



STREET SMARTS

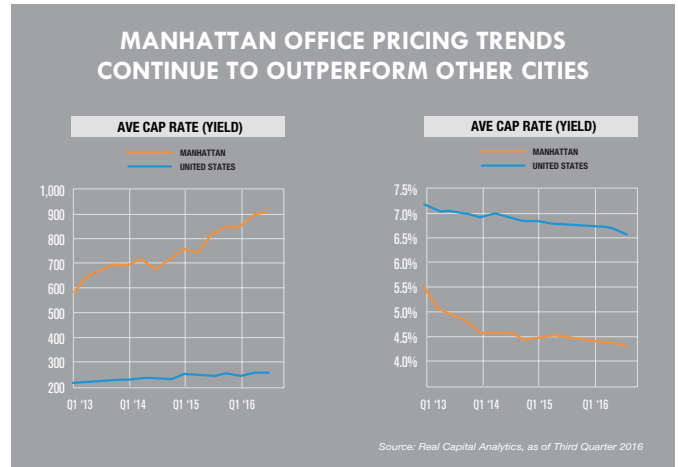
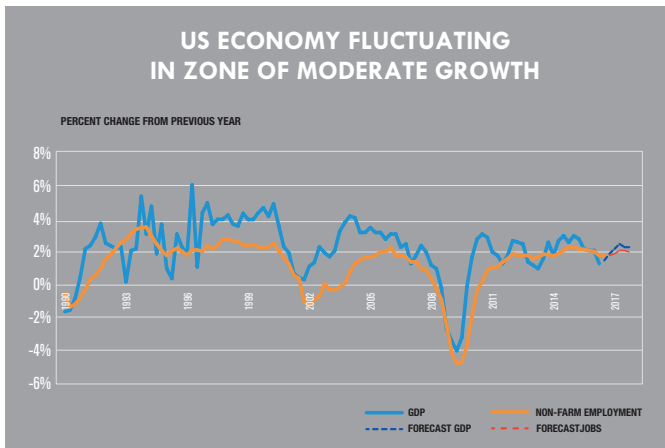
Q3 2016



AUTUMN IN NEW YORK

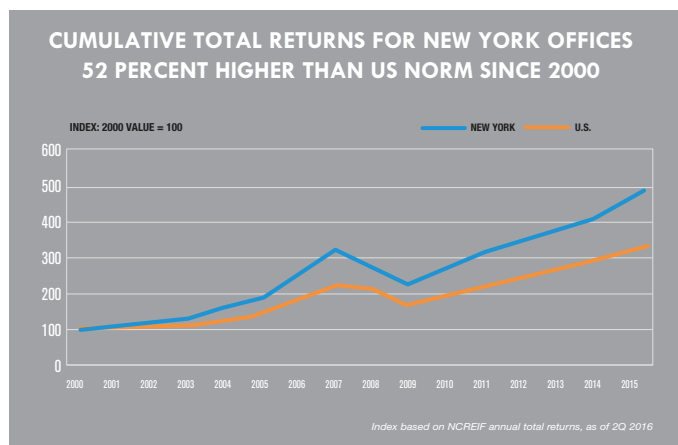
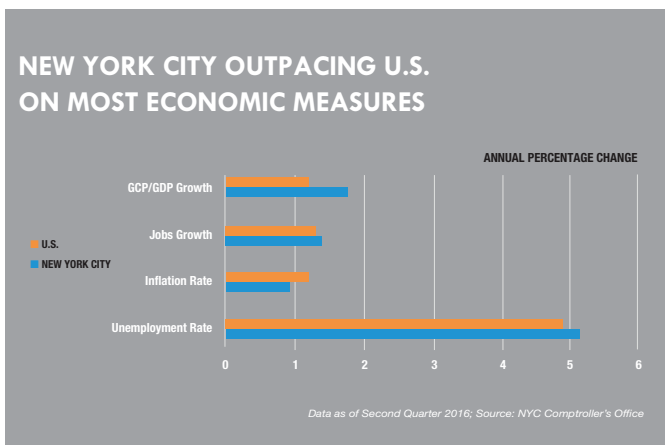
THE NATIONAL ECONOMIC expansion which began when the Global Financial Crisis hit bottom in the U.S. is now one of the longest-running upcycles in American history. September 2016 marked the 87th consecutive month of employment gains – with almost 15 million jobs added since the end of 2009. Low interest rates have helped spur the recovery, and rates will likely remain low through the end of 2017, even with the Fed now signaling a mild inclination to tighten monetary policy. The U.S. economy remains a safe haven for the world’s capital, the primary reason why long-term rates are still below two percent. The Brexit vote in the United Kingdom only reinforces the advantage of U.S. financial markets and U.S. real estate investment.

