

Midtown Office Market

Midtown Fundamentals Show Signs of Recovery

Leasing activity reached 3.0 million square feet during the second quarter of 2021, up 31.7% from second-quarter 2020. Although leasing was higher than one year ago, output was down 20.0% from the previous quarter and 45.6% lower than the 10-year historical average. Subleasing totaled 767,053 square feet, accounting for 22.9% of total leasing activity, more than double the five-year quarterly historical average.

There were three second-quarter deals that exceeded 100,000 square feet, led by Sparc Group, Aeropostale's parent company, subleasing 155,634 square feet at 11 Penn Plaza. Citadel Investment Group signed the largest renewal of the quarter, extending on 143,298 square feet at 601 Lexington Avenue. Finally, Schrodinger inked a 126,222-square-foot lease as the computer software firm relocates to 1540 Broadway from 120 West 45th Street.

The Midtown availability rate inched up 30 basis points during the second quarter, to 17.8%. This was the smallest quarter-over-quarter increase of the three major markets and the smallest since the onset of the COVID-19 pandemic. There were three large sublease blocks added in Midtown during the quarter: PwC added 240,384 square feet at 90 Park Avenue; LiquidNet placed 126,000 square feet on the market at 620 Eighth Avenue; and JP Morgan's FinTech division made 122,457 square feet available at Five Manhattan West. Despite these additions, there was a 123,681-square-foot net drop in available sublease space, the first decline in over a year. This was driven by both strong subleasing and sublease withdrawals.

There were four large direct blocks of space added to the market during the quarter. The largest was at 50 Hudson Yards, where a total of 801,510 square feet of available space was added, as the building is set to deliver within 12 months. Large blocks, greater than 100,000 square feet were also added at 505 Fifth Avenue, 575 Madison Avenue and 601 Lexington Avenue.

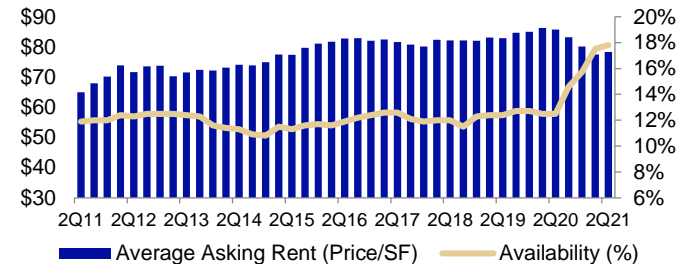
With below-average leasing activity combined with rising availability, quarterly absorption reached negative 2.5 million square feet, the least negative output since the start of the pandemic. This was the eleventh consecutive quarter of negative net occupancy gains. Year-to-date absorption fell to negative 8.4 million square feet, the lowest amount through two quarters on record.

Current Conditions

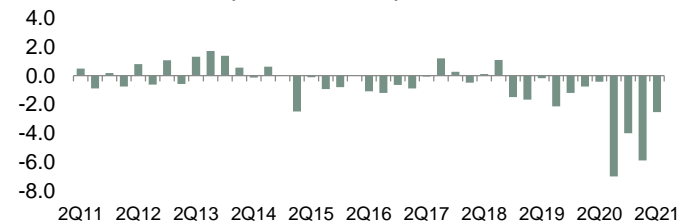
- The availability rate rose 30 basis points to 17.8%, the smallest increase of the three major markets and the slightest since the onset of the pandemic.
- Asking rents increased for the first time in five quarters, rising \$0.81/SF to \$78.29/SF.
- Second quarter sublease withdrawals totaled 772,161 square feet in Midtown.

Market Analysis

ASKING RENT AND AVAILABILITY



NET ABSORPTION (SF, MILLIONS)



Market Summary

| | Current Quarter | Prior Quarter | Prior Year | 12-Month Forecast |
|--------------------------|-----------------|---------------|------------|-------------------|
| Total Inventory | 293.4 MSF | 290.3 MSF | 288.3 MSF | ↑ |
| Availability Rate | 17.8% | 17.5% | 12.5% | ↑ |
| Quarterly Net Absorption | -2,522,105 | -5,866,004 | -1,152,504 | ↓ |
| Avg. Ask Rent | \$78.29 | \$77.48 | \$85.76 | ↓ |
| Under Const. | 10.6 MSF | 10.6 MSF | 13.1 MSF | ↑ |
| Deliveries | 0.0 MSF | 795,244 SF | 0.0 MSF | ↑ |

RESEARCH Q2 2021

There were no construction completions during the second quarter, but 8.6 million square feet is slated to be delivered by the end of 2023, including the Farley Post Office, 1245 Broadway, 66 Hudson Boulevard, 50 Hudson Yards and 2 Manhattan West.

