CBRE MARKETVIEW

Downtown Manhattan Office, Q2 2020

Market fundamentals continue to slip as uncertainty remains

Leasing Activity	Net Absorption	Availability Rate	Vacancy Rate	Average Asking Rent
0.52 MSF	(0.38) MSF	12.9%	9.4%	$63.47 PSF

*Arrows indicate change from previous quarter.

- Leasing activity totaled 516,000 sq. ft. during Q2, down 56% from Q1 2020, and 60% behind the five-year quarterly average.
- Q2 2020 leasing velocity totaled 872,000 million sq. ft.—down 64% from the same quarter last year.
- Tenants migrating into the market accounted for 111,000 sq. ft., or 21% of leasing activity during Q2 2020—down from 34% during Q1 2020.
- The availability rate increased during Q2 2020, ending the quarter at 12.9%—a 50 basis-point (bps) increase since Q1 2020.
- Limited leasing and numerous space additions in Q2 led to 382,000 sq. ft. of negative absorption.
- Average asking rents in Q2 2020 remained flat $63.47 per sq. ft.
- CBRE-Econometric Advisors' rent forecast for Downtown shows rents declining between 10 and 16% by Q1 2021, before beginning to recover.

MARKET OVERVIEW

Virology, not the business cycle, has dictated the course of the world's economy this year. COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially the Northeast and Pacific coast, facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 14% and likely causing the economy to contract by more than 30% per annum in the second quarter.

New York City was the epicenter of the global COVID-19 pandemic for much of Q2, and the local economy and real estate market felt the full brunt of the crisis' impact. With respect to the office market, the situation manifested most noticeably in a steep decline in leasing, as the lockdown and stay at home orders kept all but essential workers at home and out of offices.

Figure 1: Top Lease Transactions for Q2 2020

Size (Sq. Ft.)	Tenant	Address
290,070* (R)	Securities & Exchange Commission	200 Vesey Street
241,171	Securities & Exchange Commission	100 Pearl Street
85,526	PolicyGenius	32 Old Slip
65,796 (R)	U. S. Department of Education	32 Old Slip
44,025	HealthFirst, Inc.	1 Liberty Plaza

Renewal (R), Expansion (E), Renewal/Expansion (RE) *Short-term renewal to align timing with move into new building. Source: CBRE Research, Q2 2020.

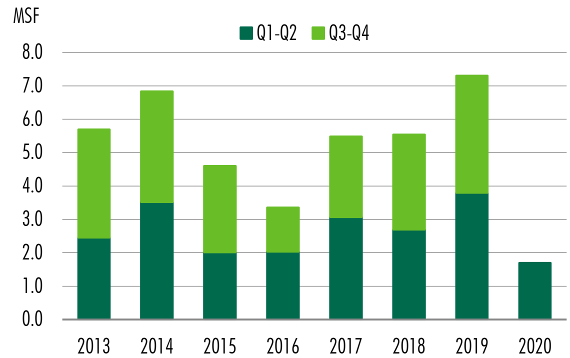
Downtown registered just 516,000 sq. ft. of leasing activity during the second quarter—down 56% quarter-over-quarter and 60% below the five-year quarterly average. Monthly leasing totals trended downward in Q2 2020, with just 52,000 sq. ft. of new leasing in June—a record low. After being frozen by uncertainty for much of Q2, late in the quarter the market saw an increase in sublease availabilities that pushed the overall availability rate up 50 bps to 12.9%, its highest position in 12 months. These new availabilities also resulted in negative absorption of 382,000 sq. ft.—the third consecutive quarter of contraction in the Downtown market. These negative trends have not, however, resulted in changes in average asking rents, which have remained virtually unchanged from last quarter and one year ago and currently rest at $63.47 per sq. ft., less than 1% from the all-time high. CBRE-Econometric Advisors' rent forecast for Downtown shows rents declining between 10 and 16% by Q1 2021 before beginning to recover.

