



NEW YORK
CAPITAL MARKETS

Manhattan Investment Market Conditions

Q4 2016

Manhattan capital markets conditions Q4 2016



Healthy 2016 investment sales volumes. At \$41.8 billion, Manhattan investment sales volume exceeded the prior five-year average of \$39.4 billion. Transaction activity in 2016 did not keep pace with the historically high investment volume of \$60.3 billion in 2015; however, many global gateway cities also witnessed year-over-year dips in investment volumes partially as a result of macroeconomic uncertainty in the first half of the year.



Heightened foreign investment activity. Overseas interest remained steady in Manhattan in 2016, accounting for a substantial \$17.1 billion or 40.8 percent of total dollar volume. This mirrored the similarly active 2015, when 44.7 percent of investment volume was attributable to foreign capital.



Rising interest rates unlikely to materially impact capital values. Capitalization rates are likely to increase modestly and financing may become somewhat pricier following the Fed's decision to increase the target federal funds rate by 25 basis points in December, though there is little indication that rising rates will have a material impact on near-term investment fundamentals.



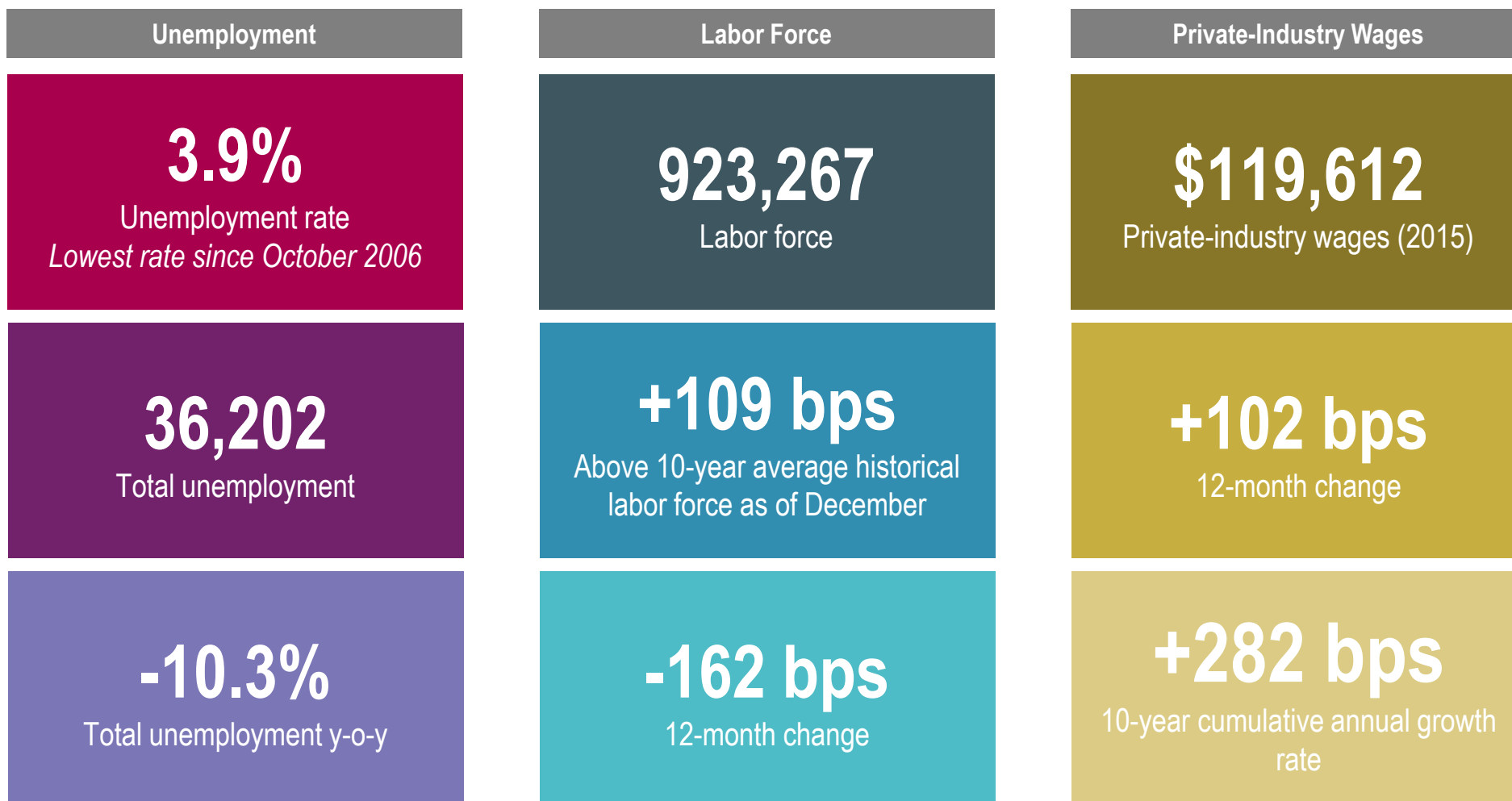
Active office sector. At \$21.8 billion or 52.0 percent of the total investment volume, the office segment in 2016 remained nearly as active as the prior year (\$24.1 billion). There were 13 major office transactions greater than \$500 million in 2016, equal to the number of major office transactions in 2015. Notably, nearly \$3.9 billion of sales were recorded in Lower Manhattan, the most active year in that submarket since 2007.



Increased recapitalization interest. High demand by domestic and foreign institutions, record levels of uncommitted capital, a comparatively low supply of properties available, and a low interest rate environment point to attractive recapitalization opportunities in 2017.

Manhattan economic conditions

Manhattan economy demonstrated considerable growth across all major indicators in 2016



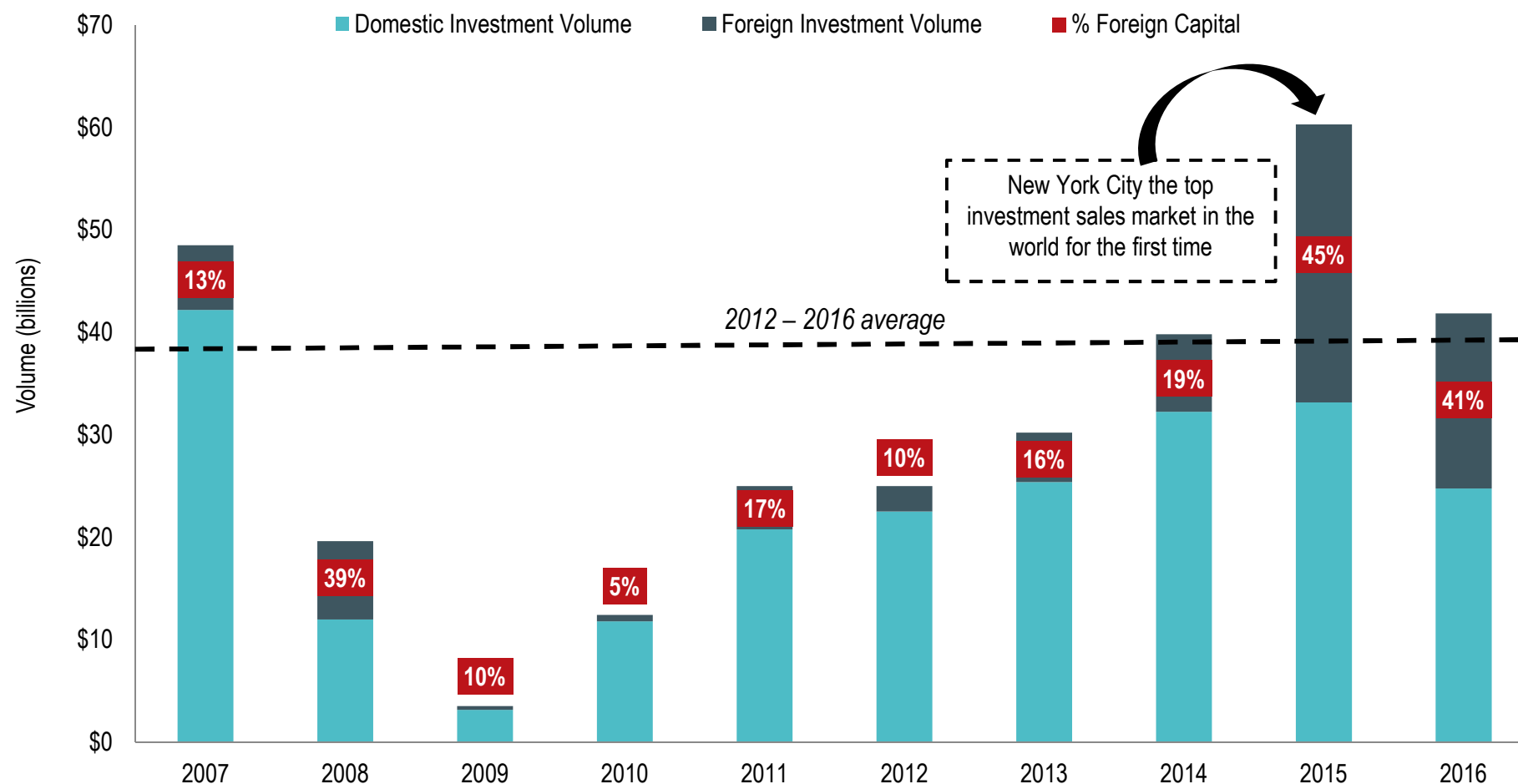
Sources: JLL Research, Bureau of Labor Statistics (preliminary not seasonally adjusted New York County figures as of December 2016)



*Manhattan investment sales market
conditions*

Total Manhattan investment volumes remained healthy

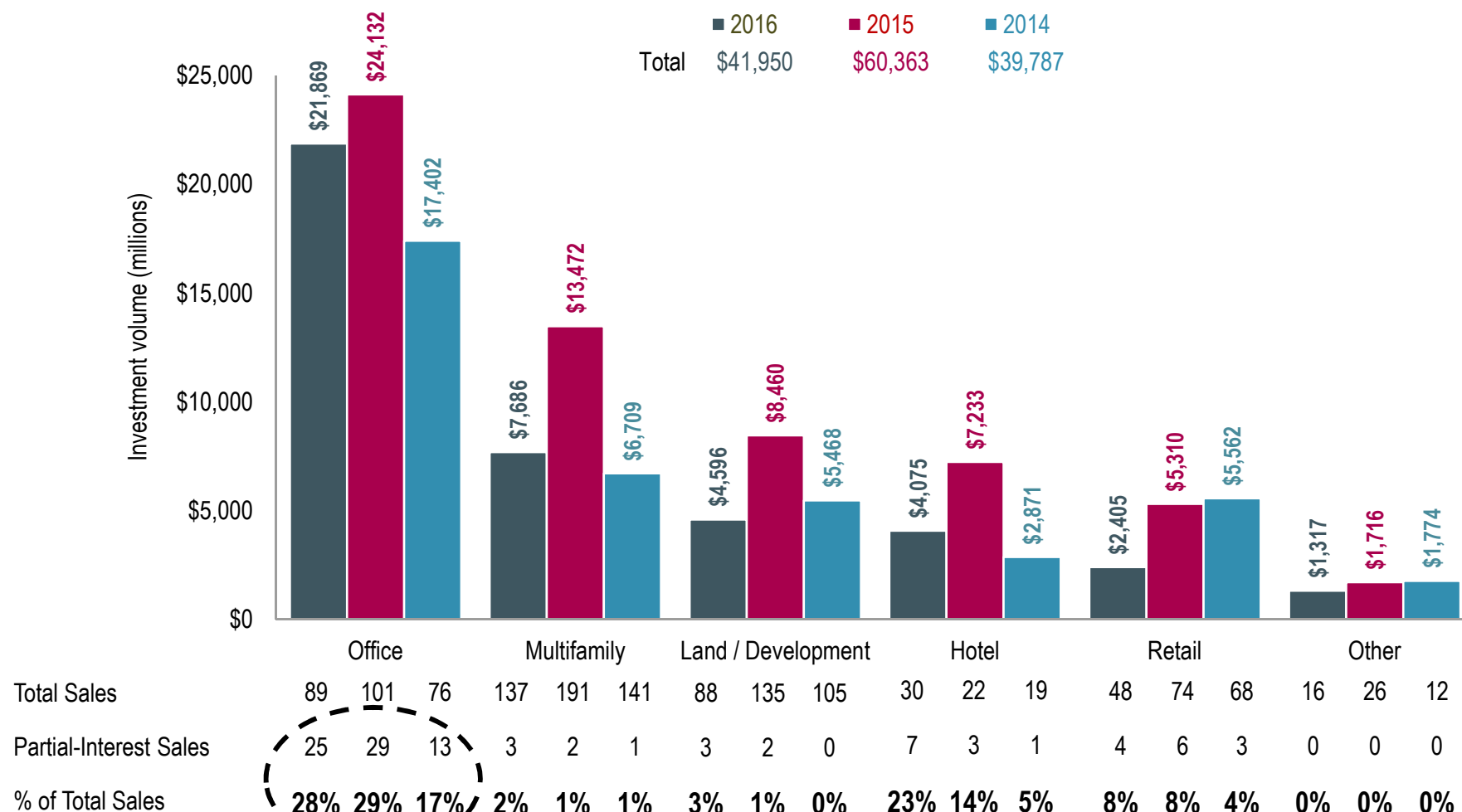
Considerable foreign participation helped push 2016 volume past the five-year average of \$39.4 billion



