

MARKETBEAT

Office Snapshot Q4 2015

Manhattan



MANHATTAN OFFICE

Economic Indicators

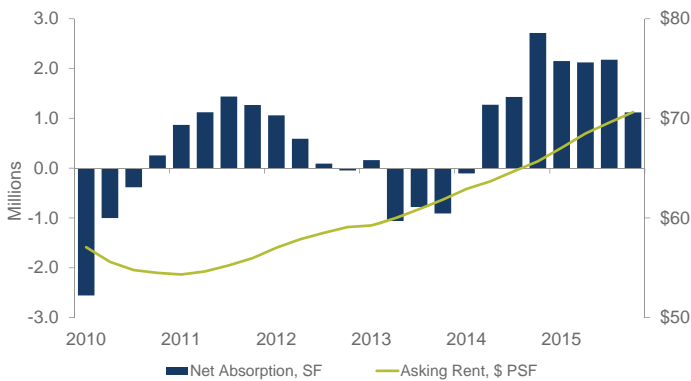
	Q4 14	Q4 15	12-Month Forecast
New York City Employment	4,151,200	4,255,600	▲
New York City Unemployment	6.5%	4.8%	▼
U.S. Unemployment	5.6%	5.0%	▲

Market Indicators (Overall, All Classes)

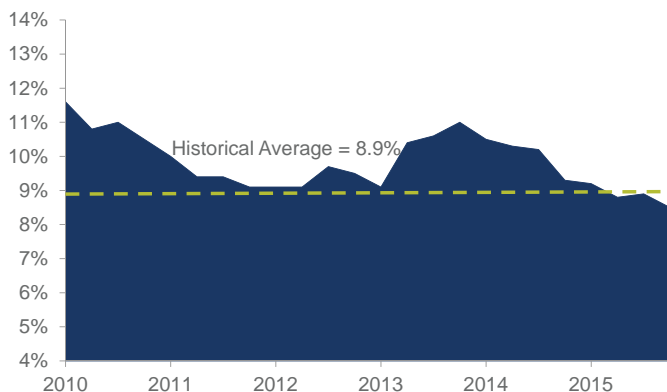
	2014	2015	12-Month Forecast
Overall Vacancy	9.3%	8.5%	▼
Net Absorption	10.9M	4.5M	▲
Under Construction	5.0M	12.1M	■
Average Asking Rent (FS)	\$67.70	\$71.58	▲

Overall Net Absorption/Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

The New York City economy posted a strong fourth quarter, after a slight slowdown in third quarter. In October and November, total non-farm employment increased by 46,100 jobs, the largest two-month increase since 1980. In the last 12 months, total employment increased by 105,300 jobs, or 2.5 percent, 60 basis points above both the United States and New York State growth rate. Office-using employment also grew 2.6 percent year-over-year, mainly led by the financial services sector which expanded by 3.1 percent to 462,800 jobs. The unemployment rate dropped 170 basis points over the past year to 4.8 percent. The Federal Reserve's decision to raise the federal funds rate for the first time in almost a decade reflected a consensus that the economic foundation driving the current expansion is solid, as well as the belief that the labor market is close to or already at full employment. While some believe that higher interest rates could potentially reduce investor demand in the commercial real estate market, expect real estate prices and returns to remain attractive. The United States will continue to be a safe haven for capital flows from around the world, as job growth is expected to be steady which will drive leasing activity leading to vacancy rate declines.

Market Overview

Manhattan new leasing activity closed 2015 with 28.2 million square feet transacted, a 14.0 percent drop from 2014. These totals were still the third highest in a decade behind 2011 and 2014, which is mainly due to a dip in transactions greater than 400,000 square feet, three occurred in 2015 compared to seven in 2014. Even with the decline in new leasing activity, the Manhattan vacancy rate dropped 90 basis points year-over-year to 8.5 percent with all three markets experiencing a decrease in vacancy. Midtown accounted for 75.0 percent of 4.5 million square feet absorbed. Overall asking rents increased 5.7 percent during the year to \$71.58 per square foot and Class A asking rents grew 4.2 percent to \$76.76 per square foot, led by strong rental growth in Midtown South and Downtown.

After the Midtown vacancy rate increased during the third quarter, ending seven consecutive quarters of declining vacant space, vacancy fell 50 basis points in the fourth quarter to 8.8 percent—a 100-basis-point drop in 2015. This is a result of over 3.3 million square feet of positive absorption for the year, fueled entirely by Class A product, which posted 3.5 million square feet of positive absorption. New leasing activity fell by 4.9 percent in 2015 with 18.5 million square feet transacted. New leasing activity on Park Avenue spiked by 91.6 percent in 2015 with 2.3 million square feet leased. In addition to the Park Avenue submarket, Penn Station and Times Square South leasing activity also jumped by 26.5 and

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29.3 percent, respectively. The increased demand in these submarkets contributed to a 2.0 percent overall asking rent increase to \$76.65 per square foot and a 1.8 percent rise in Class A asking rents to \$81.67 per square foot. Boston Consulting Group's 193,295-square-foot deal at 10 Hudson Yards capped the annual transaction volume at the Far West Side development to 2.0 million square feet in 2015, as tenant demand continues to shift to this area.

