

## Leasing demand plummets to record low as pandemic keeps businesses at home

COVID-19 caused major dislocation within the Manhattan commercial office market during the second quarter of 2020. As virus control measures forced organizations to continue working remotely, many leasing decisions were put on a “pandemic pause.” Management teams re-evaluated strategic priorities, operating models, cost structures and, office space footprints. As a result, overall demand for office space plummeted. Second-quarter leasing activity totaled just 3.3 million square feet (msf), down 57.8% from Q1 and 71.2% year over year. Very few transactions over 100,000 square feet (sf) were seen. Many leases that were in stages of negotiation pre-COVID-19 were nudged across the finish line with additional last-minute incentives, some at a 10-20% discount to pre-pandemic term sheets.

### Availability rising as occupiers look to shed space

Availability rose by 120 basis points year over year to 11.8%. Multiple large blocks of sublease space were added to available inventory during the quarter, including 163,000 sf of space from Emblem Health at 55 Water Street and 151,000 sf of space from First Republic Bank at 410 Tenth Avenue. Sublet supply now accounts for 25.4% of total available space. In the last two market-wide downturns, sublease space accounted for as much as 44.0% of all available space. It is likely that more will hit the market in coming quarters, leading to a further softening in leasing conditions. As landlords reprice credit risk, we anticipate that tenants with strong credit that are capable of making real estate decisions in the current environment will benefit disproportionately with significant discounts to asking rents and expanded concession packages.

### Softening market conditions put downward pressure on asking rates, even as owners are hesitant to reprice

Manhattan’s asking rents have historically lagged economic indicators in previous downturns. This historical relationship continued to hold despite volatility in the economic markets and a significant increase in unemployment claims during the second quarter. With landlords standing firm on asking price, overall rents were down just 1.3% from Q1, now at \$82.86 per square foot (psf). Much of this drop is attributable to the addition of lower-than-market sublet spaces rather than widespread price cuts for direct availabilities. As tenants leverage highly discounted sublease pricing, we anticipate significant pressure on direct taking rents for the balance of 2020.

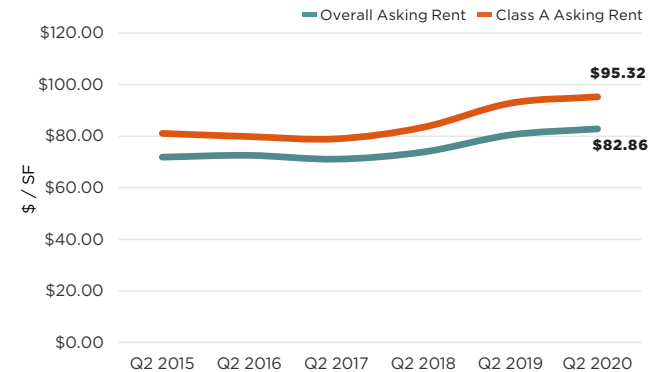
### Outlook

- Uncertainty and speculation will prevent wider immediate re-pricing until tenants begin leveraging shadow space opportunities and sublease pricing to transact later in 2020 & 2021
- With cost control imperative across many organizations, sublease space will drive supply-side increases through the remainder of the year
- Many real estate decisions will remain on “pandemic pause” until COVID-19 uncertainty fog clears

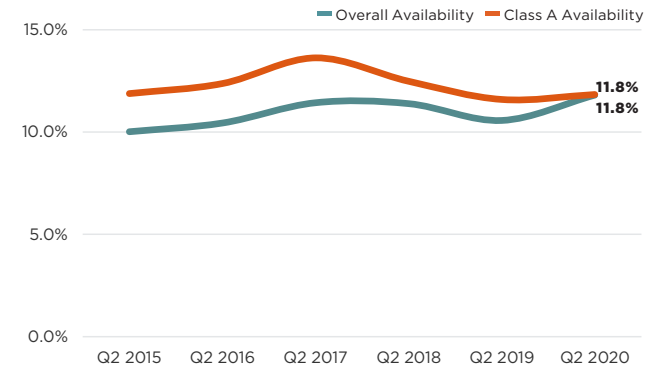
### KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	445.9 MSF	<b>453.3 MSF</b>	▲
Availability Rate	10.6%	<b>11.8%</b>	▲
Class A Asking Rental Rate	\$92.83	<b>\$95.32</b>	▲
Class A Taking Rental Rate	\$84.91	<b>\$84.39</b>	▼
Quarterly Leasing Activity	11.6 MSF	<b>3.3 MSF</b>	▼

