

MANHATTAN OFFICE CAPITAL MARKETS REPORT



Record Demand for Manhattan Office Buildings

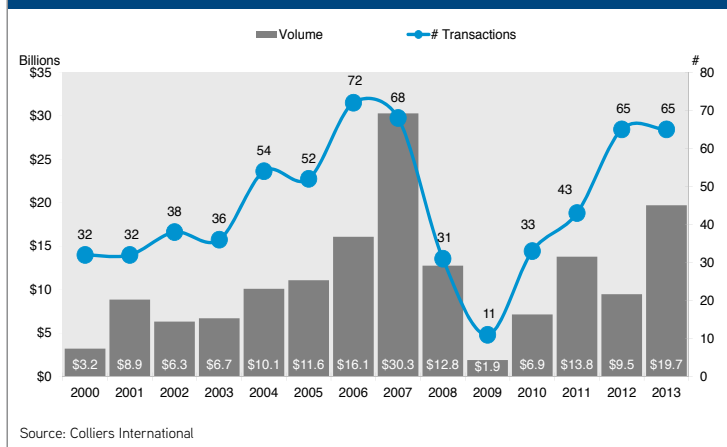
SALES VOLUME REACHES HIGHEST POINT SINCE 2007

The pace of investment sales in New York City was strong in 2013, with 65 closed transactions that attained a total market value of \$19.7 billion. At this level, 2013 was the second most active year after 2007 when \$30.3 billion in sales closed. Sales activity was particularly strong in the fourth quarter of 2013 with closed deals reaching \$8.5 billion. While the Federal Reserve began to reduce its pace of bond purchases in the fourth quarter, the feared response by the credit markets of an increase in interest rates did not occur. In fact, the yield on the 10-Year Treasury note actually declined by approximately 10 basis points. Of course, the story is not over as to how the credit market and the financial markets in general will ultimately deal with a less accommodative Federal Reserve.

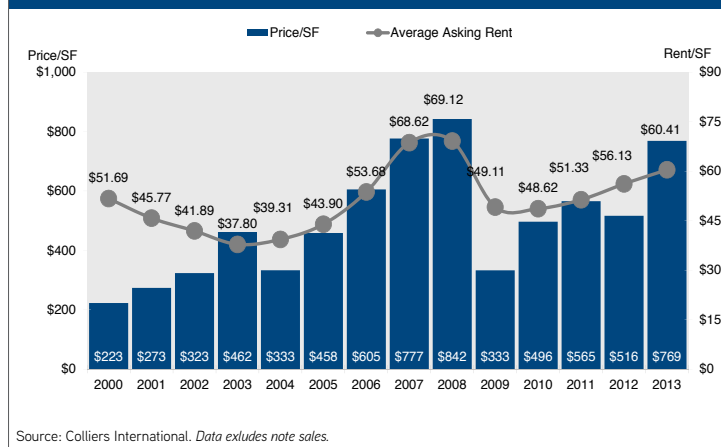
In addition to the relatively tranquil credit markets leasing activity was very solid; asking rents continued to rise; and the unabated demand for real estate assets from investors around the world; all combined to make for a strong investment sales market in 2013. With these trends continuing in 2014; deal activity is likely to remain brisk, with solid market valuations.

The demand for core and core plus properties was particularly strong. This property classification accounted for nearly \$16 billion or 80 percent of the total dollar transaction volume for all of 2013. With this focus on higher quality properties, the average sales price per square foot for all of Manhattan office properties increased from \$516/sf in 2012 to \$769/sf in 2013; an increase of 49 percent. Also of note, investor interest in the

MANHATTAN SALES ACTIVITY



MANHATTAN SALES PRICE/SF & ASKING RENTS



Downtown market reappeared in 2013. Properties in this portion of the Manhattan market tend to have lower market prices than buildings in the Midtown North or Midtown South markets. As a result, the overall average sales price per square foot for Manhattan overall was reduced. Thirteen of the total of 65 transactions closed in 2013 were done in the Downtown market, having a total volume of \$2.5 billion. This was the highest activity level since 2005, when 15 Downtown transactions closed, with a total transaction volume of \$2.6 billion.

