Midtown Manhattan Office, Q1 2017

Demand more focused on product than location

Leasing Activity	Net Absorption	Availability Rate	Vacancy Rate	Average Asking Rent
3.47 MSF	(0.47) MSF	11.9%	8.1%	$80.45 PSF

*Arrows indicate change from previous quarter.

- At 3.47 million sq. ft., year-to-date leasing activity was well ahead of last year's, although the volume of closed transactions tapered off toward the end of the quarter.
- Net absorption registered negative 470,000 sq. ft. in Q1 2017, the fifth quarter among the last six in which absorption has been negative.
- The availability rate has been relatively consistent, hovering between 11.8% and 12.0% for the last nine quarters.
- The average asking rent is $80.45 per sq. ft., essentially stable over the past quarter and year.
- Continuing the trend from last year, while rents remain largely stable, demand—and hence pricing—for new or renovated product remains strong.

MARKET OVERVIEW

Market conditions remained largely stable in Midtown during the first quarter of 2017. Leasing activity was moderate, just below 3.5 million sq. ft.—solidly ahead of this time last year, but somewhat behind the long-term average. Overall asking rents and availability were virtually unchanged, and net absorption was modestly negative, a consistent condition for the past several quarters. The Midtown market remains highly segmented, as demand appears increasingly focused on product rather than location. Sales professionals report high levels of interest from prospective tenants, especially for new construction, renovated properties and higher quality buildings, as tenants look to upgrade their workplace. At the submarket level, Times

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
767,885 (E)*	21st Century Fox America, Inc.	1211 Avenue of the Americas
443,586	News Corporation, Ltd.	1211 Avenue of the Americas
265,348 (R)	Kramer, Levin, Naftalis & Frankel LLP	1177 Avenue of the Americas
196,792	Tommy Hilfiger USA, Inc.	285 Madison Avenue
142,799	Endurance Specialty Holdings Ltd.	1221 Avenue of the Americas

Renewal (R), Expansion (E), Renewal and Expansion (RE)
*This deal involved a partial expansion of 128,000 sq. ft.
Source: CBRE Research, Q1 2017.

Square/West Side and Grand Central performed well, with strong leasing activity and declining availability, while Park Avenue was off to a slow start.

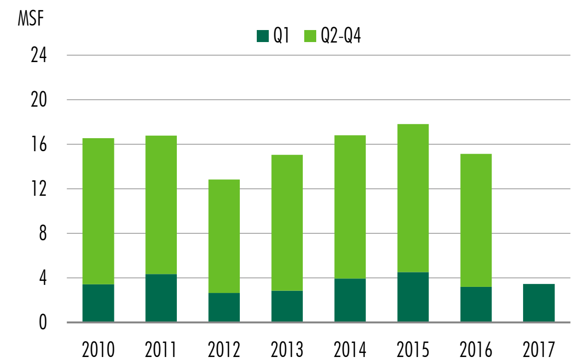
LEASING ACTIVITY

At 3.47 million sq. ft., year-to-date leasing was well ahead of last year's, but has tapered off since the start of the year. While January was strong, monthly activity slowed from there, yielding a first-quarter total that was the lowest of the last four quarters, and 12% below its five-year quarterly average of 3.92 million sq. ft. Renewal activity, which is not included in leasing activity, totaled 1.64 million sq. ft. in Q1 2017, down 7% from the previous quarter and up notably—24%—from the first quarter of 2016.

New leasing activity was particularly strong in the Times Square/West Side submarket, up 42% from its five-year quarterly average, to 604,000 sq. ft. This was largely driven by activity at 4 Times Square, where SS&C Technologies and RSM leased 136,000 sq. ft. and 95,000 sq. ft., respectively. Submarkets in Midtown's eastern half all saw leasing activity markedly below their five-year quarterly averages, with the exception of Grand Central, which was largely on par (up 2%). Tommy Hilfiger's 197,000-sq.-ft. lease at 285 Madison Avenue—a building renovated in 2013—provided a strong boost to activity in this submarket.

