



## **JLL Market Report: New York office market posts lowest overall vacancy rate since 3rd Quarter 2008**

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Despite moderate leasing activity during the third quarter of 2014, New York's office market posted sharp drops in vacancy rates in every submarket and property type, according to JLL. The city's overall vacancy rate has fallen to its lowest level since the third quarter of 2008.

Manhattan's overall vacancy rate dropped to 9.7 % this quarter, a decrease of 8.5 % (or 0.9 %age points) from 10.6 % at midyear 2014. The city's Class A vacancy rate fell to 10.6 % in the third quarter of 2014, a decrease of 7.8 % (or 0.9 %age points) from 11.5 % the previous quarter.

"The final quarter of the year is typically the most active in Manhattan, and brokers reported brisk building touring activity over the summer," said Tristan Ashby, director of New York research. "Going forward, we expect to see much higher rents throughout the city as vacancy rates continue to tighten. There are increasingly fewer opportunities at the very top end (Plaza Trophy) and very low end (Downtown Class B) of the market, or anywhere in Midtown South. Longer-term, large blocks will begin entering the market in Midtown beginning in 2018 as new construction, redevelopments and several large blocks vacated by relocating tenants come online."

Overall average asking rents in New York rose to \$64.91 per square foot this quarter, an increase of less than one % from \$64.57 per square foot at midyear 2014. The city's Class A average asking rent grew to \$71.66 per square foot in the third quarter of 2014, an increase of less than one % from \$71.28 per square foot the previous quarter.

### **Midtown South**

New leases continued to dominate Midtown South transaction volume, representing 75.8 % of recorded deals in the third quarter vs. 70 % of all transactions completed within the submarket in the previous quarter. With a Class A vacancy rate below five %, JLL considers Midtown South to be at full occupancy, meaning that tenants may have difficulty finding suitable options for their real estate needs. The submarket remains one of the tightest Class A office markets in the country.

Midtown South recorded nine leases greater than 50,000 s/f in the third quarter compared with just four in the second quarter of the year. Google Inc. signed the largest transaction of the quarter, expanding into a new 180,000-square-foot space at 85 Tenth Avenue in Chelsea. In addition, Yelp Inc. finalized its commitment for 152,232 s/f at 11 Madison Avenue in Gramercy Park, and website builder Squarespace signed for 93,517 s/f at 225 Varick Street in Hudson Square.

The submarket's overall vacancy rate fell to 6.7 % this quarter, a decrease of 13 % (or 1.0 %age points) from 7.7 % at midyear 2014. Midtown South's Class A vacancy rate dropped to 4.1 % in the third quarter of 2014, a decrease of 29.3 % (or 1.7 %age points) from 5.8 % the previous quarter.

A slew of new deals in the third quarter took some of Midtown South's higher-priced spaces off the market, pushing down average asking rental rates. Overall rents fell 2.1 % to \$58.83 per square foot this quarter from \$60.09 per square foot at midyear 2014. The submarket's Class A rents dropped 8

% to \$70.94 per square foot in the third quarter of 2014 from \$77.08 per square foot the previous quarter.

#### Midtown

Leasing activity in Midtown slowed during the summer, with just two leases larger than 100,000 s/f recorded in the third quarter. Law firm Paul Hastings LLP signed the largest lease, taking 190,914 s/f at 200 Park Avenue. In addition, RG/A Media Group Inc. inked a 173,000-square-foot lease at 5 Manhattan West, also known as 450 West 33rd Street, and Yodle Inc. completed an 84,000-square-foot lease at 330 West 34th Street.

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Midtown's overall vacancy rate declined to 10.1 % this quarter, a decrease of 5.6 % (or 0.6 %age points) from 10.7 % at midyear 2014. The submarket's Class A vacancy rate fell to 11 % in the third quarter of 2014, a decrease of 4.3 % (or 0.5 %age points) from 11.5 % the previous quarter.

Average asking rental rates continued to rise throughout Midtown as vacancy rates fell. The submarket witnessed its 17th quarter of consecutive increases in rents in the third quarter of 2014. Overall average asking rental rates grew slightly to \$70.29 per square foot this quarter, an increase of less than one % from \$69.81 per square foot at midyear 2014. The submarket's Class A rents rose to \$77.13 per square foot in the third quarter of 2014, an increase of less than one % from \$76.96 per square foot the previous quarter.

#### Downtown

Lower Manhattan's Class A vacancy rate hit a two-year low in the third quarter, despite large amounts of available

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space at 1 World Trade Center and 4 World Trade Center. This downward trend could pause, however, when approximately one million s/f of Class A space is added to the market in the fourth quarter when JPMorgan Chase & Co. vacates the majority of its occupied space at One Chase Manhattan Plaza.

Downtown's overall vacancy rate fell to 10.6 % this quarter, a decrease of 12.4 % (or 1.5 %age points) from 12.1 % at midyear 2014. The submarket's Class A vacancy rate dropped to 11.2 % in the third quarter of 2014, a decrease of 13.8 % (or 1.8 %age points) from 13.0 % the previous quarter.

In the largest deal signed Downtown in the third quarter, Hudson Bay (Saks Fifth Avenue) signed a 404,591-square-foot lease split between 225 Liberty Street and 250 Vesey Street. The luxury retailer joins Time Inc. and BNY Mellon at Brookfield Place, where the vacancy rate has dropped from 32.5 % to 5.0 % in just one year. In another long-anticipated transaction, MediaMath committed to relocate from Midtown to 4 World Trade Center, where the tech firm will occupy 106,000 s/f.

Healthy leasing activity in Lower Manhattan fueled small increases in average asking rental rates in the third quarter. Overall average asking rental rates Downtown rose slightly to \$53.12 per square

foot this quarter, an increase of less than one % from \$52.85 per square foot at midyear 2014. Lower Manhattan's Class A rents grew to \$57.66 per square foot in the third quarter of 2014, an increase of less than 1.0 % from \$57.16 per square foot the previous quarter.

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