

MARKETBEAT

Manhattan

Office Q1 2019



MANHATTAN OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
New York City Employment	4.5M	4.6M	▲
New York City Unemployment	4.3%	4.2%	▼
U.S. Unemployment	4.1%	3.8%	▼

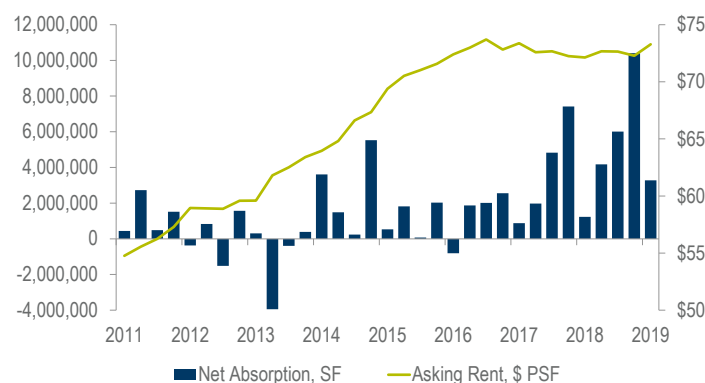
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	8.8%	10.2%	▲
Net Absorption (sf)	1.2M	-3.3M	▼
Under Construction (sf)	13.4M	15.4M	▲
Average Asking Rent*	\$72.13	\$73.28	▲

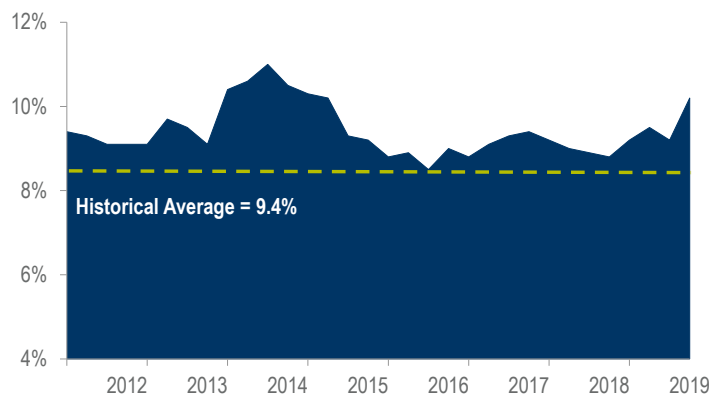
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The New York City economy started 2019 strong with 18,500 jobs added over the first two months—driving total employment to a historic high of 4.61 million jobs. Private sector employment surpassed 4.0 million jobs for the first time on record increasing by 19,800 jobs through February. Information services increased by 3,800 jobs, offsetting a slight decline in the financial services and professional services sectors, causing office-using employment to increase by 1,800 jobs to start 2019. The unemployment rate increased slightly in February but has remained below 4.5% for 16 consecutive months.

Market Overview

The Manhattan office market posted the second-highest first quarter leasing total on record, with nearly 8.3 million square feet (msf) transacted through the first quarter of 2019. The strong leasing momentum was fueled by a spike in Downtown activity, which recorded the three largest new leases of the quarter. Despite the robust level of activity, the Manhattan overall vacancy rate ticked up by 100 basis points (bps) during the quarter to 10.2%, as four blocks each greater than 100,000 square feet (sf) pushed vacancy into the double-digits for the first time in 18 quarters. Available sublease space increased to 7.9 msf—reaching the highest quarterly total since the second quarter of 2010. Renewal activity tapered off by 24.8% from this time last year, with 1.1 msf renewed through the quarter. Coworking providers continued to impact leasing with 904,186 sf transacted—but declined by 12.7% compared to one year ago. Financial services remained the primary driver of activity with 1.5 msf leased. Manhattan overall asking rents increased \$1.00 per square foot (psf) to an eight-quarter high of \$73.28, mainly attributed to higher-priced blocks entering the market in Midtown South.

