RESEARCH
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NYC NewTrends

Newmark Knight Frank

NYC'S NEW GIANTS

Technology & Media Companies Are Emerging As New York City's Dominant End User

Tech Titans Fuel Growth

The tenants and industries that comprise New York City's economic engine have changed dramatically over the past several years, and those business expansions are having a significant impact on the commercial real estate market. Only two of the top 10 transactions in the first half of this year were from New York's largest tenant base: financial and legal services, in contrast to eight of 2007's top deals.

While financial and legal service companies occupy and lease the most amount of space each year, fintech, digital media, social media, cloud computing, e-commerce, healthtech and numerous other emerging technology and media subindustries are becoming more prevalent and creating a deeper pool of tenancy.

Since the first quarter of 2010, technology and media employment has increased 24.9%, the second-highest growth rate among the major office-using sectors in the city. Technology and media employment growth since the trough has far outpaced the FIRE sector, which has only grown 11%.

More companies are entering the New York market from other cities than in decades. Coming from San Francisco, Seattle, Sweden, Israel, Netherlands and beyond, New York's newest economic giants are leasing significant amounts of space and creating large new footprints for headquarters and sizable satellite offices. Much of this activity has occurred in the Midtown South market, and as a result, the area had the lowest vacancy in the country in 2016. These moves represent a very favorable shift to a younger, creative workforce, employed by innovative and progressive companies.

Bold Expansions Re-shape Tenant Profile

Companies like **Amazon, Salesforce, Spotify, Facebook and Google** have had offices in Manhattan for several years but have grown their occupancy exponentially and through bold expansions.

Select transformative transactions include:

Google	Purchase of 111 Eighth Avenue, as well as continued expansion throughout Chelsea Market and 85 Tenth and lease of a new building at Pier 57
Spotify	Lease and expansion of 475,000 SF at 4 World Trade Center
Facebook	265,000-square-foot relocation to the renovated 225 Park Avenue South
Salesforce	Triple-digit rent payment for 200,000 SF building and naming rights at 1095 Avenue of the Americas
Amazon	Lease for all of 7 West 34th Street along with an additional 350,000 SF at Manhattan West

These deals have helped to reshape the tenant profile of the market, pushing technology and media companies to the top of property owners' wish lists. Every landlord wants **Google, Facebook and Amazon**. The average yearly expansion of the three companies over the past three years has been 479,000 SF.

Overall leasing by technology and media companies in Manhattan has risen from 19% of total activity to 30% in 10 years. The healthcare industry is the only other industry that can rival that kind of growth, and there are five times as many technology companies in the city leasing space.

Technology and media companies have represented more than 46% of the relocation activity throughout Manhattan, as the need for lease term flexibility is paramount given the more unpredictable growth estimates associated with the technology industry. The New York office market has clearly benefited from the expansions. **Google** started absorbing space in the early 2000s with a 55,000 SF sublease. Today they occupy more than 2 million SF. **Facebook** signed a lease in 2007 at 551 Fifth Avenue totaling 5,300 square feet. Now they occupy more than 600,000 SF.

24.9%

increase in technology and media employment since 1Q10

30%

increase in technology and media leasing activity over last 10 years

46%

of technology and media transactions this year have been relocations

479,000 SF

average yearly expansion of **Google, Facebook** and **Amazon** over the past three years

The New Creative Core

While expanding technology and media giants have absorbed millions of square feet, the influx of new and growing tenants to the market from many industries has created additional demand. The demand has come from companies opening their first office in New York or expansions by way of introducing new consumer-centric concepts in the city. The blending of office and retail has been a successful formula for tenants wanting to launch new experiences.

The next wave of retail has arrived with destination-driven tenants like Samsung, Cadillac, Starbucks, Tesla, Restoration Hardware and Red Bull offering more to the community than another bank branch or drug store. Several office and retail hybrid concepts for e-commerce showrooms have helped lease up buildings in Midtown South during a time when traditional retail softness is in focus. Harry's, Warby Parker, Casper, Helix Sleep, Bonobos and Proper Cloth are examples of companies that are bucking current trends by engaging the consumer with experiential facing.

