

# Manhattan Office Market

## Leasing Activity Declines Despite Demand for New Product

Leasing activity closed the second quarter at 7.5 million square feet, down 14.1% quarter over quarter. Despite this decline, demand for Class A space rose, particularly in new supply. Similarly, overall velocity is up 3.3% year over year, while Class A velocity surged 31.5% year over year. The trend is even more prevalent in Midtown, where Class A activity is up 50.3% year over year.

The Manhattan availability rate increased 40 basis points quarter over quarter to 19.1%, driven by two contiguous large block additions: subleases from Freshfields and Peloton, at 601 Lexington Avenue and 441 Ninth Avenue, respectively. Each major market saw its availability rate increase from the prior quarter. Midtown South availability rose 100 basis points to 18.5%, and Downtown increased 80 basis points to 22.0%. With declining leasing activity and increased availability, quarterly absorption posted at negative 2,294,506 square feet.

Manhattan asking rents decreased by \$1.03/SF, or 1.3%, from the first quarter to \$76.14/SF. The Far West Side and Park Avenue posted the largest quarter-over-quarter decreases as several leases were signed in new Class A construction within those submarkets. Overall asking rents remain \$5.57/SF, or 6.8%, below the pre-pandemic high of \$81.71/SF. Rents dropped in 15 of the 19 Manhattan submarkets, held steady in three and jumped by more than \$1.00/SF in just one: Hudson Square/Meatpacking.

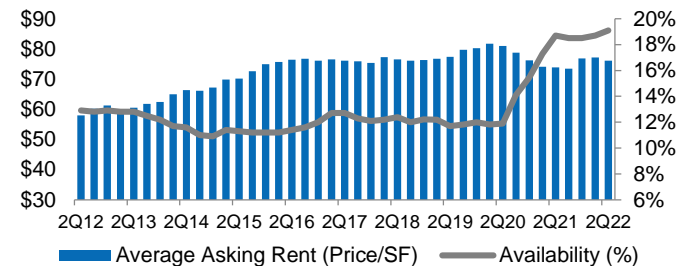
The development pipeline remains robust with 10.6 million square feet under construction, following the delivery of 2.85 million square feet at 50 Hudson Yards during the first quarter. That site is currently 74.3% leased by Blackrock and Facebook. Three submarkets have more than one million square feet of new product under construction: the Far West Side, Hudson Square/Meatpacking and Flatiron/Union Square.

## Current Conditions

- Leasing activity in the second quarter totaled 7.5 million square feet, which was down 14.1% quarter over quarter, but increased in Class A product, especially new construction.
- Multiple large block additions and a drop in leasing drove Manhattan availability up 40 basis points to 19.1% from the first quarter.
- Manhattan asking rents decreased by \$1.03/SF, or 1.3%, from the first quarter to \$76.14/SF.

## Market Analysis

### ASKING RENT AND AVAILABILITY



### NET ABSORPTION (SF, MILLIONS)



## Market Summary

	Current Quarter	Prior Quarter	Prior Year	12-Month Forecast
Total Inventory	473.4 MSF	473.3 MSF	468.0 MSF	↑
Availability Rate	19.1%	18.7%	18.7%	↑
Quarterly Net Absorption	-2,294,506	-1,787,458	-9,509,927	↓
Avg. Ask Rent	\$76.14	\$77.17	\$73.89	↓
Under Const.	10.6 MSF	13.1 MSF	14.5 MSF	↑
Deliveries	2.85 MSF	81,000 SF	178,878 SF	↑

## Midtown

### New Construction Draws Leasing Activity

Midtown leasing activity was recorded at 5.4 million square feet, just 4.1% below first-quarter levels, but a 33.1% improvement year over year. Activity was spurred by large leases in new construction. The largest transaction of the quarter was signed by HSBC Bank for 263,762 square feet at 66 Hudson Boulevard. The bank took three full floors and two partial floors in its move from 452 Fifth Avenue. Turner Construction and Och Spine Hospital also leased 86,944 square feet and 75,000 square feet in the building, respectively. At 2 Manhattan West, Clifford Chance took 175,000 square feet and Crowell & Moring leased two floors for 71,758 square feet. Macquarie Group also leased six floors at the redeveloped 660 Fifth Avenue in the Plaza District. At 425 Park Avenue, Citadel expanded its footprint by an additional 83,882 square feet.

