Q1 2021 | MANHATTAN

OFFICE MARKET

Leasing subsides to record low level

Sublet availability increases further, driving down rents

OVERVIEW

Emerging recovery in Manhattan office market could translate to new opportunities

After a full year of navigating the pandemic-related slump, New York's office market is undergoing a transformation. Manhattan is seeing widespread availability, low leasing levels, and shifting rents, but is poised to emerge strongly as confidence returns amid the vaccine rollout, particularly for tenants seeking to take a new or bigger bite of the Big Apple.

To that end, there were several large leases, both new and renewal, executed in the first quarter. Four leases over 100,000 SF were recorded: Icahn School of Medicine at Mount Sinai took 167,300 SF at 787 Eleventh Avenue, Houlihan Lokey swapped its sublease for a 148,200 SF direct lease within 245 Park Avenue, Seyfarth Shaw renewed for 132,000 SF at 620 Eighth Avenue, and Jennison Associates moved to 120,800 SF at 55 East 52nd Street. These lease signings indicate tenants are seeing value in the local market despite the turbulent year. Even so, overall leasing fell to just over 3.9 MSF in Q1 2021, nearly half the 7.9 MSF transacted in Q1 2020.

Space additions were extensive this quarter. More than 50 blocks exceeding 50,000 SF were added to the market, a major factor in Manhattan's extremely low absorption, which measured negative 10 million square feet. Nearly every one of Manhattan's 15 submarkets logged negative demand, and the few that tracked positive saw only minimal improvement.

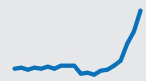
Manhattan's overall availability rate increased by 2.1 percentage points [pp] from Q4 2020, reaching 16.9%, the highest of the cycle. Availability increased in Midtown, Midtown South, and Downtown, with the latter seeing the highest jump at 3.0 pp from last quarter to 17.8%. Sublet availability is also on the rise and climbed 0.8 pp to 4.7%, comprising 27.8% of all available space.

After peaking a year ago, asking rents in Manhattan declined for a fourth straight quarter in Q1. Rents descended to $71.95 PSF, moving downward in all three major submarkets. Still, with prices trending lower on both direct and sublease space, increased tenant improvement allowances, and negotiations for free rent, the time is ripe for a flight to quality.

TRENDLINES

5-YEAR TREND | CURRENT QUARTER

AVAILABILITY



16.9%
Availability rate increased

ABSORPTION

-10 MILLION SF
Negative net absorption observed

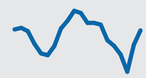
RENTAL RATES

$71.95 PSF
Asking rents decreased

CAP RATES

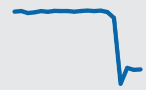
5.0%
Cap rates remained stable

AVERAGE OFFICE SALE PRICE



$856 PSF
Sale value increased

JOB GROWTH



-626,600 JOBS
Jobs lost from a year ago

DEMAND

Manhattan absorption sinks to negative 10 MSF

More than 10 MSF of negative net absorption was recorded in Manhattan in Q1, well below levels seen in the prior recession. Nearly every submarket showed a negative result as many tenants gave back space, downsized, or declined to renew. This was the seventh straight quarter of negative demand for the borough, which was experiencing weakened absorption levels even before the pandemic.

Midtown accounted for more than half of the total negative demand at negative 5.4 MSF. The negative absorption overpowered several large lease signings that were scattered across Midtown. Columbus Circle was the only one of Midtown's submarkets to see positive absorption, logging 49,110 SF of demand, boosted by the 167,300 SF lease for Icahn School of Medicine at Mount Sinai, at 787 Eleventh Avenue.

Penn Plaza was Midtown's worst-performing submarket, with 826,000 SF in large block additions, ultimately recording 2.3 MSF of negative absorption. Another 475,300 SF in large blocks was added in the Grand Central submarket, which posted 1.1 MSF of negative absorption while benefitting from Houlihan Lokey's 148,000 SF direct lease at 245 Park Avenue. The Plaza District was negative for 872,900 SF despite a 120,800 SF lease from Jennison Associates at 55 East 52nd Street. The East Side tallied negative absorption of 739,800 SF as half a million square feet at 825 Third Avenue came within 12 months of tenant possession, while five large block additions contributed to 480,700 SF of negative demand in the Times Square submarket.

