



Office

*New York / Q4 2019*

## **Quarterly Office Outlook**

# Tech surpasses finance as the top leasing industry for the first time

Expansions by Google, Facebook, Uber and other tech companies allowed new construction and renovation market fundamentals to strengthen appreciably throughout Manhattan. Tech became the top office leasing industry segment in 2019, demonstrating the market's continued diversification.

Total leasing activity remained healthy at 29.5 million square feet and was increasingly concentrated on high quality properties. The Class A market segment captured 84.9 percent of closed deals in 2019, representing a record proportionate share. Several Class B vacancies were introduced in Midtown, incrementally lowering its overall asking rents and increasing its vacancy rates in the fourth quarter.

Investment activity totaling \$9.6 billion in the fourth quarter was strong by recent historical standards. Investors were predominantly focused on high-yielding office acquisition opportunities in 2019, though additional core, stabilized transactions are likely forthcoming in 2020.

## New York office overview

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This year will be remembered for the influx of leasing activity by major tech companies, allowing for the rapid absorption of new developments and redevelopments in the Hudson Yards, Hudson Square, World Trade Center and other locations. High-growth, specialized industries such as tech are having difficulty growing their headcounts in constrained labor markets such as San Francisco and Silicon Valley, incentivizing these companies to make major commitments in markets that resonate with their target workforces. New York City has been one of several beneficiaries based on its unparalleled access to diversified talent. This competitive labor market environment should not only uphold strong local office market conditions, but will likely have a positive influence on residential and retail fundamentals over time.

Office occupiers have increasingly sought solutions that allow them to limit their long-term run rates through densification while occupying modernized properties that could resonate with their current and prospective employees. This trend has allowed the Class A market segment to capture a record proportionate share of leasing velocity in 2019 based upon strengthened demand by tech, finance, legal and business services firms. As a result, the majority of the existing and impending large-block availabilities at new construction and redevelopment projects located in the Hudson Yards, Midtown South, World Trade Center and other desirable office districts have been absorbed, shifting leverage firmly in favor of landlords in this market segment.

The successes of office buildings that have been substantially renovated and investors' desire for high-yielding acquisition opportunities have caused ample investment liquidity in the Class B and Class C market segments. There are signals that overseas investors could become more active entering 2020, which would reinvigorate investment volume for core, cash-flowing office properties. However, prevailing market conditions in the rent stabilized multi-housing, retail and land / development property segments could remain challenged, which would place limitations on the aggregate dollar volume and the number of transactions.

The market's sentiment entering 2020 remains optimistic. Competitive labor market conditions locally and nationally should continue to push demand for high quality offices throughout the city, resulting in growing rent expectations in this segment. This remains a small fractional share of the broader market, however, so market-level asking rents and vacancies may stabilize near current levels in Midtown outside of the Hudson Yards. The Midtown South market still has very limited optionality, allowing landlords to retain near-term leverage over prospective tenants despite its growing construction pipeline. Downtown experienced strong absorption following several major relocations by companies representing various industries. Strengthened demand has resulted in a shrinking supply pipeline that positions the Downtown market to achieve continued rent growth.

### **Craig Leibowitz**

Senior Director, New York Research



## Capital Markets overview

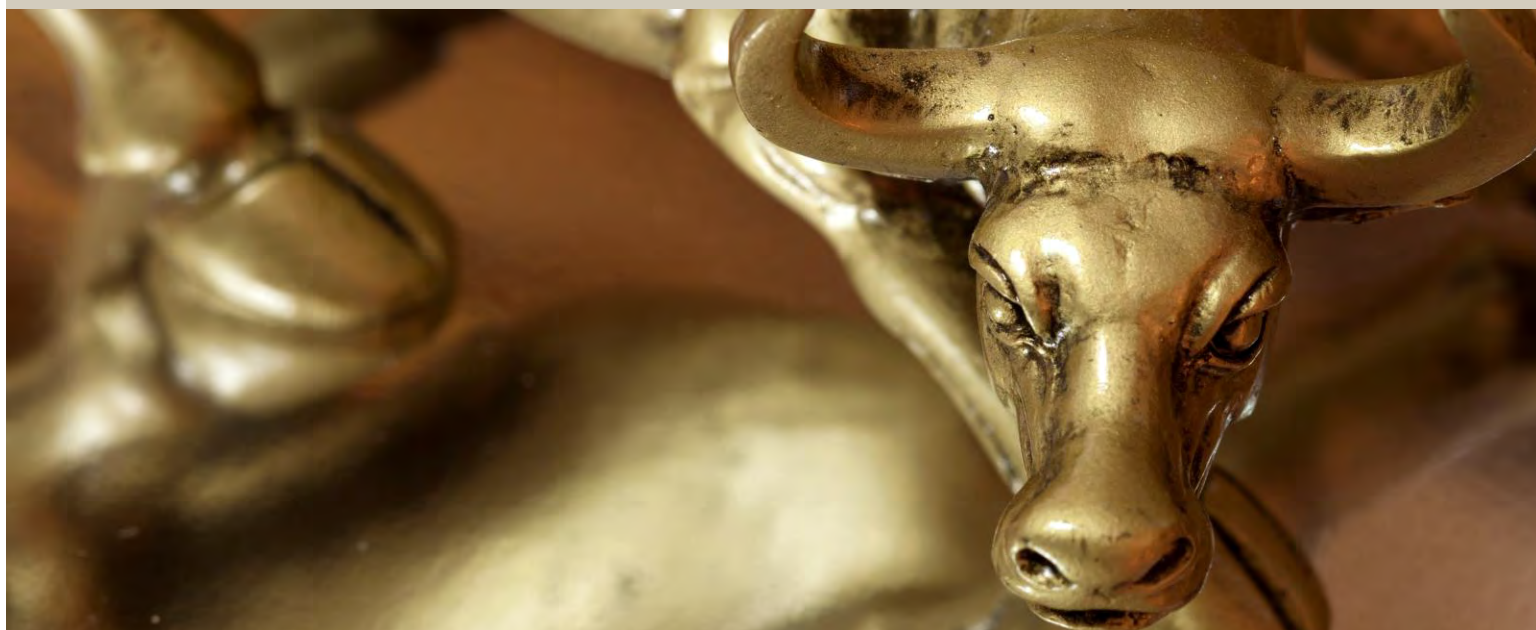
Manhattan investment sales volume experienced strong momentum at the end of 2019. Approximately \$9.6 billion of sales closed in the fourth quarter, which was 24.6 percent above the prior five-year quarterly average and was the greatest quarterly volume reported since the third quarter of 2016. The year finished with \$29.0 billion of closed sales, which nearly matched the prior 10-year annual average and represented a 3.6 percent decrease year-over-year. The nominal dip in dollar volume since 2018 was a result of diverging investment activity among different property types. Annual investment volumes increased in the office (up 12.0 percent) and retail (up 116.7 percent) segments and declined in the hospitality (down 19.9 percent), multi-housing (down 31.4 percent) and land / development (down 49.5 percent) segments. Transactional velocity fell 17.2 percent year-over-year to 236 closed deals, while the 54 deals that closed in the fourth quarter represented a 30.6 percent decline from the prior five-year quarterly average.

The office sector rallied to \$4.4 billion in dollar volume in the fourth quarter, 22.9 percent above the prior five-year average and the second-greatest quarterly total in the last two years. Demand throughout the year was skewed towards core-plus and value-add investment opportunities, with Class B and Class C properties accounting for \$5.3 billion of dollar volume in 2019. This subset captured its greatest annual dollar volume since 2014 and its second-greatest annual dollar volume since 2007. The predominantly transitional profile of closed

deals coupled with more conservative underwriting assumptions for stabilized deals allowed cap rates to finish the year at 5.02 percent, which represented a considerable spread against the benchmark 10-year Treasury rates that finished the year at 1.92 percent.

