TRANSWESTERN

MIDTOWN MANHATTAN OFFICE MARKET

Q4 2022

TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	5.8	7.5	↓	7.3	↓
NET ABSORPTION (Thousands SF)	(1,836.1)	800.8	↓	(961.8)	↑
OVERALL VACANCY RATE	13.9%	12.2%	↑	10.2%	↓
OVERALL VACANT SF (MSF)	39.8	34.8	↑	28.3	↓
UNDER CONSTRUCTION (MSF)	2.0	10.5	↓	11.4	↔
ASKING RENT (PSF)	$78.09	$73.76	↑	$80.89	↑
SALES VOLUME (Millions)	$365.0	$1,915	↓	$1,606.0	↑

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

MIDTOWN MAKES PROGRESS

Midtown's emerging recovery slowed at year-end, but the submarket still registered strong improvement over 2021 in many aspects. Leasing totaled 3.9 MSF, driven by two large renewals and an expansion lease signed right before the closing bell, the submarket's only deals to exceed 100,000 SF. Annual leasing measured 19.6 MSF, some 13.9% higher than last year. While annual absorption was negative it bested 2021's total, though availability is rising again. Rents grew 5.9% from a year ago, led by increased asking prices on Class A space.

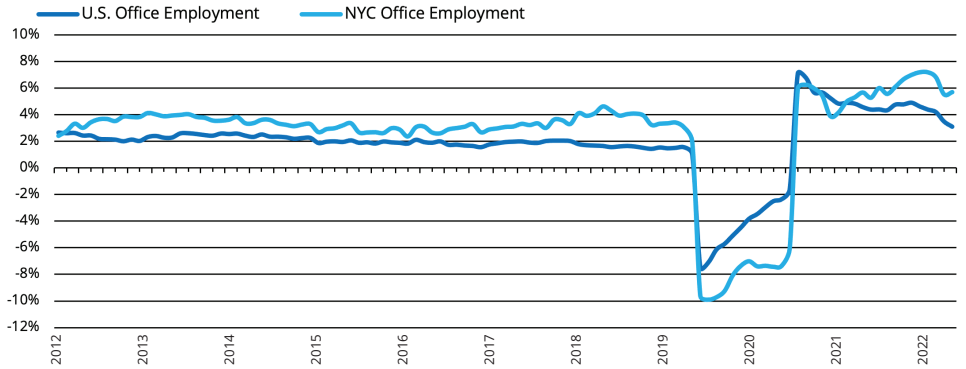
"As we continue to move through 2023 it will remain a historically great time for tenants to leverage the market," said Rory Murphy, Partner. "We ended 2022 with a slower leasing quarter than anticipated, as broader economic uncertainty made decision-making and real estate planning more complicated. While we continue to see an overall flight to quality pushing Class A rents, we are simultaneously seeing landlords reach as it relates to concession packages and net effective rents."

ECONOMY

NYC office employment setting new records

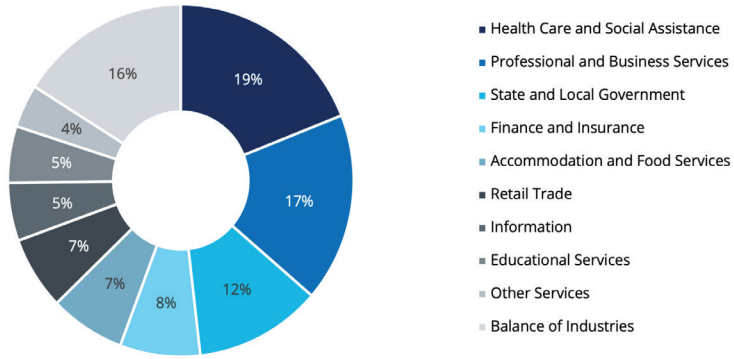
- New York City office employment grew 5.7% from a year ago in November as jobs continued to surpass their prior levels. The city now supports almost 2.1 million office-using positions.
- This figure also continues to increase nationally. The US sustained a record 34.5 million office-using jobs as of November, some 4.1% higher than the pre-COVID peak. Annual job growth is normalizing but still above pre-COVID levels at 3.1%.
- In addition to the strong showing in the office sector, New York City's overall unemployment has lowered considerably from its peak. The rate was 5.8% in November, only slightly off its September bottom of 5.6%. National unemployment currently stands at 3.7%, about 0.5 percentage points [pp] below its year-ago level.
- NYC's Health Care and Social Assistance industry added about 59,800 jobs over the past year, more than any other sector. Robust job increases were also seen in the Professional and Business Services sector, Accommodation and Food Services sector, and Arts, Entertainment, and Recreation sector. The city's crucial Finance and Insurance sector continues its slow-and-steady recovery, adding 8,200 jobs in the past year, while jobs in Educational Services showed a decline from a year ago.
- We have observed that the hybrid employment and work-from-home trends mean there is less correlation between rising employment levels and increase in office usage than there has been historically. There have also been significant layoffs recently in the tech sector which are expected to continue in 2023 and could disrupt the earlier gains. However, the continued momentum in job growth and the ongoing decline in unemployment are an indication of the city's resilience.

