



MANHATTAN 1Q16 OFFICE MARKET

TOP-TIER ASSETS AND NEW CONSTRUCTION ATTRACT HIGH-PROFILE RELOCATIONS

The Manhattan office market finished the first quarter of 2016 with 9.2 million square feet of leasing, a drop-off from the previous quarter's total of 9.9 million square feet but level with the 10-year historical average. While renewals and expansions accounted for six of the 10 largest deals, first-quarter activity included several high-profile tenants relocating to top-tier assets and new construction projects. The FIRE and TAMI sectors continued to drive activity, combining for 73% of total leasing. Large blocks coming online in the Far West Side held the availability rate stable at 11.1%, a 40-basis-point decline from 11.5% one year ago.

The TAMI (technology, advertising, media and information) sector accounted for 35% of leasing in the first quarter, with several high-profile tech and creative tenants committing to significantly expand their Manhattan office presence. Facebook signed two large deals in prime Midtown South properties, nearly doubling its Manhattan footprint to 580,000 square feet. The social media giant leased 198,000 square feet at 225 Park Avenue South and in an off-market deal leased an additional 80,000 square feet at 770 Broadway for a total occupancy of 355,635 square feet in the building.

Salesforce.com subleased 210,496 square feet at 1095 Avenue of the Americas from MetLife. The deal included prominent signage and a transfer of naming rights for the building to Salesforce.com.

FIRE (financial, insurance and real estate) tenants captured 39% of total leasing this quarter, driven largely by McGraw Hill Financial's 900,027-square-foot renewal at 55 Water Street in March. The deal marked the largest lease done in Manhattan since Time Warner's 943,000-square-foot sale-leaseback at 60 Columbus Circle in early 2014.

Global hedge fund Citadel signed one of the largest and most notable deals of the quarter, taking approximately 200,000 square feet at L&L Holding Company's 425 Park Avenue. The agreement marked a major milestone for the project, securing Citadel as the building's anchor tenant at the highest rents ever paid for office space in Manhattan.

Manhattan asking rents continued to rise, though at a slower rate than in prior quarters. While many landlords remain bullish on market conditions, some have begun reducing asking rents for key Midtown buildings. As a result, the overall average asking rent increased to \$75.69/SF in the first quarter, up 8% year-over-year but up just 1% from the prior quarter.

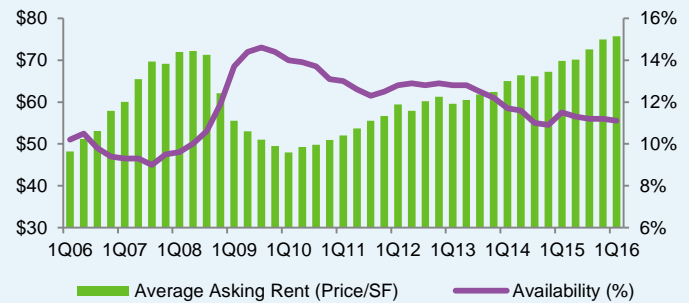
Total net absorption finished negative with 265,716 square feet, driven by mid-sized blocks of space reaching the market in Midtown South.

Current Conditions

- Leasing activity totaled 9.2 million square feet in the first quarter of 2016, in line with the 10-year historical average.
- FIRE and TAMI tenants accounted for nearly three-quarters of the total square footage leased.
- Manhattan availability was stable at 11.1%, although finished down from 11.5% one year ago.
- Citadel's approximately 200,000-square-foot deal at 425 Park Avenue included record-breaking rents for Manhattan.

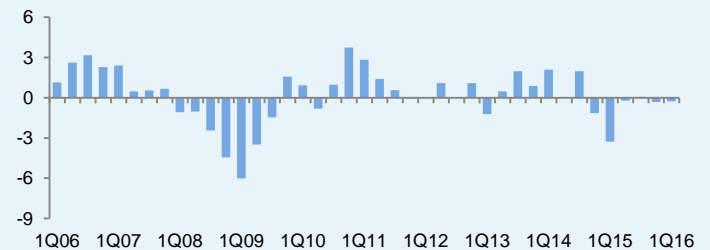
Market Analysis

Asking Rent and Availability



Net Absorption

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	443MSF	443MSF	442MSF	↑
Availability Rate	11.1%	11.2%	11.5%	↑
Quarterly Net Absorption	-265,716	-324,023	-3.3MSF	↓
Average Asking Rent	\$75.69	\$74.91	\$69.84	↔
Under Construction	11.4MSF	11.4MSF	8.6MSF	↑
Deliveries	85,202	0	0	↑



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MIDTOWN

Strong Leasing Driven by Uptick in Large Tenant Activity

Midtown availability was stable at 11.6% in the first quarter, from 11.7% at year-end 2015 and 11.5% one year ago.

