

Tech firms lead sublease charge into Manhattan's office market

Cheaper turnkey options attract subtenants in uncertain time

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Clockwise from top left: Constellation Agency's Matt Woodruff and Diana Lee with One World Trade Center, DailyPay's Jason Lee with 55 Water Street, Index Exchange's Andrew Casale with 3 World Trade Center and Tinuiti's Zach Morrison with 111 West 33rd Street

Tech firms are racing to upgrade New York offices on the cheap to accommodate growth, taking advantage of high-quality sublets from bigger companies that were forced by the pandemic to rethink their office needs.

They're taking advantage of sublets that averaged \$58.94 per square foot in the third quarter, compared with \$79.85 for direct leases, according to Savills. The spread between the two is hovering at about 23.6 percent, slightly below the four-year average of 26.2 percent.

Another advantage: most sublets are already built out, at a time when supply chain bottlenecks and the labor shortages could lengthen the usual eight to 12 months that it takes to build and furnish an office. The spike in sublets has energized an office market facing dismal prospects as work-from-home becomes a permanent fixture of the world's business landscape.

"There are a lot of quality sublease space in the market," said Brooks Hauf, a broker at Avison Young, who recently represented global advertising tech firm Index Exchange

(<https://therealdeal.com/2021/11/18/casper-signs-subtenant-for-43k-sf-at-silversteins-3-world->

trade/) for its 42,600-square-foot sublease from Casper Sleep at Silverstein Properties' 3 World Trade Center in the Financial District. A sublet is a "much easier deal to sign because there's just less risk."

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return of teams after outgrowing offices while people worked from home, according to office brokers. Subleases don't hurt a landlord's bottom line, because direct tenants are required to keep paying rent.

Fintech firm DailyPay (<https://therealdeal.com/2021/09/01/fintech-startup-dailypay-triples-fidi-footprint-with-137k-sf-sublease/>) signed a 12-year sublease in September for 137,000 square feet at S&P Global offices at 55 Water Street in the Financial District, more than tripling the size of its office a few blocks north. DailyPay secured months of free rent and a tenant-improvement allowance, along with fixtures and furniture, according to Wharton Property Advisors CEO Ruth Colp-Haber, who represented the tenant.

All that is helping reduce Manhattan's sublease inventory, which surged to a record 22 million square feet during the pandemic, and has pushed net sublet absorption to about 1.2 million square feet. While that's partly the result of tenants filling unused space, most of it was taken by subtenants, Savills says.

"In limited instances, there have been some bidding wars for certain sublease spaces that are nicely built," said Christopher Foerch, a Savills broker.

A recent client, digital marketing company Tinuiti, wanted only a furnished office because the company, which outgrew its 7,000-square-foot office while people worked from home so that it would be ready early next year, when it expects employees to return.

Tinuiti ended up signing a nine-year, 14,000-square-foot sublease at Empire State Realty Trust's 111 West 33rd Street in Midtown, taking over from Diligent Corporation, which had built out the partial-floor space for future growth and never occupied it.

"We were able to basically secure a brand new space with brand-new furniture at a very attractive price for the tenant," Foerch said. The listing attracted multiple offers, he said.

That doesn't mean sublets alone will power an office market rebound because of the "dramatically elevated" inventory since last year, said Danny Mangru, Savills' research

director for New York and tri-state.

“We’re going to continue to see this supply-demand imbalance,” Mangru said. “At least over the next three or four quarters.”

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(<https://therealdeal.com/2021/08/02/condé-nast-to-pay-back-rent-at-one-wtc-ending-standstill-with-durst/>) parent Advance Communications, decided to seek subtenants for almost half of 1.1-million-square-foot offices that spanned more than 20 floors.

Condé Nast’s sublets are gaining traction. In August, digital marketing firm Constellation Agency (<https://therealdeal.com/2021/08/30/constellation-agency-leases-21st-floor-of-one-wtc/>) sublet 48,000 square feet, taking the entire 21st floor. The deal followed Reddit’s 40,000-square-foot sublet for the whole 33rd floor.

Those are just two of the building’s growing number of subtenants, said Jordan Barowitz, a Durst spokesman. Since August, the landlord has agreed to seven sublets totaling more than 246,000 square feet.

Durst’s Eric Engelhardt, who is in charge of the skyscraper’s leasing, said subleases haven’t hurt pricing on the 104-story structures direct listings because they don’t compete with each other.

Engelhardt said the company has also had an uptick in demand for its move-in-ready flexible office product, “Durst Ready.” It’s a flex-office offering aiming to capture smaller office tenants who prefer pre-built options.

Read more

- Constellation Agency leases 21st floor of One WTC (<https://therealdeal.com/2021/08/30/constellation-agency-leases-21st-floor-of-one-wtc/>)
- Casper signs subtenant for 43K sf at Silverstein’s 3 World Trade (<https://therealdeal.com/2021/11/18/casper-signs-subtenant-for-43k-sf-at-silversteins-3-world-trade/>)
- Fintech startup DailyPay triples FiDi footprint with 137k sf sublease (<https://therealdeal.com/2021/09/01/fintech-startup-dailypay-triples-fidi-footprint-with-137k-sf-sublease/>)

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