

MIDTOWN MANHATTAN OFFICE MARKET

THIRD QUARTER 2017

Demand on the West Side propels leasing

Over 70% of transactions exceeding 100,000 SF were in Midtown

The momentum of the Midtown office market continued through Q3 2017 which has been attributed to the increasing demand for new construction on the West Side, specifically in the Hudson Yards and Manhattan West areas. While Downtown has dominated leasing activity earlier in the year, the pendulum has swung to the Midtown market. The market has remained active for tenants exceeding 100,000 SF, with this tenant mix accounting for 1.5 million SF of leasing activity. Further, out of the eight transactions recorded over 100,000 SF this quarter, Midtown accounted for six of those transactions, or 73%. All six transactions have taken place in either new construction or major renovated properties, a trend that has picked up steam over the past several years and more so in 2017. As a result, Midtown witnessed the strongest performance among all Manhattan submarkets in Q3 2017, posting over 500,000 SF of positive absorption.

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

Despite a robust quarter of leasing in Midtown, there was still a number of blocks added ending the quarter at 10.9%. All major blocks added were in the Times Square area including 661,000 SF at 330 West 42nd Street and 164,000 SF at 1185 Avenue of the Americas. The space at 1185 Avenue of the Americas was already on the market but now fell within 12 months of tenant possession with an occupancy date of Q3 2018 and is therefore now impacting statistics. An additional 84,000 SF of sublet space was added at 1540 Broadway. As a result, Times Square ended Q3 2017 with an availability rate of 12.5%, well above Midtown's overall availability rate.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
AVAILABILITY 	10.9% Availability rate remains stable
ABSORPTION 	531,852 SF Positive net absorption continued
RENTAL RATE 	\$79.88 PSF Asking rents remained stable
CAP RATE 	4.3% Cap rate remains stable
AVERAGE OFFICE SALE PRICE 	\$799 PSF Sale value increased

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ABSORPTION

Midtown witnessed 531,852 SF of positive net absorption

Midtown continued to benefit from the high demand of new construction, posting 531,852 SF of positive net absorption in Q3 2017. Penn Plaza witnessed 461,606 SF of positive absorption driven by three transactions over 100,000 SF - Amazon.com's lease of 365,000 SF at 450 West 33rd Street (5 Manhattan West), Accenture taking 249,000 SF at 1 Manhattan West, and Guardian Life Insurance taking 148,000 SF at 10 Hudson Yards. Grand Central posted 360,123 SF of positive absorption driven by New York Presbyterian's 479,000 SF lease at 237 Park Avenue. All leases exhibited the growing trend of large transactions in new construction or majorly renovated properties.

Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
New York Presbyterian	237 Park Avenue	479,016	New Lease
Amazon.com	450 West 33rd Street	365,375	New Lease
Accenture	1 Manhattan West	248,673	New Lease

AVERAGE ASKING RENT

Flat quarter-over-quarter

Midtown's Q3 2017 average asking rent ended at \$79.88 PSF, virtually unchanged from last quarter. New construction hasn't had a major impact on the average asking rent in Midtown as space is not yet on the market or the occupancy date is further than 12 months out. However, this figure can be misleading as concession packages have increased substantially, lowering the net effective rent.

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
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

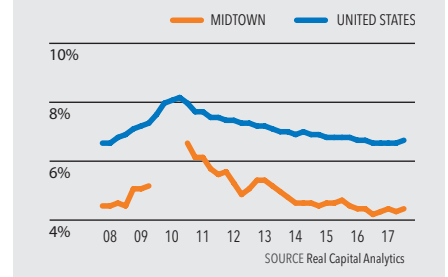
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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in Midtown Manhattan. This report includes single-tenant and multi-tenant Class A and B office properties with at least 100,000 SF.

CAP RATES



OUTLOOK

Demand for new construction will continue leasing momentum

With high profile transactions in the pipeline, strong demand for new construction will continue to propel leasing through year-end. Midtown's future concern will be the supply of new and returning blocks, and finding the demand for such blocks in the upcoming quarters. ■