TRANSWESTERN

DOWNTOWN MANHATTAN OFFICE MARKET

Q4 2022

TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.8	7.5	↓	7.3	↓
NET ABSORPTION (Thousands SF)	(15.3)	(1,157.4)	↑	(440.0)	↑
OVERALL VACANCY RATE	17.9%	15.7%	↑	13.1%	↓
OVERALL VACANT SF (MSF)	16.5	14.6	↑	12.1	↓
UNDER CONSTRUCTION (MSF)	0.1	0.0	↔	0.4	↔
ASKING RENT (PSF)	$57.60	$57.40	↑	$61.77	↑
SALES VOLUME (Millions)	$901.2	$1,042.0	↓	$299.0	↑

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

DOWNTOWN IS LOOKING UP

Downtown's recovery is getting underway after lagging Manhattan's other submarkets since the onset of COVID. Downtown availability decreased mildly at year end and annual absorption was well ahead of the 2021 total, while rents saw their first quarterly increase since the pandemic began and several prominent Downtown assets traded hands. There were three leases exceeding 50,000 SF, though leasing was quiet at just 766,300 SF, bringing the 2022 total to 3.5 MSF. For context, average annual leasing in the three years prior to the pandemic (2017-2019) was 7.9 MSF.

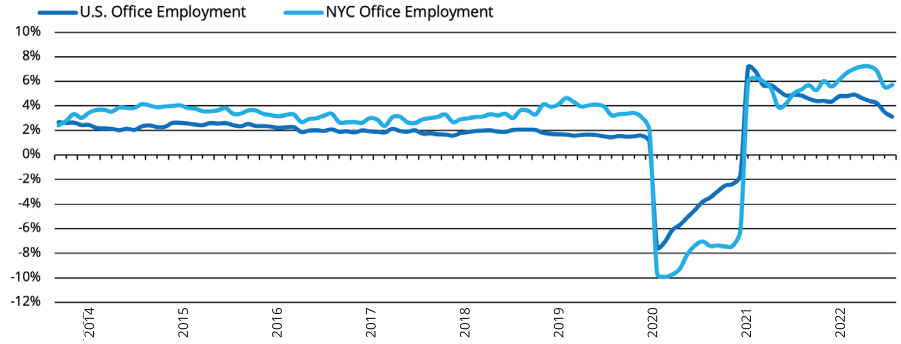
"As we continue to move through 2023 it will remain a historically great time for tenants to leverage the market," said Rory Murphy, Partner. "We ended 2022 with a slower leasing quarter than anticipated, as broader economic uncertainty made decision-making and real estate planning more complicated. 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

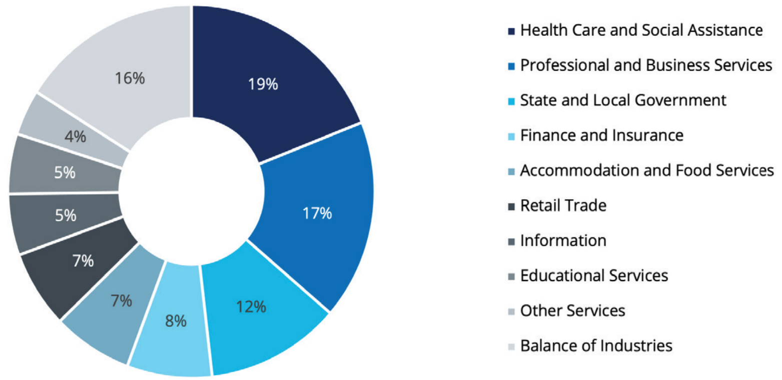
- New York City office employment grew 5.7% from a year ago in November as jobs continued to surpass their prior levels. The city now supports almost 2.1 million office-using positions.
- This figure also continues to increase nationally. The US sustained a record 34.5 million office-using jobs as of 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



