Third Quarter Market Report 2018 / New York City

Office Leasing

Market Facts

12%
Total percentage of co-working leasing activity through 3Q18

10%+
Year-over-year growth in Manhattan leasing volume through 3Q18

45%+
Percentage of 3Q18 co-working activity in Midtown South, surpassing TAMI's 24%

10.2%
Third quarter vacancy rate, Manhattan overall in equilibrium

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

Increased Co-Working, Large Tenant Renewals and a Growing Diverse Tenant Mix Boost Overall Manhattan Leasing in the Third Quarter

Co-Working as a Percentage of Total Leasing Volume Year-to-Date Through 3Q18 vs 3Q17 by Market

7% vs 2% Midtown

29% vs 7% Midtown South

10% vs 16% Downtown

12% vs 4% Manhattan

Co-Working Tenants Triple Leasing Activity From a Year Ago, Securing More Class A Space

Co-working tenants in Manhattan accounted for 12.0 percent of the 26.5 million square feet of office space leased through the end of September, compared to 4.0 percent of the 23.8 million square feet in the same period last year, which pushed total volume at this time to a new high since 2014. The stronger year-to-date leasing activity through the end of the third quarter reflects that co-working operators are now securing more leases in Class A properties, increasing their presence further beyond Class B and C buildings. This trend became more evident across most markets in the third quarter, especially in Midtown South. For Midtown, leasing velocity has also been strengthened by larger tenant renewals, while Downtown volume (albeit softer in the third quarter) continues to diversify away from traditional financial services activity.

While it is evident that co-working is impacting a greater amount of leasing activity across markets, we will monitor the affects. Overall third quarter office rents remained stable year-over-year at an average $78.71 per square foot, while vacancy declined modestly by 20 basis points to 10.2 percent. Accordingly, the Manhattan market remains in equilibrium.

Midtown: Record Quarterly Volume Driven Largely by Renewal Activity

Third quarter leasing activity was up over 30.0 percent year-over-year, with volume through the end of September up over 25.0 percent. The record quarterly performance was greatly driven by large tenant renewal/expansion activity, which accounted for half of the 10 large block transactions greater than 100,000 square feet.

Top Leasing Largely Driven by Renewal Activity

Tenant	New Address	Lease Type	Submarket	SF
JPMorgan Chase (Financial Services)	277 Park Avenue	Renewal	Plaza District	855,000
1199 National Benefit and Pension Funds (Government/ Public Administration)	330 West 42nd Street	Renewal	Times Square/ West Side	521,000
Evercore (Financial Services)	55 East 52nd Street	Renewal/Expansion	Plaza District	350,000
Pfizer (Health Services)	219 East 42nd Street	New Lease	Grand Central	350,000
JPMorgan Chase (Financial Services)	237 Park Avenue	Renewal	Plaza District	270,536

In addition, co-working tenants accounted for three of the 10 large block transactions, with locations around major transit hubs including Penn Station (WeWork at 21 Penn Plaza with 258,344 square feet) and Grand Central (Convene at 530 Fifth Avenue with 116,000 square feet and Spaces at 405 Lexington Avenue with 109,364 square feet).

The robust leasing activity in Midtown attributed to the 60-basis point decline in the vacancy rate year-over-year in the third quarter to 9.7 percent from 10.3 percent. The decline is mainly attributed to a greater amount of leasing within the Plaza District submarket (5.3 million square feet compared to 2.3 million square feet a year ago), as sizable financial service firms continue to commit to the area. Meanwhile, the overall average asking rent of $85.92 for the third quarter is down less than 2.0 percent from one year ago and up 3.0 percent from the prior quarter. The rise is the result of price increases at various properties around Bryant Park (One Bryant Park, 75 Rockefeller Plaza and 1114 Avenue of the Americas – all at triple digit rents on a per square foot basis), which are located within the Sixth Avenue/Rockefeller Center submarket.

9.7% OVERALL VACANCY RATE

Midtown South: Co-Working Leasing Velocity Surpasses TAMI, While New Development Drives Pricing

Quarterly leasing volume in Midtown South was up 2.0 percent year-over-year, with volume through the end of September up 40.0 percent. During the third quarter, co-working tenants executed over 45.0 percent of the 1.2 million square feet of total leasing activity in Midtown South, surpassing the 24.0 percent of leasing activity transacted by the technology/advertising/media/information (TAMI) sector. Accordingly, it is no surprise that co-working accounted for four of the top five largest transactions.

