

## MANHATTAN: 2012 OUTLOOK

Manhattan's office market is likely to face a range of challenges in 2012. The economy has yet to settle into a steady recovery and is being tested by the upheaval in the global capital markets and the effects of the global debt crisis.

Despite earning record profits, the local financial services community continues to shed jobs. The NYC Comptroller recently estimated that the financial services industry is set to lose 10,000 jobs in New York City. Such losses cause a spill-over effect unlike any other sector. For every financial service job eliminated, a loss of two other jobs is expected to occur in various support services across the city. If half of the spill-over jobs lost are in the office sector, total office job loss would reach 20,000 employees. At 250 square feet per employee, Manhattan could see a decrease of 5.0 million square feet of absorption, which in turn could push the availability rate up by as much as one percentage point. It is too early to gauge the impact, but the threat is real.

In complete contrast, the technology and media industries are expected to continue to grow and expand in the city. The sector has added 20,000 jobs in the last 5 years and has seen major companies such as Google and Facebook establish regional centers in the city. The attraction is the city's access to a large talent pool, access to venture capital and the city's response to the ongoing industry growth with its announced intention

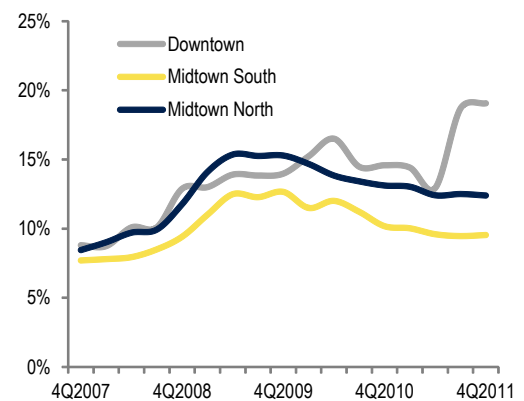
to create an engineering and applied sciences campus on Roosevelt Island. Many are hoping that the growth of these new industries will offset the forecasted losses in the financial services sector in 2012. The growth in tech companies, however, is concentrated in the Midtown South market, not in Midtown North or Downtown, where the financial service sector is the dominant tenant.

The trend of employees being allocated less space in which to conduct their jobs is maturing as companies experiment with work environments that differ from traditional office space. Technology enables this process and it continues to challenge the role of the office and the location in creating an effective workplace. In the short-term, recent major corporate relocations, almost without exception, have involved companies consolidating their workforce into smaller space (how much space they have taken has depended on their growth projections). The impact on the real estate markets is not encouraging. Many more jobs will be needed in the future to create historic levels of demand for office space.

The one bright spot for this trend is the role that new development will play in meeting future demand. New buildings with modern infrastructure are much better suited to creating the work environment that companies want, i.e. minimal columns, abundant natural light, efficient electrical and HVAC systems, etc. We expect there to be continuing interest

in all the new development projects currently underway including the World Trade Center, Astor Place, Hudson Yards and upper Eighth Avenue. A gap still exists between the rents that the average tech or media company is willing to pay and the rents needed to justify new development, but the leading companies in those sectors have shown that it can be bridged.

### MANHATTAN AVAILABILITY RATES



### Economic Snapshot

Indicator	Aug-11	Nov-11	Change
Employment (ths)	3,740.7	3,789.9	1.3%
Total Private	3,182.2	3,245.5	2.0%
Financial Activities	439.7	434.9	-1.1%
Business Services	602.5	606.1	0.6%
Information Services	154.1	160.6	4.2%
Unemployment %	8.7	8.9	0.2 pp
CPI	3.50	3.00	-0.5 pp

### Market Highlights

	Manhattan	Midtown North	Midtown South	Downtown
Availability Rate (%)	13.0% ↔	12.4% ↑	9.5% ↓	19.1% ↑
Leasing Activity (msf)	6.36 ↓	2.57 ↓	2.74 ↑	1.05 ↔
Absorption (msf)	-0.67 ↑	0.01 ↑	-0.30 ↓	-0.37 ↑
Asking Rent (\$/sf)	\$56.79 ↑	\$68.02 ↑	\$48.54 ↑	\$51.06 ↑

