Midtown South Manhattan Office, Q1 2017

New construction drives average asking rents and availability, as leasing picks up

Leasing Activity	Net Absorption	Availability Rate	Vacancy Rate	Average Asking Rent
1.32 MSF	(1.07) MSF	10.9%	6.5%	$74.49 PSF

*Arrows indicate change from previous quarter.

- Leasing activity picked back up to historical averages in Q1 2017, reaching 1.32 million sq. ft.
- More than 600,000 sq. ft. of new development was added to the inventory of available space this quarter—the majority was in Chelsea, including 512 West 22nd Street, 61 Ninth Avenue and 412 West 15th Street.
- The addition of this new product, much of which with asking rents above $100 per sq. ft., drove the overall average to an all-time high of $74.49 per sq. ft.—an increase of 9% over the previous quarter.
- The availability rate rose to 10.9%, increasing 120 basis points (bps) from last quarter and 280 bps from one year ago.
- Sublease availability increased 120 bps year-over-year, to 3.0%, with an average asking rent of $58.06 per sq. ft.

MARKET OVERVIEW

The addition of new product had a noticeable impact on the market, pushing up both the availability rate and the average asking rent this quarter, and leading to substantial negative net absorption. The increase in available space helped spur leasing activity, which picked back up to historical levels in Q1 2017, after slowing down somewhat in 2016. The market saw a wide range of tenants leasing space, with financial services, consumer goods and real estate companies making up the five largest transactions of the quarter—providing a complement to TAMI tenants, which remain active in the market.

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
94,740	WeWork	205 Hudson Street
78,000	Capital One	11 West 19 th street
59,345 (RE)	L'Oréal USA, Inc.	261 Eleventh Avenue
51,576	One Kings Lane	315 Hudson Street
46,530	Argo Group US	431 West 14th Street

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

Source: CBRE Research, Q1 2017.

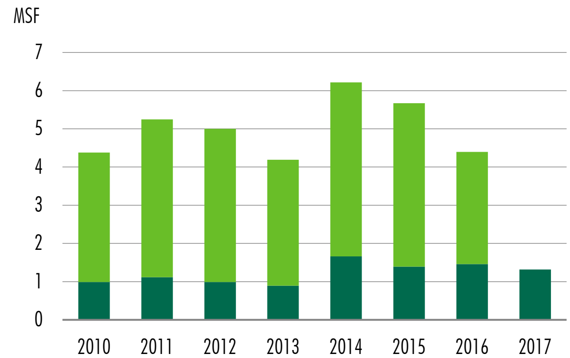
LEASING ACTIVITY

Leasing activity improved for the second straight quarter, to reach 1.32 million sq. ft.—a 2% bump over its five-year quarterly average. While no deals above 100,000 sq. ft. closed this quarter, there were five transactions greater than 45,000 sq. ft., spanning industries including financial services, consumer goods/retail, and real estate services—all tenants outside of the TAMI sector, which has been the dominant force in leasing activity in Midtown South for several years. However, TAMI companies remained active this quarter, accounting for 34% of all leasing activity.

On a submarket level, Hudson Square/Tribeca had an especially good quarter, with more than 340,000 sq. ft. leased, well above its five-year quarterly average of 193,000 sq. ft. Leasing in this submarket featured two of the quarter's largest transactions: WeWork's 95,000-sq.-ft. lease at 205 Hudson Street and the 52,000-sq.-ft. One Kings Lane lease at 315 Hudson Street. New development in Chelsea attracted another of the quarter's largest transactions: insurance company Argo Group US signed a lease for 46,500 sq. ft. at Rockpoint Group's 413 West 14th Street, propelling leasing in the submarket to 289,000 sq. ft., 24% above its five-year quarterly average.

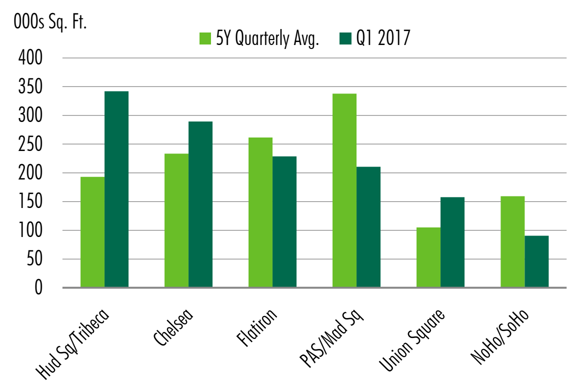
Union Square, Midtown South's smallest submarket, also had a strong showing this quarter, with leasing activity up 50% from its five-year quarterly average, to reach 158,000 sq. ft. Notable transactions included Teacher Synergy's 27,000-sq.-ft. lease at 225 Park Avenue South and Pentagram's 24,000-sq.-ft. lease at 250 Park Avenue South—two unusually large deals for this submarket, where small floor plates tend to yield leases below 20,000 sq. ft. As for Flatiron, activity was somewhat slow, at just 229,000 sq. ft.—13% below its five-year quarterly average. The bright spot was the Capital One lease for 78,000 sq. ft. at 11 West 19th Street, Midtown South's second largest transaction this quarter.