Midtown South posted nearly 1.9 MSF of negative demand, dragged down by the Chelsea submarket, which endured 958,000 SF in large block additions, resulting in 1.2 MSF of negative absorption. Gramercy Park benefitted from two large leases, Beam Suntory's 99,600 SF signing at 11 Madison Avenue and Freshly's 92,000 SF deal at 63 Madison Avenue, but large block additions overwhelmed the submarket, and demand slowed to negative 449,600 SF. Soho and Hudson Square respectively tallied negative 198,000 SF and negative 54,600 SF of absorption, while Greenwich Village was the standout, eking out about 5,000 SF of positive demand.

Looking Downtown, only the City Hall submarket maintained positive absorption, to the tune of 35,500 SF. City Hall's absorption was helped by the withdrawal of previously marketed space at 250 Broadway. The Financial District recorded with 1.3 MSF of negative demand, spurred by almost 958,000 MSF in large block additions, including 826,700 SF at 4 New York Plaza. This was a combination of sublet space from JPMorgan Chase and direct space on seven additional floors. The World Trade Center submarket registered negative absorption of 604,800 SF while the Insurance District posted 880,600 SF of negative demand, owing largely to AIG's planned move-out at 175 Water Street, which leaves that building with 648,000 SF available for lease.

AVAILABILITY

Mounting sublet and direct space driving availability up

Large block additions totaling almost 5.8 MSF led to a sharp increase in availability this quarter. Manhattan's availability rate rose 2.1 pp from year-end 2020 to 16.9%, the highest in at least fifteen years. Echoing last quarter, availability levels rose in Midtown, Midtown South, and Downtown, as well as nearly every one of Manhattan's smaller submarkets.

In Midtown, overall availability grew to 16.4% as the submarket contended with 32 large block additions. Penn Plaza took on the brunt of the large spaces and is also coping with 1.3 million SF of previously marketed space at 66 Hudson Blvd, now 12 months from delivery. Despite these additions, Penn Plaza retains one of the lowest availability rates in Manhattan at 15.3%. Times Square fared slightly better with 15.0% availability, creeping up just 0.4 pp from last quarter. The East Side registered both the highest availability among Midtown's submarkets, at 21.8%, and the largest jump from last quarter, due largely to the release of half a million square feet at 825 Third Avenue.

Midtown South has generally had the lowest availability among Manhattan's three major submarkets, but this is no longer true. Back in Q4, Midtown South had the highest availability at 15.5%, and the rate has lifted to 17.6% as of Q1 2021. Ten large blocks were added in Midtown South, six of them in the Chelsea submarket, where availability rose to 17.6%. In the Gramercy Park submarket, availability jumped 1.4 pp from Q4 to 17.1%. The Soho submarket took on a space addition of 102,000 SF at 130 Mercer Street in addition to the large vacancies at Essex Crossing, due to deliver later this year. Soho availability is close to 25%, the highest in Manhattan. Elsewhere in Midtown South, the availability rate in Hudson Square rose to 16.7%, while Greenwich Village availability descended a notch to 14.0%, the lowest in the borough, aided by a scattering of small lease signings.

Heading Downtown, availability rose 3.0 pp from last quarter to 17.8%. In addition to almost 1.6 MSF in large block additions this quarter, the submarket was already faced with AIG's planned relocation from 175 Water Street which leaves another 648,000 SF open in Downtown's Insurance District. Availability in the Insurance District is now 20.5%, the highest of the Downtown submarkets. The World Trade Center submarket saw availability increase to 18.8% upon the addition of 401,000 SF in four large blocks. The Financial District has Downtown's lowest availability at 16.1% and the City Hall submarket is at 17.7%, a small decline from last quarter that was helped by the withdrawal of previously marketed space at 250 Broadway.

