

Midtown Manhattan Office, Q4 2016

# Leasing strength concentrated in new assets

 Leasing Activity  
**4.25 MSF**

 Net Absorption  
**0.62 MSF**

 Availability Rate  
**11.8%**

 Vacancy Rate  
**7.9%**

 Average Asking Rent  
**\$80.18 PSF**

\*Arrows indicate change from previous quarter.

- Leasing activity totaled 4.25 million sq. ft. in Q4 2016, 9% above its five-year quarterly average.
- Annual leasing activity was down 15% compared to a particularly strong 2015.
- The availability rate fell 30 basis points (bps) from Q3 2016, but rose 100 bps from one year ago.
- Quarterly net absorption registered positive 621,000 sq. ft., but stood at negative 2.21 million sq. ft. at year-end 2016.
- The average asking rent was \$80.18 per sq. ft., down slightly quarter-over-quarter and virtually unchanged year-over-year.
- Sublease availability was 2.2%, with an average asking rent of \$63.76 per sq. ft., up 9% year-over-year.

## MARKET OVERVIEW

The year 2016 was marked by stability: rents were virtually unchanged; availability sat near its long-term average; annual leasing activity was just above its ten-year average; and concessions trended upward. What stands out is significant negative net absorption—although a large amount of this is driven by availability in assets that are being repositioned in response to the increasing demand for newer product.

## LEASING ACTIVITY

Quarterly leasing was up 7% from Q3 2016, and 9% from its five-year quarterly average, marking four consecutive quarters of improving activity. Annual leasing activity was just above its ten-year

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
417,943	Major League Baseball	1271 Avenue of the Americas
308,115	Visiting Nurse Service of New York	220 East 42nd Street
206,557	Hogan Lovells	390 Madison Avenue
182,447	Point72 Asset Management	55 Hudson Yards
160,631	National Hockey League	1 Manhattan West

Renewal (R), Expansion (E), Renewal and Expansion (RE)

Source: CBRE Research, Q4 2016.

average, despite being 15% lower than 2015. Demand was increasingly characterized by leases for new or repositioned product, as evidenced by this quarter's top transactions.

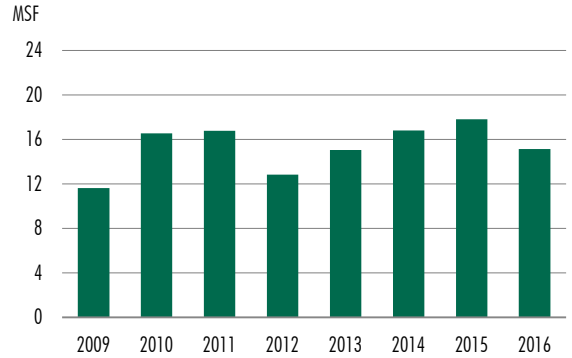
At the submarket level, Grand Central and Sixth Avenue/Rockefeller Center led the way, with Major League Baseball taking 418,000 sq. ft. at 1271 Avenue of the Americas and Visiting Nurse Service of New York leasing 308,000 sq. ft. at 220 East 42nd Street. The Penn Station submarket witnessed leasing activity 25% above its five-year quarterly average, following significant preleasing by Point72 Asset Management at 55 Hudson Yards and the National Hockey League at 1 Manhattan West. In addition, WeWork signed for 122,000 sq. ft. at 2 Herald Square, in the Penn Station submarket, and expanded another 79,000 sq. ft. at 12 East 49th Street, in Fifth/Madison Avenue.

**NET ABSORPTION**

Annual net absorption was negative 2.21 million sq. ft., about 1.47 million sq. ft. less than last year's total due to a large amount of space that came to market across 390 Madison Avenue, 1155 Avenue of the Americas, 399 Park Avenue and 1 Manhattan West. The fourth quarter bucked the trend, however, with 621,000 sq. ft. of positive absorption. Three transactions greater than 200,000 sq. ft. closed, while not a single block of available space of a similar size came to market.

