

Q1 2020

LOWER MANHATTAN REAL ESTATE MARKET OVERVIEW



**DOWN
TOWN
ALLIANCE**

Q1 2019

THE ALLIANCE FOR DOWNTOWN NEW YORK

LOWER MANHATTAN REAL ESTATE MARKET REPORT

Leasing Activity Tapers Off As A Result Of COVID-19

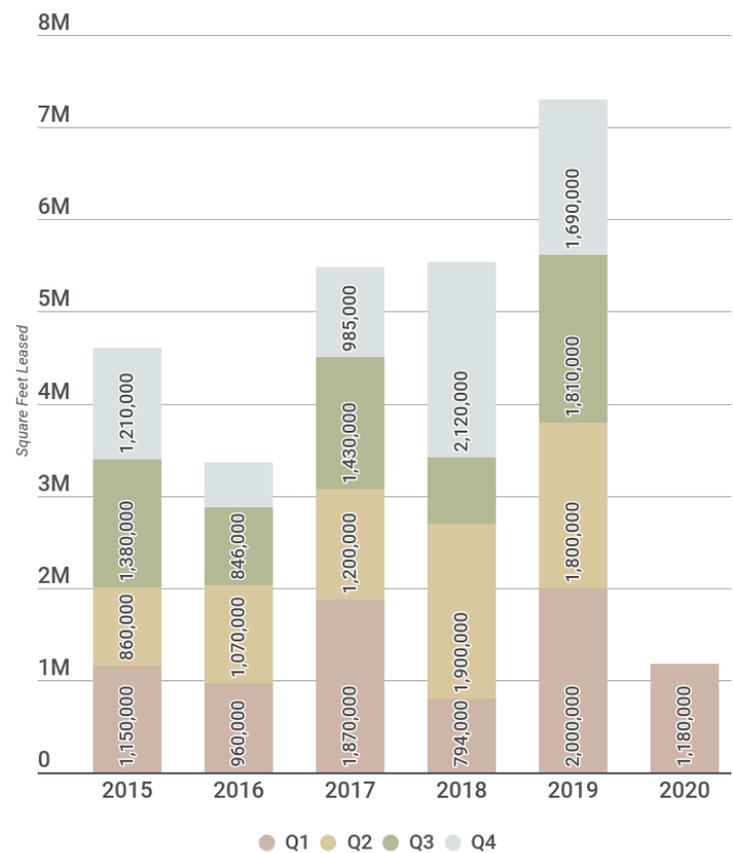
The COVID-19 pandemic has pushed the world into unprecedented public health and economic crises. While the Lower Manhattan office market was performing well earlier in the year, momentum slowed considerably in March. Office leasing is expected to be even lower during the second quarter, and potentially well into the second half of 2020. The New York City market, and Lower Manhattan particularly, are no strangers to disruption — having weathered September 11, the global financial crisis of 2008–2009 and Superstorm Sandy. Lower Manhattan's office market began 2020 stronger and more diversified than ever and will eventually be positioned well to recover from the current crisis.

After strong momentum in 2019, the first quarter did see Lower Manhattan leasing slow down overall with 1.18 million sq. ft. of office deals inked. Leasing activity was down 30% from the previous quarter and 10% below the five-year quarterly average. January saw above-average leasing and February saw typical leasing, while leasing activity dropped significantly in March as real estate decisions were put on hold due the growing public health and economic crises.

Slowdowns also occurred in other Manhattan office markets. Midtown Manhattan saw below-average leasing with activity dropping 36% from the previous quarter and 7% behind the five-year quarterly average. Midtown South leasing activity dropped even more dramatically, decreasing 39% from the fourth quarter and 41% below the five-year quarterly average. In the weakest start to the year since 2009, the Midtown South submarket saw no leases signed above 100,000 sq. ft. and only five above 25,000 sq. ft. in Q1 2020.