Y-O-Y CHANGE IN OFFICE JOBS



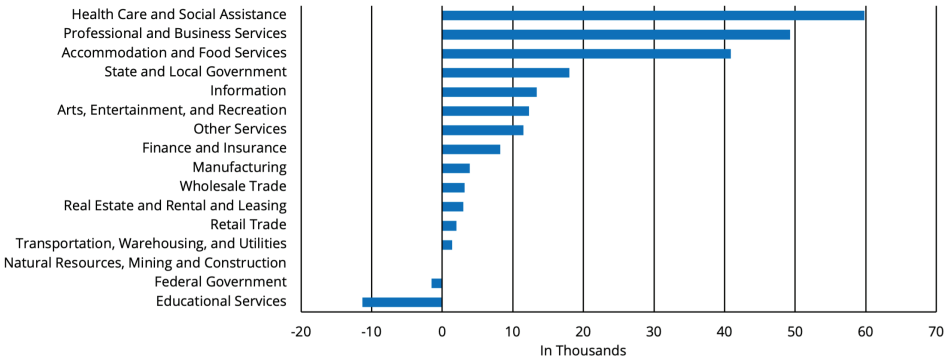
SHARE OF EMPLOYEES BY INDUSTRY

New York City | November 2022



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



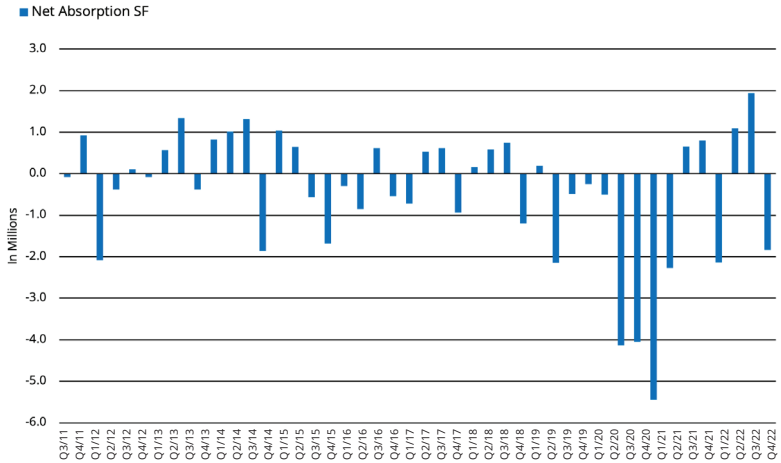
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