Figure 2: Leasing Activity | Historical



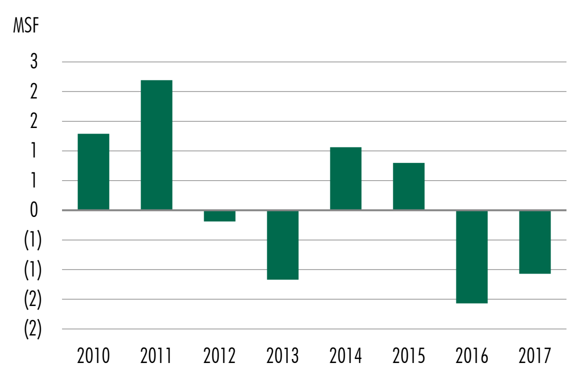
Source: CBRE Research, Q1 2017.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q1 2017.

Figure 4: Net Absorption | Historical



Source: CBRE Research, Q1 2017.

NET ABSORPTION

Despite the pickup in leasing activity, Midtown South registered substantial negative net absorption this quarter, at negative 1.07 million sq. ft., reflecting the addition of more than 600,000 sq. ft. in new development projects and 350,000 sq. ft. of sublet space. Much of this was seen in Chelsea, which is home to the new development projects; despite an above-average quarter of leasing activity, the submarket registered negative 703,000 sq. ft. of net absorption.

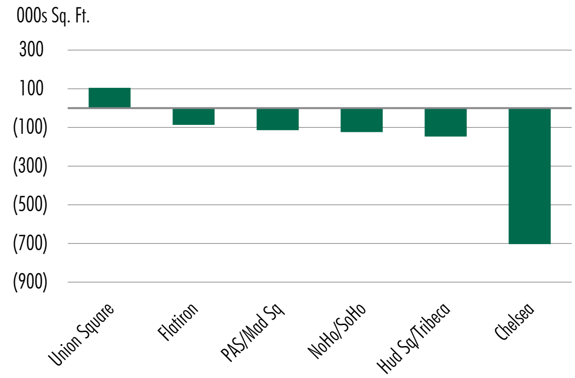
Union Square was the lone submarket to end the quarter with positive absorption, recording 105,000 sq. ft., driven by 158,000 sq. ft. of leasing activity.

AVAILABILITY

The availability rate rose 120 bps quarter-over-quarter, to 10.9% in Q1 2017—the fifth consecutive quarter of increasing availability in the market—driven by the addition of more than 600,000 sq. ft. of new construction. The majority occurred in Chelsea, where the availability rate rose 370 bps quarter-over-quarter, to 15%. The new available space additions are mainly in new construction projects such as 512 West 22nd Street (164,000 sq. ft.), 61 Ninth Avenue (146,000 sq. ft.) and 412 West 15th Street (130,000 sq. ft.).

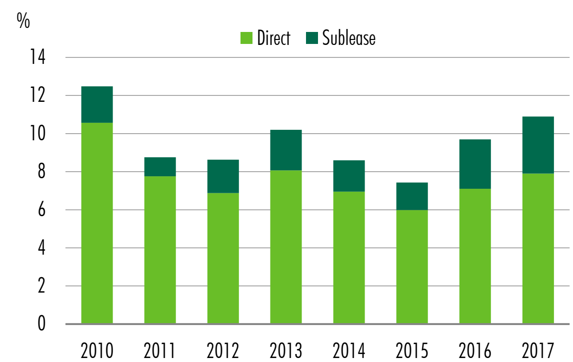
Hudson Square/Tribeca was up 60 bps quarter-over-quarter—driven by the addition of a 203,000-sq.-ft. redevelopment project at 101 Franklin Street. NoHo/SoHo ended the quarter at 9%, up 160 bps quarter-over-quarter, due to the addition of numerous small spaces.

Figure 5: Quarterly Net Absorption | By Submarket



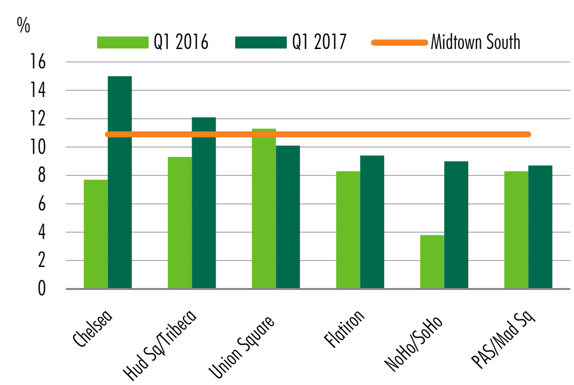
Source: CBRE Research, Q1 2017.