This volume of activity in Class A product is further evidence of the flight to quality seen in the market. Over the past year, Class A Midtown velocity is up 50.3%, versus 33.1% for overall activity. Deals in Class A space also accounted for 82.0% of all space leased in Midtown.

The overall Midtown availability rate increased just 10 basis points from last quarter to 18.3%. Strong leasing activity largely offset the four block additions of at least 50,000 square feet that came to market at 601 Lexington Avenue, 441 Ninth Avenue, 2 Park Avenue and 50 Hudson Yards. Despite absorption again posting negative, there was an improvement of 145,801 square feet from the first quarter.

Midtown average asking rents decreased by \$1.15/SF from the first quarter to \$81.40/SF. Although rents declined in eight of the 11 Midtown submarkets, the largest decreases were recorded in the Far West Side and Park Avenue, where rents dropped \$10.10/SF and \$2.73/SF as a result of robust leasing in new construction and trophy product.

## Midtown South

### Availability Rate Rises as Velocity Fails to Maintain First-Quarter Pace

After Midtown South leasing activity eclipsed two million square feet in the first quarter, reaching its highest levels in nearly three years, activity decreased 41.1% quarter over quarter. Of the 1.3 million square feet leased this quarter, the largest deal was signed by Wellington Management for four floors across 70,711 square feet at the recently delivered 799 Broadway in Noho/Soho. Other notable deals were signed in new construction at 141 Houston Street, where Solana took four floors spanning 21,501 square feet; 124 E. 14th Street, where Key Bank leased a 15,240-square-foot floor; and 817 Broadway, where Netflix and Bullish each took single floors.

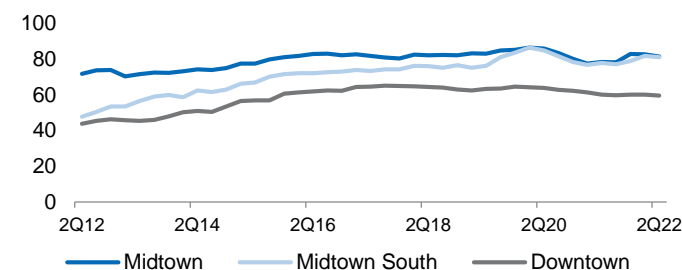
With limited leasing activity, the Midtown South availability rate closed at 18.5%, a quarter-over-quarter increase of 100 basis points. This marked the end of three consecutive quarters in which availability decreased. The greatest increases were recorded in Noho/Soho, Chelsea and the East Village, with jumps of 270, 150 and 130 basis points, respectively.

Midtown South asking rents were recorded at \$80.97/SF, a decrease of \$0.73/SF, or 0.1%, quarter over quarter. Average rental rates in Noho/Soho dropped \$5.41/SF to \$80.12/SF— the largest change from last quarter among the five submarkets. The greatest increase was recorded in Hudson Square/Meatpacking, where rents jumped \$2.39/SF to \$92.67/SF, the most expensive submarket rents in Midtown South.

After 81,000 square feet delivered at 541 W. 21st Street last quarter, 3.8 million square feet remains under construction. Several new developments are expected to bring a total 1.1 million square feet of new inventory to the market in 2022. New developments to recently break ground include the 195,000-square-foot Hudson Arts Building at 220 Eleventh Avenue and the 41,492-square-foot building at 99 Tenth Avenue in Chelsea.