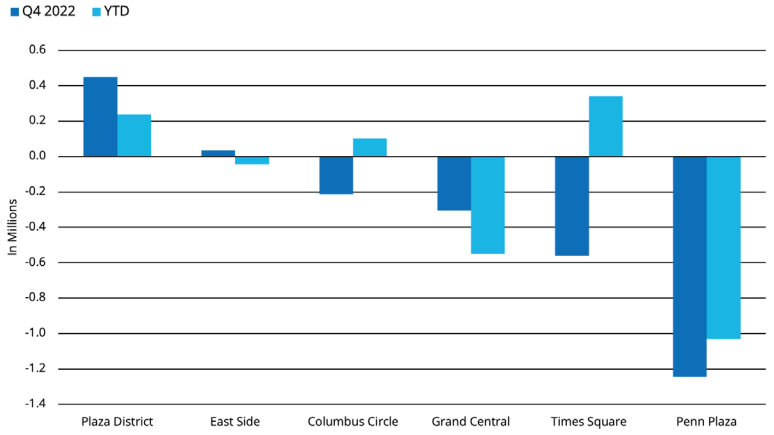
Absorption sinks in Midtown

- Midtown recorded 1.8 MSF of negative net absorption in the fourth quarter, mostly annulling the strength of the third quarter performance. Demand was negative among both Class A and B assets. Midtown finished 2022 with full-year absorption of negative 944,400 SF, a strong improvement on the negative 6.3 MSF generated in 2021.
- The Plaza District was Midtown's only submarket to show significant positive absorption at 450,700 SF. The submarket was helped by the withdrawal of a 430,100 SF block at 625 Madison Avenue that was previously being offered for direct lease.
- The Penn Plaza submarket had the weakest absorption in Midtown, both in quarter and for the full year. Half a dozen large blocks were added, contributing to 1.2 MSF of negative net absorption in Q4. While Penn Plaza did score the largest new lease of the quarter, a 219,400 SF expansion from KKR at 30 Hudson Yards, it had no effect on absorption as the space was taken over directly from Meta, which is shrinking its footprint.
- Large block additions likewise contributed to negative absorption in the Grand Central and Times Square submarkets, though the latter's robust take-up in Q1-Q3 helped drive Midtown's strongest full-year absorption at 341,400 SF. Times Square also nailed down the quarter's two largest leases: renewals from Fox Corp. and News Corp., both at 1211 Avenue of the Americas, for a combined 1.1 MSF.
- Midtown leasing fell off sharply this quarter as uncertainty about the economy took hold, keeping absorption levels constrained. However, the demand for Class A space that was seen through most of 2022 should continue to generate confidence as we move into 2023.

