

Top-of-market leasing demand shows strength as Omicron impacts wane

As New York City slowly bounces back from Omicron-driven restrictions seen in early-2022, the local economy in general, and the office market in particular, are growing again. Physical office occupancy reached 37.2% in March 2022 (according to Kastle Systems badge swipe data), a new post-COVID peak, while public transit ridership is back to early December 2021 levels. The gradual uptick in business and social activity translated to healthy first quarter office leasing activity in Manhattan. Leasing totaled 7.7 million square feet (msf) in Q1 2022, a 90% increase from one year ago and above the five-year first-quarter average of 6.5 msf. High-end redevelopments are proving to be a preferred option for some of the market's top tenants, highlighted by IBM's 328,000-sf lease to anchor One Madison Avenue and Hermès' 71,757-sf relocation to 550 Madison Avenue. A flurry of smaller leases were also signed at prestigious One Vanderbilt, bringing that building closer to 100% occupancy.

Availability climbs higher as large-block opportunities hit the market

Despite healthy demand, current activity levels have not offset the uptick in both direct and sublet offerings, and the market's availability rate increased by 50 basis points (bps) from last quarter to a new peak of 19.1%. The availability rate stands 760 bps higher than the start of the pandemic, as the influx of available blocks – including new developments and redevelopments – have yet to be fully absorbed. Direct space increased a net 1.8 msf on the quarter as major blocks at 660 Fifth Avenue (1.3 msf), 345 Hudson Street (406,000 sf), and 919 Third Avenue (326,000 sf) have come within 12 months of occupancy. Sublease inventory increased by 4.1% over the quarter to 20.3 msf, however it remains 8.0% lower than the all-time peak of 22.0 msf set one year ago. Sublease space has been slow to transact of late, as the most active tenants in the market continue to prioritize highly-amenitized, top-tier direct options in prime locations.

Steadily-rising Class A rents reflect growing market bifurcation

Overall average asking rents increased by 1.7% from the fourth quarter of 2021, now at \$77.34 per square foot (psf). This overall rent growth belies a tale of two markets, spurred by the most active tenants' clear prioritization of premium space. Pricing on top-tier space continues to increase with demand and pricing on older, less desirable, assets has dropped. This disparity stands out in Midtown, where Class A asking rents grew 2.8% quarter over quarter to \$96.44 psf, a stark contrast to the 2.2% quarterly decline in Midtown Class B/C asking rents (now \$59.28 psf). Sublet options and commodity office space is taking longer to transact, while landlords with the most sought-after spaces are emboldened to increase asking rents.

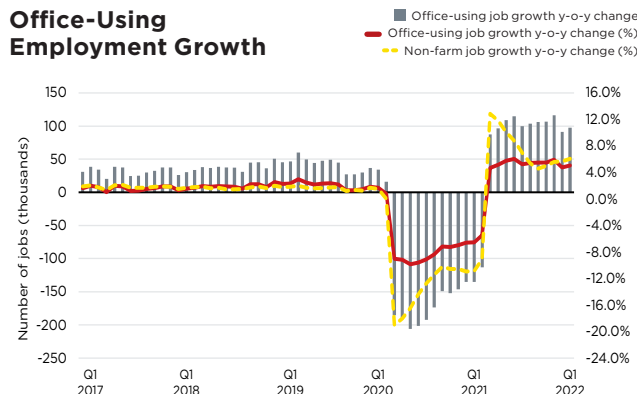
Outlook

- Rents are expected to diverge further in the quarters ahead, as many growing tenants seek best-in-class space – which will continue to command a premium
- Office availability is expected to remain high due to continued direct space additions and the slower return of professional services sector activity compared to the technology and financial sectors which have been out in front of the market, respectively
- Average effective rents will continue to decline despite growth in asking rents, as landlord concessions including rent abatement and tenant improvement allowances remain at peak levels

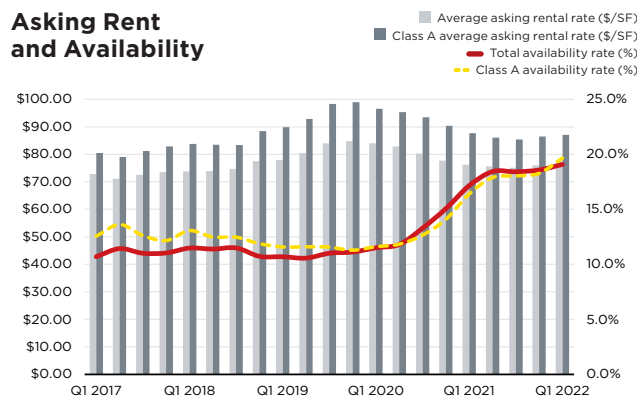
Key Statistics

	Q1 2021	Q1 2022	y-o-y Change
Inventory	464.9 MSF	471.2 MSF	▲
Availability Rate	17.2%	19.1%	▲
Asking Rental Rate	\$76.27	\$77.34	▲
Class A Asking Rental Rate	\$87.68	\$87.02	▼
Quarterly Leasing Activity	4.1 MSF	7.7 MSF	▲
Available Sublease Space	22.0 MSF	20.3 MSF	▼