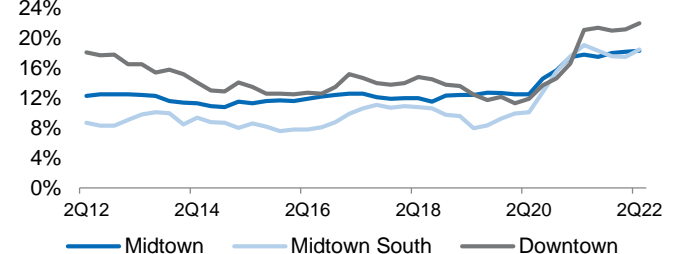
### Average Asking Rent By Submarket

#### AVERAGE ASKING RENT (\$/SF)



### Availability By Submarket

#### AVAILABILITY RATE (%)



## Downtown

### Sublease Space Drives Rising Availability Rate

The Downtown availability rate closed the quarter at 22.0%, an increase of 80 basis points quarter over quarter. Sublease space accounts for 28.0% of overall available space Downtown, with the greatest percentage recorded in Downtown West, where 37.1% of all available space is sublease availability. Downtown saw three sublease blocks of 50,000 square feet or greater added during the second quarter. Dotdash listed 68,230 square feet at 28 Liberty Street, Orchard Technologies listed 65,489 square feet at 195 Broadway and MediaMath listed 58,169 square feet at 4 World Trade Center.

The two largest deals of the quarter were signed at Seven World Trade Center, where Capstone Investment Advisors signed a

51,445-square-foot renewal and Motive Partners completed a sublease for 43,285 square feet. Downtown leasing decreased for the fourth consecutive quarter, closing at 711,816 square feet, a drop of 14.9% quarter over quarter. The largest direct relocation was at the newly renovated 100 Pearl Street, where Open Squash signed a lease for 22,915 square feet. Downtown activity posted a total 1.4 million square feet of velocity in the first half of the year.

Asking rents were stable, closing at \$59.49/SF, down \$0.49/SF quarter over quarter. Rents in Downtown East and Downtown West decreased by \$0.42/SF and \$0.55 from last quarter, falling to \$55.72/SF and \$63.95/SF, respectively.

### Midtown Lease Transactions

Tenant	Market	Building	Type	Square Feet
HSBC Bank USA	Far West Side	66 Hudson Boulevard	Direct New	263,762
Macquarie Group	Plaza District	660 Fifth Avenue	Direct New	221,764
Houlihan Lokey	Park Avenue	245 Park Avenue	Direct Renewal	183,965
Clifford Chance	Far West Side	2 Manhattan West	Direct New	175,000
Perella Weinberg	Plaza District	767 Fifth Avenue	Direct Renewal	125,000

### Midtown South Lease Transactions

Tenant	Market	Building	Type	Square Feet
Wellington Management	Noho/Soho	799 Broadway	Direct New	70,711
Tory Burch	Chelsea	11 West 19th Street	Direct Renewal	34,400
Prosek Partners	Flatiron/Union Square	63 Madison Avenue	Direct New	34,000
SAE Institute	Chelsea	218 West 18th Street	Direct Renewal	27,008
OpenSea	Hudson Square/Meatpacking	161 Avenue of the Americas	Sublease New	22,479

### Downtown Lease Transactions

Tenant	Market	Building	Type	Square Feet
Capstone Investment Advisors	Downtown West	7 World Trade Center	Direct Renewal	51,445
Motive Partners	Downtown West	7 World Trade Center	Sublease New	43,285
Fiserv	Downtown West	1 Broadway	Direct Expansion	40,000
Berkshire Hathaway Specialty Insurance	Downtown East	85 Broad Street	Sublease New	38,407
Open Squash	Downtown East	100 Pearl Street	Direct New	22,915

