Savills Studley Report
New York City office sector

Q1 2016

SUMMARY

Market Highlights

AVAILABILITY RATE INCREASES IN MIDTOWN

Midtown's Class A rate rose slightly in the first quarter, rising from 11.8% to 11.9%. Class B and C availability in Midtown also increased, jumping from 9.7% to 10.2%. In contrast, Downtown's Class A rate dropped from 15.9% to 14.4%, the first time it has been below 15.0% since 2012.

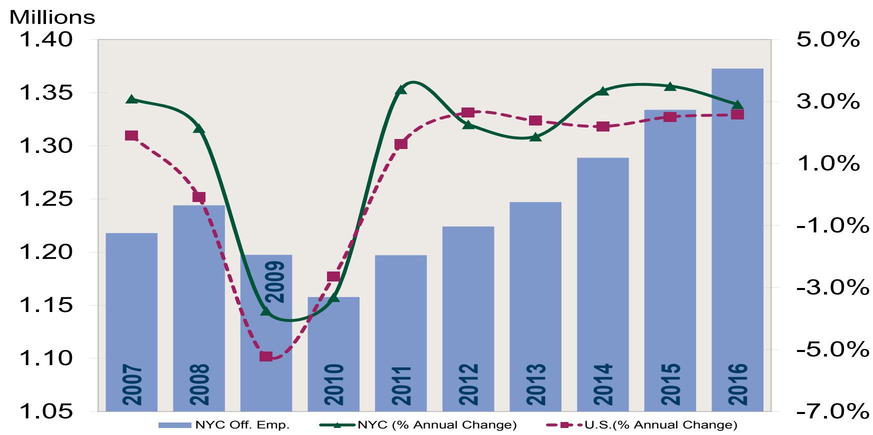
INCREASE IN RENTS

Overall asking rent reversed directions, rising by 2.2% from $72.91 to $74.53. Downtown's average Class A rent jumped by 4.5% to $67.24. Midtown's Class A rate rose by 2.4% from $87.44 to $89.51. Of note there is currently 5.0 msf of space priced over $90.00/sf currently available in Manhattan.

LEASING ACTIVITY FLAT IN MIDTOWN, UP IN LOWER MANHATTAN

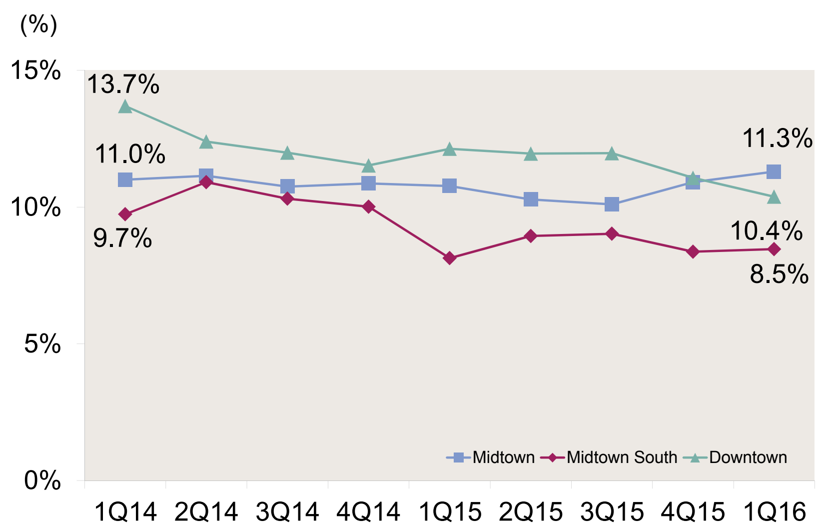
Leasing activity increased from 7.0 msf to 7.5 msf. McGraw Hill's 900,000-sf renewal at 55 Water Street accounted for nearly 15.0% of the activity and pushed volume Downtown to 1.7 msf. Deal volume in Midtown South exceeded 1.0 msf for the fourth consecutive quarter. In contrast, leasing in Midtown inched up by only 2.1% as renewals boosted totals.

