



Sublease space drives Manhattan's availability near Great Recession levels

Occupiers brought 2.5 million square feet (msf) of new sublease space to the market during the quarter, including more than 20 blocks exceeding 50,000 square feet (sf). Key additions include 191,000 sf of space from Starr Companies at 399 Park Avenue and 147,000 sf of space from Omnicom Group at 1 Hudson Square. Sublease supply now totals 16.1 msf, and accounts for 26.7% of total available space – approaching 2009 levels of 16.3 msf and 30.3%, respectively. Overall market availability rose 150 basis points over the quarter to 13.3%, the highest level seen since the Great Recession.

A handful of large leases resuscitate activity, yet demand remains down 45% compared to last year

A total of 4.7 msf of office space was leased during the third quarter of 2020. Facebook executed the largest lease of the quarter, a 730,000-sf new lease in Vornado's Farley Building redevelopment. Year over year, quarterly leasing volume declined by 44.8% compared to the same quarter in 2019. Renewals accounted for 39.7% of overall leasing volume. Some tenants began to reoccupy offices in July, yet for many businesses, the current work-from-home (WFH) timeline remains indefinite. The trend towards flexibility accelerated as occupiers reduced their lease term commitment by 5%-10% from pre-pandemic levels in order to evaluate overall demand for space due to longer term shifts to part-time WFH.

Asking and taking rents drop as market contemplates longer-term demand reduction

Market-wide asking rents fell by 3.1% to \$80.29 per square foot (psf) due largely to the pricing impact of sublease additions rather than a shift in direct availability repricing. While landlords held steady with direct asking rents, evidence is mounting that occupiers may seek a more permanent WFH shift, which could lead to a 10-20% structural reduction of aggregate demand for office space across the market. Footfall traffic to offices has been 50%-80% lower than in February despite the reopening of office buildings. When discussing WFH in quarterly earnings calls, more than 80% of S&P 500 companies expressed positive sentiment. Even a more permanent shift of WFH for just one-to-two days per week across these companies could drive a potential reduction in space demand of 9-18%. Taking rents for new long-term Class A leases declined by 7.2% from pre-pandemic levels. Average concessions increased from 11.5 to 14.3 months of free rent and tenant improvement allowances increased from \$110.30 psf to \$115.87 psf.

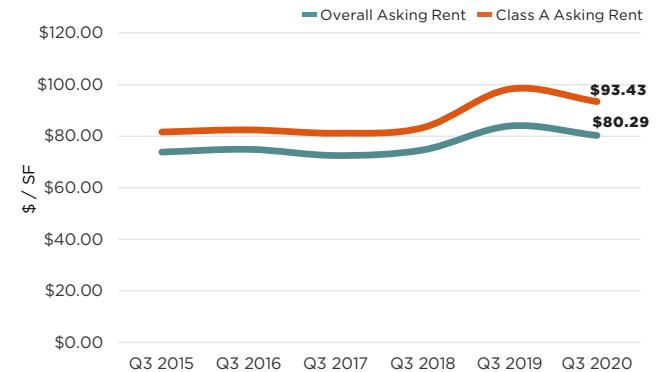
Outlook

- Even if owners remain hesitant to significantly lower direct asking rents, the reality is that the gap between asking rents and taking rents is widening, and generous concessions will result in declining effective rents
- Trophy assets will benefit from a flight-to-quality trend as organizations transition the use of office space from “performing work” to centralized collaborative meeting places for culture and innovation

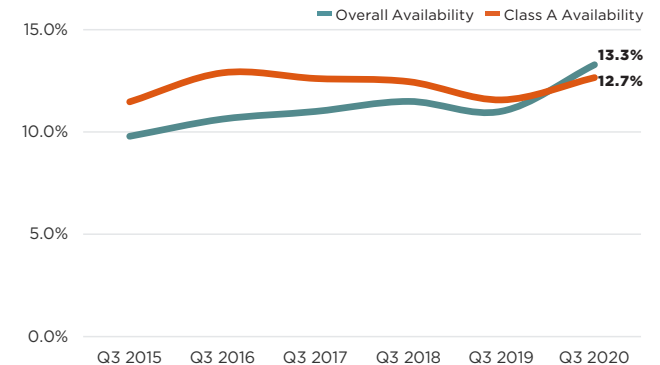
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	452.5 MSF	453.6 MSF	▲
Availability Rate	11.0%	13.3%	▲
Class A Asking Rental Rate	\$98.33	\$93.43	▼
Class A Taking Rental Rate	\$84.91	\$84.39	▼
Quarterly Leasing Activity	8.5 MSF	4.7 MSF	▼

