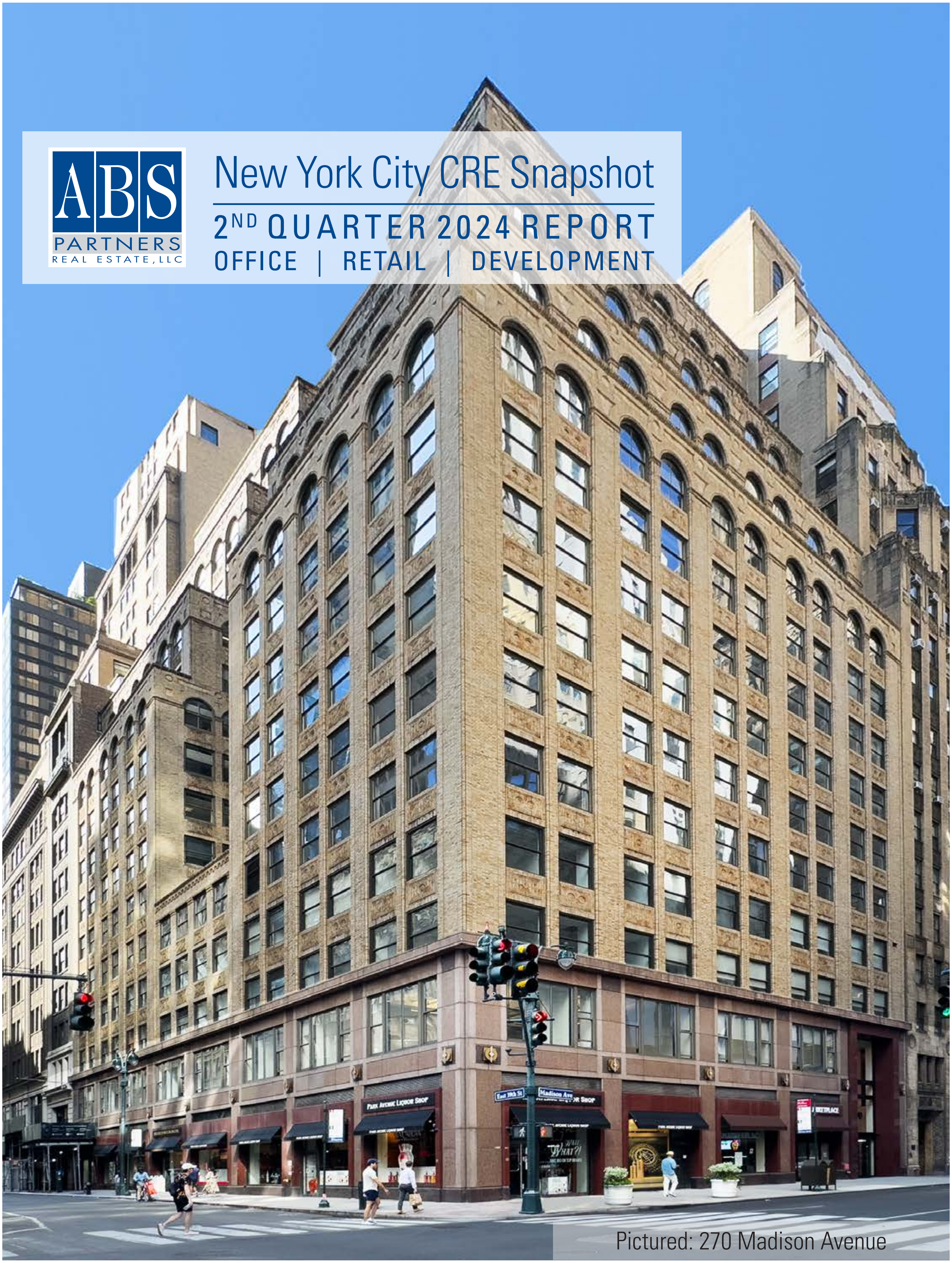
New York City CRE Snapshot

2ND QUARTER 2024 REPORT

OFFICE | RETAIL | DEVELOPMENT



Pictured: 270 Madison Avenue

Downtown - World Trade Center

Quarterly News Highlights*

General News

NYC Attracts the Highest Volume of College Grads Among U.S. Gateway Cities | April 9, 2024

Major gateway cities continue to be the top choice among college graduates of U.S. Universities "who got a job in office-using industries. Findings of a recently released study revealed that "more than 692,000, or one-third of the 1.98 million 2023 graduates" settled in markets that serve as gateways to business regions. In comparison, seven large markets in the Sun Belt markets attracted a combined total of almost 280,000, or about 14%, of the graduates. New York led the way among the leading regional gateway markets, attracting 200,394, or more than 10% of total graduates, followed at a distance by Los Angeles, which attracted 97,458 graduates. Among the Sun Belt markets, Atlanta led the way, attracting 51,096 graduates, followed closely behind by the Dallas-Fort Worth area's total of 50,092 graduates. Due to key advantages as talent hubs, with "university population and especially elite universities" highly concentrated, the gateway markets continue to top the list as the preferred place among college graduates. Although the Sun Belt markets have outpaced growth for much of the last 10-years "driven by strong domestic migration and corporate migration chasing lower costs and higher quality of life, cities such as Atlanta, Dallas, and Houston remain far behind New York, Los Angeles, San Francisco and Boston. The report's findings further substantiate the importance of the permanence of higher education institutions as not only key in developing what becomes the next generation of office users, but also because they "act as a magnet in driving economic activity across there proximate metro areas."

Sources: https://product.costar.com/home/news/46107673

* Access to some articles may require a login and/or subscription.

Big U.S. Cities are Facing Heightened Financial Troubles in the Post-Pandemic World | April 14, 2024

Unlike the federal government, local governments can't run large deficits for long stretches; and although cities have rainy-day funds to help offset budget gaps, those funds will only get them so far, in the near term and in the long run. Cited in example is Boston's $1 billion tax deficit over the next five years due to falling property-tax revenues amid the rise of remote work causing a slow and steady decline in commercial real estate prices. The full impact on property taxes remains unclear as office occupancy remains low and commercial real estate values decline. Further creating financial challenges is the ongoing Inflation that is not only impacting people's wallets, but state and city budgets as well; and some cities such as New York City and Denver have been further financially pressured by the added expense of providing housing and social services for immigrants crossing the southern border, for which there remains no solution to the problem with Congress yet to pass an immigration reform proposal to improve border security and tighten asylum rules.

Across the country, local governments are struggling to figure out what the new normal is, budget-wise in the post-pandemic world, and how to deliver services and investments citizens depend on without breaking the bank. During the pandemic, unemployment insurance and stimulus checks not only kept households afloat, but prompted many people to start spending, thereby boosting sales-tax revenue. In addition, stimulus from the federal government provided financial support to states and cities, however, those sources of cash are starting to dry up; and for those cities that used the one-time money to start new programs, apply towards ongoing expenditures, or "temporarily paper over long-standing budgetary issues," they now face the need to figure out permanent funding sources.

Sources: https://ca.news.yahoo.com/americas-cities-had-way-escape-104701631.html

Grand Central Madison Helps Boost Midtown East Foot Traffic from Long Island People | April 15, 2024

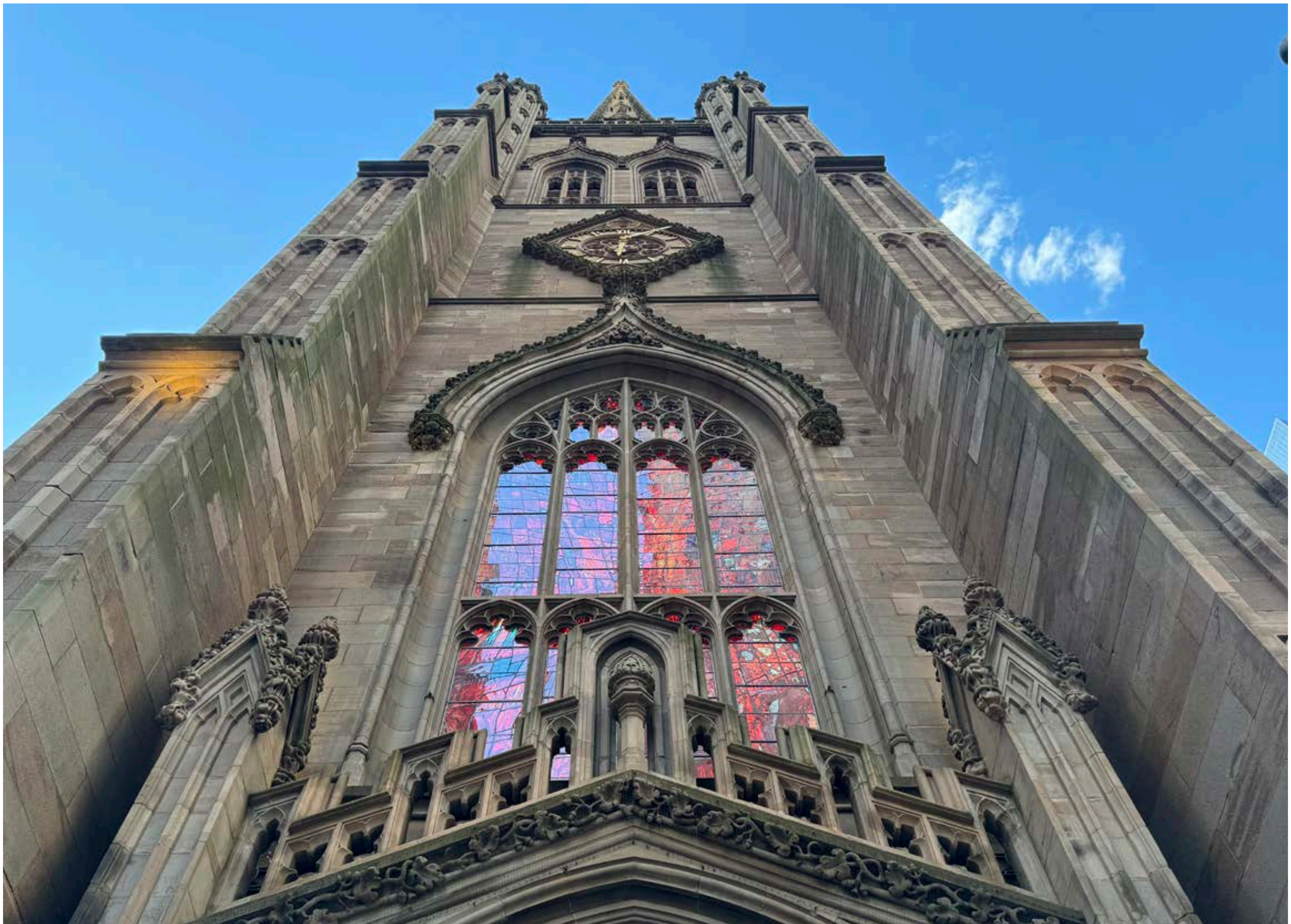
Although off to a somewhat lackluster start compared to transit officials anticipated 45% estimate of the volume of LIRR commuters rerouting from Penn Station to the new Grand Central Madison station on the east side of Midtown, which added four new means of egress along Madison Avenue, the latest data compiled by Placer.AI reveals a different picture. Creating for the first time a connecting link between the Long Island Rail Road and Midtown's east side upon full opening of the station on February 27, 2023, the volume of pedestrians with ZIP codes from Long Island that visited or roamed the business improvement district surrounding Grand Central Terminal was "a whopping 115.5% more than they did in 2022 and 35.7% more than they did last year." A compiling of the data by the Grand Central Partnership whose district spans 70 blocks between East 35th and 54th Streets between 2nd and 5th Avenues also indicated that in 2022, 2023, and 2024 as of the March release of the article, the volume of people with Long Island ZIP codes visiting the district was 431,945, 686,092 and 930,848 respectively – representing a significant spike in the area's pedestrian traffic. Although not clear what exactly is driving increased weekend traffic, it is even more noteworthy that pedestrian counts on Saturdays and Sundays "have actually been outperforming some weekdays," helping to change the dynamic of the neighborhood from the "typical Monday through Friday 9-to-5 to a more seven-days-a-week neighborhood for people and families."

Sources: https://www.crainsnewyork.com/real-estate/grand-central-madison-credited-spike-midtown-foot-traffic

Doorway Opens Wider for a NYC Casino After City Council Greenlight | April 17, 2024

A vote of 35-15 in favor of a zoning change in New York City by the city council opens the door to the possibility of a casino being constructed in the five boroughs. Current zoning in the city does not allow for casinos, but the proposed changes that will legalize the gambling centers in commercial districts and manufacturing area is intended to ensure that the nine city contenders are not at a competitive disadvantage to casino proposals on Long Island or upstate New York. The zoning changes will "sunset" June 2025 and only apply to the nine known contenders, creating a stopgap measure added last month by the New York City Planning Commission (CPC) to address concerns of a potential floodgate to the opening of more casinos in future years. Other concerns raised back in November focused on the "open-ended language of the proposed zoning changes released at the time since it "puts no restrictions on casinos' size and allows developers to tack on 'related' facilities such as hotels and restaurants." The results of the city council vote are in contrast with votes on the neighborhood level where nineteen community boards voted against the casino changes in recent months with only four voting in favor, while 30 other community boards opted against voting at all. While the zoning change eliminates the need for all city-based casino proposals to go through its monthslong Uniform Land Use Procedure (ULURP), it relinquishes control over the casino process from the city to the state-led process, local feedback is already built-in through the community advisory councils that will hold binding votes on every casino proposal.

Sources: https://www.crainsnewyork.com/politics-policy/nyc-casinos-likely-get-local-greenlight-council-votes-zoning-change#/



Downtown - View of Trinity Church

News Highlights (cont'd)

NYC Claims Title as Most Popular Destination for Relocating Tech Workers | April 18, 2024

Recently statistics provided by venture capital firm SignalFire revealed that although in 2023 "roughly 10.7% of New York's existing tech workforce let the city, the strong inflow of workers outpaced the outflow." While Austin, TX is the fastest-growing city for top tech talent by percentage, according to the report, New York City is in the midst of a tech talent boom and gaining the biggest share of relocation tech talent. Although the San Francisco Bay area continues to reign as the undisputed center of technology, the pandemic's impact on remote work has sparked a spreading out of companies and their workers, revealing a shift toward other growing tech hubs. An analysis of existing tech workers who relocated between 2022 and 2023 "New York City tops the charts, taking in nearly twice as many relocators as runner-up Austin and claiming 15% of all people who moved." In contrast, the biggest losers include San Francisco, Seattle, and Boston, which are among some of the most notable tech hubs; and while it has been suggested that the high cost of living contributed to the shift, New York continued to attract the largest share of relocators despite "boasting the highest rent prices in the country."

Sources: https://prod.crainsnewyork.com/technology/relocating-tech-workers-prefer-new-york-san-francisco

https://www.signalfire.com/blog/state-of-talent-tech-trendsa

News Highlights (cont'd)

Federal Trade Commission Votes to Adopt Nearly Total Ban on Noncompete Clauses | April 23, 2024

Back on January 5, 2023, the Federal Trade Commission (FTC) proposed a new rule to ban noncompete clauses according to the FTC's press release at the time, and on April 23, 2024, voted to adopt the rule that "comes three years after President Joseph Biden signed an executive order encouraging the FTC to limit noncompete agreements, which affects roughly one in five Americans." Simply defined, the non-compete clause, which is between two parties, is an agreement whereby "one party (usually an employee) agrees not to enter into or start a similar profession or trade in competition against another party (usually the employer)." Dating as far back as 1414, "traditionally, non-competes were used to prevent high-skilled workers from transferring trade secrets or a customer list from one firm to a competing firm." The FTC estimates the final rule "will generate over 8,500 new businesses each year, raise wages for the average worker by an additional $524 per year, lower health care costs by up to $194 billion over the next decade, and boost innovation. While existing noncompetes for senior executives "earning more than $151,164 annually and who are in policy-making positions" can remain in force under the new rule, which represents less than 0.75% of workers, employers "are prohibited from entering into or enforcing new noncompetes with senior executives." Noncompetes for the vast majority of workers will no longer be enforceable after the rule's effective date which will be 120 days after publication in the Federal Register. Subject to a 90-day public comment period, the FTC noted that 26,000 comments on the proposed rule had been received, with over 25,000 comments in support of the FTC's proposed ban on noncompetes.

Sources: https://www.crainsnewyork.com/politics-policy/ftc-issues-ban-worker-noncompete-clauses

https://www.ftc.gov/news-events/news/press-releases/2024/04/ftc-announces-rule-banning-noncompetes

NYC Affordability Challenges Spread Beyond Housing | April 23, 2024

Although when the word "affordability" comes up in New York City it is typically assumed to be about the topic of housing, more and more it has extended beyond housing to the overall cost of living, forcing everyday people to leave. A scientific poll — The Unheard Third — conducted by the Community Service Society of New York (CSS) in partnership with Lake Research Partners for more than two decades to hear from New Yorkers, especially low-income New Yorkers about their living situations. The results of this year's poll reveal that moderate- and middle-income New Yorkers, which are mostly employed and often earning between $62,000 and $128,000 for a family of two adults and two children, are facing increasing financial hardships, owing mainly to the high cost of living in New York City. There are well-known official metrics to capture the challenges for extreme poverty and extreme wealth, however, the financial challenges confronting moderate-income families often fall between the cracks of both extremes. The disturbing new pattern has prompted a push for a "True Cost of Living Measure" that considers all well-known expenses such as housing, childcare, transportation, debt, and taxes. This year, the City of New York is mandated to develop a true cost-of-living measurement that must take all New Yorkers into account, a measure that is supported by 81% of the NYC electorate.

Sources: https://www.crainsnewyork.com/op-ed/measuring-new-yorks-true-cost-living

Sunset Park Marine Terminal to Become Operations Hub for Empire Wind 1 | April 29, 2024

A bright spot has returned to New York's ambitious green energy targets following the disappointing news last week of the cancelation of three provisionally awarded projects by the New York State Energy Research and Development Authority (NYSERDA) that were expected to generate a combined total of 4,032 megawatts due to an inability to reach a final agreement primarily due to General Electric's decisions to shift to the building of a smaller turbine causing technical and commercial complexities between the provisional awardees and their partners, and more recently the loss of a contract with Norwegian energy giant Equinor to build a 1,260-megawatt Empire Wind 2 wind farm amid rising costs. However, a second planned project by Equinor is moving forward and construction firm Skanska has been awarded an $861 million contract to transform the city-owned 73-acre waterfront South Brooklyn Marine Terminal into "a renewable manufacturing complex that will serve as the operations and maintenance hub for Empire Wind 1 — a wind farm planned for waters near Long Island." Upon the new wind farm becoming operational, which is expected in late 2026, "the marine terminal will also serve as an interconnection site to plug in power from the 810-megawatt development to New York's electric grid as part of the state's goal to shift away from fossil fuels and produce 70% of its electricity from renewable sources by 2030.

Sources: https://www.crainsnewyork.com/climate/skanska-inks-861m-contract-convert-nyc-marine-terminal-wind-hub


Midtown - Hell's Kitchen Area

News Highlights (cont'd)

Concerns Heighten as American South Experiences Rising Sea Levels | April 29, 2024

The pace at which the sea level is rising in the American South is growing more rapid. According to the findings of an analysis completed by the Washington Post based on tide gauge data, "sea levels are at least 6 inches higher than they were in 2010," an increase that equates to a similar change that occurred spread over the previous five decades. Since 2010, the Gulf of Mexico has experienced a sea level rise that is twice the global average according to the Post's analysis of satellite data. Some American South coastal communities cited were Charleston, SC., Jacksonville, FL, and Galveston, TX which experienced sea level increases of 7 inches, 6 inches, and 8 inches respectively since 2010. As a result, the number of high-tide floods is rapidly increasing in the region — 5 times as often as occurred in 1990 and projected to "strike 15 times more frequently in 2050 than they did in 2020. Although the precise causes of the recent surge have yet to be deciphered, since 2010 it has been "very abnormal and unprecedented;" and "while it is possible the swift rate of sea level rise could eventually taper, the higher water that has already arrived in recent years is here to stay."

Sources: https://www.washingtonpost.com/climate-environment/interactive/2024/southern-us-sea-level-rise-risk-cities/

IRS Planning to Increase Audits of the Wealthy and Corporations by 50% in 2026 | May 3, 2024

The Internal Revenue Service (IRS) is the recipient of approximately $60 billion over a 10-year period as part of the Inflation Reduction Act (IRA) enacted in 2022, which contains "$500 billion in new spending and tax breaks that aim to boost clean energy, reduce healthcare costs, and increase tax revenues." The IRS plans to increase the audit rate for households with incomes of $10 million and up by 50% for the 2026 tax filing; as well as nearly tripling the audit rate for corporations with at least $250 million in assets. As part of the efforts to reach its goal, the federal agency has increased full-time employees to approximately 90,000 — up from 79,000 in fiscal year 2022, with an end goal of a head count of around 102,500 by the end of this decade. According to 2019 finalized numbers, the IRS audited 11% of the returns from the $10 million-plus household income group, a percentage that the IRS is hoping to increase to 16.5% for 2026 returns; while corporations in the $250 million in assets category will see an audit-rate increase from 9% to 22%, bringing audit rate levels back to around what they were more than a decade ago, before underfunding and waning staff counts.