Despite being the tightest market in Manhattan, the Midtown South vacancy rate increased 40 basis points to 6.2 percent in the fourth quarter. The quarter-over-quarter jump can be attributed to 306,780 square feet entering the market at One SoHo Square, which gives tenants an additional opportunity to lease in the most sought-after market. Even with the fourth quarter spike in vacancy, it is still 90 basis points lower than 12 months ago. Midtown South space demand outpaced supply for 2015 with 809,589 square feet of positive absorption. Given the demand from the TAMI (technology, advertising, media, and information services) sector over the past year, average asking rents continue to rise with Class A asking rents jumping 15.8 percent to \$76.84 per square foot and overall asking rents increasing 14.7 percent to \$69.66 per square foot. In the fourth quarter, WeWork leased 96,000 square feet at 33 Irving Place, bringing their total occupancy to almost 2.8 million square feet in New York City.

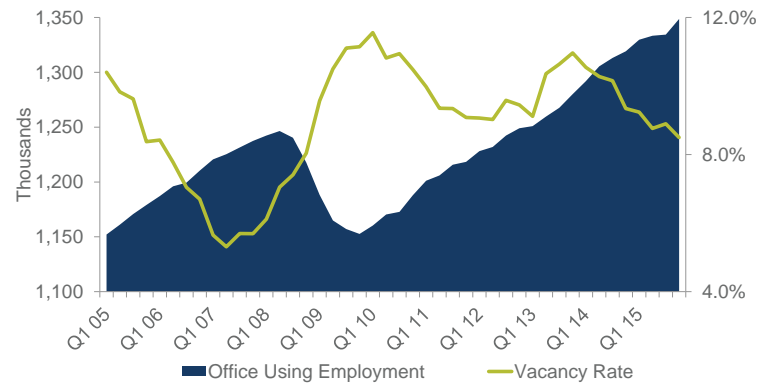
The lack of large deals in Downtown contributed to a decrease in new leasing activity, down 34.1 percent in 2015. Downtown had only seven leases signed greater than 100,000 square feet, compared to 10 in 2014. With 4.4 million square feet in new leasing activity, vacancy declined 30 basis points year-over-year to 9.4 percent, its lowest level since third quarter 2014. After 679,579 square feet was returned to the market in the beginning of 2015, Downtown closed 2015 with positive 324,745 square feet absorbed. Overall asking rents increased 16.7 percent in 12 months to \$59.58 per square foot and Class A asking rents jumped 14.8 percent to \$63.17 per square foot. Although Downtown did not perform as well as it did in 2013 and 2014, it closed the year with momentum as Teacher's Retirement System of New York City renewed and expanded for 191,138 square feet at 55 Water Street and Associated Press' relocation from Midtown into 172,352 square feet at 200 Liberty Street.

Outlook

- Expect the financial services industry to continue to gain momentum with job growth driving leasing activity
- As major development projects near completion, expect tenant demand to increase in 2016