Note: \$10 million and greater sales only
Source: JLL Research

Manhattan investment sales by property type

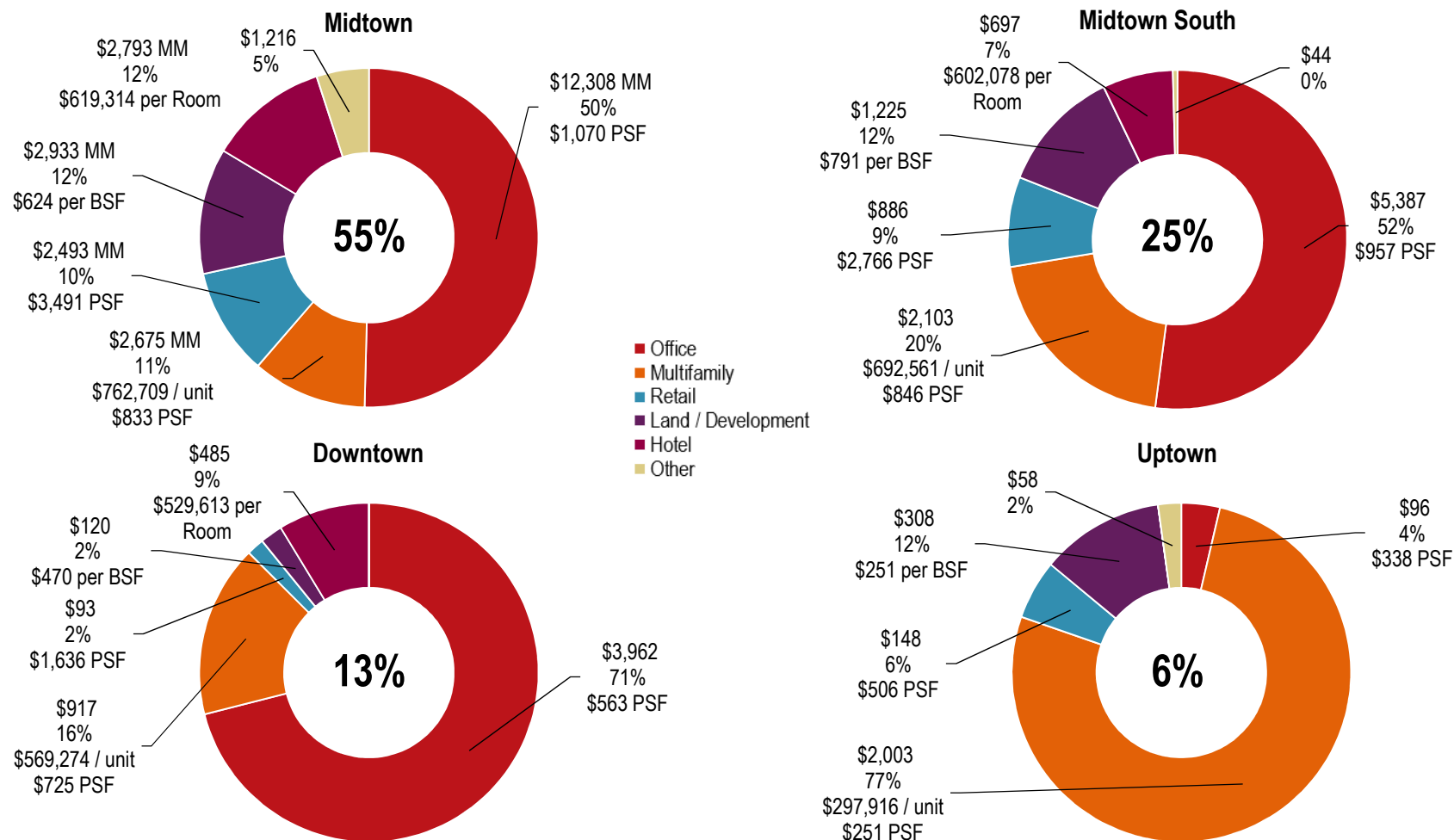
Office remained the dominant property sector, which experienced considerable recapitalization activity



Note: \$10 million and greater sales only
Source: JLL Research

Investment volume by market and property type (2016)

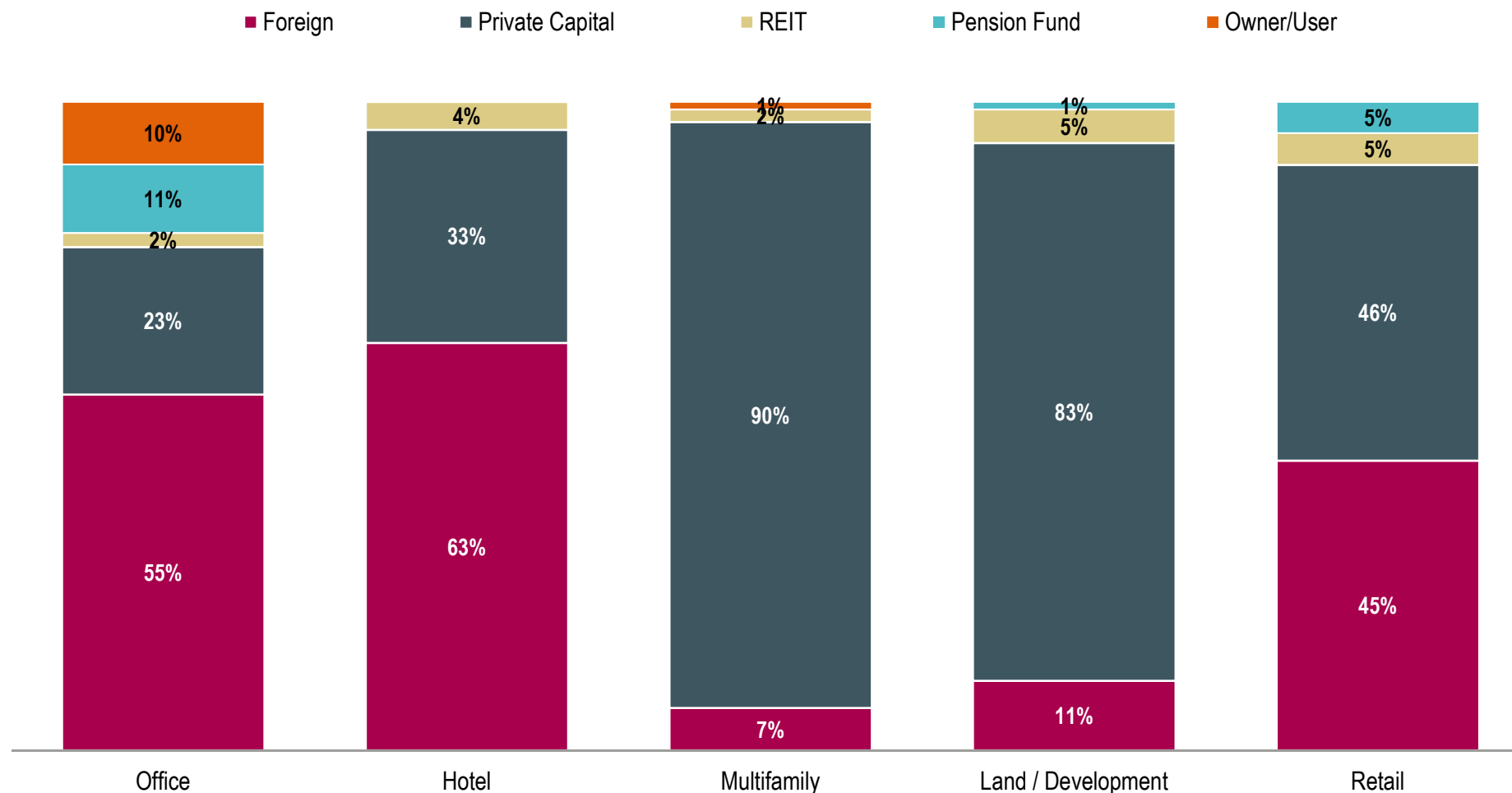
Midtown remained the most active market, in part due to strong office sales volume



Notes: \$10 million and greater sales only, per-unit pricing does not include leasehold interests Source: JLL Research

Manhattan investment sales volume by purchaser and property type (2016)

