

DOWNTOWN MANHATTAN OFFICE MARKET

FOURTH QUARTER 2015

Rental rates marginally increased across all Downtown submarkets

Vacancy rate remained constant at 11.0%

Downtown witnessed slow but steady leasing activity in 2015. Though Downtown Manhattan had a double-digit vacancy rate, certain kind 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 hub. This is an ideal space option for startups in the TAMI and FIRE sector that are spaced out of Midtown South. This is especially true in the Financial District and World Trade Center. Shortage of such quality space has led to an increase in average asking rental rate over the past year. The rental rate has increased across Class A and B properties.

ECONOMY

Unemployment rates consistently plummeted







Real gross domestic product (GDP) increased 2% in the third quarter of 2015, according to the "third" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2015, the unemployment rate was 5.0%, 20 basis points lower than Q3 2015. Employment gains occurred in several industries, led by professional and business services, construction, health care and food services.

In Q4 2015, the unemployment rate in New York City was 4.8%, a drop of 63 basis points from Q3 2015. The strongest increase in employment numbers occurred in health and social assistance, professional and business services followed by accommodation and food services.

VACANCY

World Trade Center and Financial District vacancy rates fall

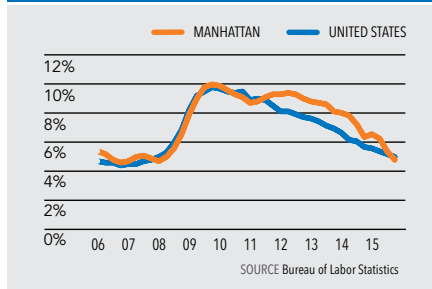
The overall vacancy rate in the fourth quarter of 2015 did not change and remained constant at 11.0% due to the factors proceeding. The effective vacancy rate, especially for quality space, fell due to continued demand from TAMI and FIRE sector tenants in the World Trade Center and Financial District. The decreased vacancy rates in the World Trade Center and Financial District were also due to multiple large size transactions in the submarkets including WeWork and Knight Capital. The Insurance District and City Hall, however, saw an increase in vacancy rates. The Insurance District experienced a temporary spike in the vacancy rate because 180 Water Street and 130 William Street were vacated for demolition in fourth quarter of 2015.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
VACANCY 	11.0% Vacancy Rates Remain Constant
ABSORPTION 	45,730 SF Positive net absorption seen
AVERAGE RENTAL RATE 	\$49.65 PSF Average rental rate increase
RBA DELIVERED 	0 SF No projects delivered
AVERAGE OFFICE SALE PRICE 	\$551 PSF Average Sale price reduces marginally
CAP RATE 	5.4% Cap rate increases marginally

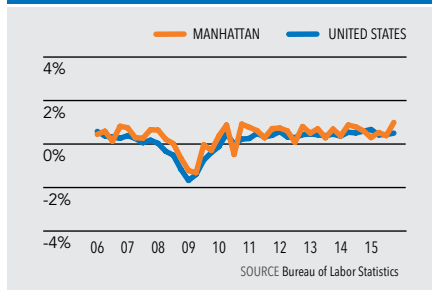
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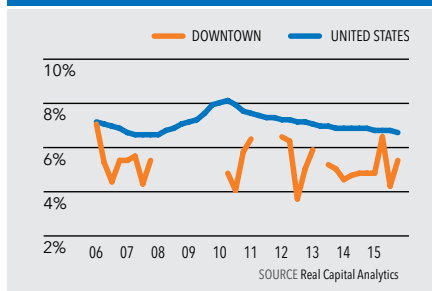
UNEMPLOYMENT RATE



PAYROLL JOB GROWTH



CAP RATES



ABSORPTION

Absorption activity concentrated in the Trade Center and Financial Districts

Similar to vacancy metrics, absorption numbers do not tell a complete story. Statistically, 2015 experienced a year of negative net absorption. The shortage of “mega deals” closing Downtown resulted in a negative net absorption, notable when compared with the robust 1.7 million SF absorption in 2014. This negative net absorption was seen in all submarkets except the World Trade Center and Financial District. Approximately 20% of the transactions exceeding 100,000 SF in 2015 were in Downtown. The top three transactions were as follows:

Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
WeWork	85 Broad Street	233,174	New Lease
Teachers Retirement System of the City of New York	55 Water Street	191,000	Renewal/Expansion
Knight Capital Group	1 North End Avenue	168,873	New Lease

RENTAL RATES

Downtown saw marginal increase in average asking rental rate

In Q4 2015, Downtown witnessed a marginal increase in the rental rate after a marginal decrease in Q3 2015. Q4 2015's average asking rental rate was \$49.65 PSF, \$0.47 higher than Q3 2015. This increase in rental rate was seen in all submarkets. Notable is the increase in rental rates in the World Trade Center and Financial District, which increased 2% - 7% in 2015. The rental rates Downtown are likely to continue to move upward in the coming quarters due to the opening of the Calatrava transit hub and numerous retail destinations that will be coming online in 2016.

UNDER CONSTRUCTION/ PROJECTS DELIVERED

No new projects expected to be delivered until 2018

2015 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. ■

CONTACT

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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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