LEASING ACTIVITY

Sustained uncertainty resulting from the global COVID-19 pandemic constrained leasing during Q2 and led to a further tapering of leasing activity in 2020. Occupiers paused during Q2 and adopted a wait-and-see approach to their future real estate needs. Downtown recorded just 516,000 sq. ft. of leasing activity during the second quarter, the second lowest total ever recorded, and 60% below its five-year quarterly average.

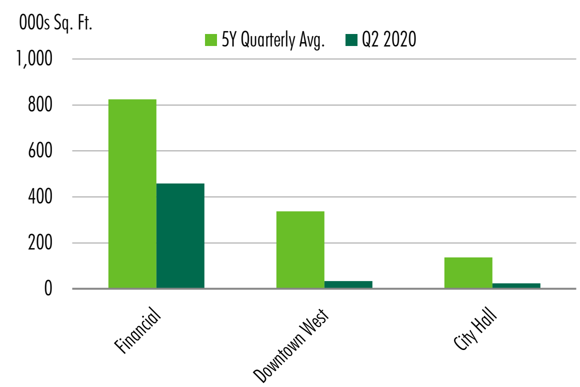
The overall freeze in market activity affected the pace of tenant relocations into Downtown in Q2. Usually a significant driver of Downtown demand, there were only two relocations into the market totaling 111,000 sq. ft. PolicyGenius relocated from 50 W. 23rd Street into 86,000 sq. ft. at 32 Old Slip, while Lippe Taylor committed to moving out of 215 Park Avenue South in favor of 25,000-sq.-ft. space at 140 Broadway.

Figure 2: Leasing Activity | Historical



Source: CBRE Research, Q2 2020.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q2 2020.

Across the board, Downtown submarkets did not fare well during Q2, all falling short of previous quarter totals and five-year quarterly averages. The Financial submarket performed the best during Q2, recording 459,000 sq. ft. of leasing activity—down 20% from Q1 and 44% off the five-year quarterly average. The Financial submarket accounted for 89% of the market's total leasing activity during Q2 and housed all three of the largest lease transactions of the quarter. The Securities & Exchange Commission (SEC) inked a deal for 241,000 sq. ft. at 100 Pearl Street, and subsequently had to extend their existing lease at 200 Vesey Street for a one-year renewal in response to the temporary shutdown of construction in New York State. Additionally, PolicyGenius signed onto 86,000 sq. ft. at 32 Old Slip, while HealthFirst committed to 44,000 sq. ft. at 1 Liberty Plaza.

Downtown West reported a 94% decrease in leasing activity quarter-over-quarter while falling 90% short of the five-year quarterly average. Just a single new lease was signed in Downtown West during Q2—Walden Macht & Haran LLP leased 33,000 sq. ft. at 250 Vesey Street.

Downtown West and City Hall registered a much larger downturn, recording just 33,000 sq. ft. and 24,000 sq. ft. of leasing activity respectively. City Hall saw its leasing activity fall by 42% from one quarter ago and 82% below the five-year average. Q2 2020 was the slowest quarter of leasing in City Hall since Q4 2005.

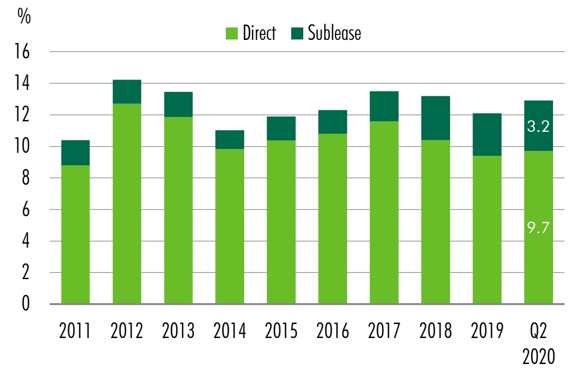
ABSORPTION AND AVAILABILITY

The halt in leasing activity resulted in 382,000 sq. ft. of negative absorption in Q2, marking the third consecutive quarter of such contraction and the lowest quarterly absorption total since Q1 2018. This led to a 50 bps increase in the availability rate to 12.9%. Despite this increase, availability sits 10 bps below one year ago.

