

# DOWNTOWN OFFICE MARKET

## LARGE DEALS SIGNED EVEN AS OVERALL ACTIVITY DROPS AND SUBLEASE SPACE RISES

Downtown's availability rate rose to 11.9% in the second quarter, an increase of 60 basis points, after a slew of sublease space was added over the last three months. There are now more than 2.7 million square feet of sublet space on the market in Downtown, after the supply grew 12.4% over the last quarter and rose more quickly than other Manhattan markets. Significant additions came online in both Downtown East and Downtown West, including more than 163,000 square feet now available for sublease from Emblem Health at 55 Water Street; 83,685 square feet on the market for sublease from Moda Operandi at 195 Broadway; and Casper's 27,375-square-foot sublease at 3 World Trade Center.

Outside of these additions, there is a strong pipeline of sublease space expected to come to market over the next several months, with the majority of this potential space concentrated in World Trade Center buildings. The Downtown West availability rate is currently 14.3%, after rising 155 basis points from its historic low reached last quarter. With future sublease space additions, this availability rate could continue to increase.

### SEC INKS QUARTER'S LARGEST MANHATTAN DEAL

Despite a 61.4% drop in activity from 2019 levels at mid-year, Downtown accounted for several of the largest deals in Manhattan in the second quarter. In April, the U.S. Securities and Exchange Commission completed a 241,339-square-foot lease at 100 Pearl Street after electing to relocate from their current office at 200 Vesey Street. 100 Pearl Street's 80,000-square-foot addition to the top of the building is now fully leased one year ahead of completion. Policygenius completed Downtown's second largest deal, with an 85,526-square-foot lease at 32 Old Slip and plans to relocate from the Flatiron District.

While Manhattan overall has been shifting slightly to renewals over relocations, Downtown activity in the first half of 2020 has continued to be defined heavily by relocations, as it has historically, even as deal volumes fall overall. The breakdown of relocations to renewals is comparable year over year thanks to second quarter deals by SEC and others, as well as a strong early first quarter. In 2019, 72% of deals by square footage were relocations as compared to a 28% share of renewals. Year to date, Downtown has inked more than one million square feet of relocations – more than ten times the renewal activity over the same period.

### CURRENT CONDITIONS

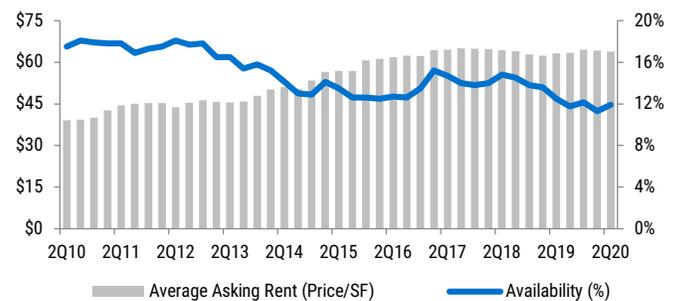
Downtown's availability rate increased to 11.9% as available sublet space reached its highest level in two years.

The average asking rent decreased slightly quarter over quarter to \$63.83/SF but posted a shallower decline than Midtown or Midtown South.

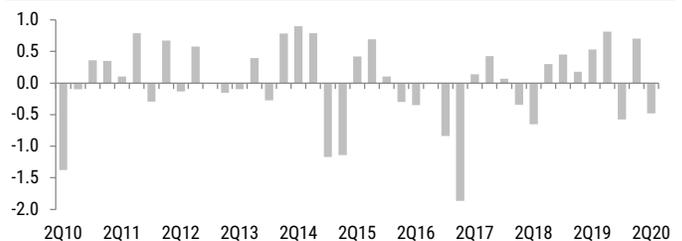
The U.S. Securities and Exchange Commission signed Manhattan's largest second quarter deal at 100 Pearl Street for 241,339 square feet.

### MARKET ANALYSIS

#### Asking Rent and Availability



#### Net Absorption (SF, Millions)



### MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	95.3M	95.3M	94.9M	↔
Availability Rate	11.9%	11.3%	12.5%	↑
Quarterly Net Absorption	-482,259	704,358	529,616	↓
Average Asking Rent	\$63.83	\$64.18	\$63.22	↔
Under Construction	80,000	80,000	130,000	↓
Deliveries	0	0	0	↓

Several deals have paused in negotiations, but their continuation – along with others that have proceeded through the pandemic – would continue the trend of increased relocation activity. They include AIG’s pending deal to relocate to several floors at 28 Liberty Street after selling their headquarters at 175 Water Street last year.

## DOWNTOWN ASKING RENTS POST SMALLEST DECLINE MANHATTAN-WIDE

Downtown asking rents declined slightly for the second consecutive quarter to \$63.83/SF, dropping 50 basis points from the first quarter. Asking rents are now down 100 basis points year over year. This decline is largely due to the lease-up of 241,339 square feet at 100 Pearl Street where asking rents at the renovated building were significantly above the Downtown East average. Meanwhile, direct asking rents at existing properties have not yet seen significant adjustments and the average sublease asking rent rose slightly to \$57.83/SF even after the latest sublease additions. The majority of sublease space added over the last quarter has been in Class A properties and from name brand tenants, where asking rents are competitive for sublease space. The asking rent for Class A space in Downtown West increased slightly from last quarter to \$70.17/SF in part due to these new availabilities.

