

# MARKET REPORT



## Another Upbeat Quarter for Manhattan

### LOCAL FACTORS OFFSET GLOBAL CONCERNS

Amid the growing chorus of anxiety about slowing global and national growth rates and the fear that a productive solution to the issue of raising the U.S. debt limit might not be reached in time, activity in the Manhattan office market remained robust in the second quarter of 2011.

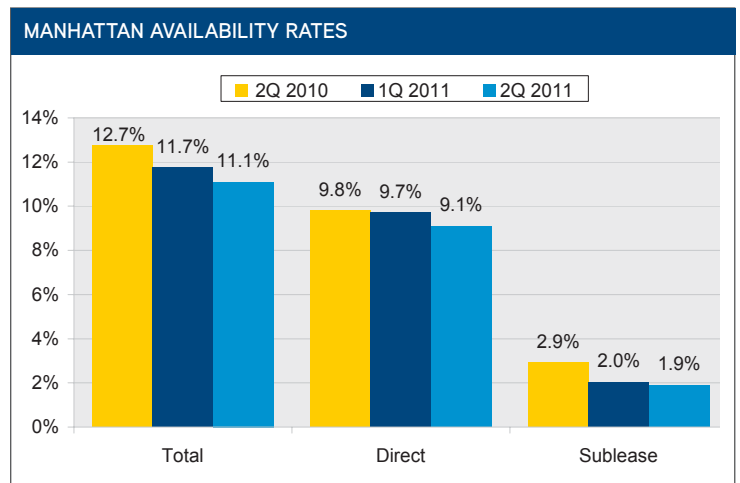
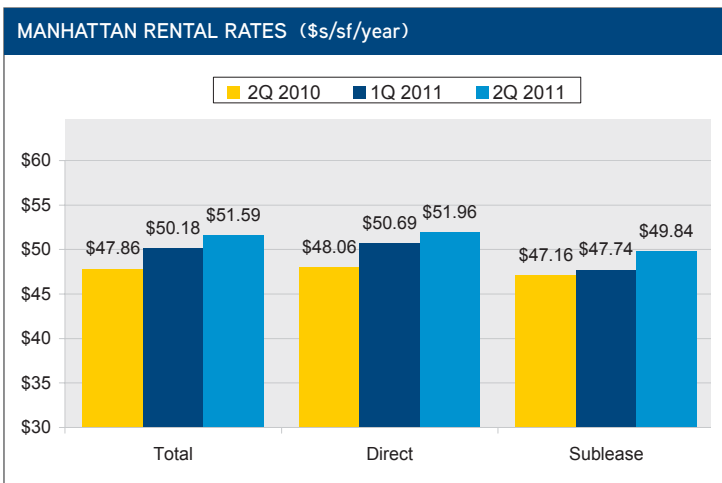
The overall availability rate for Manhattan fell to 11.1 percent by the end of the second quarter from 11.7 percent at the end of the first quarter. This sizable net absorption of space – 3.4 million square feet – was distributed across the three major Manhattan markets. This pervasive trend of positive absorption represents a change from what was seen in recent previous quarters when selected districts in the Midtown North and Midtown South markets dominated the net absorption

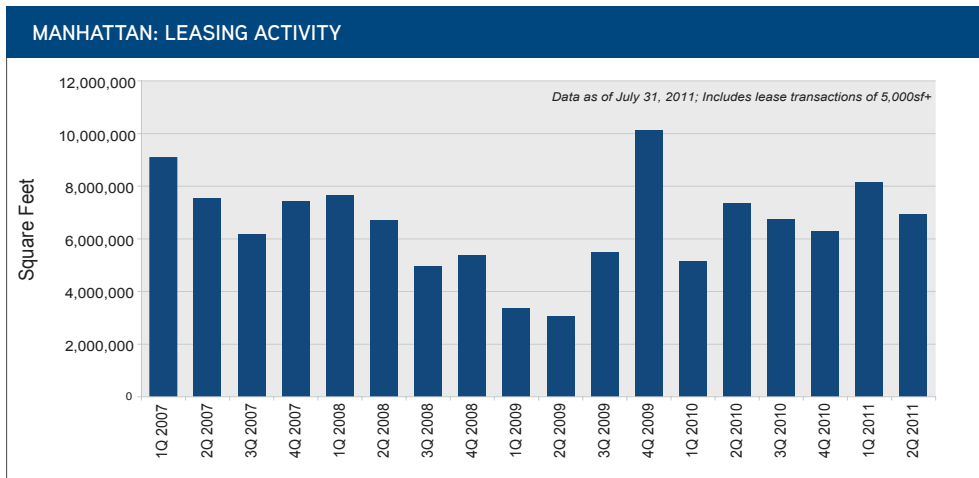
statistics. Also, the 3.4 million square feet of net absorption represents a major increase from the modest 0.3 million square feet in the first quarter of 2011; a number that seemed at odds with the active pace of closed leasing transactions and the strength in asking rents.

