

The image features a low-angle shot of a classic, ornate building with many windows, set against a blue sky with light clouds. A modern glass skyscraper is partially visible on the right side. The Marshall Stevens logo is positioned in the upper left corner, with 'marshall' in a blue box and 'stevens' in a grey box. The title 'Real Estate Valuation Practice' is centered in the upper left. The text 'TRUSTED OPINIONS since 1932' is located in the lower left. A dark blue banner at the bottom contains the title 'Manhattan Office Market - Investment Sale Trends (Mid-Year 2017)'.

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Real Estate Valuation Practice

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Manhattan Office Market - Investment Sale Trends (Mid-Year 2017)

INVESTMENT SALE TRENDS

While Manhattan remains a premier global investment market, its performance in the fiscal year ending June 2017 indicates that sales volume in the Class A and B office market is down considerably compared to recent years. With trailing twelve-month sales volume at \$14.4 billion, year-over-year sales volume for Manhattan is down over 41 percent. This report analyzes the trends in investment sale volume, price per square foot, and cap rates in the Manhattan office market, as well as its submarkets: Midtown, Midtown South, Downtown, and Uptown Manhattan.

Manhattan Office Market - Investment Sale Trends

Manhattan Office Sale Trends 2013-2017 (FY Ending June)

The table below indicates dollar volume, pricing, and cap rate trends for Class A and B office buildings in Manhattan in the past five fiscal years.

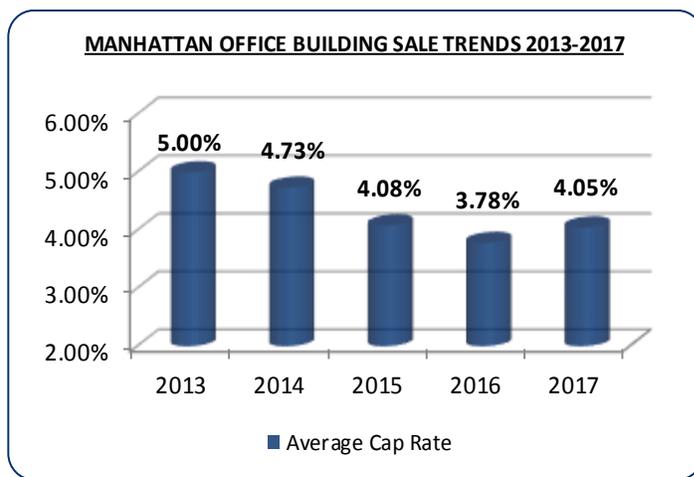
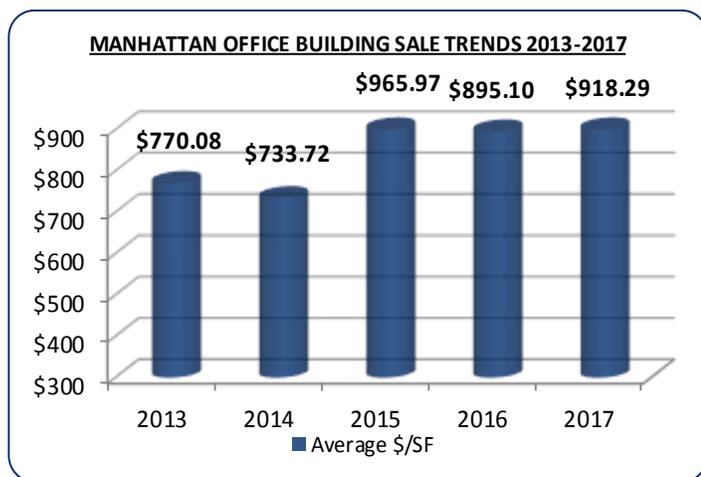
MANHATTAN OFFICE BUILDING SALE TRENDS 2013-2017

Class A and B Investor Transactions

Year Ending June	Dollar Volume	Average \$/SF	Average Cap Rate
2013	\$14,573,647,131	\$770.08	5.00%
2014	\$20,540,933,694	\$733.72	4.73%
2015	\$25,161,604,994	\$965.97	4.08%
2016	\$24,665,413,060	\$895.10	3.78%
2017	\$14,383,706,541	\$918.29	4.05%

Source: CoStar, Compiled by Marshall & Stevens

Total dollar volume for investment sales of Class A and B office buildings in Manhattan was increasing steadily from mid-2013 to mid-2015. However, since mid-2016, there has been a significant decrease in total dollar volume, down to \$14.4 billion in mid-2017 compared to \$24.7 billion in mid-2016. The FY 2017 results are over 41 percent lower than the prior year, and reflect the lowest volume seen in the past five years.



As seen above, there was a recent increase in average pricing while remaining below 2015 figures. The average in mid-2017 was \$918.29 compared to \$895.10 in mid-2016. In addition, the downward trend in cap rate exhibited from mid-2013 to mid-2016 reversed in mid-2017, ending up at 4.05% versus 3.78% in mid-2016, an increase of 27 basis points. Market participants will be watching both of these metrics carefully for the remainder of 2017.

