

MANHATTAN OFFICE MARKET

THIRD QUARTER 2017

Increasing demand for new construction continues to drive leasing Manhattan's average asking rent remains strong

The Manhattan office market continues to benefit from the increasing demand for new construction, specifically in the Hudson Yards, Manhattan West, and World Trade Center areas. As a result, leasing activity has surpassed over 20 million SF through the first three quarters of 2017, on track to outpace 2016 leasing totals. The market has remained active for tenants over 50,000 SF, with this tenant mix accounting for the majority of leasing activity this quarter. Further, 55% of leasing activity recorded in 2017 has taken place in either new construction or major renovated properties, a trend that has been dominating the market over the past several years. On a submarket level, Midtown witnessed the strongest performance in Q3 2017, recording six transactions over 100,000 SF, primarily in the Hudson Yards area, attributing to over 500,000 SF of positive net absorption. The Downtown market continues to outpace 2016's leasing totals, recording two transactions over 200,000 SF this quarter. While Midtown and Downtown are benefiting from large transactions, Midtown South has cooled down to 2013 levels. The lack of large quality space continues to hinder the submarket's performance.

ECONOMY







Unemployment rate ticks up to 4.9%, remains stable

Despite an uptick in New York City's unemployment rate, levels remain stable. Private sector jobs increased 2.4% year-over-year adding 89,000 jobs. The greatest gains were in education and health services, professional and business services, and financial activities; all growing sectors. Further, the year-over-year private sector growth was 1.7% above the national average.

AVAILABILITY

Large blocks added, remains stable

Manhattan's Q3 2017 availability rate ended at 11.3%. Despite a robust quarter of leasing, there were still some large blocks added this quarter, specifically in Midtown's Times Square and in Downtown's Insurance District; combining for a total of 1.4 million SF of newly available space. As a result, Midtown's availability rate ended Q3 2017 at 10.9% and Downtown's availability rate ended the quarter at 13.8%.

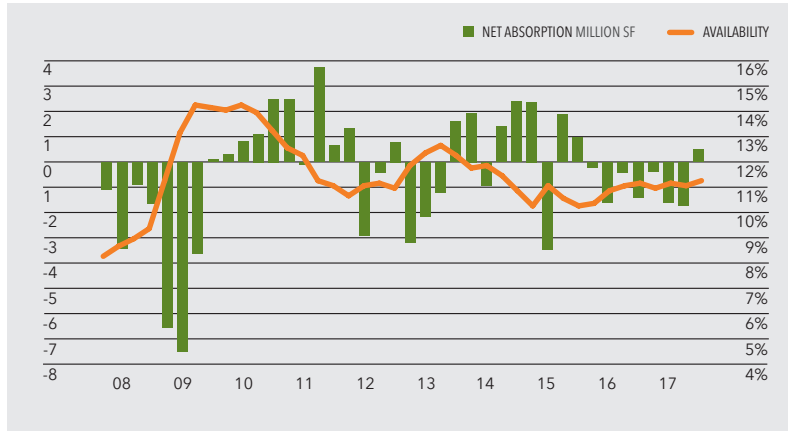
TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
AVAILABILITY 	11.3% Availability rate remains stable
ABSORPTION 	509,052 SF Positive net absorption observed
RENTAL RATES 	\$73.90 PSF Asking rents increased marginally
CAP RATES 	4.4% Cap rate remains stable
AVERAGE OFFICE SALE PRICE 	\$758 PSF Sale value decreased
JOB GROWTH 	-10,587 jobs Jobs lost during the quarter

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THIRD QUARTER 2017



MANHATTAN NET ABSORPTION AND AVAILABILITY



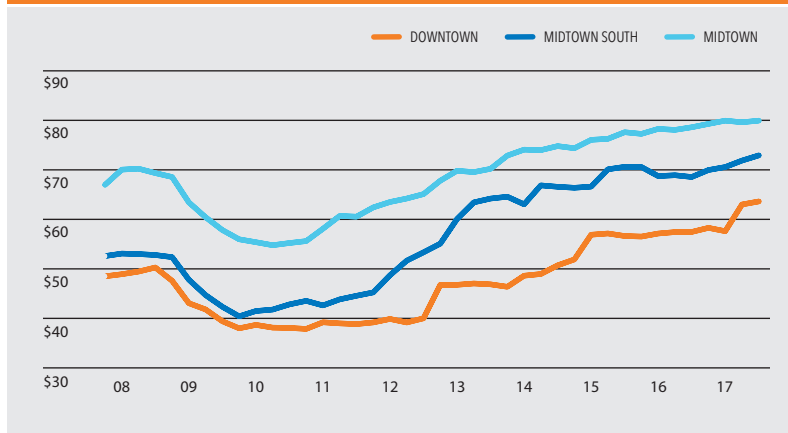
ABSORPTION

Manhattan witnessed 509,052 SF of positive net absorption

After seven straight quarters of negative net absorption, Manhattan posted over 500,000 SF of positive absorption, driven by strong leasing activity in the Midtown and Downtown submarkets. Q3 2017 witnessed eight transactions over 100,000 SF, with five being over 200,000 SF. Midtown continued to benefit from the movement to the West Side with new construction, Amazon.com leased 365,000 SF at 450 West 33rd Street (5 Manhattan West), Accenture took 249,000 SF at 1 Manhattan West, and Guardian Life Insurance took 148,000 SF at 10 Hudson Yards. In addition, Downtown continued to attract large users, such as the NYC Department of Investigation who took 276,000 SF at 180 Maiden Lane and MacMillan Publishing who took 260,000 SF at 120 Broadway.