Sources: https://www.marketwatch.com/story/irs-says-audits-for-rich-people-and-corporations-are-about-to-hit-a-whole-new-level-buckle-up-c249020d

NYC's First Business Improvement District Turns 40 | May 3, 2024

On May 6, New York City celebrated the second annual "BID Day," featuring "door-to-door outreach, clean-up days, community service events, social media campaigns, and live music to showcase the impact of the more than 40 participating Business Improvement Districts (BIDs) on their respective neighborhoods. During the 1970s New York City was particularly hard hit by the nation's economic stagnation; increased civil unrest; and a large movement of middle-class residents to the suburbs, as the city's population shrank by more than one-tenth of its total in the prior decade resulting in significantly drained city tax revenues. In 1984, as New York City began "pulling itself out from the depths of a decade of crisis," a handful of shopkeepers formed the Union Square Partnership, establishing the city's first Business Improvement District (BID). Over the last 40 years, a total of 75 non-profit organizations have been established, creating the nation's largest network of BIDs. Covering nearly 300 miles of commercial corridors, BIDs work to raise the profile of our commercial districts and promote the unique characteristics of our neighborhoods through advocacy, community events, beautification, and small business support. Last year alone, the city's BIDs "infused more than $194 million in services into our city's local neighborhoods and economy." In addition, the city's BIDs played an important role in further bolstering the post-COVID economic recovery by supplementing city services including working hand-in-hand with the New York City Department of Small Business Services (SBS) "to get financial relief directly into the pockets of more than 10,000 business owners."

Sources: https://www.crainsnewyork.com/op-ed/bids-40-four-decades-building-new-york-city-everyone

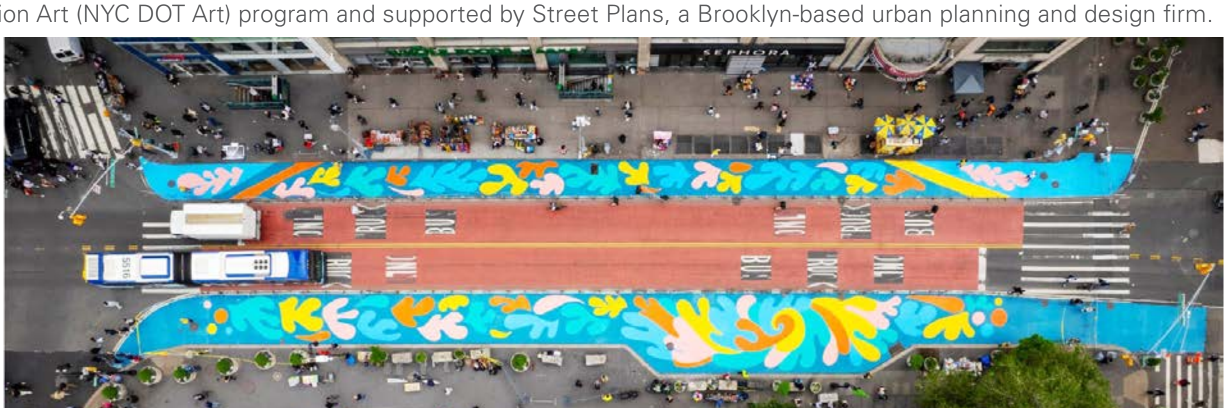
The Largest Display of Work by Street-Artist Banksy Opening on Canal Street | May 8, 2024

Having attracted a high volume of followers over the years, 160 works of art by the "elusive" England-based street artist Banksy will for the first time be displayed in a dedicated eponymous Museum at 277 Canal Street. Hailed as "the largest display of Banksy work ever seen in a single setting," to create an experience of displaying his work in the raw setting of the streets as it should be, the creators of the museum "employed a number of anonymous street artists to recreate Banksy's work," so "what you'll see on the walls and propped up for display won't necessarily by Banksy's own work but celebratory creations of both iconic and lesser known pieces." Although numerous pop-ups and stand-alone exhibits have given a small glimpse of his work, little of Banksy's works are visible to the public at large. New York City will join several other destinations such as Barcelona, Brussels, Kraków and Paris that have similarly debuted.

Sources: https://www.timeout.com/newyork/news/a-new-banksy-museum-is-opening-on-canal-street-this-month-050824

New 7,500 SF Mural Installed Along Union Square's 14th Street Corridor | May 20, 2024

Union Square Partnership (USP) recently announced the completion of the BID's fourth annual street mural along the pedestrian areas of the 14th Street Busway. Spanning between Broadway and University Place, the new 7,500-square-foot mural was designed by Queens-based visual artist Talisa Almonte; and was selected from over 27 original mural submissions. Titled "**Flowing Together,**" the bright and bold mural abstractly depicts the "flow of people who congregate in Union Square's public spaces." "Organic shapes of diverse colors, representing the constant flow of people passing through Union Square" fill the southern portion of the street mural, "while the northern portion showcases those same shapes joining into a spiral, representing the unification of people for a specific cause." The installation between May 13 and May 17 was completed with the help of community partners, volunteers and sponsors. The 14th Street mural program, which aims to beautify the streetscape, is presented by the BID in partnership with the New York City Department of Transportation Art (NYC DOT Art) program and supported by Street Plans, a Brooklyn-based urban planning and design firm.



Aerial View of 14th Street Mural in Union Square

Sources: https://www.unionsquarenyc.org/unionsquareblog/new-union-square-nyc-street-mural-unveiled-2024-b6cpd

Midtown - View from Williamsburg

News Highlights (cont'd)

NYC's Largest Colleges and Hospitals Should Pay More Property Taxes | May 21, 2024

In 1799, Section 420-A of the Rules of Real Property Tax Administration (RPTL) was enacted in New York State, providing tax exemption of real property owned by certain nonprofit corporations and organizations such as religious, hospital, educational, or charitable based on certain use guidelines at a time when "government played a very limited role in providing services directly to citizens." However, the justification for charitable institution exemptions weakened as governments picked up more of the direct responsibility for funding or providing services, but the model of exempting charities remained firmly in place.

Over the years, the loss in taxes to the city's coffers has continued to increase; and while "many of the more than 200 nonprofits focused on health care and education are small and not well endowed," the study recently released by the New School's Center for New York City Affairs calling for an amendment of the state's constitution to allow the "city's largest nonprofit colleges and hospitals with real estate that has $500 million or more in exempt market value to pay at least some of what could be collected on their sizable holdings." New York would first need to more fairly evaluate the properties held by institutions, which are generally undervalued by 25% according to the study, similarly to other college-packed Northeastern cities such as Boston, Providence, and New Haven.

In defense of the tax exemption, it has commonly been pointed out by some universities that "their well-regard programs yield many intangible upsides such as research and education, that enrich the general public," but in response, the study says, "while the entire region or nation may recoup those benefits, the burden of the foregone tax revenues in only borne locally." Based on Department of Finance data for Fiscal Year 2024, 14 nonprofits would fall within the eligible category. Leading the way is NewYork-Presbyterian and Columbia University with $3.9 billion and $3.6 billion in exempt real estate respectively, followed closely behind by New York University's exempt property market value of more than $3.5 billion.

New York State lawmakers proposed new legislation in December 2023 that would repeal the "tax exempt status of private universities that received real property tax exemptions of $100 million dollars or more during the prior fiscal year," such as Columbia University and New York University which according to a December press release by the New York Times, have "expanded to become among New York City's to 10 largest private property owners;" and saved $327 million on property taxes last year. A response by New York University revealed that the university already pays some $15 million annually in property taxes in addition to contributing to the city's well-being and its economy through employment and a high volume of graduates that stay in the New York City area to work.

However, the passing of any proposals to change the tax breaks given to charitable institutions would "require the approval of two consecutive Legislatures and then passage by a state referendum to change what is "enshrined into law by the New York State constitution" for 200 years.

Sources: https://www.timeout.com/newyork/news/a-new-banksy-museum-is-opening-on-canal-street-this-month-050824

Gov. Hochul Postpones June 30th Launch of First Congestion Pricing Toll in the U.S. | March 27 – June 6, 2024

As part of ongoing efforts by New York City to reduce pollution, it has become the first U.S. city to approve a congestion pricing program to reduce vehicle traffic in its busy urban core. "Under state law approved in 2019, congestion pricing is designed to collect $1 billion in annual tolls that the MTA will bond to $15 billion toward infrastructure upgrades for the city's subway, buses, and commuter rails. Installation of the cameras along the perimeter of the congestion pricing zone was handled by MTA contractor TransCore.

However, in what appears to be a political move due to concerns about the fallout from implementing the tolls, on Wednesday, Governor Hochul "indefinitely postponed" the MTA's estimated $550 million effort that was scheduled to launch on June 30 following a year-long review process by the board of the Metropolitan Transportation Authority (MTA) that culminated in late March by authorizing the final toll structure.

- Most drivers will be charged a $15 daytime toll to enter Manhattan below 60th Street. There is a 75% discount on the tolls between 9 p.m. and 5 a.m. on weekdays, and 9 p.m. Friday through 5 p.m. Sunday, dropping the toll to $3.75.
- Drivers traveling into Manhattan through already-tolled crossings — the Holland, Lincoln, Brooklyn-Battery or Queens-Midtown tunnels — will receive a $5 discount, reducing the fee to $10 during the day. During those overnight hours the $5 tunnel credit won't apply. The credit also does not apply to motorists crossing the George Washington Bridge, which is north of the congestion pricing zone.
- Commercial trucks will be charged between $24 and $36, depending on their size, to encourage commercial drivers to shift their operations to overnight when the fees are cheaper.
- For cabbies, the MTA will add a $1.25 surcharge to the fares of yellow and green cabs, while a charge of $2.50 will be added to trips through rideshare services such as Uber and Lyft. Those fees will be passed onto passengers.

News of the nearing launch of the city's toll program recently reached London, which debuted a similar program back in 2003. According to the op-ed article in Crain's New York, upon London's launch, the congestion charge (or C-charge) had a daily fee of $13 (£8) payable by vehicles entering an area of around eight square miles — roughly the size of the New York scheme. However, unlike the New York scheme, "residents inside the congestion zone receive a discount of 90%, irrespective of their assessed income."

Presently, the C-charge is about $19 during the weekday and weekend hours; and has been "supplemented by the Ultra Low Emission Zone (ULEZ) levy of $16 for older, more polluting cars which is payable across the whole of Greater London" and in addition to the C-charge, with trucks and buses paying more. London's scheme has largely been successful in improving air quality and along with other measures, contributed to a long-term dramatic decline in central London traffic volumes.

Op-ed contributor Alexander Jan shares a few lessons to learn from London's experience:

- Despite initial opposition, the C-charge has gained public support. It is worth persevering!
- It is crucial to ensure the benefits of the charge continue to be felt by those paying it. A big increase in roadwork along with road space that has been reallocated, especially to cyclists, has reduced road capacity in London for everyone else resulting in congestion continuing to remain a significant problem creating a cause of resentment amongst some C-charge payers.
- Continued monitoring is important to allow the charging regime [MTA] to be improved. In London, detailed reports were stopped after six years, making it harder to understand the longer-term impacts of the scheme such as during the COVID pandemic.
- Ensure that other sources of transport funding are not cut. Given anticipated revenues from the Manhattan scheme, there might be a temptation on the part of future state governors to cut MTA resources or move them upstate.

Several pending lawsuits in federal and New York state court remain, hoping to stall or defeat the program. However, should the MTA ask for a bond in the amount of revenues lost due to the deal, judges may require plaintiffs — a mix of municipalities, organizations, and individuals to post a potentially hefty bond that would allow the MTA to recoup lost toll revenue from an order that temporarily blocks the tolls from taking effect, assuming the tolls ultimately pass legal muster." While the judge would have final say on whether to grant or waive a bond, should a temporary restraining order or a longer-term preliminary injunction against the tolls delay the toll program for several months, the bond "could be for hundreds of millions of dollars." The state of New Jersey is among the roster of filed lawsuits. However, included in the final congestion pricing plan submitted by the MTA to the federal government, is an unspecified commitment for allocation of mitigation dollars to New Jersey, "to show that the authority's tolling structure is consistent with the Federal Highway Administration's initial approval last year."

Alexander Jan is chairman of two central London BIDS (Central District Alliance and Hatton Garden) and chief economic advisor to the London Property Alliance. He is former chief economist at Arup, the built environment consultancy.

Sources: https://www.timeout.com/newyork/news/a-new-banksy-museum-is-opening-on-canal-street-this-month-050824

Financial Impact of Congestion Pricing Pause Could Result in Potential $3.2B Wage Loss for MTA Staff | June 6-17, 2024

The possibility of the Metropolitan Transportation Agency's (MTA) board overruling the June 5th decision by Governor Hochul to indefinitely pause the slated June 30th launch of the congestion pricing program, will not happen according to reported public comments by City Planning Director Dan Garodnick. As a member of the MTA board and backer of congestion pricing, Garodnick said, "the MTA board cannot move forward on a program that does not have the necessary support from the state;" and since "the MTA is an implementing agency it follows state law." In the meantime, transit supporters including City Comptroller Brad Lander's Office, the Partnership of New York City, the Natural Resources Defense Council, and the Riders Alliance, among others, are "exploring legal avenues to overrule the governor's deferral of congestion pricing tolls" if not reinstated by the end of June.

However, the issuance of a report late Friday, June 14th by the Federal Highway Administration (FHWA) runs contrary to Hochul's argument that "congestion pricing could stifle the region's post-pandemic recovery." Instead, the FHWA's "Final [environmental assessment] and reevaluation found economic benefits;" noted that "the tolls are not anticipated to result in meaningful change in cost for most consumer goods;" and the program "meets the purpose and need of reducing traffic congestion in the [central business district], while generating revenue for future transportation improvements." The FHWA's 14-page document "clears the way for the MTA to move forward with what's known as a "Value Pricing Pilot Program" agreement," but it requires signatures from "officials with the federal government, the MTA and city and state departments of transportation before the program can launch; and although Governor Hochul "indicated that, for the time being, the state's Transportation Commissioner, Marie Therese Dominguez, will not sign the agreement," it may "bolster legal challenges against Hochul's indefinite pause.

Having been successfully implemented in cities such as London, Singapore, Milan, and Stockholm, the congestion pricing concept that originated with a Nobel-prize winning economist at Columbia University in the 1950s was first legislatively proposed for New York City in 2007, granted approval by Albany in 2019, and after delays and nearly two years of environmental assessment received final federal approval in 2023 according to the June 6 press release by the City of New York Independent Budget Office (IBO). The IBO further stated, "Governor Hochul's announcement to delay congestion pricing just weeks before implementation without any clear [financial] alternatives," has removed "the single source of revenue planned for the MTA's 2020-2024 Capital Program." This "creates a major financial risk to the MTA's ability to modernized and upgrade the largest transit system in North America;" and "without any long-term financial alternative to support crucial improvements for tracks, signals, and cars, will complicate the long-term competitiveness of New York City."

Further concerns arise of damage caused by the program's pause negatively impacting MTA's chances for a credit upgrade, "which could force the agency to pay more as it borrows for critical improvements," according to reported comments by ratings agency S&P Global, while "Moody's described the loss of congestion pricing as "credit negative" for the MTA in a report Friday [June 7th]."

It remains unclear how the MTA will fill the $15 billion hole in its capital budget that now exists, including the potential loss of up to $3.2 billion in wages for the MTA's more than 50,000 employees. It has become necessary for the MTA to "dramatically scale back its [current $54.8 billion] capital program and can't promise riders there won't be service cuts," as well as "deprioritizing accessible subway stations, modern signals, electric buses and other upgrades," now that the expectation of raising $15 billion for capital improvements by selling bonds against the anticipated $1 billion in recurring revenue generated by tolls collected from congestion pricing has been derailed. In addition, if the program is not enacted at a future point, MTA investments made to date for the 6-year contract with TransCore to install, operate and maintain the tolling infrastructure at a total cost of $556 million will potentially need to be written off as bad spending.

Sources: https://www.ibo.nyc.ny.us/pressreleases/press-release-congestion-pricing-gov-announcemnet-june-2024.pdf

Sources: https://www.crainsnewyork.com/transportation/mta-could-lose-billions-wages-without-congestion-pricing

Sources: https://www.crainsnewyork.com/politics-policy/mta-board-revolt-congestion-pricing-shot-down-dan-garodnick

Sources: https://www.crainsnewyork.com/transportation/feds-congestion-pricing-approval-disagrees-hochul

View of Hudson Yards from TriBeCa

News Highlights (cont'd)

Startup Reveals Game Changing Concept to Remove CO2 from the Air | June 9, 2024

Graphyte, a startup backed by Bill gates, has revealed a concept that offers the potential to bring "the pipe dream of carbon capture" one step closer to reality. The company launched in 2023 that focuses on the sequestering of carbon recently announced a new approach to the removal of CO2 from the air. Described as a game changer, in part due to the cost effectiveness of the method compared to other "air capture technologies used in the United States and Iceland," Graphyte claims its method of taking plant waste from timber companies and farmers, drying it, and compressing it into dense carbon blocks to be stored in underground sites will open the door to the storage of a ton of CO2 for around $100 per ton, compared to the cost of $600 to $1,200 per ton of other direct air capture technologies currently being used by simply bypassing the natural step of plant decay. If plans by Graphyte to bury 50,000 tons of carbon dioxide next year using its carbon block storage method are accomplished as planned, it "would make it the largest carbon removal company in the world."

Sources: https://www.thecooldown.com/green-tech/carbon-capture-plant-based-bricks-bill-gates/

MTA Halts Work on Second Avenue Subway Extension Due to Funding Uncertainty | June 19, 2024

The long-anticipated extension of the Second Avenue Subway to Harlem's East 125th Street will now be further delayed due to decisions by the Metropolitan Transportation Authority (MTA) to halt construction, as the agency shifts its focus to only "performing capital work that keeps the system running." The "high-profile project is among nearly 100 transit upgrades relying on $10 billion in federal dollars that the state must locally match — a funding stream in jeopardy after Gov. Kathy Hochul's indefinite pause on the implementation of congestion pricing." Since the MTA was relying on the money that the congestion pricing tolls would have generated to use for the required matching funds to tap into billions in federal funds, it brings a halt to the up to $9.9 billion in funds allocated by the Federal Transit Administration that the MTA would otherwise have been able to tap into, which would have further helped pay for the subway extension and other projects. Kate Slevin, executive vice president of the Regional Plan Association (RPA) reportedly stated, "The loss of congestion pricing has ripple effects beyond just what we know now, in terms of federal aid, construction jobs, air quality and public health. There's just a huge amount of uncertainty around what this means, but what we do know is the magnitude of the problems that are created without congestion pricing revenue."

Sources: https://nyc.streetsblog.org/2024/06/18/work-paused-on-second-avenue-subway-extension-after-congestion-pricing-pause

Upper Manhattan - Morningside Park

News Highlights (cont'd)

Lack of State Support Prompts MTA Board Vote to Pause Congestion Pricing Program | June 21-26, 2024

News reports on Wednesday, June 26th delivered the announced decisions by the Metropolitan Transportation Authority (MTA) Board to "indefinitely pause the implementation of congestion pricing tolls" that were slated to launch on June 30th. The 10-1 vote formalized "an eleventh-hour postponement" of the program by Governor Hochul on June 5th; as well as firmly shutting the door on the "MTA's board possibly attempting to advance congestion pricing against Hochul's wishes," since the reality exists that without the New York State Department of Transportation sign-off, the MTA cannot start implementing congestion pricing. As a result of the postponement and lack of a replacement to the anticipated toll revenue, the MTA must defer $16.5 billion worth of construction projects, including the extension of the Second Avenue Subway to 125th Street in Harlem, "sending the region's contractors into a panic" as the MTA continues to issue stop-work orders. "Carlo Scissura, president and chief executive of the New York Building Congress described the situation as "a frightening moment" for the region's contractors, engineers and architect," many of which had increased staff in anticipation of the contracts awarded, but now may have little choice but to lay off staff. MTA officials once again reiterated that only essential maintenance and upgrades to keep the system functioning will be prioritized.

The announcement comes less than a week following decisions by a New York federal judge to "overwhelmingly" reject "a central argument in lawsuits against congestion pricing tolls, giving proponents of the plan fresh optimism." In the 113-page decision by U.S. District Court Judge Lewis Liman, arguments by plaintiffs requesting an additional environmental review were largely dismissed, the ruling stating that "transit officials conducted an 'exhaustive review process' that resulted in a 'painstaking examination' of congestion pricing and its environmental impacts" — a study that spanned a period of "four years and yielded an administrative record of more than 45,000 pages." However, at least five other lawsuits are working their way through the courts, including what's "widely considered the strongest challenge" filed by New Jersey officials.