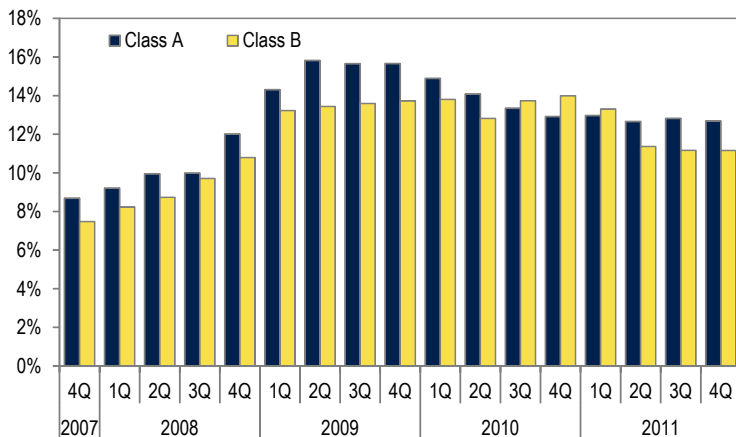
## LITTLE PROGRESS

The availability rate held steady, leasing activity was weak, rents rose slightly and absorption was negative.

### AVAILABILITY

- Overall availability rate remained unchanged (12.4%) from last quarter (12.5%), but was below a year ago (13.1%).
- The Class A availability rate (12.7%) dropped minimally from last quarter (12.8%) and was 0.2 percentage points (pp) lower than a year ago (12.9%). The Class B availability rate (11.2%) remained unchanged from last quarter's level (11.2%) but was 2.8 pp below a year ago rate (14.0%).
- Sublease space for Class A (3.0%) was unchanged, while Class B sublease space (1.6%) declined minimally for the quarter. Class A sublease was 0.2 pp below a year ago level (3.2%), while Class B sublease was 1.1 pp below a year ago (2.7%).
- The amount of available space has declined by 200,000 sf for the quarter and by 1.3 msf over the last twelve months. Eleven blocks of space of 100,000 sf or greater came to market during the quarter.

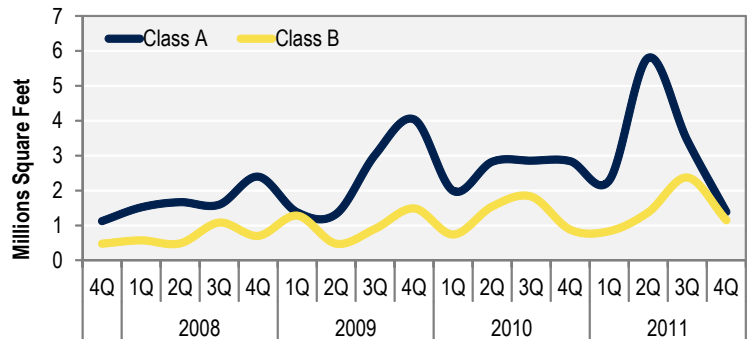
MIDTOWN NORTH AVAILABILITY RATES



### LEASING ACTIVITY

- At 2.57 msf, leasing activity decreased sharply for the quarter and was 31% lower than a year ago.
- While Class A activity (1.39 msf) was 52% below the previous quarter's pace, Class B activity (1.15 msf) posted a slower pace (-16.5%) than in the second quarter but was well above (+31.0%) the level from a year ago.
- Seven transactions of 100,000 sf or greater closed during the quarter.

