



Occupancy & leasing tick up yet market still has a long road to “normal” ahead

New York is slowly rebounding from pandemic fallout with physical office occupancy increasing as tenants formulate return-to-office plans. According to Kastle Systems, office occupancy for the New York Metro was 21.7% in June, up from 13.9% in March. Renewed interest in re-occupancy has also led to more leasing. Activity reached 4.9 million square feet (msf) during the second quarter, up 21.8% from Q1. This marks the highest quarterly total since the onset of the pandemic. Still, demand volume remains well below a typical pre-pandemic quarter. Even if the market saw an unlikely return to the five-year quarterly average volume (8.5 msf) in Q3 and Q4 of this year, 2021 would still end the year 40% below pre-pandemic levels of activity. With new supply continuing to grow and availability edging closer to 20%, it is unlikely that the market will see a rebalance of supply-demand until late 2022 or beyond.

Sublet inventory declines, but a wave of new direct space pushes availability to 18.4%, Manhattan’s highest level in decades

Despite increased activity during the second quarter, supply continues to outpace demand. Manhattan’s overall availability rate is now at 18.4%, a 120-basis-point increase from the first quarter and representing a totally different market when compared to the 11.5% recorded in the first quarter of 2020. While surging sublease supply has been a major driver of spiking availability since the onset of the pandemic, its future impact on the market remains to be seen. Notably, dozens of tenants opted to re-occupy marketed space this quarter as return-to-office strategies were enacted, reducing overall sublease inventory for the first time since the pandemic. For those organizations planning on more flexible remote policies, it could result in the addition of new, long-term sublease blocks as workplace strategies continue. Direct availability saw a jump this quarter as several large direct spaces now within a year of occupancy (5 Times Square, 111 Wall Street, 295 Fifth Avenue, 80 Pine Street, 222 Broadway) led to a 7.1-msf increase in direct availability (now at 63.5 msf total).

Asking rents continue to decline, value of concessions up 17%

The addition of cheaper, long-term sublease space coupled with a dearth of direct options has led owners to lower overall asking rents by 8.8% over the year to \$75.60 per square foot (psf). However, a year-over-year increase in Class A taking rents highlights the current “flight to quality” and speaks more to tenant opportunity than any true increase in pricing, as the majority of deals occurring now are in high-end buildings and spaces. Even if starting rents for these options remain high, concessions continue to rise with the current value of free rent and tenant improvement allowances for long-term Class A leases up 17% from the beginning of 2020. For the first time since the pandemic, large tenants favored moving over staying in place with seven of the largest 10 transactions attributed to relocations. This shift - possibly to capitalize on softer market - conditions does not bode well for owners with significant near-term rollover, a notable point of leverage for tenants.

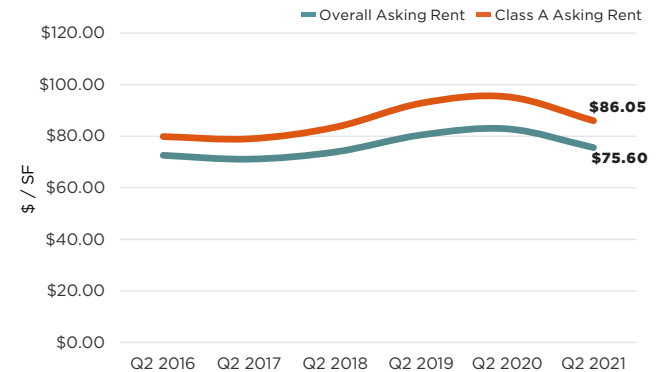
Outlook

- Even with renewed activity, tenants are facing a staggering number of options on the market and concession offerings will be aggressive amidst softer market dynamics
- Effective rents will continue to decline in the coming quarters
- Shifts in demographic patterns, particularly the fact that millennials have been buying homes in suburban locations at a fast clip, could result in stronger demand for transit-proximate locations (Grand Central, Penn Station) over those with a “cool” factor (Midtown South)

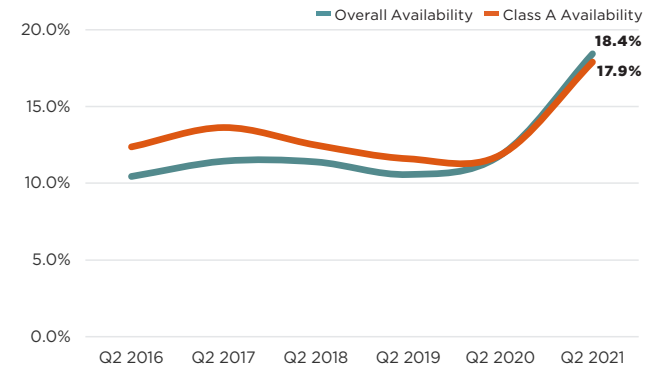
KEY STATISTICS

	Q2 2020	Q2 2021	y-o-y Change
Inventory	454.7 MSF	467.4 MSF	▲
Availability Rate	11.8%	18.4%	▲
Class A Asking Rental Rate	\$95.32	\$86.05	▼
Class A Taking Rental Rate	\$79.97	\$83.98	▲
Quarterly Leasing Activity	3.3 MSF	4.9 MSF	▲