Rents also increased in the second quarter, with the overall Manhattan average asking rent up at an annual rate of 11.2 percent. The average increased in the both the Midtown North and Midtown South markets and slipped modestly in Downtown. At the district level, the pace of rent changes showed an efficient playing out of market forces. The districts with very large rent increases over the last few quarters tended to report substantially slower rent growth in the second quarter; while, the districts in the immediate vicinity of the ones with previous rapid rent growth reported an acceleration in asking rents.

New York City's pivotal role in world economy overwhelms concerns about U.S. federal budget deficit and weak economic growth.

Leasing activity was again robust in the second quarter, reaching 6.9 million square feet; but the velocity was down from the pace in the first quarter of 2011 when it reached a very strong 8.2 million square feet, which was one of the strongest in recent history. The pace during first half of the second quarter seemed to be a continuation of the first quarter's strong rate, but leasing velocity did slow in the latter half of the second quarter. The pattern of leasing in the second quarter could have been just the





result of the natural ebb and flow of the market. On the other hand, some market participants argued that the decline in the stock market and word that there are planned employment reductions in the financial sector caused this pause in leasing activity. With the stock market doing better as the quarter ended and if that trend continues, we would see a rebound in leasing by that logic.

Historically, leasing activity levels in the third quarter are slower as people attempt to enjoy the summer months. However, our current read on the market is that new and existing space searches continue. Even though asking rents are up over the last year, rent levels remain well below the previous peak levels, motivating tenants to look for space and make a deal.

**CITY'S ECONOMY REPORTS  
GOOD NUMBERS**

Without doubt New York City's economy continues to outperform the U.S. as a whole. The May 2011 unemployment rate – the latest available – for New York City was 8.6 percent, which was well below the national average of 9.1 percent for the same month. The average for the first five months of the year is 8.8 percent for New York City and 9.2 percent for the U.S. As noted in the past, during much of the 1970s, 1980s and 1990s New York City's unemployment rate was more than two percentage points above the national average.

**Restoration of business confidence and competitive rent levels sustain leasing activity.**

In addition, the data show that the city has recovered about 50 percent of the jobs lost in the last recession, and actual employment is above the 2007, 2009, and 2010 levels. For the U.S. as a whole, employment growth appears to have stalled, and the nation has recovered less than 20 percent of the jobs lost in 2008 and 2009.

Consumer spending in the city and in New York State as a whole has also staged a good recovery, rising by 7 percent over the last year. In 2010, the number of tourists to New York City reached a new high at 48.7 million; spending by these tourists was close to the 2008 peak. Indications are that the upward trend in tourism continues. Even more significant, personal income tax withholding and payments surged during the first half of 2011. Personal income tax net collections are up over 20 percent year over year.

Going forward though, some caution about the economy is warranted. Even though New York City can outperform the U.S. as a whole, it will be impacted negatively if the national economy slips

into negative territory or just continues to limp along.

**MIDTOWN NORTH STAYS ON TRACK**

Midtown North reported a respectable amount of net absorption, with 800,000 square feet removed from the market in the second quarter. This is a major improvement from the amount absorbed in the first quarter of 2011, when it was slightly negative at -100,000 square feet. The overall availability rate declined to 12 percent from 12.3 percent in the first quarter of 2011 and from 12.6 percent one year ago.