Office-Using Employment Trends

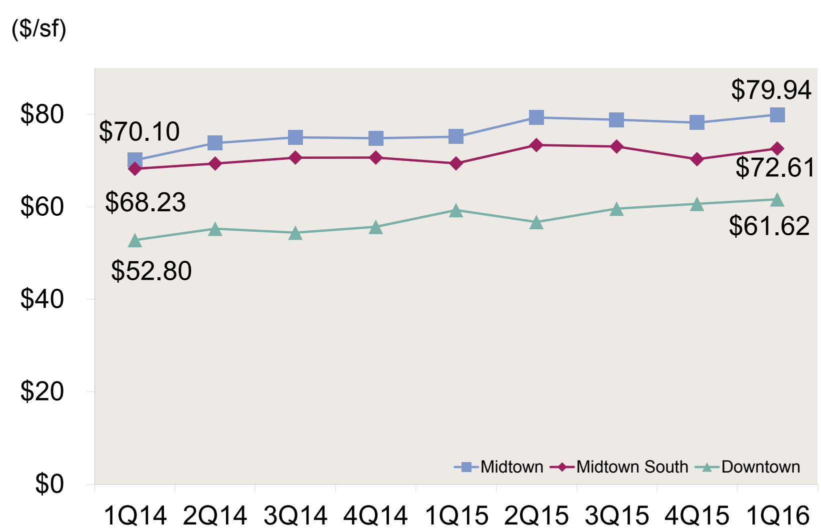


Source: Bureau of Labor Statistics

Availability Rate Trends (All Classes)



Asking Rent Trends (All Classes)



Market on Edge

Manhattan's office market has suffered from a bit of a split personality in the last few years. Leasing in Midtown South has been intense – some might say that tech and creative sector firms have at times displayed a bit of irrational exuberance in their leasing behavior. In contrast, demand from traditional tenants in Midtown has been much more measured. Banks, law firms and a wide range of business services companies have faced tight margins, forcing them to keep operations and expenditures lean. The two faces of the market may be slowly converging, though, as ebullience about the tech sector is wavering.

Midtown Manhattan's landlords appear to be on edge as bank layoffs have intensified recently and additional new and existing space is looming in 2017 and 2018. South of 34th Street, social media, big data, e-commerce and a host of other new ventures have kept the office market highly competitive in the last several years. The best-funded tech companies made pre-emptive strikes on space before another firm beat them to it and well before they had the staff to fill it. Although Facebook and AOL were active early in the year, this type of discretionary leasing is becoming less prevalent. The headlong rush of tenants into the market has slowed of late and more tech companies are displaying greater caution.

Slowing in Silicon Alley?

Sublet supply has started to slowly increase in Midtown South, jumping from nearly 1.0 msf a year ago to 1.3 msf as of the first quarter. Despite this slight increase in sublet space, built tech space does not remain unclaimed for very long when it is listed. Such space provides the infrastructure, location and character that tech firms prefer. Space in Midtown South is starting to trickle onto the market from firms outside the tech sector, such as architects, fashion companies and non-profits being priced out of the market. As their lease rollover looms, these tenants face the prospect of going from a base rent of less than $40/sf to more than $60/sf. More of them are finding space in Lower Manhattan or New Jersey that offers lower rents and building services that are sometimes not available in Midtown South.

Competition for View Space Cooling

In Midtown, private equity and hedge funds provided the Plaza District and surrounding areas with a dose of the dynamic and discretionary leasing behaviors that have run rampant throughout Silicon Alley in the last few years. These firms have been nimble and innovative, and have rarely had second thoughts about doubling or tripling space as they expanded operations in many of Midtown's top properties. Most leases were smaller, well under 10,000 sf, and in aggregate they were not large enough to move the needle on leasing or vacancy for the entire Midtown market. Nevertheless, hedge funds and private equity kept competition for view space in Midtown buildings elevated and supported a resurgence in $100-plus rents. Expansion activity in the Plaza District has dropped off recently as more funds have suffered losses in a very turbulent equity market. The HFRI Funded Weighted Composite Index fell by 1.1% in 2015 and decreased by another 2.3% through February.

More Stress Testing Banks

Reduced activity among private equity and hedge funds has taken the edge off demand for view space but this is not the key reason that deal volume in Midtown has been running about 20.0% below its long-term pace since 2014. Continued restraint by large financial institutions, law firms and professional/businesses services has been the key. Layoff announcements by banks seem to have intensified in recent months as banks such as Citigroup and UBS moved ahead with multi-year restructuring plans. Most recently, Blackrock said that it would cut 400 employees, reversing several years of growth. Several institutions expect reduced profits in 2016, and Wall Street bonuses declined by 9.0%, the biggest decline since 2011.

Leasing in Midtown totaled 4.8 msf in the first quarter, rising by 6.1%, and renewals continued to dominate activity as major tenants pursued efficiency and cut operating costs. DLA Piper is restacking and shifting its space within 1251 Avenue of the Americas. UBS has been reducing occupancy for the last two years and most recently it shed an additional floor in an early renewal at 299 Park Avenue.

