AVISON YOUNG

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Favorable job growth and a continued flight to quality help second quarter leasing finish strong according to Avison Young findings

New York City – The New York City economy continues to **outpace both the state and nation in terms of private-sector job growth**. As of the latest read in May, the city **posted 2.4 percent year-over-year private sector job growth** in comparison to 1.1 percent for the state and 1.7 percent nationally according to figures released in **Avison Young's Second Quarter 2019 Office Leasing report.**

"The greatest employment gains were seen in the educational and health services sectors, while continued job increases were also noted in professional and business services, information and financial activities," noted **Mitti Liebersohn, President & Managing Director - NYC Operations.** "These gains have translated into strong office leasing velocity across the Manhattan market."

For the second quarter (with April being the highest volume month so far this year), office leasing volume of 10.3 million square feet ended up 6.0 percent year-over-year from 9.7 million square feet for the same period in 2018. Renewals accounted for a third of the activity.

Through mid-year, year-to-date office leasing volume of 18.7 million square feet for the city was greater than the 18.3 million square feet executed for the same period last year. Employment growth has been forecasted to remain positive in Manhattan over the next 18 to 24 months. This, in turn, should bode well for the office leasing market for the near term.

By the end of the second quarter, the Manhattan vacancy rate declined by 80 basis points year-over-year to 9.8 percent. A flight to quality for new development and renovated product being offered continued to drive average asking rents up 5.0 percent to $80.76 per square foot from $76.80 a year ago, keeping the pricing level at a historical high.

The market should expect near-term deliveries of additional new product, which come with the latest amenities, and, in some cases, within close proximity to a major transit hub (e.g. Grand Central or Penn Station), to continue to be sought after by large, less price sensitive tenants and those looking for efficient floor plates.

Midtown: Large Block Deals Propel Leasing Velocity; Average Asking Rents Hit New High

Second quarter leasing activity of 6.5 million square feet is up 8.0 percent from a year ago, partly as the result of a greater number of closed large block transactions (above 100,000 square feet), which included WarnerMedia's 1.5 million-square-foot sale-leaseback at 30 Hudson Yards. Overall vacancy of 9.7 percent decreased 50 basis points year-over-year from 10.2 percent, as the result of strong leasing that helped to offset space coming online this quarter.

Overall Midtown average asking rents ended the second quarter at $88.85, up 7.0 percent year-over-year from $83.09, representing a new high since rents were at $88.05 in 1Q17.

- Twelve large block leases (over 100,000 square feet) were executed in the second quarter, compared to nine a year ago.

- Seven of the 12 large block leases were renewals, the largest being executed by global marketing and advertising firm McCann Worldgroup's renewal at 622 Third Avenue, which gives them over 460,000 square feet of space.

- The remaining five of the 12 large block leases were for new, or soon to be upgraded properties (the latter includes 460 West 34th Street – First Republic Bank for 211,521 square feet), in Hudson Yards/Manhattan West, with one deal also at recently renovated 1271 Avenue of the Americas (AIG for 320,237 square feet) in the Sixth Avenue/Rockefeller Center submarket.

Midtown South: Lease-Up of Higher Priced Newer Product Drives Vacancy Lower. Midtown South Remains Favored by Tech, While Health Services Boosts Presence

Second quarter leasing activity of 1.8 million square feet for Midtown South is down 10.0 percent from a year ago. The market remains dominated by technology and a growing number of co-working tenants. Health services firms continued to increase their presence in this segment. Overall vacancy of 8.3 percent declined 80 basis points year-over-year from 9.1 percent. Overall average asking rents for Midtown South ended the second quarter at $78.88, up 1.0 percent year-over-year from $78.03.

- Unlike last quarter when there were no large-block closed deals (over 100,000 square feet), for the second quarter there were four, similar to a year ago. The largest was the renewal/expansion by Flatiron Health, Inc. for 252,452 square feet at newly renovated 161 Avenue of the Americas (aka One SoHo Square East). Here the firm renewed their existing 130,384 square feet of space and took on an additional 122,068 square feet.

- Tech companies executed 40.0 percent of the leasing during the quarter. This activity included Yext (145,741-square-foot sublease at 61 Ninth Avenue – former Aetna space) and Microsoft (63,000 square feet for the entire office portion at 300 Lafayette Street). Both opted for new space.

- Co-working represented the second largest sector of leasing activity in Midtown South, with such tenants accounting for 22.0 percent of the volume. WeWork executed its largest lease so far this year during the quarter (212,937 square feet at 620 Avenue of the Americas) and in doing so took over space vacated by Spotify and Mediaocean.

- The one additional large-block renewal was executed by CBS (164,000 square feet at renovated 63 Madison Avenue – rebranded as 28 East 28th Street).

Downtown: Diverse Tenant Mix Drives Leasing Activity Up Over 20.0 Percent Year-Over-Year

Strong second quarter Downtown leasing activity of 2.0 million square feet is up 21.0 percent from a year ago. Overall vacancy of 11.2 percent declined by 160 basis points from 12.8 percent by the end of the second quarter, and remains below the 12.0 percent level first reached at year-end 2016 and again last quarter. Overall average asking rents for the second quarter were $62.39, down less than 1.0 percent year-over-year from $62.71 PSF.

- Three large-block leases totaling 918,000 square feet were executed Downtown compared to the same number of such deals totaling 641,000 square feet a year ago.
- The increased presence of health services firms also continues Downtown with EmblemHealth closing on the largest lease for the market with its 440,000 square foot renewal at 55 Water Street.
- The next largest tranche of deals for the Downtown market fell in the 50,000 to 100,000 square-foot range, with some leases also executed among health and business services occupiers.

The report is available by clicking here.

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