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Manhattan Office Owners Lure Tenants With Concessions

- Leasing jumps 32% as owners compete, Savills Studley says
- Asking rents fall, payouts to spruce up spaces climb

By David M Levitt

Manhattan office leasing is on the rise -- thanks in large part to deal sweeteners offered by landlords.

With big companies reducing space and new towers rising across New York, office owners are trying to attract tenants by lowering asking rents and shelling out cash to fix up properties. Such moves helped prop up demand in the third quarter, according to a new report by Savills Studley. Manhattan leasing soared 32 percent from the previous three months to 9.1 million square feet (845,000 square meters), well above the historical average of 7.5 million, the brokerage said.

Midtown Rents Fall

While asking office rents fell above 34th Street, they rose elsewhere in Manhattan

■ Third quarter, 2016 ■ Third quarter, 2017



Source: Savills Studley

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“In order to entice tenants to make lease commitments at high face rents, landlords are having to provide very large concession packages,” said [Bill Montana](#), a Savills Studley senior managing director. Even landlords

under less pressure to achieve high rents, such as families who own real estate, “are having to do this to compete for tenants.”

Asking rents fell 2.2 percent in the third quarter to \$73.21 a square foot, Savills Studley said. Landlords are also increasingly [covering](#) the cost of finishing out spaces, known as tenant improvement allowances. Fifty-six leases so far this year had such allowances valued at \$100 a square foot or more, compared with 24 in all of 2016. In the past, triple-digit allowances were an anomaly, the brokerage said.

Almost a decade after the credit crisis pummeled New York office demand, the typical boom-bust cycle of the city’s commercial real estate market has given way to something less reliable. The traditional largest occupants of Manhattan space -- banks, law firms and professional-service companies such as accountants and consultants -- are more careful when leasing space, Montana said.

“When a 150,000-square-foot law firm relocates, they will often consolidate into 100,000 square feet,” he said. “There is a clear trend for firms to do more with less.”

New Towers

Landlords are also grappling with added supply from a building boom on Manhattan’s far west side, where skyscrapers are rising in [Hudson Yards](#). That area has been home to some of 2017’s biggest office leases, such as [Amazon.com Inc.](#) taking 365,000 square feet at 5 Manhattan West, a [Brookfield Property Partners LP](#) building. Ernst & Young LLP and [Pfizer Inc.](#) are considering moving to the west side from their Midtown homes.

In [a study released today](#), the New York Building Congress said office construction in Manhattan is at its highest level in three decades, with 15 million square feet to be added between this year and 2019. An additional 2 million square feet of offices are to be completed in Brooklyn and Queens.

While the office market’s availability rate fell to 10.7 percent in the third quarter from 11.1 percent in the prior three months, Savills Studley expects it to resume rising as planned moves and unleased construction enter its database.

“There is no evidence to suggest that rents will increase significantly or that concessions will decrease significantly,” Montana said. “Economic expansions only go on for so long, and this is the longest one in anyone’s memory.”

(Corrects quote in sixth paragraph.)