

Q2 2020

LOWER MANHATTAN REAL ESTATE MARKET REPORT



**DOWN
TOWN
ALLIANCE**

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THE ALLIANCE FOR DOWNTOWN NEW YORK

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Leasing Activity Slows Dramatically As Economic Uncertainty Persists

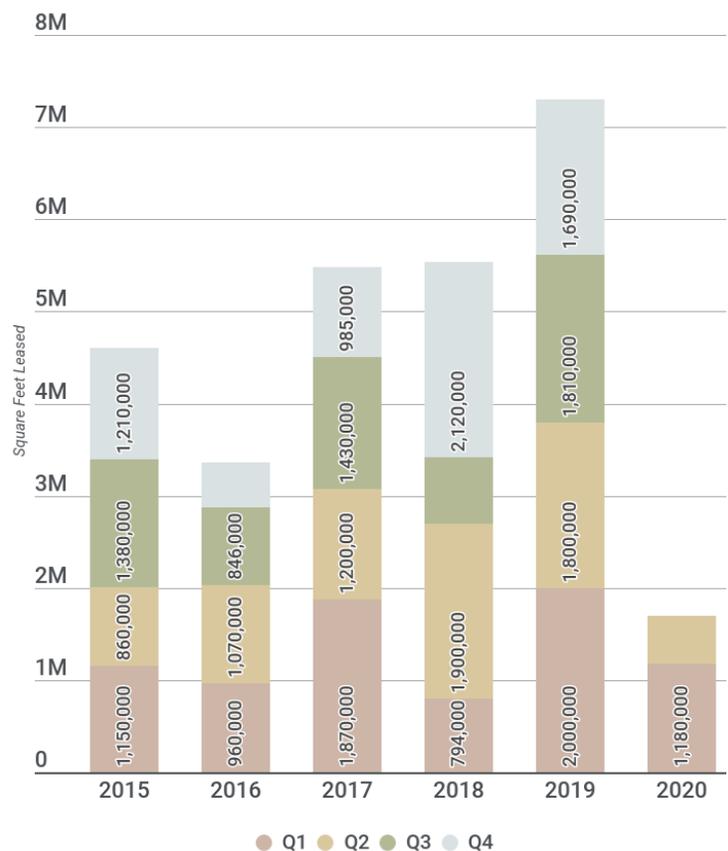
The COVID-19 pandemic has pushed the world into unprecedented public-health and economic crises. New York City emerged as the epicenter of the pandemic in the second quarter, with lockdowns keeping all but only essential workers at home. While Lower Manhattan's office market performed well in early 2020, momentum slowed considerably in March and halted almost entirely for much of the second quarter. Office leasing is expected to be low well into the second half of 2020, and increased subleasing may create downward pressure on rents later in the year.

After six consecutive quarters during which new leasing activity was greater than one million sq. ft., the second quarter saw Lower Manhattan office leasing slow to just 516,000 sq. ft. Leasing activity was down 56% from the first quarter and 60% below the five-year quarterly average as real estate decisions were put on hold. Monthly leasing figures continued to drop after limited reopenings, with just 52,000 sq. ft. of new leasing activity in June.

The dual public-health and economic crises saw dramatic slowdowns across all major American office markets. Midtown Manhattan saw below-average leasing with 1.29 million sq. ft. of leasing activity, dropping 68% year-over-year and 69% behind the five-year quarterly average. Midtown South leasing activity dropped even more dramatically, registering 344,000 sq. ft. — 74% below the five-year quarterly average. This was the second weakest quarter on record for that submarket, registering only slightly higher than the peak of the financial crisis in early 2009.

Lower Manhattan Annual New Leasing Activity, 2015-2020

Source: CBRE



516,000 SQ. FT.
*of new leasing in the second quarter,
 down 56% from the previous quarter and
 60% below five-year quarterly average*

Limited But Notable Recommitments To Lower Manhattan

With leasing activity largely halted due to the shutdown, only a handful of deals were completed. The overwhelming majority of finalized leases were from tenants who already had a presence in Lower Manhattan. FIRE (Finance, Insurance and Real Estate) tenants drove virtually all of the overall leasing in the second quarter.