PRICING LEVELS REACH PEAK

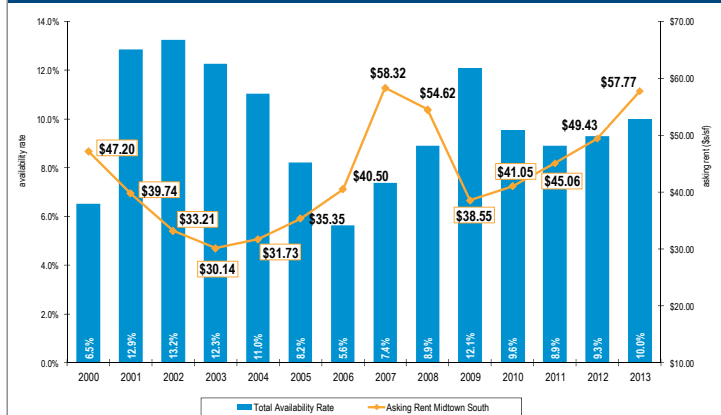
There were 31 transactions involving Class A buildings in 2013, 24 of these were in the Midtown market and 7 buildings were located in the Downtown market. The average Class A sales price rose to \$829/sf in 2013, a 54 percent increase from the \$538/sf average in 2012. Excluding the Downtown buildings, the average Class A sales price rose to \$1,025/sf, 8.2 percent above the previous peak of \$947/sf that was reached in 2007.

In the tower floors of the undisputed trophy properties in Midtown, leasing terms are similar to those seen in 2007 and 2008. However, overall rent levels are lower now than in 2007 or 2008. The average asking rent for Class A space at the end of the fourth quarter of 2013 in Midtown North was \$71.25/sf, which is 24.8 percent below the last cyclical high of \$94.72/sf reached in mid-2008. While rents in the Midtown market are up over the last three years; market prices for office properties have clearly shot beyond the historical relationships between rent levels and property valuations. It is generally conceded that the Federal Reserve's aggressively accommodative monetary policies combined with intense global demand for safe assets have helped drive prices to new high levels.

There were 34 transactions that involved Class B buildings in 2013; 28 in the Midtown market and 6 properties located in the Downtown market. The average overall price for Class B buildings rose to \$596/sf, slightly below the peak reached in 2007 for Class B assets of \$608/sf. In 2007, there were no sales in the Downtown market of Class B building. So the more appropriate comparison is between the 2007 figure and 2013's Class B average price per square foot in the Midtown market. In 2013, the average Midtown Class B sales price reached \$629/sf, 3.3 percent above the \$608/sf figure for 2007.

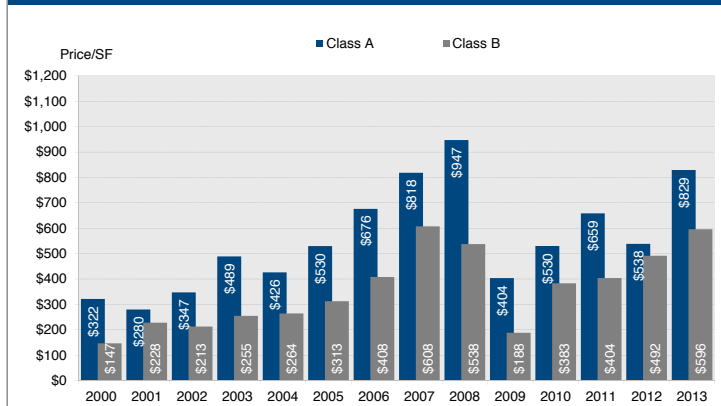
The recovery and current level of market prices for Class B properties in Midtown is more in line with rents than appears to be the case for Class A assets. In the Midtown North market, the average asking rent for Class B space equaled \$51.84/sf, which is 6.2 percent below the average in 2008. For the Midtown South market, where most of the transactions in Class B buildings have occurred, the average asking rent reached \$55.05/sf by the end of 2013; which is approximately 10 percent above the level in 2007 and 2008. Moreover, the prospects that rents will continue to rise in the Midtown South appear good. Midtown South is the locus of Manhattan's "Silicon Alley" where digital technology firms are the leading edge of growth. In 2013, employment in the tech business sector was up by nearly 6.0 percent. Moreover, a wider spectrum of business sectors is moving into this market; as the amenities infrastructure of Midtown South market matures to rival Midtown North's.