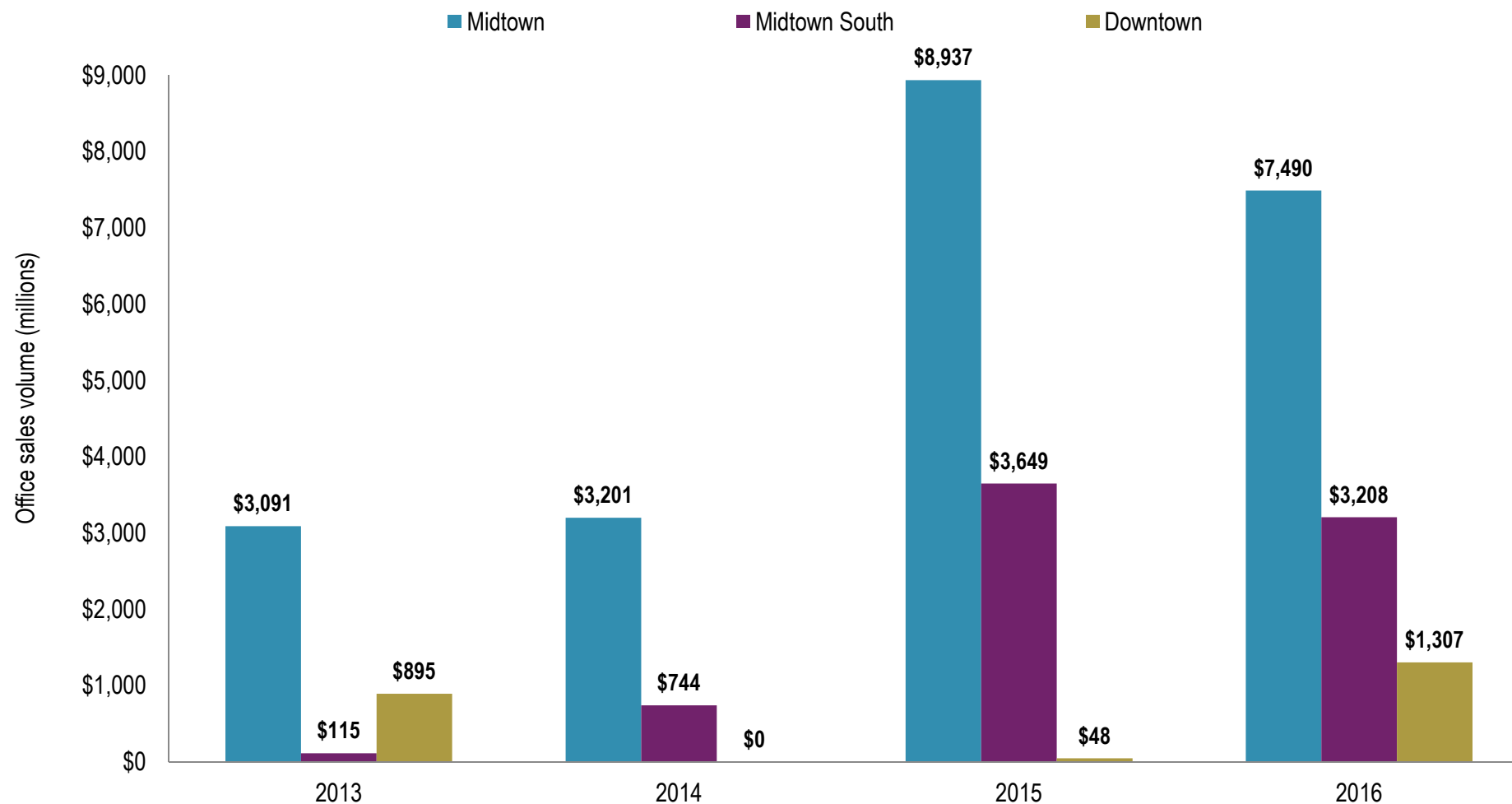
Foreign institutions comprised a major proportion of demand, particularly in the office and hotel sectors



Note: \$10 million and greater sales only
Source: JLL Research

Foreign investment in the office sector by market

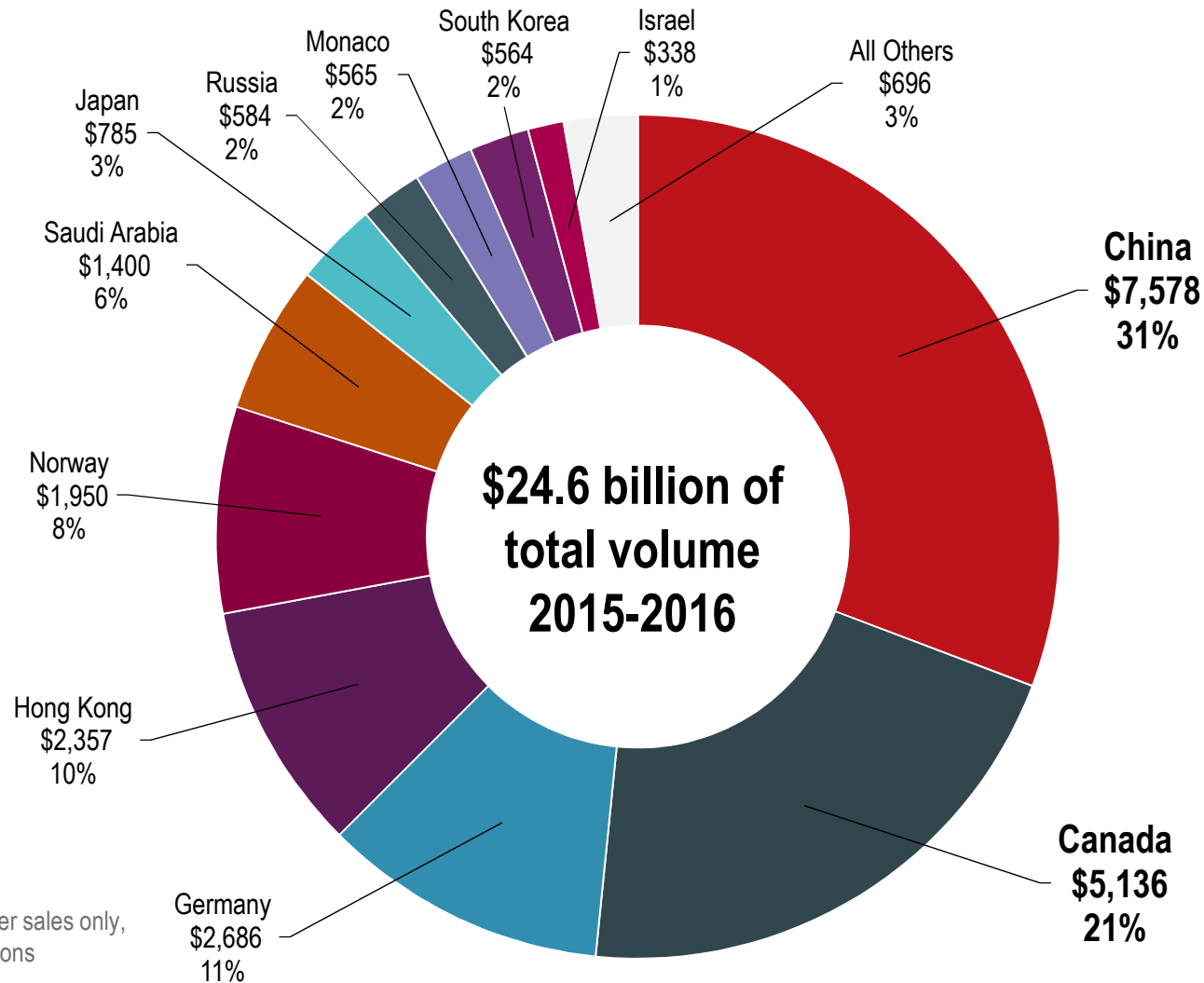
Overseas buyers increasingly investing outside of Midtown



Note: \$10 million and greater sales only
Source: JLL Research

Manhattan overseas office investments by country of origin (2015-2016)

More than half of recent investment demand by China- and Canada-based firms



Note: \$10 million and greater sales only,
Investment amounts in millions
Source: JLL Research



*Manhattan office investment market
conditions*

Manhattan office market investment conditions Q4 2016

Office sector remained exceptionally liquid, recording nearly as much sales volume as 2015

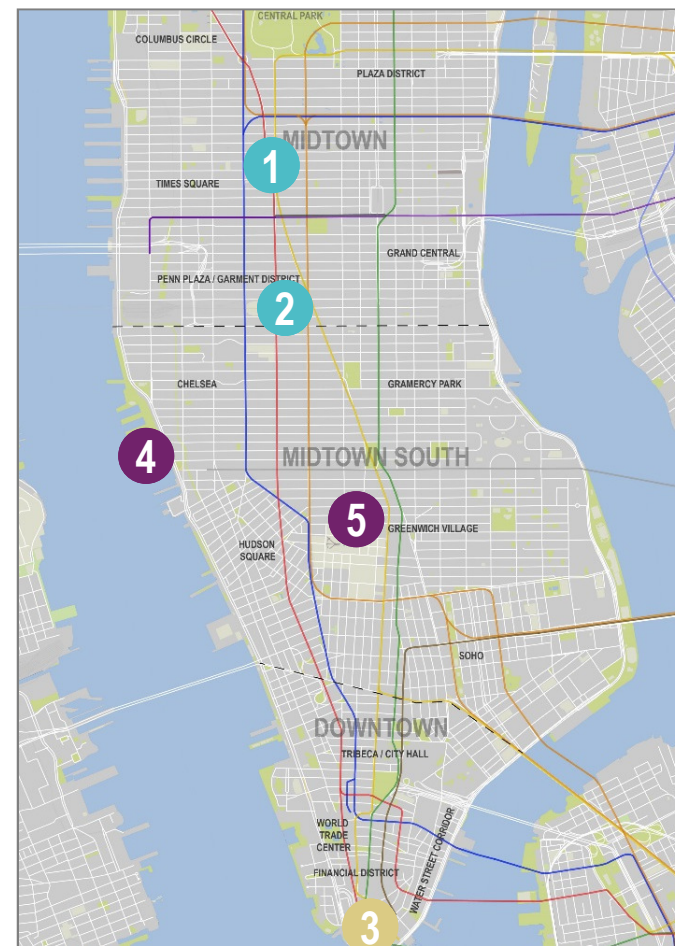
Strong investment activity in 2016. The office sector remained incredibly active in 2016, recording \$21.9 billion of sales – more than all other asset classes combined. The most notable fourth-quarter transaction was the 49-percent partial-interest sale of 1221 Avenue of the Americas to Invesco on behalf of China Investment Corporation.

Foreign participation elevated and diversified. Overseas buyers, attracted by the sector's strong, enduring leasing fundamentals and long-term capital appreciation, contributed to \$12.0 billion (55 percent) of total office investment volume. Encouragingly, foreign investors have broadened their focus to markets outside of the Midtown core to Lower Manhattan, where \$1.3 billion of volume was observed in 2016. By way of comparison, only one sale in Downtown totaling \$48 million was attributable to a foreign institution from 2014 to 2015.

Positive near-term outlook. Looking forward, a diverse set of institutional-quality assets and portfolios located throughout Manhattan are on the market, which are expected to keep volumes in this sector elevated. High valuations and barriers to entry coupled with low refinancing costs could also encourage recapitalization activity in the near future.

