## Downtown Manhattan Office, Q3 2017

# Government and co-working tenants boost market activity

| Leasing Activity | Net Absorption | Availability Rate | Vacancy Rate | Average Asking Rent |
|---|---|---|---|---|
| 1.43 MSF | (0.01) MSF | 12.7% | 9.4% | $61.95 PSF |

*Arrows indicate change from previous quarter.

- Leasing activity totaled 1.43 million sq. ft., an increase of 19% from Q2 2017 and 9% above its five-year quarterly average.
- Co-working tenants accounted for 16% of quarterly activity, while government tenants, long a cornerstone of the market, accounted for 30%.
- The trend of tenant relocations into the market continued this quarter, bringing the total migration to Downtown to approximately 1.5 million sq. ft. year-to-date. This quarter also saw two tenant departures from Downtown, as Guardian Life Insurance and Fragomen announced plans to relocate to Midtown's West Side.
- Quarterly net absorption was negligible and availability remained unchanged quarter-over-quarter.
- Average concession packages now stand at $83 per sq. ft. with 12 months of free rent.

### MARKET OVERVIEW

Downtown registered 1.43 million sq. ft. of leasing activity in Q3 2017, a 19% rise from last quarter. Deals larger than 250,000 sq. ft. continue to drive market activity this year, with two such deals completed in Q3 2017. Among all industry sectors, government tenants were the most prominent, accounting for 30% of all activity. The co-working and shared space provider industry, a sector rapidly growing throughout Manhattan, continues to expand Downtown, accounting for 16% of quarterly market activity. Though availability and pricing remained relatively unchanged quarter-over-quarter, landlords are offering increasingly generous concession packages, showing that Downtown is not immune to a trend that has been ongoing in Midtown for the past year.

Figure 1: Top Lease Transactions

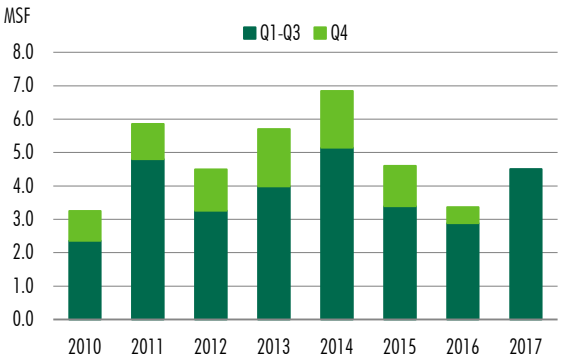
| Size (Sq. Ft.) | Tenant | Address |
|---|---|---|
| 276,221 | New York City Department of Investigation | 180 Maiden Lane |
| 260,836 | Macmillan Publishers Ltd | 120 Broadway |
| 83,955 | Stagwell Group | 1 World Trade Center |
| 72,180 | New York City Department of Sanitation | 375 Pearl Street |
| 58,487 | Convene | 2 Rector Street |

## LEASING ACTIVITY

At 1.43 million sq. ft., quarterly leasing activity rose 19% from Q2 2017, and jumped 69% from this time a year ago. Additionally, activity is 9% above its five-year quarterly average of 1.31 million sq. ft. Despite this only being the third quarter, year-to-date leasing, at 4.50 million sq. ft., has eclipsed 2016's year-end total of 3.36 million sq. ft. Unlike last year, where no transactions above 250,000 sq. ft. were executed, 2017 has witnessed four such deals—two of which occurred in Q3 2017. Though sublease activity fell off somewhat from Q2 2017, these deals accounted for a healthy 115,000 sq. ft. of leasing this quarter, bringing the current year-to-date total to 611,000 sq. ft.—a 32% jump from this time a year ago. Renewal activity was muted for the second consecutive quarter, registering only 85,000 sq. ft. in Q3 2017, with most renewals being below 10,000 sq. ft.

