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New York City's Path to Recovery

SPRING 2021

NEWMARK

After more than a year of the COVID-19 pandemic, the sentiment surrounding the reopening of New York City is finally beginning to change.

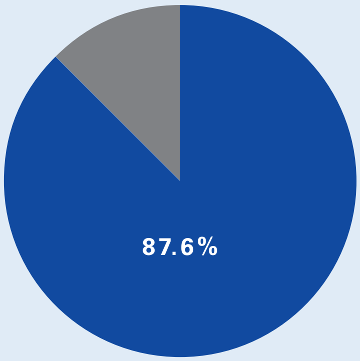
Vaccinations continue to provide a path for a return to normalcy, companies are implementing plans for their returns to the office, people are more mobile than at any point over the past twelve months, and tenants have resumed their searches for office space.

The COVID-19 pandemic triggered significant job losses, but these were largely concentrated in retail and hospitality, with much less severe declines recorded in office-using sectors. This was contrary to the 2008 financial crisis, when employment fell more dramatically for office-using industries.

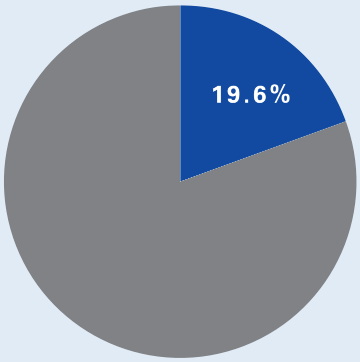
National office-using employment is down just 3.1% from February 2020. While employment has yet to fully recover, office-using employment in New York City increased by 3,800 jobs from March to April. Along with the uptick in employment, there has been a consistent increase in mobility.

Impact on Office-Using Employment

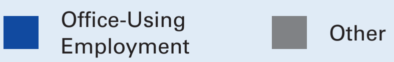
While employment losses have been significant during the pandemic, they have primarily been for non-office-using jobs. Following the Global Financial Crisis, nine out of ten jobs lost in NYC were for office-using jobs—compared to just two out of ten for the COVID-19 pandemic.



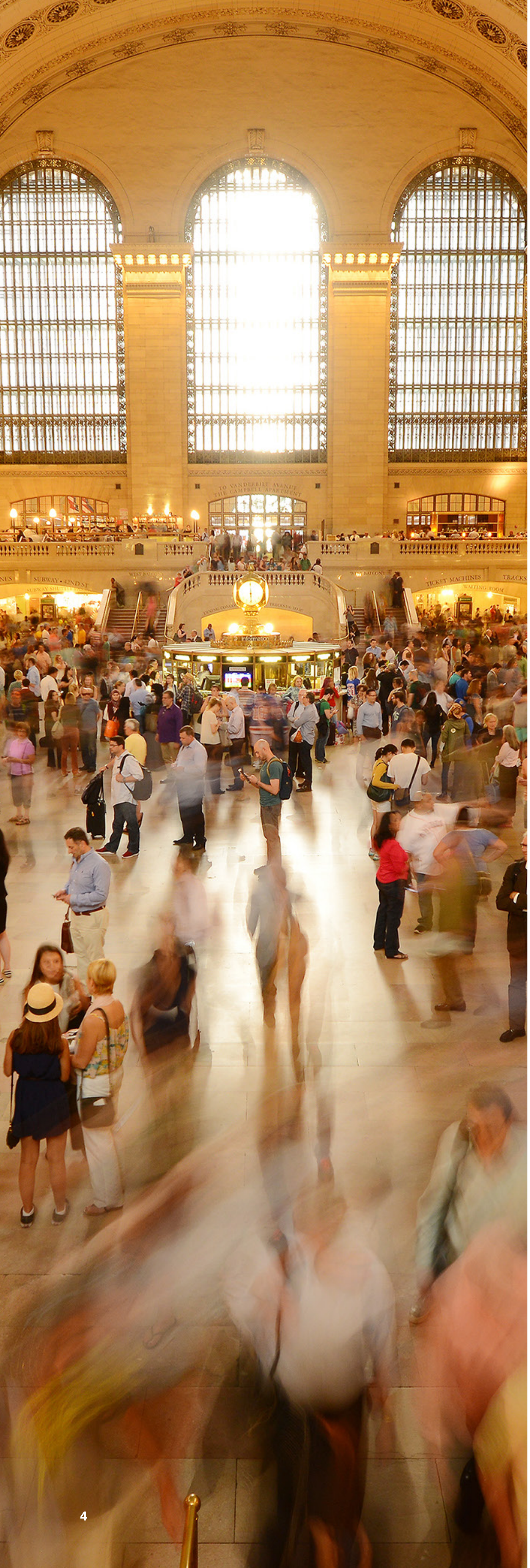
2008 RECESSION
Nearly 9/10 of NYC jobs lost were office-using.



