New York Market Report / First Quarter 2021

Office Leasing

Quick Stats

4.2 MSF
1Q21 Manhattan office leasing volume, down 43% year-over-year

21.6 MSF
Record high sublet vacant office space at 1Q21, which is 29% of total vacant office space in Manhattan

24/$150
Exceptionally high concessions seen in 1Q21 for new 15-year deals (by high creditworthy tenants); 24 months free rent/$150 PSF in tenant improvement (TI) allowances

15.9%
1Q21 Manhattan overall vacancy rate, now at a new record high

*At Avison Young, we track office properties that are 20,000 square feet and greater

First Quarter Leasing Volume Suppressed; Vacancy Rates Remain on the Rise – Tenants Still Benefit

Over a year after the start of the COVID-19 global pandemic, New York City's total unemployment rate sits at a preliminary 13.2 percent as of the last read for February 2021. This figure is up from 4.1 percent for March 2020, but below the peak of 20.3 percent reached in June of 2020 when 689,000 jobs were lost. In response to the city's slow recovery, office occupiers are changing their business plans and space requirements, resulting in a steady supply of new inventory, particularly an influx of sublease space.

For the first quarter of 2021, Manhattan office leasing volume of 4.2 million square feet is down 43.0 percent year-over-year (and 47.0 percent below the five-year average). Overall leasing velocity was dragged down greatly by weak activity Downtown, which set a new record low since 2009 for volume at only 370,000 square feet (ending down 77 percent year-over-year and 78 percent below the five-year average). Six large-block transactions in excess of 100,000 square feet in Midtown from finance and healthcare tenants helped bring leasing volume to 3.1 million square feet (but still down 35.0 percent year-over-year and ending 37.0 percent below the five-year average). For Midtown South, the execution of significant new deals by food and beverage production/delivery tenants in Gramercy Park helped bring leasing volume to just over 674,000 square feet in that market (but still down 28.0 percent year-over-year and ending 38.0 percent below the five-year average).

Vacancy and Pricing Remains Impacted by Competitive Sublease Product

At the end of the first quarter, the new record high Manhattan overall office vacancy rate came in at 15.9 percent, up 500 basis points from 10.9 percent a year ago (and up 170 basis points from 14.2 percent from the prior quarter). High vacancy rates were reached in all three major market segments in Midtown (15.5 percent), Midtown South (17.0 percent) and Downtown (15.9 percent). We attribute the overall increase not only to 52 million square feet of direct space on the market (the largest block being in excess of 880,000 square feet at 3 Times Square), but also to the availability of additional sublet space put on the market during the first quarter. Since March 1, 2020 there has been just over 10.2 million square feet of this space officially added, of which 2.5 million square feet was added in the first quarter of 2021. Adding this 2.5 million square feet to the market of 19.1 million square feet of total sublet vacant space available at the end of the fourth quarter 2020, brings us to 21.6 million square feet of record high vacant sublet space available by the end of the first quarter (See our Markets by the Numbers chart). This 21.6 million square feet of sublet vacant space now represents 29.4 percent of total vacant space available. At this percentage level, we have seen the impact on direct average asking rents and downward pressure on overall pricing.

Manhattan overall average asking rents ended the first quarter at $74.67 per square foot, down 10.1 percent year-over-year from $83.07. When we compare the current average asking rents to where they were at the end of 1Q20 (just after the start of COVID), the declines range from 2.0 to 11.0 percent (compared to the range of 2.0 – 9.0 percent last quarter). Due to additional competitive lower-priced sublet space on the market, with possibly more to come, we can expect to see further decreases in average asking rents as well as continued increases in vacancy rates.

Landlords Remain Aggressive With Concessions; Who is Benefiting?

At the onset of COVID-19 over a year ago and throughout 2020, many landlords were holding rents steady and then ultimately "sweetening the deal" by way of increased concession packages. These incentives were mostly in the form of additional free rent (in the range of 5-12 months) with less movement on tenant improvement (TI) allowances (which averaged $110-$120 PSF for a 10-year deal). By the first quarter of 2021, for several 15-year deals that have recently closed, we have seen free rent as high as 24 months (for a new 120,000-square-foot private equity tenant at 55 East 52nd Street) and TI as high as $150 per square foot (for a new 27,000-square-foot investment management tenant at 425 Park Avenue). This is evidence that in some cases concessions are still rising and term lengths are getting longer, especially for larger, high creditworthy tenants of Class A or Trophy product. Currently, the net effective rents (NERs) are lower by an average of 20.0 percent since the onset of COVID-19. For

Notable First Quarter Leasing by Market 1Q21

Midtown

Tenant	Industry	New Address	Lease Type	Submarket	SF
The Blackstone Group, Inc.	Financial Services	345 Park Avenue	Renewal/Expansion	Plaza District	720,000
Mt. Sinai's Icahn School of Medicine	Health Services	787 Eleventh Avenue	New Lease	Times Square/ West Side	167,348
Houlihan Lokey	Financial Services	245 Park Avenue	New Lease	Grand Central	148,232