Lower Manhattan Annual New Leasing Activity, 2015-2020

Source: CBRE



1.18M SQ. FT.
of new leasing in the first quarter, down 30% from the previous quarter and 10% below five-year quarterly average

New Companies And Legacy Industries Drove First Quarter Leasing

Traditionally known as a home for financial services, Lower Manhattan has diversified its economy since the 2008-2009 recession. This diversification has continued into the first quarter as FIRE (Finance, Insurance and Real Estate) and TAMI (Technology, Advertising, Media and Information) tenants drove 75% of overall leasing in the first quarter, up from 54% in 2019. These two industries reflect the changing nature of Lower Manhattan's tenant base, and they underscore the district's continuing potential as a destination of choice in Manhattan for headquartering a wide variety of businesses.

Relocations into the district continued, representing about one-third of quarterly leasing activity in Lower Manhattan. The majority of relocations continued to be from Midtown South, particularly among TAMI tenants, as that market saw record-setting rents and a squeeze on quality space.

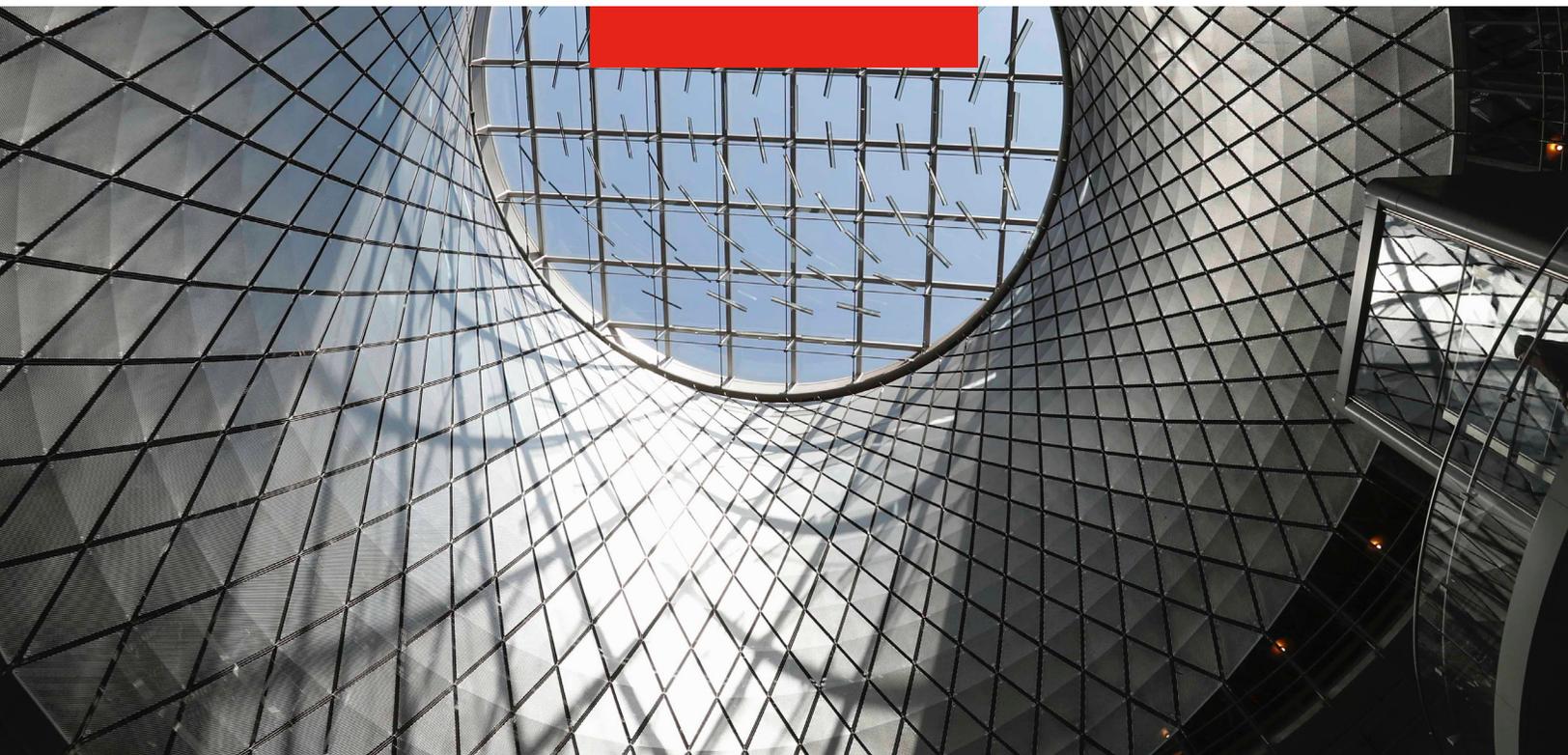
The largest lease of the quarter in Lower Manhattan was by advertising and marketing conglomerate **MDC Partners**, which took 199,277 sq. ft. at One World Trade Center. MDC will relocate and consolidate all 29 of its partner units from buildings across Midtown, Hudson Square and DUMBO. MDC, taking one of the last large blocks of available space, will be the third largest tenant after Condé Nast and the U.S General Services Administration. Additionally, **Celonis**, an artificial intelligence technology firm, signed a 34,775 sq. ft. lease for the entire 87th floor at One World Trade Center, relocating