Other property segments faced significant challenges that subdued deal flow. In the multi-housing sector, the rent regulation reform that was ratified in June placed limitations on income growth and therefore caused valuations to decrease for properties with rent-stabilized units. Development sites recorded a sharp decline in activity and value in 2019 due to elevated sellers' pricing expectations, heightened hard and soft construction costs and supply headwinds in the luxury residential and hospitality segments. Retail investment volume, albeit greater than 2018, was bolstered by a single Times Square transaction and generally remained challenged by difficult occupier market conditions.

Still, there are reasons for optimism entering 2020. The city's record levels of employment and diversifying economy serve as the foundation for positive investment momentum. Foreign participation is positioned to rise due to lower hedging costs for select investors and ongoing macroeconomic concerns relating to competitive global gateway cities that could reinvigorate demand for stabilized Manhattan office properties. Pending transactions totaling over \$5.1 billion at the end of 2019 and a selection of large-scale opportunities that are actively being marketed indicate that dollar volume is positioned to meet or surpass 2017 to 2019 levels.



# New York property clock



## Clock description

- This diagram illustrates our estimate of the location of each prime office market within its individual rental cycle at the end of the quarter.
- Markets can move around the clock at different speeds and directions.
- The diagram is a convenient method of comparing the relative position of markets in their rental cycle.
- The position is not necessarily representative of investment or development market prospects.
- The position refers to prime face rental values.

## Q4 2019 positions

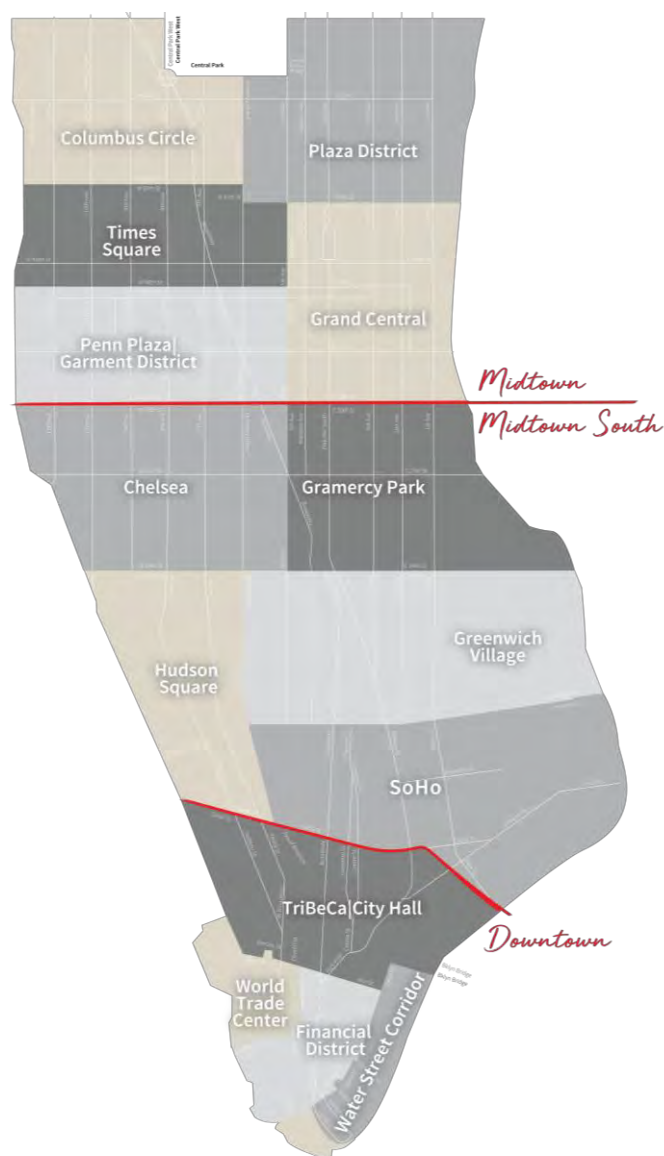
- **Midtown:** Midtown fundamentals are positioned to remain stabilized in the next 12 months. There should continue to be pockets of landlord leverage, specifically new developments in the Hudson Yards and high-quality offerings in core districts, though these market segments still comprise a small share of the broader Midtown inventory. As a result, overall market indicators are projected to remain near current, healthy levels.
- **Midtown South:** The near-term dearth of large blocks of supply should continue to force sizable tenant requirements seeking sizable offices or near-term occupancy to seek alternatives elsewhere in New York City. Asking rents are positioned to continue to rise as new, pricey developments are introduced and tenants' optionality remains limited.
- **Downtown:** Growing supply constraints are likely to persist through 2020, with the impending delivery of predominantly boutique projects relative to the scale of the World Trade Center complex only partially offsetting strengthened demand. These market conditions are likely to stimulate continued effective and asking rent appreciation, especially for transit-oriented properties.

## New York market definitions

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The Manhattan market is comprised of three major submarkets: **Midtown, Midtown South and Downtown.**

These markets are further divided into five, five and four submarkets, respectively.



Midtown submarkets: Columbus Circle, Grand Central, Penn Plaza/Garment District, Plaza District, Times Square

Midtown South submarkets: Chelsea, Gramercy Park, Greenwich Village, Hudson Square, SoHo

Downtown submarkets: Financial District, TriBeCa/City Hall, World Trade Center, Water Street Corridor

