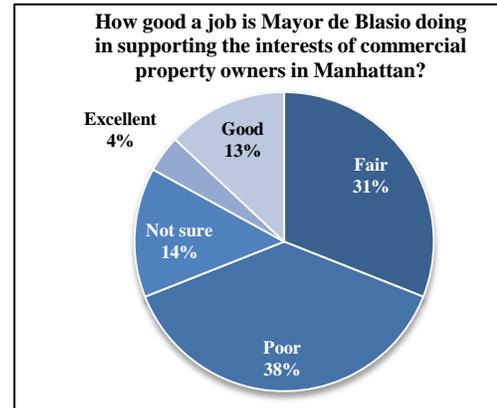


THE GOTHAM COMMERCIAL REAL ESTATE MONITOR

MARKS PANETH LLP

How's Mayor de Blasio Treating the Commercial Property Industry? Not Well, Say Real Estate Executives. But They're Optimistic About His Plans to Revitalize Midtown East

- What do commercial real estate executives think of Mayor de Blasio's performance? Not much. They're not confident in the Mayor's support for Manhattan commercial property owners – more than two-thirds think he's only doing a "fair" or "poor" job.
- Fewer than one in five (17%) think he's done either an "excellent" or "good" job at supporting commercial property owners' interests.
- But when it comes to the de Blasio administration's evolving plans to revitalize Midtown East, there's optimism. After revising Mayor Bloomberg's initial plans for air rights sales, the de Blasio administration has begun negotiations with developers. Most (72%) say these talks have a good chance of re-establishing Midtown East as one of the city's most vibrant commercial areas.
- More than half (54%) think the talks will "probably" be enough to revitalize Midtown East, and 20% are even more confident – they say the talks will "definitely" do the job.



Tech Grows in Brooklyn – and Most (But Not All) Expect a Growing Brooklyn Office Space Market

- More and more bullish on Brooklyn: three-quarters (74%) expect continued office space growth. Looking at a corporate upsurge including JP Morgan's planned move of 2000 employees to Brooklyn, they agreed: "Brooklyn will be a serious contender for New York City office space in the coming years."



- But a sizable number (16%) don't feel that way. They think growth will soon stagnate: "Brooklyn won't be able to expand its market for Class A office space."

- There's been a surge in optimism that the Brooklyn Navy Yard will become a tech center. Twenty-nine percent think it's the next hot neighborhood for commercial leasing to technology businesses. That's a 13-point increase over the summer survey. The Navy Yard

now leads all other neighborhoods – it has outstripped the previous favorite, Long Island City, which now ranks second at 25%. There's also a groundswell in favor of Downtown Brooklyn – 14% say it's the next hot tech neighborhood, up 8 points (more than double) from the summer.

Despite the Over-Valuation Sentiment, Office Rents Will Climb, Execs Say

- Executives expect that commercial rental income will continue to flow. In the wake of reports that Manhattan Class A office space rents rose 8.2% from last year’s third quarter, nearly three-quarters (74%) think rents will continue to rise; one in five (21%) think rents will stay the same.
- Those who expect rising rents think the average increase will be 4.4% through the fourth quarter.

Execs Think Hudson Yards Will Have Greatest Long-Term Impact on Surrounding Property Values

- What major project will have the biggest positive impact on property values in its neighborhood? It isn’t One World Trade Center. The Hudson Yards will have the most positive long-term impact, say 39% of professionals. The Second Avenue Subway ranked just behind (30%), followed by Long Island Rail Road access to Grand Central Station (24%). The Freedom Tower barely registered. Only 7% thought the new World Trade Center tower will have the most positive long-term impact on commercial property values in its neighborhood.



More Real Estate Execs Think Manhattan Commercial Real Estate is Overvalued, Say Rents Will Rise and Foreign Investment is a Driver; Conviction Grows That There’s an Asset Bubble

- Commercial property executives are increasingly concerned that Manhattan commercial real estate is overvalued – and more of them are convinced that an asset bubble may be forming.
- Nearly one out of five (19%) think properties are “highly overvalued,” and 55% think they’re “moderately overvalued” – that last figure is a 13-point increase from the summer survey.

Do you think current low interest rates have created an asset bubble in New York’s commercial real estate market, similar to the housing bubble of 2005-2007?

| | <u>Spring</u> <u>2014</u> | <u>Summer</u> <u>2014</u> | <u>Fall 2014</u> |
|-----------------|------------------------------|------------------------------|------------------|
| Yes | 31% | 37% | 37% |
| No | 26 | 28 | 29 |
| Maybe | 34 | 25 | 29 |
| Not sure | 9 | 10 | 5 |

- Between summer and fall, there’s been a 9-point decrease (to 21%) in the number who say Manhattan commercial properties are “fairly valued.”

- What’s driving higher valuations? A solid majority (61%) remains convinced that foreign investment has “a great deal of influence.”

- Is an asset bubble forming in New York commercial real estate? Sentiment is growing that

the answer is “yes.” Thirty-seven percent think low interest rates have created a bubble, similar to the housing bubble of 2005-2007. That figure is unchanged from the summer survey but higher than the spring (31%). Twenty-nine percent disagree that a bubble is developing.

- In addition, 29% in the recent survey think that low interest rates might be creating the asset bubble. That’s up 4 points from the summer.

Methodology

The *Gotham Commercial Real Estate Monitor* from Marks Paneth represents the findings of a survey of commercial real estate professionals in the New York City market. The 124 professionals participating in the research include owners and managers of commercial property, commercial real estate brokers and agents, and attorneys, accountants and other professionals specializing in the sector. The research employed self-administered questionnaires completed online and on paper by respondents. The list of professionals surveyed was compiled by Marks Paneth LLP, the research sponsor, and by Michaels Opinion Research. Interviews were completed during the period of November 6 to December 1, 2014.