Leasing activity surpasses five-year average by 11%

4.24M	1.15M	18.1%	14.6%	$85.03
Leasing Activity	Net Absorption	Availability Rate	Vacancy Rate	Average Asking Rent

Note: Arrows indicate change from previous quarter.

QUICK FACTS

- Midtown leasing activity was 4.24 million sq. ft. for the quarter, up 25% from Q1 2022 and 11% above the five-year quarterly average.
- Renewals totaled 1.15 million sq. ft. in Q2, bringing the year-to-date total to 1.66 million sq. ft.
- Net absorption was positive 1.15 million sq. ft. in Q2, bringing the year-to-date total to negative 1.36 million sq. ft.
- The availability rate fell 50 basis points (bps) quarter-over-quarter to 18.1%.
- At $85.03 per sq. ft., Midtown's average asking rent was essentially flat quarter-over-quarter but up 5% year-over-year.
- The average tenant improvement (TI) allowance for new leases increased 39% from 2019 to $147 per sq. ft. and the average free rent period grew to 17 months.
- The taking rent index fell 40 bps quarter-over-quarter to 89.8% but was up 430 bps year-over-year.

Market Overview

Midtown's 4.24 million sq. ft. of leasing activity surpassed the five-year quarterly average by 11% and was the second-highest quarterly leasing total since Q4 2019. The financial service sector continues to be the primary driver of activity, accounting for 49% of leasing in the second quarter—up from 38% in Q1, and 35% for all of 2021. Net absorption was positive 1.15 million sq. ft., propelled by strong leasing and only seven space additions greater than 100,000 sq. ft. Availability fell 50 bps quarter-over-quarter to 18.1% while the average asking rent was essentially flat at $85.03 per sq. ft. Quality buildings remain in high demand, with larger tenants seeking space in new construction and renovated product.

Economic Overview

Economic conditions have changed considerably from the previous quarter due to persistently high inflation, sparked by supply-demand imbalances and Russia's invasion of Ukraine. Consumer sentiment has declined to levels reminiscent of periods of economic stress, suggesting strong concern despite a tight labor market and wage growth. While the Federal Reserve is expected to have inflation restrained by year-end 2022, it will come at the cost of economic growth and a recession is expected in coming quarters. Once inflation is tamed, both capital and real estate markets should become more predictable again.

Despite the economic uncertainty, NYC's office-using firms pushed ahead with hiring, seeing robust month-over-month job gains of nearly 16,000 during each of the first two months of Q2, continuing a swift rebound since bottoming out in May 2020. As a result, office-using employment (OUE) has recovered roughly 218,000 of the 251,000 jobs lost due to the pandemic, reaching 1.79 million as of May 2022, 98% of its pre-pandemic peak and on par with early 2019 levels. The OUE recovery has been boosted by the business and professional services, advertising, media and telecom, and tech industry sectors.

NYC's overall unemployment rate continues to improve but remains above its pre-pandemic lows. At 6.2% as of May 2022 it is down considerably from its 21.0% pandemic peak, but higher than the 3% range seen just prior to the pandemic. It also remains higher than the May 2022 national unemployment rate of 3.6%.

Leasing Activity

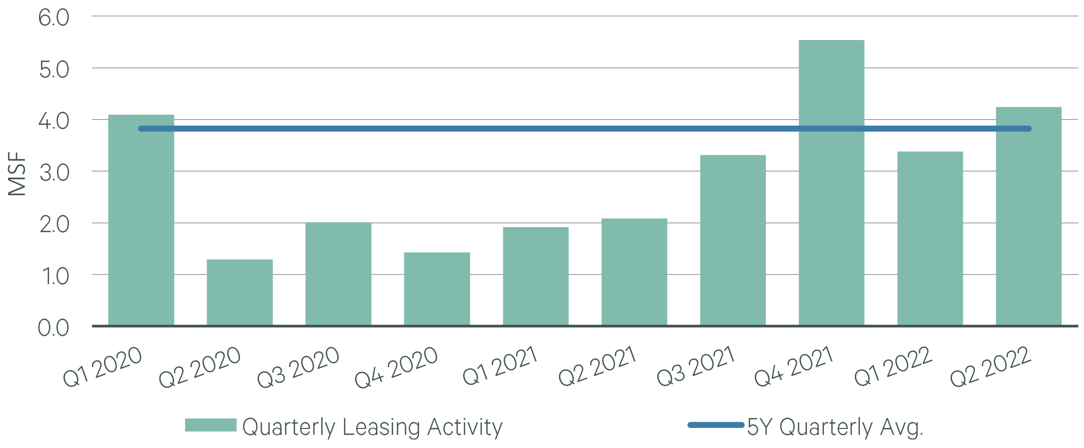
Midtown finished Q2 2022 with 4.24 million sq. ft. of leasing activity, up 25% from the prior quarter and 11% above the five-year quarterly average. The above-average leasing figures indicate a continuing recovery and constitute the second-highest quarterly leasing value since Q4 2019. Year-to-date, Midtown's leasing stands at 7.62 million sq. ft.—almost double the value in the same period of 2021 and 10% higher than the five-year year-to-date average.