Established brand names that had very little presence in Manhattan have signed leases to roll out new lines of business. Technology and creative giants like Uber, Netflix, Tesla, Paypal and IBM Watson have leased modest amounts of space in the city compared with their emergence in everyday life but are growing their footprint quickly. As these types of companies continue to grow, the real estate market could be affected and provide a multiplying impact to what Google, Facebook and Amazon have done. Creative companies with young workforces have mostly selected buildings in Midtown South to occupy. The landlords in that market stand to benefit from continued growth in these sectors. It is hard to imagine that companies like UBER, Netflix and Paypal won't expand, given their presence in society.

Digital offshoots of financial service-related companies have added a new vertical leasing segment to the ever-growing TAMI universe. Digital divisions from commercial banks, consulting companies and credit cards are leasing large amounts of space, and by adding headcount, they are contributing to some of the rise in technology and media employment over the past several years. However, unlike other operations within a company, the expanded digital departments do not need to be near the headquarters. In fact, most parent companies are in Midtown while their digital segments are leasing space in Midtown South or on the West Side of Manhattan. JP Morgan Chase signed a lease earlier this year for its digital division to expand by 300,000 square feet on the Far West Side, several avenues west of their Park Avenue headquarters. Capital One, Visa, Deloitte and MasterCard are some of the digital offshoots that have recently signed a lease for significantly more space than the previous deal. A portion of Wells Fargo's reserved 500,000 square feet of space at 30 Hudson Yards will be for their financial technology group, and Silicon Valley Bank took a full floor at 387 Park Avenue South dedicated to their fintech division.

Financial technology is a subindustry that has grown rapidly. As technology has progressed through the financial services industry, numerous offshoots and subdivisions have emerged. Blockchain, crowdfunding and online lending platforms, to name a few, have expanded both their physical footprint and marketplace presence in the last few years. Most recent activity has been located in Midtown South, where SoFi, Paypal, Square, CommonBond and MasterCard have made commitments.

Advances in technology have reached all of the major industries that make up our economy, and the financial services industry is one of the latest to undergo disruption. The LendIt Conference, one of the largest fintech conferences in the country, began with 100 companies in 2014 and wrapped up their 2017 conference with more than 2,100 companies in attendance.

NEW AND EXPANDING ENTRANTS

Brand Names

SNAPCHAT 229 West 43rd Street 91,000 SF	PAYPAL 95 Morton Street 90,000 SF	ANHEUSER BUSCH 119 West 24th Street 75,000 SF	UBER 261-271 Eleventh Avenue 64,000 SF	SAMSUNG 837 Washington Street 56,000 SF
RED BULL 218 West 18 Street 42,000 SF	CADILLAC 330 Hudson Street 30,000 SF	PEPSI 285 Madison Avenue 14,000 SF	NETFLIX 245-249 West 17th Street 11,000 SF	TESLA 860 Washington Street 7,000 SF

E-commerce / Digital Designers

WARBY PARKER One SoHo Square 81,000 SF	HARRY'S 1 Hudson Square 61,000 SF	ONE KINGS LANE 315 Hudson Street 51,000 SF	ALIBABA GROUP 860 Washington Street 30,000 SF	GLOSSIER One SoHo Square 26,000 SF

Digital Off-Shoots

JP MORGAN CHASE 5 Manhattan West 350,000 SF	ESTEE LAUDER 28 West 23rd Street 166,000 SF	CAPITAL ONE 11 West 19th Street 130,000 SF	MASTERCARD 114 Fifth Avenue 75,000 SF*	DELOITTE DIGITAL 330 Hudson Street 37,000 SF

*225,000 SF Relocation Pending

Fintech

ONDECK 1400 Broadway 117,240 SF	ORCHARD PLATFORM 386 Park Avenue South 26,000 SF	BETTERMENT 61 West 23rd Street 15,750 SF	COMMONBOND 524 Broadway 15,000 SF	SOFI 860 Washington Street 13,000 SF

Technology & Media Companies Anchor New & Renovated Assets

In the 1990s and early 2000s, financial service-related companies anchored the majority of new large office buildings. Aiming to densify and consolidate operations, Morgan Stanley, Bear Stearns, Lehman Brothers, Deutsche Bank, Goldman Sachs, PriceWaterhouseCoopers, CIT, Bank of America and EY all occupied new, modern skyscrapers. While financial service industries remain an obvious target for property owners to kickstart development projects (TD Bank at One Vanderbilt Avenue, Wells Fargo at 30 Hudson Yards, Blackrock at 50 Hudson Yards and Bank of China at Seven Bryant Park), technology and media companies have recently anchored more developments.

