Looking Ahead

**Tax Plan Proposal Could Potentially Help Leveraged RE Firms**

An emerging tax plan proposed by Republican candidate Donald Trump could reportedly benefit debt-laden real estate companies by coupling 2-policies — letting businesses deduct interest and allowing expensing, or immediate write-offs, for investments in equipment and buildings. The proposal would “provide negative tax rates for investments financed with debt, creating incentives for companies to pursue projects that wouldn’t make sense economically without the tax benefits.” Currently tax law requires businesses to spread the deductions over multiple years, but under Trump’s proposed plan “a business would be able to generate significant losses in the first year of an investment and then generate ongoing interest deductions. Those losses could be carried forward and used to offset future income.” It is reportedly the intended goal of the tax plan, which is still a work-in-progress, to “tie expensing to job creation and new investment and not, for example, purchases of existing leveraged real estate portfolios,” according to reported comments by a Trump advisor.

**Interest Deductions:** The pairing of an end to interest deductions and expensing is typically done to prevent giving an extra subsidy according to some sources, however it is anticipated that the taking away of interest deductibility would make it hard for businesses to capitalize; and with that in mind Trump had proposed an unspecified “reasonable cap” in an earlier proposed tax plan.

**Expensing:** The policy has reportedly grown in popularity with Republicans over the past few years as a way to stimulate business spending and spur economic growth. Some sources further point out that expensing would “increase long-run gross domestic product by more than 5% and is efficient because it only rewards new capital and reduces the marginal effective tax rate on new investment to zero.”

The yet to be officially announced proposed tax plan has sparked mixed response, critics anticipating that the proposal would basically convert the tax code into a direct spending program for anything declared as a debt-financed business investment unless sharp limits are established on interest deductions. In addition, it has been cautioned that expensing could result in potential revenue loss, while projecting that the “speeding up of deductions for capital investment would not have much benefit in an era when low interest rates mean deductions today and deductions in the future have similar value.” Concerns have also arisen that the plan to allow immediate write-offs and interest deductions would give large corporations generating high profits an advantage over start-up companies whose profits are significantly lower.

In contrast, proponents of the proposal say that interest deductions can be appropriately combined with expensing, pointing out that “many recipients of interest, such as banks, would pay taxes on the interest income they receive from the businesses taking deductions.” It is also anticipated that the plan would encourage investment in plants and equipment.

Looking Ahead (cont’d)

NYC Comptroller’s Office: NYC Quarterly Economic Update 2Q16

The report released in August revealed a continued positive growth of the city’s economy during the 2nd quarter, but the pace of growth represented the slowest rate since the 4th quarter of 2013 despite continuing to outpace the nation’s economic growth. The 1.7% estimated annual rate of the city’s real gross city product (GCP) for the 2nd quarter, exceeded the nation’s 1.2% rate by nearly 40% as private domestic investment fell to its lowest level in 7-years amidst uncertainty over the Federal Reserve’s interest rate hikes and low energy prices. Signs continue to surface of a weakening of the city’s economy as commercial leasing activity slows and venture capital investment remains on a downward trend.

<table>
<thead>
<tr>
<th>2nd Quarter 2016 - Key Economic Indicators</th>
<th>2Q16</th>
<th>1Q16</th>
<th>2Q15</th>
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<tr>
<td>NYC Compared with U.S. for 1Q16 and 2Q15</td>
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<td>Gross City Product (GCP)*</td>
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<tr>
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<tr>
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<td>U.S.</td>
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*Seasonally adjusted annual rate
**Not seasonally adjusted
***Seasonally adjusted

- **Venture Capital Investment** (VC) – Totaed about $1.4 billion in the 2nd quarter in the New York metro area, representing a 40.3% decrease year-over-year from the nearly $2.4 billion total last year. On the national level, VC investment fell at a more moderate rate of 12.2% to $15.3 billion in the 2nd quarter, while Silicon Valley incurred a 9.6% decrease to $8.2 billion. VC investment in the New York metro area was spread across 124 deals, a nearly 16% decline of the total 147 deals year-over-year. Deal volume on the national level and in Silicon Valley slid more sharply by 22% and 20% respectively as the total number of deals fell to 961 and 311 in the 2nd quarter.

- **Hospitality Market** – The city’s hospitality market fell in April 2016, hotel occupancy in Manhattan averaged 89%, a 2.5% decline over the year-over-year rate of 91.3%. Average daily room rates lowered at a comparatively faster pace, declining 5.2% to $271 versus last April’s average rate of $286.

Fast-Growing WeWork Facing Financial Setbacks

The co-working space provider that was founded in 2010 and has become a prominent player in New York City’s real estate market and reportedly boasts a roster of 64,000 users in 83 buildings throughout 22 cities across 7-countries appears to be experiencing some growing pains. Estimated to be worth $16 billion, WeWork’s revenue projections of $2.9 billion for 2018 reported last year were significantly higher than the $75 million expected in 2014. However, this year projections were more conservative as the 6-year startup slashed its profit forecast for 2016 by 78%, cut revenue estimates by 14%, and disclosed a 63% surge in projected negative cash flow according to some mid-July reports. Delayed building openings, “higher spending on construction and lower-than-expected remodeling subsidies from landlords, particularly outside the U.S.” attributed to the lower projections.

WeWork has reportedly relied on a good percentage of space build-out costs being shouldered by the landlord, and has had to adapt in some markets where the concept of tenant improvements (TI) and rent concession doesn’t exist. Estimates of capital expenditure by landlords were reportedly reduced by 21% for 2016, from the company’s original expectation of 75%. Typical spending for build-outs ranges $200-$250 a foot on usable square feet depending on the market according to reported information from a company spokesperson earlier this year — a figure that is about triple the roughly $70 per square foot TI allowance a landlord provides in Manhattan.

Some of the co-working space operator’s Lower Manhattan facilities reportedly have a higher level of vacancy than is typical at other WeWork facilities. According to reported comments by a company in May, locations open at least 6-months generally have a 98% occupancy. Tenant incentives for new members at 4-Lower Manhattan locations — 25 Broadway, an 86,000-square-foot facility leased in 2013, 85 Broad Street, a 240,000-square-foot facility leased in 2015, as well as 200 Broadway and 110 Wall Street were being offering for a period of time such as a 50% discount for the first 3-months and free upgrades to larger spaces plus a 25% discount for the first 6-months. Although average occupancy and revenues per member of 99% and $630 per month were projected, dropping to 85% and $599 per month in an economic downturn, some industry sources point out that the company’s balance sheet may be “vulnerable to fluctuations in the venture capital markets to tech,” as the start-ups become unable to afford the more expensive office space at WeWork’s facilities if the flow of venture capital cash disappears. We Work hopes its move to further diversify by leasing space to professionals outside the technology sector and the taking on of larger tenants will help diminish risk.

WeWork (cont’d)

Other recent bumps in the road have surfaced with the company’s WeLive co-living platform. Build-out costs have reportedly been higher than expected, prompting the 6-year-old startup to put on hold projected plans for the opening of 14 WeLive locations by the end of 2016. Currently there are (2) co-living locations in operation — Crystal City in Washington, D.C. owned by Vornado Realty Trust, and Rudin Management’s 110 Wall Street in Manhattan’s Financial District. While a 3rd WeLive location is reportedly planned, moving forward the concept will primarily be put into new developments. A potential collaboration with Kushner Companies at Jersey City could give rise to a WeLive facility, the developer is considering turning a portion of the 57-story development at One Journal Square into a co-living space; joining a WeWork-operated 101,000-square-foot co-working space that has already been planned for the tower according to reports.

While the company’s growth has been outstanding, it has yet to go through its first economic downturn as continued new facility openings are expected to broaden the company’s market share to an additional 8 cities and 6 countries including India, Mexico and South Korea, bringing the total number of facilities to 111. Some industry people have paralleled the co-working space concept to that of a hotel, both the landlord and co-working space provider relying on rent income being generated from transient sub-tenants. While demand continues to exist the concept can be very lucrative, but in the event of demand softening, the potential for revenue to significantly drop exists. In addition, since startups don’t typically meet the creditworthiness of a landlord’s demands for a direct lease, the risk is further increased.

In 2003 of finance center provider Regus, another large player in the New York City real estate market, filed for Chapter 11 bankruptcy. The publicly-traded U.K.-based company’s inability to work-out rental agreements with landlords resulted in the sale of over half its business; but over the last few years has successfully rebounded, having fared the last economic downturn well according to sources.

Although WeWork’s business model of “not just renting space but being part of a community” has operated successfully in countries such as the U.S, the U.K. and Australia, some sources point out that it has yet to be tested in other markets such as China. WeWork debuted its first China location in July; and although reportedly leasing out all 500-desks at the facility quickly, will face competition from about 100 other competitors in the market despite successfully raising $430 million from Chinese investors to fund the company’s expansion into Asia. In addition, China’s largest developer Soho China announced plans to further diversify and enter the shared office market at a time when the developer’s profits are declining. The Beijing-based firm which owns a 40% stake in New York City’s GM Building at 767 Fifth Avenue launched its co-working brand 3Q this year, and is currently leasing 16,000 desks at locations in Beijing and Shanghai. Although Soho China reportedly has no immediate intentions to expand its co-working division stateside, plans are being outlined to launch 3Q in several new markets. Looking further ahead, the company is considering an expansion of its strengthening capabilities to operate its locations and offer similar managerial services outside the company’s WeWork-branded locations.
In the News (cont’d)

The Rise and Fall of Niche Co-working Space Providers

Several specialized co-working space providers have been launched in recent years in an attempt to grab a piece of New York City’s growing co-working market. Newcomers in the industry attempt to stand-out amongst the crowded field that reportedly claims over 180 locations spread across a total of 6 million square feet throughout the city by creating locations that focus on specific professions and interests. It has been estimated that niche co-working space providers currently account for about 25% of the industry; however despite market potential, many do not survive due to several significant challenges including annual rent increases and finding a suitable space. In an effort to survive, some ultimately shift away from their narrow focus and open the facility to a broader variety of industries to attract more members such as The Productive Studios which launched in 2012 offering space for animators, filmmakers and visual artists that now only account for about 30% of the company’s membership.

- **Good Company** which offered shared workspaces exclusively to women shuttered in 2015 after 9-years in business at 16 West 23rd Street (Flatiron).
- **Makeshift Society-Brooklyn** was focused on freelancers, shuttering its 5,775-square-foot Brooklyn location at 55 Hope Street (Williamsburg) after about 2-years, currently operating a single facility in San Francisco.

Despite a number of niche co-working start-ups that have failed, others continue to forge ahead:

- **Centre for Social Innovation** launched in 2003 with a focus of offering shared space to organizations and individuals whose work involves a social mission. The Toronto-based non-profit opened a 27,000-square-foot facility in 2013 at the Starrett-Lehigh Building, 601 West 26th Street (Chelsea); and has reportedly been operating at full capacity since 2014. Gaps in overhead costs are covered by the organization's fundraising efforts.

- **The Writers Room** claims the title as the “nation's first non-profit, shared writing workspace” with a facility at 740 Broadway (Greenwich Village). Launched in 1978, the company has a membership of over 200 which take advantage of low membership fees due to gifts and grants from government agencies, foundations, corporations and individuals.

- **Primary** which was reportedly launched by a former We Work employee focuses on attracting health-conscious, mid-career business professionals, opening their first facility in May at 26 Broadway (FiDi). The 25,000-square-foot space also features fitness studios offering a curated schedule of rotating yoga, guided meditation, and strength training classes to members. The company which is currently running at about 92% of its total 350-member capacity is seeking a 2nd Manhattan location.

- **Collab** operates out of a 5,000-square-foot facility at 304 Hudson Street (Hudson Square), offering co-working space to industrial designers, architects, engineers and other creative entrepreneurs focused on fabrication and innovation. Shared equipment includes a laser cutter, 3D printer, and industrial sewing machines. The company also serves as an “accelerator” for small businesses, successfully helping in the launch of 10 companies. The facility is currently operating at about 80% of its 30-member capacity.

- **Con Artist Collective** is located in a 3,000-square-foot co-working studio at 119 Ludlow Street (Lower East Side). Initially launched in 2010, the company that offers studio space for artists now boasts 600 members. In addition to access to tools for all kinds of projects, the facility’s storefront is utilized as a gallery space which members can rent for solo or group shows.

- **Paragraph** is located in a 3,000-square-foot facility at 35 West 14th Street (Flatiron/Chelsea). Launched in 2005, the co-working start-up offers 38-partitioned desk for writers. Membership fees include access to a monthly roundtable of literary agents and editors; as well as access to affiliated spaces in Chicago and Toronto. A lease renewal was successfully negotiated in 2010; however rising rents continue to be a concern due to narrow profit-margins.
Biotech Startups Find New York City Lacking

Strong efforts were made during the Bloomberg administration to boost the availability of biotech space in the hopes of making the city competitively on par with the well-established biotech environments in cities such as Boston and Cambridge. The construction of the Alexandria Center for Life Sciences added over 700,000 square feet of new life sciences facilities along the city’s East River. The new state-of-the-art space successfully attracted big name research tenants such as Switzerland-based Roche, Indiana-based Eli Lilly &Co., and New York-based Pfizer. The complex is comprised of a 317,433-square-foot East Tower at 430 East 29th Street which was delivered in 2010, and a 421,000-square-foot West Tower at 450 East 29th Street delivered 3-years later.

Initiatives launched to help promote early-stage life sciences startups included:

- $100 million funding initiative established in 2014 by the city’s Economic Development Corporation (NYCEDC) in partnership with pharmaceutical companies Celgene and Eli Lilly, and VC firm GE Ventures.
- $30 million investment from Seattle, WA-based biotech investment and management firm Accelerator Group was established for use by the Alexandria Center for the recruiting of incubating startups.

In addition, new incubator facilities such as the 2014 launch of the Harlem Biospace in the Sweets Building at 423 West 127th Street offered startup biotech ventures lab space for projects at rents that upon opening were reportedly in the neighborhood of $995 per desk monthly. More recently, the Alexandria Center announced plans to open LaunchLabs next summer, a 15,000-square-foot facility that will provide affordable lab space for up to 25 seed-stage companies which will have preferred access to a $10 million-$25 million seed fund. Looking ahead, the NYCEDC is working to expand the low-cost concept of the Harlem Biospace to other locations, and Cambridge, MA-based BioLabs is planning to open a New York location as part of the company’s ongoing efforts to build a national network of shared working spaces offering fully equipped lab space for up to 3-dozen biotech startups.

However despite ongoing efforts by the city to further build its biotech sector, New York continues to remain lacking in financial resources dedicated to early-stage biotech startups which typically face a long road to profits and have found local financing in the city a challenge to secure. While several early-stage startups have utilized the 2,500-square-foot facility at the Harlem Biospace, nearly half of the companies which emerged as businesses have reportedly left New York. According to reported statistics compiled by the Partnership Fund for New York City, only 6-cents in life-sciences investment was generated for every dollar New York State received from the National Institute of Health (NIH) in 2015 compared to the $1.32 generated in Massachusetts. Furthermore only $20 million in angel and seed funding went to life-sciences companies in New York between 2006 and 2015, representing a figure that was significantly less than the $184 million total in California’s Silicon Valley.

Although the situation is changing and New York City is attracting more biotech investment, the pace of improvement remains inadequate for the current demand. While biotech venture capital spending in the city has surged in the last few years, reportedly reaching a total of $98.6 million in the first-half of 2016 as compared to $121 million in all of 2015, the total $205 million spent in the metro area during the same period is significantly diminished in comparison to the $1.4 billion and $1.2 billion spent in the New England area and Silicon Valley respectively.
StadCo Seeks to Refinance Yankee Stadium

Yankee Stadium LLC (StadCo) is reportedly seeking $1.04 billion to refinance the 54,000-seat Yankee Stadium ballpark according to reported details of a filing with the New York City Industrial Development Agency (NYC IDA), likely trying to take advantage of current low interest rates. StadCo currently controls the Bronx stadium through a lease from the facility’s owner the NYC IDA and a sublease of the land from also from the NYC IDA, who in turn has a 99-year lease with fee-owner the City of New York. The stadium’s downgraded rating in 2013 by credit rating agency Moody’s, due to a 3-year decline in ticket sales resulting in a nearly 20% drop in revenue, was reportedly upgraded in June; the stadium’s ability to generate excess cash flows and “proven resiliency through variable team performance and economic cycles” reportedly attributed to the change.

Original financing for the construction of the new stadium was secured through a 2-round issuance of tax-exempt bonds in 2006 and 2009 totaling $1.2 billion; and although sports stadiums are ineligible to use tax-exempt private activity bonds per Internal Revenue Service’s (IRS) policies, via a loophole the city was able to reportedly structure “the deal in a way that the stadium pay off debt service through payments in lieu of real estate taxes (or PILOT payments) as opposed to rent (although the IRS has since updated policies that would disallow this type of structure in the future). StadCo’s request for the issuing of a new round of tax-exempt bonds to refinance the stadium was expected to be included on NYC IDA’s mid-September meeting agenda.

MTA to Enter the Bond Market

Plans to issue $1.06 billion worth of bonds backed by real estate are reportedly in the works by the Metropolitan Transportation Authority (MTA) for the first time in its history. Revenue generated from leasing the land beneath the Hudson Yards project to co-developers the Related Companies and Oxford Property Group is expected to pay-off the bonds. The bonds set to mature in 2056 will be underwritten by Goldman Sachs, with a proposed interest rate of 2.63% to 2.75%, and monthly rent payments will cover the bonds. It had been projected that a total of $1.784 billion in revenue will be generated during the 14-year construction period of the Hudson Yards project from 2011 through 2025; and another $89 million annually in ground lease payments and dedicated MTA taxes according to reported details of an economic analysis commissioned by the developers and released in May1. As a new player in the bond market, it has been speculated that the opportunity to diversify will attract investor interest.

1The projections within the study are contingent upon several economic indicators, such as the continued demand for Class A office space that will be sufficient to lease the remaining approximately 6.4 million square feet of office space. Currency expectations are reportedly based upon 2018 forecasts — representing the mid-point of construction.
Marriott Closes on Starwood Buy

A total of 30 hotel brands will now fall under one umbrella as a result of Marriott International's acquisition of Starwood Hotels & Resorts Worldwide. The $13 billion deal that reportedly closed on September 23rd shifts the title as the largest hotel chain to Bethesda, MD-based Marriott, which now eclipses Hilton Worldwide. Hotel brands including Sheraton, Westin, W, and St. Regis will join the roster to create a portfolio of over 5,700 properties and 1.1 million-keys in over 110 countries according to reports.

The sale offering launched by Starwood in April 2015, was reportedly prompted by the Connecticut-based company’s growth struggles amidst faster paced competitors, particularly in the “limited service hotels.” Respondents to the offer attracted China’s Anbang Insurance Group which triggered a bidding war pushing Marriott’s initial bid of $12.2 billion in November 2015 to $14 billion in cash, Anbang subsequently withdrawing its bid at the end of March. Although several details have yet to be worked-out as the 2-companies merge, Marriott’s purchase is expected to give the company more leverage with corporate travel departments who frequently look for one giant chain to house all their employees.

Micro-Hotel Market Heats Up in New York City

The up-and-coming millennial population is reportedly projected to comprise about 50% of business travelers by 2020, however limited discretionary income has heightened the search for bargains by today’s young adults. A growing demand for lower priced hotel accommodations with a trendier appeal favored by millennials has begun to drive the micro-hotel concept in New York City, as several entrants establish locations in Manhattan. The niche concept offers lower price rates for travelers while the downsized rooms allow developers to fit more rooms per square foot potentially generating increased profits.

Arlo Hudson Square, 231 Hudson Street – The 325-key hotel opened its doors in early September. Average guestrooms measure 160-feet and reportedly offer an elevated design scheme and service more typical of higher-end, full-sized hotels. The new micro-hotel will soon be joined by its 250-unit sister Arlo NoMad at 11 East 31st Street which is expected to open in November. Guest rooms feature wall-mounted consoles that fold out into desks, carved-out space under the beds for suitcase storage, and peg boards for hanging clothes. Each hotel offers lounges, bars and restaurants.

YOTEL, 570 Tenth Avenue – The 669-key hotel is located in a portion of the MiMa complex on the Far West Side, offers “futuristic-chic” rooms averaging 170 square feet in size. Opened in 2011, the hotel features a 7,000-square-foot communal terrace, restaurant and gym. Guest amenities include free WiFi, custom-designed bicycles called Yotel Bikes; and a mobile concierge app to assist with check-in, as well as send alerts for Yotel activities and a city guide with information of local eateries and bars. A 110-key Yotel is planned for Brooklyn’s Williamsburg neighborhood at 646 Lorimer Street as part of a mixed-used condo-hotel development. The hotel will be located at the base of the 14-story development that will also host 6-8 condo units on the upper floors.

CitizenM Hotel, 218 West 50th Street – The 230-key hotel that opened in 2014 offers 170-square-foot guest rooms that feature free WiFi, flat-screen T.V.’s, floor-to-ceiling windows, and tablets that control the T.V., blinds, temperature and lighting. Guest amenities include a gym on the 20th floor offering city views, a library, rooftop guest-only bar, plus a coffee and cocktail bar.

Pod 51, 230 East 51st Street / Pod 39, 145 East 39th Street – The 348- and 366-key hotels offer guest rooms that start at 72- and 90 square feet respectively featuring free WiFi and in-room media center or iPod dock. Restaurants and open rooftop areas vary at each hotel.
New York City’s Unemployment

- According to the New York State Department of Labor’s figures, the city’s unemployment rate rose to 5.7% (not seasonally adjusted) at the end of August; in comparison to 5.1% at the end of the 2nd quarter. Year-over-year figures resulted in a roughly 7.6% setback from the 5.3% rate last August.
- Unemployment on the National level rose to 4.6% at the end of August, increasing roughly 4.6% from the 2nd quarter figure of 4.4%. Year-over-year figures resulted in a 6.1% improvement from the 4.9% rate in August 2015.
- Employment activity in New York City’s private sector resulted in the gain of 6,100 jobs for the 3 month period between May 2016 and August 2016. Year-over-year figures resulted in a 2.4% gain of 89,400 jobs; in comparison to 1.5% and 1.9% year-over-year growth for New York State and the nation respectively. Educational and Health Services continued to lead the way, followed by the Leisure and Hospitality sector. Job numbers rose at a slower pace in comparison to that of the previous year’s 3.1% improvement.

