

Downtown Manhattan Office, Q1 2017

Large relocations fuel active quarter of leasing

 Leasing Activity
1.87 MSF

 Net Absorption
0.58 MSF

 Availability Rate
11.3%

 Vacancy Rate
7.9%

 Average Asking Rent
\$57.87 PSF

*Arrows indicate change from previous quarter.

- Leasing activity totaled 1.87 million sq. ft. in Q1 2017, 45% above its five-year quarterly average and a tremendous jump of 286% from Q4 2016.
- Of the three Manhattan markets, Downtown was the only one with positive quarterly net absorption, at 577,000 sq. ft.
- Tenants continue to migrate to the Downtown market, drawn by the availability of large blocks of quality space. Spotify's 378,000-sq.-ft. relocation to 4 World Trade Center was not only the largest new deal of the quarter, it was also the biggest tech relocation ever to Downtown.
- Since 2011, 386 tenants have moved from other markets into Downtown, totaling 12.5 million sq. ft.
- Danny Meyer (Union Square Café/Gramercy Tavern) will open a public restaurant and event space on the 60th floor of 28 Liberty Street, as major restaurateurs continue to flock to the area.

MARKET OVERVIEW

Downtown registered 1.87 million sq. ft. of leasing activity in Q1 2017, marking the strongest quarter since Q2 2014 and the best start to a year since 2000. All major metrics improved Downtown: leasing activity increased significantly, availability shrunk while rents rose over the past year, and absorption was overwhelmingly positive. Nearly 40% of all activity was driven by new tenant relocations to the market—sizeable creative tenants in fashion, tech and advertising moved south, contributing to the ongoing diversification of the Downtown market.

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
402,807 (R)	Royal Bank of Canada	200 Vesey Street
378,243	Spotify AB	4 World Trade Center
342,484	New York State Attorney General's Office	28 Liberty Street
201,931	Aon Corporation	One Liberty Plaza
139,642 (RE)	IPSoft, Inc.	17 State Street

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

Source: CBRE Research, Q1 2017.

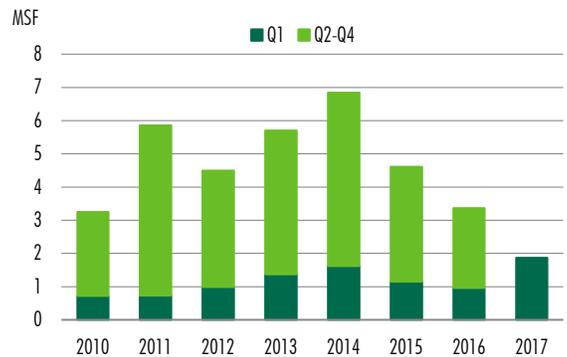
LEASING ACTIVITY

First-quarter leasing activity was exceptionally robust. Fueled partly by pent-up demand carrying over from the second half of 2016, leasing activity totaled 1.87 million sq. ft. Unlike the previous quarter—when there were no deals above 50,000 sq. ft.—Q1 2017 saw eight deals close above that threshold, contributing to a whopping 286% increase quarter-over-quarter. Renewal activity was impressive as well. Led by the largest transaction of the quarter—Royal Bank of Canada’s 403,000-sq.-ft. renewal at 200 Vesey Street—there were three renewals greater than 100,000 sq. ft.

Quarterly submarket activity was mostly positive. The Financial submarket experienced 1.20 million sq. ft. of leasing, 41% above its five-year quarterly average. Downtown West had even greater success, with 577,000 sq. ft. of leasing—representing an 84% jump from its five-year quarterly average. City Hall was the exception, registering a 25% drop from its five-year quarterly average, to the tune of 98,000 sq. ft. of activity.

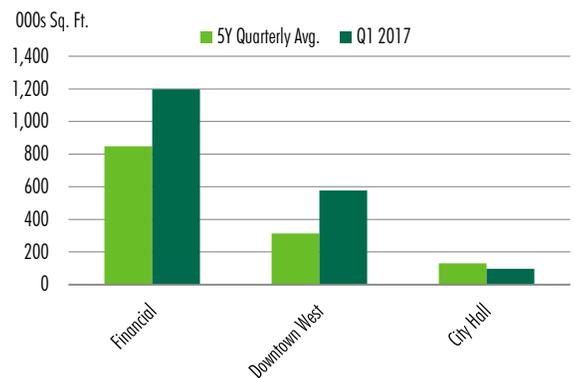
Large relocations to Downtown were a headline in Q1 2017. In all of 2016, only three relocations greater than 50,000 sq. ft. transacted, while this year the market has already seen four relocations above that size. Creative tenants in the tech, advertising and fashion industries made up the largest commitments.

