

MANHATTAN OFFICE MARKET

FOURTH QUARTER 2017

Large block transactions drive positive absorption

Consecutive quarters of positive absorption seen for the first time since 2015

The Manhattan office market continued to benefit from the increasing demand for new construction and substantial fully renovated properties, registering eight transactions over 100,000 SF in Q4 2017. As a result, leasing activity has surpassed 28 million SF, ahead of 2016's leasing totals. The market remained active for larger users over 50,000 SF with these transactions accounting for a majority of leasing activity this quarter. Further, the average deal size for new leases recorded this quarter was 37,000 SF.

On a submarket level, Midtown continued to witness the strongest performance, attributing to over 600,000 SF of positive net absorption, registering five transactions over 100,000 SF. The Downtown market, which outpaced 2016's leasing total through the first three quarters of 2017, continued to attract large users this quarter and recorded one transaction over 100,000 SF. While Midtown South has cooled down through the first three quarters of 2017, it witnessed a resurgence in Q4 2017, recording two transactions over 100,000 SF and posting over 250,000 SF of positive net absorption. Despite a robust quarter of leasing, the average asking rent remained relatively flat across all markets primarily due to diminished activity with medium to smaller transactions.

ECONOMY


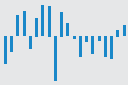




Unemployment rate drops to 4.7%, remains stable overall

Private sector jobs increased 1.8% year-over-year, adding 68,000 jobs. The greatest gains were in education and health services, professional and business services, and financial activities - all growing sectors. Further, the city's year-over-year picture remained positive with six sectors adding jobs through 2017.

AVAILABILITY

Decreased 20 basis points

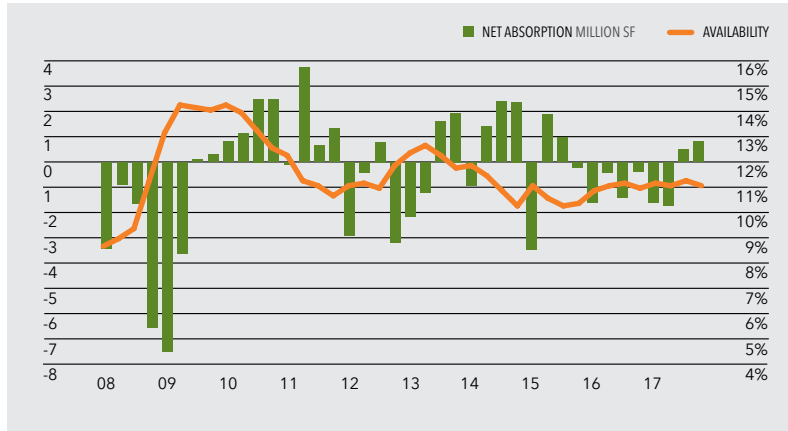
Manhattan's Q4 2017 availability rate ended at 11.1%, down 20 basis points from last quarter. The availability rate fell across most markets except Downtown, where it held steady at 13.8%. Both Midtown and Midtown South availability rates decreased by 30 basis points, ending the quarter at 10.6% and 9.4%, respectively. Major additions occurred in Midtown's East Side, Penn Plaza and in Downtown's Financial District and World Trade Center, combining for a total of 1.4 million SF of newly available direct space.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
AVAILABILITY 	11.1% Availability rate decreased 30 bps
ABSORPTION 	850,405 SF Positive net absorption observed
RENTAL RATE 	\$73.89 PSF Asking rents remained flat
CAP RATES 	4.5% Cap rate remains stable
AVERAGE OFFICE SALE PRICE 	\$739 PSF Sale value decreased
JOB GROWTH 	12,852 jobs Jobs gained during the quarter

