Midtown Manhattan Office, Q2 2017

Large transactions drive strong leasing activity

Leasing Activity	Net Absorption	Availability Rate	Vacancy Rate	Average Asking Rent
4.80 MSF	(0.72) MSF	12.2%	8.1%	$80.54 PSF

*Arrows indicate change from previous quarter.

- At 8.27 million sq. ft., year-to-date leasing activity outpaced last year's total by 20%, driven by a high volume of large transactions.
- 63% of all leasing activity in transactions of 50,000 sq. ft. and above was in new or renovated product.
- Net absorption registered negative 723,000 sq. ft. in Q2 2017, the sixth quarter among the past seven in which absorption has been negative.
- The availability rate increased by 30 basis points (bps) from last quarter to 12.2%.
- The average asking rent is $80.54 per sq. ft., essentially stable both quarter-over-quarter and year-over-year.

MARKET OVERVIEW

Midtown's Q2 2017 leasing activity totaled 4.80 million sq. ft., as several large transactions pushed activity 20% ahead of the five-year quarterly average. Three jumbo transactions—BlackRock's 847,000-sq.-ft. lease at 50 Hudson Yards, 1199 National Benefit and Pension Funds' 578,000-sq.-ft. lease at 498 Seventh Avenue and JPMorgan Chase Digital's 305,000-sq.-ft. lease at 5 Manhattan West—accounted for 36% of all leasing activity this quarter. While these very large deals were a driving force in Midtown's strong performance, the market was active for tenants over 50,000 sq. ft. An outsized share of year-to-date leasing activity—63%—has taken place in either newly constructed or substantially renovated properties, a trend that has been picking up steam over the past two years.

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
846,990	BlackRock	50 Hudson Yards
577,541	1199 National Benefit and Pension Funds	498 Seventh Avenue
547,998 (R)	HSBC Bank USA	452 Fifth Avenue
305,365 (E)	JPMorgan Chase Digital	5 Manhattan West
99,668	Deloitte LLP	1221 Avenue of the Americas

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

Source: CBRE Research, Q2 2017.

Midtown is seeing the impact of these and other recent tenant relocations, as soon-to-be-vacated spaces are showing up in availability rolls. Midtown's availability rate grew to 12.2%, increasing for the second consecutive quarter to reach the highest rate since Q3 2013. Despite the increase in available space, overall average asking rents remained relatively stable quarter-over-quarter, though tenant improvement allowances remain at levels well above historic norms.

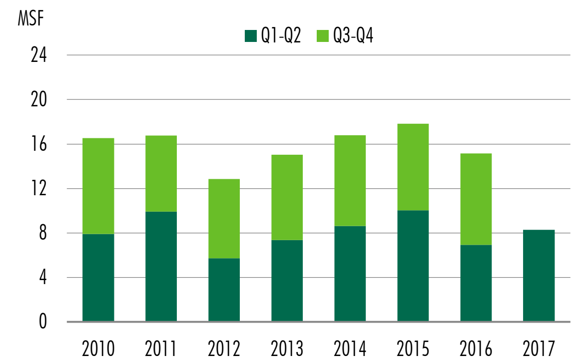
LEASING ACTIVITY

Leasing activity improved each month during Q2 2017, leading to the strongest quarterly total in two years. Q2 2017's 4.80 million sq. ft. of leasing activity surpassed the five-year quarterly average by 20%. Similarly, the market's 8.27 million sq. ft. of year-to-date leasing activity outpaced the 6.93 million sq. ft. achieved during the same period last year. Renewals, which are not included in leasing activity, totaled 1.28 million sq. ft. this quarter, down 22% from the previous quarter, and bringing the year-to-date total to 2.92 million sq. ft.

Thus far in 2017, while leasing activity of transactions under 50,000 sq. ft. has been trailing the five-year quarterly average by nearly 16%, there has been robust activity among large tenants. Year-to-date, leases greater than 250,000 sq. ft. have accounted for nearly 1.6 million square feet of transactions in Midtown, far outpacing mid-year totals from the prior five years. Overall, deals above 50,000 sq. ft. have accounted for 42% of activity so far this year—a disproportionately large share relative to historic trends.