Traditional media companies have been shifting south and west for years and are continuing to do so. New towers for Condé Nast, Hearst, Bloomberg LP, New York Times and Time Warner altered the city's landscape and helped move the focal point west. Time Warner's move to Columbus Circle was monumental, but the pull to Manhattan's Far West Side has the media conglomerate on the move again. They will be leaving behind several large blocks, including one Related-owned asset, for another, occupying 1.5 million square feet at 30 Hudson Yards.

Technology and media companies are anchoring five new skyscrapers Downtown and on the Far West Side (10 Hudson Yards, 30 Hudson Yards, One World Trade Center, Three World Trade Center and Four World Trade Center), matching financial services (30 Hudson Yards, 50 Hudson Yards, 55 Hudson Yards, 425 Park Avenue and One Vanderbilt Avenue).

Recent Midtown South developments have been less than half a million square feet, sleekly designed and leased quickly. Taking rents for new boutique product in Midtown South are well above $100 per square foot with little current vacancy. Property owners who invested in this area years ago have seen a 54% average rent bump in the past five years.

Several younger, expanding companies such as **Alibaba, Tesla** and **SoFi** helped to lease 860 Washington Street, a smaller development project in the Meatpacking District, a less traditional yet exclusive office district.

Nearby, **Samsung** launched a new retail experience beneath office space that houses their New York employees at 837 Washington Street.

Aetna found that competing to attract talented employees to Hartford was too great of a challenge and decided to relocate part of the company to Vornado's new development at 61 Ninth Avenue.

IBM relocated an entire division (**Watson**) to 51 Astor Place in NoHo, where there is more demand than quality product available.

PERCENT OF BUILDING OCCUPIED BY TECH & MEDIA

New Construction

	1 WORLD TRADE CENTER	3 WORLD TRADE CENTER	4 WORLD TRADE CENTER	10 HUDSON YARDS	30 HUDSON YARDS	51 ASTOR PLACE	837 WASHINGTON STREET	860 WASHINGTON STREET
Largest Tenants	Conde Nast, Moody's, High 5 Games, xAd, Mic	Group M	Spotify, SNY, MediaMath	Vayner Media, SAP America, Intersection, Sidewalk Labs	Time Warner	IBM Watson, 1stdibs	Samsung	SoFi, Alibaba, Tesla
	46.7%	27.6%	34.6%	20.1%	57.7%	53.1%	100.0%	67.4%

Redeveloped Assets

	225 PARK AVENUE SOUTH	1095 AVENUE OF THE AMERICAS	1271 AVENUE OF THE AMERICAS	7 WEST 34TH STREET	229 WEST 43RD STREET	245-249 WEST 17TH STREET	475 FIFTH AVENUE	5 MANHATTAN WEST
Largest Tenants	Facebook, Buzzfeed	Salesforce, Verizon	MLB, Advanced Media	Amazon	Yahoo, Snapchat, Engine, Pubmatic, 10Gen (MondoDB)	Twitter	Pintrest, Penske Media	JP Morgan Chase Digital, Amazon, R/GA Media Group
	82.0%	34.9%	20.4%	100.0%	41.6%	71.6%	31.9%	48.3%

Pockets of Strength

Several years into a recovery from a recession that was deep enough to eliminate major financial corporations, the answers of where the new demand will come from has presented itself. It lies mostly in technology and media, via new divisions and new concepts as well as expanding the presence of growing companies already here.

New York is the center of capital, and the creative spike that the city has experienced is partially attributable to the ability to tap into the strong intellectual pipeline that exists.

The pockets of strength created through the emergence of fintech, e-commerce, digital media and other evolving industries is a boost in tenancy that will help support the office market for years to come.

