

Manhattan Office Market

Return of Tenant Requirements and Employment Improvements Countered by Rise in Availability and Minimal Leasing

One year into the pandemic, the first quarter continued recent quarterly trends, with activity continuing to be severely constrained, availability increasing, and absorption closing at near record lows. First-quarter activity totaled 4.4 million square feet, matching fourth quarter totals, but was 23.3% below the quarterly average of 5.7 million square feet in 2020. The six deals of at least 100,000 square feet, led by Blackstone's 720,000-square-foot lease at 345 Park Avenue, composed 31.7% of overall velocity. Despite the limited activity, there were 94 new tenants in the market this quarter, more than in the first quarter of both 2019 and 2020. This is more than double the amount of new entrants to the market between March and September 2020. Although a sign of potential uptick in activity and a modest improvement in employment, these tenants are searching for a combined 3.8 million square feet, 43.3% below the 2020 total of 6.7 million square feet.

The availability rate increased for the fourth consecutive quarter, closing March at 17.3%, a record high. The increases were consistent across the three major markets, with changes between 180 and 200 basis points. Thirteen contiguous large blocks of 100,000 square feet and above drove the 180-basis-point increase from last quarter. Following the minimal leasing totals and increased availability, quarterly absorption closed at negative 9.7 million square feet. Available sublease space increased by 2.7 million square feet quarter over quarter and was up to 20.9 million square feet by quarter's end. Despite this increase, there were signs the market was stabilizing by quarter's end, with available sublease space decreasing in the final week of March.

Asking rents fell for the fourth straight quarter to \$74.06/SF, down \$7.65/SF from first-quarter 2020. Rents fell across every submarket, with declines of at least \$3.00/SF recorded in six submarkets, including Park Avenue, Plaza District, and Sixth Ave/Rock Center.

There were two deliveries this quarter, at 425 Park Avenue and 106 West 56th Street. Private equity firm Hellman & Friedman signed for two floors at 425 Park, the first deal since Citadel's expansion in 2019.

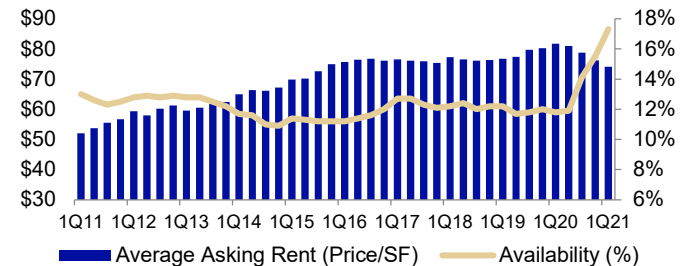
NEWMARK

Current Conditions

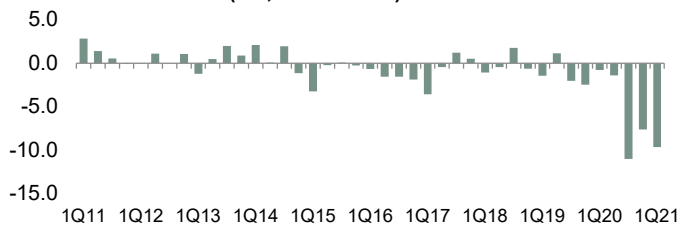
- Of the 4.4 million square feet of first-quarter velocity, more than 75% was concentrated in Midtown.
- Manhattan asking rents decreased by \$2.15/SF or 2.8% to \$74.06/SF, with the steepest drop recorded in Midtown.
- The availability rate increased by 180 basis points from last quarter to 17.3%, with jumps posted in every submarket.

Market Analysis

ASKING RENT AND AVAILABILITY



NET ABSORPTION (SF, MILLIONS)



Market Summary

	Current Quarter	Prior Quarter	Prior Year	12-Month Forecast
Total Inventory	462.9 MSF	461.7 MSF	460.5 MSF	↑
Availability Rate	17.3%	15.5%	11.8%	↑
Quarterly Net Absorption	-9,677,681	-7,653,853	-766,209	↓
Avg. Ask Rent	\$74.06	\$76.21	\$81.71	↓
Under Const.	14.0 MSF	14.8 MSF	16.1 MSF	↑
Deliveries	795,244 SF	0 SF	0.6 MSF	↑