from Midtown. Those recent deals brought the tower to more than 93% leased, two-thirds of which are occupied by tech and media tenants.

Other significant TAMI leases signed in Q1 include: advertising agency **Johannes Leonardo**, relocating from Soho to a 52,409 sq. ft. penthouse space at 115 Broadway and **Cumulus Media** relocating from Midtown to 45,923 sq. ft. at 300 Vesey Street. **Resy Networks**, the restaurant reservation platform, signed a relocation deal to move from Soho to 25,678 sq. feet at 222 Broadway.

Financial services and insurance companies also showed strength during the first quarter. **Susquehanna International Group** signed a 52,412 sq. ft. renewal at 140 Broadway while **Maven Group** inked 40,868 sq. ft. at 225 Liberty Street, relocating from Midtown. Notably, **Fred Alger Management** announced its return to Lower Manhattan, signing a 50,040 sq. ft. penthouse lease at 100 Pearl Street. The investment management firm was an original tenant in the north tower of the original World Trade Center, losing 35 employees on 9/11.

Other industries were also represented in significant lease transactions during the first quarter. **Hana**, a flexible workspace provider launched by CBRE, inked a deal to open a 85,984 sq. ft. space at 3 World Trade Center. **Uncommon Schools**, a nonprofit that runs charter schools around the region, announced plans to relocate its headquarters from Union Square to 41,884 sq. ft. at 55 Broad Street.



Successful Renewal Of Lower Manhattan Office Leasing Incentives

The Downtown Alliance partnered with leading economic development organizations across the city to advocate for preserving the leasing incentives that have long helped attract transformative tenancies and good-paying jobs to Lower Manhattan and other communities. In the wake of the COVID-19 pandemic, strong headwinds are likely facing the Lower Manhattan market in the months to come. These incentives will be critical tools and extremely helpful in our recovery phase.

In early April, the New York State legislature voted to adopt a budget which included the renewal of three Lower Manhattan leasing incentives with no changes for the next three years. These programs include:

- The Commercial Revitalization Program (CRP) Part I (Real Property Tax abatement) and Part II (Commercial Rent Tax special abatement)
- Lower Manhattan Energy Program (LMEP)
- Lower Manhattan New York State Sales Tax Exemption Area A (non-World Trade Center) and Area B (World Trade Center and Battery Park City)

The Lower Manhattan Relocation Assistance Program (LM-REAP) was also extended for a period of five years, with the addition of a new reporting requirement for companies receiving that specific benefit.

Please visit the leasing incentives page on our website for more details and updated expiration dates for each of these incentive programs.

