

MIDTOWN SOUTH OFFICE MARKET

LEASING ACTIVITY CONTINUES TO STALL

Midtown South felt the effects of COVID-19 on leasing activity more than Midtown or Downtown in the second quarter. Activity totaled 358,575 square feet, the lowest in more than a decade. This was a 62.8% decline from the first quarter, when the cyclical low was previously reached. Activity was down 87.4% year over year. The largest lease this quarter was signed by Match Group for three floors at 60-74 Gansevoort Street, totaling 40,569 square feet.

Midtown South asking rents were recorded at \$84.69/SF, a decline of \$1.66/SF from the first quarter. While some landlords adjusted pricing, direct rents actually increased quarter over quarter. The increase of \$0.39/SF was due to additional space coming to market, as opposed to rents increasing for existing available spaces. Sublease rents fell by \$6.03/SF, a 7.8% drop from the first quarter. With the exception of the East Village, where pricing remained stable, each of the Midtown South submarkets saw sublease rents decline from the first quarter.

For the fourth consecutive quarter, the availability rate increased, up 20 basis points from the first quarter to 10.1%. This was driven by the addition of two large sublease spaces to the market. At WeWork's headquarters at 113-133 West 18th Street, 156,050 square feet became available. The second block was 55,354 square feet at 10 Hudson Square from Forsman & Bodenfors, an MDC Partners agency. As co-working providers continue to shrink their portfolios and more tenants make their spaces available for sublease, it is expected that availability will continue to rise in the coming quarters. Nearly 820,000 square feet of subleases from 16 companies in Midtown South will come to market imminently, with the majority of that space listed in Chelsea.

Weak leasing velocity, combined with the two 50,000-square-foot blocks, resulted in negative absorption for the fourth straight quarter, closing at negative 503,311 square feet.

There were no deliveries this second quarter, as construction was delayed at many sites. While new construction drove much of the rental increases in recent quarters, that was not the case in the second quarter. Nearly three million square feet are under construction across 14 projects, of which only one has announced an adjusted delivery timeline post-COVID-19 so far.

CURRENT CONDITIONS

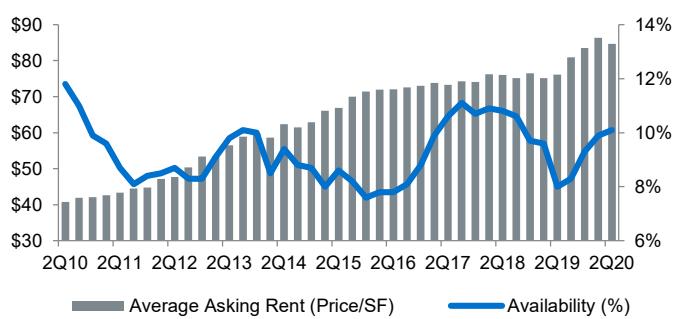
Leasing activity totaled just 358,000 square feet in the second quarter, a new low for this cycle.

Asking rents declined to \$84.69/SF as inexpensive sublease space came onto the market.

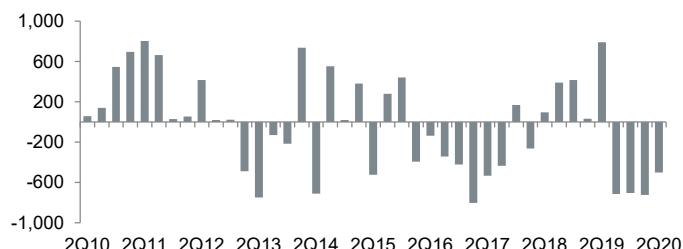
The availability rate will likely continue to ascend as more tenants make their spaces available for subleases and co-working providers return space to landlords.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	76.6 MSF	76.6 MSF	75.0 MSF	↑
Availability Rate	10.1%	9.9%	8.0%	↑
Quarterly Net Absorption	-503,311	-726,252	791,192	↓
Average Asking Rent	\$84.69	\$86.35	\$76.09	↓
Under Construction	2.9 MSF	2.9 MSF	1.3 MSF	↑
Deliveries	0 MSF	0.5 MSF	0.2 MSF	↑

AVAILABILITY CONTINUES ITS ASCENT

In just four quarters, the Midtown South availability rate has increased 210 basis points to 10.1%. Availability increased or remained flat from last quarter in each of the five submarkets. There are now 24 available blocks of at least 100,000 square feet across Midtown South, including 1.4 million square feet at 1 Madison Avenue, 700,000 square feet at Terminal Stores (261-271 Eleventh Avenue), and another 700,000 square feet at 295 Fifth Avenue. In addition to the East Village, where the availability rate increased by more than 20 percentage points year-over-year after the Essex Crossing development came to market, both Flatiron/Union Square and NoHo/SoHo saw year over year increases of at least 200 basis points.

TAMI CONTINUES TO BE TOP INDUSTRY DESPITE DECLINING ACTIVITY

The five largest deals in Midtown South were each signed by a TAMI tenant. Match Group, which owns several online dating applications, signed a lease at 60-74 Gansevoort Street, Aurora Capital's new development in Meatpacking. This was followed by Amazon's Twitch, which signed for 34,844 square feet at 315 Park Avenue South. Exela Technologies at Starrett Lehigh; fintech company Current Bank at 345 Hudson Street; and Watermark at 71 West 23rd Street rounded out the top five transactions. Watermark's renewal was one of few in Midtown South this quarter, as 97.6% of transactions were renewals. This contrasts significantly from Midtown, which saw 30 renewals or extensions, encompassing 21.3% of transactions in that market.