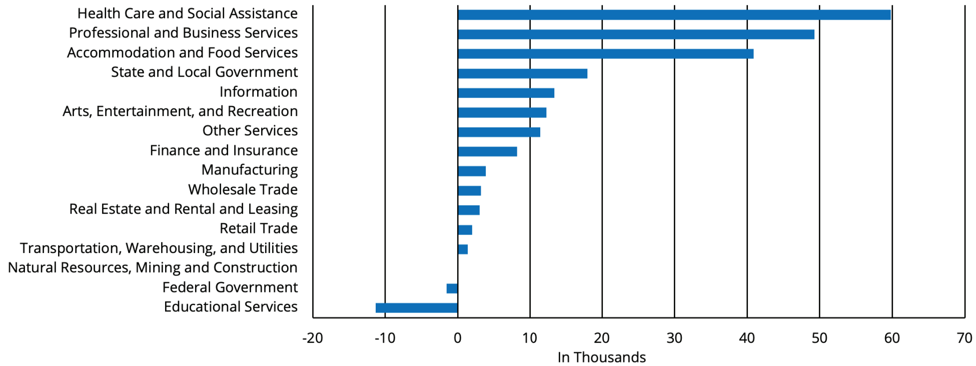
SHARE OF EMPLOYEES BY INDUSTRY

New York City | November 2022



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



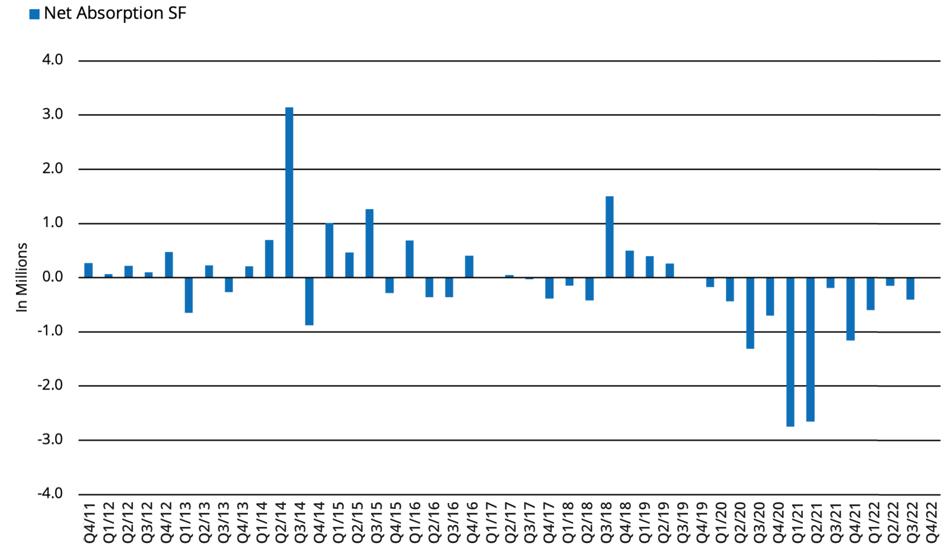
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