Sublease space was on the rise during Q2 2020, ending the quarter with an additional 354,000 sq. ft. These additions raised the sublease availability rate to 3.2% which represents a 40-bps increase from Q1 and a 50-bps increase from one year ago. Sublease space currently represents 25% of all available space in Downtown, up significantly from year-end2016 when sublease space only represented 12%.

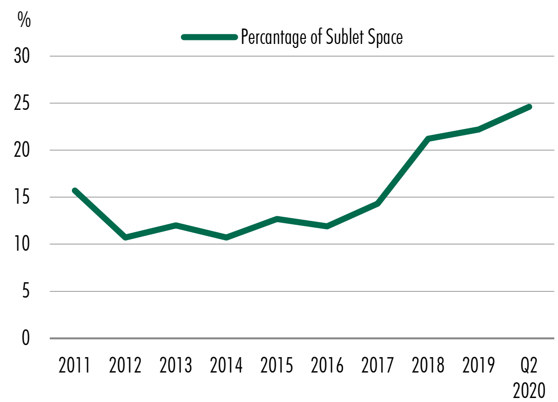
Two sizable subleases in excess of 100,000 sq. ft. contributed large-block additions to the market in Q2. The largest was a 159,000 sq. ft. block of sublease space from Emblem Health at 55 Water Street. Additionally, Fitch Ratings, Inc. put up 105,000 sq. ft. for sublease at 33 Whitehall Street. Aside from the aforementioned sublease blocks, space additions were muted during Q2, but a lack

Figure 4A: Sublease and Direct Availability Rate | Historical



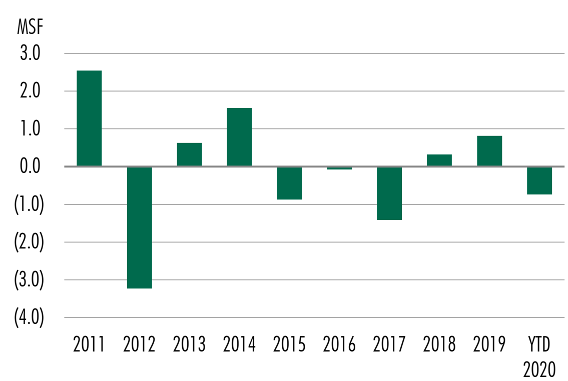
Source: CBRE Research, Q2 2020.

Figure 4B: Sublease Space as a % of Available Space | Historical



Source: CBRE Research, Q2 2020.

Figure 5: Net Absorption | Historical



Source: CBRE Research, Q2 2020.

of leasing amplified the overall impact of each new availability.

Both large-block additions came online in the Financial submarket leading to 90,000 sq. ft. of negative absorption. This Q2 outcome adds to a three-quarter trend of negative absorption in the Financial submarket, resulting in an 80-bps increase in availability year-over-year to 13.6%.

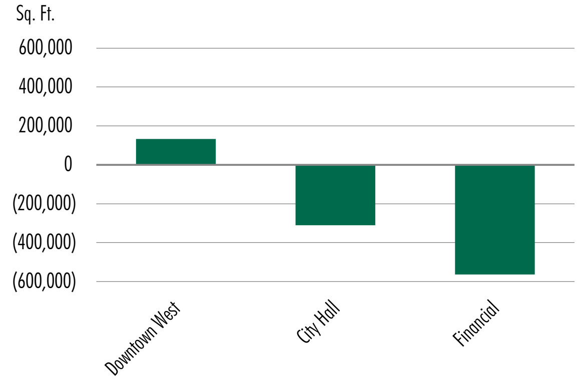
Both Downtown West and City Hall had small but impactful space additions during the second quarter. Downtown West recorded multiple midsized (25,000-99,999 sq. ft.) space additions throughout the quarter, which led to 138,000 sq. ft. of negative absorption. MediaMath, Inc. put 40,000 sq. ft. of space on the market for sublease at 4 World Trade Center while 225 Liberty Street saw a 40,000 sq. ft. block come to market on a direct basis. These additions pushed the submarket availability rate upward to 12.0%, 70 bps higher than one quarter ago, but still 390 bps below one year ago.

