



JLL research reveals Midtown outperforms Downtown, Midtown South in 2nd quarter of 2015

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Midtown continued to outperform the rest of the Manhattan office market in the second quarter of 2015, fueled by a robust increase in the number of large transactions, according to JLL. The submarket posted 21 leases in excess of 100,000 s/f year-to-date, compared with 14 in the first half of 2014. The heavy activity ensured the fifth consecutive month of tightening Class A vacancy rates in Midtown.

"Leasing activity fell sharply in the second quarter as both Downtown and Midtown South struggled to keep pace with the heavy volume seen this past year," said Tristan Ashby, Vice President and Director of New York research. "Downtown saw the slowest two-quarter period since the first half of 2009 and only one large-block lease has been signed in Midtown South, compared with six through the first half of last year."

New developments in Midtown continued to attract attention, with Skadden, Arps, Slate, Meagher & Flom LLP and Nike Inc. signing commitments for new product under construction, while several other tenants are rumored to be seriously considering Hudson Yards. In the largest lease of the quarter, law firm Skadden announced it would relocate to 538,321 s/f at 1 Manhattan West from 4 Times Square when construction is complete in 2018. Athletic apparel and footwear company Nike will relocate its offices from 111 Eighth Avenue to 147,936 s/f in the mixed-use tower under construction at 855 Avenue of the Americas.

Other significant leasing activity in the second quarter of 2015 included Morgan Stanley's renewal of 414,759 s/f at 750 Seventh Avenue, Bloomberg L.P.'s commitment for 254,556 s/f at 919 Third Avenue, Foot Locker Inc.'s relocation to 145,000 s/f at 330 W 34th Street and WeWork's commitments for new locations in 180,000 s/f at 1460 Broadway and 136,118 s/f at 315 W 36th Street.

Midtown's overall vacancy rate fell to 9.6% this quarter, a decrease of 4.0% (or 0.4%age points) from 10.0% in the first quarter of the year. Year-over-year, the submarket's overall vacancy rate dropped 10.3% from 10.7% at midyear 2014. The Class A vacancy rate declined 5.5% (or 0.6%age points) to 10.3% in the second quarter of 2015 from 10.9% the previous quarter. Year-over-year, Midtown's Class A vacancy rate dropped 10.4% (or 1.2%age points) from 11.5% in the second quarter of 2014.

Overall average asking rents in Midtown rose to \$72.21 per s/f this quarter, an increase of less than 1.0% from \$71.60 per s/f in the first quarter of the year. The submarket's overall rates grew 3.4% during the past 12 months from \$69.81 per s/f at midyear 2014. Class A average asking rents rose to \$79.33 per s/f in the second quarter of 2015, an increase of 1.2% from \$78.42 per s/f in the previous quarter. Year-over-year, Midtown's Class A rates rose 3.1% from \$76.96 per s/f in the second quarter of 2014.

The strong deal volume in Midtown helped drive down overall vacancy rates. Manhattan's overall vacancy rate fell slightly to 9.7% this quarter, a decrease of 3.0% (or 0.3%age points) from 10.0% in the first quarter of the year. Year-over-year, the city's overall vacancy rate decreased 8.5% (or 0.9%age points) from 10.6% at midyear 2014. New York's Class A vacancy rate fell to 10.6% in the second quarter of 2015, a decrease of 3.6% (or 0.4%age points) from 11.0% the previous quarter. Year-over-year, the city's Class A vacancy rate declined 7.8% (or 0.9%age points) from 11.5% in the second quarter of 2014.

Overall average asking rents in New York rose to \$67.63 per s/f this quarter, an increase of 1.3% from \$66.74 per s/f in the first quarter of the year. Year-over-year, the city's overall rates grew 4.7% from \$64.57 per s/f at midyear 2014. Class A average asking rents grew to \$74.73 per s/f in the second quarter of 2015, rising 1.1% from \$73.90 per s/f the previous quarter. Year-over-year, Manhattan's Class A rates rose 4.8% from \$71.28 per s/f in the second quarter of 2014.