MARKET DATA POINTS

Manhattan Overall

Indicator	3Q18	3Q17
Vacancy	10.20%	10.40%
Rent	$78.71	$79.40
Absorption	884,032 SF	1,410,885 SF

Midtown Overall

Indicator	3Q18	3Q17
Vacancy	9.70%	10.30%
Rent	$85.92	$87.30
Absorption	708,477 SF	1,658,693 SF

Midtown South Overall

Indicator	3Q18	3Q17
Vacancy	8.80%	8.00%
Rent	$79.75	$71.95
Absorption	247,659 SF	(143,538) SF

Downtown Overall

Indicator	3Q18	3Q17
Vacancy	12.80%	12.30%
Rent	$63.35	$64.93
Absorption	(72,104) SF	(104,270) SF

Data as of 10/1/2018

Top Leasing Largely Driven by Co-Working

Tenant	New Address	Lease Type	Submarket	SF
Aetna (Health Services)	161 Avenue of the Americas	New Lease	Hudson Square	107,000
Spaces (Co-Working)	287 Park Avenue South	New Lease	Gramercy Park	103,321
WeWork (Co-Working)	35 East 21st Street	New Lease	Gramercy Park	100,000
WeWork (Co-Working)	450 Park Avenue South	New Lease	Gramercy Park	83,250
WeWork (Co-Working)	511 West 25th Street	New Lease	Chelsea	60,000

In addition, unlike the first and second quarters of this year when co-working tenants only leased space in Class B and Class C properties in Midtown South, during the third quarter these companies bolstered their presence in higher quality Class A buildings. For example, Regus leased 34,797 square feet at 413 West 14th Street and Knotel took 19,563 square feet at 250 Hudson Street.

Despite strong leasing velocity for Midtown South, the overall vacancy rate came in at 8.8 percent, above 8.0 percent a year ago. Reasons for the increase include the consolidation of space at Penguin Random House under one roof at 1745 Broadway from both 345 and 375 Hudson Street, and 51,000 square feet of sublease office space put on the market at 315 Hudson Street by the One Kings Lane home furnishings retailer.

Meanwhile, average asking rents in Midtown South saw the highest rental increase throughout any of the markets in Manhattan, rising 11.0 percent to $79.75 in the third quarter from a year ago and up 2.0 percent from the prior quarter. Contributors to the yearly increase include new development at 40 10th Avenue and 540 West 26th Street in the Chelsea submarket, as well as 300 Lafayette Street and 61 Crosby Street in SoHo.

$79.75
OVERALL AVERAGE ASKING RENT

Downtown: Overall Leasing Activity Declines, but Tenant Mix Continues to Diversify

Downtown leasing activity for the third quarter declined over 55.0 percent year-over-year and was down over 40.0 percent year-to-date through the end of September. Despite the softness in leasing activity, the market continues to diversify further away from traditional financial services.

Select Top Transactions Reflect Diverse Tenant-Mix

Tenant	New Address	Lease Type	Submarket	SF
Spotify (TAMI)	4 World Trade Center	Sublease	World Trade Center	85,666
WeWork (Co-Working)	85 Broad Street	Expansion	Financial District	76,814
Broadcast Music Inc. (Media)	7 World Trade Center	New Lease	World Trade Center	61,390

Behind the 85,000 square foot Spotify sublease at 4 World Trade Center, top leasing included the 76,000-square-foot expansion of WeWork at a Class A building located at 85 Broad Street, which is another example of a co-working tenant increasing its footprint beyond Class B and Class C properties during the third quarter.

The Downtown overall vacancy rate was 12.8 percent, above 12.3 percent in the same quarter a year ago. The rise is partly the result of over 280,000 square feet of direct space put on the market by the NYC Industrial Agency and the NYC Department of Small Business Services at 110 William Street, as well as sublease space by the law firm of Cadwalader, Wickersham & Taft at 200 Liberty Street and Conde Nast at 1 World Trade Center. Meanwhile, Downtown's average asking rent of $63.35 is down 2.0 percent from one year ago and up 1.0 percent from the prior quarter.

280,000+ SF
OF DIRECT SPACE AVAILABLE AT 110 WILLIAM STREET

Marisha Clinton

Senior Director of Research, Tri-State
marisha.clinton@avisonyoung.com | 212.729.1193

Largest Blocks of Contiguous Space Currently Available

Address	SF	Market
3 World Trade Center	1,582,065	World Trade Center
151 West 42nd Street	650,142	Times Square/West Side
63 Madison Avenue	447,388	Gramercy Park
1 World Trade Center	435,631	World Trade Center
250 Broadway	313,996	Tribeca/City Hall

Trends to Watch

- Expect co-working tenant activity to become a larger percentage of overall leasing volume across Manhattan. We will continue to monitor the impact.
- Watch for more financial services firms to commit to the Plaza District submarket. Will landlords make such a case more desirable?
- As the tenant mix grows more diverse in the Downtown market, time will tell if leasing volume resumes a path of positive trajectory.

