Q4 2020 | MANHATTAN

OFFICE MARKET

2020 Leasing Activity Sets New Low at 19.3 MSF

Rents decline as availability increases in each submarket

OVERVIEW

Manhattan office activity remains quiet, but signs of hope emerge

New York City's office market made little progress in the fourth quarter as the pandemic continued to disrupt New York's economy and the day-to-day routines of its office inhabitants.

Manhattan leasing fell to a new low in Q4 2020 with just over 3.0 MSF completed, bringing the year-end total to 19.3 MSF. This represents a decline of 52.8% from 2019, and the lowest annual total of the current economic cycle. As a comparison, leasing activity measured 24.6 MSF in 2008, the bottom of the prior recession.

Nevertheless, there were two large new leases executed in the fourth quarter: Apple took 116,500 SF in a sublease at 11 Penn Plaza and Noom subleased 113,000 SF at 5 Manhattan West, both in Midtown. There were also several large renewals and extensions signed this quarter, including the second largest lease of 2020, NYU Langone's 633,000 SF renewal in Midtown. The lease signings are an indicator that larger users are seeing value and leverage in today's market.

The subdued leasing activity was not enough to overcome the negative demand that pervaded Manhattan this quarter. The city posted almost 6.6 MSF of negative absorption in Q4 as tenants put excess square footage out for sublet, while spaces left empty by expiring leases were slow to fill.

More than 30 blocks exceeding 50,000 SF were added to the market in Q4. The largest blocks, exceeding 100,000 SF, were concentrated mostly in Midtown, with a handful Downtown. About 45% of the large block additions were comprised of sublet space.

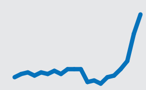
Manhattan's overall availability rate increased by 1.2 percentage points [pp] from Q3 to 14.8%, the highest of the cycle. Sublet availability rose 0.5 pp to 3.9% in Manhattan, and now comprises 26.5% of all available space. Availability also increased in all three of Manhattan's major submarkets. In Midtown South, the level rose to a cycle-high 15.5%. Midtown, at 14.6%, was at its highest availability level since 2010, while Downtown posted a level of 14.8%, on par with its late 2018 result.

Asking rents in Manhattan slid again, declining 3.4% from last quarter to $75.63 PSF. Rents likewise declined in all three major submarkets. We also saw a continuation of the trend toward increased tenant improvement allowances from landlords and additional free rent.

TRENDLINES

5-YEAR TREND | CURRENT QUARTER

AVAILABILITY



14.8%
Availability rate increased

ABSORPTION

-6.6 MILLION SF
Negative net absorption observed

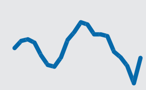
RENTAL RATES

$75.63 PSF
Asking rents decreased

CAP RATES

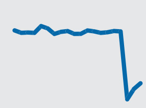
4.9%
Cap rate increased slightly

AVERAGE OFFICE SALE PRICE



$755 PSF
Sale value increased

JOB GROWTH



-562,700 JOBS
Jobs lost from a year ago

DEMAND

Manhattan posts 6.6 MSF of negative net absorption

Manhattan's net absorption was negative for a sixth straight quarter, finishing Q4 2020 at negative 6.6 MSF. While this was a small improvement over the third quarter, it was still one of the worst results of the economic cycle, as nearly every submarket recorded a negative tally. Looking at the full year, more than 16 MSF were given back, compared with 2.2 MSF returned in 2019.

Midtown closely mirrored the general market conditions in Q4 and accounted for almost two-thirds of the total negative demand. With the exception of the East Side, all of Midtown's smaller submarkets saw negative take-up, contributing to 4.0 MSF of negative demand in Midtown. The East Side's positive showing was due largely to a previously listed block at 825 Third Avenue that is now under renovation, and therefore off the market until 2023. Apple's 116,500 SF sublease at 11 Penn Plaza and Noom's 113,000 SF sublease at 5 Manhattan West were boosts for the Penn Plaza submarket, but that district still posted nearly 1.4 MSF of negative demand due to multiple large block additions. Large blocks also contributed to over a million SF of negative demand in Midtown's Grand Central submarket as well as in its Times Square submarket.