Figure 6: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q1 2017.

Figure 7: Availability Rate | By Submarket



Source: CBRE Research, Q1 2017.

Union Square's strong quarter of leasing made it the only submarket to see a decline in availability, falling 240 bps from the previous quarter, to 10.1%.

Sublease availability rose 40 bps quarter-over-quarter, to 3.0%, the first time it has reached this level since June 2010. A total of 350,000 sq. ft. of sublet space was added since the previous quarter, including a 77,000-sq.-ft. block from Getty Images at One Hudson Square.

AVERAGE ASKING RENT

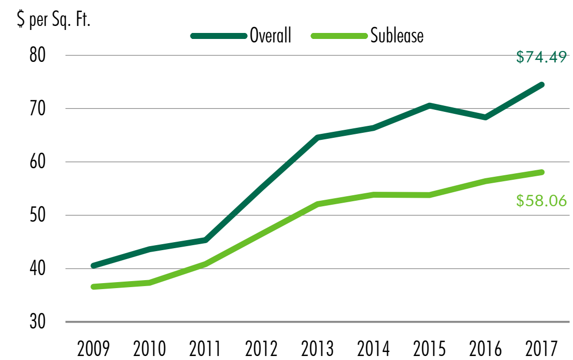
The average asking rent grew considerably in Q1 2017, climbing 9% quarter-over-quarter to reach a new high of $74.49 per sq. ft. This increase shows the impact of new development priced well above the market: the 164,000 sq. ft. at 512 West 22nd Street is priced between $125-$165 per sq. ft., and the 146,000 sq. ft. at 61 Ninth Avenue at approximately $150 per sq. ft. This impact is especially acute in the Chelsea submarket, where new development drove the average asking rent up 40% quarter-over-quarter, to $77.83 per sq. ft.

Hudson Square/Tribeca's average asking rent increased 8% quarter-over-quarter, to $79.97 per sq. ft.—a result of 203,000 sq. ft. coming online at 101 Franklin Street, where the asking rent is between $85-$110 per sq. ft.

TAKING RENT INDEX

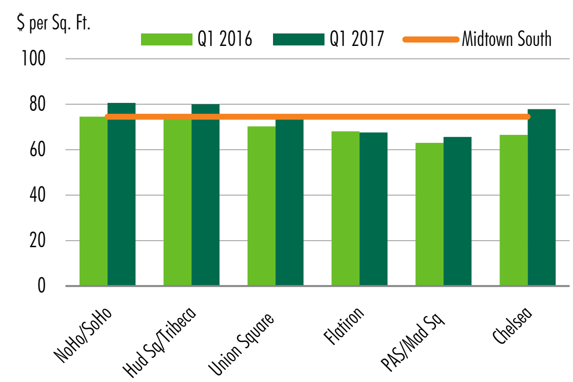
The taking rent index dropped 150 bps quarter-over-quarter, to 91.3%. Concession packages for new leases for raw space completed during the quarter include an average of $66 per sq. ft. in tenant improvement allowance and eight months of free rent.

Figure 8: Average Asking Rent | Historical



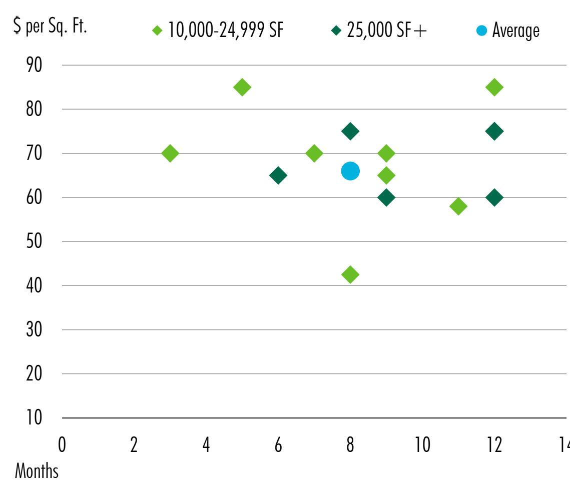
Source: CBRE Research, Q1 2017.

Figure 9: Average Asking Rents | By Submarket



Source: CBRE Research, Q1 2017.

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.

INVENTORY AT A GLANCE

Submarket	Total Size (Mil. Sq. Ft.)	No. of Buildings
Chelsea	15.44	51
Flatiron	11.35	59
Hudson Square / Tribeca	15.72	35
NoHo / SoHo	7.86	50
Park Avenue South / Madison Square	19.45	58
Union Square	4.43	28
TOTAL INVENTORY	**74.25**	**281**

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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