Markets by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	3rd Quarter 2018 Overall Vacancy Rate	3rd Quarter 2018 Net Absorption (SF)	Year-To-Date Absorption	Current Under Construction (SF)	Overall Average Asking Rent Class A	Overall Average Asking Rent Class B
Midtown									
Grand Central	54,819,358	5,319,546	895,550	11.3%	50,734	(326,320)	2,595,154	$76.56	$58.92
Penn Plaza/Garment	19,969,798	1,438,721	815,240	11.3%	377,842	(305,993)	0	$71.16	$62.14
Hudson Yards/ Manhattan West	11,035,904	932,568	18,224	8.6%	(705,787)	(950,792)	9,906,770	$117.47	$0.00
Plaza District	76,861,806	5,889,449	1,801,026	10.0%	449,700	1,285,277	870,000	$100.53	$64.13
Sixth Avenue/ Rockefeller Center	55,985,260	4,230,436	741,614	8.9%	(241,173)	291,099	0	$92.83	$64.74
Times Square South	24,964,930	1,790,479	533,460	9.3%	247,060	235,828	0	$68.26	$59.08
Times Square/West Side	37,362,312	2,350,488	558,242	7.8%	530,101	685,386	0	$82.56	$62.16
Total	**280,999,368**	**21,951,687**	**5,363,356**	**9.7%**	**708,477**	**914,485**	**13,371,924**	**$90.59**	**$60.91**
Midtown South									
Chelsea	23,161,279	1,309,474	740,811	8.8%	12,735	(151,652)	662,938	$150.93	$57.89
Hudson Square	14,259,807	1,293,489	709,257	14.0%	(142,724)	(737,251)	0	$87.09	$66.00
Gramercy Park	30,743,242	1,798,206	432,578	7.3%	164,992	(169,741)	0	$74.45	$63.64
SoHo/NoHo	8,859,381	427,611	111,203	5.8%	212,656	258,454	0	$143.13	$68.58
Total	**77,023,709**	**4,828,780**	**1,993,849**	**8.8%**	**247,659**	**(800,190)**	**662,938**	**$101.54**	**$62.78**
Downtown									
TriBeCa/City Hall	18,957,427	1,416,921	219,420	8.3%	(170,953)	(404,085)	0	$61.95	$70.17
Financial District	53,199,740	5,232,909	1,279,404	12.2%	(89,300)	(239,379)	0	$58.74	$51.77
World Trade Center	26,459,533	3,701,319	866,985	17.3%	188,149	(73,239)	0	$73.76	$48.09
Downtown Total	**98,616,700**	**10,351,149**	**2,365,809**	**12.8%**	**(72,104)**	**(716,703)**	**0**	**$64.76**	**$55.90**
Manhattan Overall Total	**456,639,777**	**37,131,616**	**9,723,014**	**10.2%**	**884,032**	**(602,408)**	**14,034,862**	**$83.30**	**$60.48**

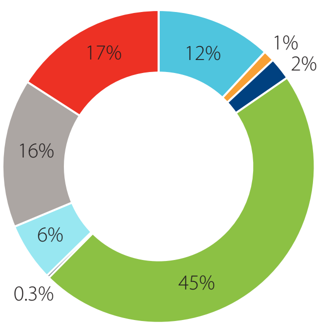
Data as of 10/1/2018

Third Quarter 2018 / New York City

Investment Sales

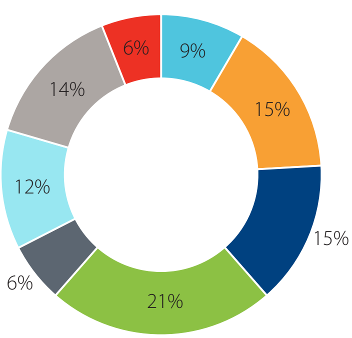
Total Dollar Volume by Asset Class

$8.30 Billion



Number of Sales by Asset Class

81 Total Sales



Elevator Apartments
Walk-Up Apartments
Mixed-Use
Office Buildings
Office Condos
Retail
Development
Conversion/User

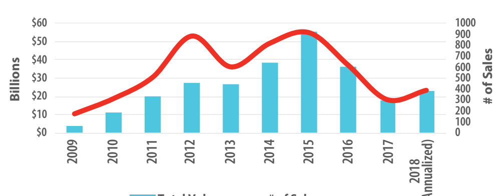
Market Report – 3Q 2018

Manhattan saw a blockbuster third quarter with $8.3 billion in total investment sales, which is almost double the first two quarters combined, and 81 transactions, according to Avison Young's 3Q18 Property Sales Report for Manhattan.

