



STREET SMARTS

Q3 2015



PHOTO BY: PAUL STEIN

Autumn in New York

ECONOMIC OUTLOOK NATIONAL

The U.S. economy grew by 3.9% in the Second Quarter of 2015, according to the statistics on real GDP released on September 25th. Employment is up by 2.9 million jobs (2.1%) in the most recent tally of labor statistics, with the unemployment rate down to 5.1%, a full percentage point better than a year ago. Inflation, meanwhile, remains constrained. Year-over-year, the Consumer Price Index is up just 0.2%, with declining energy prices the principal reason for the nearly flat price performance. But even with food and energy excluded, CPI was only up 1.8% for the most recent 12-month period.

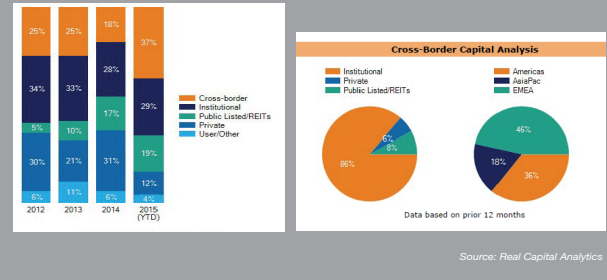
The Federal Reserve was therefore inclined to retain a near-zero policy on interest rates in the September meeting of its markets' committee. Keeping an eye on international developments in Europe, China, Brazil and elsewhere around the world, the Fed decided a continuation of its strongly pro-growth domestic monetary policy was the wisest course for late 2015. Chairperson Janet Yellen confirms that rate increases are the most likely course of action in the year ahead, though, as inflation comes more in line with the Fed's targets, employment gains continue, and the value of the dollar against major currencies remains at its strongest level since 2003.

Improvement in the U.S. housing sector is also contributing to the nation's foundation for growth. Stronger household formation, in the context of the jobs improvement, is strengthening residential demand in both the ownership and rental sectors. This is spurring an increase in residential development, a sector with impressive multiplier effects across the economy.

NEW YORK CITY

Private sector employment in New York City rose 2.6% year-over-year through August 2015 (the most recent available data), marking a gain of 91,400 jobs in twelve months citywide. "Office-using" industries spurred much of the job improvement. Securities/commodities firms (aka "Wall Street") added 5,300 jobs (3.0%), Advertising was up by 3,500 (4.9%), Accounting by 2,900 (6.1%), and Architecture/Engineering by 2,000 (6.0%). Volatility in the stock market prompts a note of caution in the financial sector, but the remaining elements of New York's diversified

MANHATTAN ATTRACTING INVESTORS FROM ALL BUYER CATEGORIES, WORLDWIDE

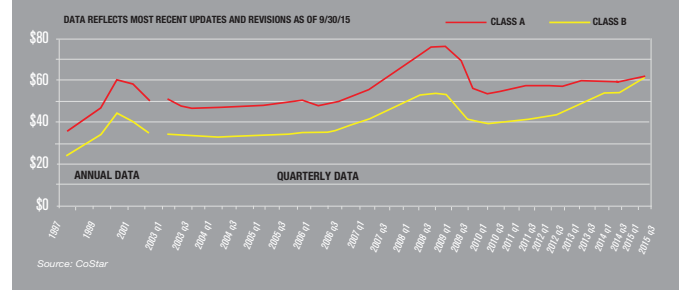


economy are buoyed by our competitive advantage on the national and international scene.

The monitoring of the city's economy by The Partnership for New York indicates a plethora of upwardly pointing green arrows (see <http://pfny.org/dashboard/>), including indications of a 24.1% increase in venture capital investment in software and IT services, a sign of the City's growing TAMI (technology, advertising, media, and information) sectors. Sales tax receipts are up 7.6% year-over-year. NYC's Economic Development Corporation reports indicators such as air traffic (up 4.9%), subway ridership (up 1%), and hotel occupancy (up 1.4%) strong thus far in 2015.

Indicators of the health of the public sector are also good. As of the second quarter, the municipal budget shows a \$3.6 billion surplus. Even the crime rate – despite alarmist reporting in the media – is down, with violent crime reduced by 1.5% and non-violent crime down 4.4% through this summer compared to a year ago. As in other large cities, a rise in homelessness is engendering quality-of-life concerns for New York. On balance, the City's economy is maintaining powerful forward momentum for late 2015 and 2016.

CLASS A AND B OFFICE RENT GAP NOW ONLY FIFTY CENTS PER SQUARE FOOT ON AVERAGE



MANHATTAN OFFICE MARKET LEASING

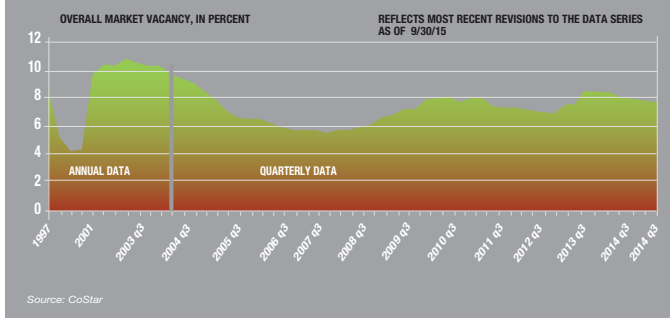
Overall user-market statistics were uniformly positive in the Third Quarter of 2015. Rents rose, vacancy declined, net absorption of space was strong, sublease availabilities dropped, and properties under development continued to see pre-commitments from major tenants.