in the prior three quarters, growing at 3.2% and 3.1% in the third and fourth quarters of 2015, and at 4% in the first three months of 2016. Meanwhile, local inflation was a mere 0.9% at mid-2016, lower even than the 1.1% for the U.S. as a whole.



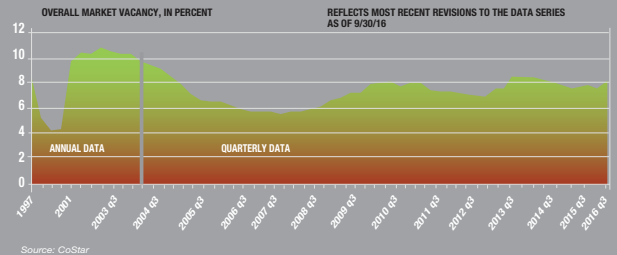
THE NEW YORK CITY ECONOMY has not only kept pace with the national rebound; it has exceeded the U.S. measures throughout this decade. The most recent data, through the 2nd Quarter of 2016, shows New York outpacing the U.S. Gross City Product growth this year 1.7%, versus the national 1.2% rate in the second quarter. The City however, had stunning results

As a result, Manhattan office building pricing has been soaring above the commercial property markets in other large U.S. cities. Since early 2013, the price per square foot for Manhattan office buildings is up approximately 50 percent, and cap rates have descended more than 100 basis points as investors aggressively seek to own New York assets. This is not a short-run phenomenon. Cumulative total returns (a measure of income plus appreciation) stood at a national index value of 318.8 over the fifteen years 2000 – 2015, according to data from the National Council of Real Estate Investment Fiduciaries (NCREIF). For New York, the index has risen to 484.7 for the same period, a 52 percent return premium for local office assets.



Manhattan is not only the nation's (and the world's) largest office market. It is also the most complex. Cross-currents of supply and demand, international and domestic capital flows, and developments in fields as diverse as energy, technology, trade, and immigration impact New York's relative desirability as a business locale, and as forces affecting real estate performance. Most of these are long-game factors, and yet there can be short-run shifts worth paying attention to.

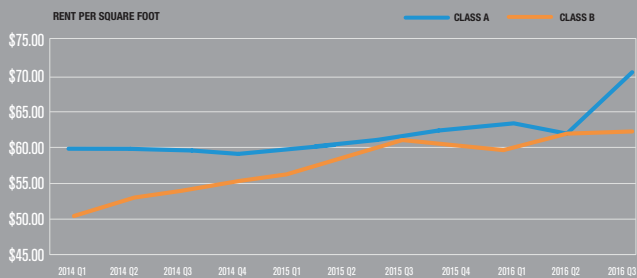
MANHATTAN OFFICE VACANCY AT 8.2% AT CENTER OF 2013 – 2016 RANGE AS MARKET ACCOMMODATES NEW CONSTRUCTION SMOOTHLY



in the World Trade Center market and at Hudson Yards, have provided over 11 million square feet of space to the market, at construction costs that require rents well above those of older properties in order to recoup developers' investments. Submarkets with older inventory are well-leased, with the downtown Insurance District and City Hall area at 95 percent

Continued on back

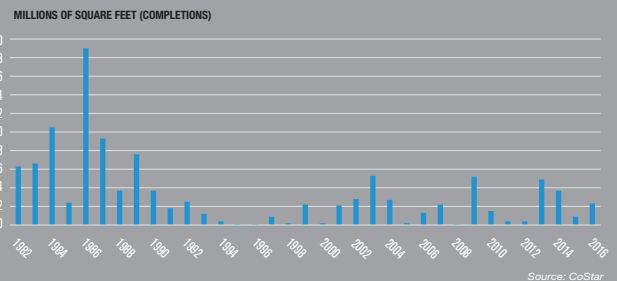
AFTER A YEAR OF ROUGH RENTAL PARITY, CLASS A AND B OFFICE RENTS DIVERGED IN THIRD QUARTER



We have been pointing out, for instance, the unusual compression of rents that led to virtual pricing parity for tenants over the past few quarters. That was hardly a sustainable situation, and in the Third Quarter we found the logjam breaking. Quoted rents for Class A offices leapt an extraordinary 14.5 percent from their Second Quarter average, to \$71.23. Class B rents merely edged upward by 0.1 percent, restoring a more normal gap between these market segments.

