



TRANSWESTERN

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)	(2,389.9)	96.0	↓	(1,782.1)	↑
OVERALL VACANCY RATE	15.2%	13.1%	↑	10.8%	↓
OVERALL VACANT SF (MSF)	69.6	60.2	↑	48.2	↓
UNDER CONSTRUCTION (MSF)	2.3	12.3	↓	13.1	↔
ASKING RENT (PSF)	\$72.79	\$69.03	↑	\$75.07	↑
SALES VOLUME (Millions)	\$1,569.9	\$5,598	↓	\$2,829.8	↑

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

MANHATTAN SEES MIXED RESULTS IN Q4

Manhattan leasing received a last-minute bump from a large renewal and a sizeable expansion, but the year-end numbers were still disappointing. The market recorded 5.9 MSF of leasing activity, including three deals exceeding 100,000 SF. Most of the larger deals in Q4 were for terms of at least ten years, a sign of confidence in the market. Annual leasing of 29.7 MSF was about 8% higher than the 2021 total. Absorption turned negative again, pulling annual absorption into the red as well. Availability increased back to its earlier peak level but sublet availability showed a small decrease from last quarter. Rents were a bright spot, growing both in-quarter and year-over-year.

As we continue to move through 2023 it will remain a historically great time for tenants to leverage the market," said Rory Murphy, Partner, Transwestern. "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."

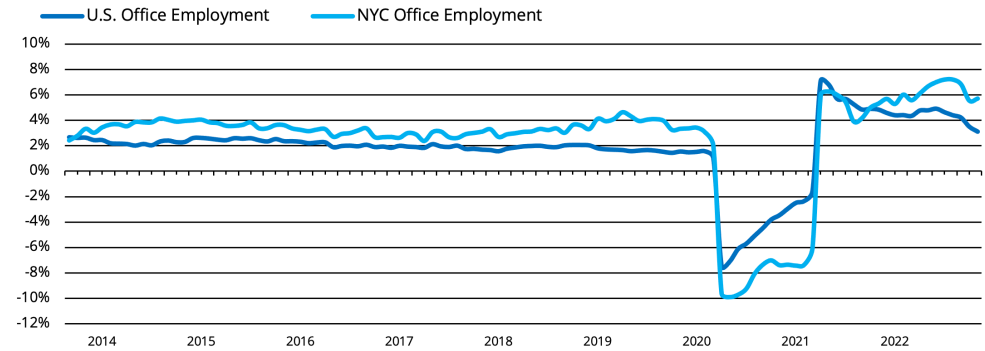


ECONOMY

NYC office employment setting new records

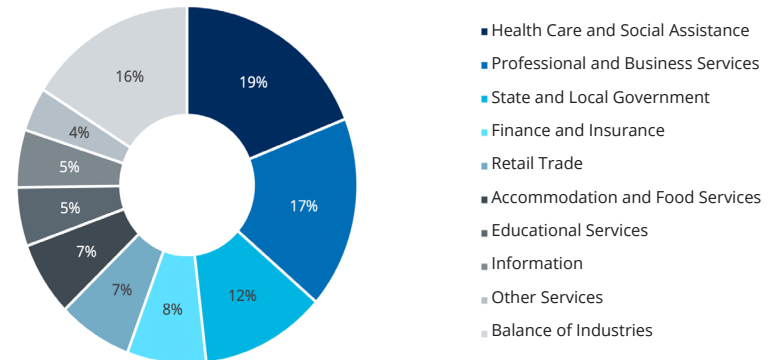
- New York City office employment grew 5.7% from a year ago in November as jobs continued to surpass their prior levels. The city now supports almost 2.1 million office-using positions.
- This figure also continues to increase nationally. The US sustained a record 34.5 million office-using jobs as of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