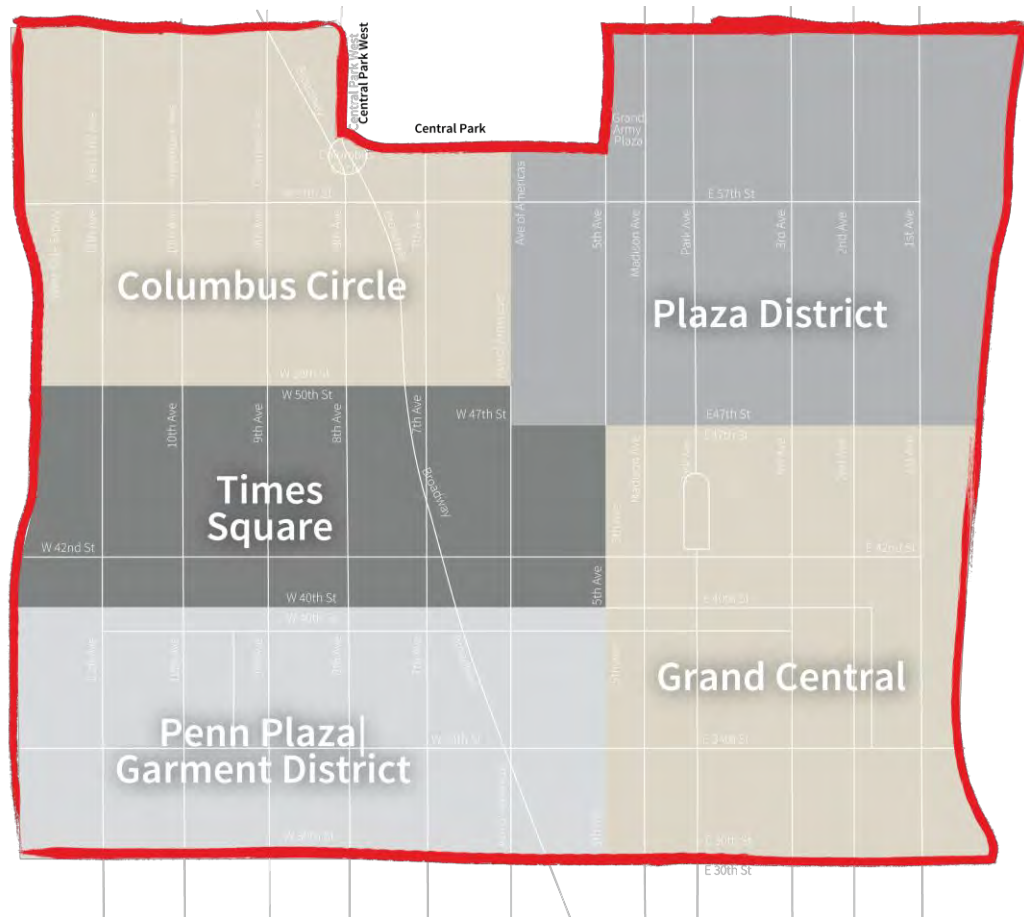
# New York statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (%) of stock	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD Completions (s.f.)	Under Development (s.f.)
Financial District	Totals	37,621,679	-125,861	-214,999	-0.6%	8.4%	10.3%	\$61.50	0	563,268
Tribeca/City Hall	Totals	17,363,069	-12,220	63,726	0.4%	4.1%	4.4%	\$74.60	0	414,588
Water Street Corridor	Totals	23,343,599	-67,905	511,499	2.2%	5.9%	7.6%	\$62.65	0	0
World Trade Center	Totals	20,893,399	1,039,807	1,373,430	6.6%	6.3%	9.6%	\$77.34	0	45,539
<b>Downtown</b>	<b>Totals</b>	<b>99,221,746</b>	<b>833,821</b>	<b>1,733,656</b>	<b>1.7%</b>	<b>6.6%</b>	<b>8.5%</b>	<b>\$65.93</b>	<b>0</b>	<b>1,023,395</b>
Columbus Circle	Totals	24,105,324	-275,965	-592,786	-2.5%	5.7%	7.7%	\$80.77	0	90,000
Grand Central	Totals	71,687,191	-263,822	-1,008,714	-1.4%	6.5%	8.1%	\$85.19	0	1,732,955
Penn Plaza/Garment	Totals	53,284,635	-80,463	5,497,091	10.3%	4.5%	7.4%	\$85.83	7,072,745	10,225,140
Plaza District	Totals	99,639,358	-879,981	247,360	0.2%	7.1%	8.8%	\$91.17	1,962,900	1,722,830
Times Square	Totals	40,691,632	-102,441	-1,045,253	-2.6%	6.4%	7.7%	\$83.15	0	349,205
<b>Midtown</b>	<b>Totals</b>	<b>289,408,140</b>	<b>-1,602,672</b>	<b>3,097,698</b>	<b>1.1%</b>	<b>6.3%</b>	<b>8.1%</b>	<b>\$87.27</b>	<b>9,035,645</b>	<b>14,120,130</b>
Chelsea	Totals	24,486,111	-98,781	72,315	0.3%	3.7%	5.9%	\$91.83	0	657,100
Gramercy Park	Totals	21,939,368	12,576	-272,419	-1.2%	3.1%	4.6%	\$82.29	247,308	183,449
Greenwich Village	Totals	6,065,643	-8,263	-156,843	-2.6%	3.5%	4.7%	\$116.17	0	455,560
Hudson Square	Totals	11,391,465	27,563	407,411	3.6%	1.8%	3.3%	\$117.84	156,938	208,685
SoHo	Totals	4,968,855	-20,015	-15,139	-0.3%	5.7%	8.1%	\$87.69	166,674	453,371
<b>Midtown South</b>	<b>Totals</b>	<b>68,851,442</b>	<b>-86,920</b>	<b>35,325</b>	<b>0.1%</b>	<b>3.3%</b>	<b>5.1%</b>	<b>\$95.43</b>	<b>570,920</b>	<b>1,958,165</b>
<b>New York City</b>	<b>Totals</b>	<b>457,481,328</b>	<b>-855,771</b>	<b>4,866,679</b>	<b>1.1%</b>	<b>5.9%</b>	<b>7.7%</b>	<b>\$82.46</b>	<b>9,606,565</b>	<b>17,101,690</b>
Financial District	A	14,827,140	-85,982	-82,385	-0.6%	6.0%	8.0%	\$73.51	0	563,268
Tribeca/City Hall	A	4,372,411	0	0	0.0%	1.6%	1.6%	\$119.19	0	414,588
Water Street Corridor	A	21,809,485	-66,951	490,147	2.2%	6.0%	7.9%	\$62.70	0	0
World Trade Center	A	20,893,399	1,039,807	1,373,430	6.6%	6.3%	9.6%	\$77.34	0	45,539
<b>Downtown</b>	<b>A</b>	<b>61,902,435</b>	<b>886,874</b>	<b>1,781,192</b>	<b>2.9%</b>	<b>5.8%</b>	<b>8.0%</b>	<b>\$70.95</b>	<b>0</b>	<b>1,023,395</b>
Columbus Circle	A	17,795,261	-261,131	-427,729	-2.4%	5.3%	7.4%	\$83.74	0	90,000
Grand Central	A	40,378,444	-239,789	-1,038,753	-2.6%	7.1%	8.9%	\$92.77	0	1,732,955
Penn Plaza/Garment	A	26,259,699	428,398	6,634,042	25.3%	3.9%	5.0%	\$103.61	7,072,745	9,900,140
Plaza District	A	84,743,254	-786,476	574,283	0.7%	7.2%	8.8%	\$94.11	1,962,900	1,522,830
Times Square	A	31,677,624	-72,827	-870,062	-2.7%	6.0%	7.1%	\$88.75	0	349,205
<b>Midtown</b>	<b>A</b>	<b>200,854,282</b>	<b>-931,825</b>	<b>4,871,781</b>	<b>2.4%</b>	<b>6.4%</b>	<b>7.9%</b>	<b>\$93.20</b>	<b>9,035,645</b>	<b>13,595,130</b>
Chelsea	A	14,673,026	-26,688	187,793	1.3%	2.2%	4.6%	\$109.91	0	657,100
Gramercy Park	A	13,682,022	-50,649	-306,296	-2.2%	2.8%	4.8%	\$94.93	247,308	183,449
Greenwich Village	A	2,069,235	-4,680	21,194	1.0%	0.3%	1.6%	\$146.07	0	455,560
Hudson Square	A	7,699,480	98	351,698	4.6%	1.6%	3.4%	\$130.19	156,938	208,685
SoHo	A	2,101,256	66,803	172,563	8.2%	5.7%	6.6%	\$94.32	166,674	415,000
<b>Midtown South</b>	<b>A</b>	<b>40,225,019</b>	<b>-15,116</b>	<b>426,952</b>	<b>1.1%</b>	<b>2.4%</b>	<b>4.4%</b>	<b>\$111.77</b>	<b>570,920</b>	<b>1,919,794</b>
<b>New York City</b>	<b>A</b>	<b>302,981,736</b>	<b>-60,067</b>	<b>7,079,925</b>	<b>2.3%</b>	<b>5.7%</b>	<b>7.5%</b>	<b>\$89.35</b>	<b>9,606,565</b>	<b>16,538,319</b>
Financial District	B	22,794,539	-39,879	-132,614	-0.6%	10.0%	11.9%	\$54.39	0	0
Tribeca/City Hall	B	12,990,658	-12,220	63,726	0.5%	4.9%	5.4%	\$65.11	0	0
Water Street Corridor	B	1,534,114	-954	21,352	1.4%	4.1%	4.4%	\$60.09	0	0
<b>Downtown</b>	<b>B</b>	<b>37,319,311</b>	<b>-53,053</b>	<b>-47,536</b>	<b>-0.1%</b>	<b>8.0%</b>	<b>9.3%</b>	<b>\$57.54</b>	<b>0</b>	<b>0</b>
Columbus Circle	B	6,310,063	-14,834	-165,057	-2.6%	6.6%	8.7%	\$71.82	0	0
Grand Central	B	31,308,747	-24,033	30,039	0.1%	5.9%	7.1%	\$63.13	0	0
Penn Plaza/Garment	B	27,024,936	-508,861	-1,136,951	-4.2%	5.2%	9.8%	\$61.85	0	325,000
Plaza District	B	14,896,104	-93,505	-326,923	-2.2%	6.6%	8.6%	\$68.79	0	200,000
Times Square	B	9,014,008	-29,614	-175,191	-1.9%	7.8%	10.0%	\$72.03	0	0
<b>Midtown</b>	<b>B</b>	<b>88,553,858</b>	<b>-670,847</b>	<b>-1,774,083</b>	<b>-2.0%</b>	<b>6.0%</b>	<b>8.6%</b>	<b>\$66.93</b>	<b>0</b>	<b>525,000</b>
Chelsea	B	9,813,085	-72,093	-115,478	-1.2%	5.8%	7.7%	\$60.28	0	0
Gramercy Park	B	8,257,346	63,225	33,877	0.4%	3.5%	4.3%	\$68.72	0	0
Greenwich Village	B	3,996,408	-3,583	-178,037	-4.5%	5.2%	6.3%	\$88.11	0	0
Hudson Square	B	3,691,985	27,465	55,713	1.5%	2.0%	3.1%	\$70.47	0	0
SoHo	B	2,867,599	-86,818	-187,702	-6.5%	5.7%	9.2%	\$79.12	0	38,371
<b>Midtown South</b>	<b>B</b>	<b>28,626,423</b>	<b>-71,804</b>	<b>-391,627</b>	<b>-1.4%</b>	<b>4.6%</b>	<b>6.1%</b>	<b>\$72.22</b>	<b>0</b>	<b>38,371</b>
<b>New York City</b>	<b>B</b>	<b>154,499,592</b>	<b>-795,704</b>	<b>-2,213,246</b>	<b>-1.4%</b>	<b>6.2%</b>	<b>8.3%</b>	<b>\$64.22</b>	<b>0</b>	<b>563,371</b>

