**NEWS RELEASE**

# 2017 ENDS WITH NEAR RECORD LEASING VOLUME, TIGHTER AVAILABILITY AND POSITIVE ABSORPTION

***Hudson Yards/ Manhattan West tops Plaza District as most expensive submarket***
***Pricing in Midtown South Class A and B outpaces Midtown Class A and B***
***Strong 4Q 2017 Investment Sales Provides Positive Momentum into 2018***

New York, January 2, 2018 – At 37.05 MSF, Manhattan's leasing volume in 2017 was the second highest since 2003, slightly behind 2014's 37.38 MSF. Leasing activity during 2017 was up 10.9%, year-over-year, according to Colliers International.

Deals by FIRE (financial services, insurance and real estate) tenants led leasing activity in 2017 with a 34% industry share; TAMI (technology, advertising, media and information services) companies trailed the FIRE sector considerably at 23%.

Historically low unemployment and strong job creation contributed to tenant demand in 2017. At 4.0%, New York City's unemployment rate (as of November 2017) was down 0.7pp (percentage points), year-over-year. This is the second-lowest monthly unemployment rate in New York City on record.[1]

From November 2016 to November 2017, New York City added 68,100 new private sector jobs, a 1.8% yearly increase. New York City bettered annual employment growth nationally (at 1.7%) and for New York State (at 1.4%).[2]

Manhattan asking rents were down slightly as against 2016, the first yearly decrease since 2010. At an average of $72.74/ SF, asking rents dropped 0.7% ($0.50/ SF). Yet, pricing was higher in ten of Manhattan's 18 submarkets, including all five Downtown submarkets.

Manhattan's availability rate for the year was down by a marginal 0.3pp to 10.0%. Sublet availability was also stable at 1.8%.[3] Net absorption was positive 1.26 MSF. Annual absorption has been positive in Manhattan each year since 2010, with the exception of 2016.

Despite a nearly 30% decrease in sales activity, the average price of a Manhattan office building remained nearly unchanged since 2016 at $875.00/ SF. There were only six Midtown Class A buildings transacted in 2017, only four for a 100% interest.

Cap rates experienced a ~25 bps shift upwards, as investors began to price in interest rate movement for the first time in several years. With nearly $5 billion of deals under contract, it is anticipated to be an active first quarter of 2018.

**Joseph Harbert, President, Eastern Region for Colliers** believes that, "it is significant that the FIRE sector has returned to its place at the top of the rankings. We believe it's a good market for both tenants and owners, and forecast that 2018 will be another strong year."

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[1] Source: New York State Department of Labor. Unemployment data is not seasonally adjusted and no monthly unemployment data is available pre-1976.
[2] Source: New York State Department of Labor
[3] Note: The availability rate is based on actively marketed space scheduled for tenant build-out within 12 months

| MANHATTAN MARKET INDICATORS | | | |
|---|---|---|---|
| | YE 2016 | 3Q 2017 | **YE 2017** |
| **Availability Rate** | 10.3% | 9.8% | **10.0%** |
| **Average Asking Rent ($/SF/YR)** | $73.24 | $72.87 | **$72.74** |
| **Yearly Leasing Activity** | 33,403,588 | N/A | **37,046,063** |
| **Yearly Absorption** | (3,792,054) | N/A | **1,258,108** |

**MIDTOWN**

Midtown leasing was stronger in 2017 than any prior year since 2001. At 17.47 MSF, leasing was up 2.9% over 2016. The FIRE sector topped Midtown leasing in 2017 with a 38% industry share.

Midtown rents were lower, year-over-year, in all three building classes and in four of Midtown's five submarkets. Pricing decreased to an average of $80.86/ SF, down by 1.8% ($1.53/ SF) compared to 2016. This is Midtown's lowest asking rent average in two years.