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MANHATTAN NET ABSORPTION AND AVAILABILITY

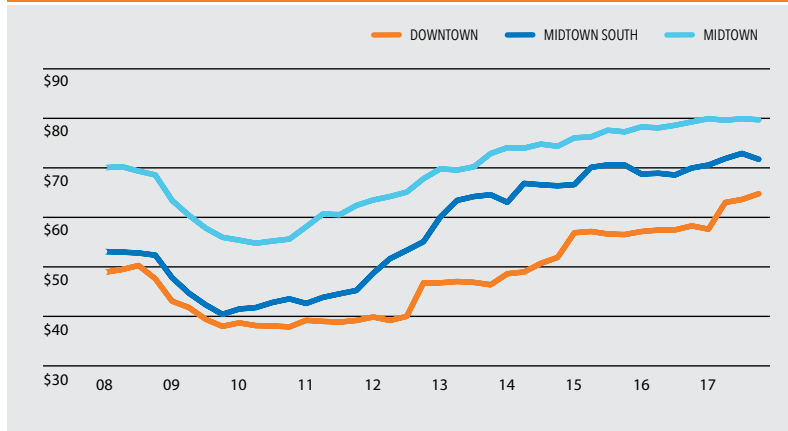


AVERAGE ASKING RENT

Remained flat quarter-over-quarter

The average asking rent across Manhattan ended at \$73.89 PSF in Q4 2017, virtually unchanged from last quarter and up nominally 1% year-over-year. Midtown ended Q4 2017 at \$79.65 PSF, essentially flat quarter-over-quarter. While Midtown had relatively minimal movement in asking rents, Penn Plaza was up 3% due to the addition of 170,000 SF at 55 Hudson Yards, which was priced between \$105 to \$130 PSF, ending the quarter at \$65.46 PSF. Columbus Circle was down 2% quarter-over-quarter due to MongoDB's 106,000 SF lease at 1633 Broadway, which was priced in the \$80's PSF.

MANHATTAN AVERAGE ASKING RENTAL RATES



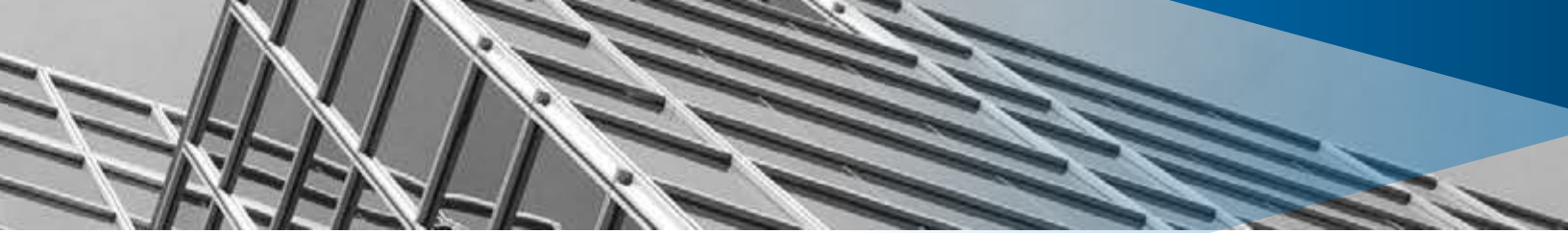
Downtown ended Q4 2017 at \$64.78 PSF, up 2% quarter-over-quarter driven by the addition of a large block of space in the World Trade Center submarket, which was priced at a premium. Midtown South ended Q4 2017 at \$71.70 PSF, down 2% quarter-over-quarter driven by Flatiron Health's 107,000 SF lease, which was priced upward of \$90 PSF in the Hudson Square submarket.

ABSORPTION

Manhattan posted 850,405 SF of positive net absorption

Strong leasing stemming from transactions over 100,000 SF lead to consecutive quarters of positive absorption for the first time since 2015. Manhattan ended the quarter at over 800,000 SF of positive net absorption, driven by strong leasing activity in the Midtown and Midtown South submarkets. Q4 2017 witnessed eight transactions over 100,000 SF with five being over 200,000 SF. Midtown continued to benefit from the demand of new construction and substantially renovated properties, ending the quarter at over 600,000 SF of positive net absorption. Specifically, in Grand Central, which witnessed over 500,000 SF of positive absorption driven by Shisedo's 220,000 SF lease at 390 Madison Avenue. Midtown South had a resurgence this quarter and posted over 250,000 SF of positive net absorption. Specifically, Gramercy Park posted over 140,000 SF of positive net absorption led by WeWork's 90,000 SF lease at 135 Madison Avenue.

There were some areas in Midtown that did experience negative net absorption. The East Side witnessed negative 263,000 SF, and Penn Plaza witnessed negative 110,000 SF, both due to large blocks of space added this quarter. Although a relatively healthy quarter of leasing, Downtown did observe 29,000 SF of negative net absorption, occurring mostly in the Financial District. The World Trade Center area continued to attract large users such as NYCEDC, taking 220,000 SF at 1 Liberty Plaza. Despite a strong quarter of leasing, the World Trade Center submarket posted negative 16,000 SF due to the addition of 227,000 SF at 101 Greenwich Street.



UNDER CONSTRUCTION/ PROJECTS DELIVERED

No projects delivered in Q4 2017

While no new projects were delivered in Q4 2017, there still is 16.1 million SF under construction. Many of these properties fall on the West Side, including Hudson Yards and Manhattan West, which are all close to being fully leased, except 50 Hudson Yards, where there still is approximately 2 million SF available. Another notable development, the Spiral, which is being developed by Tishman Speyer, will add an additional 2.85 million SF to the market. Recently, Pfizer has agreed to take approximately 800,000 SF, becoming the anchor tenant for the new development.

In the Plaza District, 550 Madison Avenue is undergoing a \$300 million capital improvement plan with new amenities, open space, and a new lobby, adding an additional 850,000 SF, delivering in Q1 2019. 550 Madison Avenue will join similar renovated properties such 425, 399, and 280 Park Avenue, and 601 Lexington Avenue, where owners are undertaking major renovations to compete with new construction in Midtown and the World Trade Center area.

