

MIDTOWN MANHATTAN OFFICE MARKET

FOURTH QUARTER 2018

Large transactions drive 621,000 SF of positive net absorption

Large block leasing leads to decline in availability

The momentum of the Midtown office market continued through Q4 2017 as a result of the increasing demand for new construction and significantly renovated properties. The market has remained active for tenants over 100,000 SF, particularly in the financial services and coworking sector this quarter, with these large users accounting for 1.3 million SF of leasing activity. Further, out of the eight transactions recorded over 100,000 SF, Midtown accounted for five, or 68% of total activity. As a result, Midtown witnessed the strongest performance among all submarkets in Manhattan for Q4 2017, posting 621,000 SF of positive net absorption.

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

Large transactions drive a 30 basis points decrease

Driven by a robust quarter of leasing in the Grand Central, Times Square, and Plaza submarkets, Midtown's availability rate decreased 30 basis points quarter-over-quarter to 10.6%. Grand Central's availability rate decreased 90 basis points to 11.5%, driven by Shisedo's 220,000 SF lease at 390 Madison Avenue. Several mid-sized transactions including Markel Corporation's 27,000 SF lease at 1185 Avenue of the Americas, pushed Times Square's availability rate to 12%, down 50 basis points from last quarter. Numerous transactions under 20,000 SF pushed down the Plaza District's availability rate 50 basis points ending Q4 2017 at 12.7%.

Major blocks added in Q4 2017 were in the Penn Plaza and East Side submarkets. Significant additions to the East Side included 178,000 SF at 300 East 42nd Street and 80,000 SF at 885 Second Avenue, driving a 190 basis point increase, ending the quarter at 7.3%. Penn Plaza's availability rate ended the quarter at 8.5%, up 20 basis points due to the addition of 170,000 SF at 55 Hudson Yards.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

AVAILABILITY



10.6%

Availability rate decreased 30 bps

ABSORPTION



621,350 SF

Positive net absorption observed

RENTAL RATE



\$79.65 PSF

Asking rents remained flat

CAP RATE



4.4%

Cap rate remains stable

AVERAGE OFFICE SALE PRICE



\$777 PSF

Sale value decreased

MIDTOWN MANHATTAN OFFICE MARKET

FOURTH QUARTER 2018

ABSORPTION

Midtown witnessed 621,350 SF of positive net absorption

Midtown continued to benefit from the high demand for new construction and majorly renovated properties, recording five transactions exceeding 100,000 SF and posting 621,000 SF of positive net absorption to end Q4 2017. Grand Central witnessed 521,936 SF of positive net absorption driven by Shisedo's lease at 390 Madison Avenue and the removal of a large block of space at 340 Madison Avenue. Several small to mid-size transactions drove positive net absorption in Times Square and the Plaza District, ending Q4 2017 at 190,048 SF and 322,910 SF of positive net absorption, respectively. While Penn Plaza did witness 110,478 SF of negative net absorption, it did record the largest transaction of the quarter – Ernst & Young's 604,000 SF lease at 1 Manhattan West.

Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
Ernst & Young	1 Manhattan West	604,295	New Lease
WeWork	500 7th Avenue	280,000	New Lease
Shisedo	390 Madison Avenue	220,000	New Lease

AVERAGE ASKING RENT

Flat quarter-over-quarter

Despite a robust quarter of leasing, diminished activity with small to medium transactions led to the asking rent remaining relatively flat, ending the quarter at \$79.65 PSF. Penn Plaza did witness a 2% increase, while Columbus Circle decreased by 2%, finishing Q4 2017 at \$65.46 PSF and \$72.16 PSF, respectively.

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	(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

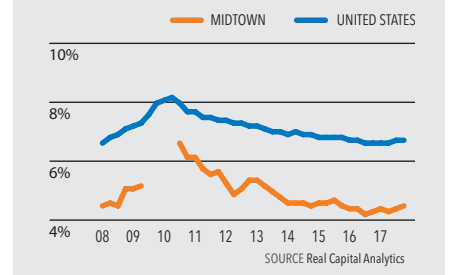
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METHODOLOGY

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

New and returning large blocks will cause an uptick in availability and asking rents

With the supply of new and returning blocks, the overall availability rate should see an increase in the coming months. Couple this with new construction and majorly renovated product coming to the market, asking rents will continue to climb. As a result, concessions being offered by landlords will start to top out. ■