Market Review & Outlook

Review: Minor Increase in Rents

Despite a flurry of leases at Hudson Yards, leasing activity was still choppy at best in Midtown during 2015. Effective rent dipped slightly. Even the Plaza District, which had been registering steady demand early in 2015, saw a dropoff in demand late in the year as turbulence in equity markets took its toll.

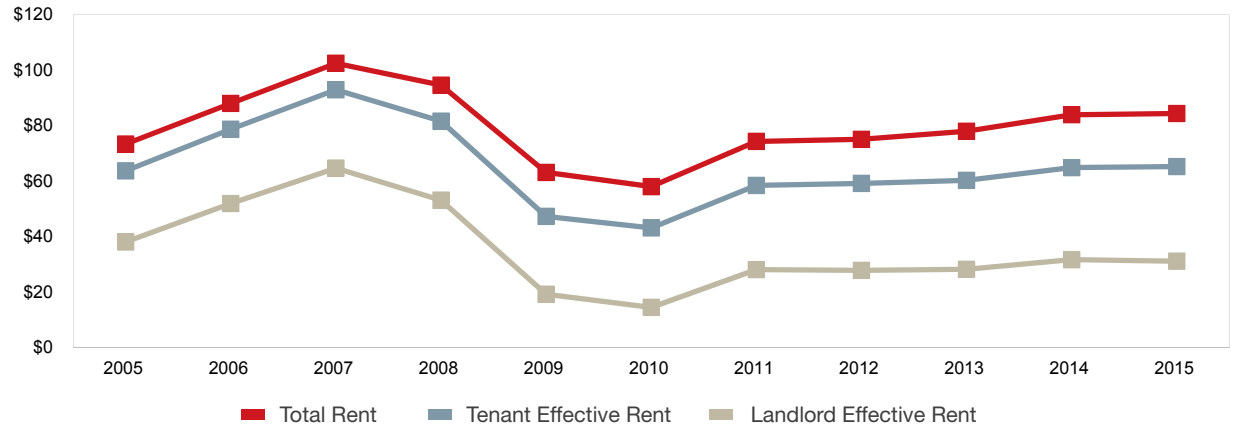
	2015	% Change
Net Rent	$49.81	-0.9
Operating Expenses	14.25	2.5
Real Estate Taxes	16.98	3.5
Tenant Electricity	3.30	-1.5
Total Rent	84.34	0.5
Amortized Concessions	-19.11	0.4
Tenant Effective Rent	**65.23**	**0.6**
Landlord Effective Rent	**31.12**	**-1.8**

Outlook: Flat or Declining Rents Ahead

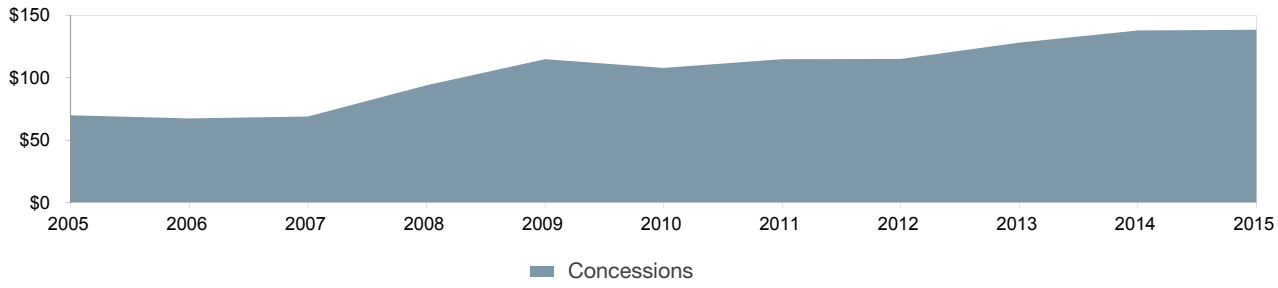
Given the abundance of quality Class A space options in Midtown's core, the Far Westside and Lower Manhattan most tenants have no cause to rush space-use decisions. Key industries – law firms and banks – show little sign of abandoning their pursuit of space efficiency. A decline in occupancy costs is likely in 2016.