Notable office sales Q4 2016

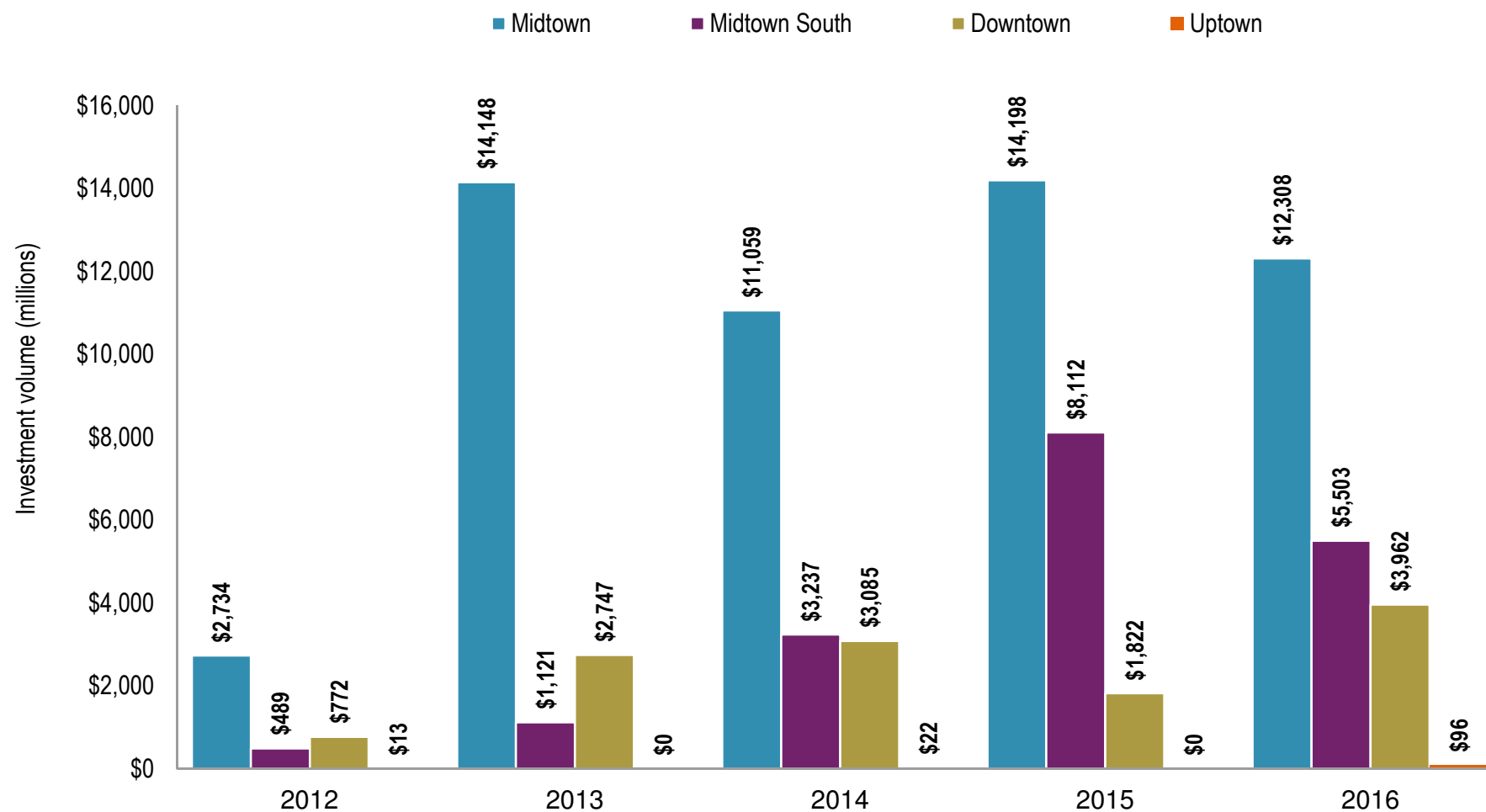
#	Address	Size (s.f.)	Price	Price (p.s.f.)	Purchaser(s)
1	1221 Avenue of the Americas (49% Interest)	2,600,000	\$1,031,833,333	\$882	Invesco obo CIC
2	1250 Broadway	721,000	\$565,000,000	\$784	Global Holdings
3	1 New York Plaza (15% Interest)	2,600,000	\$223,200,000	\$572	AEW Capital Management
4	85 Tenth Avenue (49.9% Interest)	618,000	\$192,000,000	\$623	Vornado
5	817-819 Broadway	114,000	109,000,000	\$956	Taconic Investment Partners



Source: JLL Research

Manhattan office investment volumes by market

Investments volumes in Lower Manhattan rose while Midtown remained an investment destination

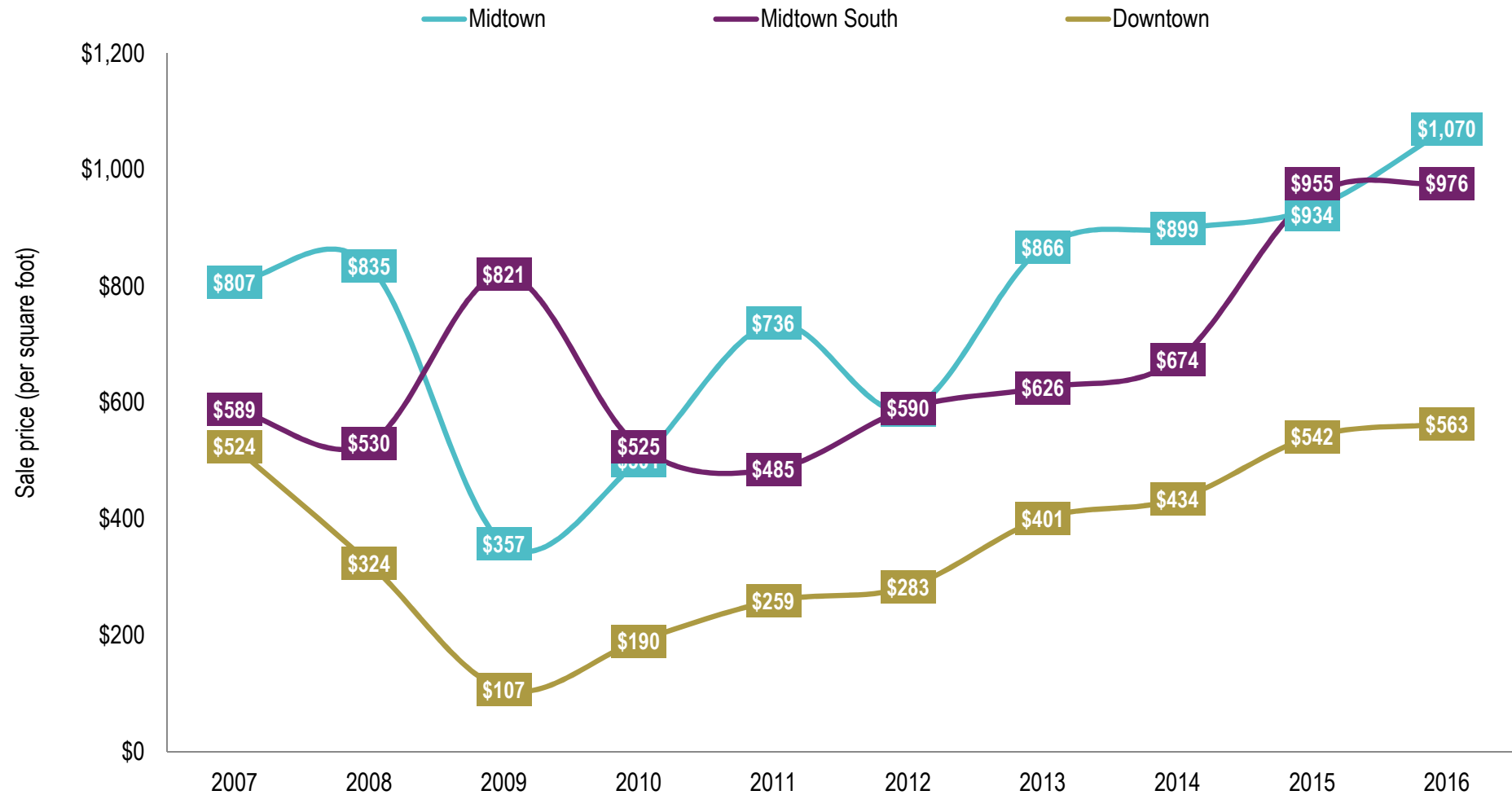


Note: \$10 million and greater sales only

Source: JLL Research

Office sector per square foot pricing by market

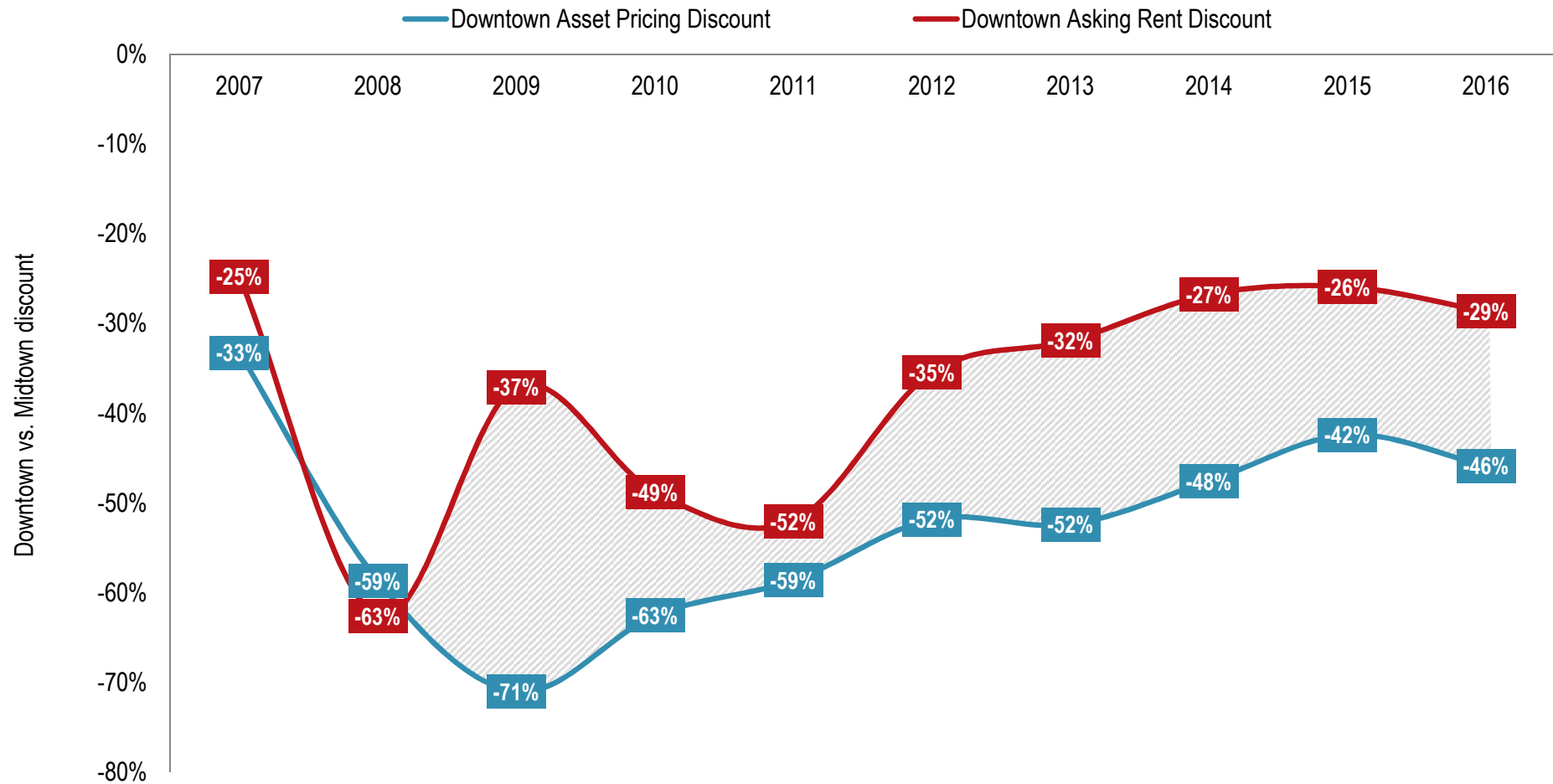
Long-term capital appreciation endured in the office sector in part due to strong demand and limited supply



