



## **New York office market posts lowest overall vacancy rates in 2 years according to JLL second-quarter 2014 office report**

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Tenants signed a slew of deals for large blocks of space across Manhattan in the second quarter of 2014, a marked change from the steady stream of renewals the city recorded during the past two years. New York recorded 26 leases of at least 100,000 s/f in 2014, compared with 19 during the same time period one year ago, according to JLL.

The strong deal volume helped push New York's overall vacancy rates to their lowest level since the third quarter of 2012. Manhattan's overall vacancy rate dropped to 10.6 % this quarter, a decrease of 4.5 % (or 0.5 %age points) from 11.1 % in the first quarter of 2014. The city's Class A vacancy rate fell to 11.5 % at midyear 2014, a decrease of 7.3 % (or 0.9 %age points) from 12.4 % the previous quarter.

"Businesses appear more willing to spend capital to relocate, even if that decision is a net consolidation to improve efficiencies, while landlords are less reluctant to lose anchor tenants in what many view as a rising market," said Tristan Ashby, director of New York research. "We expect more large leases to close by summer's end, which could send Manhattan vacancy rates even lower, perhaps below 10 % by the end of the year."

Rent increases at the top of the market and the leasing of cheaper sublease space helped push up average asking rental rates in every building class and submarket in the city. Overall average asking rents in New York rose to \$64.57 s/f this quarter, an increase of less than 1.0 % from \$64.26 s/f in the first quarter of 2014. The city's Class A rents grew to \$71.28 s/f at midyear 2014, an increase of less than 1.0 % from \$70.72 s/f the previous quarter.

### **Midtown South**

New leases accounted for approximately 70.0 % of all transactions closed in Midtown South in the second quarter — a sign of net growth for the district. New deals inked this quarter included Sony's 506,476 s/f lease at 11 Madison Avenue and New York University's 70,400 s/f lease at 665 Broadway in Greenwich Village.

As a result of technology and other creative companies' ongoing appetite for Class A space, Midtown South boasted one of the tightest office submarkets in the nation. The submarket's Class A vacancy rate plummeted to 5.8 % this quarter, a decrease of 15.9 % (or 1.1 %age points) from 6.9 % in the first quarter of 2014. Midtown South's overall vacancy rate, however, rose to 7.7 % at midyear 2014, an increase of 10.0 % (or 0.7 %age points) from 7.0 % in the previous quarter. The increase in the overall rate was fueled by the addition of entire Class B buildings to the available supply at higher rents following renovation.

Average asking rents in Midtown South continued to break new ground, reaching all-time highs for the second consecutive quarter. Overall average asking rents rose to \$60.09 s/f this quarter, an increase of 3.2 % from \$58.23 s/f in the first quarter of 2014. The submarket's Class A rents grew to

\$77.08 s/f at midyear 2014, an increase 3.4 % from \$74.56 s/f the previous quarter.

#### Midtown

Strong activity drove overall vacancy rates in Midtown to their lowest level since third quarter of 2008, Class A vacancy rates to the lowest level since the second quarter of 2012 and Class B vacancy rates to the lowest level since the second quarter of 2008.

After lagging other industry sectors for several quarters, financial and legal service firms led Midtown leasing activity in the second quarter of this year. The Blackstone Group expanded and renewed at 345 Park Avenue for a total of 489,495 s/f, the largest Midtown lease for the quarter. White & Case will relocate four blocks north to 440,000 s/f at 1221 Avenue of the Americas from 1155 Avenue of the Americas. Investment manager Neuberger Berman will relocate across Midtown to 354,891 s/f at 1290 Avenue of the Americas from 605 Third Avenue.

Midtown's overall vacancy rate dropped to 10.7 % this quarter, a decrease of 4.5 % (or 0.5 %age points) from 11.2 % in the first quarter of 2014. The submarket's Class A vacancy rate fell to 11.5 % at midyear 2014, a decrease of 5.0 % (or 0.6 %age points) from 12.1 % the previous quarter.

Overall average asking rental rates rose to \$69.81 s/f this quarter, an increase of 1.2 % from \$68.99 s/f in the first quarter of 2014. The submarket's Class A rents grew to \$76.96 s/f at midyear 2014, an increase of less than 1.0 % from \$76.30 s/f the previous quarter. This was the 16th consecutive quarter of rent increases for Midtown's Class A product.

#### Downtown

BNY Mellon and Time Inc. inked two big leases in Lower Manhattan in the second quarter of 2014, taking 1 million s/f of space off the market. The two deals pushed overall and Class A vacancy rates down significantly more than is usual for one of the biggest office markets in the country.

Downtown's overall vacancy rate fell to 12.1 % this quarter, a decrease of 8.3 % (or 1.1 %age points) from 13.2 % in the first quarter of 2014. The submarket's Class A vacancy rate dropped to 13.0 % at midyear 2014, a decrease of 12.2 % (or 1.8 %age points) from 14.8 % the previous quarter.

BNY Mellon inked a lease for 350,000 s/f at 225 Liberty Street at Brookfield Place. The bank has agreed to

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sell its former headquarters at 1 Wall Street to Macklowe Properties for \$585 million. Time committed to 669,832 s/f at 225 Liberty Street, representing the largest relocation since the announcement of the Condé Nast lease at One World Trade Center in 2011. In addition, KiDS Creative signed a lease for 35,000 s/f at One World Trade Center. The transaction marked the first deal signed at the building in several years and reportedly set a record for Downtown rental rates on a s/f basis. The tower will open officially in the fourth quarter.

Lower Manhattan posted either minimal gains or small drops in average asking rents, despite the fact that 12 out of 13 Downtown buildings quoted higher rates in the second quarter. An increase in average asking rents for the submarket was offset by the removal of the higher-priced space claimed by Time and BNY Mellon. Overall average asking rental rates Downtown fell to \$52.85 s/f this quarter, a decrease of 1.0 % from \$53.39 s/f in the first quarter of 2014. Lower Manhattan's Class A rents grew to \$57.16 s/f at midyear 2014, an increase of less than 1.0 % from \$57.10 s/f the previous quarter.

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