



COVID-19 disruption shuts down New York market, occupiers shift focus to cash management

On Friday March 20th, Governor Andrew Cuomo took unprecedented action and shut down non-essential businesses across the New York region. Mandated isolation and remote working guidelines were implemented with the intent to reduce the spread of COVID-19. Retail storefronts closed and office buildings quickly reduced “in place” occupancy levels to well below 10.0% in the final full week of March. Corporate occupiers will continue to prioritize cash preservation as they explore rental abatement strategies and review business interruption policies. Landlords are bracing for inevitable cash shortfalls due to an anticipated increase in non-payments. Flexible office providers face the perfect storm of evaporated demand, ongoing high cash burn rates due to long-term lease commitments, and a general lack of capital sources as equity risk premiums spiked.

Medium-term uncertainty around impact leading to hedge structures in leases

There is little precedent for such an immediate and widespread economic shutdown across U.S. commercial markets. Current COVID-19 economic scenario forecasts are highly contingent upon how quickly and effectively the virus can be controlled, and the speed and efficacy of a public policy response in preventing structural damage to the economy. Even under the most optimistic scenarios, rising availability and lack of demand will place significant pressure on market pricing near-term. In the last market-wide decline experienced during the Great Recession, Class A taking rents were reduced by 31.4% from 2007 to 2010, while concessions increased by 28.2% in the same period (for new, long-term leases). Savvy occupiers that are executing leases in the coming months will likely look to index rents and concessions with acceptable benchmark indices in order to hedge against future downward pricing adjustments yet to be realized across the broader market.

Even before “March Madness” fundamentals pointed to slowing demand and increased availability

Prior to the onset of the COVID-19 crisis, first-quarter leasing activity totaled 7.9 million square feet (msf), the lowest first quarter total since 2016. Apple signed the largest Q1 lease, committing to 220,000 square feet at 11 Penn Plaza. Demand was primarily led by financial services (29.0% of total activity) and technology, advertising, media and information (27.0% of activity) occupiers. Currently availability is at 11.5%, up 80 basis points over the year, as sublease space swelled, increasing to 13.9 msf available. As a result, overall asking rents dipped 1.0% over the quarter to \$83.93 per square foot.

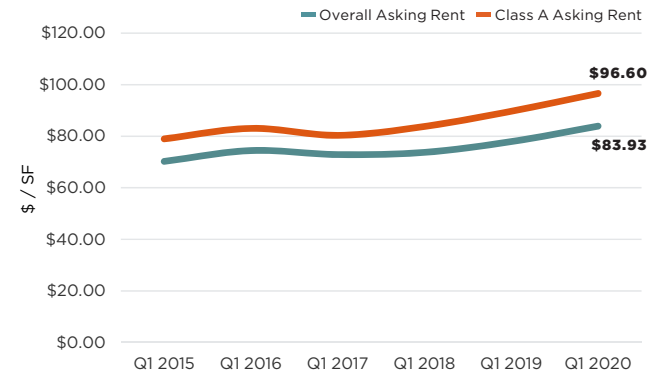
Outlook

- The current situation is evolving rapidly as daily impacts of the COVID-19 crisis on office fundamentals unfold; Q1 leasing activity was already below average and is expected to decline more in Q2
- Coworking space should be tracked closely as closure of some locations is likely; providers currently lease more than 14 msf across Manhattan (3.1% of inventory)
- Sublease supply is already rising; shadow space anticipated to grow rapidly as occupiers reassess demand and remote work scenarios

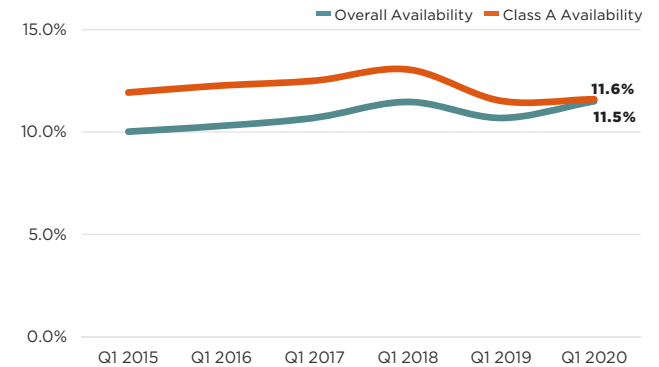
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	445.7 MSF	452.7 MSF	▲
Availability Rate	10.7%	11.5%	▲
Class A Asking Rental Rate	\$89.70	\$96.60	▲
Class A Taking Rental Rate	\$86.04	\$86.15	▲
Quarterly Leasing Activity	8.8 MSF	7.9 MSF	▼