Major transactions powered growth in the third quarter including the $1.286 billion sale of the office portion of 666 Fifth Avenue, the $1.155 billion sale of the ABC studio campus on the Upper West Side, the $900 million sale of 261-271 11th Avenue, currently under contract, and the $650 million sale of a development assemblage consisting of five commercial buildings in Hudson Square.

Additionally, the predicted number of sales remain on track to hit about 385 this year. While this number is lower than the previous 10 years, it is still a dramatic uptick from the recent past. In all, 2018 annualized sales are expected to reach nearly $23 billion, right around the 10-year average, suggesting the market is normalizing.

Transaction Volume and Number of Sales by Year



Multi-Family – Pricing and Activity Continue Divergence

Multi-family dollar volume remained low with 31 sales for a combined $1.28 billion, but pricing remained strong at a $940 per square foot or a 3.67 percent cap. The number of sales increased sharply this quarter over last, rising from 26 percent of quarterly transactions to 38 percent of the total. This disconnect between low sales numbers and high pricing is a continuation of the trend prominent from the second quarter.

Retail – Less of More

Retail demand remains high with this year expected to double the amount of sales from last year at an average of $2,415 per square foot or a 4.33 percent cap. 2018 has seen an overall rise in asset pricing, while the number of transactions has decreased this year down to 12 percent of total sales this quarter, relative to 20 percent in the previous quarter; likewise, the annualized expected sales of 68 is half of the 10-year high of 120 sales in 2012. This confluence of factors suggests that as the retail market continues its correction, sales will be dominated by fewer and higher priced assets.

Office and Office Condo – Large Sales Boost the Asset Class

Office and office condos led this quarter with 46 percent of the Manhattan dollar volume. The dominance of this asset class is in line with the 10-year average of office product comprising 54 percent of Manhattan dollar volume. Office building pricing held strong at $975 rentable square foot or a 4.75 percent cap on average. Alternatively, office condo units traded for an average of $910 rentable square foot. Office properties were powered by 9 properties or portfolios of sales over $100 million, including the sale of the office portion of 666 Fifth Avenue and 261-271 11th Avenue.

Development – Developer Confidence Grows, Location is King

Development sites continued to show signs of life with the 13 sites traded amounting to almost two million buildable square feet at an average of $740 per buildable square foot. This includes a number of portfolios, most notably the Disney HQ Portfolio. This number obscures the fact that development site pricing is heavily dependent on locations with pricing ranging from the $400 to over $1,500 per buildable square foot.

Conclusion

As we look towards the end of 2018, the strength of the investment sales market suggests optimism across asset classes. Some investors, such as multi-family and retail owners, are waiting to see what the future holds, while developers and office owners are confidently forging ahead. Real estate investors, while aware of the long-time horizons of their investments, continue to demonstrate their confidence in the market in the assets they buy and sell.

Ethan Bidna

Analyst | Capital Markets Group
ethan.bidna@avisonyoung.com | 212.230.5993

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.

Top Third Quarter 2018 Sales

Buyer **Address** **Seller**	**Size** **Type**	**Price** **Price/SF**
Brookfield Asset Management **666 Fifth Avenue** Kushner Companies	1,450,000 SF Office Condo	$1.286 billion $877
Silverstein Properties **ABC/Silverstein Portfolio** ABC / Walt Disney	1,400,636 SF Conversion/ User	$1.155 billion $825/SF
L&L Holding & Normandy RE Partners **261-271 11th Avenue** Waterfront Realty, Green Oak	1,129,200 SF Office Building	$900.0 million $797
Vornado Realty Trust **1535 Broadway** Host Hotels & Resorts, LP	104,000 SF Retail Condo	$442.0 million $4,250
The Walt Disney Company **Disney HQ Portfolio** Trinity Church Real Estate	487,755 SF Leasehold	$624.8 million $1,281

Trends to Watch

- How will non-economic impacts, such as trade disputes, affect investor confidence?
- What will fundamentals return to absent major building transactions?
- Will interest rates affect cap rates in the long run?

Third Quarter 2018 / New York City

Retail Leasing

State of the Retail Market

The supply of retail space throughout Manhattan still outweighs tenant demand, but we have seen a noticeable upswing in leasing activity in various submarkets throughout the city. With asking rents continuing their average 10.0 to 27.0 percent decline in many retail corridors, landlords remain flexible in their willingness to participate in the cost of a store build-out. As such, retailers continue to venture out to test the waters, while taking advantage of landlord flexibility. In doing so, a growing number of retailers have executed short-term leases while in some instances taking on smaller space requirements.

