

# MIDTOWN OFFICE MARKET

## INCREASE IN LEASING OUTPACED BY SPIKE IN AVAILABILITY

Midtown market activity picked up after a stagnant second quarter with 3.6 million square feet leased, up 65.9% quarter over quarter. The spike in leasing activity was driven by Facebook's 730,000-square-foot lease at the Farley Post Office. In addition to the Facebook lease, there were six deals greater than 100,000 square feet signed during the quarter. Although activity is up from the previous quarter, volume is still down 33.2% year over year and is 35.8% below the 10-year historical average. Year-to-date leasing reached 11.1 million square feet, the lowest output since the 9.6 million square feet leased in the first three quarters of 2009.

Four of the seven third-quarter 100,000-square-foot-plus deals were renewals or extensions, including NBC Universal at 1221 Avenue of the Americas, BNP Paribas at 787 Seventh Avenue, Goodwin Procter at 620 Eighth Avenue and Perella Weinberg at 767 Fifth Avenue. Two of these deals, NBC Universal for 339,833 square feet and Perella Weinberg for 112,461 square feet, were short-term extensions for just one year, delaying larger leasing decisions.

Midtown availability rate increased 210 basis points during the third quarter to 14.6%, the highest rate on record. This can be attributed to a 15.7% increase in direct available space and a 24.6% increase in available sublet space. There were 30 spaces greater than 50,000 square feet added in Midtown. Notable large blocks included 881,167 square feet at 3 Times Square, 380,000 square feet at 20 Hudson Yards and a 308,131-square-foot block at 885 Third Avenue.

There were availability increases in 10 of the 11 submarkets in Midtown, with the outlier being Penn Station due to Facebook's large lease at the Farley Post Office. Despite the vast amount of sublease space added to the market, the sublet availability rate at the end of the quarter was 2.9%, compared to 3.9% at the peak of the downturn following September 11th and 4.1% after the Global Financial Crisis.

With limited leasing activity and a spike in availability, third-quarter absorption fell to negative 6,922,194 square feet, the lowest output on record. Year-to-date absorption reached negative 8,074,698 square feet, which is slightly better than the total in the third quarter of 2009.

Asking rents fell \$2.56/SF quarter over quarter to \$83.20/SF, as landlords began to reduce pricing, low-priced sublease space was added to the market and some high-priced blocks were leased. During the third quarter, 87 of the 720 Midtown properties had reductions in their asking rents at an average of \$5.60/SF.

## CURRENT CONDITIONS

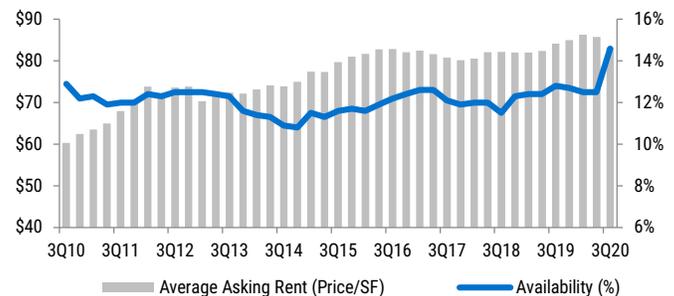
Facebook's lease at Farley Post Office gave Midtown leasing activity a boost, with 65.9% more output than the second quarter.

Availability rate spiked 210 basis points as several large direct and sublet blocks were added to the market.

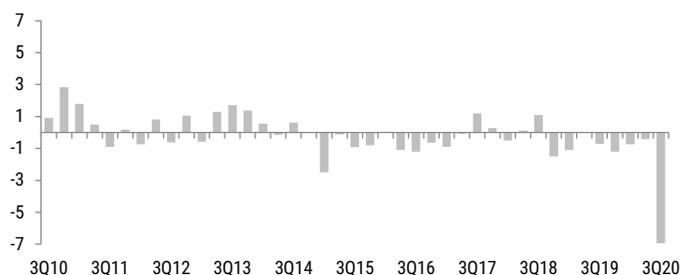
Shorter terms and renewals were abundant during the third quarter as tenants pursue more short-term flexibility.