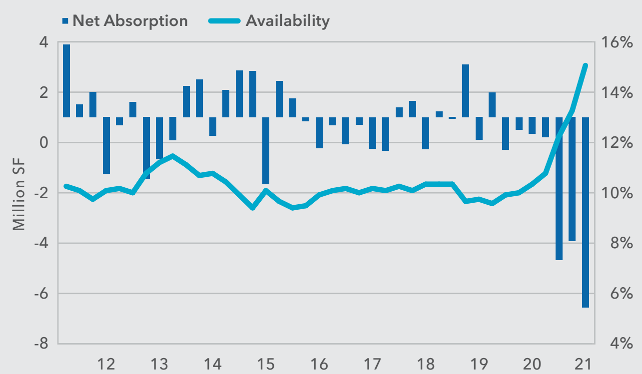
Sublet availability climbed to 4.7% in Q1, almost 2.0 pp above its year-ago level. Sublet space now represents 27.8% of Manhattan's total available space, an increase from the 24.7% seen one year ago. The increasing amount of sublet space is a boon to tenants looking for a chance to get into the Manhattan market at bargain prices.

Currently, Downtown has the highest sublet availability in Manhattan at 6.0%, almost double its year-ago level. Midtown South is registering sublet availability of 5.3%, while Midtown's rate is the lowest at 4.1%. Sublet availability increased in every one of Manhattan's 15 submarkets with the exception of Greenwich Village, which was also one of the few submarkets to see its total availability decline.

While much has been reported about the large amount of sublease space being unloaded onto the Manhattan market, it should be noted that direct availabilities have also risen sharply, increasing 3.6 pp over the last year to 12.2%. About 60% of the large block additions this quarter were for direct space.

It took about six quarters for total availability to peak following the collapse of Lehman in late 2008, and we expect a similar trend as we approach that benchmark in 2021. However, the rollout of the vaccine and the anticipated return of more of Manhattan's workforce over the next few quarters should help balance things out and allow availability to stabilize.

Net Absorption and Availability



SOURCE: Transwestern Research

Notable New Availabilities

ADDRESS	SUBMARKET	SF	SPACE TYPE
66 Hudson Boulevard*	Midtown	1,287,600	Direct
175 Water Street*	Downtown	648,000	Direct
825 Third Avenue*	Midtown	512,305	Direct
4 New York Plaza	Downtown	509,400	Sublet
4 New York Plaza	Downtown	317,300	Direct

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

SUPPLY AND DEVELOPMENT

Construction booming, expanding options in Midtown and Midtown South

Just one property was delivered in Q1 2021, the 690,000 SF tower at 425 Park Avenue in Midtown's Plaza District. The property is 57.6% leased, including a Q1 2021 signing by private equity firm Hellman & Friedman for 27,800 SF.

There is currently 14.1 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, 50 Hudson Yards is 98% leased and 66 Hudson Blvd is 55% leased as of Q1 2021.

Deliveries slated for 2021 include 1245 Broadway in Midtown, and 124 E 14th Street, 145 & 155 Delancey Street, 141 E Houston Street, 23 W 20th Street, 799 Broadway, 205 W 28th Street and 322-326 Seventh Avenue in Midtown South. Roughly 1.1 MSF of space is currently available in these impending deliveries, ready for tenants who are willing to seize the moment and seal a deal.

RENTAL RATES

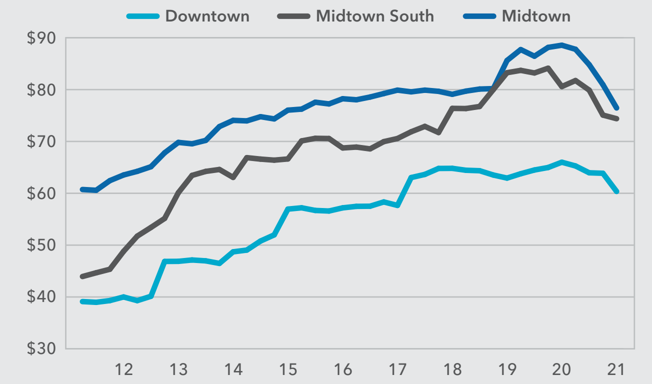
Tenants could benefit as rents slide to five-year low

Manhattan asking rents declined for a fourth straight quarter to $71.95 PSF. This is the lowest level in nearly five years and 11.7% below the year-ago peak of $81.46 PSF.

Manhattan rents are down 4.9% from last quarter, falling in all three major submarkets. Midtown South saw only a small decline of 0.9% from Q4, and rents are down 7.7% from a year ago. In contrast, Midtown experienced the steepest declines, falling 5.5% in-quarter and 13.7% year-over-year. Downtown rents dropped 5.5% from Q4 2020 and 8.6% from Q1 2020.

