

MIDTOWN SOUTH OFFICE MARKET

COVID-19 SLOWS HEALTHY MIDTOWN SOUTH MARKET

The outbreak of COVID-19 brought the Midtown South market to a standstill in March, a change of course for the typically strong market. In 2019, Midtown South activity reached its highest levels in four years, propelled by a surge in TAMI deals. By the end of this first quarter, leasing activity stalled to the lowest quarterly levels since the third quarter of 2016. Velocity was recorded at approximately 876,000 square feet, a quarter-over-quarter decline of 43.4%. It was also 39.2% below the five-year first-quarter average for Midtown South. The largest lease in the first quarter was a 60,000-square-foot renewal and expansion by Vitech Systems Group at 401 Park Avenue South.

The availability rate increased for the third consecutive quarter to 9.9%. The quarter-over-quarter increase of 60 basis points can be largely attributed to the Flatiron Building becoming available. The delivery of new inventory to the market also contributed to the increased availability. The two most notable developments to hit the market included 205 West 28th Street at 102,948 square feet, and 76 Eighth Avenue at 36,546 square feet. For the second straight quarter, the addition of new supply outweighed leasing activity, resulting in negative 726,252 square feet of absorption. This marked the third consecutive quarter of negative absorption, following five straight quarters of positive absorption, dating back to 2Q18 through 2Q19.

In addition to 205 West 28th Street, two other buildings delivered in the first quarter: 44 Union Square East and 405-409 West 13th Street. Renovations were also completed at 150 Fifth Avenue, which was fully leased to MasterCard in 2017. The other three properties have yet to find their first tenants. Before non-essential construction was halted by the governor to address the COVID-19 outbreak, approximately 553,000 square feet of space was slated to deliver by year's end. The largest development set to deliver in 2020, Essex Crossing, will house 353,501 square feet. It remains to be seen how extensive the delays in construction will be.

New construction played a key role in the market in the early part of the quarter, once again setting a new asking rent record at \$86.35/SF. This marked the first time on record that the Midtown South average surpassed that of Midtown, which was recorded at \$86.28/SF. Midtown South asking rents surged over the past year, increasing 14.9% since 1Q19.

CURRENT CONDITIONS

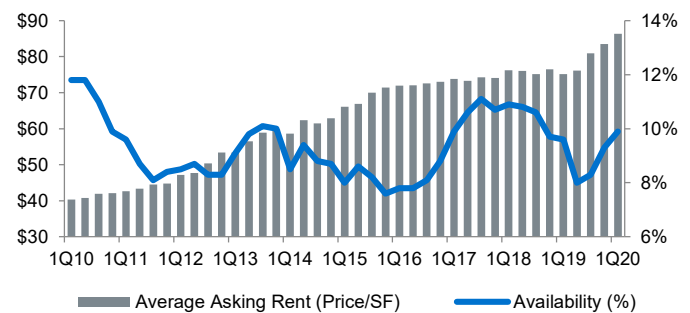
As COVID-19 essentially halted all new leases in March, the availability rate continued to increase, closing the first quarter at 9.9%.

Leasing velocity reached its lowest level in more than three years, failing to eclipse one million square feet.

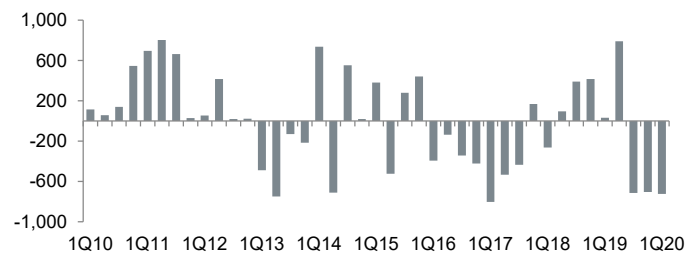
Nearly 3 million square feet are under construction in Midtown South across all five submarkets. Since office construction was stopped by the governor, delays in delivery are likely.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	76.6 MSF	76.3 MSF	74.7 MSF	↑
Availability Rate	9.9%	9.3%	9.6%	↑
Quarterly Net Absorption	-726,252	-705,323	31,612	↓
Average Asking Rent	\$86.35	\$83.53	\$75.14	↓
Under Construction	2.9 MSF	2.6 MSF	1.3 MSF	↑
Deliveries	0.5 MSF	0 MSF	0.2 MSF	↑

AVAILABILITY RATE CONTINUES TO INCREASE

With COVID-19 hindering many building tours, leasing activity did not offset the addition of new blocks. As a result, the Midtown South availability rate increased to 9.9%, up for the third consecutive quarter from what was a three-year low of 8.0% in the second quarter of 2019. Availability increased in all submarkets with the exception of NoHo/SoHo. Hudson Square/Meatpacking saw the largest quarter-over-quarter increase, at 1.3 percentage points, to 7.5%. In addition to new construction, this rise was driven by the addition of new sublease space to the market. Juul made 53,367 square feet available at One SoHo Square, with an additional 51,192 square feet listed at 330 Hudson Street. The availability rate in Flatiron/Union Square increased by 90 basis points from last quarter, after 205,007 square feet at the Flatiron Building came on the market as the market's only new large block of available space. Given the submarket's limited inventory, the East Village maintained the highest availability rate at 25.7%, as Essex Crossing has yet to sign its first office tenant.