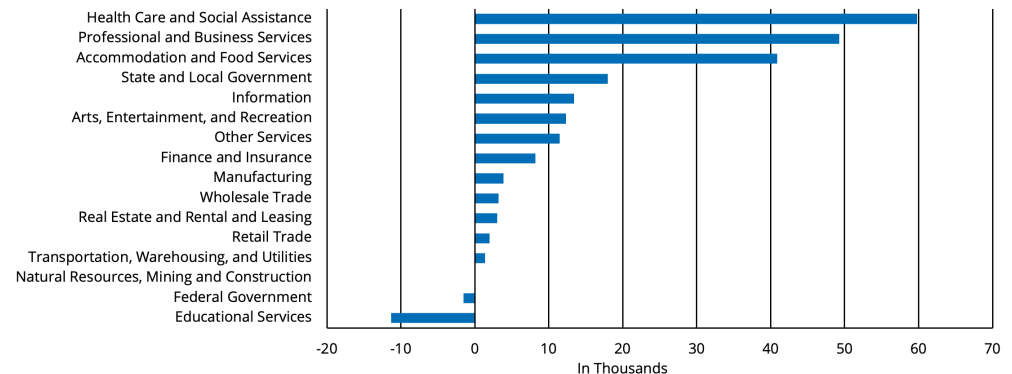
SHARE OF EMPLOYEES BY INDUSTRY

New York City | November 2022



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



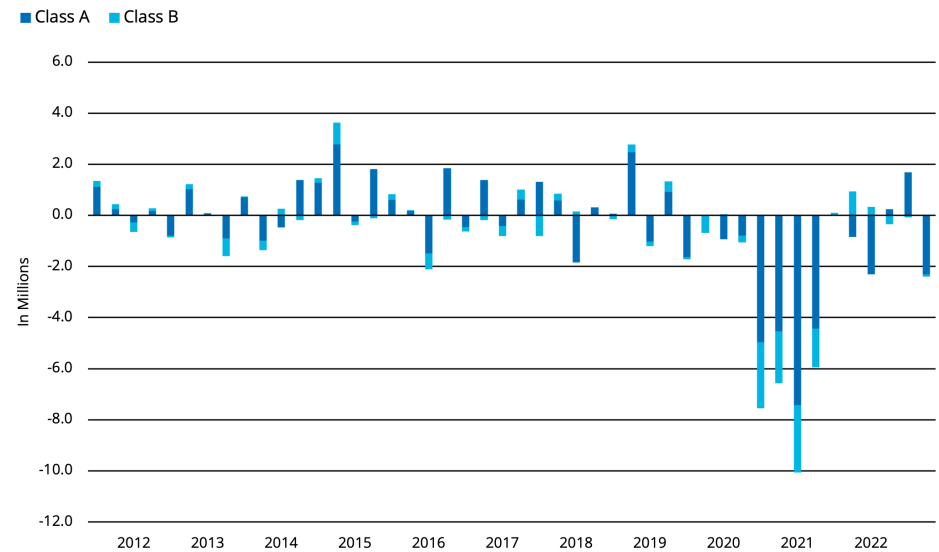


NET ABSORPTION

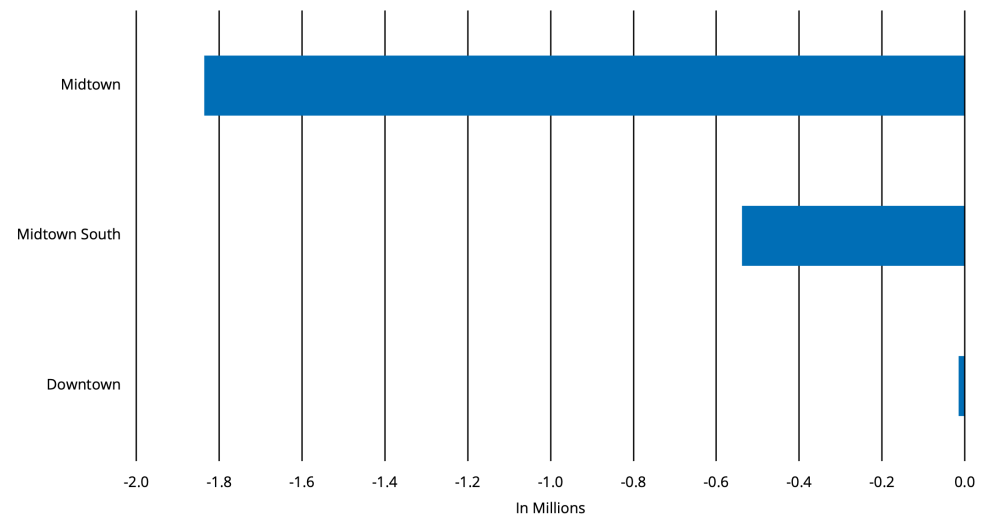
Absorption falls to lowest level since mid-2021

- Manhattan recorded 2.4 MSF of negative net absorption in Q4 2022, the weakest result since Q2 2021. Absorption was negative among both Class A and Class B properties, but most of the downside was among Class A assets. Additionally, all three of Manhattan’s major submarkets registered negative absorption, both in-quarter and for the full year 2022.
- Midtown faced more than twenty large block additions summing to almost 2.2 MSF, including seven spaces exceeding 100,000 SF each. Submarket absorption sank to negative 1.8 MSF, erasing the gains of Q3, and full-year absorption tallied negative 944,400 SF.
- Midtown South scored one large new lease from Fedcap Group at Zero Irving (85,000 SF) while fielding half a dozen large block additions, resulting in negative absorption of 538,500 