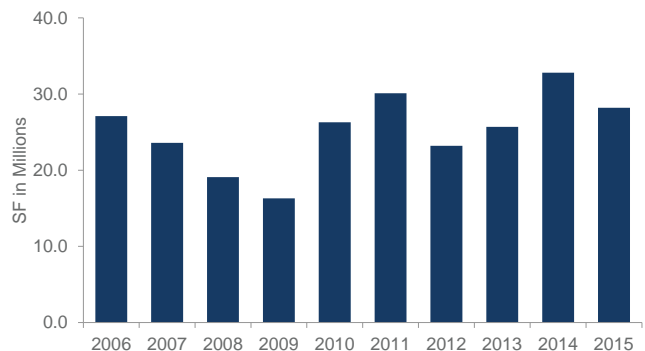
Office-Using Employment vs. Vacancy

EMPLOYMENT GROWS TO ALL-TIME HIGHS, VACANCY STILL FAR OFF PREVIOUS Lows



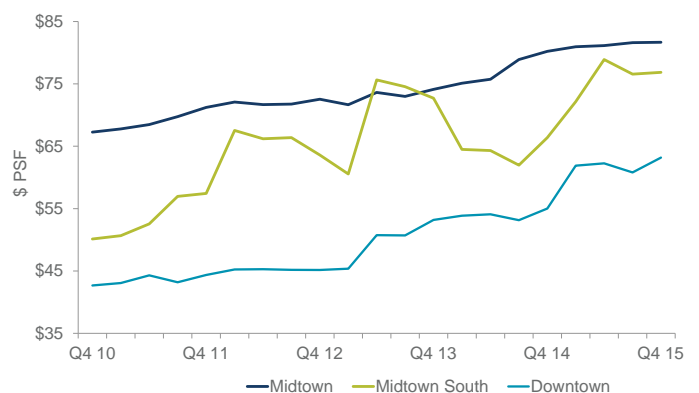
Leasing Activity

LACK OF LARGE DEALS IN 2015, KEPT LEASING ACTIVITY LOWER THAN 2014 TOTALS BUT HIGHER THAN HISTORICAL AVERAGES



Class A Asking Rent Trend

ASKING RENTS IN MIDTOWN SOUTH AND DOWNTOWN JUMPED IN 2015



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)	AVERAGE ASKING RENT (CLASS A)
East Side	60	18,473,475	122,332	867,141	5.4%	5,187	359,507	0	\$71.54	\$72.72
Grand Central	136	43,440,836	399,952	4,216,295	10.6%	140,186	374,127	639,490	\$68.74	\$70.07
Madison/Fifth	121	24,213,456	220,713	2,595,970	11.6%	129,178	418,645	0	\$98.29	\$103.45
Murray Hill	83	14,366,499	138,431	729,152	6.0%	7,691	294,747	0	\$62.60	\$72.21
Park Avenue	30	21,842,808	407,308	1,564,744	9.0%	-43,346	1,207,010	746,000	\$96.90	\$96.90
Penn Station	44	14,041,056	120,246	583,568	5.0%	10,910	349,019	7,999,002	\$61.28	\$61.47
Sixth Avenue/Rock Center	72	39,901,482	747,187	2,249,543	7.5%	288,882	293,871	0	\$79.37	\$80.03
Times Square South	147	31,556,988	533,942	2,639,828	10.1%	19,942	-227,025	0	\$69.25	\$93.85
United Nations	15	2,332,166	16,666	30,513	2.0%	0	-38,179	0	\$55.39	N/A
West Side	85	30,089,001	545,913	2,372,448	9.7%	184,077	101,119	0	\$73.01	\$75.64
MIDTOWN TOTALS	793	240,257,767	3,252,690	17,849,202	8.8%	742,707	3,339,948	9,384,492	\$76.65	\$81.67
Chelsea	85	14,928,755	133,487	626,274	5.1%	15,896	166,252	99,000	\$58.80	N/A
Greenwich/NoHo	36	4,759,517	31,180	97,844	2.7%	18,552	150,001	0	\$65.15	N/A
Hudson Square/West Village	43	10,688,412	85,837	625,500	6.7%	18,169	77,617	111,973	\$69.75	\$69.41
Madison/Union Square	219	32,028,013	388,372	1,654,265	6.4%	204,532	654,910	0	\$69.19	\$78.75
SoHo	49	4,199,254	59,333	407,515	11.1%	-237,109	-239,191	0	\$88.28	N/A
MIDTOWN SOUTH TOTALS	432	66,603,951	698,209	3,411,398	6.2%	20,040	809,589	210,973	\$69.66	\$76.84
City Hall	39	12,798,515	11,000	299,402	2.4%	-7,620	-158,213	0	\$60.89	\$83.00
Financial East	52	35,261,509	329,176	2,705,777	8.6%	-42,115	-174,728	0	\$52.92	\$55.61
Financial West	14	5,411,622	49,533	580,544	11.6%	105,146	79,271	0	\$49.73	\$52.35
Insurance	39	13,268,439	132,037	1,154,285	9.7%	35,886	148,328	0	\$54.22	\$57.85
World Trade	15	21,091,586	104,719	2,901,564	14.3%	440,681	430,087	2,491,861	\$69.65	\$71.03
DOWNTOWN TOTALS	159	87,831,671	626,465	7,641,572	9.4%	531,978	324,745	2,491,861	\$59.58	\$63.17
MANHATTAN TOTALS	1,384	394,693,389	4,577,364	28,902,172	8.5%	1,294,725	4,474,282	12,087,326	\$71.58	\$76.76

Office asking rents converted to Full Service

Key Lease Transactions Q4 2015

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
10 Hudson Yards	193,295	Boston Consulting Group	New Lease	Penn Station
55 Water Street	191,138	Teacher's Retirement System of NYC	Renewal/Expansion*	Financial East
200 Liberty Street	172,352	Associated Press	New Lease	World Trade
1120 Avenue of the Americas	128,462	Indeed.com	New Lease	Sixth Avenue/Rock Center