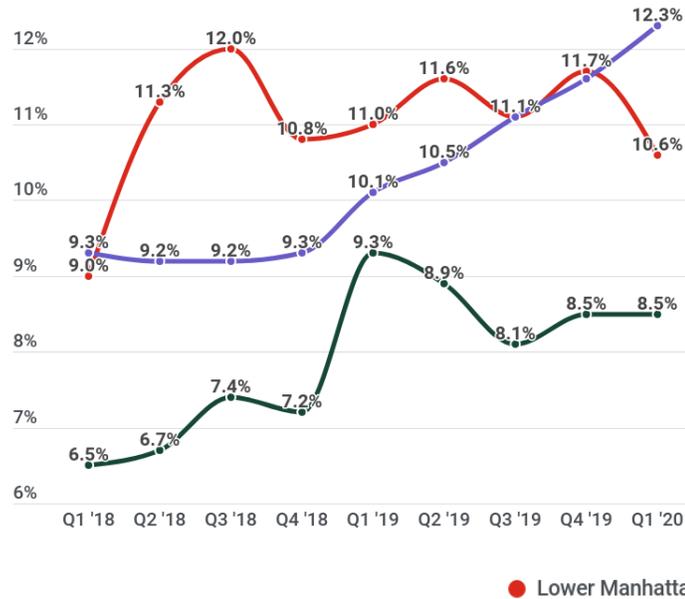
Lower Manhattan Top Leases, Q1 2020

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

	Tenant Name <i>Location</i>	SF Leased <i>Transaction</i>	Sector
1	MDC Partners One World Trade Center	199,277 Relocation	TAMI, Advertising
2	Hana 3 World Trade Center	85,984 New LM Location	Professional Services, Flex Office Space
3	Susquehanna International Group 140 Broadway	54,412 Renewal	FIRE
4	Johannes Leonardo 115 Broadway	52,412 Relocation	TAMI, Advertising
5	Fred Alger 100 Pearl Street	50,040 Relocation	FIRE
6	Cumulus Media 300 Vesey Street	45,923 Relocation	TAMI, Media
7	Uncommon Schools 55 Broad Street	41,884 Relocation	Education
8	Maven Group 225 Liberty Street	40,868 Relocation	FIRE
9	Celonis One World Trade Center	34,775 Relocation	TAMI, Technology
10	Walden Macht & Haran 250 Vesey Street	33,018 Move Within LM	Professional Services, Law
11	Legal Services NYC 25 Broadway	29,460 Relocation	Nonprofit
12	Axiom Legal 3 World Trade Center	27,992 Relocation	Professional Services, Law
13	Resy Networks 222 Broadway	25,678 Relocation	TAMI, Technology
14	American Express 200 Vesey Street	22,318 Expansion	FIRE
15	Blue Wolf Capital 3 World Trade Center	20,000 Move Within LM	FIRE

Overall Vacancy Rates by Submarket

Source: Cushman & Wakefield



Office Vacancy Rates

According to Cushman & Wakefield, Lower Manhattan's vacancy rate stood at 10.6% in the first quarter, down from one percentage point from last quarter. The decrease can be attributed to healthy leasing transactions, even with the addition of 252,699 sq. ft. of space at 80 Pine Street. Across office class types in Lower Manhattan, Class A vacancy decreased significantly from 12.1% to 10.8% from the end of 2019. Class B and C office vacancy decreased to 11.3% and 7.5%, respectively.

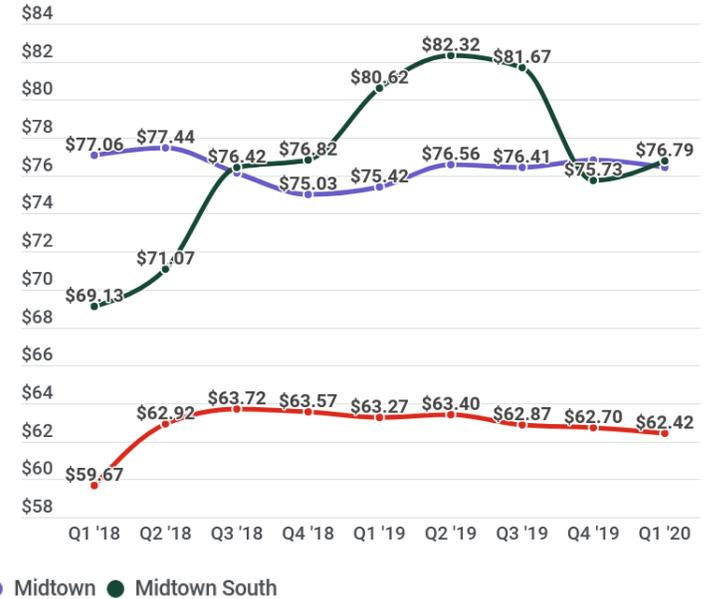
Meanwhile, Midtown's overall vacancy rate increased to 12.3%, as three blocks greater than 250,000 sq. ft. became available. Midtown South's vacancy remained flat at 8.5%.