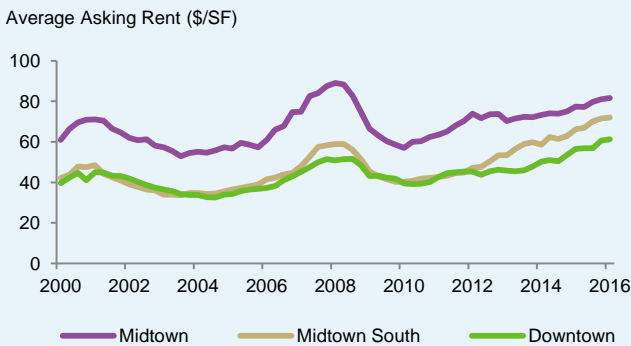
Two large blocks of space hit the Midtown market in the first quarter, both the result of tenants relocating from the Far West Side to Downtown: The Associated Press' move to Brookfield Place opened up 306,000 square feet at the top of 450 West 33rd Street, while Planned Parenthood's relocation to 123 William Street made 103,000 square feet available at 424 West 33rd Street.

Inversely, Sidewalk Labs and related tech firm Intersection became the first Downtown tenants to lease space in new construction on the Far West Side. The companies agreed to relocate from 233 Broadway and lease a total of 67,000 square feet at 10 Hudson Yards. The deal will bring 10 Hudson Yards to near full occupancy, when tenants begin to move in this spring.

Midtown saw a number of large tenants consolidate within their buildings or relocate into less space this quarter. Omnicom signed a renewal at 220 East 42nd Street in January that reduced its footprint to 167,000 square feet in the building. Additionally, two international financial firms cut down their space requirements this quarter: UBS agreed to downsize to 120,000 square feet at 299 Park Avenue, where it originally occupied 466,000 square feet; and ING signed to relocate into smaller offices at 1133 Avenue of the Americas, taking 132,000 square feet.

Midtown asking rents rose to \$81.68/SF in the first quarter from \$81.05/SF in the fourth quarter of 2015 and finished up 6% from \$77.36/SF one year ago. While the large block of premium-priced space added to the market at 450 West 33rd Street buoyed asking rents this quarter, the rate of rent growth has been curtailed by select landlords lowering rents in some Midtown properties.

Average Asking Rent by Submarket



MIDTOWN SOUTH

Expanding TAMI Sector Finding Limited Options for Growth

Availability remained tight in Midtown South, increasing slightly to 7.8% in the first quarter from 7.6% at year-end 2015 and finishing down slightly from 8.0% one year ago. The quarterly uptick was driven by several mid-sized blocks of space coming online in Chelsea and the Hudson Square/Meatpacking submarket, which pushed the net absorption total negative at 366,467 square feet.

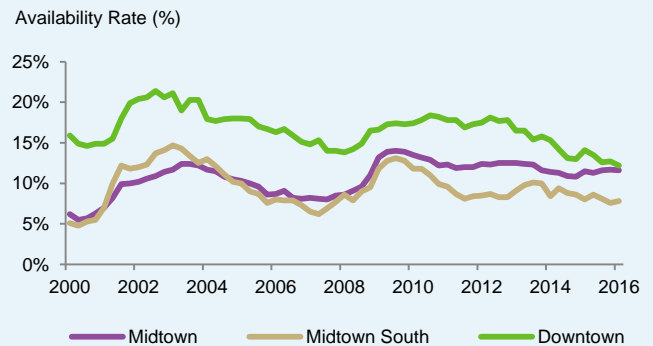
Activity at 770 Broadway offered a glimpse at how surging demand in Midtown South is having a varied effect on different segments of the market. In high-priced off-market deals, Facebook and AOL agreed to expand onto additional floors in the building that are being vacated by value-driven tenants. In addition to the aforementioned Facebook deal, AOL expanded by 75,000 square feet for a total of 308,000 square feet in the building.

MIDTOWN SOUTH RENT GROWTH SUSTAINED BY TECH SECTOR DEMAND

Two growing tech tenants agreed to relocate to 50 West 23rd Street this quarter. Grovo Learning relocated into 70,000 square feet in the building, more than double the size of its previous space. Meanwhile, Dropbox leased 31,270 square feet in the building, nearly tripling its office footprint.