Figure 2: Leasing Activity | Historical



Source: CBRE Research, Q1 2017.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q1 2017.

Figure 4: Top Relocations to Downtown

Size (Sq. Ft.)	Tenant	Address	Industry	Relocating From
378,243	Spotify AB	4 World Trade Center	Technology	620 Avenue of the Americas
126,721	Tullett Prebon	200 Vesey Street	Financial Services	101 Hudson Street (NJ)
91,116	Avon Cosmetics	One Liberty Plaza	Fashion	777 Third Avenue
50,578	Rauxa Direct	225 Liberty Street	Advertising	100 Avenue of the Americas
19,198	MM LaFleur	100 Broadway	Fashion	611 Broadway

Source: CBRE Research, Q1 2017.

Of the top relocations, fashion was most represented, highlighted by Avon Cosmetics' 91,000-sq.-ft. relocation from Midtown.

Spotify's 378,000-sq.-ft. relocation to 4 World Trade Center was not only the largest new deal of the quarter, it was also the single biggest tech relocation to Downtown to date. Adding a new dimension to the TAMI relocation trend, this marks the largest high-profile technology tenant to commit to Downtown—accelerating the market's progression as a tech hub and boosting tech occupancy by 9%, to more than 4.6 million sq. ft.

All told, including this quarter's signings, 386 tenants totaling 12.5 million sq. ft. have relocated to the market since 2011.

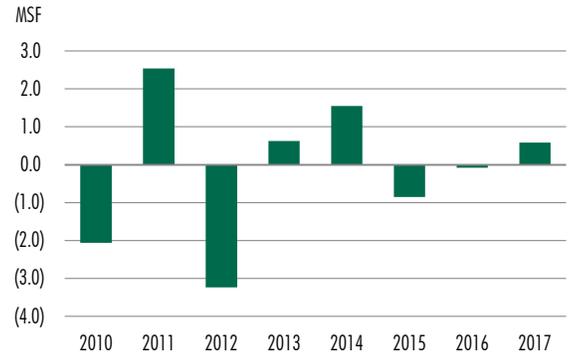
While Downtown continues to diversify, FIRE and government tenants, two long-standing pillars of the market, were also quite active. Financial services firms represented two of the quarter's top five transactions, including Aon's 202,000-sq.-ft. lease at One Liberty Plaza and Tullett Prebon's 127,000-sq.-ft. relocation from Jersey City. Government transactions accounted for nearly a quarter of all leasing activity, led by one of the quarter's biggest transactions—the 342,000-sq.-ft. New York State Attorney General's Office lease at 28 Liberty Street.

NET ABSORPTION

Downtown experienced 577,000 sq. ft. of absorption during Q1 2017, as the substantial deal flow easily outpaced additions to the market. Quarterly net absorption saw an improvement over totals registered both in Q4 2016 and one year ago.

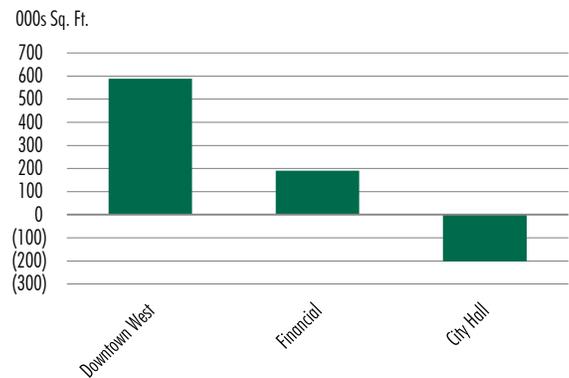
On a submarket level, absorption totals were mostly positive this quarter. City Hall was the lone market in the red, registering negative 202,000 sq. ft. of absorption, as leasing was well below the five-year quarterly average.