Looking beyond pending litigation, a June 10th editorial published in Crain's New York focuses on a greater concern — the leadership failure of Governor Hochul whose "actions suggest a careerist mentality, where the primary goal is to remain in office rather than to serve." The op-ed further comments that "her choice to cater to suburban discontent at the expense of the city's needs shows a disturbing willingness to sacrifice the many for the few," and "has effectively turned her back on more than 98% of city commuters who rely" on the city's transit system. By choosing a "path laid out by public opinion polls, Governor Hochul's "reluctance to stand firm on congestion pricing — which was projected to drastically reduce city congestion, enhance livability, and contribute significantly to global warming — represents a failure to champion transformative change."

Sources: https://www.crainsnewyork.com/transportation/mta-board-votes-pause-congestion-pricing

Sources: https://www.crainsnewyork.com/transportation/federal-judge-backs-mta-congestion-pricing-lawsuits

Sources: https://www.crainsnewyork.com/editorials/hochul-abandons-nycs-future-leadership-failure

Midtown - Grand Central Area

News Highlights (cont'd)

Office Market

HDC Condo Leasehold Deal Opens Door to Real Estate Tax Abatement | April 9, 2024

Relocating to the building in 2022, the New York City Housing Development Corporation (HDC) recently closed on a 30-plus year condominium leasehold deal at the Equitable Building located at 120 Broadway. The roughly $52.695 million transaction for the semi-public agency's 109,000-square-foot space spanning the entire 2nd and 3rd floors within the Lower Manhattan building makes the HDC eligible for the nonprofit real estate tax abatement. Although a complicated transaction from a legal standpoint, that not all buildings have the ability to do, the condominium conversion finalized in November 2023 per city records sweetens the deal for both sides, the HDC benefiting from the tax abatement and the landlord securing a long-term tenant. Back in December 1993 a condominium unit spanning 107,504 square feet across the 5th through 7th floors had been created, but simultaneously to the creation of the HDC unit, it was split into four smaller units ranging in size from 15,697 square feet to 42,928 square feet, perhaps sparked by the current office leasing environment.

Sources: https://commercialobserver.com/2024/04/nyc-housing-development-corporation-pays-120-broadway-commercial-condo-leasehold/

News Highlights (cont'd)

Impact of Tenant Incentive Costs on Profit Margins Becoming More Significant | April 11, 2024

The financial cost of luring tenants to Manhattan's office buildings has come into focus as million of dollars are spent by office landlords on new lobbies and other improvements in the last few years to make their buildings more appealing. The April 10th annual letter to shareholders by Vornado Realty Trust revealed that the real estate investment trust (REIT) "must first commit as much as $300 per square foot divided equally between tenant improvements and free rent" to induce companies to take space at the REIT's buildings, which equates to "more than $40 per square foot over a 10-year lease." According to details within the annual report, as of December 31, 2023, Vornado's Manhattan office properties spanning a combined total of 20.383 million square feet had a 90.7% occupancy rate and weighted average annual escalated rent of $86.30 per square foot. In comparison, occupancy rate and weighted average rent in 2019 were 96.9% and $76.26 per square foot respectively across the Manhattan office portfolio that totaled 20.666 million square feet at the time.

Sources: https://www.crainsnewyork.com/real-estate/vornado-ceo-steven-roth-says-cost-luring-office-tenants-killer

Clothing Brand Signs 338K-sf Relocation Deal | April 30, 2024

American Eagle Outfitters will be moving if offices to Midtown South, having recently signed a 20-year lease for 338,085 square feet at 63 Madison Avenue. The move to the larger footprint from the clothing retailer's current offices at 401 Fifth Avenue will enable its New York-based operations to be housed together. The financial terms of the deal were not released.

Sources: https://www.crainsnewyork.com/real-estate/american-eagle-relocate-nyc-offices-63-madison-ave#/

Landlord Stress Increases as Property Expenses Rise Faster Than Income | May 1, 2024

Elevated interest rates and office build vacancies are "raising the blood pressure of landlords everywhere." The Chief Financial Office of Boston Properties said on a recent earnings call that "interest expense jumped by nearly $30 million last quarter, devouring its almost $15 million increase in rental income and then some." Simultaneously to a rise in costs, occupancy rates within the company's portfolio lowered year-over-year to 88.2% from 88.6% and quarter-over-quarter from 88.4%. Although leasing activity of 900,000 square feet was only slightly below 2023's average of 1 million square feet per quarter, it was unable to offset the higher interest rate costs. Decisions by Boston Properties to "lower its 2024 forecast for funds from operations to about $7.04 a share from $7.10," comes as the nearing expiration of a "cap that limits interest expense on a $1.2 billion term loan is expected to reset 75 basis points higher."

Sources: https://www.crainsnewyork.com/real-estate/higher-interest-rates-take-toll-owner-gm-building

950K-sf Lease Extension Signed by Bloomberg LP | May 6, 2024

Approximately 5-years in advance of 2029 lease expiration, Bloomberg LP has signed a lease extension for its 946,815-square-foot space at 731 Lexington Avenue. News of the 11-year extension that retains the tenant through 2040 comes as a June 2024 refinancing approaches; and although the "signing of the tenant that occupies 98% of the office space should make refinancing much easier, it will likely be at a higher interest rate. The 1.3 million-square-foot mixed-use building that occupies a full city block includes a 105-unit residential condominium component on the top floors known as One Beacon Court and approximately 250,000 square feet of retail at its base. According to the June 2017 news release by property owner Alexander's the $500 million refinancing of the commercial component of the 56-story building was an interest-only loan at LIBOR plus 0.90%, or 1.95%. At the time of the refinancing the REIT realized net proceeds of approximately $188 million after closing costs and repayment of the existing $300 million mortgage due March 2021 that carried an interest rate at LIBOR plus 0.95%. Vornado Realty Trust, which developed, manages, and leases the property, owns a 32.4% stake in Alexander's, a publicly traded company.

Sources: https://www.crainsnewyork.com/real-estate/bloomberg-lp-extends-lease-731-lexington-ave

Sources: https://www.alx-inc.com/news-releases/news-release-details/alexanders-inc-extends-bloomberg-lps-global-headquarters-lease

Midtown West Area

News Highlights (cont'd)

Trade Desk Backfills 126K-SF Vacated by Bain & Co upon Planned 235K-sf Relo | May 12, 2024

The recent completion of $250 million in renovations has paid off at 22 Vanderbilt Avenue. The building, formerly branded the Company Building under the address of 335 Madison Avenue, attracted five new leases totaling 460,000 square feet. Bain & Company's relocation and expansion deal for 235,200 square feet spread across four floors at the tower was the largest amongst the transactions. The management consulting firm's current office is at the Grace Building, located at 1114 Avenue of the Americas; and upon the planned 2026 relocation, California-based technology firm Trade Desk will occupy the 126,000 square feet that Bain & Co. is vacating, having already signed a lease to backfill the space. Trade Desk initially moved to the Grace Building in 2018 after signing a roughly 95,000-square-foot lease, continuing to expand within the building over the years with the latest deal increasing the digital advertising platform's footprint to 155,000 square feet. The remaining four deals at 22 Vanderbilt included separate 80,000-square-foot leases by TD Securities and law firm Duane Morris, a 40,000-square-foot lease by wealth manager AlTi Tiedemann Global, and a 25,000-square-foot lease by global law firm Kennedys. Financial and lease terms of the deals were not released.

Sources: https://nypost.com/2024/05/12/business/22-vanderbilt-draws-in-5-new-leases-with-major-amenity-upgrades/

Sources: https://commercialobserver.com/2024/05/trade-desk-taking-over-bain-companys-126k-sf-at-grace-building/

Chicago Governor Shifts to Pro-Business Steps to Save its Downtown District | May 28, 2024

Although economic trends such as weakening demand for office space, higher interest rates, and difficulty securing refinancing have afflicted the central business districts in many major U.S. cities, "by one measure, Chicago's is the hardest hit." According to reported KBRA Analytics' statistics, "three-quarters of the mortgages backing its [Chicago's] office space that were converted into securities are either in default or are at risk of default — the highest of any major metropolitan area in the nation;" office vacancy increased nearly 37% from early 2020, reaching 16.3% — higher than the 13.8% U.S. average per reported Costar Group data; and "some downtown office buildings have sold for less than one-quarter of what they were valued at a few years ago." A plan for office-to-residential conversions originally proposed by the current governor's predecessor will now move forward under the current administration. As part of the plan, the "city will provide $150 million to property developers to convert four buildings in the heart of the business district to more than 1,000 apartments, as long as about one-third are set aside as affordable units." While pro-business initiatives such as this have become more widespread in other major U.S. cities, "most analysts agree that conversions can fill only a fraction of the 1.17 billion square feet of vacant U.S. office space."

Sources: https://www.wsj.com/real-estate/commercial/chicago-to-offer-most-generous-subsidies-in-u-s-to-save-its-downtown-700a0076

WeWork to Exit Chapter 11 Bankruptcy | May 30, 2024

Approximately six months after filing for Chapter 11 bankruptcy protection in November 2023, WeWork has secured approvals from the bankruptcy court judge of its latest reorganization plan and is expected to emerge from Chapter 11 in mid-June after administrative matters are wrapped up. Having resolved all disputes with "previously objecting parties," including landlords, WeWork's exit plan "would result in the company wiping out more than $4 billion of pre-petition debt in a debt-for-equity restructuring arrangement and cutting about $12 billion, or more than 50%, in future rent expenses." Going forward, the co-working company will have $10 billion in lease obligations; and agreements reached with "stakeholders, including Japan-based investment giant Softbank, an ad-hoc group including asset manager BlackRock, and Cupar Grimmond, an investment arm of WeWork's workplace management software partner Yardi, will enable WeWork to 'tap $50 million in debtor-in-possession financing on an interim basis ahead of its bankruptcy exit," plus "another $400 million at the time of its emergence from bankruptcy."

Additional agreements in the plan will result in "Yardi becoming WeWork's majority owner with a 60% stake, because it's providing most of the new investment, while the ad-hoc group plans to have about a 20% stake," and Softbank's stake will fall to 16.5% unless WeWork taps some undrawn letters of credit from the firm. WeWork will be consolidating its headquarters at 18 West 18th Street, where the entire office component totaling 167,000 square feet had been leased in early 2018 according to reports at the time but will have another office at 71 fifth Avenue. The company is hoping to turn profitable in 2025 with more than 170 wholly controlled locations in operations across the U.S. and Canada — the two countries where its bankruptcy case applies.

Sources: https://product.costar.com/home/news/1658699322

Greater Work-Life Balance and Short Commute a Post-Covid Priority Among New York Workers | June 3, 2024

Since the pandemic, a shift in priorities for a greater work-life balance as made easy access to transit "a stubborn demand of many New York workers," making it the focus among some companies when considering an office relocation. Cited in example was the recent decision by Bain & Company to relocate to 22 Vanderbilt Avenue, which offers direct access to Grand Central Terminal. Although the consulting firm's current location at 1114 Avenue of the Americas was easily accessible to multiple subway lines, the new location will add access to Grand Central's rail lines — MetroNorth as well as the Long Island Rail Road (LIRR) since the 2023 opening of the Grand Central Madison concourse. Adding tenant amenities to attract companies has been the focus of many office building landlords; and although it makes sense to a certain extent, the "quality of the building itself can only matter so much if it is not easy to get to." According to recently released statistics, a comparison of the number of tours companies took of properties during the first half of 2023 and 2022 revealed that office buildings within a five-minute walk to the city's major transit hubs — Grand Central Terminal, Penn Station, Union Square, and Fulton Transit Center, saw 51% more tours than buildings that were 10 minutes or more from them."

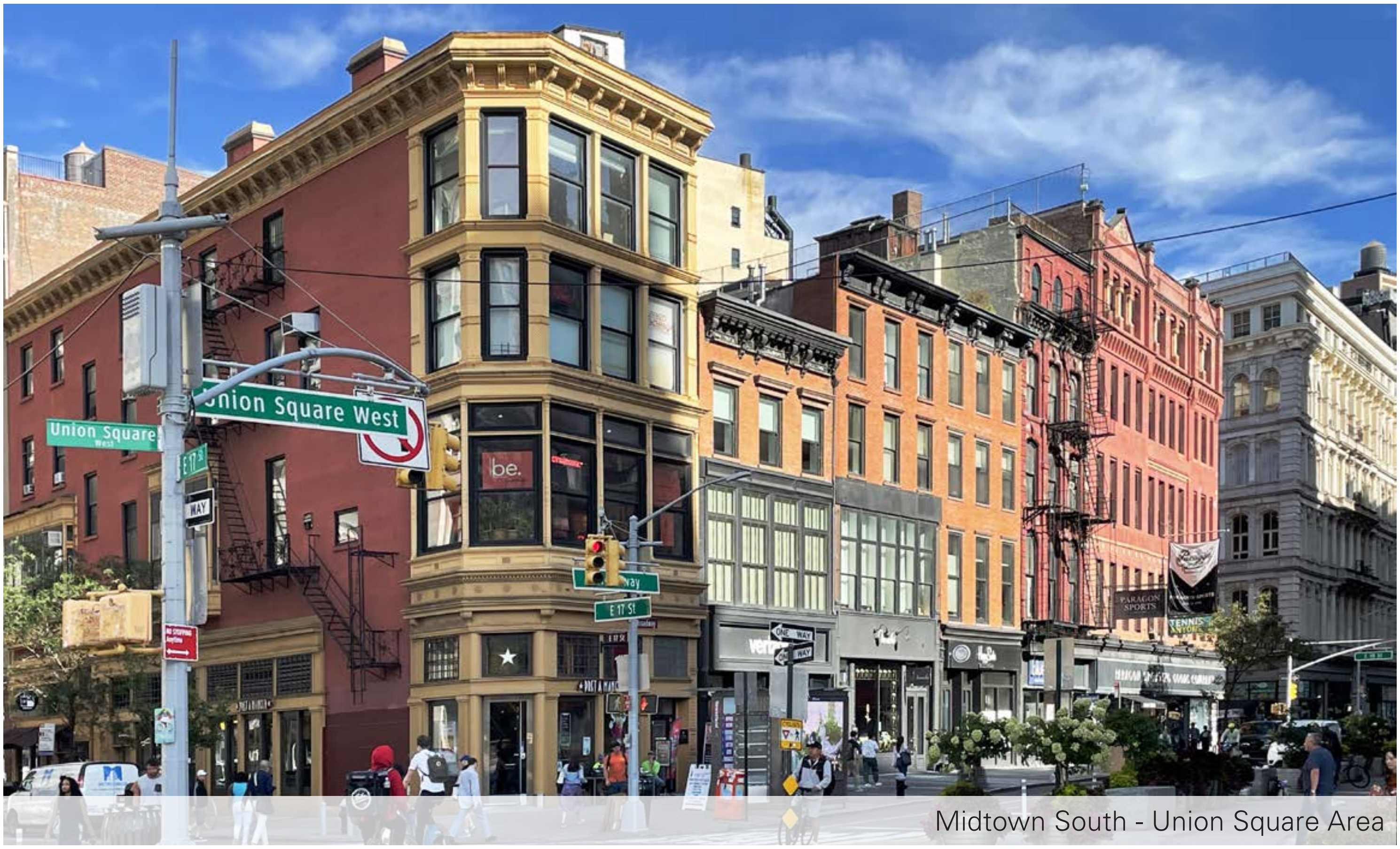
Sources: https://www.crainsnewyork.com/real-estate/office-workers-prioritize-easy-commutes-return-office-push

WBD's Continued Consolidation Leads to 309K-sf of Sublease Deals at 30 Hudson Yards | June 9, 2024

Continued efforts to consolidate operations since WarnerMedia's merger with Discovery in 2022, the newly created public company Warner Bros. Discovery, Inc. (WBD) has subleased roughly 309,000 square feet of its more than 1.182 million-square-foot space at 30 Hudson Yards. The largest of the two deals, which will convert to direct leases with Related Companies at certain points in the future, was signed by Covington & Burling for 235,479 square feet. The recent signing will see the law firm relocate from the New York Times Building, 620 Eighth Avenue where they have been located since 2007. Covington is planning to move from its current office of approximately 193,623 square feet on the entire 39th through 44th floors sometime in 2025.

The second sublease for 73,735 square feet was signed by Susquehanna International Group (SIG). The Pennsylvania-based proprietary trading firm will be relocating from an approximately 52,412-square-foot space spanning the entire 47th and 48th floors at 140 Broadway, which they renewed under a 16-year term in early 2020 at an asking rent in the low $80s per square foot. According to press at the time, the deal included landlord upgrades of the space that SIG had occupied for 10 years. WarnerMedia (formerly Time Warner Inc.) had purchased the Hudson Yards condo unit in June 2018 for roughly $1.426 billion, subsequently selling it to Related Companies and Allianz Real Estate one year later in a sale/leaseback transaction for $2.155 billion. The deal had an initial lease term through June 2034 plus (4) 5-year renewal options for all or certain portions of the unit; and the option to surrender up to 10 floors on the 5th anniversary of the June 14, 2019 lease commencement date.

Sources: https://nypost.com/2024/06/09/business/relateds-hudson-yards-inks-2-major-deals-in-covington-amp-burling-susquehanna-international-group/



Midtown South - Union Square Area

News Highlights (cont’d)

Blackstone’s Park Ave HQ Footprint Increases to 1.06M-SF | June 12, 2024

A recent agreement at 345 Park Avenue will keep Blackstone’s headquarters at the building through 2034. As part of the 6-year extension deal, the money manager will expand by about 250,000 square feet, bringing the company’s total footprint to 1.06 million square feet. A tenant at the building since leasing 70,000 square feet in 1988, continued expansion over the years has established Blackstone as the anchor tenant of the nearly 2 million-square-foot tower. Although not verified, the deal is expected to include efforts by the landlord to “expand and enhance the facilities with amenities such as a fitness center.” The financial terms of the agreement were not disclosed.

Sources: https://www.crainsnewyork.com/real-estate/blackstone-nears-deal-expand-park-avenue-office-space

Space Being Leased by Office Tenants Averaging 14% Less than Before the Pandemic | June 19, 2024

Some recently released national leasing data painted what JPMorgan described as a sobering picture, as a combination of office tenants taking on average 14% less space than before the pandemic and the renewal of more than half of leases signed before 2020 yet to come up for renewal threatening to keep vacancy rates elevated into 2027. Concessions in New York buildings are estimated to be 70% higher than before 2020, typically including free rent of up to 14 months for a large 10 or 15-year lease; and effective rents are down as much as 20% in non-trophy buildings after accounting for tenant improvement and other costs. However, the Manhattan office market is starting to see “a leveling” of concessions as demand for premium space picks up. Other positive signs include in increase in “known tech demand” after shrinking their office footprints in recent years; and in contrast to prepandemic times when the space per employee was tightening, companies are now giving workers more workspace.

Sources: https://www.crainsnewyork.com/real-estate/new-office-leases-average-14-percent-smaller-jpmorgan-says

Midtown South - SoHo

News Highlights (cont'd)

Retail Market

Club Monaco Extends Lease at Scribner Building | May 7, 2024

Club Monaco will remain in its multi-level space at the base of the historic Scribner Building. Acquired by private equity firm Regent L.P. from Ralph Lauren in 2021, the recent lease renewal will see Club Monaco remain at 597 Fifth Avenue "through 2031 at a price of $208 per square foot, according to report information on court records." The high-end casual retailer initially opened the store under a 3-year term in 2019. According to marketing material posted on Costar, the space offers 4,806 square feet on the ground level, 2,214 square feet of mezzanine space, 1,842 square feet on the balcony level, plus 4,003 square feet of lower-level space; and features a "large, grand staircase, 31-foot ceilings, and 53-feet of frontage on 5th Avenue."

Asking rent was $1,000 per square foot for the space located on the corner of East 48th Street according to reports in 2019. As of 2022, Club Monaco was paying $285 per square foot" in contrast to the $436 per square foot to $750 per square foot average asking rent range for available retail space within the seven-block corridor between 42nd and 48th Streets according to REBNY's Fall 2022 Manhattan Retail report. The announcement of Club Monaco's renewal provides much needed stability for the Scribner Building and delivers the first good news for the 67,000-square-foot former headquarters of publisher Charles Scribner, which lost nearly all its tenants since 2020.

As of a January 2024 a news release by The Real Deal indicated that foreclosure proceedings were ongoing, and a workout was still on the table for the outstanding $105 million commercial mortgage-backed security (CMBS) loan backed by both 597 Fifth Avenue and 3 East 48th Street that comes due in June 2024. However, due to unpaid interest and fees total debt encumbering the buildings ballooned to $124 million last year. According to statements within court documents by the building's court-appointed receiver, as part of the latest signing, Club Monaco "agreed to forego free rent but negotiated a $2 million inducement payment in return for agreeing to the seven-year extension. It also agreed to let the landlord terminate the lease in 2028 for a $500,000 fee if the market rebounds." If was further noted that while pop-up retailers expressed some interest in short-term deals, and "potentially longer-term tenants demanded months of free rent and an inducement payment to sign a lease, the strongest offer came from Club Monaco."