Manhattan Office Market - Investment Sale Trends

Manhattan Submarket Sales Volume 2013-2017 (FY Ending June)

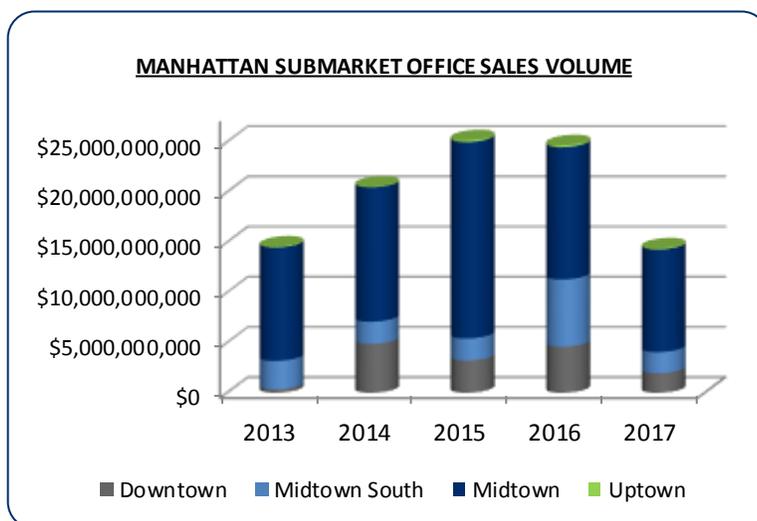
The chart below illustrates total dollar sales volume in Manhattan for Class A and B office buildings, broken down into submarkets including Downtown, Midtown South, Midtown, and Uptown.

MANHATTAN SUBMARKET SALES VOLUME 2013-2017

Submarket	2013	2014	2015	2016	2017	Trend Line
Downtown	\$341,654,825	\$4,877,473,056	\$3,216,366,367	\$4,597,973,737	\$1,962,400,000	
Midtown South	\$2,841,813,116	\$2,208,104,700	\$2,199,075,100	\$6,693,908,986	\$2,091,148,346	
Midtown	\$11,303,929,190	\$13,399,010,563	\$19,565,746,972	\$13,181,599,667	\$10,234,841,695	
Uptown	\$86,250,000	\$56,345,375	\$180,416,555	\$191,930,670	\$95,316,500	
Average	\$3,643,411,783	\$5,135,233,424	\$6,290,401,249	\$6,166,353,265	\$3,595,926,635	
Manhattan Total	\$14,573,647,131	\$20,540,933,694	\$25,161,604,994	\$24,665,413,060	\$14,383,706,541	

Source: CoStar, Compiled by Marshall & Stevens

The bulk of annual sales volume in Manhattan for the twelve months ending June 2017 is attributed to the Midtown submarket, which had the highest total volume of \$10.2 billion, slightly below 2016 levels. The Midtown South submarket experienced a decline in volume, but it remains the second most active submarket in Manhattan, followed by the Downtown submarket. The Uptown submarket is currently the lowest at \$95.3 million. Sales volume was down in 2017 for all submarkets.



Overall sales volume in Manhattan slowed considerably in the fiscal year ending June 2017. Market observers would attribute the slowdown to the domestic political uncertainty, along with concerns about the direction of the global and domestic economy. The most significant change occurred in the Midtown South submarket, which exhibited sales volume in FY 2016 of \$6.7 billion, dropping in FY 2017 to roughly \$2.1 billion, a decline of almost 70 percent. Most contend that the NYC office market fundamentals will remain strong through 2017, however, the decline in sales volume, particularly in Midtown South, will remain a concern through the end of the year.

Manhattan Office Market - Investment Sale Trends

Manhattan Submarket Average Price/SF 2013-2017 (FY Ending June)

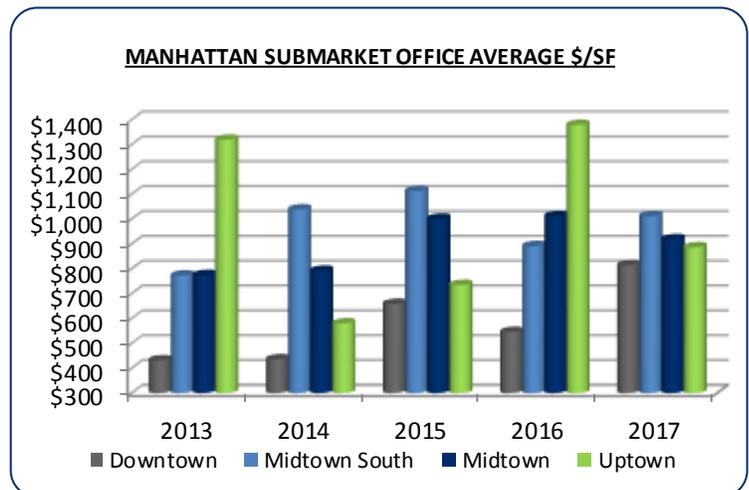
The chart below illustrates the average sale price per building square foot in Manhattan for Class A and B office buildings, broken down into submarkets including Downtown, Midtown South, Midtown, and Uptown.