The **Securities and Exchange Commission (SEC)** signed the largest lease of the quarter in Manhattan. The agency announced plans to move from 200 Vesey Street to 241,171 sq. ft. at 100 Pearl Street (formerly known as 7 Hanover Square). Over its 20-year lease term, the U.S. General Services Administration reports the new lease will avoid approximately \$82 million in lease payments from the rental costs of renewing SEC's expiring lease. The current lease at 200 Vesey Street was set to expire in March 2021, but due to the temporary shutdown of construction in New York State, the SEC signed a one-year renewal of their 290,070 sq. ft. space at Brookfield Place..

Other transactions include the law firm **Stroock & Stroock & Lavan's** 195,000 sq. ft. extension at 180 Maiden Lane, the **U.S. Department of Education's Civil Rights Division** signing a 65,796 sq. ft. renewal at 32 Old Slip and **HealthFirst's** 44,026 sq. ft. lease at 1 Liberty Plaza.

Relocations to the district, typically a large driver of leasing in the Downtown market, sharply dropped. Only two tenants (totaling 110,000 sq. ft.) announced plans to move to Lower Manhattan, both from the Flatiron neighborhood in Midtown South. **PolicyGenius**, an insurance provider, signed an 85,526 sq. ft. lease at 32 Old Slip, and **Lippe Taylor**, a public relations agency, signed a 25,391 sq. ft. lease at 140 Broadway.

While most negotiations have been paused, activity persists on deals that were in progress before the onset of the pandemic. At the end of July, **AIG** announced a lease to move from 175 Water Street to 280,000 sq. ft. at 28 Liberty Street— bringing the tower to 96% occupancy. **Verizon** is reportedly looking in the Lower Manhattan market for 200,000 sq. ft.

Lower Manhattan Top Leases, Q2 2020

Source: Downtown Alliance, CBRE, JLL, Colliers, Newmark Knight Frank, CoStar

	Tenant Name <i>Location</i>	SF Leased <i>Transaction</i>	Sector
1	Securities and Exchange Commission (SEC) 100 Pearl Street	241,171 Move Within Lower Manhattan	FIRE
2	Stroock & Stroock & Lavan 180 Maiden Lane	195,000 Extension	Professional Services, Law
3	PolicyGenius 32 Old Slip	85,526 Relocation	FIRE
4	U.S. Dept. of Education - Civil Rights Division 32 Old Slip	65,796 Renewal	Government
5	HealthFirst 1 Liberty Plaza	44,042 New Lower Manhattan Location	FIRE
6	Lippe Taylor 140 Broadway	25,391 Relocation	TAMI, Public Relations



More Subleased Space Beginning To Enter The Lower Manhattan Market

While the addition of space into the Lower Manhattan market was limited during the second quarter, the lack of leasing amplified the impact of the new availabilities. However, a strong pipeline of significant sublease space is expected to come onto the market in the coming months and will be a key indicator of the market's health.

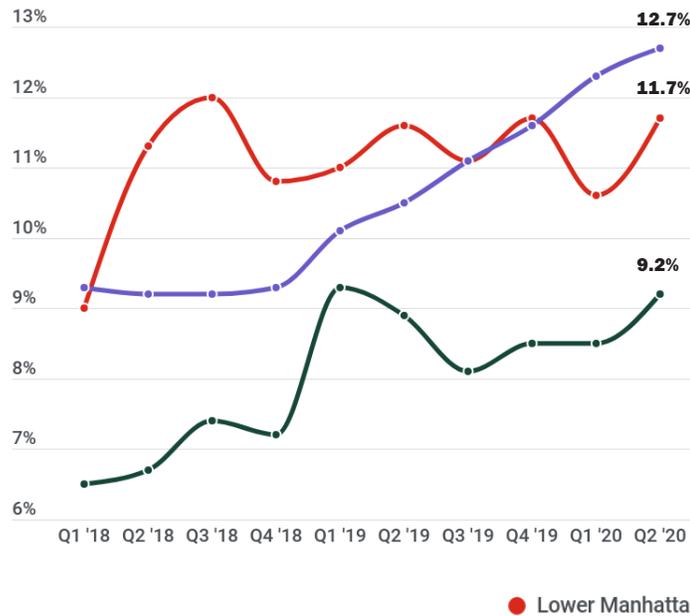
According to CBRE, subleased space currently represents 25% of all available space in Lower Manhattan, up significantly from year-end 2016 when sublease space was only 12%. Lower Manhattan has the narrowest pricing spread in Manhattan between direct and sublet office spaces — 14% — as compared to 34% in Midtown and 39% in Midtown South. Significant additions to the Lower Manhattan market include:

- 163,079 SF at 55 Water Street from EmblemHealth
- 105,000 SF at 33 Whitehall Street from Fitch Ratings
- 83,685 SF at 195 Broadway from Moda Operandi
- 40,000 SF at 4 World Trade Center from MediaMath
- 27,375 SF at 3 World Trade Center from Casper

The steady pricing seen across Manhattan's three submarkets is a reflection of the frozen nature in the market. Rent forecasts by CBRE point to average asking rents in Manhattan declining between 10% and 16% by early 2021 before recovery begins. Office buildings with stable occupancy rates, newer amenities and infrastructure are anticipated to fare better, while older buildings or those with large tenant leases expiring will see more pressure to drop rents.

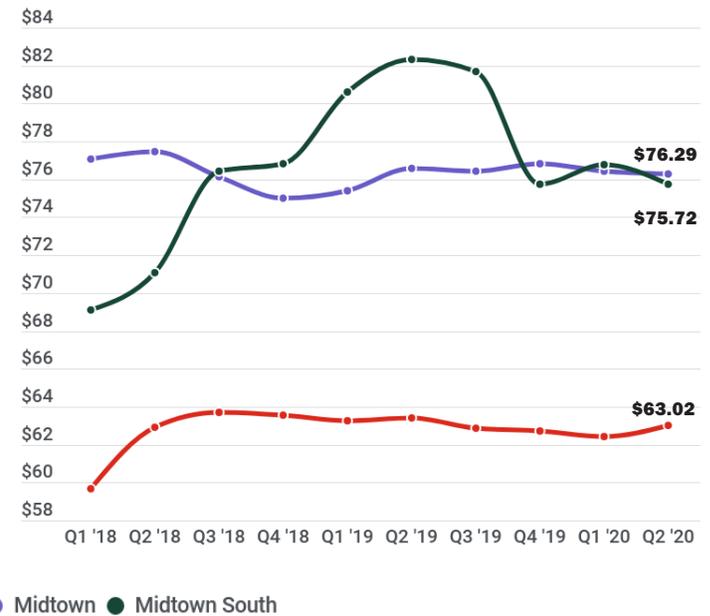
Overall Vacancy Rates By Submarket

Source: Cushman & Wakefield



Overall Asking Rents By Submarket

Source: Cushman & Wakefield



Second Quarter 2020 Property Sales

The second quarter saw no property trades of any type in Lower Manhattan (there were fewer than 50 trades in all of Manhattan). The only activity to speak of was 14 Vesey Street, a deal which was in the process of closing but was terminated.

Vacancy Rates And Asking Rents Hold Relatively Steady For Now

According to Cushman & Wakefield, Lower Manhattan's vacancy rate was 11.7% in the second quarter, up one percentage point from last quarter but steady year over year. Across office-class types in Lower Manhattan, Class A vacancy increased from 10.8% to 12.3% from the end of 2019. Class B and C office vacancies held steady at 11.8% and 7.4%, respectively. Meanwhile, Midtown's overall vacancy rate increased to 12.7%, as five blocks greater than 100,000 sq. ft. became available. Midtown South's vacancy increased to 9.2%.

According to Cushman & Wakefield, Lower Manhattan's overall average asking rent increased 1% to \$63.02 per sq. ft., a result of above-average-priced space becoming available at 195 Broadway. Class A asking rent remained near historical highs at \$67.11 per sq. ft. The average Class B asking rent increased by nearly 2% from the previous quarter to \$57.58.