FIGURE 1: Top Lease Transactions for Q2 2022

Size (Sq. Ft.)		Tenant	Address
330,000	RE	Blackstone Group	601 Lexington Avenue
263,762		HSBC Bank USA	66 Hudson Boulevard
227,201	R	iHeartMedia, Inc.	125 West 55th Street
221,764		Macquarie Holdings (USA) Inc.	660 Fifth Avenue
160,062		Clifford Chance	2 Manhattan West

Source: CBRE Research, Q2 2022. Renewal (R), Expansion (E), Renewal and Expansion (RE).

FIGURE 2: Leasing Activity | Quarterly Historical



Source: CBRE Research, Q2 2022.

Renewal activity (which is counted outside of leasing activity) was strong as well, reaching 1.15 million sq. ft. in Q2—2% ahead of the five-year quarterly average and more than 100% higher than the previous quarter. Renewals accounted for 21% of total leasing velocity (renewals combined with leasing activity) in Q2 – generally in line with the historical ratio. Renewal commitments were predominantly long-term leases indicating confidence in the New York City market.

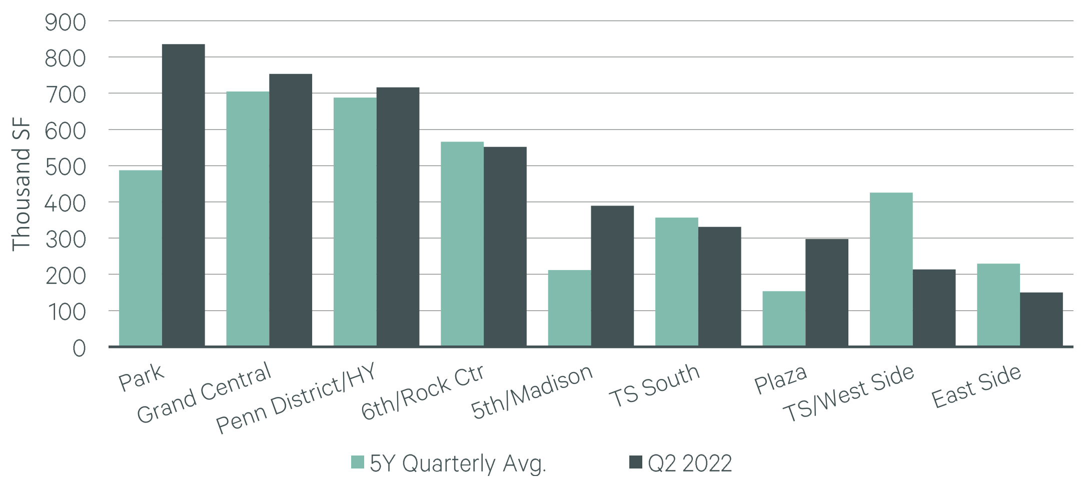
The quarter's top three transactions were a mix of renewals and new leases. Blackstone Group's 330,000-sq.-ft. renewal-expansion at 601 Lexington Avenue was the largest transaction of the quarter, followed by HSBC Bank's 264,000 -sq.-ft. relocation to 66 Hudson Boulevard. Rounding out the top three was iHeartMedia, Inc.'s 227,000-sq.-ft. renewal at 125 West 55th Street.

Five of Midtown's nine submarkets surpassed their five-year quarterly average leasing numbers. Plaza, with 298,000 sq. ft. of activity, bested the five-year average by close to 100%, driven by new leases and expansions of financial service tenants. Fifth/Madison Avenue reached 389,000 sq. ft. of activity, 84% greater than the five-year average with one of the largest transactions of the quarter, Macquarie Holdings' 222,000-sq.-ft. relocation to 660 Fifth Avenue, providing close to half of the submarket's activity. Park Avenue notched 836,000 sq. ft. of leasing activity in Q2, passing the five-year average by 71%, driven by a bevy of expansions between 20,000 and 100,000 sq. ft. Grand Central passed the five-year average by 7%, with leasing of 754,000 sq. ft., while Penn District/Hudson Yards reached 717,000 sq. ft.—just surpassing the five-year average by 4%.