Midtown South

Tenant	Industry	New Address	Lease Type	Submarket	SF
Beam Suntory	Food & Beverage Production	11 Madison Avenue	New Lease	Gramercy Park	99,556
Freshly	Food & Beverage Production/Delivery	63 Madison Avenue	New Lease	Gramercy Park	92,306
Diller Scofidio & Renfro	Real Estate Services	601 West 26th Street	New Lease	Chelsea	21,716

Downtown Overall

Tenant	Industry	New Address	Lease Type	Submarket	SF
Public Health Solutions	Non-Profit	40 Worth Street	Renewal	Tribeca	26,998
IPC Systems Inc.	TAMI	1 State Street Plaza	Renewal	Financial District	26,652
Sheeley LLP	Law Firm	100 Wall Street	New Lease	Financial District	19,645

Data as of 4/2/2021

the right tenant, we expect landlords of high-quality space to remain the most aggressive on concession packages while holding relatively firm on base rents.

Aside from the larger occupiers, there are many smaller tenants that are in the market also obtaining deals suitable for their bottom line. In terms of space preference, buildings with high quality pre-built offerings (be it sublet or direct) under 15,000 square feet remain highly sought after. For the first quarter of 2021, 91.0 percent of closed transactions were for space requirements under the 15,000 square foot threshold. This is up from 79.0 percent for the same period last year. Although an active part of the market, some of this smaller deal activity came with shorter terms, with lease expirations of five years or less. More times than not, landlords were still generous with concessions and other incentives in an effort to boost occupancy during this COVID-19 environment.

Getting NYC Back to Work

The office will continue to play a vital role in all aspects of business and the workplace experience must be able to support interaction and collaboration for both the in-office and remote worker. That said, great emphasis will be placed on creating an "X Factor" workplace, one that attracts employees into the office, creating a safe and engaging experience for all

Pre-COVID vs After the Start of COVID-19 Asking Rent Comparison as of 1Q2021

Manhattan Overall	1Q20	1Q21	% Change After Start of COVID (1Q20)
Overall Asking Rent	$83.07	$74.67	-10%
Class A Asking Rent	$88.54	$78.82	-11%
Class B Asking Rent	$62.36	$60.44	-3%

Midtown	1Q20	1Q21	% Change After Start of COVID (1Q20)
Overall Asking Rent	$90.29	$80.74	-11%
Class A Asking Rent	$94.17	$84.61	-10%
Class B Asking Rent	$59.56	$58.35	-2%

Midtown South	1Q20	1Q21	% Change After Start of COVID (1Q20)
Overall Asking Rent	$81.07	$73.46	-9%
Class A Asking Rent	$99.72	$91.10	-9%
Class B Asking Rent	$68.75	$65.05	-5%

Downtown	1Q20	1Q21	% Change After Start of COVID (1Q20)
Overall Asking Rent	$64.17	$58.26	-9%
Class A Asking Rent	$66.17	$59.68	-10%
Class B Asking Rent	$51.61	$49.43	-4%

Market Data Points

Manhattan Overall

Indicator	1Q21	1Q20
Vacancy	15.9%	10.9%
Rent	$74.67	$83.07
Absorption	(7,692,417) SF	(4,237,396) SF

Midtown Overall

Indicator	1Q21	1Q20
Vacancy	15.5%	11.0%
Rent	$80.74	$90.29
Absorption	(3,755,387) SF	(1,968,081) SF

Midtown South Overall

Indicator	1Q21	1Q20
Vacancy	17.0%	10.3%
Rent	$73.46	$81.07
Absorption	(1,684,208) SF	(1,359,967) SF

Downtown Overall

Indicator	1Q21	1Q20
Vacancy	15.9%	11.1%
Rent	$58.26	$64.17
Absorption	(2,252,822) SF	(909,348) SF

Data as of 4/1/2021

employees. Whether office tenants make the decision to expand or contract their space requirements for the near-term, many will take a more long-term view and work with landlords and brokers to create the optimal solution at the building level (in some instances seeking the use of technology or upgraded amenities) to support all facets of their business.

As of the end of March, 14.0 percent of employees in the New York metro area had returned to a physical office, according to Kastle Systems. In a move to boost occupancy and help employees feel comfortable returning to work, many of New York City's landlords have begun to offer COVID-19 testing. Such landlords include RXR, Related Companies, Vornado Realty Trust and Boston Properties, Inc. In addition, Mayor de Blasio has set a date of May 3, for all 80,000 NYC municipal workers to return back to the office. Ultimately, through both testing and an increase in the number of those vaccinated against the COVID-19 virus, we expect to see a change in both company and employee psychology and a further ramp up of office space utilization.

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Largest Blocks of Contiguous Space Currently Available

Address	Square Feet	Submarket
3 Times Square	881,167	Times Square/West Side
550 Madison Avenue	797,505	Plaza District
175 Water Street	647,964	Financial District
919 Third Avenue	615,444	Plaza District
750 Third Avenue	531,952	Grand Central

Trends to Watch

By the end of March, over 15.0 percent of people in New York City have been fully vaccinated and 14.0 percent of employees have returned to the office. With vaccine eligibility opening up, we will soon learn whether or not the return to office percentage grows to 50.0+ percent by the end of the summer.