2020 PANDEMIC
Less than 2/10 of NYC jobs lost were office-using.



Sources: US Department of Labor, Newmark Research



There has been a significant increase in mobility and ridership on New York City public transportation. While subway, LIRR, and Metro-North ridership is still down between 45% and 58% compared to pre-pandemic levels, there was a first-quarter uptick and significant jump from the pandemic-lows. The increase has been particularly evident in recent weeks, with ridership up 39.9% since the start of 2021. The MTA and local transit agencies confronted a severe budget crunch amid plummeting ridership as a result of the pandemic, but the recently passed American Rescue Plan allocated $6.5 billion for their recoveries, essentially wiping out their deficits. This also allowed the MTA to reinstitute its $51 billion long-term capital improvement plan to modernize the transit system. The mobility improvements have also extended to bridge and tunnel traffic throughout New York City, which is now 1% above pre-pandemic levels, after falling by 66.7% immediately after the pandemic struck. Apple's walking mobility data also indicates an improvement of 77.9% since the start of the year. The increase in mobility should continue through the summer months, with vaccinations becoming even more readily available.

The improvement in mobility has coincided with New York City's reopening. New York City's 488 public high schools reopened on March 22nd after the $1.9 trillion plan allocated $12 billion for schools to safely reopen. Sporting venues and museums have also opened at a limited capacity, further boosting hopes for a healthy recovery. Broadway theaters are formulating plans for a reopening later in 2021, with the mayor's office setting up a vaccination site specifically for workers in the theater industry. Over the past couple of months there has been an incremental loosening of pandemic restrictions. When it was announced in March that restaurants could reopen for indoor dining at 50 percent capacity, many of the city's most popular restaurants reopened their doors. High profile reopenings included Balthazar, Le Bernardin, Gramercy Tavern, Momofuku Noodle Bar, Bobby Vans, Fresco by Scotto, P.J. Clarke's and Zuma. High-traffic outposts, such as Urbanspace, Sweetgreen, and Todd English Food Hall have also reopened.

Tenant Reboarding

Major NYC Milestones for 2021

FEBRUARY 2021

– Madison Square Garden reopens for Knicks and Rangers; Barclays Center reopens for Nets