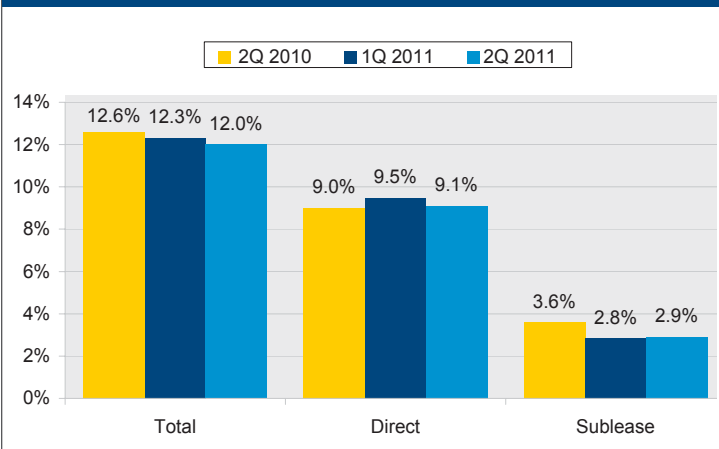
The more difficult to measure total vacancy rate (the percentage of actual empty/unoccupied space) reached 7 percent in the second quarter, which offers further confirmation that space alternatives are diminishing. However, it needs to be remembered that in 2008 the measured vacancy rate averaged 4.3 percent.

**Employment and income growth fueled by new industries and global demand for business and personal services found in New York City.**

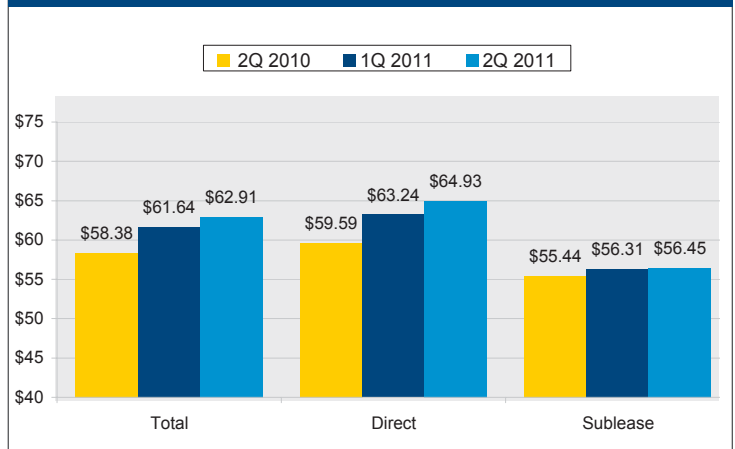
The Plaza district in the Midtown North market recorded a particularly impressive amount of net absorption. Its availability rate fell to 11.2 percent from 11.7 percent in the first quarter. This reduction in availability equates to the net absorption of 400,000 square feet of space. Even at 11.2 percent, though, there is still 9.3 million square feet of available space in this district.

A few buildings in the Plaza district that had been carrying substantial amounts of available space for several years completed major leases in the second quarter that

MIDTOWN NORTH AVAILABILITY RATE



MIDTOWN NORTH RENTAL RATE TRENDS (\$/sf/year)



removed space from the market. For example, 9 West 57th Street took 170,000 square feet off the market in the second quarter, as the result of the signing of leases with several major private equity companies. Another favorite with the high-end financial sector firms is the new and boutique-sized 510 Madison Avenue. Strong leasing in this building caused 77,000 square feet to be removed from the market. A deal signed by SAC Capital was a major contributor to the reduction in available space at 510 Madison. In addition, to the activity in those two building, Baker Hostetler took over 100,000 square feet at 630 Fifth Avenue.

