

Downtown Manhattan Office, Q4 2016

# Bolstered by renewals, 2016's leasing velocity on par with last year

Leasing Activity **0.48 MSF**

Net Absorption **(0.53) MSF**

Availability Rate **12.3%**

Vacancy Rate **9.5%**

Average Asking Rent **\$58.26 PSF**

\*Arrows indicate change from previous quarter.

- Leasing activity totaled 483,000 sq. ft. in Q4 2016, 61% below its five-year quarterly average.
- Year-end leasing activity totaled 3.36 million sq. ft., a 27% decline from a year ago
- The availability rate jumped 40 basis points (bps) from one year ago, ending the quarter at 12.3%.
- Quarterly net absorption registered negative 527,000 sq. ft., bringing the year-to-date total to negative 76,000 sq. ft.
- Downtown's average asking rent was \$58.26 per sq. ft. in Q4 2016, virtually unchanged quarter-over-quarter, but up nearly 3% from last year
- Sublease availability remained unchanged quarter-over-quarter, to 1.5%, although the average asking rent grew 3% to \$46.48 per sq. ft.

**MARKET OVERVIEW**

Despite a below-average level of new deal closings in 2016, the Downtown market overall performed well in 2016, thanks in large part to strong renewal activity and a pickup in leasing by government tenants. While new leasing activity was defined by smaller deals, with none above 250,000 sq. ft., a single renewal transaction—S&P Global Inc.'s deal for 900,000 sq. ft. at 55 Water Street—propelled renewal activity to 1.71 million sq. ft., the highest annual total since 2012. The low leasing activity total aside, the current sentiment in the Downtown market is positive: asking rents continue to grow, the amount of tenants touring the market is healthy and a robust pipeline of deals awaits closing in early 2017.

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
256,616 (R)	New York State Government	90 Church Street
41,982	Abrams Books	195 Broadway
40,000	Select Office Suites	90 Broad Street
37,773	Continental Stock Transfer & Trust Company	1 State Street Plaza
28,494 (R)	McCall Pattern Company	120 Broadway

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

Source: CBRE Research, Q4 2016.

**LEASING ACTIVITY**

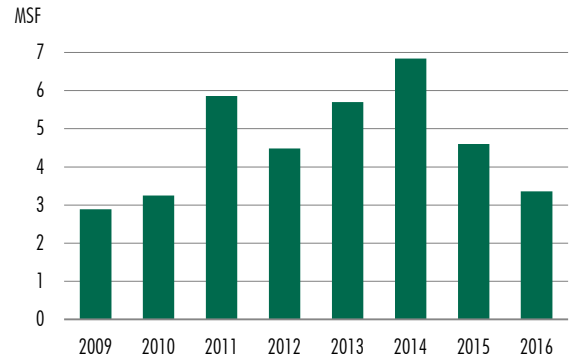
Leasing activity ended 2016 with a particularly slow quarter. Many pipeline deals pushed their closings into 2017 and no new deals of more than 50,000 sq. ft. were completed in the fourth quarter, contributing to a 43% quarter-over-quarter decline. Large renewals filled the void of new transactions Downtown. Fueled by the largest deal of the quarter—New York State’s 257,000-sq.-ft. renewal at 90 Church Street—renewals accounted for 45% of quarterly leasing velocity.

Quarterly submarket activity was down across the board. The Financial submarket experienced 422,000 sq. ft. of leasing activity in Q4 2016, accounting for 87% of overall market activity. Led by Office Suites’ 40,000-sq.-ft. expansion into the Downtown market, the FIRE sector accounted for nearly 50% of new activity.

Another trend—reflected in both the quarterly and annual statistics—was the completion of large transactions among government tenants in the Downtown market. In addition to New York State’s renewal at 90 Church Street, this year saw the New York City Department of Finance lease nearly 183,000 sq. ft. at 375 Pearl Street. Several other deals, including the NYS Attorney General’s office and the NYC Human Resources Administration, are expected to close in early 2017.

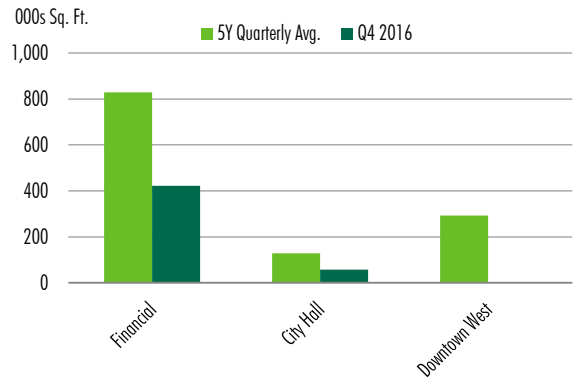
Overall, the long lead time for deal closings in the latter half of the year dampened leasing activity, which totaled just 3.36 million sq. ft. at the close of 2016, down 27% from 2015. However, there is reason for optimism in the Downtown market, with several deals above 100,000 sq. ft. now slated for completion early in 2017. Further, the strong showing among renewal tenants in 2016 pushed renewal activity to 1.71 million sq. ft., nearly triple 2015’s total and the highest renewal figure since 2012. This robust renewal activity—capped by S&P Global Inc.’s deal for 900,000 sq. ft. at 55 Water Street in the first quarter—helped bolster year-end

