

MANHATTAN OFFICE MARKET

JUMP IN ACTIVITY COUNTERED BY INCREASE IN AVAILABILITY AND NEGATIVE ABSORPTION

The market began to improve from the lows of the second quarter, with activity increasing from 3.6 million square feet to 4.6 million square feet. The increase was driven by Facebook's lease for 730,000 square feet at the Farley Post Office Building, as well as large renewals by financial services tenants and law firms, with four additional deals signed over 100,000 square feet. Activity rose 29.6% from the prior quarter but remained 44.3% below the long-term year-to-date average. Since the start of COVID-19, 17 100,000-square-foot deals have been signed, and major tenants such as, Blackstone, Chubb Insurance and IBM are now looking for space.

Even with the uptick in activity, absorption posted at negative 10,973,238 square feet following a surge in availability. This marked the greatest volume of negative quarterly absorption on record. Year-to-date absorption through the first three quarters of the year reached its lowest point since 2001. Absorption has now been negative in seven of the past eight quarters, as new deliveries pulled tenants from older buildings during the peak of the market prior to the market.

The overall Manhattan availability rate increased to 14.1% from 11.9% in the prior quarter, as 18 of 19 submarkets saw availability increase. The lone exception was Penn Station, where Facebook leased the entirety of 390 Ninth Avenue. Available sublease space jumped by 30.7% quarter over quarter, as an additional 3.6 million square feet were added to the market. Thirteen large blocks of space, including three subleases, totaling 3.4 million square feet drove overall availability up 220 basis points quarter over quarter. An additional 1.1 million square feet are expected to be added in the coming weeks. Co-working providers, such as Regus, which recently filed for bankruptcy, continued to shrink their presence and pushed availability upward. Twenty-three locations encompassing 1.2 million square feet have closed since the start of COVID-19.

Asking rents declined for the second straight quarter as sublease space pushed the average downward and landlords began to reprice existing space, falling by \$2.23/SF from last quarter to \$78.75/SF. Although each major market saw rents drop, Midtown South saw the steepest quarter-over-quarter decline, of \$3.11/SF. As concessions have risen, net effective rents have also fallen, with an average deal re-trade of 10.6%.

Following two deliveries this quarter, 14.3 million square feet remain under construction. SL Green's 1 Vanderbilt Avenue opened in September and is approximately 70% leased. Following a 32,526-square-foot glass box addition at 520 West 20th Street, 97,478 square feet is now available.

CURRENT CONDITIONS

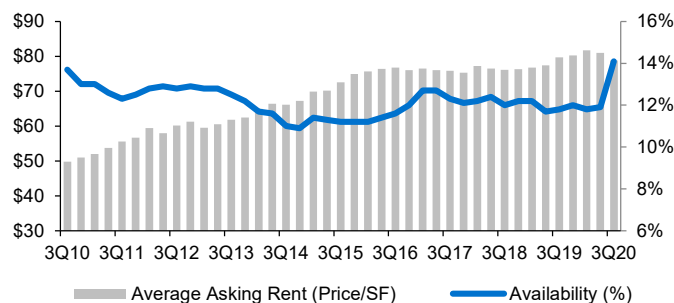
The overall availability rate increased by 220 basis points as thirteen large blocks came to market, sublease space increased, and co-working providers returned space to landlords.

Leasing velocity was recorded at 4.6 million square feet, driven by Facebook's 730,000-square-foot deal and multiple 100,000-square-foot renewals.

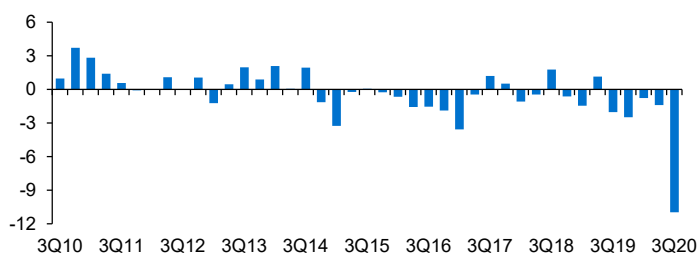
Asking rents fell by \$2.23/SF from last quarter, driven by the addition of inexpensive sublease space to the market.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	461.0 MSF	460.3 MSF	458.7 MSF	↑
Availability Rate	14.1%	11.9%	11.8%	↑
Quarterly Net Absorption	-10,973,238	-1,393,759	-2,017,130	↓
Average Asking Rent	\$78.75	\$80.98	\$79.66	↓
Under Construction	14.3 MSF	16.1 MSF	17.5 MSF	↑
Deliveries	1.8 MSF	0 MSF	0.2 MSF	↑