Many closed transactions in 1Q21 represented those initially put on hold or carryover from negotiations that began pre-COVID. Will renewed re-engagement continue and foster a sustainable uptick in leasing activity?

Expect properties with upgraded amenities, as well as a location within close proximity to a major transit hub (e.g. Grand Central) to also be highly preferred.

Watch for tenants with short-term lease signings of 1-3 years to become active in the market sooner than they normally would, especially the faster we move towards suppressing the coronavirus.

Summary of Sublease Space After the Start of Covid-19

Manhattan Overall

Market	SF
Total Midtown	4,409,626
Total Midtown South	2,802,754
Total Downtown	3,065,359
Manhattan Total	**10,277,739**

Midtown

Market	SF
Plaza District	743,985
Grand Central	1,051,144
Sixth Avenue/ Rockefeller Center	742,680
Penn Plaza/Garment	806,612
Times Square South	406,464
Hudson Yards	383,318
Times Square/West Side	275,423
Total Midtown	**4,409,626**

Midtown South

Market	SF
Gramercy Park	587,337
Chelsea	1,715,399
SoHo/NoHo	153,789
Hudson Square	346,229
Total Midtown South	**2,802,754**

Downtown Overall

Market	SF
City Hall	180,322
World Trade Center	914,018
Financial District	1,971,019
Total Downtown	**3,065,359**

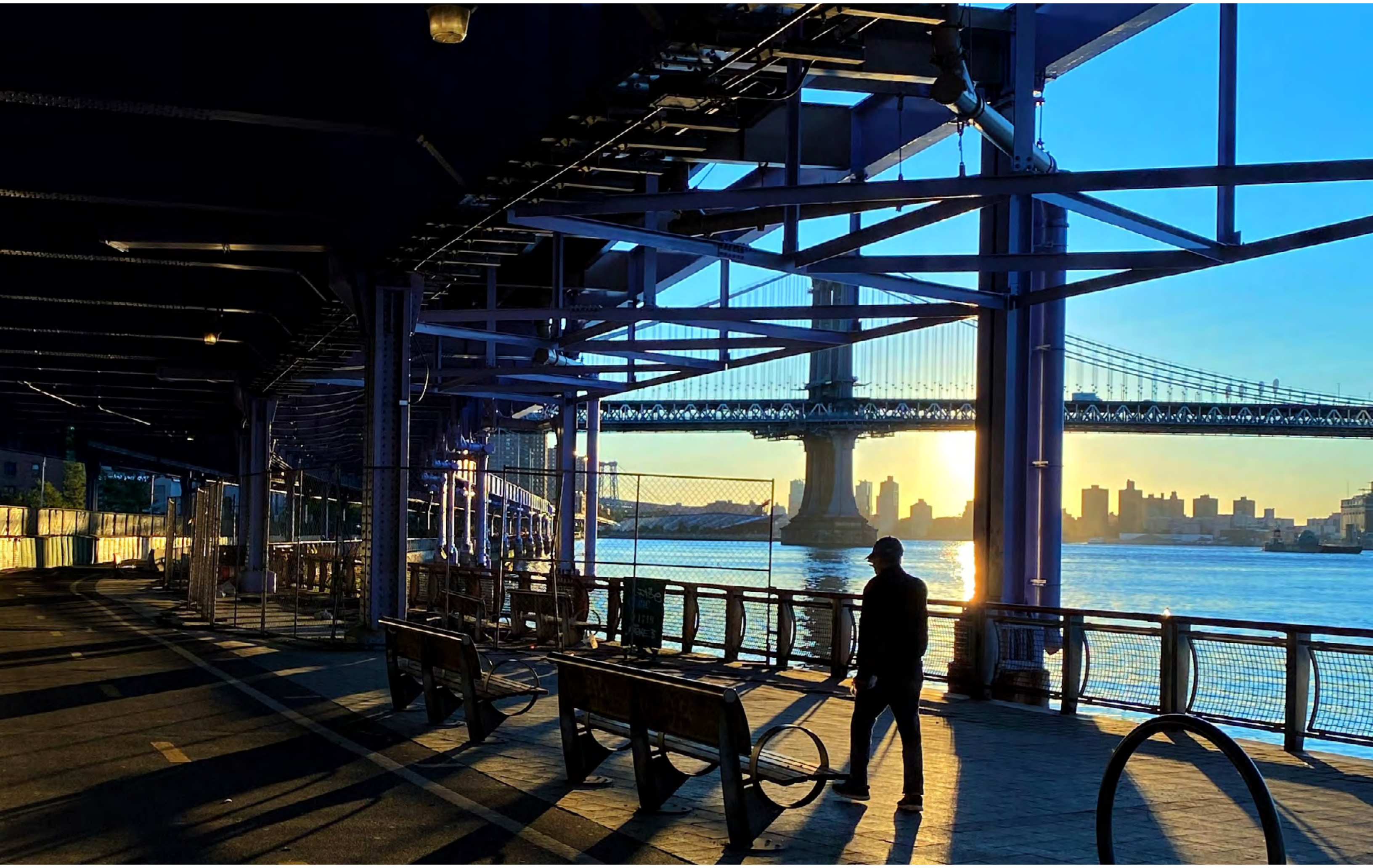
Market by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	1st Quarter 2021 Overall Vacancy Rate	1st Quarter 2021 Net Absorption (SF)	Current Under Construction* (SF)	Overall Average Asking Rent Class A	Overall Average Asking Rent Class B
Midtown								
Grand Central	69,942,819	9,177,504	2,579,975	16.8%	(996,623)	0	$73.57	$58.17
Penn Plaza/ Garment	21,509,803	1,791,969	1,707,821	16.3%	(551,199)	0	$74.22	$58.01
Hudson Yards/ Manhattan West	11,613,307	373,489	403,369	6.7%	(125,328)	9,719,950	$118.81	$34.25
Plaza District	71,535,230	9,992,981	2,381,512	17.3%	(1,469,170)	1,871,767	$97.59	$62.86
Sixth Avenue/ Rockefeller Center	50,364,114	4,721,191	1,497,187	12.3%	(440,972)	0	$81.87	$65.49
Times Square South	24,436,019	3,178,718	1,560,429	19.4%	(269,122)	0	$67.76	$57.14
Times Square/ West Side	37,017,023	3,435,948	1,733,387	14.0%	97,027	0	$76.64	$60.58
Total	286,418,315	32,671,800	11,863,680	15.5%	(3,755,387)	11,591,717	$84.61	$58.35
Midtown South								
Chelsea	23,843,786	3,159,265	1,360,052	19.0%	(895,561)	1,171,167	$102.84	$65.73
Hudson Square	14,600,547	1,115,398	995,228	14.5%	(230,698)	2,500,000	$83.10	$65.13
Gramercy Park	31,585,367	3,354,932	1,546,217	15.5%	(385,673)	0	$82.16	$61.90
NoHo/SoHo	9,672,667	1,616,919	368,609	20.5%	(172,276)	0	$106.77	$71.67
Total	79,702,367	9,246,514	4,270,106	17.0%	(1,684,208)	3,671,167	$91.10	$65.05
Downtown								
TriBeCa	3,600,632	184,575	93,713	7.7%	(81,254)	0	$151.24**	$43.95
City Hall	9,327,251	705,310	181,930	9.5%	312,594	0	$59.50	$61.56
Financial District	63,568,400	7,104,731	3,708,987	17.0%	(2,249,654)	0	$53.68	$48.71
World Trade Center	22,064,287	2,095,995	1,554,859	16.5%	(234,508)	0	$69.89	$0.00
Total	98,560,570	10,090,611	5,539,489	15.9%	(2,252,822)	0	$59.68	$49.43
Manhattan Overall Total	**464,681,252**	**52,008,925**	**21,673,275**	**15.9%**	**(7,692,417)**	**15,262,884**	**$78.82**	**$60.44**