*Renewal portion not included in leasing statistics

Key Sales Transactions Q4 2015

PROPERTY	SF	BUYER	PRICE/\$PSF	SUBMARKET
370 Lexington Avenue	295,016	Unizo Real Estate NY Three Inc.	\$247,000,000/\$837	Grand Central
114 Fifth Avenue	388,557	L&L Holding Company	\$209,000,000/\$538	Madison/Union Square

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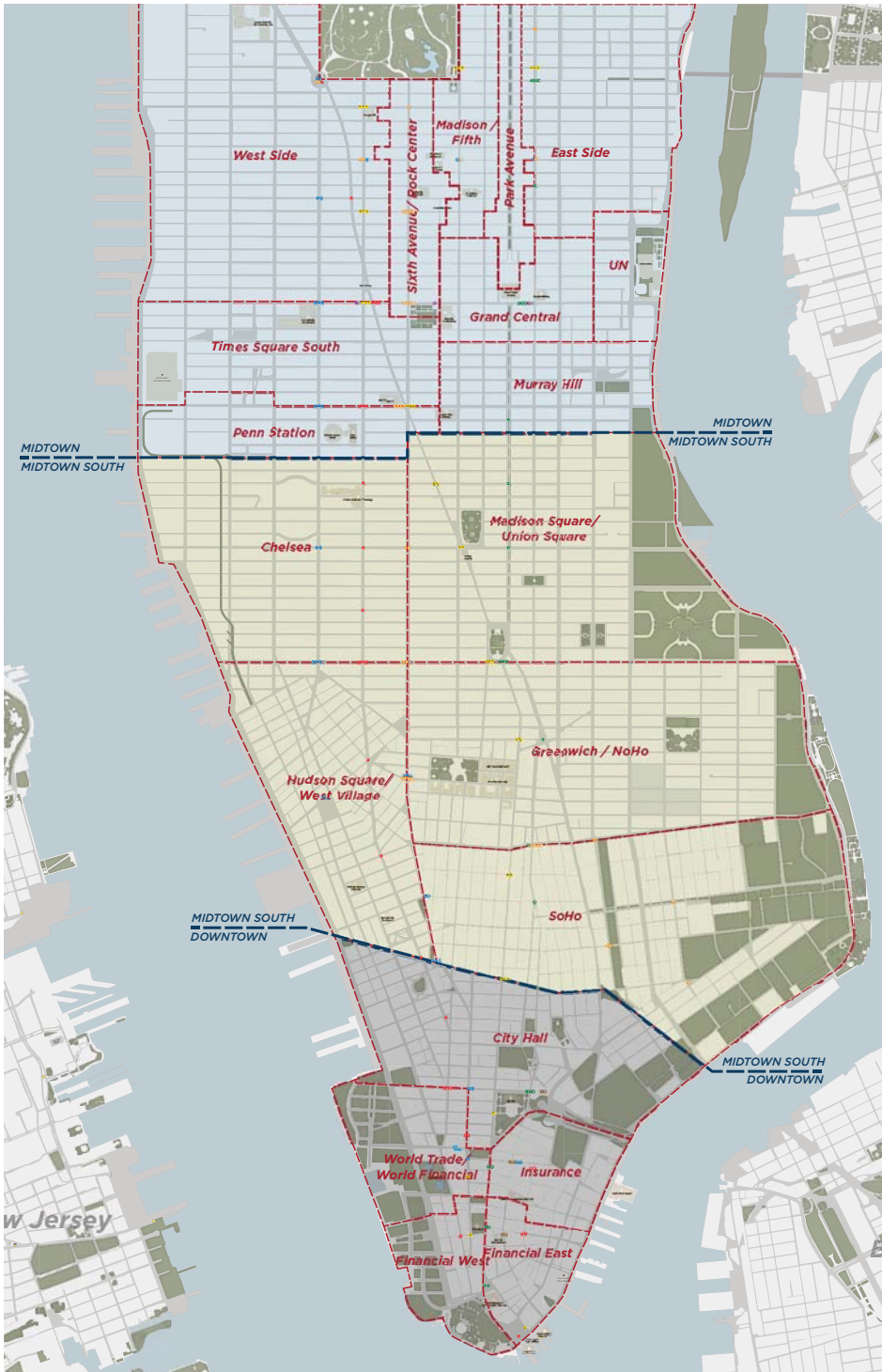
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OFFICE SUBMARKETS

MANHATTAN, NY



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Richard Persichetti

Tri-State Regional Research Director
1290 Avenue of the Americas
New York, NY 10104
Tel: +1 212 954 0917
richard.persichetti@cushwake.com

Lori Albert

Research Director
1290 Avenue of the Americas
New York, NY 10104
Tel: +1 212 841 7876
lori.albert@cushwake.com

Lauren Hale

Research Manager
1290 Avenue of the Americas
New York, NY 10104
Tel: +1 212 954 0965
lauren.hale@cushwake.com