5.9 MILLION SQUARE FEET IN THE PIPELINE

Approximately 2.9 million square feet are currently under construction in Midtown South, with an additional 3.0 million square feet in the pipeline. The 24 developments encompassing nearly 6.0 million square feet are dispersed across Midtown South's five submarkets. The largest projects include Google's 550 Washington Street, Morgan North, Alexandria North, Essex Crossing, and 220 Eleventh Avenue. With the exceptions of 550 Washington

and Morgan North, where Dentsu signed for 322,000 square feet last quarter, none of the projects in the pipeline have found an anchor tenant.

ASKING RENTS INCREASE ACROSS FOUR SUBMARKETS

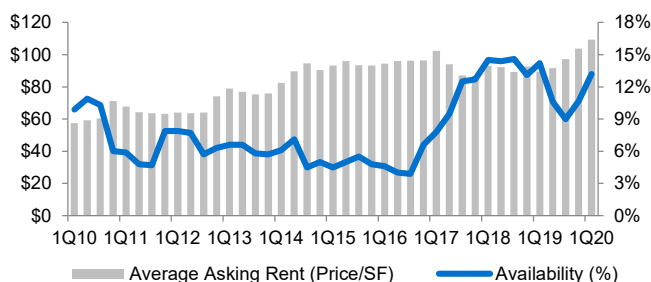
Asking rents in Midtown South increased across the four largest Midtown South submarkets by at least \$2.00/SF from last quarter. These improvements were driven by new construction and pre-COVID-19 conditions. Hudson Square/Meatpacking posted the largest quarter-over-quarter gains at \$4.93/SF, surpassing \$100.00/SF. The submarket's rent increase was driven by the same new construction and sublease space that propelled its availability upwards. Similarly, the Flatiron Building's extensive renovations drove Flatiron/Union Square's rent increase up to \$87.14/SF, and the delivery of 205 West 28th Street in Chelsea resulted in a \$2.26/SF increase in Chelsea asking rents.

CO-WORKING TAKES A HIT IN THE FIRST QUARTER

Co-working and flex providers suffered a difficult quarter, in which leading companies like WeWork, Knotel, Industrious and Convene shed staff. Just two co-working leases were signed in Midtown South during the first quarter, both of which were in January and February. Breather inked a deal at 734 Broadway for 13,200 square feet and Knotel took 11,500 square feet at 6-8 West 28th Street. More than 70% of co-working space in Midtown South is in the Flatiron/Union Square and Chelsea submarkets.

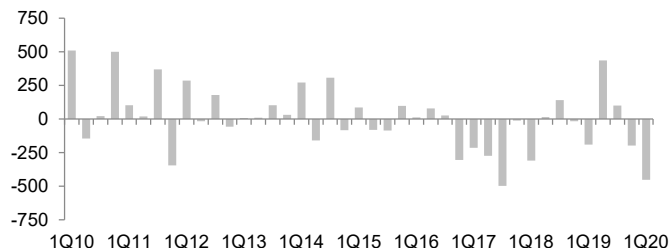
Class A

Average Asking Rent (\$/SF) and Availability



Class A

Net Absorption (Square Feet, Thousands)