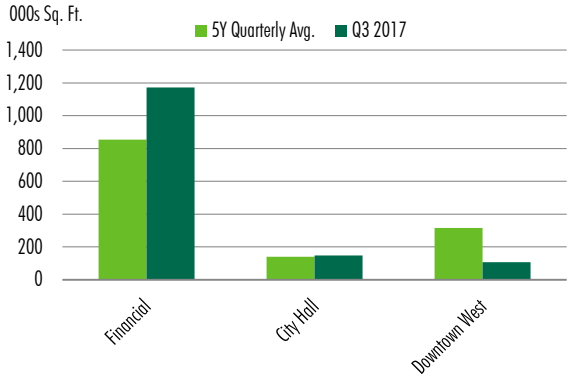
Leasing activity reflected a healthy mix of tenancy. The government sector was once again a major driver, accounting for 30% of all activity. This includes two leases for the City of New York—276,000 sq. ft. for the Department of Investigation at 180 Maiden Lane, the largest transaction of the quarter, and 72,000 sq. ft. for the Department of Sanitation at 375 Pearl Street. Year-to-date government leasing stands at 1.04 million sq. ft. Co-working/shared space providers, which have been rapidly expanding in all Manhattan markets, were quite active in Downtown this quarter, with

Figure 2: Leasing Activity | Historical




Source: CBRE Research, Q3 2017.

Figure 3: Leasing Activity | By Submarket




Source: CBRE Research, Q3 2017.

Figure 4: Top Relocations to Downtown

| Size (Sq. Ft.) | Tenant | Address | Sector | Relocating From |
|---|---|---|---|---|
| 260,836 | Macmillan Publishers Ltd | 120 Broadway | TAMI | 175 Fifth Avenue |
| 83,955 | Stagwell Group | 1 World Trade Center | FIRE | 575 Broadway / 902 Broadway |
| 35,000 | Kofinas Fertility Group | 65 Broadway | Health Care | 506 6th Street (Brooklyn) |
| 16,540 | Molloy College | 50 Broadway | Education | 18 West 18th Street |
| 7,946 | Security Mutual Life Insurance | 55 Broadway | FIRE | 350 Fifth Avenue |

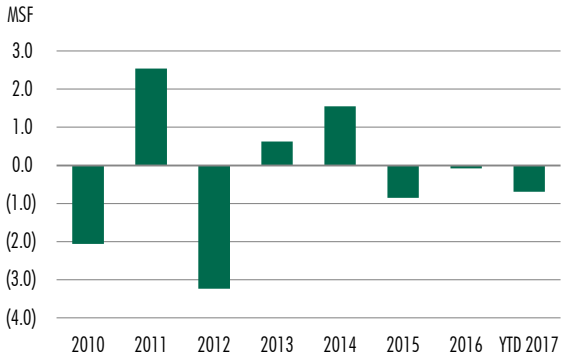
Source: CBRE Research, Q3 2017.

firms including Knotel and Convene expanding their footprint. These shared-space providers accounted for 16% of leasing activity.

Fueled by the two largest transactions of the quarter, New York City Department of Investigation's lease at 180 Maiden Lane, and Macmillan Publishers' 261,000-sq.-ft. lease at 120 Broadway, the Financial District was the lone submarket to see an improvement in leasing quarter-over-quarter. At 1.17 million sq. ft., new leasing activity in this area was up 83% from Q2 2017 and 37% above its five-year quarterly average. The City Hall submarket registered a healthy 148,000 sq. ft. of activity; though down from Q2 2017, the total represents an increase compared to both the five-year quarterly average and activity from a year ago.

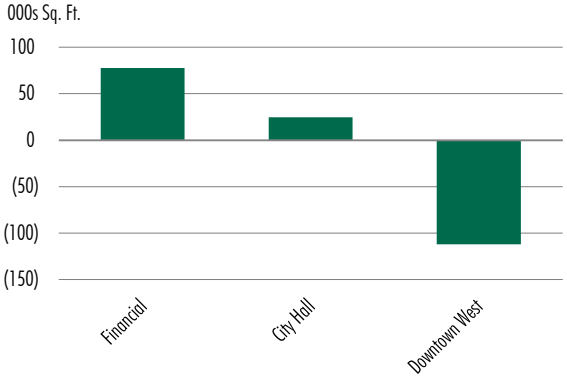
With more than 410,000 sq. ft. of new tenants moving south, relocations into the Downtown market continued to be a trend in Q3 2017. Like Q2 2017, the largest relocations were from Midtown South. Despite a drop in the number of relocation deals signed compared to last quarter, the overall square footage of leasing activity attributable to relocating tenants is up, due in large part to deals signed by Macmillan Publishers and Stagwell Group, which accounted for more than 344,000 sq. ft. Relocation activity stands at 1.5 million sq. ft. in 2017 so far, accounting for 23% of all year-to-date leasing activity. While this trend continues Downtown, the quarter also saw notable announcements by two tenants to leave the market. Guardian Life Insurance, along with Fragomen—both tenants at 7 Hanover Square—signed deals to relocate to Midtown's West Side. This out-migration from Downtown has been relatively rare in recent years, and the total of net in-migration remains overwhelmingly positive, at 13.3 million sq. ft. since 2011.