Demand was also negative in each of Midtown South's five submarkets, resulting in more than 1.8 MSF of negative take-up. Gramercy Park and Chelsea fared the worst, at negative 764,600 SF and negative 525,900 SF, respectively, after being hit with large block additions totaling 711,800 SF. Still, Gramercy Park was the location of the largest deal of the quarter, NYU Langone's 633,000 SF renewal at One Park Avenue, as well as the largest new lease in Midtown South, Regus's 36,300 SF expansion at 136 Madison Avenue.

Downtown, absorption was a negative 696,800 SF. The Financial District submarket had the lowest demand at negative 303,000 SF, due largely to a 205,700 SF sublet block addition at 55 Water Street. The World Trade Center submarket was close behind with negative 294,700 SF, which incorporated a 107,000 SF block added at 7 World Trade. New leases were scarce Downtown, but renewals included Justworks' 270,000 SF extension at 55 Water Street and Topps' 71,000 SF re-up at 1 Whitehall Street, both in the Financial District.

AVAILABILITY

Large blocks driving rise in availabilities

The 35 large blocks of space added in Q4 poured almost 3.2 MSF onto the already stressed Manhattan market. The additions further pressured availability, which closed 2020 at 14.8%, some 3.8 pp above the year-ago level. This is the highest of the current economic cycle, and above the low-14% range seen at the tail end of the last recession in 2009.

The increase in availability was felt throughout Manhattan, not only in Midtown, Midtown South and Downtown, but also in nearly every one of their 15 smaller submarkets.

In Midtown, the availability level increased to 14.6% as 21 large blocks were added. Ten of these were in the Penn Plaza submarket, including a sublet block of almost 200,000 SF from Macy's at 1440 Broadway. Even so, Penn Plaza's availability rate was the lowest among Midtown's six submarkets at 12.0%, owing in part to the two large new leases signed there.

Five of the large block additions were situated in Midtown's Grand Central submarket, where availability rose to 16.5%, further hampered by the upcoming departure of law firm McDermott Will & Emery at 340 Madison Avenue. Both Columbus Circle and the East Side submarkets posted availability above 16%, while the Plaza District and Times Square finished in the mid-14% range.

Midtown South received 11 large blocks, split chiefly between the Chelsea and Gramercy Park submarkets. Large block additions in Chelsea totaled 408,200, including 94,000 SF of direct space at 156 Fifth Avenue. Chelsea's availability rose to 13.8%, though still the lowest in Midtown South. In Gramercy Park, nearly 82,000 SF was added at the under-construction Zero Irving when a potential lease fell through, contributing to 303,600 SF in large block additions for this submarket. Gramercy Park's availability now stands at 15.7%. Soho continues to struggle with an availability level above 20%, owing largely to the under-construction Essex Crossing on Delancey Street, still reporting as 100% unleased.

The Downtown submarket received just three large block additions, all of which were sublet space. The largest was a 205,700

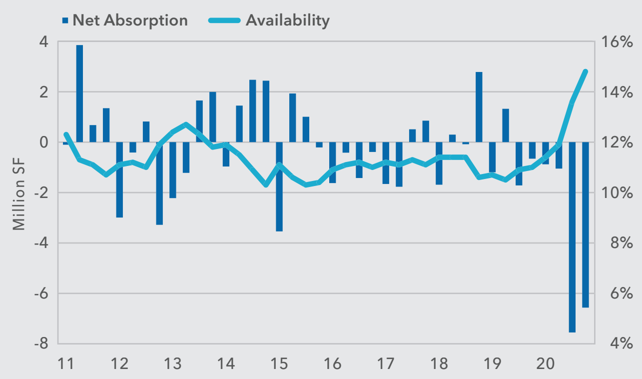
SF block at 55 Water Street, where S&P Global offered up three floors of its Financial District digs. Financial District availability is now 12.9%. City Hall/Tribeca retains Downtown's highest availability at 18.2%, while the World Trade Center submarket's availability reached 17.0%.

Sublet space made up about 45% of the large block additions across Manhattan, divided among 15 properties. Manhattan's sublet availability rate had already climbed to 3.4% in Q3 after spending several years in the 2% range, and has now reached 3.9%, representing 26.5% of Manhattan's total available space.