Data as of 4/1/2021
** Excludes 2.7 MSF coming online within the next 12 months*
*** Includes 15 Laight Street, which has an average asking rent of $160.00 PSF*

New York Market Report / First Quarter 2021

Investment Sales



Investment Sales Summary

In the first quarter of 2021, Manhattan investment sales recorded 34 transactions for just over $1.0 billion in total dollar volume. These figures represent a 7.0 percent increase in sales and a 25.0 percent decrease in dollar volume, from the average volume of 32 transactions and $1.35 billion in the second through fourth quarters of 2020 following the declaration of the COVID-19 pandemic. After a promising doubling of activity from the third to fourth quarters of 2020, the first quarter slowed, with transactions declining by 23.0 percent and total dollar volume falling by 54.0 percent from the fourth quarter of 2020. However, it should be noted that the fourth quarter has been the most active for the last nine out of 12 years.

In addition, a majority of the first quarter sales were negotiated in late 2020 before the vaccine rollout, which contributed to investor uncertainty. Recently, the United States surpassed an average of three million daily doses administered and New York City surpassed a 20.0 percent full vaccination rate, both of which will increase the pace of returning to a more normal investment environment. If annualized based on the first quarter alone, Manhattan investment sales will total $4.0 billion across 136 total transactions in 2021, a decrease of 53.0 percent and 15.0 percent, respectively, from 2020. The vaccine rollout and positive market sentiment should boost 2021's activity levels above those in 2020.

Multi-Family/Mixed-Use

The Manhattan multi-family and mixed-use market recorded 13 transactions for just over $667 million in total dollar volume, a 9.0 percent decrease and 155.0 percent increase off the 2Q20 through 4Q20 quarterly average, respectively. The average price per square foot decreased by 14.0 percent to $717, and the average cap rate rose by 43 basis points to 5.28 percent, in comparison to 2020 pricing. The large spike in dollar volume was due to two large transactions, 15 Park

Row and 265 Cherry Street, which accounted for 86.0 percent of total dollar volume. 265 Cherry Street was the leading transaction for the quarter, as The Related Companies purchased the 490-unit, Section 8 building for $435 million, equating to $661 per square foot.

