

## Midtown Manhattan Office, Q3 2017

# Quarterly absorption tops 1.0 million sq. ft. for the first time since Q2 2015

 Leasing Activity  
4.84 MSF

 Net Absorption  
1.55 MSF

 Availability Rate  
11.6%

 Vacancy Rate  
8.1%

 Average Asking Rent  
\$80.54 PSF

\*Arrows indicate change from previous quarter.

- Quarterly net absorption registered 1.55 million sq. ft. in Q3 2017, driving the year-to-date total into positive territory for the first time since Q4 2014.
- The availability rate dropped to 11.6%, its lowest level since May 2016, and decreased quarter-over-quarter in eight of the nine Midtown submarkets.
- Midtown’s leasing activity totaled 4.84 million sq. ft., outperforming its five-year quarterly average by 19%.
- With 3.09 million sq. ft. of year-to-date leasing activity, the Penn Station submarket has in only three quarters exceeded its largest year-end total.
- Financial services accounted for 33% of year-to-date leasing activity, followed by technology at 9%.

### MARKET OVERVIEW

Midtown market conditions were the strongest they’ve been in recent memory during the third quarter of 2017. At 4.84 million sq. feet, Midtown experienced its greatest amount of quarterly leasing activity since Q2 2015. The bulk of it was driven by 10 transactions exceeding 50,000 sq. ft., most of which were completed in the Penn Station, Times Square South and Times Square/West Side submarkets. This caused availability to fall to 11.6%—its lowest level since May 2016. That said, as large tenants relocate to Hudson Yards and Manhattan West, they will leave behind large blocks of space that will increase future availability throughout Midtown—a growing headwind against the market’s future performance.

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
471,016	New York Presbyterian Hospital	237 Park Avenue
248,673	Accenture	1 Manhattan West
220,538 (R)	Estée Lauder	767 Fifth Avenue
173,386	Estée Lauder	110 East 59th Street
148,318	Guardian Life Insurance	10 Hudson Yards

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

Source: CBRE Research, Q3 2017.

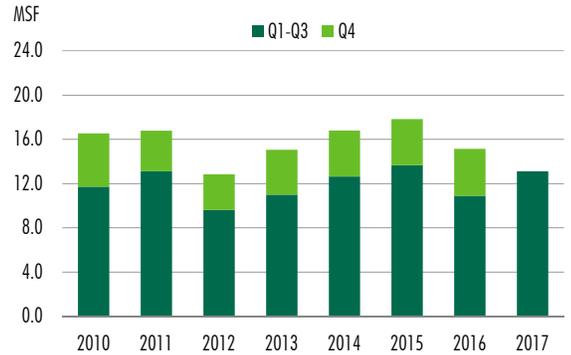
**LEASING ACTIVITY**

Leasing activity increased each month during Q3 2017, steering Midtown to its largest quarterly total since Q2 2015. Through Q3 2017, Midtown saw 13.11 million sq. ft. of leasing activity, exceeding the 10.89 million sq. ft. leased year-to-date in 2016. Renewals, which are not included in leasing activity, totaled roughly 1.44 million sq. ft. this quarter—up 13% from the previous quarter—bringing the year-to-date total to 4.36 million sq. ft.

Through the first three quarters of 2017, strong leasing activity was predominantly driven by transactions greater than 50,000 sq. ft. In Q3 2017, large transactions accounted for 42% of leasing activity, despite representing just 5% of the total number of deals done during the quarter. The majority of leasing activity within this size segment was concentrated in West Side submarkets of Penn Station, Times Square South and Times Square/West Side. In Q3 2017, deals larger than 50,000 sq. ft. accounted for 2.03 million sq. ft. of leasing activity, 70% of which was leased in those three submarkets.