# Midtown



# Midtown boundaries



## Columbus Circle

South of West 66th Street, west of Central Park West and Avenue of the Americas, north of West 50th Street and east of the Hudson River.

## Grand Central

South of East 47th Street, north of East 30th Street and east of Fifth Avenue.

## Penn Plaza/Garment District

South of 40th Street, west of Fifth Avenue, north of 30th Street and east of the Hudson River.

## Plaza District

South of East 65th Street, west of the East River, north of 47th Street and east of Avenue of the Americas.

## Times Square

South of West 50th Street, west of Avenue of the Americas, north of West 40th Street and east of the Hudson River.

# Midtown

## Quarter in review

Strong demand by both creative and traditional firms for new construction at the Hudson Yards highlighted a busy fourth quarter, though overall market metrics softened as a result of comparatively tame deal flow at other Midtown districts.

Activity was led by Facebook, which leased a total of 1.5 million square feet at 30, 50 and 55 Hudson Yards. Debevoise & Plimpton signed for 530,000 square feet at 66 Hudson Boulevard ("The Spiral"), Cravath, Swaine & Moore signed for 481,000 square feet at 2 Manhattan West and Dentsu, a Japanese advertising conglomerate, signed for 320,000 square feet at 341 Ninth Avenue. The newly renovated and expanded 441 Ninth Avenue ("Hudson Commons") delivered this quarter, bringing the total completed inventory in the broader Hudson Yards district to 10.6 million square feet while more than 24.0 million more square feet remains in the long-term pipeline. Completed development projects are 93.4 percent leased, with under-construction product sitting at a healthy 51.8 percent pre-leased.

Despite a strong period of leasing activity at the Hudson Yards, the overall Midtown vacancy increased by 80 basis points over the past quarter, landing at 8.1 percent. Contributing to this bump are the newly marketed deliveries at 1 Manhattan West and 441 Ninth Avenue, combining for 368,000 square feet of available space, and several Class B availabilities that are concentrated in the Penn Plaza/ Garment District and the Plaza District submarkets. Asking rents softened by 2.8 percent in the fourth quarter to \$83.82 per square foot due to the absorption of above-market availabilities and the additions of several Class B spaces.

## Submarket boundaries map



### Key market indicators | Q4 2019

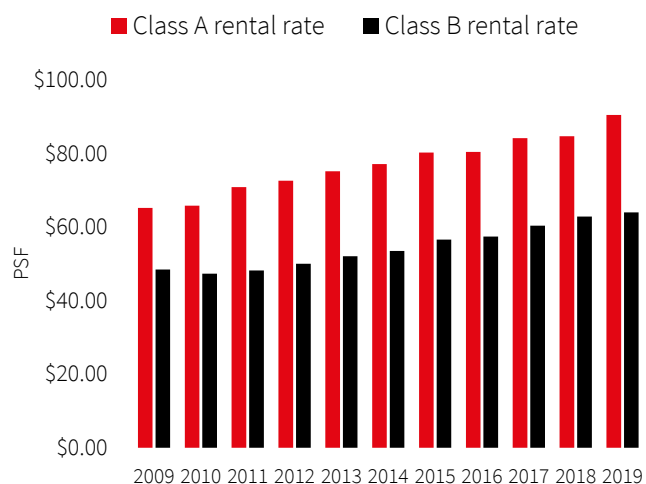
Stock	▲	289,408,140 SF
Overall net absorption	▼	-1,602,672 SF
Overall vacancy rate	▲	8.1%
Average asking rent	▼	\$83.82 PSF
Under construction	▲	14,120,130 SF

## Market outlook

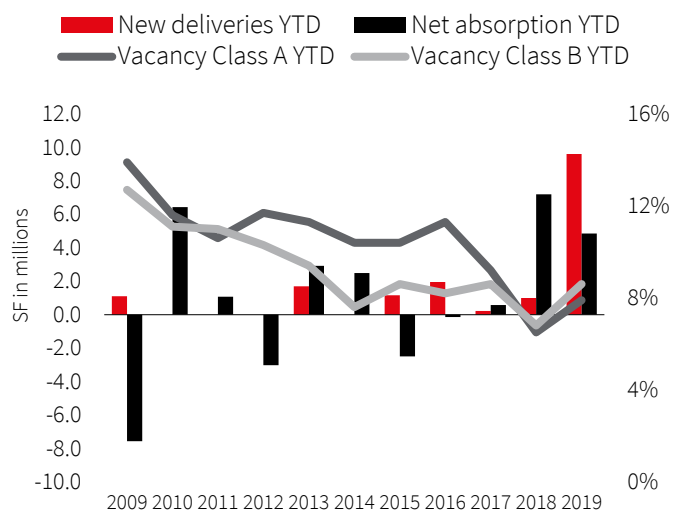
Midtown fundamentals are positioned to remain stabilized in the next 12 months. Several major tech requirements landed in 2019 and a few more remain active, while reinvigorated activity is anticipated by financial, legal and business services firms. There should continue to be pockets of landlord leverage, specifically new developments in the Hudson Yards and other high-quality offerings that can accommodate the aforementioned tenant requirements, though these market segments comprise a small share of the broader Midtown inventory.