INVESTMENT SALES

Sale volume picks up steam to end 2017

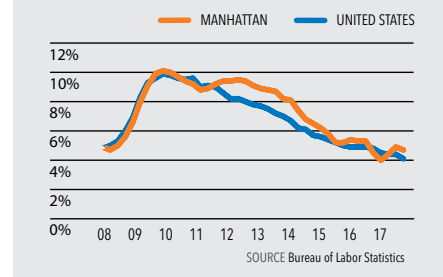
Q4 2017's total sale volume ended at \$3.5 billion, with an average of \$740 PSF. Total sale volume is up 90% from last quarter, but down 7% year-over-year. Major transactions recorded this quarter include the partial interest sale of 825 Eighth Avenue, purchased by a joint venture of SL Green and RXR Realty for an approximate value of \$840 million. Manhattan's cap rate remained stable at 4.5%, which has been hovering at 4.3%-4.5% over the past several years.

OUTLOOK

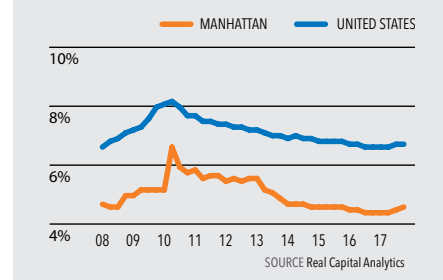
New and returning blocks will cause an uptick in availability

The outlook going into 2018 remains optimistic, the demand for new construction and majorly renovated properties will continue to propel leasing through 2018. As tenants start to move into new construction or renovated properties, we will see an uptick in older product availability and sublease space as a result of this flight to quality. Couple this with new and returning blocks, the overall availability rate should increase in the coming months. ■

UNEMPLOYMENT RATE



CAP RATES



Notable Lease Transactions

COMPANY	ADDRESS	SUBMARKET	SQUARE FEET	LEASE TYPE
Ernst & Young	1 Manhattan West	Midtown	604,295	New Lease
WeWork	500 7th Avenue	Midtown	280,000	New Lease
Shisedo	390 Madison Avenue	Midtown	220,000	New Lease
New York City Economic Development Corporation	1 Liberty Plaza	Downtown	219,486	New Lease
Mastercard	150 5th Avenue	Midtown South	212,500	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	93,884	10.2%	10.1%	10.6%	\$66.96	\$49.24	\$65.92
Financial District	37,189,781	(137,806)	9.6%	10.5%	12.1%	\$57.73	\$52.98	\$57.44
Insurance District	8,763,966	31,121	4.9%	8.7%	11.4%	\$56.27	\$51.86	\$55.26
World Trade Center	34,198,853	(16,520)	12.6%	14.6%	17.3%	\$71.86	\$51.68	\$71.01
Downtown Total	91,230,736	(29,321)	10.3%	11.8%	13.8%	\$65.64	\$51.93	\$64.78
Chelsea/Flatiron	24,283,286	(54,571)	6.6%	7.0%	9.8%	\$126.21	\$55.30	\$71.26
Gramercy Park	29,636,955	147,828	5.8%	5.9%	7.6%	\$73.49	\$64.14	\$68.80
Greenwich Village	4,812,906	50,400	3.6%	4.9%	5.8%	-	\$63.52	\$63.52
Hudson Square	10,216,915	17,470	8.7%	9.7%	12.4%	\$80.70	\$54.27	\$78.98
SoHo	4,847,231	97,249	10.5%	13.6%	15.4%	\$70.14	\$68.06	\$68.93
Midtown South Total	73,797,293	258,376	6.6%	7.2%	9.4%	\$85.50	\$59.40	\$71.70
Columbus Circle	28,517,992	(44,388)	7.3%	6.3%	7.9%	\$72.26	\$71.46	\$72.16
East Side	14,365,946	(262,705)	5.0%	5.3%	7.3%	\$66.46	\$60.80	\$66.16
Grand Central	55,904,437	521,963	10.8%	9.3%	11.5%	\$76.92	\$56.33	\$75.34
Penn Plaza	56,784,807	(110,478)	7.2%	6.3%	8.5%	\$70.36	\$59.32	\$65.46
Plaza District	68,241,362	322,910	11.5%	10.4%	12.7%	\$97.26	\$67.70	\$96.96
Times Square	39,784,117	194,048	7.9%	10.1%	12.0%	\$77.34	\$62.68	\$75.46
Midtown Total	263,598,661	621,350	9.1%	8.5%	10.6%	\$82.61	\$60.79	\$79.65
Manhattan Total	428,626,690	850,405	8.9%	9.0%	11.1%	\$76.63	\$59.09	\$73.89

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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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