MARCH 2021

– Restaurant capacity raised to 50% from 35%

– High schools reopen

– Indoor fitness classes resume

APRIL 2021

– Restaurant curfews extended from 11PM to Midnight

MAY 2021

– 50.0% of NYC expected to be vaccinated

– Over 50,000 students returning to NYC Public Schools

– Dining curfew lifted and Bar Seating reinstated

– Capacity increased to 100% in restaurants and 75% in offices

JUNE 2021

– NYC Mayoral Primary

– NYC Pools and Beaches fully reopen

– NYC expected to fully reopen

JULY 2021

– 70.0% of NYC expected to be vaccinated

AUGUST 2021

– MetLife Stadium reopens with fans for Giants/Jets Season

SEPTEMBER 2021

– NYC Area school year begins

– Vaccinations for children expected to be fully available

– Potential full reopening of Broadway Theatres

According to data from Google, visits to retail stores remain 42% below pre-pandemic levels, a marked improvement from the end of the first quarter when visits were down 59%. This increase in mobility is likely a function of efficient vaccine rollout and improved weather entering the spring. The retail market has begun to see improved signs of life. Demand has improved with 125 new requirements for space since the beginning of the year, dozens more than were out in the market just a few months ago. The increased number of tenants in the market speaks to New York City's resiliency, which was also evident in the aftermath of two recent downturns. After the Global Financial Crisis, retail taking rents across Manhattan jumped 16% in a year. By the peak in 2014, they'd risen 62% from the trough in 2010. In the aftermath of 9/11, Downtown saw average asking rents double from 2005 to 2008.

Essential businesses, such as quick service restaurants, grocery stores, pharmacies, and health care tenants continued to actively look for space through the winter. However, current tenant requirements are more diverse, including education and daycare, home furnishings, apparel, fitness, salon/spa, sit-down restaurants, and entertainment concepts. New York State's decision to legalize marijuana, with sales starting as early as 2022, has numerous dispensaries entering the market in search of space. "Hyperlocal" fulfillment centers are also expected to be key drivers of absorption, and Newmark expects that between 75 and 100 deals will be completed for these facilities in New York City over the next 24 months.

Notable NYC Retail Transactions | *2021*

Tenant	Address	Deal Size	Industry
Gucci	725 Fifth Avenue	49,000 SF	Luxury Accessories
Delmonico Steak House	510 West 42nd Street	20,000 SF	Restaurant- White Tablecloth
CVS*	217 Broadway	19,350 SF	Pharmacy
CityMD*	1865 Broadway	17,422 SF	Medical
Chef's Local Harvest	421-427 East 14th Street	17,300 SF	Market- Grocery/Supermarket
Serhant*	372 West Broadway	15,000 SF	Office/Company/Brokerage
Urbanspace*	100 Pearl Street	12,500 SF	Food Hall
CVS	38 Warren Street	12,000 SF	Pharmacy
Vashi	110 Greene Street	11,777 SF	Jewelry/Watches
Summit CityMD*	18 West 18th Street	10,500 SF	Medical
Valentino*	135 Spring Street	9,166 SF	Luxury Accessories
Maximilian	32 East 57th Street	8,181 SF	Apparel
Matthew Kenney Restaurant	1245 Broadway	7,900 SF	Restaurant- Family/Sit-down
Sweetgreen	315 Hudson Street	7,665 SF	Restaurant- Quick Service
East West Bank*	208 Canal Street	7,500 SF	Bank

* Newmark Transaction

Source: Newmark Research

Retail, hospitality, and the arts, key drivers of New York's vibrancy, have suffered the most severe job cuts. In New York City, employment in Retail, Restaurants and Hospitality is still down 47.7% year over year, as compared to a 31.9% decline nationally, from the lows reached in April 2020. The American Rescue Plan includes $28.6 billion for New York restaurants, which should assist various local businesses in rehiring. As the pace of vaccinations increases, capacity restrictions have loosened, further easing the burden on restaurants. The hospitality industry has been devastated by COVID-19, with numerous hotels shuttering permanently and others struggling to attract guests due to limited tourism. While office conversion might be an option for a select few hotels that were built pre-war, including the Bryant Park Hotel and W Union Square, small bay sizes and concrete construction generally preclude office conversions. Although multi-family conversions are cost-prohibitive and unlikely for most hotels, student housing is a potential option. Older full-service hotels will likely be torn down or reopen in the future.

