



Jones Lang LaSalle Sees Boost in Overall Rents, Drop in Overall Vacancy in New York

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Jones Lang LaSalle reported that sustained leasing activity for value-priced office space throughout Manhattan and high-end office product in Midtown helped drive New York's average asking rental rates up and vacancy rates down in the third quarter of 2013.

Although average asking rental rates for Midtown class A space have hovered in the mid-\$70s per s/f for most of the year, that represents the weakest segment of the submarket. With many space users looking for value deals, nearly 40% of Midtown leasing activity this year has been in office product posting asking rents of less than \$60 per s/f. There has been almost as much activity at the top end of the market, with nearly 30% of deal volume occurring in trophy spaces posting asking rents above \$80 per s/f.

"New York's office market is performing well at the edges," said Tristan Ashby, director of research for JLL's New York tri-state office. "Value space and high-value product remain in demand, while full-price, core, Midtown class A spaces seem to be struggling. The bulk of Midtown deal volume in the third quarter was for spaces with average asking rental rates south of \$60 per s/f or north of \$80 per s/f."

New York's overall vacancy rate fell to 11.8% this quarter, a decrease of 2.5% (or 0.3% age points) from 12.1% at midyear 2013. In the past year, the overall vacancy rate increased 11.3% (or 1.2% age points) from 10.6% in the third quarter of 2012.

The class A vacancy rate dropped to 13.0% in the third quarter, a decrease of 3.0% (or 0.4% age points) from 13.4% the previous quarter. In the past year, the city's Class A vacancy rate increased 16.1% (or 1.8% age points) from 11.2% in the third quarter of 2012.

New York saw overall average asking rents rise to \$61.11 per s/f this quarter, an increase of less than 1.0% from \$60.66 per s/f at midyear 2013. In the past year, overall rents increased 4.6% from \$58.40 per s/f in the third quarter of 2012.

The city's class A rents grew to \$68.13 per s/f in the third quarter, an increase of less than 1% from \$67.81 per s/f the previous quarter. In the past year, class A rents rose 2.8% from \$66.25 per s/f in the third quarter of 2012.

Midtown

Large Midtown deals were down by 50% in the third quarter of 2013, with renewal transactions claiming three of the five top leases. The submarket recorded just four transactions larger than 100,000 s/f this quarter, compared with eight big deals in the previous quarter. Capital One signed a 250,000 s/f sublease at 299 Park Ave., ING US Inc. inked a 144,000 s/f renewal at 230 Park Ave., Empire State Development Corp. signed a 104,200 s/f renewal at 633 Third Ave., and Baker Botts completed a 104,161 s/f renewal at 30 Rockefeller Plaza.

The area continues to see gains in the number of high-price deals. Over the past nine months,

Midtown recorded 46 leases with starting rents at \$100 per s/f or higher, compared with 28 at this point in 2012.

Midtown's overall vacancy rate fell to 11.8% this quarter, a decrease of 2.5% (or 0.3%age points) from 12.1% at midyear 2013. In the past year, overall vacancy rose 1.7% (or 0.2%age points) from 11.6% in the third quarter of 2012.

The submarket's class A vacancy dropped to 12.6% in the third quarter, a decrease of less than 1% (or 0.1%age points) from 12.7% the previous quarter. In the past year, the class A vacancy rate increased 8.6% (or 1% age points) from 11.6% in the third quarter of 2012.

Overall average asking rental rates in Midtown rose to \$66.79 per s/f this quarter, an increase of less than 1% from overall rates of \$66.45 per s/f at midyear 2013. In the past year, overall rents grew 4.3% from \$64.01 per s/f in the third quarter of 2012.

The submarket's class A rents grew to \$74.36 per s/f, an increase of less than 1% from \$74.26 per s/f the previous quarter. In the past year, class A rents rose 2.3% from \$72.70 per s/f in the third quarter of 2012.