Currently, Midtown South has the highest sublet availability in Manhattan at 4.9%, almost double its year-ago level. Downtown is close behind with 4.7% sublet availability, 1.8 pp higher than a year ago, and Midtown is the lowest at 3.4%, just 0.5 pp above its Q4 2019 level.

We expect additional increases in sublet availability through 2021, as companies fine-tune their strategies amid the anticipation of recovery. More than 13.5 MSF of sublet space has been added to the Manhattan market since March 2020.

Net Absorption and Availability



SOURCE: Transwestern Research

Notable New Availabilities

ADDRESS	SUBMARKET	SF	SPACE TYPE
3 Times Square*	Times Square	896,100	Direct
200 Park Avenue*	Grand Central	224,900	Direct
55 Water Street	Downtown	205,697	Sublet
1440 Broadway	Midtown	197,227	Sublet
340 Madison Avenue	Midtown	190,911	Direct

* Within 12 months of tenant possession now impacting statistics; previously on market.

SUPPLY AND DEVELOPMENT

Construction is back on track

Over 2.7 MSF of new office product was delivered in Manhattan in 2020, most of it arriving in the months after the pandemic hit. Construction was one of the first industries allowed to resume after the initial shutdown and has progressed with few disruptions over the last six months. While there were no significant deliveries in the fourth quarter, there is currently 13.6 MSF of office product under construction in Manhattan.

More than half of the under-construction space is concentrated within three buildings in the Penn Plaza submarket: 3 Hudson Boulevard, 66 Hudson Boulevard, and 50 Hudson Yards. Due to deliver between 2022 and 2023, the three Class-A towers will encompass a total of 7.8 MSF. While the former is not yet leasing, the latter two properties are substantially leased at a respective 55% and 75% as of year-end 2020.

Deliveries slated for 2021 include 390 Ninth Avenue, 425 Park Avenue, and 1245 Broadway in Midtown, and 124 E 14th Street, 145 & 155 Delancey Street, 141 E Houston Street, 799 Broadway, 205 W 28th Street, and 322-326 Seventh Avenue, all in Midtown South. Roughly 1.4 MSF of space is currently available in these impending deliveries.

RENTAL RATES

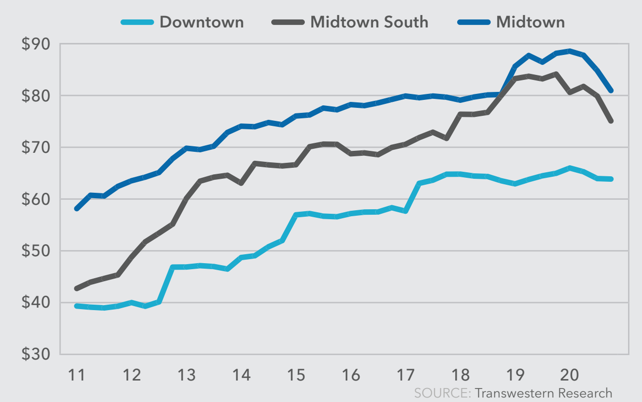
Rents slide to two-year low

Manhattan average rents declined for a third straight quarter to $75.63 PSF. While this is the lowest level seen in the last two years, it is only 7.2% below the early 2020 peak and 6.8% below the year-ago level.

Downtown's asking rents experienced the least reduction, falling only 0.1% from their Q3 result. Rents are now at $63.85 PSF, 1.7% below their Q4 2019 level. In Midtown, rents fell 4.5% from last quarter to $80.94 PSF, remaining above the $80 PSF mark for a tenth straight quarter, though down 8.1% year-over-year. Midtown South rents posted the steepest decline, discounted 6.0% from last quarter to $75.07 PSF, some 10.7% below their year-ago peak.

Lower-priced sublet space was a major factor in driving down asking prices across Manhattan's submarkets. Leases are also seeing heavy concessions and sometimes shorter lease terms, as landlords and tenants navigate the pandemic's lasting effects. We expect this trend to play out through 2021 as the market comes back to life in the face of a changed landscape.