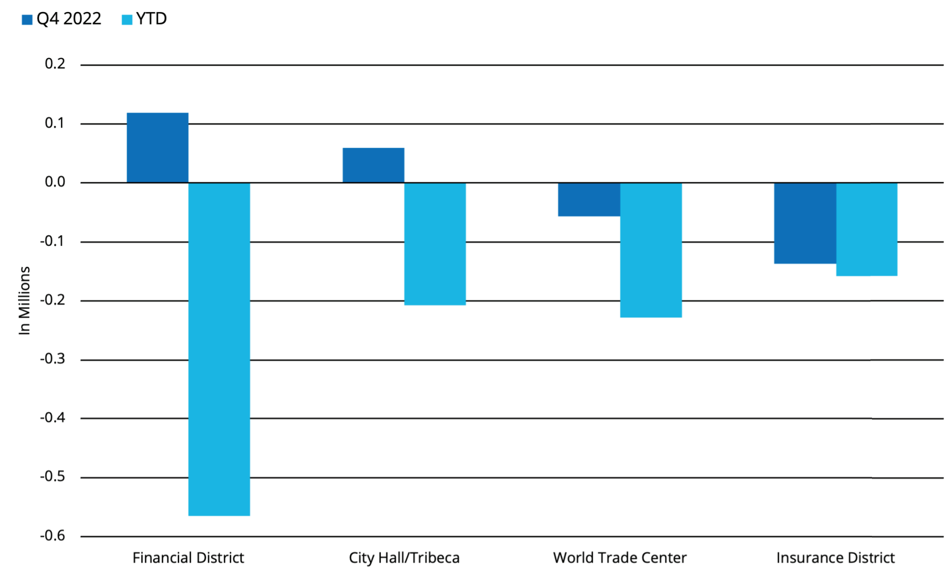
Absorption is flat Downtown

- Downtown logged 15,300 SF of negative net absorption in Q4, the 12th consecutive negative quarter for the submarket. While absorption in Class A assets was likewise negative, it was counteracted by 298,300 SF of positive take up in the Class B space, the highest in more than five years. Annual absorption measured negative 1.2 MSF, a major improvement on the negative 6.7 MSF recorded in 2021.
- Downtown's smaller Financial District submarket registered 119,000 SF of positive net absorption in Q4, following two negative quarters. Contributing to the positive trend, IDEAL School of Manhattan graduated from the Upper West Side to 63,000 SF at 5 Hanover Square, and Vibrant Emotional Health embraced 59,600 SF at 80 Pine Street.
- The World Trade Center submarket saw a 56,000 SF lease from AXA XL at 225 Liberty Street, but absorption turned negative amid large block additions at 250 Vesey Street, 25 Broadway, 255 Greenwich Street, Four World Trade, and One Liberty Plaza.
- Downtown's other submarkets were quiet, with absorption ranging from 59,200 SF in City Hall/Tribeca to negative 137,100 SF in the Insurance District.
- Absorption in Downtown Manhattan continues to be challenged by large block additions and by the submarket's high proportion of older stock. However, negative take-up has been much less pronounced of late and we forcast continued improvement as market conditions stabilize. Additionally, there are several high-profile office-to-residential conversions underway Downtown, which should serve to remove some of its outdated and excess space.

NET ABSORPTION - DOWNTOWN



NET ABSORPTION BY SUBMARKET



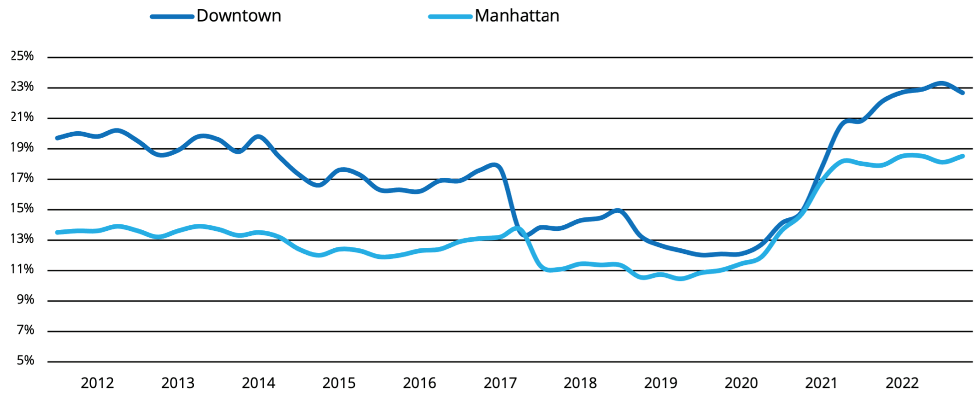
Source: CoStar, Transwestern

AVAILABILITY

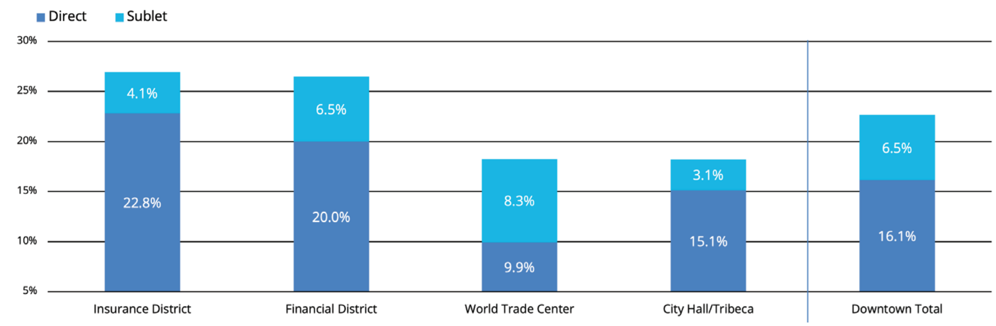
Availability sees its first decrease since 2020