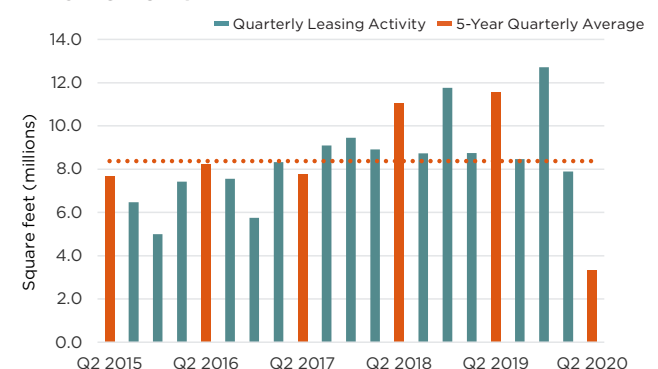
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



TOP 10 LEASING TRANSACTIONS

6 of 10

top transactions were renewals

34.3%

Financial Services tenants accounted for 34.3% of top transactions by square footage

44.4%

of major transactions occurred in Times Square by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
The U.S. Securities and Exchange Commission	241,339	100 Pearl Street	Relocation	Financial District	Government
TikTok	232,138	151 W 42nd Street	New Location	Times Square	TAMI
Allen & Overy LLP	143,331	1221 Avenue of the Americas	Renewal	Times Square	Legal Services
BNY Mellon	129,920	200 Park Avenue	Renewal	Grand Central	Financial Services
Piper Sandler Companies	117,929	1251 Avenue of the Americas	Renewal and Expansion	Times Square	Financial Services
Mitsubishi Corporation	116,694	655 Third Avenue	Renewal	Grand Central	Financial Services
PolicyGenius	85,526	32 Old Slip	Relocation	Financial District	TAMI
The D.E. Shaw Group	75,657	120 W 45th Street	Renewal	Times Square	Financial Services
Remedy Partners	74,349	685 Third Avenue	Relocation	Grand Central	TAMI
U.S. Department of Education Office for Civil Rights	65,796	32 Old Slip	Renewal	Financial District	Government

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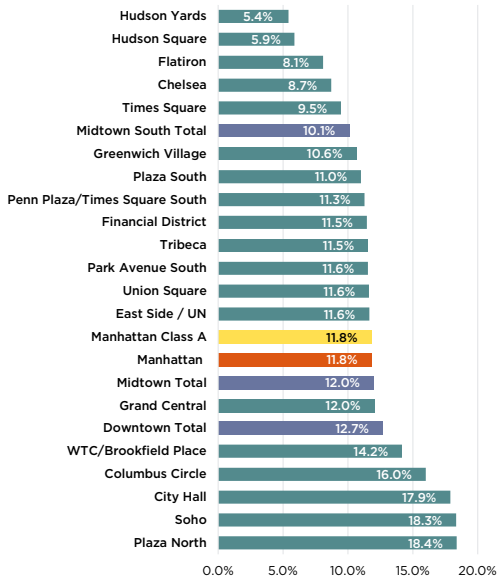
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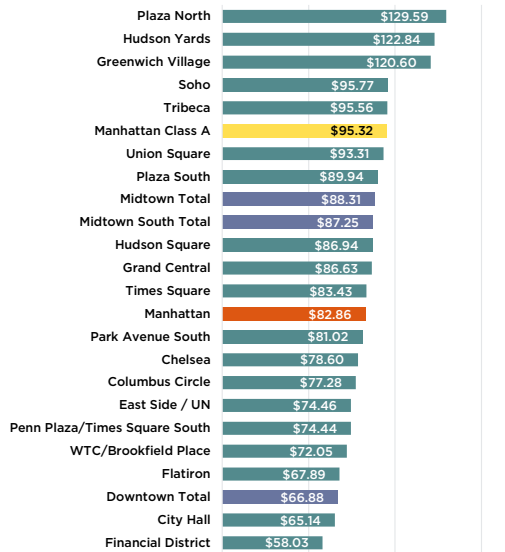
AVAILABILITY RATE COMPARISON

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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