Flight to quality remains a primary driver of leasing in Midtown. Of the largest new leases in Q2, all three were relocations to new construction or comprehensively renovated buildings. Premium-priced space is more popular than ever—Midtown saw more transactions with taking rents of $100 per sq. ft. or greater in the first half of 2022 than in any other year except 2008.

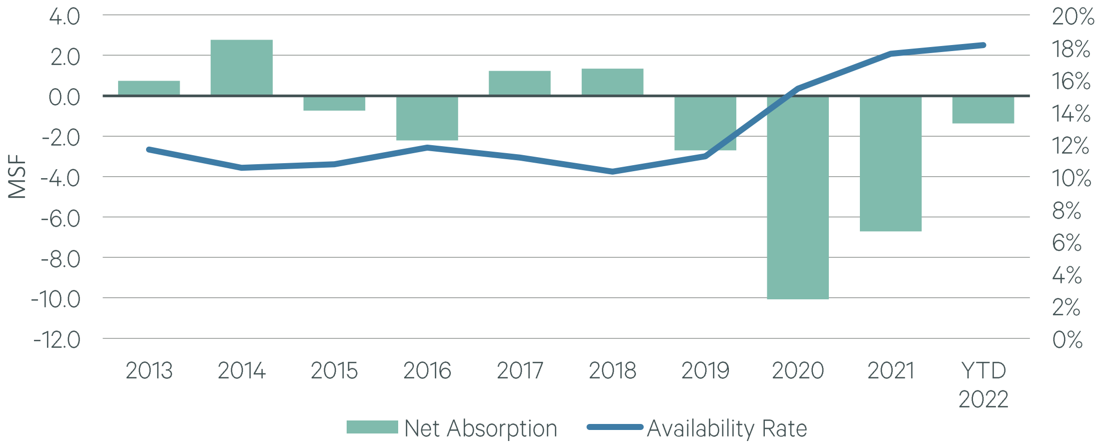
Financial service tenants continue to provide the foundation of Midtown's leasing activity, accounting for 49% in Q2, up from 38% in Q1 2022 and 35% for all of 2021. Three of the top five largest transactions of the quarter involved financial services companies. The legal sector was the only other industry in double digits, accounting for 13%, driven in part by the fifth largest transaction of the quarter: Clifford Chance's 160,000-sq.-ft. relocation to 2 Manhattan West.

FIGURE 3: Leasing Activity | By Submarket



Source: CBRE Research, Q2 2022.

FIGURE 4: Net Absorption & Availability Rate | Historical



Source: CBRE Research, Q2 2022.

Net Absorption and Availability

Quarterly net absorption was positive for the third time in the past four quarters with positive 1.15 million sq. ft. in Q2 2022. Strong leasing and only one block over 200,000 sq. ft. coming available helped keep absorption positive for the quarter. The reduction in available space pushed the availability rate down 50 bps from the prior quarter to 18.1%, but it remained 30 bps above the same period last year.

Absorption was positive in six of Midtown's nine submarkets. Park Avenue's 525,000 sq. ft. of absorption was the best among all submarkets after above-average leasing in Q2 and adding only one space greater than 50,000 sq. ft. Availability in the submarket dropped a substantial 180 bps to 14.1%. Grand Central reached positive absorption of 325,000 sq. ft. for similar reasons and witnessed a corresponding drop in availability of 70 bps to 16.4%. Fifth/Madison Avenue experienced 215,000 sq. ft. of positive absorption, bringing availability down 180 bps to 26.0%, however availability is still up 500 bps year-over-year. Times Square/West Side notched 211,000 sq. ft. of positive absorption, which was the submarket's fourth consecutive quarter of positive absorption. Times Square/West Side's availability, now at 20.7%, has been gradually dropping from the pandemic high of 24.7% in October 2021.

