COMPSTAK

Q1 2016

# CompStak Effective Rent Report

## Manhattan Office Snapshot

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# OVERVIEW

After a strong start to 2015, the optimism within the Manhattan real estate markets started to wane as 2016 approached. Uncertainty in the broader financial markets continues to weigh on overall market confidence and sentiment.

As expected in December, the Fed raised its key interest rate from a range of 0% to 0.25% to a range of 0.25% to 0.5%. This was the first rate hike in nearly a decade with plans to raise them again later this year. Given that the rate hike was minimal, it has not had a substantial effect on the investment sales market thus far.

Despite the mixed consensus as last year came to a close, leasing volume so far in 2016 is 8% above average when compared to the prior 12 quarters. Overall, Manhattan effective rents are up a marginal 3% quarter-over-quarter to $68.61 per square foot. The real surprise this past quarter was the rent growth surge in Class B buildings. Landlord investment in renovations coupled with demand for cheaper space in desirable areas of Midtown helped drive Class B rents up 10% over the past two quarters. This was a welcome outcome after Class B rents were relatively flat during the first half of 2015.

The recent darling of Manhattan real estate, Midtown South, finally saw rental growth take a rest this past quarter. After increasing more than 15% over the last 12 months, average effective rents were unchanged at $67 per square foot. If it weren't for a few select high profile deals, the market would have seen a meaningful drop in average effective rents.

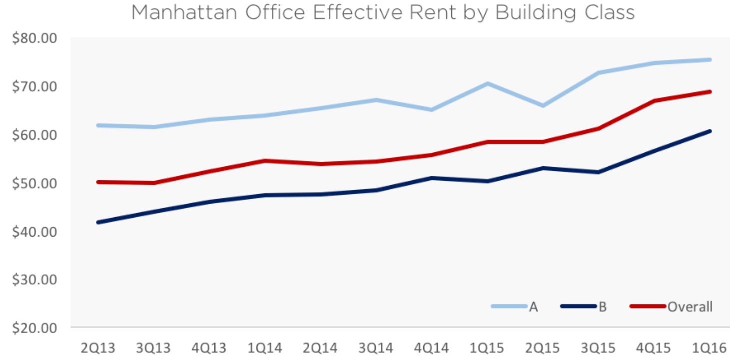
Downtown effective rents remained above the $50 per square foot threshold, which it first broke above in Q4 2015. Apart from a massive renewal signed by McGraw Hill, leasing was relatively quiet in the market; a trend that may spread to Midtown and Midtown South.

Another noteworthy trend forming over the past 12 months is rising concession values. After being relatively flat over a 2-year period ending in 2015, concession values have risen in the past year to around 10% of the value of the lease. This is generally a sign of market weakness as landlords give bigger incentives to lure tenants. This trend may be a leading indicator as to where the market is heading in 2016.

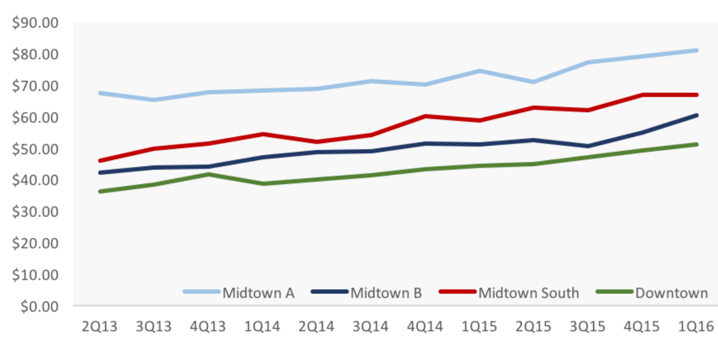
**Overall Market Summary**

| Averages | Q1 2016 | Prior Quarter | Year Ago Period | 12 Month Forecast |
|---|---|---|---|---|
| Starting Rent | $70.16 | $68.29 | $59.58 | — |
| Effective Rent | $68.61 | $66.81 | $58.41 | ▼ |
| Concession Value (%) | 9.60% | 10.10% | 9.40% | ▲ |
| Deals >$100 | 25 | 21 | 21 | — |
| Lease Term (m) | 98 | 104 | 94 | ▲ |
| Transaction Size | 23,900 SF | 21,381 SF | 17,050 SF | ▼ |

