NomadGroup

Plaza District Market Report | 20Q3

Summary

The Plaza District is the largest office submarket in America's real estate industry, but the pandemic has exacerbated sluggish growth in recent years. The Plaza District's vacancy rate increased to just above 11% at the end of the third quarter of 2020—well above the metro average. The submarket has experienced negative absorption in three out of the last four years.

Despite these conditions, leasing activity saw a slight bump in 20Q3 with notable transactions by Raymond James (144,000 SF) and Perella Weinberg (112,000 SF). Unfortunately, these transactions only partially offset a sharp availability increase as Latham Watkins vacated 484,000 SF at 885 Third Avenue for space at 1271 AofA.

New Developments Damage Attractiveness

The Plaza District's overall vacancy rate has remained above the metro average since 2016, and this is expected to continue as premium office tenants such as BlackRock flock to high-end developments in Hudson Yards. Due to the Plaza District's poor positioning before the pandemic, analysts expect that vacancy rates will require upwards of five years to return to pre-pandemic levels. Buildings in the area will also require strategic capital improvements to compete with new developments.

Notable Conditions

1. **Battling Relocations**
2. **Large Transactions Boost Leasing Activity**
3. **Long Term Approach to Recovery**

Daily Asking Rent by Square Foot

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High Rents and Dated Assets

The Plaza District remains the most expensive submarket, but rents have not experienced the growth of competing areas in recent years. Rents have yet to meet their peak 2008 average of $93 PSF, whereas Midtown South has seen rents more than double in the past ten years. Rents are expected to drop by 10% within the next year. Many landlords will maintain similar face rents, but will create more flexibility in free rent packages, consequently dropping net effective rent numbers.

Although rents remain the highest in New York City, many of the area's assets have not seen renovations since the late 20th century—contributing to tenants' flight to quality developments. The submarket's prime location means that redeveloped assets will continue to command the highest rents in Manhattan and landlords are expected to pour money into capital improvements post-recovery.

All Quiet on the Construction Front

Only two projects are actively under construction and plans for future office projects are on hold until there is a clearer recovery timeline. L&L Holdings' redevelopment of 425 Park Avenue is set to deliver in Q1 of 2021 and has already signed Citadel to a record shattering $300 PSF lease for the top 19 floors.

Notable Lease Transactions

Raymond James	320 Park Ave	144,000 SF	$100 PSF	Financial Services
Perella Weinberg	767 Fifth Avenue	112,000 SF	$100 PSF	Finance and Insurance
Madison International	300 Park Avenue	25,000 SF	$85 PSF	Real Estate
Lehrer Cumming	900 Third Avenue	17,000 SF	$60 PSF	Construction