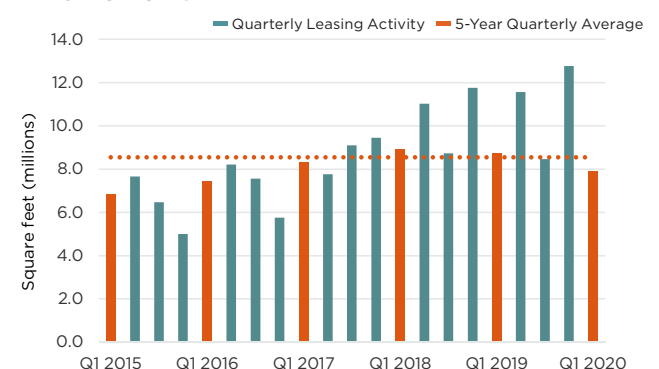
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



TOP 10 LEASING TRANSACTIONS

58.0%

of top transactions were **new locations and relocations** by square footage

32.3%

TAMI tenants accounted for 32.3% of top transactions by square footage

32.4%

of major transactions occurred in **Financial District** by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Apple	220,000	11 Penn Plaza	New Location	Penn Plaza/Times Square South	TAMI
Pace University	215,000	132 Nassau Street	New Location	Financial District	Education
L Brands	204,847	55 Water Street	Relocation	Financial District	Retail
MDC Partners	199,277	One World Trade Center	Relocation	WTC/Brookfield Place	TAMI
Cantor Fitzgerald	151,890	110 E 59th Street	Renewal	East Side / UN	Financial Services
Citadel	150,000	350 Park Avenue	Expansion	Plaza South	Financial Services
JLL	140,000	330 Madison Avenue	Renewal and Expansion	Grand Central	Real Estate
Fortress Investment Group	132,000	1345 Avenue of the Americas	Renewal	Columbus Circle	Financial Services
McLaughlin & Stern LLP	112,000	260 Madison Avenue	Renewal	Grand Central	Legal Services
Refinitiv	108,917	28 Liberty Street	Relocation	Financial District	TAMI

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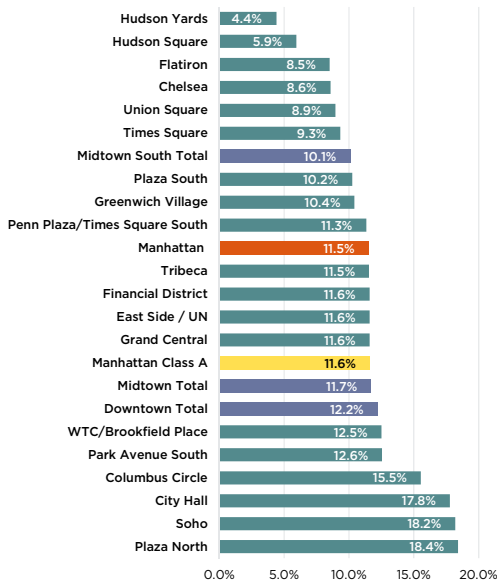
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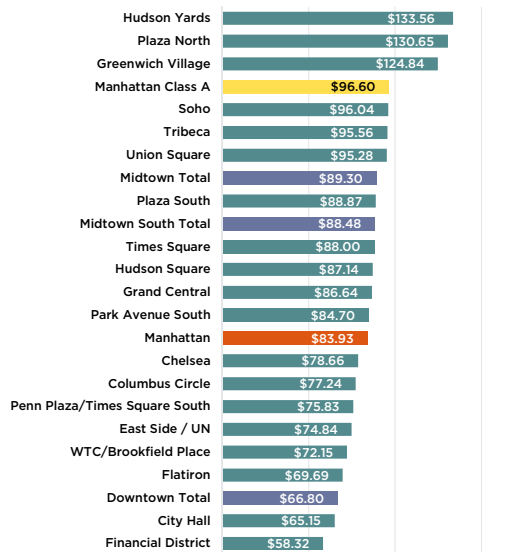
AVAILABILITY RATE COMPARISON

Manhattan Submarkets



RENTAL RATE COMPARISON (\$/SF)

Manhattan Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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