Notable Third Quarter Retail Transactions

Tenant	Building	SF	Lease Type
Forever 21	435 Seventh Avenue	43,000	New Lease
Amazon 4-Star	72 Spring Street	11,000	Recently Opened September 2018
Five Below	530 Fifth Avenue	10,800	New Lease
Bang & Olufsen	121 Spring Street	4,135	New Lease
H-Mart	33 Third Avenue	3,800	New Lease
Birkenstock	120 Spring Street	2,300	Recently Opened August 2018

National and Local Score Card

As of the end of third quarter, the number of U.S. store closure announcements stood at 4,612, representing an additional 476 closures since the end of the second quarter when the number stood at 4,136. Meanwhile, there were 858 store openings since the end of the second quarter, bringing the total to 2,743 by the end of September.

For Manhattan, one of the biggest closure announcements was Henri Bendel, which after 123 years will be shutting its doors for good. The long-time retailer will close all of its 23 locations, including its Fifth Avenue flagship after the holiday shopping season. Another Fifth Avenue casualty is Topshop, which announced that it is putting its 44,000-square-foot 608 Fifth Avenue flagship on the market and will be available for sublease. This comes on the heals of other retailers that have chosen to get out of large commitments and costly spaces along the city's priciest retail corridor where rents climbed to $3,900 per square foot during this past spring. In other costly corridors such as Times Square, where rents have hovered around $2,000 per square foot, the NFL Experience store closed its doors the end of September, while at the same time we had to bid adieu to the Opry City Stage.

Making Use of Vacant Space

Given the increase in the number of store closures, more landlords have also been willing to either slice up their space or come up with alternate uses. In doing so, several smaller retailers or even those new to the market are benefiting.

Some alternative space uses include pop-up shops (a proven way to test new concepts) and quick service restaurants, while fitness and medical uses continue to lead the pack with more and more new locations.

The Emergence of New Concepts

The retail market across Manhattan continues to evolve. As many long-standing retailers along Fifth Avenue and elsewhere have shuttered their doors, many new store concepts have emerged. Nationally, AT&T announced that it will open 1,000 new stores in addition to pop-up spaces inside apartment buildings and other locations in dense urban markets, including New York City. The company will also open a new concept store in Seattle called, The Lounge, which will come complete with a state-of-the-art Coffee Café. Other new concepts include combining technology into the user experience. We have seen this where the concept of digital mirrors, for example, have been integrated into the store experience. Retailers such as Neiman Marcus, Ralph Lauren and Sephora have taken advantage of such technology. For the consumer, an overall interactive experience is created and for the retailer there is a more meaningful connection with the customer, often times turning into upsell opportunities.

From Clicks to Bricks

Traditional online retailers are developing the need for space. Locally, online retailer Amazon announced the September opening of a new store, called Amazon 4-Star. The physical brick and mortar shop is located in New York City's Soho neighborhood and offers only items that are rated four-stars and above from top sellers trending on its website. Featured merchandise includes the most popular categories such as devices, consumer electronics, toys and games, where customers can test all products in the store. At the national level, online stores such as Casper announced that it is planning to open 200 stores across the U.S. within the next three years. Elsewhere, Google is planning to open its first free-standing retail flagship store in Chicago's Fulton Market District. This two-level store is expected to be almost 14,000 square feet.

Looking Ahead to the Future of Retail

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

Trends to Watch

- Retailers will continue to discover and implement new technology into their online and physical platforms to enhance and secure their relationship with the consumer on a personal level.
- Online retailers will continue to open brick and mortar locations, while brick and mortar retailers will focus on developing their online presence and re-evaluating their need for existing and future locations.
- As the holiday season approaches, watch for more new and exciting pop-up shops to emerge, locally and nationally. This is a win for both landlords making use of vacant space and for retailers as they seek to test new concepts.

Jedd Nero

Principal, Executive Managing Director
New York City Retail
jedd.nero@avisonyoung.com | 212.729.3019