While asking rents appear to be holding steady, many deals in the market are being offered at increased concession or tenant improvement packages, or are being renegotiated at different terms than pre-COVID.

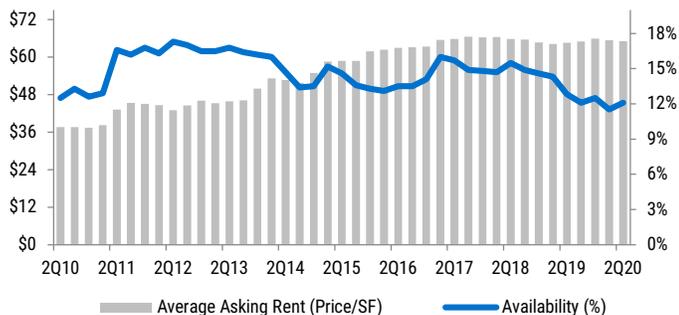
Typically, asking rents take several quarters to adjust after a significant economic event. In the last recession that began in December 2007, Downtown asking rents did not begin to definitively decline until a full year later.

## YEAR-TO-DATE ABSORPTION REMAINS POSITIVE

Downtown posted 482,259 square feet of negative absorption in the second quarter, mirroring the absorption trends seen across the market. Year to date, absorption is still positive, with over 222,000 square feet absorbed at mid-year, outperforming the 1.2 and 1.3 million square feet of negative absorption in Midtown and Midtown South respectively. In the second quarter, just one new contiguous block of 100,000 square feet became available in the market at 200 Vesey Street, where the SEC is vacating 221,285 square feet to move to 100 Pearl Street. While a growing supply of sublease space could push future absorption negative, a lack of new direct blocks over 100,000 square feet coming available has kept absorption in check so far in 2020.