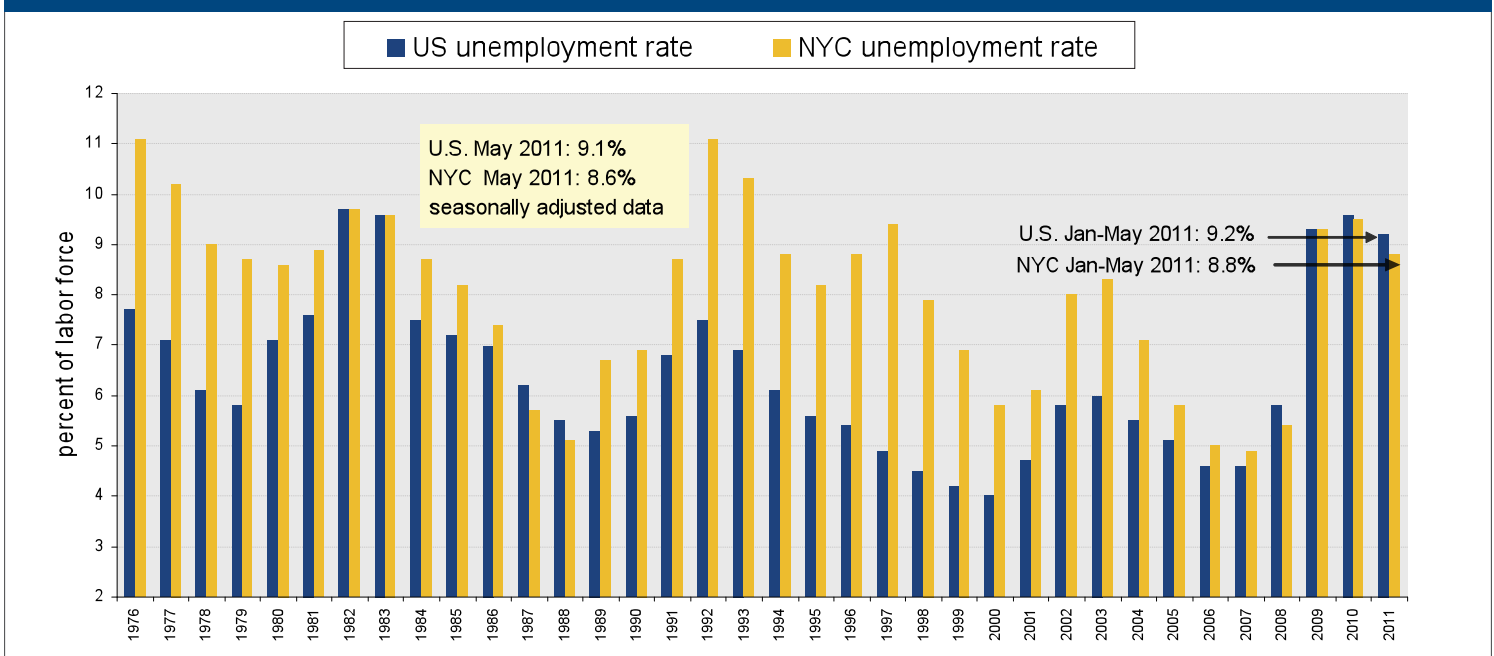
After four quarters where the availability rate remained stuck between 13.8 percent and 13.9 percent, the Grand Central availability rate declined to 13.3 percent by the end of the second quarter. In this district, a number of leases were signed at the massive 200 Park Avenue building, dropping almost 150,000 square feet from the markets. Additionally, the commitment by Wells Fargo at 150 East 42nd Street removed nearly 200,000 square feet. Also on 42nd Street, United Nations Women took nearly 100,000 square feet at 220 East 42nd. The United Nations has been very active in this market over the last year, as it takes space to accommodate the