# Midtown

**Average rental rates PSF  
(Class A vs. Class B)**



**Overall new deliveries/overall net absorption/  
overall vacancy rates**



## Significant lease transactions

Facebook  
50 Hudson Yards  
Trophy  
1,200,000 SF

Debevoise & Plimpton  
66 Hudson Boulevard ("The Spiral")  
Trophy  
530,000 SF

Cravath, Swaine & Moore  
2 Manhattan West  
Trophy  
481,000 SF

Dentsu Aegis Network  
341 Ninth Avenue  
Trophy  
320,000 SF

Facebook  
30 Hudson Yards  
Trophy  
265,000 SF

## Large vacancies

11 Penn Plaza  
(sublease)  
Class B  
638,921 SF

1301-1315 Avenue of the Americas  
Class A  
462,152 SF

335 Madison Avenue  
Class A  
450,920 SF

1675 Broadway  
Class A  
409,229 SF

## Recent sales transactions

711 Fifth Avenue  
310,000 SF  
Class A  
\$3,081 PSF

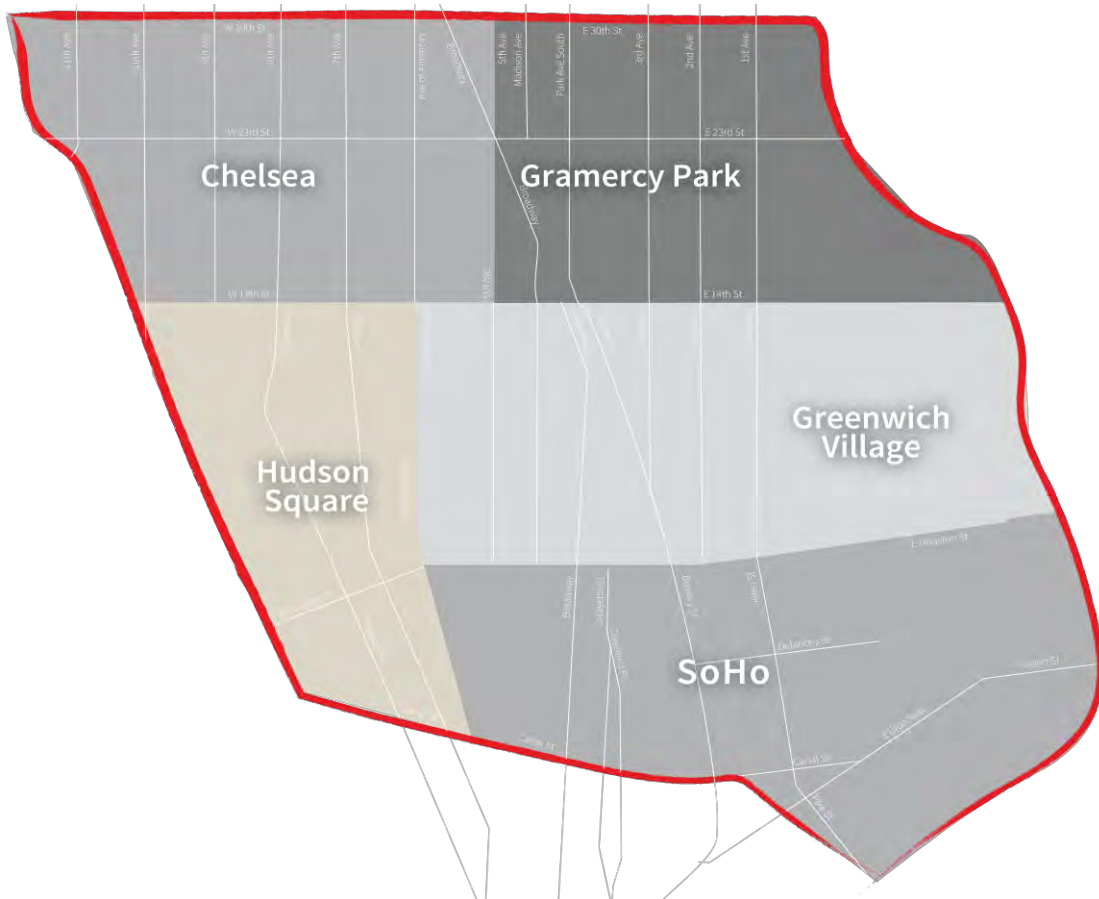
685 Third Avenue  
667,069 SF  
Class A  
\$676 PSF

589 Fifth Avenue (Leasehold Interest)  
195,345 SF  
Class B  
\$1,870 PSF

# Midtown South



# Midtown South boundaries



## Chelsea

South of 30th Street, west of Fifth Avenue, north of 14th Street and east of the Hudson River.

## Gramercy Park

South of 30th Street, west of the East River, north of 14th Street and east of Fifth Avenue.

## Greenwich Village

North of Houston Street, south of 14th Street, west of the East River and east of Avenue of the Americas.

## Hudson Square

South of 14th Street, west of Avenue of the Americas, north of Canal Street and east of the Hudson River.

## SoHo

South of Houston Street, west of the East River, north of Canal Street and east of Avenue of the Americas.

# Midtown South

## Quarter in review

Leasing activity slowed at the end of the year after a very strong third quarter due, in part, to continued supply constraints. The largest lease of the fourth quarter was the 50,000-square-foot expansion by Squarespace at 225 Varick Street, which was significantly smaller than the headquarters commitments made by Google and Publicis in Hudson Square that were announced in the prior quarter. Vacancy remained stable at 5.1 percent, with no new construction or renovation project deliveries.

Similar to prior periods, tech, advertising, media and information companies accounted for 55.3 percent of closed deals in Midtown South in the fourth quarter. The second-largest lease was executed by New York University at 115 Fifth Avenue for 46,500 square feet. Nielsen Holdings, a global information and data firm, subleased 35,000 square feet at 625 Avenue of the Americas. Boutique fintech company Plaid Inc. relocated and expanded their footprint for 30,000 square feet at 395-309 Lafayette Street ("Puck Building").

New, largely boutique, construction projects continued to gain traction. Next Jump Media, Inc. signed for the top three floors of 512 West 22nd Street. Luxury boutique jewelry company, Maria Tash, signed for the top three floors at the newly repositioned 2 Crosby Street, which was delivered in the third quarter. Various newly constructed and repositioned properties are expected to deliver in early 2020, providing additional supply relief in the market. This is especially relevant for the Hudson Square submarket, which reported a vacancy rate of just 3.3 percent in the fourth quarter but has the potential for additional office development activity.

## Submarket boundaries map



## Key market indicators | Q4 2019

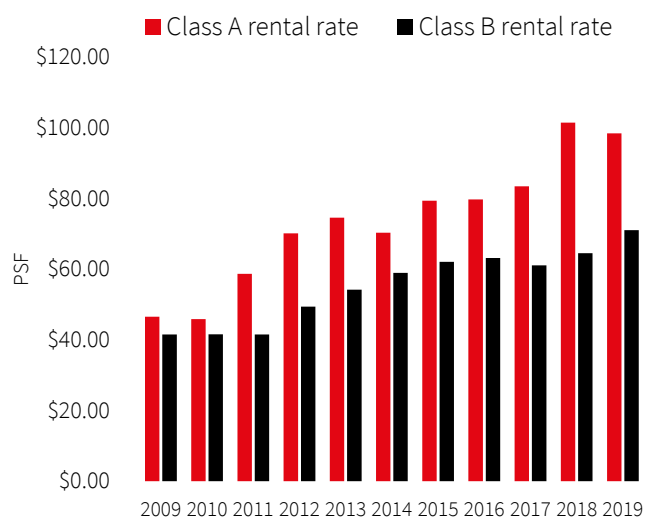
Stock	▲	68,851,442 SF
Overall net absorption	▼	-86,920 SF
Overall vacancy rate	▲	5.1%
Average asking rent	▲	\$88.47 SF
Under construction	▼	1,958,165 SF