Weekly Wages

Overall weekly wages in New York City averaged $2,783 at the end of the 1st quarter 2016, representing a negative 2.3% slip year-over-year according the recent report released by the U.S. Department of Labor. The Information sector boasted a 1.04% increase year-over-year at the high, in contrast to the Finance sector where wages fell 4.86%.

Vacancy for Class A & B office space rose 1.5% over 2nd quarter’s 8.05% figure, resulting in an 8.17% vacancy at the end of the 3rd quarter. Downtown and Midtown South accounted for the sharpest quarter-over-quarter increase, vacancy rising 4.23% and 3.20% respectively to 8.62% and 4.86%, reversing the previous quarter’s improvement; while Midtown’s vacancy held fairly steady at 8.73%. The June delivery of 860 Washington Street in the Meatpacking district accounted for the largest single block of new inventory introduced in Midtown South during the quarter.

Absorption closed the 3rd quarter at a negative 520,182 square feet resulting in a YTD absorption of negative 1,322,811. The 2nd quarter rebound of 389,067 square feet was not enough to offset the slowdown of leasing activity during the 1st and 3rd quarters. Downtown’s negative absorption of 367,475 square feet accounted for the majority of 3rd quarter’s setback, while Midtown South and Midtown saw a negative 96,246 and 56,641-square-foot absorption respectively.

Rental Rates fell moderately for the 4th consecutive quarter. The overall weighted average asking rent for Class A & B office space of $59.10 per square foot represented an 0.65% decrease over the previous quarter. Downtown saw a moderate rise in overall asking rents of 1.44%, reaching $48.93 per square foot; while Midtown rents remained unchanged at $65.25 per square foot. In contrast, overall weighted average asking rents in Midtown South fell 1.49% to $66.50 per square foot. Overall Class B rents rose 1.61%, reaching $59.81 per square foot; in contrast to Class A rents which lowered to $58.58 per square foot, representing a 2.13% decline.

Class A & B Statistics At A Glance

3rd Quarter 2016

Vacancy

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WTD Average Asking Lease Rent

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Net Absorption

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Thousands (400)(200) 0 200

Quarter-over-Quarter

Vacancy

Lease & Sublease Sq. Ftge

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Net Absorption

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<tr>
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<tr>
<td>3Q16</td>
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Quarter-over-Quarter Inventory Changes

Downtown

Midtown South

Midtown

*Buildings 75,000 SF and larger; vacancy and absorption calculations based upon move-in date versus deal signing date
### Submarket Statistics Overview: Class A & B Office

<table>
<thead>
<tr>
<th>Manhattan</th>
<th>Inventory</th>
<th>Vacant Sq. Ftge.</th>
<th>Vacancy Rate</th>
<th>WTD Avg Rent PSF</th>
<th>Net Absorption</th>
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<tr>
<td>Submarkets</td>
<td>Total RBA*</td>
<td>Direct Sq. Ftge.</td>
<td>Overall Vacancy</td>
<td>Direct Asking</td>
<td>Year-to-Date Sq. Ftge</td>
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<td>Sublet Sq. Ftge.</td>
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<td>U.N Plaza</td>
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<td>Grand Total</td>
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<td><strong>32,487,590</strong></td>
<td><strong>7.40%</strong></td>
<td><strong>0.77%</strong></td>
<td><strong>8.17%</strong></td>
</tr>
</tbody>
</table>

*Buildings 75,000 SF and larger; vacancy and absorption calculations based upon move-in date versus deal signing date*
Leasing Activity (cont’d)

Big Block Tenants in the Market

**BlackRock** – The asset manager currently headquartered in approximately 700,000 square feet in 2-buildings in the Plaza District — 55 East 52nd Street and 40 East 52nd Street; and although still considering a renewal is reportedly exploring options including a possible relocation upon leases expiring in 2023. While the financial company could ultimately opt to remain in place, news of the search could create leverage for securing better leasing terms at their current locations. Seeking a new headquarters of 850,000 square feet at a possible annual rent of $60 million ($71 per square foot), the search has reportedly been narrowed down to (2) locations on the Far West Side — **50 Hudson Yards**, a planned 62-story, 2.3 million-square-foot tower yet to break ground at Related Companies and Oxford Property Group’s Hudson Yards project where the developers have offered some tenants the investment opportunity of taking a stake in the building that they occupy; and Tishman Speyer’s planned 65-story, 2.85 million-square-foot development dubbed **The Spiral at 66 Hudson Boulevard**. Earlier considerations of a potential move to Brooklyn Office Properties’ **Manhattan West** and the World Trade Center Complex as a possible anchor for Silverstein Properties’ **2 World Trade Center** have apparently been eliminated from BlackRock’s search.

The news of the company’s intended expansion comes at a time when the bank industry has been downsizing under the pressure of heightened regulations; in contrast to asset managers such as BlackRock which has enjoyed market share growth, boasting an increase in the number of its employees globally by nearly 150% from the 5,341 total in 2008 according to sources. Founded in the late 1980s, the company has continued to remain within a 4-square-block radius of its original Park Avenue office. Considerations of future long-term needs such as meeting space, amenities, and daily workforce space requirements will play into the decision making process.

**Estée Lauder** – News that the cosmetics firm is reportedly considering a relocation of their current 300,000-square-foot headquarters at the GM building, 767 Fifth Avenue (Plaza) has resurfaced, originally announced back in December 2015. The space which spreads across floors 37-43, 45 and 46 at the tower is under a lease that expires in 2020. The 70-year-old company is in the early stages of a search for up to 500,000 square feet that will also allow a consolidation of 150,000 square feet expiring in 2018 they occupy at nearby 110 East 59th Street. The 166,000 square feet of office space currently leased at 28-40 West 23rd Street and occupied by the company’s Aramis & Designer Fragrance division, as well as its digital and social media staff, will remain should any relocation move forward.

**Spotify** – The digital music streaming service is rumored to be planning to enter the market with the intention of seeking up to 350,000 square feet for its New York City headquarters. The Sweden-based tech firm is currently located in about 115,000-123,000 square feet at 620 Sixth Avenue, having leased 73,000 square feet on the entire 7th floor in 2012 upon relocating to the 7-story Chelsea building from Google’s 111 Eighth Avenue; and subsequently expanding to the 3rd floor in 2014 which increased the company’s footprint by 51,958 square feet. In light of reported plans to launch an initial public offering (IPO) in the 2nd-half of 2017, Spotify is hoping to begin building out new offices by next summer; and possibly relocate from Sweden to New York City. Considerations of a home base move have been prompted in part by Swedish tax law restrictions on the offering of generous stock options to employees, a tool the company has used to attract top talent which could lead to a spike in job opportunities in the U.S. according to reports.
Leasing Activity (cont’d)

Large Vacancy on the Horizon

**345 Hudson Street / 375 Hudson Street** (Hudson Square) – Publishing company Penguin Random House has been split between Midtown and Midtown South offices since the 2013 merger of London-based Pearson PLC’s Penguin Group and Germany-based Bertelsmann’s Random House. In August, plans were announced of an intended consolidation of offices to 1745 Broadway (Columbus Circle) where most of the employees of the former Random House are located. The relocation which is not expected to take place until late 2018 will result in about 440,000 square feet in total being vacated between the 2-Hudson Street locations — 300,000 square feet at 375 Hudson Street and 140,000 square feet at 345 Hudson Street.

An estimated $20 million is projected to be recaptured in annual savings; and although it previously seemed financially “daunting” to bring the publisher’s over 2,400 employees under one roof, the company was presented with “an unanticipated, one-time opportunity” to accommodate the entire staff “at a greatly reduced long-term rent,” according to reported statements by a company source. Penguin Random House already leases 685,000 square feet spread across floors 2-25, representing the entire office component of the mixed-use tower. It was rumored last year that the publisher had plans to exercise a clause in its lease allowing the company to vacate almost 50% of the space leaving floors 14-25 vacant, with the remaining space retained set to reportedly expire in 2023.

Last October SL Green Realty Corp and Ivanhoe Cambridge introduced the office condo interest within the 50-story, 930,000-square-foot tower to the market, hoping to fetch in excess of $700 million ($1,022 per square foot). The remaining upper 25-floors comprise residential space known as Park Imperial Apartments.

Large Blocks of Space that became Vacant in the 3rd Quarter

**12 East 49th Street** (Plaza) – 159,306 square feet at **Tower 49** was vacated by retail trade firm **Hudson’s Bay Corp.** (HBC) upon relocating to nearly 400,000 square feet at Lower Manhattan’s Brookfield Place (World Trade Center) in an effort to consolidate the company’s Manhattan offices. The space had served as the executive offices for **Saks & Company**, now more widely known as Saks 5th Avenue, since 1985. A 20-year renewal had reportedly been last secured in 1997 for the 190,000 square feet the retailer occupied at the time. HBC had inherited the space upon acquiring Saks in 2013.

**31 West 52nd Street** (Plaza) – 114,201 square feet was vacated by **Assured Guaranty** (AG) upon relocating to about 80,000 square feet at 1633 Broadway (Columbus Circle). AG had reportedly inherited the space upon acquiring insurer Financial Security Assurance (FSA) in 2009. The space which was under a sublease secured by the former FSA in 2004 was due to expire in June 2017. AG was able to successfully secure a relocation to a nearby building which was under the same ownership. Negotiations resulted in a win-win for both the tenant and landlord, AG able to downsizing to about 80,000 square feet through a new lease that included an above-market concession package plus 2-parking spots; while the landlord filled space at a higher vacancy property, reportedly agreeing to use a rent credit and a percentage of the profits from the re-lease to buy-out AG’s remaining term at the West 52nd Street location.

**2 Herald Square** (Penn Plaza) – 122,057 square feet of building-within-building space was vacated by advertising firm **Publicis** which has consolidated the bulk of the company’s Manhattan offices in roughly 580,000 square feet at 1675 Broadway (Columbus Circle).

**860 Washington Street** (Chelsea/MePa) – 117,314 square feet was introduced to the market upon delivery of the newly constructed office-retail development. The 12-story building located one block north of the new Whitney Museum includes multi-level retail space totaling about 20,000 square feet. Pre-leasing activity successfully attracted architecture firm **Delos Living**, which committed to 21,979 square feet last year in a 10-year deal at a reported asking rent of $150 per square foot; and more recently electric car manufacturer **Tesla** signed on for 7,316 square feet of ground level space boasting 23-foot ceiling heights.

**55 Water Street** (FiDi) – 143,260 square feet was previously occupied by property and casualty insurer **CHUBB**. The short-term sublease which spreads across entire floors 29 and 30 plus a portion of the 28th floor has a remaining term of about 1-year. CHUBB, which was reportedly acquired by Ace Limited earlier this year is currently headquartered at 1133 Sixth Avenue (Times Square).

**200 Vesey Street** (World Trade Center) – 226,049 square feet is being vacated by **American Express** that is spread across entire floors 5, 6, 19 and 28 plus a portion of the 6th floor at the building which is part of the 4-building Brookfield Place complex. The credit card company reportedly owns the space which currently serves as its Manhattan headquarters, representing about 50% of the building’s total 2.5 million square feet, with Brookfield Office Properties owning the remainder.
Leasing Activity (cont’d)

Notable Move-ins During the 3rd Quarter

1440 Broadway (Penn Plaza) – 104,525 square feet was leased on a short-term basis of about 3-years by the Ford Foundation. The philanthropic organization will utilize the space secured late last year to house its 325 employees while its longtime headquarters at 320 East 43rd Street (U.N. Plaza) undergoes a $190 million renovation.

1133 Sixth Avenue (Times Square) – 132,400 square feet spread across entire floors 7-10 was leased by ING Financial earlier this year. The 10-year relocation deal will fill some of the approximately 285,000 square feet vacated in 2014 by the Internal Revenue Service. The 9-floor block had undergone a demolition of the IRS’ build-out, with additional capital invested to nicely finish-off the raw spaces that in 2015 were being offered at an asking rent of $75 per square foot.

225 Park Avenue South (Flatiron/Gramercy Park) – 159,568 square feet spread across 6-floors leased by social media firm Facebook, absorbed most of the remaining big block of space vacated by the Port Authority of New York & New Jersey (PANYNJ) upon relocating to Lower Manhattan’s 4 World Trade Center last year. In late 2014, digital media firm Buzzfeed committed to another 6-floors totaling 163,262 square feet of the former PANYNJ space which had comprised the majority of the building’s 537,500 square feet.
Developing Trends

Office Space goes Mobile

The city’s on-the-go work environment is driving a re-design of office space bringing a new image as the workspace shifts away from traditional cubicles and stationary desktop systems to a more fluid workspace that allows for flexible furniture arrangements; and is centered on network connectivity and mobile practices. The faster pace of changing technology has made it crucial for office designs to be adaptable in order to meet continually changing parameters and equipment upgrades.

- Open floor plans and tech-prepped workstations complete with monitors and network access for tablets or computer laptops are projected to become more common;

- Workspace locations for employees will no longer be permanently assigned, and will be replaced with a sign in to temporarily access available plug-in stations that will facilitate the freedom of staff to walk around the office with laptops or tablets. Remote workdays will also become more common; and

- Conference room space will be more dynamic, outfitted with large digital walls for television monitors, tablets and next generation technical devices, replacing the traditional high-level design with less adaptable built-in, large-scale television monitors and video screens.

Technological adaptability has become a crucial part of the design of new buildings as exemplified by features being incorporated into the **Hudson Yards** project being constructed by the Related Companies and Oxford Property Group. The micro-neighborhood rising above the Westside Rail Yards will feature “high-speed communications systems for across-the-board wired and wireless access.” Office building-specific technology will include “control management systems equipped with control readers, video security, intercom systems and comprehensive audit trails to monitor the buildings’ high-speed elevators.” The project’s advanced systems “will also allow managers to monitor and adjust areas as needed, including traffic patterns, air quality, power usage and more.”

Recently it was announced that co-working space provider **WeWork** has launched a testing site for new technology on a floor at its Times Square facility at 1460 Broadway. Some technology for the office workplace that the company is reportedly testing includes:

- **Beacons** – A tracking system increasingly used by retailers that monitors movement and connects with user’s iPhones. In the office environment beacons can be used to alert a member upon entering a conference room not yet booked, generating a notification offering to schedule the space via a WeWork app. Starwood Hotels and Resorts began using similar technology in 2014 to automate some of the check-in process at over 1,200 properties according to sources.

- **Heat Maps** – The technology that identifies where members work and linger has also been used in the retail industry. WeWork is hoping to utilize the technology to help determine the best layout for wall placement and desk location. In addition ceiling cameras will tract people’s passage through doorways.

In addition by “overlaying an IT network and connecting all traditionally unconnected equipment, monitoring, analyzing and controlling business processes” through **enterprise resource planning** (ERP) overall asset management can be significantly improved while creating a better work environment for tenants. ERP is a business process management software that allows a system of integrated applications to manage a business and automate many back office functions related to technology, service and human resources.
Developing Trends

The South Bronx Projected as the Next Up-and-Coming Office Market

Conveniently located just one or two train stops away from Upper Manhattan, and about 20-25 minutes to Midtown, the city’s northernmost borough is beginning to see an uptick in office-conversion in the waterfront neighborhoods of Mott Haven and Port Morris. The number of projects has been gradually rising since both 14 and 26 Bruckner Boulevard were converted by BNS Real Estate in 2000 and 1998 respectively. While the South Bronx area is several years away from establishing itself as a major office district, the “collective efforts for some more residential developments, office buildings to be converted, and more restaurants to open” will likely determine the pace at which the developing transition moves according to some.

An increase in development activity over the last few years has given rise to some notable office-conversion projects, developers attracted to the more affordable prices and good mass transit connection via the 2, 4, 5, 6, B, and D subway lines.

- **20 Bruckner Boulevard** – Madd Equities is reportedly investing about $25 million to reposition the 181,500-square-foot former ice-making factory known as the Ruppert Ice House into a mix of office space and production studios.

- **2417-2433 Third Avenue aka 230 East 134th Street** – Co developers Hornig Capital Partners and Savanna are reportedly nearing the completion of a $12 million revitalization of the 172,000-square-foot loft building. An additional $42 million has reportedly been invested to reposition the building which in part included the installation of a new roof and 2-new passenger elevators, construction of a new lobby, and upgrades to the electrical systems. The 8-story building was acquired last year for $30.57 million ($177 per square foot).

- **780 East 135th Street aka 138-162 Willow Avenue** – Plans have yet to be finalized by the partnership of the Bluestone Group, Altmark Group, and Princeton Holdings for the 6-story, 84,650-square-foot warehouse; but an expansion to 110,000-square feet and conversion to house artists’ lofts and creative office suites is reportedly being considered. The building that spans the entire block-front along Willow Avenue between East 134th and 135th Streets was acquired earlier this year for $14.1 million ($167 per square-foot).

- **825 East 141st Street** – The 7-story, 275,000-square-foot industrial building will reportedly undergo an office conversion, although plans have yet to be finalized. A partnership of Bluestone Group, Altmark Group, Madison Realty Capital, and Galil Management acquired the building that is located off the Bruckner Expressway in June for $38.875 million ($141 per square foot).

- **98 Lincoln Avenue** – Grocery delivery service FreshDirect broke ground on the construction of the company’s new 500,000-square-foot headquarters last year. Along with a warehouse and distribution facility, the new building will house over 600 office workers.

- **558 Grand Concourse** – Repositioning plans of the former 175,000-square-foot former Bronx General Post Office will result in the creation of 104,809 square feet of new office space, as well as an approximately 63,482-square-foot retail marketplace and a 6,665-square-foot rooftop restaurant. Developer Younghoo & Associates acquired the building in 2014 for $19 million ($109 per square foot).
Developing Trends

New York City’s Art Scene Heads North

Rising rents continue to fuel a migration of New York City’s art sector. As local artists look beyond Manhattan and Brooklyn for more affordable studio space, the city’s northernmost borough provides one of the last frontiers offering lower rents, an abundance of raw studio space, and commuter accessibility. In recent years, Bronx has begun to emerge as a fast-growing hub for the arts, following in the footsteps of past artist frontiers such as SoHo, Chelsea, Alphabet City and Bushwick. The developing trend has been economically impacting the Bronx, particularly in the southern neighborhoods sections such as Mott Haven/Hunts Point where over the 15-year period from 2000 to 2014 residential rents have risen 33.2%; and the number of college-educated residents in the area has grown from 4.8% to 9.2% according to reported statistics compiled by the NYU Furman Center for Real Estate and Urban Policy.

Leading the way is the Bronx Museum of the Arts. The 45-year old museum has enjoyed continued visitor growth over the last 5-years, a figure that has more than tripled to reach 100,000 since reportedly instituting a policy of free admission in 2012. The surge in museum attendance has prompted a renovation and 36,000-square-foot expansion of the facility to be completed in phases over a period of several years. Efforts to expand the museum’s reach has resulted in the opening of a 4,500-square-foot location at 80 White Street in TriBeCa by its career management program Artists in the Marketplace, offering free studios for artists, as well as exhibition and public programming space. Other facilities further fueling Bronx’ art culture are:

- **Andrew Freedman Complex, 1125 Grand Concourse** – The historic building was repositioned into a destination for art, culture, learning and creativity in 2012 by the Mid-Bronx Senior Citizens Council. In addition to social services, the center offers artist-in-residency programs that provide the opportunity for local artists to work alongside established artists.

- **BXArts Factory** – The newly created non-profit that promotes community art projects launched about 1-year ago. The multidisciplinary initiative will also serve as an incubator for artists and arts-based projects to serve underserved minorities in the Bronx.

- **ID Studio Theater NY, 311 East 140th Street** – The non-profit launched in 2001 promotes the performing arts as a means of building community and providing cultural enrichment.

- **The Bronx Council of the Arts, 1738 Hone Avenue** – The private, non-profit membership organization and provider of cultural services and arts programs.

- **WallWorks, 39 Bruckner Boulevard** – The art gallery opened in 2015, focusing on street art and graffiti.
Surge in Big Block Vacancy Looms for Midtown Submarket

The surge of new office development over the last few years is reportedly anticipated to add roughly 12 million square feet of new office space inventory in the next 5-years, of which about 32% is already leased up largely from tenants expected to depart from Midtown according to reported details of a recent study. The increasing shift of large block tenants to the Far West Side and Lower Manhattan has pushed Midtown’s big-block vacancy volume 72% higher than in 2007 for office space greater than 100,000 square feet that is either already on the market or set to come online in the next few years. Financial tenant incentives have played a significant role in attracting larger tenants, exemplified by the success of Brookfield Office Properties to fill 3-million square feet at Brookfield Place upon tenants Deloitte and Nomura Bank vacating, and Bank of America downsizing its footprint at the complex.

Midtown, the city’s largest major commercial market is generally hit the hardest proportionately when a large supply of new office space outside the submarket emerges. However some industry sources point out that although the increase in vacancy under these circumstances is not unusual, a significant amount of the large blocks currently available or anticipated to hit the market in the next few years are concentrated along Park Avenue — one of the city’s priciest office markets. It is anticipated that the high-end market which traditionally has a more limited audience will offer the biggest value for tenants with the likelihood of increased concession packages.

Many larger landlords are taking the opportunity to upgrade properties with high vacancies in the Midtown submarket — with lobby renovations at the top of the list. Other decisions upon deciding to reposition properties is whether or not to retain large block spaces or break them down into smaller units. Although the smaller tenant market is reportedly more active, the higher volume of lease signings is often more laborious; and while the securing of a large tenant typically comes with more monetary gain, large blocks in Midtown are not quite the premium they are in Midtown South where they are scarce.

Rockefeller Group:

- **1271 Sixth Avenue** – 1.9 million square feet. *Time Inc.* will vacate about 1.28 million square feet at the 1.963 million-square-foot tower as the publisher continues its relocation to 225 Liberty Street in Lower Manhattan’s Brookfield Place. Ownership plans to invest $600 million which will largely go towards redeveloping the 48-story tower, with the remainder set aside for brokerage fees and tenant improvement concessions. Negotiations are currently underway to lease roughly 500,000 square feet to sports organization **Major League Baseball** (MLB), which is currently located in 220,565 square feet at 245 Park Avenue (Grand Central) through a lease that expires in 2022.
Surge in Big Block Vacancy (cont’d)

SL Green Realty Corp:

- **One Vanderbilt** – 1.7 million square feet. The 65-story tower currently under construction represents the bulk of the large vacancy within the REIT’s Midtown portfolio. Although TD Bank has committed to 200,000 square feet, securing additional tenants at this time is challenging since delivery is about 5-years out and very premature for tenants to make decisions according to reported comments by a company source.