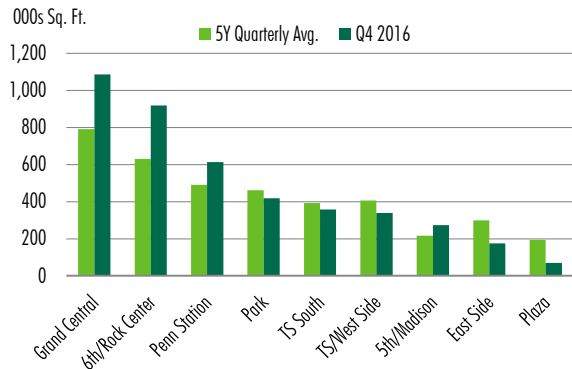
Net absorption was positive in most Midtown submarkets in Q4 2016, with only Park Avenue and the Plaza District posting negative quarterly figures. Following strong leasing activity, the Grand Central submarket accounted for more than half of the 621,000 sq. ft. of positive net absorption witnessed in Midtown as a whole. Similarly, Fifth/Madison Avenue and Sixth Avenue/Rockefeller Center also posted positive net absorption after a good quarter of leasing. Times Square/West posted nearly 170,000 sq. ft. of

Figure 2: Leasing Activity | Historical



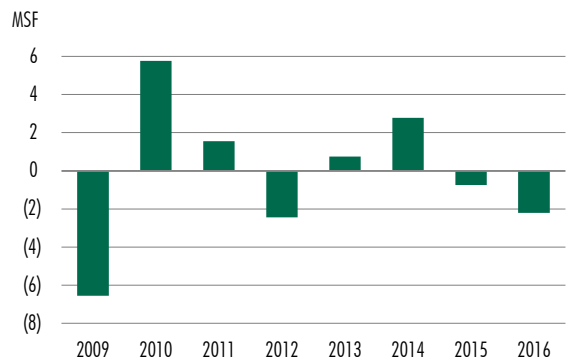
Source: CBRE Research, Q4 2016.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q4 2016.

Figure 4: Net Absorption | Historical



Source: CBRE Research, Q4 2016.

positive absorption, despite a below-average quarter of leasing activity, as the largest block of space that came to market was 33,000 sq. ft. at 1900 Broadway.

**AVAILABILITY**

The availability rate was 11.8% in Q4 2016, down 30 bps from the last quarter and up 100 bps from one year ago. Taking a long-term view, the current rate is slightly above its 10-year average of 11.3%, suggesting a market near equilibrium. That said, availability remains much lower for buildings built since 2000—below 5%.

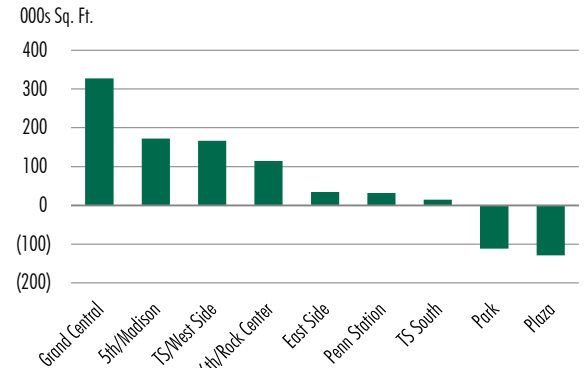
Sublease availability has risen 40 bps year-over-year to 2.2%; however, the amount of sublet space remains historically low, with its average asking rent up 9% year-over-year to \$63.76 per sq. ft.

The biggest increases in available space took place in the Plaza District and Park Avenue submarkets, hand-in-hand with the negative net absorption measured in these submarkets during the quarter. While the availability rate of the Park Avenue submarket was largely unaffected by this, the Plaza District witnessed a notable increase, registering a 100 bps quarter-over-quarter jump to 12.3%, following the addition of 126,000 sq. ft. of available space at 717 Fifth Avenue. After a strong quarter of leasing, availability fell 160 bps in Fifth/Madison Avenue, to 14.6%, and 70 bps in Grand Central, to 15.6%. The availability rates in these two submarkets are slowly coming back down after large blocks of space drove them to near-historical highs earlier in the year.