Midtown

Midtown Captures Significant Component of Leasing Activity

Midtown leasing activity, 3.4 million square feet, accounted for 77.4% of overall activity in the first quarter. This marked the third straight quarter Midtown's share of velocity eclipsed 70.0%. This was largely driven by Blackstone's 720,000-square-foot extension and expansion at 345 Park Avenue through 2028. Each of the eleven Midtown leases of at least 50,000 square feet, seven of which were relocations, were for a term of at least five years. These included Mount Sinai's new space at 787 Eleventh Avenue, AXA's move to 1290 Avenue of the Americas from 1345 Avenue of the Americas, and Jennison Associates' lease at 55 East 52nd Street.

Midtown asking rents closed at \$77.48/SF, a quarter-over-quarter drop of \$2.63/SF. Eight of the eleven Midtown submarkets saw asking rents fall by more than \$1.00/SF, while the Far West Side, Penn District, and Eastside remained stable. Park Avenue, Plaza District, and Sixth Ave/Rock Center recorded declines of more than \$3.00/SF. This was largely a result of new sublease listings at 230 Park Avenue, 299 Park Avenue, 1 Rockefeller Plaza and 1251 Avenue of the Americas, as well as high-priced space at 590 Madison and 767 Fifth Avenue coming off the market.

The availability rate increased by 180 basis points from the fourth quarter to 17.5% and is now up 500 basis points since the start of the pandemic last March. Eight large block additions across six submarkets drove the increased availability. The entirety of 5 Times Square, nearly 1.0 million square feet, came to market with a 2022 possession date, propelling Times Square availability up 810 basis points from last quarter to 28.0%. Other blocks included 290,000 square feet at 300 Madison Avenue from PWC and 241,000 square feet at 1166 Avenue of the Americas from Marsh. Non-contiguous space of 226,000 square feet and 176,000 square feet were also added this quarter at 420 Lexington Avenue and 1 Penn Plaza, respectively.

Midtown South

Rent Declines Recorded in Three Midtown South Submarkets

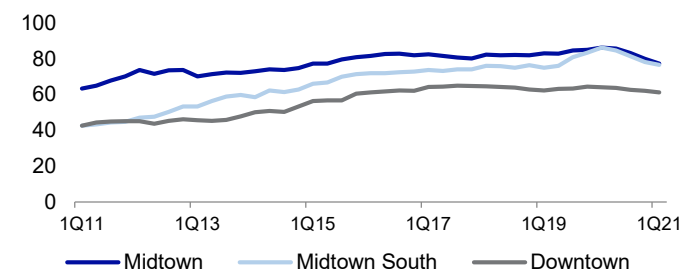
There were two large block additions, as well as several non-contiguous spaces, that drove a 200-basis-point quarter-over-quarter increase in the Midtown South availability rate, to 17.8%. One large block came online at 85 Tenth Avenue, which was formerly occupied by the FBI; the other was at 130 Mercer Street, which is owned by Scholastic. Spaces of more than 50,000 square feet were also added at 156 Fifth Avenue, 11 Madison Avenue, 114 East 25th Street, and 111 Fifth Avenue. As a result of these space additions, the availability rates in Chelsea, Flatiron/Union Square, and NoHo/SoHo each increased by more than 200 basis points. The East Village, Manhattan's smallest submarket by inventory, maintained the highest availability rate at 30.4%.

Midtown South asking rents were recorded at \$76.60/SF, a quarter-over-quarter decline of \$1.73/SF, despite rents slightly increasing in Chelsea and the East Village. The declines of more than \$2.50/SF in Hudson Square/Meatpacking and Flatiron/Union Square were a result of space additions at 41 Madison Avenue, 395 Hudson Street, 250 Hudson Street, and multiple side-street buildings.

Midtown South activity, which totaled just 638,216 square feet, was driven by two large leases along Madison Avenue. Suntory Group signed for 99,566 square feet on the 12th floor at 11 Madison Avenue, and Freshly signed for 91,040 square feet at 63 Madison Avenue in its move from 115 East 23rd Street. This marked the fourth straight quarter in which activity failed to eclipse 1.0 million square feet. One other notable deal was also signed at the recently constructed 40 Tenth Avenue, where RTW Investments completed a 13,815-square-foot expansion, nearly doubling its footprint in the building. More than 1.1 million square feet is expected to deliver later this year across eight sites: Essex Crossing, Zero Irving, 799 Broadway, 541 West 21st Street, 205 West 28th Street, 141 East Houston Street, 60 Charlton Street, and 76 Eighth Avenue.