Midtown South asking rents continued to reach new heights in the first quarter, climbing to \$72.00/SF from \$71.44/SF in the fourth quarter of 2015. Rents have increased 9% from \$66.13/SF in the first quarter of 2015.

Availability by Submarket





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DOWNTOWN

Creative Tenants Continue to Find Value Downtown

While McGraw Hill Financial's 900,027-square-foot renewal at 55 Water Street had an outsized impact on the leasing landscape, first-quarter activity was actually driven largely by TAMI tenants.

Tech and creative firms accounted for three of the five largest deals signed Downtown this quarter, including two rapidly expanding advertising agencies committing to expand within their buildings. Droga5 leased an additional 110,000 square feet at 120 Wall Street for a total occupancy of 203,335 square feet in the building.

Meanwhile, GroupM agreed to expand its footprint at 3 World Trade Center by 173,436 square feet in January. The advertising giant will occupy a total of 693,436 square feet in the building when construction is completed in early 2018.

Downtown continued to attract creative tenant relocations from Midtown in the first quarter. Vox Media leased 85,733 square feet at 85 Broad Street in a deal that will quadruple the online publisher's previous footprint at 104 West 40th Street. Meanwhile, co-working space provider Rocket Fuel opted to downsize into 41,982 square feet at 195 Broadway. Rocket Fuel will sublease the 90,000 square feet it previously occupied at 100 West 33rd Street.

With no large blocks added to the market this quarter, availability fell to 12.2% from 12.7% at year-end 2015 and finished down 190 basis points from 14.1% one year ago.

Downtown asking rents rose to \$61.24/SF in the first quarter from \$60.62/SF in the previous quarter and finished up 8% from \$56.52/SF one year ago.

Midtown Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Salesforce.com	1095 Avenue of the Americas	Sixth Avenue/Rockefeller Center	Sublease New	210,496
Citadel	425 Park Avenue	Plaza District	Direct New	200,000
Omnicom	220 East 42nd Street	Grand Central	Direct Renewal	167,000
ING	1133 Avenue of the Americas	Sixth Avenue/Rockefeller Center	Direct New	132,000
UBS	299 Park Avenue	Park Avenue	Direct Renewal	120,000

Midtown South Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Facebook	225 Park Avenue South	Flatiron/Union Square	Direct New	198,000
Facebook	770 Broadway	Noho/Soho	Direct Expansion	80,000
AOL	770 Broadway	Noho/Soho	Direct Expansion	75,000
WeWork	524 Broadway	Noho/Soho	Direct New	75,000
Grovo Learning	50 West 23rd Street	Chelsea	Direct New	70,000

Downtown Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
McGraw Hill Financial	55 Water Street	Downtown East	Direct Renewal	900,027
GroupM	3 World Trade Center	Downtown West	Direct Expansion	173,436
Droga5	120 Wall Street	Downtown East	Direct Expansion	110,000
Vox Media	85 Broad Street	Downtown East	Direct New	85,733
ABM Industries	1 Liberty Plaza	Downtown West	Direct New	44,025


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Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Midtown	278,243,626	8,616,970	11.6%	58,929	58,929	\$82.85	\$71.59	\$81.68
Eastside	24,368,076	0	8.8%	-136,789	-136,789	\$72.10	\$67.26	\$71.78
Far West Side	5,283,861	7,725,250	15.1%	-342,595	-342,595	\$83.06	\$63.64	\$81.88
Grand Central	45,937,956	0	17.1%	257,494	257,494	\$77.22	\$57.43	\$76.28
Murray Hill	7,763,332	0	10.4%	-92,292	-92,292	\$64.02	\$53.88	\$60.75
Park Avenue	26,223,031	670,000	8.9%	166,359	166,359	\$104.38	\$86.10	\$102.13
Penn Station	20,888,972	221,720	8.5%	-283,873	-283,873	\$62.70	\$70.37	\$63.77
Plaza District	27,099,287	0	13.1%	-29,180	-29,180	\$113.41	\$79.62	\$112.01
Sixth Ave/Rock Ctr.	45,236,557	0	11.7%	302,669	302,669	\$88.23	\$91.86	\$88.87
Times Square	14,709,619	0	11.2%	55,622	55,622	\$82.30	\$52.16	\$80.99
Times Square South	35,599,003	0	10.8%	111,244	111,244	\$65.67	\$55.06	\$64.04
Westside	25,133,932	0	8.9%	50,270	50,270	\$72.48	\$57.18	\$70.49
Midtown South	72,520,525	250,413	7.8%	-366,467	-366,467	\$73.07	\$65.49	\$72.00
Chelsea	24,218,159	130,000	7.4%	-146,151	-146,151	\$65.36	\$66.00	\$65.46
East Village	1,201,530	0	2.2%	-9,807	-9,807	\$54.03	NA	\$54.03
Flatiron/Union Square	26,541,939	0	7.7%	65,120	65,120	\$70.88	\$66.43	\$70.31
Hudson Square/Meatpacking	11,658,706	120,413	11.8%	-190,702	-190,702	\$86.31	\$65.86	\$84.31
Soho/Noho	8,900,191	0	4.6%	-84,927	-84,927	\$68.21	\$61.22	\$66.22
Downtown	92,450,458	2,500,000	12.2%	41,822	41,822	\$62.22	\$51.13	\$61.24
Downtown East	49,828,327	0	10.4%	-183,572	-183,572	\$56.04	\$50.19	\$55.09
Downtown West	34,016,141	2,500,000	13.7%	282,302	282,302	\$68.27	\$55.94	\$67.86
Tribeca/City Hall	8,605,990	0	16.5%	-56,908	-56,908	\$61.72	\$53.50	\$61.64
Manhattan	443,214,609	11,367,383	11.1%	-265,716	-265,716	\$76.76	\$66.50	\$75.69