However, both Midtown and Downtown did experience negative absorption in some areas, Times Square in Midtown witnessed negative 852,000 SF and Downtown's Insurance District witnessed negative 557,000 SF, both due to large blocks of space added this quarter. Midtown South was the only submarket overall to register negative net absorption for the quarter, posting negative 71,513 SF. The only area in Midtown South to post positive absorption was SoHo, ending the quarter with 62,000 SF.

MANHATTAN AVERAGE ASKING RENTAL RATES



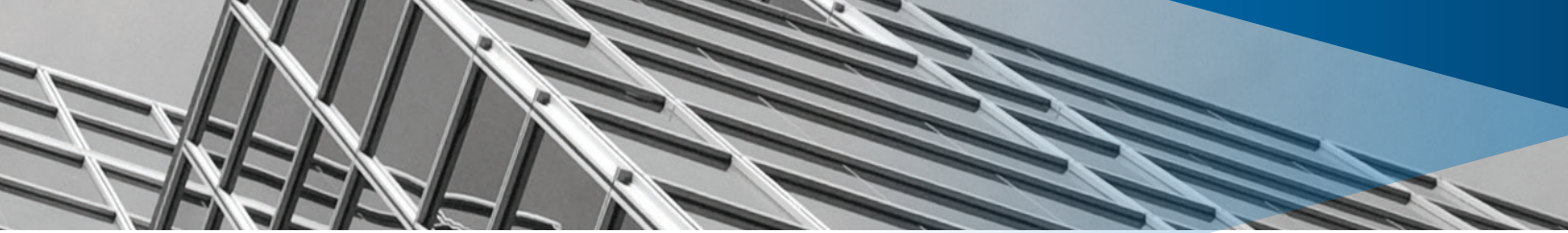
AVERAGE ASKING RENT

Unchanged quarter-over-quarter, remains strong

The average asking rent across Manhattan ended Q3 2017 at \$73.90 PSF, virtually unchanged from last quarter and up 4% year-over-year. New construction added within the past year has continued to push base rents to historic highs. However, this figure can be misleading as concession packages have increased substantially, lowering the net effective rent.

Midtown's Q3 2017 average asking rent ended at \$79.88 PSF. This figure may be artificially lower than it should be as new construction hasn't had a major impact on the average asking rent. Space has typically leased before it hit the market or the occupancy date was further than 12 months out, causing the statistics to not be impacted. However, new construction this year in Midtown South and Downtown has increased the average asking rent to an all-time high.

Midtown South's average asking rent ended the quarter at \$72.89 PSF, nearly unchanged from last quarter and up 5% year-over-year. Major additions of new construction this year in the Chelsea/Flatiron submarket, such as 512 West 22nd Street and 412 West 15th Street, where asking rents are north of \$120 PSF, have pushed the average asking rent to an all-time high. Downtown's average asking rent ended the quarter at \$63.63 PSF, a sizeable 11% increase year-over-year. With the addition of 3 World Trade Center last quarter, where rents are in the \$80's PSF, the average asking rent was pushed to over \$60 PSF for the first time.



UNDER CONSTRUCTION/ PROJECTS DELIVERED

No projects delivered in Q3 2017

Following the delivery of new construction in Chelsea/Tribeca and the World Trade Center submarkets during the first two quarters of 2017, the pipeline remains mute to close out the year. While many properties remain under construction on the West Side, including Hudson Yards and Manhattan West, they are close to being fully leased, except 50 Hudson Yards, where there will be approximately 2 million SF available. Although it has yet to break ground, Blackrock signed on to be the anchor tenant last quarter.

In Grand Central, One Vanderbilt Avenue is scheduled to be delivered in the third quarter of 2020, adding an additional 1.7 million SF. In addition, 425 Park Avenue, which is scheduled to be delivered in the fourth quarter of 2018, will add an additional 400,000 SF. Both properties will command premium rents upwards of \$100 PSF.