Retail

The Manhattan retail market recorded eight transactions for just over $122 million in total dollar volume, a 140.0 percent increase and 15.0 percent increase off the 2Q20 through 4Q20 quarterly average, respectively. Out of the eight transactions, seven were either vacant or purchased by an end-user. The average price per square foot rose by 30.0 percent to $1,996 in comparison to 2020 pricing. The leading transaction for the quarter was Graff Jeweler's purchase of 712 Madison Avenue for $43 million, equating to $6,299 per square foot. In 2019, Graff Jewelers entered a 25-year leasehold with SL Green with an option to purchase the asset between 2021 and 2023 at a set price.

Office

The Manhattan office market recorded four transactions for $88.9 million in total dollar volume, which was flat and an 87.0 percent decrease off the 2Q20 through 4Q20 quarterly average, respectively. The price per square foot rose by 8.0 percent to $1,112, in comparison to the 2020 pricing. The leading transaction for the quarter was The Kaufman Organization's ground lease purchase of 135 West 29th Street for $34.6 million, in which the firm entered into a 99-year agreement with MFM Properties with plans to renovate the building.

Development

The Manhattan development market recorded five transactions for $86.8 million in total dollar volume, a 17.0 percent and 39.0 percent decrease off the 2Q20 through 4Q20 quarterly average, respectively. The price per buildable square foot declined by 8.0 percent to $362, in comparison to 2020 pricing. The leading transaction for the quarter was EJS's Group purchase of 1303-1309 Third Avenue for $32.35 million, equating to $396 per buildable square foot.

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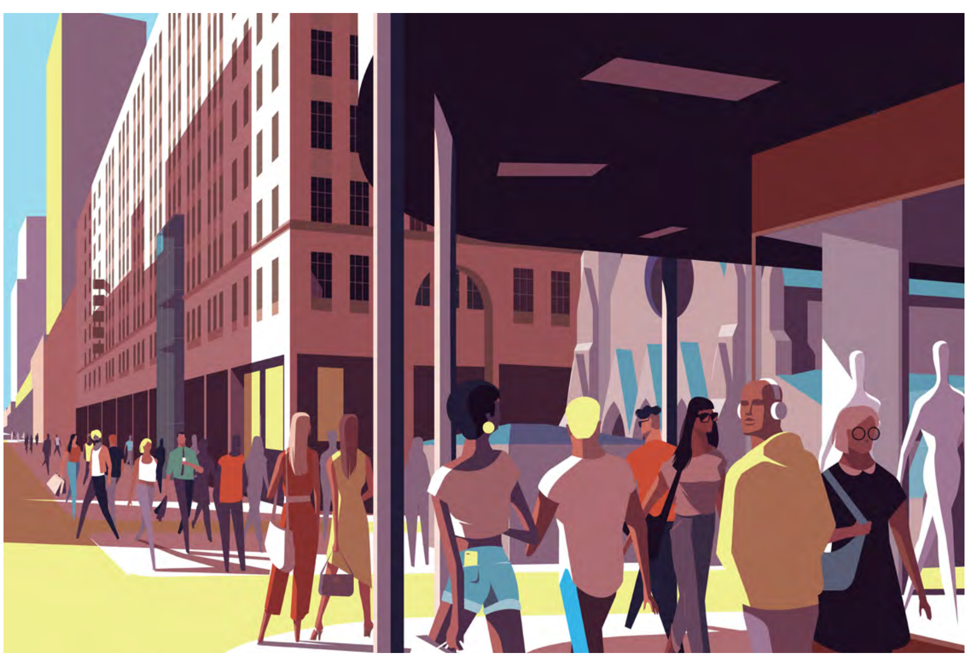
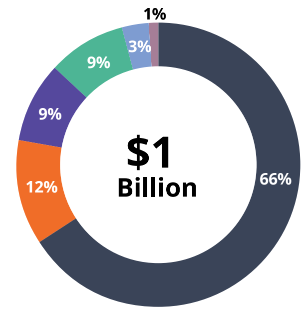
Avison Young's Tri-State Investment Sales group tracks confirmed transactions above $5 million ($1 for retail properties and office condominiums) sold in Manhattan below 96th Street.

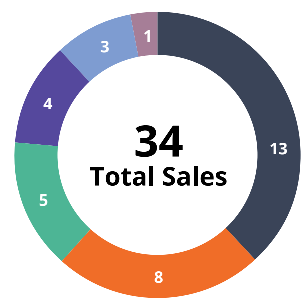


Total Dollar Volume by Asset Class



↓25% 2Q-4Q20 Quarterly Average

Number of Sales by Asset Class



↑7% 2Q-4Q20 Quarterly Average

Office | Conversion
Multi-family | Development
Office condos | Retail

Trends to Watch

When will we see a significant increase in companies Returning to the Office?

Will New York State pass "Good Cause Eviction"?

Will the wealthy continue to move to tax friendly states?

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New York Market Report / First Quarter 2021

Debt & Equity

Overview

During the first quarter of 2021, the capital markets were cautiously optimistic about the state of the market and the world as things started returning to an increased sense of normalcy. It would seem that lenders and investors are waiting for the second half of 2021, when most adults will have received the vaccine and occupancy capacity constraints have been rolled back. Many office tenants are contemplating general office re-opening after Labor Day and not much earlier, in light of uncertainty as to vaccine timing. Just recently, Microsoft announced their plans to start having people back in the office by April and Mayor Bill de Blasio announced that on May 3rd, 80,000 municipal employees will be returning to the office.