Downtown's smallest submarket, City Hall, was hit the hardest during Q2, registering 154,000 sq. ft. of negative absorption. The largest space addition of the quarter occurred at 100 Church Street—92,000 sq. ft. of available space that was previously listed but now within 12 months of tenant construction. As a result, the availability rate rose 110 bps from Q1 to 10.9%— a 130-bps increase from one year ago.

AVERAGE ASKING RENTS

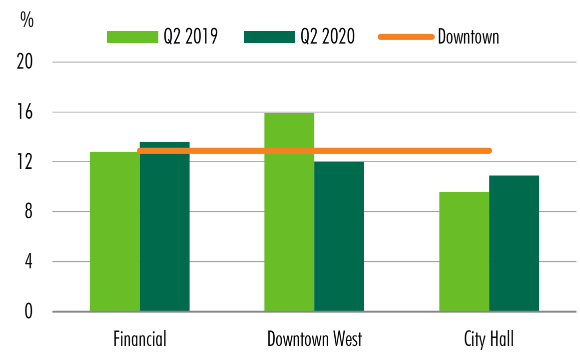
Irrespective of other market fundamentals, landlords were firm on asking rents though Q2 2020. Downtown closed the second quarter with an average asking rent of $63.47 per sq. ft., virtually unchanged from the previous quarter. In fact, all three submarkets recorded stable rents quarter-over-quarter.

Figure 6: Quarterly Net Absorption | By Submarket



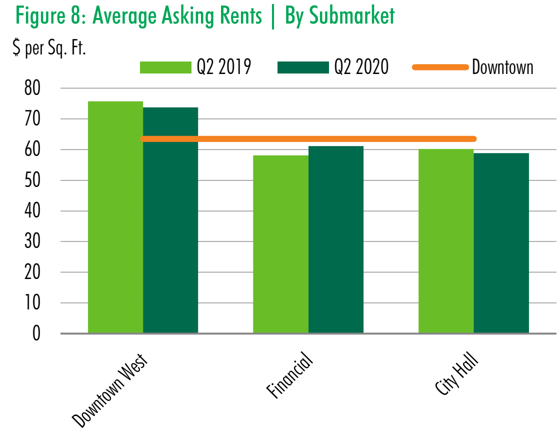
Source: CBRE Research, Q2 2020.

Figure 7: Availability Rate | By Submarket



Source: CBRE Research, Q2 2020.

Figure 8: Average Asking Rents | By Submarket



Source: CBRE Research, Q2 2020.

Annually, the Downtown market rental rate has remained stable, but the individual submarkets saw mixed results. City Hall and Downtown West recorded slight decreases over the past twelve months. Downtown West registered a 3% decrease to $73.72 per sq. ft., while City Hall recorded a 2% drop—currently $58.80 per sq. ft. On the flip side, the Financial submarket saw average asking rents increase by 5% from one year ago to $61.18 per sq. ft., reflecting Q1 space additions at 1 Liberty Plaza asking $79.00 per sq. ft. and the newly constructed 74 Trinity Place, where asking rents range between $81.00 and $87.00 per sq. ft.

