

MIDTOWN SOUTH MANHATTAN OFFICE MARKET

FOURTH QUARTER 2015

Negative net absorption witnessed in 2015

2015 saw marginal increase in rental rates

The Midtown South market remained extremely tight due to supply constraints. There were handful large blocks of space for existing tenants to expand or new tenants to enter the market. Lot of small tenants moved out to Midtown or Downtown in search of bigger space options. As a result, the market observed negative net absorption in 2015. The supply constrain combined with continued demand, especially by TAMI tenants, have kept Midtown South vacancy rates the lowest in the city. The low vacancy has put an upward pressure on rents, as a result, the rental rate in Q4 2015 increased by 6% as compared to Q4 2014.

ECONOMY

Unemployment rates consistently plummeted







Real gross domestic product (GDP) increased 2% in the third quarter of 2015, according to the "third" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2015, the unemployment rate was 5.0%, 20 basis points lower than Q3 2015. Employment gains occurred in several industries, led by professional and business services, construction, health care and food services.

In Q4 2015, the unemployment rate in New York City was 4.8%, a drop of 63 basis points from Q3 2015. The strongest increase in employment numbers occurred in health and social assistance, professional and business services followed by accommodation and food services.

VACANCY

Midtown South vacancy remains city's lowest at 6.2%

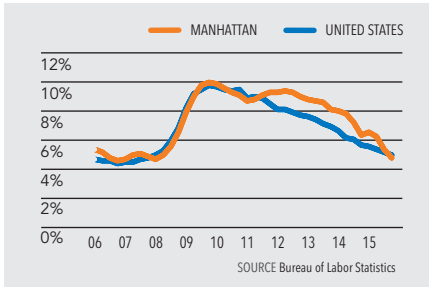
The vacancy rate in Q4 2015 was 6.2%, 20 basis points lower than 6.40% in Q3 2015. Hudson Square and Gramery Park experienced a fall in vacancy rates. Hudson Square witnessed the highest decrease in vacancy rate, mainly triggered by one tenant, WebMD Health Corp. WebMD moved into 152,670 SF of sublease space in November 2015, leading to the fall of the sublease vacancy rate in the submarket. SoHo and Chelsea saw a rise in vacancy rates. This increased vacancy is somewhat misleading as both submarkets have extremely low vacancy rates. The introduction of a few small units into the market resulted in an overall increase in the submarket vacancy rates.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
VACANCY 	6.2% Vacancy rates decreases by 20 bps
ABSORPTION 	127,984 SF Positive net absorption seen
AVERAGE RENTAL RATE 	\$69.17 PSF Average rental rate decreases
RBA DELIVERED 	0 SF No projects delivered in 2015
AVERAGE OFFICE SALE PRICE 	\$877 PSF Average sale price increases
CAP RATE 	4.5% Cap rate remains constant

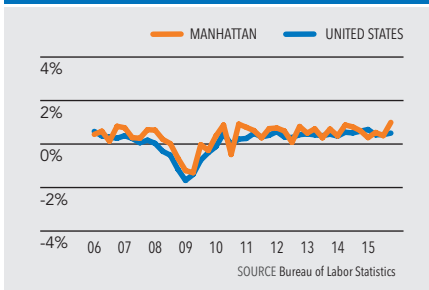
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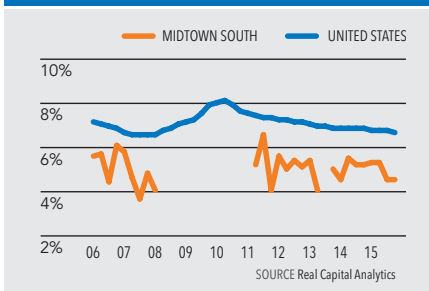
UNEMPLOYMENT RATE



PAYROLL JOB GROWTH



CAP RATES



ABSORPTION

Absorption in supply constrained Midtown South remains low

Midtown South's leasing activity and number of transaction were at a six-year low in 2015, primarily as a result of an extremely supply constrained submarket. Technically, Midtown South experienced marginal negative absorption, but this can be attributed to vacancies created by growing tenants seeking larger space in Midtown South but are priced out or simply can't find product in the submarket and are therefore forced to move to Downtown or Midtown. The negative net absorption was concentrated in Hudson Square and Soho. Comparable with earlier years, a majority of the transactions in Midtown South were by TAMI sector tenants. Lease transactions exceeding 100,000 SF did not occur in 2015; the top three transactions in 2015 are listed below.

Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
WeWork	120 East 16th Street	96,000	New Lease
Paypal	95 Morton Street	95,000	New Lease

RENTAL RATES

Average asking rental rate decreases marginally in Q4 2015

The average asking rental rate in Midtown South reached \$69.17 PSF in Q4 2015, down from \$70.80 PSF in Q3 2015. This decrease in rental rate was seen in both Class A and B properties. All submarkets except Greenwich Village experienced a fall in rental rates in Q4 2015. Most submarkets witnessed a decrease in the rental rate in the range of 2% to 4%. This reduction in rental rate was not across all properties but existed in certain properties that had high availability for multiple quarters.

UNDER CONSTRUCTION/PROJECTS DELIVERED

No new projects were delivered 2015

Due to delays in construction, 2015 did not receive the delivery of any new office properties. However, 413,473 SF of new office space is expected to be supplied in 2016. These properties are spread across Chelsea, Hudson Square, Greenwich Village and Soho. ■

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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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