MANHATTAN SUBMARKET AVERAGE \$/SF 2013-2017

Submarket	2013	2014	2015	2016	2017	Trend Line
Downtown	\$431.77	\$435.94	\$659.29	\$546.11	\$814.50	
Midtown South	\$773.39	\$1,039.18	\$1,112.96	\$891.53	\$1,012.09	
Midtown	\$775.27	\$792.42	\$1,002.00	\$1,011.59	\$919.32	
Uptown	\$1,319.79	\$580.43	\$735.37	\$1,379.44	\$886.58	
Manhattan Weighted Average	\$770.08	\$733.72	\$965.97	\$895.10	\$918.29	

Source: CoStar, Compiled by Marshall & Stevens

The weighted average price in Manhattan in 2017 was \$918.29 per square foot, which reflects an increase from mid-2016 of 2.6 percent. The Midtown South submarket experienced the highest price of \$1,012.09 per square foot, and the Downtown submarket exhibited the lowest at \$814.50 per square foot. As exhibited by the graph and trend lines, the price per square foot in each submarket has fluctuated over the last five years but is currently trending upward overall.



In reviewing the data, we note that pricing peaked in the Midtown and Uptown submarkets in mid-2016, whereas the Midtown South submarket peaked in mid-2015 and the Downtown submarket peaked in mid-2017. While NYC still exhibits some of the highest pricing for office building assets in the United States, market participants will be very curious to see what occurs with pricing in the remainder of 2017.

Manhattan Office Market - Investment Sale Trends

Manhattan Submarket Average Cap Rates 2013-2017 (FY Ending June)

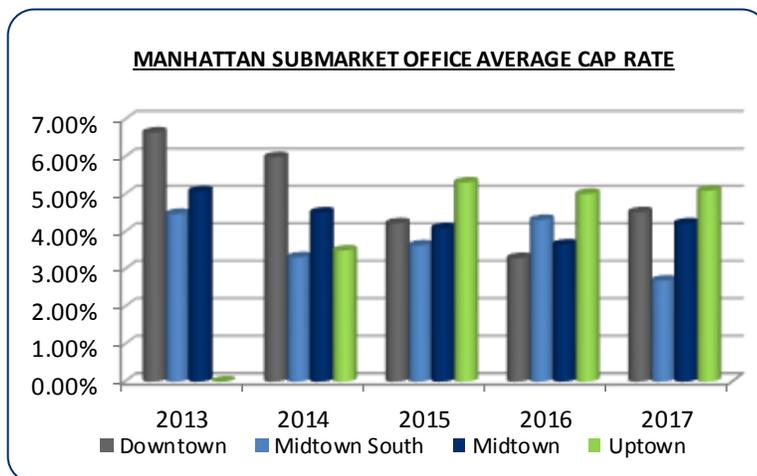
The chart below illustrates the average cap rates in Manhattan for Class A and B office buildings, broken down into submarkets including Downtown, Midtown South, Midtown, and Uptown. Due to limited data available in the Uptown submarket for 2013, there is no reported average cap rate.

MANHATTAN SUBMARKET AVERAGE CAP RATE 2013-2017

Submarket	2013	2014	2015	2016	2017	Trend Line
Downtown	6.65%	5.99%	4.23%	3.30%	4.52%	
Midtown South	4.48%	3.32%	3.64%	4.32%	2.70%	
Midtown	5.08%	4.52%	4.10%	3.66%	4.22%	
Uptown	N/A	3.50%	5.32%	5.01%	5.10%	
Manhattan Weighted Average	5.00%	4.73%	4.08%	3.78%	4.05%	

Source: CoStar, Compiled by Marshall & Stevens

The average cap rate for Class A and B office buildings in Manhattan as of mid-year 2017 was 4.05%. This is relatively low compared to the average Manhattan Office cap rate of 4.98% released by the PwC Real Estate Investor Survey for Second Quarter 2017. This low average cap rate is largely driven by the Midtown South submarket with an average cap rate of 2.70%.



Overall cap rates in Manhattan were trending downward from mid-2013 through mid-2016 but they started increasing slightly in the past year. The Downtown submarket experienced its lowest rate in mid-2016, as did the Midtown submarket, while the Midtown South submarket experienced its lowest cap rate in mid-2017, and the Uptown submarket in mid-2014. Nevertheless, since mid-2016, all submarkets except Midtown South experienced an increase in average cap rate and the Midtown submarket has significant influence in the overall Manhattan market as it is the largest office market by transaction volume.

Manhattan Office Market - Investment Sale Trends

Investment Sale Trends to Monitor through Year-End 2017

The Manhattan Office Market will remain a premier global investment market into the foreseeable future, however the decline in sales volume over the past year is a clear indicator that market participants have become cautious about where they invest their money. The uncertain political and economic climate in the United States has dampened investment volume, however we note that both Price/SF and Cap Rate trends remained relatively strong when compared to the 5-year averages. For the balance of 2017, investors will be closely watching shifts in pricing and cap rates, and will remain highly focused on sales volume.

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