- Downtown's availability rate decreased 0.6 pp from the Q3 peak to 22.7% in the fourth quarter. The rate is 0.6 pp above the year-ago level. In comparison, Downtown's average availability level was around 15% in the five years pre-pandemic.
- Both sublet and direct availability rates decreased from last quarter, but sublet space is still a concern at 6.5%, representing 28.8% of Downtown's total availability. This is several pp higher than levels seen during the 2007-2008 financial crisis, but lower than the 2020 peak.
- Downtown faced about half a dozen large block additions in Q4, but there were also several large withdrawals of offered space, helping availability to stabilize. There are currently 11 Downtown assets with more than half a million SF available; three of these recently lost their anchor tenants and present ripe opportunities for large occupiers.
- Downtown's Insurance District submarket surpassed the Financial District for Manhattan's highest overall availability, increasing to 26.9% with a 72,000 SF block addition at 199 Water Street. Meanwhile, the Financial District submarket saw availability decrease by 1.6 pp to 26.5% amid a spurt of leasing.
- The City Hall/Tribeca and World Trade Center submarkets have similar availability levels at a respective 18.2% and 18.3%, but the latter's sublet availability is much higher at 8.3%. This is the highest in Manhattan and represents about 45% of the World Trade Center total.
- Downtown's availability rate has trended above the Manhattan average for the last decade, and the gap has widened since the onset of COVID, but this quarter saw a slight narrowing. We project the rate to decrease further in 2023 as tenants take advantage of Downtown's large availabilities being offered at reasonable rents.

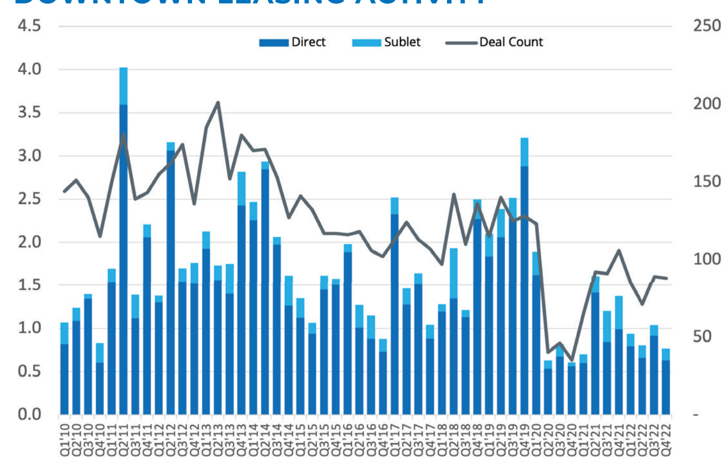
SUBMARKET AVAILABILITY VS MANHATTAN



SUBMARKET AVAILABILITY



DOWNTOWN LEASING ACTIVITY



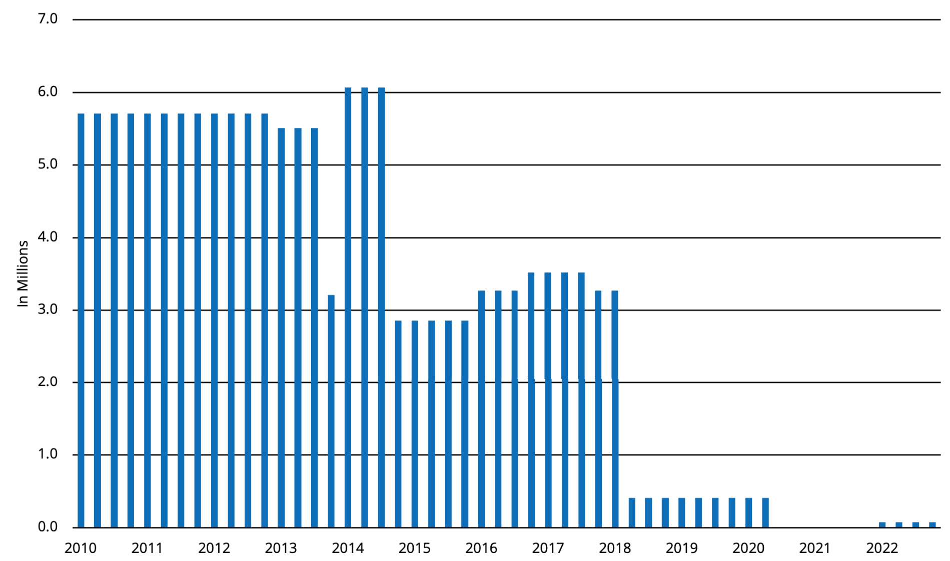
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Upgraded spaces should drive submarket interest

- Since the completion of the 11 million square feet added at the World Trade Center site through 2018, most of Downtown's construction activity has been focused on renovations and repositioning, rather than ground-up development.
- To that end, the fourth quarter saw the completion of a $100 million overhaul at 111 Wall Street in the Financial District submarket.
- Other Downtown properties undergoing significant reconstruction include a former parking garage at 56. N. Moore Street, which will encompass 75,400 SF of boutique Class A product, and the 235,000 SF office building at 101 Franklin Street. Both are in the City Hall/Tribeca submarket.
- Amid the focus on restructuring, there is also more than 3 million SF of new core office product proposed for Downtown. The bulk of this outlook comprises a 2.8 MSF tower addressed at 2 World Trade. Completion dates for the proposed properties range from 2024 out through 2028, with some hinging on securing an anchor tenant.
- The new and renovated spaces should help Downtown benefit from the ongoing flight to quality, revitalizing some of Manhattan's most historic districts. Additionally, as more of this upgraded and modern space comes to market, we can expect further improvements in Class B assets in order to compete for tenants.

