



STREET SMARTS

Q2 2015



PHOTO: www.cdixble.com

Summer in New York

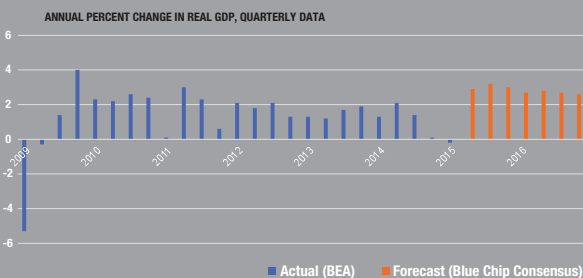
ECONOMIC OUTLOOK NATIONAL

As in 2014, the first quarter 2015 GDP figures were hammered by “Old Man Winter” so powerfully that they overwhelmed the Commerce Department’s seasonal adjustment factors. In 2014, it was the Polar Vortex. In 2015, so much snow fell across the Northeast that Boston still had melting piles of snow at its waterfront in early July.

The 2014 final Real GDP growth figure came in at 2.4%, and even with the weather related weak first quarter in 2015, the year-over-year change thus far in 2015 shows 2.9% growth. Jobs have been advancing at an annualized pace of about three million since late 2014, Headline unemployment is down to 5.3%. Encouragingly, long-term unemployment is down sharply and the broadest measure of joblessness (U-6, which includes discouraged workers and involuntary part-time workers) dropped from 12.0% to 10.5% Year over Year.

Inflation remains muted. Thanks to lower gas prices, the CPI is unchanged from a year ago. This has enabled the Fed to delay interest rate increases, and the economists’ consensus sees just 2.2% CPI change in 2016, and a 10-year Treasury rate of 3.0%, with Real GDP growing at 2.8% driving unemployment down below 5%.

FORECAST IS OPTIMISTIC THAT NATIONAL ECONOMY WILL SUSTAIN GROWTH THROUGH 2016



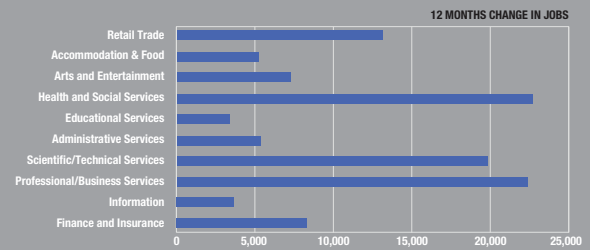
NEW YORK CITY

This Spring total NYC jobs surged to a historic high of 4,200,000 (Based on 5/15 data). This represented a gain of 98,000 jobs, 96.5% of which were in the private sector. The city is still outperforming the national employment growth rate, as it has throughout the recovery from the Great Recession of 2009.

In some ways, New York’s next challenges might be its success. Increased employment means more people traveling to work, pushing monthly transit ridership on MTA services to 231.4 million. Overcrowding and congestion are pushing the system to its limits, and levels of service quality are noticeably slipping.

News headlines notwithstanding, crime levels remain very low – less than 25% of the 1980s average – and the recent decision to add 1,300 officers to the NYPD, expanding community policing and the counter-terrorism unit, should keep New York in its position as **America’s safest large city**.

NEW YORK CITY JOB GROWTH DIVERSIFIED, AND STRONG IN OFFICE-USING SECTORS



Source: NYC Economic Development Corp., from NYS Dept. of Labor Data

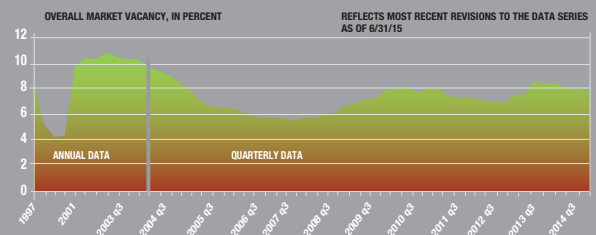
MANHATTAN OFFICE MARKET LEASING

With vigorous absorption of 2.1 million square feet, Manhattan’s overall vacancy rate dropped to 7.8% in the Second Quarter of 2015. Law firms, financial giants, healthcare providers, and the innovative “shared space” business WeWork led the leasing activity. A significant reshuffling of the market’s economic geography continues as the mega-projects Downtown and at the Hudson Yards provide quantities of the most modern space to larger firms, and backfilling of older buildings is keeping vacancies at Class B (6.0%) and Class C (5.3%) even tighter than the market as a whole.

Rents are up 5.5% from a year ago market-wide, supercharged by an 11.6% increase at Class B offices since mid-2014. As Street Smarts forecast even during the shock of the Great Recession, space scarcity and dynamic demand growth shape the trend line for Manhattan offices. Thus far, this decade has vindicated our projection, although it was a decidedly minority opinion back in 2008 and 2009.