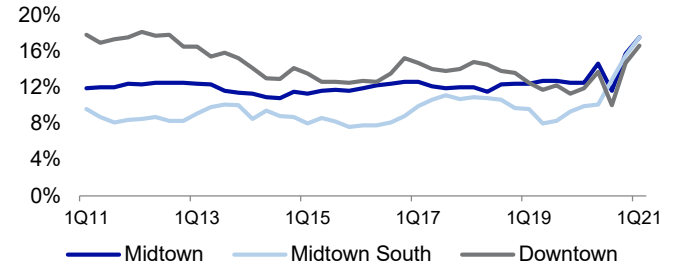
Average Asking Rent By Submarket

AVERAGE ASKING RENT (\$/SF)



Availability By Submarket

AVAILABILITY RATE (%)



Downtown

Availability Rate Closes First Quarter at Eight-Year High

Downtown activity totaled just 353,763 square feet in the first quarter, the lowest quarterly total in 15 years, and a 74.9% year-over-year decrease. The largest deal was a 26,652-square-foot renewal at 1 State Street Plaza by IPC Systems, and the largest relocation was a 16-year deal at 55 Broadway by the Consulate General of Morocco for 18,294 square feet.

Three contiguous large blocks were added Downtown, two of which were at 4 New York Plaza in space previously occupied by JP Morgan Chase and the New York Daily News. The other block, totaling 417,255 square feet, came on the market at 140 Broadway from Brown Brothers Harriman. The Downtown availability rate was recorded at 16.6%, an increase of 190 basis points quarter over

quarter. This marks its highest point since fourth-quarter 2012, when it closed at 17.8%.

Plans were finalized this quarter for the construction of 5 World Trade Center in a partnership between Brookfield, Silverstein, Omni New York, and Dabar Development. The project will include 190,000 square feet of office space, along with 1.2 million square feet of residential space and additional retail and community space; Two World Trade Center, a 2.8-million-square-foot office tower, is the only other remaining development site at the complex.

Downtown asking rents continued to decline incrementally, closing at \$61.27/SF, down \$0.85/SF from last quarter. In addition to the new sublease listings, space additions at 25 Broadway and 180 Maiden Lane drove the reduction in rents.

Midtown Lease Transactions

Tenant	Market	Building	Type	Square Feet
Blackstone	Park Avenue	345 Park Avenue	Direct Expansion & Extension	720,000
Mount Sinai	Westside	787 Eleventh Avenue	Direct New	167,348
Houlihan Lokey	Park Avenue	245 Park Avenue	Direct New	148,233
Seyfarth Shaw	Times Square South	620 Eighth Avenue	Direct Extension	132,094
AXA	Sixth Ave/Rock Center	1345 Avenue of the Americas	Direct New	122,898

Midtown South Lease Transactions

Tenant	Market	Building	Type	Square Feet
Suntory Group	Flatiron/Union Square	11 Madison Avenue	Direct New	99,566
Freshly	Flatiron/Union Square	63 Madison Avenue	Direct New	91,040
Diller Scofidio + Renfro	Chelsea	601 West 26th Street	Direct Renewal	21,716
Town & Country	Flatiron/Union Square	261 Fifth Avenue	Direct Expansion	16,000
RTW Investments	Hudson Square/Meatpacking	40 Tenth Avenue	Direct Expansion	13,815

Downtown Lease Transactions

Tenant	Market	Building	Type	Square Feet
IPC Systems	Downtown East	1 State Street Plaza	Direct Renewal	26,652
Public Health Solutions	Tribeca/City Hall	40 Worth Street	Direct Renewal	26,598
Consulate General of Morocco	Downtown West	55 Broadway	Direct New	18,294
Pitta & Giblin, LLP	Downtown East	120 Broadway	Direct Renewal	17,749
TMP Worldwide	Downtown East	1 Battery Park Plaza	Direct New	15,622