Office Asking Rents

According to Cushman & Wakefield, Lower Manhattan's overall average asking rent dipped slightly to \$62.42 per sq. ft. Class A asking rent remained near historical highs at \$66.76 per sq. ft., increasing modestly from the previous quarter as higher-priced space became available at One Liberty Plaza and 74 Trinity Place. The average Class B asking rent fell by 4.4% from the previous quarter to \$56.51.

Overall Asking Rents by Submarket

Source: Cushman & Wakefield



Midtown and Midtown South's overall asking rents have reached an equilibrium point. In Midtown, overall average asking rents were \$76.45, slightly less than last quarter. Midtown South's overall asking rents at \$76.79 per sq. ft. fell nearly 5% from record pricing seen in early 2019. Midtown and Midtown South's Class A average asking rents remained relatively flat, dipping slightly from the previous quarter at \$82.76 and \$93.47, respectively.

Lower Manhattan continued to maintain a substantial pricing advantage compared to other Manhattan submarkets, notably to Midtown South. Lower Manhattan's average asking rents are nearly \$27 per sq. ft. below Midtown South's average for Class A office space and \$14 below for overall office space. The expansion of TAMI industries in Midtown South has left that market with limited office availability and record-setting pricing. While Class A rents in Lower Manhattan have remained at some of their highest levels in the submarket's history, many TAMI tenants in Midtown South that are looking to expand have taken note of the district's sizable rent differential. Tenant migrations, particularly among TAMI tenants, from Midtown South to Lower Manhattan continue to occur, accounting for one-third of all newly leased space during the first quarter.

First Quarter 2020 Property Sales

Office Sales

- A partnership between investor David Werner, Nightingale Group and Kuwait's sovereign wealth fund Wafra has closed on its \$175 million purchase of **111 Wall Street**. The buyers bought the building from Zurich Insurance Group and Omniperspective Management Corp. Citigroup vacated the property in December 2019, relocating to its headquarters at 388 Greenwich Street. The 24-story, 1.1 million sq. ft. building is expected to undergo a \$150 million renovation, including upgrades to the lobby and building systems and installation of amenities.
- Dallas-based real estate investment firm Gaedeke Group has purchased **44 Wall Street** from Blackstone for \$200 million. George Comfort & Sons will operate the building on Gaedeke's behalf. The 350,000 sq. ft. property is 84% occupied following a \$24 million renovation that Blackstone-owned EQ Office undertook in 2016.

Retail Condo Sales

- LCOR, which is converting the residential component at **25 Broad Street** from rentals to condos, has sold the 20,000 sq. ft. retail condo at the building's base to Regal Acquisitions for \$10.5 million. The retail tenants include Bobby Van's Steakhouse, menswear store Indochino and Exchange Cleaners & Florists.
- Ascot Properties sold a retail condo at **333 Rector Place** in Battery Park City to Cohen Equities for \$4.6 million. The 6,916 sq. ft. space faces South End Avenue and includes Battery Park City Day Nursery, Liberty Cleaners and Benvenuti Pizzeria.

Development Sites

- SL Green has entered in a 99-year ground lease for **126-132 Nassau Street** for \$30 million, where a 98,412 sq. ft. property stands. The site currently includes two buildings: 132 Nassau Street (four-story, corner building) and 15 Beekman Street (14-story building housing the Beekman Pub). SL Green intends to develop a new, as-of-right, 215,000 sq. ft. building on the site (which will be known as 15 Beekman Street) in partnership with Pace University. Both existing buildings will be demolished to make way for the new tower.
- Pace will use the space to add classrooms, dorms, a library, a dining facility and a learning center to its nearby campus. The new building will serve as a replacement for Pace's 50-year-old tower at One Pace Plaza East. 15 Beekman Street will be the third property SL Green has built for Pace in the neighborhood. The developer previously built dorm buildings at 33 Beekman Street in 2015 and 180 Broadway in 2013.

Pending Hotel Sales Announcement

- In early March, the hotel condominium portion of **75 Wall Street** was listed for sale for \$125 million by the Hakimian Organization. In 2008, Hakimian converted the upper portion of the former office property to 349 condos in 2008 and turned the lower floors into a 253-room Andaz Hotel.