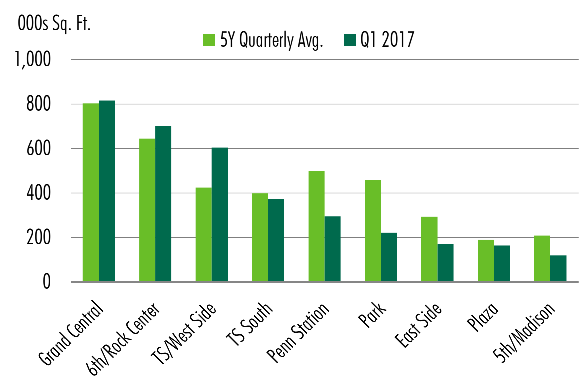
Sixth Avenue/Rock Center continued its momentum from the previous quarter, with a flurry of large transactions, including four of the quarter's top five—most notably, 21st Century Fox America and News Corporation's commitments totaling more than 1.2 million sq. ft. at 1211 Avenue of the Americas. Park Avenue was notably slow this quarter; at 222,000 sq. ft., leasing was less than half its five-year quarterly average.

Figure 2: Leasing Activity | Historical



Source: CBRE Research, Q1 2017.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q1 2017.

NET ABSORPTION

Net absorption registered negative 470,000 sq. ft. in Q1 2017, the fifth quarter among the last six in which absorption has been negative. While this quarter's outcome is consistent with recent trends, the magnitude was relatively modest, as only seven blocks of available space greater than 100,000 sq. ft. came to market during the quarter in all of Midtown (where total inventory is upwards of 235 million sq. ft.).

Park Avenue, which had negative 369,000 sq. ft. of net absorption this quarter, reflects the pattern seen in Midtown overall—and likewise the submarket has registered negative absorption for five quarters of the past six. This quarter, the submarket's negative absorption was in part due to the addition of nearly 200,000 sq. ft. of space at 601 Lexington Avenue. The negative net absorption witnessed in four of the other Midtown submarkets was relatively modest.

Net absorption was marginally positive in the Sixth Avenue/Rockefeller Center and Grand Central submarkets, as both saw robust leasing activity and limited new availability. The largest new availability in either submarket in Q1 2017 was 137,000 sq. ft. at 135 West 50th Street.

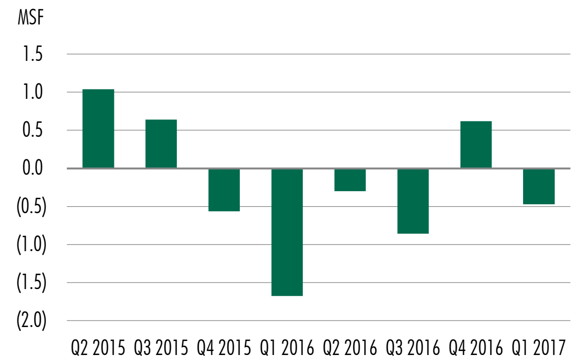
AVAILABILITY

The availability rate was 11.9% at the end of Q1 2017, up a slight 10 basis points (bps) quarter-over-quarter. The rate has been relatively consistent for the last nine quarters, hovering between 11.8% and 12.0%, a range moderately above the 10-year average of 11.5%.

Sublease availability was 2.2%, and has been steadily at or slightly below this point for the last five quarters. The amount of sublet space remains historically low, with its average asking rent up 7% year-over-year to $63.65 per sq. ft.

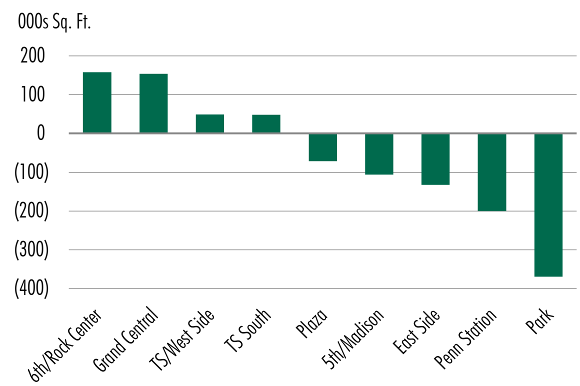
The biggest increase in available space took place in the Park Avenue submarket, hand in hand with the negative net absorption measured there during the quarter. The submarket currently has an availability rate of 12.5%; while this is certainly not the highest in Midtown, Park Avenue has seen the market's most notable and steady increase in the past year, rising nearly 340 bps since Q1 2016.