## MARKET ANALYSIS

### Asking Rent and Availability



### Net Absorption (SF, Millions)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	289 MSF	288 MSF	286 MSF	↑
Availability Rate	14.6%	12.5%	12.8%	↑
Quarterly Net Absorption	-6,922,194	-408,189	-722,449	↓
Average Asking Rent	\$83.20	\$85.76	\$84.15	↓
Under Construction	11.4 MSF	13.1 MSF	16.1 MSF	↑
Deliveries	1.7 MSF	0 MSF	0 SF	↑

There were also 10 sublease additions greater than 50,000 square feet with average asking rents of \$67.31/SF. Finally, Facebook leased 730,000 square feet of high-priced space in the Far West Side. All of these factors combined for a 3.0% decline in asking rents.

## SHIFT IN LEASING FOLLOWING PANDEMIC

Since the onset of COVID-19 in early March, the leasing landscape has changed in a myriad of ways. Most notably, total year-to-date leasing is down 33.2% from the prior year, but the intricacies of the activity have led to a totally different market than just seven months ago. As tenants are not sure what the immediate future holds, they are looking for increased flexibility in their leases. The average term length in Midtown in the months following March was 72.5 months compared to 87.0 months in 2019. Tenants over 50,000 square feet are also more likely to renew their leases instead of relocating offices. In the first three quarters of 2009, renewal activity accounted for 32.7% of total leasing compared to 45.2% in the first three quarters of 2020.

Tenants are also demanding more concessions, and deals that were pending prior to the pandemic have been re-traded. In Midtown, 24 deals have re-traded for more than 1.5 million square feet.

Following the re-trades, deals have had a 3.4% reduction in base rent, a 26.8% increase in work allowance, a 22.6% increase in free rent and a 10.6% discount in net effective rent.

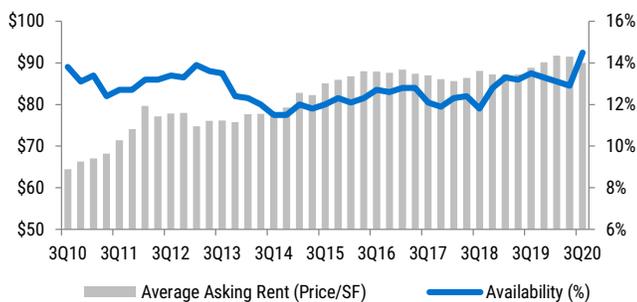
## SUBLEASE SPACE BREAKDOWN

Midtown accounts for 47.3% of all sublease space added to the market since March. There is an additional 661,851 square feet of sublease space expected to be added to the Midtown market in the near future. TAMI firms account for the majority of space added in Midtown with more than 1.3 million square feet, or 46.0%, of total space added. Tenants such as McGraw Hill, IPG and Ogilvy & Mather have all put sublease blocks on the market greater than 90,000 square feet with Time Warner expected to add more than 300,000 square feet at 30 Hudson Yards in the coming months. FIRE and retail tenants follow TAMI with 23.0% and 10.3% of the total sublease space added in Midtown respectively.

The average term length for sublease space added in Midtown was 78.6 months and nearly all of the space is built. Of all the Midtown submarkets, the Far West Side, Times Square South and Penn Station have added or will add the most sublease space to the market.

