# MARKETBEAT

## MANHATTAN OFFICE REPORT

3Q11

CUSHMAN & WAKEFIELD



## Overview

In the third quarter, the Manhattan office market slowed from the blistering pace of the first half, but remained healthy. Leasing activity was right on the long term averages, vacancy continued to decline, but more slowly and asking rents continued to rise slowly. Overall, it was a quarter of stability despite the uncertainty created by the deficit reduction debate, the ongoing European sovereign debt crisis and the volatility in global equity markets.

## Midtown

Midtown leasing activity totaled 3.9 msf for the quarter, down from 6.1 msf in the second quarter and the slowest quarter since the fourth quarter of 2009. However, over the 10 years from 2002 through 2011 the Midtown market has averaged 3.97 msf of new leases per quarter so the third quarter was right at the long term average rate. The slower pace of leasing coupled with an increase in space on the market caused absorption to turn slightly negative for the quarter. Nonetheless, year-to-date Midtown overall absorption was 2.4 msf, much improved from the negative 415,300 square feet (sf) absorption through the third quarter of 2010.

Vacancy and rents were essentially flat during the quarter. Midtown vacancy was 10.0%, up slightly from the second quarter, but down from 11.0% a year ago. As vacancy has slowly declined, asking rents have begun to increase, but slowly. Since December, asking rents have increased $1.61 per square foot (psf) or $0.18 per month. The class A market has shown a similar performance. The Midtown class A vacancy rate was 10.6% at the end of the third quarter, compared with 10.5% in the second quarter and 11.8% a year ago. Asking rents for class A space have increased $2.48 psf since December or $0.28 psf per month.

## Midtown South and Downtown

Vacancy in Midtown South continues to decline rapidly. At 6.1%, the Midtown South vacancy rate is the lowest in the nation and has fallen a full 1.0 percentage points since June. A year ago the Midtown South vacancy rate was 9.1%. Despite the plunge in vacancy, asking rents in Midtown South have remained surprisingly flat. At the end of the third quarter asking rents averaged $44.65 psf, essentially identical to the $44.73 psf at the end of 2010. Class A rents in Midtown South are rising, up 21.6% from a year ago, but the amount of class A space in Midtown South is very limited - there is only 337,872 sf available.

The Downtown market remained strong in the third quarter with more than 1.3 msf of new leases, the third consecutive quarter that leasing has exceeded 1.0 msf. Despite this healthy leasing, new space coming to the market caused the overall vacancy rate to climb to 9.9% from 9.7% in the second quarter. Asking rents Downtown are flat at $39.10 psf, compared with $39.08 psf a year ago. While Downtown does face a potential increase in vacancy in the next two years as space in World Financial Center and the World Trade Center is brought to market, thus far this market has shown an ability to absorb new space at a healthy clip. A year ago the vacancy rate was 12.1%.

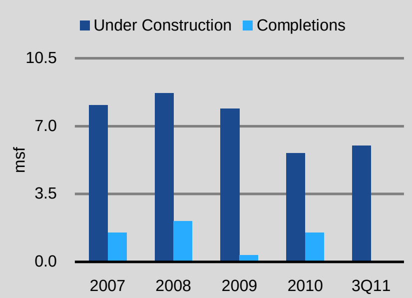
## Outlook

New York City continues to outperform the rest of the nation, a trend we expect to remain in place for the balance of this year and in 2012. But New York is not isolated. With the U.S. economy likely to remain sluggish into 2012, New York City will also grow more slowly. Even with slower growth overall, the office market is expected to experience declining vacancy and upward pressure of rents as supply remains constrained with no new construction expected to be completed until 2013 at the earliest.

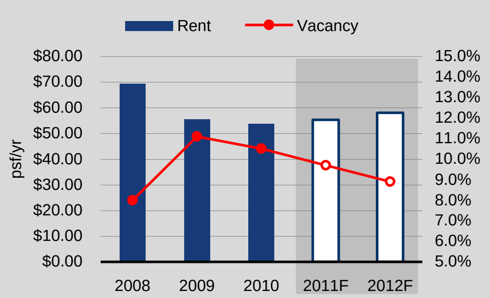
### Stats on the Go

| | 3Q10 | 3Q11 | Y-o-Y Change | 12 month Forecast |
|---|---|---|---|---|
| Overall Vacancy | 10.9% | 9.3% | -1.6 pp | ▼ |
| Direct Asking Rents | $55.14 | $56.58 | 2.6% | ▲ |
| YTD Leasing Activity (sf) | 18,816,416 | 24,058,464 | 27.9% | ▲ |