RETAIL

COVID-19 Impacts On Lower Manhattan's Retail Market

The Coronavirus pandemic has rapidly and radically altered Lower Manhattan's retail landscape. While Governor Cuomo ordered all non-essential businesses to officially close on March 20, retail and restaurant traffic began to steadily decrease in early March due to heightened sensitivities around public gatherings. Of the 1,140 total retailers (shops, restaurants, bars and services) in Lower Manhattan, approximately 23% have remained open. These 260-plus locations are primarily pharmacies, grocery stores or restaurants and eateries that are only offering takeout or delivery. In addition, over 160 retail locations were in the pipeline to open in the coming future, ranging from fine-dining restaurants and casual eateries to movie theaters and entertainment venues. It is unclear how the current crisis will impact the openings of these establishments.

It remains to be seen what the long-term impact the pandemic will be on Lower Manhattan's retail market. While the federal stimulus from state and city governments have provided some short-term support, the longer-term sustainability of individual businesses will be determined by how quickly the virus abates, when and how businesses are allowed to start operating and overall demand.

During the first quarter, nine retailers opened, including:

- **Tacombi**, a casual Mexican restaurant at 74 Broad Street;
- **The Little Beet**, a healthy fast-casual eatery at 5 Hanover Square;
- **Solidcore**, a boutique fitness studio, at 18 Pine Street (facing 28 Liberty Plaza); and
- **Paper Source** at 50 Broad Street.

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. Among Lower Manhattan's 37 hotels, at least 10 decided to temporarily close their doors in March. Others continued to stay open to honor existing reservations, but were no longer taking new bookings. Several still operating Lower Manhattan hotels have offered discounted accommodations for healthcare clinicians and administrators as well as other at-risk populations.

The first quarter is typically the slowest time of year for hotels in New York City. Average hotel occupancy and room rates in Lower Manhattan has often followed similar citywide trends. January and February saw typical occupancy and average room rate levels, while March saw unprecedented negative shifts as international and domestic travel came to a nearly complete halt. According to NYC & Company and STR, hotel occupancy in New York City decreased approximately 80% year-over-year to around 17% by the end of March. Similar trends are expected to be seen throughout the spring.

In addition to the 7,945 hotel rooms in 37 hotels in Lower Manhattan, 2,085 hotel rooms in 15 hotels were in the pipeline to open in the next few years. This year alone, 813 rooms across five properties were slated to open. It remains to be seen what the long-term impact of COVID-19 will have on the travel and hospitality sector.

In terms of tourism and visitation, approximately 14 million tourists visited Lower Manhattan in 2019, down 4% from 2018¹. The proportion of international visitors coming to the neighborhood rose from 53% in 2018 to 61% in 2019. While official citywide tourism numbers haven't been released, New York City was forecasted to welcome 66.9 million tourists in 2019, a 2.8% increase from 2018².

¹ Audience Research & Analysis

² NYC & Company



Downtown Alliance Launches Small Business Rental Assistance Grant

The Alliance for Downtown New York is launching the Small Business Rental Assistance Grant program to offer immediate help to storefront businesses currently 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 Downtown Alliance's Small Business Rental Assistance Grant will give Lower Manhattan's small businesses access to \$800,000 in grants. The individual grants will offer \$10,000 each to small businesses as a single direct payment to be applied to April or May rent.

Businesses must meet the following requirements and provide appropriate documentation:

- Currently be open and providing an "essential" service as defined by Governor Andrew Cuomo in the PAUSE order of March 22
- Located on the ground floor within the BID's boundaries
- Be an independent business with five or fewer locations in New York City
- Fewer than 20 employees as of March 1, 2020
- Gross annual revenue below \$1.5 million
- Current lease at their current location through December 31, 2020
- Provide proof of using this grant towards rent

Applications are available starting Friday, May 1 on a first-come, first-served basis, until May 15 or until funding has been exhausted. Required documentation will include: 2019 4th Quarter 941, relevant lease agreement pages and the main pages from the business's most recently filed IRS business tax return, showing its annual gross revenues.