AVISON YOUNG

Third Quarter 2018 / New York City

Debt & Equity

Despite Rising Interest Rates, Borrowers and Lenders March On…For Now

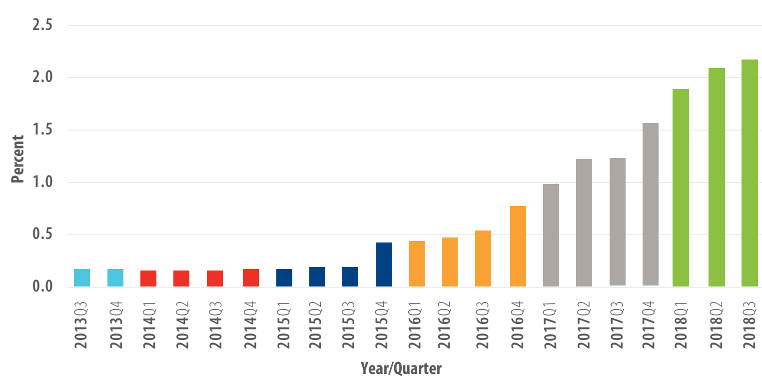
There is usually a slight correlation to interest rate movement and lending volume. As interest rates decline, more borrowers want to lock in long-term interest rates. With interest rates rising in the third quarter, lending activity did not conversely decrease. The 10-year Treasury rate broke through the 3.0 percent mark during the third quarter and is currently at a four-month high. The yield curve has also flattened with short-term LIBOR above 2.0 percent. So floating rate debt has similarly risen. Meanwhile, spreads remained steady. This did not deter borrowers or lenders from proceeding with transactions. However, if interest rates continue to rise towards 3.5 percent on the 10-year Treasury, there will be a decisive impact on lending as debt yields get impacted and loan proceeds are thus lowered. At that point, borrowers would be inclined to "wait it out" rather than obtain a higher cost mezzanine component to fill the gap.

The Emergence of Higher Yield Loan Options

In the higher yield loan market, new bridge and high-yield debt shops continue to pop up.

10-Year Treasury Yield

One-Month Libor



Competition has caused these transitionary loans to go from 12.0 percent and three points in years past, to high single digits with two points or less. This has been helpful to buyers that are acquiring riskier deals and want to limit the equity component in any such deal.

The Creation of Ground Leases, at First Mortgage Rates

There is a trend to create new 99-year ground leases, as there are many benefits to the property owner (both financial and tax). In essence, it's 4.0 percent equity money. Every owner in New York City should take advantage of it. Granted, some illogically want to hold the dirt for psychological reasons. The ground lease lenders are desperate for quality product as they have a huge appetite. Kaufman Organization did it with four office buildings on West 24th and West 27th Street in a joint venture with a life company (Principal Life) in a deal valued at $135 million. The ground lease is structured so that the first mortgage lender will even be named as a tenant under the lease (no risk of a fight in case the borrower defaults). This allows the first mortgage lender to go up to 75.0 percent on the leasehold position. When you combine that with the ground lease, you end up with 85.0 percent financing at first mortgage rates.

Opportunity Zones and the Newly Formed Qualified Opportunity Funds

Opportunity Zones are suddenly a hot topic. Under the Opportunity Zones program in accordance with the new tax code, newly organized qualified opportunity funds ("QO Funds") must invest 90.0 percent or more of their capital in real estate projects located in designated, qualified low-income areas ("QO Zones"). Virtually every state already has, or is in the process of establishing QO Zones, and more than 3,000 QO Funds have been established.

The tax benefits are similar to the existing 1031 Exchange rules, but they go further:

- Similar to a 1031 Exchange, taxable capital gains from the sale of a property may be deferred by reinvesting within six months into a QO Fund. The taxable gain is deferred until the date that the investment in the QO Fund is sold or December 31, 2026 (whichever comes first).
- A long-term holding is incentivized by an automatic 10.0 percent step-up in cost basis for investments held in a QO Fund after five years, with an additional 5.0 percent step-up after seven years. So, 15.0 percent of the taxable capital gain for an asset held for seven years or more would be automatically tax-exempt. If the QO Fund investment is held for 10 years or more, the cost basis is stepped up to the fair market value of the property on the sale date, thereby eliminating any tax liability on the appreciation of the asset.

One could even use stock or business gains to reinvest in these opportunity zones to defer the capital gains tax for several years. The IRS is still clarifying the rules for Opportunity Zones, but this is a potential game-changer for real estate investors.

Dan E. Gorczycki
Senior Director | Capital Markets Group, Investment, Investment Management
dan.gorczycki@avisonyoung.com | 212.729.7087

Trends to Watch

- Interest rates creeped up in the third quarter with the 10-year Treasury now at its highest rate in four months. The lending market shrugs – for now.
- Ground lease financing has become a popular way to unlock value in office buildings.
- Opportunity zones are a hot topic. Investors can defer their taxes for approximately seven years by investing in these zones.

Valuation & Advisory

How Valuable is New York City Park Space?

Overview

New York City is home to more than 30,000 acres of park land, or 14.0 percent of the City's total land, including more than 5,000 individual parks and over two million trees. The parks managed by the City require residents' tax dollars to support them, while those that are privately-owned such as Bryant Park are able to remain self-sufficient without an influx of public funds. But how much value is created in return on this investment?

