WANNA FIND INVESTMENT SALES... GET A TELESCOPE!

Last year, the investment sales market in New York City pulled back from the back-to-back record years it experienced in 2014 and 2015. In 2014, there were 5,534 buildings sold in the city, a new all-time record by more than ten percent. In 2015, there was $77.1 billion of investment sales volume, also an all-time record, eclipsing the prior record of $62.2 billion set in 2007. Heading into 2016, we projected a 20 percent to 30 percent drop in the dollar volume of sales and a 30 percent to 40 percent drop in the number of properties sold and, also, that values would end the year lower than they began the year.

> "... a counterintuitive optimism is seeping into the market and this optimism is tangible."

Last year, there were 4,377 properties sold, 16 percent fewer than the year before and 21 percent below the 2014 record. In Manhattan, the drop in this metric was 30 percent. The dollar volume of sales in 2016 was $57.9 billion, 25 percent below the record of $77.1 billion in 2015. In Manhattan the reduction was 34 percent. For the year, values ended at $533 per square foot, 9 percent above 2015 levels. In Manhattan, values hit $1,450 per square foot for the year, also up 9 percent from the prior year. However, on a quarter-over-quarter basis, values dropped in Manhattan steadily from an average of $1,754 in the first quarter of 2016 (1Q16) to $1,084 by the fourth quarter of 2016 (4Q16).

Coming into 2017, we projected a 10 percent to 20 percent drop in the number of properties sold and a 25 percent to 35 percent drop in the dollar volume of sales. Forecasting value was much more challenging as rents in all major food groups are declining and interest rates, if anything, are rising. This should exert downward pressure on prices. However, a counterintuitive optimism is seeping into the market and this optimism is tangible. Foreign capital continues to pour into the market and the supply of properties available for sale is at a cyclical low. These dynamics should help to keep values buoyed as we work through challenges in underlying fundamentals.

(continued on next page)

CUSHMAN & WAKEFIELD | CELEBRATING 100 YEARS

1ST QUARTER 2017 MARKET UPDATE

NEW YORK CITY INVESTMENT SALES

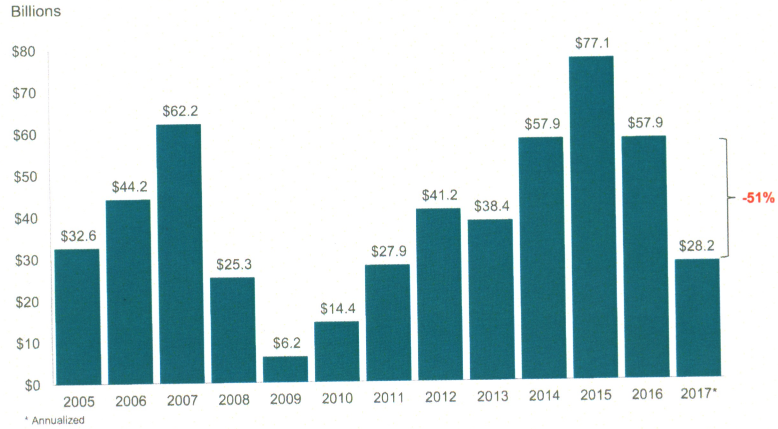
During the first quarter of 2017 (1Q17), the dollar volume of investment sales fell to its lowest level in 19 quarters. In 1Q17, there was $7.1 billion is sales citywide, the lowest quarterly total since the second quarter of 2012 - we did not count the $6.7 billion in the first quarter of 2013 (1Q13) due to the spike in the fourth quarter of 2012 (4Q12) caused by tax policy changes. If annualized, the $28.2 billion for the year would be 51 percent lower than 2016 and a whopping 63 percent below 2015. This would be the lowest annual total since 2011. In Manhattan (we tag Manhattan as whatever happens in New York City usually happens in Manhattan first), the numbers were poorer. In 1Q17, there was $4.3 billion of sales in the Manhattan submarket, the lowest quarterly total since the first quarter of 2011 (1Q11), a total of 25 quarters. If annualized, Manhattan will achieve $17.1 billion, which would be 57 percent lower than the $39.6 billion in 2016 and 71 percent below the $59.9 billion record set in 2015. If the Manhattan submarket does only hit $17.1 billion, it would be the lowest total since 2010.
(see graph 1 & graph 4)

> **In 1Q17, there were 865 properties sold citywide. If annualized, we will have 3,460 trades this year which would be down 21 percent from last year...**

In 1Q17, there were 846 properties sold citywide. If annualized, we will have 3,384 trades this year which would be down 23 percent from last year and 39 percent lower than 2014's 5,534 sales. The 846 quarterly total was the lowest total since the second quarter of 2011 (2Q13). The long-term average annual turnover ratio out of the total stock in our statistical sample of about 165,000 properties, is 2.3 percent or 3,795 sales per year. If we stay on the pace of 3,384, it would be the first time the turnover has been below average since 2011. In the Manhattan submarket, there were 149 properties sold in 1Q17, on pace for 596 for the year. This would be 22 percent below last year's

