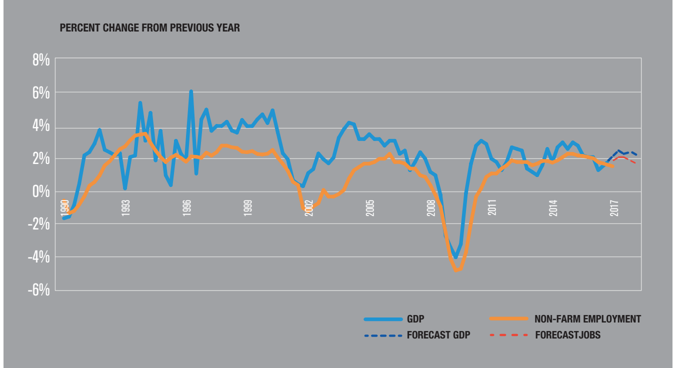
MHP STREET SMARTS

Q4 2016

WINTER IN MANHATTAN

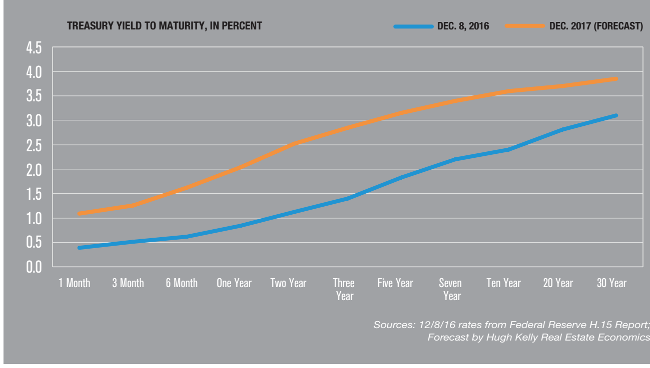
Forecasters of all stripes should have learned a lesson in humility from 2016, a year where there were electoral upsets in the U.S. presidential election, the Brexit vote as well as championships for perennial underdogs the MLB Chicago Cubs and the NBA Cleveland Cavaliers.

2017 begins propelled by a strong economic tailwind. Final economic data for 2016 shows consumer confidence, with expectations for the economy hitting a 13-year high, and the Conference Board's index hitting 113.7, up 19.6% from a year ago. The BEA's final revision for Third Quarter 2016 GDP showed the national economy growing at 3.5%, and real gross domestic income gaining 4.8%. Corporate profits were up 2.1% for the year, to $2.1 trillion.



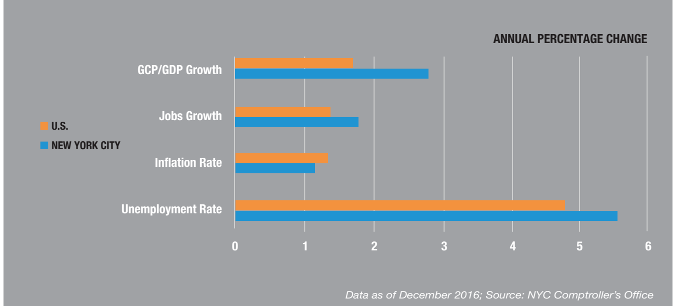
US ECONOMY IN ZONE OF MODERATE GROWTH WITH SOME FISCAL STIMULUS IN SHORT RUN

The stock market has surged since Election Day on the premise that tax cuts, deregulation, expanded defense spending, and greater infrastructure investment will spur economic growth in the year ahead. Such fiscal stimulus will likely push GDP up, temporarily, within the constraints of a tight labor market. However, the bond market is already warning of a heightened risk of inflation. The Fed nudged interest rates up in December, and is widely expected to continue tightening monetary policy in the year ahead.

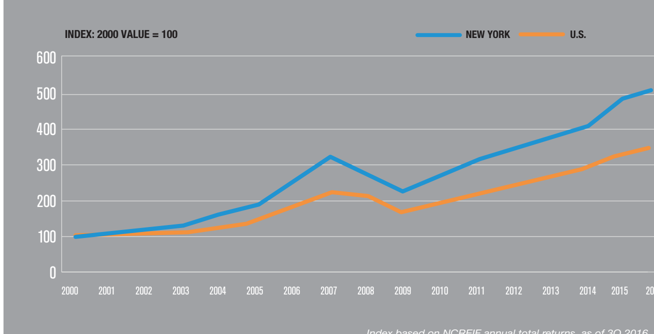


YIELD CURVE SHOULD TREND UPWARD IN 2017 WITH GREATEST MOVE IN INTERMEDIATE MATURITIES

As has been the case since 2010, New York's economy has been performing even better than the nation's, whether measured by gross product, employment gains, or inflation. City private sector employment grew by 1.9% through October (the latest available data), smartly above the 1.6% for the U.S. The city's job growth was broad, with only financial services slipping (by 2,200 jobs) during the year, though the securities sector posted a modest gain of 400 jobs. Professional and business services jobs were up by 11,400; the information sector rose by 2,700. Even manufacturing eked out a gain of 200 jobs. The citywide unemployment rate dropped to 5.4%, down from 5.9% a year ago.