Apartment Prices

An apartment on Central Park has long commanded a premium, but as real estate prices have continued to climb even higher, developers have increasingly sought out sites on smaller, non-marquee parks. For example, as discussed in *The New York Times* earlier this year, "an address on Isham Park or Herbert Von King Park may not have quite the same ring as one on Prospect Park or Gramercy Park, but in a market where buyers can become dizzy trying to distinguish one marble-kitchened, white oak-floored condo from another, a view of treetops swaying outside the living room window is a distinctive edge."

Importantly, an apartment on even a small park comes with more light, air, and open sky than an identical unit that faces another building, and has a near-guarantee that no large new building will take those advantages away.

Avison Young appraisers recently completed an appraisal of a new development luxury condominium building that partially has views of Central Park. List prices of a park-view apartment, even ones with limited views from a distance, were generally 20.0 to 30.0 percent higher on a per-square-foot basis than a similar unit without a park view. With tax assessments ostensibly tied to the value of real property, that correlates to a significant additional real estate tax bill to be collected by the City.

Bryant Park Case Study as it Relates to Office Pricing

The author recently completed a valuation project that analyzed Bryant Park for a case study regarding a potential rent premium associated with office buildings located on Bryant Park when compared to one not adjacent to the park but located nearby. Bryant Park is a 9.603-acre public park located in Midtown Manhattan, bordered by Sixth Avenue (Avenue of the Americas) to the west, Fifth Avenue and the New York Public Library to the east, West 42nd Street to the north, and West 40th Street to the south.

According to an article from *The New York Times in* 2012, "for decades, Bryant Park was known as an enclave of unsavory characters and menacing panhandlers, making the park an obstacle to the development of Midtown Manhattan's office district. But in the 1990s, the park was transformed into an urban oasis where office workers lunch and city dwellers gather to watch outdoor films. Since then, attitudes toward the park have decidedly changed, and rising office rents in buildings on the park have resulted in the area outperforming the rest of Midtown."

Bryant Park's reconstruction began in 1988, with the park being opened in phases between 1991 and 1995, at which time the reconstruction project was completed with the park fully closed down. Between 1990 and 2001, over $31 million was spent in park construction, upkeep, and management, with $7.7 million spent on capital projects (repair and renovation) alone. According to an article in *New York Magazine* dated December 20, 1993, the renovation was deemed "the best example of urban renewal," while many awards were given to the Bryant Park Corporation for the work done to reinvigorate the park.

Bryant Park Corporation is funded by assessments on properties and businesses adjacent to the park, and by revenue generated from events held and shops located within the park. According to management, the vast majority of revenue for the Bryant Park Corporation is from sponsorships, kiosk and newsstand rent, and events, and no public funds are used for the park's upkeep.

Results of the statistical analysis using multiple regression on a large sample of office rents and building sales were conclusive. It was the author's opinion that the office rent premium attributable to a building's location on Bryant Park, compared to a building not located on Bryant Park but located in the nearby area, is between 10.0 and 15.0 percent. For example, all other factors remaining constant (an identical lease, in the same size space, on the same floor, in an identical building, executed on the same date), tenant space within a typical Class B building not located on Bryant Park that leases for $55.00 per square foot would expect to lease between $60.50 and $63.25 if it were instead located on Bryant Park.

The statistical analysis was corroborated by discussions with brokers, appraisers, and property managers, who indicated that, on average, there was a measurable premium due to the amenities of the park being directly adjacent to an office building, particularly with regards to the view corridor.

Additional Tax Revenue

With a 10.0 to 15.0 percent premium in office rents, a property could be worth as much as 30 percent more as a result of being located along Bryant Park when compared to a hypothetically identical one nearby but not on the park. The author's case study concluded that the City was receiving, at a minimum, an additional $40 million in annual tax revenue as a result of Bryant Park's transformation into an urban oasis, and does not use public funds to receive that additional revenue as a result of the self-sustaining Bryant Park Corporation.