## 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)
<b>Midtown</b>	<b>298,195,502</b>	<b>6,812,418</b>	<b>18.3%</b>	<b>(850,274)</b>	<b>(1,905,951)</b>	<b>\$85.61</b>	<b>\$64.11</b>	<b>\$81.40</b>
Eastside	24,819,196	0	23.2%	(309,245)	(338,509)	\$74.71	\$53.73	\$72.19
Far West Side	19,634,299	6,812,418	25.5%	(758,854)	(797,394)	\$147.81	\$107.23	\$138.14
Grand Central	48,897,768	0	17.9%	169,521	(410,222)	\$74.13	\$54.88	\$70.05
Murray Hill	7,930,696	0	20.8%	67,961	45,800	\$62.55	\$45.95	\$60.27
Park Avenue	25,983,580	0	12.7%	381,072	175,836	\$103.52	\$67.98	\$96.92
Penn District	22,418,031	0	21.0%	(190,051)	(299,253)	\$90.40	\$55.32	\$81.19
Plaza District	26,259,846	0	18.3%	(159,997)	(380,001)	\$98.60	\$94.45	\$98.19
Sixth Ave/Rock Center	45,329,301	0	12.7%	(195,277)	(458,519)	\$83.99	\$61.01	\$79.61
Times Square	14,834,999	0	24.5%	79,261	456,214	\$81.13	\$69.86	\$80.08
Times Square South	35,906,746	0	15.5%	39,444	156,117	\$53.94	\$43.92	\$52.05
Westside	26,181,040	0	22.1%	25,891	(56,020)	\$85.61	\$60.02	\$71.20
<b>Midtown South</b>	<b>79,473,663</b>	<b>3,752,690</b>	<b>18.5%</b>	<b>(466,554)</b>	<b>(1,187,165)</b>	<b>\$84.47</b>	<b>\$69.74</b>	<b>\$80.97</b>
Chelsea	30,874,333	866,492	17.3%	(191,137)	(209,564)	\$74.33	\$66.15	\$72.25
East Village	1,712,321	240,387	23.3%	31,050	2,924	\$86.81	\$72.87	\$86.75
Flatiron/Union Square	24,193,279	1,049,035	22.0%	(67,869)	(169,983)	\$88.62	\$69.15	\$84.17
Hudson Sq./Meatpacking	11,986,799	1,596,796	20.0%	(56,573)	(712,311)	\$100.08	\$72.68	\$92.67
NoHo/SoHo	10,706,931	0	11.8%	(182,025)	(98,231)	\$79.02	\$84.57	\$80.12
<b>Downtown</b>	<b>95,781,076</b>	<b>0</b>	<b>22.0%</b>	<b>(808,216)</b>	<b>(1,014,951)</b>	<b>\$63.51</b>	<b>\$48.82</b>	<b>\$59.49</b>
Downtown East	50,382,484	0	26.1%	(404,886)	(434,101)	\$59.31	\$43.65	\$55.72
Downtown West	36,688,566	0	18.7%	(387,327)	(499,582)	\$69.36	\$55.07	\$63.95
Tribeca/City Hall	8,710,026	0	12.3%	(16,003)	(81,268)	\$83.83	\$43.31	\$78.23
<b>Manhattan</b>	<b>473,450,241</b>	<b>10,289,922</b>	<b>19.1%</b>	<b>(2,124,950)</b>	<b>(4,108,067)</b>	<b>\$80.55</b>	<b>\$60.59</b>	<b>\$76.14</b>

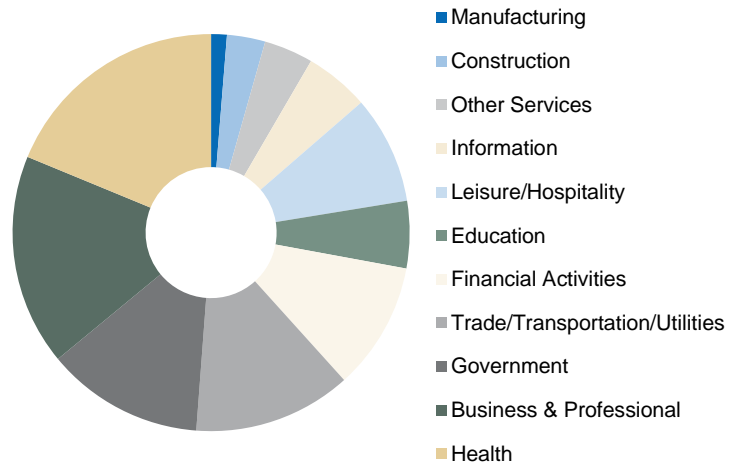
### Economic Conditions

The national unemployment rate remained strong, closing May at 3.4%, a month-over-month increase of 10 basis points, but 210 basis points below the previous year. Unemployment indicators continue to improve, but inflation remains a paramount concern. The national Consumer Price Index increased by 8.6% year over year, with a more modest 2.9% increase recorded in the New York City CPI. The Fed has signaled it will continue to raise interest rates to combat inflation, creating uncertainty in capital markets and impacting business confidence in some industries.