Source: https://www.crainsnewyork.com/real-estate/scribner-building-renews-club-monaco-lease

680 Madison Ave Ground Lease Trades at a Discount | May 22, 2024

The ground lease beneath the block-through approximately 31,670-square-foot retail space at the base of the 68-unit Carlton House co-operative building spanning the entire Madison Avenue block-front between East 61st and 62nd Streets recently changed hands. The sale marks Florida-based TZ Capital's first purchase in New York, having acquired the leasehold that commenced in April 1967 and extends through June 2169 for reportedly $180 million. Seller, Thor Equities acquired the leasehold in December 2012 for $262.375 million according to city records, financing the transaction with a $175 million loan from Morgan Stanley; and subsequently in December 2013 a second leasehold mortgage for $21 million originated by Manufacturers and Traders Trust Company was secured.

In 2017 the remaining $185 million in unpaid principal was refinanced by JPMorgan Chase and consolidated with a newly originated $30 million loan. At the time of the refinancing, press released by The Real Deal indicated that Thor was paying $3.45 million in annual ground rent. The retail space is currently occupied by luxury retailers including Italian menswear brand Brioni leased 7,000 square feet on the ground and 2nd floor in May 2015 at an asking rent of $2,000 per square foot; Tom Ford, which leased 12,300 square feet on 2 levels in August 2016 at an asking rent of $2,000 per square foot; Italian fashion house Missoni leased 3,500 square feet in January 2019 under a 15-year term and an asking rent of $1,200 per square foot according to press at the time; and they are joined by high-end eyewear brand Morgenthal Frederics and British jewelry retailer Asprey. In June 2023 Oscar de la Renta signed a lease for 7,697 square feet per Costar; and although not verified may be replacing Bioni upon relocation from nearby 772 Madison Avenue.

Source: https://therealdeal.com/new-york/2024/05/22/joe-sitts-thor-sells-680-madison-retail-to-tz-capital/

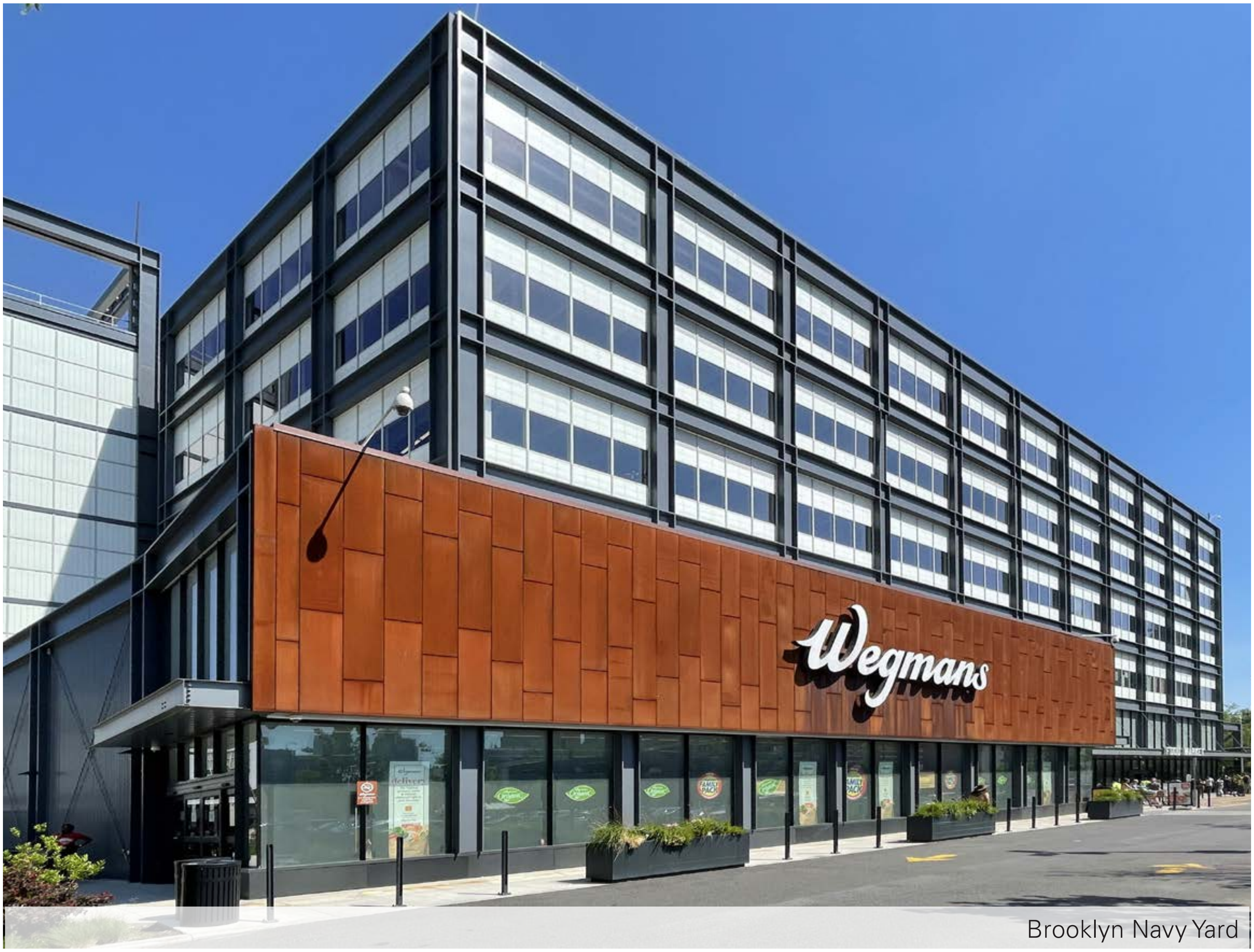
https://therealdeal.com/new-york/2017/08/18/thor-lands-310m-refi-for-madison-ave-retail-condo/

Retailers Take Advantage of Steep Rent Discount Opportunities Along Midtown's 5th Ave | June 11, 2024

Although for some it may only be short term, a few retailers have been able to take advantage of steep rent discounts along Midtown's pricey 5th Avenue shopping corridor. While a few of the larger retailers have been able to purchase the locations of their choice, such as Gucci's $963 million acquisition of 717 Fifth Avenue and Prada's $822 million deal for 720 and 724 Fifth Avenue, "for smaller retailers willing to rent, there are plenty of options" along 5th Avenue between 49th and 60th Streets where the availability rate is 17% and asking rents fell 4% year-over-year and remain 10% lower than in 2019. In 2022, fast-fashion brand Mango struck a sublease deal at 711 Fifth Avenue [between 55th and 56th Streets] with Ralph Lauren at an over 80% discount. According to news reports in 2013 Ralph Lauren leased the space that remained vacant since 2010 following the closure of the World of Disney; and the rent paid by the high-end fashion label for the 38,000-square-foot space spanning the basement, ground, 2nd, and 3rd floors was over $20 million per year, of which Mango subleased 50% under a term that expires in 2029.

Other similar deals cited include the lease for 20,000 square feet at 647 Fifth Avenue [between 51st and 52nd Streets] secured earlier this year by shapewear brand Skims. The rent for the space formerly occupied by Donatella Versace was less than $200 per square foot, representing at least a 75% discount of the $770 per square foot paid by Versace, which vacated in 2018 — four years prior to its lease expiration. The third cited deal is the lease extension secured by Club Monaco at the Charles Scribner's Son Building, 597 Fifth Avenue [between 48th and 49th Streets]. The casual fashion brand leased the approximately 13,000-square-foot space formerly home to Lululemon in 2019 under a 3-year term at an asking rent of $1,000 per square foot; and last month, signed an extension through 2031 at $208 per square foot — a nearly 80% discount. While it is clear the upper Midtown stretch of 5th Avenue, which has been described as "New York's most iconic retail corridor," is where luxury brands want to be, "retailers are using their bargaining power to negotiate rents that would have been unimaginable not long ago."

Source: https://www.crainsnewyork.com/retail/mango-retailers-steep-rent-discounts-fifth-avenue



Brooklyn Navy Yard

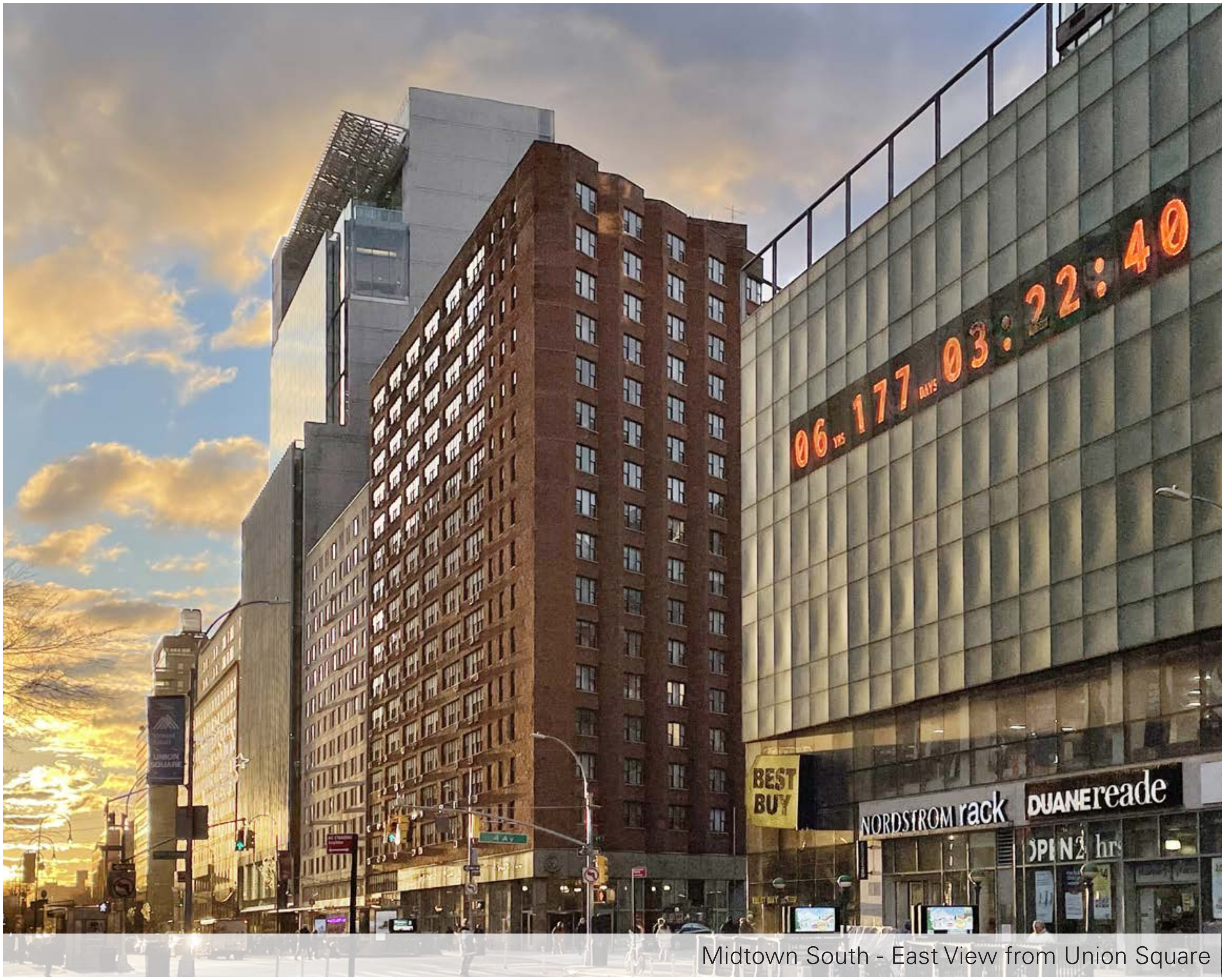
News Highlights (cont'd)

Wegmans Opening a 59K-sf Market in Upper West Side | June 26, 2024

Rochester, NY-based Wegmans will be opening its third New York City location, having secured a long-term deal for the former Bed Bath & Beyond store at the base of the residential building at 1932 Broadway (1920-1932 Broadway with alternate address of 68 West 55th Street) Located within the Lincoln Square section of the Upper West Side, according to marketing material previously linked on Costar, the 58,874-square-foot multi-level space included 2,245 square feet on the ground level, 24,400 square feet in the basement, an 8,777-square-foot mezzanine, and a 23,452-square-foot subcellar, with ceiling heights ranging from 10.5-feet on the mezzanine level to up to 22.5-feet in the subcellar. The recent installation of signage, making the imminent opening official, comes about four months after the deal was signed in February 2024 at a blended asking rent of $3.5 million per year according to reports at the time. Wegmans opened its first New York store in 2019 upon signing a lease in 2015 for 74,000 square feet at the Brooklyn Navy Yard; and in October 2023 opened an 82,000-square-foot store in the former K-Mart space at 770 Broadway by Astor Place.

Source: https://therealdeal.com/new-york/2024/06/26/wegmans-to-open-on-the-upper-west-side

Source: https://nypost.com/2024/02/12/real-estate/will-another-wegmans-location-open-in-manhattan/



Midtown South - East View from Union Square

News Highlights (cont'd)

Investment Sales

Inflation and Interest Rates Among Strongest Factors of Stalled Investment Sales Activity | May 1, 2024

Multiple factors have contributed to a slow start of 2024 investment sales activity, such as persistent remote work causing many office buildings to drop in value, "creating a situation where most office deals would not be financially feasible;" an increased volume of struggling owners undergoing the lengthy process for bankruptcy protection instead of sales; and a "general environment of uncertainty with the upcoming presidential election and multiple wars overseas." Although these have all been contributing factors, the strongest cause of a stalled investment sales market is the persistent high inflation and interest rates. During the 1st quarter of 2024, there was a total dollar volume of about $2.9 billion in sale transaction spread across 392 deals and 442 buildings, representing the second-lowest volume since at least 2015; and about 43% lower in dollar volume year-over-year. The slowdown of investment sales activity will have some impact on the city's tax revenue due to the lowering of property transfer tax and mortgage recording tax collections, which the Independent Budget Office projects will be roughly $1.8 billion in fiscal year 2024 — a 16% decline year-over-year. Yet despite the slow start to the year, many in the real estate industry are "stressing that fundamentals of the New York and national economy both remain strong; as well as the good health of "financial indicators in the city such as rents, jobs and tourism numbers."

Source: https://www.crainsnewyork.com/real-estate/nyc-property-sales-stagnate-first-quarter-2024

Partnership Agrees to Purchase 44th St Building at 67% Discount | June 10, 2024

An agreement to purchase 321 West 44th Street for less than $50 million was recently reported. The pending sale of the roughly 220,000-square-foot Times Square building represents a roughly 67% discount of the $152.5 million paid by a Related Companies affiliate in December 2018. Upon transaction closing, the purchase by Empire Capital Holdings and Namdar Realty Group represents a "short sale, meaning Related and its lenders including Canadian Imperial Bank of Commerce, agreed to sell the property for less than the outstanding amount of the mortgage," which was more than $100 million. The partially block-through property on the border of Hell's Kitchen that sits between 8th and 9th Avenues also has the address of 322-324 West 45th Street; and is comprised of three buildings. Since the 2018 purchase by the Related Cos. Affiliate, the property has changed ownership two prior times within a 6-year period, having been purchased by East End Capital and GreenOak Real Estate in December 2012 for $92.5 million, followed in January 2015 by a $165 million purchase by Unizo (formerly Jowa Holdings).

Currently about 78% leased according to online real estate platform CoStar, recent larger lease signings include the 16-year, roughly 30,000-square-foot renewal by the Broadway Dance Center. News of the sale comes at a time when short sales have become more common in the office sector, citing the similar agreement of the April sale of 1740 Broadway between private equity firm Blackstone and its lender for $185.895 million to Yellowstone Real Estate Investments. At the time of the transaction, the building was encumbered by a $308 million mortgage. "Looming financing maturities and rising costs are starting to push more owners to cut their losses," while banks, "who often don't want to take over managing office buildings, are also incentivized to work with landlords on deals to find buyers for the properties, including short sales."

Source: https://www.crainsnewyork.com/real-estate/times-square-office-related-affiliate-sells-67-percent-discount

Sovereign Partners Acquires Third Ave Tower at 23% Discount | June 21, 2024

Sovereign Partners has agreed to purchase 780 Third Avenue for $178 million, making it the third acquisition by the Sakhai family in just over one year. Seller Clarion Partners had acquired the approximately 510,000-square-foot tower in 2013 for $230 million, the pending trade representing a nearly 23% drop in the property's value. Reported details on marketing material indicates that the building which spans the entire Third Avenue blockfront between East 48th and 49th Streets is about 56% leased. In contrast, former owners TIAA-CREF had paid a reported price of $162 million in 1999, which at the time was considered a "near record price for Third Avenue." According to city records, a $20 million loan encumbers the property, having been provided by Metropolitan Life Insurance in 2013. Other recent acquisitions by Sovereign include the $113 million purchase of Tower 56 at 126 East 56th Street, the forced sale of the 171,571-square-foot building by Pearlmark Real Estate was at a 28% discount of the 2008 price of $158 million; and the $126.5 million purchase of the approximately 206,000-square-foot office portion of 100-104 Fifth Avenue from Clarion Partners, having previously traded for $230 million in 2013.

Source: https://therealdeal.com/new-york/2024/06/20/sovereign-partners-buying-nuveens-780-3rd-avenue-for-178-million/

Agreement Struck to Sell Times Square Tower at 63% loss | June 27, 2024

A letter of intent has been signed by an unidentified party to purchase 9 Times Square for $63.5 million. If the possible sale by American Strategic Investment Co., formerly known as New York City REIT, moves forward per the agreed term sheet, it would represent a nearly 63% discount of the $170,296,170 paid by American Strategic in November 2014. Currently encumbered by a $55 million mortgage originated by Capital One in April 2019, the sale intended to strengthen the firm's balance should produce $13.5 million in net proceeds. According to city records, the 21-story, approximately 160,000-square-foot tower was divided into three condominium units in April 2016, creating a 111,132-square-foot office component, a 16,486-square-foot retail component, and a 1,755-square-foot component for the exterior digital billboard signage.

Source: https://www.crainsnewyork.com/real-estate/american-strategic-investment-sell-9-times-square-loss

Brooklyn Heights

News Highlights (cont'd)

Residential Market

Blackstone to Acquire AIR Communities Portfolio in $10B All Cash Deal | April 8, 2024

A sign of Blackstone's conviction that interest rates will stabilize is the recent announcement of the private equity firm's agreement to acquire Apartment Income REIT. The imminent sale of the REIT known as AIR Communities fetched roughly $10 billion in what will be an all-cash deal by Blackstone fund Blackstone Real Estate Partners X, for the purchase of all the REIT's outstanding shares at $39.12 per share — 25% more than the April 5th closing price in addition to assumed debt. The 76 buildings with more than 27,000 units are located in "markets where multifamily fundamentals are strong" — including Miami, Los Angeles, Boston, and Washington, D.C. Blackstone plans to invest another $400 million in the AIR Communities portfolio to improve and boost growth of what the global co-head of Blackstone Real Estate described as "the highest quality, large scale apartment portfolio" ever acquired by the firm.

Source: https://product.costar.com/home/news/258136028

City Council Gives a Green Light to Phase Two of Willets Point Affordable Housing Development | April 17, 2024

A Queens affordable housing development that "is set to introduce the largest entirely affordable housing project seen in the city in four decades" is advancing to Phase Two, having secured New York City Council approvals on April 11th. Located in the Willets Point neighborhood of the borough, the second phase of construction will added 220 affordable housing units dedicated to low-income seniors to the 880 affordable units that have already commenced construction as part of the project's first phase and expected to be completed by the end of 2026. Upon full construction completion, the project will also deliver more than 150,000 square feet of new public open space, more than 20,000 square feet of retail space, a 250-key hotel, and a 25,000-seat stadium for the New York City Football Club. Originally announced in November 2022, the project is "expected to generate $6 billion in economic impact, creating more than 14,000 construction jobs and over 1,500 permanent jobs over the next 30 years."

Source: https://newyorkyimby.com/2024/04/phase-two-of-willets-point-affordable-housing-development-approved-for-willets-point-queens.html

News Highlights (cont'd)

Governor Hochul's Housing Deal Comes Up Short | April 17, 2024

The proposed housing deal revealed recently by Governor Hochul was not enthusiastically received by advocates on nearly every side of the table, leaving everyone "wondering whether it will actually improve the state's worsening affordability problem." The legislation that is part of a $237 billion state budget includes "a 'good cause' eviction protection favored by progressive lawmakers, in exchange for new developer tax breaks to create housing in the state. It also includes incentives for converting offices into apartments, removal of a zoning restriction and adjustments to regulations on renovating some of the city's one million rent-regulated units once they become vacant. Although as of Monday, April 15th final details were still being worked out, state officials estimated the entire package would spur around 200,000 new housing units over the next decade.