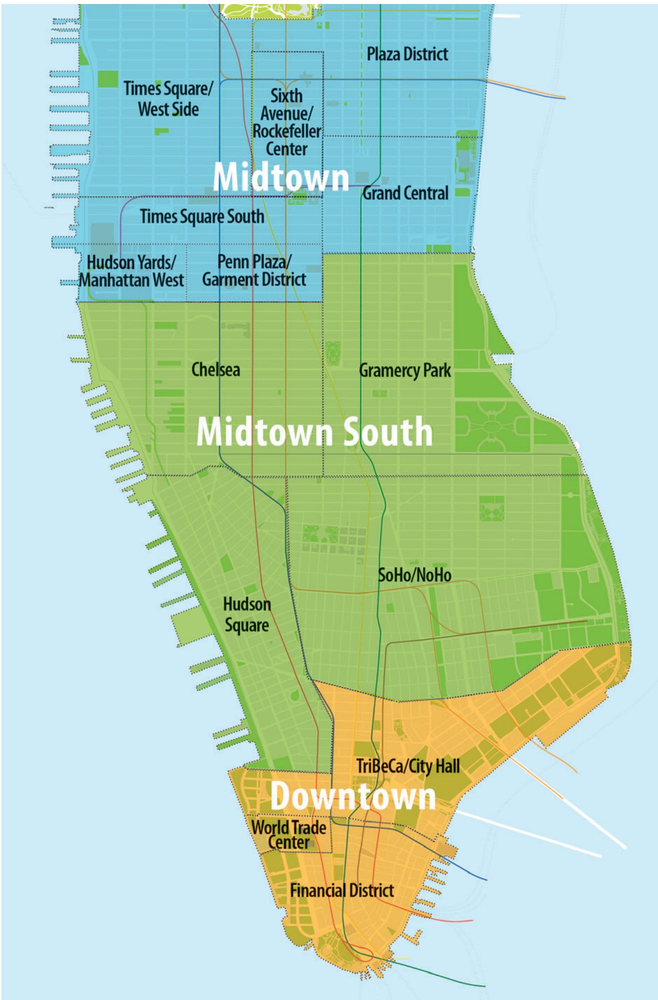
It is in the best interest of a city or municipality to invest in park space, or to encourage or incentivize private investment in park space, as it has the potential to translate into increased real estate tax revenue. Multiple other examples in New York City lend themselves to this conclusion, like the High Line in West Chelsea, Madison Square Park in the Flatiron District, and Central Park uptown. Transforming underutilized space into park space, or revitalizing areas with productive recreational uses, has great potential for a city or municipality.

Chris Peckholdt, MAI, AI-GRS
Director | Valuation Advisory Services
chris.peckholdt@avisonyoung.com | 305.447.7853

Trends to Watch

- It is likely that the trend continues in terms of public and private investment in park space as developers and municipalities recognize the potential return on the investment, at least in the short term.
- As some segments of the market show the potential for leveling off or even declining, can strong public investment continue in the medium to long-term?
- How will governmental forces like the de Blasio administration affect park initiatives, and will they comprise the potential tax revenue benefits as a result of any negative changes?

About the Market



Midtown

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

Grand Central: Borders East 47th Street on the north, Fifth Avenue on the west, East 35th Street on the south and the East River on the east

Sixth Avenue/Rockefeller Center: Carved out section that borders West 56th Street on the north, Seventh Avenue on the west, West 41st Street on the south and Fifth Avenue on the east

Times Square/West Side: Borders West 64th Street on the North, the Hudson River on the west, West 41st Street on the south and Fifth Avenue on the east (includes Columbus Circle)

Times Square South: Borders West 41st Street on the north, the Hudson River on the west, West 36th Street on the south and Fifth Avenue on the east

Penn Plaza/Garment District: Borders West 36th Street on the north, the Hudson River on the west, West 30th Street on the South and Fifth Avenue on the east

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

Midtown South

Chelsea: Borders West 30th Street on the north, the Hudson River on the west, West 12th Street on the south and Fifth Avenue on the east (includes prior Flatiron submarket)

Gramercy Park: Borders East 35th Street on the north, Fifth Avenue on the west, East 12th Street on the south and the East River on the east (includes prior Union Square/Madison Square/Park Avenue South submarkets)

Hudson Square: Borders Morton Street on the north, the Hudson River on the west, Chambers Street on the south and Sixth Avenue/Avenue of the Americas on the east

SoHo/NoHo: Borders East 12th Street on the north, Sixth Avenue/Avenue of the Americas on the west, Canal Street/East Broadway on the south and the East River on the east (includes Greenwich Village)

Downtown

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

World Trade Center: Borders Vesey Street on the north, the Hudson River on the west, Albany Street on the south and Church Street/Trinity Place on the east

Financial District: Borders Albany and Ann Streets on the north, the Hudson River on the west, South Street on the south and the East River on the east (rest of lower Manhattan)

Notes

Notes

New York City

Market Report
Third Quarter 2018

AVISON YOUNG
Intelligent Real Estate Solutions

avisonyoung.com

For more information, please contact:

A. Mitti Liebersohn
President and Managing Director, NYC Operations
212.729.7734
mitti.liebersohn@avisonyoung.com

Corey Deslandes
Research Manager
212.729.6973
corey.deslandes@avisonyoung.com

Marisha Clinton
Senior Director of Research, Tri-State
212.729.1193
marisha.clinton@avisonyoung.com

1166 Avenue of the Americas
15th Floor
New York, NY 10036
212.729.7140