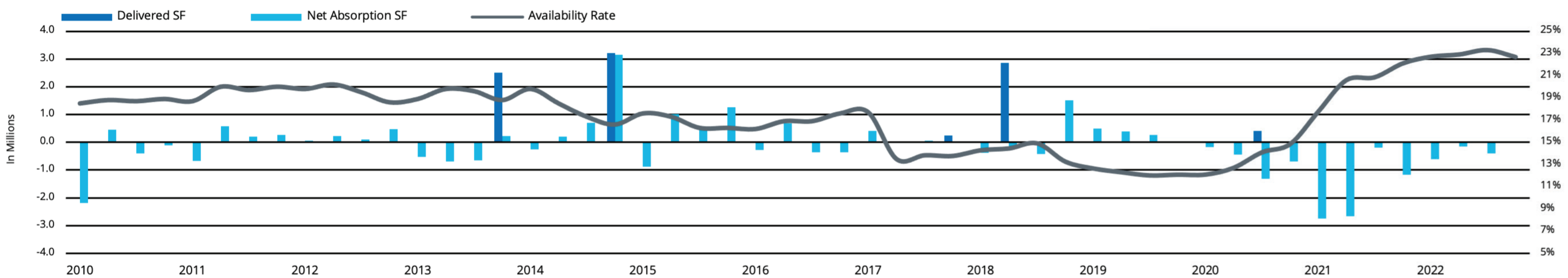
UNDER CONSTRUCTION - DOWNTOWN



DOWNTOWN CONSTRUCTION/RENOVATIONS IN PROGRESS

Property	Submarket	RBA	Year Built	Year Expected
56 N. Moore	City Hall/Tribeca	75,429	NA	2023
101 Franklin Street	City Hall/Tribeca	235,000	1948	2023