Shift From Asset Management Back to Lending

Coming into 2021, most lending sources were no longer focused solely on asset management as a result of the pandemic. After a tumultuous 2020 with very little capital deployed, these capital sources now have dry powder and a renewed urgency to make new loans on quality real estate, with strong tenancy and sponsorship. Most, if not all, capital sources are back lending, though not quite at pre-pandemic levels. Prior to the pandemic, lenders were able to get comfortable within a 65 to 70 percent plus LTV range. Now, towards the end of Q1 2021, leverage has decreased a bit and lenders are more comfortable providing loans at 60 to 65 percent LTV.

Increasing All-In Interest Rates

Despite the abundance of capital that lenders are trying to deploy in the market, US Treasury rates have started to rise because of the market's expected increase in inflation, thereby increasing the cost of borrowing and dampening equity returns for sponsors. At the end of 2020, the 10-Year US Treasury rate was 0.93 percent. As of March 31st, 2021, the 10-Year US Treasury rate ended at 1.74 percent, an 81 basis point increase in only three months. Not only are Treasury rates increasing, but loan spreads are staying roughly the same, leading to a significant increase in all-in rates. This could affect property values as investors will look to reduce acquisition costs/purchase prices to hit their return profiles. While the market seems to think that inflation is an issue, the Fed appears not to be concerned and is more focused on its goal of full employment.

Manhattan's Residential Market Breathes Life Back Into the City

In 2020, New York City was one of the most impacted areas in the country due to COVID-19, with both residential and commercial tenants moving out of the city, bringing occupancy rates down to all-time lows. At the start of 2021, this trend began to reverse and now residential leasing velocity is increasing at a rate not seen since the Great Recession, albeit with perks and concessions. In February 2021, Manhattan apartment leasing activity broke a new record with more than 6,500 leases signed in the month, up 5 percent from January 2021 and up 112 percent from February 2020. Despite aggressive residential leasing activity, average February rents are still 3.00 percent lower than in January and 13.50 percent lower than the year prior. On average, residents are getting 2.1 months of free rent, a decrease from 2.3 months in January 2021. Not only has rental velocity increased, but apartment sales have also soared by 73 percent in February versus the year prior. While this does not necessarily help the commercial real estate market, it is indicative of residents coming back to the city. While market vacancy for multi-family rental properties is now at 5.00 percent (versus 2.01 percent in February 2020), properties' Net Operating Incomes have taken a significant hit over the past 12 months, bringing down values and making these once bulletproof and easily financeable properties much harder to secure funding. As occupancy and leasing rates continue to trend in a positive direction, lenders will soon be itching to provide loans on Manhattan multi-family real estate, according to Douglas Elliman.

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Manhattan Multifamily Rentals

	Feb-21	% Change (mo)	% Change (Yrs)	Jan-21	Feb-20
Average Monthly Rent	$3,791	-3.0%	-13.5%	$3,909	$4,385
Average Monthly Rent PSF	$60.54	-2.9%	-15.3%	$62.33	$71.44
Median Monthly Rent	$2,995	-0.2%	-14.4%	$3,000	$3,500
Number of New Leases	6,561	4.9%	112.4%	6,255	3,089
Vacancy Rate	5.00%	-6.2%	148.8%	5.33%	2.01%
Free Rent (months)	2.10	-8.7%	40.0%	2.30	1.50

*Source: Douglas Elliman

Trends to Watch

All adults should be eligible for the vaccine by May. Expect lenders to be more aggressive in the second half of 2021.

Long-term US Treasury rates have been increasing, but the Fed indicated there will likely be no further increases through 2023. What will happen with inflation going forward? How will this affect Treasury rates?

Apartment rents continue to decline in multi-family buildings in New York City, but leasing velocity is increasing at a rate not seen since the Great Recession. How long will it take for New York City rents to bottom out and, once they do, how long will it take to reach pre-pandemic levels?

Valuation & Advisory

What is the Future of the Workplace?

"This is not ideal for us, and it's not a new normal" stated David Solomon, the CEO of Goldman Sachs. His statement came in response to a question asked regarding the current state of Goldman Sachs' employees with returning to the office. The coronavirus pandemic has caused, or rather expedited, a phenomenon that people often thought the rise of the Internet would cause. In March of 2020, as a result of the coronavirus pandemic, most offices across the United States and even the world, began to shutter their workspaces either due to government regulations and/or the wellbeing of their workers.

Employee Sentiment

Over the past year, numerous office workers across the country began to continue their day-to-day lives within the comfort of their homes. Many workers began to adjust to this new work from home environment as they now benefit from virtually no commute times. According to a Stanford University study, 42.0 percent of America's workforce has been working from home full-time during the pandemic. Even more so, according to a survey conducted by LiveCareer, an online resume and job search consulting service, 29.0 percent of working professionals say they would quit their jobs if they could not continue to work remotely after the pandemic. Furthermore, 61.0 percent of white-collar workers surveyed said that they want their company to give them the ability to work remotely indefinitely, even after the pandemic is over.

