INVESTMENT FORECAST

OFFICE

New York City Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2020

Big Tech Claim Prime Real Estate in Hudson Yards, Open Opportunities for Investors Across the Market

Hudson Yards claims prominent tenants as construction shifts east. Several major technology firms committed to occupying new office space in the metro within the next couple of years. Facebook led the charge with 1.5 million square feet across three buildings around Hudson Yards, while Google leased 1.3 million square feet just south in Hudson Square. Amazon will occupy 335,000 square feet in the general vicinity, a smaller footprint compared to the once-proposed Long Island City HQ2. These substantive leases are markers of success for the Hudson Yards development, which has added more than 4 million square feet of office space to Manhattan so far, most of it already claimed. Multiple new towers are also on the way for after 2020. The largest delivery this year is farther east, though, at 1 Vanderbilt Ave. The luxury skyscraper connects directly to Grand Central Station, with estimated rents above $130 per square foot. Altogether, about 8 million square feet of office space will open in New York, the second most active office development year this cycle. The elevated supply growth is moderately weighing on operations as the city's vacancy rate extends above 11 percent.

Employer diversification encouraging sales activity. Transaction velocity continues to moderate from 2015's peak level, but strong interest from local, regional, and foreign investors portends an active 2020. The most trades last year still occurred in Manhattan, focused around Grand Central and near Hudson Yards. Smaller companies that are moving in to support the larger tech firms bode well for Class B/C-plus space nearby. There is also ongoing sales activity in the other boroughs, particularly in Brooklyn where cap rates are comparatively higher. Across the market, the average first-year return has compressed into the mid-4 percent range, its lowest level since before 2000. Buyers seeking yields above 6 percent have found opportunities in Westchester County, especially along Interstate 287.

2020 Market Forecast

Employment up 1.4% — Expanding payrolls in the education, healthcare and professional services sectors underscore job growth of 65,000 positions this year, about 14,000 of which will be based in offices.

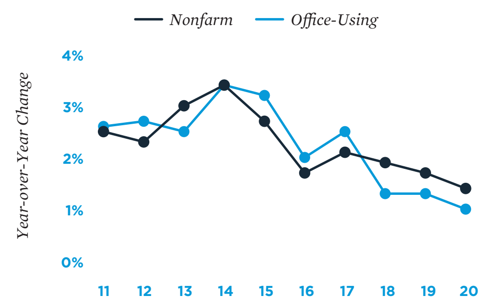
Construction 8.3 million sq. ft. — Development tapers from 2019's cycle high 11.3 million square feet, with construction largely occurring in Manhattan.

Vacancy up 30 bps — Two years of elevated construction will tick vacancy up to 11.6 percent this year following a 70-basis-point rise in 2019.

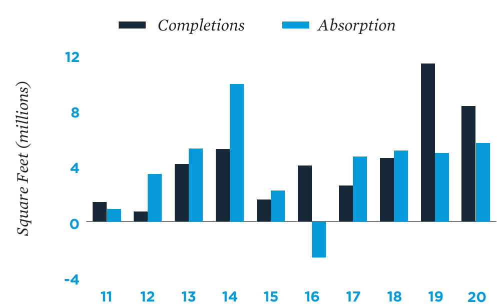
Rent up 2.0% — The average asking rent will advance to $63.25 per square foot, underscored by strong appreciation in parts of Manhattan, Brooklyn and Queens.

Investment — As a new decade begins, the focal point of Manhattan sales activity may shift from Hudson Yards to Grand Central, hinted by trophy construction and planned infrastructure improvements.

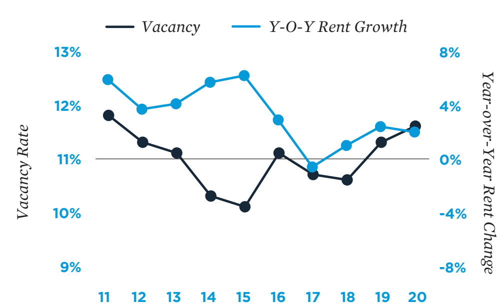
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



** Forecast*
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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.