Figure 2: Leasing Activity | Historical



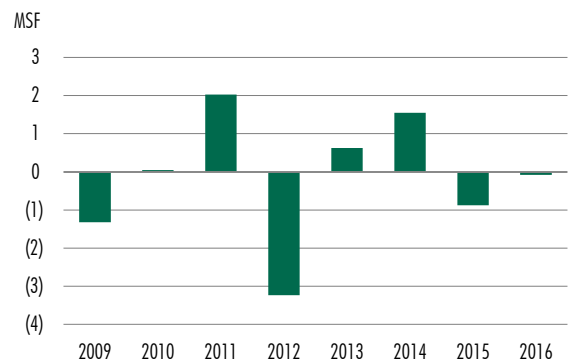
Source: CBRE Research, Q4 2016.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q4 2016.

Figure 4: Net Absorption | Historical



Source: CBRE Research, Q4 2016.

leasing velocity, which incorporates leasing activity plus renewals, to 5.1 million sq. ft., a figure on par with 2015's total.

**NET ABSORPTION**

Downtown experienced negative 527,000 sq. ft. of net absorption during Q4 2016. This was driven by the addition of several medium-sized blocks of 50,000–100,000 sq. ft., coupled with a below-average deal flow. The market ended the year with negative 76,000 sq. ft. of absorption, fueled by the Financial submarket, which was the lone submarket to end 2016 in the red, with negative 392,000 sq. ft. of absorption. The year-end number is a stark improvement over last year's total of negative 874,000 sq. ft.

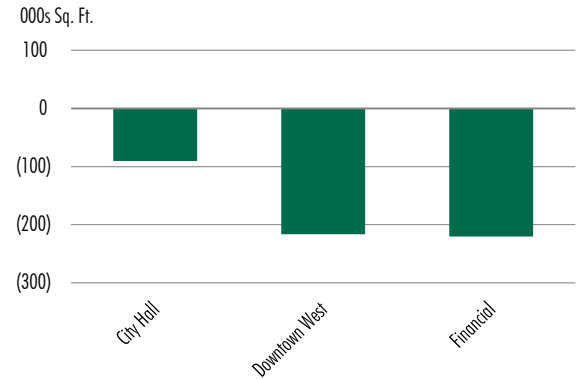
All submarkets registered negative net absorption in Q4 2016. The Financial submarket experienced negative 220,000 sq. ft. of absorption, led by the 69,000-sq.-ft. addition of space at 40 Rector Street. Downtown West was not far behind, with negative 216,000 sq. ft. of absorption, as the largest space addition of the quarter—86,000 sq. ft. at 200 Vesey—hit the market.

**AVAILABILITY**

The availability rate was 12.3%, a jump of 60 bps from Q3 2016 and 40 bps from a year ago. Unlike last quarter, when spaces above 100,000 sq. ft. drove the change in availability, this quarter saw spaces between 50,000–100,000 sq. ft. push the rate higher.

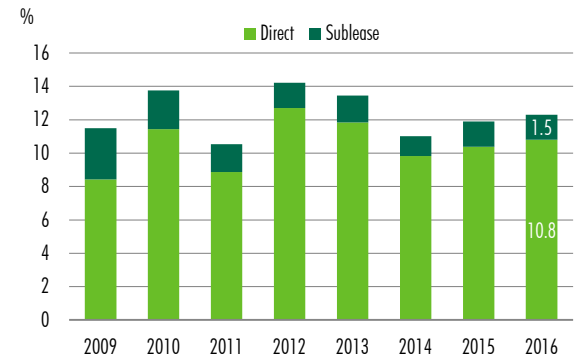
In Q4 2016, increased submarket availability and negative absorption went hand-in-hand across the board. Downtown West witnessed the largest jump in availability quarter-over-quarter, rising 120 bps to 14.2%. Despite the increase, availability is still down 140 bps year-over-year, as 2016 proved to be a successful year in leasing for the World Trade Center complex. The Financial submarket saw the smallest uptick in availability quarter-over-quarter,