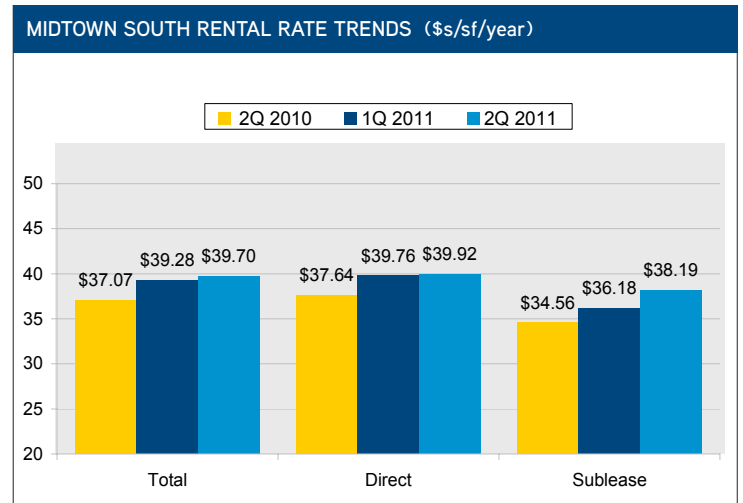
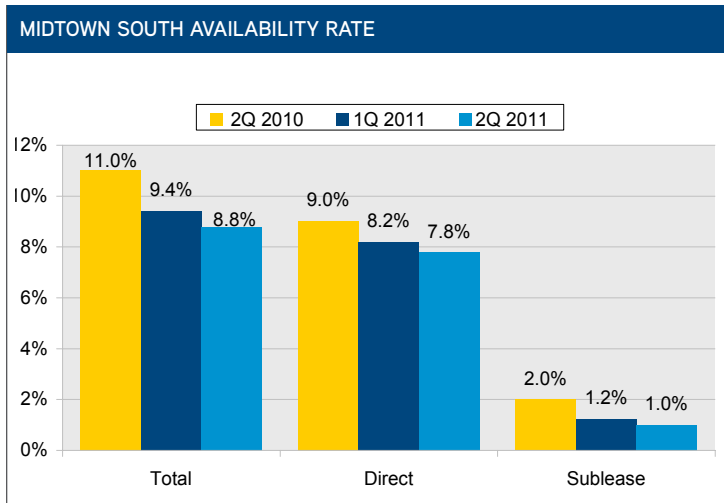
major restoration of its headquarters, particularly the Secretariat building, and its organic growth.

Market forces begin to drive rents in various Midtown North submarkets closer to each other.

Rents in the Midtown North market pushed higher again in the second quarter, up at an 8.2 percent annual rate. In the Plaza district, Class A rents moved up another

UNITED STATES AND NEW YORK CITY UNEMPLOYMENT RATES





quarter, but the rate of increase in the second quarter was substantially slower at a 3.7 percent annual rate than it was in the first quarter when it jumped at an annual rate of 27.3 percent. For the last year, the average asking rent on Class A space is up by 19.6 percent.

While the rate of rent increase slowed in the Plaza district, some of the other districts in the Midtown North market played catch-up with Plaza district rent levels. For example, the average asking Class A rent in the Grand Central district jumped at a 19.2 percent annual rate in the second quarter. Even after that increase, though, the average asking Class A rent in the Plaza district is still 30 percent higher than the average in the Grand Central district, and over the last year the average asking rent in the Grand Central district is up by only 3.8 percent.

In short, Midtown North property fundamentals did well in the second quarter and that was reflected in the pace of leasing activity during the first half of the year. In the first quarter of 2011, gross leasing activity in the Midtown North market was very robust, reaching 4.3 million square feet. However, there was no net absorption of space during that quarter. In the second quarter, the level of leasing activity was solid, but it was down by approximately 25 percent to 3.1 million square feet. As just noted, however, the overall supply/demand balance grew

## Unabated demand for space in Midtown South brings available space to frictional levels.

tighter with 800,000 square feet of net absorption. It is probably too early to form any major conclusions about these shifts over the last two quarters, but a tentative thought might be to look at the cumulative figures for the first two quarters to derive a better idea of this market's intrinsic strength.

### INTENSE DEMAND FOR SPACE IN MIDTOWN SOUTH

In the Midtown South market, net absorption was one million square feet; driving the availability rate down to 8.8 percent from 9.4 percent in the first quarter of 2011. Total availability peaked at 11.6 percent in late 2009. At the end of the second quarter, only 12.2 percent of the available space was in the sublet category, which is comparable to the level in 2008.