Figure 5: Net Absorption | Historical



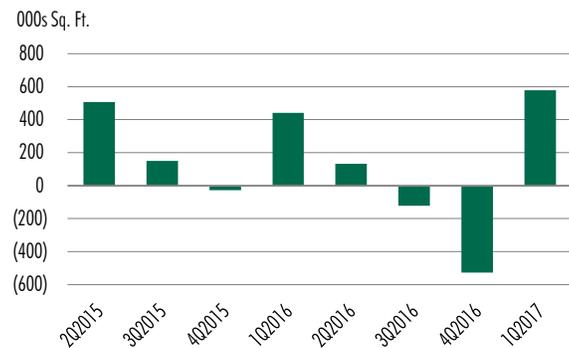
Source: CBRE Research, Q1 2017.

Figure 6: Quarterly Net Absorption | By Submarket



Source: CBRE Research, Q1 2017.

Figure 7: Quarterly Net Absorption | Historical



Source: CBRE Research, Q1 2017.

Downtown West, driven by a strong quarter of activity, witnessed 589,000 sq. ft. of absorption. Far behind, but still notable, the Financial submarket saw 190,000 sq. ft. of absorption.

AVAILABILITY

The availability rate was 11.3%, a drop of 100 basis points (bps) from last quarter and 40 bps from a year ago, driven by large leases removing major blocks of space from the market. Positive net absorption and a declining availability rate are encouraging signs, helping bolster the market in advance of the addition of the 1.8 million sq. ft. at 3 World Trade Center that will come online at the end of Q2 2017.

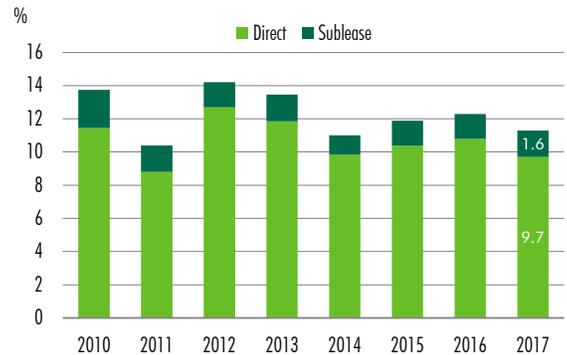
Looking at the submarket level, Downtown West witnessed the largest change in availability, dropping 460 bps from last quarter. The Financial submarket dipped 40 bps quarter-over-quarter, though availability is still up 50 bps from one year ago. The City Hall submarket witnessed a 150-bps increase, as new additions outpaced sluggish quarterly leasing activity.

Sublease availability, at 1.6%, improved nominally from last quarter and one year ago. Downtown has maintained the lowest sublet availability rate of the three Manhattan markets for the fifth consecutive quarter.

AVERAGE ASKING RENTS

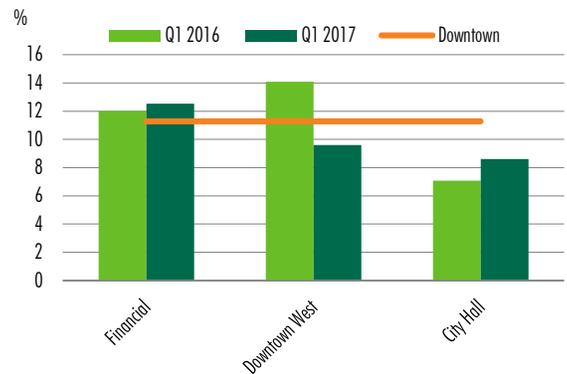
Downtown's average asking rent was \$57.87 per sq. ft., a slight decrease from last quarter. Though average asking rents have been inching upward for some time, a slight decline is to be expected, given the large blocks of space in premium-priced buildings recently having been leased. The most notable change occurred in Downtown West, with the average asking rent dropping 5%, to \$66.70 per sq. ft., due in large part to Spotify's deal at 4 World Trade Center.

Figure 8: Sublease and Direct Availability Rate | Historical



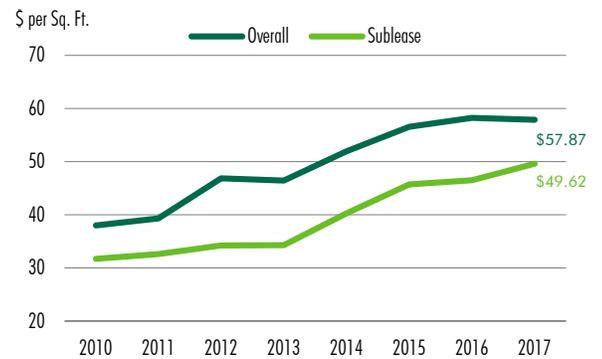
Source: CBRE Research, Q1 2017.