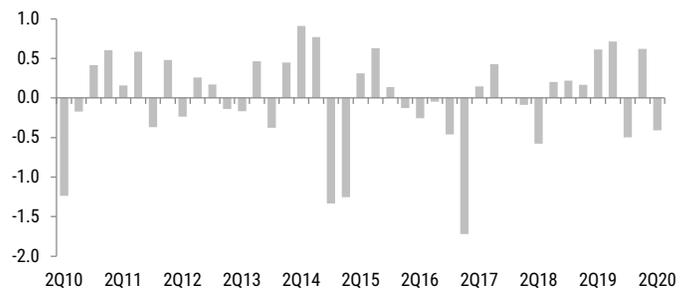
### Class A

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



### Class A

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

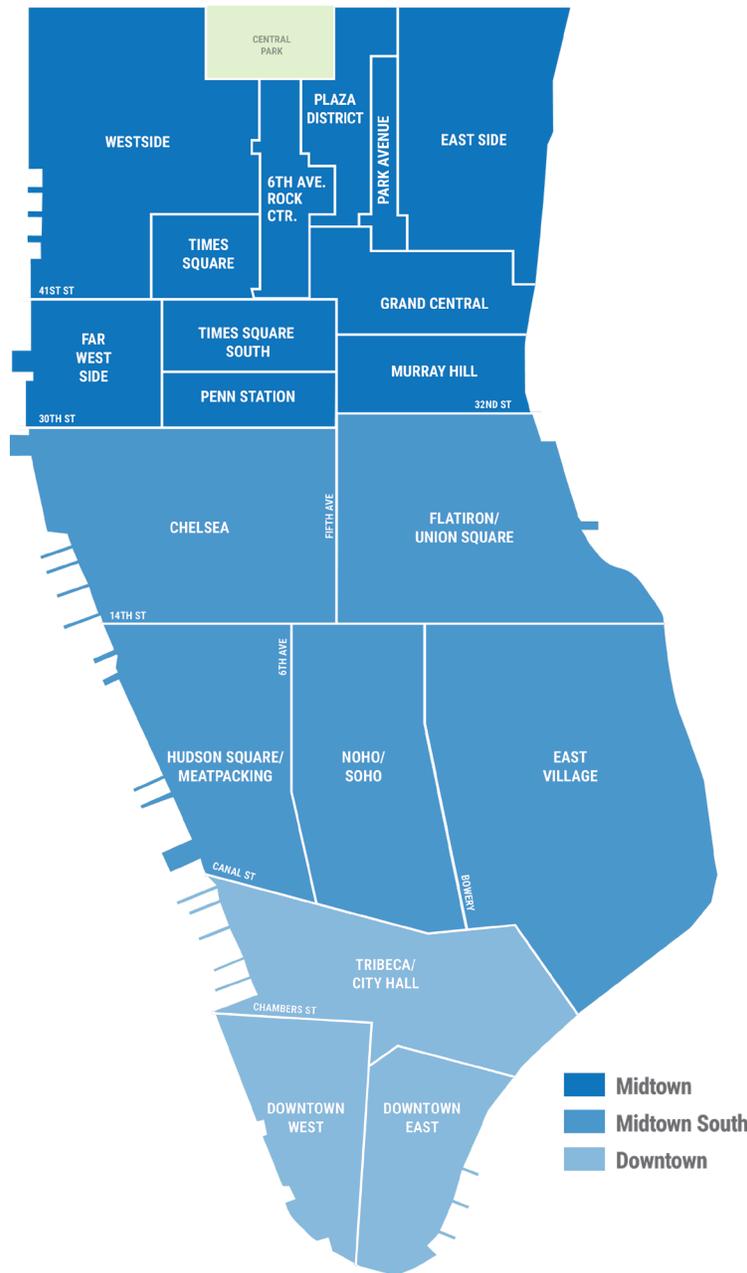


## DOWNTOWN LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
U.S. Securities and Exchange Commission	100 Pearl Street	Downtown East	Direct New	241,339
Stroock & Stroock & Lavan LLP	180 Maiden Lane	Downtown East	Direct Extension	195,000
Policygenius	32 Old Slip	Downtown East	Direct New	85,526
U.S Department of Education	32 Old Slip	Downtown East	Direct Renewal	65,796
Lippe Taylor	140 Broadway	Downtown East	Sublease New	25,391

## 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>288,330,125</b>	<b>13,114,527</b>	<b>12.5%</b>	<b>-408,189</b>	<b>-1,152,504</b>	<b>\$89.45</b>	<b>\$67.44</b>	<b>\$85.76</b>
Eastside	24,359,163	0	16.3%	-34,106	69,949	\$78.09	\$53.92	\$76.20
Far West Side	11,748,159	9,662,418	6.3%	-164,543	-118,606	\$118.08	\$85.36	\$108.97
Grand Central	47,556,123	1,732,955	11.5%	11,034	-120,108	\$93.19	\$59.81	\$89.46
Murray Hill	7,837,204	0	11.3%	-13,807	-73,371	\$64.32	\$55.52	\$62.78
Park Avenue	26,969,382	705,244	11.2%	-129,497	21,032	\$115.13	\$74.62	\$109.65
Penn Station	22,054,602	923,910	11.9%	-12,924	214,039	\$94.22	\$61.86	\$83.62
Plaza District	26,733,087	0	16.7%	-72,388	-284,477	\$110.21	\$103.75	\$109.30
Sixth Ave/Rock Center	45,231,157	90,000	9.9%	139,701	-54,123	\$89.04	\$67.96	\$85.84
Times Square	14,663,247	0	15.6%	254,045	238,107	\$78.89	\$68.06	\$77.75
Times Square South	35,474,092	0	9.7%	-238,594	-290,270	\$57.97	\$52.87	\$56.89
Westside	25,703,909	0	17.8%	-147,110	-754,676	\$84.19	\$64.71	\$79.12
<b>Midtown South</b>	<b>76,593,740</b>	<b>2,936,281</b>	<b>10.1%</b>	<b>-503,311</b>	<b>-1,229,563</b>	<b>\$88.93</b>	<b>\$71.51</b>	<b>\$84.69</b>
Chelsea	28,558,736	1,016,469	9.3%	-293,176	-597,130	\$71.29	\$69.65	\$70.75
East Village	1,772,657	414,435	25.8%	-2,422	-10,585	\$97.19	\$59.00	\$96.89
Flatiron/Union Square	24,669,706	268,560	11.4%	-94,597	-307,270	\$92.79	\$69.64	\$88.82
Hudson Sq./Meatpacking	11,797,533	988,866	7.5%	-80,611	-289,125	\$109.17	\$78.29	\$94.94
NoHo/SoHo	9,795,108	247,951	9.1%	-32,505	-25,453	\$99.80	\$66.96	\$96.79
<b>Downtown</b>	<b>95,332,765</b>	<b>80,000</b>	<b>11.9%</b>	<b>-482,259</b>	<b>222,099</b>	<b>\$65.69</b>	<b>\$57.83</b>	<b>\$63.83</b>
Downtown East	49,946,372	80,000	10.5%	-42,165	203,478	\$58.33	\$49.20	\$56.27
Downtown West	36,676,367	0	14.3%	-419,193	66,663	\$69.56	\$64.79	\$68.23
Tribeca/City Hall	8,710,026	0	9.1%	-20,901	-48,042	\$87.53	\$71.02	\$87.07
<b>Manhattan</b>	<b>460,256,630</b>	<b>16,130,808</b>	<b>11.9%</b>	<b>-1,393,759</b>	<b>-2,159,968</b>	<b>\$84.64</b>	<b>\$65.65</b>	<b>\$80.98</b>



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