Asking rents increased for the first time in five quarters, rising \$0.81/SF to \$78.29/SF. The increase was driven by the addition of 50 Hudson Yards to inventory, which raised pricing in the Far West Side submarket to \$136.11/SF. The Park Avenue, Sixth Avenue/Rockefeller Center and Murray Hill submarkets also rose quarter over quarter. Despite these quarterly escalations in asking rents, pricing remains down \$7.99/SF from pre-pandemic levels.

Flight to Quality

Midtown second-quarter leasing activity was driven by tenants' desire for high-quality properties. Class A buildings accounted for 2.3 million square feet of the 3.0-million-square-foot Midtown total. Furthermore, trophy assets accounted for 868,341 square feet, or 29.2% of the total second quarter output.

One Vanderbilt Avenue completed seven deals during the quarter for a total of 227,666 square feet, consisting of deals by Stone Ridge Asset Management, MSD Capital, Mubadala Investment Company, IBM and others. There were four additional properties that achieved over 50,000 square feet of quarterly output, including: 280 Park Avenue; 399 Park Avenue; 40 West 57th Street; and 601 Lexington Avenue.

Sublease Withdrawals

Since September 2020, there have been nearly 2.2 million square feet of sublease withdrawals in Manhattan, 848,017 square feet of which occurred in Midtown. During the second quarter, Midtown sublease withdrawals totaled 772,161 square feet, or 91.1% of the total removed from the market since the onset of the COVID-19 pandemic.

Notable firms that withdrew their include: McGraw Hill's 125,254 square feet at 1325 Avenue of the Americas; First Republic Bank's 75,704 square feet at 410 Tenth Avenue; and WW Norton's 56,782 square feet at 500 Fifth Avenue.

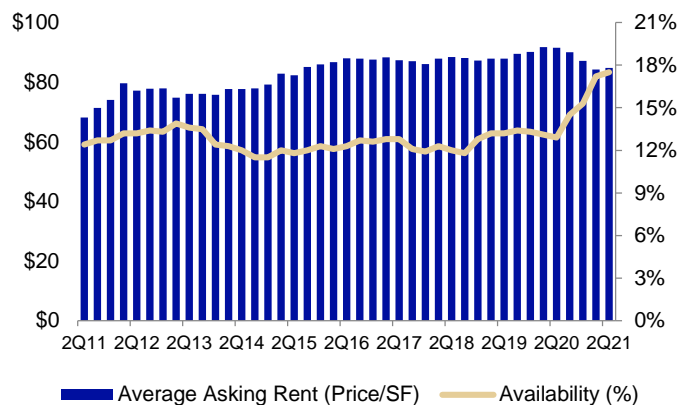
New Tenant Requirements

There have been 218 new tenants in the Manhattan market through the first half of 2021, looking for a total of 10.7 million square feet. Nearly half are currently located in Midtown, for a total of 5.5 million square feet.

More than 70.0% of the new tenants added in Midtown are from the FIRE and TAMI sectors. There are 15 tenants looking for more than 100,000 square feet each, and 33 tenants looking for 25,000 to 100,000 square feet each.

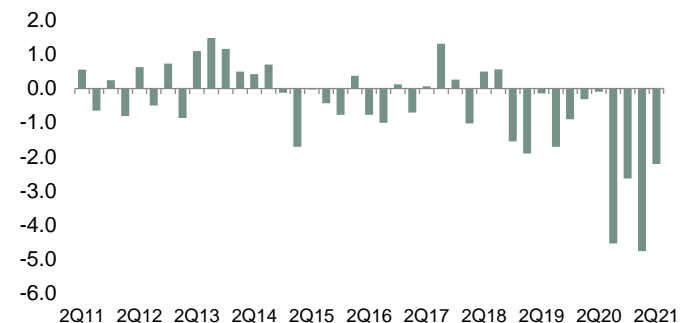
Class A

AVERAGE ASKING RENT (\$/SF) AND AVAILABILITY



Class A

NET ABSORPTION (SF, MILLIONS)