Average market rents are approaching the \$60 per square foot mark, and of course are well above that for the best submarkets. The year-over-year gain in overall average asking rent is 7.6%. Class A and Class B rents continue to narrow and now have the smallest spread in market memory. That is a reflection of a further tightening of availabilities, as the vacancy rate dropped to 7.7% market-wide, with Class B vacancy lower still at 6.1%, and Class C buildings at 5.0%. The higher Class A vacancy reflects the opening of large new towers, especially at the World Trade Center.

Vacant sublease space, often termed “shadow inventory” during periods of market weakness, is down to a mere 3.4 million square feet – enough to trouble most other office markets in the country, but just 0.6% of the vast Manhattan office space inventory.

With modest inventory additions scheduled over the next six months (less than 500,000 square feet), further advances in Manhattan’s leasing market performance can be reasonably expected through early 2016.

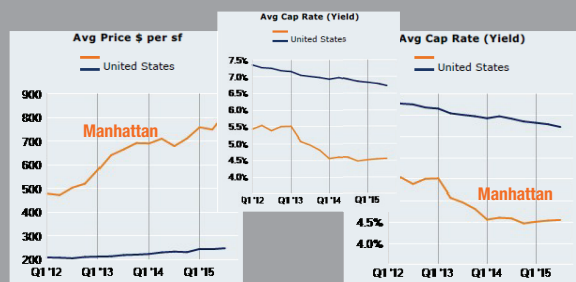
THIRD QUARTER 2015 OFFICE VACANCY DIPS TO 7.7%



INVESTMENT SALES

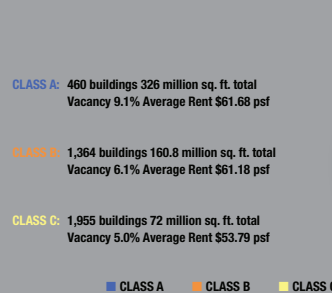
Throughout 2015, investment volume in Manhattan has run ahead of each of the prior three year totals. This may surprise those who have been focused on the widening net investors are casting across the United States, with increasing activity in secondary markets. This is not a zero-sum game though and those lesser markets are not gaining at the expense of the premier office center that is Manhattan. As the Third Quarter was concluding, the three-month total for thirty-three Manhattan office deals, covering 7.7 million square feet, amounts to \$5.4 billion. The average price per square foot was \$836.

MANHATTAN OFFICE ASSETS HAVE LED THE U.S. IN VALUE INCREASE SINCE FINANCIAL CRISIS



The quarter’s top leases were chiefly located downtown, another sign of its remarkable revival and were both in the newest generation buildings and in classic properties like 195 Broadway, the headquarters of AT&T in its heyday. The “older” downtown submarkets such as City Hall (4.7% vacancy) and the Insurance District (3.9%) are performing nicely. So are many Midtown submarkets, including Columbus Circle (6.4% vacancy), Penn Plaza/Garment District (6.3%), and the Plaza District (7.1%).

SUMMARY MARKET STATISTICS by Office Building Class



International investors and REITs have been the most significant net purchasers thus far in 2015. The market has been very liquid, despite the relative scarcity of million-square-foot-plus trophy properties available for sale. The summer's largest transaction involved 11 Madison Avenue, purchased for \$2.29 billion (\$1,000 per sq. ft. at a 4.6% cap rate), a classic building erected in 1932 and slated for a \$300 million renovation. A pending deal for the News Corporation headquarters, a 50% interest at an indicated valuation of \$943 per sq. ft., is not included in the Third Quarter figures, but is a signal of pricing for a 1970s-vintage international style property on Sixth Avenue.

Beyond the "headline-making" transactions, though, there have been dozens of good-quality sales of buildings in the Hudson Square, SoHo, Penn Station/Garment District, Times Square and East Midtown Markets. By year-end the total 2015 investment volume in Manhattan offices should approximate north of \$50 billion.

DEVELOPMENT

The renaissance on the Manhattan skyline is proceeding swiftly with approximately 9½ million square feet to be added between 2015 and 2018. In a market of 550 Million square feet though that's less than 2% of the entire market.

In the context of a total office inventory of 550 million square feet (Classes A, B, and C) and an employment growth rate that has been running above 2% annually, the new development is well matched to the market's expanding space requirements. While attention naturally focuses on new skyscrapers coming out of the ground, the inventory is constantly changing. Each quarter, it seems, we find some obsolete buildings being demolished or converted to other uses such as residential or hotel properties. Moreover, as the new buildings open, backfilling opportunities arise in still functional existing properties. This is the very definition of a dynamic office market.

MHP has bought and sold over \$12 billion worth of commercial real estate. MHP currently owns, leases and manages over 6 million square feet of first-class office space, and features a 45 person strong tenant rep practice specializing in office, retail and sales. As a full service firm, with in-house leasing, sales, management, and project/buildout capabilities, MHP has garnered a reputation in New York for quickly transforming properties into profitable investments. This 44 year track record has enabled MHP to establish long term partnerships with leading financial institutions, pension funds, and other commercial lenders. On a global scale, MHP provides its clients with access to opportunities in over 200 major markets as the New York affiliate of TCN Worldwide.

TOP LEASES OF THIRD QUARTER 2015

Tenant	Submarket	Building	Sq. Ft.
KCH Holdings	World Trade Center	500 Vesey Street	168,875
LinkedIn Corporation	Penn Plaza/Garment	Empire State Building	124,125
Ironshore Holdings US, Inc	Financial District	28 Liberty Street	101,958
Gucci America, Inc.	World Trade Center	195 Broadway	83,964
Moody's Investor Service	World Trade Center	One World Trade Center	76,001

TOTAL FOR TOP LEASES

554,923 SQ. FT.

Source: CoStar, Inc



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