Lower-priced sublet space continues to be a major factor in driving down asking rents across the market but direct rents are falling as well. The lower prices could allow a foot in the door for tenants who had thus far been unable or unwilling to pay Manhattan's premium prices. Heavy concessions and shorter lease terms are also in play as tenants and landlords navigate the changed market conditions.

Rental Rates by Submarket



SOURCE: Transwestern Research

Notable Lease Transactions

TENANT	ADDRESS	SUBMARKET	SQUARE FEET	LEASE TYPE
Icahn School of Medicine at Mt. Sinai	787 Eleventh Avenue	Midtown	167,300	Direct
Houlihan Lokey	245 Park Avenue	Midtown	148,200	Direct
Seyfarth Shaw	620 Eighth Avenue	Midtown	132,100	Direct Renewal
Jennison Associates	55 East 52nd Street	Midtown	120,800	Direct
Beam Suntory	11 Madison Avenue	Midtown South	99,600	Direct
Freshly	63 Madison Avenue	Midtown South	92,000	Direct

SOURCE: Transwestern Research

INVESTMENT SALES

Sales volume falls 52% year-over-year

Office transaction volume was a scant $117 million in Q1 2021. This historically low total dragged the four-quarter rolling sales volume to just $4.4 billion, a figure 70% lower than the prior four-quarter result. Cap rates remained unchanged from last quarter at 5.0% amid the shortage of transactions.

The average office sale price was $856 PSF across the Manhattan market, the highest since late 2019. With only a handful of transactions, however, this boost was driven largely by the sales of high-priced office condo units and properties that are not core office. Activity which would indicate a true swing in pricing trends has yet to resume on any widespread basis.

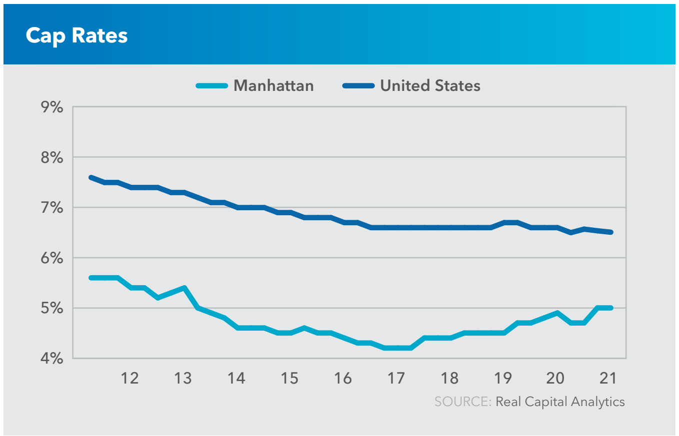
The largest office sale recorded this quarter was the Kaufman Organization's purchase of the Haymarket Building at 135 W 29th Street in Chelsea. The 85,000 SF property sold for $34.6M in March, translating to pricing of $408 PSF.

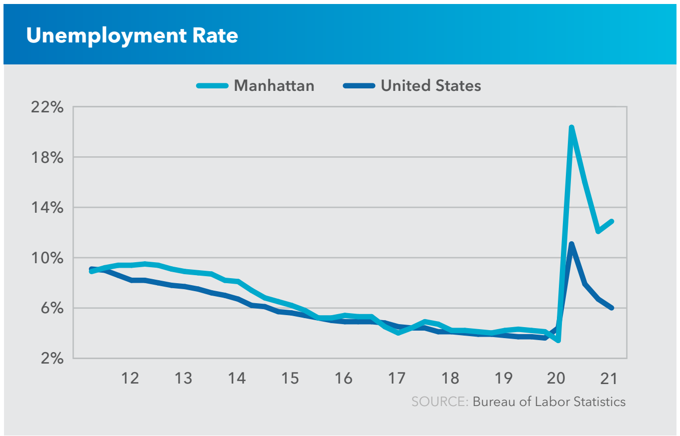
ECONOMY

Unemployment rate in NYC sees modest increase

The US unemployment rate has been declining steadily since reaching a 14.8% peak in April 2020. Most recently, unemployment dropped 0.7 pp from the Q4 level to 6.0% in March 2021. This is a decline of 8.8 pp from the high, but still almost double the 3.5% recorded in Q1 2020.