Rental Rates by Submarket



SOURCE: Transwestern Research

Notable Lease Transactions

COMPANY	ADDRESS	SUBMARKET	SQUARE FEET	LEASE TYPE
NYU Langone	One Park Avenue	Midtown South	633,000	Renewal
Justworks	55 Water Street	Downtown	270,000	Extension
Centric Brands	350 Fifth Avenue	Midtown	212,200	Renewal
Travelers	485 Lexington Avenue	Midtown	133,500	Renewal
Apple	11 Penn Plaza	Midtown	116,500	New Sublease

SOURCE: Transwestern Research

INVESTMENT SALES

Sales volume falls 52% year-over-year

Transaction volume for office deals improved to $1.2 billion in Q4 after reaching just $1 billion in the prior quarter. Despite the uptick, four-quarter rolling sales volume for full-year 2020 was a tepid $6.5 billion, the lowest in ten years. Volume was less than half of the 2019 level, pulled down by the three weakest quarters of the last decade. Cap rates increased 0.3 pp from last quarter to 4.9%, remaining in the high 4% range where they have dwelled since mid-2019.

The largest office transaction recorded this quarter was the sale of the Master Printers Building at 410 Tenth Avenue to the 601W Companies. The 547,000 SF property, currently undergoing a major redevelopment, sold for $953M in December, representing almost 80% of the quarter's total sales. Pricing was roughly $1,742 PSF. Other large office trades included ELO Organization's purchase of 15 West 47th Street for $110M and SL Green's purchase of 590 Fifth Avenue for $84.5M. All three of these large sales were transacted in Midtown.

The average office sale price was $755 PSF across the Manhattan market, ahead of the last two quarters' results. With only a handful of transactions, however, this improvement was driven largely by the high-priced 410 Tenth Avenue deal. We continue to await an uptick in transaction volume, which would portend more authentic pricing trends.

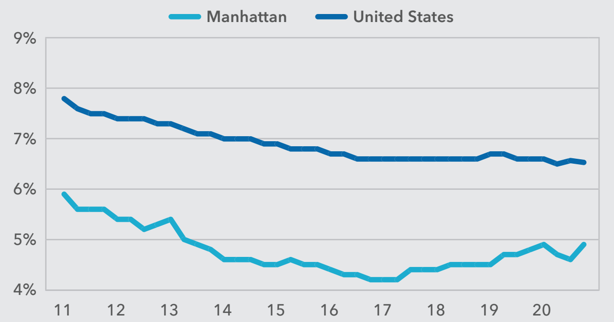
ECONOMY

Unemployment rate still elevated, but sharply improved

The US unemployment rate has been declining steadily since reaching a 14.8% peak in April 2020. December unemployment measured 6.7%, a decline of 8.1 pp from the high, but still almost double the 3.5% bottom attained just prior to the pandemic.

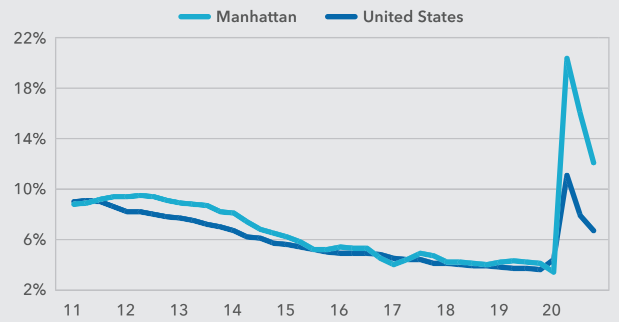
New York City was enjoying record-high employment levels prior to the pandemic, and unemployment measured a very tight 3.4%. The devastating initial job losses sent unemployment skyrocketing to 20.3% in April, but then subsided to 12.1% as of November, the latest data available. While the city lost 559,300 jobs year-over-year in November, representing an 11.9% decline in employment, more than 372,000 jobs have been restored or added since April, a hopeful sign for the economy. Now that vaccinations have begun, more industries are anticipated to reopen fully, allowing employment to see further improvement through 2021.