Figure 5: Net Absorption | Historical



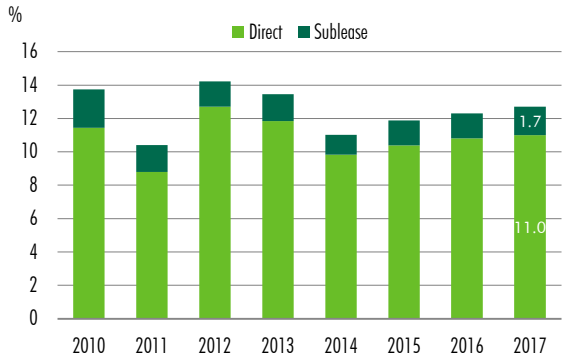

Source: CBRE Research, Q3 2017.

Figure 6: Quarterly Net Absorption | By Submarket




Source: CBRE Research, Q3 2017.

Figure 7: Sublease and Direct Availability Rate | Historical




Source: CBRE Research, Q3 2017.

## NET ABSORPTION

Downtown saw sizable space additions this quarter, but strong leasing activity led to net absorption that was only slightly negative, at just 10,000 sq. ft. Year-to-date absorption stands at negative 685,000 sq. ft., reflecting the 1.7 million sq. ft. of space added to the market at 3 World Trade Center in Q2 2017.

The Financial and City Hall submarkets both experienced modest absorption totals compared to Q2 2017, registering only 78,000 sq. ft. and 25,000 sq. ft., respectively. The Downtown West submarket had 112,000 sq. ft. of negative absorption in Q3 2017—a marked improvement from the 1.64 million sq. ft. of negative absorption recorded in Q2 2017.

## AVAILABILITY

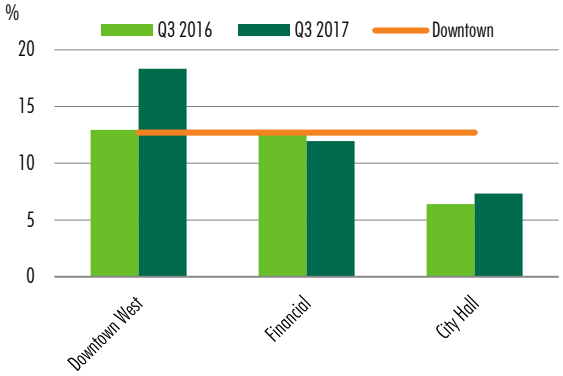
Downtown's availability rate was 12.7% at the end of Q3 2017, unchanged quarter-over-quarter. This figure is a 100-basis-point (bps) increase from one year ago, due in large part to new inventory hitting the market in Q2 2017.

The biggest increase in available space took place in the Downtown West submarket, with sizeable sublease space coming online at the Brookfield Place complex. As a result of these additions and tepid leasing activity, the availability rate rose 50 bps quarter-over-quarter, to 18.3%.

Though the majority of large space additions this quarter came from the Financial submarket, three of the top five transactions occurred in that submarket as well. As a result, availability in the Financial submarket dropped 20 bps since Q2 2017 to the current 11.9%.