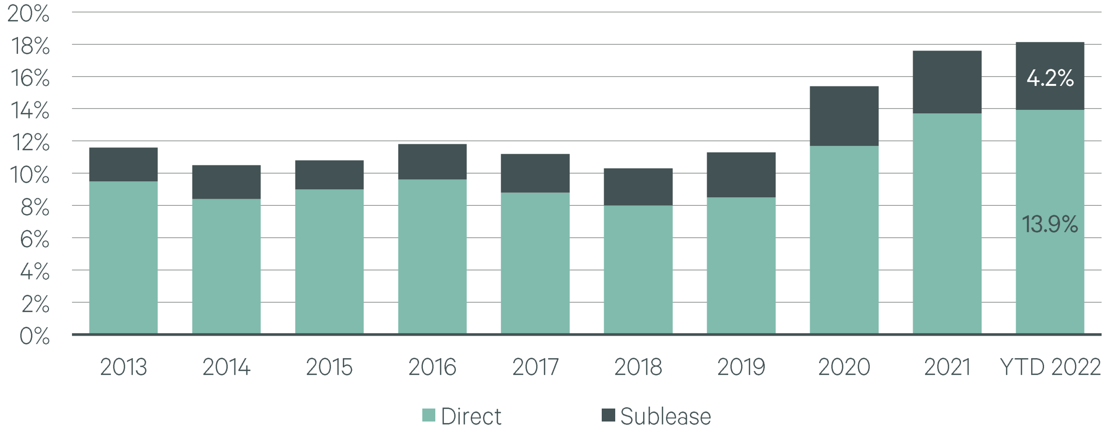
Negative absorption occurred in three submarkets—Penn District/Hudson Yards saw the most at negative 214,000 sq. ft. Despite above average leasing activity in Q2, space additions outstripped leasing—Penn District/Hudson Yards saw Midtown's largest block added during the quarter: the 453,000 sq. ft. WarnerMedia sublet at 30 Hudson Yards. East Side also experienced negative net absorption of 104,000 sq. ft., bringing the availability rate up 50 bps to 25.3%, though the absorption was due more to a dearth of leasing than large block space additions.

Sublet space—after falling steadily from May 2021 through year-end 2021—has increased for two consecutive quarters, rising to 10.64 million sq. ft. in Q2. Sublease space now accounts for 23.2% of all available space, up 140 bps from the prior quarter. Despite the increases, sublease space was still almost 500,000 sq. ft. below the pandemic peak in May 2021.

FIGURE 5: Quarterly Net Absorption | By Submarket

Source: CBRE Research, Q2 2022.

FIGURE 6: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q2 2022.

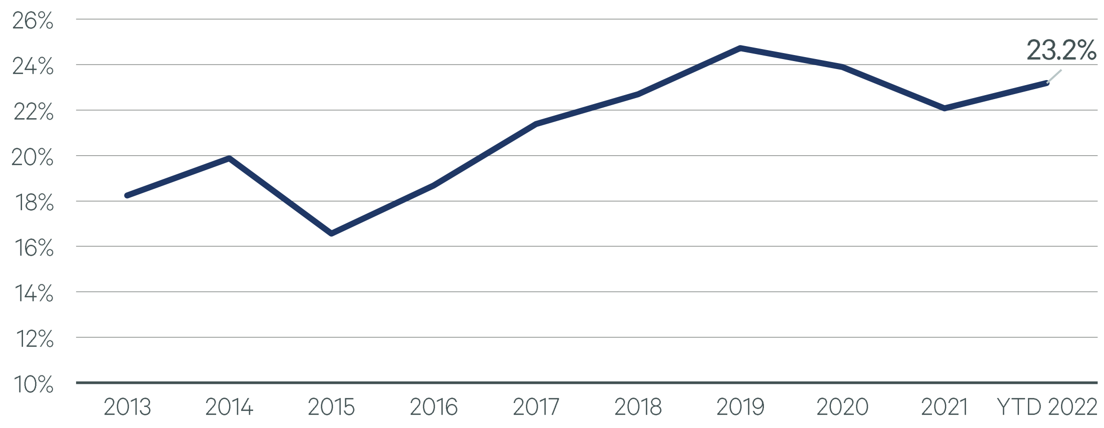
Average Asking Rent

Midtown's average asking rent was $85.03 per sq. ft. in Q2 2022—essentially unchanged from the prior quarter but up 5% year-over-year. Delivery of high-quality new construction and renovated spaces along with some recent upward repricings has brought average asking rent to within 2% of pre-pandemic levels.

Only two of Midtown's submarkets saw increased average asking rent quarter-over-quarter—Park Avenue and Times Square South. Park Avenue's average asking rent increased 5% to $103.86 per sq. ft. as space priced below the average was leased while new additions were priced well above the average. Times Square South saw average asking rent rise a more modest 3% to $58.11 per sq. ft., as blocks priced above the average came available.