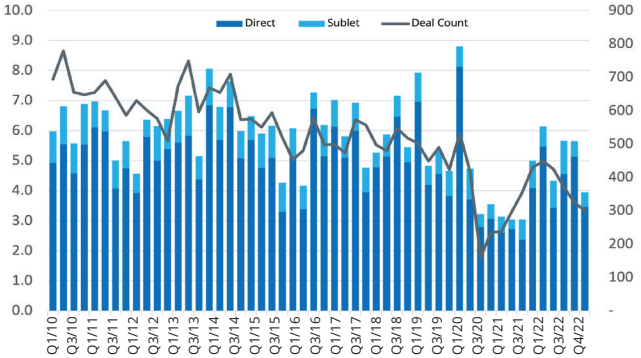
NET ABSORPTION - MIDTOWN



NET ABSORPTION BY SUBMARKET



MIDTOWN LEASING ACTIVITY



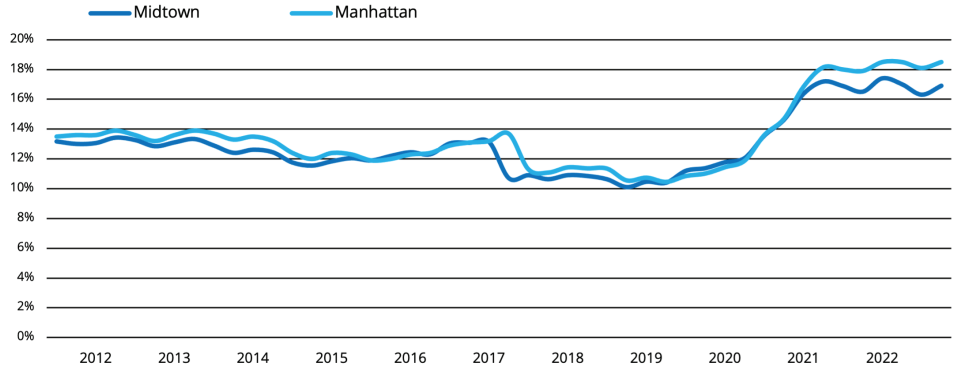
Source: CoStar, Transwestern

AVAILABILITY

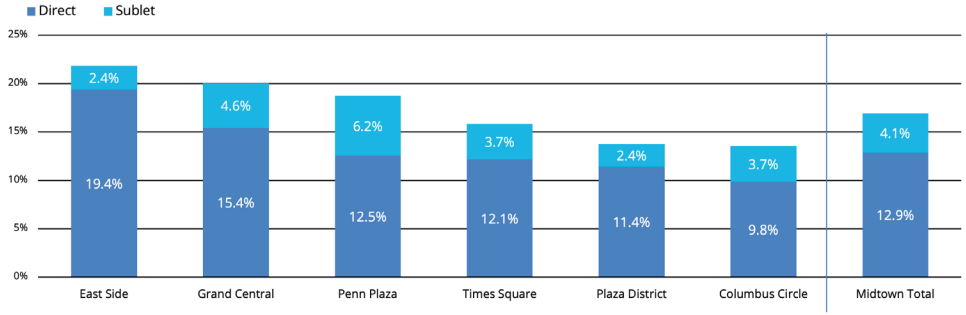
Midtown availability increases again

- Midtown's overall availability rate increased 0.6 pp to 16.9% in Q4 2022 and is now 0.4 pp above the year-ago level. Both direct and sublet availability increased as quiet leasing met up with a barrage of space additions, including new full-building availabilities at 220 W 42nd Street in Times Square and 511 Fifth Avenue in the Grand Central submarket.
- Most of Midtown's smaller submarkets experienced a rise in availability this quarter, with Penn Plaza recording the largest increase, rising 1.8 pp to 18.7%. Penn Plaza also carries Midtown's highest sublet availability rate at 6.2%, equivalent to more than a third of that submarket's available total.
- The East Side submarket saw availability decline for a second straight quarter, reaching 21.8%, though this is still one of the highest levels in Manhattan. There are more than a dozen East Side properties with availabilities exceeding 100,000 SF.
- Columbus Circle continues to have the lowest availability in all of Manhattan at 13.6% despite a small increase from last quarter. Midtown's Plaza District is a close second at 13.8% availability. These two submarkets also have the lowest sublet availability in Midtown, each at 2.4%.