Asking rents were dropped at buildings with large blocks of available space (100,000+ SF), including 9 West 57th Street, 31 West 52nd Street, 590 Madison Avenue, 399 Park Avenue, 733 Third Avenue, 390 Madison Avenue, 575 Fifth Avenue, 1325 Avenue of the Americas and 237 Park Avenue (sublet). Additionally, at both 330 West 42nd Street and 620 Eighth Avenue (direct and sublet), available space (250,000+ SF) was priced below market average. Above-average priced spaces were leased and removed from the market at 237 Park Avenue (471,000 SF to NY-Presbyterian) and 390 Madison Avenue (226,000 SF to Shiseido).

Midtown's annual availability rate held firm at 10.4%, down by only 0.3pp. Yearly absorption was positive 0.60 MSF. Midtown absorption has been positive for four of the last five years.

| MIDTOWN MARKET INDICATORS | | | |
|---|---|---|---|
| | YE 2016 | 3Q 2017 | **YE 2017** |
| **Availability Rate** | 10.7% | 10.3% | **10.4%** |
| **Average Asking Rent ($/SF/YR)** | $82.39 | $81.49 | **$80.86** |
| **Yearly Leasing Activity** | 16,972,356 | N/A | **17,469,143** |
| **Yearly Absorption** | (1,871,124) | N/A | **604,585** |

**MIDTOWN SOUTH**

2017 was Midtown South's second-most active year of leasing in the past decade, after 2014's 13.02 MSF. Yearly leasing volume in Midtown South at 12.79 MSF was 13.4% ahead of 2016. Deals by FIRE tenants controlled Midtown South leasing with a 30% industry share.

The asking rent average in Midtown South decreased by 1.4% ($0.95/ SF), year-over-year, to $66.86/ SF. At an average $94.38/ SF, Hudson Yards/ Manhattan West is now Manhattan's most expensive submarket, a title long-held by Midtown's Plaza District.  Pricing averages at Midtown South A and B class buildings ended 2017 higher than their A and B class counterparts in Midtown, by 1.5% ($1.30/ SF) and 8.7% ($5.21/ SF), respectively.

At 8.2%, Midtown South's availability rate was steady, falling just 0.2pp since the end of 2016.  Yearly absorption was flat at positive 0.17 MSF, a striking reversal from 2016's negative 2.50 MSF.

| MIDTOWN SOUTH MARKET INDICATORS | | | |
|---|---|---|---|
| | YE 2016 | 3Q 2017 | **YE 2017** |
| **Availability Rate** | 8.4% | 8.4% | **8.2%** |
| **Average Asking Rent ($/SF/YR)** | $67.81 | $66.09 | **$66.86** |
| **Yearly Leasing Activity** | 11,276,659 | N/A | **12,787,923** |
| **Yearly Absorption** | (2,501,607) | N/A | **172,192** |

**DOWNTOWN**

At 6.79 MSF, Downtown's yearly leasing was up by an impressive 31.7% over 2016.  2017 was Downtown's third most active year during the last decade, following 2014 (9.70 MSF) and 2013 (8.21 MSF).  Public sector tenants accounted for one-third of all Lower Manhattan leasing in 2017, but were nearly tied with the FIRE sector's 31% industry share.

Downtown was Manhattan's only market to close the year with a higher average asking rent, up 6.8% ($3.99/ SF) since 2016 to $63.00/ SF.  Above market quoted asking rents at 3WTC (1.80 MSF), 101 Greenwich Street (285,000 SF) and 28 Liberty Street (106,000 SF) contributed to the pricing gains. Moreover, nearly 300,000 SF of below-average priced space at 375 Pearl Street was leased and taken off the market.  Similarly, below-average priced space at 17 Battery Place (North and South buildings-267,000 SF) were removed from the available inventory during the year.