MIDTOWN

Facebook and Large Renewals Propel Leasing Activity

Midtown leasing velocity reached 3.6 million square feet, an increase of 65.9% from the second quarter but still the second-lowest quarterly total in seven years. Facebook finalized its long-awaited lease at the Farley Post Office Building, signing a 15-year deal for 730,000 square feet. Facebook is now one of Manhattan's largest tenants, after leasing more than 2.2 million square feet over the past year. Facebook's New York expansion may not be over as rumors continue to circulate that the tech giant might also grow its presence within 770 Broadway.

Short-term deals, such as NBC's one-year extension at 1221 Avenue of the Americas and Goodwin Procter's five-year expansion and extension at 620 Eighth Avenue, also contributed to the bump in leasing activity. Financial firms BNP Paribas and Raymond James committed to longer term deals at 787 Seventh and 320 Park Avenue, respectively.

Midtown asking rents were recorded at \$83.20/SF, a quarter-over-quarter decline of \$2.56/SF. Outside of Penn Station, where asking rents fell by \$16.33/SF as expensive space leased by Facebook came off the market, Grand Central and the Plaza District saw the largest declines. The \$4.81/SF drop in Grand Central rents was due to space being leased at 1 Vanderbilt Avenue, as well as landlords reducing pricing at 16 buildings by an average of \$6.61/SF. Asking rents in the Plaza District fell by \$3.13/SF after space was leased at 520 Madison Avenue. The Far West Side posted a \$4.17/SF increase in asking rents from last quarter to \$113.14/SF, the highest of any submarket, after Related converted Neiman Marcus' space at 20 Hudson Yards to office space.

The Midtown availability rate increased by 2.1 percentage points from the second quarter to 14.6%. Eleven of the thirteen large blocks that came to market were in Midtown. Notable additions included the entirety of 3 Times Square; the 380,000 square feet in Hudson Yards formerly occupied by Neiman Marcus and a 308,131-square-foot block at 885 Third Avenue previously leased by Latham & Watkins which signed at 1271 Avenue of the Americas in 2018.

MIDTOWN SOUTH

Asking Rents Fall Across Submarkets

Midtown South rents fell by \$3.11/SF quarter over quarter to \$81.58/SF. Hudson Square/Meatpacking rents declined by more than \$9.00/SF for the second straight quarter, as sublease space came to market at 233 Spring Street and 175 Varick Street. NoHo/SoHo posted rent decreases of \$4.17/SF from the second quarter, as inexpensive direct space was listed at 55 Fifth Avenue and multiple buildings along the Broadway corridor.

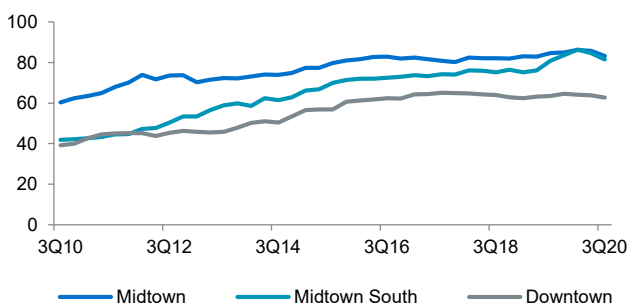
The Midtown South availability rate increased by 2.7 percentage points from last quarter to 12.8%. This jump was caused by a 114,230-square-foot block addition at 149 Madison Avenue, which was previously leased by WeWork, and numerous sublease listings. Midtown South posted the highest sublease availability rate of any market at 4.1%. This large jump in availability since the first quarter, nearly 3.0%, is also due to 700,000 square feet of co-working closures in Midtown South.

The New York City Human Resources Administration signed the largest deal in Midtown South, renewing its lease for five years across 174,186 square feet. That deal was followed by Quinn Emanuel's 159,562-square-foot renewal at 51 Madison Avenue for three years. Basis Independent Schools leased the entire 34,500-square-foot building at 556 West 22nd Street, a boutique building in Chelsea formerly occupied by Hewlett Packard which departed for 461 Fifth Avenue. Overall velocity in Midtown South surpassed 555,000 square feet, an increase of 55.4% from the second quarter, just the second time this cycle that leasing activity in the market was below 1 million square feet.