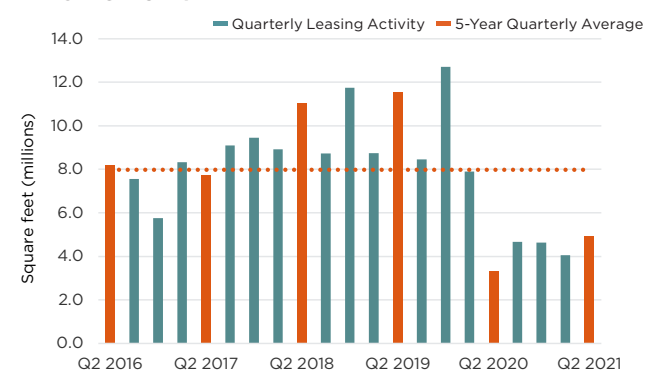
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



TOP 10 LEASING TRANSACTIONS

65.0%

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

27.8%

Retail sector tenants accounted for 27.8% of top transactions by square footage

29.0%

of major transactions occurred in **Penn Plaza / Times Square South** by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
The Legal Aid Society	198,900	40 Worth Street	Renewal and Expansion	Tribeca	Legal Services
Aeropostale	155,634	11 Penn Plaza	Relocation	Penn Plaza/Times Square South	Retail
Schrödinger	108,849	1540 Broadway	Relocation	Times Square	Pharmaceuticals
Stone Ridge Asset Management LLC	97,652	1 Vanderbilt Avenue	Relocation	Grand Central	Financial Services
Fiserv	94,413	1 Broadway	Relocation	WTC/Brookfield Place	TAMI
Infor	90,428	641 & 635 Avenue of the Americas	Renewal	Flatiron	TAMI
Young Adult Institute	75,246	825 Seventh Avenue	Relocation	Columbus Circle	Education
Empire Blue Cross Blue Shield	72,721	1 Penn Plaza	Relocation	Penn Plaza/Times Square South	Financial Services
Burlington Stores	68,307	1400 Broadway	Renewal and Expansion	Penn Plaza/Times Square South	Retail
Fashionphile	60,000	601 W 26th Street	Relocation	Chelsea	Retail

Source Savills Research

For more information, please contact us:

Savills
399 Park Avenue
11th Floor
New York, NY 10022
+1 212 326 1000

Mitchell E. Rudin
Chairman and Chief Executive Officer
+1 212 326 1000
mrudin@savills.us

David Lipson
President
+1 212 326 1000
dlipson@savills.us

Sarah Dreyer
Vice President, Head of Americas Research
+1 212 326 1000
sdreyer@savills.us

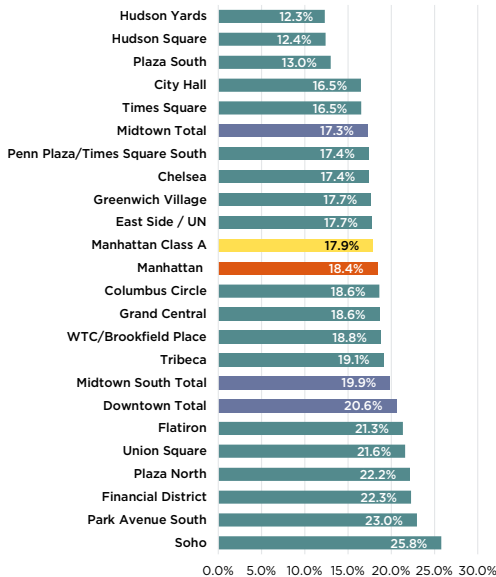
Danny Mangru
Research Director
+1 212 326 1000
dmangru@savills.us

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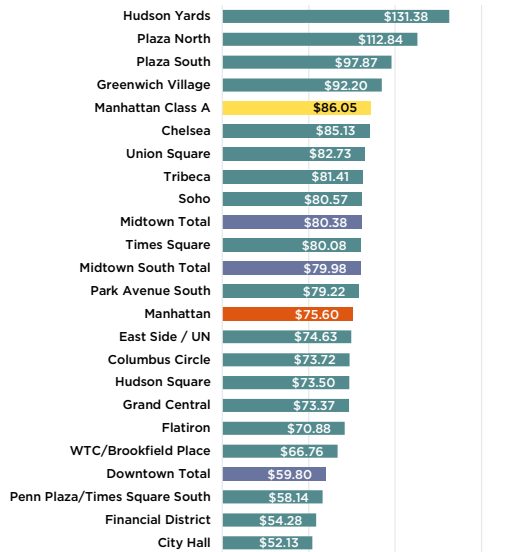
AVAILABILITY RATE COMPARISON

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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