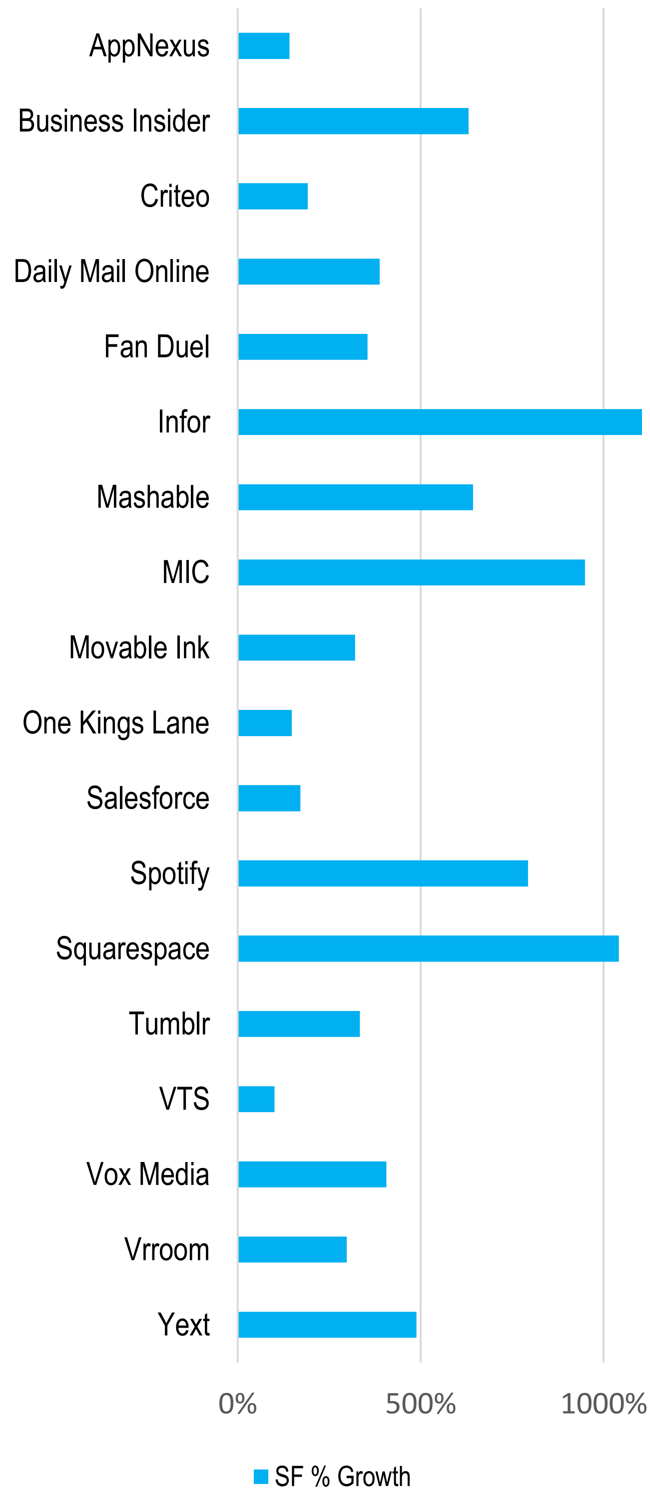
As a result of demand created by these evolving tenants, entire neighborhoods across different sections of the city have transformed. Just a few years ago, the most notable "hotspots" for these tenants were certain areas of Chelsea and Flatiron/Union Square. Now, tech and media tenants have spread out across Manhattan, with notable brand names crowding around specific vicinities. Activity in the Bryant Park area kicked off with the **Salesforce** lease, and has extended to include companies such as **Take Two Interactive and Movable Ink**. Further enticing demand from creative tenant types, the area itself has changed, with popular retail destinations such as SoulCycle and Whole Foods popping up.

The High Line, which officially opened in 2014, completely changed the Chelsea submarket dynamic. In keeping with the Manhattan-wide shift westward, new areas of Chelsea along the High Line now draw substantial attention from tenants. The southern portion of the High Line's reach has drawn **Google, Alibaba, SoFi, Tesla and Live Nation**. The northern portion extends into the Hudson Yards redevelopment, where **Amazon, Sidewalk Labs and Newsela** have relocated.

Financial services has historically been Lower Manhattan's predominant employer. However, The World Trade Center's redevelopment has attracted tenants from a variety of industries. The opening of the Fulton Transit Center has created new and improved accessibility to the area, especially from Midtown and Brooklyn. These improvements have drawn major tenants like **Spotify and GroupM**, whose employees now have easier access to their offices.