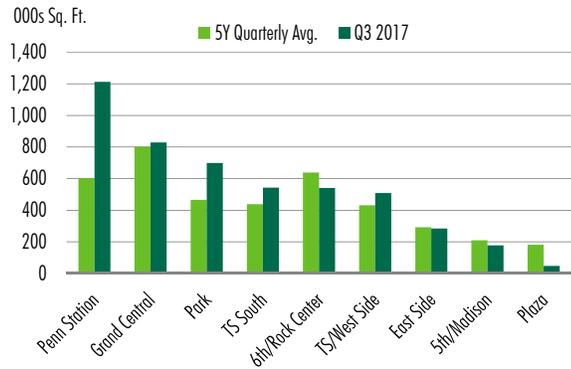
The new development and major renovation projects at Hudson Yards and Manhattan West are fueling the westward tenant migration. Of the five largest leases completed in Q3 2017, four involved tenants relocating to this area. This surge resulted in 1.21 million sq. ft. of quarterly leasing activity in Penn Station, 101% above its five-year quarterly average. The 365,000-sq.-ft. lease an e-commerce company signed at the renovated 5 Manhattan West, Accenture’s 249,000-sq.-ft. pre-lease at 1 Manhattan West and Guardian Life Insurance’s 148,000-sq.-ft. sublease at 10 Hudson Yards were the major transactions driving the total.

Figure 2: Leasing Activity | Historical



Source: CBRE Research, Q3 2017.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q3 2017.

In addition to Penn Station, Times Square South and Times Square/West Side also saw large tenant relocations in Q3 2017. Fragomen’s 108,000-sq.-ft. lease at 1400 Broadway and Tzell Travel’s 106,000-sq.-ft. lease at 1633 Broadway were examples of large tenants relocating within Midtown’s West Side.

**NET ABSORPTION AND AVAILABILITY**

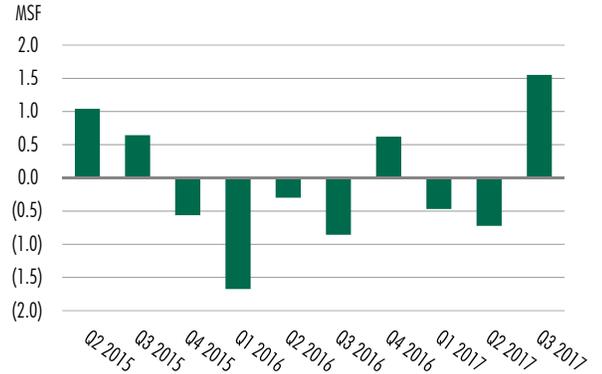
A limited amount of space additions combined with strong leasing activity drove quarterly net absorption into positive territory for the first time this year. The largest blocks added in Q3 2017 were 165,000 sq. ft. of sublease space at 340 Madison Avenue, 165,000 sq. ft. of direct space at 1185 Avenue of the Americas and 117,000 sq. ft. of direct space at 399 Park Avenue. Overall, Midtown currently has roughly 27.3 million sq. ft. of available space.

Midtown absorbed 1.55 million sq. ft. in Q3 2017, the highest quarterly total since Q4 2010. This pushed the year-to-date total to 357,000 sq. ft., marking the first time since 2014 that Midtown has seen positive absorption through three quarters. In tandem, Midtown’s availability rate declined to 11.6%, a drop of 60 basis points (bps) quarter-over-quarter and 50 bps year-over-year.

Most of the positive quarterly and year-to-date absorption was centered on the Penn Station submarket, which absorbed 463,000 sq. ft. in Q3 2017, due in large part to 1.21 million sq. ft. of leasing activity completed during the quarter. The submarket’s availability rate dropped 210 bps to 7.1%—the lowest availability rate in Midtown. Times Square South recorded the second highest level of quarterly absorption, registering positive 214,000 sq. ft.