The Durst Organization:

- **4 Times Square** – 1.4 million square feet. The deal that resulted in Condé Nast relocating to One World Trade Center in 2014 and vacating about 817,000 square feet spanning floors 4-24 was carefully orchestrated, resulting in the Port Authority of New York & New Jersey (PANYNJ) agreeing to cover the publisher’s monthly rent through lease expiration in 2019. However the looming 2020 relocation of law firm Skadden Arps Slate Meagher & Flom to 5 Manhattan West will create an additional 644,671 square feet of vacant space, increasing the 1.86 million-square-foot tower’s total vacancy to roughly 77%. Ownership is currently making capital improvements the will include the addition of an approximately 12,000-square-foot outdoor space on the building’s setbacks. Company sources have reportedly stated that tenant improvement allowances ranging $70-$75 per square foot are being offered; and that there are several large deals currently in negotiations, including the recently announced signing for 82,442 square feet by finance firm ICAP in a deal that includes an expansion option potentially increasing the total to 123,663 square feet.

- **1155 Sixth Avenue** – 540,000 square feet. Vacancy at the 790,000-square-foot tower will rise to about 68% upon White & Case vacating its roughly 300,000 square feet, the law firm deciding to remain in Midtown but relocate to nearby 1221 Sixth Avenue in early 2017. Marketing of the space has already begun and efforts are already underway to reposition the building into a boutique office product geared towards companies seeking floor plates of about 16,000 square feet. In addition, the building’s entrance will be relocated to face Bryant Park about 6-blocks to the south.

- **399 Park Avenue** – 677,000 square feet. Lease expirations in 2017 will result in Citigroup vacating about 487,000 square feet, the bank opting to relocate its headquarters to 388-390 Greenwich Street and recently exercising its option to buyback the building. In addition, law firm Morgan, Lewis & Bockius will reportedly be vacating another 190,000 square feet. Ownership is planning to launch a capital improvements program in the 4th quarter.

Looking ahead, large lease signings over the last 5 months by 2-major medical tenants will significantly reduce vacancy at (2) Grand Central area towers.

- **237 Park Avenue** – New York-Presbyterian will be consolidating administrative and office operations in about 500,000 square feet at the 1.243 million-square-foot tower that recently underwent a major renovation following the acquisition of the 21-story tower by RXR Realty and Walton Street Capital in 2013.

- **222 East 41st Street** – NYU Langone Medical Center signed a lease for 389,522 square feet that spreads across the building’s entire 25-floors which will be vacated by law firm Jones Day upon relocating to 250 Vesey Street at Lower Manhattan’s Brookfield Place before the end of the year. The medical center will use the space for both medical offices and ambulatory care facilities.

However recent news that asset manager BlackRock is in early stages of exploring its options which could potentially result in a relocation to Hudson Yards or Downtown, and the introduction to the market of the company’s existing 700,000 square feet at 55 East 52nd Street and 40 East 52nd Street in the Plaza District upon lease expiration in 2023.
**Submarket ReCap: Midtown (cont’d)**

**Manhattan’s Plaza District Losing Some Appeal**

Despite its title as the upper echelon commercial district in Manhattan which commands some of the nation’s highest office rents, the Plaza district roughly bound by 59th and 42nd Streets to the north and south, between 3rd and 7th Avenues has seen an increasing number of relocations to other neighborhoods as tenants seek trendier areas and the finance sector continues to shrink. Leasing activity over the last few years has given rise to several deals resulting in tenant decisions to relocate. In addition, news of some larger tenants considering options as lease expirations approach could result in some more significant relocations which are being driven by the surge in new construction and the appeal of the more modern, state-of-the-art buildings that are rising.

### Larger Relocations 2015/2016

<table>
<thead>
<tr>
<th>Company</th>
<th>Plaza District Address</th>
<th>Sq. Ftge.*</th>
<th>Relocation Address</th>
<th>Sq. Ftge.*</th>
<th>District</th>
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<tr>
<td>MetLife</td>
<td>277 Park Avenue</td>
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<td>200 Park Avenue*</td>
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<td>Grand Central</td>
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<td>Hudson Yards</td>
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<td>1700 Broadway</td>
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<tr>
<td>Gucci</td>
<td>685 Fifth Avenue</td>
<td>100,334</td>
<td>195 Broadway</td>
<td>83,964</td>
<td>World Trade Ctr</td>
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<tr>
<td>Boies Schiller &amp; Flexner</td>
<td>575 Lexington Avenue</td>
<td>94,000</td>
<td>55 Hudson Yards</td>
<td>83,292</td>
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<tr>
<td>MarketAxess</td>
<td>299 Park Avenue</td>
<td>27,900</td>
<td>55 Hudson Yards</td>
<td>83,000</td>
<td>Hudson Yards</td>
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<tr>
<td>Media Assembly</td>
<td>909 Third Avenue</td>
<td>24,739</td>
<td>711 Third Avenue</td>
<td>71,239</td>
<td>Grand Central</td>
</tr>
<tr>
<td>Paul Hastings LLP</td>
<td>65 East 55th Street</td>
<td>252,000</td>
<td>200 Park Avenue</td>
<td>180,000</td>
<td>Grand Central</td>
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</table>

*Comprised of 96,500 square foot lease and 50,342 square foot sublease

*Deal announced in September 2014, relocated early 2016

### Tenants Exploring Options

<table>
<thead>
<tr>
<th>Company</th>
<th>Plaza District Address</th>
<th>Sq. Ftge.*</th>
<th>Comments</th>
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<tbody>
<tr>
<td>Estée Lauder</td>
<td>GM Building 767 Fifth Avenue</td>
<td>300,000</td>
<td>Currently in early stages of a search for up to 500,000 square feet to consolidate along with offices at 110 East 59th Street</td>
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<tr>
<td>BlackRock</td>
<td>40 East 52nd Street 55 East 52nd Street</td>
<td>700,000</td>
<td>Although still considering a renewal, the asset manager is exploring a possible relocation of up to 850,000 square feet the Hudson Yards area</td>
</tr>
<tr>
<td>Hogan Lovells</td>
<td>875 Third Avenue</td>
<td>110,000</td>
<td>The law firm is reportedly in negotiations to lease over 200,000 square feet at 390 Madison Avenue (Grand Central)</td>
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</table>

### New to Market

<table>
<thead>
<tr>
<th>Company</th>
<th>Plaza District Address</th>
<th>Sq. Ftge.*</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td>Avon (Sublease)</td>
<td>777 Third Avenue</td>
<td>221,850</td>
<td>The cosmetics company is relocating Avon N.A. to the United Kingdom due to declining sales revenue</td>
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</tbody>
</table>

*Square footages are approximate and not verified
Submarket ReCap: Midtown (cont’d)

New to Market

**Avon / 777 Third Avenue (Plaza)** – The cosmetics company has introduced the sublease of its 9-story, 221,850-square-foot headquarter location to the market. There are 10-years remaining on the 15-year deal reportedly secured in 2010 for the space that spreads across entire floors 2-10 at the 39-story tower that spans the entire block-front between East 48th and 49th Streets. Asking rents are likely to be in the $60s according to sources. Launched in Lower Manhattan in 1886, Avon currently employs 28,300 employees. Amid a 4-year sales revenue decline and earnings losses as the company faced challenges adapting its direct-sales models as online purchasing escalated, Avon was prompted to sell an 80.1% interest in its North American business (U.S., Canada, and Puerto Rico) to New York private equity firm Cerberus Capital. In addition to the $170 million equity investment completed in mid-2016 for the majority interest, Cerberus made a $435 million investment in Avon products in the form of convertible perpetual preferred stock according a press release by Avon in December 2015. The deal resulted in the separation of **Avon North America** into a privately-held company to be managed and operated by Cerberus. Efforts to restructure the company will reportedly include the planned elimination of about 2,500 jobs and a relocation of the company’s headquarters to the United Kingdom which is projected to save Avon $30 million in 2016, and as much as $70 million starting in 2017.

**Hogan Lovells / 390 Madison Avenue** (Grand Central) – The Washington, D.C.-based law firm is reportedly in negotiations to lease over 200,000 square feet at the tower which is currently undergoing a dramatic renovation. The redevelopment that included a rebranding of the former **380 Madison Avenue** address is expected to be completed next year, upgrading the nearly 900,000-square-foot tower to compete with newly constructed office space; as well as adding numerous new tenant amenities. If the deal moves to a closure Hogan Lovells will relocate from its current office of about 13-years, vacating approximately 110,000 square feet spread across 3-floors at 875 Third Avenue (Plaza) upon lease expiration in July 2017 according to reports. Details of the potential deal were not disclosed, but asking rents for the building’s upper floors are reportedly above $100 per square foot. The recent announcement represents a change in locations, reports in June 2015 noting that the law firm was considering a move further west to 55 Hudson Yards (aka 550-570 West 34th Street) which is currently under construction at the multi-building Hudson Yards project.

Clarion Partners, who reportedly manages the property on behalf of longtime owner the New York State Common Retirement Fund selected L&L Holding Company to lead the redevelopment upon the ground lease controlled by landlord Sheldon Solow expiring in 2014. The existing 24-story building which is currently overbuilt will be re-massed by dismantling about 18% of the existing structure; and will include the replacement of electrical systems along with the installation of a modern air filtration system.

**Intercept Pharmaceuticals / 55 Hudson Yards aka 550-570 West 34th Street** (Hudson Yards) – The New York City-based pharmaceutical firm is reportedly in advanced discussions to lease between 90,000 and 150,000 square feet of space at the 51-story tower that is currently under construction and expected to deliver in 2019. The company that launched in 2002, and went public in 2012, is currently located in about 20,000 square feet at the Milk Building, 450 West 15th Street (MePa) through a lease that expires in 2024.

Lease Deal Highlights - 3rd Quarter 2016

**C.V. Starr & Co. / 399 Park Avenue** (Plaza) – The insurance firm founded in 1919 in Shanghai will be expanding its footprint by 71,000 square feet as part of a renewal and expansion deal that increases the company’s office space at the 39-story tower to a total of 211,000 square feet. Although details of the deal were not released, the lease comes at a time when the over 1.7 million-square-foot tower is facing some 2017 lease expirations that are expected to result in a total of 677,000 square feet in vacancies.

**WeWork / 12 East 49th Street** (Plaza) – The co-working space provider has leased 116,000 square feet of office space at the 45-story, 705,105-square-foot tower known as **Tower 49**. Details of the deal which will make WeWork the building’s largest tenant were not released, but the new facility that will spread across 10-floors is expected to open in early 2017. Asking rents at the building reportedly range from the mid-$70s to north of $100 per square foot.

Sources:  
http://ww2.cfo.com/ma/2015/12/cerberus-takes-avon-north-america-private/  
Submarket ReCap: Midtown (cont’d)

Lease Deal Highlights (cont’d)

**Bloomberg LP / 919 Third Avenue** (Columbus Circle) – The financial information and news company will be expanding its presence at the 47-story tower by 204,442 square feet according to the July press release from SL Green Realty. The space will spread across the entire 5th through 9th floors and a portion of the 11th floor. The new lease which runs through February 2029 increases Bloomberg’s footprint at the 1,406,877-square-foot tower to 458,998 square feet.

**Penguin Random House / 1745 Broadway** (Columbus Circle) – The publisher has reportedly secured a 15-year early renewal of their current lease expiring in 2018 for 603,605 square feet at the 52-story tower spread across 21 floors. Decisions were prompted by plans to consolidate operations currently divided between Midtown and Midtown South as a result 2013 merger of England-based Pearson PLC’s Penguin Putnam and Germany-based Bertelsmann’s Random House. The former Penguin Putnam is currently headquartered in Hudson Square with office space totaling 440,000 square feet divided between 345 and 375 Hudson Street. Relocation is expected to take place in late 2018 or early 2019 with offices.

The headquarters of former publisher Random House has been located at the tower also known as the Random House Tower since its construction in 2003, serving as anchor tenant with office space ultimately totaling 645,000 square feet spread across the entire 24 floor office component of the mixed-use tower under a long term lease.

2010: Random House sought to sublease as many as 9-floors, or about 250,000 square feet at an asking rent at the time of $55 per square foot.

2012: Random House reportedly renewed 361,044 square feet spread across entire floors 2-13 with an option to extend beyond the 2023 term.

2012-2013: Random house merges with Penguin Putnam. Subleases with expirations of 2018 were secured for entire floors 15-24 to several subtenants included pharmaceutical advertising agency Centron, marketing agency Merkle, fintech firm Process Driven Trading Partners (PDT Partners), and law firms Ogletree Deakins and Spielman Koenigsberg & Parker.

2015: SL Green Realty Corp and Ivanhoe Cambridge introduced the roughly 24-story, 685,000-square-foot office condo to the market; and at the time it was anticipated that Penguin Random House would exercise a clause in its lease allowing the publisher to vacate almost 50% of the space spread across floors 14-25 in 2018; leaving the remainder set to expire in 2023.
Submarket ReCapi: Midtown (cont’d)

 Lease Deal Highlights (cont’d)

  WeWork / 142 West 57th Street (Columbus Circle) – WeWork continues to expand despite recently downgrading profit projections, the co-working space provider recently leasing 77,930 square feet at the 18-story tower known as the Metropolitan Tower. The 16-year deal at an asking rent of $70 per square foot will see WeWork’s latest new facility spread across entire 6th through 8th and 10th through 11th floors according to reports. The roughly 250,000-square-foot office condo that sits beneath a 241-unit condo-rental residential component was acquired by Mitsubishi Corporation in February 2016 for $163 million ($652 per square foot).

  RXR Realty - Double-header deals at 237 Park Avenue (Grand Central)
  • New York-Presbyterian – The hospital will be consolidating administrative and office operations which are currently spread across several buildings throughout the city, having secured a roughly 500,000-square-foot lease at the 21-story tower. Details of the deal were not disclosed. The 1.243 million-square-foot tower recently underwent an $800 million renovation following the 2013 sale to RXR Realty and Walton Street Capital.

  • Permanent Mission of Canada to the U.N. and the Consulate General of Canada – Both the embassy and the consulate general will consolidate 2-Manhattan locations into a shared space totaling 77,000 square feet spread across the entire 20th floor and a portion of the 19th floor. The 15-year deal that had a per square foot asking rent reportedly in the low-$80s will see the embassy relocate from a 31,000-square-foot space at One Dag Hammarskjold Plaza, 885 Second Avenue (U.N. Plaza), where they have been a tenant for about 10 years. The Consulate General will be vacating a reportedly 55,000-square-foot space currently occupied through a lease that expires next year at 1251 Sixth Avenue (Times Square).

  U.S. Bank / 1095 Sixth Avenue (Grand Central) – The bank will be relocating to the recently rebranded Salesforce Tower New York, having secured a 69,000-square-foot sublease from MetLife. The sublease will expire in 2029; and is part of the roughly 355,924-square-feet that the insurer introduced to the market last year in anticipation of the company’s relocation to its namesake tower at 200 Park Avenue early next year. Earlier this year cloud computing software firm Salesforce subleased about 60% of the MetLife space, prompting the rebranding of the 1.2 million-square-foot tower also known a 3 Bryant Park. Recently a 49% stake in the building was sold to Real Summit Investment, the real estate investment subsidiary of the Hong Kong Authority’s Exchange Fund (HKMA).

  The Durst Organization - Double-header deals
Leasing activity at 4 Times Square (Times Square) has begun to pick up resulting deals that will absorb 123,663 square feet of vacancy on 3-entire floors, reducing the roughly 817,000 square feet on floors 4-24 vacated by publisher Condé Nast upon relocating to One World Trade Center. Currently undergoing a $100 million capital improvement program, the 48-story tower will feature new entrances, lobby and elevator cabs, plus the addition as a shared tenant amenity and conference center space that formerly served as the dedicated cafeteria for Condé Nast

  • ICAP – The electronic-trading firm has secured a lease for 82,442 square feet spread across the entire 13th and 14th floors, plus an expansion option of up to an additional 41,221 square feet on the 15th floor. News of a pending deal was first announced in May; however the 150,000 square feet initially noted was somewhat higher than secured in the final signing. ICAP is currently located in about 106,000 square feet at Harborside Plaza Five along the New Jersey waterfront through a lease that reportedly expires this year; and reportedly intends to retain some space at the complex.

  • Fross Zelnick Lehman & Zissu – The law firm secured a 15-year lease for an entire floor totaling 41,221-square feet; and although unverified will likely result in a relocation from the firm’s current 51,000-square-foot office at 866 United Nations Plaza that is under a lease expiring in mid-2019 as a result of a 10-year renewal in 2009. Further details of the deal were not released.

  Dentons / 1221 Sixth Avenue (Times Square) – The global law firm will be extending its 24-year tenancy at the 51-story tower as a result of the recently announced renewal deal. The company has extended its lease through April 2025 for 210,000 square feet spread across floors 23-26 at an asking rent in the high-$70s, having last renewed in early 2003 in a 15-year deal expiring in early 2018 according to sources. The over 2.6 million-square-foot tower is currently about 93% leased, minority stakeholder Canada Pension Plan (CPP) introducing a sale offering of its 45% interest to the market in April.
Submarket ReCap: Midtown (cont’d)

Lease Deal Highlights (cont’d)

**Movable Ink / 5 Bryant Park aka 1065 Sixth Avenue** (Penn Plaza/Garment) – The email marketing firm continues to expand, securing a lease in July for 55,000 square feet on the 35-story tower’s entire 8th and 9th floors. The 10-year deal will significantly expand the company’s footprint from their current 13,000-square-foot space at 5 West 19th Street (Flatiron) which is under an approximately 3-year sublease secured from fintech company SecondMarket in early 2014. The expansion move is reportedly one of several that Movable Ink has made over the last few years as the company continues to grow, having acquired 2-tech companies in January 2014 — Mailros which allows marketers to easily turn graphic designs into email marketing messages and Eastmedia, a digital production studio.

**Michael J. Fox Foundation / 111 West 33rd Street** (Penn Plaza/Garment) – The charitable organization founded in 2000 will be expanding its footprint in the city as a result of the 84,325-square-foot deal. The recent signing will result in the foundation relocating from a 29,444-square-foot space it currently occupies under a sublease at 498 Seventh Avenue (Penn Plaza); and reportedly due to expire in early 2019. The new space will spread across the entire 10th and 11th floors which comprise 36,896-square-foot each, plus the entire 23rd floor which features a 6,400-square-foot outdoor terrace. The building that previously went by the address 112 West 34th Street, recently added a new entrance on West 33rd Street with a lobby and elevator makeover focused on the office tenants.

**MarketAxess / 55 Hudson Yards aka 550-570 West 34th Street** (Hudson Yards) – The operator of an electronic trading platform for fixed-income securities will be relocating to the Far West Side as a result of the 83,000-square-foot lease announced in August. Although details of the deal were not disclosed, the company’s new global headquarters will spread across 3-floors at the 1.3 million-square-foot tower currently under construction at the Hudson Yards complex. MarketAxess is currently located in a 27,900-square-foot office at 299 Park Avenue (Plaza), having secured an 8.5-year sublease plus an option for a 4-year direct extension in 2009 for the space formerly occupied by Swiss bank UBS. Pre-leasing activity at the 51-story tower which is expected to deliver in 2018 has resulted in a total of roughly 508,000 square feet in previous deals. Letter of intent (LOI) signings this year by Point72 Asset Management for 175,000 square feet and another 250,000 square feet by law firm Milbank, Tweed, Hadley & McCloy accounted for the majority of the space, followed by law firm Bois, Schiller & Flexner which secured a lease for 83,292 square feet last year.

**DNB ASA / 30 Hudson Yards** (Hudson Yards) – The Oslo, Norway-based bank has secured a lease for the entire 68th floor at the 90-story tower that is currently under construction. Details of the deal were not released, but lease term will reportedly span 15-to-20 years. DNB ASA will be increasing its Manhattan footprint by about one-third upon relocating from its location of about 21-years at the MetLife Building, 200 Park Avenue (Plaza), reportedly attracted to the Far West Side development which offered the opportunity to create a new office in a more modern and flexible space.
Flatiron 23rd Street Partnership – Q2 2016 Snapshot

Leasing activity during the 2nd quarter remained steady according to the report released by the BID in July. Over the past several years, the Flatiron District has evolved into a 24/7 neighborhood that has seen an increase in residents’ household incomes which has helped drive an uptick in the quality and diversity of retail and food services in the district. Typically favoring working in proximity to their homes, the growing number of millennials that have established residency in the area has helped the Flatiron District’s office environment thrive. In addition the neighborhood’s proximity to Google’s headquarters further west at 111 Eighth Avenue in Chelsea has also helped fuel office leasing activity amongst those tenants looking to locate within proximity of the technology giant to help facilitate the establishment of business relations.

Notable leasing activity by technology tenants during the first-half of the year reportedly included: (DB)

- **Facebook / 225 Park Avenue South** – 159,568 square feet in a 10-year deal;
- **Taboola / 1115 Broadway** – 48,010-square-foot relocation/expansion within the district;
- **Dropbox / 50 West 23rd Street** – 31,270-square-foot relocation/expansion within the district;
- **Orchard Platform / 386 Park Avenue South** – 26,242-square-foot relocation/expansion deal; and
- **Karhoo / 386 Park Avenue South** – 11,600-square-foot relocation/expansion deal.

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<th>Midtown South</th>
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<tr>
<td>Vacancy</td>
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<tr>
<td>Rental Rate</td>
<td>$66.50 per sq. ft.</td>
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<tr>
<td>Net Absorption</td>
<td>96,246 sq. ft.</td>
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Submarket ReCap: Midtown South (cont’d)

Flatiron – Q2 2016 Snapshot (cont’d)

Commercial buildings within the neighborhood that is quickly becoming a tech hotspot have been undergoing renovations. Several landlords have focused efforts on building upgrades to keep their properties competitive and capitalize on the heightened activity.

• **3 East 28th Street** – A $20 million gut-renovation of the now-vacant 12-story building is underway which will add 60,000 square feet of new office space upon completion.