TECHNOLOGY AND MEDIA TENANT SIZE GROWTH

(Initial New York City Occupancy vs. Current Occupancy)



LARGEST MANHATTAN OFFICE TRANSACTIONS

2007	vs.	2017
Davis Polk & Wardell	1	21st Century Fox
Cravath Swaine & Moore	2	1199SEIU Funds
Clearly Gottlieb Steen & Hamilton	3	**HSBC**
Lehman Brothers	4	New York-Presbyterian Hospital
Viacom International	5	News Corp
Grey Global	6	**RBC Capital Markets**
Gibson Dunn & Crutcher	7	Spotify
Goodwin Proctor	8	Amazon
Bank of Tokyo	9	JP Morgan Chase Digital
Herrick Feinstein	10	NYC HRA

▪ **Legal and Financial Services Tenants**

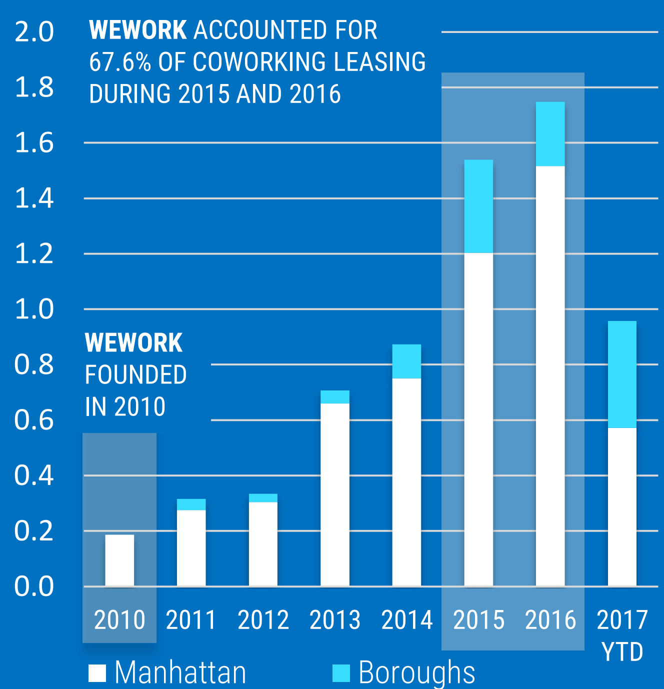
75% ↓

Decrease in largest transactions for legal and financial services companies

Tenant or Landlord?

The tenant that has expanded more than any other over the past few years is unlike any other mentioned in this report. They are not a technology company, not moving to a newly constructed building and not a trophy rent payer, but 31 different landlords have signed leases with WeWork in the past five years. They are in 17 of the 19 submarkets in Manhattan as well as Brooklyn and Queens. While it is appropriate to debate whether WeWork is a tenant or a landlord, one cannot ignore the sheer accumulation of office space–four million square feet in New York City. To illustrate how quickly times have changed, as a tenant WeWork ranks third in total square feet in the city. As a landlord, they would rank in the top 35. Deep funding from Softbank, retention of customers and continued focus on developing their enterprise platform will keep them relevant as long as expansion plans do not oversaturate demand.

LEASING BY COWORKING COMPANIES (MSF)



Key Takeaways

1 Technology and media companies are emerging as New York City's dominant end user. Companies like **Amazon, Salesforce, Spotify, Facebook, Twitter** and **Google** have reshaped the tenant profile of Manhattan.

2 Only two of the top 10 transactions in the first half of 2017 were from New York's largest tenant base, financial and legal services. There were eight during the same period in 2007.

3 Fintech, digital media, social media, cloud computing, e-commerce, healthtech and other emerging TAMI subindustries are becoming more prevalent in Manhattan and creating a deeper pool of tenancy that will help support the office market for years to come.

4 New, growing tenants coming to the market are creating additional demand; the blending of office and retail for new experiences (**Samsung, Cadillac, Starbucks, Netflix, Uber, Tesla**) has been successful. Office/retail hybrid concepts for e-commerce (**One Kings Lane and Warby Parker, Glossier and Alibaba Group**) have absorbed significant space in Midtown South.

5 The 1990s and 2000s saw financial service-related companies anchoring most new, large, modern office buildings developed to densify and consolidate operations. These types of firms remain prevalent for property owners looking to kickstart development projects, but tech and media tenants are now matching and anchoring new construction and renovated assets at a record pace.

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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

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