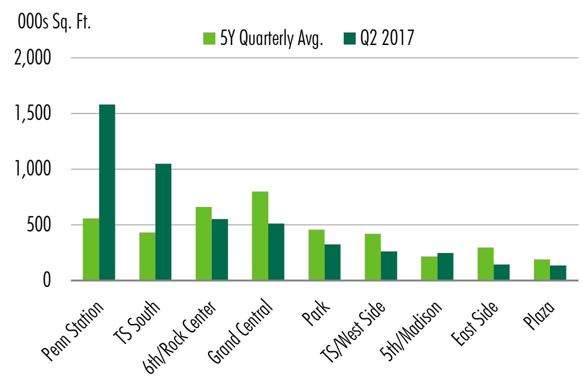
Among these larger transactions in 2017, roughly 63% of the square footage was leased in new construction or properties that have recently undergone substantial renovations. Tenants' preference for upgraded product was a contributing factor in the strong performance of the Penn Station submarket—home to the Hudson Yards and Manhattan West projects—which saw

Figure 2: Leasing Activity | Historical



Source: CBRE Research, Q2 2017.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q2 2017.

1.58 million sq. ft. of quarterly leasing activity—184% above its five-year quarterly average. BlackRock's 847,000-sq.-ft. pre-lease at 50 Hudson Yards, McKool Smith's 64,000-sq.-ft. transaction at 1 Manhattan West and JPMorgan Chase Digital's 305,000-sq.-ft. expansion at the renovated 5 Manhattan West were the major transactions driving the total.

Conversely, leasing activity in Park Avenue, Grand Central and the East Side significantly underperformed compared to each submarket's five-year quarterly average and 2016 year-to-date total. This highlights the lack of demand for aging inventory, given that all of these submarkets have a large portion of building stock with an average age of 50 years or older.

NET ABSORPTION

Net absorption was negative for the second consecutive quarter, making this the sixth of the last seven negative quarters. The negative 723,000 sq. ft. registered in Q2 2017 pushed the year-to-date total to negative 1.12 million sq. ft. While this total may seem a substantial figure, the year-to-date absorption tally shows a 40% improvement from last year's total.

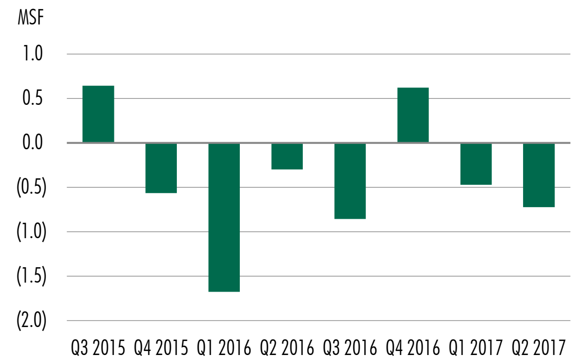
A large portion of the negative absorption was focused in two submarkets: Park Avenue and the East Side. In Q2 2017, Park Avenue witnessed negative 368,000 sq. ft., as the planned departures of UBS and GE Capital contributed 290,000 sq. ft. of direct space at 299 Park Avenue. The East Side registered 252,000 sq. ft. of negative absorption during Q2 2017, nearly double last quarter's total. The largest space additions driving absorption in this submarket were 132,000 sq. ft. of direct space at 733 Third Avenue and 72,000 sq. ft. at 900 Third Avenue.

Meanwhile, Sixth Avenue/Rock Center and Penn Station registered positive absorption of 115,000 sq. ft. and 145,000 sq. ft., respectively.

AVAILABILITY

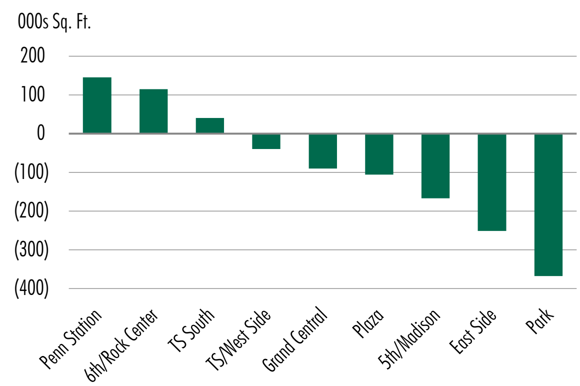
The availability rate increased to 12.2% in Q2 2017, a bump of 30 bps from the previous quarter and 50 bps from Q2 2016. Overall, six of the nine submarkets posted increases in availability rates, with the East Side, Park Avenue and Fifth/Madison each seeing increases of more than 100 bps. The notable large spaces mentioned earlier drove Park Avenue's and the East Side's availability rates higher, to 13.8% and 9.9%, respectively. A number of smaller spaces added up to drive up Fifth/Madison's availability 150 bps, to 17.2%.