Recent deliveries of new Class A buildings, mostly

EVEN WITH TWO MEGA-PROJECTS UNDERWAY, DEVELOPMENT IS MODEST BY HISTORICAL STANDARDS



NEW DELIVERIES ELEVATE CLASS A VACANCY DURING LEASE-UP PHASE; OLDER SPACE PROVIDES OPTIONALITY FOR TENANTS

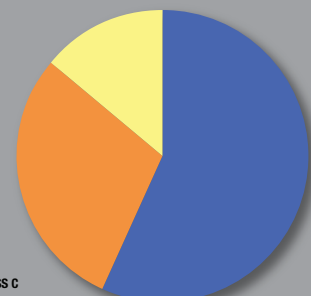


SUMMARY MARKET STATISTICS by Office Building Class

CLASS A: 466 buildings 328 million sq. ft. total
Vacancy 9.3% Average Rent \$71.23 psf

CLASS B: 1,379 buildings 159 million sq. ft. total
Vacancy 7.3% Average Rent \$61.85 psf

CLASS C: 1,923 buildings 71 million sq. ft. total
Vacancy 5.3% Average Rent \$55.12 psf



Source: CoStar Third Quarter 2016 Manhattan Office Report

occupancy or better, as are the Tribeca and Gramercy Park neighborhoods. Top rents, however, are in areas such as Penn Plaza/Garment District, the Plaza District, and Times Square, which have a mix of older properties and new construction.

As new office towers open for occupancy, there has been a significant amount of lateral movement of tenancy. That prompts some statistical volatility within market measures. For instance, year-to-date positive absorption was registered in the higher-end Class A category while Class B had negative absorption. The overall absorption figure

for the Third Quarter was about 600,000 square feet in the red as a result. But, compared with the same quarter last year, the total volume of office space for rent was virtually unchanged. The rise in rents, therefore, continued in response to New York's sustained growth in employment.

Both new and renewed leases spanned a range of key industries and submarkets in the Third Quarter, illustrating both the breadth and depth of Manhattan's business base. That diversity is a major source of New York's strength, a factor that cuts across short-term movements in market statistics.

MHP has bought and sold over \$12 billion worth of commercial real estate. MHP currently owns, leases and manages over 5 million square feet of first-class office space, and features a 50 person strong tenant rep practice specializing in office, retail and sales. As a full service firm, with in-house leasing, sales, management, and project/buildout capabilities, MHP has garnered a reputation in New York for quickly transforming properties into profitable investments. This 44 year track record has enabled MHP to establish long term partnerships with leading financial institutions, pension funds, and other commercial lenders. On a global scale, MHP provides its clients with access to opportunities in over 200 major markets as the New York affiliate of TCN Worldwide.

TOP LEASES OF THIRD QUARTER 2016

Tenant	Submarket	Building	Sq. Ft.
Coach*	Penn Plaza/Garment	10 Hudson Yards	694,000
Random House*	Columbus Circle	Random House Tower	631,025
Dentons*	Times Square	1221 Avenue of the Americas	190,576
Omnicom Group*	Grand Central	The News Building	179,303
WeWork	Plaza District	Tower 49	159,306
Zurich American Insurance	World Trade	4 World Trade Center	131,856
W.W. Norton & Co.*	Times Square	500 Fifth Avenue	109,735
The Michael J. Fox Foundation	Penn Plaza/Garment	111 West 33rd St	86,492
Market Axxess Holdings, Inc.	Penn Plaza/Garment	55 Hudson Yards	83,000
ICAP	Times Square	4 Times Square	82,442
TOTAL FOR TOP LEASES			2,347,735

*Lease renewal

Source: CoStar, Inc.



To subscribe to our quarterly STREET SMARTS newsletter, contact: Edna Lassiter, elassiter@mhpny.com / 212.944.4747 or your exclusive MHP broker