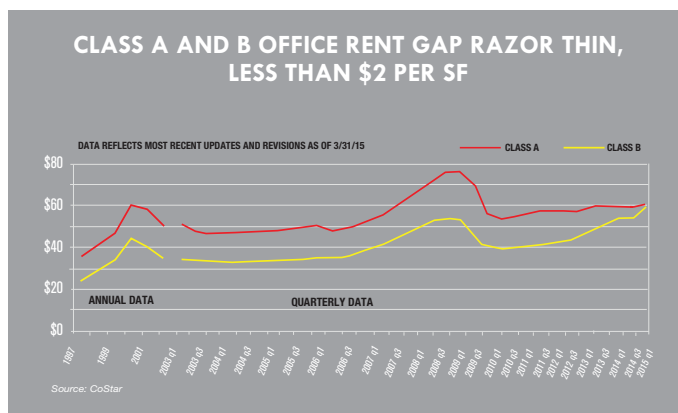
Of Manhattan’s largest office submarkets (greater than 35 million square feet), Chelsea boasts the lowest vacancy rate (4.4%) followed by Columbus Circle (5.5%). Grand Central (11.0%) and World Trade Center (15.4%) have the greatest availability, but these are attracting robust absorption: 623,385 square feet in the Grand Central district, and 501,823 square feet in the World Trade Center neighborhood. The Plaza District led all submarkets in absorption, at 645,170 square feet.

SECOND QUARTER 2015 OFFICE VACANCY DIPS TO 7.8%



Source: CoStar

MHP/Clarion's 180 Maiden Lane is now negotiating offers with 13 tenants on a variety of space from divided floor pre-builts up to ten floors.



INVESTMENT SALES

The voracious global investment appetite for Manhattan office properties continues unabated. Year-to-date, 28% of the capital flow into this market has come from cross-border sources, leading all buyer types. REITs and publicly listed real estate operating companies have also been strong net purchasers of Manhattan office buildings.

Manhattan continues to lead the nation by virtually all investment metrics. In the Second Quarter of 2015, the city took a 20.2% share (\$6.4 billion) of all U.S. office building acquisition dollar volume. Average price per square foot approached \$1,000 across 34 purchases amounting to seven million square feet. This was more than three-and-a-half times the price per square foot achieved as a national average. Cap rates locally averaged 4.9%, versus 6.7% for U.S. office buildings as a whole.

Discipline in construction points to improved fundamentals nationwide for the next few years, with Manhattan far ahead of the curve on this metric. And as return-of-capital takes a higher weight, compared to return-on-capital, for the most risk-averse investors, no private asset is more advantaged than prime Manhattan offices.

DEVELOPMENT

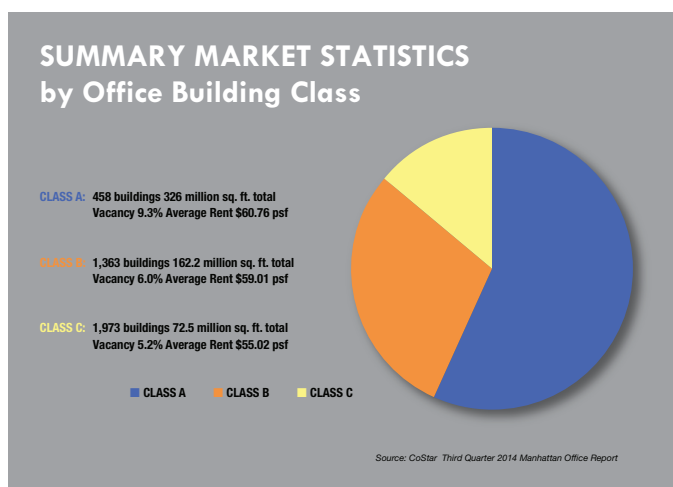
Nearly twelve million square feet of office space is currently under construction at sixteen projects. For any other city, this would be enough to stagger the market, for most, it is the entire market. In Manhattan, it is just a 2.2% increment in the total inventory, to be delivered over the balance of this decade.

The World Trade Center is being redefined by so-called TAMI (Technology, Advertising, Media, and Information) tenants. The WTC, originally conceived with trading floors in mind, is now being occupied by tenants like Conde Nast, Group M, and Media Math. Fox News has now indicated it is looking to be the anchor tenant in WTC Tower Two (the final office building on the site).

At Hudson Yards, Related's Number 10 is 78% preleased and its Number 30 is 50% preleased. Brookfield's One Manhattan West is already 32% preleased for a delivery date in 2019, the same as 30 Hudson Yards. 10 Hudson Yards should be open by this time next year. The institutionalization of the creative firms that have transformed the Chelsea/Meatpacking District area should mean that Hudson Yards will be sharing in the TAMI growth.