**AVERAGE ASKING RENT**

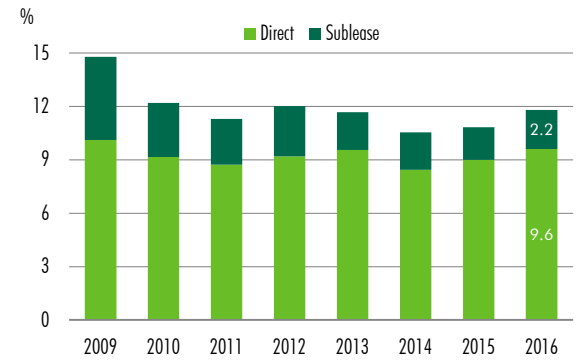
The Midtown average asking rent was stable over both the past quarter and year. That said, certain submarket-level rents rose notably over the past 12 months, but for different reasons: Grand Central saw an 11% year-over-year increase, led by 800,000

Figure 5: Quarterly Net Absorption | By Submarket



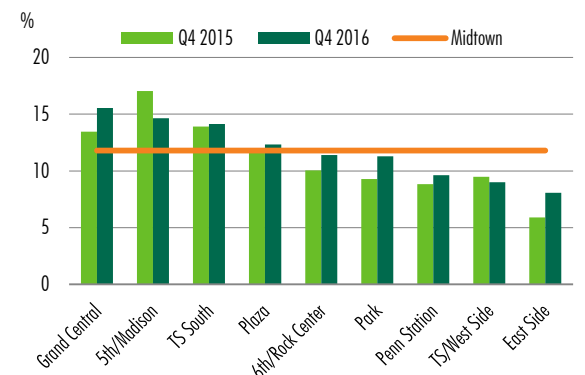
Source: CBRE Research, Q4 2016.

Figure 6: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q4 2016.

Figure 7: Availability Rate | By Submarket



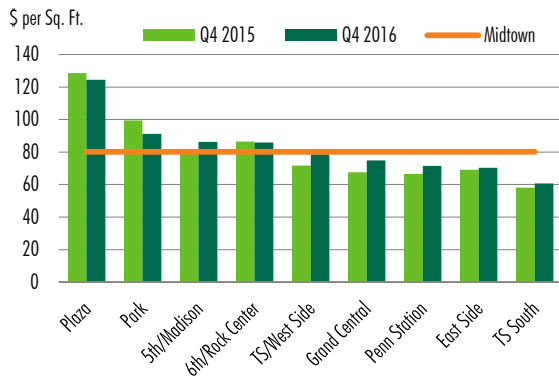
Source: CBRE Research, Q4 2016.

sq. ft. of premium-priced space that came to market at the completely renovated 390 Madison Avenue. Likewise, Times Square/West Side registered a 10% annual increase in rents, but this was largely due to the leasing of space priced below-market, leaving relatively more expensive availability. While rents in general remain stable, demand—and hence pricing—for new or renovated product remains strong.

**TAKING RENT INDEX**

The taking rent index posted a 320-bps decrease quarter-over-quarter, falling to 90.6%, although it's worth noting that the index can be volatile over shorter time periods. Concession packages for new leases of raw space completed during the quarter included an average of \$81 per sq. ft. in tenant improvement allowance and 11 months of free rent, up slightly from earlier this year when average concession packages had improvement allowances in the mid-\$70s and 9-month free rent periods.

Figure 8: Average Asking Rents | By Submarket

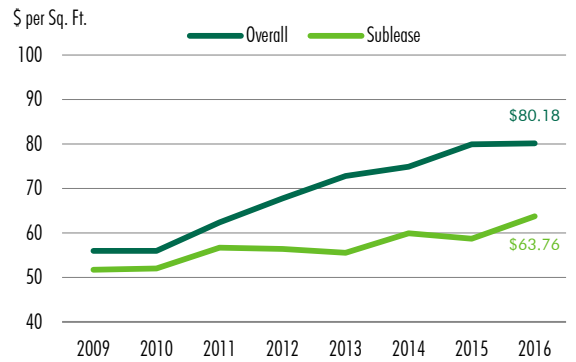


Source: CBRE Research, Q4 2016.