Manhattan Office Effective Rent by Building Class

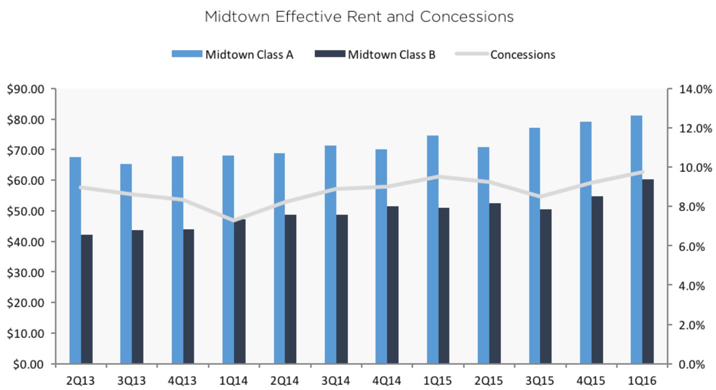



Manhattan Office Starting Rent by Market

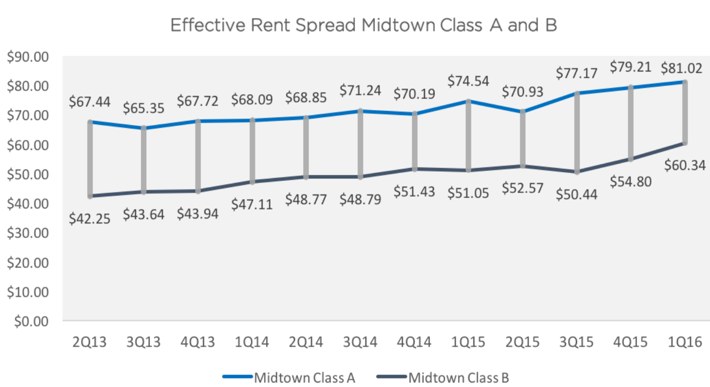


# MIDTOWN

As was the trend last quarter, Financial, Insurance, and Real Estate (FIRE) tenants continued to drive demand in Midtown, registering 16 of the top 20 largest office deals signed in the market. Overall effective rents in Midtown were up 6% quarter over quarter to $74.51 PSF. Average concession values ticked up 50bp to 9.7% of the value of the deal, which is slightly above average for the market.




Effective rents in Class A buildings hit another milestone in Q1, rising 2% to close the quarter above $80 PSF for the first time. With Class A building rents continuing to rise and more tenants becoming price conscious, increased demand for Class B space has helped owners capture higher rents. Tenants searching for cheaper deals in prime areas of Midtown have caused the effective rent spread between Class A and Class B spaces to narrow over the past few quarters. Class B space today trades at a 25% discount to Class A; whereas just last year, that discount was between 30% and 35%.




Prominent tenants that signed leases in Midtown Class B buildings include:

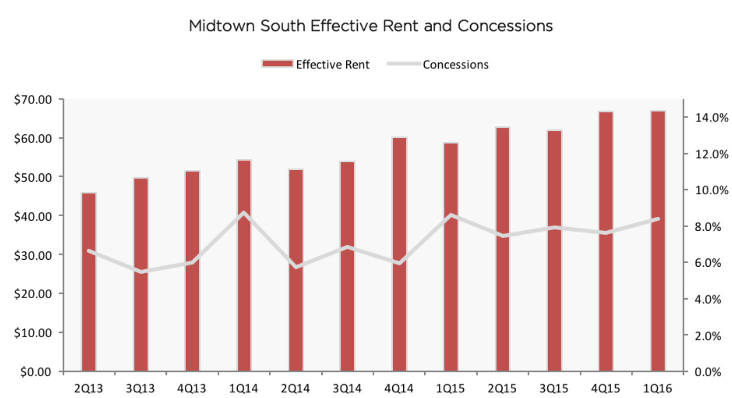
- Structure Tone for 82k SF at 33W 34th Street
- CBS for 35k SF at 555 W 57th Street
- Alkeon Capital Management for 23k SF at 350 Madison Avenue

Of the most expensive deals, Boston Properties' General Motor's Building at 767 5th Avenue recorded one of the most expensive per square foot deals in the market in back-to-back quarters. Last quarter it was Glenview Capital Management's lease in the $180s PSF and this quarter was Belfer Management's renewal for 7,000 SF at over $200 PSF.