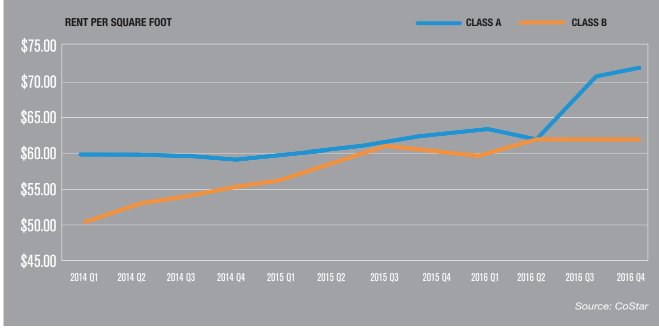


NEW YORK CITY OUTPACING U.S. ON MOST ECONOMIC MEASURES



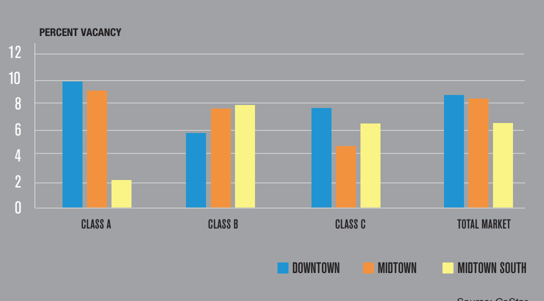
CUMULATIVE TOTAL RETURNS FOR NEW YORK OFFICES 50 PERCENT HIGHER THAN US NORM SINCE 2000

Changes in Federal policy under the new Trump administration are expected to alter the outlook only slightly in 2017. Tax cuts and deregulation are generally viewed as favoring New York, with its large number of high-income households and as a center of corporate finance. Trade restrictions, however, are detrimental to a city like New York which thrives on the flow of goods and capital. Demographically, immigration has been the main driver of New York's population growth and the New York City Comptroller's office has stated that "without immigrants, the NYC economy will face stagnation and decline."

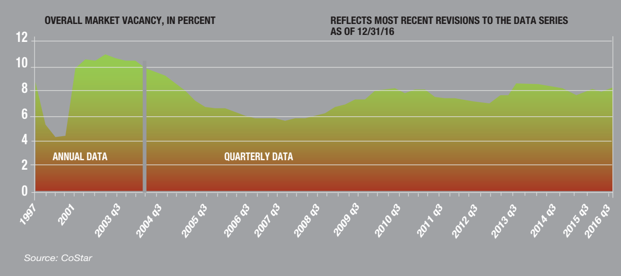


AFTER A YEAR OF ROUGH RENTAL PARITY, CLASS A AND B OFFICE RENTS DIVERGED IN SECOND HALF OF 2016

Office building transaction volume in Manhattan slowed during 2016, reflecting an overall trend in the U.S. This is not necessarily bad news, since it is reflecting a discipline in the marketplace that was sadly lacking a decade ago. Prices per square foot actually rose by 9% year-over-year in Manhattan by the end of 2016, a steeper gain than the U.S. as a whole, which posted a six percent increase in office



NEW DELIVERIES ELEVATE CLASS A VACANCY DURING LEASE-UP PHASE; OLDER SPACE PROVIDES OPTIONALITY FOR TENANTS



MANHATTAN OFFICE VACANCY AT 8.1% REFLECTING 1.2 MILLION SF OF NET ABSORPTION IN 4TH QUARTER

pricing. The average cap rate in Manhattan dropped to 3.9%, which seems irreducibly low and reflects the high quality of the assets traded. For the nation, the mean cap rate in the Fourth Quarter of 2016 was 250 basis points higher, at 6.4%. Institutional investors, cross-border investors, and private equity alike see Manhattan as a magnet for capital as well as for talent, and the cumulative total return for office

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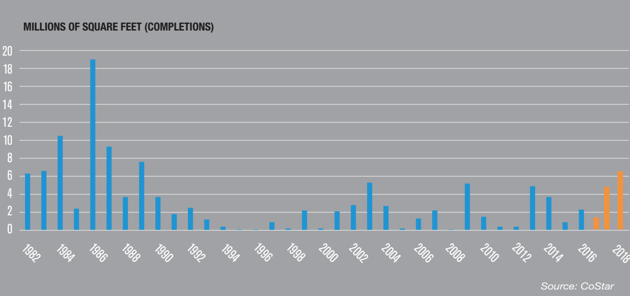
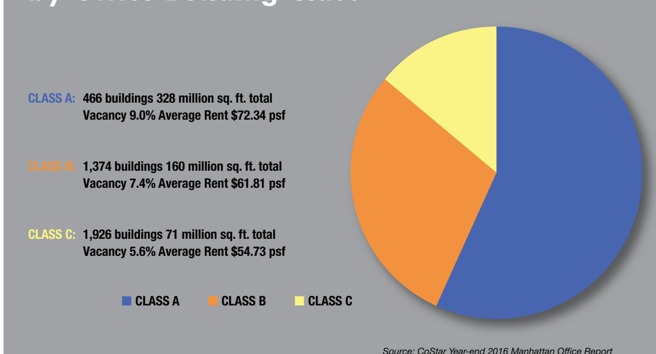