## Market outlook

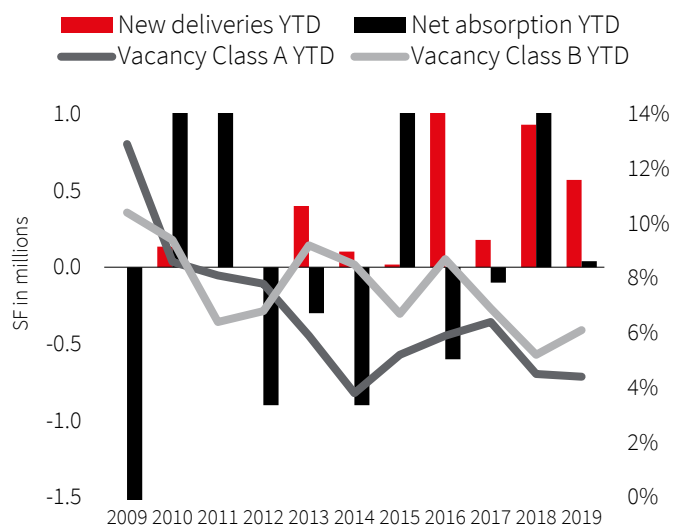
Midtown South is positioned to continue to capture demand from tech, creative and boutique financial services companies. However, the dearth of availabilities has been forcing tenant requirements seeking large blocks of space or immediate occupancy to seek alternatives throughout New York City. Asking rents are positioned to continue to incrementally rise as new pricey developments are introduced and tenants' optionality remains limited.

# Midtown South

**Average rental rates  
(Class A vs. Class B)**



**Overall new deliveries/overall net absorption/  
overall vacancy rates**



## Significant lease transactions

Squarespace 225 Varick Street	Class A 50,000 SF
New York University 115 Fifth Avenue	Class B 46,500 SF
Next Jump Media, Inc 512 West 22nd Street	Class A 41,300 SF
Nielsen Holdings 625 Avenue of the Americas	Class A 35,000 SF

## Large vacancies

63 Madison Avenue	Class A 218,000 SF
512 West 22nd Street	Class A 112,700 SF
601 West 26th Street	Class A 98,800 SF
817 Broadway	Class A 79,500 SF

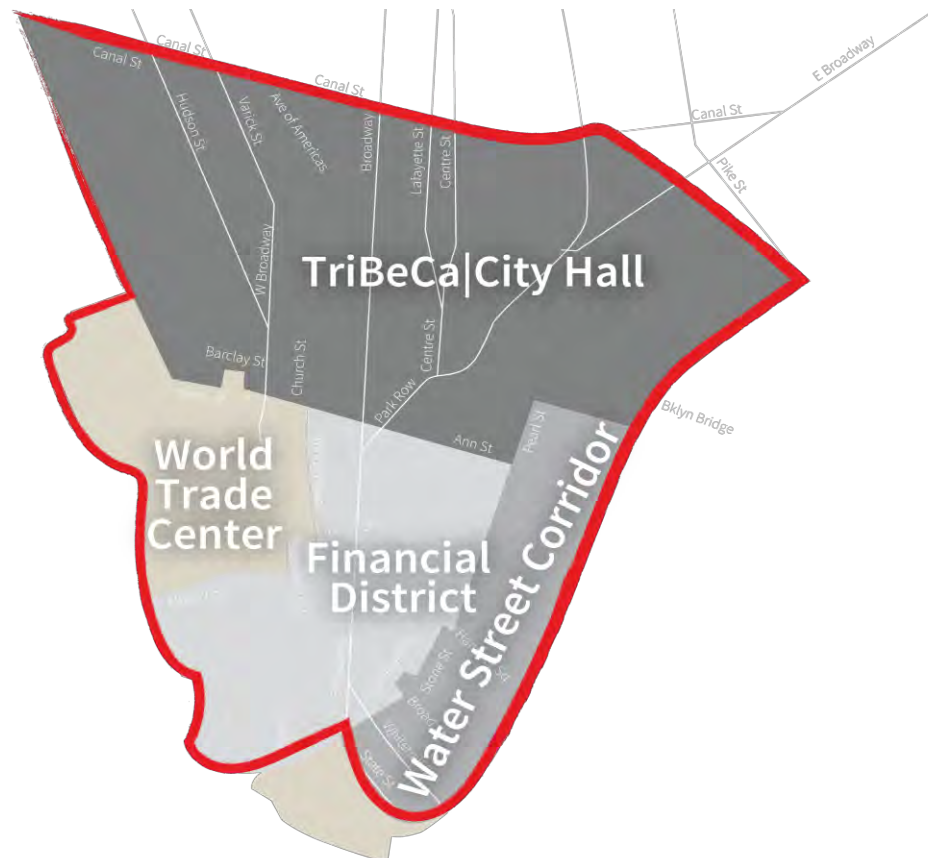
## Recent sales transactions

295 Fifth Avenue (Leasehold Interest) 576,540 SF	Class B \$650 PSF
40 West 25th Street 136,226 SF	Class B \$892 PSF
158 West 27th Street 120,858 SF	Class C \$822 PSF

# Downtown



## Downtown boundaries



### TriBeCa/City Hall

South of Canal Street, west of the East River and Pearl Street, north of Ann Street and east of West Street.

### World Trade Center

South of Vesey Street, but inclusive of 7 World Trade Center, west of Trinity Place, north of Albany Street and east of the Hudson River.

### Financial District

South of Ann Street, west of Pearl Street, east of the Hudson River, south of Albany Street and east of Trinity Street.

### Water Street Corridor

South of the Brooklyn Bridge, west of the East River and east of Pearl Street.

# Downtown

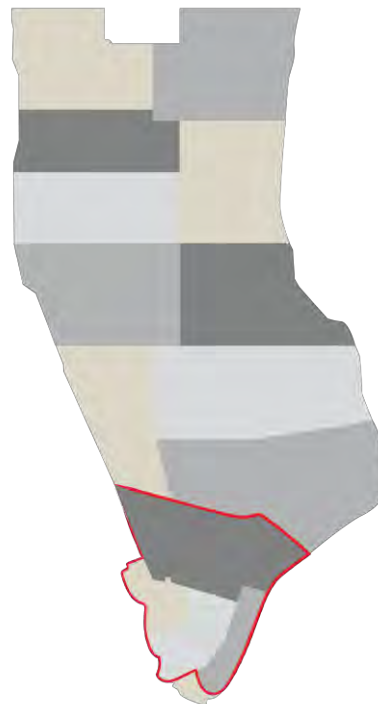
## Quarter in review

Downtown reported an exceptionally strong year and fourth quarter as evidenced by the sizable relocation activity from outside of the market that caused significant vacancy compression. These migrations—from various industry segments and original locations—caused the overall vacancy rate to decrease by 90 basis points to 8.5 percent and the Class A vacancy rate to decrease by 150 basis points to 8.0 percent in the fourth quarter. By comparison, the Class A vacancy rate was 11.2 percent at the end of 2018. The asking rent decreased slightly in the fourth quarter but remains elevated by historical standards due to the absorption of above-market spaces.

At 45.1 percent, tech companies accounted for a leading share of the relocation leasing activity during the quarter, though other industry segments also made commitments to move to Lower Manhattan. Transit-oriented new construction and renovation projects captured a leading share of these out-of-market relocations, with Class A properties capturing 92.8 percent of activity by square footage. At 3 World Trade Center, Uber leased 304,000 square feet and Cozen O'Connor leased 77,000 square feet. Both firms will be consolidating from multiple locations—Uber from Midtown, Midtown South and potentially other locations and Cozen O'Connor from Midtown and Downtown. 28 Liberty Street successfully captured commitments by companies originating in Midtown—Refinitiv took 108,917 square feet and Dotdash took 68,000 square feet.