### Under Construction vs. Completions




### Overall Rental vs. Vacancy Rates



# Market/Submarket Statistics

| Market/Submarket | Inventory | Overall Vacancy Rate | Direct Vacancy Rate | YTD Leasing Activity | Under Construction | YTD Construction Completions | YTD Direct Absorption | YTD Overall Absorption | Overall Wtd. Avg. All Classes Gross Rental Rate* | Direct Wtd. Avg. Class A Gross Rental Rate* |
|---|---|---|---|---|---|---|---|---|---|---|
| 6 Ave / Rock Cntr | 39,922,858 | 9.3% | 5.7% | 1,907,218 | 330,000 | 0 | 684,807 | 52,484 | $68.69 | $73.33 |
| East Side | 19,266,525 | 7.9% | 7.0% | 1,020,431 | 20,300 | 0 | 278,654 | 206,330 | $61.12 | $62.33 |
| Grand Central | 43,665,822 | 12.6% | 10.8% | 3,192,426 | 0 | 0 | (611,584) | (584,243) | $55.64 | $58.63 |
| Lincoln Center | 3,533,085 | 5.3% | 5.1% | 14,472 | 0 | 0 | (45,000) | (53,212) | $41.28 | $45.00 |
| Madison / Fifth | 24,730,627 | 13.8% | 12.1% | 1,791,929 | 0 | 0 | 312,558 | 538,738 | $94.86 | $99.79 |
| Murray Hill | 14,366,499 | 7.4% | 6.9% | 1,726,484 | 0 | 0 | 1,031,682 | 1,083,869 | $46.03 | $50.52 |
| Park Avenue | 21,652,799 | 8.4% | 6.9% | 970,018 | 0 | 0 | (19,469) | (10,501) | $78.60 | $80.56 |
| Penn Station | 14,591,335 | 9.4% | 8.7% | 472,875 | 0 | 0 | (386,179) | (462,637) | $42.06 | $54.77 |
| Times Square South | 31,226,603 | 10.5% | 9.7% | 1,865,931 | 0 | 0 | (70,247) | 82,132 | $53.20 | $71.03 |
| United Nations | 2,909,648 | 2.2% | 2.2% | 15,709 | 0 | 0 | 49,447 | 49,447 | $42.00 | $42.00 |
| West Side | 25,379,526 | 8.8% | 6.3% | 2,065,871 | 896,000 | 0 | 1,165,228 | 1,111,567 | $60.05 | $65.23 |
| **MIDTOWN** | **241,245,327** | **10.0%** | **8.3%** | **15,043,364** | **1,246,300** | **0** | **2,389,897** | **2,013,974** | **$64.07** | **$71.90** |
| Chelsea | 14,840,679 | 4.9% | 4.6% | 569,214 | 0 | 0 | 62,631 | 170,942 | $40.59 | N/A |
| Greenwich/Noho | 4,577,498 | 8.0% | 7.4% | 133,382 | 0 | 0 | (93,902) | (40,529) | $45.23 | N/A |
| Hudson Sq. / W. Village | 10,595,458 | 9.8% | 9.2% | 815,624 | 0 | 0 | 529,162 | 463,248 | $46.12 | $78.80 |
| Madison/Union Square | 31,250,898 | 5.4% | 4.2% | 1,645,377 | 0 | 0 | 362,896 | 541,627 | $44.51 | $48.21 |
| Soho | 3,943,428 | 4.4% | 3.5% | 140,408 | 0 | 0 | (51,675) | 26,735 | $47.03 | N/A |
| **MIDTOWN SOUTH** | **65,207,961** | **6.1%** | **5.3%** | **3,304,005** | **0** | **0** | **809,112** | **1,162,023** | **$44.65** | **$62.87** |
| City Hall | 14,353,704 | 5.2% | 4.8% | 419,647 | 0 | 0 | (84,925) | (107,005) | $37.53 | N/A |
| Financial East | 35,642,055 | 13.9% | 12.3% | 1,764,545 | 0 | 0 | (211,318) | 90,433 | $40.27 | $43.44 |
| Financial West | 5,986,809 | 16.4% | 15.3% | 299,587 | 0 | 0 | (120,043) | (151,278) | $34.38 | $35.64 |
| Insurance | 14,818,985 | 7.1% | 6.6% | 489,603 | 0 | 0 | (12,648) | (59,009) | $35.39 | $37.28 |
| World Financial | 15,570,956 | 5.1% | 4.8% | 2,737,443 | 4,770,480 | 0 | 464,983 | 706,709 | $44.83 | $55.26 |
| **DOWNTOWN** | **86,372,509** | **9.9%** | **8.9%** | **5,710,825** | **4,770,480** | **0** | **36,049** | **479,850** | **$39.10** | **$43.69** |
| **MANHATTAN TOTAL** | **392,825,797** | **9.3%** | **7.9%** | **24,058,464** | **6,016,780** | **0** | **3,235,058** | **3,655,847** | **$56.15** | **$66.13** |

* Rental rates reflect asking $psf/year.

# Market Highlights

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| SIGNIFICANT 3Q11 LEASE TRANSACTIONS | | | | |
|---|---|---|---|---|
| BUILDING | SUBMARKET | TENANT | SQUARE FEET | BUILDING CLASS |
| 330 Hudson Street | Hudson Sq. W. Village | Pearson | 271,247 | A |
| 85 Broad Street | Financial East | Oppenheimer & Co., Inc. | 267,647 | A |

| SIGNIFICANT 3Q11 SALE TRANSACTIONS | | | | |
|---|---|---|---|---|
| BUILDING | MARKET | BUYER | SQUARE FEET | PURCHASE PRICE |
| 601 West 26th Street | Chelsea | RXR Realty | 2,300,000 | $920,000,000 |
| 200 Fifth Avenue | Madison/Union Sq. | JP Morgan Asset Mgt. | 844,500 | $726,000,000 |

| SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS | | | | |
|---|---|---|---|---|
| BUILDING | MARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
| N/A | | | | |

| SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION | | | | |
|---|---|---|---|---|
| BUILDING | MARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
| One World Trade Center | Downtown | Conde Nast | 3,000,000 | 3Q13 |
| Four World Trade Center | Downtown | The City of N.Y. | 1,770,480 | 4Q13 |
| 250 West 55th Street | Midtown | Morrison Foerster | 993,400 | 1Q14 |

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