Midtown South Manhattan Office, Q4 2016

Leasing activity rebounds, but lack of large blocks contributes to leasing slowdown for year overall

Leasing Activity	Net Absorption	Availability Rate	Vacancy Rate	Average Asking Rent
▲ 1.21 MSF	▼ (0.48) MSF	▲ 9.7%	▲ 6.5%	▼ $68.36 PSF

*Arrows indicate change from previous quarter.

- Leasing activity totaled 1.21 million sq. ft. in Q4 2016, rebounding 72% from Q3 2016 but still 5% below the five-year quarterly average.
- Overall leasing activity for 2016 totaled 4.40 million sq. ft., down 22% from one year ago.
- The availability rate increased 70 basis points (bps) from last quarter and 230 bps from one year ago.
- Quarterly net absorption registered negative 482,000 sq. ft., bringing the year-to-date total to negative 1.57 million sq. ft.
- The average asking rent was $68.36 per sq. ft., virtually unchanged from last quarter and down 3% year-over-year.
- Sublease availability increased 120 bps year-over-year to 2.6%, with an average asking rent of $56.40 per sq. ft.

MARKET OVERVIEW

A lack of large blocks of available space took a toll on Midtown South's leasing activity in 2016, which totaled only 4.40 million sq. ft., including just one block above 100,000 sq. ft. The market saw two available blocks greater than 250,000 sq. ft. added this quarter, pushing the steadily rising availability rate up again to end the year at 9.7%. Despite this notable jump, Midtown South still remains the most supply-constrained market in Manhattan, with demand from tenants, particularly in the TAMI sector, staying strong.

LEASING ACTIVITY

After a sluggish third quarter, leasing activity in Midtown South picked up steam in the fourth quarter, jumping 72% to close out 2016 at 1.21 million sq. Despite this bounce back at year-end,

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
99,132	New York University	180 Madison Avenue
83,084 (R)	ZocDoc	568 Broadway
67,500 (E)	NYU Langone Medical Center	360 Park Avenue South
62,327	Robert A.M. Stern Architects	1 Park Avenue
49,500 (R)	Wacoal America Inc.	136 Madison Avenue

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

Source: CBRE Research, Q4 2016.

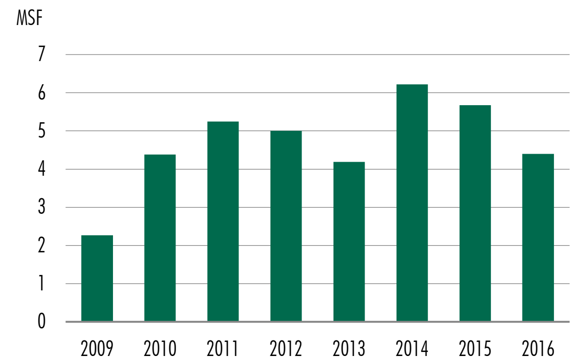
the annual total reached just 4.40 million sq. ft., the lowest total since 2013. The year's leasing activity does not reflect a lack of demand—the market remains highly desirable, with many tenants actively looking for space—but rather a lack of supply that meets tenants' needs in terms of quality, configuration and rent.

TAMI companies remain the most active in Midtown South, accounting for nearly 50% of all leasing activity in the fourth quarter, with technology and entertainment companies making up the vast majority. This reflects a longstanding trend in Midtown South, as TAMI companies accounted for 56% of all leasing activity in 2016 and made up a majority of deals since the economic recovery in 2009.

While Q4 2016 was a slower quarter for the overall Midtown South market, Park Avenue South/ Madison Square had a banner quarter of leasing, registering 595,000 sq. ft. of deals—the strongest quarterly performance for this submarket since Q2 2014. In fact, Park Avenue South/Madison Square accounted for nearly 50% of all leasing in Midtown South this quarter, including three out of the top five transactions: New York University's 99,000-sq.-ft. deal at 180 Madison Avenue, NYU Langone Medical Center's lease for 67,500 sq. ft. at 360 Park Avenue South and Robert A.M. Stern Architects' 62,000-sq.-ft. lease at One Park Avenue.

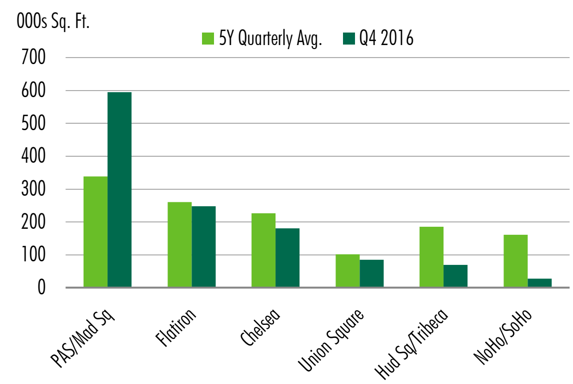
The fourth quarter saw a slight increase in the average deal size, with over 40% of transactions above 25,000 sq. ft., including four greater than 50,000 sq. ft.; this contributed to the rebound in leasing from the third quarter, when 75% of all transactions completed were below 25,000 sq. ft. In general, 2016 was a year dominated by small deals, as the lack of large-block availability resulted in the closing of just one deal above 100,000 sq. ft.—a 264,000-sq.-ft. pre-lease at RXR's Pier 57. The dearth of large deals was a significant factor in 2016's low year-end leasing total.