Midtown and Midtown South continue to maintain similar overall asking rents. In Midtown, overall average asking rents were \$76.29, flat from last quarter. Midtown South's overall asking rents at \$75.72 per sq. ft. fell nearly 8% from record pricing seen in Q2 2019. Midtown's Class A average asking rent remained flat over the past quarter at \$82.86. Higher priced space at One Soho Square drove up Midtown South's Class A average asking rents 1.4% from the previous quarter to \$94.81.

11.7%

**Lower Manhattan
Overall Office
Vacancy**

12.3%

**Lower Manhattan
Class A Office
Vacancy**

\$63.02

**Lower Manhattan
Overall Office
Asking Rent**

\$67.11

**Lower Manhattan
Class A Office
Asking Rent**

RETAIL

COVID-19 Impacts On Lower Manhattan's Retail Market

The COVID-19 pandemic rapidly and radically altered Lower Manhattan's retail landscape and will continue to do so. During the initial shutdown on March 20, of the 1,140 shops, restaurants, bars and services in Lower Manhattan, approximately 23% stayed open. These 260-plus locations were businesses deemed "essential" (pharmacies, hardware stores, groceries, restaurants or eateries that offered takeout or delivery) by New York State. In addition, more than 170 retail locations are slated to open in the coming months, ranging from fine-dining restaurants and casual eateries to movie theaters and entertainment venues. Some businesses have continued to work toward a grand opening, while others are anticipated to pull back. It remains to be seen how the current crisis will precisely impact the reopenings of existing establishments and openings of planned retailers, but the permanent closures are expected to be significant.

The long-term impact the pandemic will have on Lower Manhattan's retail market is unclear. Stimulus from the federal, state and city governments have provided short-term support. But the long-term sustainability of individual businesses will be determined by the ever-evolving restrictions on operating capacity and overall demand (see reopening table on page 8), how quickly the virus abates and a potential timeline for a vaccine. The New York City Department of Transportation's Open Streets: Restaurants program, which began at the end of June, allows individual restaurants to expand outdoor seating to sidewalks and curb lanes — promoting open spaces, enhancing social distancing and helping them rebound in difficult economic times. In Lower Manhattan, that program has been activated on Pearl, Pine and Front Streets. At the time of this publication, indoor dining has not been permitted.

Despite the current crises, four retailers opened in the past couple months. However, 19 retailers have closed since the pandemic began. While some closures were long planned, others were directly attributable to the shutdown. They include:

- **The Paris Cafe** at 119 South Street: One of the oldest, continually-operating bars in the city (opened in 1873) that was nearly destroyed during Hurricane Sandy;
- **Bennie's Thai Cuisine** at 88 Fulton Street: A favorite local eatery that was open for 24 years, surviving the 9/11 attacks, the Great Recession and Hurricane Sandy;
- **Trading Post** at 107 John Street: An upscale American eatery that was the first new restaurant to open in the Seaport after Hurricane Sandy;
- **China Chalet** at 47 Broadway: A restaurant open since 1975 that served Wall Street business lunches by day and hosted parties for celebrities, the art crowd and LGBTQ community by night; and
- **Augustine** at 5 Beekman Street: The Keith McNally restaurant at the Beekman Hotel opened in 2016 and was one of the first celebrity restaurateurs to launch Lower Manhattan into a new dining landscape.



Image Courtesy of Crown Shy

Downtown Alliance Launches Small Business Rental Assistance Grant And Other Measures to Support Businesses

This spring, the Alliance for Downtown New York launched the Small Business Rental Assistance Grant to offer immediate help to storefront businesses providing vital services to residents and essential workers in Lower Manhattan during the COVID-19 pandemic. With support from Brookfield Properties, Silverstein Properties and The Howard Hughes Corporation, the program gave Lower Manhattan's small businesses access to \$800,000 in grants. The Small Business Rental Assistance Grant is part of the Alliance's ongoing small-business relief efforts.

The individual grants offered \$10,000 each to qualifying small businesses as a single direct payment to be applied to April or May rent. Sixty-one eligible businesses were awarded the grant. Remaining funds in the grant program will be allocated toward future small-business initiatives.

