Q3 2020 | Office Market Report

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Office Availability Soars as Sublease Space Continues to Flood the Market

Tenants continue to shed office space at the highest rate in 15 years. Overall availability in Manhattan rose in Q3 2020 to 14% of total supply, rising 220 basis points since Q2 of this year and 270 basis points year-over-year. The sharp increase in availability is matched with a decline in the average overall rent, furthering the decline from $80.98/SF in Q2 to $78.75/SF in Q3, and down from $79.66/SF in Q3 2019. Midtown South saw the greatest decline in average rent, decreasing $2.26/SF quarter-over-quarter. During the last two recessions, pricing took an average of two years to reach their lows following periods of market shock, so it is yet to be seen how much lower average rents will fall. Beyond pricing, concessions are on the rise-with some landlords offering short-term, fully furnished, wired, pre-built space - with free rent; so net effective rents are actually at historic lows.

Leasing velocity in Manhattan dropped to levels not seen in over 20 years, eclipsing the lows seen during both the Great Recession, and post-9/11. A total of 4.38MM SF of leasing transactions took place during the third quarter, 75% of that total was leased in Midtown North, with 12% and 13% taking place in Midtown South and Downtown, respectively. The top five largest leasing transactions in the quarter totaled 1.895MM SF, accounting for over 43% of the total volume of leased space.

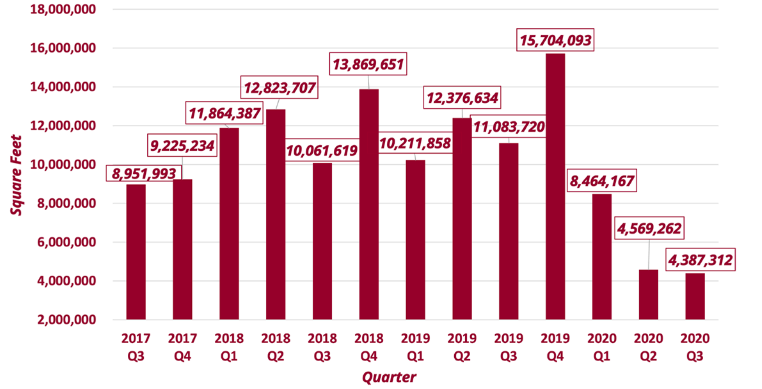
The continued addition of new sublet space in Manhattan shows no signs of slowing down. Overall sublet availability now totals 28.4MM SF. In more stable leasing environments, sublet space typically represents about 15% to 20% of total availability; today, 25% of all available space is for sublet and that number could rise to 30% or more. In Midtown South, sublet availability is already responsible for 31% of total availability. Another bearish indicator is the large amount of shadow space being held back on a direct basis by landlords concerned about offering space in a market so slanted in favor of the few credit tenants who need to transact that also have a relatively clear view of their future.

Co-working providers, who just last year were the largest occupiers of space in New York City, are seeing the demand for shared office space collapse. Q3 2020 was the first quarter in a decade without a single new co-working lease inked. Regus alone has shuttered twenty three locations since the onset of the COVID pandemic, adding 1.2MM SF of availability to the city's total.

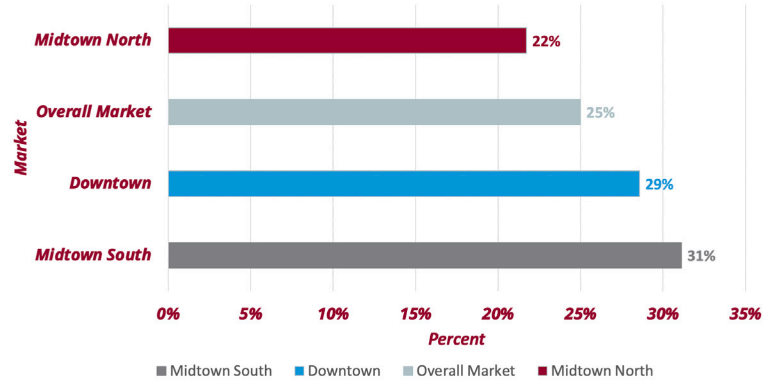
It is difficult to expect that availability and rent figures will improve in the short term. 15.4MM SF of office properties are under construction across Manhattan. Companies and their employees remain reluctant to return to their space. Subway ridership is down 70% from the same period in 2019, and weekday commuter trips on Metro North/LIRR are down 70-80% from last year. Clearly, employees in industries that do not have to be physically in the office to take advantage of equipment or infrastructure are continuing to staying home.

Among the property owners seeking to lease space, those that are not highly leveraged will sharpen their pencils and make deals that undercut the market - if only on a short-term basis to populate their buildings with tenants who could grow down the line. Highly leveraged owners saddled by restrictive pro-formas established before the pandemic have been a bit more reluctant to reach for deals during this time-but that will likely change.

QUARTER: LEASING ACTIVITY: NYC OVERALL



Q3 LEASING ACTIVITY: MANHATTAN OVERALL



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