According to a city report, the overall 1.41% net vacancy rate in 2023 for rental apartments in New York City was one of the lowest recorded since the mid-1960's. Revisions to "good-cause" provisions would "restrict increases in monthly rent to 5% plus the rate of inflation, with a maximum of 10% when a lease is renewed. Tenants would have an effective right to a lease renewal, but landlords could push for an eviction if there was nonpayment of rent, if illegal activity was occurring, or if a tenant was causing a significant nuisance." In addition, a form of the tenant protection provisions would be expanded to the unregulated market — newly constructed units would be excluded for 30 years, and the exemption would apply retroactively to units built as early as 2009; units in small owner-occupied buildings are exempted, as are dwellings where the landlord owns 10 or fewer units across an entire portfolio; and units above a certain rent threshold would also be excluded, but the exact level is still being negotiated.

Additional proposed changes in the housing legislation package would raise the amount of the cost for renovations a landlord is able to pass on in rent increases, which is currently $15,000 per the enacted 2019 rent law, to $30,000 for rent-regulated units that become vacant, and $50,000 for units that were occupied for 25 years or longer. The housing package also includes an updated version of the former 421-a tax incentive program, which was revised and rebranded as "Affordable New York Housing Program (ANYHP) in 2017 under the Cuomo administration, but subsequently expired in 2022. Serving as an incentive for the construction of new residential developments, the former program provided a tax abatement to landlords in exchange for a percentage of apartments being designated for affordable housing. According to an analysis of building permits by the Real Estate Board of New York (REBNY), new construction starts for residential projects were cut roughly in half in 2023. The proposed 485-x legislation represents an updated version of the former 421-a program that "would also allow incentives for about 80 projects that started before 421-a expired" and provide incentives for converting commercial office buildings into housing. In addition, it would remove a state density cap on residential buildings, thereby enabling New York City officials to zone for taller structures in new parts of the city.

Source: https://www.wsj.com/real-estate/new-york-is-passing-a-big-housing-deal-everyone-is-grumbling-94519fc2

Source: https://www.thecity.nyc/2024/04/15/hochul-housing-deal-state-budget-good-cause/

Manhattan Sees Uptick in Planned Office-to-Residential Conversions | April 25, 2024

The ongoing critical issue of New York City's lack of affordable housing has gained heightened attention among developers and New York State legislators. Headlines announcing potential plans for office-to-residential conversions have recently increased in number, and likely to be further fueled by the recently passed legislation as part of the state budget the provides tax break incentives to further encourage conversions. Currently the lion's share of potential conversions is for Lower Manhattan properties, the neighborhood having already gone through "one wave of office-to-residential conversions starting in the 1990s."

Since the recent completion of the 565-unit residential condominium conversion at 1 Wall Street by Macklowe Properties, There have been reports of several other potential conversion projects in the neighborhood that are in different stages of planning — 222 Broadway, which was recently acquired for $147.5 million by GFP Real Estate and is seeking a $200 million construction loan; 25 Water Street acquired by Metro Loft Management and GFP Real Estate, the roughly $250.807 million deed in lieu of foreclosure transaction will give way to the development of more than 1,300 housing units; and more recently, Metro Loft will be joining investor David Werner in the planned conversion of the interconnected former Pfizer buildings at 219 and 235 East 42nd Street into a roughly 1,500-unit residential property. Werner acquired the building along with Alexandria Real Estate Equities in 2018 for $370 million; and although not verified, seems likely that Metro Loft will be purchasing Alexandria's stake of a little less than 50% interest.

News reports further indicate Nathan Burman's Metro Loft is also in talks "to join Intervest Capital on a conversion at 111 Wall Street; while David Werner is in contract to acquire 100 Wall Street and Brooklyn-focused developer Bushburg recently entered into contract to purchase 80 Pine Street, and although plans have yet to be announced, both buildings could join the growing roster of conversion sites.

Further helping to fuel the momentum is the new legislation passed by New York State in support of Mayor Eric Adams' estimate last year that office-to-residential conversions could create 20,000 housing units within 10 years. However, the "projection relied on changes by the city and state, including lifting the citywide cap on residential floor area ratio, or FAR, as well as a new tax incentive so more of these costly and complicated projects would pencil out." A snapshot of the terms of the conversation measure as reported by The Real Deal is provided below.

- Twenty-five percent of the new apartments must be affordable at a weighted average of 80 percent of the AMI, including 5 percent at 40 percent of the AMI.
- The length of the benefit ranges from 25 to 35 years, depending on when the application is filed. The exemption, generally, starts at 90 percent off the tax bill in areas of Manhattan south of 96th Street, and at 65 percent outside Manhattan. For any project, the tax break phases out in its final years.

For years, the idea of letting the city control its own residential density failed to gain traction in Albany. The new deal lifts the FAR cap, which had limited residential space to 12 times the lot size.

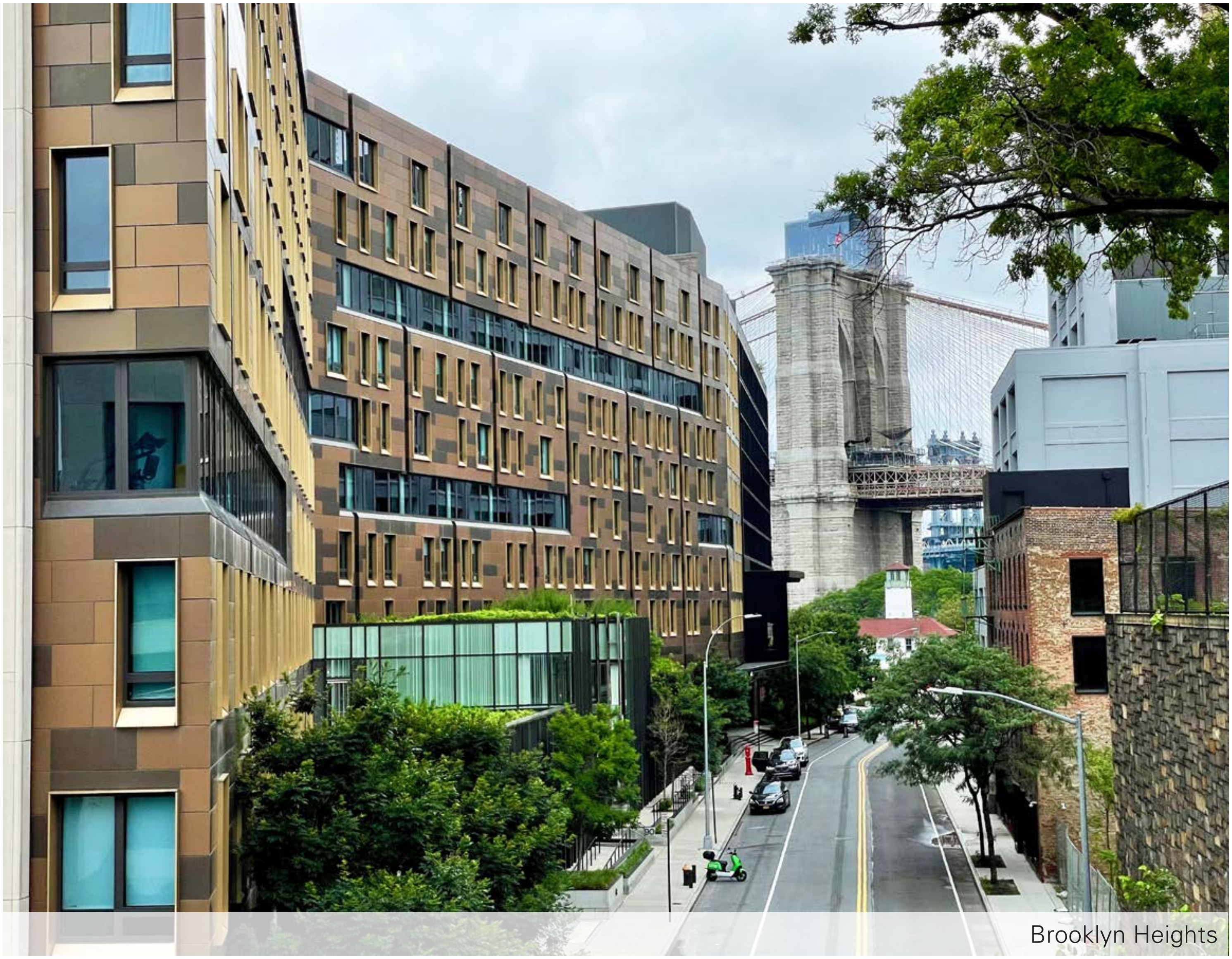
Lifting the cap does not automatically allow larger apartment buildings but allows the city to rezone for them. The Adams administration's proposed City of Yes for Housing Opportunity aims to create two residential districts with a FAR of 15 and 18. In addition:

- Rezoning triggers the city's Mandatory Inclusionary Housing law. The budget specifies that any residential projects that exceed a FAR of 12 must have at least as much affordable housing as is required under that law.
- The budget also bars larger residential projects in historical districts or those that share a lot with a building containing joint living-work quarters for artists — an apparent concession to preservationists in neighborhoods such as Greenwich Village.
- If a developer wants to demolish a residential building to take advantage of the higher FAR, tenants must be offered buyouts worth up to six months of rent, or a new lease in a comparable unit.

Source: https://therealdeal.com/new-york/2024/03/14/metro-loft-plans-largest-office-to-resi-at-pfizer-hq/

https://therealdeal.com/new-york/2024/04/25/bushburg-buying-rudins-80-pine-street-for-160-million/

https://therealdeal.com/new-york/2024/04/20/housing-deal-finally-passes-here-are-the-key-details



Brooklyn Heights

News Highlights (cont'd)

Lower East Side 1,600-unit Affordable Housing Complex Trades for $84.5M | May 3, 2024

L+M Development Partners affiliate L+M Fund Management has acquired the 1,600-unit affordable housing complex known as Knickerbocker Village for $84.5 million, or about $52,813 per unit, from Stellar Management through an RETT/RPTT transaction, however it is unclear how long Stellar had owned the complex that was previously owned by Apollo Global Management until 2007. The 12-building, approximately 1.397 million-square-foot mixed-use complex is located in the Two Bridges section of the Lower East Side and bound by Monroe and Cherry Streets on the north and south and Market and Catherine Streets on the east and west. The executed agreement between the Knickerbocker Village Tenants Association, L+M Fund Management, and the state Division of Housing and Community Renewal, 100% of the rental units will remain permanently affordable; and new residents will be offered rents "at a range of income restrictions with an average of 80% of the area median income." In addition, new ownership plans to invest $55 million towards renovations.

Source: https://www.crainsnewyork.com/real-estate/lm-buys-knickerbocker-village-two-bridges-lower-east-side-85-million

Roster of Planned Office-to-Residential Conversions Increasing | May 14, 2024

An increasing number of office property owners are joining the growing roster of planned office-to-residential conversions. The Greenwich Village building at 5 West 13th Street recently traded for $57.5 million, financed with a $37.5 million loan from Maxim Capital. Although plans have yet to be finalized, new ownership, a partnership of EJS Group and Legion Investment Group are planning to develop a 20- to 30-story luxury condominium tower on the site of the existing 6-story, 110,000-square-foot office building. Located on the border of Union Square, the building was formerly home to New York City's Human Resources Administration for 20-years. A second application filed last week is for the conversion of 623 Fifth Avenue. The 38-story, 499,100-square-foot building that connects to the Saks Fifth Avenue flagship at 611 Fifth Avenue is owned by Cohen Bros. Realty. According to reported details of the filing, the luxury department store will continue to occupy the lower 10 floors of Cohen Bros.' building that is only about 12% occupied, while the upper floors totaling approximately 344,300 square feet would be converted to about 172 2,000-square-foot residential condo units.

Source: https://www.crainsnewyork.com/real-estate/legion-investment-group-scoops-greenwich-village-office-building-57-5-million

Source: https://www.crainsnewyork.com/real-estate/cohen-bros-eyes-saks-fifth-avenue-office-building-housing-conversion

Just 5% of People Earning an Average Salary Can Afford NYC Rents | May 21, 2024

In 2023, median asking rents for apartments in New York City increased 8.6% to $3,475, while average wages in the city rose just 1.2% according to a recently released report by StreetEasy and Tech:NYC. Based on the typically used 40-times the rent calculation, a New Yorker would need to make a gross wage of $139,000 annually, which is about 36% higher than last year's average gross annual wage in the city of $88,347 according to the New York State Department of Labor, meaning that the average wage could afford $2,216 per month without spending more than 30% of the 2023 average annual wage. Overall, less than 5% of rentals on the market in 2023 are affordable based on last year's annual wage average. However, if upfront costs such as the first month's rent, a security deposit, and broker fees that amounted to $10,454 last year, are factored in, it reduces New Yorkers' affordability to 4.4%.

A sample of affordability among occupation groups include Healthcare Support, which can afford just 0.2% of NYC's 2023 rental inventory based on an average annual wage of $39,539; the Life, Physical, and Social Service group with an average annual wage of $98,539 making 8.3% of rental inventory affordable; and the Management group's ability to afford 71.5% based on an average annual wage of $197,088 in 2023. Suggestions offered within the report to begin to help increasing affordability include targeted zoning reforms near public transportation; removing parking requirements for off-street parking at new buildings not located near public transit; increasing investment in public transportation; increasing floor-to-area ratio in Manhattan; strengthening mixed-use zoning districts with new tax incentives; and reforming upfront costs for rentals.

Source: https://static1.squarespace.com/static/6202e16a1f90ed3c88690f1d/t/664c9404cdb56372e43130ec/1716294672344/Affording-an-Apartment-in-NYC-Is-a-Challenge-Even-for-Tech-Workers.pdf

Section 8 Application Portal Reopens after 15 Years | June 4, 2024

According to reports, more than 150,000 applications from New York City households were submitted in a span of 12 hours. The program that currently serves roughly 100,000 city households "has long been at maximum capacity, and the waiting list to receive assistance has been locked since 2009." The reopening to new applicants comes at a time when the city is facing an escalated housing affordability crisis and an apartment vacancy rate of 1.4% last year — the lowest in more than 50 years. Although the city plans to add 200,000 households to the list, there is no guarantee that recipients of the coveted vouchers will find affordable housing since "recipients of Section 8 and other housing vouchers say it's often difficult to find brokers who will assist them in finding a home and landlords who will accept the government assistance."

Source: https://www.crainsnewyork.com/politics-policy/nyc-gets-150k-applications-12-hours-section-8-vouchers


Views of DUMBO and Lower Manhattan from the Manhattan Bridge

News Highlights (cont'd)

Discounted Trade Opens Door to Another Planned Downtown Office-to-Residential Conversion | June 6, 2024

Columbia Property Trust, now a part of Pacific Investment Management Co., has agreed to sell the approximately 235,000-square-foot office building at 101 Franklin Street, (formerly known as 250 Church Street) for $100 million. The pending sale to the partnership of private equity firm TPG, Cannon Hill, and Skylight represents a roughly 51% discount of the $205.5 million that Columbia Property Trust along with Normandy Real Estate Partners paid in December 2019 according to city records. The building that spans the entire Church Street blockfront between Leonard and Franklin Streets formerly served as the home of the New York City Human Resources Administration (HRA) and Department of Social Services (DSS) in 215,622 square feet, but in mid-2017 a 20-year lease was signed to relocate the city agencies to a 193,281-square-foot space at 375 Pearl Street. Since becoming vacant, proposed plans for the building included a 2017 filing for an office-to-residential conversion with 107-units and ground level retail space by the owner at the time; and in 2019 reported intentions of a boutique office space redevelopment. However, neither project moved forward and now for the second time, the latest buyers are planning a conversion to residential use, likely hoping to take advantage of the high apartment rents in Lower Manhattan which reached a median price of $4,100 according the Q1 2024 report by the Downtown Alliance.

Source: https://product.costar.com/home/news/378034240

RFR Holdings Sells 980 Madison Avenue for $560M | June 6, 2024

An entity, reportedly linked to Michael Bloomberg's Bloomberg Family Office, has purchased the approximately 118,635-square-foot building for $560 million. The deal also included the land beneath the 6-story structure that spans the entire Madison Avenue blockfront between East 76th and 77th Streets. The seller, RFR Holdings had acquired the property in 2004 for $126 million and in 2021 Column Financial provided a refinancing and consolidation of $197.6 million in existing debt as well as originating a roughly $51.495 million gap mortgage according to city records. An October 2023 blog post by art organization Artnet, announced that RFR secured a proposed 30-year lease with Bloomberg Philanthropies for 115,824 square feet spanning the 2nd through 6th floors at $185 per square foot, which had been conditionally approved but at the time of the post was still pending approval by RFR's mezzanine lender. As the leases of the existing tenants expired, Bloomberg Philanthropies would take over the space with 70% occupancy expected by the end of 2025. Reports in January by Morningstar Credit indicated that Gagosian Gallery, a tenant since 1987, occupies about 42% of the total office space at $117 per square foot under a lease set to expire in April 2025. The lease with Bloomberg Philanthropies came at an opportune time for RFR, satisfying the company's loan servers to remove from the watchlist late last year the existing CMBS loan that had failed a debt service coverage ratio test in September 2022.

Source: https://therealdeal.com/new-york/2024/06/06/aby-rosen-sells-980-madison-avenue-and-land-for-560m/

https://news.artnet.com/market/a-slew-of-rarefied-art-tenants-including-gagosian-gallery-will-have-to-relocate-after-980-madison-avenue-lease-deal-2369438

Opposition Sparked by City Council's Proposed "Broker Fee Bill" | June 12, 2024

New York city is one of the few places in the U.S. "where renters have to pay for a service provided to landlords." However, a bill proposed in 2023 by City Councilmember Chi Ossé would "require whoever hired a broker to pay for their fees if passed." The proposed Fairness in Apartment Rental Expenses Act (FARE Act), more commonly known as the "Broker Fee Bill" sparked opposition from the Real Estate Board of New York (REBNY), claiming that the legislation "would create a wide range of negative outcomes" such as those noted below in the June 12th press release by the real estate trade association.

- Landlords will increase rents to offset broker fee costs, resulting in immediately higher financial burdens for renters and making a previously one-time fee now amortized each time a renter re-signs a lease.
- Housing access would become even worse, as rent increases spurred by this bill will make meeting income requirements of 40 times the monthly rent harder for many apartment applicants.
- Broker services that renters rely on will become harder to find, as rent-stabilized landlords already suffering from the State's Housing Stability and Tenant Protection Act (HSTPA) and small property owners will not be able to pay agents or offset their costs. This means less online listings with accurate information and quality pictures, in-person showings, support finalizing application paperwork and third-party oversight by experienced professionals trained in fair housing law.
- Hardworking agents will see their livelihoods threatened, as the bill disincentives hiring agents and exclusives, which protect agents from working on listings only to have renters and owners finalize transactions behind their back and not pay them fair compensation.

An interview with a 20-year veteran residential broker published in Curbed on June 5th delivered a more favorable response to the bill. Pointing out that in theory the current practice of the tenant paying a "fee to the broker for arranging the rental transaction on behalf of the landlord" to lease an apartment is "completely opposite to anything else done in real estate," but since the practice has permeated New York City for decades, it has just become the accepted norm. The possibility exists that the passage of the bill could "actually make the system work better for everyone," citing in example a change to the relationship between a broker and a landlord which is generally a more informal open listing that in some instances results in less broker accountability than if the broker was exclusively retained.

There further exists the belief that the bill's requirement for landlords to pay the broker commission if they are the ones hiring them would practically result in no change for brokers, particularly among the larger multifamily property owners since they typically "do not want to deal with the general public to lease." However, in the example of smaller property owners, while it is possible that market rate owners will continue to hire brokers to take advantage of their expertise, those in opposition of the "Broker Fee Bill" have a justified concern regarding smaller rent-stabilized landlords that must adhere to tighter rent regulations that make it more difficult to offset the broker fee costs; and while it is true that the cost of the fee will be offset onto the tenant in the form of a rent increase, it would most probably not be any more than an added charge for increases in taxes, insurance, or heat costs – citing the current industry practice of large multifamily property owners offering no-fee apartments already making broker fees they pay part of rent cost – the proposed bill would just add greater transparency at this point.

Source: https://www.rebny.com/press-release/1-500-agents-rally-at-city-hall-to-oppose-broker-fee-bill/

Source: https://www.curbed.com/2024/06/chi-osse-broker-bill-interview.html

View of Brooklyn Bridge from East River Esplanade

News Highlights (cont'd)

Development

Plans for 62-Story Office Tower Advance Bolstering Midtown Manhattan's Resurgence | April 16, 2024

56 West 125th Street - Rendering

The long-talked about plans for major office development at 350 Park Avenue are finally advancing following the green light from the New York City Department of Planning. Vornado Realty Trust and Rudin Management, along with Citadel CEO Ken Griffin will be constructing the 1.8 million-square-foot tower that is expected to begin New York City's Uniform Land Use Review Procedure (ULURP) public review process in early 2025. The tower will reach a linear height of 1,600 feet, and as part of the project, will include a new 12,500-square-foot public concourse and more than $35.8 million will be contributed to the city's East Midtown Public Realm Improvement Fund. Over $240 million in total air rights purchases have been spent, the developers acquiring 250,000 square feet from St. Bartholomew's Church and 525,000 square feet over St. Patrick's Cathedral from the Roman Catholic Archdiocese of New York, of which a combined total of $150 million will be for the upkeep of both historic landmarks. The advancement of the project is notable in that not only will it further strengthen the city's economic recovery, but it also serves as a sign of continued confidence in the future of the office market. Citadel and Citadel Securities will serve as anchor tenants in at least 850,000 square feet, with a current workforce of 2,100 people.

