with new bank regulations being one reason. For example, the High Volatility Commercial Real Estate rule (HVCRE) instituted in Basel III has had unintended consequences in the market. HVCRE rules require 15.0 percent cash equity in the loan, regardless of the market value of the land, for instance. If the banks adhere to HVCRE, they have to reserve 150.0 percent of the loan, making the pricing exponentially higher. Hard money lenders have somewhat filled the void, but when you consider that bank lending rates range from LIBOR plus 250-300 basis points while hard money lender rates start at LIBOR plus 700, projects that had substantial profit suddenly become unprofitable. Exacerbating the situation is that most lenders require the full amount of the interest reserve for the term of the loan to be taken down upfront. That interest reserve ends up adding significantly to the project costs, and the developer ends up borrowing money that he doesn't need for at least several months.

Trends to Watch

- Transaction volume continues to be low for investment sales with a 50.0 percent decrease in New York City year-over-year. Modest corresponding decrease in financing volume.
- Bank regulations have tightened, which has led to more conservative lending, especially in construction loans.
- Hard money lenders are filling the void in tighter bank financing, leading to higher interest costs.

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Third Quarter 2017 / New York City

Valuation & Advisory

The Emergence of NYC's New "Last Frontier"

Overview

The Green Bay Packers play football in the "Frozen Tundra" of Lambeau Field, while developers forge ahead with the development of Hudson Yards, an area once dubbed the "Last Frontier." Hudson Yards was conceived around 2003 through the joint-efforts by the City and State of New York and the MTA, but the real impetus centered around the extension of the 7 subway line to 11th Avenue and the construction of a platform over the vast open-air space of the West Side Rail Yard to allow vertical development. The far westward development will cover 28 acres (35 blocks) from West 43rd Street on the north, West 28th and West 30th streets on the south, Seven and Eighth avenues on the east, and the Hudson River on the west. Hudson Yards is the largest private development ever in the U.S. and the most ambitious in Manhattan since Rockefeller Center in the 1930s.

What's Happening

The master-plan of Hudson Yards continues to evolve and calls for 25 million square feet of Class A office, 5.5 million square feet (5,000 units) of residential, one million square feet of retail, plus hotels, a school, cultural center, and 14 acres of park/open space. The major developer for Hudson Yards was awarded to the joint-venture between The Related Companies and Oxford Properties, with other developers involving smaller projects to include Brookfield Properties, Moinian Group and Tishman Speyer.

To date, the extension of the 7 subway line and station are finished and over 9.0 million square feet of office space has been committed. The first office building, 10 Hudson Yards, opened in 2016 and the 1.8 million square foot 52-story office tower is occupied by tenants that include Coach, L'Oreal, SAP and Boston Consulting Group. Under construction is 55 Hudson Yards, a 51-story 1.55 million square foot building which will be occupied by Milbank, Tweed (258,000 square feet), Point 72 Asset Management (176,000 square feet), Cooley LLP (131,000 square feet), Boies Schiller & Flexner (111,000 square feet), and MarketAxess (83,000 square feet) with a first quarter 2018 opening; and 30 Hudson Yards, an 80-story 2.6-million square foot building with purchase commitments from Time Warner (1.5 million square feet), Wells Fargo (500,000 square feet) and KKR (343,000 square feet) with a third quarter 2019 completion. In addition, Brookfield has its first of two office buildings under construction at its One Manhattan West project, which is a 2.2-million-square-foot 67-story tower that is also scheduled for third quarter 2019 completion. Approximately 55.0 percent of the space is preleased to Skadden Arps (620,000 square feet), Accenture (250,000 square feet), NHL (160,000 square feet), and McKool Smith (64,000 square feet).

For retail, The Shops & Restaurants facility, set to open in 2018 and now 60.0 percent preleased, will be anchored by Neiman Marcus' first department store (proposed 250,000 square feet) in NYC, H&M, Banana Republic, Zara, Stuart Weitzman, among other national and international boutiques. There will also be 25 restaurants and eateries offering a variety of cuisines from renown chefs, including a 35,000-square-foot Spanish "food hall" (similar to the Eataly concept).

Lastly, One Hudson Yards has set a new precedent for opulence in luxury Manhattan living in design and amenities. Recently completed, this 33-story building on the High Line has 178 apartments ranging from 1 to 3-bedrooms with starting monthly rents at $5,100 for a 1-bedroom, $8,700 for a 2-bedroom, and $12,000 for the 3-bedroom unit. Amenities include an 82-foot lap pool, bowling alley, rooftop deck/BBQ area, media room, Equinox Fitness Center and Child's Playroom.

The Future – Virtual Reality

Projects still on the drawing board include 50 Hudson Yards, a 2.9-million-square-foot office building in which BlackRock has committed to 850,000 square feet with a 2022 completion; and 66 Hudson Boulevard, known as "The Spiral," which Tishman Speyer is in discussion with Pfizer for 800,000 square feet in this 2.85-million-square-foot 65-story building.

Upon completion, the Hudson Yards neighborhood will be the "epicenter" of innovative, "green" and efficient buildings with a state-of-the-art architectural design. It is estimated between $20 and $25 billion will be invested in Hudson Yards by the time it is finished and more than 100,000 people will be working living, and visiting the area on a daily basis in a once desolate area called the "Last Frontier."

Trends to Watch

- There is a growing demand for companies looking to solve their space strategies for the next 15 to 20 years, or longer. In a highly competitive office market, will they select Hudson Yards, downtown, or simply stay put?
- With the Midtown East Rezoning approved, will this area compete with Hudson Yards, or is it too late? If it is too late, will Midtown East come "full circle" with many of its pre-war and post-war obsolete inventory and have to wait its turn beyond 2025?