Mayor De Blasio ordered all New York City municipal employees to return to the office on May 3rd. Private companies planning a full return include Morgan Stanley, Goldman Sachs, The New York Times, and Newmark. Many other companies have made announcements about reboarding plans, including the FAANG tech giants, as well as Microsoft, Citi, and Bloomberg. Google, which owns and leases more than 7 million square feet across Midtown South, recently announced that it will invest $7 billion in offices throughout the country. This comes on the heels of Facebook's 730,000-square-foot lease of the entire Farley Building, Salesforce's expansion at 3 Bryant Park, and Amazon's continued industrial expansion during the pandemic. The e-commerce giant has signed 11 industrial deals across the five boroughs over the past year. This level of growth is consistent with the New York City Office of Management and Budget's projections of a 10.2% increase in durable consumption over the next fiscal year, as consumers continue to spend on goods.

Kastle data, measuring key fob swipes, indicates that as of May, 16.3% of New York City office workers are going into work each day, nearly double the percentage recorded in the fourth quarter. The rate of vaccinations should result in a notable increase in office occupancy in the coming months.

Building owners are also assisting the return to the office. New York State and eight New York City landlords (Brookfield Properties, L&L Holding Company, Related Companies, RXR Realty, Rudin Management Company, SL Green Realty Corp., Tishman Speyer, and Vornado Realty Trust) announced a partnership to offer testing for employees in those landlords' buildings. Increased leasing velocity is expected in the second half of the year as a result of vaccine effectiveness, improved business confidence, and an increase in office space requirements, which was evident in the first quarter. The return of office employees will not only benefit landlords, but also reinvigorate surrounding retail and hospitality.

There has been a notable emphasis on submarkets with major transportation hubs, specifically Grand Central and the Penn District. Leasing velocity in Grand Central since the start of the pandemic has been 2.8 million square feet, more than any other Manhattan submarket. It's also 19.8% more than the next closest submarket, Downtown East, which is home to a transit hub in Fulton Center. With proximity to Penn Station, combined velocity in the Penn District and Times Square South has eclipsed 3.9 million square feet. While Grand Central and the Penn District have performed relatively well, it's likely that Times Square, Park Avenue and the Eastside submarkets could also see improvements in the near-term, with their proximity to public transit. Real estate around transportation will likely lease more quickly in the short-term, as multiple subway rides to reach an office could be a hindrance to some commuters.

There has been a flight to quality over the course of the past year. New construction in Midtown, headlined by 1 Vanderbilt Avenue and 425 Park Avenue, has logged eight deals over the first four months of the year. Other high-profile tenants are also negotiating for space in those buildings. Higher-end subleases at 300 Madison Avenue, 114 Fifth Avenue, 200 Fifth Avenue, and 3 World Trade Center have also garnered a wealth of attention from companies.

While first-quarter velocity was consistent with fourth-quarter activity at 4.8 million square feet, both well below long-term averages, several companies made significant long-term commitments to New York City. There were over 75 deals above 10,000 square feet signed in the first quarter. Every 50,000-square-foot lease signed was a long-term deal of at least five years.