A total of 442,367 square feet at Essex Crossing, 60 Charlton Street, and 76 Eighth Avenue is expected to open later this year. In addition to the multiple developments slated to deliver in the fourth quarter, Midtown South has several significant developments in the pipeline, totaling 6.2 million square feet. Zero Irving, a 268,560-square-foot project, is slated to open in 2021, in addition to 799 Broadway, 541 West 21st Street, 205 West 28th Street, 141 East Houston Street, and 3 Saint Marks Place.

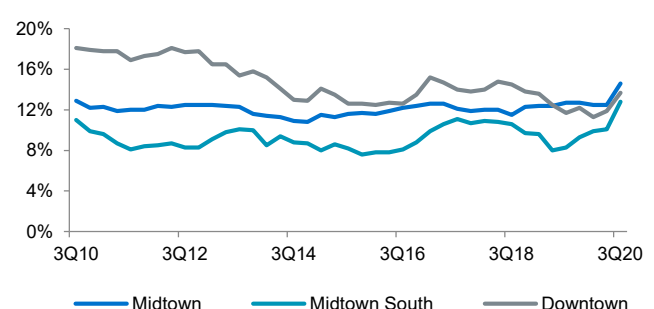
AVERAGE ASKING RENT BY SUBMARKET

Average Asking Rent (\$/SF)



AVAILABILITY BY SUBMARKET

Availability Rate (%)



DOWNTOWN

Downtown Velocity Continues at Slow Pace

The shift to renewals in Midtown and Midtown South was not evident in the Downtown market. In fact, more than 90% of the square footage leased this quarter was from relocations. AIG signed the largest Downtown deal, leasing 217,638 square feet at 28 Liberty Street in its move from 175 Water Street. This deal accounted for 46.8% of Downtown velocity, which reached just 465,000 square feet, a 54.7% drop from the second quarter. Remarkable Foods subleased 68,673 square feet at 4 World Trade Center from Hudson River Trading, expanding its footprint from two Downtown co-working locations. FuseFX which moved from the Far West Side, as well as The Nathan Cummings Foundation and InVNT, which migrated from NoHo/SoHo, are each new to the Downtown market.

The Downtown availability rate was recorded at 13.7%, an increase of 180 basis points from the second quarter. Available sublease space increased from 2.7 million square feet last quarter to 3.6 million square feet. The entirety of 175 Water Street, 685,000 square feet, was the lone large block added to the Downtown market this quarter. This addition outpaced all leasing activity, as absorption posted at negative 1,909,998 square feet. Co-working providers also returned 116,017 square feet as three locations closed.

Downtown asking rents declined by \$1.10/SF, the smallest quarter-over-quarter change of the three major markets. Sublease additions at 195 Broadway, 1 World Trade Center, 250 Vesey Street, and 225 Liberty Street caused the rents to drop to \$62.73/SF.

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

MIDTOWN SOUTH LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
NYC Human Resources Administration	260 Eleventh Avenue	Chelsea	Direct Renewal	174,186
Quinn, Emanuel, Urquhart, Oliver, & Hedges LLP	51 Madison Avenue	Flatiron/Union Square	Direct Renewal	159,562
BASIS Independent Schools	556 West 22nd Street	Chelsea	Direct New	34,500
Opentrons	430 East 29th Street	Flatiron/Union Square	Sublease New	30,000
New Fortress Energy	111 West 19th Street	Chelsea	Sublease New	23,000

DOWNTOWN LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
AIG	28 Liberty Street	Downtown East	Direct New	217,638
Remarkable Foods	4 World Trade Center	Downtown West	Sublease New	68,673
FuseFX	32 Old Slip	Downtown East	Direct New	15,072
Nathan Cummings Foundation	120 Wall Street	Downtown East	Direct New	13,751
InVNT	101 Greenwich Street	Downtown West	Direct New	13,640