New York City's unemployment rate had fallen to a seasonally adjusted 12.0% in the fourth quarter but has crept back up to 12.9% as of February, the latest data available. For comparison, NYC unemployment was as low as 3.6% in Q1 2020, just prior to the pandemic, and by May had risen to a peak of 20.0%. The city reported a loss of roughly 959,000 jobs peak-to-trough between January 2020 and April 2020. Since that time, roughly 330,700 positions have been restored or created. With vaccinations well underway and vaccine eligibility for nearly all age groups on the horizon, we expect to see employment improve further through 2021.





OUTLOOK

Pent-up demand and low prices will propel NYC forward

We have now been living with COVID-19 for a full year. With the worst of the pandemic hopefully behind us, we can begin looking ahead to the next era of commercial real estate. Several leases exceeding 100,000 SF were signed in Q1, a positive signal for the market.

The ratio of sublet to direct space availability has increased in each of the last four quarters, and sublet space now encompasses 27.8% of all available space. We predict additional growth in both sublet and direct availability in the near term, similar to the elevation that occurred between 2008 and 2010. There is additional pressure from under-construction properties that will soon be ready for lease-up, but as tenants and potential tenants begin to take advantage of the reduced prices, availability should begin to stabilize.

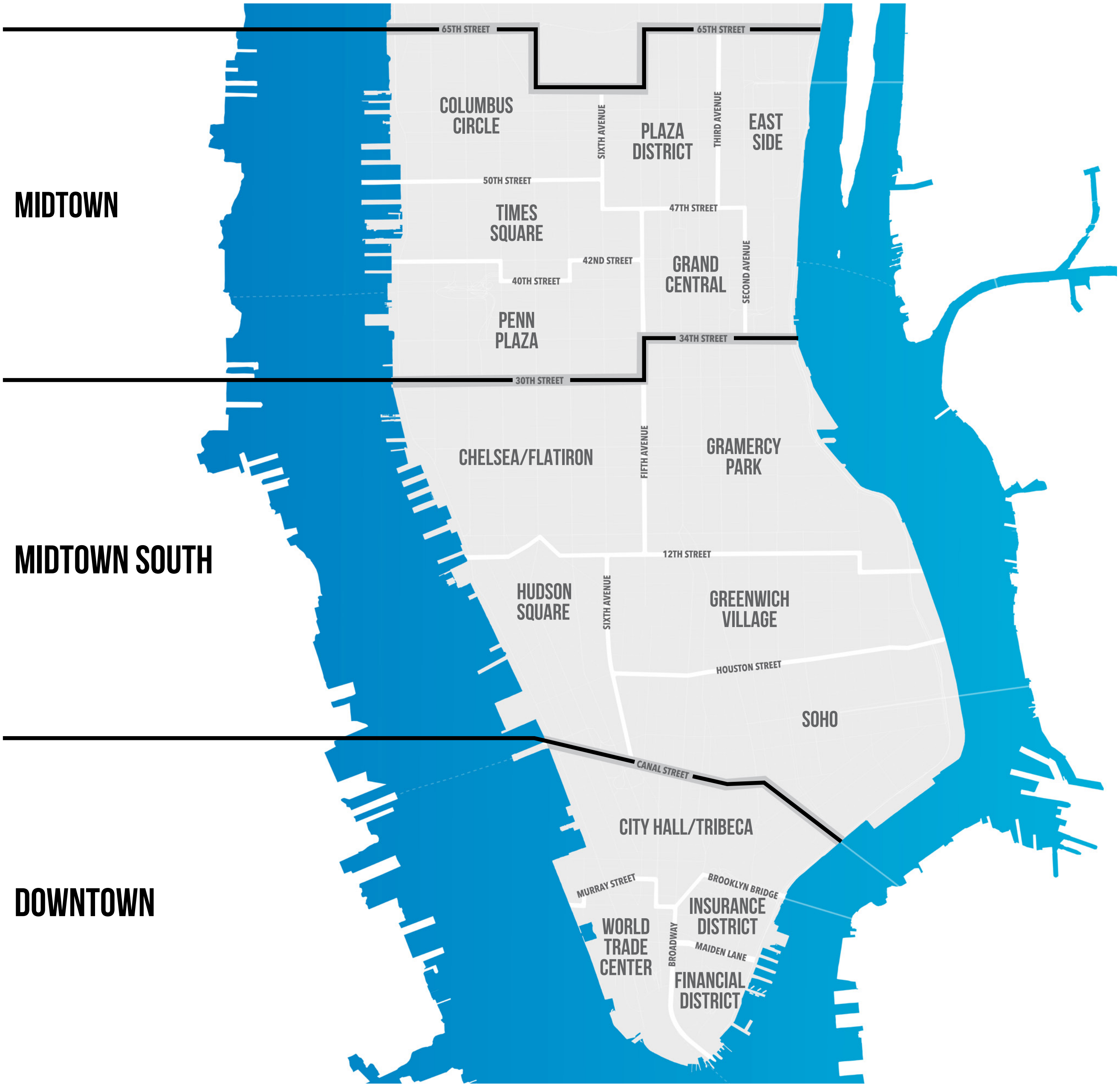
Rents have fallen from their year-ago peak and are back to levels last seen in 2016, expanding access for potential tenants who were previously priced out of Manhattan. The reduced prices likewise put tenants in a strong position to negotiate.