- Midtown availability drifted below the Manhattan average at the onset of the pandemic but has continued to follow the market's general trajectory. Slow leasing in Q4 kept availability elevated, but we expect pent-up demand from Class A tenants to drive stronger activity over the next twelve months, allowing the rate to decrease.

SUBMARKET AVAILABILITY VS MANHATTAN



SUBMARKET AVAILABILITY



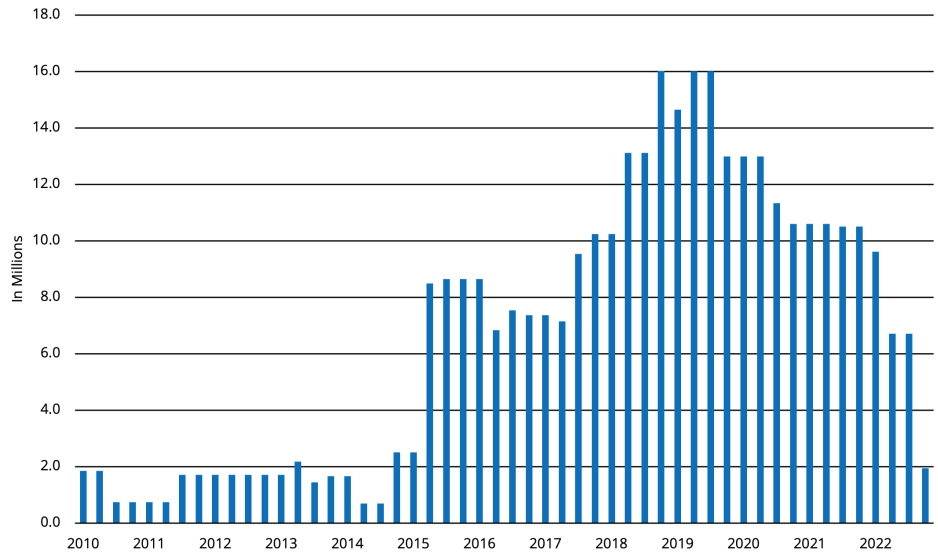
Source: CoStar, Transwestern

UNDER CONSTRUCTION

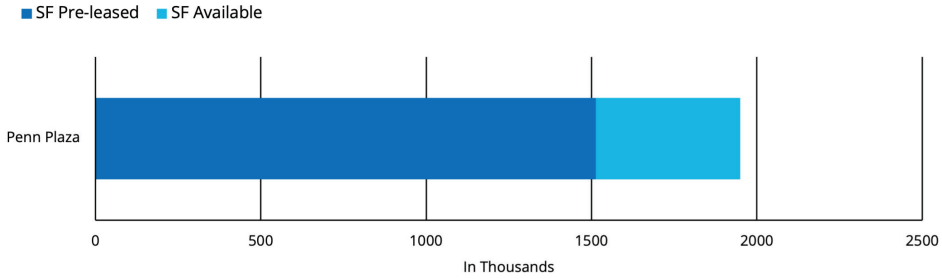
Midtown's new developments are energizing the market

- Construction activity in Midtown is tapering off as long-awaited properties reach completion amid a slowdown in construction starts.
- Recent Midtown deliveries include The Spiral at 66 Hudson Boulevard and 50 Hudson Yards, both completed in Penn Plaza in Q4.
- Also in Penn Plaza, the 2.0 MSF tower known as Two Manhattan West (385 Ninth Avenue) is due to complete this year, while the tower at 3 Hudson Boulevard has been put on hold and removed from the in-construction total until progress resumes.
- Elsewhere in Midtown, there are major renovations taking place at 330 W 42nd Street in the Times Square submarket and 390 Park Avenue in the Plaza District.
- Additionally, there is 8.4 MSF of core office space proposed or planned in Midtown over the next few years, including two towers that would top 2 MSF each.
- With the redevelopment of the entire area around Penn Station to be more pedestrian- and commuter-friendly, and upgrades and renovations underway, or at least under consideration, in numerous Midtown buildings, we expect continued interest from occupiers. We also expect to see more Class B assets improve their offerings in order to compete for these tenants.