• **41 Madison Avenue** – Renovations of the 43-story building’s lobby and public spaces are underway.

• **63 Madison Avenue** – Renovations at the 15-story tower have been planned, but details have not been released.

• **915 Broadway** – The building that dates back to the 1920s completed a $2 million renovation of the building’s lobbies, In addition, upgrades to internet connectivity has been completed by wiring the building with fiber optic cables to deliver the high-level of service required by today’s tech tenants. Customized space build-outs are also being offered to fit tech tenant’s specific requirements.

Lease Deals to Watch For

**Capital One / 11 West 19th Street** (Flatiron) – The bank is reportedly in late stage negotiations to take a turnkey sublease totaling 78,000 square feet. The fully built-out space spread across floors 2, 3 and 4 at the 11-story building is currently occupied by DigitasLBi, a division of advertising firm Publicis Groupe; and includes internal staircases and glass-walled conference rooms. The existing lease reportedly runs through 2023 as a result of a renewal/expansion deal in 2012. If the deal moves forward, the new location would be about 2-blocks away from office space leased early in 2015 at 114 Fifth Avenue for the bank’s Capital One Lab division launched in 2011 which serves as an experimental product and technology incubator. DigitasLBi, formed following the merger of global marketing and technology firm LBi and social media agency MRY, introduced the space to the market in July. Decisions to vacate the space were reportedly prompted by MRY’s significant decline in business; and if subleased in its entirety remaining operations will consolidate into another space leased by Publicis at other locations potentially including 375 Hudson Street or 1675 Broadway according to reports.

Lease Deal Highlights - 3rd Quarter 2016

**Rokkan / 375 Hudson Street** (Hudson Square) – The digital advertising agency relocated to the main office hub of parent company Publicis as a result of the 35,000-square-foot lease. The new space will reportedly allow the growing company to consolidate onto a single floor from 21,000 square feet spread across 2-floors at 200 Park Avenue South (Flatiron). Details of the deal were not released.

**Winton Capital / 315 Park Avenue South** (Flatiron) – The British investment management firm secured a 10-year lease for 34,844 square feet spread across the entire 19th and 20th floors at the 20-story tower. The deal that has a reported asking rent of $105 per square foot will result in firm relocating from the Seagram Building, 375 Park Avenue (Plaza).

**DoubleVerify / 161 Sixth Avenue & 233 Spring Street** (Hudson Square) – The marketing consulting firm will be moving further south, having secured a 32,000-square-foot lease at the office-and-retail complex dubbed **One SoHo Square**. DoubleVerify will be double its footprint in Manhattan as a result of the 5-year deal upon relocating from its current headquarters at 575 Eighth Avenue (Penn Plaza/ Garment). The adjacent properties have been adjoined as a result of a $50 million investment by ownership which created a shared lobby and common elevators, allowing access through a single entry.

**Roland Jonas Interiors / 44 West 18th Street** (Flatiron) – The furniture designer that did work for the Capitol’s Oval Office signed an early renewal of the 22,669-square-foot space that spreads across the entire 10th floor and a portion of the 7th floor. The deal announced in August had a reported asking rent of $45 per square foot; and will see the company extend its tenure at the 12-story, 211,871-square-foot tower for another 10-years.
Submarket ReCap: Downtown

Downtown Alliance: Q2 2016 Real Estate Market Overview

The report released in August by the BID revealed that although commercial leasing activity during the quarter paralleled year-over-year figures, office leasing remained below the historical average despite private sector employment south of Chambers Street continuing to rise. Yet the revitalization of Manhattan’s Downtown neighborhood since the September 11 attacks, financed by $30 billion funding comprised of a mix of government and private investment, has not only resulted in the reconstruction of the World Trade Center site, but also the opening of 2-new retail malls filled with upscale retailers, dozens of eateries including the Manhattan’s 2nd outpost for Italian-themed market Eataly and the addition of the French-themed Le District market, as well as thousands of new hotel rooms. Lower Manhattan has evolved into a vibrant neighborhood offering numerous amenities, exceptional transportation access, and a well-balanced mix of business industries.

Private Sector Employment – According to 4th quarter statistics compiled by the New York State Department of Labor, private sector employment in Lower Manhattan reached 231,150, reflecting a 2% net growth year-over-year; and about 2% below the post-2001 peak of 236,737. The hotel, retail and restaurant sectors accounted for the largest percentage of growth over the course of 2015, followed by the education and healthcare sectors. Retail at the Fulton Transit Center and the Westfield World Trade Center mall, which opened in mid-August revealing a portion of its retail and restaurant offerings, is expected to employ an estimated 10,000 full and part-time workers. Other major additions such as the opening of Saks 5th Avenue at Brookfield Place and Pier 17 currently under construction in the South Street Seaport are expected to further drive private sector employment growth over the next year.

Sources:  http://www.downtownny.com/sites/default/files/research/Lower%20Manhattan%20Q2%202016%20Real%20Estate%20Market%20Report.pdf
Submarket ReCap: Downtown (cont’d)

Downtown Alliance: Q2 2016 (cont’d)

Hotel Development – The total number of hotel rooms in Lower Manhattan increased 14% over the past year, reaching 5,837 guest rooms spread across 28 hotels. New openings included the 140-key AKA Wall Street at 84 William Street. An additional 3,000-key spread across 17 hotels are currently in different stages of planning and development with nearly 900-keys and 4 hotels expected to come online before the end of the year:

- The Beekman Hotel, 5 Beekman Street – 287 keys
- Courtyard by Marriott Manhattan / World Trade Center, 133 Greenwich Street – 317 keys
- Four Seasons Hotel New York Downtown, 27 Barclay Street – 189 keys
- The Artezen Hotel, 24 John Street – 89 keys

Hotel occupancy rates reached 88% during the 2nd quarter, reflecting consistent trends with Lower Manhattan and citywide; however average daily room rates (ADR) declined nearly 13% year-over-year to $266.

Residential Market – Lower Manhattan south of Chambers Street has a total of 30,400-units spread across 318 mixed-use and residential building, housing an estimated population of 60,000. New development in different stages of planning and construction is expected to add 28 buildings with over 4,400-units comprised of 62% condominiums and 32% rental with the remaining 6% yet to be determined. Projects expected to deliver before the end of the year account for over 670-condominium units in 8 buildings:

- The Beekman Residences, 5 Beekman Street – 68 condominium units as part of a mixed-use residential-hotel development.
- Four Seasons Residences, 30 Park Place – 157 condominium units as part of a mixed-use residential-hotel development.
- 100 Barclay Street – 166 condominium units as a result of the residential conversion of the upper floors of the former Verizon building.
- 101 Wall Street – 52 condominium units as a result of the residential conversion of the office building.
- 50 West Street – 191 condominium units

Top 10 Lease Deals - Q2 2016

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Sq. Ftge.</th>
<th>Lease Type</th>
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<td>Expansion/Relocation</td>
<td>Government</td>
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<td>QBE Insurance</td>
<td>55 Water Street</td>
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<td>Relocation within LoMa</td>
<td>Insurance</td>
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<td>Ameriprise Financial</td>
<td>One World Trade Center</td>
<td>37,704</td>
<td>Relo within LoMa</td>
<td>Finance</td>
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<tr>
<td>Premier Home Health Care Srvcs</td>
<td>4 New York Plaza</td>
<td>34,274</td>
<td>New</td>
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<td>I Plus a renewal for 18,000 square feet at 42 Broadway</td>
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<td>28,329</td>
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<td>IPsoft</td>
<td>7 World Trade Center</td>
<td>27,199</td>
<td>New</td>
<td>Technology</td>
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Lease Deals to Watch For

NYC Department of Investigation / 180 Maiden Lane (FiDi) – The city agency is rumored to be in discussions to lease over 300,000 square feet at the 41-story tower, having outgrown its current nearly 200,000 square feet of office space spread across 5 locations in the city — 80 and 83 Maiden Lane, 250 Broadway, 160 Water Street, plus an office in the Bronx. The roughly 1.193 million-square-foot tower is currently about 60% vacant as a result of decisions by the American International Group Inc. (AIG) to vacate 800,000 square feet in 2014 and consolidate its headquarters at 175 Water Street. The insurer had reportedly subleased the space in 2008 from former anchor tenant Goldman Sachs, relocating in phases through 2011 to consolidate several Manhattan offices. Goldman Sachs had occupied the building in 1998 under a 15-year lease, subsequently vacating in 2009 and consolidating offices at its newly constructed headquarters at 200 West Street. The building traded hands in 2014 for $470 million and underwent a $28 million renovation which was completed last year.

Lease Deal Highlights - 3rd Quarter 2016

4 World Trade Center – Triple Play Deals (World Trade Center) – Leasing activity in August generated a combined total of 200,489 square feet; bringing Silverstein Properties’ 72-story tower to an occupancy of about 80%. Asking rent for the 2 smaller deals was reportedly in the $70 per square foot range.

• Zurich American Insurance Company / 4 World Trade Center – The Switzerland-based insurance company signed a lease for 132,000 square feet. Although details of the deal were not disclosed, the new space will span across entire floors 52 through 54 at the 72-story tower. News of the negotiations was first reported in May and although the size of the deal is nearly double the 70,000 square feet initially reported, it will still result in a downsizing of the roughly 170,000-square-foot of space the insurer currently occupies at nearby One Liberty Plaza which will be vacated upon relocation next summer.

• Global Atlantic Financial Group – The international insurance firm secured a 15-year lease for 44,000 square feet spread across the entire 51st floor at the tower. The deal will result in the insurer doubling its presence in Lower Manhattan when they relocate from their current nearby location at 7 World Trade Center — also owned by Silverstein.

• Validus – The Bermuda-based insurer secured a 16-year lease for 24,489 square feet on a portion of the 49th floor; and will be expanding from 10,342 square foot upon relocating from 48 Wall Street (FiDi).
Lease Deal Highlights (cont’d)

NYC Department of Finance (DOF) / 375 Pearl Street (City Hall) – The city agency has secured a 182,750-square-foot lease at the former Verizon switching center, negotiations by the New York City Department of Citywide Administrative Services on behalf of the DOF were initially announced back in January. Details of the deal were not disclosed but the space will span the entire 26th through 30th floors at the 1.136 million-square-foot tower. The building is currently undergoing an upgrade of the upper 15-stories by landlord Sabey Data Center Properties, while the lower floors will remain as a data center.

Port Authority of NY & NJ / 80 Pine Street (FiDi) – The bi-state agency received approvals from its board of commissioners in September to relocate about 100 in staff to 57,245 square feet spread across the entire 7th floor at the 39-story tower. The roughly 5-year sublease from Transatlantic Reinsurance Company will result in a downsizing of the PANYNJ’s current 76,448-square-foot space under a lease that expires at the end of the year. Currently split between 2-floors at nearby 115 Broadway the 2-construction teams that have been working on the rebuilding of the World Trade Center site and other capital projects will now be able to consolidate offices. The pre-built space will have a reported rent of $8.2 million ($28.65 per square foot) over the term of the sublease. An additional expenditure of $1 million to refurbish and move into the space is expected to be partially offset by tenant allowances from Transatlantic.
Diverging Economic Signals Cloud Real Estate Market Direction

The real estate industry continues to closely watch all economic indicators in an effort to forecast the direction of the real estate market. Now about 7-years into the current period of the economy’s recovery, indicators signaling the direction of economy continue to diverge resulting in heightened uncertainty. While historically the period of economic expansion in the U.S. has never exceeded 10 years, with a more typical norm of less than 8-years, reported findings of studies reveal that “recent periods of economic growth have been getting progressively longer.” However presidential election years always create a cloud of uncertainty regarding long-term policy implications and the concern that a new president with an unclear or aggressive agenda could be detrimental to our economic stability and ongoing recovery.

Although the softening luxury condo market has taken center stage amid concerns of an oversupply and sales struggling to meet projected sell-outs, industry sources point out that New York City’s overall investment sales market has been in correction mode for about one year. Multi-family sale activity has historically served as a barometer for the direction of the sales market; but despite continuing to perform well during the first 5-months of the year as multi-family property values rose with only a moderate reduction in the number of properties sold and dollar volume, overall sales activity has reportedly declined 22% during the first-half of 2016. Those who remain more optimistic suggest that the unsettled state of the global economy and uncertainty over historical events such as Brexit may serve to bolster foreign investment in New York.

Indicators pointing to a nearing recession:

- Hotel revenues and retail rents are lowering
- Office rents have approached pre-recession peaks
- Lowering corporate profits
- Sale volume of developable land during the first-half of 2016 lowered 54% year-over year in contrast to the continued rise of development site prices

Indicators pointing to continued economic expansion:

- Rising U.S. employment and wage growth; however despite New York City’s employment increasing 2.3% during the 12-month period ending in July, according to New York State Department of Labor statistics, strongest industries were healthcare and education which are not typically large office space users.
- The stock market’s strong showing in recent months is a sign of investor confidence
Rumors Resurface of Port Authority’s Sale of One World Trade Center

The Port Authority of New York & New Jersey (PANYNJ) recently refuted rumors of imminent plans to auction its 90% stake in the 3 million-square-foot tower to the highest bidder at a figure some sources anticipated could reach as high as $5 billion ($1,852 per square foot). A report initially released by Governors Andrew Cuomo and Chris Christie in the final days of 2014 put forth plans to overhaul the agency, intending to put increased pressure on the PANYNJ to shed its non-core real estate assets and return to its core mission of transportation projects.

The 103-page compilation of findings by the bi-state special panel on the future on the PANYNJ laid out a strategy for the agency to trim its holdings at the World Trade Center and other sites throughout the 5-boroughs as part of a broader reform program. At the time of the report’s release, Port Authority Chairman John Degnan reportedly noted that bond covenants could add complications to asset sales; and the sale of One World Trade Center could take years to figure out if the agency is to realize the true value of the property in a sale. According to reported findings from the non-partisan, non-profit Citizens Budget Commission, the 104-story tower netted the PANYNJ $13 million in revenue in 2015, accounting for an only 0.35% return on its investment. Proceeds from the auction which had been expected to take place within the next year would help the cash-strapped agency fund core mission projects. However it had been suggested by some that it would be more advantageous to hold off talks of a sale for a few more years until the site comes fully online and One World Trade Center nears full occupancy increasing its borrowing capacity; and instead launching the real estate divestment process by selling off smaller properties such as the Red Hook Container Terminal in Brooklyn.

- **Potential Challenges:** Currently about 70% leased, the Durst Organization had invested $100 million ($333 per square foot) in 2010 which turns into a 10% ownership stake upon the tower reaching 100% occupancy that has reportedly been projected to be in 2019. According to the agreement with the PANYNJ, Durst reportedly has the “right to match any bid on the tower and can block any sale before its stake vests,” likely requiring the developer to be bought out before the PANYNJ can complete the transaction should a sale materialize in the next 2-years. Other complications that could come into play and stall a sale are concerns over the building’s vacancy rate; the tower’s potential as a future target of terrorism; and the difficulty in securing the debt necessary to fund this caliber of acquisition.

- **Potential Bidders:** Some sources project likely bidders to come from a field of overseas governments and foreign investors which could partner with some of the city’s larger developers such as Silverstein Properties, Brookfield Office Properties, and the Related Companies which had lost out to Durst for the stake bid in 2010. Other potential bidders might include teacher retirement provider TIAA (formerly TIAA-CREF) and California public employees’ pension and health benefits manager CalPERS, since they are typically attracted to “single assets where they can park large sums of money.”

- **Security Concerns:** It is anticipated that objections will be sparked by the announcement of an imminent sale, the tower viewed as a public asset as much as it is a commercial one; and currently houses some federal agencies including the U.S. Customs and Border Protection and the Department of Homeland Security. Current expenditure by the PANYNJ on security at the building, which is patrolled by Port Authority police, could potentially be cut back in order to generate the cash flow needed to pay the oversized mortgage that will likely be required to close on a sale.

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1. Bond covenants - A legally binding term of an agreement between a bond issuer and a bond holder. Bond covenants are designed to protect the interests of both parties.
The 107-year tenure of the Jehovah’s Witnesses draws to a closure as the organization’s decade-long plan to move upstate nears completion. In 1909, efforts to seek a port city to establish their home, the Watch Tower Society acquired the 4-story, 124 Columbia Heights building and 13-17 Hicks Street to serve as their residence and main church respectively. In the 1960s and 1970s, the Witnesses became active buyers, at a time when real estate values were on the decline as the crime rose and New Yorkers began migrating away from the city. At one point the Witnesses’ Brooklyn empire reportedly totaled 4.5 million square feet spread across 30 buildings, making them a major play in the New York real estate market. Decisions to begin selling their Brooklyn assets were reportedly prompted by the need for a more efficient facility to handle the Witnesses printing operations — one of the largest in the world. As a result of the organizations shedding of its real estate holdings over the last 10-years, only 9-properties remain under their ownership, having generated a reported ballpark-figure totaling $1.25 billion in sales since 2004.

**2004: 360 Furman Street** – The 14-story, 773,070-square-foot building that dates back to 1928 served as the main printing and distribution facility. RAL Companies & Affiliates acquired it for $205 million ($265 per square-foot), and converting the building into a 438-unit residential condominium development with about 72,000 square feet of retail space dubbed One Brooklyn Bridge Park that delivered in 2008.

**2012: Hotel Bossert, 98 Montague Street** – The landmarked 14-story, 187,200-square-foot hotel that fell into disrepair in the 1960s was acquired by Clipper Equities and the Chetrit Group for $81 million ($433 per square foot) according to city records. Well known as the location that the former Brooklyn Dodgers celebrated their first and only World Series win in 1955. The building underwent a major restoration into a 280-key hotel with rooftop restaurant. In 2015, Argentinian company Fén Hoteles was selected to operate the 106-year-old hotel which is expected to open before the end of the year.
2013: 77 Sands Street / 55 Prospect Street / 81 Prospect Street / 175 Pearl Street / 117 Adams Street / 90 Sands Street – The 6-building portfolio was acquired for $375 million ($313 per square foot) by LIVWRK, Kushner Companies and RFR Realty. The roughly 1.2 million-square-foot portfolio was rebranded Brooklyn Heights; and (5) of the 6-buildings have undergone a $100 million redevelopment and renovation into a high-tech office complex. Ownership of the 6th building at 90 Sands Street will reportedly be transferred in 2017; and new ownership intends to convert the 30-story, 363,100-square-foot building into a new PUBLIC Hotel.

2015: Three more properties are introduced to the market prior to the end of the year.

- **124 Columbia Heights** – The 10-story, 152,670-square-foot building was re-built by the Witnesses in 1927 to serve as a dormitory facility, later sold in April 2016 to Virtu Financial founder and CEO, and Florida Panthers hockey team owner, Vincent Viola for $105 million ($688 per square foot). Future plans by new ownership for the building have yet to be announced.

- **25-30 Columbia Heights** – The 733,000-square-foot building known for its marquee Watchtower sign and clock spans 2-entire city blocks totaling about 2.3 acres. The 10-story building until recently served as the Witnesses world headquarters. Kushner Companies, LIVWRK and CIM Group acquired the building along with the adjoining 4-story, 25,000-square-foot warehouse building at 55 Furman Street for $340 million ($449 per square foot) in August 2016. New ownership intends to renovate and upgrade the office building.

- **85 Jay Street** – The 135,000-square-foot development site was upzoned in 2004 to make way for the construction by the Witnesses of 4-new structures that spans an entire city block. However the project intended for use by the religious organization never moved forward, while the new zoning that reportedly did not restrict use remained in place increasing the property’s value. The joint venture of Kushner Companies, LIVWRK and CIM Group reportedly went into contract to acquire the property that can accommodate 1.1 million buildable square feet for $300 to $400 million ($273-$364 per buildable-square-foot) according to reports.
Investment Sales Market Outlook Losing its Luster

Several conditions within the New York City investment sales market appear to further substantiate that the current cycle is approaching its apex. Signs of a market correction reportedly began to surface in the fall of 2015 as a shift in sentiment impacted both the land and hotel markets.

**Prices and Sale Volume** – Although prices have continued to rise during the first 3-quarters of the year, the rate of increase is slowing simultaneously to a reduction of sale volume both in total dollars and number of transactions. Total dollar sales volume and transaction numbers for New York City projected for 2016 will reportedly result in an 18% and 13% year-over-year drop respectively. However, figures may be overstated and not reveal the true picture for this year since many of the transactions reportedly went into contract in 2015.

Declining activity has begun to apply downward pressure on property values, although traditionally sellers are slow to adjust to lower price offers by buyers. Office and multi-family assets continue to remain the strongest sectors, in contrast to the hotel and land sectors which have experienced the most downward pressure on values, with retail assets starting to show signs of nearing headwinds. Although the city’s office sector became much broader during this market cycle, as robust sale activity spread into some of the outer boroughs, Manhattan continues to lead the way. While the total number of Manhattan office building sales during the first-half of 2016 reportedly diminished year-over-year by 39%, dollar volume for the year is on pace to increase 3.7% year-over-year. The ongoing health of the city’s office sector is in part being fueled by the approximately 700,000 jobs created over the past 6-years, but some sources raise concern that it may be insufficient to keep “the sector healthy if the rest of the sales market slows down.” Looking ahead, rent levels will be closely watched to help determine where the sector is headed.

**Capitalization Rates** – Compression is at an all-time low since 2010 when prices hit their low point post-recession; and in conjunction with slipping volume serves as another indicator of a market in transition.

Some key issues industry people will be closely watching over the next year include:

- **Fear and Greed** which are 2-emotional motivators for market participants, with “fear becoming more pervasive over the last many months.”
- **Interest Rates** have been at historic lows since the economic downturn, which in historically similar extended periods creates asset bubbles.
- **Underlying Fundamentals** are critical and office, retail and residential rents must be monitored closely as signs of a downward pressure on rents across the board appear to be surging.
- **Brexit** has helped strengthen the U.S. dollar, but as a result has had a negative effect on tourism, and hence, the hotel market.
- **Presidential Election** outcome and how it will effect capital gains rates, depreciation schedules and tax treatment of carried interests which are critical from a real estate perspective.
Sale Activity

Sales on the Horizon

Midtown

Grand Central Terminal, 71-105 East 42nd Street (Grand Central) – The roughly 170,000-square-foot transportation hub may be trading hands according to a press release in early September. Beginning in 2017, the Metropolitan Transportation Authority (MTA) will have 2-years to decide whether or not it wants to buy the terminal along with tracks that run along the Harlem and Hudson Lines. Delay of a purchase could arise if current ownership, the investment group dba Midtown TDR Ventures decides to exercise its option to delay the purchase another 15-years if it is unable to sell at least 1 million square feet of the terminal’s roughly 1.2 million square feet of air rights by the time said “opportunity” arises.