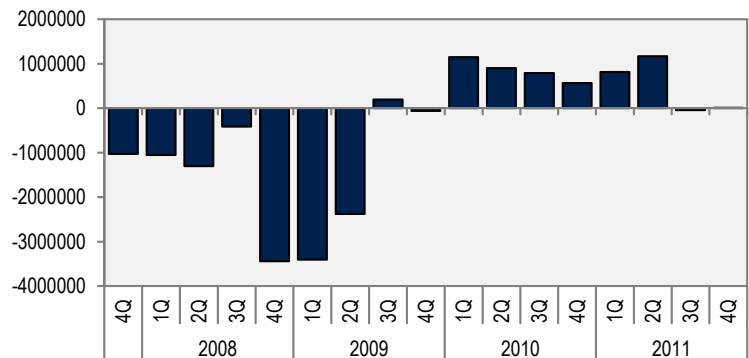
MIDTOWN NORTH LEASING ACTIVITY



### ABSORPTION

- Class A absorption was positive at 0.10 msf.
- Class B posted negligible negative absorption.

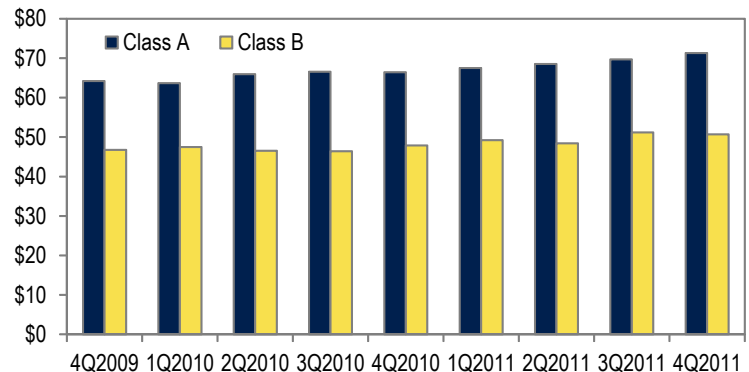
MIDTOWN NORTH ABSORPTION RATES



### RENTAL RATES

- Overall asking rent increased by 1.7% to \$68.02.
- Class A rent rose by 2.3% to \$71.30.
- Class B rent decreased (-0.9%) to \$50.71.

MIDTOWN NORTH RENTAL RATES



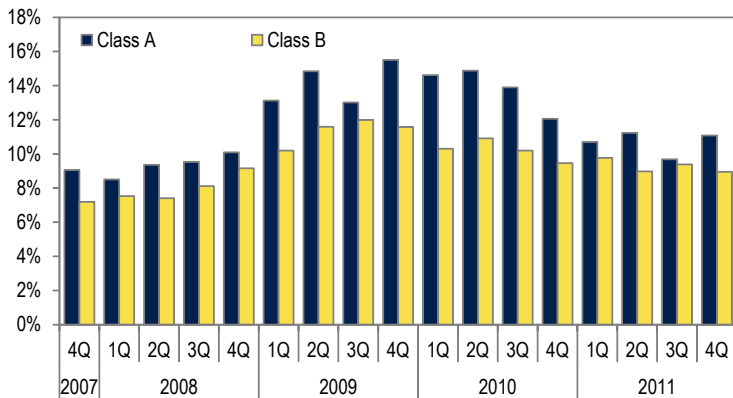
## STRONG ACTIVITY

The Midtown South submarket posted no change in its overall availability rate from last quarter. The pace of leasing activity rose from the recent past. The addition of several large blocks of space returned to the market, offsetting the rise in leasing activity. Overall rent rose, but absorption was negative.

### AVAILABILITY

- Overall availability rate held steady at 9.5% for the quarter, but was well below the level of a year ago (10.2%).
- The Class A availability rate (11.1%) inched upward from last quarter (9.7%), but was 1.0 pp below the rate of a year ago (12.1%).
- The Class B availability rate (9.0%) dropped from last quarter's level (9.4%) and has dropped by 0.5 pp compared to the level of a year ago (9.5%).
- Sublease space has all but evaporated in this submarket - especially Class A space. However, the level of both Class A and Class B sublease space remained relatively unchanged from the previous quarter's level.
- The amount of available space declined by 630,000 sf compared to a year ago, but increased by 70,000 sf from last quarter. Four blocks of space greater than 100,000 sf came to market during the quarter.