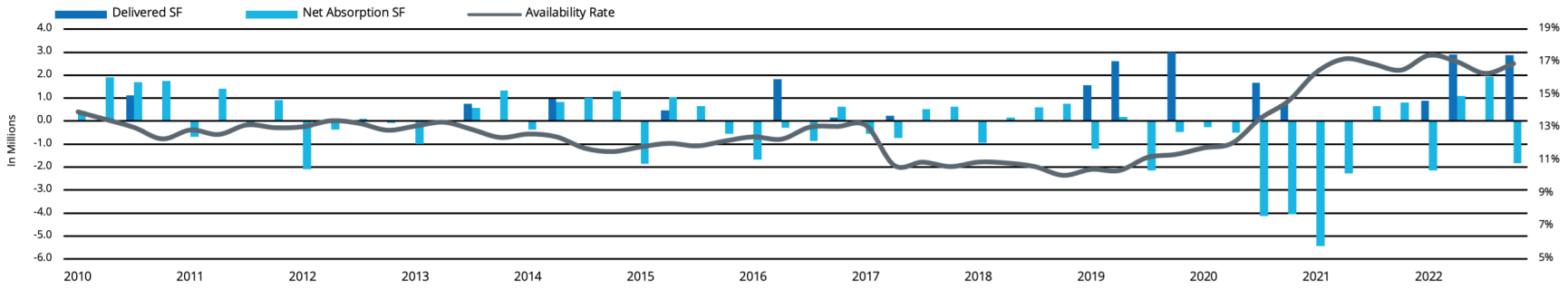
UNDER CONSTRUCTION - MIDTOWN



UNDER CONSTRUCTION BY SUBMARKET



DELIVERY IMPACT ON KEY INDICATORS



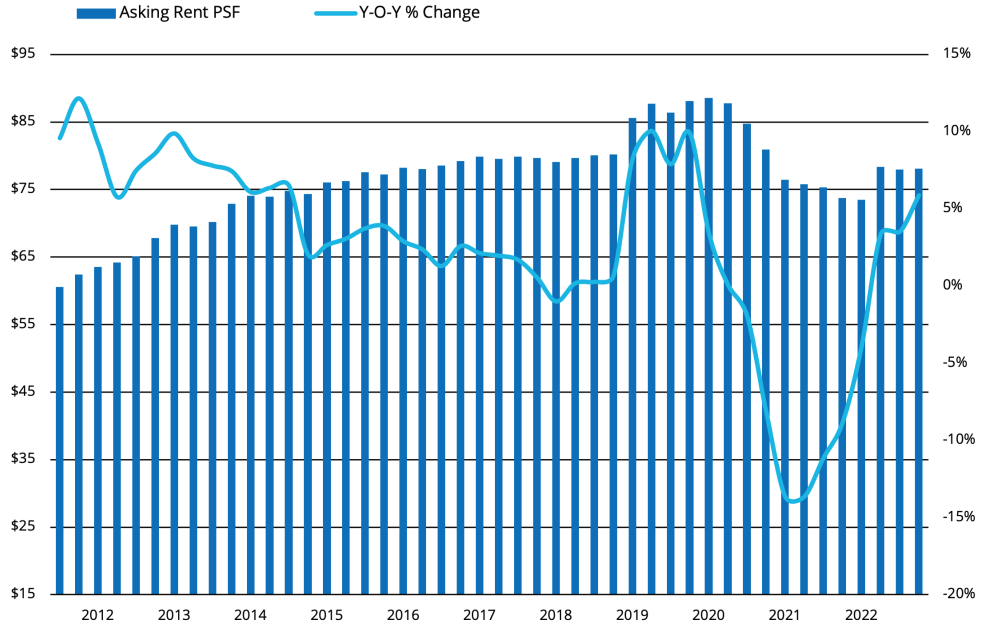
Source: CoStar, Transwestern

RENTAL RATES

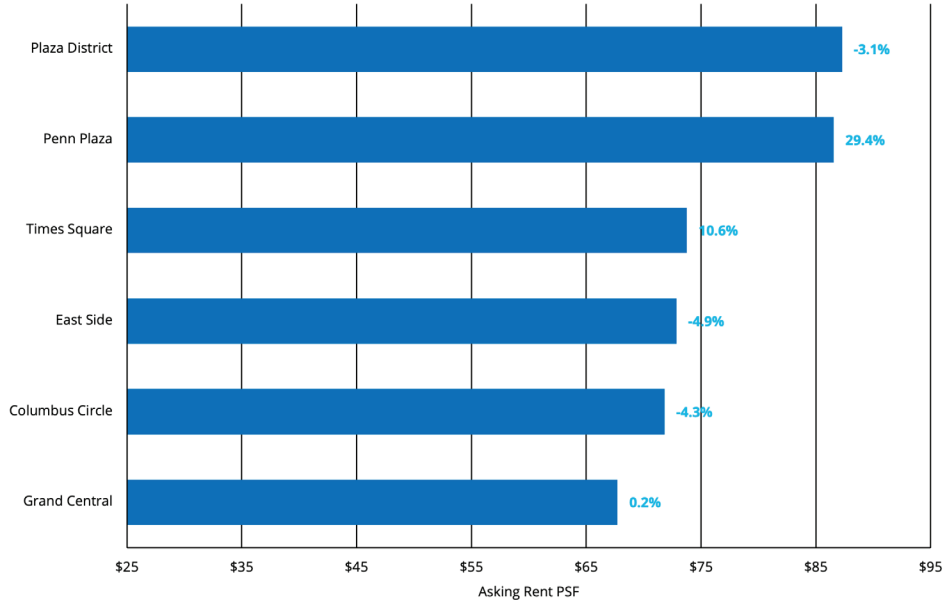
Midtown rents grow again

- Midtown's average asking rents grew by 5.9% year-over-year, their third straight quarter of year-over-year growth. Rents reached $78.09 PSF in the fourth quarter, also an increase from their Q3 level, and are now 11.8% below their early 2020 peak.
- Rents are seeing pockets of increase all over Midtown, and much of the growth can be attributed to high asking prices at new and renovated Class A assets like 66 Hudson Boulevard (The Spiral), Penn 1, 425 Park Avenue, 30 Hudson Yards, One Manhattan West, and 550 Madison Avenue. Most of these have large blocks of space available, and are asking over $100 PSF, in some cases over $200 PSF.
- On the other hand, excess sublet space is still applying downward pressure on rental rates, resulting in the gradual and uneven growth pattern seen in various Midtown submarkets during 2022.
- While Midtown's sublet space has been on the increase again this year, we expect it to become less prevalent as more companies choose to return to the office. This will help take pressure off rents, which should continue rising as landlords push further to accommodate the flight to quality.