**DEVELOPMENT PIPELINE**

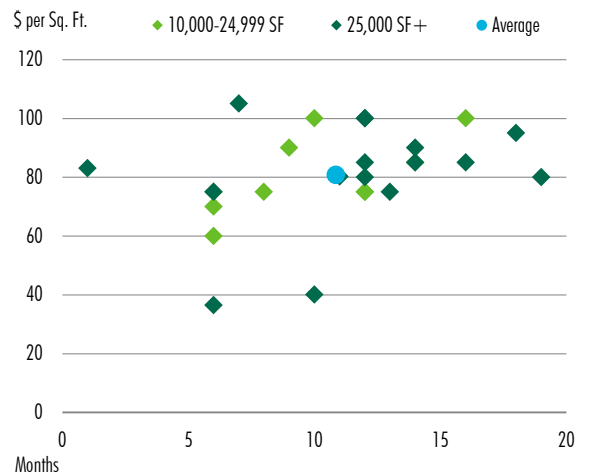
In regard to the development pipeline, no new construction is expected to come to market until early 2018, when the 1.3-million-sq.-ft. 55 Hudson Yards is due to complete—more than 634,000 sq. ft. of which has already been committed.

Figure 9: Average Asking Rent | Historical



Source: CBRE Research, Q4 2016.

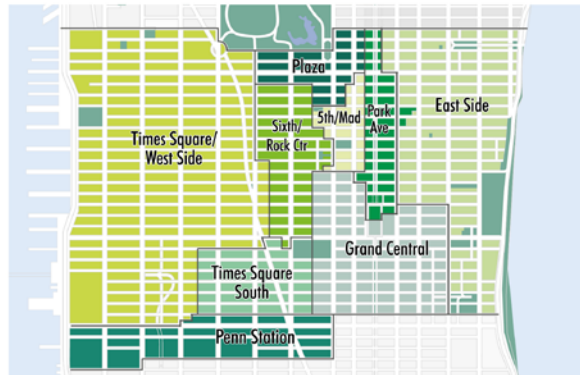
Figure 10: Concession Values | Rent Abatement and T.I. Allowance\*



\*Identical concession packages will overlap in graphic. Average excludes highest and lowest values.

Source: CBRE Research, Q4 2016.

**INVENTORY AT A GLANCE**



Submarket	Total Size (Mil. Sq. Ft.)
East Side	20.84
Fifth Avenue / Madison Avenue	11.04
Grand Central	43.72
Park Avenue	29.76
Penn Station	20.35
Plaza	12.33
Sixth Avenue / Rock Center	45.42
Times Square South	18.45
Times Square / West Side	32.10
<b>TOTAL INVENTORY</b>	<b>234.01</b>

**DEFINITIONS**

**Availability** — Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction.

**Asking Rent** — Weighted average asking rent.

**Concession Values** — The combination of rent abatement and T.I. allowance. The graph is for new leases for raw space of 10,000 sq. ft. or greater consummated over the past 3 months.

**Leasing Activity** — Total amount of sq. ft. leased within a specified period of time, including pre-leasing and purchases of space for occupancy, excluding renewals.

**Leasing Velocity** — Total amount of sq. ft. leased within a specified period of time, including pre-leasing and purchases of space for occupancy, including renewals.

**Net Absorption** — The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

**Rent Abatement** — The time between lease commencement and rent commencement.

**Taking Rent** — Actual, initial base rent in a lease agreement.

**Taking Rent Index** — Initial taking rents as a percentage of asking rents. This graph represents a 6-month rolling weighted average (for size and month).

**T.I.** — Tenant Improvements.

**Vacancy** — Unoccupied space available for lease.

**SURVEY CRITERIA**

**376** CBRE's market report analyzes fully modernized office buildings that total 150,000+ sq. ft. in Midtown, including owner-occupied buildings (except those owned and occupied by a government or government agency). New construction must be available for tenant build-out within 12 months. CBRE assembles all information through telephone canvassing and listings received from owners, tenants and members of the commercial real estate brokerage community.

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