Source: JLL Research

Downtown vs. Midtown / Midtown South office asset pricing and asking rents

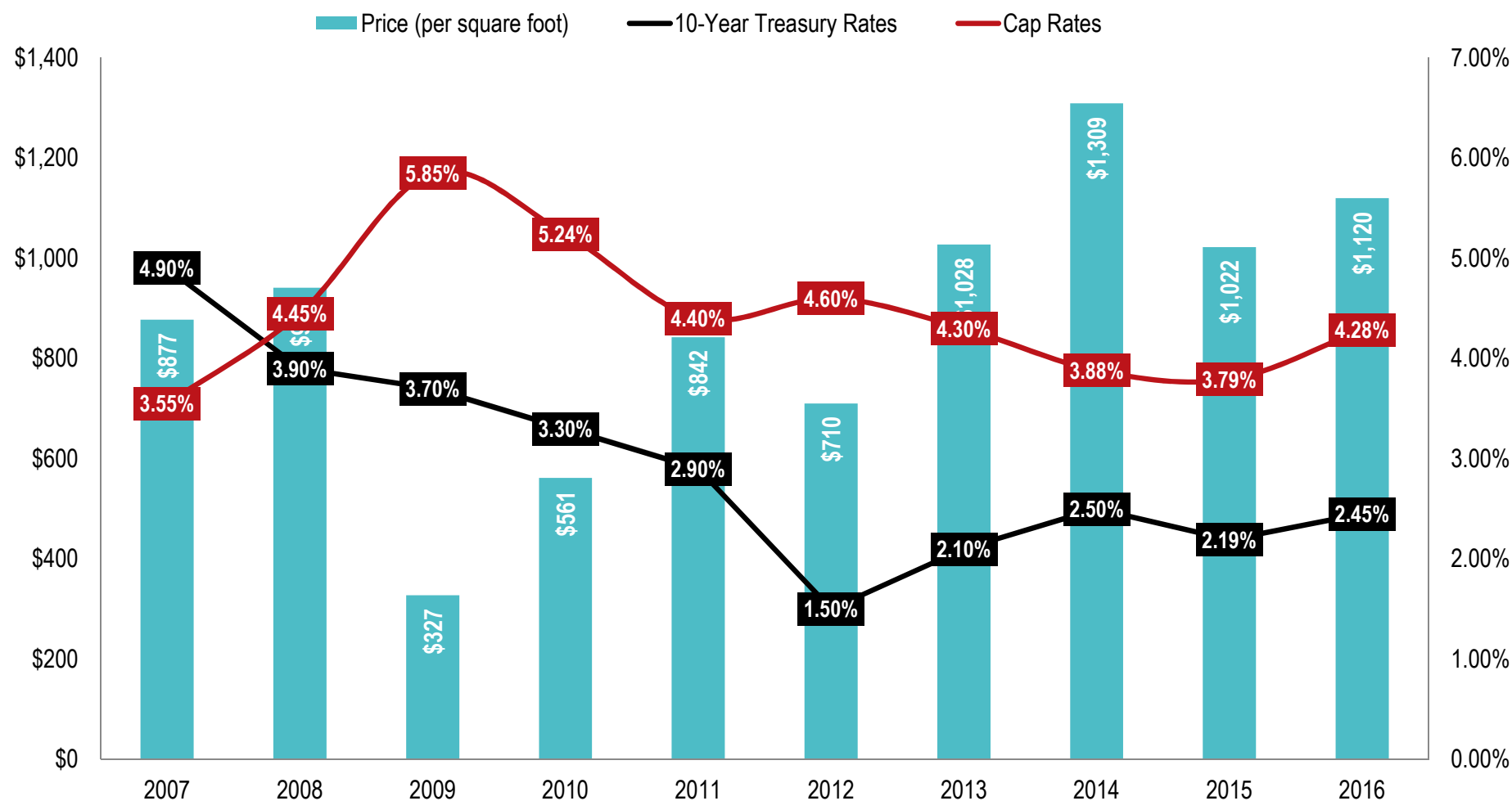
Asking-rent differential less than capital-value differential, creating investment arbitrage in Downtown



Note: Does not include leasehold sales
Source: JLL Research

Midtown Class A office pricing and cap rates

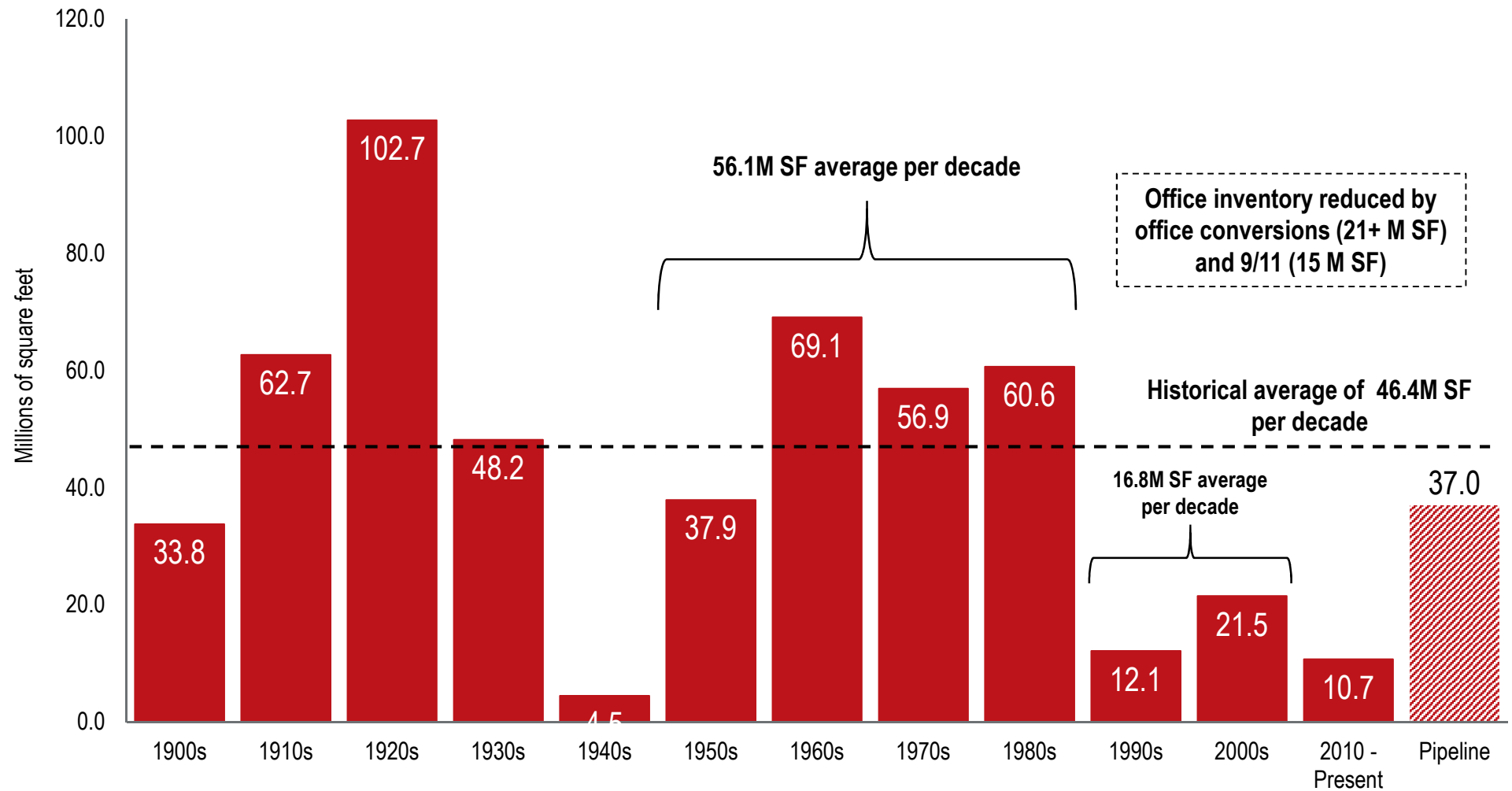
Investment spreads have largely remained steady in the wake of higher interest rates



Source: JLL Research

Manhattan office deliveries by decade

Future office construction will not pace the historical average



Source: JLL Research

Manhattan office construction pipeline

New construction activity concentrated in Midtown West



Source: JLL Research



Manhattan multifamily investment market conditions

Manhattan multifamily market investment conditions Q4 2016

Excluding Peter Cooper Village / Stuyvesant Town transaction, investment volumes were flat year-over-year

Volume largely steady year-over-year. Total multifamily investment volumes totaled \$7.7 billion in 2016, slightly below the \$8.0 billion transacted in 2015 (excluding the \$5.5-billion Peter Cooper Village / Stuyvesant Town purchase by Blackstone and Ivanhoe Cambridge). Record levels of total New York City employment and gains in private-industry wages have made the multifamily sector an attractive bet, as it was the second-ranked property sector by dollar volume in 2016.

Steady institutional investment. Recent supply additions in Manhattan and the competitive Brooklyn, Long Island City, and Hudson Waterfront (New Jersey) markets have not dissuaded several institutions from making sizable bets in the multifamily arena. For example, Blackstone has completed \$6.8 billion of Manhattan multifamily acquisitions over the past two years alone, including the fourth-quarter 2016 purchase of Kips Bay Court for \$620 million.

Uptown market on the rise. The Uptown market remained a strong value proposition, recording \$2.0 billion of transactions in 2016, nearly matching the steady Midtown and Midtown South markets. The portfolio trades that transpired in the fourth quarter were highlighted by the \$357.5-million Dawnay Day portfolio acquisition by Emerald Equity Group.