Midtown overall vacancy increased 80 bps to an 18-quarter high of 10.1%, triggered by 1.3 msf of direct space brought to market throughout the quarter. Class B space accounted for 48.9% of the uptick, led by new space added at 989 Avenue of the Americas and 488 Madison Avenue. Class A vacancy increased 70 bps during the quarter to 9.5% and remained flat in comparison to one year ago. Midtown new leasing activity fell 8.8% from this time last year to 4.5 msf, driven by a decline

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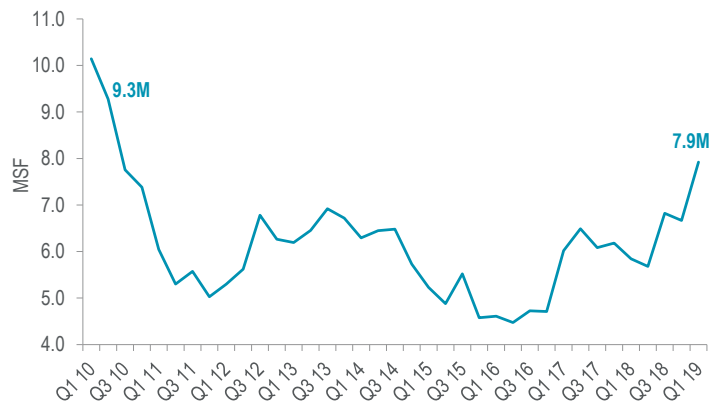
in Class B and C activity, which dipped 23.0% and 48.6% respectively over the past year. Meanwhile, Class A leasing increased 1.4% to 3.5 msf, as a flight to quality space continued to fuel demand. Overall absorption was negative 2.2 msf as new space additions outpaced leasing. Overall asking rents climbed \$0.39 psf during the quarter to \$75.42, increasing in seven of the nine Midtown submarkets.

Midtown South vacancy jumped 210 bps to a 37-quarter high of 9.3%, triggered by a 380,716-sf block that entered the market at 63 Madison Avenue and 88,387 sf added at 620 Avenue of the Americas in the first quarter. Class A vacancy increased the most substantially, up 350 bps to 10.7%. Leasing activity was somewhat sluggish during the first quarter, totaling nearly 1.2 msf compared to 1.3 msf leased this time last year—down from the prior five-year historical first quarter average of 1.5 msf. New large blocks coupled with the slower pace of leasing generated 1.5 msf of negative absorption. Higher-priced space entering the market continued to push rents higher, finishing the quarter at an all-time quarterly peak of \$80.62 psf. Four of the five submarkets registered a quarterly rent increase, with only SoHo posting a modest decline. New space added at 63 Madison Avenue during the quarter boosted Madison/Union Square pricing by \$8.13 psf to \$78.95.

Downtown new leasing more than tripled from one year ago as nearly 2.6 msf was leased, marking the strongest first quarter activity on record. Downtown was the only major market to register a year-over-year increase in activity, propelled by NYC Health and Hospitals Corporation leasing 526,552 sf at 7 Hanover Square and WeWork's 201,251-sf lease at 199 Water Street. Five of the six submarkets recorded a year-over-year uptick in leasing with Financial East, Financial West and Insurance leasing already higher than the first nine months of 2018. Despite the strong leasing pace, a block of 280,343 sf placed on the market at 110 William Street pushed vacancy up by 20 bps during the quarter to 11.0%. Overall asking rents fell \$0.30 psf during the quarter to \$63.27, as higher-priced space was leased at 28 Liberty Street and Three World Trade Center.

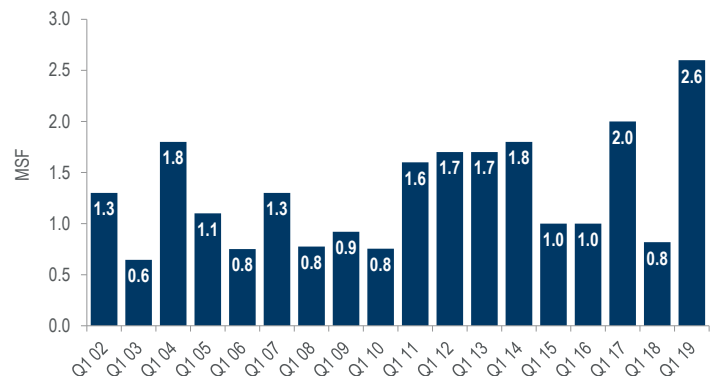
MANHATTAN SUBLEASE SPACE

HIGHEST LEVEL OF AVAILABLE SUBLEASE SPACE IN 35 QUARTERS



DOWNTOWN NEW LEASING

STRONGEST FIRST QUARTER ON RECORD



Outlook

- Expect available sublease space to remain inflated in 2019, as it reached a 35-quarter high and accounted for 19.4% of the total available supply in the first quarter
- Despite the negative absorption registered during the first quarter, projected job growth should keep the market moving in a positive direction
- Nearly 9.2 msf of new office product is scheduled to deliver in 2019—with 84.0% of the space pre-leased