# MIDTOWN SOUTH

In recent years, Midtown South has been the best performing market in Manhattan. However, this may change as effective rents remained unchanged quarter over quarter at just below $67 PSF.

Leasing of Class A space in Midtown South was quiet towards the end of last year. Taking notice of the weakened demand, landlords kept starting rents at the same level as last quarter. It worked as the number of Class A deals signed in Q1 equaled the total number of deals signed in the second half of 2015. Landlords have also been able to retain existing tenants. For example, Facebook closed an off market deal to expand for 80k SF at 770 Broadway and Anchorage Capital renewed for 25k SF at 610 Broadway.



Rents in Class A space have been flat since Q3 2015 at $84 PSF while Class B rents have risen 5% since last quarter. If it weren't for a select few high profile deals signed by Todd Street, Facebook, and Anchorage Capital, average overall effective rents would have fallen 3% quarter over quarter.

Concessions as a percent of the total lease value increased 90bp to 8.5% but remained the lowest across Manhattan. The increase in concessions along with recent reports of landlords lowering asking rents paints a dim picture. While it is too soon to determine if this is the turning point, it is clear that the market's performance has begun to plateau.

# DOWNTOWN

Slow and steady wins the race, or at least creates consistent quarter over quarter rent gains for Downtown landlords. Effective rents in the market increased 3% quarter over quarter to $51 PSF, making it nine straight quarters of rent growth. During the sustained rent growth since 2014, overall effective rents have increased 25% while average rental concessions have stayed between 9%-10% of the total value of the lease, the highest out of the three Manhattan markets.

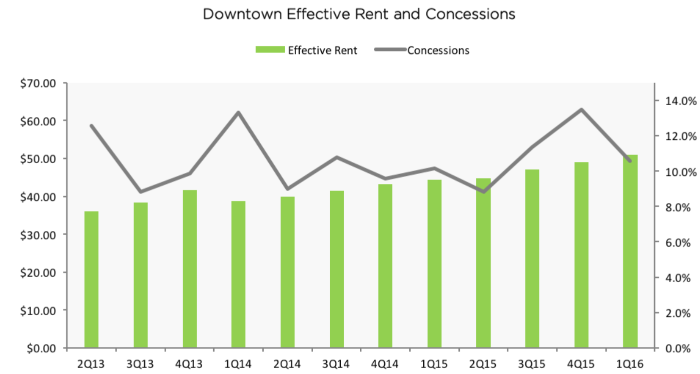
Over the past few years, Technology, Advertising, Media and Information (TAMI) tenants have been migrating Downtown, drawn by lower rents and higher concessions. Moving "Downtown" used to have a negative connotation, but this connotation has started to fade as the market turned into a hotbed for TAMI tenants.

This past quarter saw a few leases from exciting TAMI tenants including:

- Advertising firm Droga5 expanded its footprint in New York City by 110k SF at 120 Wall Street where it will be paying rent in the mid $40s PSF.

- Programmatic marketing and media buying company Rocket Fuel is moving from Herald Square not a 42k SF space, nearly half the size of what it has now, at L&L's 195 Broadway. Starting rent of the lease is in the mid $50s PSF.

- The internet infrastructure solutions provider Internap rented its 46k SF lead at 75 Broad Street where it is paying in the mid $60s PSF.




Volume in the market this past quarter was skewed higher, driven by McGraw Hill's 900k SF renewal at 55 Water Street where it is paying in the low $50s PSF. If landlords continue to attract TAMI tenants with larger concession packages, Downtown rents will continue their nine quarter rally through 2016.

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# About CompStak

The Effective Rent Report is produced by CompStak, Inc. For comments or questions, please contact Blake Toline: Blake@CompStak.com or Regina Glick: Regina@CompStak.com.

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*Effective Rent takes into consideration the rent paid for every year of the lease, as well as landlord concessions such as free months and tenant improvement allowance.

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