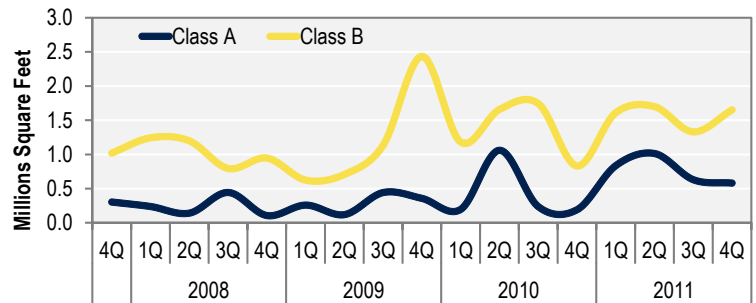
### MIDTOWN SOUTH AVAILABILITY RATES



### LEASING ACTIVITY

- Leasing activity rose modestly for the quarter, posting a pace that was 18% above the previous quarter and 65% ahead of a year ago.
- Class A (581,000 sf) tenant activity recorded a minimal decline for the quarter, but Class B posted a 24% increase over last quarter. Class A activity was greater than a year ago (190,000 sf), and Class B leasing was almost double that of a year ago (1.28 msf).
- Ten transactions of 50,000 sf or greater were posted for the quarter, nine of which were new leases and only one was a renewal.

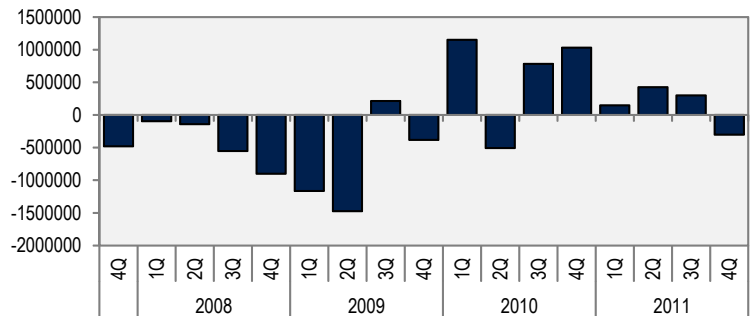
### MIDTOWN SOUTH LEASING ACTIVITY



### ABSORPTION

- Absorption was negative for the quarter at -302,150 sf.
- Class A posted a negative pace of absorption (-374,459 sf).
- Class B absorption was positive at 72,309 sf for the quarter.

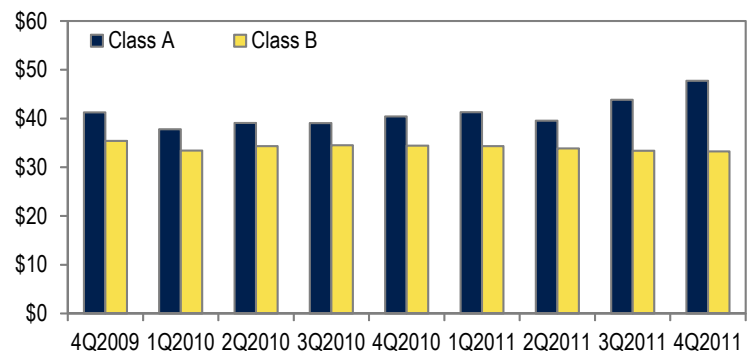
### MIDTOWN SOUTH ABSORPTION RATES



### RENTAL RATES

- Overall rent (\$48.54) rose 6.6% for the quarter and was 9.6% higher than a year ago.
- Class A rent (\$57.98) rose significantly (9.5%). Class B rent (\$44.34) also increased (3.6%) compared to last quarter.
- Class A rent was 15.0% higher year-over-year and Class B rent was 11.1% higher than a year ago.