ASKING RENT - MIDTOWN



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



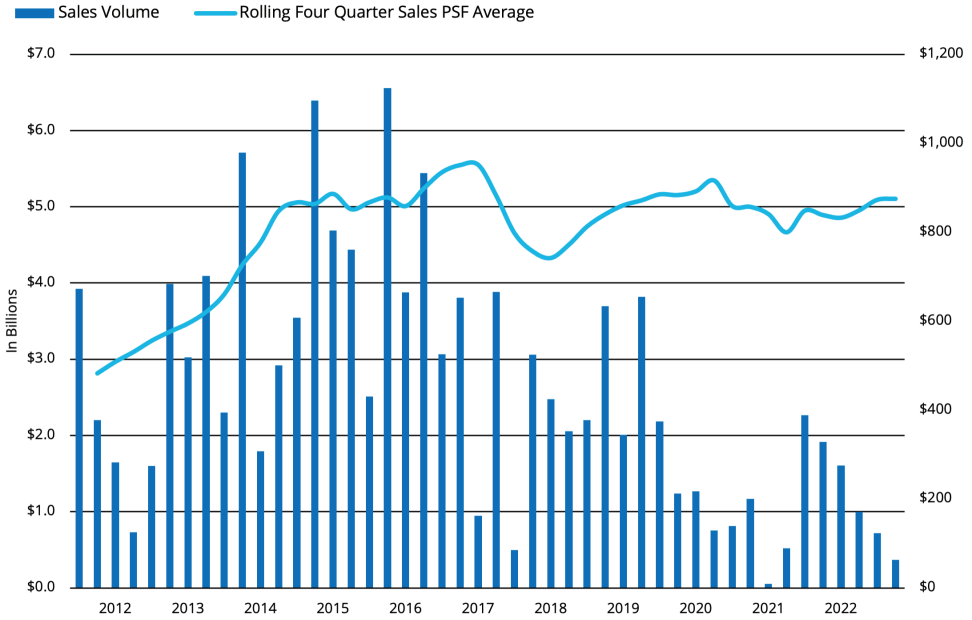
Source: CoStar, Transwestern

SALES

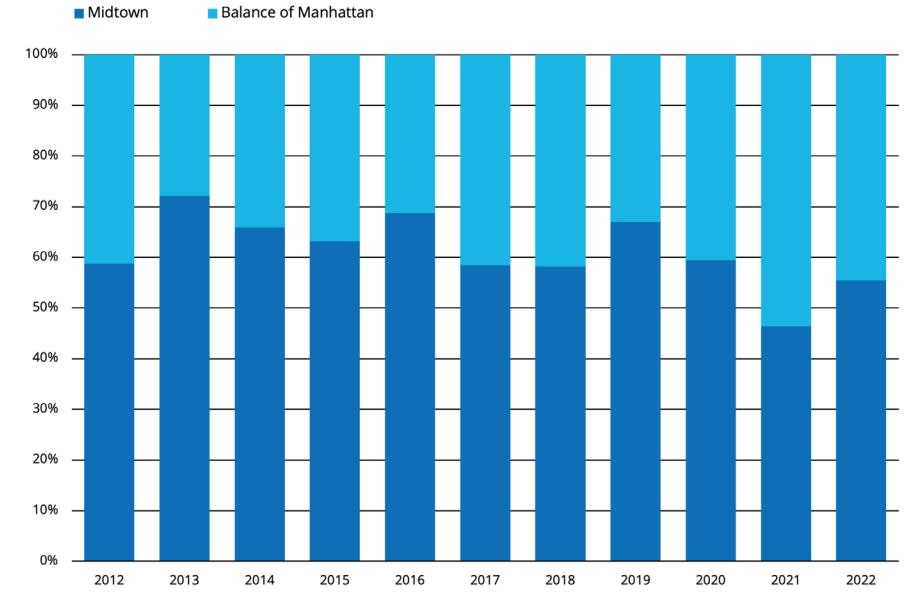
Midtown deal volume sluggish at $365 million

- Midtown sales volume declined for a fifth straight quarter, totaling just $365 million in Q4 2022. Annual sales approached $3.7 billion, compared with $4.8 billion in 2021.
- Midtown was the site of Manhattan's largest office sale in Q4, but it was also the submarket's only significant transaction. The tower at 1330 Avenue of the Americas sold to Creed Equities, Nassimi Realty, Empire Capital Holdings, Hakimian Capital, and CH Capital Group for $320 million, translating to pricing of nearly $600 PSF for sellers Blackstone and RXR Realty.
- The average sales price for the quarter came in at $841 PSF, well above the pricing generated by this trade. The higher value was driven by the sale of non-core assets.
- Higher interest rates and the overall economic climate contributed to investors' reluctance to take on debt through the second half of 2022. New York City was not exempt from this phenomenon and sales did not finish the fourth quarter as strongly as anticipated. As we move into 2023, transaction volume will likely remain constrained due to limited liquidity, ongoing price discovery, and reduced occupancy levels in office product.

SALES VOLUME - MIDTOWN



MIDTOWN % OF MANHATTAN TOTAL



Source: Real Capital Analytics, Transwestern

NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
FOX CORP.	1211 Ave of the Americas	Times Square	Direct / Extension	670,000
NEWS CORP.	1211 Ave of the Americas	Times Square	Direct / Extension	486,000
APOLLO GLOBAL MANAGEMENT	9 W 57th St	Columbus Circle	Direct / Expansion	64,700
PJT PARTNERS	280 Park Ave	Plaza District	Direct / Expansion	49,800
STEPSTONE GROUP	277 Park Ave	Plaza District	Direct	48,700

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
2 PENN PLAZA	Penn Plaza	894,400	Direct
220 EAST 42ND ST	Grand Central	266,700	Sublet
220 WEST 42ND ST	Times Square	242,900	Direct
51 WEST 52ND ST	Plaza District	232,200	Direct
511 FIFTH AVE	Grand Central	158,200	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1330 AVE OF THE AMERICAS	Plaza District	$320,000,000	535,600	$597	Creed Equities, Nassimi Realty, Empire Capital Holdings, Hakimian Capital, CH Capital Group	Blackstone, RXR Realty