The Small Business Rental Assistance Grant is part of a continuing effort by the Alliance to support businesses that are being adversely impacted by the spread of COVID-19. The Alliance is actively

working to help Lower Manhattan's small-business community weather this painful moment and resulting shifts in business activity by:

- educating local business owners about available funding opportunities;
- convening working groups of tourism groups and food-and-beverage establishments;
- communicating which businesses are open to residents;
- spotlighting essential workers who are making a difference;
- one-on-one consulting sessions to help businesses reopen safely via partnerships with Streetsense;
- creation of online ordering platforms for local restaurants via BentoBox; and
- participation in the Open Streets: Restaurants program

HOTELS + TOURISM

COVID-19 Impacts On Lower Manhattan's Hotel And Tourism Market

The hotel industry has been severely impacted by the national and global travel restrictions necessary to battle COVID-19. Hotel visitation began to steadily decrease in early March. Fifteen of Lower Manhattan's 37 hotels have remained open throughout the pandemic, while the remaining hotels temporarily closed their doors. Those hotels that were still operating offered discounted accommodations for health-care clinicians and administrators as well as other at-risk populations. Many hotels that are currently closed have anticipated reopening by late summer, albeit some at limited capacity. However, overwhelming headwinds have already led to two permanent hotel closures in Lower Manhattan.

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- **The Assemblage** at 17 John Street announced its closing in late June, due to financial difficulties from the building's ownership Prodigy Networks. Prodigy, a crowdfunding company, had faced difficulties prior to the onset of the pandemic. The affiliated coworking space, in addition to two other coworking spaces in Nomad, announced their closure. The property opened in 2018 with 79 rooms.
- The **W New York Downtown** at 8 Albany Street announced in mid-July that it will close its doors October 13. The property opened in 2010 with 217 hotel rooms and an accompanying 223 residential condo units.

Hotel performance metrics continue to struggle due to ongoing travel restrictions. Average hotel occupancy and room rates in Lower Manhattan have often followed similar citywide trends. According to NYC & Company and STR, hotel occupancy in New York City slowly climbed during the spring months, from 18% at the beginning of April to high 30% by mid-July. These occupancy rates are still incredibly low, down approximately 60% year over year. Average daily room rates have hovered in the low- to mid-\$100 range for the past couple months, also down 50% year over year.

Key tourist attractions and museums have established reopening timelines. The 9/11 Memorial Plaza welcomed visitors in early July while the Museum remained closed. Governors Island and Liberty Island reopened in mid-July. One World Observatory hopes to reopen in August. It remains unclear as of this writing when New York State will permit indoor museums to reopen.

New York City Reopening Timeline

Phase	NYC Timeline	Businesses Allowed to Reopen*
Phase 1	6/8/2020	construction, non-essential businesses for pickup or curbside
Phase 2	6/22/2020	outdoor dining, salons and barbers, real estate showings, offices, in-store shopping (not malls)
Phase 3	7/6/2020	spas and nail salons
Phase 4	7/20/2020	low risk outdoor arts and entertainment
Phase 5	TBD	malls, gyms, movie theaters

*This list of businesses allowed to reopen is illustrative, not exhaustive. Please refer to official New York State guidance.

RESIDENTIAL

Inventory And Development

Lower Manhattan has 33,247 units in 337 mixed-use and residential buildings. The estimated population increased year over year by approximately 3% to 64,000, as several large rental buildings became fully leased. There are nearly 2,800 units in 17 buildings under construction or planned for development, with about 27% of units currently planned as rentals and 63% as condos.

