



## **Office Market: Avison Young releases fourth quarter 2014 Manhattan office market analysis: Overall office vacancy rate to 9.4% - the lowest rate since 2012**

January 26, 2015 - Spotlights

Buoyed by New York City's budding economy, which is growing at its fastest pace since 1990, the Manhattan office market continued its strong recovery during the fourth quarter of 2014. Midtown, Midtown South and Downtown all posted positive absorption in the quarter, pushing the annual absorption total to more than 7.5 million s/f. Downtown's cost effectiveness, along with Midtown and Midtown South's improved fundamentals, helped to reduce Manhattan's overall office vacancy rate to 9.4% - the lowest rate since 2012.

The following are some of the key trends noted in Avison Young's fourth quarter 2014 Manhattan office market analysis.

"As New York's private-sector employment figures continue to improve, we're seeing an increased demand for office space throughout the city, resulting in historically high rental rates in Midtown South and a flurry of leasing activity Downtown," said Arthur Mirante, Avison Young principal and Tri-State president.

Avison Young principal Michael Gottlieb said, "While technology, advertising, media and information technology tenants continue to drive a significant portion of the market's overall leasing activity, finance and legal services represented six of the top 10 leases of 2014. The financial services sector, in particular, appears to be making commitments with leases by Bank of New York Mellon, JP Morgan Chase and TD Bank helping to push the financial sector's leasing totals to more than 6.5 million s/f in 2014 compared with 4.8 million s/f a year ago."

Avison Young's research shows that, from 2013 to 2014, the overall average asking rent in Manhattan increased 6.7% to \$65.14 per s/f. Meanwhile, Manhattan class A average asking rents increased year-over-year to \$73.20 per s/f from \$67.02 per s/f.

Throughout the borough, leasing activity registered nearly 31 million s/f in transactions in 2014. There were 51 leases in excess of 100,000 s/f completed - 12 of which were signed in the fourth quarter.

### **Midtown**

At year-end, Midtown class A average asking rents stood at \$82.31 per s/f - the highest recorded rent since year-end 2008. The Plaza District continues to be the priciest submarket within Midtown - and the entire New York City market - with the average asking rent at \$138.99 per s/f.

The Midtown market saw the largest year-over-year increase in average asking rental rate in Manhattan, rising by 9%. Midtown's resilience can be attributed to tenants backfilling space faster than expected. Over the year, the submarket's overall vacancy rate dropped 120 basis points (bps) to 9.8% - the lowest rate since year-end 2007.

During the fourth quarter of 2014, online retail giant Amazon inked a 17-year, full-building lease for

470,000 s/f at 7 West 34th St. Law firm Schulte Roth & Zabel added 15 years to its headquarters lease at 919 Third Ave., shrinking its footprint to 284,000 s/f from 350,000 s/f in an early renewal that enabled the firm to lock-in rents as the market continues to tighten.

#### Midtown South

Midtown South continues to be the tightest market in Manhattan, with an overall vacancy rate of 6.8%. Unwavering demand from the creative and technology sectors has driven the vacancy rate to its lowest level since 2006, leading to an uptick in rents. Class A average asking rents closed the quarter at \$79.40 per s/f - an increase of 123% from 10 years ago, when the average rent was \$35.48 per s/f.

Eleven new leases in excess of 100,000 s/f were completed in Midtown South in 2014, including a 194,000 s/f, long-term lease by BuzzFeed at 225 Park Ave. South - one of the largest leases completed by a media or technology firm during the course of the year. BuzzFeed's new office was previously occupied by the Port Authority of New York and New Jersey, which is moving to 1 World Trade Center in 2015. Additionally, Google signed a lease for 180,000 s/f at 85 10th Ave. Other leases signed during the fourth quarter of 2014 include a 77,923 s/f sublease by Palantir Technologies at 430 West 15th St., and Restoration Hardware's 65,000 s/f lease at 9-19 Ninth Ave.

#### Downtown

Downtown capped a record year with the opening of 1 World Trade Center. The building welcomed its first tenants in November, as Condé Nast moved approximately 175 employees to floors 20 through 44.

Significant leasing activity resulted in nearly 2 million s/f of positive absorption, helping to reduce the class A vacancy rate to 11.3% from 15.9% one year ago - the largest year-over-year drop in vacancy among the three markets. Currently, the overall vacancy rate for Downtown stands at 10.5% - a decrease of 340 bps from year-end 2013. Still considered a value play, Downtown class A rents stand steady at \$53.46 per s/f, with the World Trade Center submarket averaging \$68.91 per s/f.

Two of the largest leases in the fourth quarter were signed by IP Soft, which renewed and expanded by 56,000 s/f for a total footprint of 97,955 s/f at 17 State St. At the newly completed 1 World Trade Center, High 5 Games took a total of 87,000 s/f on the 58th and 59th floors. Also at 1 World Trade Center, xAd leased 43,849 s/f, KiDS Creative signed for 34,775 s/f, and Servcorp took 34,775 s/f.

Despite posting the highest average asking rent in Manhattan in more than seven years, Downtown continues to offer a more cost efficient option for tenants, with overall asking rents averaging \$23 per s/f less than those in Midtown. Avison Young's Manhattan Current Market Statistics 4Q14