Employer Sentiment

Many of the workers referenced above appear to be out of luck. According to The Conference Board, 40.0 percent of employers that shifted to remote work at the start of the pandemic are now planning to have their workers return to the office this month. According to a separate survey conducted by the Pew Research Center, as the vaccine becomes more available, many employers are planning for their workers to return, even though more than half of employees said that given the option, they would want to continue to work from home even after the pandemic.

Although some employers, such as Goldman Sachs, aren't too keen on remote work, other companies, including many from the technology industry have begun to embrace it. In May of last year, Mark Zuckerberg stated that he anticipates half of Facebook employees will be able to work from home permanently by the end of the decade. Around the same time, the CEOs of Slack and Twitter announced that they will allow all of their workers to work from home permanently if desired. Yelp recently announced that they don't plan on renewing their existing office leases upon expiration. Carolyn Patterson, Yelp's Chief People Officer stated, "While we plan to maintain offices in our current locations, with fewer employees coming to the office each day, our real estate needs have changed. We plan to reduce our real estate footprint as leases come up for renewal and by subleasing some office space." Part of Yelp's reasoning is to allow employees to relocate to other areas in which they would desire to live and work and where they feel most effective. She also mentioned the opportunity for workers to move to areas where there is a cheaper cost of living.

Conclusion

As of today, there is still some uncertainty over the future of the office. On one hand, we see CEOs such as David Solomon stating that remote work is inefficient, while on the other hand, we've seen others embrace this opportunity to reduce their fixed rent expenses and offer their employees more flexibility. It will be interesting to see if the remote working phenomenon will stick for the long term or if everything will return to the way it was before the start of COVID-19. However, what seemed like a never-ending pandemic, appears to be nearing its end as more and more citizens and employees have attained the coronavirus vaccine. As a result, we will see over the next few months how employers and employees will decide if working remotely will be the new normal or at least more common.

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Trends to Watch

Goldman Sachs recently announced that they are currently looking for volunteers to work in the state of Florida in an effort to shift workers from high-cost cities such as New York to place like Florida in order to cut expenses. Keep an eye on whether this effort begins to materialize and competitors follow suit.

Considering the improvement in the vaccine rollout over the past few months, we project that the current future of the workplace will begin to be showcased over the next couple of months. Considering that most adults will be vaccinated by the beginning of the summer, it is important to see how firms will begin to bring back employees into their offices, or allow the current trend of remote work to stabilize.

Considering the expected return to normalcy, will employers begin to expand their office space to allow for more room per worker, or will they take the opposite approach and look to curtail their space and allow for more employees to work remote.

New York Market Report / First Quarter 2021

Design & Construction

Design & Construction in New York City

Long before the pandemic, designers, builders and occupiers explored ways to promote activity and collaboration in the workplace. From game rooms to extravagant food services, amenities were often implemented to provide a draw to office spaces that supplanted the age-old social pressures of required attendance. As the novelty of these features wore off over time, architects were forced to get to the core of what motivates employees to arrive and thrive in their work environment.

Re-Thinking the Foundations of Workplace

When the coronavirus escalation first shut down construction in New York, it also halted most projects in the design phase as occupiers questioned when, and if, they would resume normal work functions in an office setting. In the beginning, a wide array of ideas from plexi-glass between workstations to shifting to permanent, fully-remote operations were floated, but these were only short-term solutions to what would become the lasting pandemic that still plagues businesses today. The desire for new solutions allowed architects and engineers to begin the work of re-thinking how an office should look and function from the foundations of the user experience. The conversations reverted to what had been a common theme from years prior: Why do we need an office? How can we entice employees to be there? What environment promotes creativity and collaboration?

To answer these questions, champions of change went right to the source, the end users, via surveys, focus groups and experimental spaces. The intent was not to be the final resolution, but to spark a way of thinking that would evolve as employees navigated the constraints of the pandemic and beyond. They found somewhat surprising responses as each employee struggled with what would draw them to the office in these 'uncertain times.' Unlike other locations where car-culture naturally isolated an individual, the nature of big city commuting and overpopulated public transportation presented its own challenges to a collective work experience. Despite the initial over-reactions of a drastic reduction in footprint or dystopian solutions to isolate employees for safety, a common ground has emerged that realizes that not much needs to be done and that 'overcorrection' could hurt the culture that most companies depend on to thrive. What became clear is that humans yearn for comfort and interaction, and simply forcing people to feel like they have to be in the office would not be a sustainable solution in the current environment.

The challenge is finding the balance between the safety of employees versus the culture and business goals of a company when they are often in direct conflict. A bad decision for either business case can hurt the other, but safety should come first. What was clear from the re-thinking was that employees need to see thoughtful change through design and if they don't know why change is happening, it will not work.

Orders of Change in Construction

The construction industry was quicker to react and respond to New York's health and safety measures, necessitated by the designation as an "essential service" which opened the doors to projects resuming activity. Increased personal protective equipment (PPE), social distancing and contact tracing were minor impacts to the projects where clients forged ahead with the plans in place. While COVID-19 cases among workers on specific sites required temporary shutdowns, these were relatively minor bumps in the road to project delivery. In many cases, the unoccupied office spaces provided decreased costs for projects where phased overtime work had previously been required for demolition, core-drilling and disruptive work.