Midtown Lease Transactions

| Tenant | Market | Building | Type | Square Feet |
|-----------------------------------|---------------|----------------------|------------------|-------------|
| Sparc Group | Penn District | 11 Penn Plaza | Sublease New | 155,634 |
| Citadel Investment Group | Eastside | 601 Lexington Avenue | Direct Extension | 143,298 |
| Schrodinger | Times Square | 1540 Broadway | Direct New | 126,222 |
| Stone Ridge Asset Management, LLC | Grand Central | 1 Vanderbilt Avenue | Direct New | 97,652 |
| Empire Health Choice/Anthem | Penn District | 1 Penn Plaza | Direct New | 72,721 |

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 | 293,399,495 | 10,586,328 | 17.8% | (2,522,105) | (8,388,109) | \$83.64 | \$59.46 | \$78.29 |
| Eastside | 24,873,390 | 0 | 22.7% | (324,983) | (818,756) | \$77.01 | \$52.81 | \$74.07 |
| Far West Side | 14,978,159 | 9,662,418 | 14.1% | (1,043,698) | (1,069,842) | \$145.30 | \$89.92 | \$136.11 |
| Grand Central | 48,897,768 | 0 | 17.5% | (313,459) | (1,538,730) | \$77.38 | \$59.86 | \$73.39 |
| Murray Hill | 7,901,296 | 0 | 19.2% | (94,967) | (358,480) | \$62.05 | \$49.40 | \$59.34 |
| Park Avenue | 25,983,580 | 0 | 16.2% | (60,983) | (323,169) | \$112.68 | \$70.33 | \$103.52 |
| Penn District | 22,418,031 | 923,910 | 13.5% | 33,015 | (554,846) | \$69.43 | \$57.20 | \$63.71 |
| Plaza District | 26,205,352 | 0 | 19.7% | (292,972) | (412,150) | \$102.05 | \$78.57 | \$99.70 |
| Sixth Ave/Rock Center | 45,329,301 | 0 | 13.1% | (60,158) | (820,083) | \$85.56 | \$58.33 | \$79.11 |
| Times Square | 14,834,999 | 0 | 26.7% | 103,262 | (1,181,488) | \$78.17 | \$64.28 | \$76.54 |
| Times Square South | 35,996,446 | 0 | 18.8% | (316,474) | (985,994) | \$55.24 | \$47.33 | \$53.07 |
| Westside | 25,981,173 | 0 | 20.3% | (150,688) | (324,571) | \$77.38 | \$60.75 | \$72.45 |
| Midtown South | 78,838,976 | 3,802,519 | 19.1% | (2,074,020) | (3,760,680) | \$82.99 | \$64.75 | \$77.76 |
| Chelsea | 30,675,281 | 1,315,110 | 18.7% | (860,172) | (1,742,067) | \$75.68 | \$66.20 | \$72.38 |
| East Village | 1,712,321 | 301,321 | 29.7% | (91) | (2,015) | \$86.10 | NA | \$86.10 |
| Flatiron/Union Square | 24,193,279 | 1,015,035 | 21.9% | (997,061) | (1,431,836) | \$86.97 | \$62.86 | \$81.36 |
| Hudson Sq./Meatpacking | 11,664,891 | 988,866 | 15.3% | (166,134) | (260,353) | \$93.16 | \$64.07 | \$80.50 |
| NoHo/SoHo | 10,593,204 | 182,187 | 16.3% | (50,562) | (324,409) | \$82.32 | \$64.65 | \$79.30 |
| Downtown | 95,768,877 | 100,172 | 21.1% | (4,913,802) | (7,038,819) | \$63.34 | \$50.48 | \$60.06 |
| Downtown East | 50,382,484 | 80,000 | 24.6% | (4,588,884) | (5,746,939) | \$60.19 | \$45.32 | \$57.02 |
| Downtown West | 36,676,367 | 0 | 18.3% | (254,221) | (906,308) | \$67.23 | \$56.83 | \$63.58 |
| Tribeca/City Hall | 8,710,026 | 20,172 | 12.6% | (70,697) | (385,572) | \$78.03 | \$41.37 | \$73.04 |
| Manhattan | 468,007,348 | 14,489,019 | 18.7% | (9,509,927) | (19,187,608) | \$78.82 | \$58.30 | \$73.89 |