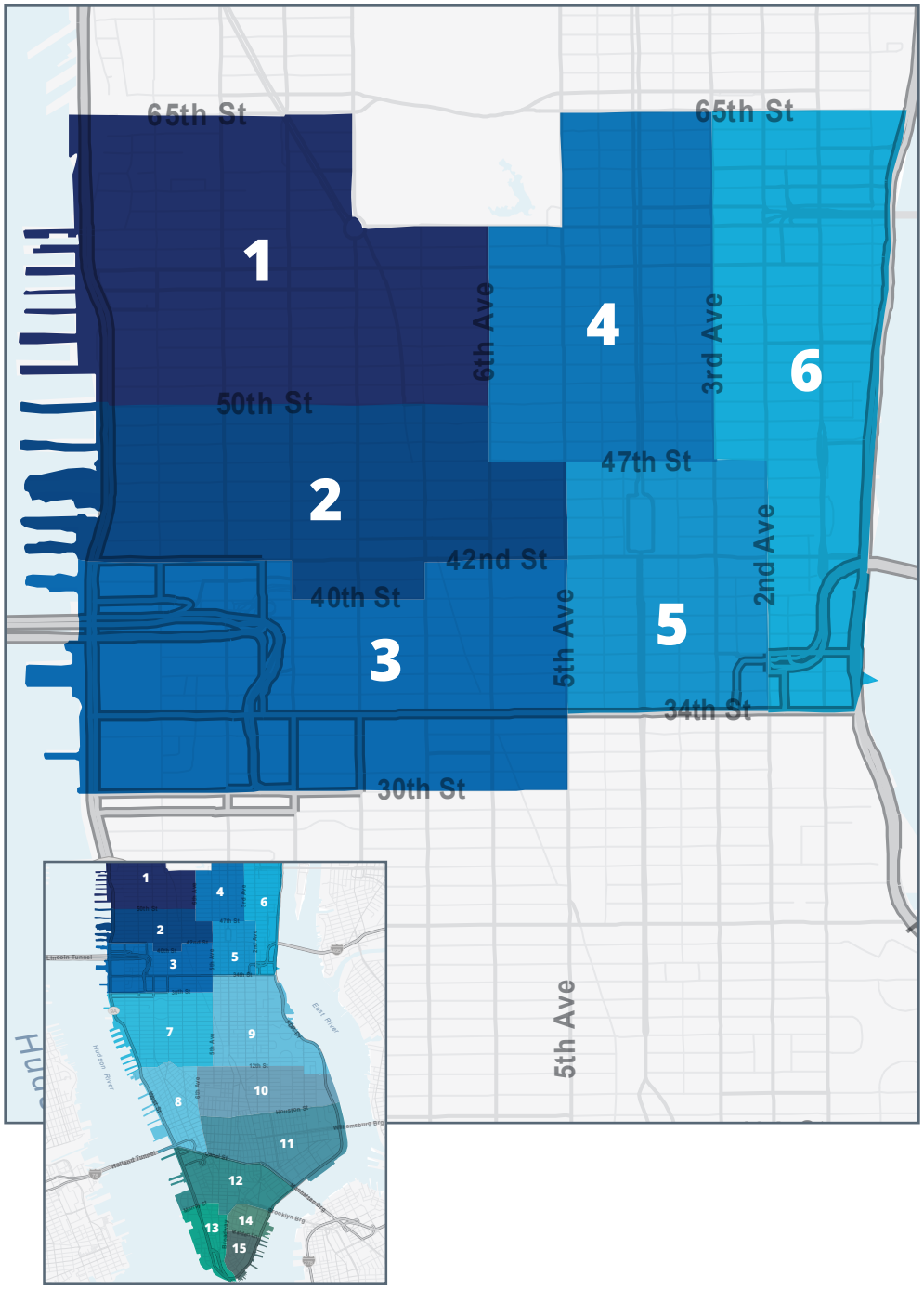
Source: CoStar, Real Capital Analytics, Transwestern

MARKET INDICATORS

All Classes of Space | Q4 2022

SUBMARKET	INVENTORY SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	OVERALL AVAILABILITY RATE	OVERALL VACANCY RATE	CLASS A AVERAGE RENT PSF	CLASS B AVERAGE RENT PSF	OVERALL AVERAGE RENT PSF
COLUMBUS CIRCLE	30,648,763	-211,433	101,446	13.6%	10.9%	$74.72	$55.77	$71.83
EAST SIDE	14,930,218	34,975	-43,504	21.8%	20.5%	$73.29	$55.45	$72.86
GRAND CENTRAL	58,344,978	-305,719	-550,800	20.0%	15.6%	$68.68	$61.54	$67.73
PENN PLAZA	68,083,147	-1,245,068	-1,030,164	18.7%	13.1%	$101.71	$56.21	$86.56
PLAZA DISTRICT	71,195,126	450,736	237,257	13.8%	13.4%	$88.31	$62.27	$87.28
TIMES SQUARE	43,060,279	-559,597	341,386	15.8%	13.7%	$77.50	$58.63	$73.77
MIDTOWN TOTAL	**286,262,511**	**-1,836,106**	**-944,379**	**16.9%**	**13.9%**	**$82.17**	**$57.89**	**$78.09**

Source: CoStar, Transwestern



NEW YORK OFFICE SUBMARKETS

Midtown

1 Columbus Circle
2 Times Square
3 Penn Plaza
4 Plaza District
5 Grand Central
6 East Side

Midtown South

7 Chelsea/Flatiron
8 Hudson Square
9 Gramercy Park
10 Greenwich Village
11 SoHo

Downtown

12 City Hall/Tribeca
13 World Trade Center
14 Insurance District
15 Financial District

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in Manhattan. This report includes single-tenant and multi-tenant Class A and B office properties with at least 100,000 SF in Midtown, 50,000 SF in Midtown South, and 75,000 SF in Downtown.

FOR MORE INFORMATION

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