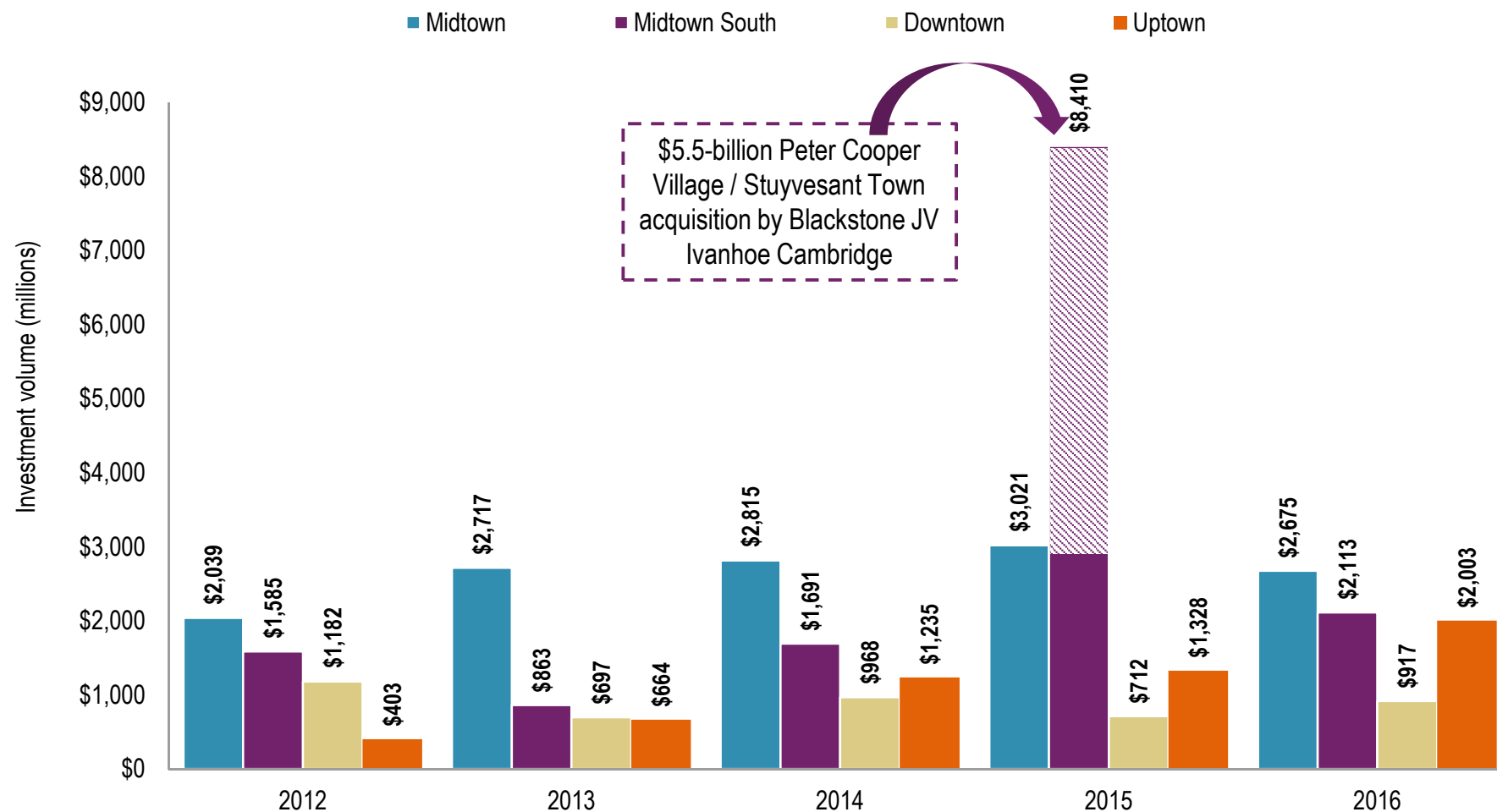
Notable multifamily sales Q4 2016

Address	Units	Price	Price (per unit)	Price (p.s.f.)	Purchaser(s)	Comments
460-520 Second Avenue (Kips Bay Court)	894	\$620,000,000	\$693,512	\$748	Blackstone	Entirely comprised of market-rate units, the eight-building complex was sold for a going-in cap rate of 3.8% that is expected to grow to 6.7% by 2027. Section 8 tenants occupy 40% of the property and the number of Section 8 tenants decreases every year.
Dawnay Day Portfolio	1,131	\$357,500,000	\$302,710	\$498	Emerald Equity Group	The portfolio, largely comprised of rent-stabilized units, is situated in Harlem.
21 West 86th Street (The Brewster)	153	\$172,500,000	\$1,127,451	\$1,219	Clipper Equity	The property, a repositioning project which consists of 36 rent-stabilized units, was previously acquired for \$55,000,000 in June 2012.
250 East Houston Street (Red Square Apartments)	130	\$105,250,000	\$809,615	\$855	The Dermot Company	The property offers an additional 78,797 square feet of development rights.

Source: JLL Research

Manhattan multifamily investment volumes by market

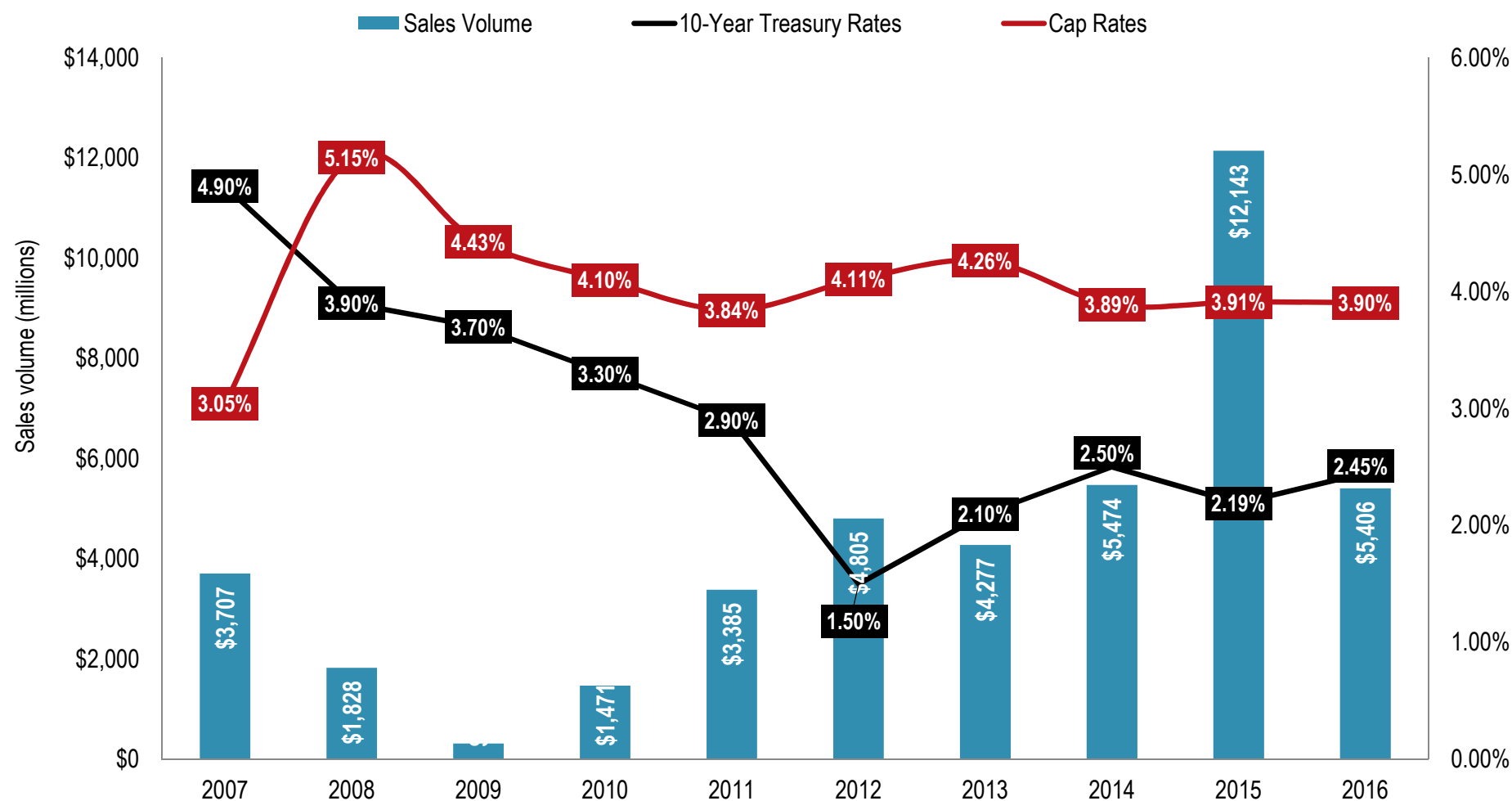
Portfolio sales have propelled the Uptown market, making it one of the most active in Manhattan



Note: \$10 million and greater sales only
Source: JLL Research

Manhattan multifamily pricing and cap rates

Investment spreads have largely remained steady in the wake of higher interest rates

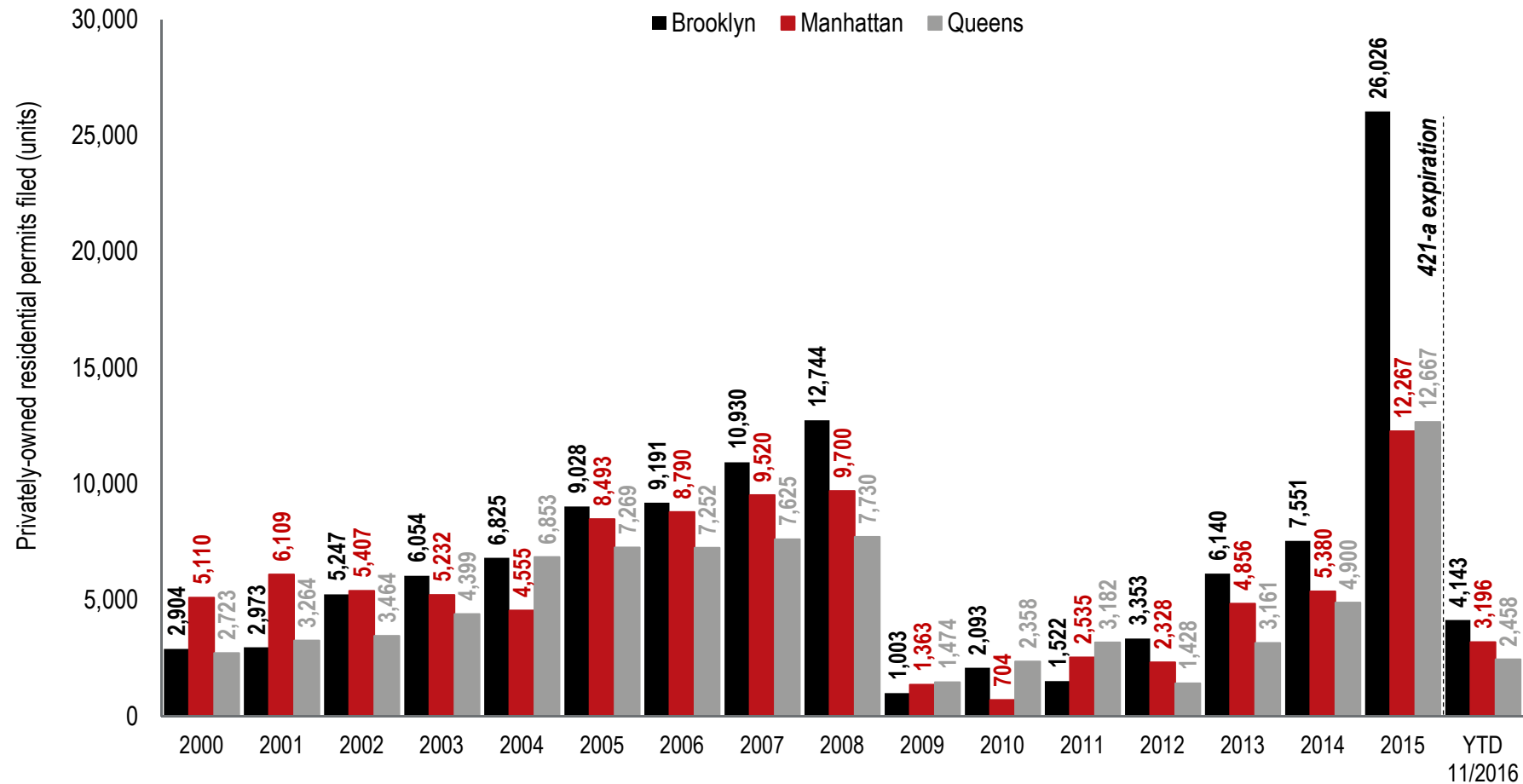


Note: Weighted averages used above. Does not include Uptown market, leasehold sales.