A potential further complication of a sale could arise in light of the recently proposed Greater Midtown East rezoning. If a rezoning is approved as proposed by the city’s Department of City Planning (DCP) — although still in its early stages, allowable recipients of Grand Central Terminal’s air rights would broaden to include the entire district versus the current zoning which restricts air rights sales from landmarked properties to adjacent sites. However it has yet to be seen how the rezoning will impact prices and demands for the estimated 3.6 million square feet of unused air rights within the roughly 73-block area comprising the Greater Midtown East; and developers could opt to turn to other landmarked properties before tapping into Grand Central Terminal. It has been speculated by some that the value air rights in the district could become devalued as a result of a sudden surge in volume hitting the market; although others don’t anticipate a sudden rush by developers to buy the air rights, but instead sales would occur over several years.

Midtown South

880-888 Broadway aka 22-32 East 19th Street (Flatiron) – It has been rumored that ABC Carpet & Home is considering a sale of its 6-story, 76,406-square-foot building which has served as the headquarters for the luxury home furnishing retailer since 1981. The office-and-retail condominium building is expected to fetch upwards of $200 million ($2,618 per square foot) if sold. The property was divided into a 20,616-square-foot retail condo and 55,790-square-foot commercial condo for office and manufacturing use in 1982. Pending if sold as a master lease purchase of a fee interest, the ground level retail unit is reportedly valued at between $75-$120 million ($3,637-$5,821 per square foot), while the upper unit could fetch $85 million ($1,524 per square foot). Whether or not ABC Carpet vacates the building upon sale or makes a sale-leaseback agreement may vary based upon the buyer. It is likely that the potential sale has been prompted by a decline in sale revenue, the company reportedly announcing decisions in June to shutter its operations at a Bronx warehouse.
New to Market

**Midtown**

**400 Madison Avenue aka 394-408 Madison Avenue** (Plaza) – ASB Capital Management has reportedly introduced the 186,628-square-foot building to the market for an undisclosed price. The 22-story tower that spans the entire block-front of Madison Avenue between East 47th and 48th Streets last traded in 2012 for $139.4 million ($747 per square foot) according to city records. Currently about 89% occupied the building is only 45-feet deep, but boasts about 200-feet of frontage along Madison Avenue.

**551-553 Madison Avenue aka 45 East 55th Street** (Plaza) – Barings, formerly known as Cornerstone Real Estate Advisors, has introduced the 149,675-square-foot tower to the market. Some sources anticipate a sale will attract a figure over $180 million ($1,203 per square foot), having last traded in 2012 for $128 million ($855 per square foot). The value of the 17-story building is being driven by the retail space at its base which boasts 75-feet of frontage along Madison Avenue. Its location at the corner of East 55th Street is just a few blocks below the 57th to 72nd Street corridor that has been commanding asking rents for ground level space between $1,250 - $2,058 per square foot according to the Real Estate Board on New York’s (REBNY) Spring 2016 Retail report. Current office tenants at the building include fashion brand Lacoste and Omni Hotels & Resorts, while the retail space serves as home to high-end retailers including shoemaker Allen Edmonds and eyewear retailer Robert Marc.

**5 Bryant Park aka 1065 Sixth Avenue** (Penn Plaza/Garment) – The Blackstone Group has reportedly introduced the 685,000-square-foot tower to the market, sources projecting a sale will fetch in the neighborhood of $700 million ($1,022 per square foot). The corner 35-story building has ground level retail space and frontage along West 40th and 41st Streets as well as 6th Avenue.

**149 Madison Avenue** (Murray Hill) – Longtime owners the Schwalbe family has reportedly introduced to the market the sale offering of the land beneath the 12-story, 130,000-square foot tower. Some sources indicate the fee had a value in the neighborhood of $90 million ($692 per square foot) a few years ago when the family last considered a sale. The leasehold of the roughly 95% occupied building is set to expire in January 2018, having been secured 60-years ago by Midtown-based investment firm Abramson Brothers according to the report. The building known as the Steel Building dates back to 1917; and has an alternate address of 28-30 East 32nd Street.

**Downtown**

**60 Wall Street** (FiDi) – The Paramount Group and Morgan Stanley have reportedly introduced the sale offering of a majority, but passive, investment stake in the 47-story tower. Details of the offering reportedly comprise the intended partial sale of Paramount’s 62.3% stake with the stipulation that Paramount remain as general partner. The 37.7% minority stake owned by the Morgan Stanley Real Estate Special Situations Fund III would be sold in its entirety, reportedly making it attractive to other passive funds.

The sellers purchased the 1,635,841-square-foot building in 2007 at market peak for $1.18 billion ($721 per square foot) through a sale/leaseback deal with Deutsche Bank. It is anticipated that a sale will fetch a figure similar to that of the 2007 deal, attributing factors to the projection include the sale offering structure coupled with an uncertainty of the bank’s occupancy at a time when large banks have been downsizing their footprint. Currently the German lender occupies the entire building as its North American headquarters through June 5, 2022. Leaseback terms also include (5) 5-year renewal options, plus a Right of First Offer to re-purchase the building. Deutsche Bank had acquired the 28-year-old tower for $610 million ($373 per square foot) shortly after the 9/11 attacks in 2001, upon JPMorgan selling the asset as part of its merger with Chase Manhattan.
Sale Activity (cont’d)

Sale Deals to Watch For

Midtown

292 Madison Avenue (Grand Central) – The Vanbarton Group is reportedly in contract to acquire the 205,000-square-foot tower for $180 million ($878 per square foot). The 26-story property located at the corner of East 41st Street is being sold by the Marciano Brothers, known for launching the Guess clothing brand. The sellers had reportedly acquired the leasehold for the currently 90% occupied building in 2007 in partnership with Metropolitan Real Estate Advisors; and subsequently the land beneath it in 2012 for an undisclosed price.

335 West 35th Street (Penn Plaza/Garment) – The Chen Foundation is reportedly in contract to acquire the 89,952-square-foot loft building for $50 million ($556 per square foot) from Acuity Capital Partners. The 12-story building located between 8th and 9th Avenues is currently vacant, the contract vendee reportedly planning to renovate the building. A $50 million acquisition loan is reportedly expected to be secured from Madison Capital Realty to finance the transaction. The new debt has been cross-collateralized with the organization’s 6-story, 19,000 square foot SoHo building at 250 Lafayette Street.

315 West 35th Street (Penn Plaza/Garment) – New Jersey-based importer-exporter Frank NG is reportedly in contract to acquire the 63,000-square-foot building for $38 million ($603 per square foot), after losing out to a higher bid at a bankruptcy auction in 2015. Winning bidders Isaac Chetrit and Jacob Aini offered $43 million ($683 per square foot) — $750,000 above Ng’s offer, paying only $14 million in cash for the vacant 14-story building upon closing since Chetrit had previously acquired the $29 million debt on the property at a discounted price of $10.75 in 2010. The sellers had planned to convert the property into a high-end residential condominium, but have apparently opted to abandon plans.

53-57 West 36th Street (Penn Plaza/Garment) – An investor group led by diamond ring designer Effy Hematian of Effy Jewelry is reportedly in contract to acquire the 12-story, 78,582-square-foot building for over $50 million ($636 per square foot) from Hidrock Realty. The building located between 5th and 6th Avenues last traded for $29.6 million ($377 per square foot) upon Hidrock along with insurance provider Assurant acquiring it in 2007. New ownership will be relocating the offices of the jewelry company to the West 36th Street building from their current location at 7 West 45th Street.
Sale Activity (cont’d)

Sale Deals to Watch For (cont’d)

**420 Fifth Avenue** (Penn Plaza/Garment) – AM Property Holdings and Quality Capital USA are reportedly in contract to purchase the 71,960-square-foot office condominium for $61.3 million ($852 per square foot) from the Girl Scouts of America. The deal for the condo-unit that spreads across entire floors 14-17 represents a portion of the organization’s total 9-story, 171,000-square-foot condo which spans the 9th through 17th floors at the 30-story tower. The Girl Scouts had acquired the condo interest in 1991 for $24 million according to reports.

**441 Ninth Avenue** (Penn Plaza/Garment) – The partnership of Cove Property Group and hedge fund Baupost Group are reportedly in contract to purchase the 364,558-square-foot building for $330 million ($905 per square foot). Longtime owner EmblemHealth fully occupies the 8-story building which spans the entire block-front between West 34th and 35th Streets, but is reportedly intending to vacate before the end of the year. The building last traded in 1994 upon the insurer’s predecessor Group Health Incorporated (GHI) acquiring the 8-story tower for $30.7 million ($84 per square foot). The contract vendees plan to gut renovate the former warehouse-turned-office building that spans the entire block-front of 9th Avenue between West 34th and 35th Street. The project will include an expansion of retail space by converting a portion of the building’s ground level; a 150,000-square-foot expansion now possible due to an increase in allowable floor-area-ratio (FAR) as a result of a 2005 West Side rezoning, plus the potential to purchase additional building bonuses through the Hudson Yards Infrastructure Corporation (HYIC).

Midtown South

**119-125 West 25th Street** (Chelsea) – The U.S. real estate arm of Swiss pension fund AFIAA is reportedly in contract to purchase the 138,000-square-foot building in an all-cash deal for $150 million ($1,087 per square foot) from the partnership of Normandy Real Estate Partners, Waterbridge Capital, and Japan-based NTT Urban Development. The 12-story building located between 6th and 7th Avenues is currently undergoing a $20 million upgrade, as well as a vertical alteration that had added an extra floor totaling 52,600 square feet. Leasing activity over the last year resulted in a 40,750-square-foot deal for the tower’s top 4-floors by indoor cycling fitness start-up Peloton, which relocated this year to the vacant building that had been rescued by the sellers from foreclosure in 2013 for $54.5 million.

**817-819 Broadway aka 48-54 East 12th Street** (Greenwich Village) – Taconic Investment Partners is reportedly in contract to acquire the 114,000-square-foot building from longtime Long Island-based owners the Frankel and Levine families. Although not confirmed, the sale price reportedly ranged $90-$110 million ($789-$965 per square foot). The contract vendee intends to reposition the 14-story tower which is fully occupied with all current leases expected to turnover by April 30, 2021.

Downtown

**23 Wall Street** (FiDi) – JTRE Holding is reportedly in contract to acquire the longtime vacant landmark for an undisclosed price from China Sonangol International Hold Ltd. The corner building, that at one point was reportedly a candidate to be the new home of the New York Stock Exchange located directly across the street, includes space on portions of adjacent 15 Broad Street and 33 Wall Street; and totals 160,000 square feet spread across 5-stories with frontage on both Wall and Broad Streets. Formerly the headquarters of JPMorgan since its construction in 1914, the building has remained vacant since the global financial firm vacated it in the late 2000s.

The Singapore-based oil company had acquired the property in 2008 for $150 million ($938 per square foot); a figure that is reportedly higher than what JTRE will be paying. Efforts to lease the space, ranging from department store use to an event space, never moved forward. At one time clothing retailer Brooks Brothers and technology giant Apple had reportedly eyed the site, while more recently in early 2015 Latitude 360 had hoped to transform the space into an all-inclusive entertainment destination featuring a restaurant and bar, a 175-300-plus seat performance theater, dine-in movie theatre, high-definition sports theater, and a bowling alley; but the concept was confronted by strong opposition from area residents and Community Board 1. Plans by new ownership for the structure that has fallen into disrepair have yet to be announced.
Sale Activity (cont’d)

Sale Highlights

Midtown

**10 Hudson Yards aka 501 West 30th Street** (Hudson Yards) – Germany-based insurer Allianz SE has acquired a 44% stake in the recently opened 52-story tower. A total of $420 million in cash was contributed towards the $707 million ($958 per square foot) reportedly paid to Coach for the sale/leaseback agreement with Allianz of its 40% condo-interest in a deal that included a 20-year lease for the retailer’s new headquarters location. The remaining 4% of the stake represented a portion of the interest owned by sovereign wealth fund Kuwait Investment Authority. The deal that now values the tower at $2.15 billion is part of a recapitalization of the 1.7 million-square-foot building. Anchor tenant Coach had introduced its condo-interest to the market in the latter part of 2015, having acquired the 737,774-square-foot unit for $530 million ($718 per square foot) in 2013 as one of the first tenants to commit to the tower.

**Brill Building, 1619 Broadway** (Times Square) – Brill Holdings, a partnership of B+B Capital, Israeli firm Fox-Wizel, Conway Capital, and Schottenstein Realty have reportedly closed on the acquisition of a 40% stake in the 11-story building for an undisclosed price from co-owners Allied Partners and Brickman. It has been rumored that the minority stake was actually a conversion of Brill Holdings’ $20 million deposit to a percentage of equity already in the building – a move that will allow pending lease deals to move forward and likely save on years of litigation over the return of the partnership’s deposit.

The deal currently values the 175,000-square-foot building at $310 million ($1,771 per square foot), representing a nearly 68% increase over the $185.5 million ($1,060 per square foot) paid in 2013. The building’s value has likely surged due to an overhaul of the 3rd and 4th floors to accommodate additional retail space; ownership also obtaining permissions for future occupants to hang 9-LED signs throughout. Negotiations are reportedly ongoing to lease 50,000 square feet of office space to co-working space provider WeWork, as well as a total of 42,500 square feet of retail space — 25,000 square feet for the tropical-themed restaurant operated by hospitality brand Margaritaville, and a 17,500-square-foot CVS Pharmacy.

**Grand Central Terminal, 75-105 East 42nd Street** (Grand Central) – MSD Capital, headed by Dell computer company founder Michael Dell has reportedly purchased and undisclosed stake in the transportation hub for $63 million from Lehman Brothers Holdings. Lehman, the U.S. arm of the now defunct bank has been selling off some of its $639 billion in assets since the bank filed for bankruptcy in 2008; and was amongst the group of investors led by Argent Ventures that had acquired the 170,000-square-foot landmarked building for $76.5 million in 2006.

**275 Madison Avenue** (Grand Central) – The RPW Group reportedly closed in August on the $270 million (804 per square foot) acquisition of the landmarked 336,000-square-foot tower located at the corner of East 40th Street. A $240 million floating-rate senior mortgage was originated by the Blackstone Group and SL Green Realty, of which $225 million was provided at closing with the remaining $15 million held back for future capital expenses according to sources. News of the pending sale came about 2-months following the announced sale offering by RFR Realty. Although currently about 91% leased, nearly 50% of the tower’s current leases are set to expire over the next 5-years according to reported details of the offering memorandum. Base level retail space is partially occupied by a Dig Inn eatery. An additional 4,000 square feet of retail space is vacant, and being marketed at a reported asking rent in excess of $400 per square foot. New ownership is reportedly intending a long-term ownership with plans to renovate the lobby and other common areas.
Sale Activity (cont’d)

Sale Highlights (cont’d)

285 Madison Avenue (Grand Central) – RFR Realty has acquired the 85% interest in the 415,638-square-foot tower for roughly $334.068 million ($946 per square foot) from partners GreenOak Real Estate, East End Capital and Downtown Properties. The deal now gives RFR 100% ownership of the 26-story building located at the corner of West 40th Street. The partnership had acquired the property for $190 million ($457 per square foot) in 2012 from owner/user Young & Rubicam. The building was delivered vacant as a result of the advertising firm relocating to a 214,372-square-foot condo acquired the same year for $143.63 million ($670 per square foot) at 3 Columbus Circle; in addition to another 124,760 square feet previously secured under a 20-year lease. The building underwent a $65 million renovation and secured its first tenant, investment management firm Greylock Capital Management in 2014; and several lease deals that followed bringing occupancy up to about 35%.

Empire State Building, 350 Fifth Avenue (Penn Plaza) – An affiliate of sovereign wealth fund Qatar Investment Authority (QIA) has acquired a 9.9% stake in the iconic 2,800,118-square-foot tower for $622 million ($2,244 per square foot) from the Empire State Realty Trust (ESRT). The 102-story tower is reportedly the most valuable asset within the REIT’s 21-building portfolio that spreads across Manhattan, Westchester County and Connecticut, reportedly generating over 30% of its revenue in 2015. The stock position purchase is reportedly unusual for a sovereign wealth fund which typically purchases direct stakes in buildings so as not to be subject to stock market fluctuations. The shift in directions may be a move for greater diversification, the investment now gives QIA a small stake in a mix of office and retail properties in the New York area. ESRT’s shares reportedly sold at a 2% premium over net asset values, making the stock more attractive in comparison to “fellow New York-centric office REITs Vornado Realty Trust and SL Green Realty which trade at discounts to the net asset values of their underlying real estate holdings,” making their future value appear less attractive to some investors according to sources. In addition, the direct ESRT purchase of the newly issued shares at a fixed price of $21 per share, versus a purchase through the stock market, likely resulted in a slight discount.

1095 Sixth Avenue (Penn Plaza/Garment) – Real Summit Investment, the real estate investment subsidiary of the Hong Kong Authority’s Exchange Fund (HKMA) has purchased a 49% stake in the 1.2 million-square-foot tower for $1.15 billion ($1,956 per square foot) from co-owners Ivanhoe Cambridge and Callahan Capital Partners. The recent deal reportedly values the 41-story tower at $2.35 billion, having last traded in 2015 for $2.2 billion ($1,833 per square foot). Recently rebranded as the Salesforce Tower New York as a result of the 2016 sublease by cloud computing software firm Salesforce for 210,496 square feet. The 3.5-year deal will absorb about 60% of the 355,924 square that will be vacated by former anchor tenant MetLife when the insurer relocates to 200 Park Avenue, raising occupancy at the tower to about 89%. HKMA which controls the exchange rate of the Hong Kong dollar is reportedly required to hold U.S.-Dollar-denominated assets in reserve in order to maintain its required link to the U.S. Dollar by government policy.

160 East 56th Street (Penn Plaza/Garment) – The partnership of Noorollah Asherian and Kami Rehanian have acquired the 53,500-square-foot building at 39-41 West 38th Street which ELO acquired in early 2014 for $29.627 million ($549 per square foot). The property is approximately 60% occupied by the former tenant, investment management

40 West 38th Street / 144 West 37th Street (Penn Plaza/Garment) – The ELO Organization has acquired the 2-building portfolio totaling 28,402 square feet for $37.3 million ($1,313 per square foot) from an LLC reportedly affiliated with Long Island-based developer Noorollah Asherian. The 16-story properties include approximately 18,000 square feet of unused development rights.

- 40 West 38th Street – The 13,650-square-foot building was acquired for $15.35 million ($1,125 per square foot) and is adjacent to the 54,000-square-foot building at 39-41 West 38th Street which ELO acquired in early 2014 for $29.627 million ($549 per square foot).
- 144 West 37th Street – The 14,752-square-foot building was acquired for $21.95 million ($1,488 per square foot).

Sale Activity (cont’d)

Sale Highlights (cont’d)

Midtown South

11 Madison Avenue (Flatiron) – PGIM Real Estate (formerly Prudential Real Estate Investors) has acquired a 40% stake in the 2,348,115-square-foot tower from SL Green. The deal values the building at $2.6 billion, inclusive of the costs associated with lease stipulated improvements to the property according to a press release by the REIT. PGIM will also assume a portion of the 30-story tower’s debt, and has a one-year option to acquire an additional 9% stake in the venture at the same gross property valuation as part of the deal. Proceeds of $480 million were generated by the sale and will be used for debt reduction and other investments. SL Green may repurchase the sold interest if the currently sought modification to the mortgage is secured within 6-months after the sale closing.

1 SoHo Square (SoHo/Hudson Square) – Stellar Management has bought out former partner Rockpoint Group, paying roughly $260 million for the firm’s 40% stake in the 2-building redevelopment project now valuing the office-and-retail complex at $650 million. In an effort to recapitalize, Stellar brought in another undisclosed investor — although details were not disclosed. The adjacent properties were acquired for $200 million in 2012 with plans to combine the buildings and create a total of 768,000 square feet of primarily office space which was projected to be about 50% occupied upon delivery inclusive of several existing tenants expected to remain. The co-developers invested another $50 million to construct a shared lobby and install common elevators to allow access to both buildings through a single entry; however legal action by an existing larger tenant has resulted in some delays. Early last year a $224.5 million loan was secured from lender the Royal Bank of Canada. The debt comprised of a $135 million senior loan and $89.5 million construction loan replaced a $170 million floating-rate loan with a loan-to-value ratio of 65% that was due to mature in May 2015. The former debt was originated by Starwood Property Trust, and later acquired by Natixis Real Estate in 2012.

Project plans detailed last year revealed:

- 161 Sixth Avenue – The 13-story, 320,000-square-foot building formerly known as the Butterick Building served as home to printers of dressmaking patterns in earlier year. Project plans called for the upgrading of the building and an expansion of retail space at the building’s base. Existing retail tenant Janovic paint store was expected to remain.
- 223 Spring Street - The former industrial building underwent a vertical alteration that added 3-stories to the existing structure for a total of 13-stories featuring 10-terraces.

Renovation efforts have paid off, the property attracting several tenants including online eyewear retailer Warby Parker, which leased 54,000 square feet in 2013; Estée Lauder’s Aveda division secured an expansion deal for 20,000 square feet in 2014; and more recently office management company Managed by Q leased 26,022 square feet, while marketing consulting firm DoubleVerify relocated to a 32,000-square-foot office at the building.

119-125 West 24th Street / 19 West 24th Street / 13-15 West 27th Street / 45 West 27th Street (Chelsea) – China-based financial services firm China Orient Asset Management Corp. will be joining the Kaufman Organization as majority partner. The asset manager recently invested $60 million of equity in the 4-building portfolio, plus additional debt for a combined total of reportedly $143 million to buy-out Kaufman’s existing majority partner Principal Real Estate Investors. The $60 million investment, along with a 5-year, floating rate $97.6 million leasehold mortgage recently secured from United Overseas Bank will recapitalize the properties which have undergone $33 million in renovations according to reports. The 4-building portfolio that has a combined total of 341,700 square feet is part of the 14-building former F.M. Ring Portfolio acquired by Extell Development in early 2014, Extell subsequently selling the buildings as part of a 5-building package to Edison Properties in 2015. Kaufman and Iowa-based Principal currently control the 4-buildings under a 99-year net ground lease secured in 2014 for a combined total of $135.25 million. Since Principal was only seeking a short-term investment with plans to exit upon the stabilization of the properties, Kaufman was prompted to seek another partner with the similar interest for a long-term hold.