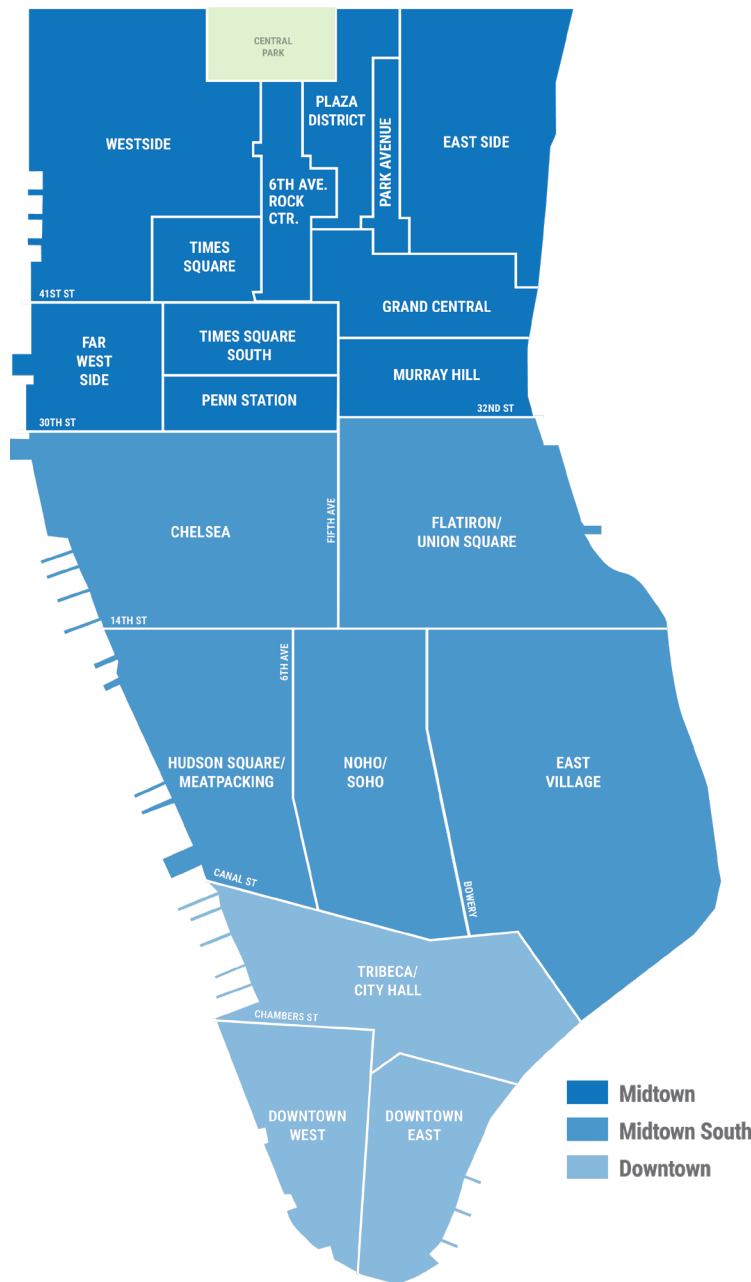


MIDTOWN SOUTH LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Vitech Systems Group	401 Park Avenue South	Flatiron/Union Square	Direct Renewal & Expansion	60,000
Teachable	470 Park Avenue South	Flatiron/Union Square	Sublease New	30,299
FIG Agency	67-73 Spring Street	NoHo/SoHo	Direct New	25,000
Shopify	148 Lafayette Street	NoHo/SoHo	Subsublease New	24,630
Public Clothing Company	151 West 26th Street	Chelsea	Direct New	17,610

SUBMARKET STATISTICS

	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	288,690,125	13,114,527	12.5%	-744,315	-744,315	\$89.63	\$68.06	\$86.28
Eastside	24,719,163	0	16.8%	104,055	104,055	\$77.72	\$56.13	\$76.00
Far West Side	11,748,159	9,662,418	4.9%	45,937	45,937	\$118.48	\$63.12	\$112.73
Grand Central	47,556,123	1,732,955	11.7%	-131,142	-131,142	\$91.73	\$59.35	\$88.14
Murray Hill	7,837,204	0	11.2%	-59,564	-59,564	\$63.47	\$58.53	\$62.73
Park Avenue	26,969,382	705,244	10.8%	150,529	150,529	\$114.08	\$75.99	\$109.13
Penn Station	22,054,602	923,910	12.0%	226,963	226,963	\$95.55	\$59.81	\$83.81
Plaza District	26,733,087	0	16.8%	-212,089	-212,089	\$115.27	\$99.88	\$113.16
Sixth Ave/Rock Center	45,231,157	90,000	10.4%	-193,824	-193,824	\$88.12	\$76.31	\$86.34
Times Square	14,663,247	0	17.3%	-15,938	-15,938	\$82.85	\$67.91	\$81.49
Times Square South	35,474,092	65,000	9.1%	--51,676	--51,676	\$58.04	\$53.20	\$57.09
Westside	25,703,909	0	17.3%	-607,566	-607,566	\$80.05	\$66.67	\$76.97
Midtown South	76,559,240	2,936,281	9.9%	-726,252	-726,252	\$88.54	\$77.54	\$86.35
Chelsea	26,409,142	1,016,469	9.5%	-257,139	-257,139	\$74.68	\$71.89	\$74.00
East Village	1,772,657	414,435	25.7%	-8,163	-8,163	\$89.16	\$59.00	\$88.93
Flatiron/Union Square	26,784,800	268,560	10.6%	-259,488	-259,488	\$89.89	\$72.17	\$87.14
Hudson Sq./Meatpacking	11,797,533	988,866	7.5%	-208,514	-208,514	\$110.27	\$94.75	\$104.04
NoHo/SoHo	9,795,108	247,951	9.1%	7,052	7,052	\$103.94	\$75.86	\$100.57
Downtown	95,272,939	80,000	11.3%	704,358	704,358	\$65.92	\$57.63	\$64.18
Downtown East	49,946,372	80,000	10.7%	245,643	245,643	\$59.18	\$49.24	\$57.63
Downtown West	36,616,541	0	12.7%	485,856	485,856	\$70.18	\$62.35	\$67.84
Tribeca/City Hall	8,710,026	0	8.8%	-27,141	-27,141	\$89.00	\$71.02	\$88.48
Manhattan	460,522,304	16,130,808	11.8%	-766,209	-766,209	\$84.81	\$66.86	\$81.71



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