All types of construction were allowed to resume in New York City as Phase 1 began on June 8. Residential-sales galleries reopened, and viewings were once again permitted as the city entered Phase 2 on June 22. Five buildings with nearly 500 condo units are slated to open in 2020. They include:

- **30 Warren Street:** Cape Advisors' 12-story, 23-unit boutique condo building;
- **33 Park Row:** Urban Muse's 25-story, 31-unit condo tower adjacent to City Hall Park;
- **25 Park Row:** The collection of buildings along Park Row, once occupied by J&R Music and Computer World, will become a new 54-story, 110-unit condo tower. Developed by L&M Development, the building will include 52,000 sq. ft. of office space at its base;
- **77 Greenwich Street:** The first nine floors of Trinity Place Holdings' 42-story, 90-unit condo tower will contain a public, 476-seat elementary school (prekindergarten through fifth grade). The project includes the adaptive reuse of the landmarked Robert and Anne Dickey House, as well as 6,500 sq. ft. of retail space and construction of a new subway entrance on Trinity Place;
- **130 William Street:** The 66-story, 244-unit condo tower developed by Lightstone includes a landscaped plaza on William Street and nearly 21,000 sq. ft. of retail space.

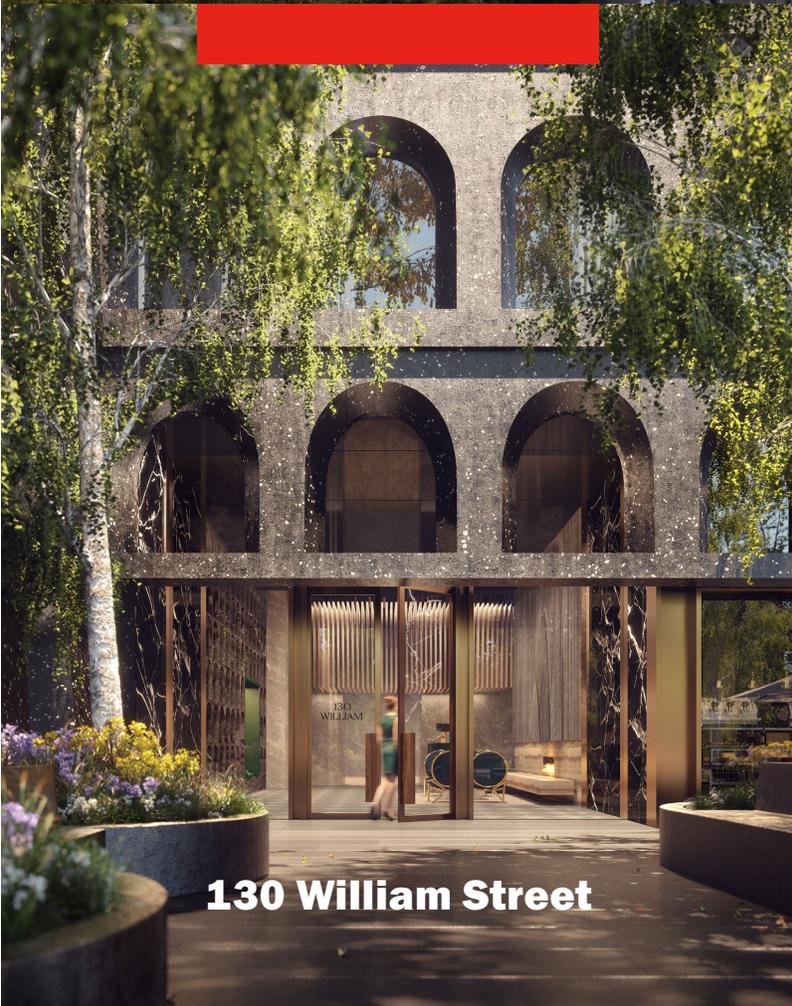
Residential Sales And Rental Market

In-person real estate showings were not allowed to restart until Phase 2 began on June 22, thereby missing much of the usually busy spring season. As a result of the economic uncertainty, buyers and sellers have been forced to recalibrate. Any distortion seen during the second quarter was caused by the sharp reduction in activity, i.e. the number of sales in Lower Manhattan dropped nearly 70% year over year. These distortions can be seen acutely in Lower Manhattan metrics, as the number of sales dropped 70% year-over-year and the limited mix of sold units had larger floorplates. According to residential statistics published by Miller Samuel/Douglas Elliman, the median sales price for co-ops and condos rose considerably \$1,125,000 — up 7.1% from last quarter and 4.7% year over year. Lower Manhattan's average price per square foot (PPSF) of \$1,631 saw a 44.3% increase over the past quarter and a year-over-year increase of 27.6%.