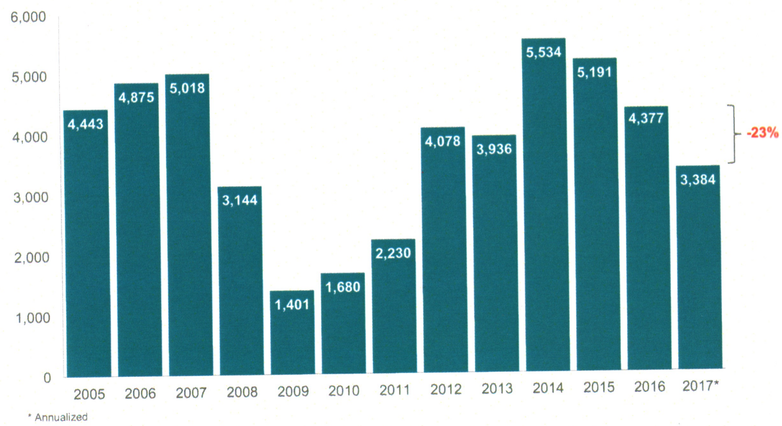
GRAPH 1

Dollar Volume | NEW YORK CITY



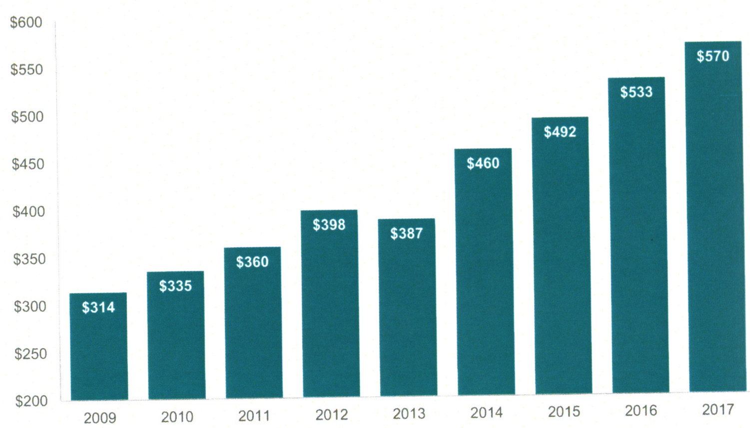
GRAPH 2

Properties Sold | NEW YORK CITY



GRAPH 3

Price Per Square Foot | NEW YORK CITY

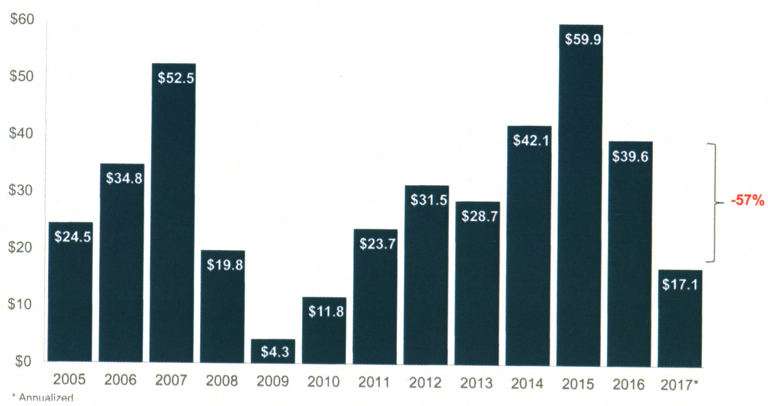


Source: Cushman & Wakefield Research

NEW YORK CITY INVESTMENT SALES

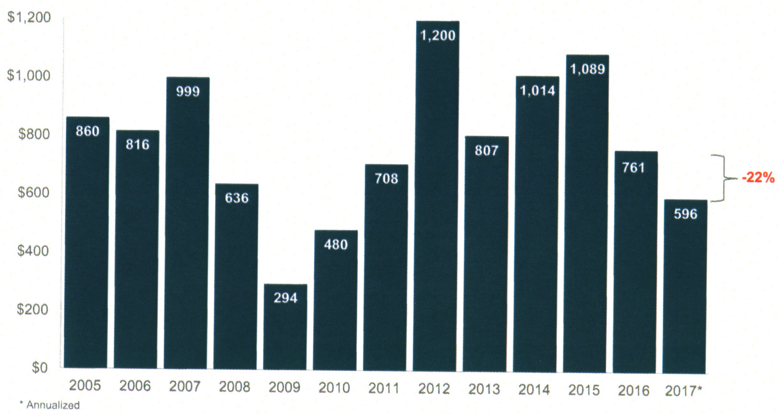
GRAPH 4

Dollar Volume | MANHATTAN



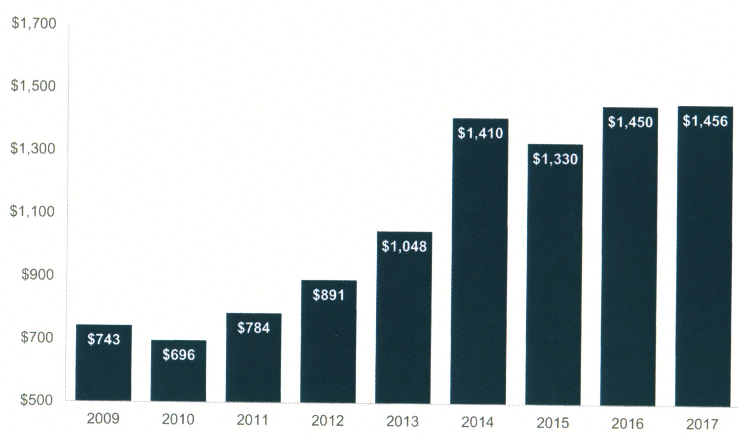
GRAPH 5

Properties Sold | MANHATTAN



GRAPH 6

Price Per Square Foot | MANHATTAN



Source: Cushman & Wakefield Research

total and 45 percent below the 1,089 properties sold in 2015.
(see graph 2 & graph 5)

> **"While volumes are falling, values appear to be on the upswing."**

Values in 1Q17 hit another new record level citywide at $570 per square foot. This was 7 percent above last year's $533 average and 14 percent above the 4Q16 average of $493. In Manhattan, the average in 1Q17 was $1,456, up $6 per square foot from last year's average of $1,450. Impressively, this $1,456 average was 25 percent above the 4Q16 average of $1,089 per square foot. *(see graph 3 & graph 6)*

While volumes are falling, values appear to be on the upswing. One quarter, clearly, does not make a trend but value movements in 1Q17 were positive. And this was the case in every geographic submarket. I have said that the correction should not be sever because there was no catalytic event to create the correction, other than normal market cyclicality. To determine if we are coming out of a mild correction, we need to keep a close look at underlying fundamentals and see if market rents in residential, retail and office will turn positive. Without this, the rebound that could be extrapolated from 1Q17 results will not attain traction. So it could be that the significant drop in volumes, while values rise, is simply the result of sellers only capitulating when they achieve their target price – a condition seen during the early stages of investment sales market corrections.

Time will tell...

For more insights from Bob Knakal:

Watch his 4-year video series on Vimeo - Knakal News Network:
vimeo.com/bobknakal

Read his weekly column in the Commercial Observer - Concrete Thoughts:
commercialobserver.com/tag/concrete-thoughts

