Q1 2021 | Office Market Report

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Manhattan Leasing Velocity Falls to Lowest Level of the Pandemic; Market Fundamentals Continue to Favor Tenants

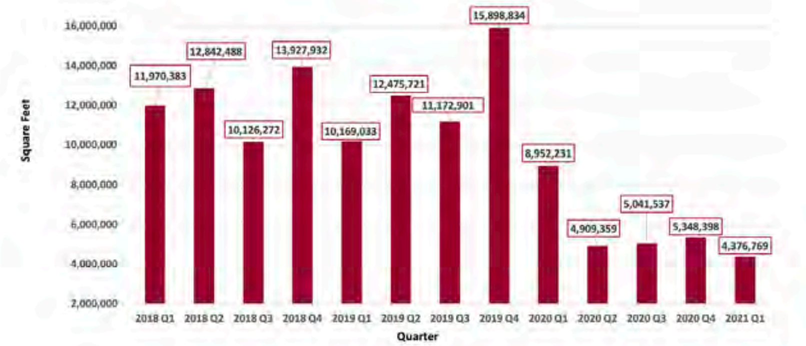
As the one year anniversary of the COVID-19 pandemic's arrival in New York City passes, the Manhattan office leasing market remains suppressed and skewed in favor of tenants. Leasing velocity in Q1 2021 reached its lowest level of the pandemic, with 4.3MM square feet (SF) of transactions, a 51% y-o-y decrease from Q1 2020. The Manhattan availability rate ticked up to 17%, a 150 basis point increase from the previous quarter. Average overall taking rents fell 3.3% from Q4 2020 to $54.36.

A total of 582 leasing transactions were recorded during the quarter, equating to an average deal size of 7,520 SF. While the number of transactions has been increasing for the last three quarters, from a low of 338 in Q2 2020, the average deal size has been trending down from its pandemic-high of 14,524 SF in Q2 2020. In Q1 2021, 91% of leasing transactions were under 15,000 SF. The persistently low leasing velocity city-wide leads to the outsized influence from just a few large transactions. Over 16% of the quarter's leasing volume is due to a single deal, Blackstone's renewal/expansion for 720,000 SF at 345 Park Avenue.

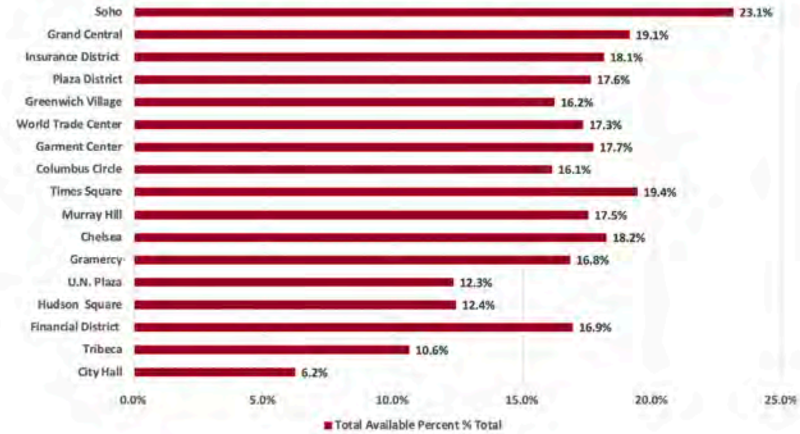
The Downtown submarket continues to be the sick man of Manhattan, with only 473,000 SF of leasing transactions during the quarter. Availability Downtown increased by 2.1 million SF since Q4 2020. The average Downtown taking rent has decreased only 3.3% y-o-y, to $53.42, compared to discounts of 9.75% in Midtown and 15.5% in Midtown South during the same period. Downtown landlords may be deciding to ride out the pandemic with elevated vacancies, believing that dropping rents or increasing concessions will not generate increased leasing demand in the short term.

MANHATTAN OVERALL RENT & AVAILABILITY RATE

MANHATTAN OVERALL LEASING VOLUME



2021 Q1 OVERALL AVAILABILITY RATE BY SUBMARKET



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New York's Economic Recovery Remains on Hold

New York City's unemployment rate remains elevated compared to New York State (8.8%) and national rate (6.3%). After holding steady at 12% during Q4 2020, the unemployment rate in the city increased 90 basis points to 12.9% during Q1 2021. Offices buildings remain 15-20% physically occupied, and Metro North and LIRR commuter rail ridership remain down 70-80% from 2019 numbers, showing virtually no improvement for eight months. A survey released in February stated that 90% of restaurants in New York did not pay full rent in December of 2020. Tourism data is improving, with the city's hotel occupancy rate hitting 47% in mid-March, its highest point in over 10 months, but still a far cry from 87% occupancy during the same period in March 2019. Any measurable recovery in the city's economic outlook will remain delayed so long as millions of office employees work from home and tourists stay away. COVID-19 vaccine uptake has been increasing dramatically, with over 38% of New York State having received at least one dose, so hopefully the light at the end of the tunnel is approaching.