Trade pricing dropped initially with the scarcity of new of projects, but it has come back up due to a reduced labor force as trade-workers pivoted away from construction in the early shutdown period and were slow to return or did not return at all. Many material prices remain high (currently with a 100 percent increase for the cost of steel; and a 50 percent increase for the cost of drywall/ceilings) with not much optimism for a return to pre-pandemic pricing this year due to demand ramping up.

With all of the tumultuous conditions in the construction industry this year, the overall impact from changes has leveled out since what were once novel solutions have turned to standards, when properly managed in today's circumstances.

Kinks in the Supply Chain

Workers returning to sites was only half the equation when suppliers and manufacturers were shut down in locales throughout the US and the world, or at least realizing significant delays where they remained in operation. Combined with the short-staffed and overwhelmed Department of Buildings requirements, uncertainty was common when forecasting completion dates.

The largest impact to the construction process starts in the design phase. Long-lead procurements have always driven the duration of project schedules, but supply chains are still feeling the effects of COVID-19 related delays causing major cost increases and unknown delivery schedules even for manufacturers that had become household names. Pre-purchase practices for equipment and materials must now extend to line items that were previously readily available, for items such as appliances and ceiling systems. Thus, the delivery model has changed and caused new partnerships, out of the necessity, for agile solutions and alternates to typically preferred specifications.

General contractors and their subcontractors/suppliers must also be vetted to a degree previously not seen to confirm their solvency in staff, labor and financial wherewithal. Contract language related to potential COVID-19 issues is now commonplace to ensure clear responsibility and fallout when problems arise.

Returning to Normal Life, But Different

Working from home was initially a novel idea that was embraced by employees that had been burned out by the challenges of New York City commutes and daily grind just to be in an office. But over time, a large majority have come around to covet the interaction and association with their colleagues and leadership of their

respective organizations. Mentoring and the need for human interaction has been a blur this past year, which puts a company's service at risk as they lose the internal growth necessary for sustainable business practice.

Thus, solutions have evolved since the beginning of COVID-19 and companies are realizing that drastic reductions to their footprint would not support the needs of their staff returning to the workplace. But since returning to the workplace as it was did not provide the safe environment, it became apparent that it was not less space but a different use of space that would solve the challenges of today. Many are designing a 25.0 to 50.0 percent reduction in traditional desks, replacing them with a variety of settings that allow each employee to work how they are best fit. In fact, square footage shaving has been minimal and as a result, the subletting and reduction of space was significantly less than originally projected at the beginning of the pandemic. Companies are, by nature, risk-adverse and found that losing their culture was the ultimate sacrifice. When less space could mean less internal connection, most have opted to retain cultural goals and maintain space even if it is no longer the hyper-efficient sea of workstations to which we have become accustomed.

Many larger corporations have already begun a return-to-office endeavor and they are most successful when it is conveyed that solutions are temporary and part of a learning process that will evolve over time. Because of that, architects and business leaders have been more decisive without the pressure of getting a "perfect" outcome with experimentation and learning leading the charge while providing the flexibility to try something new in the future. The long-term focus to design has seen desk ratios range from 1:1 to 1:1.5 and some even 100.0 percent remote using the office as a cultural hub or as touch-down space. The answer for most has settled somewhere in between these scenarios, but the need for (safe) collaboration space and employee support areas is on the rise. Employees should be empowered to work in a variety of spaces beyond a desk, as has become custom in at-home work environments (couch, desk, kitchen table), which manifested as a variety of booths, high-top café settings and breakout spaces that could be used for an array of work types and personalities. This flexible working ethos promotes individuality and by extension, diversity in the workplace.

Personal Connection When We Are Far Apart

One of the biggest challenges for return to work is that employees are doing so at different paces with staggered schedules. Meetings are often a combination of in-person and remote, so getting those outside the office to feel part of the collaboration is difficult. This requires a delicate balance of technology, spatial design and active participation of the attendees. Re-thinking how to collaborate is different for each business, but rarely are all in-person or all remote settings going to be successful long term. Looking at workflow for individual teams provides insight to determine how they can make the whole better than the sum of parts. Beyond boardrooms, video conferencing is now designed for meeting spaces of all sizes down to personal rooms. The technology continues to improve, but is lagging behind the demand to feel connected when we are at home, in the office or in transit.

What the Future Holds

The past year has created more questions than answers, but they are undoubtedly what has been below the surface all along. As we unravel these subjects, industry, and the population that sustains it, we will be better off having gone through the soul-searching process. There will never be a 'one size fits all' solution and each business type must look into the mirror to examine how they will adapt. We cannot unlearn that remote working can be successful and we cannot deny that isolation does not promote the growth and creativity of collaboration. Changes should be done in an open and honest manner; when it is disingenuous, it will not last. An individual's wellness is more in focus than ever before and successful companies will recognize and promote this to optimize their production. The workplace is about the humans who occupy them and designing with that in mind will help us grow beyond just what was once normal.

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Trends to Watch

The return-to-office approach has shifted from "wait and see" to trial and error

Supply chain disruption is forging new solutions and partnerships

Flexible work settings greatly promote diverse workplaces

Contracts and agreements are now expected to include COVID-19 impact language

Get more market information

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