Class A

Average Asking Rent (\$/SF) and Availability



MIDTOWN SOUTH LEASE TRANSACTIONS

HUDSON SQUARE/MEATPACKING SEES LARGEST RENT DROPOFF

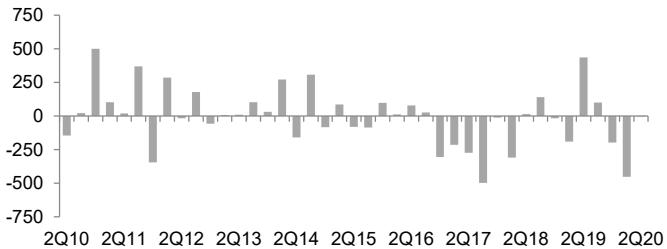
While asking rents in Midtown South fell by \$1.66/SF, those in Hudson Square/Meatpacking saw a drop of \$9.10/SF, the largest quarter-over-quarter change in any Manhattan submarket. This comes just three months after the submarket posted the greatest rent increase in Midtown South. The volatility is due to the addition of sublease space at 10 Hudson Square and 155 Avenue of the Americas, as well as adjustments in pricing for several other spaces previously on the market, including at 40 Tenth Avenue. NoHo/SoHo also saw sublease rents decline significantly, down \$8.90/SF from the first quarter, after expensive space was taken off the market.

CO-WORKING PROVIDERS BEGIN TO DOWNSIZE

As co-working and flex providers grapple with the effects of COVID-19 and underlying financial issues, some companies began to downsize in the second quarter. Multiple providers across Midtown South gave a combined 396,125 square feet back to landlords. This space came from five separate locations, with the majority concentrated in Flatiron/Union Square, in addition to Chelsea and NoHo/SoHo. There are more than 5 million square feet of co-working in Midtown South, with NoHo/SoHo encompassing the greatest percentage of co-working inventory of any Manhattan submarket at 10.3%.

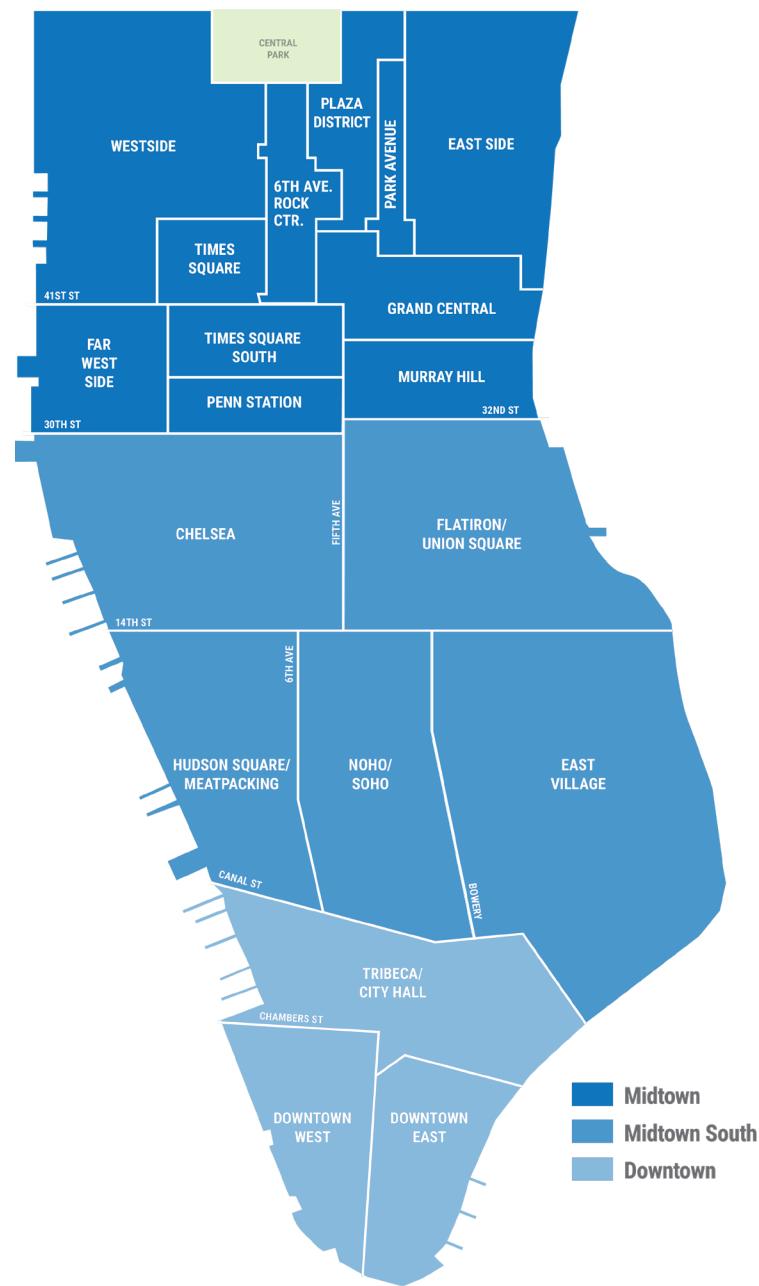
Class A

Net Absorption (Square Feet, Thousands)



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)
Midtown	288,330,125	13,114,527	12.5%	-408,189	-1,152,504	\$89.45	\$67.44	\$85.76
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
Midtown South	76,593,740	2,936,281	10.1%	-503,311	-1,229,563	\$88.93	\$71.51	\$84.69
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
Downtown	95,332,765	80,000	11.9%	-482,259	222,099	\$65.69	\$57.83	\$63.83
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
Manhattan	460,256,630	16,130,808	11.9%	-1,393,759	-2,159,968	\$84.64	\$65.65	\$80.98



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