Notable NYC Office Transactions | *2021*

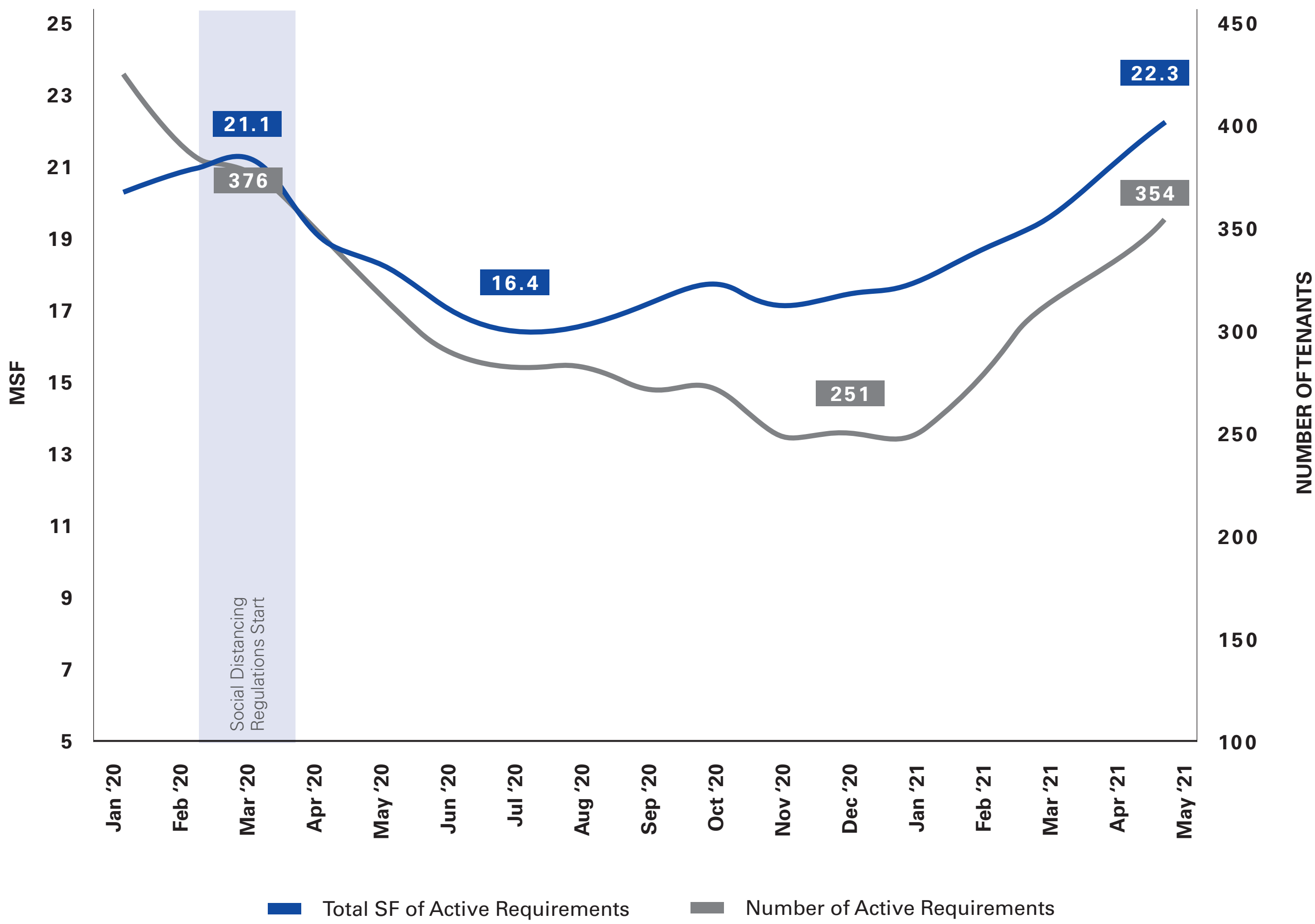
Tenant	Address	Deal Size
Blackstone Group	345 Park Avenue	720,000 SF
City of New York	60 Broad Street	313,023 SF
Mount Sinai Icahn School of Medicine	787 Eleventh Avenue	167,348 SF
Houlihan Lokey	245 Park Avenue	148,233 SF
Seyfarth Shaw	620 Eighth Avenue	132,094 SF
Schrodinger	1540 Broadway	126,222 SF
AXA	1345 Avenue of the Americas	122,898 SF
Jennison Associates LLC	55 East 52nd Street	120,809 SF
Suntory Group/Jim Beam Brands*	11 Madison Avenue	99,566 SF
Freshly	63 Madison Avenue	91,040 SF
YAI	825 Seventh Avenue	75,246 SF
Burlington Merchandising Corporation*	1400 Broadway	68,307 SF
FuboTV*	1290 Avenue of the Americas	55,042 SF

* Newmark Transaction

Source: Newmark Research

Total Square Footage of Active Requirements

Millions of Square Feet (MSF)