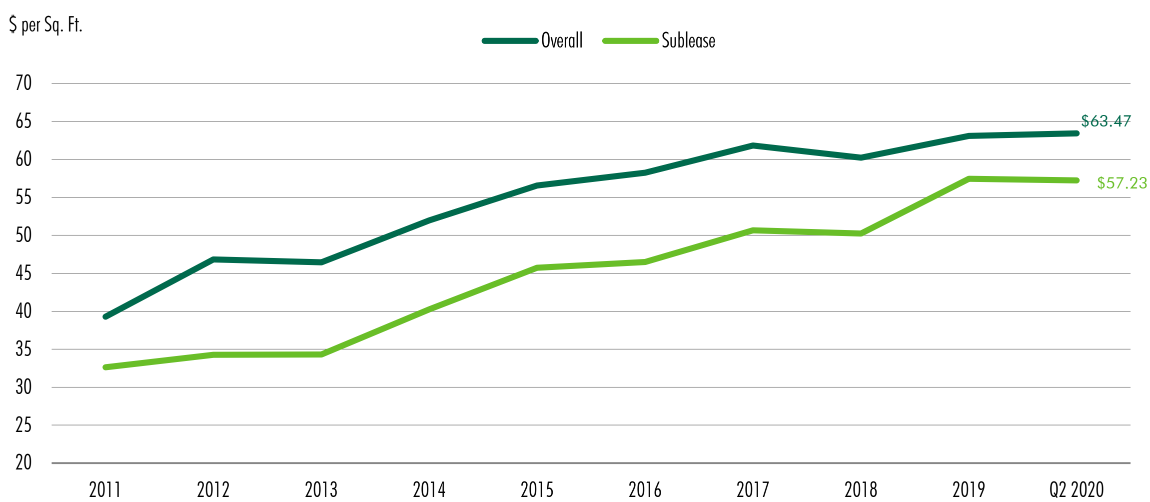
Downtown continues to have the closest spread between pricing on direct and sublet space in Manhattan. Currently, Downtown's direct space premium to sublease space is 14%, which is significantly lower than the 34% in Midtown South and 39% in Midtown. The sublet asking rent in Downtown remained stable during Q2 2020 and has a current level of $57.23 per sq. ft.

CBRE-Econometric Advisors has issued rent forecasts for the New York City office market, which point toward declining rent in Downtown Manhattan over the next three quarters. Based on current forecasts, Downtown average asking rent is anticipated to see a decline of between 10% and 16% by Q1 2021. Newer, amenity-rich buildings with stable occupancy levels are expected to fare better than the market overall, while older and unimproved buildings and those with higher levels of near-term tenant roll can be expected to face greater pressure to drop rents.

TAKING RENT INDEX

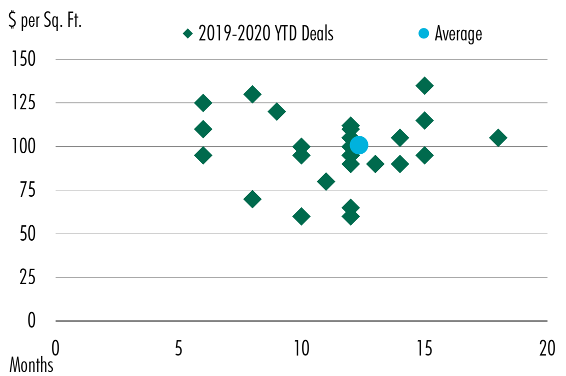
The taking rent index posted a 560-bps decrease quarter-over-quarter, now 88.2%. Concession packages for new leases of raw space completed in 2020 averaged $101 per sq. ft. in tenant improvement (TI) allowance, in line with the end of 2019, and remains the lowest of the Manhattan markets. Additionally, the free rent period remained stable at an average of 12 months. Sentiment seems to be that the market will bear temporary instances of slightly elevated free rent values and additional TI allowance to get deals completed. These occurrences are not widespread nor is there enough deal flow to see the impact to the market averages.

Figure 9: Average Asking Rent | Historical



Source: CBRE Research, Q2 2020.

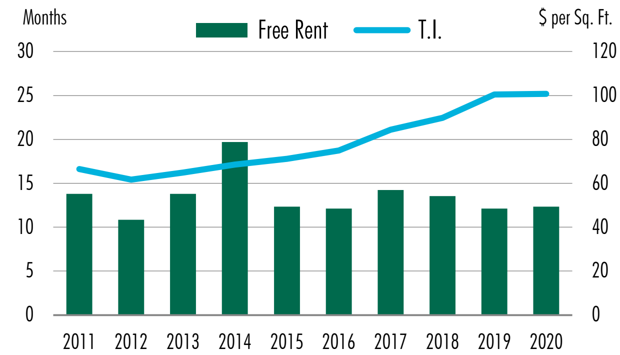
Figure 10: Concession Values | Rent Abatement and T.I. Allowance*



*This study examines all direct new leases over the past 15 months larger than 25,000 RSF with a term length greater than 10 years (omits renewals and expansions).