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Rent Trends



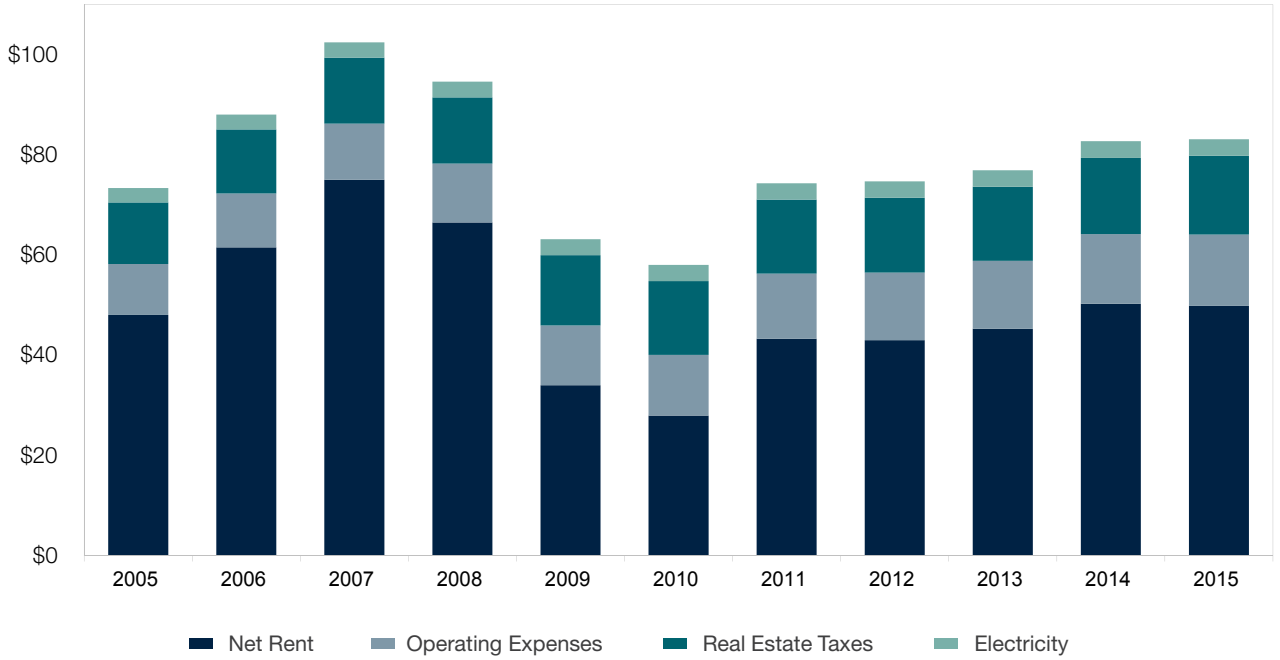
												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Total Rent	$73.34	$88.02	$102.45	$94.59	$63.13	$58.00	$74.30	$75.05	$77.95	$83.91	$84.34	0.5%	7.8%	1.4%
Tenant Effective Rent	$63.69	$78.70	$92.93	$81.62	$47.26	$43.10	$58.43	$59.16	$60.25	$64.87	$65.23	0.6%	8.6%	0.2%
Landlord Effective Rent	$38.04	$51.90	$64.65	$53.11	$19.21	$14.45	$28.10	$27.80	$28.20	$31.67	$31.12	-1.8%	16.6%	-2.0%



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Concessions	$70.00	$67.50	$69.00	$94.00	$115.00	$108.00	$115.00	$115.15	$128.28	$138.00	$138.50	0.4%	5.1%	7.1%
Concessions/Rent Ratio*	16.1%	13.2%	10.6%	9.3%	13.7%	25.1%	25.7%	21.2%	22.7%	23.0%	22.7%	-0.3		

* Equals amortized concessions as a percentage of total rent.