Midtown South

Smaller tenants drove most Midtown South activity in the third quarter of 2013, demonstrated by a drop in larger transactions during the period. Five leases greater than 50,000 s/f were signed in Midtown South this quarter, down from seven in the previous quarter. Beth Israel Comprehensive Cancer Center, IMG Worldwide and Warby Parker all completed deals exceeding 50,000 s/f in the third quarter.

The strong market in Chelsea has incentivized many building owners to renovate and remarket their space at higher rents. Approximately 200,000 s/f was put on the market between June and September. The biggest block of space came after the General Services Administration vacated about 164,000 s/f at 601 West 26th St. Another 25,000 s/f opened up when Interpublic left 28 West 23rd St.

Midtown South's overall vacancy rate rose to 8.5%, an increase of 4.9% (or 0.4%age points) from 8.1% at midyear 2013. In the past year, the overall vacancy rate climbed 21.4% (or 1.5%age points) from 7.0% in the third quarter of 2012.

The submarket's class A vacancy rate fell to 6.7%, a decrease of 4.3% (or 0.3% age points) from 7% the previous quarter. In the past year, the class A vacancy rate plummeted 30.2% (or 2.9% age points) from 9.6% in the third quarter of 2012.

Overall average asking rental rates in Midtown South rose to \$57.52 per s/f this quarter, an increase of 1.4% from overall rates of \$56.73 per s/f at midyear 2013. In the past year, overall rents grew 4% from \$55.29 per s/f in the third quarter of 2012.

The submarket's class A rents fell to \$75.06 per s/f, a decrease of 1.3% from \$76.07 per s/f the previous quarter. In the past year, class A rents rose 7.6% from \$69.74 per s/f in the third quarter of 2012.

Downtown

Steady leasing activity in Lower Manhattan fueled the first drop in vacancy rates for all the submarket's office property classes for the first time since the third quarter of 2011. Four of the top 10 transactions signed in the third quarter of 2013 occurred Downtown, with the New York City Health and Hospitals Corp., Scotiabank, Droga5 and WeWork all inking leases of 80,000 square feet or more. The city's creative industries â€” led by advertising and technology firms â€” accounted for 28.4% of all Downtown leasing this quarter, while the submarket's traditional office tenants â€” legal

and financial services â€” were responsible for 17.9% of total leasing volume.

Downtown's overall vacancy rate fell to 13.7% this quarter, a decrease of 5.5% (or 0.8%age points) from 14.5% at midyear 2013. In the past year, the overall vacancy rate climbed 35.6% (or 3.7%age points) from 10.1% in the third quarter of 2012.

The class A vacancy rate dropped to 15.5%, a decrease of 6.6% (or 1.1%age points) from 16.6% the previous quarter. In the past year, the class A vacancy rate jumped 47.6% (or 5.0%age points) from 10.5% in the third quarter of 2012.

Overall average asking rental rates Downtown rose to \$49.91 per s/f this quarter, an increase of less than 1.0% from \$49.60 per s/f at midyear 2013. In the past year, overall rents grew 15.4% from \$43.25 per s/f in the third quarter of 2012.

Lower Manhattan's class A rents grew to \$54.63 per s/f, an increase of less than 1% from \$54.51 per s/f at midyear 2013. In the past year, class A rents rose 15.4% from \$47.35 per s/f in the third quarter of 2012 as the market was flooded with trophy space at the World Trade Center, 180 Maiden Lane and Brookfield Place. A year ago, available space at Trophy properties accounted for 29.6% of Downtown's available space; as of the end of September 2013, it was 54.3%.

JLL is a leader in the New York tri-state commercial real estate market, with more than 1,600 of the most recognized industry experts offering brokerage, capital markets, property/facilities management, consulting, and project and development services. In 2012, the New York tri-state team completed approximately 23.8 million s/f in lease transactions, arranged capital markets transactions valued at \$1.57 billion, managed projects valued at nearly \$7 billion, and oversaw a property and facilities management portfolio of 102.1 million s/f and an agency leasing portfolio of 76 million s/f.

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