Source: https://www.nyc.gov/office-of-the-mayor/news/279-24/mayor-adams-new-details-skyline-shaping-office-tower-bolsters-ongoing-resurgence-of

https://newyorkyimby.com/2024/04/updated-design-revealed-for-350-park-avenue-supertall-in-midtown-east-manhattan.html

Plans Revealed for All-Electric Biomedical Research Building in Washington Heights | April 24, 2024


Biomedical Building - Rendering

An 8-story development planned to house biomedical research and lab facilities has been revealed by Columbia University. The site within the university's medical campus is located at the corner of 167th Street and Audubon Avenue in Upper Manhattan's Washington Heights neighborhood. Among several environmentally sustainable features that are "set to outperform emission limits set by New York City's Local Law 97 and support Columbia's Plan 2030 greenhouse gas reduction goals, designs for the new facility incorporate an "all-electric design, including air source heat pumps and air-side energy recovery systems working together to reduce total energy needed to condition the building." The project that is a "first-of-its-kind electric research laboratory in New York City" also integrates organic elements such as green walls and natural, renewable materials in collaboration spaces. Expected to break ground this summer, the project is partially funded by a Regional Economic Development Grant from the New York State Energy Research and Development Authority that supports low-carbon developments in underserved neighborhoods.

Source: https://newyorkyimby.com/2024/04/new-designs-revealed-for-new-biomedical-research-building-at-columbia-university-in-washington-heights-manhattan.html

Financial Feasibility Falls Short for Williamsburg Development under Albany's New 485-x Incentive Program | May 2, 2024


River Ring - Rendering

Proposed plans to construct a two-tower mixed-use development along Williamsburg's waterfront will likely never become a reality due to some of the provisions of the newly passed 485-x incentive program by New York State legislators. The $1 billion project dubbed "**River Ring**" was envisioned for the four-acre site that currently serves as a truck parking lot. The project as proposed would add 1,050 rental housing units to the neighborhood, of which 263-units would be designated permanently affordable, as well as a 3-acre public park, $100 million to fund new resilient-infrastructure features, and a 50,000-square-foot YMCA facility. However, due to some provisions within the state incentive program, the project is no longer financially feasible. While the required percentage of affordable units is similar to the former 421-a program, it significantly lowers the income level for eligibility from "130% of so-called 'area median income' in the past to between 60% and 80%," thereby significantly lowering the rental income from the apartments since "permissible affordable rents are based on those incomes." Further impacting the bottom line is the provision that raises construction costs in much of Manhattan and desirable sections of Brooklyn by mandating "certain wages that are consistently higher than in the past, whether union or non-union labor." At a time when interest rates are high, it is anticipated that the 485-x program will not incentivize the new housing development it was intended to spark.

Source: https://nypost.com/2024/05/02/opinion/albanys-flawed-new-housing-tax-break-just-killed-a-magnificent-brooklyn-project/

Agreement Announced that will Enable Redevelopment of 122-Acre Brooklyn Marine Terminal | May 14, 2024

Rendering of Brooklyn Marine Terminal Site, via NYC Mayor's Office YouTube channel
Aerial View of Site

The New York City Economic Development Corp. (NYCEDC), along with Mayor Adams, Governor Hochul, the Port Authority of New York and New Jersey, recently announced an agreement in principle that will open the door to a redevelopment of the 122-acre Brooklyn Marine Development into a "modern maritime port and vibrant mixed-use community hub." Located along the Red Hook waterfront, an initial investment of $95 million will be made jointly by the city and the state. Additionally, grant applications have been submitted by the city for over $350 million in federal funds from the U.S. Environmental Protection Agency and the U.S. Department of Transportation. According to a statement by Mayor Adams, the project has the "potential to create thousands of new jobs, generate billions in economic impact, and build a vibrant mixed-use neighborhood and modern maritime port focused on getting trucks off the roads." A task force will be assembled by the city to "engage stakeholders and develop a shared vision for the facility's new amenities that will be added as a result of the project."

Source: https://edc.nyc/press-release/city-announces-investments-to-transform-and-modernize-brooklyn-marine-terminal


Midtown South - Washington Square Park

News Highlights (cont'd)

New Life Science and Public Health Hub Coming to Kips Bay | May 18, 2024


SPARC - Rendering

A 2 million-square-foot development dedicated to the public health, life sciences, and healthcare sectors will be constructed on the Hunter College Brookdale campus at First Avenue and East 25th Street according to the recent announcement by the New York City Economic Development Corp. (NYCEDC). Dubbed **Science Park and Research Campus** (SPARC), the project will also include a pedestrian bridge across FDR Drive to access Manhattan's east waterfront, a new public space in the area, and the addition of flood-proofing infrastructure. An estimated $42 million in economic impact over 30 years is expected to be generated following construction completion in 2031. The architectural team of Ennead Architects and Dattner Architects have been selected to design the new hub. SPARC will rise on a portion of the site that spans a full 4.75-acre block; and currently includes the Hunter College School of Nursing, School of Health Professions, and dorms. However, since built in 1954, the campus has become antiquated with aging buildings and infrastructure that no longer adequately supports CUNY's educational efforts. The redevelopment of the site provides a unique opportunity to build new facilities for CUNY, while also supporting critical services for H+H, the office of Chief Medical Examiner (OCME), and New York City Public Schools (NYCPS).

Source: https://newyorkyimby.com/2024/05/design-team-unveiled-for-sparc-life-science-and-public-health-innovation-hub-in-kips-bay-manhattan.html

Renderings of Reimagined Port Authority Bus Terminal Released | May 30, 2024

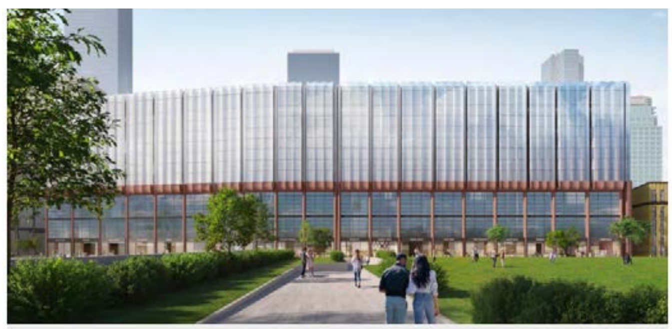
New proposed renderings of the planned redevelopment of the 73-year-old Port Authority Bus Terminal on Manhattan's west side were presented this week by the New York City Department of Planning's transportation policy and analytics division. Hoping to take advantage of the "once in a lifetime opportunity to reinvent one of the major front doors of New York City," the new larger facility will be bright and offer a modern travel hub that will include ground floor retail and a neighboring park. In 2019, on a typical weekday the bus terminal served an estimated 260,000 passengers on 7,800 buses but PANYNJ officials project that the figure could rise to 337,000 weekday travelers by 2040.

Although designs have yet to be finalized or formerly begin the city's public review process — Uniform Land Use Review Procedure (ULURP), as well as secure both federal and city approvals, the latest proposal calls for five operational bus floors able to accommodate up to 350 buses, up from the current 50; street-facing retail; and roughly 3.5 acres of public green space on decking constructed over the currently below-street level Dyer Avenue cut and building open space atop. It is estimated that the new ramps, park space and storage facility could be completed by 2028, followed by completion of the main terminal building by 2032.

A portion of the financing for the $10 billion proposal will come from the commitment of $2 billion in property tax revenue that the Port Authority of New York and New Jersey (PANYNJ) and city administration agreed upon back in March. Pinning its hopes on the recovery of Manhattan's office market, the PANYNJ anticipates additional revenue to support the project's construction will be generated from two proposed commercial towers to be constructed atop the main terminal, plus a third office tower that would be built on land bound by West 30th and 31st Street and 9th and 10th Avenues.

Courtesy of the Department of City Planning

A rendering of a modernized Midtown bus terminal on 40th Street looking east.



Courtesy of the Department of City Planning

Port Authority officials aim to build a public park over existing traffic lanes on Dyer Avenue.

Port Authority Bus Terminal - Renderings

Source: https://www.crainsnewyork.com/transportation/port-authority-bus-terminal-revamp-sneak-peek

Interest in Office-to-Residential Conversions Continues to Escalate in NYC | May 22 – June 24, 2024

Since New York City's launch of its Office Conversion Accelerator Program last year, it has attracted the interest of the owners of 64 NYC office buildings according to new data from the Department of City Planning's office. The program that is "supposed to serve as a one-stop shop to help building owners navigate the complex rules and building codes by connecting them with representatives from various city agencies" has been further incentivized by the June 7th implementation of the Affordable Housing from Commercial Conversions Tax Incentive Benefits (AHCC) program. Although there are no geographic restrictions as to where within the five boroughs a conversion can happen, the "tax benefits will be greater for those in the Manhattan prime development area, which is any tax lot in the borough below 96th Street." Among the owners that have contacted the city's Office Conversion Accelerator Program, four buildings have successfully completed or launched construction creating a total of about 2,100 new housing units; and permits have been received to begin renovations at 650 First Avenue and 980 Sixth Avenue.

Although not participating the city's incentive program, the conversion of the pair of former Pfizer buildings at 219 East 42nd Street and 235 East 42nd Street is expected to get underway this summer by the partnership of Metro Loft and David Werner Real Estate, adding more than 1,500 housing units in Manhattan, with lease signings at the 100% market-rate rental conversion anticipated to start in 2026 and move-ins in 2027. Currently offering a combined total of approximately 973,000 square feet, the pair of vacant buildings come with unused air rights that will be used to add new floors.

Source: https://gothamist.com/news/64-office-buildings-in-nyc-could-become-new-housing

Source: https://www.nyc.gov/site/hpd/services-and-information/tax-incentives-467-m.page


Downtown - View of Hudson Yards from Tribeca

News Highlights (cont'd)

Lending

Empty Office Space Continues to Remain an Area of Bank Stress | April 4, 2024

Although not the level of bank stress experience when Silicon Valley Bank and Signature Bank collapsed last year, Federal Reserve officials said that there remain "pockets of risks in the system," and although the "overall banking system was 'sound and resilient,' empty office space remains an area of stress." It is anticipated that "bad commercial real estate loans will probably lead to some bank failures, though they don't pose a risk to the financial system." Paralleling the situation to a "very slow-moving train," the Fed remains focused on "lenders that have exposure to office space in areas where significant price declines are expected," adding that "refinancing deals will play out in the next few years."

Sources: https://www.crainsnewyork.com/real-estate/banks-will-continue-commercial-real-estate-stress-feds-michael-barr-says

Rising CPI and Other Inflationary Concerns Could Push Interest Rates Higher | April 9, 2024

Labor Statistics' (BLS) latest news release. The all-items index increased to 3.5% before seasonal adjustment, reversing for the second consecutive month the lowering of inflation in January 2024 to 3.1% from 3.4% in December 2023. In addition to what seems to be inflation's somewhat roller coaster path, several longer-term inflationary concerns could push interest rates higher according to JPMorgan Chase CEO Jamie Dimon. The Federal Reserve's 2% target for inflation is proving elusive and even if their goal is reached, increased "military spending as global conflicts intensify, the fiscal spending needed to transition to a green economy, and rising healthcare costs" adds uncertainty about the Fed starting to lower borrowing costs. According to CME's FedWatch tool, "the market is pricing in a 51% chance" of June bringing the first rate cut, even though "the probability of a cut by July is slipping — currently at 70%, down from 92% a month ago."

Sources: https://www.barrons.com/articles/what-to-know-today-37f30f22

$1.7B Refinancing Secured by 280 Park Avenue Owners | April 17, 2024

An agreement to lower the debt burden in addition to an existing tenant agreeing to double its footprint helped open the door to the $1.075 billion refinancing of 280 Park Avenue. The lenders providing the new mortgage were not disclosed, but the "loan matures in 2026, with a potential two-year extension." As part of the deal, the building's owners, SL Green Realty and Vornado Realty Trust paid off a "$125 million mezzanine loan for just $62.5 million" to lower the debt burden. Preceding the refinancing, PJT Partners renewed its existing 140,000-square-foot space in December, and according to reports at the time, simultaneously converted its 80,000-square-foot sublease to a 130,000-square-foot direct lease to bring the company's total footprint to roughly 270,000 square feet, which helped relieve some of the vacancy pressure due to several large tenants that moved out of the building in the past year."

Sources: https://www.crainsnewyork.com/real-estate/sl-green-vornado-refinance-280-park-aves-mortgage-pay-down-debt

U.S. Office Buildings Threatened by Defaults Reaches More Than $38B | April 30, 2024

Continued weak office space demand and high interest rates with no promise of a nearing rate reduction due to persistent high inflation has pushed the value of U.S. office buildings threatened by defaults, foreclosures, or other forms of distress to more than $38 billion according to reported data from MSCI. The dollar volume is the highest amount since the 4th quarter of 2012 in the aftermath of the 2008-2009 financial crisis. In contrast to 2021 when more than 90% of office loans that were converted to commercial mortgage-backed securities (CMBS) were paid off at maturity, in 2023, the percentage lowered sharply to 35% — the worst payoff rate in the history of Moody's data, which goes back to 2007. Interest rates have become particularly problematic since most of the mortgages nearing maturity were made when interest rates more much lower; and although many landlords would be able to pay the higher rate in a normal office market, the current high level of office vacancy has significantly impacted properties' cash flow. Moody's projects that 73% of the $18 billion of CMBS loans maturing in the next 12 months will be difficult to refinance because of property's income, debt levels, vacancy, and approaching lease expirations; and due to high exposure to commercial property, regional banks have been reporting high net charge-offs in recent weeks. It has been further noted that a new breed of investors is stepping in to take advantage of the eye-catching discounts on office building prices, creating a shift in who owns property in the country's business districts as major institutional investors such as Blackstone and Brookfield Asset Management hand high-profile properties back to lenders.

Sources: https://www.wsj.com/real-estate/commercial/office-buildings-past-due-loans-record-51a373a6

Fed Maintains Interest Rate Amid Lackluster Inflation Progress | May 1, 2024

Inflation's strong hold has prompted decisions by the Federal Open Market Committee (FOMC) to maintain the benchmark interest rate at a range of 5-1/4 to 5-1/2 percent for the sixth consecutive time as hopes of a rate reduction begin to fade, the Fed noting that it "will likely take 'longer than expected' to gain the level of confidence on inflation's trajectory needed to lower interest rates." The FOMC will continue to reduce its holdings of Treasury securities, agency debt, and agency mortgage-backed securities beginning in June, but the pace of decline will be slowed by reducing the monthly redemption cap on Treasury securities from $60 billion to $25 billion, while maintaining the $35 billion monthly redemption cap on the other two holdings. Although inflation cooled rapidly in the final months of 2023, there has been a lack of further progress in 2024 towards achieving the Fed's 2% inflation goal. "Meantime, the economy continues to expand on the back of a strong labor market and steady consumption and investment."

Sources: https://www.crainsnewyork.com/economy/fed-cites-lack-progress-inflation-holds-rates-steady

Wall Street Building Refi Comes with Steep Interest Rate Increase | May 2, 2024

Paramount Group and Singapore sovereign wealth fund GIC have secured refinancing for 60 Wall Street's $575 million mortgage. News of the deal comes as work gets underway for a major $250 million redevelopment and renovation of the 47-story, 1.6 million-square-foot tower that has been vacant since 2021 upon full building tenant Deutsche Bank relocating to 60 Columbus Circle. Located within Lower Manhattan's Financial District, a high office vacancy in the area resulted in the new mortgage carrying an elevated interest rate due to an elevated risk level. It is unclear which lenders originated the revised 5-year mortgage, but German lender Aareal Capital wrote the previous loan in 2017. The larger $316 million slice of the revised mortgage has a floating rate interest of 7.8%, while the remaining $259 million slice carries a 12% interest rate and is "a payment-in-kind loan (PIK), meaning if the landlords choose not to make monthly payments, then the unpaid obligation is added to the balance of the loan," creating increased risk since "they allow borrowers to add more debt to their balance sheets and avoid paying their interest obligations in the short term."

Sources: https://www.crainsnewyork.com/real-estate/paramount-group-lands-new-mortgage-60-wall-st-redevelopment#/

Midtown - Hell's Kitchen

News Highlights (cont'd)

Rising Consumer Use of Installment Plan Platforms Masks Household Financial Health | May 14, 2024

Although the concept of "Buy Now, Pay Later" (BNPL) has been around for many years, the "option to pay in installments using short-term loans" exploded during the pandemic. Since 2020, the BNPL market has grown each year and is projected to reach almost $700 billion globally by 2028. The concept has grown particularly popular among "younger, digitally savvy consumers who gravitated to the services as an alternative to credit cards." U.S. consumer spending has been "resilient in the face of stubbornly high inflation," but the lack of disclosure by BNPL platforms is "masking a complete picture of the financial health of American households at a time when cracks are starting to form. Initial signs began to surface when Americans began falling behind on auto loans, then "credit-card delinquency rates reached the highest since at least 2012, with the share of 30, 60, and 90 days late all on the upswing." More recently there have been increasing signs that consumers are struggling to afford their BNPL debt, too. Results from the recent Bloomberg-Harris Poll revealed that among the respondents, 54% of BNPL users said they spent more than they could afford, while 24% said their spending was out of control; and among middle-class households with income of more than $100,000, 42% reported being behind or delinquent on BNPL payments.

The BNPL industry has argued that "soft-credit checks' — when a lender runs a consumer's credit history without affecting their score — expand credit access to those underserved by traditional lenders, while zero-interest provides a better deal than many credit cards. However, the Consumer Financial Protection Bureau (CFPB) has "flagged risks to consumers, including surprise late fees and 'hidden interest,' while also expressing concern about "loan stacking,' when individuals take out several BNPL loans at once with different providers." Efforts to regulate the industry currently remain at a stalemate since "BNPL behemoths say credit agencies can't handle their information — and that releasing it could harm customers' credit scores, which are key to securing mortgages and other loans." Apple became the first major BNPL provider to furnish transaction and payment data earlier this year to Experian of its Apply Pay Later transactions, but the information won't be used for consumer credit scores. In the meantime, the continued lack of transparency "has researchers at the Federal Reserve Bank of New York, which publishes a comprehensive quarterly report on the $17.5 trillion in household debt, convinced they're missing some of what's happening in the economy."

Sources: https://www.crainsnewyork.com/banking-finance/affirm-klarna-buy-now-pay-later-loans-fuel-phantom-debt-growth

Manhattan Office Landlords Expected to Face a Spike in Interest Expense | May 15, 2024

High hopes of a nearing interest rate cut in early 2024 by the Federal Reserve have faded, leaving Manhattan office landlords without any relief of the pressure caused by persistently weak demand for space. The situation has led to a deterioration of fundamentals, prompting money managers to "slash their real estate exposure." Typically borrowing costs are a landlord's biggest cash expense, but the current lending landscape will see owners facing double-digit increases in borrowing costs. According to forecasts by macro and fundamental research firm Evercore ISI, the interest rate expense in 2025 for two of Manhattan's largest landlords, SL Green Realty and Vornado Realty Trust, will increase by 17% and 15% respectively, with "higher borrowing costs expected to take a more than $50 million bite out of earnings at both Manhattan office owners." The continued high prevailing interest rate has also created challenges for landlords with floating-rate loans as cited in the example of 731 Lexington Avenue which recently headed to special servicing. Building owner Alexander's, which is partially owned by Vornado, received a rejection by the special servicer of its proposal to pay down $25 million of the $500 million CMBS loan maturing in June 2024 in exchange for a four-year extension. Despite reporting "stable rent collections throughout the pandemic," and the recent commitment by Bloomberg LP to extend its lease through 2040 for its office space which spans 99% of the building, increased pressure on the building's cash flow has been caused by growing payments on its floating-rate loan due to an increase in the interest rate from 1.4% to 6.2% in the last two years. As a result, Fitch Ratings "lowered its outlook on the 731 Lex debt to negative, noting 'the possibility of a downgrade in the event the borrower and services are unable to agree upon extension terms."