Total rent posted a slight increase, inching up by 0.5% from $83.91 to $84.34. Net rent ticked down by 0.9% from $50.25 to $49.81. Operating expenses (+2.5%) and real estate taxes (+3.5%) rose but tenant electric (-1.5%) fell slightly. Concessions were stable, inching up by 0.4% to a new record value of $138.50. Tenant effective rent inched 0.6% higher to $65.23. Landlord effective rent fell by 1.8% from $31.67 to $31.12.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$48.00	$61.50	$75.00	$66.47	$33.95	$27.91	$43.25	$42.95	$45.25	$50.25	$49.81	-0.9%	12.3%	0.4%
Operating Expenses	$10.17	$10.75	$11.20	$11.76	$11.95	$12.10	$13.00	$13.50	$13.55	$13.90	$14.25	2.5%	3.3%	3.4%
Real Estate Taxes	$12.30	$12.80	$13.20	$13.23	$14.04	$14.75	$14.80	$15.32	$15.85	$16.41	$16.98	3.5%	2.9%	3.3%
Electricity	$2.87	$2.97	$3.05	$3.13	$3.19	$3.24	$3.25	$3.28	$3.30	$3.35	$3.30	-1.5%	0.3%	1.4%
Total Rent	**$73.34**	**$88.02**	**$102.45**	**$94.59**	**$63.13**	**$58.00**	**$74.30**	**$75.05**	**$77.95**	**$83.91**	**$84.34**	**0.5%**	**7.8%**	**1.4%**

Lease Terms/Concessions

Review: Concessions Remain Near Records

Concessions rose slightly. Class A available space increased by more than 1.0 msf year-on-year, pushing landlords to keep concessions very elevated. Some of the first tenants to sign leases at Hudson Yards negotiated very favorable terms.

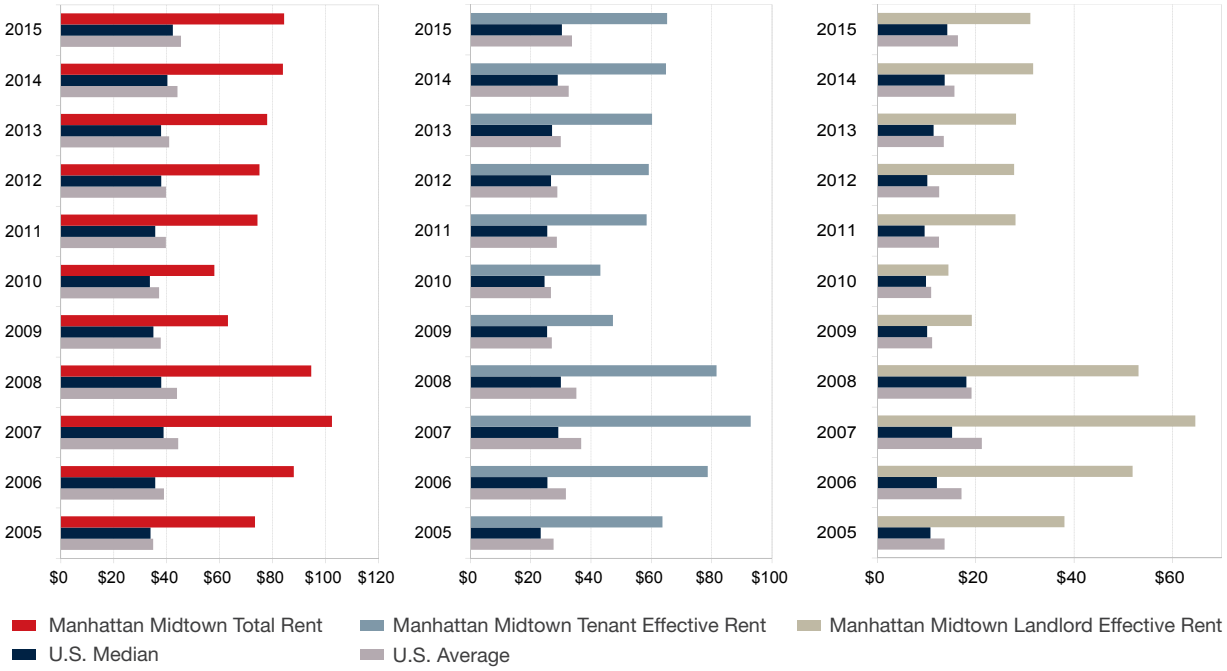
Leases Under 50,000 sf	
Average Term:	10 years
Free Rent:	9-10 months
Tenant Improvements:	$65.00-$70.00/sf
Other:	Various

