NOMADGROUP

Penn Plaza/Garment Market Report

Summary

The Penn Plaza/Garment District Submarket represents the second largest office market in New York and has seen dramatic change occur over the last two cycles. Recent rezoning efforts cultivated a live/work/play environment led by developments in Hudson Yards. Consequently, office-oriented users have become key targets for owners who are pivoting away from Garment tenants. Tenant demand is expected to re-ignite post-pandemic when projects such as the Penn Transit Hub and Moynihan Train Hall approach completion—but older assets are becoming especially susceptible to rent-drops.

Unfortunately, the pandemic has put much of this change on pause. Work from home policies have largely sustained through 20Q3, and few tenants made significant changes to their real estate footprints. A majority of tenants remain in a ‘wait and see’ mindset as questions about safety remain.

New Developments Insulate Market

While the effects of the pandemic are surely felt by the Penn Plaza/Garments market and vacancies sit above the metro average, there remains a level of insulation thanks to large occupiers maintaining big blocks of space in Hudson Yards and Times Square South. The migration of high-end corporate tenants to new developments will continue this trend.

Notable Conditions

1. **Large Occupiers Help Insulate Vacancy Levels**
2. **Older Assets Are Particularly Susceptible to Dropping Rents**
3. **WeWork Is Losing Large Blocks of Space**

Daily Asking Rent by Square Foot

Source: Nomad Group/Costar

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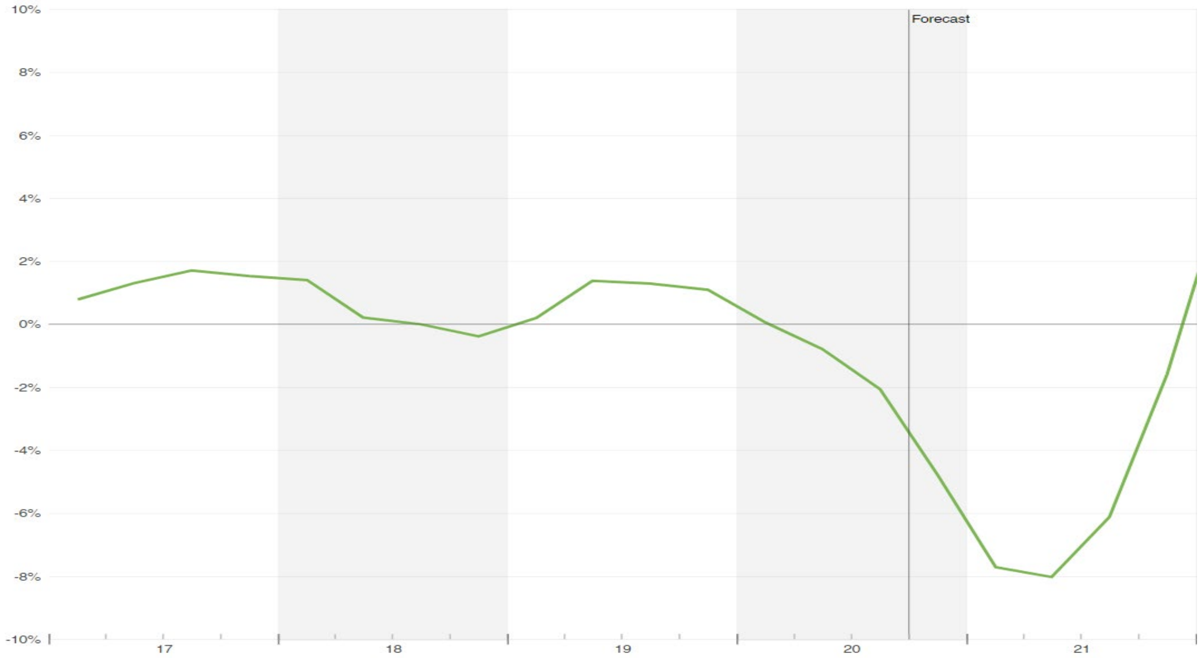
The WeWork Dilemma

During WeWork's aggressive real estate expansion in 2018 and 2019, the Penn Plaza/Garment was a key target, and the coworking company secured considerable blocks of space throughout. WeWork has already begun giving leases back to landlords, and if this pattern continues there will be a sharp increase in vacancies in the area. Additionally, large blocks of space have been placed on the market for sublease by corporate occupiers. First Republic Bank listed 151,000 SF at 410 Tenth Avenue, while Zillow put 103,000 SF up for sublet at 1250 Broadway. Luckily, these availabilities have been largely offset by corporate tenants committing to large leases in the market's developments around Hudson Yards. Many of these leases were signed well before the pandemic—with Pfizer and Debevoise and Plimpton committing to over half a million square feet of office space a piece in 2018 and 2019, respectively.

Pandemic Deflates Rent Outside of Hudson Yards

Newly built skyscrapers in Hudson Yards demand per square foot rent numbers well into the $100's PSF. These numbers inflate many of the average rent estimations in the surrounding buildings. Buildings outside of Hudson Yards have seen rents drop in two consecutive quarters. Asking rents have dropped to close to $50 PSF—nearly two dollars less than the same time in 2019. Transit developments will help rents bounce back when there is more clarity on the health crisis.

Market Rent Growth (YOY)



There is a clear drop-off in rent growth in early 2020 that is expected bottom in the second quarter of 2021, as companies return to the workplace and there is more certainty in long-term real estate strategies. Many tenants are hoping to front-run this theory by securing space at a discount in early 2021.

Source: Nomad Group/Costar