INVESTMENT SALES

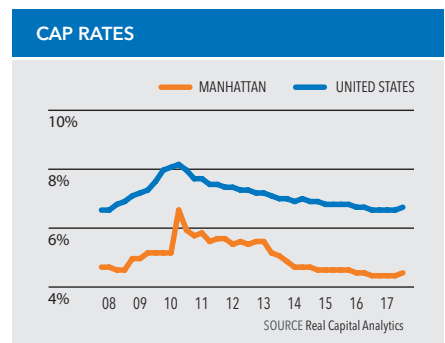
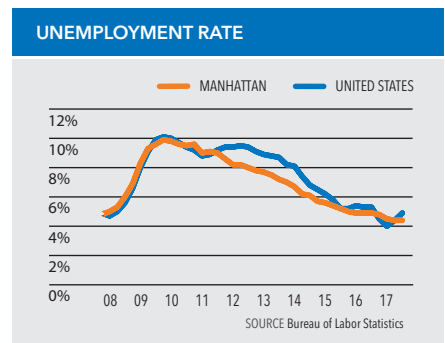
Cap rate remains stable

Total sale volume ended at \$1.4 billion, with an average of \$758 PSF in the third quarter. The price per square foot has declined from \$900 PSF, where it was a year ago. Major transactions recorded this quarter include the sale of 375 Hudson Street for \$580 million, \$530 PSF—where Trinity Real Estate acquired a leasehold interest from Tishman Speyer. Manhattan’s cap rate continue to remain stable at 4.4%, which has been hovering around 4.3%-4.5% over the past several years.

OUTLOOK

Demand for new construction will continue to propel leasing

The outlook for the remainder of 2017 remains mildly optimistic and the strong demand for new construction will continue to drive the market through year-end. With large transactions in the pipeline, such as Ernst & Young’s potential late-stage talks to lease 600,000 SF at 1 Manhattan West, leasing activity is expected to keep on its current pace. Further, with the development pipeline remaining flat for the remainder of the year, availability and asking rents are expected to remain near current levels. ■



Notable Lease Transactions

COMPANY	ADDRESS	SUBMARKET	SQUARE FEET	LEASE TYPE
New York Presbyterian	237 Park Avenue	Midtown	479,016	New Lease
Amazon.com	450 West 33rd Street	Midtown	365,375	New Lease
NYC Department of Investigations	180 Maiden Lane	Downtown	276,000	New Lease
MacMillan Publishing	120 Broadway	Downtown	260,836	New Lease
Accenture	1 Manhattan West	Midtown	248,673	New Lease

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Manhattan Office Market Indicators by Submarket

SUBMARKET	INVENTORY	NET ABSORPTION	VACANCY RATE	DIRECT AVAILABILITY RATE	AVAILABILITY RATE	CLASS A AVERAGE RENT PSF	CLASS B AVERAGE RENT PSF	OVERALL AVERAGE RENT PSF
City Hall/Tribeca	11,078,136	87,171	11.5%	10.7%	11.4%	\$66.57	\$47.78	\$65.56
Financial District	37,189,781	567,851	10.1%	10.4%	11.7%	\$56.05	\$52.63	\$55.90
Insurance District	8,763,966	(557,310)	4.4%	8.6%	11.8%	\$54.92	\$49.44	\$53.75
World Trade Center	34,198,853	(48,999)	12.2%	15.3%	17.5%	\$71.03	\$51.40	\$70.00
Downtown Total	91,230,736	48,713	10.5%	12.1%	13.8%	\$64.48	\$50.86	\$63.63
Chelsea/Flatiron	24,283,286	(40,463)	7.0%	6.6%	9.5%	\$127.97	\$56.14	\$73.13
Gramercy Park	29,636,955	(35,237)	7.0%	6.2%	8.1%	\$75.24	\$63.37	\$68.90
Greenwich Village	4,812,906	(52,746)	2.3%	5.1%	6.8%	-	\$67.56	\$67.56
Hudson Square	10,216,915	(5,468)	8.5%	8.6%	12.6%	\$84.41	\$54.32	\$82.73
SoHo	4,847,231	62,401	10.8%	14.7%	17.4%	\$69.85	\$67.03	\$68.19
Midtown South Total	73,797,293	(71,513)	7.2%	7.1%	9.7%	\$88.06	\$60.04	\$72.89
Columbus Circle	28,517,992	240,396	7.5%	6.1%	7.8%	\$73.56	\$75.36	\$73.63
East Side	14,365,946	158,978	3.6%	3.8%	5.4%	\$66.63	\$58.55	\$66.16
Grand Central	55,904,437	360,123	12.3%	10.1%	12.4%	\$77.45	\$54.70	\$75.81
Penn Plaza	56,784,807	461,606	6.9%	6.7%	8.3%	\$68.11	\$59.44	\$63.86
Plaza District	68,241,362	163,028	11.4%	10.8%	13.2%	\$97.45	\$64.56	\$97.08
Times Square	39,784,117	(852,279)	8.3%	10.6%	12.5%	\$78.29	\$69.43	\$75.50
Midtown Total	263,598,661	531,852	9.3%	8.9%	10.9%	\$83.16	\$62.92	\$79.88
Manhattan Total	428,626,690	509,052	9.2%	9.2%	11.3%	\$76.68	\$60.52	\$73.90

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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 and multi-tenant Class A and B office properties with at least 100,000 SF in Midtown, 50,000 SF in Midtown South, and 75,000 SF in Downtown.



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