The New York City unemployment rate continues to hover above the national rate but declined in May to its lowest point in more than two years, closing at 5.7%. Job growth has also improved, up 7.4% year over year. The information and professional and business services sectors outpaced overall job growth, closing at 8.9% and 8.6%, respectively.

### Employment By Industry

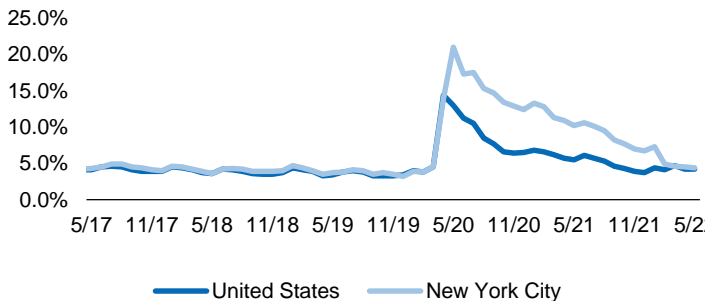
#### NEW YORK CITY, FEBRUARY 2022



Source: New York State Department of Labor

### Unemployment Rate

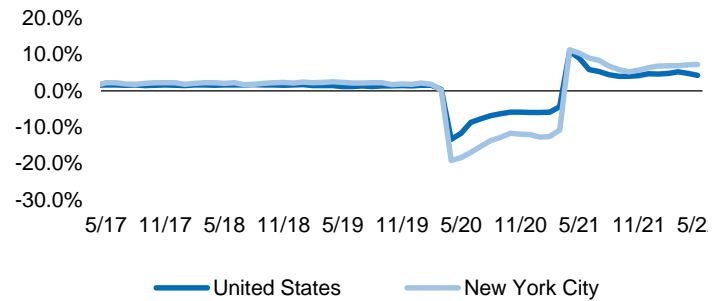
#### NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

### Payroll Employment

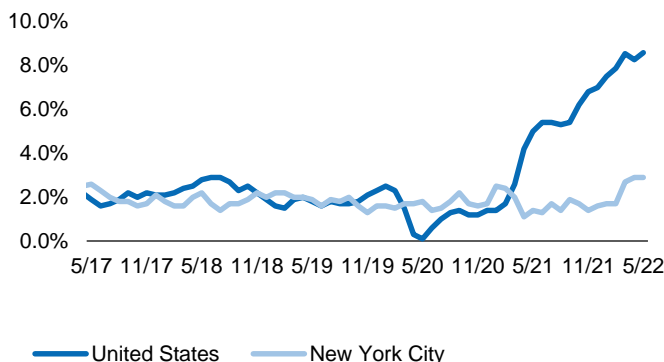
#### TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

### Consumer Price Index (CPI)

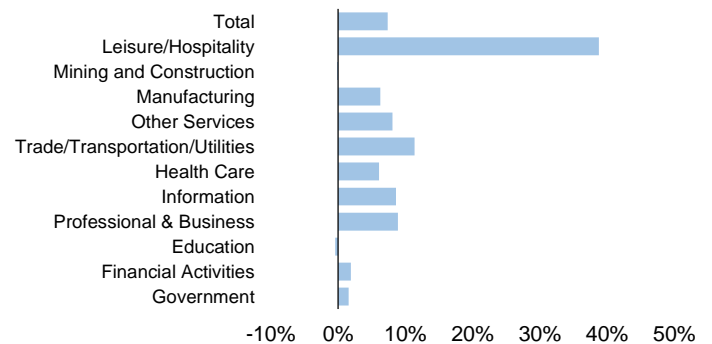
#### ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

### Employment Growth By Industry

#### NYC, FEBRUARY 2022, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: New York State Department of Labor

For more information:

**New York Headquarters**

125 Park Ave.  
New York, NY 10017  
t 212-372-2000

**Jonathan Mazur**

Senior Managing Director  
212-372-2154  
Jonathan.Mazur@nrmk.com

**Stephanie Jennings**

Managing Director  
212-372-2099  
Stephanie.Jennings@nrmk.com

**Carly Barwick**

Senior Research Analyst

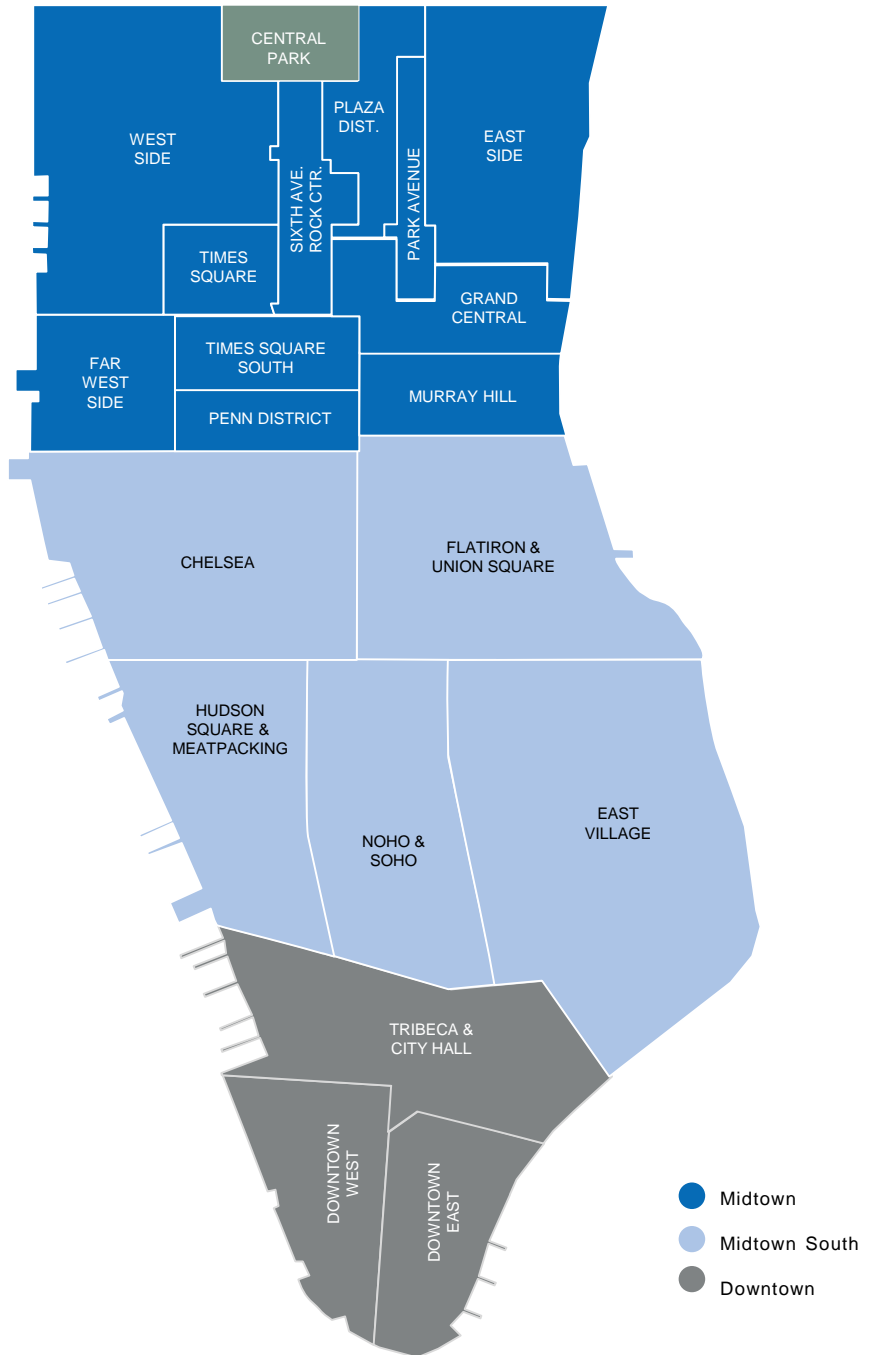
**Michael Miceli**

Associate Director, Research

**Ronnie Wagner**

Director, Research

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