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
East Side/UN	21,280,773	382,639	1,550,962	9.1%	-205,642	-205,642	255,404	0	\$71.39	\$72.29
Grand Central	43,222,200	818,780	4,224,897	11.7%	-243,907	-243,907	802,616	2,576,630	\$73.60	\$77.79
Madison/Fifth	23,776,127	720,506	3,269,167	16.8%	-385,252	-385,252	482,104	0	\$90.12	\$96.70
Murray Hill	14,142,543	255,862	1,112,278	9.7%	-184,004	-184,004	271,601	0	\$58.30	\$63.53
Park Avenue	21,350,326	335,230	1,375,525	8.0%	-67,700	-67,700	514,636	657,700	\$93.54	\$93.54
Penn Station	17,228,104	354,246	658,548	5.9%	78,037	78,037	468,528	11,220,751	\$73.42	\$86.63
Sixth Avenue/Rock Center	39,816,982	758,480	2,510,089	8.2%	-442,064	-442,064	698,030	84,000	\$79.61	\$80.52
Times Square South	30,637,588	572,408	2,326,781	9.5%	-651,841	-651,841	449,524	0	\$59.32	\$71.31
West Side	30,972,069	730,384	2,485,896	10.4%	-123,572	-123,572	548,422	0	\$69.82	\$73.87
MIDTOWN TOTALS	242,426,712	4,928,535	19,514,143	10.1%	-2,225,945	-2,225,945	4,490,865	14,539,081	\$75.42	\$82.04
Chelsea	17,015,779	502,544	1,038,225	9.1%	-354,243	-354,243	271,751	348,561	\$76.72	\$110.47
Greenwich/NoHo	4,820,157	25,656	264,701	6.0%	-157,126	-157,126	29,118	30,422	\$79.16	\$115.00
Hudson Square/West Village	10,999,018	421,769	638,666	9.6%	-119,391	-119,391	196,299	130,000	\$87.61	\$94.98
Madison/Union Square	32,073,358	413,814	2,597,145	9.4%	-762,605	-762,605	608,533	0	\$78.95	\$84.17
SoHo	4,045,624	165,925	326,041	12.2%	-107,531	-107,531	80,391	91,277	\$86.84	\$114.00
MIDTOWN SOUTH TOTALS	68,953,936	1,529,708	4,864,778	9.3%	-1,500,896	-1,500,896	1,186,092	600,260	\$80.62	\$95.06
City Hall	7,690,533	40,923	189,243	3.0%	-37,843	-37,843	61,562	0	\$48.83	\$44.01
Financial East	33,823,294	591,952	2,848,504	10.2%	496,953	496,953	1,044,536	48,077	\$57.53	\$59.83
Financial West	5,986,809	83,310	1,208,263	21.6%	-42,284	-42,284	257,072	185,295	\$56.73	\$52.92
Insurance	13,000,604	200,192	1,335,837	11.8%	-115,892	-115,892	455,225	0	\$57.13	\$65.65
TriBeCa	5,124,468	42,148	174,873	4.2%	-58,482	-58,482	39,637	0	\$69.72	\$76.22
World Trade	24,103,907	504,799	2,675,899	13.2%	204,890	204,890	720,687	40,504	\$74.25	\$75.21
DOWNTOWN TOTALS	89,729,615	1,463,324	8,432,619	11.0%	447,342	447,342	2,578,719	273,876	\$63.27	\$67.74
MANHATTAN TOTALS	401,110,263	7,921,567	32,811,540	10.2%	-3,279,499	-3,279,499	8,255,676	15,413,217	\$73.14	\$79.65

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7 Hanover Square	526,552	NYC Health and Hospitals Corporation	New Lease	Financial East
199 Water Street	201,251	WeWork	New Lease	Insurance
200 Park Avenue	144,000	Hunton Andrews Kurth	Renewal*	Park Avenue

*Renewals not included in leasing statistics

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
One Dag Hammarskjold Plaza	815,000	Ruben Companies/Rockpoint Group	\$566M/\$694	East Side/UN
424 Fifth Avenue	662,729	Hudson's Bay Company/ WeWork Property Advisors, Rhone Group	\$850M/\$1,283	Murray Hill
850 Third Avenue	617,000	HNA Group,MHP Real Estate, Atco Properties/Chetrit Group	\$422M/\$684	East Side/UN