Cap Rates



SOURCE: Real Capital Analytics

Unemployment Rate



SOURCE: Bureau of Labor Statistics

OUTLOOK

Market looks beyond COVID-19 to evolving opportunities and growth

While 2020 was bad, it did not destroy New York's office market as many dire predictions suggested. Landlords and tenants are still finding their way through the restrictions, but leases are getting signed, rents have slid only minimally from their 2019 levels, and an increase in transit ridership from Q3 indicates more staffers are ready and willing to return to their desks, at least part of the time.

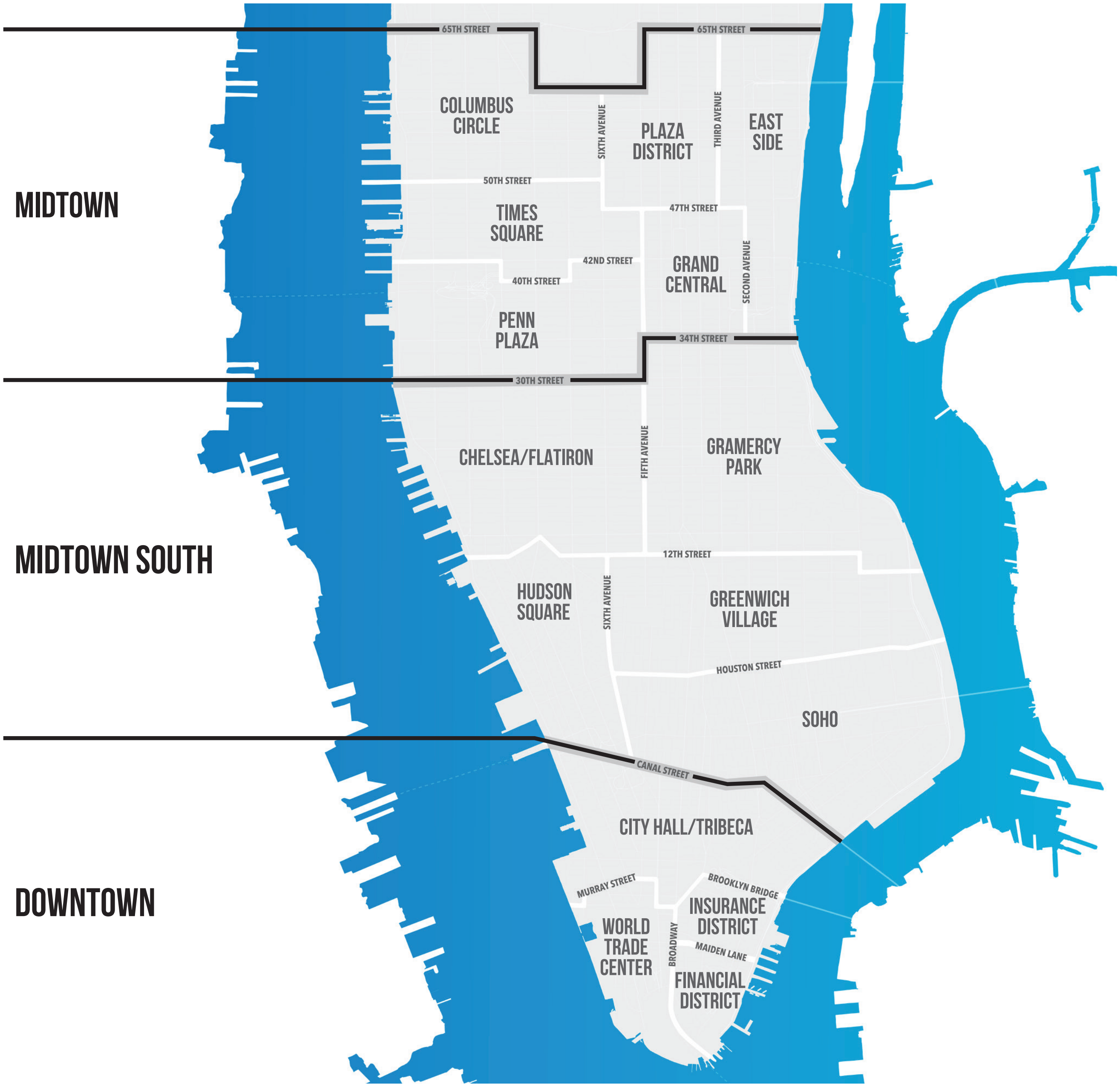
The ratio of sublet to direct space availability has increased in each of the last three quarters, and sublet space now encompasses 26.5% of all available space in Manhattan. We predict additional growth in sublet availability in the near term, similar to the elevation that occurred between 2008 and 2010, as tenants keep a close watch on their CRE profiles and space requirements.