Figure 9: Availability Rate | By Submarket



Source: CBRE Research, Q1 2017.

Figure 10: Average Asking Rent | Historical



Source: CBRE Research, Q1 2017.

The Financial submarket experienced a 1% bump in its average asking rent, led by upward repricing at One Liberty Plaza, in response to the building’s declining availability due to recent major leases. City Hall pricing remained relatively unchanged quarter-over-quarter, at \$51.40 per sq. ft.

Sublet average asking rents, at \$49.62 per sq. ft., are up 7% from Q4 2016 and 9% from one year ago. The current figure represents an all-time high, as the addition of a handful of sublet spaces priced above \$50 per sq. ft. caused a significant jump in pricing.

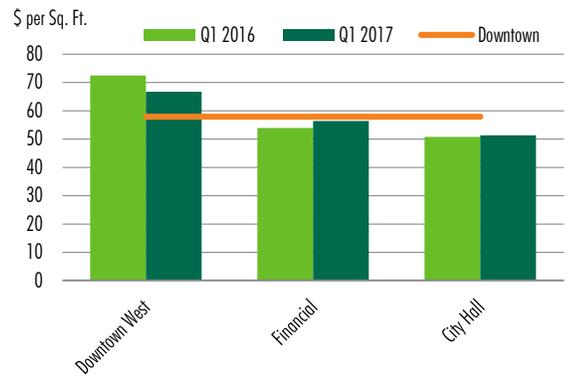
TAKING RENT INDEX

The taking rent index posted a 60-bps decline quarter-over-quarter, falling to 93.1%. Concession packages for new leases of raw space completed during Q1 2017 included an average of \$67 per sq. ft. in tenant improvement allowance and eight months of free rent.

DEVELOPMENT PIPELINE

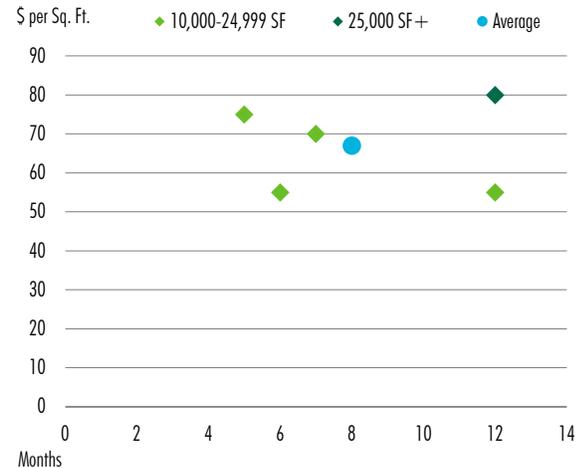
The development pipeline has remained unchanged since mid-year 2016, as the only new construction set to come to market in the near future is 3 World Trade Center. By mid-year 2018, the 2.5 million-sq.-ft. tower will be ready for occupancy, with over a quarter of the building already spoken for.

Figure 11: Average Asking Rents | By Submarket



Source: CBRE Research, Q1 2017.

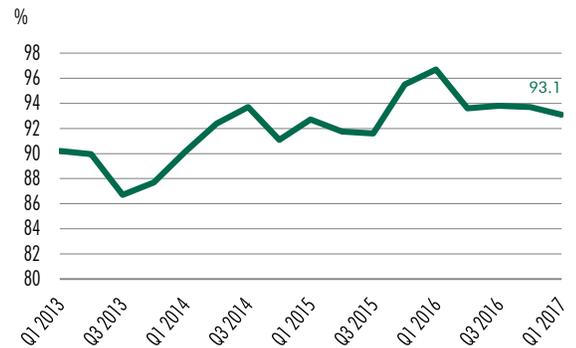
Figure 12: Concession Values | Rent Abatement and T.I. Allowance*



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

Source: CBRE Research, Q1 2017.

Figure 13: Taking Rent Index | Historical



Source: CBRE Research, Q1 2017.

INVENTORY AT A GLANCE



Submarket	Total Size (Mil. Sq. Ft.)	No. of Buildings
City Hall	13.10	30
Downtown West	20.13	10
Financial	55.25	78
TOTAL INVENTORY	88.48	118

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.

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 75,000+ sq. ft. in Downtown, 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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