Leases Over 50,000 sf	
Average Term:	10-15 years
Free Rent:	10-12 months
Tenant Improvements:	$70.00-$75.00/sf

Outlook: Terms to Remain Favorable

There is little reason to expect any pickup in leasing during 2016. Class A availability will push higher, pressuring landlords to budge even more on base rents while also keeping concessions very generous.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Manhattan (MT)	$73.34	$88.02	$102.45	$94.59	$63.13	$58.00	$74.30	$75.05	$77.95	$83.91	$84.34
U.S. Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S. Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

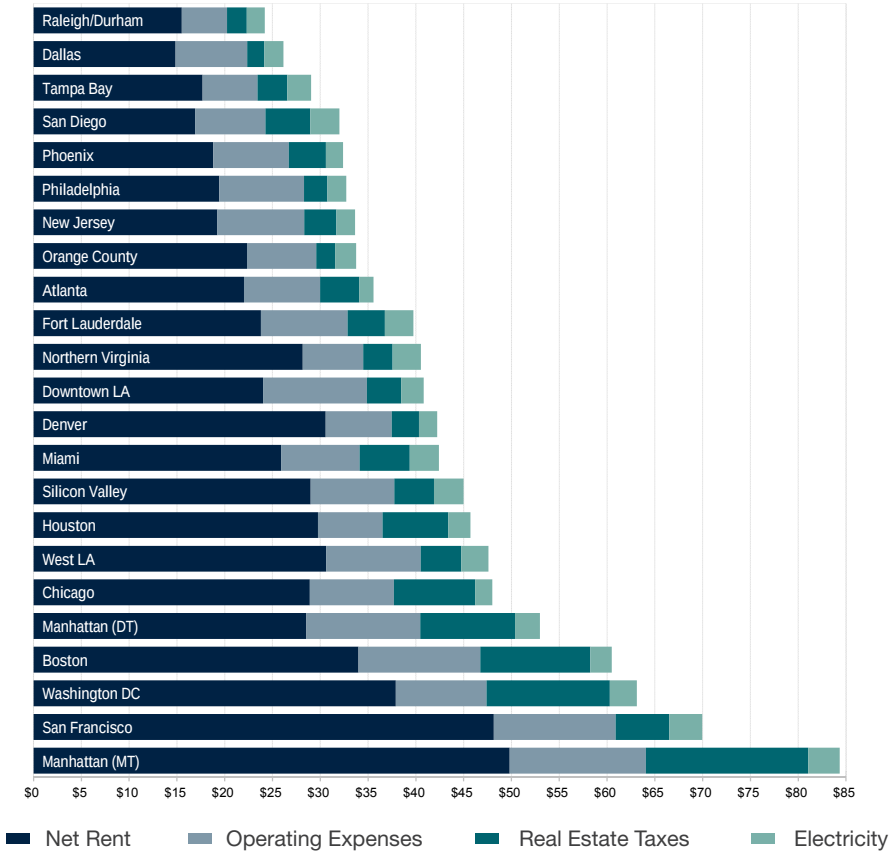
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Manhattan (MT)	$63.69	$78.70	$92.93	$81.62	$47.26	$43.10	$58.43	$59.16	$60.25	$64.87	$65.23
U.S. Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S. Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Manhattan (MT)	$38.04	$51.90	$64.65	$53.11	$19.21	$14.45	$28.10	$27.80	$28.20	$31.67	$31.12
U.S. Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S. Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. This report includes larger long-term direct leases signed in higher-caliber Class A buildings in Midtown Manhattan in 2015.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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