### MIDTOWN SOUTH RENTAL RATES



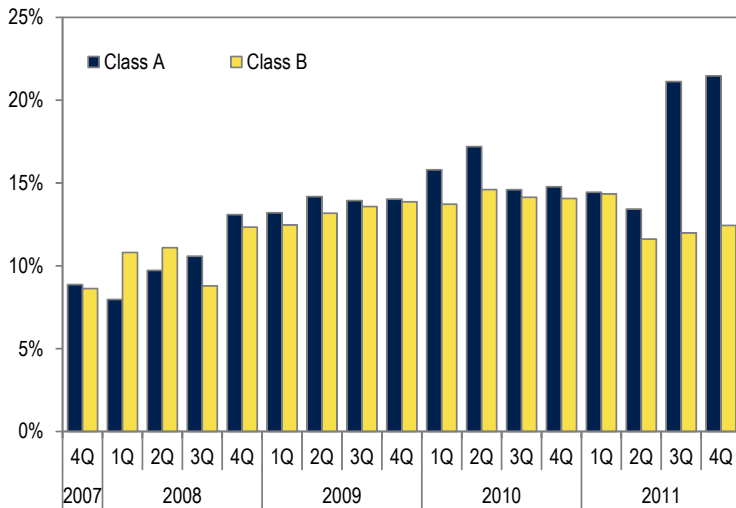
## MINIMAL ACTION

The Downtown submarket posted an increase in its overall availability rate, the pace of leasing activity increased from last quarter, absorption was negative and rents increased as higher priced space came to market.

### AVAILABILITY

- Overall availability rate moved upward to 19.1% from last quarter's level of 18.7% and was well above the level of a year ago (14.6%).
- The Class A availability rate (21.1%) rose by 0.4 pp quarter-on-quarter. The Class B availability rate (12.4%) increased from last quarter's level (12.0%) by 0.4 pp. The Class A availability rate has risen by 6.7 pp from a year ago (14.8%). The Class B availability rate has fallen by 1.7 pp from a year ago.
- The direct rate (17.5%) rose by 0.4 pp for the quarter, while the sublease availability rate (1.5%) remained unchanged. The direct rate has risen well above the year ago level (12.2%) and the sublease rate has dropped by 0.9 pp.
- Approximately 300,000 sf of space has been added to the market over the last three months. Six large blocks of space were added to the Downtown submarket during the quarter.

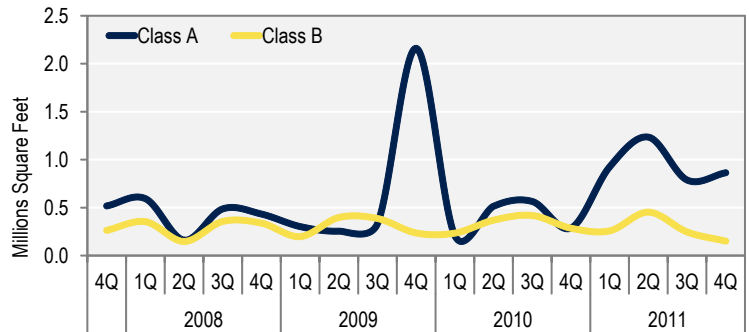
### DOWNTOWN AVAILABILITY RATES



### LEASING ACTIVITY

- At 2.18 msf, leasing activity was relatively strong compared to last quarter and well above the pace of a year ago (573,000 sf).
- At 2.0 msf, Class A transactions accounted for almost all of the quarter's activity. Class B posted 150,000 sf, or 7% of the quarter's activity.
- Seven transaction of 50,000 sf or greater closed during the quarter.