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	289,259,696	11,381,572	14.6%	-6,922,194	-8,074,698	\$87.45	\$64.66	\$83.20
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
Midtown South	76,348,900	2,903,755	12.8%	-2,141,046	-3,370,609	\$86.40	\$69.63	\$81.58
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
Downtown	95,425,530	80,000	13.7%	-1,909,998	-1,687,899	\$65.45	\$55.29	\$62.73
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
Manhattan	461,034,126	14,365,327	14.1%	-10,973,238	-13,133,206	\$83.07	\$63.24	\$78.75

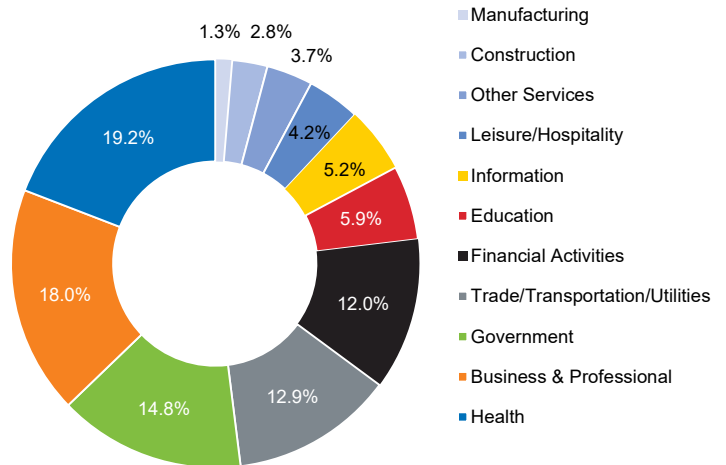
ECONOMIC CONDITIONS

The national unemployment rate escalated to 14.4% in April, but has fallen each month since, closing August at 8.5%. The descent has not been as linear for New York City, which posted a local unemployment rate above 20.0% in June and July before dropping to 16.3% in August. Since February, there have been 61.9 million national weekly unemployment insurance claims, 24.8 million more than during the Great Recession.

New York City has lost 697,600 jobs since February, of which 20.2% have been office-using positions. Despite these losses, office-using jobs have increased by 27,400 since reaching a trough in May. Increases in the business and professional services sector have accounted for 48.5% of this job growth. However, the information and financial services industries have suffered fewer losses since February, down just 1.8% and 3.8%, respectively, compared to professional services' losses of 13.7%. Non-office-using industries have borne the brunt of the pandemic's effects. For example, the hospitality industry has added 75,200 jobs since May, but is still down 162,200 jobs since the onset of COVID-19.

EMPLOYMENT BY INDUSTRY

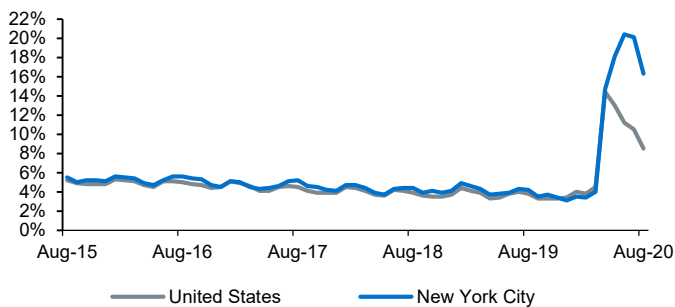
New York City, August 2020



Source: New York State Department of Labor

UNEMPLOYMENT RATE

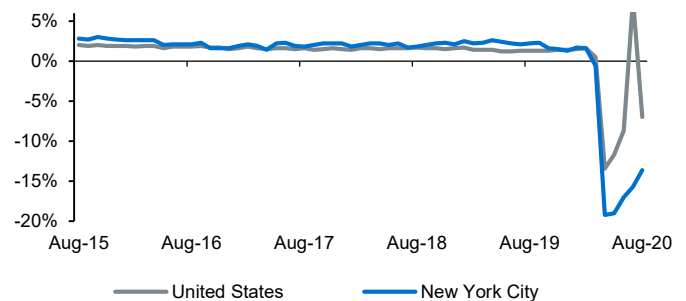
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

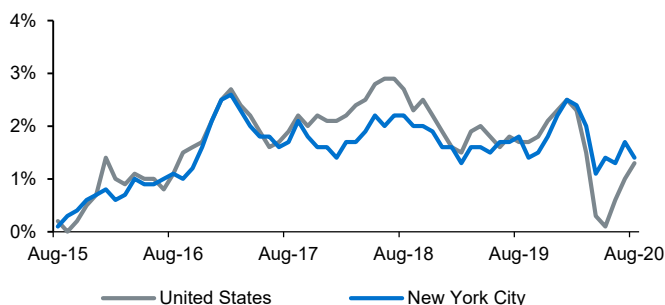
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