DELIVERY IMPACT ON KEY INDICATORS



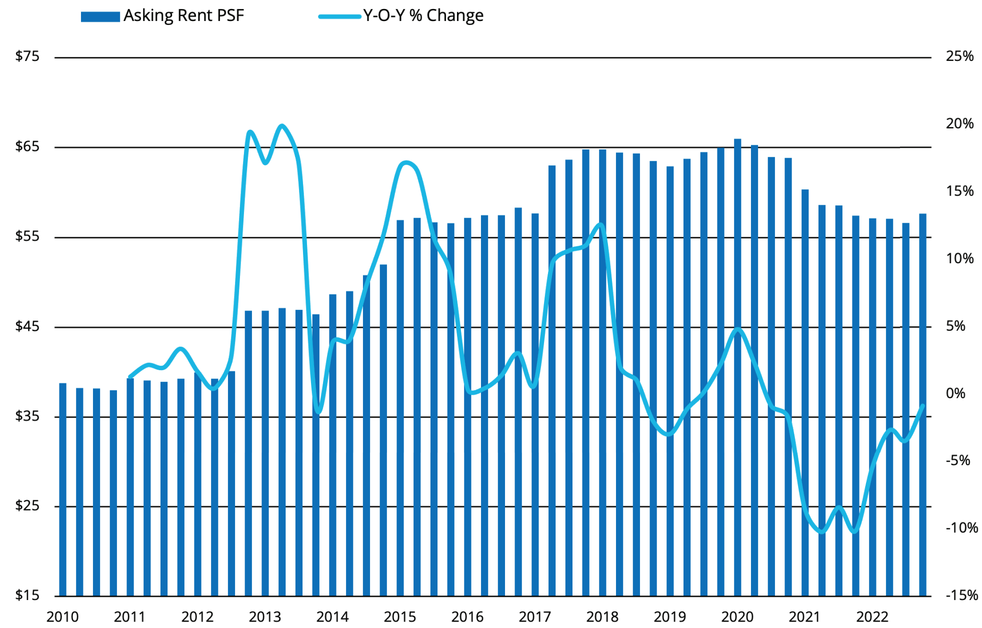
Source: CoStar, Transwestern

RENTAL RATES

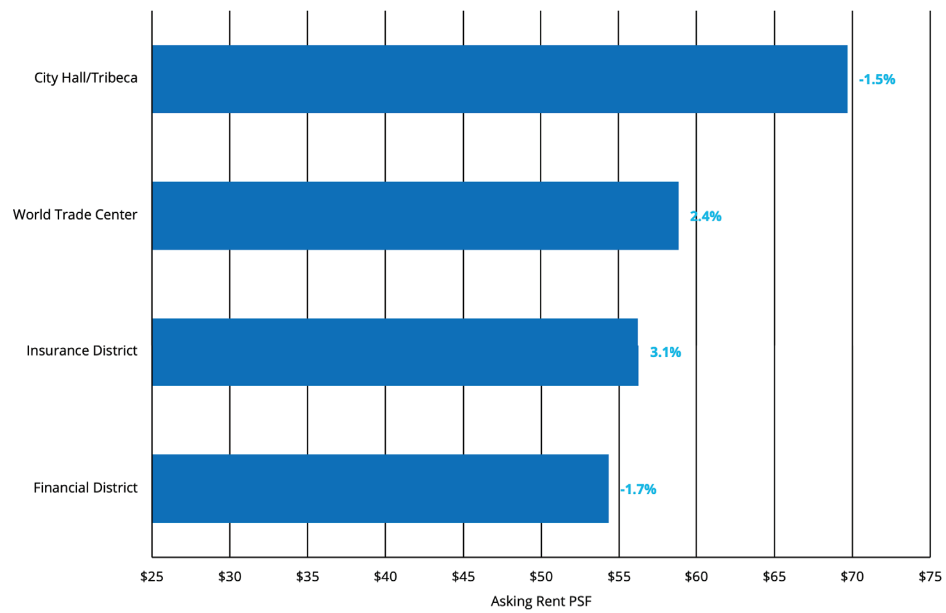
Downtown rents move upward

- The large amount of available sublease space is still pressuring Downtown rents, but the recent decrease in sublet availability allowed some growth in the final quarter of 2022.
- Downtown's average asking rents rose by 1.8% from Q3 to $57.60 PSF at year-end, their first quarterly gain since the pandemic began. The current asking rate is 0.8% below the year-ago level, the smallest year-over-year decrease since mid-2020. Rents are 12.7% below the pre-pandemic peak of $65.98 PSF.
- Asking rents increased from last quarter in both the Insurance District and World Trade Center submarkets. These two submarkets also experienced year-over-year growth.
- The Financial District submarket saw a slight decrease from Q3, and City Hall/Tribeca held steady while continuing to maintain Downtown's highest rents at $69.70 PSF.
- As companies start making more strategic decisions regarding space needs, sublet space should continue to ease, allowing for more meaningful rent growth. Additionally, Downtown's revitalization projects should draw further interest and help drive asking rents over the next several quarters, as landlords continue to push to accommodate the flight to quality.