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 business community weather this painful temporary shut-down: educating local business owners about available funding opportunities, convening working groups, communicating which businesses are open to residents and spotlighting essential workers who are making a difference. Efforts will continue throughout the recovery phase with dedicated marketing programs and initiatives to help turn the lights back on across the neighborhood.

To learn more about this grant program, please visit our website for more details about the application process. downtownny.com/RentAssistGrant

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.

Construction timelines are expected to be significantly delayed, as non-essential construction has been halted by Governor Cuomo in response to the COVID-19 pandemic. While the directives will change, the only projects deemed essential in April were those involving hospitals, homeless shelters, affordable housing and emergency infrastructure projects. Additionally, as residential sales galleries have closed and viewings have been halted, sales and occupancies have slowed.

Seven buildings with 628 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 be 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;
- **161 Maiden Lane:** Fortis Property Group's 57-story, 80-unit condo building;
- **45 Park Place:** a 43-story, 50-unit condominium tower developed by Soho Properties. Also under construction are a courtyard and 16,000 sq. ft. Islamic cultural center that will be completed at a later date;

- **77 Greenwich Street:** Trinity Place Holdings' 42-story, 90-unit condo tower. The first nine floors of the building will contain a public, 476-seat pre-kindergarten through fifth grade elementary school. The project also 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:** a 66-story, 244-unit condo tower developed by Lightstone. The site includes a landscaped plaza on William Street and nearly 21,000 sq. ft. of retail space.

Residential Sales And Rental Market

With the growing economic uncertainty from the COVID-19 pandemic, buyers and sellers have pulled away from the sales market. Sales prices had already been in fluctuation due to changes in tax laws and deductibility. According to residential statistics published by Miller Samuel/Douglas Elliman, the median sales price for co-ops and condos fell dramatically to \$1,050,000 — down over 14% from last quarter and 5% year-over-year. Lower Manhattan's average price per square foot (PPSF) of \$1,130 saw a decrease of 11.2% over the past quarter and a year-over-year decrease of 16.7%. Sales volume and prices are expected to continue to be in flux, until more certainty appears in the market.

The median rent in Lower Manhattan decreased 3% from the previous quarter to \$3,870; however, this was a 5.6% increase since the first quarter of 2019. Meanwhile, Manhattan's overall median rent was \$3,558, up 1% and 4.6% over the past quarter and year, respectively. The increase in median rents over the past year was seen across Manhattan due to a weaker sales market as potential buyers have been staying in the rental market. However, median rents are expected to decrease with the current state of the market.



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	161 Maiden Lane	Condo New Construction	80	2020
5	45 Park Place	Condo New Construction	50	2020
6	77 Greenwich Street	Condo New Construction	90	2020
7	130 William Street	Condo New Construction	244	2020
8	69 West Broadway	Condo New Construction	24	2021
9	One Wall Street	Condo New Construction	566	2021
10	125 Greenwich Street	Condo New Construction	273	2021
11	185 Broadway	Rental New Construction	209	2021
12	2 Washington Street	Rental Conversion	345	2021
Condo + Rental Units In Development		Total	741	
1	45 Broad Street	Condo New Construction	206	TBD
2	265 Broadway	Hotel/Condo New Construction	37	2022
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

2 World Trade Center

Silverstein Properties announced it has shelved Bjarke Ingels Group's 2015 terraced design for 2 World Trade Center. The developer will instead go back to working with Foster + Partners to produce a new design for the building that is more reflective of contemporary needs. Silverstein had initially chosen Norman Foster to design the tower in 2005, but plans stalled in the wake of the 2008 recession. BIG's 2015 design was initiated in an anchor tenant decision for Newscorp and 21st Century Fox, which ultimately did not come to fruition.

74 Trinity Place

Trinity Real Estate's 74 Trinity Place, a new 26-story, 310,000 sq. ft. office building, is expected to open this summer. The bottom five floors, to be known as Trinity Commons, will be for community use, while floors six through eight will be used for Trinity Church's offices. The remaining 17 floors will be rentable office space. JLL has been selected to oversee leasing in the 130,000 sq. ft. office component, which will have a dedicated entrance and a separate address of 107 Greenwich Street. The existing pedestrian bridge across Trinity Place will soon reconnect to Trinity Church.