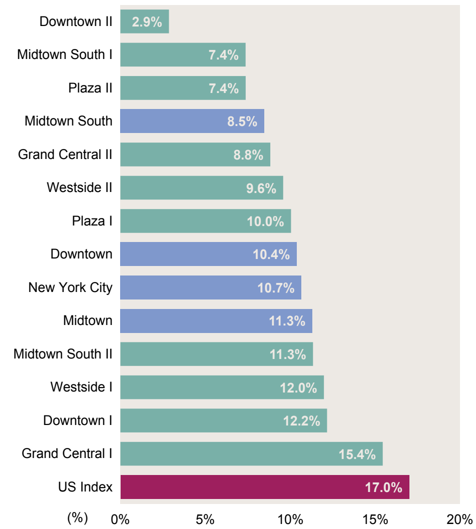
Even though Midtown's core corporate space occupiers are adjusting expenditures, asking rent is showing only very slight fluctuation. Class A rent in both Midtown and Lower Manhattan rose slightly in the quarter as most owners are holding fast to $80.00-plus rents in Midtown and $55.00-plus Downtown. The gap between supply and demand is widening in the Class A sector, particularly in Midtown, but not all landlords are moving in the same direction in response to the situation. A fair number of landlords still have an occupancy rate in excess of 90% and see no reason to budge on rent. The holding periods of owners also vary widely. Long-term private owners with very low debt and no immediate plans to sell an asset may adjust rent to complete a lease. In contrast, owners with a short-term exit strategy may hold the line of rent, but will pad incentive packages with generous improvement allowances and extended free rent periods.

A Sticky Situation

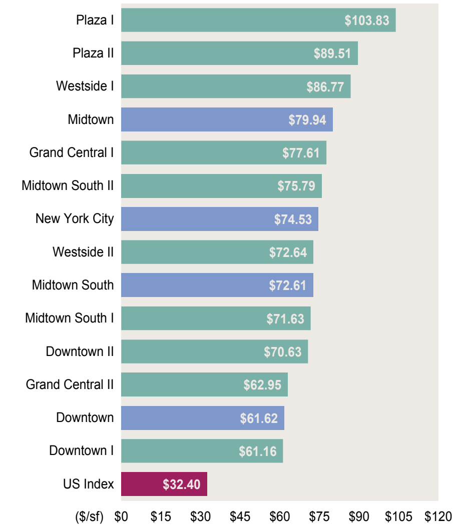
Getting a handle on the Class A market in Midtown by examining asking rent is still difficult for a number of reasons. Asking rent is notoriously sticky and far from transparent. It generally takes a big shock to the market and an associated jump in sublet supply for rent to start to adjust in lock-step. Asking rent provides a good lagging indicator of pitch points in the market but is slow to show the actual movement on lease terms that is occurring behind the scenes. Concession trends and sublet supply provide a better barometer of market movement. Leases completed in recent months indicate that tenant improvement allowances are on the increase.

Most tenants feel little urgency to pull the trigger on leases in Midtown's Class A market. The pressure instead is on some of Midtown's landlords who are trying to fill space. Despite their intensified efforts to draw tenants to look at space, some blocks are sitting on the market for an extended period. As of March, the average time on market for direct Class A space available in Midtown was 351 days. By comparison Class B space in Midtown had an average time on market of 287 days. Leasing decisions have been taking longer and a few deals have fallen apart as major businesses step back from significant lease commitments. By the time rents do start to really adjust, it may be too late - demand may be even weaker by then, particularly if a mild recession unfolds.

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
McGraw Hill*	900,027	55 Water St	Downtown I
Citadel Investment	211,400	425 Park Ave	Plaza I
Salesforce	210,496	1095 Ave of the Americas	Westside II
Facebook	200,668	225 and 233 Park Ave S	Midtown South I
DLA Piper**	199,000	1251 Ave of the Americas	Westside I
Bloomberg*	192,000	731 Lexington Ave	Plaza I
GroupM^^	173,436	3 World Trade Center	Downtown I
Omnicom Group Inc.*	167,003	220 E 42nd St	Grand Central I
ING Financial Holdings	132,500	1133 Ave of the Americas	Westside I
UBS*	120,000	299 Park Ave	Grand Central I
Sum of Top Leases	**2,506,530**	**Sum of 4th Quarter Leasing Activity**	**7.5 MSF**