Figure 2: Leasing Activity | Historical



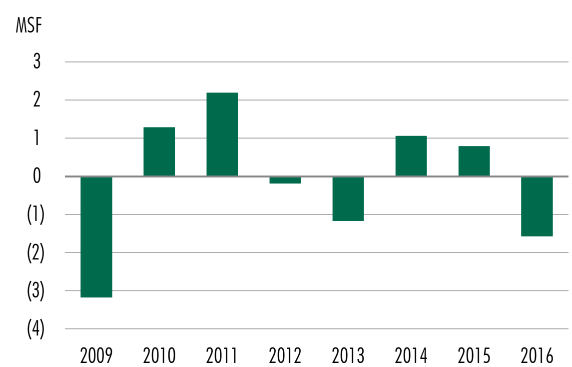
Source: CBRE Research, Q4 2016.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q4 2016.

Figure 4: Net Absorption | Historical



Source: CBRE Research, Q4 2016.

NET ABSORPTION

Midtown South registered negative 482,000 sq. ft. of net absorption during Q4 2016, reflecting a mixed landscape of leasing activity across the market. Chelsea registered negative 408,000 sq. ft. of net absorption, as several large spaces came to market totaling 620,000 sq. ft., including the Tommy Hilfiger USA, Inc. sublet space and an additional 100,000 sq. ft. at 261 Eleventh Avenue. Hudson Square/Tribeca saw negative 170,000 sq. ft. of net absorption, driven by the addition of several spaces totaling 260,000 sq. ft. By contrast, Park Avenue South/Madison Square performed especially well in the fourth quarter, as above-average leasing of 560,000 sq. ft. led to 270,000 sq. ft. of positive absorption.

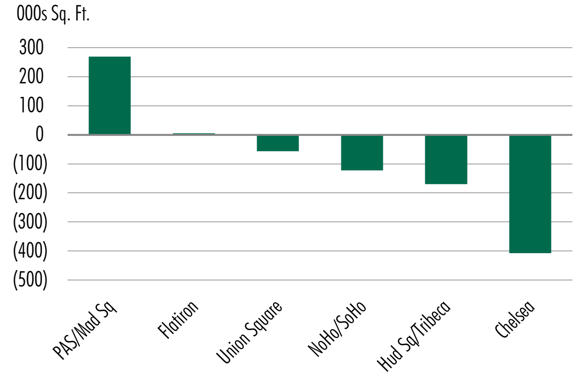
Overall, Midtown South finished the year with negative 1.57 million sq. ft. of net absorption—a trend reflected in every submarket in 2016 except Union Square, which ended the year with nearly 126,000 sq. ft. of positive absorption.

AVAILABILITY

The availability rate rose 70 bps quarter-over-quarter to 9.7%, making Q4 2016 the fourth consecutive quarter of increasing availability in the market. This quarter also saw two large blocks of space come to market. At 261 Eleventh Avenue, the addition of 100,000 sq. ft. enlarged the block of available space to 334,000 sq. ft., while 317,000 sq. ft. of short-term sublet space became available at the Starrett-Lehigh Building (601 West 26th Street) from Tommy Hilfiger. This is the first time a block greater than 250,000 sq. ft. has been available in this market since November 2014. Despite these trends, Midtown South remains the most supply-constrained part of Manhattan and is still widely seen as a landlord-favorable market.

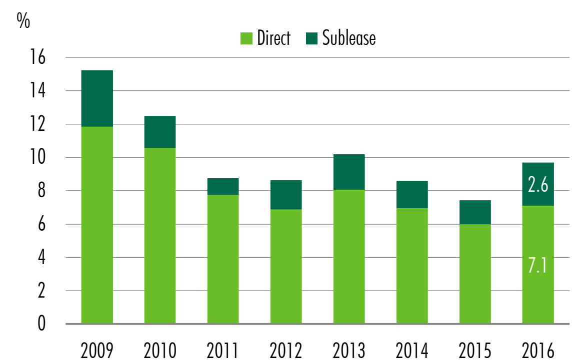
Chelsea, NoHo/SoHo and Union Square witnessed the greatest increases in availability rates. Chelsea was up 290 bps from the previous quarter with the