Sources: https://www.crainsnewyork.com/real-estate/manhattan-office-landlords-face-steep-increases-borrowing-costs

https://therealdeal.com/new-york/2024/05/16/731-lex-loan-heads-to-special-servicing-despite-bloomberg-lease-extension/

Multiple Park Avenue Towers Hit KBRA's Watch Downgrade List | May 15, 2024

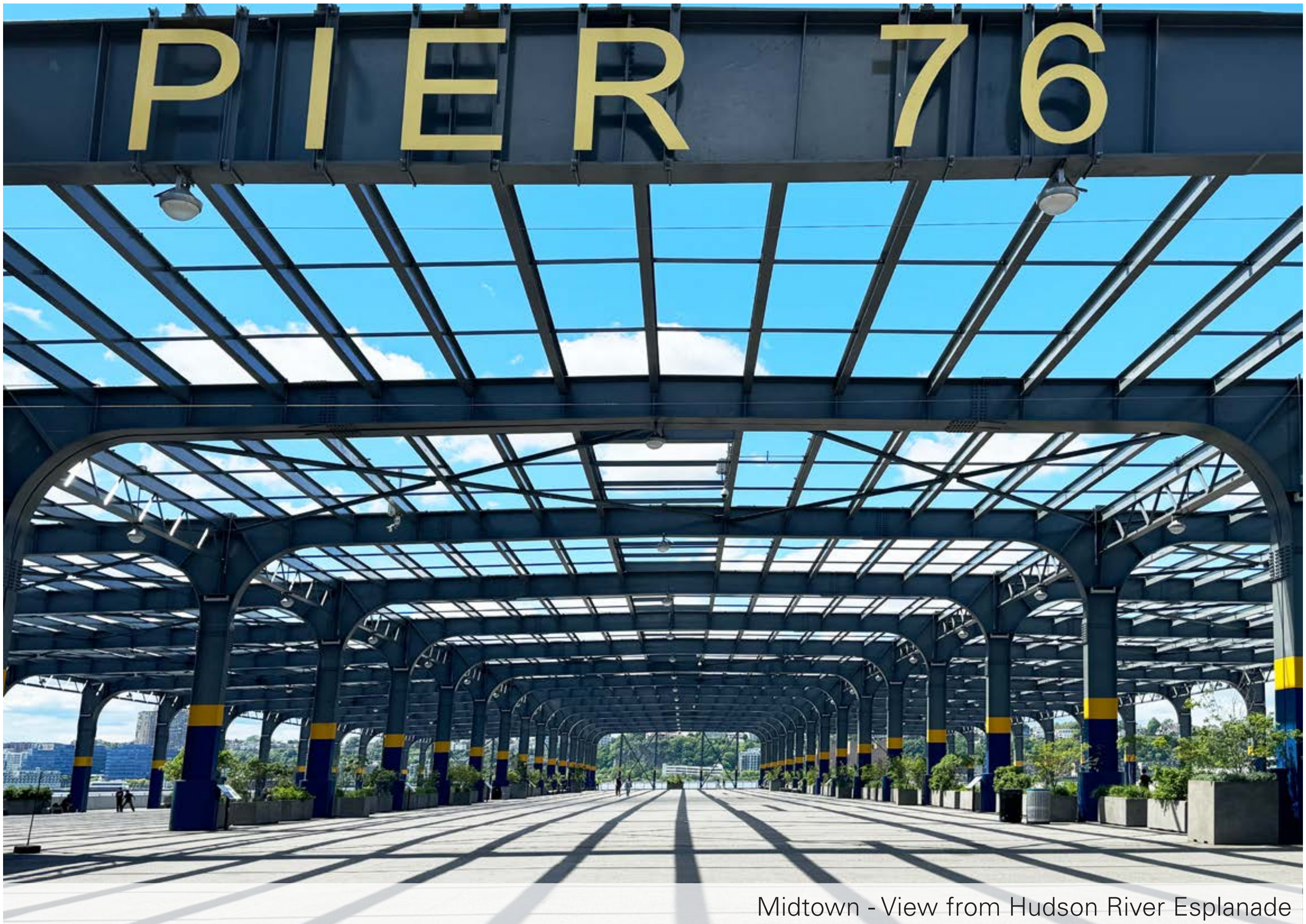
Kroll Bond Rating Agency (KBRA) recently added 12 commercial mortgage-backed securities (CMBS) single-borrower (SB) office transactions to its Watch Downgrade list "due to the potential impact of ongoing deterioration in the office sector amid weaker office fundamentals. Effective rents continue to remain under pressure with the generous concessions that many landlords are forced to offer to retain or attract tenants reaching over 25% as a share of lease term in Manhattan – representing a 67% increase of the just over 15% share in 2015. Among the list are 8 Manhattan trophy towers; and 280 Park Avenue tops the list with a $1.075 billion floating-rate loan maturing September 9, 2028. The other 7 Manhattan loans range from the $760 million loan encumbering the Olympic Tower at 645 Fifth Avenue to a low of $273.5 million loan at 51 Astor Place. All the underlying loans under watch have maturities between August 2024 and September 2028 "and are more susceptible to defaulting on loan payments and/or refinancing challenges if their sponsors do not infuse equity into the loans."

Sources: https://www.kbra.com/publications/fSZhwGFx/kbra-places-50-ratings-across-12-single-borrower-office-transactions-on-watch-downgrade?format=file

Rising Consumer Delinquencies Spark Heightened Economic Concerns | May 28, 2024

Recently published consumer delinquency rates by the Federal Reserve deliver some indicators that potentially signal more significant economic issues down the road. During the 1st quarter of 2024, aggregate delinquency rates increased, "with 3.2% of outstanding debt in some stage of delinquency as of the end of March," marking a notable rise in financial distress among consumers. The Fed's data further "indicates that transition rates into delinquency have surged across all debt categories." Credit card balances and auto loans have become delinquent annually by 8.9% and 7.9% respectively, but mortgage delinquencies remain low by historical standards despite increasing by 0.3 percentage points. The Fed suggests that there could be several factors at play which are causing the rise in delinquencies; however, "consumer delinquencies are among the most worrisome economic indicators" among those that the Fed is currently monitoring, "necessitating a cautious and proactive approach to prevent further deterioration."

Sources: https://finance.yahoo.com/news/fed-warns-against-rising-delinquency-203014867.html



Midtown - View from Hudson River Esplanade

News Highlights (cont'd)

Increasing Risks of CRE Loan Exposure Spreads to Largest U.S. Banks | June 4, 2024

At a time when an estimated $1.6 trillion in property financing is expected to mature over the next two years, the nation's biggest banks are "at higher risk of failure because of their commercial property loan exposure." The Federal Reserve views any ratio over 300% of the banks' total equity as excessive exposure. In the first quarter, the industry average for commercial real estate loan exposure was 139% according to a study by Florida Atlantic University; however, the analysis further indicated that "67 banks with more than $10 billion in assets have exposure greater than 300% of their total equity based on data reported to regulators." Due to current increased interest rates, the significantly higher exposure from the big banks is sparking concern; particularly since the eventuality exists that banks are going to be forced by regulators to write down those exposures since commercial properties are selling at serious discounts in the current market. Furthermore, "delinquency rates are rising among certain commercial real estate loans, such as those backed by offices."

Data released by the Federal Deposit Insurance Group indicated that at the end of the first quarter, "the total amount of commercial real estate loans past due or in nonaccrual status stood at $35 billion" — the highest in 11 years, having increased 9% quarter-over-quarter and by 59% year-over-year. The biggest banks reported a past due and nonaccrual rate of 4.48%, which is significantly higher than their pre-pandemic average rate of 0.59%, while banks with assets between $10 billion and $250 billion had a past due nonaccrual rate of 1.47% — up from the pre-pandemic rate of 0.66%. However, despite the increase, the "amount of troubled loans was just 1.23% of all commercial real estate lending," although "large office loans — over $100 million — had the lowest refinance success rate among commercial real estate loans in 2023, possibly reflecting weak office conditions in big cities — a trend likely to continue in 2024, the Fed said."

Sources: https://product.costar.com/home/news/2096170179

Downtown - View Robert Wagner Park

News Highlights (cont'd)

Some Lenders opt to Play a Waiting Game Instead of Foreclosing | June 26, 2024

According to a recently released report, about $300 billion worth of commercial real estate loans were extended in 2023, as some lenders chose to give debt-ridden borrowers a loan extension instead of foreclosing and taking control of the property. However, the volume of loans due to mature this year has increased to more than $900 billion as a result. A cited example is Herald Center, a 250,000-square-foot building the spans the entire 6th Avenue block-front between West 33rd and 34th Streets. The appraised value of the property was lowered from $572 million to $276 million in March, after the $255 million loan encumbering the property was sent to special servicing. Decisions by the lenders to extend the mortgage by one year may have been because the loan amount remains below the reduced appraised value. In addition, although the building is reportedly almost half vacant, retailer H&M, which occupies about a quarter of the building under a lease that extends through 2041, pays two-thirds of the rent.

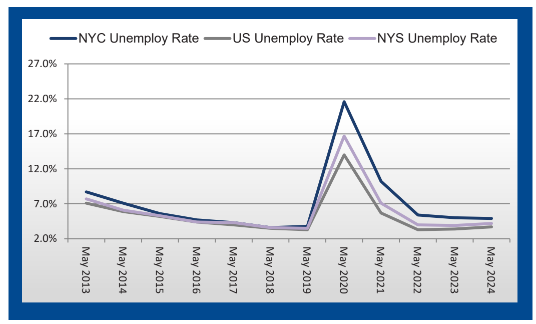
"Confronted by a massive wave of troubled office loans," lenders hope that extensions will provide sufficient time for cash flow to improve either from better leasing volume, or a cut to interest rates by the Fed that will lower borrowing costs. It is expected that the trend to extend will continue, with many of the 2024 maturities being extended into 2025. Although banks have set aside $100 billion to protect against eventual losses, it could be concluded by the Fed that creditworthy businesses aren't getting the capital they need because "so much money is tied up in dud real estate loans," which at some time in the future could prompt regulators to "force banks to purge their balance sheets, a painful prospect last seen after the savings-and-loan crisis in the early 1990s."

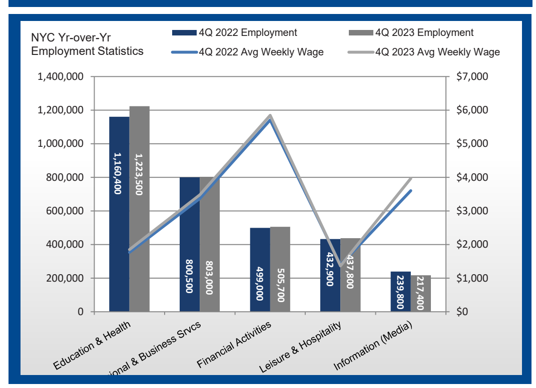
Sources: https://www.crainsnewyork.com/real-estate/herald-center-loan-extension-banks-shows-wait-and-see-mindset

Downtown - View from Brooklyn Bridge Park

Market Snapshot: Class A & B

2Q 2024	Total	Downtown	Midtown South	Midtown
Vacancy	↓	↓	↑	—
Face Rent	↑	—	↑	—
Absorption	↑	↑	↓	—





Source: NYS Department of Labor
and US Department of Labor, Bureau of Labor Statistics

New York City's Unemployment

- According to the New York State Department of Labor's figures, the city's unemployment rate of 4.5% (not seasonally adjusted) at the end of May 2024 represented a 2.0% decrease year-over-year, and a 2.1% increase over the three month period from February 2024 when the rate was 4.8%.
- Comparatively, unemployment on the National and State level at the end of May 2024 was 3.7% and 4.2% respectively, representing a year-over-year decrease of 8.8% nationwide and a 7.7% increase statewide.
- Employment activity in New York City's private sector resulted in a gain of 60,300 private sector jobs over the year to 4,178,400 jobs in May 2024. Among the major sectors, Education and Health Services gained 81,300 jobs at the high over the 12 month period, followed by a more moderate gain of 15,700 jobs in the Leisure and Hospitality sector. In contrast the Financial sector remained essentially unchanged, while the Information and Professional and Business Services sectors lost 12,600 jobs and 10,300 jobs respectively.

Weekly Wages

Overall private sector weekly wages in New York City averaged $3,145 in the 4th quarter of 2023, increasing 3.0% year-over-year according the recent report released by the U.S. Department of Labor. Among the major sectors all (4) saw overall weekly wages increases year-over-year. The Information sector saw the largest increase of 10.2%, While Education & Health, Professional and Business Services, and Financial services saw more moderate increases of 4.9%, 3.4%, and 2.4% respectively. In contrast, the Leisure and Hospitality saw a decrease of 2.0%.

Vacancy for Class A & B office buildings over 75,000 square feet lowered 1.1% to 15.9% in comparison the 6.1% rate in the 1st quarter of 2024. Class A vacancy fell quarter-over-quarter by 2.7% to 15.7% in the 2nd quarter, while Class B vacancy rose by 2.7%, increasing to 16.3% during the same period.

Absorption closed the 2nd quarter at positive 875,722 square feet, representing a reversal of the negative 3,062,410-square-foot absorption in the 1st quarter. Midtown South's negative 506,006-square-foot absorption was a reversal of the improvement in the 1st quarter when absorption was negative 95,538 square feet. Midtown's negative 326,203-square-foot absorption was moderate compared to the negative 1,725,466-square-foot absorption in the previous quarter. In contrast, Downtown had a positive 1,707,981-square-foot absorption as 60 Wall Street, the vacant 1.5 million-square-foot former headquarters of Deutsche Bank was taken offline as it undergoes a $250 million redevelopment.

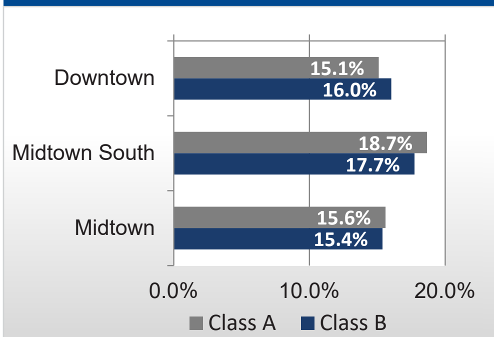
Face Rents for office space in the 2nd quarter rose to an overall average of $70.60 per square foot versus the $70.13 per square foot figure in the 1st quarter. Class A face rents held steady at $80.38 per square foot. In contrast, Class B face rents lowered moderately quarter-over-quarter to $66.71 per square foot compared to $66.89 per square foot in the previous quarter.

Sources: https://dol.ny.gov/labor-statistics-new-york-city-region • https://www.bls.gov/bls/news-release/cewqtr.htm • https://dol.ny.gov/labor-data

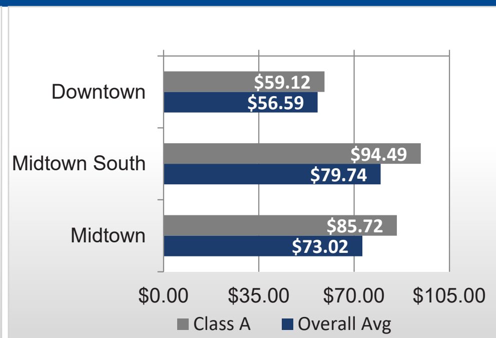
Class A & B Statistics At A Glance

2nd Quarter 2024

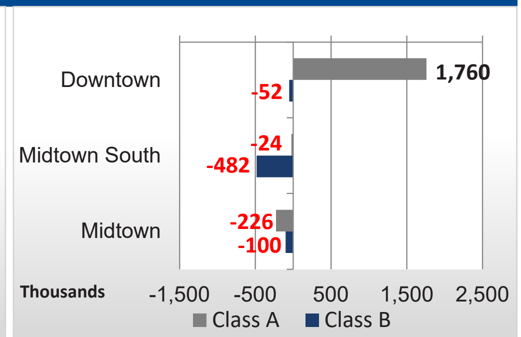
Vacancy



Average Asking Lease Rent

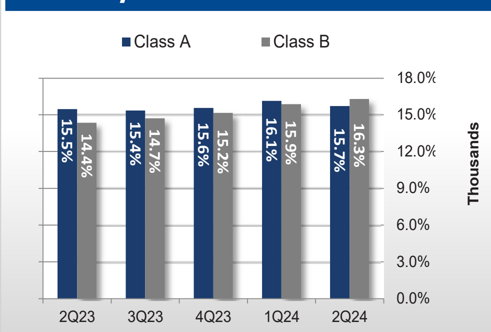


Net Absorption

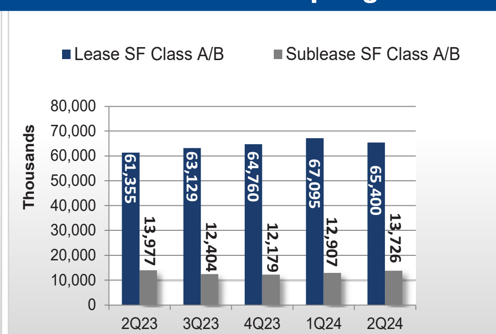


Quarter-over-Quarter

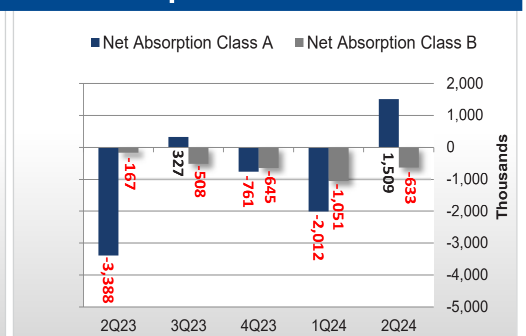
Vacancy



Lease & Sublease Sq. Ftge

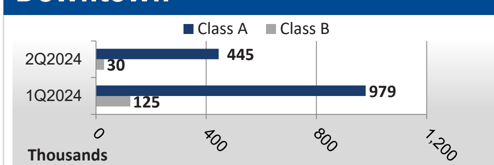


Net Absorption

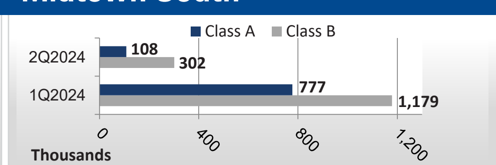


Sublease Space Newly Listed in 2Q 2024

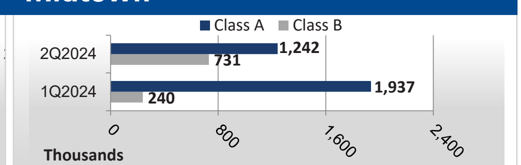
Downtown



Midtown South

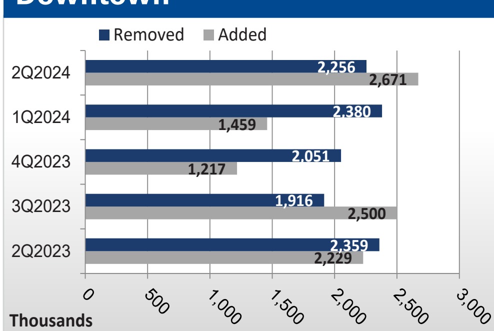


Midtown

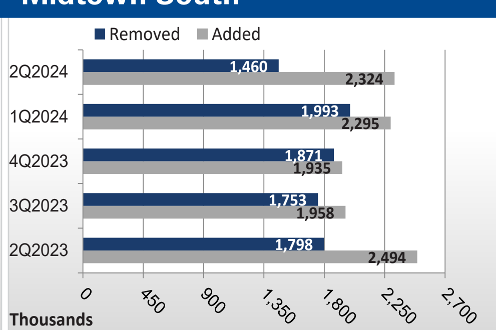


Year-over-Year Inventory Changes

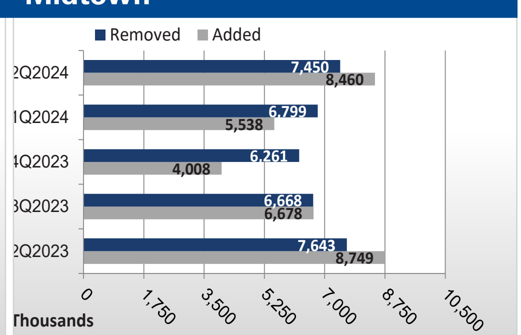
Downtown



Midtown South



Midtown



Source: Costar - 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

Manhattan	Inventory	Vacant Sq. Ftge.			Vacancy Rate			Avg. Face Rent PSF	Absorption
Submarkets Districts	Total RBA*	Direct Sq. Ftge.	Sublet Sq. Ftge.	Total Sq. Ftge.	Direct Vacancy	Sublet Vacancy	Overall Vacancy	Overall Asking	Year-to-Date Sq. Ftge
Downtown	111,718,624	13,938,074	3,197,642	17,135,716	12.5%	2.9%	15.3%	$56.59	466,575
City Hall	14,216,492	1,069,917	61,997	1,131,914	7.5%	0.4%	8.0%	$50.82	-159,669
Financial District	39,934,040	5,973,367	1,460,119	7,433,486	15.0%	3.7%	18.6%	$52.69	1,070,998
Insurance District	12,504,390	2,039,637	326,884	2,366,521	16.3%	2.6%	18.9%	$51.76	12,605
TriBeCa	6,403,949	912,291	71,113	983,404	14.2%	1.1%	15.4%	$66.17	-234,708
World Trade Center	38,65,753	3,942,862	1,277,529	5,220,391	10.2%	3.3%	13.5%	$63.77	-226,651
Midtown South	74,436,339	11,106,840	2,335,954	13,442,794	14.9%	3.1%	18.1%	$79.74	-601,544
Chelsea	17,401,211	2,793,403	709,821	3,503,224	16.1%	4.1%	20.1%	$74.14	-173,646
Flatiron	23,441,405	3,981,553	576,092	4,557,645	17.0%	2.5%	19.4%	$74.50	14,339
Gramercy/Union Sq	9,969,281	1,048,743	272,722	1,321,465	10.5%	2.7%	13.3%	$82.86	-152,321
Greenwich Village	5,202,420	1,109,504	36,193	1,145,697	21.3%	0.7%	22.0%	$113.55	-274,309
Hudson Square	12,888,577	1,560,648	562,620	2,123,268	12.1%	4.4%	16.5%	$79.47	-36,965
SoHo	5,533,445	612,989	178,506	791,495	11.1%	3.2%	14.3%	$81.21	21,358
Midtown	312,078,468	40,354,629	8,192,881	48,547,510	12.9%	2.6%	15.6%	$73.02	-2,051,669
Columbus Circle Hudson Yards	33,768,863	2,995,851	1,438,287	4,434,138	8.9%	4.3%	13.1%	$71.71	-863,214
Grand Central	56,128,976	7,931,255	1,515,989	9,447,244	14.1%	2.7%	16.8%	$64.87	-591,633
Murray Hill	13,357,983	2,497,376	296,130	2,793,506	18.7%	2.2%	20.9%	$56.20	-32,267
Penn Plaza/Garment	73,879,898	10,117,906	3,200,961	13,318,867	13.7%	4.3%	18.0%	$62.79	-142,510
Plaza District	84,673,263	11,301,477	938,808	12,240,285	13.3%	1.1%	14.5%	$93.84	-516,159
Times Square	45,813,855	5,363,836	802,706	6,166,542	11.7%	1.8%	13.5%	$74.90	-80,303
U.N Plaza	4,455,630	146,928	0	146,928	3.3%	0.0%	3.3%	$71.67	174,417
Grand Total	**498,233,431**	**65,399,543**	**13,726,477**	**79,126,020**	**13.1%**	**2.8%**	**15.9%**	**$70.60**	**-2,186,638**

Source: Costar - Buildings 75,000 SF and larger; vacancy and absorption calculations based upon move-in date versus deal signing date
Newmark, Cushman & Wakefield

Midtown - Grand Central Area

Market Snapshot: Class A & B

Big Block Removals in Q2 2024

60 Wall Street (FiDi) - 1,537,144 square feet taken offline as the former Deutsche Bank headquarters undergoes a major $250 million redevelopment. The building has been vacant since the Germany-based lender moved out in 2021 upon relocating to 60 Columbus Circle.