MIDTOWN SOUTH CLASS A & B AVAILABILITY RATE & ASKING RENT



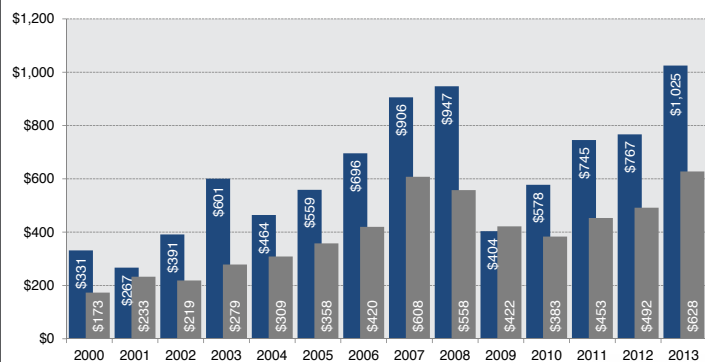
Source: Colliers International & CoStar

MANHATTAN CLASS A & B PRICE/SF



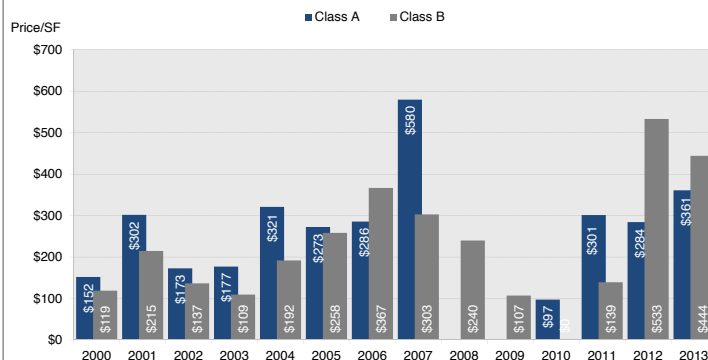
Source: Colliers International. Data excludes note sales.

MIDTOWN CLASS A & B PRICE/SF



Source: Colliers International. Data excludes note sales.

DOWNTOWN CLASS A & B PRICE/SF



Source: Colliers International. Data excludes note sales.

SALES VOLUME

As noted earlier, the pace of investment sales reached the highest level since 2007, both in terms of the number of transactions and the dollar value of those closed deals. There were 65 transactions, with a total market value of 19.7 billion. Five transactions involved properties trading at over \$1 billion, and the average transaction size rose to \$303 million, more than double the \$145 million average size in 2012.

BUYER AND SELLER PROFILE

Foreign investors were the most active buyer category for the first time in years; with a strong burst of activity in the fourth quarter of 2013. Institutional buyers were a close second and accounted for 27 percent of the activity. The next most active

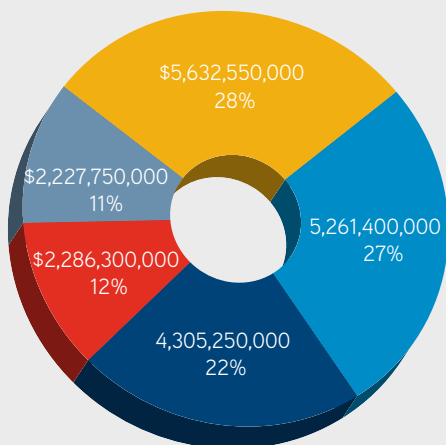
group was private equity funds. Private market buyers and REITs were the least active groups, but still accounted for 12 and 11 percent of the activity respectively. As noted earlier, the intense demand for Manhattan office properties is expected to continue in 2014.

Institutions were the most active sellers in 2013, accounting for 44 percent of the sales activity. A number of institutional investors, that held their positions through the downturn from mid-2008 to the end of 2009 and then during the recovery, exited the market in 2013, some at a profit. The next most active groups were private market sellers; closely followed by private equity funds. REITs and foreign sellers were the least active sellers in 2013.

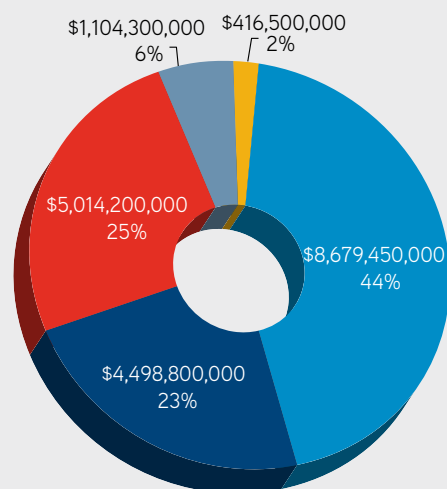
2013 BUYER & SELLER PROFILES



BUYER PROFILE



SELLER PROFILE



Source: Colliers International

CONCLUSION

Investment sales pricing in major segments of the Manhattan office market finished 2013 at record levels. Looking ahead to 2014, many of the property operating fundamentals that supported values in 2013 appear to remain in place for 2014. At the national level, though, the Federal Reserve has begun to moderate its expansive monetary policy; and again the U.S. and global economies are moving into new territory. If the U.S. and global economies can demonstrate early in 2014 that they can accommodate this shift in policy; then property operating fundamentals and credit conditions should remain positive; supporting activity levels and valuations.

Over 520 offices in 62 countries on 6 continents

- > Over 13,500 professionals
- > 1.12 billion square feet
under property management
- > US \$71 billion in transaction value
- > US \$2.0 billion in global revenue

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