Figure 5: Quarterly Net Absorption | By Submarket



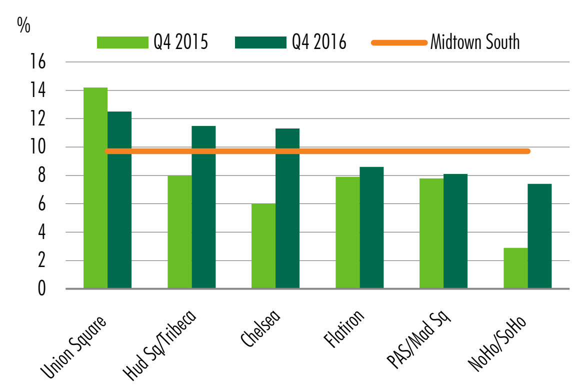
Source: CBRE Research, Q4 2016.

Figure 6: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q4 2016.

Figure 7: Availability Rate | By Submarket



Source: CBRE Research, Q4 2016.

addition of 620,000 sq. ft., while NoHo/SoHo and Union Square were up 160 bps and 130 bps, respectively, following the addition of 56,000 sq. ft. and 70,000 sq. ft.

The addition of the Tommy Hilfiger space pushed sublease availability up 30 bps from last quarter to 2.6%, making Q4 2016 the third consecutive quarter in which sublease availability topped 2%. Sublease space, the majority of which is in blocks below 50,000 sq. ft., now accounts for nearly 30% of all available space on the market.

AVERAGE ASKING RENT

The average asking rent was $68.36 per sq. ft., virtually unchanged from Q3 2016. This is the fourth consecutive quarter when Midtown South's average asking rent has been below $70 per sq. ft.; rent has declined a slight 3% from the end of 2015. Average asking rent for sublet space, which has been increasing as a share of the available space in this market, has grown nearly 5% over last year to end 2016 at $56.40 per sq. ft.

Average asking rents remained broadly flat across all submarkets quarter-over-quarter. The most notable exception was Chelsea, where rents declined 13% to $55.78 per sq. ft., driven by both leasing of high-priced space at 860 Washington Street as well as the addition of Tommy Hilfiger's relatively inexpensive sublet space. This drop reflects a trend of rent decline in Chelsea, with the average asking rent falling nearly 30% from a high point of $78.36 per sq. ft. at the beginning of 2016. Looking elsewhere in the market, Union Square increased 5% from last quarter to $75.04 per sq. ft., due to the addition of 36,000 sq. ft. of Elizabeth Arden sublet space at 200 Park Avenue South, which, at $80 per sq. ft., is priced above the submarket average.

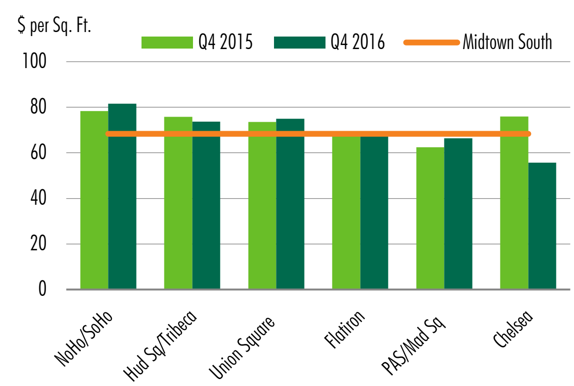
TAKING RENT INDEX

The taking rent index posted a 260-bps decrease quarter-over-quarter, falling to 92.8%. Concession packages have been trending upward throughout 2016 in Midtown South. New leases of raw space completed during the quarter included an average of $58 per sq. ft. in tenant improvement allowance, up 26% from Q4 2015, and 7 months of free rent, an increase of 1 month over packages offered one year ago.

DEVELOPMENT PIPELINE

The development pipeline remains muted, with only 700,000 sq. ft. of office space scheduled to come to market between now and 2018, representing about 1% of Midtown South's total inventory. Notable developments include 61 Ninth Avenue and 512 West 22nd Street, both of which will likely command premium rents.

Figure 8: Average Asking Rents | By Submarket



Source: CBRE Research, Q4 2016.

INVENTORY AT A GLANCE

Submarket	Total Size (Mil. Sq. Ft.)	No. of Buildings
Chelsea	14.27	45
Flatiron	11.40	61
Hudson Square / Tribeca	15.23	34
NoHo / SoHo	7.92	51
Park Avenue South / Madison Square	19.55	58
Union Square	4.43	28
TOTAL INVENTORY	**72.80**	**277**

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.

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.

T.I. — Tenant Improvements.

Vacancy — Unoccupied space available for lease.

SURVEY CRITERIA

CBRE's market report analyzes fully modernized office buildings that total 50,000+ sq. ft. in Midtown South, 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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