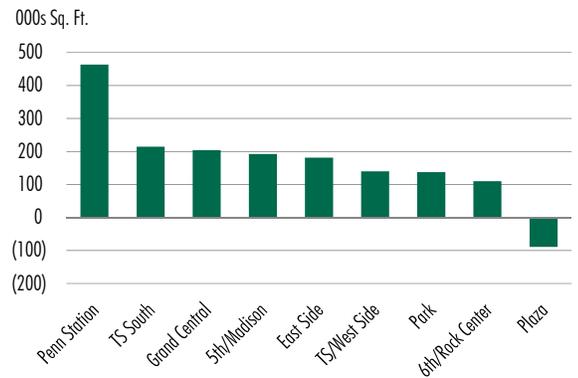
Steady leasing activity caused Sixth Avenue/Rock Center’s availability rate to decline for the fourth consecutive quarter, to 10.6%. The Fifth Avenue/Madison submarket also experienced a considerable drop in Q3 2017, to 15.4%. This was a direct result of space being taken off the market at 666 Fifth Avenue as the building undergoes a conversion.

Figure 4: Net Absorption | Quarterly



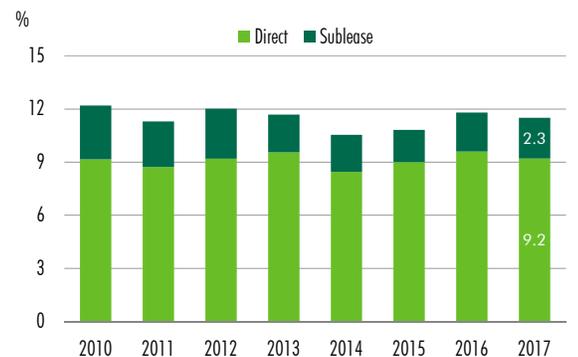
Source: CBRE Research, Q3 2017.

Figure 5: Quarterly Net Absorption | By Submarket



Source: CBRE Research, Q3 2017.

Figure 6: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q3 2017.

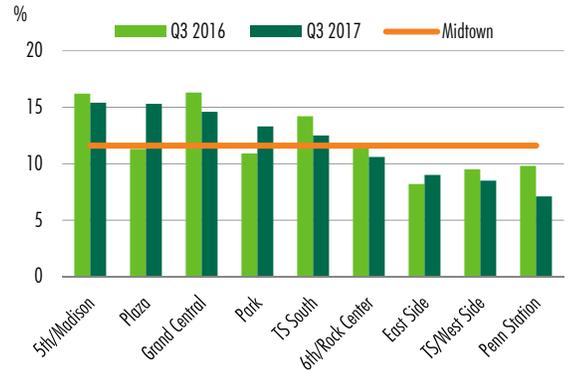
Overall, eight of the nine submarkets posted positive net absorption and quarter-over-quarter decreases in availability rates; the outlier was the Plaza District, which saw 89,000 square feet of negative absorption and an availability rate increase of 80 bps, to reach 15.3%.

**AVERAGE ASKING RENT**

The average asking rent stood at \$80.54 per sq. ft. in Q3 2017, unchanged from the previous quarter and down just 1% from the same time last year. Overall, Midtown’s average asking rent has ranged between roughly \$80-81 per sq. ft. for the past eight quarters.

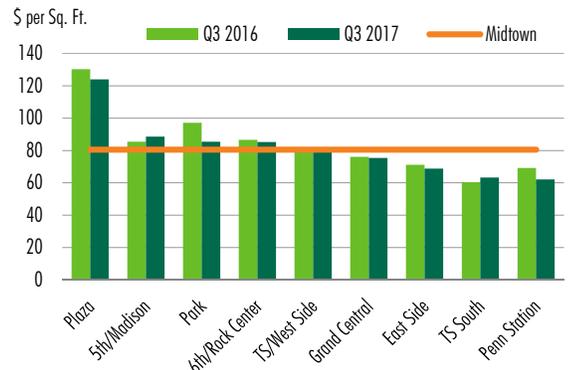
On a submarket level, the largest change in quarterly pricing occurred within Penn Station. The 8% decline, to \$62.07 per sq. ft., was driven by a total of nearly 800,000 sq. ft. of higher priced space being leased at 5 Manhattan West, 10 Hudson Yards and 55 Hudson Yards. The Times Square/West Side submarket posted a 3% gain, to \$78.87 per sq. ft., influenced by 98,000 sq. ft. of space entering the market at 1675 Broadway priced at \$85 per sq. ft.