ASKING RENT - DOWNTOWN



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



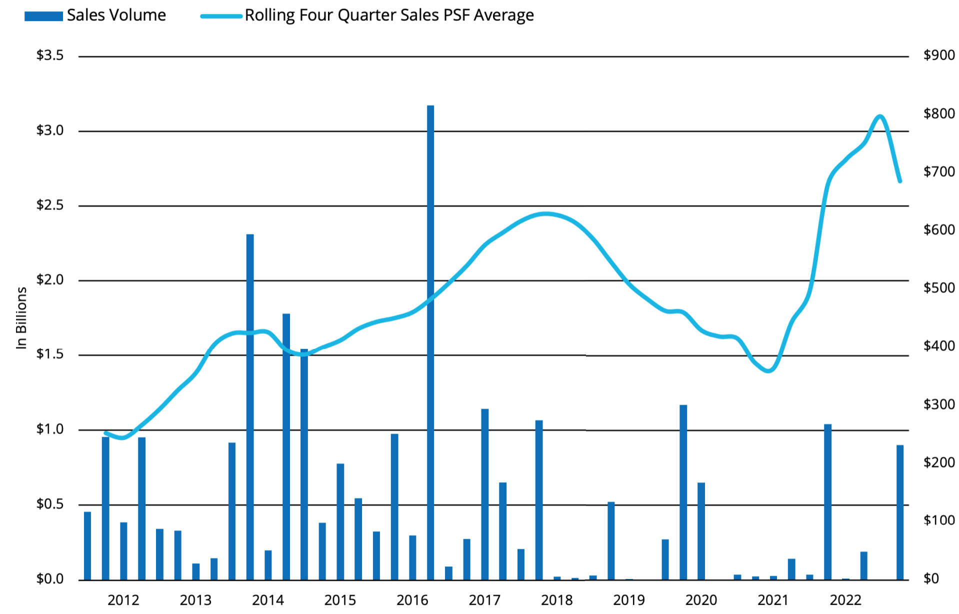
Source: CoStar, Transwestern

SALES

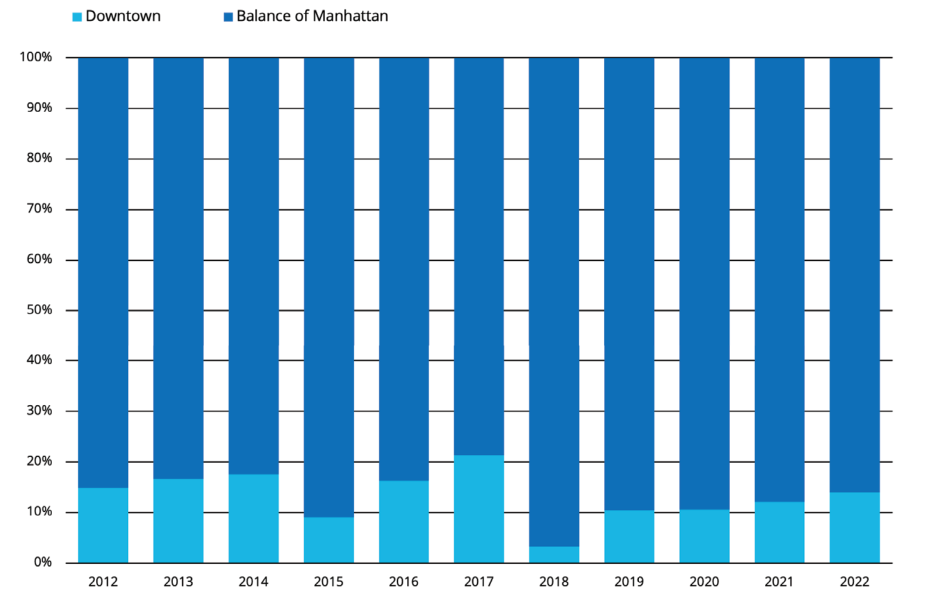
Downtown logs several prominent sales

- Downtown office sales were an estimated $901.2 million in Q4, driving annual sales volume to $1.1 billion, slightly below the $1.2 billion recorded in 2021. In comparison, Downtown's average annual sales volume in the five years prior to the pandemic was $2.3 billion.
- There were several notable sales Downtown this quarter. The largest was 25 Water Street, which sold for an estimated $250.8 million and will be converted to 1,300 residential units. In addition to the sale price, a $535.8 million construction loan was arranged to support the conversion.
- Other Downtown trades included the former AIG Headquarters at 175 Water Street for $252 million, working out to pricing of $368 PSF for buyer 99C LLC, and 40 Fulton Street, which sold to David Werner for $101 million, or roughly $402 PSF.
- 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, higher interest, ongoing price discovery, and limited occupancy levels in office product.

SALES VOLUME - DOWNTOWN



DOWNTOWN % OF MANHATTAN TOTAL



Source: Real Capital Analytics, Transwestern

NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
IDEAL SCHOOL OF MANHATTAN	5 Hanover Sq	Financial District	Direct	63,000
VIBRANT EMOTIONAL HEALTH	80 Pine St	Financial District	Direct	59,600
AXA XL	225 Liberty St	World Trade Center	Direct	56,000

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
199 WATER ST	Insurance District	191,890	Direct
250 VESEY ST	World Trade Center	113,700	Sublet
1 LIBERTY PLAZA	World Trade Center	89,000	Sublet
4 WORLD TRADE	World Trade Center	68,700	Sublet
25 BROADWAY	World Trade Center	66,700	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
175 WATER ST	Insurance District	$252,000,000	684,000	$368	99C LLC	Vanbarton Group
FOUR NEW YORK PLAZA / 25 WATER ST	Financial District	$250,800,000	1,016,400	$247	Metro Loft, GFP Real Estate, Rockwood Capital	EDGE Fund Advisors, HSBC Alt
40 FULTON STREET	Insurance District	$101,000,000	251,000	$402	David Werner	Vornado