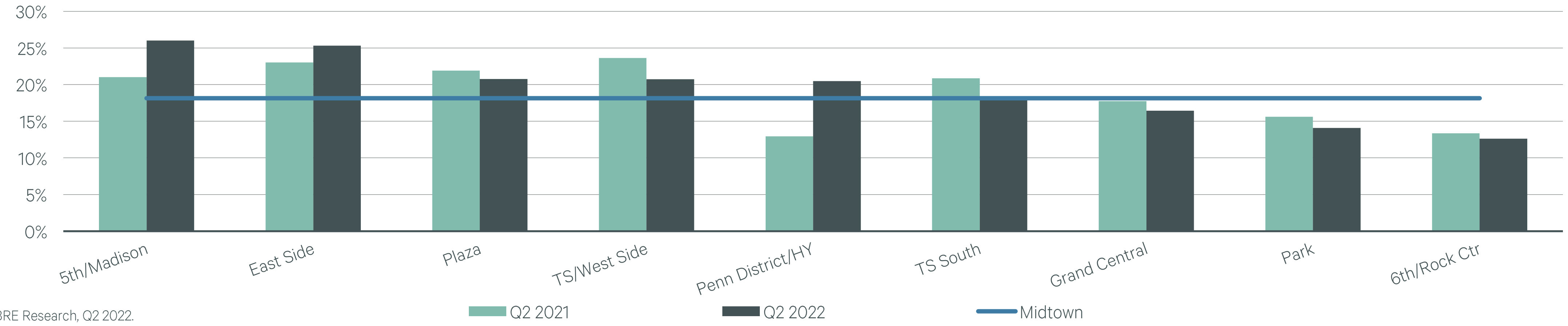
Four submarkets experience quarter-over-quarter decreases in average asking rent. Sixth Avenue/Rockefeller Center fell 2% to $76.33 per sq. ft. as large sublet blocks priced below the submarket average came available at 1301 Avenue of the Americas and 30 Rockefeller Plaza. Grand Central also experienced a 2% drop in average asking rent to $69.58 per sq. ft. as space priced below the average came to market.

FIGURE 7: Sublease Space as a % of Available Space | Historical



Source: CBRE Research, Q2 2022.

FIGURE 8: Availability Rate | By Submarket

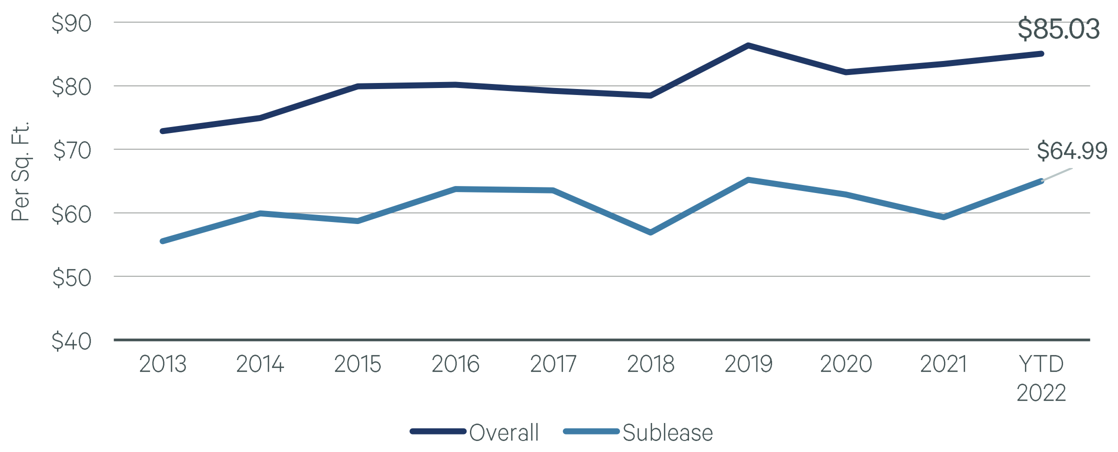


Source: CBRE Research, Q2 2022.

