

DOWNTOWN MANHATTAN OFFICE MARKET

THIRD QUARTER 2016

Downtown witnessed negative net absorption

Vacancy rate increased to 8.8% in Q3 2016

After a steady increase in leasing activity over the past few years, leasing activity in Downtown reduced in Q3 2016. There was a decline in both numbers as well as the volume of transactions. Consequently, the vacancy rate also increased to 8.8% in Q3 2016, 40 basis points higher than Q2 2016. Despite the increased vacancy rates, certain types of properties are still in high demand and difficult to find. This includes quality office space that is 15,000 SF and below and close to the transit hubs. These smaller sized units are ideal space options for startups in the TAMI and FIRE sector that are spaced or priced out of Midtown South. It's especially true in the Financial District and World Trade Center. Shortage of such quality space has led to a substantial increase in the average asking rental rate for those properties over the past few quarters.

ECONOMY

Unemployment rates remain stable





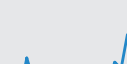

Real gross domestic product (GDP) increased 2.9% in the third quarter of 2016, according to the advance estimate released by the Bureau of Economic Analysis. The unemployment rate remained stable at 4.9% in Q3 2016. Gross job gains exceeded gross job losses in most industry sectors. Professional and business services and health care witnessed the highest increase in job growth.

Real gross city product (GCP) grew at an estimated annual rate of 2.6% in Q3 2016, a full percentage point above the 1.6% recorded in 2Q 2016, but slightly less than the national economic growth rate of 2.9%. However, other indicators signaled weakness in the economy. The city's quarterly unemployment rate was at 5.5% in Q3 2016, a marginal increase of 30 basis points as compared to previous quarter.

VACANCY

Downtown witnessed a marginal increase in vacancy rate

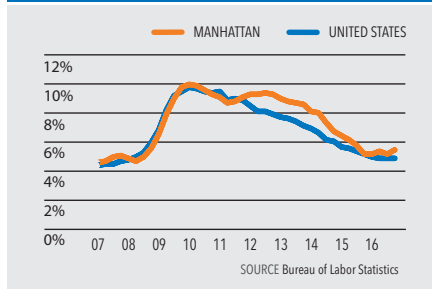
The overall vacancy rate in the third quarter of 2016 was at 8.8%; a 40 basis point increase as compared to 8.4% in Q2 2016. The 40 basis point increase was due to the addition of multiple large blocks of space. Newly listed properties with 100,000 plus SF space options included 120 Broadway, 32 Old Slip, 1 World Trade Center and 200 Liberty Street.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
VACANCY 	8.8% Substantial increase in vacancy rates
ABSORPTION 	-438,318 SF Negative net absorption continued
AVERAGE RENTAL RATE 	\$51.70 PSF Asking rents remained stable
RBA DELIVERED 	0 SF No new projects delivered
AVERAGE OFFICE SALE PRICE 	\$1027 PSF Sale value increased
CAP RATE 	5.4% Cap rate decreased

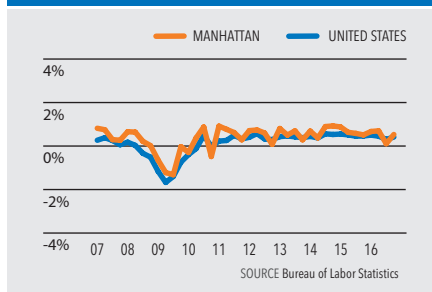
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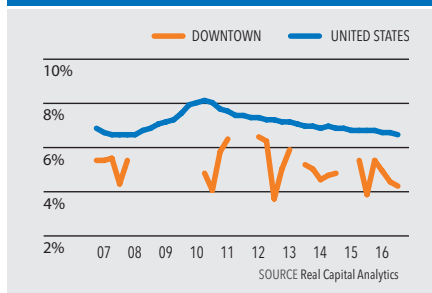
UNEMPLOYMENT RATE



PAYROLL JOB GROWTH



CAP RATES



ABSORPTION

Downtown experienced negative net absorption of 438,318 SF in Q3 2016

Moving away from the trend of positive net absorption in the first half of 2016, the third quarter of 2016 saw a negative net absorption of 438,318 SF. The Financial District, Insurance District and Tribeca had the highest share of negative net absorption. Only one out of the seven transactions exceeding 100,000 SF in Q3 2016 was in Downtown.

Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
Zurich Insurance Group	4 World Trade Center	131,876	New Lease
Adprime	33 Whitehall Street	50,667	New Lease
Guggenheim Museum	1 Liberty Plaza	45,558	New Lease

RENTAL RATES

Downtown saw an increase in average asking rental rate

The third quarter of 2016 witnessed an increase in the rental rate as compared to Q2 2016. Q3 2016's average asking rental rate was \$51.70 PSF, 1.3% higher than Q2 2016. Except for City Hall, all submarkets saw an increase in rental rate. The rental rates Downtown are likely to continue to move upward in the coming quarters due to the opening of the Calatrava transit hub, attracting numerous retail destinations with the millennial population working in the TAMI sector.

UNDER CONSTRUCTION/ PROJECTS DELIVERED

No new projects expected to be delivered until 2018

Q1 2016 did not receive any new supply of office properties. The next Downtown property to be delivered will be 3 World Trade Center, which is currently under construction and expected to be delivered early 2018. ■

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in Manhattan. This report includes single-tenant, multi-tenant and owner-user Class A & B office properties 20,000 SF and larger.



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