Big Block Additions in Q2 2024

30 Hudson Yards (Hudson Yards*) - 662,283 square feet of sublease space came online with a sublease term through June 2034.

50 Hudson Yards (Hudson Yards*) - 290,439 square feet of sublease space came online with a sublease term through February 2039.

1230 Avenue of the Americas (Plaza) - 121,502 square feet of sublease space came online with a sublease term through November 2034.

360 Bowery (Greenwich Village) - 111,963 square feet of office space within the newly constructed 118,032-square-foot building that delivered during the 2nd quarter.

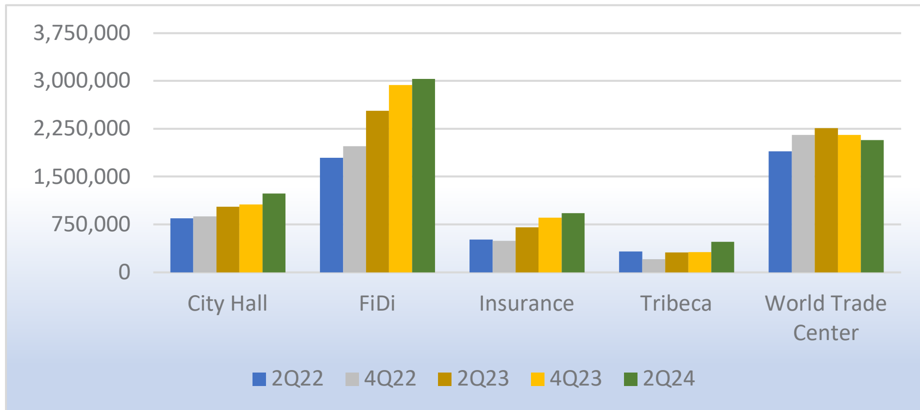
395 Hudson Street (Hudson Square) - 174,883 square feet spanning the entire 3rd and 4th floors was vacated by WebMD during the 2nd quarter. According to 2015 reports, the online provider of health information and subleased the space from test-prep firm Kaplan.

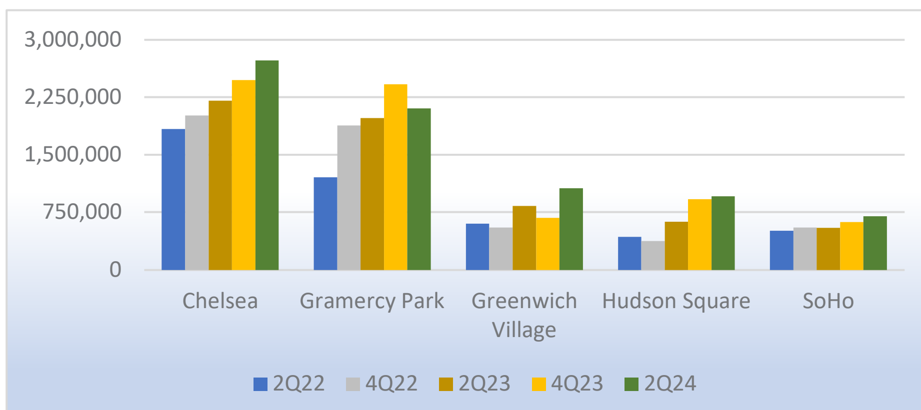
*Costar categorizes 30 and 50 Hudson Yards as part of the Penn Plaza district

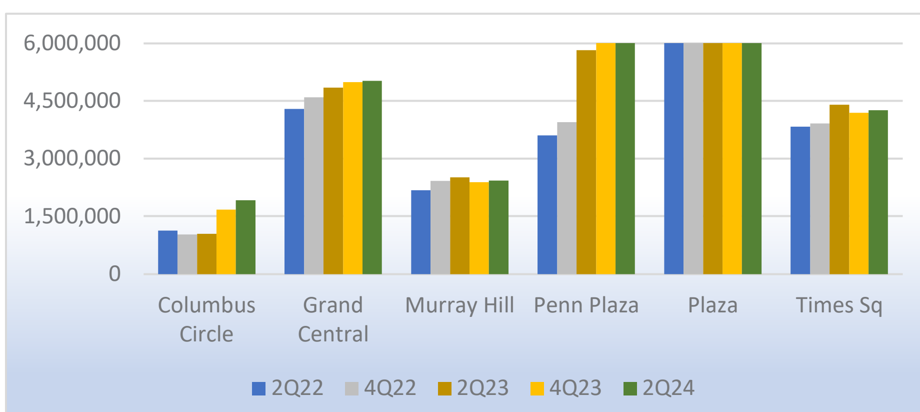
Retail Bi-Quarterly Vacancy Statistics At A Glance

2Q 2022 - 2Q2024

Submarket | **Vacancy by District**







Source: Costar data

Retail Bi-Quarterly Vacancy Statistics At A Glance

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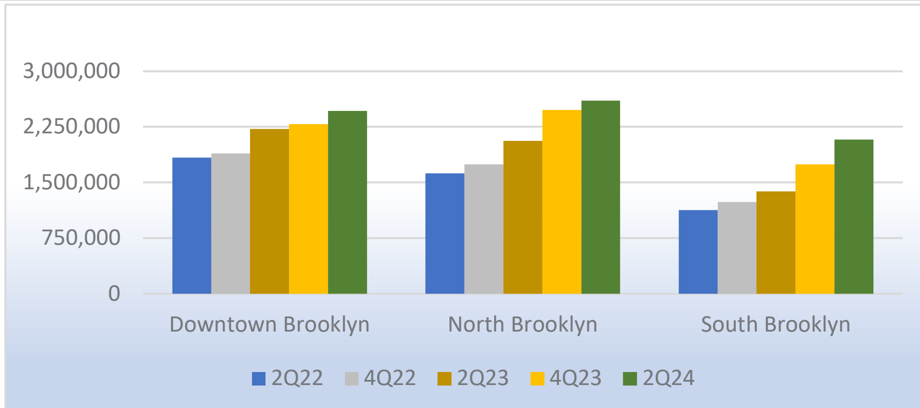

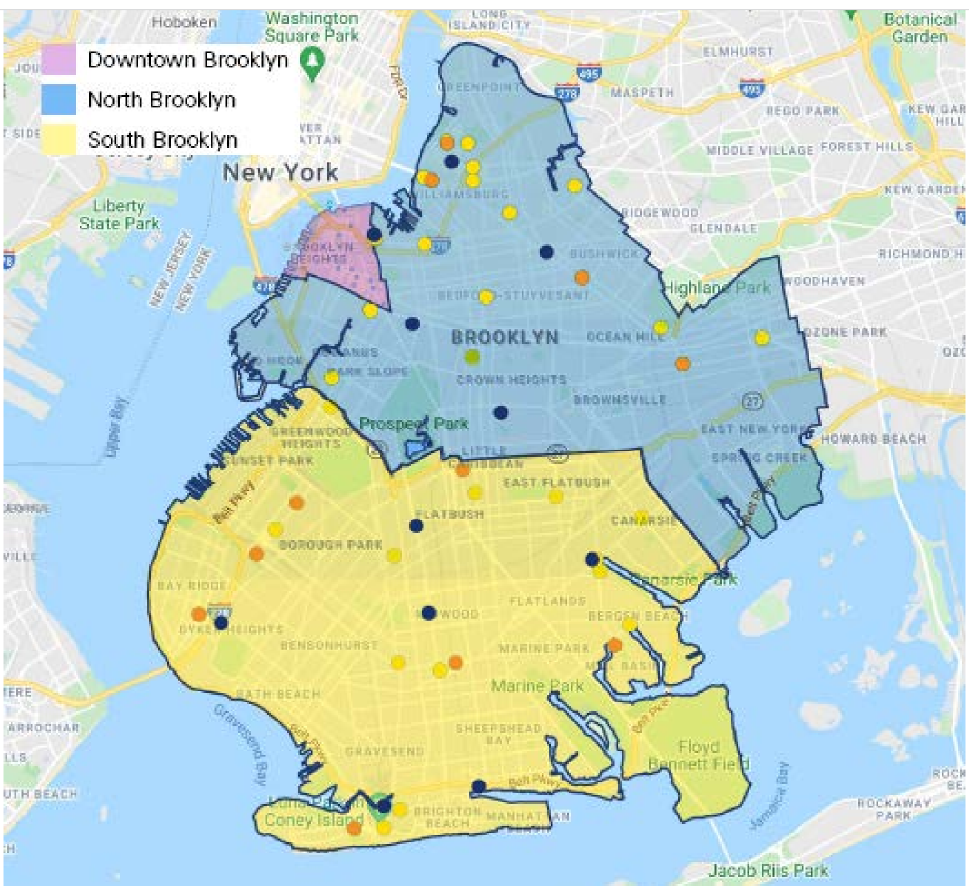

Retail Bi-Quarterly Vacancy Statistics At A Glance

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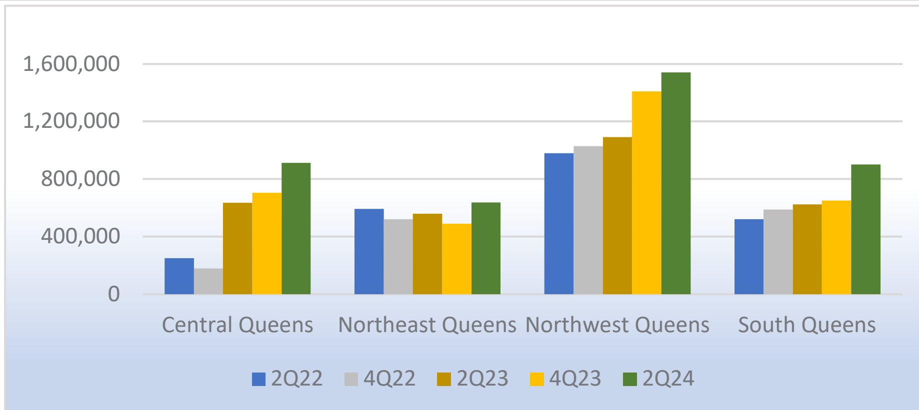
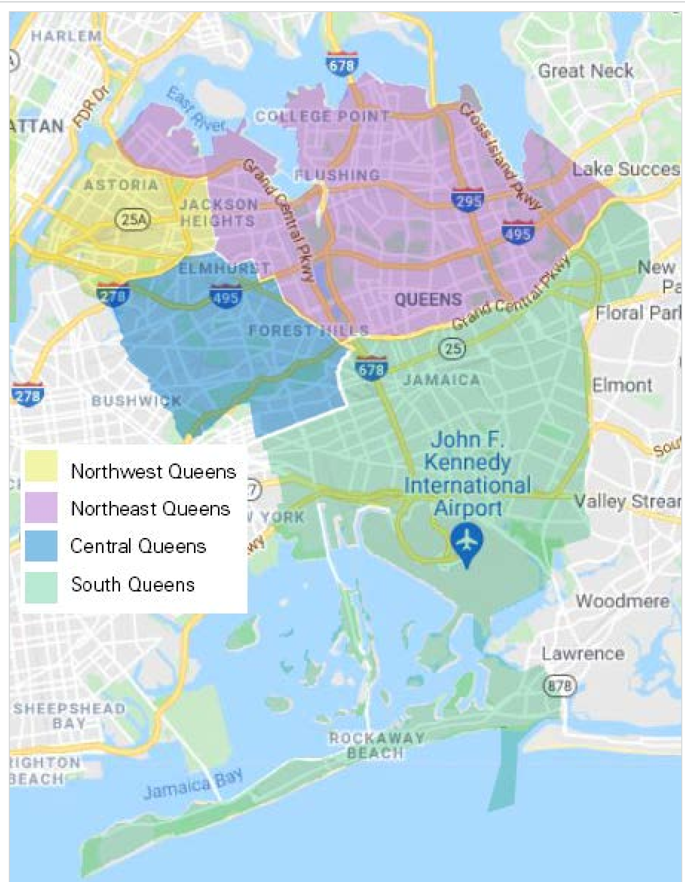
Submarket	**Vacancy by District**





Source: Costar data

BID Market Snapshots

Downtown Alliance - Lower Manhattan Real Estate Market Report | Q1 2024

The pace of leasing activity in Lower Manhattan's office market increased 16% year-over-year during the 1st quarter of 2024, but continues to remain below both the five-year and post pandemic (beginning in 2021) quarterly averages by 35% and 18.9% respectively. Technology and legal services firms accounted for over 60% of leasing activity. However, the education/not-for-profit sector claimed the largest lease during the quarter as a result of the 93,937-square-foot renewal and expansion deal by Success Academy at 120 Wall Street. Large blocks of lease space that came online during the 1st quarter include 168,000 square feet at 14 Wall Street and 161,000 square feet at 200 Liberty Street. Further adding to Lower Manhattan's rising vacancy were large block sublet additions such as Emblem Health's 173,000 square feet at 55 Water Street and and AECOM's 91,000 square feet at 125 Broad Street.

The retail market continues to experience an improving trend with 16 store openings during the quarter. Food and beverage businesses continue to account for the majority of openings. A notable highlight during the quarter included the opening of the 36,000-square-foot immersive art space at 21 Dey Street by Mercer Labs Museum of Art & Technology's. The hotel market also saw improvement as tourist volume continues to rebound pushing the Average Daily Room Rate (ADR) to $225.69 — the highest Q1 rate in the past eight years. In contrast, residential rents and condo sales lowered in Q1 as the median rent and sales price lowered to $4,100 and $930,000 respectively, representing declines of 3% and 22.5% year-over-year. Development highlights include the planned repositioning of the former AIG headquarters at 175 Water Street into a mixed-use hub for fashion, arts, culture and technology. The project was awarded $100 million in tax breaks from the New York City Economic Development Corp. (NYCEDC) as part of the Manhattan Commercial Revitalization (M-CORE) program launched in 2023 to incentivize conversions of older Class B properties into amenity rich Class A spaces.

Source: https://downtownny.com/research/lower-manhattan-real-estate-overview-q1-2024/

Times Square Alliance Monthly Indicator Reports | March 2024

The report released by the BID provided a snaphot of economic indicators for the month of March. Average daily pedestrian volume for the month reached 287,206, representing a 5% increase year-over-year, but remains 15% below the volume during the same period in 2019. Broadway theatres generated a weekly average gross revenue and attendance volume throughout March of $28.3 million and 225,062 respectively, lowering 6% and 5% from 2023 figures. Occupancy rates within the hotel sector increased 2% year-over-year, reaching 85.2%, while the Average Daily Room Rate (ADR) rose more sharply by 7% to $252.68. Retail businesses opening during the month totaled 14, with an additional 10 planned opens coming soon.

Source: https://www.timessquarenyc.org/sites/default/files/resources/March%202024%20Monthly%20Economic%20Indicator%20Report.pdf

https://www.timessquarenyc.org/sites/default/files/resources/April%20Monthly%20Economic%20Indicator%20Report.pdf

Flatiron/NoMad - Flatiron & NoMad Economic Snapshot | Q1 2024

The pace of office leasing activity during the 1st quarter was on par with pre-2020 levels as the number of Class A and B leases rebound from the lowest volume in Q2 2020. However, ongoing challenges of evolving work patterns and a recent increase in Class A office inventory in the district continue to impact direct and sublease availabilities throughout the district. Foot traffic volume continued an upward trend, with peak volumes tending to be midweek. Volume reached 67,000 in March — the highest recorded volume since the onset of the pandemic. Similarly, subway ridership in Q1 rose across the nine subway stations serving the district, increasing 19% since Q2 2022, with average daily users during the quarter averaging 160,000.

Source: https://flatironnomad.nyc/wp-content/uploads/2024/04/Q1-2024-Economic-Report.pdf

Midtown - Hudson Yards

Office Market – Notable Transactions

Lease - Manhattan

Address	Submarket	District	Sq. Ftge	Tenant
345 Park Avenue	Midtown	Plaza	1,060,000	Blackstone Group (extension)
731 Lexington Avenue	Midtown	Plaza	946,815	Bloomberg LP (extension)
30 Hudson Yards	Midtown	Hudson Yards	235,479	Covington & Burling (sublease/relocation)
22 Vanderbilt Avenue	Midtown	Grand Central	235,200	Bain & Company (relocation)
2 Penn Plaza	Midtown	Penn Plaza	126,000	Major League Soccer (relocation)
Grace Building 1114 Sixth Avenue	Midtown	Times Square	129,987	Trade Desk (expansion)
30 Hudson Yards	Midtown	Hudson Yards	73,735	Susquehanna Int'l Group (sublease/relocation)
63 Madison Avenue	Midtown South	NoMad	338,085	American Eagle (relocation)

Lease - Outer Boroughs

Address	Borough	District	Sq. Ftge	Tenant
39 Truxton Street	Brooklyn	Brownsville	63,000	Imagine Me Leadeership Charter School

Manhattan/Outer Borough Investment Sales

Address	Submarket	District	Sq. Ftge	Sold Price	Purchaser
222 Broadway	Downtown	Insurance	800,000	$147,500,000	GFP Real Estate*
101 Franklin Street	Downtown	Tribeca	240,000	$96,500,000	TPG*
Equitable Building 120 Broadway	Downtown	FiDi	109,000	$52,695,173	NYC Housing Dev.Corp 30-plus year leasehold
1740 Broadway	Midtown	Columbus Circle	620,000	$185,595,188	Yellowstone Real Estate Invest.
5 West 13th Street	Midtown South	Greenwich Village	110,000	$57,500,000	EJS Group / Legion Invest. Grp*
980 Madison Avenue	Uptown	Upper East Side	118,635	$560,000,000	Bloomberg

*New ownership planning residential conversion

Midtown - Times Square

Retail Market – Notable Transactions

Lease - Manhattan

Address	Submarket	District	Sq. Ftge	Tenant
424 Fifth Avenue	Midtown	Penn Plaza	35,000	Shaver Hall (new)
597 Fifth Avenue	Midtown	Plaza	8,000	Club Monaco (extension)
424-434 West 33rd Street	Midtown	Penn Plaza	7,500	PJ Clarke's (new)
Pier 57	Midtown South	Chelsea	14,600	City Winery (expansion)
1245 Broadway	Midtown South	NoMad	7,900	JKS Restaurant (new)
200 Fifth Avenue	Midtown South	Flatiron	6,614	Yeti (new)
1920-1932 Broadway	Uptown	Upper West Side	58,874	Wegmans (new)

Lease - Outer Boroughs

Address	Borough	Neighborhood	Sq. Ftge	Tenant
25 Kent Avenue	Brooklyn	Williamsburg	23,000	LaSirena Events dba Vseper (new)

Sales

Address	Submarket	District	Sq. Ftge	Sold Price	Purchaser
Carlton House 680 Madison Avenue	Midtown	Plaza	31,670	$180,000,000	TZ Capital (ground lease)

ABS PARTNERS REAL ESTATE, LLC

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