Downtown's annual availability rate decreased by 0.6pp to 11.7%.  Net absorption for 2017 was positive 0.48 MSF, Downtown's fourth consecutive year of positive absorption.

| DOWNTOWN MARKET INDICATORS | | | |
|---|---|---|---|
| | YE 2016 | 3Q 2017 | **YE 2017** |
| **Availability Rate** | 12.3% | 11.0% | **11.7%** |
| **Average Asking Rent ($/SF/YR)** | $59.01 | $63.19 | **$63.00** |
| **Yearly Leasing Activity** | 5,154,573 | N/A | **6,788,997** |
| **Yearly Absorption** | 580,677 | N/A | **481,331** |

**CAPITAL MARKETS**

There were 56 office sale transactions in 2017 totaling $16.2 billion.  Foreign capital accounted for more than 52% of all volume, but was responsible for only seven deals.  There continues to be no shortage of capital, foreign or domestic, seeking acquisitions.  Many of the larger, high profile deals in 2017 were transacted with institutional capital, evidence of a belief in the near term fundamental growth and long-term capital appreciation growth of Manhattan real estate. Active participants in the market in 2017 included Unizo Holdings, Investcorp, Savanna, Ivanhoe Cambridge, TH Real Estate and Brookfield.

The average price of a Manhattan office building was $875.00/ SF, nearly unchanged year-over-year. Midtown Class A values are down approximately 5.5% year-over-year, however there were only six Midtown Class A sales in 2017 and two of the sales were partial interest and one was a leasehold position.

Notable transactions during 4Q 2017 included 1440 Broadway, One WorldWide Plaza, 80 Broad Street, 19 West 44th Street and 685 Third Avenue. Looking ahead, there are nine pending deals totaling approximately $3 billion, including a partial interest stake in 1515 Broadway, 600 Lexington Avenue, 333 West 34th Street and 424 Fifth Avenue.

"Coming off the most active 24-month period ever in the Manhattan investment market, 2017 witnessed a significant drop in activity. Nevertheless, demand for office assets has grown to record levels as domestic institutions are now actively competing with off-shore capital sources for the limited offerings on the market. With the new tax plan in place, one of the biggest uncertainties has been removed from the market. An active 4Q, along with a strong pipeline, will provide strong momentum as we enter 2018", noted **Scott Latham, Vice Chairman, Colliers Capital Markets.**

**MANHATTAN INVESTMENT SALES**
***(Office sales over $10 million)***

| | **2017** | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Total Sales** | **$16.2 bil** | $22.1 bil | $24.1 bil | $17.4 bil | $25.5 bil |
| **Average Sale Price** | **$289 mil** | $246 mil | $239 mil | $191 mil | $311 mil |
| **Average Price/ SF** | **$875** | $898 | $867 | $698 | $700 |

Additional Manhattan market highlights from 2017 include:

- Times Square led leasing among Manhattan's 18 submarkets at 6.45 MSF, including the combined 21st Century Fox and News Corp renewal/expansion at 1211 Avenue of the Americas (1.21 MSF), HSBC's 548,000 SF renewal at 452 Fifth Avenue and the ANN Inc. renewal at 7 Times Square (352,000 SF).
- Manhattan's availability rate has remained within 1.0pp of 10.0% market equilibrium for the last 14 consecutive quarters.
- Hudson Yards/ Manhattan West had the largest year-over-year pp decrease in availability – by 8.5pp – to 4.7%. U.N. Plaza's availability rate increased by 10.8pp to 12.1%, the most significant pp increase in Manhattan.

**Top Five Lease Transactions of 2017**

| **Tenant** | **Address** | **Size (SF)** | **Transaction Type** |
|---|---|---|---|
| BlackRock | 50 Hudson Yards | 846,990 | New |
| 21st Century Fox | 1211 Avenue of the Americas | 767,885 | Renewal/Expansion |
| Ernst & Young | 1 Manhattan West | 604,168 | New |
| 1199SEIU | 498 Seventh Avenue | 577,541 | New |
| HSBC | 452 Fifth Avenue | 548,170 | Renewal |

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## About Colliers International Group

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