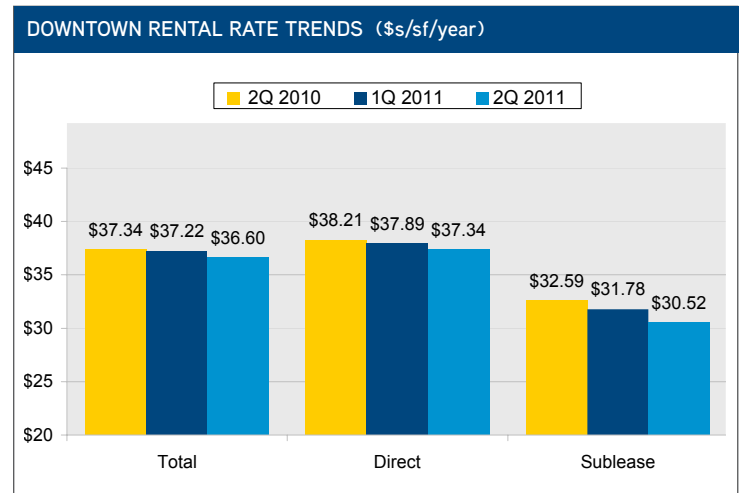
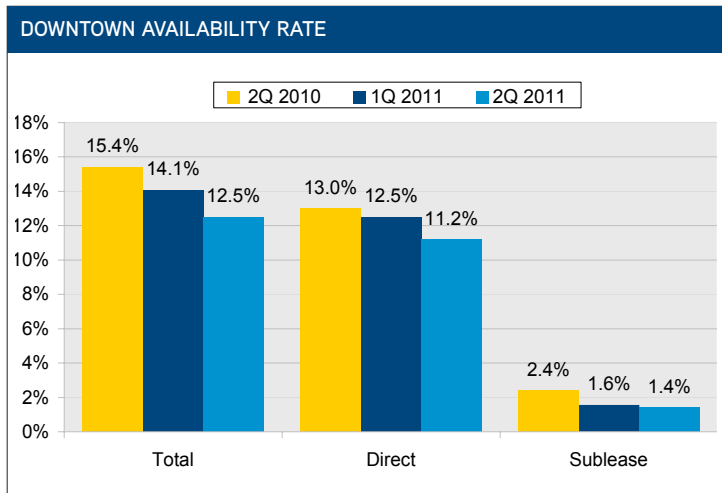
In a few of the Midtown South districts tenants are beginning to see only a frictional level of space availability; excess space has virtually disappeared from the market. In the Chelsea district, for example, the availability rate is down to 7.4 percent from 8.7 percent in the first quarter. Tommy Hilfinger U.S.A., for example, took nearly 50,000 square feet on 26th Street. For Gramercy Park the

availability fell to 5.4 percent from 6.8 percent, and available Class A space is virtually nonexistent.

The technology and media sectors continue to expand and demand more space. Even the fashion industry seems to have stabilized, feeding on the rapidly growing global market.

Two years ago the availability rate in the Hudson Square district was close to 20 percent. This area has seen a dramatic improvement, with the rate down to 12.2 percent at the end of the second quarter. This district has become a hub for publishing firms, and Penguin Young Reader Group took nearly 150,000 square feet of space at 345 Hudson Street in the second quarter. Another market with a dramatic improvement is the Penn Plaza district. It had an availability rate of 10.5 percent at the end of the second quarter, which again is down from over 15 percent only several years ago.

The overall vacancy rate in the Midtown South market fell to 4.8 percent in the second quarter, putting it at the 2008 level. With all these measures showing a tight supply/demand balance for space,



one would expect to see a very large jump in the average asking rent during the second quarter, which did not happen.

The average asking rent was up in the second quarter by a relatively modest annual rate of 4.3 percent. With the availability rate now so low in some of the Midtown South's districts, it may be that a selection bias is holding the average asking rent down. The prebuilts and the more sought after locations on the avenues are largely now leased and off the market. The average asking rent may reflect a set of space alternatives that usually lease for lower rents. As a result, the quarter to quarter changes in the average asking rent distort the actual trend in asking rents in specific buildings. Our own knowledge of this market indicates that there is still considerable upward pressure on rents in the competitive buildings in the Midtown South market.

### Downtown market continued to attract firms outside the financial sector.

Leasing activity in the second quarter was nearly as active as in the first quarter of 2011. The media companies (both old and new) were especially active.

Additionally fashion/personal care companies completed some major deals, including Coty at the Empire State Building.