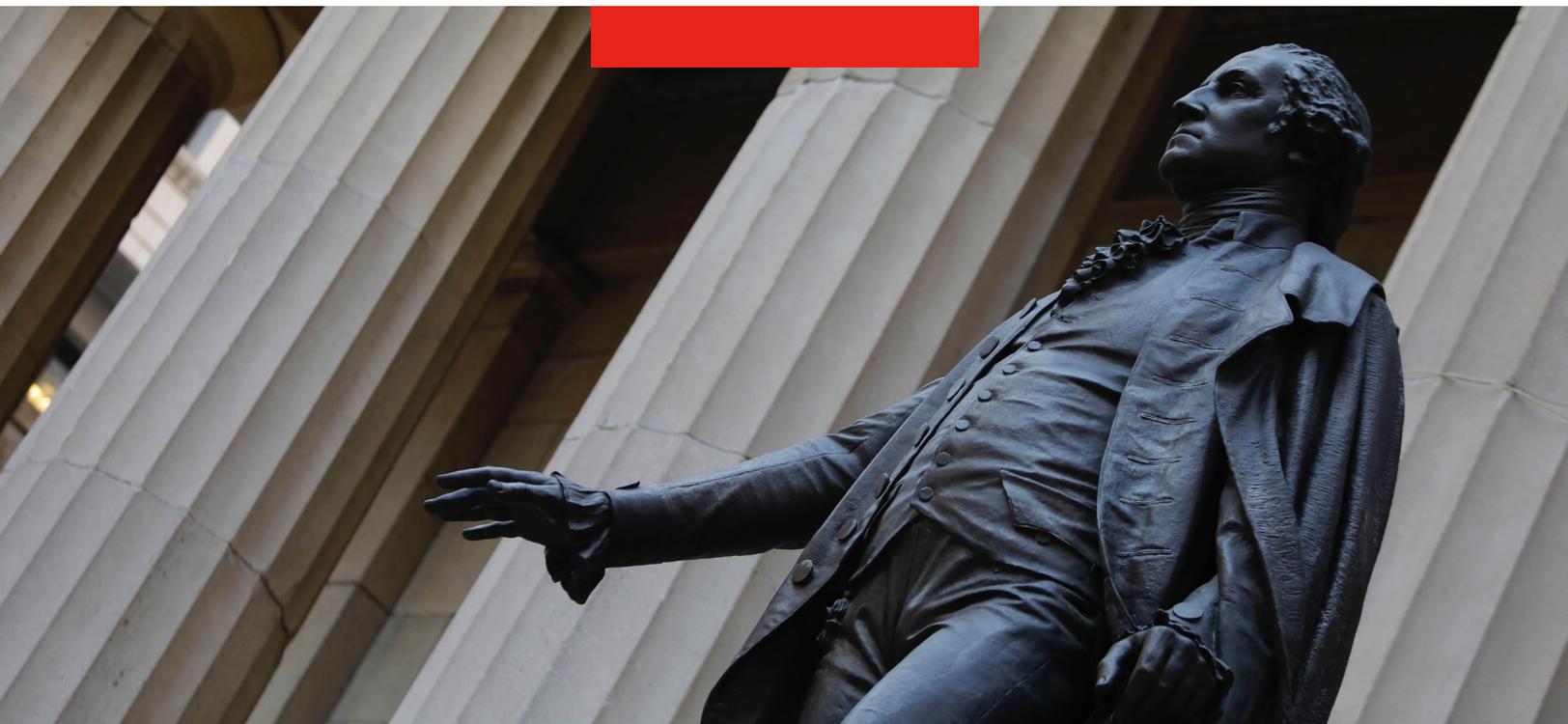
Infrastructure

Warren, John and Front Streets Reconstruction

Reconstruction of Warren Street (from Broadway to West Street) and John Street (from Broadway to William Street) are both scheduled for completion June 2020. Reconstruction of Front Street between Old Slip and John Street began 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

Following Governor Cuomo's order to halt all non-essential construction for the duration of the COVID-19 pandemic, the New York City Economic Development Corporation postponed work on the long-awaited streetscape and public realm enhancement project along the Water Street corridor. Anticipated to resume when the Governor's order is lifted, the 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. The \$22.8 million project is expected to take around 24 months to complete.





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