Midtown South

Slower velocity continued through the second quarter despite strong demand and touring activity on the part of creative tenants. No leases were reported in excess of 100,000 s/f this quarter. Year-to-date, only one large-block lease has been signed in Midtown South compared to six through the first half of this past year. Although subleases drove leasing activity in the submarket in the first quarter, new deals accounted for the majority of activity in Midtown South at midyear 2015.

In the largest lease of the quarter, PayPal committed to 95,000 s/f at 95 Morton Street to accommodate its recent spin-off as a separate company from eBay Inc. Anheuser-Busch Cos. LLC closed a 75,021-square-foot lease at the newly renovated 119 West 24th Street to house the beer maker's advertising and marketing team. This follows a recent trend of traditional companies opening offices in Midtown South, as MasterCard Inc., Target Brands Inc. and Cadillac have all recently signed leases in the submarket.

Midtown South's overall vacancy rate rose to 7.2% this quarter, an increase of 18.0% (or 1.1%age points) from 6.1% in the first quarter of the year. Year-over-year, the submarket's overall vacancy rate fell 6.5% (or 0.5%age points) from 7.7% at midyear 2014. The Class A vacancy rate rose to 6.8% in the second quarter of 2015, an increase of 11.5% (or 0.7%age points) from 6.1% in the previous quarter. Year-over-year, Midtown South's Class A rate grew 17.2% (or 1.0%age points) from 5.8% in the second quarter of 2014.

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Despite the uptick in vacancy, options remain limited in Midtown South, giving building owners leverage to continue to escalate asking rents to new levels. Overall average asking rents in Midtown South rose to \$68.03 per s/f this quarter, an increase of 4.0% from \$65.39 per s/f in the first quarter of the year. Year-over-year, the submarket's overall rates grew 13.2% from \$60.09 per s/f at midyear 2014. Class A average asking rents fell slightly to \$79.24 per s/f in the second quarter of 2015, a decrease of less than 1.0% from \$79.97 per s/f in the previous quarter. Year-over-year, Midtown South's Class A rates rose 2.8% from \$77.08 per s/f in the second quarter of 2014.

Downtown

Lower Manhattan continued to face a slowdown in leasing activity in the second quarter of the year. The submarket posted an overall deal velocity of just 1.6 million s/f, which represents the lowest activity recorded over a two-quarter period since the first half of 2009. Twentieth Century Fox / News Corp. signed a letter of intent to relocate from 1211 Avenue of the Americas to anchor the proposed

2 World Trade Center for as much as 1.4 million s/f. Other relocations will likely push leasing volume considerably higher in the coming months. While none of these will match last year's large transactions at Brookfield Place, several leases are likely to close in the 75,000- to 200,000-square-foot range by summer's end.

With few new large blocks of available space added to Downtown's inventory in recent months, even the limited leasing activity recorded drove down vacancy rates. Lower Manhattan's overall vacancy rate fell to 11.9% this quarter, a decrease of 4.8% (or 0.6%age points) from 12.5% in the first quarter of the year. Year-over-year, the submarket's overall vacancy rate dropped 1.7% (or 0.2%age points) from 12.1% at midyear 2014. The Class A vacancy rate fell to 13.1% in the second quarter of 2015, a decrease of 3.0% (or 0.4%age points) from 13.5% in the previous quarter. Downtown's Class A vacancy rate rose less than 1.0% (or 0.1%age points) from 13.0% a year ago.

Lower Manhattan rents increased for the fourth consecutive quarter, bringing rates to new highs for both Class A and Class B spaces. Ten Class A buildings and 15 Class B buildings raised rents from the first quarter to the second quarter, while only five Class B buildings lowered rents. Asking rents in the Class A market increased \$5.00 to \$62.16 per s/f year-over-year, and the Class B market increased \$8.07 to \$47.42 per s/f year-over-year.

Overall average asking rents Downtown rose to \$57.05 per s/f this quarter, an increase of 1.4% from \$56.25 per s/f in the first quarter of the year. Year-over-year, the submarket's overall rates grew 7.9% from \$52.85 per s/f at midyear 2014. Class A average asking rents rose to \$62.16 per s/f in the second quarter of 2014, an increase of 1.4% from \$61.33 per s/f in the previous quarter. Year-over-year, Lower Manhattan's Class A rates rose 8.7% from \$57.16 per s/f in the second quarter of 2014.

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