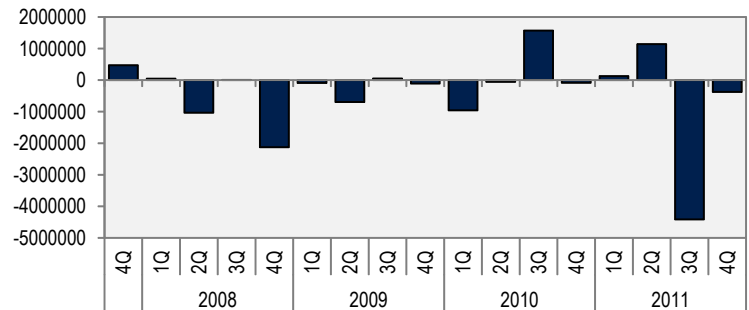
### DOWNTOWN LEASING ACTIVITY



### ABSORPTION

- Quarterly absorption was -372,000 sf.
- Class A absorption was negative for the quarter at -298,000 sf.
- Class B absorption was minimally negative at -74,000 sf.

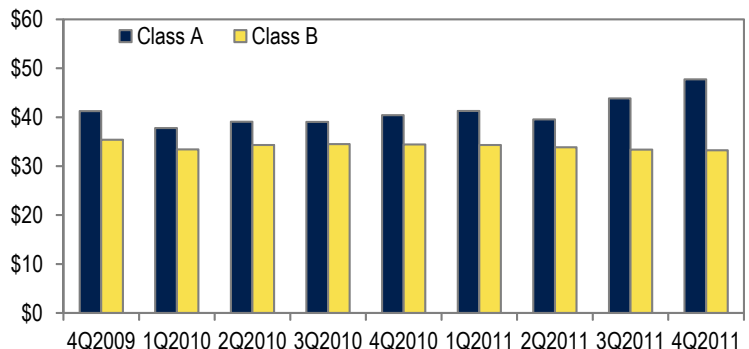
### DOWNTOWN ABSORPTION RATES



### RENTAL RATES

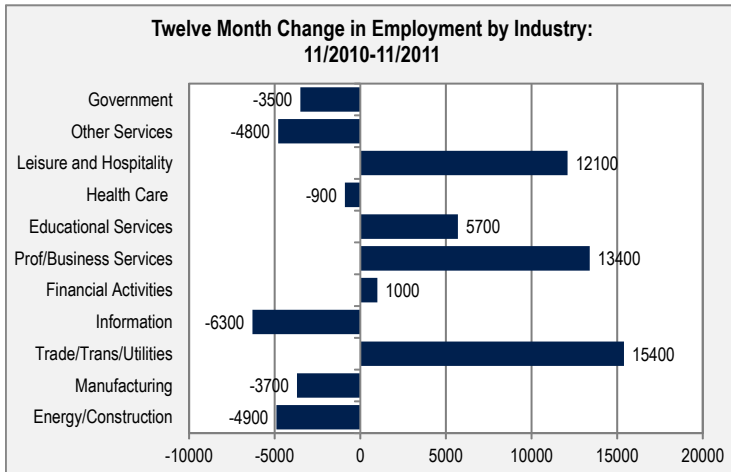
- Overall rental rates (\$44.78) rose moderately (7.3%) for the quarter.
- Class A rent increased by 8.9% to \$47.74. Class B rent (\$33.24) remained unchanged.
- Class A rents have risen above the year ago level, but Class B rent is below a year ago level.