Taking Rent Index

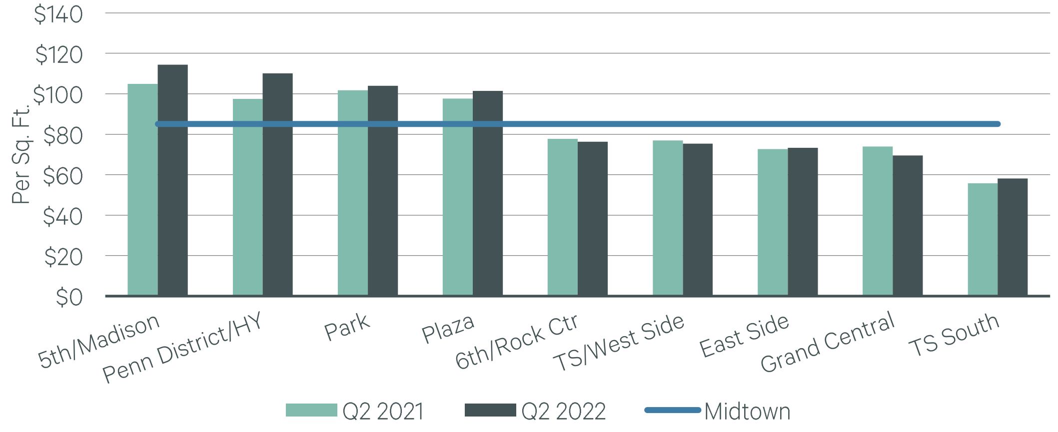
The taking rent index decreased 40 bps quarter-over-quarter to 89.8%; however, it remained up a substantial 430 bps year-over-year. Concession packages for new leases of raw space averaged almost $147 per sq. ft. in tenant improvement allowance (TI)—up 39% from 2019—and 17 months of free rent. TI allowances continued to push all-time highs—90% of the transactions in 2022 had TI values of $130 per sq. ft. or higher.

FIGURE 10: Average Asking Rent | Historical



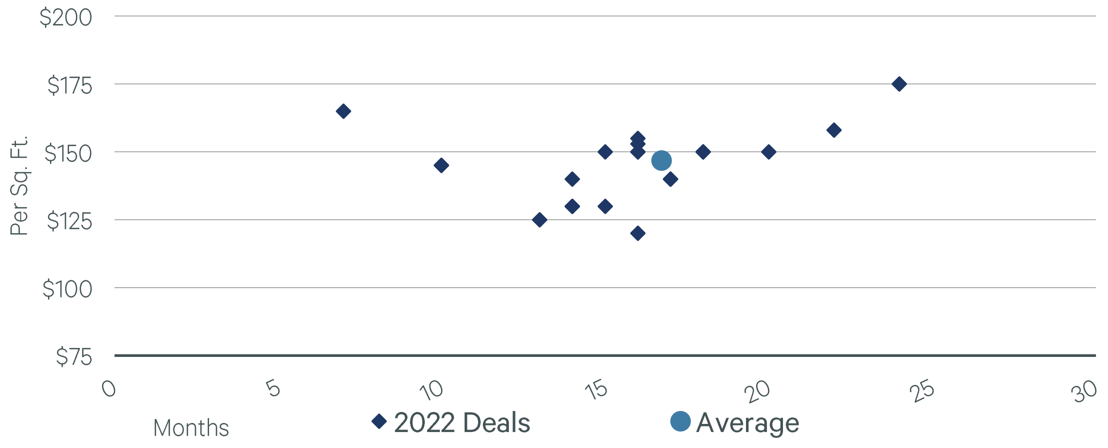
Source: CBRE Research, Q2 2022.

FIGURE 9: Average Asking Rent | By Submarket



Source: CBRE Research, Q2 2022.

FIGURE 11: Concession Values | Rent Abatement and T.I. Allowance*



Source: CBRE Research, Q2 2022.