Figure 7: Availability Rate | By Submarket



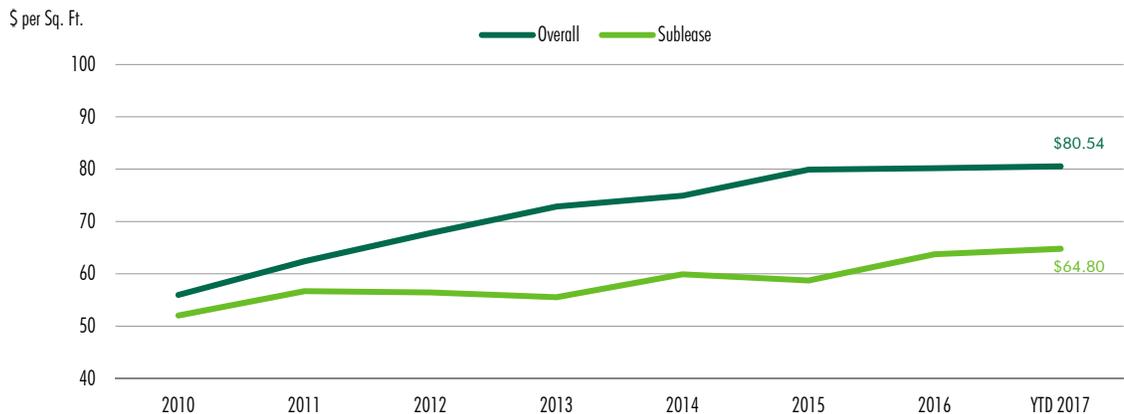
Source: CBRE Research, Q3 2017.

Figure 8: Average Asking Rents | By Submarket



Source: CBRE Research, Q3 2017.

Figure 9: Average Asking Rent | Historical



Source: CBRE Research, Q3 2017.

Year-over-year changes in average asking rents vary considerably by submarket. The average asking rent in Times Square South reached \$63.22 per sq. ft. in Q3 2017, a 5% increase from this time last year. This annual change was driven by the leasing of lower priced space such as Fragomen’s 108,000-sq.-ft. transaction at 1400 Broadway. Conversely, Park Avenue asking rents saw a 12% decline year-over-year, to \$85.38 per sq. ft., the result of higher priced space leased at 65 East 55th Street, coupled with increasing availability in the submarket putting downward pressure on rents.

**TAKING RENT INDEX**

The taking rent index posted a 50-bps increase quarter-over-quarter, to 92.1%. Concession packages for new leases of raw space completed year-to-date declined slightly to an average of \$92 per sq. ft. in tenant improvement allowance and 12 months of free rent.

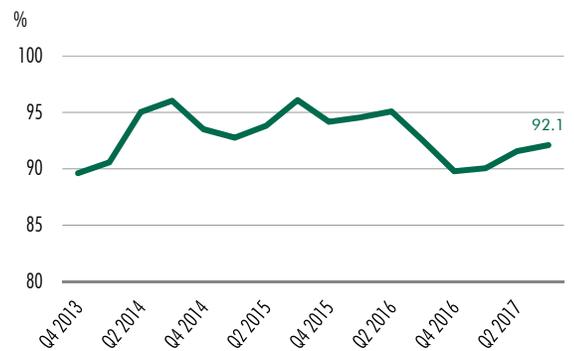
Figure 10: Concession Values | Rent Abatement and T.I. Allowance\*



\*This study examines all direct new leases larger than 25,000 RSF with a term length of at least 10 years (omits renewals and expansions).

Source: CBRE Research, Q3 2017.

Figure 11: Taking Rent Index | Historical



Source: CBRE Research, Q3 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
<b>TOTAL INVENTORY</b>	<b>235.79</b>	<b>377</b>

**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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