

MIDTOWN SOUTH MANHATTAN OFFICE MARKET

FOURTH QUARTER 2017

Market fundamentals widely improved

Two transactions exceeding 100,000 SF were recorded

After a cool down through the first three quarters of the year, Midtown South saw a comeback in the fourth quarter, broadly improving market fundamentals to end 2017. This quarter witnessed two transactions over 100,000 SF, posting more than 250,000 SF of positive net absorption. As a result, the availability rate fell 30 basis points to 9.4%. Although leasing activity has improved, smaller transactions continued to drive the market, with an average deal size of 27,000 SF recorded this quarter. Once predominately dominated by the TAMI sector, Midtown South has resurged with a more diversified tenant base than in years past, particularly from the FIRE sector – Master Card’s 212,000 SF lease at 150 Fifth Avenue was recorded this quarter. Further, new construction continued to be highly desirable by large users in Midtown South, with the top two transactions both over 100,000 SF and occurring in new or fully renovated product.

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 30 basis points

Driven by a robust quarter of leasing in the Gramercy Park and Hudson Square submarkets, Midtown South’s availability rate ended Q4 2017 at 9.4%, decreasing 30 basis points. Gramercy Park’s availability rate decreased 50 basis points to 7.6%, driven by WeWork’s 92,000 SF lease at 135 Madison Avenue and two lease transactions at 315 Park Avenue South, totaling 51,000 SF. Flatiron Health’s 107,000 SF lease at 161 Avenue of the Americas pushed Hudson Square’s availability rate down 20 basis points, ending Q4 2017 at 12.4%. Despite a decline in the availability rate, Hudson Square did have a large block added this quarter – 160,000 SF at 75 Varick Street. Although SoHo is one of the smallest submarkets in Midtown South, it currently boasts the highest availability rate at 15.4% due to a large supply of mid to large block availabilities in multiple buildings, including 300 Lafayette Street.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
AVAILABILITY 	9.4% Availability rate decreased
ABSORPTION 	258,376 SF Positive net absorption observed
RENTAL RATE 	\$71.70 PSF Asking rents decreased
CAP RATE 	4.5% Cap rate remains stable
AVERAGE OFFICE SALE PRICE 	\$829 PSF Sale value decreased

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FOURTH QUARTER 2017

ABSORPTION

Midtown South posted 258,376 SF of positive net absorption

Midtown South witnessed a resurgence this quarter in leasing activity, posting 258,376 SF of positive net absorption. Gramercy Park saw 147,528 SF of positive net absorption driven by WeWork's lease at 135 Madison Avenue, Gemini Trust Company's 31,000 SF lease, and BDG Media's 17,000 SF expansion at 315 Park Avenue South. Hudson Square recorded one of the quarter's largest transactions – Flatiron Health's 107,000 SF lease at 161 Avenue of Americas, however, there was only 17,470 SF of positive absorption documented due to the addition of a large block of space at 75 Varick Street. While Chelsea/Flatiron witnessed 54,741 of negative net absorption, it did record the largest transaction of the quarter, Mastercard's 212,000 SF lease at 150 Fifth Avenue. This space was leased before it came to market and, therefore, did not impact the absorption statistics.

Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
Mastercard	150 Fifth Avenue	212,500	New Lease
Flatiron Health	161 Avenue of the Americas	107,000	New Lease
WeWork	135 Madison Avenue	90,228	New Lease

AVERAGE ASKING RENT

Removal of premium space leads to 2% decrease

There was minimal movement across the submarkets except in Hudson Square, whose average asking rent was down 5% from last quarter ending at \$78.98 PSF, driving Midtown South overall down 2%. The reduction resulted from Flatiron Health's lease, priced at a premium exceeding \$90 PSF, at 161 Avenue of Americas.

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
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

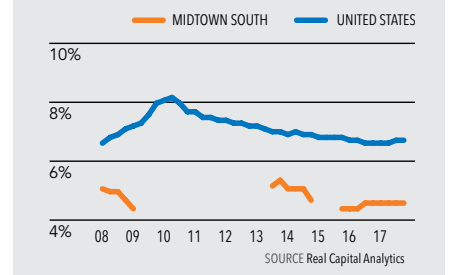
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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in Midtown South Manhattan. This report includes single-tenant and multi-tenant Class A and B office properties with at least 50,000 SF.

CAP RATES



OUTLOOK

Lack of large blocks will continue to hinder leasing

The lack of large blocks available in Midtown South along with smaller floor plates in comparison to Midtown and Downtown will continue to hinder the market's leasing performance among larger users. With minimal development in the pipeline going into 2018, smaller transactions will continue to drive the market. ■