Development Pipeline

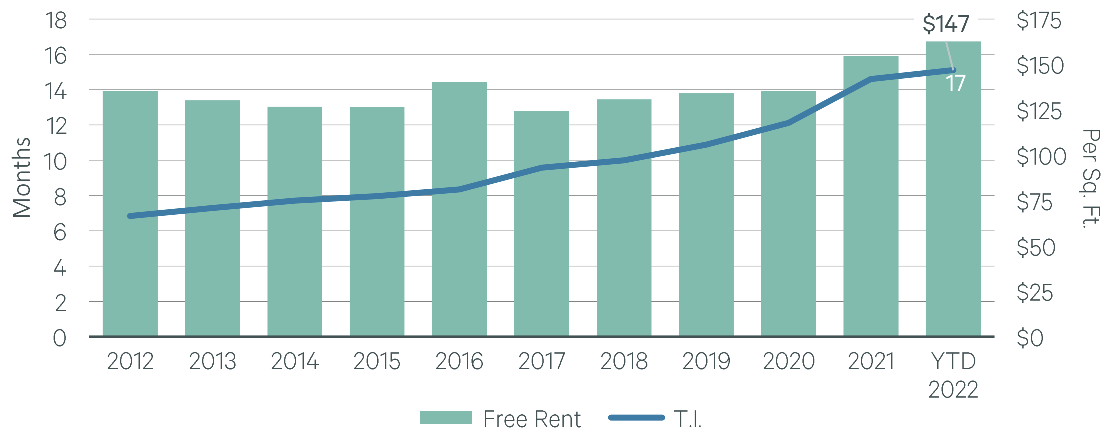
The development pipeline in Midtown has four major office construction projects delivering between 2022 and 2024: 50 Hudson Yards, 66 Hudson Boulevard, Two Manhattan West, and 270 Park Avenue. Collectively, these projects account for 9.47 million sq. ft. of new development and are 69% pre-leased.

Three of these new construction projects are in the Hudson Yards neighborhood, part of the Penn District/Hudson Yards submarket. Related's 50 Hudson Yards is a 2.86 million sq. ft. development, significantly pre-leased. Brookfield Properties' Two Manhattan West, a 1.94 million sq. ft. office building, broke ground during Q2 2019 and shortly thereafter secured its anchor tenant Cravath, Swaine & Moore LLP which committed to 482,000 sq. ft., followed by Clifford Chance's 160,000 sq. ft. transaction in Q2 2022.

Tishman Speyer's 66 Hudson Boulevard, also known as The Spiral, is a 2.80-million-sq.-ft. building just north of the development projects at Hudson Yards and Manhattan West. Six deals have been completed at The Spiral for a total of 1.95 million sq. ft., the most recent being HSBC Bank's 264,000-sq.-ft. lease and New York Presbyterian Hospital's 74,000 sq. ft. transaction, both in Q2 2022.

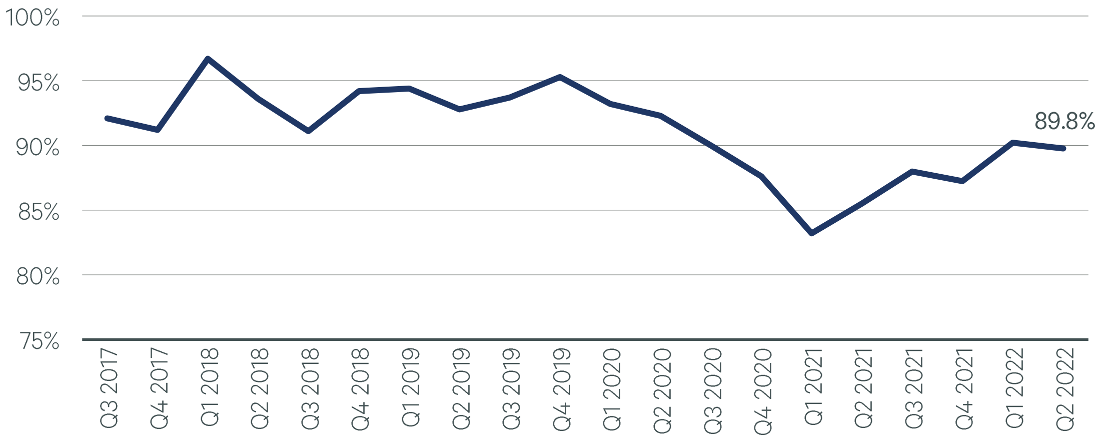
The fourth new construction project is the forthcoming JPMorgan Chase headquarters at 270 Park Avenue. The building will be one of the first skyscrapers to go up under the new Midtown East rezoning rules surrounding Grand Central Terminal.

FIGURE 12: Concession Values | Historical*



*This study examines a blended average of all direct new leases larger than 25,000 sq. ft. with a term length greater than 10 years (omits renewals and expansions).
Source: CBRE Research, Q2 2022.

FIGURE 13: Taking Rent Index | Historical



Source: CBRE Research, Q2 2022.

Market Area Overview

Definitions

Availability: Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction.

Asking Rent: Weighted average asking rent.

Concession Values: The combination of rent abatement and T.I. allowance. The graph is for new leases for raw space of 25,000 sq. ft. or greater consummated year-to-date, this excludes expansion and renewal deals.