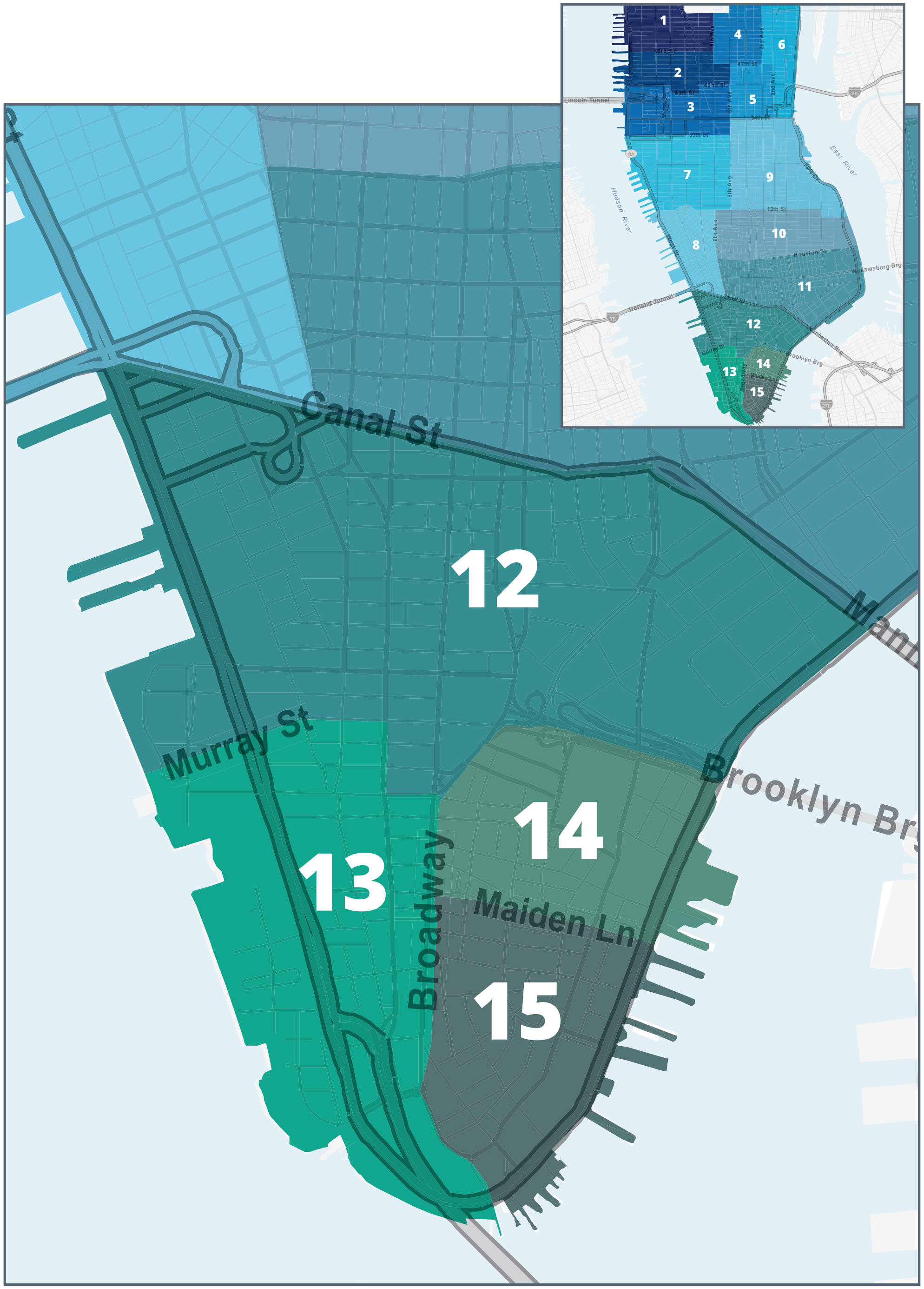
Source: CoStar, Transwestern

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
CITY HALL/TRIBECA	10,012,695	59,226	-206,765	18.2%	16.9%	$72.18	$47.69	$69.70
FINANCIAL DISTRICT	38,848,503	118,969	-564,470	26.5%	20.3%	$55.17	$49.14	$54.34
INSURANCE DISTRICT	9,961,995	-137,076	-157,326	26.9%	22.4%	$58.43	$45.44	$56.24
WORLD TRADE CENTER	33,357,182	-56,434	-227,875	18.3%	14.1%	$60.69	$43.20	$58.85
DOWNTOWN TOTAL	**92,180,375**	**-15,315**	**-1,156,436**	**22.7%**	**17.9%**	**$59.17**	**$46.82**	**$57.60**

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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