### DOWNTOWN RENTAL RATES

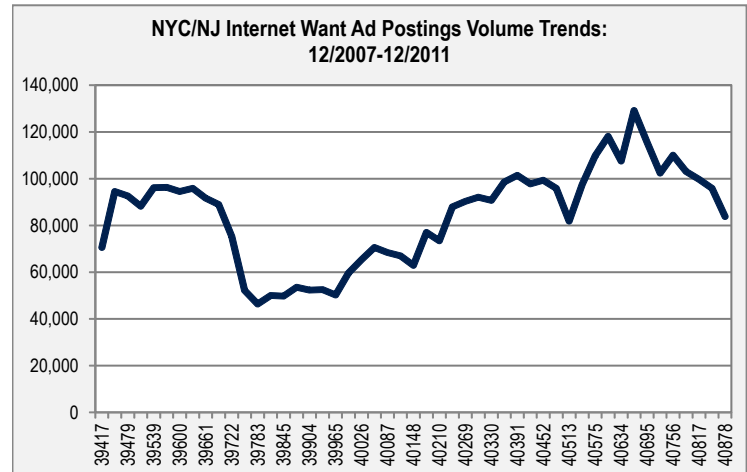


## EMPLOYMENT

New York City added 23,500 new jobs over the last twelve months. The Private Sector accounted for 27,000 new jobs and the Government Sector shed 3,500 jobs. As the graph below indicates, Professional/Business Services, Leisure/Hospitality and Educational Services accounted for almost all of the increase in employment. While Financial Activities increased modestly, Information continued to shed jobs over the period. As the Want Ad Demand graph indicates, employer demand for new hires has fallen off in the last several months.



Source: Bureau of Labor Statistics



Source: Wanted Analytics

### Select Major Transactions: 4Q 2011

#### Midtown North: 100,000 sf+ Transactions

Address	Sq Ft	Tenant	Industry
1301 Avenue of the Americas	350,000	Credit Agricole	Financial Services
101 Park Avenue	200,000	Morgan Lewis & Bockius	Legal Services
330 Madison Avenue	186,000	Guggenheim Partners	Financial Services
3 Columbus Cir	124,760	Young & Rubicam, Inc.	Media
1290 Avenue of the Americas	121,477	ColumbiaDoctors	Healthcare
555 W 57th St	112,941	Beth Israel Medical Center	Healthcare
919 Third Ave	110,198	Bloomingdale's	Retail

#### Midtown South: 50,000 sf+ Transactions

Address	Sq Ft	Tenant	Industry
330 Hudson St	271,998	Pearson plc	Media
One Penn Plaza	173,000	Parsons Brinckerhoff	Legal Services
452 Fifth Ave	105,803	Baker & McKenzie	Legal Services
2 Park Ave	85,233	Kate Spade LLC	Apparel
175 Varick St	71,640	WeWork	Real Estate
200 Fifth Ave	57,691	Tiffany & Co.	Jewelry
568-578 Broadway	55,307	Foursquare	Technology
112-120 W 34th St	52,274	Regus	Real Estate

#### Downtown: 50,000 sf+ Transactions

Address	Sq Ft	Tenant	Industry
4 World Financial Center	408,367	Bank of America	Financial Services
2 World Financial Center	318,665	Bank of America	Financial Services
100 Church St	280,000	New York City Law Department	Government
22 Cortland St	126,000	Municipal Credit Union	Financial Services
7 World Trade Center	125,811	MSCI, Inc.	Financial Services
40 Wall St	61,082	Weidinger Associates Inc	Business Services
100 Church St	57,817	Healthfirst, Inc.	Healthcare