Figure 4: Net Absorption | Quarterly



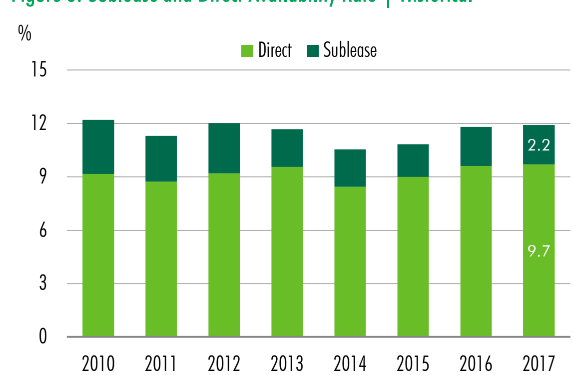
Source: CBRE Research, Q1 2017.

Figure 5: Quarterly Net Absorption | By Submarket



Source: CBRE Research, Q1 2017.

Figure 6: Sublease and Direct Availability Rate | Historical

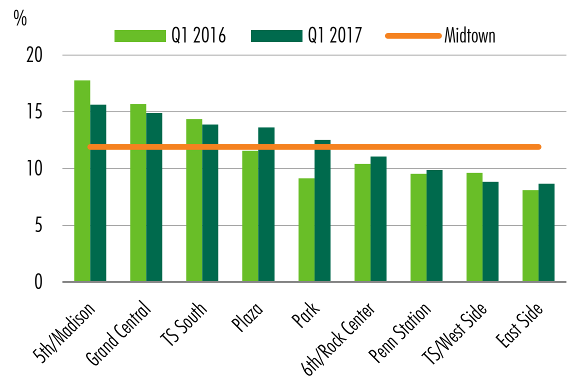


Source: CBRE Research, Q1 2017.

The Plaza submarket also saw increases on both a quarterly and year-over-year basis, to reach 13.6%, up 200 bps since this time last year. Fifth/Madison Avenue saw availability pop back up this quarter to 15.6%, rising 100 bps since Q4 2016, but still down considerably from the rate of 17.8% one year ago.

The availability rate fell 70 bps in Grand Central, driven by a healthy quarter of leasing, combined with limited new availability. This is the second quarterly decline in the availability rate in the Grand Central submarket, which fell to 14.9%—the first time the rate has dipped below 15% since Q4 2015.

Figure 7: Availability Rate | By Submarket

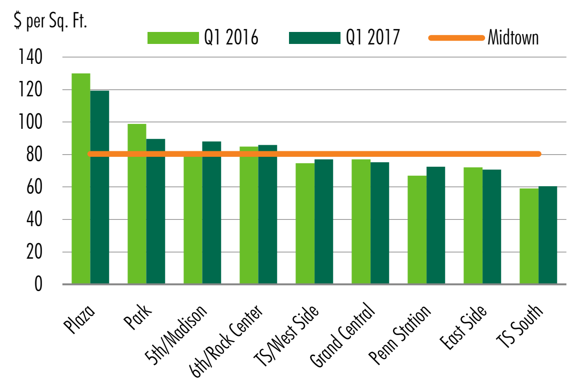


Source: CBRE Research, Q1 2017.

AVERAGE ASKING RENT

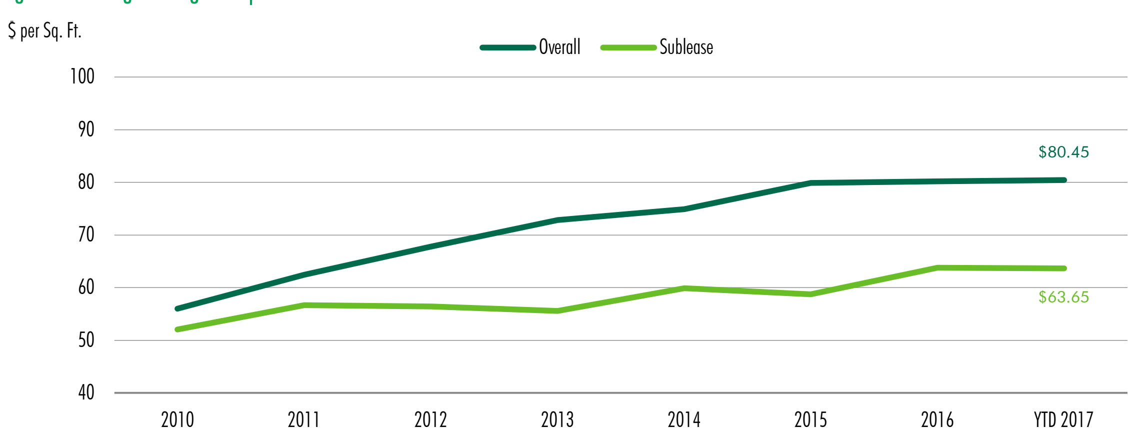
The Midtown average asking rent is $80.45 per sq. ft., essentially stable over the past quarter and year. At the submarket level, rents changed relatively little in Q1 2017. The exception was the Plaza district, where rents fell 4%, to $119.39 per sq. ft., led by a fair amount of sublet space priced well below the submarket's average: 26,000 sq. ft. at 3 East 54th Street, with an asking rent of $35 per sq. ft., and 25,000 sq. ft. at 625 Madison Avenue, asking $56 per sq. ft.