Source: JLL Research

Historical privately-owned residential unit permits filed

Expiration of 421-a tax incentive caused new unit permits to spike in 2015 then plummet in 2016



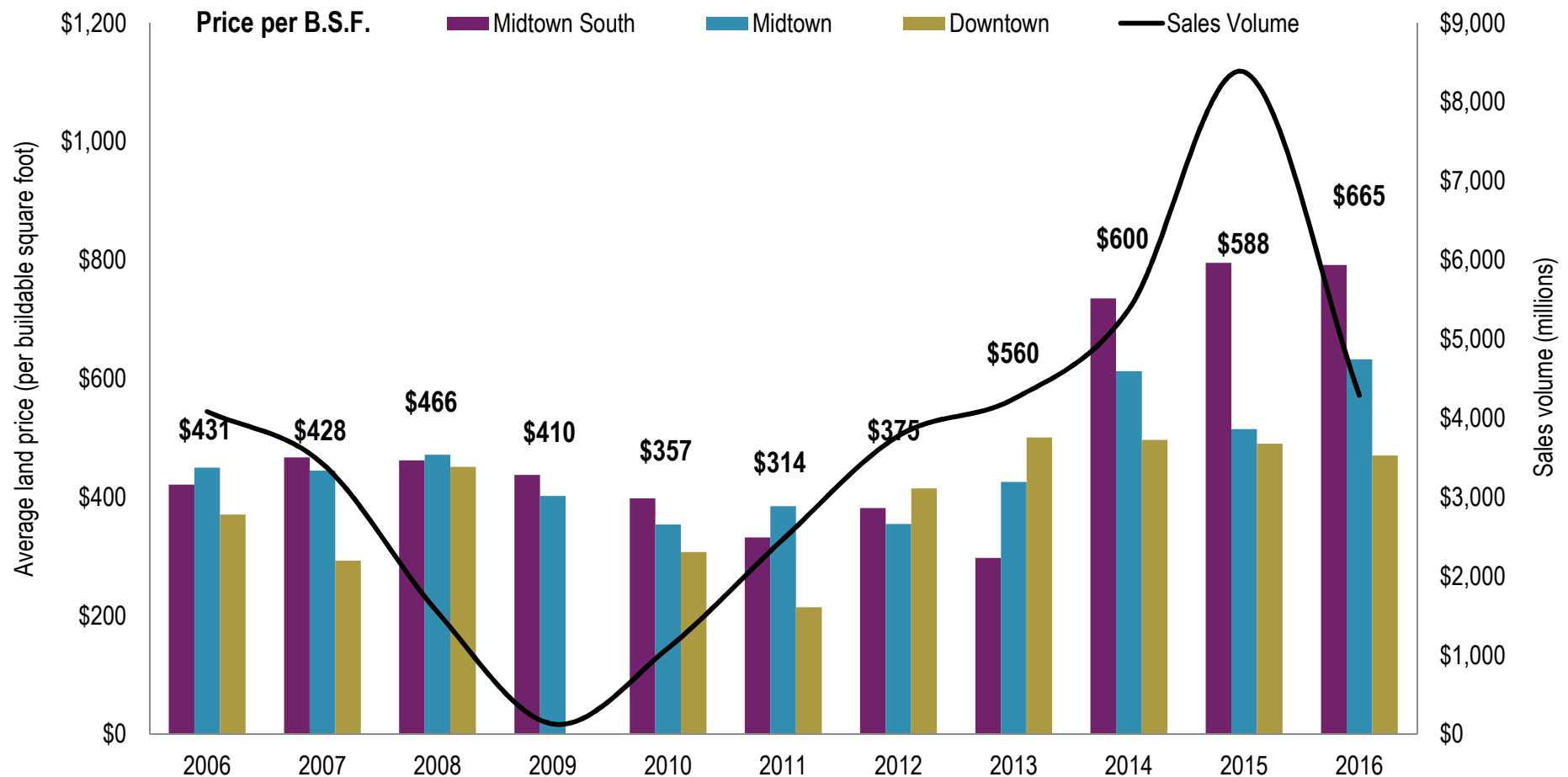
Sources: U.S. Census Bureau, JLL Research



*Manhattan land / development investment
market conditions*

Land / development pricing and volumes

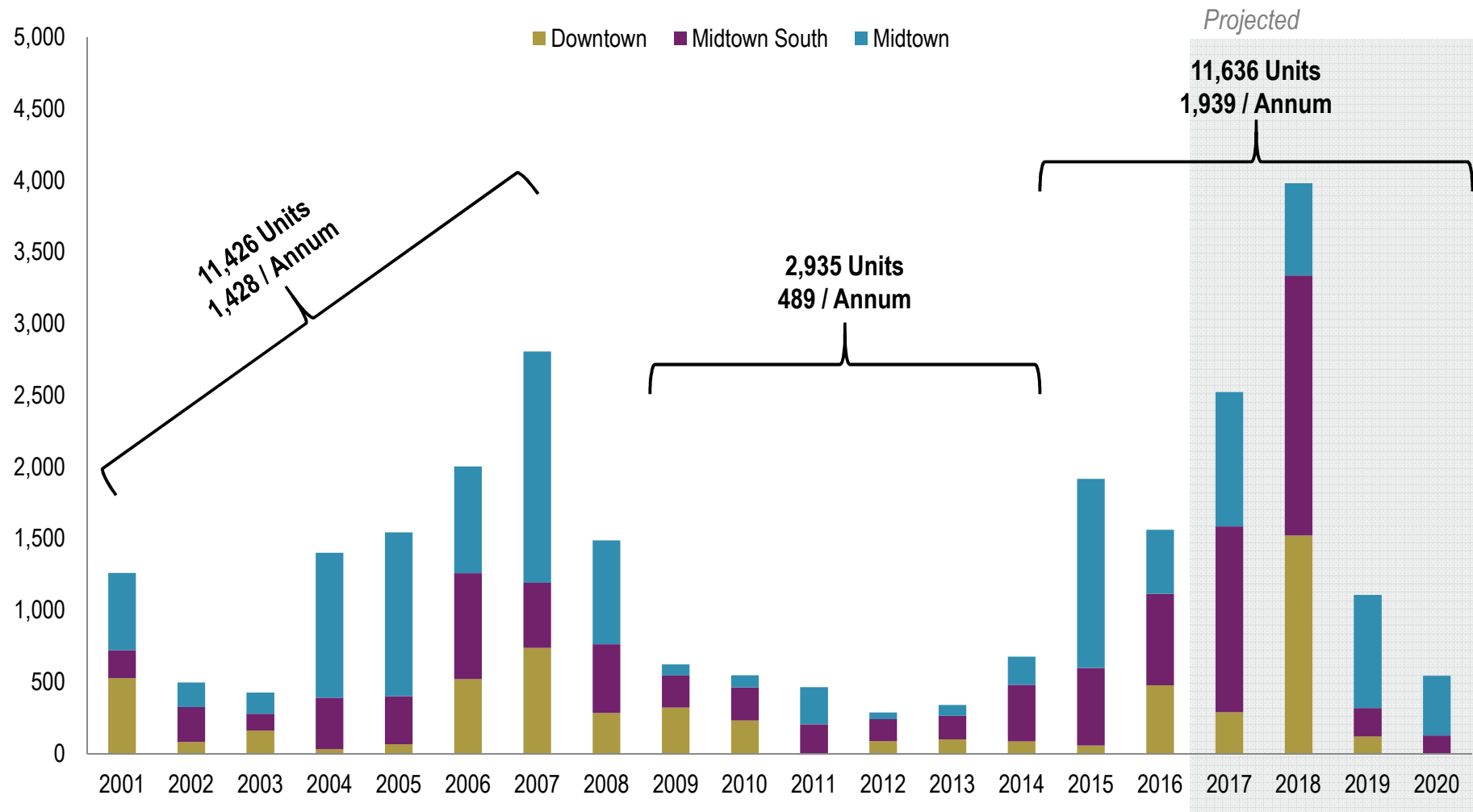
Disconnect between pricing and demand muted investment volumes in 2016



Source: JLL Research

Historical residential condominium deliveries in units

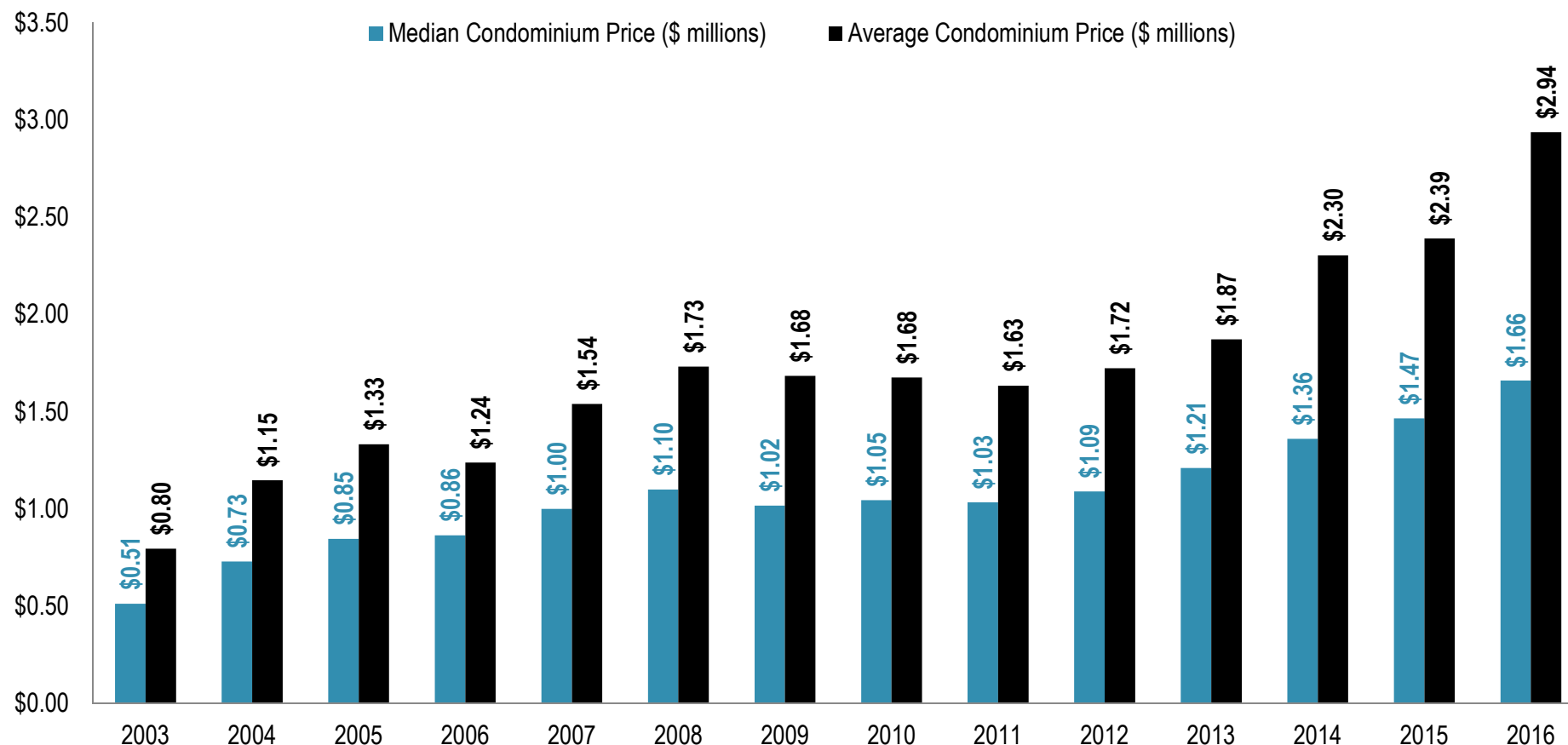
Strong demand, high land pricing gave way to increased condominium development in this cycle



Source: JLL Research

Manhattan average and median condominium sale prices

Unit price escalations largely a demand-side phenomenon, though sizable pipeline may dampen future growth