The median rent in Lower Manhattan stood at \$3,813, a 1.5% decrease from the previous quarter and a 4.5% decrease from last year. Meanwhile, Manhattan's overall median rent was \$3,495, down nearly 2% from the past quarter. So far, landlords have been open to negotiation and concessions, but mostly on an individual basis. Since most activity was prohibited during the second quarter, landlords have taken a "wait and see" attitude until things shake out. The summer and fall months could be more illustrative in showing the stability of the rental market, when and if college graduates move to the city to start jobs.



25 Park Row



130 William Street

Lower Manhattan Residential Pipeline

Source: Downtown Alliance

	Address	Lease / Building Type	Units	Open Date
Condo + Rental Units Under Construction		Total	2,045	
1	33 Park Row	Condo New Construction	31	2020
2	30 Warren Street	Condo New Construction	23	2020
3	25 Park Row	Condo New Construction	110	2020
4	77 Greenwich Street	Condo New Construction	90	2020
5	130 William Street	Condo New Construction	244	2020
6	161 Maiden Lane	Condo New Construction	80	2021
7	45 Park Place	Condo New Construction	50	2021
8	125 Greenwich Street	Condo New Construction	273	2021
9	185 Broadway	Rental New Construction	209	2021
10	2 Washington Street	Rental Conversion	345	2021
11	One Wall Street	Condo New Construction	566	2022
12	69 West Broadway	Condo New Construction	24	2022
Condo + Rental Units In Development		Total	741	
1	45 Broad Street	Condo New Construction	206	TBD
2	265 Broadway	Hotel/Condo New Construction	37	TBD
3	75-83 Nassau Street	Rental New Construction	229	TBD
4	3 Platt Street	Rental New Construction	250	TBD
5	1 Park Row	Condo New Construction	19	TBD
TOTAL UNITS IN THE PIPELINE			2,786	

MAJOR PROJECTS UPDATE

76 Trinity Place

Trinity Real Estate's 76 Trinity Place, a new 26-story, 310,000 sq. ft. office building, is nearing completion. The bottom five floors, to be known as Trinity Commons, will be for community use, while floors 6-12 will be used for Trinity Church's offices. Trinity took occupancy in November 2019. There is 130,000 sq. ft. available for commercial office leasing on 12 floors, which will include a full-floor tenant amenity space with conferencing and terrace.

Infrastructure

Broadway Bike And Pedestrian Safety Improvements

New York City's Department of Transportation installed a permanent, protected bike lane and pedestrian safety features on Broadway between City Hall and Bowling Green. The bike lane is on the east side of Broadway from Barclay to Morris Streets, as well as on Whitehall Street, between Pearl and Water Streets. In addition, new commercial loading and parking regulations will be updated along the corridor, and painted pedestrian islands will appear at select intersections and the Wall Street subway station. The project includes installation of slow-turning treatments, turn bays and signal timing changes at select intersections.

Warren, John and Front Streets Reconstruction

Reconstruction of Warren Street (from Broadway to West Street) was completed in June 2020, and John Street (from Broadway to William Street) is scheduled for completion in late July 2020. Reconstruction of Front Street between Old Slip and John Street began in January 2020 and is scheduled for completion Summer 2022. These projects will replace all underground infrastructure, including water mains, sewers, electric, gas and other utilities, as well as construct new streets and curbs.

Water Street Streetscape Project

The City has delayed the start of work on the streetscape and public-realm enhancement project along the Water Street corridor. The \$22.8 million project will transform two temporary public plazas at Coenties Slip and Whitehall Street into permanent public spaces, featuring new landscaping, seating and concessions. The project will also plant street trees, rebuild sidewalks and enhance pedestrian safety from Whitehall Street to Old Slip.





DOWN TOWN ALLIANCE

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The mission of the Alliance for Downtown New York is to provide service, advocacy, research and information to advance Lower Manhattan as a global model of a 21st century central business district for businesses, residents and visitors.

downtownny.com/research-statistics