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Avison Young announces second quarter 2013 Manhattan office market analysis

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Conflicting indicators are causing a bifurcation of the Manhattan office market, with limited interest in base floor availabilities offsetting accelerating leasing activity at the top of the market, according to a second quarter 2013 Manhattan office market analysis by Avison Young.

Significant large blocks of available space coming to market served to counteract an increase in the number of leasing transactions. Avison Young's research indicates the second quarter closed with an overall Manhattan office vacancy rate of 12.1%, up from 11.8% in the previous quarter.

One of the more encouraging signs for the market is the increasing number of deals in excess of $100 per s/f. To date in 2013, there have been 31 deals with starting rents north of the $100 per s/f mark, compared with 34 for all of 2012. Recent notable transactions with rents at or above $100 per s/f include Bank Itau's 16,000 s/f deal at 767 Fifth Avenue for $195 per s/f, Ontario Teachers' Pension Plan's 3,000 s/f lease at 375 Park for $140 per s/f, and Jeffries & Co.'s 112,285 s/f deal at 520 Madison for $100 per s/f.

Avison Young notes that the vacancy rate for tower floors (26th floor and higher) in Manhattan trophy office properties is a mere 4.6%, with demand for prime space being driven by hedge funds and private equity firms that are now coming off the sidelines.

"With a very limited supply of available space in the tower floors of trophy assets, pricing for this premium space is expected to remain high," comments Greg Kraut, Avison Young principal and managing director of the company's New York City office. "On the flip side, base floors are just now starting to see some activity and a number of significant blocks have come to market, with more on the horizon. This is creating disjointed movement in the market, whereby leasing activity is not having an impact on overall net absorption."

According to Avison Young, average asking rents across Manhattan rose during the second quarter. In Midtown, class A rents finished at $72.39 per s/f, up from $71.79 per s/f at the end of March. Midtown South's class A pricing surpassed $70 per s/f, finishing at $71.69 per s/f. class A rents in Downtown were mostly flat quarter over quarter, finishing at $48.84 per s/f at the mid-year point.

Kraut said, "Much like the nation's economy, indicators for the Manhattan office market were also conflicted at mid-year. Conditions vary by submarket, building quality and location within the stack, but we are encouraged that overall activity has increased as tenants finally begin to make decisions after waiting for the economy to gain footing."

Midtown

After rising slightly during the first quarter, Midtown's class A vacancy reversed direction during the second quarter falling to 12.3%, down from 12.5% at the end of March. Avison Young predicts that the vacancy rate could rise during the third quarter, with nearly 400,000 s/f expected to become available at 299 Park Avenue.

The largest lease of the quarter was Simpson Thacher & Barlett's renewal of 595,000 s/f at 425 Lexington Avenue. Illustrating that tenants have a demand for new product, two of the largest deals for the quarter were completed in Hudson Yards. L'Oreal and SAP leased 402,000 s/f and 115,000 s/f, respectively, in towers that will be constructed on Manhattan's far West Side. Although the aforementioned deals did not have a statistical impact, there was enough leasing activity to push Midtown absorption into positive territory despite recent space dispositions.

Large blocks of space that came to the market during the quarter included: 285,000 s/f at 1133 Avenue of the Americas and 123,000 s/f at 101 Park Avenue. At the end of the quarter, there were a handful of class A blocks of space in excess of 250,000 s/f available in Midtown, a majority of which were along Sixth Avenue.

Midtown South

With a class A vacancy rate of 7%, and an overall rate of 9.3%, Midtown South remains the tightest submarket in the city. Of the several notable deals during the quarter, the one that garnered the most attention was Facebook's lease of 98,750 s/f at 770 Broadway. The deal further underscored Midtown South's reputation as the technology and new media center of New York City.

"This is a prime example of how quickly things can change," said James Delmonte, Avison Young principal and VP of research, New York City. "At one time this area benefitted from tenants who were priced out of Midtown or who were looking for alternatives to Downtown. Today, we are seeing that both Midtown and Downtown are catching demand from tenants who need large blocks of space - of which there are very few options in Midtown South - or by tenants who simply find that Midtown South has become unaffordable."

Unlike Midtown, space coming back to the market in Midtown South outpaced leasing activity, creating rising vacancy and negative absorption. As a result, the overall vacancy rate notched up to 9.3%, from 9.1% at the end of the first quarter. The largest block of space placed on the market was 300,000 s/f at 114 Fifth Avenue.

Downtown

Downtown's largest lease in the second quarter was Hughes Hubbard & Reed's renewal of 220,000 s/f at One Battery Park Plaza, while the largest new lease was completed by Nyack College at 17 Battery Place North for 166,000 s/f.

Class A vacancy spiked to 16.8% during the second quarter, up from14.8% at the end of March, as significant blocks of space impacted the overall statistics. According to Avison Young, the vacancy rate will likely escalate again before the end of the year as space at One World Trade Center is added to the statistical set. The largest block of space was the addition of nearly 750,000 s/f at 180 Maiden Lane. Also added to the mix was 242,000 s/f at One Liberty Plaza.

"Both of these properties are considered two of the best in Lower Manhattan and present a tremendous opportunity for large-space users," said Delmonte. "They will attract considerable attention in the final quarters of the year. Not surprisingly the increase in supply created negative absorption for the quarter."

Market Forecast

The outlook for the remainder of 2013 is promising as employment forecasts at both the national and local levels are encouraging. Hiring is expected to accelerate in the second half of the year and that should translate into positive net absorption for the office market.

"Since the stock market tends to be a bellwether for the financial industry, recent highs could be a harbinger of a resurgence of hiring on Wall Street," said Avison Young principal Michael Leff.

"Historically, the financial sector has been the primary driver for the New York City office market and this beleaguered sector still remains 36,000 jobs below pre-recessionary highs. We are seeing glimmers of hope as some financial institutions are holding onto space that they had previously considered bringing to market, perhaps in anticipation of future growth. It's a wait-and-see game at this point."