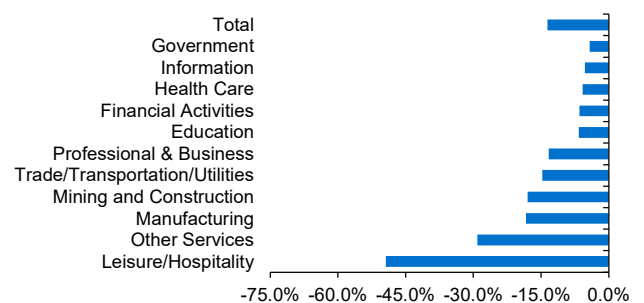
All Items, 12-Month % Change, Not Seasonally Adjusted



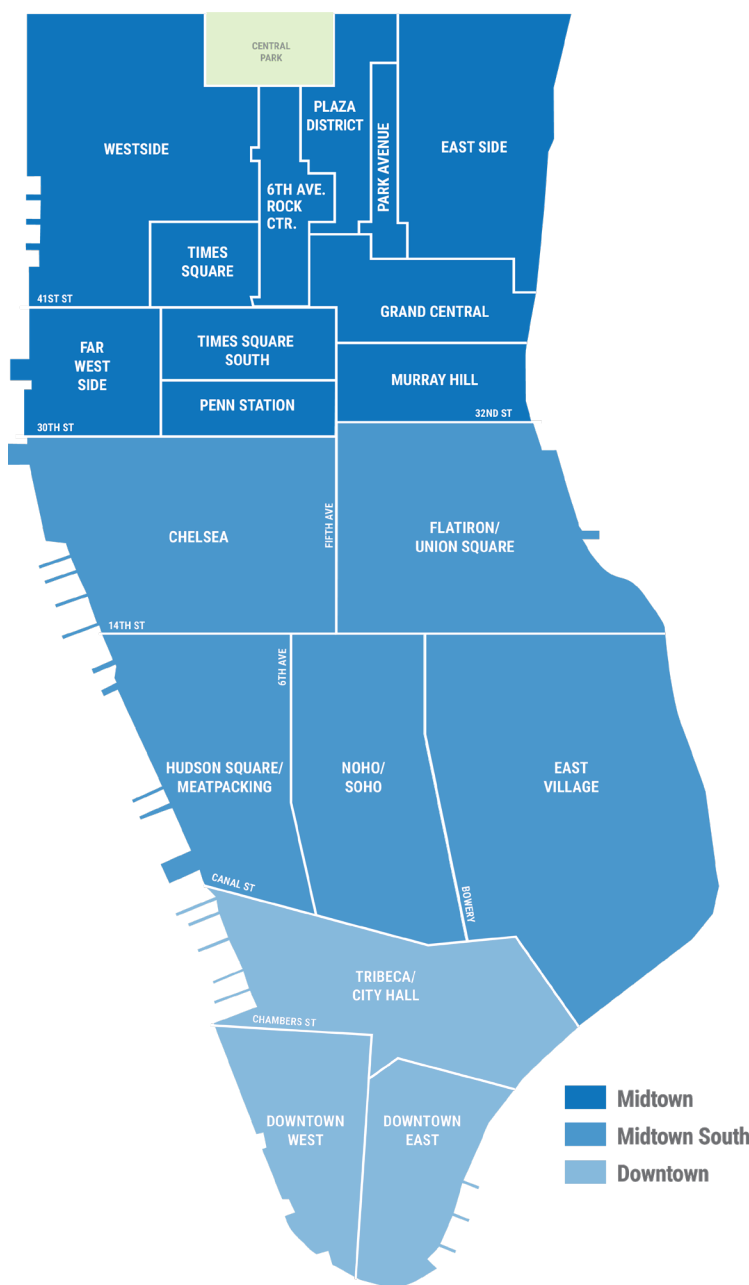
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

NYC, Aug 2020, 12-Month % Change, Not Seasonally Adj.



Source: New York State Department of Labor



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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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