*Renewal ** Renewal&Expansion ^^ Expansion

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	**Westside I**	59,468	3,240	7,127	1.3%	7,872	12.0%	0.2%	13.1%	$86.77	-6.5%	$89.09
	Westside I - Class A	50,158	2,528	6,300	1.4%	7,002	12.6%	0.2%	14.0%	$90.55	-6.9%	$91.82
2	**Westside II**	92,629	8,006	8,874	5.0%	8,858	9.6%	0.4%	9.6%	$72.64	7.2%	$65.57
	Westside II - Class A	30,105	3,067	2,107	2.4%	2,408	7.0%	0.2%	8.0%	$92.34	5.1%	$84.38
3	**Plaza I**	23,284	1,635	2,338	12.8%	1,899	10.0%	1.1%	8.1%	$103.83	8.0%	$93.43
	Plaza I - Class A	17,057	1,349	1,804	1.2%	1,517	10.6%	0.1%	8.9%	$109.82	11.0%	$97.82
4	**Plaza II**	19,184	1,022	1,415	-3.3%	1,461	7.4%	-0.2%	7.6%	$89.51	4.7%	$88.15
	Plaza II - Class A	15,542	799	1,033	-3.4%	1,108	6.6%	-0.2%	7.1%	$96.12	1.6%	$98.26
5	**Grand Central I**	62,100	4,568	9,592	2.8%	8,277	15.4%	0.4%	13.2%	$77.61	7.3%	$69.39
	Grand Central I - Class A	40,773	2,671	7,113	1.0%	6,241	17.4%	0.2%	15.1%	$81.63	9.3%	$73.57
6	**Grand Central II**	14,218	602	1,255	7.2%	934	8.8%	0.6%	6.5%	$62.95	2.2%	$63.13
	Grand Central II - Class A	N/A	N/A	N/A	N/A	N/A	NA	N/A	N/A	N/A	N/A	N/A
7	**Midtown South I**	48,470	3,018	3,572	1.5%	3,880	7.4%	0.1%	7.9%	$71.63	3.8%	$67.02
	Midtown South I - Class A	5,626	437	148	3.1%	324	2.6%	0.1%	5.8%	$142.63	1.5%	$92.00
8	**Midtown South II**	18,439	1,388	2,091	0.5%	1,618	11.3%	0.1%	8.8%	$75.79	2.2%	$72.02
	Midtown South II - Class A	2,164	46	0	#DIV/0!	75	0.0%	0.0%	3.4%	N/A	N/A	#DIV/0!
9	**Downtown I**	76,477	4,901	9,305	-6.9%	10,831	12.2%	-0.9%	13.9%	$61.16	2.1%	$58.49
	Downtown I - Class A	37,969	3,232	6,049	-9.5%	7,103	15.9%	-1.7%	18.7%	$67.25	4.5%	$66.31
10	**Downtown II**	18,164	436	519	8.7%	676	2.9%	0.2%	4.0%	$70.63	0.0%	$63.32
	Downtown II - Class A	4,335	18	49	0.0%	4	1.1%	0.0%	0.1%	N/A	N/A	N/A
1-6	**Midtown Total**	**270,884**	**19,073**	**30,600**	**3.6%**	**29,300**	**11.3%**	**0.4%**	**10.8%**	**$79.94**	**2.2%**	**$75.17**
	Midtown Total - Class A	**153,634**	**10,414**	**18,358**	**1.1%**	**18,276**	**11.9%**	**0.1%**	**11.9%**	**$89.51**	**2.4%**	**$85.50**
7-8	**Midtown South Total**	**66,909**	**4,406**	**5,663**	**1.2%**	**5,498**	**8.5%**	**0.1%**	**8.1%**	**$72.61**	**3.3%**	**$69.39**
	Midtown South Total - Class A	**7,790**	**484**	**148**	**3.1%**	**398**	**1.9%**	**0.1%**	**5.1%**	**$142.63**	**56.7%**	**$92.00**
9-10	**Downtown Total**	**94,641**	**5,337**	**9,824**	**-6.2%**	**11,508**	**10.4%**	**-0.7%**	**12.1%**	**$61.62**	**1.6%**	**$59.29**
	Downtown Total - Class A	**42,304**	**3,250**	**6,097**	**-9.4%**	**7,106**	**14.4%**	**-1.5%**	**17.6%**	**$67.24**	**4.5%**	**$66.31**
1-10	**Manhattan Total**	**432,433**	**28,816**	**46,087**	**1.1%**	**46,306**	**10.7%**	**0.1%**	**10.6%**	**$74.53**	**2.2%**	**$70.41**
	Manhattan Total - Class A	**203,729**	**14,147**	**24,603**	**-1.8%**	**25,781**	**12.1%**	**-0.2%**	**12.7%**	**$83.11**	**1.3%**	**$79.47**

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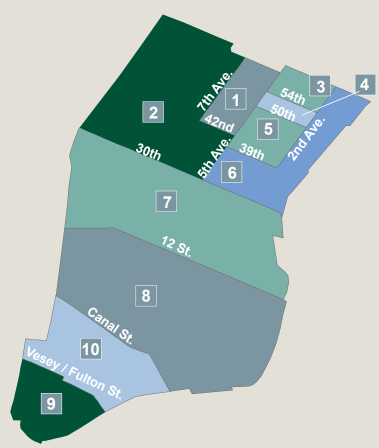

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.