Source: http://investor.shareholder.com/slg/releasedetail.cfm?ReleaseID=984061
Sale Activity (cont’d)

Sale Highlights (cont’d)

Uptown

80 West End Avenue (Upper West Side) – Healthcare organization the Lighthouse Guild has acquired the 112,628-square-foot commercial leasehold condominium for $30 million ($266 per square foot) from non-profit United Cerebral Palsy (UCP). The space spans the upper 5-floors of the 7-story, 174,000-square-foot building. UCP will retain the ground and cellar floors totaling 50,174 square feet, (ACRIS-page 80) having converted the 30-year, triple-net leasehold the non-profit secured in 2013 into 8-leasehold condominiums. The lease term originally set to expire in 2043, was subsequently modified to extend to 2047 with an option to extend until 2055. The former F.M Ring Associates building was acquired by Extell Development and Kushner Companies in 2014 for $195 million (1,121 per square foot).

Other Sale Activity

Fee Interest for 3-Hotel Portfolio – Los Angeles-based BH Properties is reportedly finalizing the acquisition of the land beneath 3-Manhattan hotels which total 481,275 square feet from the real estate investment trust Lexington Realty Trust. The $300 million-plus deal is comprised of the parcels for the 39-story, 411-key Element New York Times Square West at 311 West 39th Street; the 21-story, 369-key Sheraton Tribeca New York Hotel at 372 Canal Street; and the 40-story, 399-key DoubleTree Financial District at 8 Stone Street which all opened in 2010. The hotel portfolio is reportedly encumbered by a $213 million debt due to mature in 2027 that was issued by Cantor Commercial Real Estate Lending.

The parcels last traded for $302 million in 2013 upon being acquired from Magna Hospitality Group. Each of the hotels is reportedly net-leased to tenants under 99-year ground leases set to expire in 2112. At the time of the 2013 deal reports noted that initial annual rent revenue totaled $14.9 million, and was projected to total $4.5 billion over the life of the 3-leases based upon the escalation rate of at least 2% that the leases carry and excluding Consumer Price Index (CPI) increases. In addition, each lease included a purchase option at select intervals and under certain specific conditions.
Some industry sources are predicting a repeat performance of an increase in multi-family property values along the 7-train line in Queens, similar to that experienced along the L-train line in parts of Brooklyn. While Long Island City has seen a surge in residential activity over the last several years, it is anticipated that neighborhoods further east, such as Woodside, Sunnyside, Jackson Heights, Elmhurst and Corona are next in line. The oncoming development of the Cornell Tech Campus on Roosevelt Island, the proposed Midtown East rezoning set to affect Manhattan stations along the 7-train line, the impending shutdown of the L-train in Brooklyn, and the relatively discount prices in Queens — particularly properties along the 7-train line which offers the most convenient path to Manhattan, will likely attribute towards a heightened interest amongst investors.

Essentially the main asset class in inner Queens neighborhoods, the per square foot price of multi-family properties over the 3-year period between the end of 2015 and 2012 nearly doubled in the Sunnyside neighborhood, with per square foot figures in Woodside spiking just under 80% during the same period; yet continue to remain below that of Manhattan and Brooklyn. Cap rates in Queens continue to offer a more attractive return on investment in comparison to Manhattan multi-family sales, but are comparable to the average cap rates in Brooklyn.

In contrast to the robust residential development underway in Long Island City, future new high-rise construction further east along the 7-train line corridor is not anticipated due to more restrictive zoning coupled with the high-cost of construction making rental projects less financially feasible. Instead investors will be able to take advantage of purchasing existing multi-family properties that offer the convenience of a 15- to 20-minute commute to Manhattan — many of which are reportedly undervalued, and upgrading them to increase the asset’s value and drive rents higher while still offering a comparative bargain to rents in the Midtown and Midtown East neighborhoods in Manhattan.
Residential developers’ strategies diverge in uncertain market

Residential development has been a key driver of construction in recent years, with condominium prices reportedly peaking in late 2014. Developers pushing to deliver projects prior to prices peaking has resulted in an oversupply of new inventory. Manhattan alone has about 14,500 new units that are expected to hit the market between 2015 and 2017, equating to about 5-years of excess inventory by the end of 2017 based upon the current rate of absorption according to reports.

Although sales remain strong within the lower and middle condo market where prices range $1 million to $3 million, sale activity in the ultra-luxury market has slowed significantly prompting decisions by co-developers JDS Development and Property Markets Group to delay the launch of sales for the 55 full-floor units at their 111 West 57th Street (Columbus Circle) development in the hopes that the luxury market will improve, despite already completing the high-end sales office. The highly anticipated 60-story tower that is currently under construction is expected to deliver in 2018.

Efforts to allure buyers have resulted in the altering of sales plans by some developers as they adjust to the “new reality after years of building to meet seemingly insatiable demand.” In addition incentives providing discounts, while not reducing prices have included the throwing in of extras such as storage units, and in some cases the developer paying the buyer’s transfer taxes. In today’s more highly competitive luxury market, the diminishing roster of wealthy buyers are reportedly taking more time to browse options and negotiate deals prior to a purchase commitment. As potential buyers become more selective, developers have placed a higher level of focus on incorporating unique materials imported from around the globe into unit finishes in order to standout in the market.

While the city’s real estate market has “thus far proved uncommonly resilient,” interpretations of all the mixed signals have given rise to a similarly divergent mix of strategies being put into play by the city’s developers. The expiration of the 421-a Tax Abatement program has reduced options for condominium developers that during the 2008 recession were able to shift construction plans mid-stream to rentals or a rental-condo mix; but now find that without the tax benefit, the rental fallback is no longer an economically feasible option. Furthermore, an increase in the size of condo units being constructed has also reduced the possibility of a rental project transition.

For those developers that decide to move ahead with construction, the challenge of securing financing at a time when the Federal Reserve appears likely to increase its benchmark interest rate in the coming months will make it harder to hold onto a site or manage a stalled project as debt service and carrying costs rise as exemplified by:

- **1800 Park Avenue** (Harlem) – The Continuum Company’s inability to secure construction financing for the planned mixed-use development led to existing debt default and the reportedly $90,955,570 short sale of the distressed development site to the Durst Organization which had acquired the nearly $100 million worth of distressed debt on the property earlier this year.

- **3 Sutton Place** (Sutton Place) – The site of a planned 270,000-square-foot residential development that has been tied up in litigation will be offered for sale according to September reports of a court order by the U.S. Bankruptcy Court. Developer the Bauhouse Group had failed to secure a construction loan, ultimately leading to the default on the mezzanine loan that funded land acquisition and pre-development costs.

Some projects shelved or redirected:

- **550 Madison Avenue** (Plaza) – Co-developers the Chetrit Group and Clipper Equity opted to take advantage of the strong sale market and sell the iconic 37-story, 827,686-square-foot former Sony Tower; abandoning previous plans of a residential condominium conversion amid signs of a softening market and heightened challenges of securing $1.4 billion in new debt to repay the original acquisition financing and cover costs of the conversion. New ownership Olayan America intends to continue operating the trophy tower as an office building.

- **143-161 East 60th Street** (Upper East Side) – Kuafu Properties, which became an active buyer of New York City development sites upon entering the city’s market in 2013, has opted to hold off on plans to redevelop the 6-parcel assemblage that can accommodate over 280,000 buildable square feet.

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\[1\] Short Sale - A short sale is a sale of real estate in which the net proceeds from selling the property will fall short of the debts secured by liens against the property.
Residential Developers’ Strategies (cont’d)

• **548-554 West 22nd Street** – Co-developers Property Markets Group (PMG) and the Harch Group decided to shelve plans for a 19-story, 61,800-square-foot mixed-use development despite filing permit applications in January; and instead leased the existing 4-story, 38,000-square-foot building in its entirety to art gallery Hauser & Wirth. The 2-year lease that includes a 6-month extension option offered a win-win deal for both parties, generating $3.8 million per year in rental revenue for ownership, while offering the convenience of the building being located adjacent to the gallery’s planned 5-story development of its new permanent home at 542 West 22nd Street.

• **12 Franklin Street** (Greenpoint) – Simon Baron Development acquired the potential Brooklyn redevelopment site earlier this year that can accommodate a 55,500-square-foot office or retail project (or up to 133,320 square feet if community facility space is included). The developer was attracted to existing 30,500-square-foot building since it had retail tenants in place; and offered an existing cash flow that removed the pressure to immediately redevelop.

• **134 West 58th Street** (Midtown West) – Extell Development reportedly abandoned plans to construct a 41-unit, 52,406-square-foot residential development despite permits filed with the Department of Buildings (DOB) in late 2015; opting instead to sell the existing 15-story, 61,791-square-foot residential building in August.

While others are forging ahead:

• **1 Park Lane, 36 Central Park South** (Midtown West) – The development team led by the Witkoff Group and Jynwel Capital had decided to shelve plans for a residential condominium conversion of the 46-story **Helmsley Park Lane Hotel** in December 2015, opting to take advantage of the flexibility of the adequate cash flow generated by the operating hotel. However the 41% stake purchase in April by China-based Greenland Group appears to be putting conversion plans back on the table.

• **Central Park Tower, 217-225 West 57th Street** (Midtown West) – Extell Development is currently constructing the 95-story tower that will house 183-residential condominiums atop a portion of the flagship location for luxury department store **Nordstrom** despite full construction financing yet to be secured for the nearly $3 billion residential component.

• **45 Broad Street** (FiDi) – New building applications were filed in May a 64-story, 206-unit mixed-use development to be constructed by the development team of Gemdale Properties and Investment, Madison Equities, and the Pizzarotti Group. A $287 million construction loan and up to $55 million of EB-5 funding is currently being sought; but China-based Gemdale has reportedly agreed to fund up to $55 million in bridge capital in the event EB-5 funding is not secured at the time of the construction loan’s closing so that excavation work can begin this year for a 2019 delivery.

• **220 Eleventh Avenue** (Chelsea) – The Moinian Group filed new building applications in July for the planned 11-story, 40-unit mixed-use development. A $361 million bond issuance on the Tel Aviv Stock Exchange (TASE) that the developer closed on in 2015 is expected to assist in the financing of the project. Ground breaking is slated for early 2017.

• **340-366 Flatbush Avenue Extension** (Downtown Brooklyn) – The 73-story, nearly 500-unit rental development is being constructed by JDS Development and the Chetrit Group. The as-of-right project received approvals from the Landmarks Preservation Commission in April for changes to the adjacent landmarked **Dime Savings Bank** building that will be incorporated into the base of the new tower.

• **One Manhattan Square** (Lower East Side) – Extell Development will be moving forward with the planned 72-story, 815-unit residential condominium having recently secured a total of $800 million in construction financing. However earlier this year the developer lowered sellout projections by $207.3 million for the units that will initially be marketed in Asia.

• **252-260 East 57th Street** (Midtown East) – The 65-story “two-in-one” residential development that topped in the fall of 2015 is being constructed by the World Wide Group and Rose Associates. Comprised of 173-rental units and 93-condominiums of which the projected sellout was reportedly reduced by about $64 million earlier this year.

For those developers that are able to proceed with plans during an economic downturn, the benefits can potentially be significant as the economy turns around. The 2009 construction by Extell Development of the condominium dubbed **One57** at 157 West 57th Street (Columbus Circle); and Forest City Ratner’s **8 Spruce Street** (FiDi) rental project which broke ground in 2008, pausing temporarily in 2009, both initially benefited from being the only new product on the market when sales and leasing were launched in 2011.
Residential Sale Activity

Lending

Savoy Park, 630 Lenox Avenue aka 45 West 139th Street (Harlem) – Fairstead Capital has secured a $238.9 million acquisition loan from Capital One’s multi-family finance arm Freddie Mac, closing on the purchase of the 1,790-unit rent-stabilized residential complex. The 7-building complex acquired for $315 million ($175,978 per unit) from an investor group that includes L+M Development Partners and Savanna spreads across 13-acres. New ownership reportedly intends to keep the complex as affordable until at least 2052, which marks the expiration of the 40-year agreement made in 2012 upon the sellers acquiring the complex through a foreclosure sale for $210 million ($117,318 per unit).

Saxon Hall, 62-60 99th Street (Rego Park) – Madison Realty Capital and Arel Capital secured a $112 million acquisition loan from Deutsche Bank. The new debt will go towards financing the $135.5 million ($323,893 per unit) purchase of the 419-unit residential complex that spreads across 503,000 square feet in the Central Queens neighborhood. The loan package was reportedly comprised of $17.2 million in building and project loans, $70.5 million consolidated in existing debt, an $8.57 million gap mortgage, and $16 million to be utilized for future improvements on the property. The sale offering attracted a price that was nearly 60% higher than the $85.3 million ($203,580 per unit) paid in 2013 upon New Jersey-based Treetop Development purchasing the 16-story rental building and renovating over 50 of the units.

New To Market

Benchmark Real Estate has reportedly introduced the 3-building residential rental portfolio to the market at an asking price of $130 million ($1,140,350 per unit). The trio of properties located within the Midtown South submarket have a combined 114-units, and were acquired by Benchmark between 2011 and 2015 for a total of $95 million ($833,333 per unit).

- 82-84 West 12th Street (West Village) – The 6-story, 24-unit building located between 5th and 6th Avenues last traded in 2015 for $22.75 million ($947,917 per unit).
- 200-204 East 11th Street aka 55-63 Third Avenue (East Village) – The 12-story, 55-unit corner building last traded for $57 million in 2013 ($1,036,363). According to city records the 15,030 square feet of retail space at the base of the building was sold to an LLC last year for $24.35 million ($1,620 per square foot).

Property Markets Group (PMG) has introduced the newly constructed 391-unit residential rental tower located at 23-10 Queens Plaza South (aka 23-01 42nd Road) in Long Island City, Queens, hoping to take advantage of growing institutional investor demand for multi-family properties. Although initial intentions were always to sell the building upon construction completion when co-developed with Vector Group Ltd., if an expected price point is not achieved, the developers will reportedly finance the tower and collect rent revenue from the units according to a company spokesperson. The 347,000-square-foot development has yet to open to the public; and although built as a rental property, PMG left the option open to shift to condominiums by filing an offering plan with the state Attorney General’s (AG) office for a projected sellout of $364.2 million ($931,457 per unit). PMG will begin marketing the units for lease at a reported asking rent of $62 per square foot, but received approvals by the AG’s office that will allow PMG or a potential buyer to list the units for sale. The 2-parcel, 42,120-square-foot assemblage that spans an entire city block bound by 23rd and 24th Streets between Queens Plaza South and 42nd Road last traded in 2012 for $37 million ($107 per buildable-square-foot).
Residential Sale Activity (cont’d)

Sale Highlights – Midtown South

**Black Spruce** has acquired the **14-building walk-up rental portfolio** from the Orbach Group. The 273-unit package ($402,930 per unit) in the Hell’s Kitchen neighborhood is primarily market rate, and has a capitalization rate of reportedly about 4%. The buildings have a combined total of 136,000 square feet including 6-retail spaces which are currently leased. A $74.9 acquisition loan was secured from BankUnited according to sources. The properties that span **308-310 West 49th Street** and **318-340 West 49th Street** include about 75,000 square feet of air rights, but only about 10,000 square feet is usable due the properties’ location within the Special Clinton Zoning District. Orbach had acquired the portfolio in 2008 for $70 million, subsequently selling a majority stake in 2011 to Phoenix Realty Group for an undisclosed price. The purchase is the 2nd by Black Spruce in the last few months, the company reportedly going into contract in April for a 14-building, 135-unit portfolio in Chelsea.

**Blackstone Group** is reportedly in contract to acquire the **894-unit Kips Bay Court** complex from non-profit developer Phipps Houses. News of the pending deal for approximately $625.8 million ($700,000 per unit) comes just about 2-months following release of the offering memo by Phipps. Blackstone will not be seeking any additional debt for the “low-leveraged” acquisition to be made through its core-plus fund, intending to assume the existing 10-year, $200.1 million Fannie Mae mortgage originated by Wells Fargo Bank in 2013 and subsequently passed on to Fannie May, replacing a $90 million Freddie Mac loan from M&T Bank issued in 2004.

The 8-building complex that borders 2nd Avenue between East 26th and 29th Street was constructed in the 1970s by Phipps under the Mitchell-Lama housing program which caps profits and rents. The complex exited the program in 2002; and despite nearly 40% of the units currently occupied by Section 8 tenants — a figure that is projected to diminish to 8% by 2027, rents are reportedly just 10% below market rate. In addition unlike rent regulated units, ownership is free to rent to a market-rate tenant upon the existing federally subsidized tenant vacating; offering the potential of increasing net operating income from the 2017 projection of $23.9 million to $41.6 million by 2027. However to attract new market-rate tenants, a rebranding of the complex may be required along with the addition of rooms, and an expansion of the retail according to suggestions reportedly revealed within the marketing material for the sale offering.

Downtown

**Jamestown** has reportedly acquired the **352-unit rental building** at **88 Leonard Street** (aka 341-347 Broadway) for close to $240 million ($161,818 per unit) from Waterton. The 21-story, 305,155-square-foot building constructed in 2007 is located at the corner of Broadway in the TriBeCa neighborhood; and includes an attached 249-car below-grade parking garage and 11,365 square feet of ground level retail space fronting Broadway. Waterton had reportedly acquired the building for about $210 million ($596,590 per unit) in 2011, hoping a sale would attract a higher figure in the neighborhood of $300 million ($852,273 per unit) according to reports.

Uptown & Upper Manhattan

**Fairstead Capital** and the **Blackstone Group** have introduced

Brooklyn

A **Related Companies affiliate** has acquired the **3-building, 104-unit rental portfolio** located within Brooklyn’s Williamsburg neighborhood. The walk-up buildings at 164 Havemeyer Street, 181 Havemeyer Street and 442 Lorimer Street include some rent-stabilized units as well as ground floor retail space. The $60 million ($576,923 per unit) purchase from the partnership of the Rockpoint Group and Urban American closed in July.

Related has been an active investor in residential properties, acquiring a **20-building, 737-unit Bronx portfolio** in December for $112.5 million ($152,646 per unit); and per reports in June was in discussions with Long Island-based owners Benjamin Properties to purchase the **10-building, 444-unit Section 8 multi-family complex known as the Marine Terrace Portfolio** which is located in Astoria, Queens. Although details of the negotiations were not disclosed, a state application reportedly filed for $108 million in bond financing revealed plans to upgrade units and clear a portion of the 8-acre complex’ parking to construct a pair of new rental buildings to house 53-units. The Marine Terrace project is expected to fetch just over $210 million ($472,973 per unit), including a $20.63 million developer’s fee. According to reported comments by company sources, the stable income from the residential properties has helped spread the risk of projects such as the Hudson Yards.
Residential Sale Activity (cont’d)

Sale Highlights (cont’d)

Brooklyn/Bronx

The joint venture of the BFC Partners and K&R Preservation has acquired the 8-building, 324-unit portfolio for $60 million ($185,185 per unit) from Black Spruce Management. The deal attracted a price that was nearly 40% higher than the $43 million Black Spruce paid last year. Properties include 286-290 East 91st Street and 185 East 92nd Street in the Brooklyn neighborhood of East Flatbush, and 972 Leggett Avenue and 60-68 West 162nd Street in Bronx neighborhoods Longwood and Highbridge. Financing was reportedly composed of tax-exempt bonds, with credit enhanced by Freddie Mac through its Low-Income Housing Tax Credit rehab program. New ownership is reportedly planning a $12 million renovation of the properties, intending to keep tenants in place to avoid relocation costs.

The residential package that has a combined total of 300,000 square feet is divided between 5-Bronx buildings acquired for about $38 million and (3) in Brooklyn that sold for approximately $22 million. The units are fully occupied and all part of the Section 8 housing program which new ownership reportedly intends to renew, preventing conversion to market rate for at least the next 20-years. The portfolio was part of the 42-building, 1,700-unit Three Borough Pool that was split up and sold off in smaller packages by Normandy Real Estate Partners and Westbrook Partners.

Bronx

Thor Equities is reported in contract to acquire the 182-unit rental building located at 975 Walton Avenue for $42.5 million ($233,516 per unit) from Brooklyn investor Benzion Kohn. The 6-story property located in the Grand Concourse Historic District of West Bronx spans the entire block-front of East 164th Street between Gerard and Walton Avenues, in the vicinity of Yankee Stadium. The pending sale represents the 3rd change in ownership since 2010 when it traded for $11.316 million ($62,177 per unit); and then again in April 2015 for $30 million ($164,835 per unit).

Prana Investments has reportedly acquired the 5-building, 214-unit rental portfolio for $35.8 million ($167,290 per unit) from Enclave Equities. The almost entirely rent-stabilized residential package located in the western section of the Bronx, primarily in the Fordham neighborhood, is comprised of (2) 6-story elevator and (3) walk-up buildings totaling 195,000 square feet. The buildings are located at 2489 Morris Avenue, 1225 Sherman Avenue, 2101 and 2499 Grand Concourse, and 1900 Grand Concourse which includes 9,860 square feet of additional air rights.
CRE Financial Council: The Impact of Regulation on CRE Finance

The study released early this year by the trade association for the commercial real estate finance industry CREFC presented findings of the “holistic impact of regulatory impact on the future financing of the commercial real estate (CRE) sector.” A cornerstone of the U.S. property sector, the financing of CRE investment and development accounted for over 1.4 million U.S. jobs and over $1 trillion per year in domestic investment. While CRE investment conditions have significantly improved since 2008, it has lagged behind previous post-crisis periods. Currently the long-term impact of the newly created post-crisis regulations is still undeterminable due to some of “the rules still being designed and implemented; the effect of low interest rates has continued to absorb and counteract regulation; and the market structure, which is still emerging, has not been tested by a downturn or a market dislocation.”

