

MARKETBEAT

Buffalo, NY

Office Q2 2019



BUFFALO OFFICE

| Economic Indicators | Q2 18 | Q2 19 | 12-Month Forecast |
|----------------------|-------|-------|-------------------|
| Buffalo Employment | 564k | 568k | ▲ |
| Buffalo Unemployment | 5.3% | 3.9% | ▼ |
| U.S. Unemployment | 3.9% | 3.6% | ▼ |

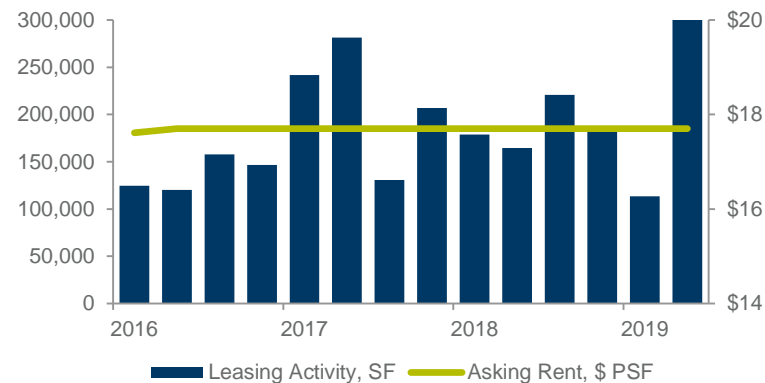
Market Indicators (Overall, All Classes)

| | Q2 2018 | Q2 2019 | 12-Month Forecast |
|---------------------------|---------|---------|-------------------|
| Vacancy | 17.4% | 16.5% | ▼ |
| YTD Leasing Activity (sf) | 385k | 417k | ▲ |
| Under Construction (sf) | 185k | 282k | ▲ |
| Average Asking Rent* | \$17.70 | \$17.70 | ■ |

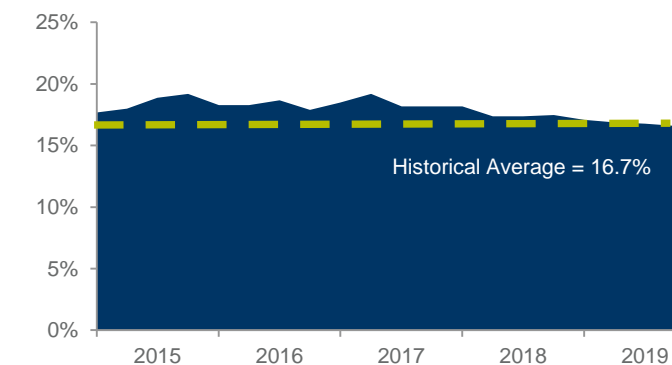
*Rental rates reflect gross asking \$psf/year

Overall Leasing Activity/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Buffalo-Niagara MSA incorporates a five-county area around Buffalo, NY. The 2010 Census reported the Buffalo-Niagara MSA population at 1.14 million, ranking it as the 47th largest MSA in the country. According to the U.S. Bureau of Labor Statistics, Buffalo's average unemployment rate for the fourth quarter of 2018 was 4.2%, which is slightly higher than the national average of 3.7%. Buffalo's economy continues to expand and diversify, led by major growth in the healthcare and education sectors. The region's largest economic sectors are financial services, technology, healthcare and education. Since 2010, nearly \$5.5 billion in construction projects are either completed, underway, or in the planning stages. This number climbs to \$10 billion when including projects from the surrounding communities. Buffalo's proximity to Canada has resulted in robust growth in many different sectors of the local economy. This impact will increase significantly as the "Golden Horseshoe Region" population of Southern Ontario is expected to grow from 8.8 million today to 11.5 million by 2031.

Market Overview

By mid-year 2019, the Metropolitan Buffalo Office Market maintained over 22 million square feet (msf) of space operating at an overall vacancy rate of 16.5% and average asking direct lease rate of \$17.70 per square foot (psf) gross. The CBD supports over 12 msf of space operating at a 19.6% overall vacancy rate (all classes) and average lease rate of \$16.75 psf. The Amherst Suburban Market totals 10.2 msf of office space and an overall vacancy rate of 12.8% with an average lease rate of \$18.25 psf. Class A space in these combined markets totals 5.52 msf operating at a vacancy of 8.6% and an average lease rate of \$23.60 psf. While the average asking lease rate has remained consistent over the past 12 months, the outlook going forward is that there has been considerable activity in both the CBD and the Amherst Suburban Markets and it is expected that the vacancy rate will continue to go down. Additionally, with continued limited availability in the CBD Class A market - direct vacancy rate of 3.4% - it remains to be seen whether developers will build on spec or continue with redevelopment projects.