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During Mr. Knakal's 34 year career, he has sold over 1,750 buildings having an aggregate market value of over $16 billion. He is a graduate of The Wharton School at The University of Pennsylvania and formed Massey Knakal with Paul Massey in 1988. In 1999, he was named to Crain's New York Business's Forty Under Forty/New York Rising Stars list for his outstanding achievement in the New York City business community. He has twice been the recipient of the Robert. T. Lawrence Award in the Real Estate Board of New York's Most Ingenious Deal of the Year contest. In 2010, he won REBNY's Louis Smadbeck Broker Recognition Award for Lifetime Achievement in Commercial Brokerage. On December 31, 2014, Cushman & Wakefield acquired Massey Knakal.

REBNY® Real Estate Board of New York

RECENT CLIENT SUCCESS | 292 FIFTH AVENUE

THE KNAKAL GROUP AT CUSHMAN & WAKEFIELD SELLS FIFTH AVENUE DEVELOPMENT OPPORTUNITY

Located Steps from Madison Square Park and Penn Station

One of the most coveted development opportunities currently available in the highly desirable NoMad district of Manhattan, 292 Fifth Avenue, was sold in an all-cash transaction valued at $42,420,000.

"Recently we have seen a surge in development site activity citywide and this transaction demonstrates that positive trend. At $610 per buildable square foot for a hotel development site, this sale bodes well for the market moving forward," said Bob Knakal.

The lot features approximately 70 feet of valuable retail frontage along Fifth Avenue between 30th and 31st Streets, which provides significant exposure for future tenants who will benefit from the high level of pedestrian and vehicular traffic along the corridor. The assemblage is situated within one of Manhattan's most flexible zoning districts that offers the ability to create a truly unique residential or commercial project featuring dramatic views for future residents or guests. With a lot size of approximately 5,769 square feet, 292 Fifth Avenue's as-of-right development potential is approximately 57,690 buildable square feet. Current ownership has increased the site's potential by 2.0 FAR through the Inclusionary Housing Program, bringing the total to approximately 69,223 buildable square feet.

NoMad is New York City's quintessential neighborhood that has emerged into an energetic 24-hour community where visitors, residents and professionals can enjoy world-class restaurants, prestigious shopping and luxury hotels. Centrally located in the heart of Midtown South, just steps from Madison Square Park, Herald Square and Penn Station, the property contains unparalleled access throughout the entire city via countless subway and bus routes in addition to PATH trains to New Jersey.