The study which attempts to project the costs over a ten year period of new regulations created by the International Regulatory Framework for Banks (e.g, Basel II) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) assumed that regulators will “adopt final rules that remain close to the requirements discussed in public to date” and that “a normal market environment prevails.” New, and in many cases overlapping regulations that directly affect CRE market participants are still being designed with expectations of them being implemented through 2019. While it was noted that regulations provide certain benefits to the marketplace and the economy as a whole, it can also negatively impact economic activity and job growth.

$3.5 Trillion – The total committed debt related to construction and other types of CRE-based lending. The majority of the debt was originated by banks, while the remainder is a mix of commercial mortgage-backed securities (CMBS) facilities, life companies, and real estate investment trusts (REIT) and other nonbank lenders (specialty finance, private equity, hedge funds). According to the analysis, nearly 11.7% of CRE loans were underwritten with a relatively more aggressive debt-service coverage ratio below 1.25x (DSCR), potentially putting approximately $281 billion in outstanding CRE debt as “riskier” and more sensitive to cost increases. The cumulative effect of the new regulations will increase the cost of CRE and construction financing while simultaneously decrease availability. CREFC projected that potential diminishing borrower proceeds could result in an estimated $209 billion median ten-year impact on the real economy.
Regulation on CRE Finance (cont’d)

Capital at Risk – The regulatory cost impact will vary amongst the different lender types:

- **CMBS** – The sector which offers the greatest transparency will see an estimated 10 bps to 50 bps in costs added to an average loan, or roughly 0.5% to 3.4% of the current coupon, potentially putting $8.6 to $15.4 billion of CMBS capital at risk upon the regulations being implemented.

- **Insurance Companies** – The sector faces relatively less regulatory change in comparison to other regulated lenders, however those that are designated as systemically important financial institutions (SIFI) — the companies whose failure could trigger a global crisis will be subject to changes to capital, liquidity, and other requirements that will result in a yet to be determined regulatory burden. An estimated increase in loan costs of 10 bps to 25 bps could put $3.1 billion to $7.9 billion in capital at risk.

- **Banks** – While the variability in outcomes is much broader for the loans to the stabilized properties sub-sector, an estimated increase in loan costs of 15 bps to 100 bps could put $12.5 billion to as high as $174.7 billion in capital at risk.

A general consensus from a series of interviews comprised of over 2-dozen business leaders and regulatory professionals on both the buy and sell sides revealed that although a majority of those interviewed felt that a certain level of deleveraging is healthy and risk realignment at a high level makes sense, the regulation may be too aggressive given the pace of the CRE finance market’s growth. It was further opinioned that while on the surface the Dodd-Frank regulations have made banks relatively safer than before, regulations are an inadequate means to achieving better underwriting and net systemic risk will potentially remain has high.
The **High Volatility Commercial Real Estate** (HVCRE) rule applies to “credit facilities used to finance the acquisition, development or construction of real property;” and reserve requirements for HVCRE designated credit facilities applies throughout the life of the loan. Exemptions reportedly include:

- One-to-four-family residential properties;
- Community development loans;
- The purchase or development of certain agricultural land; and
- Other commercial real estate projects in which the loan-to-value (LTV) ratio is less than a supervisory ratio established by the bank regulators, and the borrower has contributed equity of at least 15% of the appraised “as completed” value.

The rule implemented on January 1, 2015 that intended to offset the potential losses from failed construction loans now requires regulated institutions to set aside increased capital for HVCRE loans. The 150% of risk weight now required to be retained by banks on a loan that falls under HVCRE is a 50% increase of the previous 100% requirement, limiting their ability to lend while driving up loan costs that could be passed on to borrowers. The new rule which is part of **Basel III** has attributed to an uptick in activity amongst alternative lenders who are not subject to the rule. Although some industry people project that banks will remain one of the lower cost providers, others predict that the private lending market will become more competitive and as market share increases capital costs will be reduced. According to reported statistics compiled by the Mortgage Bankers Association, loans originated by alternative lenders increased 68% year-over-year in 2015, nearly double the 35% increase seen by commercial banks and savings institutions during the same period.

**Issues that have arisen as a result of the HVCRE rule include:**

- Borrowers are no longer allowed to use the appreciated value of land towards the required 15% in cash equity needed before the bank can advance its funds;
- Borrowers can no longer use cash-flow to pay back the bank; and
- Banks are now required to hold onto 12% in regulatory capital — up from 8%, potentially reducing the yield of a bank’s portfolio by one-third. In addition since each deal now represents a greater portion of the portfolio, the impact of delinquencies will be greater.

Some banks have resourced what has been described as essentially a regulatory loophole, by providing a **warehouse line of credit** to an alternative lending firm which has a lower regulatory capital constraint than direct lending. In actuality the bank is indirectly lending on an asset, otherwise known as a “**loan-on-loan,**” however its structure places the liability of providing the money to the client on the non-bank lender should the bank shut down or decide to stop advancing funds from that line of credit. An increase in the warehouse lending space has raised concerns; and because of this growth it is anticipated that at some point regulators will be prompted to take action on it. Some financial analysts have pointed out that these lines of credit, since not directly collateralized by commercial real estate, fall under commercial and industrial (C&I) mortgages which are “historically used as working capital; or to fund capital expenditures (for company growth, infrastructure, etc.)” and not intended to be for carry trades.

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1 **Basel III** - A comprehensive set of reform measures which were developed by the Basel Committee on Banking Supervision intended to strengthen regulations, supervision and risk management of the banking sector.

The Financial CHOICE Act Proposes a Repeal of Dodd-Frank

The proposed bill has reportedly received a “green light” from the Financial Services Committee and is now moving to the House of Representatives. Just over 6-years since the Dodd-Frank Wall Street Reform and Consumer Protection Act went into effect, the Financial CHOICE Act proposes some repeals and changes intended to help reverse what has been characterized as very slow and tepid economic recovery and boost the availability of capital and credit in the market. However critics of the Financial Choice Act believe it will shift regulations in such a way as to “favor big banks more than consumers” and repeal “nearly all the rules enacted to make banks safer and stronger.”

Areas of the bill that would reportedly have the most significant impact on the commercial real estate industry include:

- The proposal to eliminate the risk retention requirements for asset-backed securities with the exception of residential mortgage-backed securities; and
- Set examination standards for financial institutions and commercial loans that would disallow commercial loans from being “placed in non-accrual” status solely because the collateral for such loan has deteriorated in value; and upon a modification or restructuring the “commercial loan shall be removed from non-accrual status if the borrower demonstrates the ability to perform on such loan” over a designated period of time.

A condensed highlight of some if the key elements detailed within an executive summary of the bill as been posted on the Financial Services Committee’s website are presented below.

Section 1: Provide for election to be strong capitalized, well managed financial institution.

- Banks that elect to maintain high levels of capital should be provided with an “off-ramp” from the post-Dodd-Frank supervisory regime and Basel III; and for those banks that have made a qualifying capital election:
  - Stress tests conducted by banking agencies would be permitted, but not limit capital the banking organization’s distributions; and
  - Where related to capital or liquidity standards or concentrations of deposits or assets, the banking organization should be exempt from any limitations on mergers, consolidations, or acquisitions of assets or control imposed by any federal law, rule, or regulation; as well as the consideration of risk “to the stability of the United States banking or financial system” by a banking agency when reviewing an application to consummate a transaction or commence an activity.
The Financial CHOICE Act (cont’d)

Section 2: End “Too Big to Fail” and Bank Bailouts

- Retroactively repeal the authority of the Financial Stability Oversight Council (FSOC) to designate firms as **systematically important financial institutions** (SIFIs). The nonbank designation assigned to major companies whose failure could trigger a global crisis had sparked legal action by MetLife and resulted in the insurer shedding the designation in U.S. Court as of earlier this year. In addition decisions were made by General Electric to divest its financial unit, while AIG Life is reportedly streamlining parts of its business.

- Restrict the Fed’s discount window lending to “**Bagehot’s dictum**”;”

- Prohibit use of the **Exchange Stabilization Fund** to bailout financial firms or creditors; and

- Repeal Dodd-Frank’s section 117(b). The commonly referred to “**Hotel California**” provision reportedly provides that large bank holding companies that participated in the federal government’s **Troubled Asset Relief Program** (TARP) during the financial crisis are subject to greater regulation – similar to the SIFI designation, but does provide a mechanism to challenge the automatic treatment of financial institutions as systematically important.

Section 3: Empower Americans to achieve financial independence by fundamentally reforming the CFPB and protecting investors

- Rebrand the Consumer Financial Protection Bureau (CFPB) as **Consumer Financial Opportunity Commission** (CFOC) and assign it the dual mission of consumer protection and competitive markets, with a cost-benefit analysis of rules performed by an Office of Economic Analysis. Permission is required to be obtained prior to the CFOC collecting personally identifiable information.

Section 4: Financial regulator accountability and the transference of power away from Washington

- All financial regulatory agencies subject to the **REINS Act**, which requires congressional approval for rules with greater than $100 million in economic impact, to be made bi-partisan commissions;

- Reauthorize the Securities and Exchange Commission (SEC) for a period of 5-years with funding, structural, and enforcement reforms;

- Repeal the so-called **Chevron deference doctrine** which is “a principle of administrative law requiring courts to defer to interpretations of statues made by those government agencies charged with enforcing them, unless such interpretations are unreasonable;” and

- Demand greater accountability and transparency from the Federal Reserve.

Section 5: Demand accountability from Wall Street through enhanced penalties for fraud and deception

- Impose enhanced penalties for financial fraud and self-dealing, and promote greater transparency and accountability in the civil enforcement process;

- Allow the SEC to triple monetary fines sought in both administrative and civil actions in certain cases; and

- Increase the maximum criminal fines for individual firms that engage in insider trading and other corrupt practices.

Section 6: Unleash opportunities for small businesses, innovators, and job creators by facilitating capital formation

- Repeal sections and titles of Dodd-Frank, including the **Volcker Rule** which prohibits an insured depository institution and its affiliates from engaging in “proprietary trading;” acquiring or retaining any equity partnership, or other ownership interest in a hedge fund or private equity fund; and sponsoring a hedge fund or a private equity fund.

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1. Non-accrual Loan – a nonperforming loan on which interest is overdue and full collection of principal is uncertain

2. Bagehot’s dictum – Refers to advice by Walter Baghot in his book Lombard Street: A Description of the Money Market that dates back to 1873; and is summarized as follows: Lend freely • At a high rate of interest • On good banking

U.S. Investment Firms Continue to Gain Lending Market Share

Traditional lenders are growing increasingly more cautious amidst uncertainty over interest-rate increases, heightened regulations, and surfacing signs of the prospect of a real estate bubble in the high-end residential market and concerns of an oversupply.

The gradual pulling back by banks has opened the door to greater opportunity for the less regulated nontraditional lenders. Driving the surge is reportedly the need by commercial property owners of “more types of financing than the commercial banking industry as a whole is willing to provide.” The growing roster of nontraditional lenders seeking to increase their foothold in lucrative deals includes a mix of buyout firms, real estate investment trusts (REITs), and hedge firms.

U.S. investment firms – some of which are referred to as “shadow banks” are reportedly seeking $32 billion in commercial-property debt, banks continuing to remain active by providing financing to investment firms. The increasing trend by banks offers a less risky option than extending credit directly to property owners since it shifts the initial absorption of loss, if a project stalls, from the bank to the non-regulated firm. The lending of a diversity of commercial loans by regulated banks to non-depository financial companies rose nearly 23%, or $41.2 million, in the 4th quarter of 2015; and represents the fastest growing category according to reported data from the Office of the Comptroller of the Currency (OCC).

Although typically charging higher interest rates, the less regulated investment firms offer the advantage of being able to originate larger loans, eliminating the complication of the borrower having to negotiate with multiple banks. Furthermore, they are able to “move quickly on large loans that may be seen as too speculative for banks.” Efforts to further offset risks has reportedly resulted in a 2.2%, or $787 million, increase in total reserves for commercial loans in the 2nd quarter by banks with assets greater than $1 billion; in contrast to non-regulated lenders that have the flexibility to determine their own percentage of reserves to set aside based upon risk analyses generated from internal rating systems.

Lending activity in New York City by nontraditional lenders has become more frequent amongst companies such as Mack Real Estate Group through its lending arm Mack Real Estate Credit Strategies, Kushner Companies, the Moinian Group, RXR Realty, ATCO Properties, Clarion Partners, as well as:

Apollo Commercial Real Estate Finance

- **4 East 34th Street / 10 East 34th Street** (Midtown East/Murray Hill) – A total of $44.8 million was provided earlier this year by the mortgage REIT for the acquisition of the 2-buildings totaling 84,162 square feet. The floating rate loan reportedly has an initial 2-year term plus a 6-month extension option.

Madison Realty Capital

- **1399 Park Avenue** (Harlem) – A $60 million construction loan was issued to help finance the planned 3-story, 72-unit residential condominium development.

- **644-652 East 14th Street** (East Village) – A $29.3 million loan acquisition and construction loan was issued for the planned 14-story, 50-unit mixed-use development
Starwood Property Trust

- **10 Hudson Yards** (Hudson Yards) – The 2013 origination of a $475 million first mortgage and mezzanine loan was led by Starwood which kicked-off construction at the project and helped finance the construction of the 52-story tower. Starwood provided $350 million, with the remainder contributed by Oxford Property Group and the United Brotherhood of Carpenters and Joiners. The debt that carried an 8% interest rate was recently paid off following a recapitalization of the now fully leased 1.7 million-square-foot tower according to reports.

- **252-260 East 57th Street** (Midtown East) – A $450 million construction loan was provided in 2014 for the 65-story, 632,828-square-foot mixed-use development. The 4-year debt that reportedly included extension options covered the residential component, the 33,000 square feet of retail space, and the 39,000-square-foot Whole Foods Market constructed on the site in 2010.

- **20 Times Square** (Times Square) - $815 million in construction and mezzanine financing was provided by Starwood along with iStar Financial for the Marriott Edition-branded hotel development. As part of the deal, both Starwood Property Trust and Starwood Capital Global have an equity interest in the transaction. In addition Marriott “agreed to provide the lenders with the right to require Marriott to purchase the hotel component…during the first 2-years after opening for $314.6 million” ($696,000 per key) as additional collateral in the event of a default — also known as a so-called “put” clause which protects the developers; and made it easier to finance the project since a need for the lender to underwrite the hotel is eliminated.

SL Green Realty

- **196 Orchard Street** (Lower East Side) – A $195 million senior construction loan for the 11-story, 94-unit residential condominium development currently under construction. The new debt retires a $97 million loan also provided by the REIT in 2015 to finance pre-development and acquisition costs.

- **61 Broadway** (FiDi) – $50 million in mezzanine debt was provided as part of the $290 million financing package that recapitalized the 22-story tower.

- **76 Eleventh Avenue** (Chelsea) – The stake in a $138.2 million mezzanine debt was split by the REIT along with Oxford Property Group and Vornado Realty Trust for the planned nearly 800,000-square-foot residential condominium development.

Square Mile Capital Management

- **485 Seventh Avenue** (Times Square) – A $205 million construction loan was provided as part of a $330 million financing package for the Marriott Moxy Hotel project that will result in the conversion and renovation of an existing 16-story office building.

Vanbarton Group

- **20 Broad Street** (FiDi) - $45 million in debt was provided as part of a $170 million financing package for the leasehold acquisition and pre-development costs of a planned residential rental conversion of the 473,000-square-foot building that was formerly utilized by the New York Stock Exchange.

Blackstone Group

- **217-225 West 57th Street** (Midtown West) – A $300 acquisition mortgage was provided in 2013 for the under construction Central Park Tower that will house a portion of the new Nordstrom flagship store at its base.

- **275 Madison Avenue** (Grand Central) – A $240 million floating-rate senior mortgage was provided along with SL Green Realty for the acquisition of the 336,000-square-foot tower. A $15 million portion of the debt was reportedly held back for future capital expenses.

- **25-30 Columbia Heights** (Brooklyn Heights) – A $376 million financing package comprised of a mix of acquisition, building and project loans was provided by affiliates of the Blackstone Group and SL Green Realty. Blackstone reportedly took the senior debt and SL Green Realty retained the B-note component.

EB-5 Foreign Investor Program Financing

EB-5 Program’s Proposed Revisions Spark Concerns

The new proposed bill released on September 9 called for reforms of the federal government’s current EB-5 Foreign Investor Program that was due to expire last year. Subsequently the current program was extended through September 30, 2016 via federal stopgap legislation in December; and is anticipated to likely be extended again to give lawmakers opportunity to reach a resolution. Over the years the popular program intended to generate economic activity and jobs has sparked criticism both those who feel it has strayed off the path of its original intended purpose.

Although it has been speculated that the new bill is “unlikely to pass in its current form,” proposed reforms within the bill reportedly sponsored by a Virginia Congressman include:

- An increase of the minimum investment threshold from $500,000 to $800,000 for projects in high unemployment areas, and from $1 million to $1.2 million in low unemployment areas. However more significantly it would reportedly require existing investors to retroactively increase their investment to meet the new minimum requirement, potentially prompting some investors to back-out, resulting in an unanticipated funding-gap on projects.

- Increased scrutiny on investors’ source of funds, reportedly requiring the submission of up to 7-years of tax returns from their home countries, as well as the disclosure of any judgements against them and any pending governmental, civil, or criminal legal actions.

- The combining of census tracts to establish the “Targeted Employment Areas” (TEAs) for project eligibility would no longer be allowed.

- Approximately 2,000 of the total 10,000 visas allotted in the program would reportedly be reserved for projects in rural areas, which are seen as high-risk.

EB-5 Financing

Hallets Point – Building 1 (Astoria) – The Durst Organization is reportedly hoping to secure about 25%, or $100 million in financing for the 20-story, 80/20 residential building which is part of the developer’s large mixed-use project located along the East River waterfront in Queens. The 400-unit development broke ground in January, but plans for the next phase of the project were halted in the wake of the city’s 421-a Tax Abatement program expiring. In total the project included 8-residential buildings housing 2,400 housing units — 20% designated as affordable, but is now no longer financially feasible without an abatement program in place according to reported comments by a company spokesperson.
Hudson Yards Project: Financing Snapshot

In total, the development team has reportedly secured a total of about $14 billion in debt and equity for the project as of the end of August. Currently claiming title as the “largest private real estate development in U.S. History,” numerous sources were tapped to finance the project. Funding has been secured through a mix of conventional lenders, EB-5 investors, opportunistic hedge funds and even Israeli’s Tel Aviv Stock Exchange (TASE), with a different breed of investor targeted for each asset at the project according to sources. Part of the success of securing lending has been attributed to the momentum of leasing at the project that has leased, or has commitments for about 50% of the total office space, easing lenders increasing concerns about financing new construction in Manhattan.

The Metropolitan Transportation Authority (MTA) has also been able to benefit from the success of the Hudson Yards. Plans by the MTA to sell $1 billion in bonds were announced in August, the offering that will be secured by ground leases at Hudson Yards was given a high-rating by both the Kroll Bond Rating Agency and Moody’s Investors Services. The development’s high land value, reportedly estimated to be $2.3 million for the Eastern Portion (Phase 1) and $3.7 billion for the yet-to-be developed Western portion (Phase 2), supported a low loan-to-value ratio according to reported comments by a Kroll spokesperson.

There are now (5) of the 6-planned buildings comprising Phase 1 of the 16-building project in different phases of construction. The first tower to deliver at 10 Hudson Yards (aka 501 West 30th Street) opened its doors in May to welcome anchor tenant Coach. Confidence in the project has been strong as construction of the decking for the 2nd phase of the project located between 11th Avenue and the West Side Highway is expected to begin next year, ultimately adding another 6.22 million square feet of mixed-use space to the nearly 10 million square feet of Phase 1.
Hudson Yards (cont’d)

35 Hudson Yards aka 532-560 West 33rd Street – Co-developers the Related Companies and Oxford Property Group secured a $1.2 billion loan in July from The Children’s Investment Fund. The new debt, along with additional equity also raised by the developers from an undisclosed entity, will help finance the construction of the planned 70-story, 1.1 million-square-foot mixed-use tower which has already broken ground. The London-based hedge fund has been an active investor in the multi-building project, previously providing $850 million in financing last year for 15 Hudson Yards (aka 553 West 30th Street) which will be the first residential tower to be constructed at the site.

Upon expected delivery in 2019, 35 Hudson Yards will comprise 137 condominium units, a 200-key Equinox-branded hotel, a 60,000-square-foot Equinox health club, 175,000 square feet of office space, and 20,000 square feet of retail space. Equinox, the high-end fitness chain of which the Related Companies is majority owner, will establish its new global headquarters at the tower as well, with the upscale fitness-chain’s Soul Cycle brand also expected to take a portion of the retail space.

Additional financing secured for the project has included:

- **$1.2 Billion** – Deutsche Bank’s Commercial Real Estate (CRE) team and Goldman Sachs, as “joint bookrunners and co-lead managers” for 10 Hudson Yards provided the new issue commercial mortgage-backed securities (CMBS) in August 2016 to the limited partnership that included the Related Companies, Oxford Property Group, and Germany-based Allianz which had acquired a 44% stake in the tower in August as part of the refinancing deal; and may serve as a “case study for how the developers may finance the 2nd Phase of the project.

- **$1.3 Billion** – The total finance package secured in 2015 for 15 Hudson Yards reportedly comprised:
  - Equity provided by the co-developers and a sovereign wealth fund;
  - Tax-exempt bonds from New York State Housing Financing Agency (HFA); and the previously noted

- **$5 Billion** – The financing package secured in 2015 was reportedly comprised of:
  - Equity from the developers and tenants;
  - A $690 Million, 5-year loan from Bank of America Merrill Lynch, Wells Fargo and Canadian Imperial Bank of Commerce for 30 Hudson Yards. Bank of America acting as the administrative agent on the loan that was syndicated in January; and
  - $1.5 Billion from Bank of China, Deutsche Bank, Industrial and Commercial Bank of China (ICBC) and Crédit Agricole for the property’s 1 million-square-foot retail and dining complex.

- **$847 Million Shekels** (about $224.98 million at August’s rates) – The 5-year debt was issued through TASE’s bond market in 2015.

- **$250 Million** – Deutsche Bank provided the loan in 2014 for the construction of Phase 1 of the platform over the Eastern portion of the Rail Yards, launching the overall development of the Hudson Yard project.