Figure 5: Quarterly Net Absorption | By Submarket



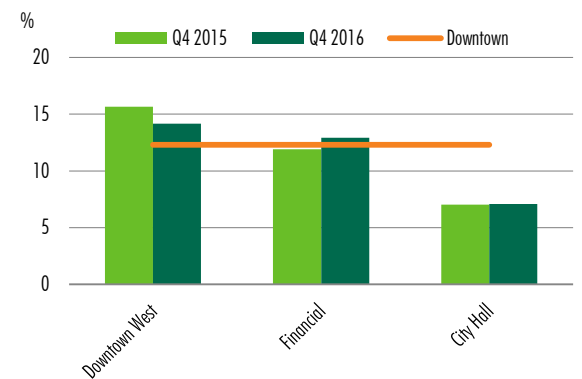
Source: CBRE Research, Q4 2016.

Figure 6: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q4 2016.

Figure 7: Availability Rate | By Submarket



Source: CBRE Research, Q4 2016.

rising 40 bps to 12.9%, as the submarket experienced the overwhelming majority of leasing activity, helping to offset new space additions.

Sublease availability, at 1.5%, remained stable, unchanged from last quarter and a year ago. Downtown has maintained the lowest sublet availability rate of the three Manhattan markets for the fourth consecutive quarter.

**AVERAGE ASKING RENT**

Downtown’s average asking rent was \$58.26 per sq. ft., improved slightly since last quarter. Average asking rents have consistently inched upward throughout 2016 and are now up nearly 3% from one year ago, and at a new all-time high for the overall market. The City Hall and Financial submarkets witnessed average asking rents climb steadily year-over-year, 3% and 5%, respectively. Downtown West was the sole submarket to witness a decline in average asking rent, down 2% year-over-year to \$70.33 per sq. ft., due to premium space at the World Trade Center complex being leased.

Sublet average asking rents, currently at \$46.48 per sq. ft., are up 3% from Q3 2016 and 2% from a year ago. The current figure also represents an all-time high. The availability of sublet space in premium assets pushed this increase in average asking rent, as Global Atlantic Financial Group’s 20,000-sq.-ft. sublet space at 7 World Trade Center came online in Q4 2016.

**TAKING RENT INDEX**

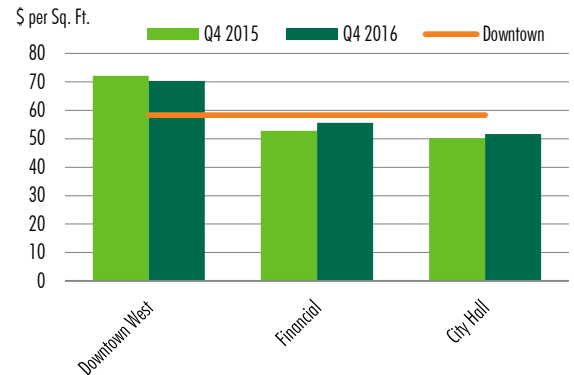
The taking rent index posted a 10-bps decline quarter-over-quarter, falling to 93.7%. Concession packages for new leases of raw space completed during Q4 2016 included an average of \$69 per sq. ft. in tenant improvement allowance and 9 months of free rent. Concession packages are

trending slightly upward from earlier in the year, when improvement allowances were in the low \$60s and free rent periods averaged 8 months.

**DEVELOPMENT PIPELINE**

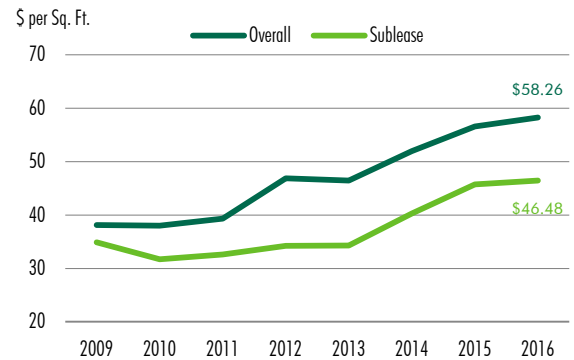
The development pipeline remains unchanged, as the only new construction set to come to market in the near future is 3 World Trade Center. By mid-year 2018, the 2.5 million-sq.-ft. tower will be ready for occupancy, with over a quarter of the building already spoken for.

Figure 8: Average Asking Rents | By Submarket



Source: CBRE Research, Q4 2016.

Figure 9: Average Asking Rent | Historical



Source: CBRE Research, Q4 2016.

**INVENTORY AT A GLANCE**



Submarket	Total Size (Mil. Sq. Ft.)	No. of Buildings
City Hall	13.03	30
Downtown West	17.81	9
Financial	55.04	78
<b>TOTAL INVENTORY</b>	<b>85.88</b>	<b>117</b>

**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 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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