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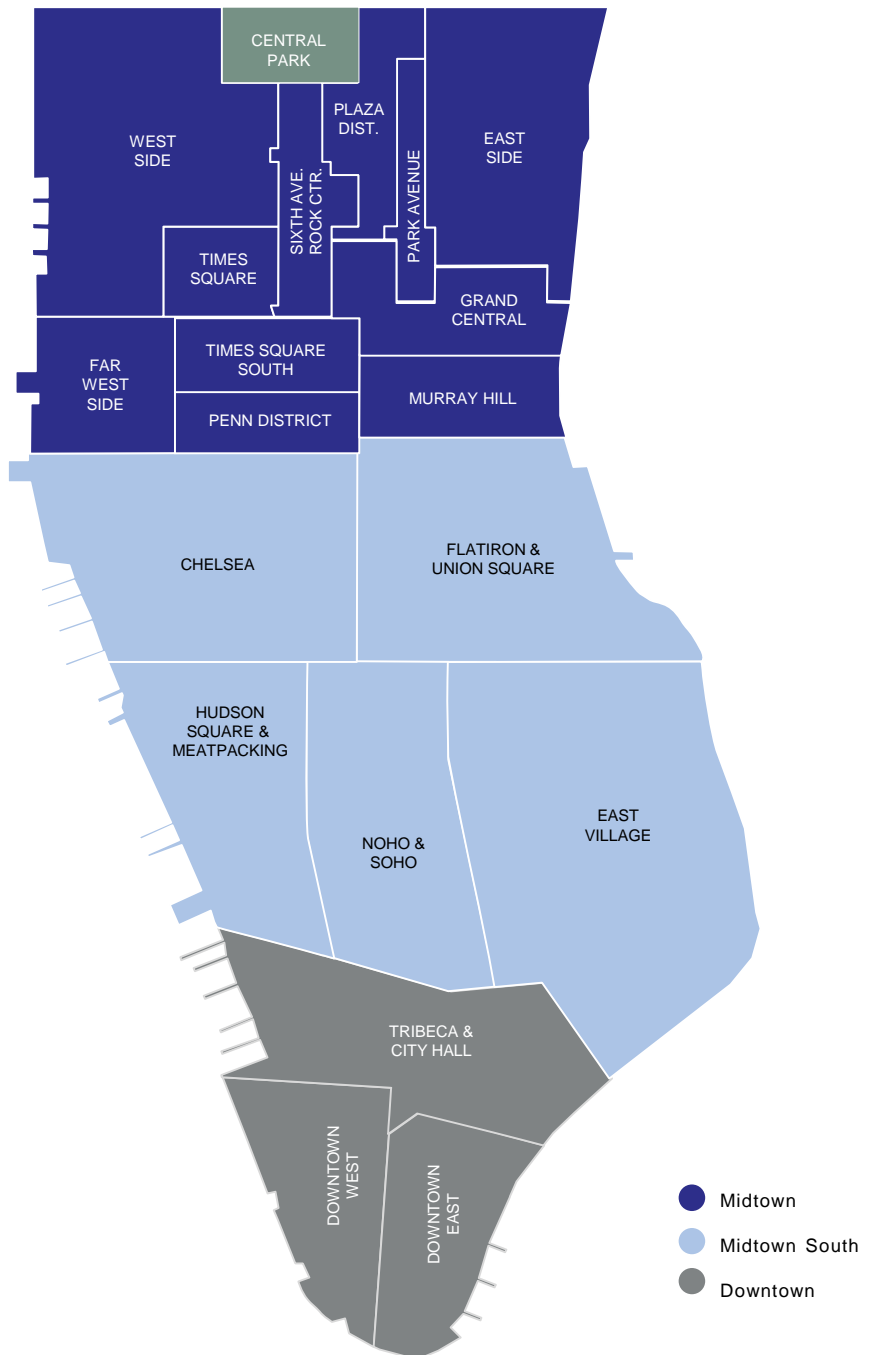
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