- **$600 Million** – The debt was raised through the federal government’s EB-5 Foreign Investor program in 2014 for the 1st Phase of the project, with another round already launched to secure additional financing according to sources.

- **$475 Million** – The construction financing package secured in 2014 was comprised of a $350 million loan from Starwood Property Group, with a combination of joint venture partner Oxford Properties Group, trade union United Brotherhood of Carpenters and Joiners, and luxury retailer Coach providing the balance. The debt reportedly included an “extremely rare construction mezzanine loan.”

However looking ahead, Related and Oxford may run into some headwinds as the office market seems to be approaching the apex of the current real estate cycle; and the first residential tower rises at a time when the luxury market has showed signs of softening. Sales were slated to launch mid-September for the 285 market-rate and 106 affordable units at the 88-story condominium tower which has a projected sellout of $1.74 billion.
Lending Activity - 3rd Quarter 2016

Seeking Financing

Downtown

1 Wall Street aka 60-80 Broadway (FiDi) – Macklowe Properties is reportedly in the market for a $1 billion senior construction loan to help finance the developer’s planned residential conversion of the former Bank of New York (BONY) tower. If secured, the debt would cover about two-thirds of the projected $1.5 billion construction cost. Alteration applications were filed last year to convert the 50-story, 1.1 million-square-foot tower into a mixed-use development comprised of 848,475 square feet for 524-residential units that will be a mix of rentals and condominiums, and 155,000 square feet of new retail space. Back in October it had been reported that Macklowe had submitted EB-5 materials with the rumored intention of raising $100 million through the federal government’s foreign investor program. An anchor tenant for the retail space has already been secured, organic grocer Whole Foods Market will be opening its 2nd Downtown store as a result of the deal announced in July for a 2-level space totaling 44,000 square feet.

Uptown

10 Riverside Boulevard / 20 Riverside Boulevard / 30-40 Riverside Boulevard (Upper West Side) – GID Development is reportedly seeking to secure $220 million in tax-exempt bonds from the New York State Housing Financing Agency (HFA) for a 3-building project the Boston-based developer is planning to construct at the multi-building, mixed-use Riverside Center project. It is likely that the developer will be participating in HFAs 80/20 program which will require 20% of the units being designated for affordable housing. Additional project financing of over $1 billion is also being sought according to 2015 reports; and although negotiations with several banks were underway at the time, the status of the funding remains unverified.
Lending Activity (cont’d)

GID’s projects will spread across 5-parcels at the site, acquired along with Abu Dhabi Investment Authority for a combined total of $675.665 million through 2-transactions last year. Approvals have reportedly been received for over 1,500 residential units, of which 270-unit will be condominiums according to reported details of an offering plan submitted to the Attorney General’s office.

- **10 Riverside Boulevard aka 10 Lincoln Square** (Parcel 3) – The parcel located on the southwest corner of the site at Riverside Boulevard/Westside Highway and West 59th Street was purchased for roughly $209.623 million ($507 per buildable-square-foot). Permit applications were filed by the sellers in 2015 for a 36-story, 413,000-square-foot development comprised of 288 residential units with 1,400 square feet of below-grade commercial space. Initial renderings have yet to be released; and it has yet to be verified if GID intends to proceed with permits as previously submitted.

- **20 Riverside Boulevard aka 639 West 59th Street** (Parcel 4) – The 2-inline parcels located on the east-side of Parcel 3 along West 59th Street were purchased for roughly $55.242 million ($167 per buildable-square-foot). Permit applications filed by the Carlyle Group and Extell in July revealed a planned 34-story, 330,152-square-foot tower that will house 244 residential units and 1,845 square feet of retail space. Potential renderings had been released in 2014, but the building’s final design has yet to be revealed; as well as whether or not GID intends to proceed with permits as filed.

- **30-40 Riverside Boulevard** (400-450 West 61st Street / 332-360 West 61st Street) (Parcel 1) – The 2-parcels located on the northwest corner of the site at West 61st Street and Riverside Boulevard were acquired by Boston, MA-based GID Development for $410.8 million. Permit applications filed earlier this year reveal a 2-building complex over a shared podium giving rise to 24- and 39-story buildings totaling 858,772 square feet to be comprised of 595 rental and condominium units with an elementary school and 18,467 square feet of retail space.

Upon full completion, the Riverside Center project located within the Lincoln Square area is slated to add 2,500 residential units, a portion of which will be affordable housing, a 250-key hotel, 250,000 square feet of commercial space, a new school and cinema, an auto showroom, and a 2.76-acre public park. The Carlyle Group and Extell Development had reportedly acquired the undeveloped southernmost portion of Donald Trump’s Riverside South development from his Hong Kong-based partners for $1.76 million in 2005. Construction of the 5-buildings was offered through a bid process to developers; and (2) of the towers are already under construction:

- **5 Riverside Center aka 21 West End Avenue** (Parcel 2) – The 43-story, 753,000-square-foot building will be LEED certified and will host 616 rental apartments, 23,725 square feet of retail space, and a 4-story public school for children attending pre-kindergarten through 8th grade. The 112,440-square-foot public school is expected to be open for the 2016 school year. The tower that is being co-developed by Dermot Company and the AFL-CIO Building Investment Trust was the first to break ground in 2014.

- **10 Freedom Place aka 1 West End Avenue** (Parcel 5) – The 42-story, 760,000-square-foot development is currently under construction by Silverstein Properties and the Elad Group. The tower will house a mix of 264-condo units and 116-units designated for affordable housing divided by separate tenant entrances. Construction broke ground in 2015 and is expected to deliver in 2017.
Lending Activity (cont’d)

Reported Loans Secured

Midtown

40 East 52nd Street (Plaza) – Rudin Management has secured a $100 million loan from JPMorgan Chase to refinance the 23-story tower located between Park and Madison Avenues. The new mortgage will also refinance the company’s small neighboring building at 39 East 51st Street; and retires the outstanding balance of $56.8 million that remains on a mortgage previously originated by New York Life Insurance Company in 2003. Anchor tenant BlackRock occupies about 268,000 square feet at the 371,183-square-foot building, and according to reports in August is exploring possible alternative options that could lead to a relocation upon the asset management company’s lease expiration in 2023.


600 Lexington Avenue (Plaza) – SL Green Realty Corp. has secured a $125 million loan from Wells Fargo to refinance the 36-story tower. The new debt will reportedly retire a $125 million loan originated by the Bank of China in 2010.

1540 Broadway aka 175 West 45th Street (Times Square) – Washington, DC-based Edge Fund Advisors and HSBC bank’s HSBC Alternative Investments have secured a $450.7 million mortgage for the 907,000-square-foot office component of the 1,440,108-square-foot tower. Located at the corner of West 45th Street within the Times Square Bowtie, the new loan originated by Germany-based DekaBank reportedly consolidates previous debt including a 5-year, $350 million fixed-rate loan provided by MetLife in 2011 that was due to expire. The joint venture had acquired a 49% stake in 2010 for $255 million ($574 per square foot) from CBRE Richard Ellis Investors, acquiring the remaining 51% stake from CBRE in 2011 for $423.5 million ($916 per square foot) and a combined total of $678.5 million.

One Vanderbilt, 317-331 Madison Avenue aka 51 East 42nd Street (Grand Central) – SL Green Realty closed on a $1.5 billion financing package in late September for the planned 1.6 million-square-foot office tower that will reach a linear height of 1,401-feet. Lender Wells Fargo Bank, N.A. led the loan facility as Administrative Agent; the Bank of New York Melon along with JPMorgan Chase, TD Bank and the Bank of China served as Syndication Agents; and German-based Landesbank Baden-Württemberg was the Documentation Agent. The 7-year loan carries a floating interest rate of 3.5% over LIBOR; and includes an “option to reduce the spread to as low at 3% upon achieving certain pre-leasing and completion milestones” according a press release by the REIT. An initial announcement of the pending financing package was released in June, along with the REIT’s plans to seek a joint venture partner for a 50% stake which would cover roughly $820 million of the required equity for the project.

Lead lender Toronto-Dominion Bank (TD Bank) agreed to lease 200,000 square feet in 2014. The deal, which includes a flagship retail space in addition to a sizable office, will allow the Canadian financial firm to consolidate citywide offices. Plans for the long awaited development were filed last fall, receiving city approvals in May 2015 that allowed the tower’s increased density in exchange for $220 million in transit improvements. A contract was reportedly awarded in July to a construction firm for the first $5 million transit-improvement package. The initial phase will improve the mezzanine subway platform under 125 Park Avenue, and re-open the long-shuttered Mobil passageway that will re-connect One Vanderbilt to Grand Central Terminal. Demolition is well underway for existing structures on the block-wide site bound by East 42nd and 43rd Streets between Madison and Vanderbilt Avenues. Vertical construction of the 58-story tower is slated to begin in the 2nd quarter of 2017 with a tentative delivery in 2020.

286 Madison Avenue (Grand Central) – APF Properties has secured $60 million in commercial mortgage-back securities (CMBS) financing from Jefferies LoanCore. The 10-year debt will refinance the 23-story building, and reportedly carries a 3.8% fixed interest rate. Located at the corner of East 40th Street, the 125,976-square-foot tower was acquired in 2006 for $44 million, the Midtown-based company financing the acquisition with a $32.7 million loan originated by German lender Deutsche Bank.

Sources:  
**Lending Activity (cont’d)**

**Reported Loans Secured (cont’d)**

**11 East 44th Street** (Grand Central) – AION Partners has secured an $80 million financing package comprised of a $65 million senior mortgage from Deutsche Bank and a $15 million mezzanine loan from SL Green Realty Corp. The new debt replaces the remaining $36 million balance of a $38.5 million loan originated by JPMorgan Chase in 2006. In addition, AION will buyout ING Clarion Partners’ 22.9% ownership stake for $30.2 million, which although unverified was reportedly acquired in 2007 through a commingled fund managed by ING Clarion Partners following ING coming in as a recapitalization partner the same year. The remaining 77.1% interest had been acquired by AION from Kensico Properties in 2004 for $45.5 million according to city records.

The 19-story, 135,150-square-foot building is nearly fully leased with Brooks Brothers its largest tenant. The clothing retailer currently leases a mix of office and retail space totaling 40,395 square feet, however 10,270 square feet of retail space — 5,947 on the ground level and 4,323 square in the basement is currently being marketed as a sublease (on Costar with Cushwake). In 2013 Brooks Brothers had planned to launch a steakhouse restaurant concept branded “Makers and Merchants,” repositioning the space that housed their women’s clothing line for several years; apparently deciding to abandon the project. The 3-level, 16,873-square-foot space at the base of the building formerly occupied by men’s clothing brand J. Press was leased by Brooks Brothers in 2008.

**1412 Broadway** (Penn Plaza/Garment) – Isaac Chetrit and Charles Aini have secured a 5-year, $160 million loan that carries a 2.85% interest rate from Wells Fargo Bank. The refinancing of the nearly fully occupied 24-story, 428,626-square-foot tower comes at a time when ownership is planning renovations including the conversion of the penthouse office floors and rooftop into a bar and restaurant. In addition the potential redevelopment of the adjacent 3-story, 9,600-square-foot retail building at 1420-1422 Broadway into a 15-sory, 80-key hotel would result in its ground level retail space connecting to 1412 Broadway.

**1040-1048 Sixth Avenue** (Penn Plaza/Garment) – Skyline Developers has secured a $100 million loan from Prudential to refinance the 25-story tower. New debt consolidates an existing mortgage from Bank of America, and includes an additional $37.8 million according to reports. The Short Hills, NJ-based division of real estate development firm Garden Homes reportedly acquired the 276,962-square-foot building in 2007 for $170 million ($614 per square foot).

**1441 Broadway** (Penn Plaza/Garment) – L.H. Charney & Associates has secured a $185 million loan, which includes a $2 million gap loan, from MetLife Insurance to refinance the 460,730-square-foot tower. The new debt will replace an existing $183 million loan that is nearing maturity. The 34-story property’s 74,000 square feet of retail space is currently being repositioned, following the shuttering of an Office Depot store in 2014, leaving 22,451 square feet vacant. Major office tenants at the building include Jones New York in nearly 105,000 square feet and co-working space provider Jay Suites in 69,000 square feet according to reports.

**Midtown South**

**225-227 West 28th Street** (Chelsea) – HAP Investments has secured a $42 million loan from Daiwa House Texas to close on the $30 million acquisition of the 4,442-square-foot parcel. The closed sale completes the final piece of a multi-parcel assemblage where the construction of a 2-building residential development has been planned. The 290,000-square-foot project spanning **215-219 West 28th Street** and **223-227 West 28th Street** will give rise to a mix of rental and condominium units between 7th and 8th Avenues. The 5-parcels, including some additional development rights from 2-neighboring properties, were acquired in 2013 and 2016 for a combined total of $93.85 million ($324 per buildable-square-foot).

**419 Park Avenue South** (NoMad) – Walter & Samuels has secured a $50 million loan from Apple Savings to refinance the 20-story, 160,114-square-foot tower located at the corner of East 29th St. The new debt replaces a previous $32 million mortgage issued by the Variable Annuity Life Insurance Company in 2011, and provides $18 million in new financing.

**60 Madison Avenue** (NoMad) – The Moinian Group has secured a $100 million loan from Deutsche Bank to refinance the 13-story tower. The new debt reportedly includes a $33.5 million gap mortgage, and retires a $66.5 million loan issued by Wachovia Bank in 2007.

**740-744 Broadway aka 2-20 Astor Place** (Greenwich Village) – Newmark Holdings under Lafayette-Astor Associates LLC has secured a $120 million loan from the Bank of New York Mellon. A portion of the funds will close out an existing debt of $52.975 million in financing of the 12-story, 120,000-square-foot building that is nearly fully leased and spans the entire block-front of Astor Place between Lafayette Street and Broadway.
Reported Loans Secured (cont’d)

797-799 Broadway aka 80 11th Street (Greenwich Village) – Normandy Real Estate Partners has secured a $55 million acquisition loan from Ladder Capital to close on the roughly $101 million ($1,036 per square foot) purchase of the 6-story, 97,500-square-foot office building. The corner property that dates back to 1853 was sold by long-time owner Cambridge Associates. Currently about 98% occupied, the building formerly served as the St. Denis Hotel until converted to office use in the early 1920s.

18 West 18th Street (Flatiron) – Connecticut-based C.A. White secured a $37 million mortgage from M&T Bank to refinance the 11-story, 193,565-square-foot building. The new debt replaces $18 million in old debt while providing an additional $19 million in funds, of which a portion will go towards property improvements.

200 East 21st Street aka 253-261 Third Avenue (Gramercy Park) – Chelsea-based Alfa Development has secured a $113.6 million senior construction loan from lenders Wells Fargo and Santander Bank. The new debt will help finance the developer’s planned 20-story, 104,700-square-foot condominium project, having filed initial permits in March. A 5-story mixed-use structure will be demolished to make way for new construction that will house 65-residential units and 7,200 square feet of ground level retail space. The 4-parcel assemblage totaling 7,556 square feet was acquired last year for $62.5 million ($597 per buildable-square-foot).

One Manhattan Square, 250 South Street (Lower East Side) – Extell Development has secured a $500 million senior construction loan for the roughly 72-story, 815-unit residential development. The consortium of lenders was led by Deutsche Bank AG, Commercial Bank of China, and Natixis Real Estate Capital with Deutsche Bank getting a corporate guarantee according to reports. The loan which could reportedly increase to $750 million within 9-months carries an interest rate of Libor+3% for the facility and Libor+5% upon drawing the money.

The closing of $300 million in mezzanine financing from RXR Realty also took place, having been reportedly contingent upon the senior loan being secured. The original $463.2 million mezzanine loan pledge was reduced following the lapse of time due to several closing delays by Extell, resulting in a renegotiation of the “theoretical” financing which would now come in 2-stages. Under the new terms, the interest rate increased by 1% to 8%; and only $300 million in mezzanine financing will initially be provided, RXR reserving the right to provide the remaining $163 million within 120-days of the deal closing. It was announced earlier this year that ongoing efforts to secure a total of $890 million for the estimated $1.4 billion project also includes resourcing the EB-5 Foreign Investor program in the hopes of raising another $100-$200 million. The total $350 million in funding currently in place is reportedly comprised of $200 million in equity and $150 million in debt from M&T Bank.

Downtown

One Seaport Plaza, 181-199 Water Street (Insurance) – Jack Resnick & Sons has secured a $295 million loan from AXA Equitable Life Insurance Company to refinance the 1.170 million-square-foot tower. The financing package reportedly included a new $55 million, and retired an existing $240 million mortgage provided by Morgan Stanley in 2007. The nearly fully leased 35-story building developed by Resnick in 1984 is currently anchored by insurance company Aon in about 450,000 square feet.

44 Wall Street (FiDi) – The Blackstone Group has reportedly secured an $80 million loan originated by Deutsche Bank and comprised of a $5.6 million project loan, a $6.9 million building loan, and a $67.5 million mortgage. The 23-story building located at the corner of William Street was acquired by Blackstone a few months prior for reportedly $116.3 million ($340 per square foot). Part of an all-cash acquisition of a $2.7 billion Nordic real estate portfolio from 10-funds managed by Oslo-based Obligo Investment Management AS, the sale attracted a figure that is nearly 80% higher than the $65 million paid when the building last traded in 2004. The 341,980-square-foot tower was previously “securitized in a Lehman Brothers and UBS-sponsored conduit LBUBS 2006-C4. The commercial mortgage-backed security currently carries a balance of $137.2 million across 14 loans, down from $2.1 billion across 150 loans at the time of origination in June 2006” according to reports.
Reported Loans Secured

17 John Street (FiDi) – The development team of Shorewood Real Estate Group, crowdfunding platform Prodigy Network, and Metro Loft Management have reportedly secured a $105 million financing package for the planned live/work development. The new debt was comprised of a $66 million, 5-year first mortgage originated by private institutional lender ACORE Capital, and a $39 million mezzanine loan provided by the Vanbarton Group; and replaces a $56 million acquisition and pre-development loan provided by Deutsche Bank in 2014. At a time when more traditional lenders are reluctant to back the relatively newer concept that has yet be proven as a successful business, private lenders have presented a much more flexible option.

Demolition work is already underway for the $160 million project dubbed The Assemblage/17John, as part of the conversion of the existing 15-story building into a mixed-use space. Upon delivery, the building will host 81 furnished apartments and 45,000 square feet of co-working space with existing retail that is current occupied by a Duane Reade and the Irish American Pub to remain. Earlier plans filed last year for an 8-story vertical expansion that would have added 45,100 square feet to the structure’s current footprint of 104,500 square feet have been abandoned.

The property located between Broadway and Nassau Street, just east of the World Trade Center complex and Fulton Transit Center was acquired in 1997 by longtime owner Metro Loft. In 2014 Shorewood and Prodigy reportedly joined the project as a result of the $85.3 million ($570 per buildable-square-foot) deal, of which Prodigy had successfully raised $25 million from equity investors through a crowdfunding campaign; and has since raised a combined total of $50 million for the project through crowdfunding according to reports. The development team is working on 2nd mixed-use project dubbed The Assemblage/25th Street. The 12-story, 52,000-square-foot office building that is located at 114 East 125th Street (NoMad), and formerly part of the F.M. Ring portfolio, will similarly undergo an adaptive reuse.

Uptown

555 West End Avenue (Upper West Side) – Co-developers Cary Tamarkin and China-based Cheerland Investments Group secured a $35 million construction loan from Taiwan bank Chang Hwa Commercial Bank. Approvals were received last year from the Landmarks Preservation Commission (LPC) for the conversion of the former St. Agnes Boys High School into a 12 to 15-unit residential development which will include a one-story vertical expansion on the rooftop. The existing 6-story, 53,000-square-foot building was acquired in 2014 for $50 million ($617 per buildable-square-foot) from the Archdiocese of New York.

Upper Manhattan

146-158 East 126th Street (East Harlem) – The Blumenfeld Development Group has secured $77 million in financing from the State Housing Financing Agency (HFA) for the planned mixed-use project. New construction will house a total of 233 residential units — of which some units will be rented at below market rates, and roughly 34,444 square feet of commercial space that will occupy the first 2-floors of the building. It was reported last year that the T-shaped structure will rise on the 126th Street side of the developer’s existing Gotham Plaza retail complex at 149-169 East 125th Street, with a portion of the new tower cantilevering over the 120,000-square-foot plaza.

Outer Broughs

20 Jay Street (DUMBO) – Two Trees Management has secured a $135 million mortgage from lender M&T Bank to refinance the 11-story building in Northern Brooklyn neighborhood. The new debt reportedly replaces $75 million mortgage issued by New York Community Bank in 2012.
## Notable Transactions

### Lease

<table>
<thead>
<tr>
<th>Address</th>
<th>Submarket</th>
<th>District</th>
<th>Sq. Ftge</th>
<th>Tenant</th>
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<tbody>
<tr>
<td>375 Pearl Street</td>
<td>Downtown</td>
<td>City Hall</td>
<td>182,750</td>
<td>NYC Finance Department (relocation)</td>
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<td>4 World Trade Center</td>
<td>Downtown</td>
<td>World Trade Center</td>
<td>132,000</td>
<td>Zurich American Insurance Co. (relocation)</td>
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<td>80 Pine Street</td>
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<td>FiDi</td>
<td>57,245</td>
<td>Port Authority of NY &amp; NJ (relocation 2-construction divisions)</td>
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<td>10 Hudson Yards</td>
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<td>Hudson Yards</td>
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<td>Coach (sale/leaseback of 40% condo interest)</td>
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<td>1745 Broadway</td>
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<td>Penguin Random House (renewal)</td>
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<td>New York-Presbyterian (multi-location consolidation)</td>
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<td>399 Park Avenue</td>
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<td>Times Square</td>
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<td>Dentons (extension)</td>
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<td>Bloomberg LP (expansion)</td>
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<td>12 East 49th Street</td>
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<td>WeWork</td>
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<td>1115 Broadway</td>
<td>Midtown South</td>
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### Sale

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<td>10 Hudson Yards</td>
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<td>1095 Sixth Avenue</td>
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<td>620 Sixth Avenue</td>
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<td>Chelsea</td>
<td>192,374</td>
<td>$143,890,454</td>
<td>32BJ SEIU (condo interest)</td>
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The Manhattan Office Market Report is produced quarterly by:

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