Leasing Activity: Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing, but excluding renewals.

Leasing Velocity: Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing and renewals.

Net Absorption: The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

Rent Abatement: The time between lease commencement and rent commencement.

Taking Rent: Actual, initial base rent in a lease agreement.

Taking Rent Index: Initial taking rents as a percentage of asking rents.

Definitions

T.I.: Tenant improvements.

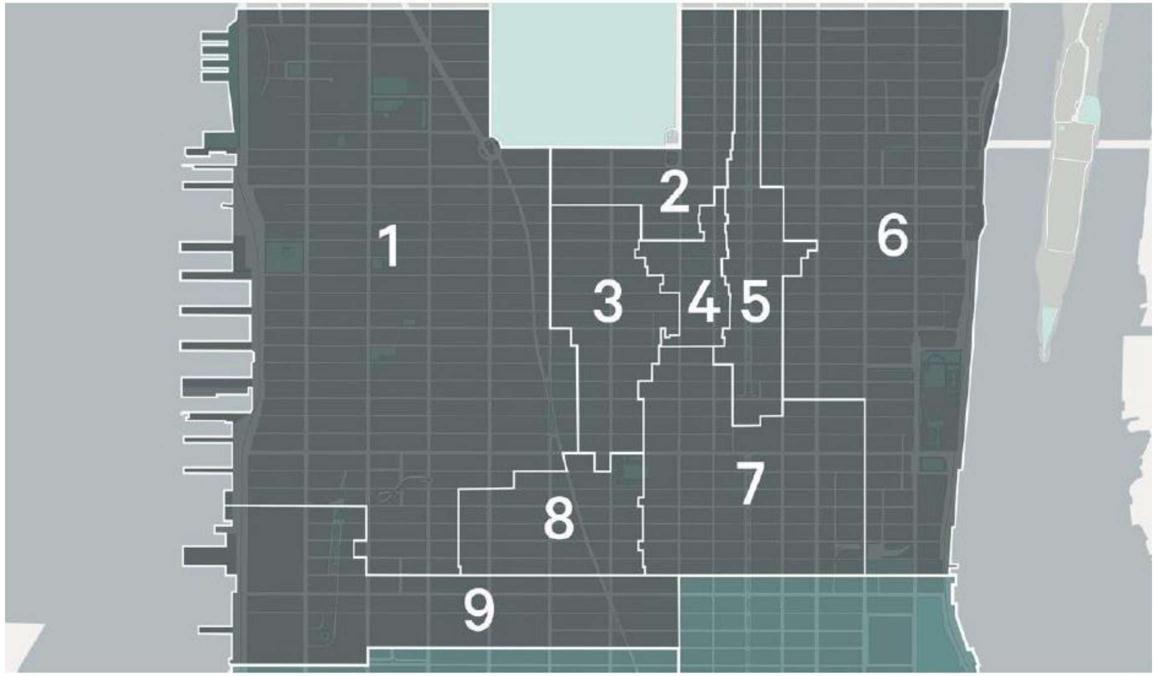
Vacancy: Unoccupied space available for lease.

Percentage of Leasing by Industry: The percentage of sq. ft. leased by an industry based on transactions where a tenant and industry have been confirmed.

Survey Criteria

CBRE's market report analyzes fully modernized office buildings that total 150,000+ sq. ft. in Midtown, including owner-occupied buildings (except those owned and occupied by a government or government agency). New construction must be available for tenant build-out within 12 months. CBRE assembles all information through telephone canvassing and listings received from owners, tenants and members of the commercial real estate brokerage community.

Market Area Overview



Submarket		Total Size (MSF)	No. of Buildings
1	Times Sq./West Side	32.2	43
2	Plaza	11.4	23
3	Sixth Avenue/Rockefeller	45.7	45
4	Fifth/Madison	12.0	28
5	Park Avenue	28.7	37
6	East Side	21.5	46
7	Grand Central	46.7	85
8	Times Sq. South	19.4	48
9	Penn District/Hudson Yards	35.6	37
TOTAL INVENTORY		**253.2**	**392**

Contact

Nicole LaRusso
Senior Director, Research & Analysis
+1 212 984 7188
Nicole.LaRusso@cbre.com

Michael Slattery
Associate Field Research Director
+1 212 656 0583
Michael.Slattery@cbre.com

Jared Koeck
Field Research Manager
+1 212 984 6548
Jared.Koeck@cbre.com