Rents throughout Manhattan have fallen over the last nine months, reflecting the sluggish market conditions. With several major projects aiming for completion in the next 12-18 months, and notable retail and hotel spaces such as Neiman Marcus' Hudson Yards location and Midtown's Bryant Park Hotel aiming for conversion to office space, Manhattan's available inventory is about to increase significantly, leaving potential tenants in a strong position to negotiate. This will put additional downward pressure on rental rates and drive an increase in concession packages in the near term.

All things considered, we expect conditions to improve over the next few quarters. The vaccine rollout should boost confidence, allowing more people to get back to their offices on a regular basis. As recovery progresses, we project a ramp-up in leasing activity, spurred by a combination of pent-up demand and tenants looking to transact amid favorable market conditions.

Manhattan Office Market Indicators by Submarket

Submarket	Inventory	Net Absorption	YTD Net Absorption	Vacancy Rate	Availability Rate	Class A Average Rent PSF	Class B Average Rent PSF	Overall Average Rent PSF
City Hall/Tribeca	9,896,786	(139,780)	(477,077)	12.5%	18.2%	$80.44	$48.14	$76.42
Financial District	39,613,613	(302,965)	(555,575)	12.1%	12.9%	$58.02	$53.45	$57.47
Insurance District	10,120,767	40,569	(135,084)	9.3%	12.0%	$61.79	$46.81	$58.57
World Trade Center	33,481,908	(294,664)	(1,456,007)	10.4%	17.0%	$68.78	$57.06	$67.15
Downtown Total	**93,113,074**	**(696,840)**	**(2,623,743)**	**11.2%**	**14.8%**	**$65.52**	**$53.34**	**$63.85**
Chelsea/Flatiron	26,321,993	(525,883)	(1,288,051)	11.1%	13.8%	$95.72	$64.78	$72.61
Gramercy Park	30,836,496	(764,560)	(1,491,242)	11.7%	15.7%	$81.06	$66.36	$73.87
Greenwich Village	5,206,292	(145,726)	(77,305)	9.8%	14.2%	$123.68	$53.34	$90.32
Hudson Square	9,749,645	(282,932)	(1,018,896)	8.9%	16.1%	$90.00	$53.86	$85.15
SoHo	5,459,340	(101,272)	(607,728)	12.4%	22.0%	$58.05	$63.51	$61.92
Midtown South Total	**77,573,766**	**(1,820,373)**	**(4,483,222)**	**11.1%**	**15.5%**	**$88.37**	**$64.40**	**$75.07**
Columbus Circle	30,704,335	(183,964)	(399,083)	10.2%	16.2%	$82.06	$68.29	$80.01
East Side	14,868,528	486,859	(247,890)	15.2%	16.8%	$78.31	$55.32	$77.06
Grand Central	57,269,643	(1,553,468)	(3,532,829)	11.0%	16.5%	$77.77	$56.11	$76.11
Penn Plaza	67,753,215	(1,391,395)	(1,821,785)	10.0%	12.0%	$73.84	$56.89	$66.03
Plaza District	68,838,600	(375,530)	(1,322,767)	12.3%	14.5%	$111.60	$63.93	$110.33
Times Square	40,122,084	(1,030,537)	(1,614,262)	7.9%	14.6%	$71.51	$61.15	$70.15
Midtown Total	**279,556,405**	**(4,048,035)**	**(8,938,616)**	**10.8%**	**14.6%**	**$85.28**	**$58.87**	**$80.94**
Manhattan	**450,243,245**	**(6,565,248)**	**(16,045,581)**	**10.9%**	**14.8%**	**$79.82**	**$59.92**	**$75.63**



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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in Manhattan. This report includes single-tenant and multi-tenant Class A and B office properties with at least 100,000 SF in Midtown, 50,000 SF in Midtown South, and 75,000 SF in Downtown.

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