HUDSON YARDS DEVELOPMENT PROMISES GREATEST INVENTORY EXPANSION SINCE MID-80S

SUMMARY MARKET STATISTICS
by Office Building Class



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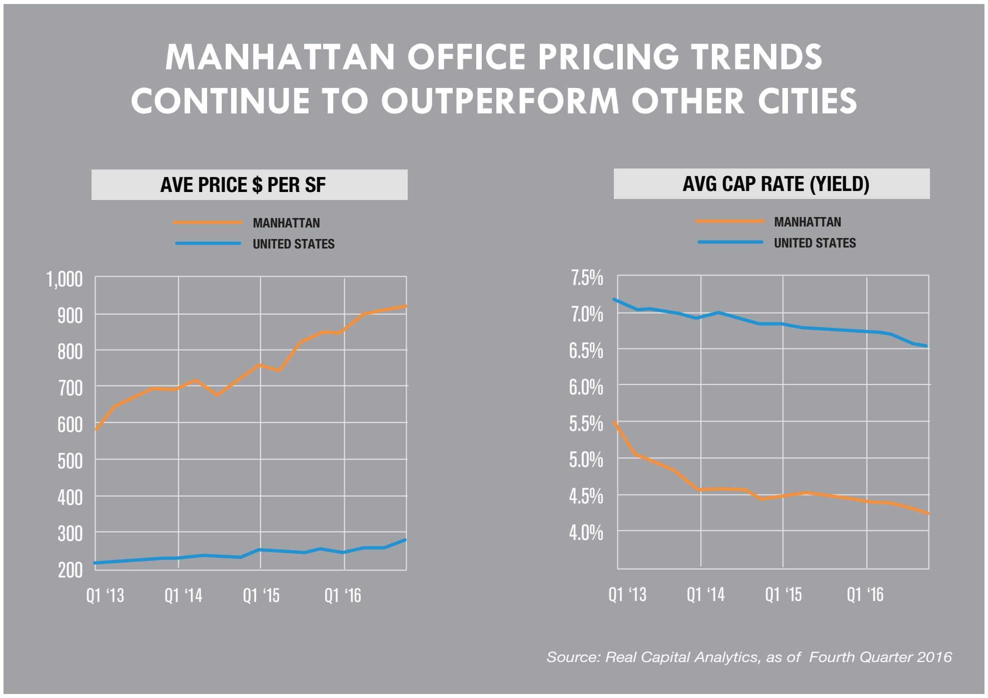
buildings here has been 150 percent of the national average yield since 2000.

Even with the new generation of office properties coming to market, Manhattan vacancy remained strong at 8.1%, thanks to net absorption of 1,213,780 square feet in the Fourth Quarter. Major sports leagues, including Major League Baseball and the National Hockey League were among the top tenants signing leases during the final three months of 2016. This is a great reminder that sports and entertainment are a major export industry for New York City, bringing substantial income into the city and having a significant multiplier effect across other sectors. Law firms such as Milbank Tweed are inking deals in Hudson Yards, and WeWork continues to contract for space which it then rents out to the 'gig economy.'

One change on the horizon worth noting is the volume of completions now scheduled for 2018 and 2019. Manhattan has not seen two consecutive years of deliveries in excess of four million square feet since the mid-1980s. Tenants took advantage of the very narrow spread in Class A and Class B rents from early 2015 to mid-2016. But now the market is seeing the historical premium for Class A offices reassert itself. When roughly ten million square feet of new space comes to market in 2018-2019, though, we may see that rent gap narrow once again.



Source: Real Capital Analytics, as of Fourth Quarter 2016

MHP has bought and sold over $12 billion worth of commercial real estate. MHP currently owns, leases and manages over 5 million square feet of first-class office space, and features a 50 person strong tenant rep practice specializing in office, retail and sales. As a full service firm, with in-house leasing, sales, management, and project/buildout capabilities, MHP has garnered a reputation in New York for quickly transforming properties into profitable investments. This 45 year track record has enabled MHP to establish long term partnerships with leading financial institutions, pension funds, and other commercial lenders. On a global scale, MHP provides its clients with access to opportunities in over 200 major markets as the New York affiliate of TCN Worldwide.

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