Indeed, while leases are getting signed, many are for smaller footprints and/or shorter terms. The shortened terms give tenants a chance to test the waters, as well as leaving landlords an opportunity to renegotiate when market conditions improve down the line.

More and more companies are announcing plans to get their employees back to the office; recent surveys indicate that while only 10% of Manhattan workers are currently back in the office, roughly 45% expect to return by the end of summer. The return of office workers will benefit New York City's other major industries, namely retail, restaurants, hotels, and entertainment venues, which can expect an uptick in their business along with the increase in daytime population. We expect 2021 to be a year of rebuilding as pent-up demand meets with market conditions that will benefit both tenants and landlords.

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	9,971,271	35,489	35,489	15.2%	17.7%	$74.26	$50.61	$70.96
Financial District	39,641,429	(1,300,647)	(1,300,647)	12.8%	16.1%	$55.37	$54.52	$55.29
Insurance District	10,186,925	(880,571)	(880,571)	11.2%	20.5%	$64.43	$45.79	$60.61
World Trade Center	33,473,232	(604,840)	(604,840)	14.0%	18.8%	$64.18	$55.42	$63.03
Downtown Total	**93,272,857**	**(2,750,569)**	**(2,750,569)**	**13.3%**	**17.8%**	**$61.34**	**$53.11**	**$60.34**
Chelsea/Flatiron	27,341,980	(1,178,793)	(1,178,793)	11.4%	17.6%	$90.76	$68.09	$72.62
Gramercy Park	30,970,122	(449,614)	(449,614)	13.1%	17.1%	$82.00	$64.98	$73.33
Greenwich Village	5,246,416	4,963	4,963	10.8%	14.0%	$122.64	$53.35	$90.11
Hudson Square	9,749,645	(54,601)	(54,601)	9.8%	16.7%	$90.00	$54.20	$85.76
SoHo	5,694,840	(198,009)	(198,009)	14.8%	24.5%	$57.31	$66.53	$64.40
Midtown South Total	**79,003,003**	**(1,876,054)**	**(1,876,054)**	**12.1%**	**17.6%**	**$87.43**	**$65.87**	**$74.37**
Columbus Circle	30,808,499	49,110	49,110	11.0%	16.0%	$75.13	$62.82	$73.01
East Side	14,868,528	(739,840)	(739,840)	16.6%	21.8%	$77.27	$55.62	$76.65
Grand Central	57,281,899	(1,059,197)	(1,059,197)	12.1%	18.3%	$74.49	$54.69	$72.77
Penn Plaza	67,994,483	(2,285,131)	(2,285,131)	11.5%	15.3%	$77.20	$56.95	$68.36
Plaza District	69,405,786	(872,917)	(872,917)	14.8%	15.6%	$95.18	$62.97	$94.24
Times Square	42,476,084	(480,704)	(480,704)	8.9%	15.0%	$69.66	$63.64	$68.86
Midtown Total	**282,835,279**	**(5,388,679)**	**(5,388,679)**	**12.3%**	**16.4%**	**$79.85**	**$58.49**	**$76.44**
Manhattan	**455,111,139**	**(10,015,302)**	**(10,015,302)**	**12.4%**	**16.9%**	**$75.01**	**$60.69**	**$71.95**



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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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