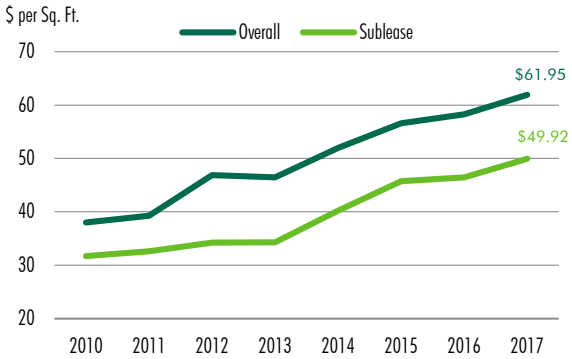
The City Hall submarket experienced a similar quarterly decline in availability, dropping 20 bps, to the current 7.3%. The drop in availability was driven by above-average quarterly leasing and the addition of only one space above 20,000 sq. ft.

Figure 8: Availability Rate | By Submarket




Source: CBRE Research, Q3 2017.

Figure 9: Average Asking Rent | Historical




Source: CBRE Research, Q3 2017.

throughout the entire quarter. With the decrease of available space, City Hall maintains its position as one of the tightest submarkets in Manhattan.

Similar to last quarter, Downtown saw a slew of sublet availabilities come online during Q3 2017. Of the top 15 blocks of space added to the market, eight were sublet spaces. Despite this, the demand for lower cost, built space in the Downtown market has led to an uptick in sublet leasing—causing the availability rate to increase only 10 bps since last quarter, to the current 1.7%. Downtown has maintained the lowest sublet availability rate of the three Manhattan markets for the seventh consecutive quarter.

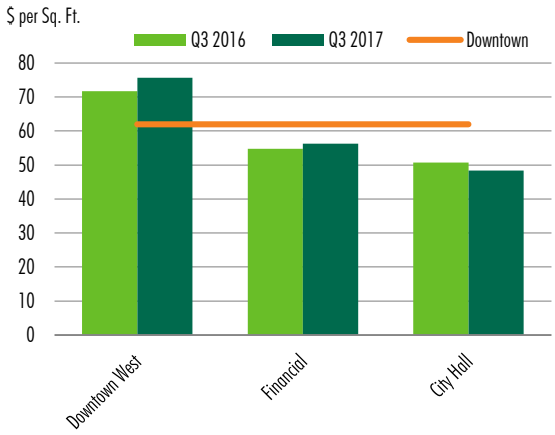
## AVERAGE ASKING RENT

Downtown's average asking rent ended September at $61.95 per sq. ft., an increase of only 1% from last quarter. This slight increase was mainly due to the volume of sizeable deals done in value-driven buildings during Q3 2017, rather than the addition of high-priced space hitting the market.

The asking rent for the Financial submarket, at $56.43 per sq. ft., remained flat quarter-over-quarter, but increased 3% from a year ago. City Hall's average asking rent decreased 2% since Q2 2017, to $48.40 per sq. ft. The significant amount of space leased at 375 Pearl Street was a driver in the decline of asking rents.

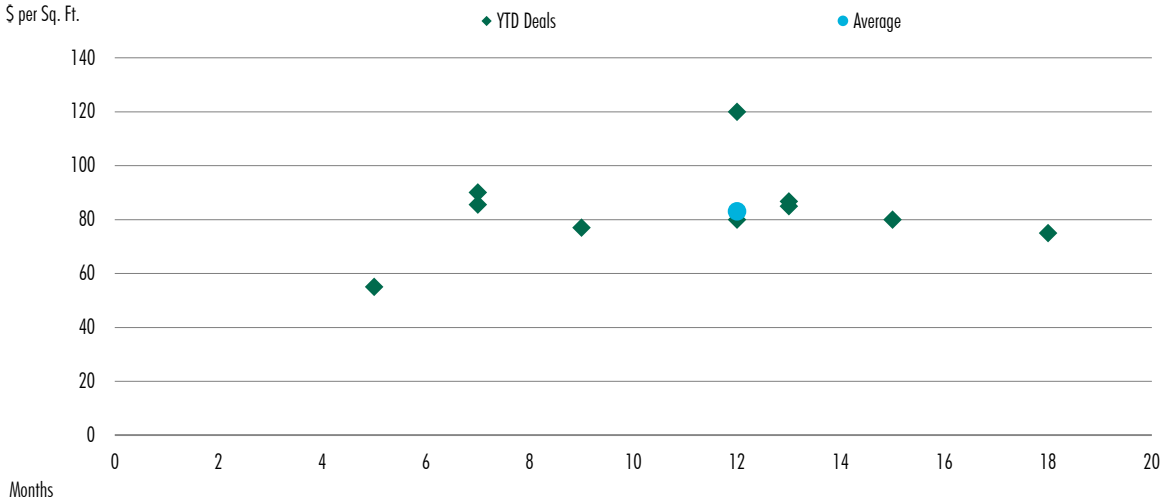
Sublet average asking rents, at $49.92 per sq. ft., are down 1% from Q2 2017, but are up 10% from one year ago. The lease of higher priced sublet space during the quarter contributed to the slight drop in sublet asking rents