Submarket Statistics

Market	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Midtown	290,337,587	10,586,328	17.5%	(5,866,004)	(5,866,004)	\$82.66	\$60.18	\$77.48
Eastside	24,840,019	0	21.5%	(493,773)	(493,773)	\$77.75	\$54.07	\$74.75
Far West Side	12,128,159	9,662,418	9.7%	(26,144)	(26,144)	\$118.38	\$80.71	\$110.83
Grand Central	48,897,768	0	17.3%	(1,225,271)	(1,225,271)	\$80.71	\$58.74	\$75.61
Murray Hill	7,901,296	0	18.3%	(263,513)	(263,513)	\$61.91	\$50.14	\$58.58
Park Avenue	25,951,299	0	16.1%	(262,186)	(262,186)	\$112.18	\$73.00	\$101.46
Penn District	22,418,031	923,910	14.5%	(587,861)	(587,861)	\$71.20	\$60.09	\$65.71
Plaza District	26,151,433	0	19.2%	(119,178)	(119,178)	\$104.45	\$83.99	\$102.29
Sixth Ave/Rock Center	45,329,301	0	13.2%	(759,925)	(759,925)	\$85.38	\$57.50	\$78.91
Times Square	14,834,999	0	28.0%	(1,284,750)	(1,284,750)	\$78.80	\$68.63	\$77.40
Times Square South	35,904,109	0	18.5%	(669,520)	(669,520)	\$55.51	\$46.14	\$53.16
Westside	25,981,173	0	19.7%	(173,883)	(173,883)	\$79.03	\$61.65	\$74.22
Midtown South	77,184,942	3,351,397	17.5%	(1,686,660)	(1,686,660)	\$82.43	\$63.55	\$76.60
Chelsea	30,045,281	685,110	17.0%	(881,895)	(881,895)	\$73.70	\$61.81	\$69.80
East Village	1,712,321	480,199	30.4%	(1,924)	(1,924)	\$85.43	\$59.00	\$85.25
Flatiron/Union Square	23,431,805	1,015,035	18.5%	(434,775)	(434,775)	\$86.76	\$61.48	\$80.26
Hudson Sq./Meatpacking	11,591,091	988,866	15.5%	(94,219)	(94,219)	\$95.11	\$66.85	\$79.55
NoHo/SoHo	10,404,444	182,187	16.8%	(273,847)	(273,847)	\$85.18	\$68.82	\$81.70
Downtown	95,425,530	100,172	16.6%	(2,125,017)	(2,125,017)	\$64.17	\$54.86	\$61.27
Downtown East	50,039,137	80,000	15.9%	(1,158,055)	(1,158,055)	\$57.97	\$49.80	\$55.72
Downtown West	36,676,367	0	18.2%	(652,087)	(652,087)	\$68.95	\$59.44	\$65.41
Tribeca/City Hall	8,710,026	20,172	13.3%	(314,875)	(314,875)	\$81.20	\$53.60	\$75.70
Manhattan	462,948,059	14,037,897	17.3%	(9,677,681)	(9,677,681)	\$79.15	\$59.57	\$74.06

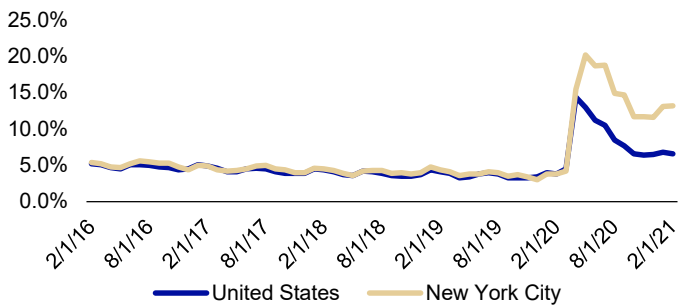
Economic Conditions

The national unemployment rate has seen little change since October, remaining between 6.4% and 6.8% over the past five months. New York City's unemployment rate, however, increased to 13.2% in February from the intra-COVID-19 low of 11.6% in December. While there have now been 82.3 million national weekly unemployment claims over the past year, the most recent four-week average of 736,000 claims is a pandemic-low. New York City office-using employment remains 8.3% below pre-pandemic totals, which represents a loss of 124,000 jobs. However, there was a month-over-month uptick of 9,100 jobs from January to February. Overall New York City payroll employment is down 13.6% from February 2020.

