

# MIDTOWN MANHATTAN OFFICE MARKET

THIRD QUARTER 2016

## Negative net absorption seen in Q3 2016

Q3 2016 vacancy rate increased to 9.1%

Midtown Manhattan leasing activity reduced substantially in Q3 2016. The transaction volume reduced by 32% and number of transactions reduced by 11% as compared to Q2 2016. Consequently, the vacancy rate in Q3 2016 also increased marginally by ten basis points over the past quarter. Despite the slowdown, quality space in Penn Plaza, Grand Central, and the Plaza District is still in high demand. As a result, the average asking rents for Class A and B properties increased by 6% in Q3 2016 as compared to Q2 2016.

### 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

#### Q3 2016 vacancy rate increased marginally by ten basis points

The Midtown vacancy rate in Q3 2016 was 9.1%, ten basis points higher than Q2 2016. The Plaza District saw the highest increase in vacancy rates. The increased vacancy was due to multiple or large tenants vacating space, some of the notable tenants include Avon Products out of 777 Third Avenue, GE Capital out of 299 Park Avenue and Lazard out of 30 Rockefeller Plaza.

### TRENDLINES

5-YEAR TREND      CURRENT QUARTER

#### VACANCY



**9.1%**

Vacancy rate increased by 13 bps

#### ABSORPTION



**-269,449 SF**

Q3 2016 saw negative net absorption

#### AVERAGE RENTAL RATE



**\$71.06 PSF**

Asking rents increase marginally

#### RBA DELIVERED



**0 SF**

No new project delivered

#### AVERAGE OFFICE SALE PRICE



**\$1,065 PSF**

Sale value increased marginally

#### CAP RATE



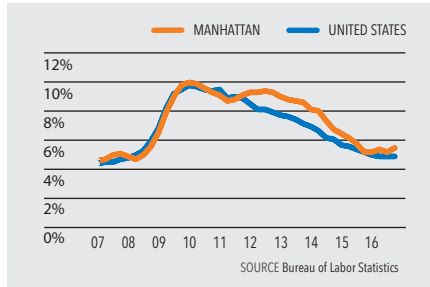
**4.3%**

Cap rate remains stable

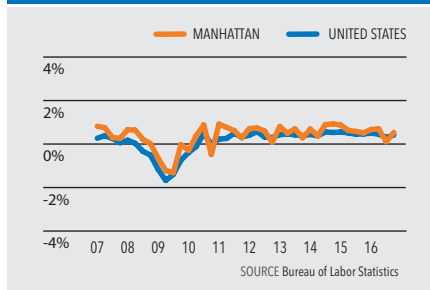
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THIRD QUARTER 2016

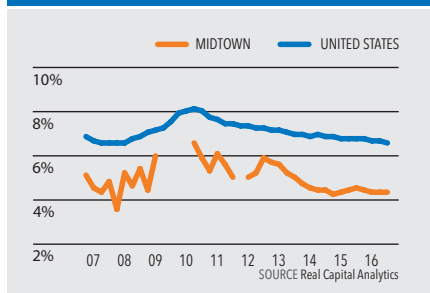
## UNEMPLOYMENT RATE



## PAYROLL JOB GROWTH



## CAP RATES



## ABSORPTION

### Negative net absorption of 269,449 SF seen in Q3 2016

Moving away from the trend in Q2 2016, the third quarter of 2016 witnessed negative net absorption of 269,449 SF. Both the number of transactions and square feet leased decreased in Q3 2016 as compared to the preceding quarter. The total number of transactions in Q3 2016 was 490, down from 548 in Q2 2016. This lower leasing activity led to the negative net absorption which was mainly concentrated in the Plaza District. Despite the sluggish leasing activity, six out of seven transactions exceeding 100,000 SF in Q3 2016 were in Midtown. The top three transactions were as follows:

## Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
Random House	1745 Broadway	415,000	Early Renewal
Major League Baseball	1271 Avenue Of The Americas	400,000	New Lease
Dentons	1221 Avenue Of The Americas	398,479	Renewal

## RENTAL RATES

### Midtown saw a 6% increase in average asking rental rate

The average asking rental rate was \$71.06 PSF in Q3 2016, a 6% increase from \$37.04 PSF in Q2 2016. The increased rental rate was seen in both Class A and B properties. This highest increase in rental rate was witnessed in Plaza District, Grand Central and Penn Plaza.

## UNDER CONSTRUCTION/ PROJECTS DELIVERED

### No new projects will be delivered in Q3 2016

Due to delays in construction, Q3 2016 did not receive delivery of any new office properties. However, one new office property is expected to be delivered in Q4 2016. ■

## 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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