Outlook

Buffalo continues to be in the midst of one of the most impressive transformations of this century. As stated by People Magazine when Buffalo was named to the 19th spot on the "100 Reasons to Love America in 2019" List – Buffalo is a "rust belt city having a renaissance" – and there is no sign of a looming slowdown. Governor Cuomo remarked "this exciting news is proof positive that our economic strategies are working and we will continue building on this momentum and focusing on the future of Buffalo to ensure all the arrows continue pointing in the right direction for generations to come". Economic development initiatives continue to create jobs helping to fuel a resurgence of the City's Downtown Area. Many area projects have been completed, while others are on the cusp of completion or are in the planning stages. A significant completion for the region is Ellicott Development's 500 Pearl Street (390,256 SF), a mixed-use project that incorporates a hotel, residential space and 52,000sf of much needed Class A office space. The "hot areas" in the City of Buffalo's redevelopment include: Buffalo-Niagara Medical Campus, The Elmwood Village and the Hertel Avenue and Niagara Street Business Districts. Commercial Corridors that are showing signs of interest and potential redevelopment include Seneca Street, Grant Street and the Broadway Fillmore Area. Projects "in the works" include Uniland's 505 Ellicott Street (39,760 SF), Krog's Trico Building Redevelopment (617,000 sf), Uniland's VNA Building at 650 Airborne Parkway (45,000 sf), The Pegula Sports Entertainment/Labatt USA 79 Perry Project (79,030 sf), the redevelopment of the former Buffalo Children's Hospital (Elmwood Crossing – 8 Acres - \$110 M) and One Seneca Tower (1.2 msf).

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| SUBMARKET | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF) | OVERALL AVERAGE ASKING RENT (ALL CLASSES)* | OVERALL AVERAGE ASKING RENT (CLASS A)* |
|---------------------------|-------------------|--------------------|--------------------|----------------------|---|---------------------------------|---------------------------|------------------|--|--|
| Amherst Suburban | 10,179,213 | 75,517 | 1,220,080 | 12.8% | 93,091 | 9,083 | 292,225 | 185,000 | \$18.25 | \$23.00 |
| CBD | 12,056,088 | 95,999 | 2,263,577 | 19.6% | 14,441 | 112,171 | 125,518 | 0 | \$16.75 | \$27.00 |
| BUFFALO, NY TOTALS | 22,235,301 | 174,766 | 3,483,657 | 16.5% | 107,532 | 121,254 | 417,743 | 185,000 | \$17.70 | \$23.60 |

*Rental rates reflect gross asking \$psf/year

| | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF) | DIRECT AVERAGE ASKING RENT* | OVERALL AVERAGE ASKING RENT* |
|---------|----------------|--------------------|--------------------|----------------------|---|---------------------------------|---------------------------|------------------|-----------------------------|------------------------------|
| Class A | 5,525,676 | 81,747 | 395,600 | 8.6% | 30,421 | 27,666 | 173,759 | 0 | \$23.93 | \$23.60 |
| Class B | 16,709,625 | 93,019 | 3,086,057 | 19% | 79,111 | 95,588 | 169,673 | 185,000 | \$20.00 | \$17.70 |

Key Lease Transactions 2019

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|--|--------|-------------------------------|------------------|------------------|
| 3920 Main Street, Amherst, NY | 88,821 | Centene | New Lease | Amherst Suburban |
| 2170 Whitehaven Road, Grand Island, NY | 41,500 | Life Technologies Corp | New Lease | Amherst Suburban |
| 50 Fountain Plaza, Buffalo, NY | 35,000 | Cannon Design | New Lease | CBD |
| 115 Lawrence Bell Drive, Williamsville, NY | 24,433 | Strategic Financial Solutions | New Lease | Amherst Suburban |
| 75 Earhart Drive, Williamsville, NY | 23,249 | M & T Bank | New Lease | Amherst Suburban |

Key Sales Transactions 2019

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|-------------------------------|--------|--|------------------------|-----------|
| 622 Main Street, Buffalo, NY | 70,911 | Acquest Theater Place / Main Theater Place | \$3,250,000 / \$45.83 | CBD |
| 392 Pearl Street, Buffalo, NY | 37,844 | 392 Pearl Properties LLC / Cedarland Development | \$1,750,000 / \$46.24 | CBD |
| 899 Main Street, Buffalo, NY | 31,713 | The Excellus-Lifetime Health Buffalo / Uniland Development Company | \$4,350,000 / \$136.70 | CBD |

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