### MAJOR CROSSCURRENTS IN THE DOWNTOWN MARKET

The most dramatic turn around in performance during the second quarter was in the Downtown market; where the availability rate went from 14.1 percent in the first quarter of 2011 to 12.5 percent in the second quarter. Over half of this decline was attributable to the Conde Nast transaction at One World Trade Center. There were, additionally, other large transactions; Wilmer Hale's deal at 7 World Trade Center, for example. Going forward, however, it is far from clear that the Downtown market can hold this improvement. Nomura Securities is moving to the Midtown North market at 825 Eighth Avenue, leaving the World Financial Center in Downtown. Also, it has become known that Merrill Lynch will renew for less than half of the space it now occupies in the World Financial Center.

It is not unusual for financial companies to move or adjust their occupancies in various locations. The question for the Downtown market is whether the drive by the various government regulators to

restrain the growth and range of activities of financial institutions, particularly the very largest companies, slows or even prevents these financial institutions from expanding. For the Downtown market, this is an important question because the financial sector still represents over one-quarter of its total occupancy.

Relative to the size of the market, the Downtown market was the most active during the second quarter. In addition to the two transactions mentioned above, several insurance companies signed for substantial blocks of space. The Clinton Foundation also agreed to take space in 77 Water Street.

The average asking rent declined from the level in the first quarter, and the fall was across nearly all property classes and districts. The amount of the decline was modest, about \$0.62/sf, and again it may be just statistical noise. However, the regulatory news about the financial institutions has turned more negative, and concerns about the strength of the economic recovery are growing, so it is possible that landlords in this section of the Manhattan property market that is so sensitive to the direction of the financial sector decided to become more aggressive in attracting and closing deals with tenants.

*Colliers International NY LLC is the New York - New Jersey - Connecticut hub of the world's third largest commercial real estate services organization. Our company is a leading provider of specialized realty services, including tenant advisory services, owner representation, corporate services, capital markets, retail, industrial, consulting, financial services, asset management and project management. With nearly 300 employees and offices in Manhattan, New Jersey and Connecticut, advised on more than \$4.5 billion in sale, lease and capital markets transactions over the last 12 months. The firm manages more than 16 million square feet of prime commercial property in the tri-state region.*

For more information, please visit the Colliers International web site at [www.colliers.com](http://www.colliers.com).

*Information contained herein has been obtained from sources that we deem reliable. We have no reason to doubt its accuracy, but we do not guarantee it. Some statements in this report are forward-looking statements or statements regarding future events, which involve risk and uncertainty, and there can be no assurance that the results described in such statements will be realized.*

UPDATE	SUBMARKET COMPARISONS	2Q 10	3Q 10	4Q 10	1Q 11	2Q 11	Change:	Last Year	Last Qtr
<b>MIDTOWN NORTH</b>									
Availability Rate (%)	Class A	13.4%	13.1%	12.9%	13.1%	12.9%	-0.5	-0.2	pp
	Class B	8.3%	8.4%	8.5%	7.7%	6.6%	-1.7	-1.1	pp
	Class C	9.5%	9.6%	10.0%	10.4%	10.4%	0.9	0.0	pp
Asking Rental Rate	Class A	\$59.86	\$60.22	\$61.23	\$63.35	\$64.40	7.6%	1.7%	
	Class B	\$43.18	\$43.43	\$43.50	\$43.29	\$43.16	-0.1%	-0.3%	
	Class C	\$33.77	\$33.32	\$33.18	\$31.69	\$32.86	-2.7%	-3.7%	
Leasing Activity (Qtr)	Total	3,807,092	4,136,354	4,567,407	4,282,712	3,117,523	-18.1%	-27.2%	
Absorption (Qtr)	Total	1,923,779	495,326	321,806	(99,766)	768,020	60.1%	nm	