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ECONOMIC CONDITIONS

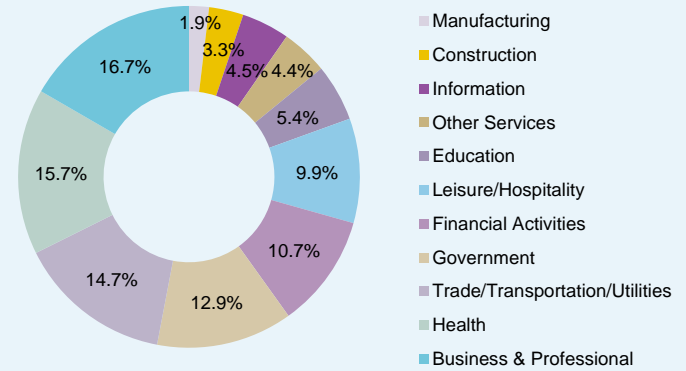
The local economy picked up steam through February 2016, with payroll employment growing 2.6% over the past year to reach 4.258 million jobs. The private sector continued to spur growth, adding 104,300 jobs over the same span, while the government sector gained 4,100 jobs.

Office-using sectors maintained positive momentum in February: professional and business services employment grew by 3.9% over the past year; information sector employment expanded by 3.3%; while financial activities employment grew 1.2%. After a long period of decline, manufacturing employment rebounded in early 2016. There were 3,600 manufacturing jobs added over the past year, a 4.7% increase. Construction employment continued to grow, driven by the rising number of new development projects in New York City. There were 11,900 construction jobs added over the past year, a 9.4% increase.

New York unemployment held stable at 5.4% in February, down from last year's rate of 6.3% and level with the national rate of 5.4%.

Employment By Industry

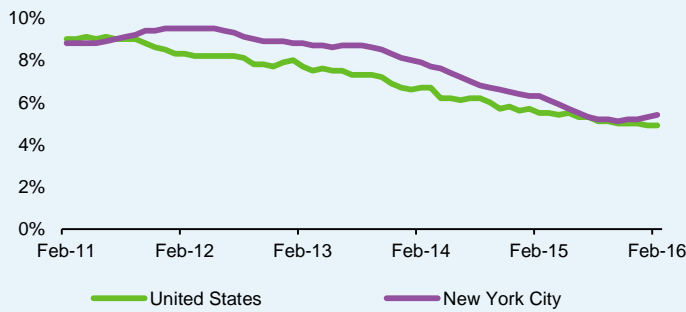
New York City, February 2016



Source: New York City Comptroller's Office

Unemployment Rate

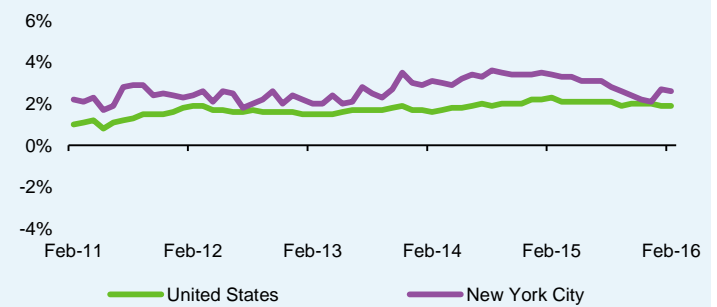
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, New York State Department of Labor