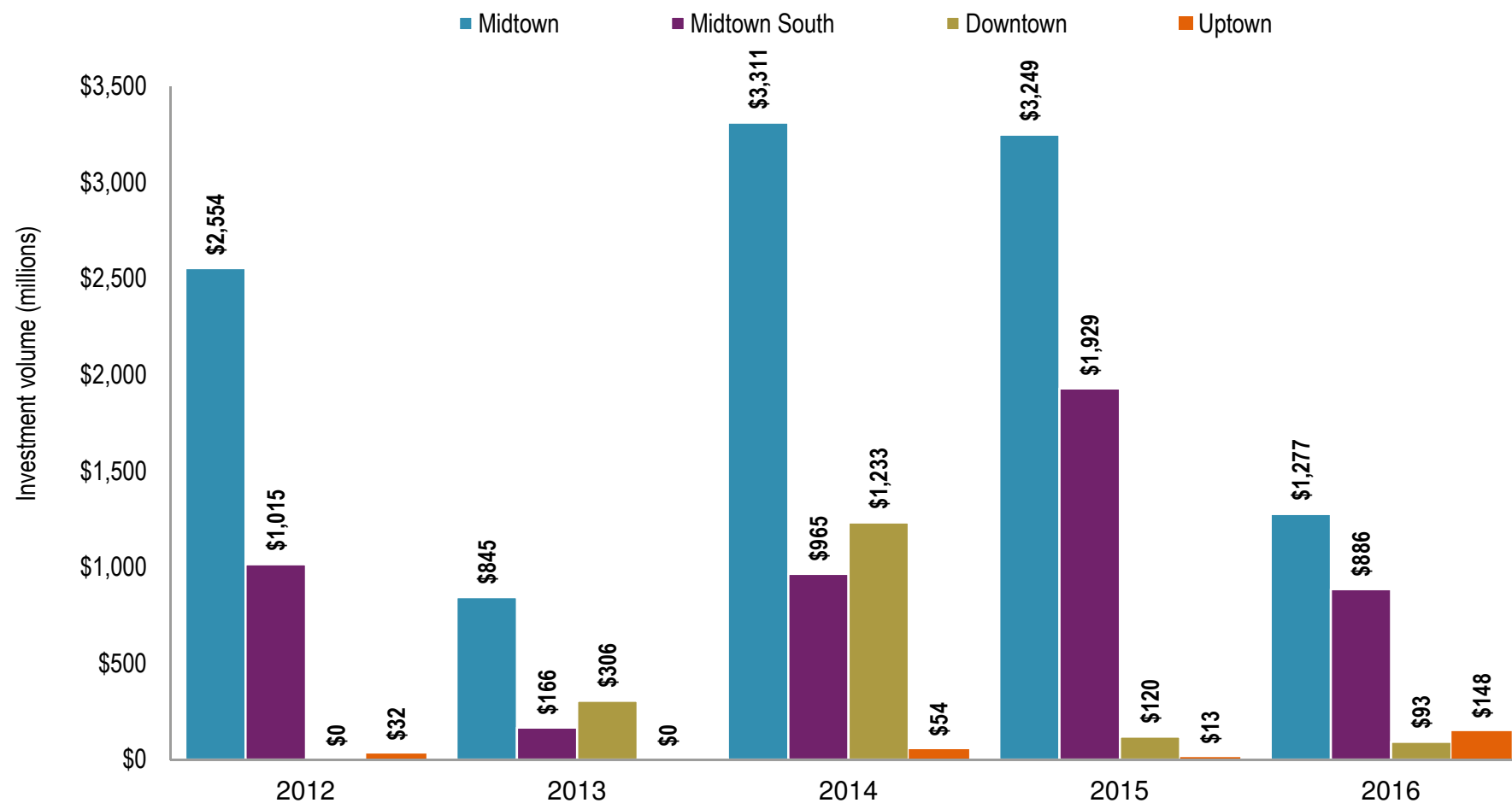
Note: Does not include units sold < \$100,000
Sources: JLL Research, NYC Department of Finance



Manhattan retail investment market conditions

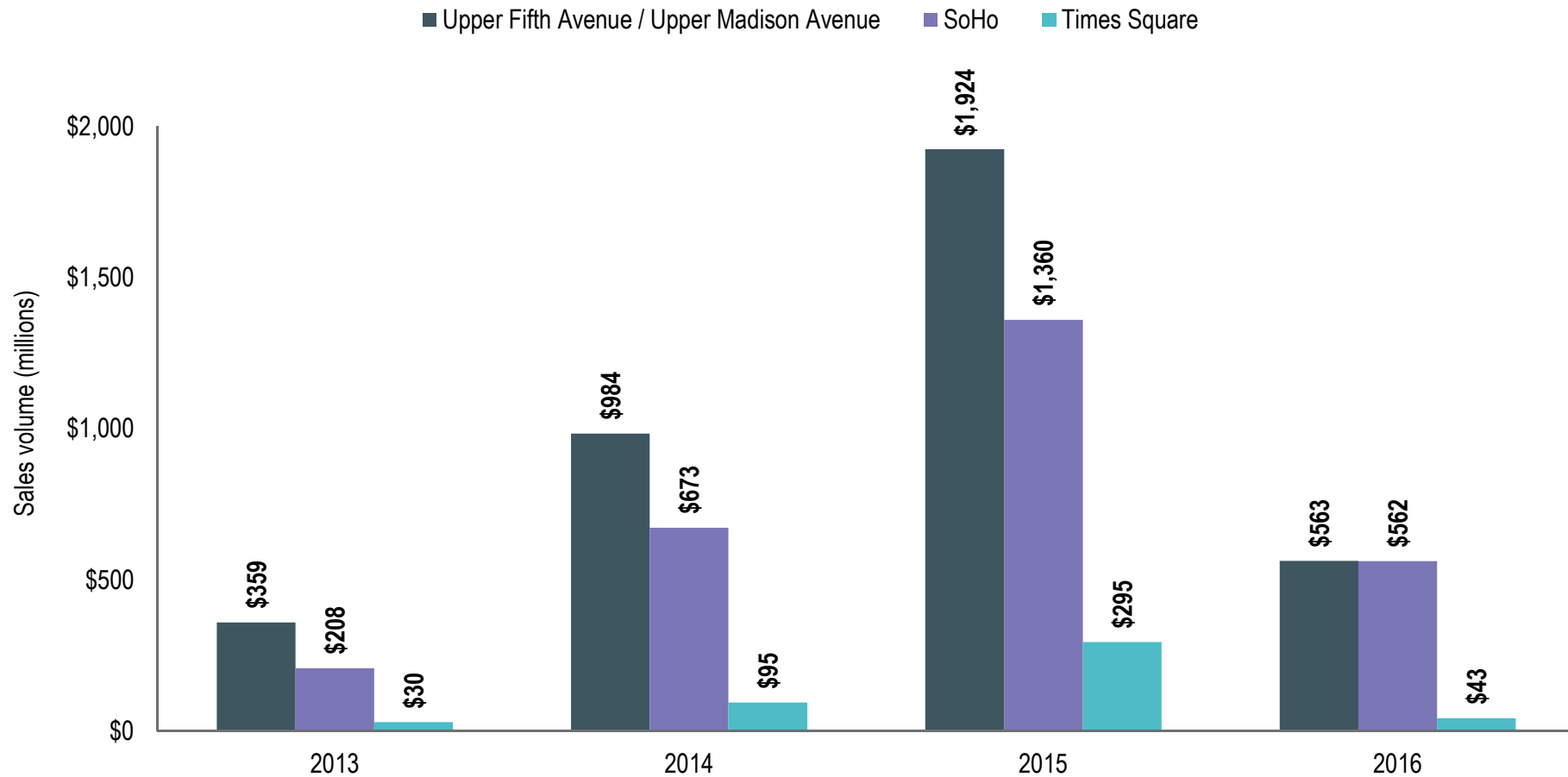
Manhattan retail investment volumes by market

2016 volume of \$2.4 billion represented a 55-percent decrease year-over-year



Note: \$10 million and greater sales only
Source: JLL Research

Manhattan retail sales volume by prime submarket

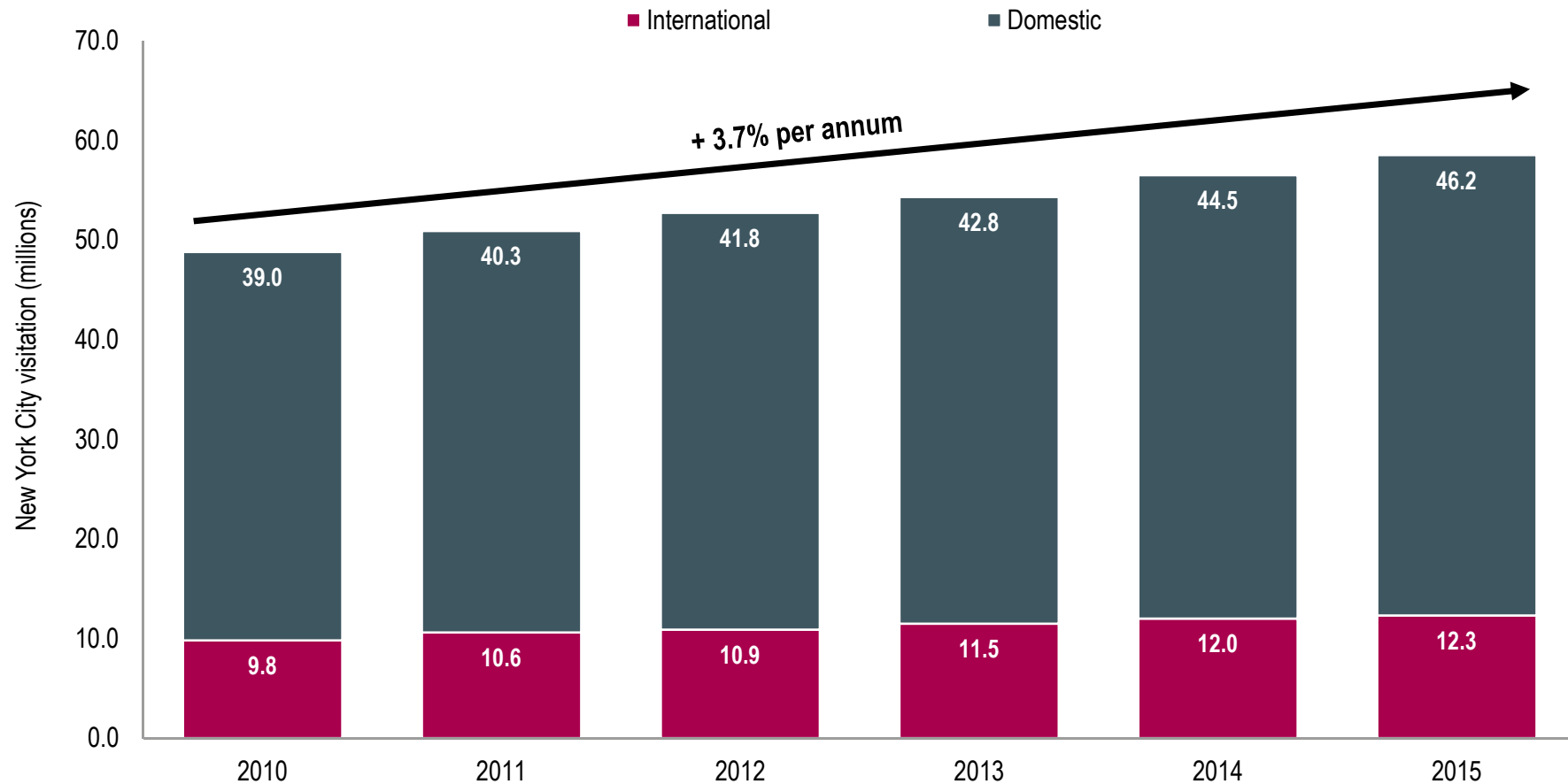


Note: \$10 million and greater sales only

Source: JLL Research

Historical Manhattan tourism

Total visits has gradually increased, while \$42.2 billion was spent by tourists in 2015 alone



Source: NYC Travel & Tourism



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