A series of boutique ground-up developments and repositioning projects offering approximately 788,000 square feet of office space are expected to arrive in 2020, including 15 Laight Street, 107 Greenwich Street, 185 Broadway, 1 Broadway and 25 Park Row. Additionally, the vacant 250 Church Street is expected to undergo a transformation into a Trophy-quality office building by 2021 following its acquisition by Columbia Property Trust and Normandy Real Estate Partners. The recent successes of the World Trade Center complex, which posted a collective vacancy rate of 13.7 percent—down from 22.0 percent in the third quarter—and the shrinking supply of large blocks of space demonstrate the viability of new office construction in Lower Manhattan.

## Submarket boundaries map



### Key market indicators | Q4 2019

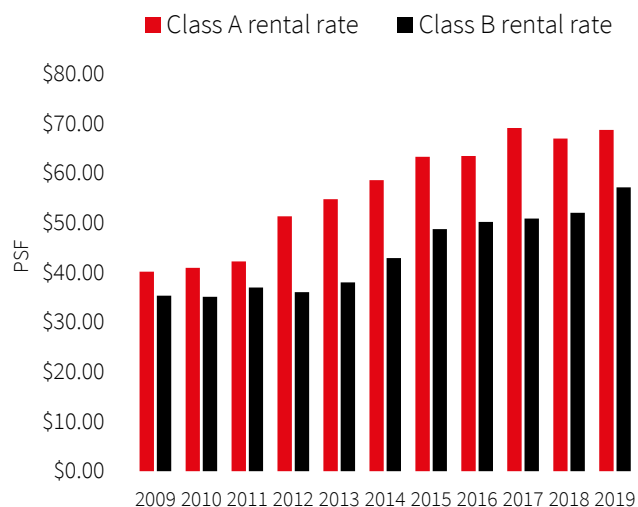
Stock	▼	99,221,746 SF
Overall net absorption	▼	833,821 SF
Overall vacancy rate	▼	8.5 %
Average asking rent	▲	\$64.64 PSF
Under construction	▲	1,023,395 SF

## Market outlook

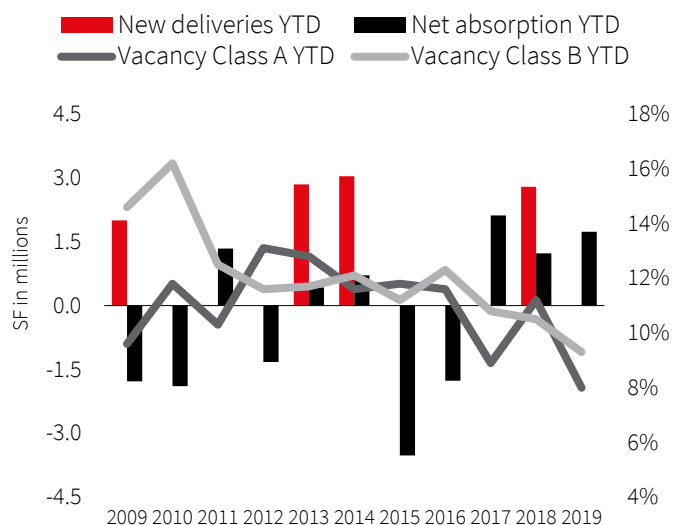
Strong demand for Trophy-quality space that remains priced at a discount compared with Midtown and Midtown South alternatives caused large-block availabilities to compress appreciably throughout 2019. Supply constraints are positioned to persist through 2020 based on pending leases that should help to offset the impending deliveries of predominantly small-scale office developments. These market conditions are likely to stimulate continued effective and asking rent appreciation and nominal vacancy compression.

# Downtown

**Average rental rates  
(Class A vs. Class B)**



**Overall new deliveries/overall net absorption/  
overall vacancy rates**



## Significant lease transactions

Uber	Trophy
3 World Trade Center	304,000 SF
Refinitiv	Trophy
28 Liberty Street	108,917 SF
Cozen O'Connor	Trophy
3 World Trade Center	77,000 SF
Dotdash	Class A
28 Liberty Street	68,000 SF

## Large vacancies

7 Hanover Square	Class A
	278,454 SF
1 World Trade Center	Trophy
	234,918 SF
120 Broadway	Class B
	203,749 SF
110 William Street	Class B
	199,693 SF

## Recent sales transactions

195 Broadway (Leasehold Interest)	Class A
1,052,861 SF	\$475 PSF
7 Hanover Square	Class A
845,000 SF	\$365 PSF
175 Water Street	Class A
592,235 SF	\$456 PSF

# Appendix

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Contiguous space  
Manhattan under construction  
Manhattan select sales  
Glossary



## Midtown buildings with large contiguous blocks of space

---

A	A	B
A	A	B
A	A	B
A	A	
A	A	
A	A	
A	A	
A	B	
A	B	
A	B	

---

### 23 blocks: 4,755,617 SF

11 Penn Plaza – 638,921 SF  
 825 Third Avenue – 500,193 SF  
 335 Madison Avenue – 450,920 SF  
 135 West 50th Street – 360,925 SF  
 9 West 57th Street – 278,200 SF  
 375 Park Avenue – 246,566 SF  
 601 Lexington Avenue – 193,926 SF  
 300 East 42nd Street – 182,008 SF  
 825 Seventh Avenue – 178,366 SF  
 60 Columbus Circle – 149,886 SF  
 1180 Avenue of the Americas – 149,862 SF  
 666 Fifth Avenue – 146,786 SF  
 623 Fifth Avenue – 134,762 SF  
 441 Ninth Avenue – 129,588 SF  
 1 Manhattan West – 124,449 SF  
 1211 Avenue of the Americas – 121,019 SF

405 Lexington Avenue – 119,622 SF  
 575 Fifth Avenue – 115,128 SF  
 885 Second Avenue – 112,847 SF  
 245 Park Avenue – 110,616 SF  
 1540 Broadway – 108,848 SF  
 1155 Avenue of the Americas – 104,576 SF  
 501 Seventh Avenue – 97,603 SF

*Contiguous blocks greater than 90,000 square feet*

## Midtown South buildings with large contiguous blocks of space

---

A
A
A
A

---

### **4 blocks: 511,808 SF**

63 Madison Avenue – 218,425 SF

512 West 22<sup>nd</sup> Street – 104,300 SF

601 West 26<sup>th</sup> Street – 98,843 SF

60 Charlton Street – 90,240 SF

*Contiguous blocks greater than 90,000 square feet*

## Downtown buildings with large contiguous blocks of space

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A	B
A	
A	
A	
A	
A	
A	
B	
B	
B	