Figure 4: Net Absorption | Quarterly



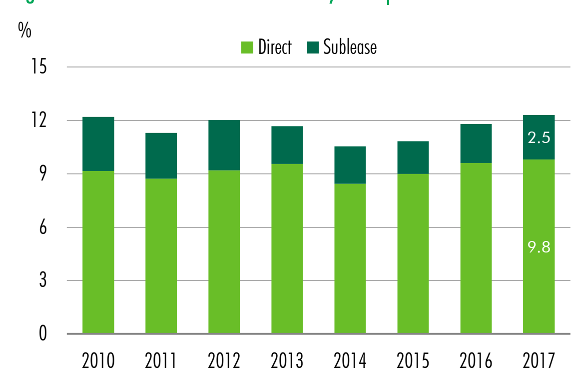
Source: CBRE Research, Q2 2017.

Figure 5: Quarterly Net Absorption | By Submarket



Source: CBRE Research, Q2 2017.

Figure 6: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q2 2017.

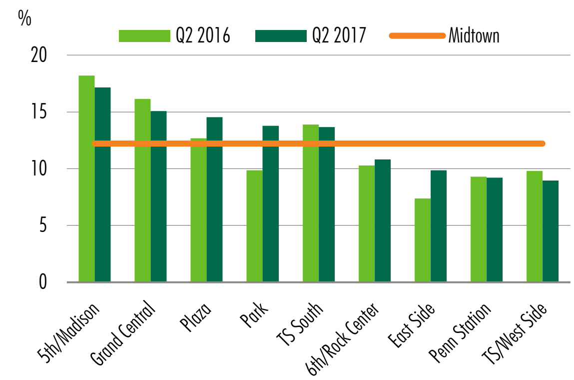
Markets with strong leasing activity totals witnessed declines in their availability rate in Q2 2017. Sixth Avenue/Rock Center's availability rate tightened for the fourth consecutive quarter, and now stands at 10.8%. Similarly, strong leasing in Penn Station and limited new space additions contained availability to 9.2%, a 70-bps decline from Q1 2017.

AVERAGE ASKING RENT

The average asking rent stood at $80.54 per sq. ft. at the end of Q2 2017, virtually unchanged from the previous quarter and from Q2 2016. Overall asking rents have ranged between roughly $80–81 per sq. ft. for the past seven quarters, indicating very stable pricing—a steadiness that masks the competing pressures in the market. On one hand, growing availability puts downward pressure on rents, especially among older product, while strong demand for new and upgraded space allows for rent growth in those segments.

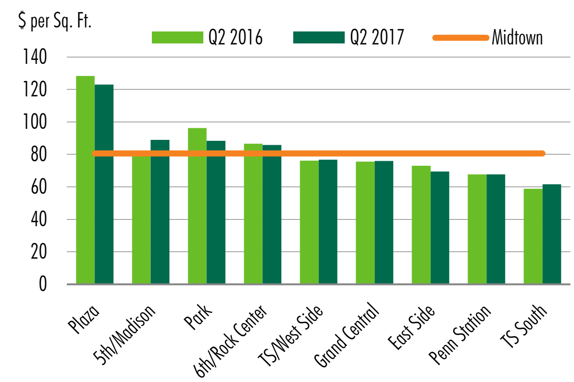
Quarter-over-quarter, on a submarket level, the largest change in average asking rents occurred within Penn Station, which declined 7%, to $67.69 per sq. ft., due to the removal of 305,000 sq. ft. at 5 Manhattan West priced between $92–98 per sq. ft. The Plaza submarket posted a 3% gain, pushed by a partial floor listed at 9 West 57th Street priced at $190 per sq. ft.