Of the various local industries, the government sector has suffered the fewest job losses on a percentage basis, down just 1.3% year-over-year. Finance, Health Care, and Information experienced the shallowest losses among all other industries. The recently passed American Rescue Plan includes more than \$150 billion for New York State and is widely expected to assist various local businesses.

Unemployment Rate

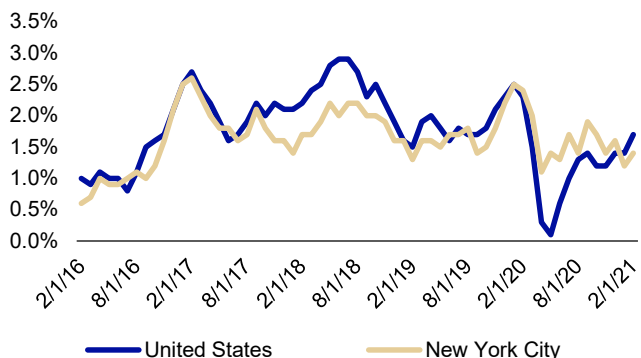
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

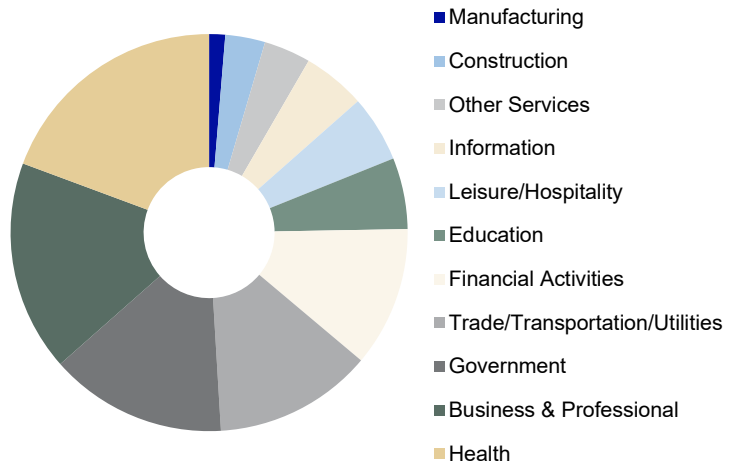
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

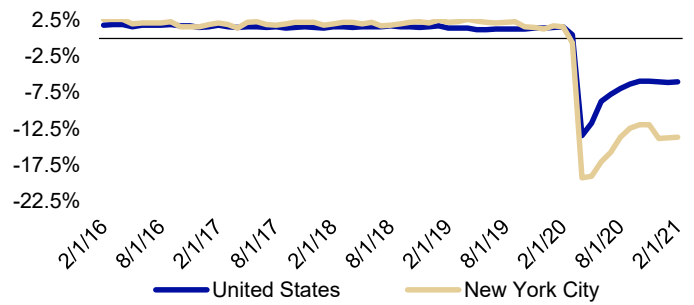
NEW YORK CITY, FEBRUARY 2021



Source: New York State Department of Labor

Payroll Employment

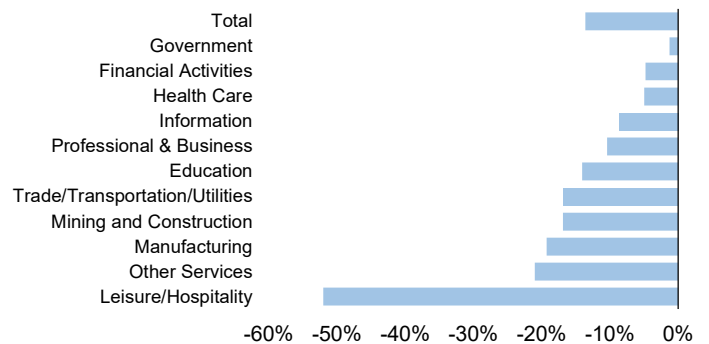
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

NYC, FEB 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: New York State Department of Labor

RESEARCH Q1 2021

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