---

### 11 blocks: 2,155,575 SF

250 Broadway – 313,996 SF

100 Pearl Street – 242,710 SF

1 World Trade Center – 234,918 SF

3 World Trade Center – 231,668 SF

120 Broadway – 203,749 SF

110 William Street – 199,693 SF

28 Liberty Street – 189,421 SF

3 World Trade Center – 187,893 SF

1 World Trade Center – 141,137 SF

60 Hudson Street – 120,000 SF

3 World Trade Center – 90,390 SF

*Contiguous blocks greater than 90,000 square feet*

# Manhattan under construction



Market/building	Class	Developer/owner	RBA	Preleased	Major tenants signed	Delivery date
<b>Midtown</b>						
50 Hudson Yards	Trophy	Related / Oxford / Mitsui Fudosan	2,850,000 SF	71.8%	BlackRock; Facebook	2022
66 Hudson Boulevard	Trophy	Tishman Speyer	2,850,000 SF	53.2%	Pfizer, AllianceBernstein; Debevoise & Plimpton	2022
2 Manhattan West	Trophy	Brookfield Office Properties / QIA	1,950,140 SF	24.7%	Cravath, Swaine & Moore LLP	2022
One Vanderbilt	Trophy	SL Green / NPS / Hines	1,732,955 SF	56.7%	TD Bank; Greenberg Traurig	2020
550 Madison Avenue	Trophy	RXR / Olayan / Chelsfield	852,830 SF	0.0%	N/A	2020
Farley Building	A	Vornado/Related	740,000 SF	0.0%	N/A	2020
425 Park Avenue	Trophy	L&L Holding Company / GreenOak Real Estate / Tokyu Land Corp.	670,000 SF	49.5%	Citadel	2020
1100 Avenue of the Americas	Trophy	Brookfield Office Properties / The Swig Company	349,205 SF	100.0%	Bank of America	2020
1245 Broadway	A	GDS Development	200,000 SF	0.0%	N/A	2020
104-106 W 56th Street	A	Atom Assets / Savanna	90,000 SF	0.0%	N/A	2020
<b>Midtown South</b>						
Essex Crossing	A	Taconic / L+M Development Partners / BFC Partners	350,000 SF	0.0%	N/A	2020
Pier 57	A	RXR Realty / Youngwoo	320,000 SF	100.0%	Google	2020
124 E 14th Street	A	NYCEDC / RAL Development	237,838 SF	0.0%	N/A	2020
150 Fifth Avenue	A	L&L Holdings	232,100 SF	100.0%	MasterCard	2020
799 Broadway	A	Normandy R/E / Columbia Property Trust	182,000 SF	0.0%	N/A	2020
520 W 20th Street	A	Elijah Equities	105,000 SF	0.0%	N/A	2020
60 Charlton Street	A	APF Properties / Drake Street Partners	98,200 SF	0.0%	N/A	2020
<b>Downtown</b>						
107 Greenwich Street	A	Trinity Real Estate	310,000 SF	58.1%	Trinity Church	2020
1 Broadway	A	Midtown Equities / Rockwood Capital	253,268 SF	0.0%	N/A	2020
250 Church Street	A	Normandy Real Estate Partners / Columbia Property Trust	234,990 SF	0.0%	N/A	2021
15 Laight Street	A	Vanbarton Group	127,843 SF	0.0%	N/A	2020
<b>CBD totals</b>			<b>14,736,369 SF</b>	<b>43.7%</b>		

*Includes only developments larger than 90,000 square feet*

## Manhattan select sales



Date	Address	Interest %	RBA	Price	Price PSF	Purchaser(s)	Seller(s)	Class	Market	Submarket
Oct-19	711 Fifth Avenue (Coca-Cola Building)	100%	310,000	\$955,000,000	\$3,081	Michael Shvo JV Serdar Bilgili JV Deutsche Finance JV BVK	Nightingale Properties JV Wafra JV Ashkenazy Acquisition Corp.	A	MT	Plaza District
Nov-19	195 Broadway (Leasehold Interest)	95%	1,052,861	\$475,000,000	\$475	Korea Investment & Securities JV Samsung SRA Asset Management	J.P. Morgan Asset Management	B	DT	Financial District
Dec-19	685 Third Avenue	100%	667,069	\$451,250,000	\$676	BentallGreenOak	Unizo	A	MT	Grand Central
Oct-19	295 Fifth Avenue (Leasehold Interest)	100%	576,540	\$375,000,000	\$650	Tribeca Investment Group JV PGIM Real Estate JV Meadow Partners	Manhattan Properties Co.	B	MT	Grand Central
Oct-19	589 Fifth Avenue (Leasehold Interest)	100%	195,345	\$365,230,991	\$1,870	GLL RE Partners	Mactaggart Family & Partners	B	MT	Plaza District

*Includes the top five office sales by price that transacted during the quarter*

# Glossary | Common real estate terms

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## Active requirements

Tenants actively seeking space in the market.

## Available space

Existing space that is being actively marketed for immediate or future occupancy, including both direct and sublease space.

## Average asking rent

Quoted at a gross price exclusive of tenant electricity based on a weighted average of available space.

## Buildout

The cost of configuring and finishing new space in accordance with a tenant's specifications.

## Build to suit

A method of leasing property whereby the landlord builds a new building in accordance with a tenant's specifications.

## Capital improvement

Any major physical development or redevelopment to a property that extends the life of the property. Examples include upgrading the elevators, replacement of the roof and renovations of the lobby.

## Class

Building classification system broken down by Trophy, Class A, B and C buildings. Location, building amenities, mechanical/HVAC systems, age of building and tenant roster are some of the components that determine an office building's class.

## Concessions

Cash expended by the landlord in the form of rent abatement, build-out allowance or other payments to induce the tenant to sign a lease. The level of concessions fluctuates with supply and demand conditions in the market and is up for negotiation in a similar fashion to rental rates.

## Contiguous space

Adjoining office space.

## Delivered buildings

Buildings that have completed construction and are ready for tenant buildout. May or may not yet have a Certificate of Occupancy.

## Direct rent

Rents quoted directly from the landlord on vacant space.

## Effective rent

The rental rate actually achieved by the landlord or tenant after deducting the value of concessions from the base rental rate paid; usually expressed as an average rate over the term of the lease.

## Face rental rate

The "asking" or nominal rental rate published by the landlord.

## Gross leases

The quoted rents include tax and operating costs (property taxes, insurance and maintenance expenses).

## Hard cost

The cost of actually constructing property improvements.

## Indirect (soft) costs

Development costs other than material and labor costs, which are directly related to the construction of improvements, including administrative and office expenses, commissions, architectural, engineering and financing costs.

## Lease

A legally binding agreement whereby the owner of real property (i.e., landlord) gives the right of possession to another (i.e., tenant) for a specified period of time (i.e., term) and for a specified consideration (i.e., rent).

## Leased space

Existing space under contract, regardless of if it is occupied; also includes subleased space.

## NNN leases

The quoted rents do not include tax and operating costs (property taxes, insurance and maintenance expenses).

## Net absorption

Net change in occupied space between two dates measured as square footage. (i.e., a measure of the total square feet leased over a period of time taking into consideration office space vacated in the same area during the same period).

## Occupied space

Total supply minus available space.

## Operating expense

The actual costs associated with operating a property, including maintenance, repairs, management, utilities, taxes and insurance.

# Glossary | Common real estate terms (cont'd)

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**Preleased space**

Space that has been leased prior to construction completion date or Certificate of Occupancy date.

**Proposed construction**

Buildings are proposed when permits are in place, site is being actively marketed, but significant base building has not yet commenced. Proposed asking rents are not included in market calculations.

**Shell space**

The interior condition of the tenant's usable square footage when it is without improvements or finishes. Shell construction typically denotes the floor, windows, walls and roof of an enclosed premises and may include some HVAC, electrical or plumbing improvements but not demising walls or interior space partitioning.

**Sublease space**

Leased space that is being actively marketed by the tenant under contract to another party.

**Tenant at will**

One who holds possession of premises by permission of the owner or landlord, but without agreement for a fixed term.

**Tenant improvement allowance (TI)**

Improvements to land or buildings to meet the needs of tenants. May be new improvements or remodeling, and may be paid for by the landlord, the tenant or shared.

**Total supply**

The entire area of an office building comprised of both usable space and an allocated portion of the common area.

**Turnkey project**

A project in which the developer is responsible for the total completion of a building (including interior design and construction) or demised premises to the customized requirements of a future owner or tenant.

**Under construction**

Buildings are under construction when significant work is under way from ground-up development (i.e., steel is going up).

**Under renovation/rehab**

Buildings are under renovation/rehab when significant base building renovation is under way.

**Vacant space**

Direct existing space being actively marketed for immediate occupancy as of the survey date, not including sublease space.



## About JLL

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JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

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