Figure 7: Availability Rate | By Submarket



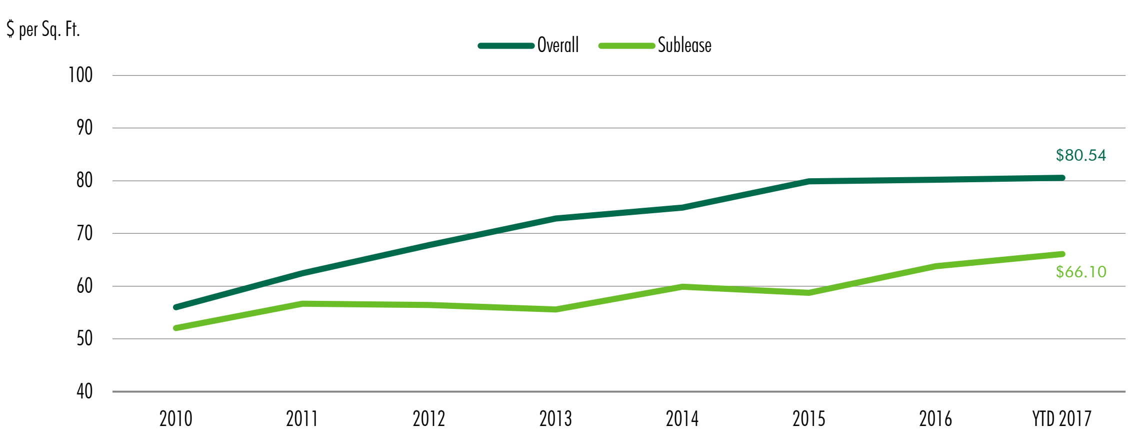
Source: CBRE Research, Q2 2017.

Figure 8: Average Asking Rents | By Submarket



Source: CBRE Research, Q2 2017.

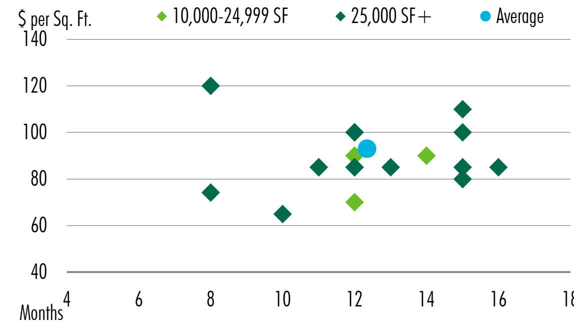
Figure 9: Average Asking Rent | Historical



Source: CBRE Research, Q2 2017.

Annually, overall average asking rents were stable. Submarket changes were more varied. Park Avenue witnessed an 8% year-over-year decline in its average asking rent, to $88.31 per sq. ft., as higher priced space at 65 East 55th Street was leased and submarket availability increased. Fifth/Madison Avenue's average asking rent reached $89.04 per sq. ft. in Q2 2017, a 10% year-over-year increase. This annual change was driven by the leasing of lower priced space such as the International Swap & Derivative Association's 32,814-sq.-ft. transaction and Ermenegildo Zegna's 20,132-sq.-ft. transaction, both at 10 East 53rd Street.

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



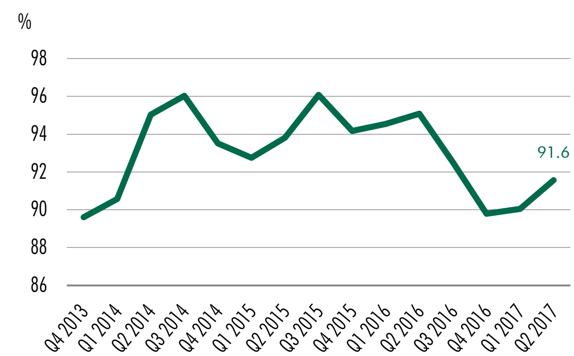
*Identical concession packages will overlap in graphic. Average excludes highest and lowest values.

Source: CBRE Research, Q2 2017.

TAKING RENT INDEX

The taking rent index posted a 160-bps increase quarter-over-quarter, to 91.6%. Despite the large quarterly increase—which was driven by a single large transaction—the taking rent index is 350 bps below Q2 2016's 95.1%. Concession packages for new leases of raw space completed during the quarter included an average of $93 per sq. ft. in tenant improvement allowance and 12 months of free rent. Though transactions from this quarter reflect a decline in TI allowance of $2 per sq. ft., overall allowances remain well above the $74 per sq. ft. seen a year ago, as a segment of landlords remains eager to push transactions forward to counter growing availability and pressure to drop rent.

Figure 11: Taking Rent Index | Historical



Source: CBRE Research, Q2 2017.

INVENTORY AT A GLANCE

Submarket	Total Size (Mil. Sq. Ft.)	No. of Buildings
East Side	20.93	44
Fifth Avenue / Madison Avenue	11.01	27
Grand Central	44.65	84
Park Avenue	29.76	37
Penn Station	21.81	29
Plaza	11.68	24
Sixth Avenue / Rock Center	45.45	45
Times Square South	18.43	44
Times Square / West Side	32.08	43
TOTAL INVENTORY	**235.79**	**377**

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.

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. 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 150,000+ sq. ft. in Midtown, 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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