



Colliers Q4 report; 013 leasing totals reach 33.9 million s/f, with overall market on upswing, but gaps in recovery Financial sector retrenchment, suggest more modest levels in 2014

March 10, 2014 - Front Section

The Manhattan office market ended 2013 with a flurry of activity, bringing the yearly leasing total to 33.9 million s/f, Manhattan's highest level since the market's previous peak in the 2005-2007 time frame, according to new research from Colliers International. The fourth quarter alone saw an unusually high level of leasing, at 13.1 million s/f, with the overall market supported by a solid business sector, near-record property values, and major leases signed in Lower Manhattan just as the quarter ended.

However, sustained but moderate employment growth and continued retrenchment in the financial activities sector suggest that a repeat of the 2013 leasing totals may be a challenge for next year despite the property market's overall upswing.

All three of Manhattan's major markets recorded high activity levels, with Midtown North at 4.9 million s/f, Midtown South at 2.2 million s/f, and Downtown producing an uptick to 5.9 million s/f. The average quarterly rate for the last three quarters of 2013 was 9.7 million s/f, well above the quarterly Manhattan average of 6.2 million s/f sustained over the previous five years. The 33.9 million s/f was 42.4 % higher than the 23.8 million s/f recorded in 2012.

In addition, Manhattan saw overall increases in average asking rents to \$60.41/sf in the fourth quarter, up from \$59.14/sf in the third quarter and \$56.13/sf in the fourth quarter of 2012. This increase was driven largely by continued gains made in Midtown South and a more moderate increase Downtown. The average asking rent was also up in Midtown North, but the gain was the weakest of the three major Manhattan markets.

Midtown North's average asking rent increased to \$69.73/sf, up slightly from \$69.36/sf in the third quarter and 4.6 % from \$66.66/sf in the fourth quarter of 2012. Rent in Midtown South continued its unabated upward trend. The overall Class A average asking rent reached \$64.52/sf, up 4.8 % at an annual rate from \$63.75/sf in the third quarter and 17.7 % from \$54.82/sf in the fourth quarter of 2012. The average asking rent for class B space in Midtown South reached \$55.05/sf, up 16.4 % at an annual rate from \$52.88/sf in the third quarter and up 16.2 % from \$47.37/sf year-over-year.

The average Downtown asking rent increased in the fourth quarter to \$48.60/sf, up 1.0 % from \$48.48/sf in the third quarter. Class A average asking rents reached \$51.62/sf, up from \$48.87/sf in the third quarter and 9.6 % from \$47.09/sf in the fourth quarter of 2012. The Class A rents are trending up as more expensive space in the new World Trade Center becomes available for leasing. Despite these overall market improvements, with Manhattan property values at or close to all-time highs, the year-end leasing totals were somewhat skewed by several large renewals and sale leasebacks over the past few quarters, including those for Sony, JP Morgan Chase, Citibank, and

CME Group Inc. While these transactions are large on their face, they actually demonstrate further signs of retrenchment in the financial sector and corporations in general.

"The fourth quarter ended with a flurry of major leases, pushing us to a yearly total we haven't seen since the peak of the market," said Joseph Harbert, President of the Eastern Region for Colliers International. "But with an uneven recovery we need to be cautious in our 2014 projections. We expect to see continued overall improvements in the year ahead, and though repeating these 2013 totals will be a challenge, the market does seem to be gaining sustainable momentum."

Additional highlights from Colliers Internationals' fourth quarter report:

The overall Manhattan availability rate dropped to 11.3%, down from 11.5% in the second quarter and 12.3% in the fourth quarter of 2012.

The Midtown North availability rate fell to 11.3%, down from 11.6% in the third quarter and 12.4% in the fourth quarter of 2012. Midtown South's availability rate held steady at 9.1% quarter-over-quarter, but increased modestly from 8.6% in the fourth quarter of 2012. Downtown's availability rate declined to 14.3%, down from 14.7% in the third quarter and 15.6 % in the fourth quarter of 2012.

The overall Manhattan vacancy rate remains low by national or regional standards at just 5.4 percent, although it increased from 5.3% in the third quarter of 2013 and 4.1% in the fourth quarter of 2012.

Through November, total employment in New York City was up 1.9% over the 2012 average for its first eleven months, with employment continuing to show positive growth in consulting, computer systems design, advertising, and higher education. The economic base of New York City has become broader and likely more stable. However, nagging concerns persist about the financial sector.