Figure 10: Average Asking Rents | By Submarket




Source: CBRE Research, Q3 2017.

Figure 11: Concession Values | Rent Abatement and T.I. Allowance*




*Only direct new leases ( no renewals or expansion) large 25,000 SF with a term length of at least 10 years.

Source: CBRE Research, Q3 2017.

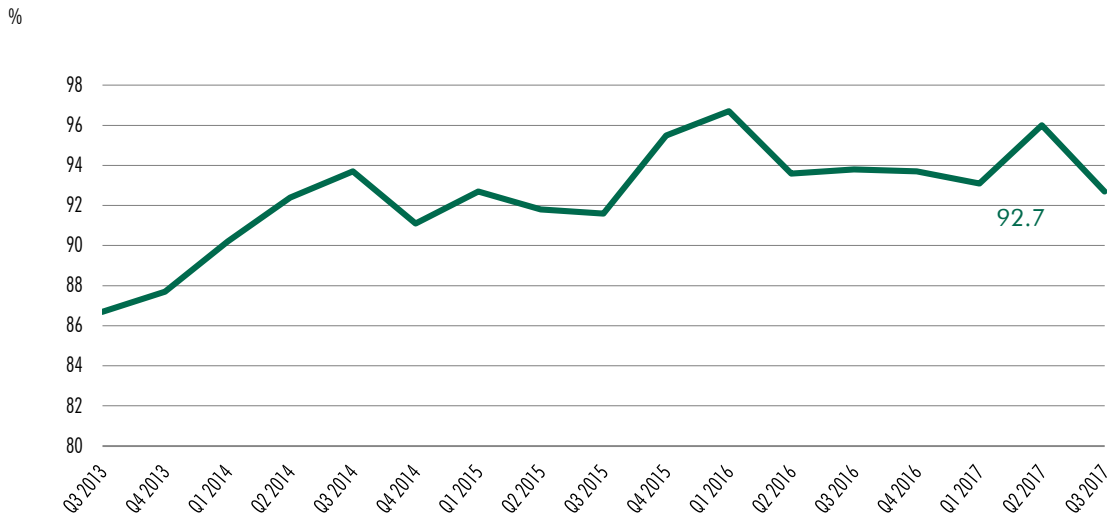
## TAKING RENT INDEX

The taking rent index posted a 330-bps drop quarter-over-quarter, falling to 92.7%. Concession packages for new leases of raw space completed year-to-date included an average of $83 per sq. ft. in tenant improvement allowance and 12 months of free rent. The concession packages are noticeably more generous compared to the average at the end of 2016. Due to a combination of rising construction costs, looming large vacancies, and landlords' intent to maintain face rents, concession packages have increased city-wide. The market has seen an increase in the frequency of $80+ per sq. ft. concession packages, demonstrating that Downtown is not immune to the "concession pressures" felt throughout the Manhattan market.

## DEVELOPMENT PIPELINE

The development pipeline has remained unchanged from mid-year 2016, as the only new construction set to come to market in the near future is 3 World Trade Center. By mid-year 2018, the 2.5 million-sq.-ft. tower will be ready for occupancy, with more than a quarter of the building already spoken for.

Figure 12: Taking Rent Index | Historical




Source: CBRE Research, Q3 2017.

## INVENTORY AT A GLANCE


| Submarket | Total Size (Mil. Sq. Ft.) | No. of Buildings |
|---|---|---|
| City Hall | 13.10 | 30 |
| Downtown West | 20.13 | 10 |
| Financial | 55.25 | 78 |
| **TOTAL INVENTORY** | **88.48** | **118** |

## 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.

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 75,000+ sq. ft. in Downtown, 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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