Payroll Employment

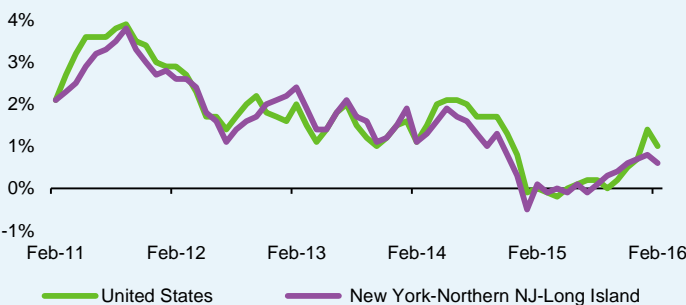
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, New York State Department of Labor

Consumer Price Index (CPI)

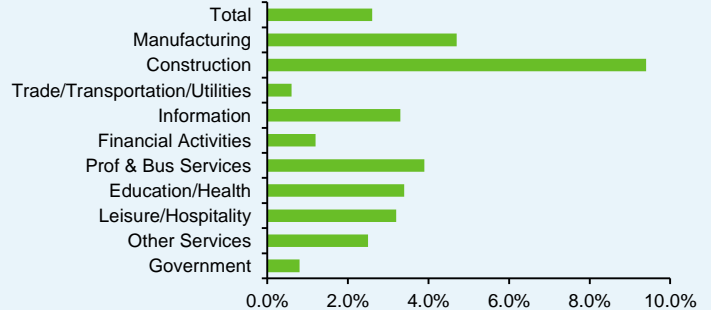
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

New York City, February 2016, 12-Month % Change, Not Seasonally Adjusted



Source: New York City Comptroller's Office



New York City
HEADQUARTERS

125 Park Avenue
New York, NY 10017
212.372.2000

Jonathan Mazur

Managing Director, Research
212.372.2154
jmazur@ngkf.com

Stephanie Jennings

Tri-State Director, Research
212.372.2099
stjennings@ngkf.com

David Chase

Senior Research Analyst

James Rorty

Senior GIS Analyst

Alex Schwartz

Research Analyst

Edward Son

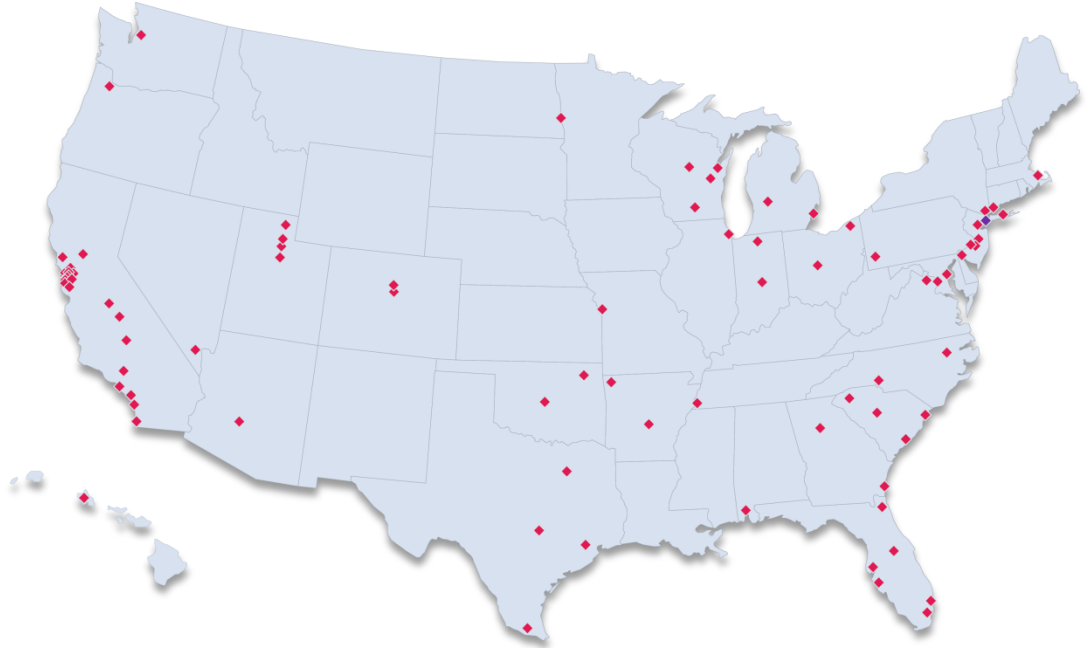
Senior Research Analyst

Ronnie Wagner

Director, Research

Robert Zindman

Research Analyst

Newmark Grubb Knight Frank United States Office Locations

Newmark Grubb Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

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