Source: CBRE Research, Q2 2020.

Figure 11: Historical Concession Values | Rent Abatement and T.I. Allowance*



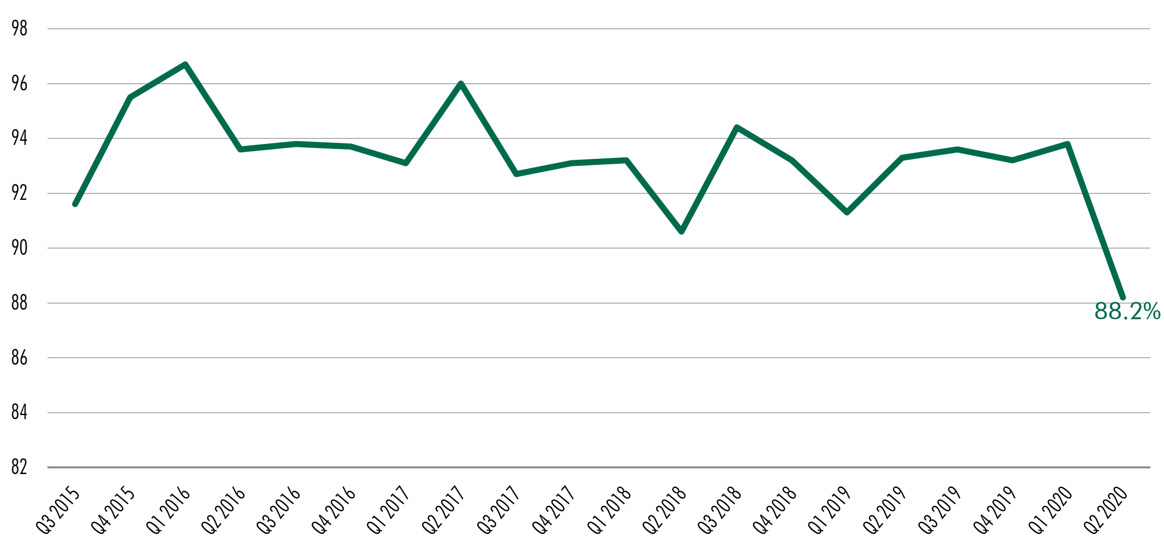
*This study examines all direct new leases larger than 25,000 RSF with a term length greater than 10 years (omits renewals and expansions). YTD 2020 figure reflects a blended average of 2019-YTD 2020.

Source: CBRE Research, Q2 2020.

DEVELOPMENT PIPELINE

The development pipeline in Downtown remains limited. The only sizable development project on the horizon is Silverstein's planned 2.8 million sq. ft. 2 World Trade Center, which is not yet under construction.

Figure 12: Taking Rent Index | Historical



Source: CBRE Research, Q2 2020.

INVENTORY AT A GLANCE

Submarket	Total Size (Mil. Sq. Ft.)	No. of Buildings
City Hall	13.6	30
Downtown West	20.0	10
Financial	56.5	80
TOTAL INVENTORY	**90.1**	**120**

Downtown's adjustment was driven by remeasurements, which added 251,000 sq. ft. to inventory.

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 25,000 sq. ft. or greater consummated year-to-date, this excludes expansion and renewal deals.

Leasing Activity — Total amount of sq. ft. leased within a specified period of time, including new deals, expansion, and pre-leasing, but excluding renewals.

Leasing Velocity — Total amount of sq. ft. leased within a specified period of time, including new deals, expansion, pre-leasing, and 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.

Percentage of Leasing by Industry —The percentage of sq. ft. leased by an industry based on transactions where a tenant and industry have been confirmed.

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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