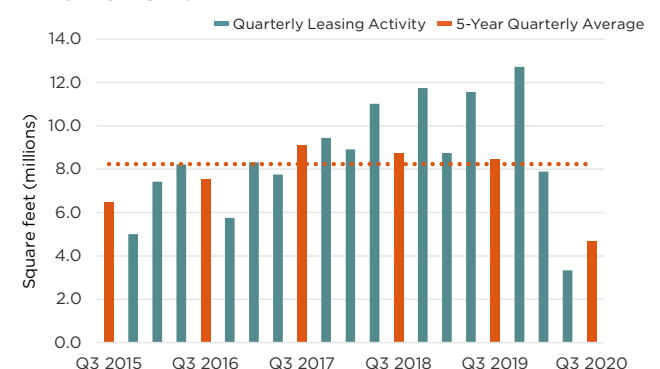
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



TOP 10 LEASING TRANSACTIONS

6 of 10

top transactions were **renewals**

40.8%

TAMI tenants accounted for 40.8% of top transactions by square footage

27.9%

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

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Facebook	730,000	390 Ninth Avenue	New Location	Penn Plaza/Times Square South	TAMI
NBC Universal	339,833	1221 Avenue of the Americas	Renewal	Times Square	TAMI
BNP Paribas	323,734	787 Seventh Avenue	Renewal	Columbus Circle	Financial Services
AIG Global Investors	217,638	28 Liberty Street	Relocation	Financial District	Financial Services
Goodwin Procter LLP	216,247	620 Eighth Avenue	Renewal	Times Square	Legal Services
Stroock & Stroock & Lavan LLP	192,816	180 Maiden Lane	Renewal	Financial District	Legal Services
City of New York	174,186	244-260 Eleventh Avenue	Renewal	Chelsea	Government
Quinn Emanuel	159,562	51 Madison Avenue	Renewal	Park Avenue South	Legal Services
Raymond James	144,704	320 Park Avenue	Relocation	Plaza South	Financial Services
FTI Consulting, Inc	120,720	1166 Avenue of the Americas	Relocation	Grand Central	Professional Services

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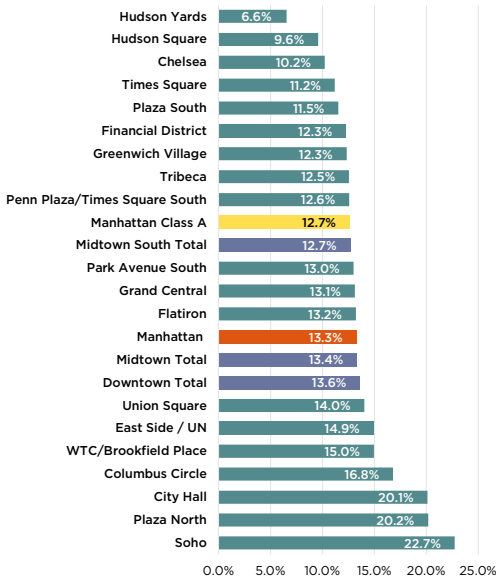
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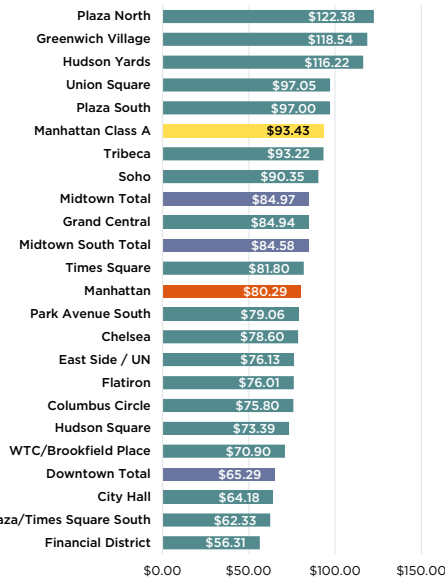
AVAILABILITY RATE COMPARISON

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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