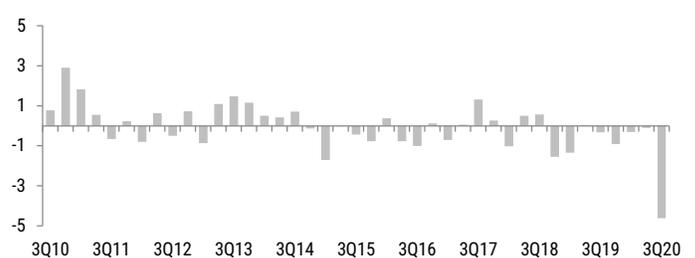
### Class A

#### Average Asking Rent (\$/SF) and Availability



### Class A

#### Net Absorption (Square Feet, Millions)

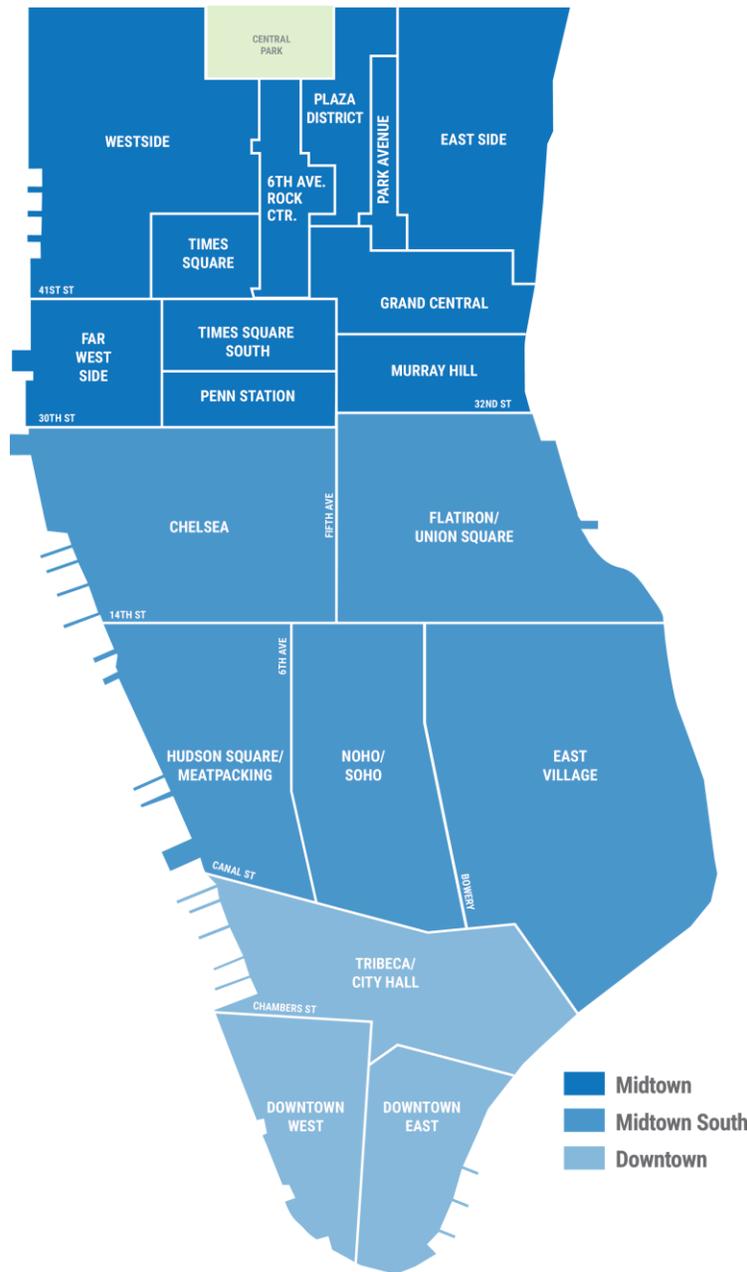


## MIDTOWN LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Facebook	390 Ninth Avenue	Penn Station	Direct New	730,000
NBC Universal/Comcast	1221 Avenue of the Americas	Sixth Avenue/Rockefeller Center	Direct Extension	339,833
BNP Paribas	787 Seventh Avenue	Westside	Direct Renewal	322,568
Goodwin Procter	620 Eighth Avenue	Times Square South	Direct Extension & Expansion	216,419
Raymond James	320 Park Avenue	Park Avenue	Direct New	144,704

## SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>Midtown</b>	<b>289,259,696</b>	<b>11,381,572</b>	<b>14.6%</b>	<b>-6,922,194</b>	<b>-8,074,698</b>	<b>\$87.45</b>	<b>\$64.66</b>	<b>\$83.20</b>
Eastside	24,359,163	0	20.0%	-932,415	-862,466	\$79.93	\$53.83	\$77.84
Far West Side	12,128,159	9,662,418	10.3%	-508,587	-627,193	\$124.60	\$79.34	\$113.14
Grand Central	47,556,123	0	13.4%	-1,027,682	-1,147,790	\$89.46	\$56.16	\$84.65
Murray Hill	7,837,204	0	12.9%	-153,871	-227,242	\$64.63	\$52.87	\$61.65
Park Avenue	26,969,382	705,244	13.1%	-458,688	-437,656	\$118.17	\$75.10	\$110.68
Penn Station	22,054,602	923,910	10.1%	310,794	524,833	\$72.99	\$60.23	\$67.29
Plaza District	26,678,433	0	18.1%	-382,551	-667,028	\$107.80	\$95.21	\$106.13
Sixth Ave/Rock Center	45,329,301	90,000	11.7%	-907,220	-961,343	\$88.75	\$66.36	\$84.58
Times Square	14,693,247	0	19.2%	-1,199,302	-961,195	\$80.22	\$70.60	\$79.27
Times Square South	35,913,022	0	14.4%	-1,453,523	-1,743,793	\$58.28	\$52.11	\$56.89
Westside	25,741,060	0	18.6%	-209,149	-963,825	\$82.21	\$64.89	\$77.70
<b>Midtown South</b>	<b>76,348,900</b>	<b>2,903,755</b>	<b>12.8%</b>	<b>-2,141,046</b>	<b>-3,370,609</b>	<b>\$86.40</b>	<b>\$69.63</b>	<b>\$81.58</b>
Chelsea	28,613,736	983,943	11.9%	-756,223	-1,353,353	\$70.51	\$69.59	\$70.20
East Village	1,774,180	414,435	29.0%	-54,510	-65,095	\$94.55	\$59.00	\$94.30
Flatiron/Union Square	24,678,706	268,560	13.9%	-647,910	-955,180	\$90.27	\$70.21	\$86.15
Hudson Sq./Meatpacking	11,409,520	988,866	11.1%	-406,706	-695,831	\$110.99	\$69.23	\$85.28
NoHo/SoHo	9,872,758	247,951	11.9%	-275,697	-301,150	\$95.71	\$69.48	\$92.62
<b>Downtown</b>	<b>95,425,530</b>	<b>80,000</b>	<b>13.7%</b>	<b>-1,909,998</b>	<b>-1,687,899</b>	<b>\$65.45</b>	<b>\$55.29</b>	<b>\$62.73</b>
Downtown East	50,039,137	80,000	13.1%	-1,354,887	-1,151,409	\$58.53	\$48.91	\$56.07
Downtown West	36,676,367	0	15.6%	-481,755	-415,092	\$70.33	\$61.11	\$67.49
Tribeca/City Hall	8,710,026	0	9.6%	-73,356	-121,398	\$86.39	\$68.65	\$84.92
<b>Manhattan</b>	<b>461,034,126</b>	<b>14,365,327</b>	<b>14.1%</b>	<b>-10,973,238</b>	<b>-13,133,206</b>	<b>\$83.07</b>	<b>\$63.24</b>	<b>\$78.75</b>


**JONATHAN MAZUR**

Senior Managing Director  
212.372.2154  
jmazur@ngkf.com

**STEPHANIE JENNINGS**

Managing Director  
212.372.2099  
stjennings@ngkf.com

**ALISON BAUMANN**

Associate Director, Research

**MICHAEL MICELI**

Associate Director, Research

**STEPHEN TSAMBLAKOS**

Senior Research Analyst

**RONNIE WAGNER**

Director, Research

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