In the Midtown core, meanwhile, Hines' 7 Bryant Park opens with 61% preleasing. SL Green's One Vanderbilt Place, a \$2B redevelopment alongside Grand Central Terminal, under a special permit that will allow a 30 FAR, with 1.8 million gross square feet of offices, retail, restaurants, and amenities including an observation deck. The opening date is uncertain, but 2020 seems likely given the scope of the project.

Recalling that the employment growth in New York was 2.4% in the last year alone, the major narrative for Manhattan is that we are building too little space, not too much.



FROM THE DESK OF:

David Greene, President
Brokerage Services

BUBBLE, BUBBLE, TOIL AND TROUBLE.

Every 6 or 7 years or so there is a market dip or a brief disaster that affects the business of real estate. In the last 30 years we have seen interest rates spiral higher, Dot Com busts, oil embargos, stock market failures and war and strife. Much of what happens on the world stage often reverberates here at home. Whether it was 1987 / 1993 / 2001 / 2008 history reveals that NYC comes back swinging, stronger than ever, always reaching new highs than previously recorded.

So why is it that I am starting to hear the word "bubble" creep back into the lexicon? Is it too much of a good thing? Not enough to talk about, or just pessimism? I disagree with all of it. The New York market is very strong. Vacancy rates remain very low in multiple sub markets. Commercial office building sale pricing is as high and in many cases much higher than in previous "run ups" yet the underlying fundamentals are stronger because people are not overleveraging. Rather, investors and

Continued on back

banks have learned their history lessons. I remember when I sold a two building package to a client and the client secured 110% financing. Now 50-65% is more rational.

There's a lot of cash out on the street looking to be deployed. If you live in a country where the political climate is dangerous or insecure you might consider moving your money to safer environs. Imagine living in Greece right now. The Government has closed the banks due to a slow but steady run on the banks as no one knew for sure whether Greece would remain in the EU or head towards bankruptcy. Imagine living in parts of the Middle East where no one knows who is on what side but war and conflict continue unabated. Strong markets depend on confidence and continuity. If you are living in a world where you don't know what will happen on a day to day basis, for safety's sake you should be thinking of picking up and leaving to go someplace more secure.

With a large swath of the world in disarray, it's easy to see why investors have flocked to the US and New York City. And when Mayor Bloomberg signaled that he believed in the tech world by setting forth to create a tech campus on Roosevelt Island, it was confirmation and the continuation of a movement started by the likes of Google when they arrived in New York, the place to be. Now, some 25% of all leasing transactions

are TAMI tenants. The New York office leasing market is robust, it is sturdy and growing.

Desperately looking for a bubble? If we freeze frame the data today, perhaps it is the infinitesimal but stratospheric high end residential condo market which requires that less than five hundred investors come to NY and pay \$8,000 to \$12,000psf for their apartments. In many cases it is not an investment as much as it is an attempt to preserve wealth. Where else might there be a bubble? Retail sub markets not fully realized yet that expect a retail buyer to pay \$3,000 to \$5,000psf. The underlying rental figures and push back from top tier retail tenants may not justify those prices but the appetite for NYC Retail is unabated, again it is but a small part of the overall market but with an oversized amount of media coverage.

Overall, NYC is a very healthy market and with the Mayor pivoting again towards business and the security of its citizens, the announcement of the deployment of another 1,300 policemen is gratefully welcomed. Just as important is the hiring of 300 more administrative staff that help take the policemen out from behind their desks and put them back out on the street where they belong, patrolling neighborhoods and getting to know everyone. This is not an original idea but it works, it also helps maintain NYC as the primary center of the business world.

MHP has bought and sold over \$12 billion worth of commercial real estate. MHP currently owns, leases and manages over 6 million square feet of first-class office space, and features a 40 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 SECOND QUARTER 2015

Tenant	Submarket	Building	Sq. Ft.
Skadden, Arps, Slate, Meagher & Flom, LLC	Penn Plaza/Garment	1 Manhattan West	544,009
Morgan Stanley Smith Barney, LLC*	Times Square	750 Seventh Avenue	414,759
Bloomberg	Plaza District	919 Third Avenue	340,428
J. Walter Thompson*	Grand Central	Park Avenue Atrium	288,795
Nike, Inc.	Penn Plaza/Garment	855 Sixth Avenue	147,954
Foot Locker, Inc	Penn Plaza/Garment	315 W. 36th Street	144,987
WeWork	Penn Plaza/Garment	330 W. 36th Street	136,118
Citadel LLC*	Plaza District	601 Lexington Avenue	119,956
Bank of America*	Times Square	1133 Avenue of the Americas	114,767
Fulbright & Jawarski	Columbus Circle	Credit Agricole Building	107,215

TOTAL FOR TOP LEASES

2,328,988 SQ. FT.

* Lease renewal. Source: CoStar, Inc

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