<b>MIDTOWN SOUTH</b>									
Availability Rate (%)	Class A	14.5%	13.3%	11.4%	9.6%	8.9%	-5.6	-0.7	pp
	Class B	10.3%	9.4%	8.9%	9.4%	8.7%	-1.6	-0.7	pp
	Class C	10.0%	10.0%	9.4%	9.4%	9.0%	-1.0	-0.4	pp
Asking Rental Rate	Class A	\$43.84	\$44.28	\$44.93	\$47.33	\$47.90	9.3%	1.2%	
	Class B	\$36.29	\$37.93	\$38.31	\$39.70	\$40.16	10.7%	1.2%	
	Class C	\$31.13	\$30.09	\$30.48	\$31.35	\$31.84	2.3%	1.6%	
Leasing Activity (Qtr)	Total	2,054,717	1,572,304	1,172,601	2,202,691	1,896,159	-7.7%	-13.9%	
Absorption (Qtr)	Total	(20,879)	1,133,950	1,355,541	196,789	1,002,877	nm	nm	

<b>DOWNTOWN</b>									
Availability Rate (%)	Class A	17.0%	15.7%	15.7%	15.2%	13.0%	-4.0	-2.2	pp
	Class B	11.6%	10.9%	11.3%	11.2%	11.1%	-0.5	-0.1	pp
	Class C	11.4%	11.5%	8.1%	12.7%	12.8%	1.4	0.1	pp
Asking Rental Rate	Class A	\$38.57	\$38.00	\$37.97	\$38.48	\$37.67	-2.3%	-2.1%	
	Class B	\$32.88	\$32.98	\$31.80	\$33.74	\$33.19	0.9%	-1.6%	
	Class C	\$29.16	\$34.54	\$31.13	\$31.73	\$31.73	8.8%	0.0%	
Leasing Activity (Qtr)	Total	1,486,791	1,026,990	542,353	1,668,376	1,863,156	25.3%	11.7%	
Absorption (Qtr)	Total	(1,648,044)	1,240,372	3,592	165,171	1,663,894	nm	nm	

<b>MANHATTAN</b>									
Availability Rate (%)	Class A	14.4%	13.8%	13.5%	13.2%	12.5%	-1.9	-0.7	pp
	Class B	10.1%	9.5%	9.3%	9.4%	8.7%	-1.4	-0.7	pp
	Class C	10.1%	10.1%	9.3%	9.9%	9.4%	-0.7	-0.5	pp
Asking Rental Rate	Class A	\$52.56	\$52.28	\$53.61	\$55.65	\$57.05	8.5%	2.5%	
	Class B	\$36.40	\$37.82	\$37.62	\$38.75	\$38.89	6.8%	0.4%	
	Class C	\$31.38	\$30.89	\$30.82	\$31.76	\$32.53	3.7%	2.4%	
Leasing Activity (Qtr)	Total	7,348,600	6,735,648	6,282,361	8,153,779	6,944,421	-5.5%	-14.8%	
Absorption (Qtr)	Total	254,856	2,869,648	1,680,939	262,194	3,434,791	nm	nm	

pp: percentage points  
nm: not meaningful

**MARK A. JACCOM**  
Chief Executive Officer  
212.716.3737  
mark.jaccom@colliers.com

**PETER P. KOZEL, Ph.D.**  
Executive  
Managing Director /  
Chief Economist  
212.716.3853  
peter.kozel@colliers.com

**MIDTOWN MANHATTAN**  
380 Madison Avenue  
New York, NY 10017  
212.716.3500

136 Madison Avenue  
New York, NY 10016  
212.716.3500

**DOWNTOWN MANHATTAN**  
1 Liberty Plaza  
New York, NY 10006  
212.716.3500

**NORTHERN NEW JERSEY**  
119 Cherry Hill Road  
Parsippany, NJ 07054  
973.299.3000

**CENTRAL NEW JERSEY**  
100 Overlook Center  
Princeton, NJ 08540  
609.269.1111

**CONNECTICUT**  
1055 Washington Boulevard  
Stamford, CT 06901  
203.324.0800

**LONG ISLAND  
NASSAU COUNTY**  
1981 Marcus Avenue, E104  
Lake Success, NY 11042  
516.328.6500

**LONG ISLAND  
SUFFOLK COUNTY**  
200 Thirteenth Avenue  
Ronkonkoma, NY 11779  
631.389.2900

Information contained herein has been obtained from sources that we deem reliable. We have no reason to doubt its accuracy, but we do not guarantee it. Some statements in this report are forward-looking statements or statements regarding future events, which involve risk and uncertainty, and there can be no assurance that the results described in such statements will be realized.



Accelerating success.