Figure 8: Average Asking Rents | By Submarket



Source: CBRE Research, Q1 2017.

Figure 9: Average Asking Rent | Historical

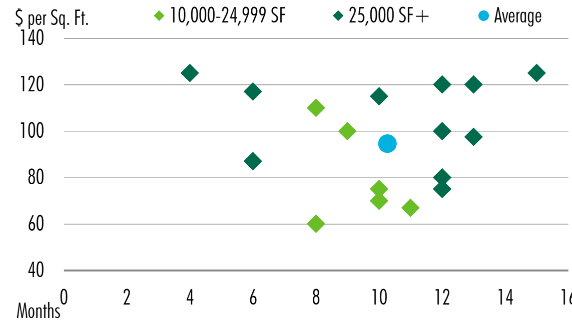


Source: CBRE Research, Q1 2017.

Year-over-year, the average asking rent grew most significantly in the Fifth/Madison Avenue submarket, rising 9%, to $87.96 per sq. ft. The average asking rent in Penn Station also grew notably over the past twelve months, up 8%, to $72.49 per sq. ft., as interest in Hudson Yards, as well as from tenants priced out of Midtown South, has driven rents to historical highs this cycle.

Continuing the trend from last year, while rents remain largely stable, demand—and hence pricing—for new or renovated product remains strong.

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



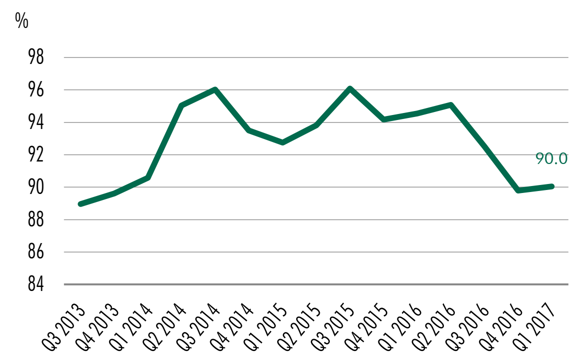
*Identical concession packages will overlap in graphic. Average excludes highest and lowest values.

Source: CBRE Research, Q1 2017.

TAKING RENT INDEX

The taking rent index posted a 20-bps increase quarter-over-quarter to 90.0%. Concession packages for new leases of raw space completed during the quarter included an average of $90 per sq. ft. in tenant improvement allowance and 10 months of free rent.

Figure 11: Taking Rent Index | Historical

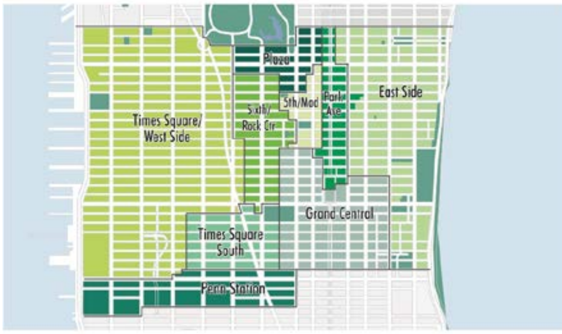


Source: CBRE Research, Q1 2017.

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—about 720,000 sq. ft. of which has already been committed.

INVENTORY AT A GLANCE



Submarket	Total Size (Mil. Sq. Ft.)	No. of Buildings
East Side	20.93	44
Fifth Avenue / Madison Avenue	11.01	27
Grand Central	44.65	84
Park Avenue	29.76	37
Penn Station	21.81	29
Plaza	11.68	24
Sixth Avenue / Rock Center	45.45	45
Times Square South	18.43	44
Times Square / West Side	32.08	43
TOTAL INVENTORY	**235.79**	**377**

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

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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