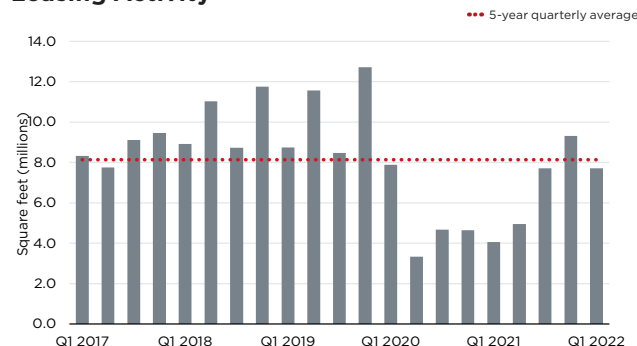
Office-Using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

6.1%

NYC unemployment rate
(as of Jan. 2022)

5.5%

Office-using employment growth
year-over-year (as of Jan. 2022)

12.7 msf

Office space currently
under construction

Top Transactions

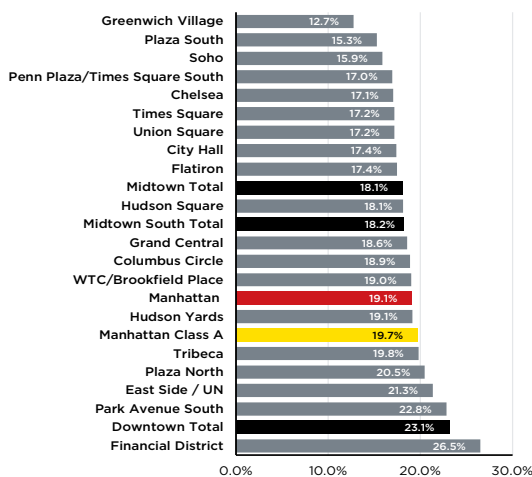
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
IBM	328,000	1 Madison Avenue	Relocation	Park Avenue South	TAMI
Signature Bank	280,182	1400 Broadway	Renewal and Expansion	Penn Plaza/Times Square South	Financial Services
Touro College	243,305	3 Times Square	New Location	Times Square	Education
AlphaSights	236,026	100 Park Avenue	Relocation	Grand Central	Financial Services
Mutual of America	221,976	320 Park Avenue	Sale - Leaseback	Plaza South	Financial Services
Brown Brothers Harriman	188,059	140 Broadway	Renewal	Financial District	Financial Services
Morgan Stanley	182,000	55 E 52nd Street	Expansion	Plaza South	Financial Services
Banco Santander*	159,594	437 Madison Avenue	Relocation	Plaza South	Financial Services
NYU Steinhardt	102,000	627 Broadway	Renewal	Greenwich Village	Education
Thomson Reuters	99,853	3 Times Square	Renewal	Times Square	TAMI

*Sublease

Source: Savills Research

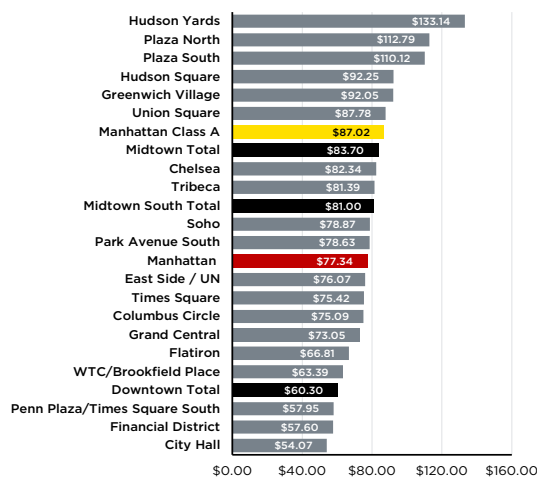
Availability Rate Comparison (%)

Manhattan Submarkets



Rental Rate Comparison (\$/SF)

Manhattan Submarkets

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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.

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