Third Quarter 2017 / New York City

Retail Leasing

Retail Leasing Market Overview

The retail saga continues to play out just as it has been since the e-commerce disruption began. Most recently, toward the latter end of the third quarter of 2017, more big box, or staple retailers have filed for Chapter 11 bankruptcy. Among them are Toys R Us, Vitamin World, Perfumania and True Religion.

Experience is the Key to Retail Relevancy

Store closures can be blamed on many things, including e-commerce, poor location, and lack of demand. But the common denominator is that the physical space did not meet the criteria of a relevant retail space today. The theme is typically based around experience, which includes product demos, new releases, food and drink, and entertainment. As there is no secret recipe, it is still risky for any company to spend the capital with no certainty they will see returns on the investment. It is also hard to measure the effect, since most of it is branding and advertising. The sales often take place online, even days or weeks after visiting the physical location.

Experiential Concepts Tested – A Few Good Options

A perfect example of a retailer adapting to modern times is Nordstrom. Earlier this quarter, the big box retailer announced it will be testing a new concept – you guessed it, a store without any full inventory of clothes. Nordstrom Local, the name of the new store, will be approximately 3,000 square feet and will feature stylists there to customize a wardrobe. While you wait – enjoy a drink and/or a manicure.

The concept will be tested in California, and no set timeline has been announced for New York City. In the meantime, as Manhattan retail continues to stabilize after the rent decreases we've seen during 2017, most corridors are now options for food concepts, fitness studios and other types of experiential stores. We saw Peloton sign a lease at 1156 Madison Avenue, between East 85th and 86th streets. They selected this location based on an existing customer base that already uses their product. The purpose of the store is to "help deliver the Peloton retail experience to more New Yorkers," according to their director of business development and real estate.

For other corridors that contain the skeletons of yesterday's big box retailers, some landlords look for options that can break the space up and make it more marketable to the retailers that are expanding today. Others are holding out for big box retailers who are adapting and continuing with the large footprint.

Outlook

Looking ahead to Q4 2017, Avison Young will have a strong presence at the MAPIC International Retail Property Market Conference held in Cannes, France. There, global retailers can be educated on the local market and evaluate a strategic expansion plan here in the United States.

Notable Market Quotes

"But the spate of retail bankruptcies, store closings and liquidations doesn't mean consumers have traded in bricks for clicks. They reflect a mixed brew of factors, including a vastly overstored retail landscape still sized for a pre e-commerce/pre Great Recession shopping mindset, just as consumers buy fewer tangible things, like a new purse, opting for more experiential purchases, like a dinner out."

– Barbara Thau, *Forbes* Contributor

"There is no question that people are trying to get away from the use of the word store as well as mall. They are increasingly perceived as remnants of a retail world which is increasingly under siege." Schlesinger thinks companies with physical stores will have trouble if they don't adjust to the fact that the internet has taken away many consumers' reasons for visiting physical locations in the first place."

– Leonard Schlesinger, Professor of Management at Harvard Business School

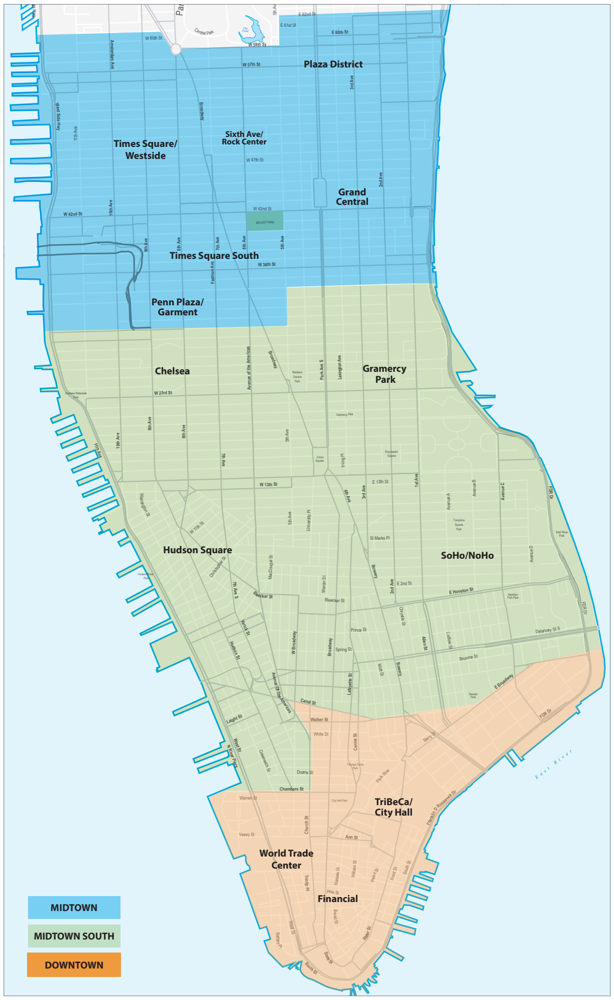
"The lines between the physical and digital worlds are blurring, and the ease, convenience and excitement previously reserved for online shopping will soon be pillars of tomorrow's shops."

– Puneet Mehta, *Entrepreneur* Guest Writer

Trends to Watch

- Innovation and technology become the focal point of all new brick and mortar retail concepts.
- As larger space continues to sit vacant, the spaces will be chopped up, possibly serving as non-traditional retail uses.

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

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Third Quarter 2017

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