Sublease Space Continues to Force Landlords to Compete on Pricing

2.4 million SF of sublet space was added to the market in Q1, bringing the total sublet availability to nearly 23.9 million SF. General availability is highest in Soho, at 23.1%, followed by Grand Central and Chelsea, at 19.1% and 18.2%, respectively. Submarkets with high availability are not seeing the highest transaction volume, however. The Plaza District accounted for 32.9% of the leasing volume in Q1, as tenants seem to be attracted to quality over the cheapest deals. Average taking rents in the Plaza District continued their downward trend in Q1 2021, decreasing to $67.24, a 4.23% drop from Q4 2020. The flight to quality is perhaps the strongest visible trend in the market, with tenants motivated to pursue spaces that were once unaffordable. Landlord concession packages have increased over the past year, with free rent growing 17% to over 13 months for 10-year deals, and tenant improvement allowances (TI) rising 15.5% to an average of $124 per SF. During Q1 2021, free rent packages as high as 24 months and $150 per SF in TI have been recorded for 15-year deals. Direct net effective rents are down 18-20% on average from Q1 2020.

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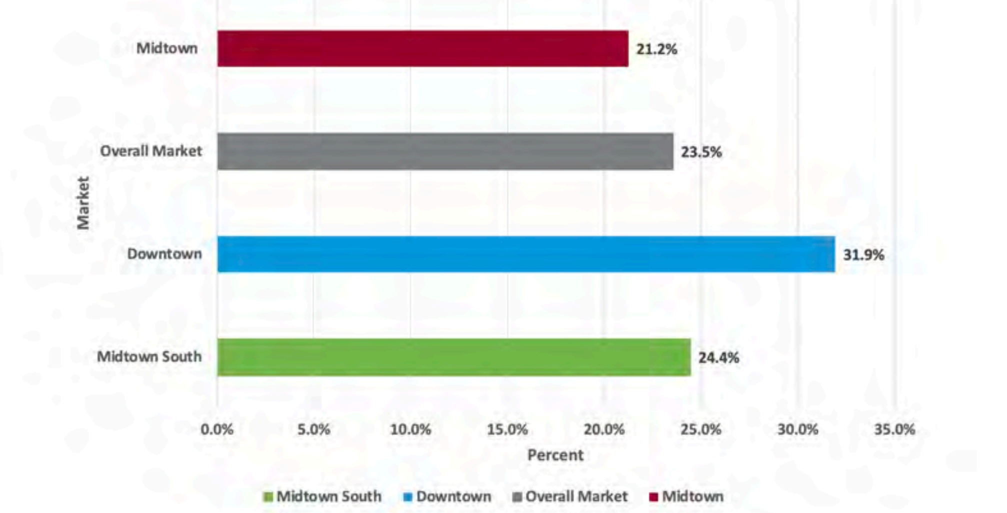
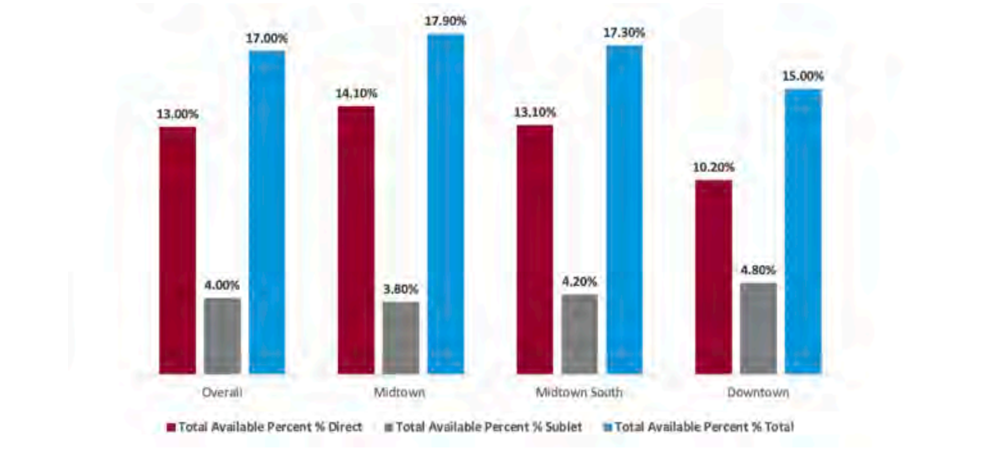
SUBLEASE SPACE AS SHARE OF OVERALL AVAILABILITY



2021 Q1 SUBLET, DIRECT & OVERALL AVAILABILITY



AVERAGE RENT BY SUBMARKET IN MANHATTAN

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Top Leasing Transactions

MIDTOWN

Blackstone
345 Park Avenue
Plaza District
Direct Renewal/Expansion
720,000 sf

Mount Sinai
787 Eleventh Avenue
Columbus Circle
Direct New
167,348 sf

Houlihan Lokey
245 Park Avenue
Grand Central
Direct New
148,233 sf

MIDTOWN SOUTH

Suntory Group
11 Madison Avenue
Flatiron
Direct New
99,566 sf

Freshly
63 Madison Avenue
Flatiron
Direct New
91,040 sf

Diller Scofidio + Renfro
601 W 26th Street
Chelsea
Direct Renewal
21,716 sf

DOWNTOWN

IPC Systems
1 State Street Plaza
Financial District
Direct Renewal
26,652 sf

Public Health Solutions
40 Worth Street
Tribeca
Direct Renewal
26,598 sf

Consulate General of Morocco
55 Broadway
World Trade Center
Direct New
18,294 sf