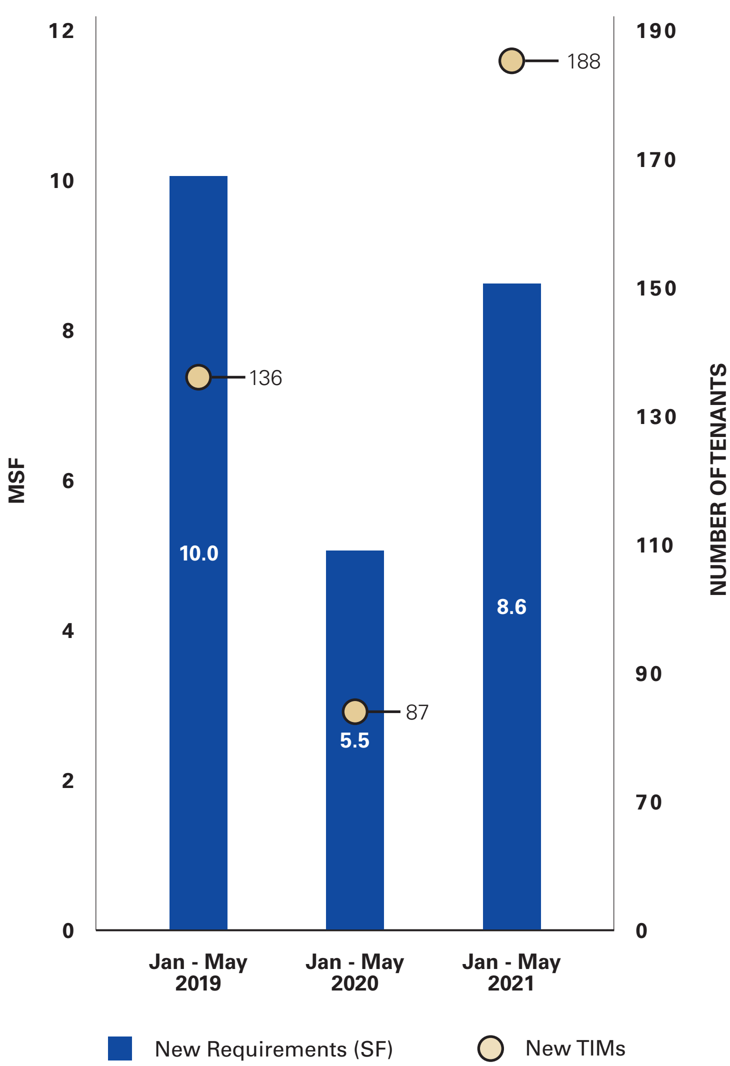
Source: Newmark Research

There was also a dramatic uptick in tenant requirements in the first quarter, a leading indicator of further leasing activity later this year. At least 188 new tenants totaling 8.6 million square feet have initiated new space searches in New York City since the beginning of the year, which is more requirements than were recorded through May 2019 and May 2020. Although there was an increase in the number of tenants, there was a decline in the total space sought compared to 2019. This pent-up demand is expected to accelerate post-Labor Day as students return to school in September, alleviating childcare as one of the main factors preventing many employees from returning to the office. Demand will also be driven by upcoming lease expirations from tenants that signed short term leases in 2020, including more than 85 leases with a term of two years of less, totaling over 3 million square feet.

75.8%

of new tenants in the market in 2021 were from the FIRE or TAMI industries.

New Tenant Requirements
Millions of Square Feet (MSF)