# MARKET STATS

	Midtown North					Midtown South					Downtown				
	4Q 2010	3Q 2011	4Q 2011	Change From:		4Q 2010	3Q 2011	4Q 2011	Change From:		4Q 2010	3Q 2011	4Q 2011	Change From:	
				3Q 2010	2Q 2011				3Q 2010	2Q 2011				3Q 2010	2Q 2011
<b>Available Sq Ft (msf)</b>															
Class A	19.65	19.59	19.39	-1.3%	-1.0%	3.30	2.65	3.04	-7.9%	14.7%	8.37	11.97	12.17	45.4%	1.7%
Class B	4.97	3.96	3.96	-20.3%	0.0%	6.78	6.73	6.42	-5.3%	-4.6%	2.90	2.47	2.56	-11.7%	3.6%
Overall	24.62	23.55	23.35	-5.2%	-0.8%	10.08	9.38	9.45	-6.3%	0.7%	11.27	14.44	14.73	30.7%	2.0%
<b>Availability Rate</b>															
Class A	12.9%	12.8%	12.7%	-0.2	-0.1	12.1%	9.7%	11.1%	-1.0	1.4	14.8%	21.1%	21.5%	6.7	0.4
Class B	14.0%	11.2%	11.2%	-2.8	0.0	9.5%	9.4%	9.0%	-0.5	-0.4	14.1%	12.0%	12.4%	-1.7	0.4
Overall	13.1%	12.5%	12.4%	-0.7	-0.1	10.2%	9.5%	9.5%	-0.7	0.0	14.6%	18.7%	19.1%	4.5	0.4
<b>Leasing Activity (msf)</b>															
Class A	3.33	3.44	2.12	-36.3%	-38.4%	0.29	0.63	0.75	157.7%	19.0%	0.40	0.79	2.00	400.0%	153.2%
Class B	1.38	2.37	1.15	-16.7%	-51.5%	1.28	1.33	1.65	28.9%	24.1%	0.40	0.25	0.15	-62.6%	-40.0%
Overall	4.74	5.87	3.27	-31.0%	-44.3%	2.14	2.32	2.74	28.3%	18.1%	0.81	1.05	1.05	29.6%	0.0%
<b>Absorption (msf)</b>															
Class A	0.66	-0.17	0.10	-84.8%	-158.8%	0.51	-0.05	-0.37	-173.3%	687.2%	-0.10	-4.34	-0.30	206.1%	-93.1%
Class B	-0.09	0.13	-0.02	-78.0%	-115.4%	0.53	-0.20	0.07	-86.7%	-135.9%	0.02	-0.13	-0.08	-633.3%	-38.5%
Overall	0.57	-0.04	0.08	-85.8%	-300.0%	1.03	-0.24	-0.30	-129.1%	24.0%	-0.08	-4.47	-0.37	345.8%	-91.7%
<b>Asking Rent</b>															
Class A	\$66.44	\$69.71	\$71.30	7.3%	2.3%	\$53.63	\$52.92	\$57.98	8.1%	9.6%	\$40.43	\$43.85	\$47.74	18.1%	8.9%
Class B	\$47.86	\$51.16	\$50.71	6.0%	-0.9%	\$41.87	\$42.78	\$44.34	5.9%	3.6%	\$34.42	\$33.38	\$33.24	-3.4%	-0.4%
Overall	\$62.85	\$66.91	\$68.02	8.2%	1.7%	\$45.93	\$45.55	\$48.54	5.7%	6.6%	\$39.04	\$41.74	\$44.78	14.7%	7.3%

Change in availability rate is in percentage points

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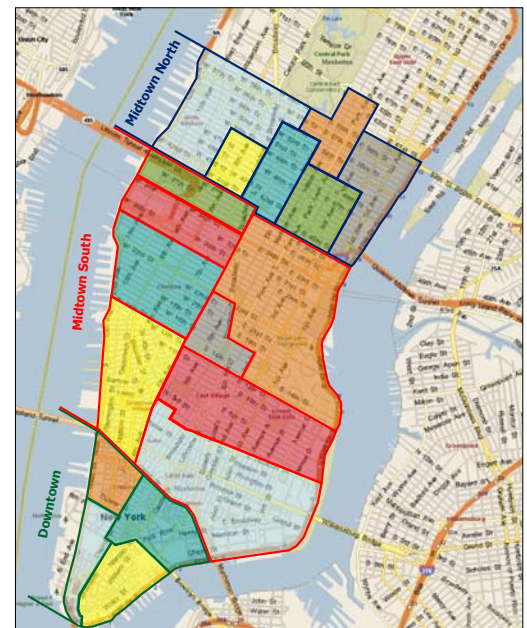


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Source for the Economic Snapshot chart is the Bureau of Labor Statistics

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For a more detailed New York Submarket Map and Definitions please visit our website.