Completed Construction Q1 2019

PROPERTY	BUILDING OFFICE RSF	OWNER/DEVELOPER	MAJOR TENANT	SUBMARKET
No significant construction completions				

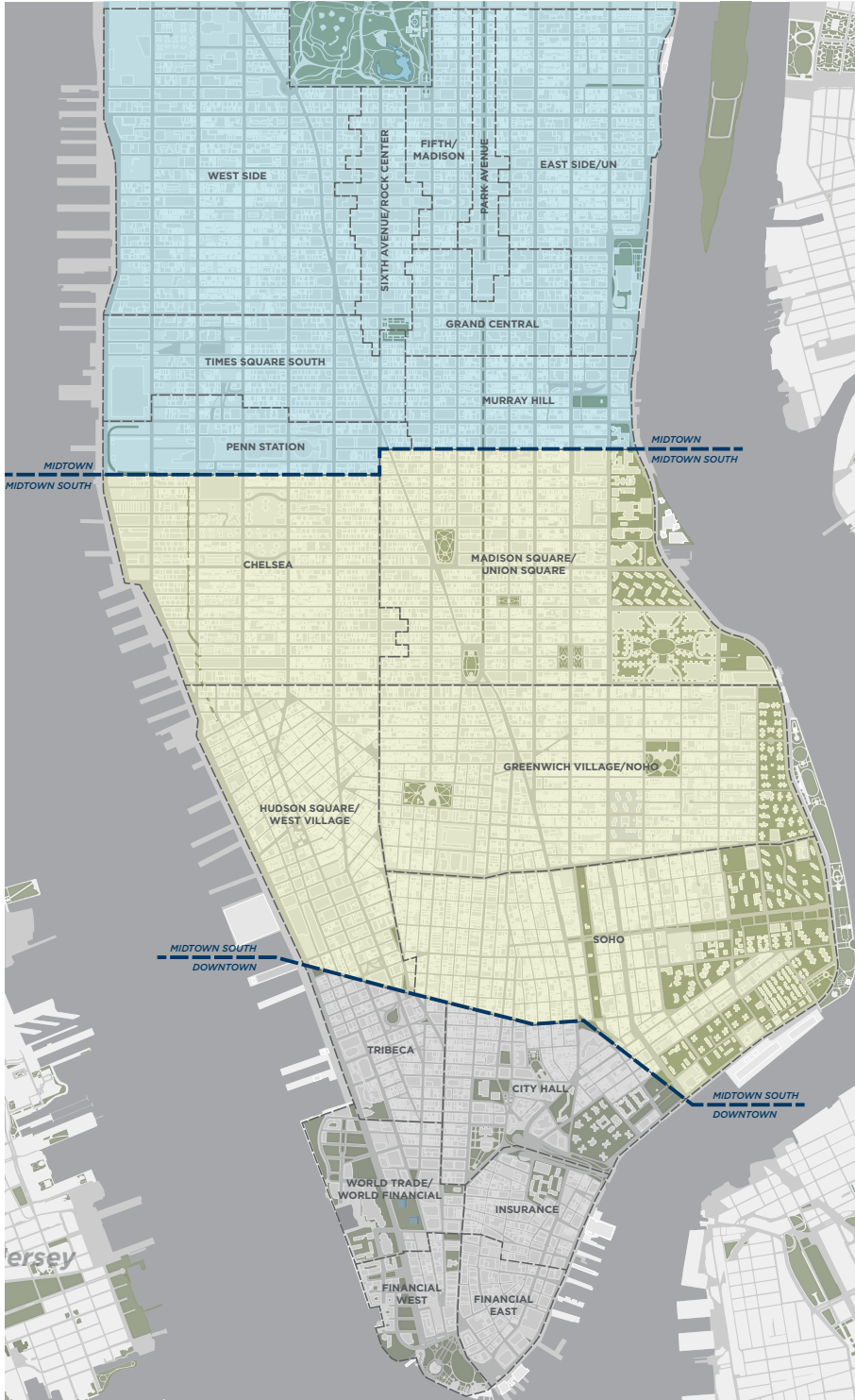
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OFFICE SUBMARKETS MANHATTAN



For more information, contact:

Richard Persichetti
Vice President
Tri-State Region Research Lead
Tel: +1 212 954 0917
richard.persichetti@cushwake.com

Lori Albert
Research Director
Tel: +1 212 841 7876
lori.albert@cushwake.com

Cushman & Wakefield
1290 Avenue of the Americas
New York, NY 10104
cushmanwakefield.com

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