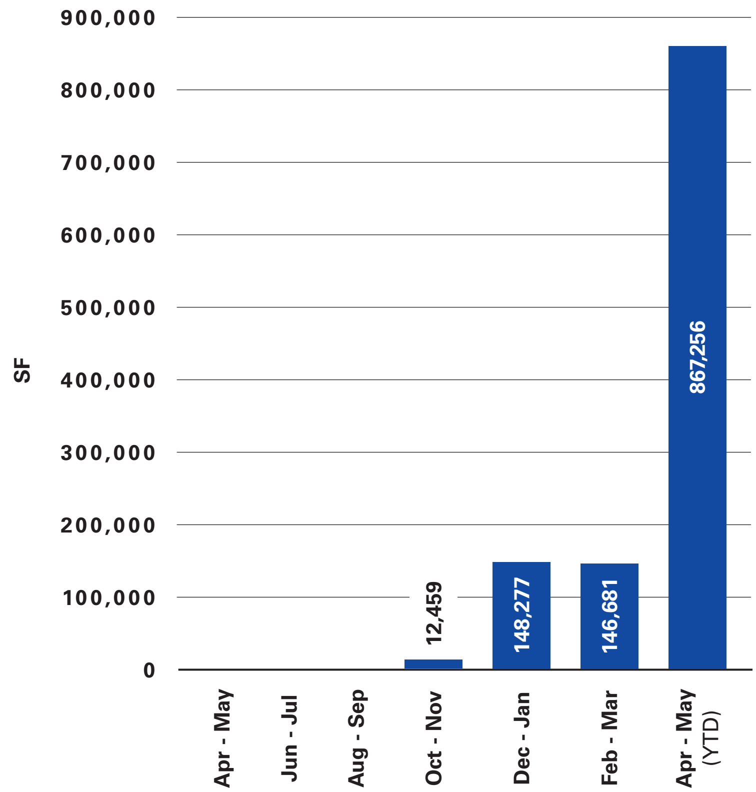
Source: Newmark Research

While activity stagnated over the past year, availability soared, with Manhattan availability rates reaching record-highs. One of the key drivers of this surge was a flood of sublease space to the market. While sublease space doubled over the past year, the pace of sublease additions to the market slowed in the first quarter of 2021, most notably in Midtown South. After increasing by 880,024 square feet in the fourth quarter, just 299,227 square feet was added in the first quarter.

Despite the decline in Midtown South, 22.1 million square feet remains available for sublease across Manhattan. Some percentage of this space is opportunistic and will be removed from the market. More than 1.1 million square feet has already been withdrawn from the sublease market, more than 85% of which has been removed in the past three months. In four of the past six weeks, current and anticipated sublease space has declined, falling by a total of 341,486 square feet.

Sublease Space Withdrawn From The Market

April 2020 - Present



Source: Newmark Research

Notable Sublease Withdrawals

Tenant	Address	Deal Size
Weight Watchers	675 Avenue of the Americas	128,687 SF
McGraw Hill	1325 Avenue of the Americas	125,254 SF
Grey Advertising/WPP	200 Fifth Avenue	94,817 SF
Moda Operandi	195 Broadway	83,685 SF
WW Norton	500 Fifth Avenue	56,782 SF
MDC Partners	160-170 Varick Street	55,000 SF
Zillow	1250 Broadway	48,000 SF
McLaughlin & Stern	260 Madison Avenue	46,226 SF
New Avon	1 Liberty Plaza	45,558 SF
1stDibs.com	51 Astor Place	42,232 SF
AKQA	114 Fifth Avenue	38,804 SF
Mizuho Securities	1440 Broadway	38,004 SF
Salesforce	1095 Avenue of the Americas	33,856 SF
Buzzfeed	225 Park Avenue South	27,766 SF
Quartz	675 Avenue of the Americas	25,644 SF
W20 Group	199 Water Street	23,398 SF
Flatiron Health	233 Spring Street	20,309 SF

In Summary

The office and retail markets are beginning to thaw, with mobility rising and companies initiating the reboarding process. Currently, the market is exceedingly tenant friendly, with the large quantity of sublease space, more than 100 large blocks of at least 100,000 square feet, and increased concessions from landlords, allowing firms to make advantageous long-term deals.

However, this window of opportunity for tenants might be limited, with many workers expected to return to the office soon and activity expected to pick up. The combination of reduced capacity restrictions and the return of life to New York City will culminate in a strong second half of the year.

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