SF. Strong leasing at Zero Irving throughout 2022 was representative of general increased activity and strength in the higher end Midtown South assets. Annual absorption in the submarket measured negative 730,200 SF.
- Downtown spent a twelfth straight quarter in the red, though its Q4 result outperformed Midtown and Midtown South. Downtown’s relatively flat 15,300 SF of negative take-up incorporated positive absorption in Class B assets, while new leases from IDEAL School of Manhattan (63,000 SF), Vibrant Emotional Health (59,550 SF), and AXA XL (56,000 SF) helped counteract multiple large block additions.
- Manhattan registered more than 2.8 MSF of negative absorption in 2022, but this was a significant improvement over the previous two years’ totals (negative 15.8 MSF in 2021 and negative 16.0 MSF in 2020). Recent renewals and expansions by established companies will generate further confidence, spurring additional tenants to commit to the market as we move into 2023.

NET ABSORPTION BY CLASS



NET ABSORPTION BY SUBMARKET



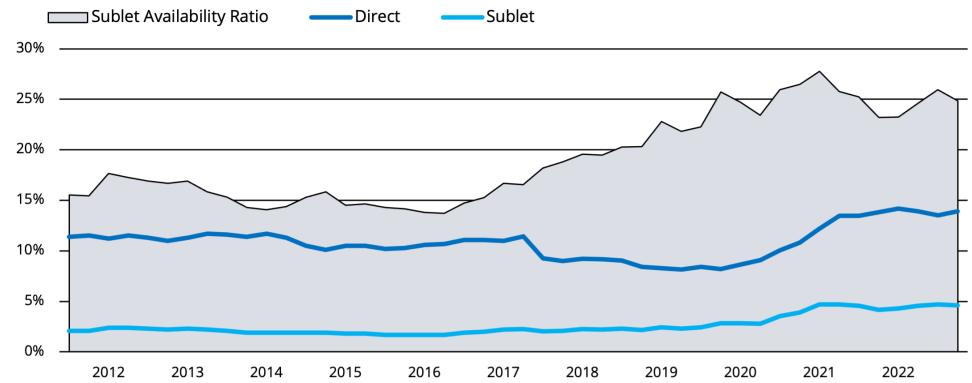


AVAILABILITY

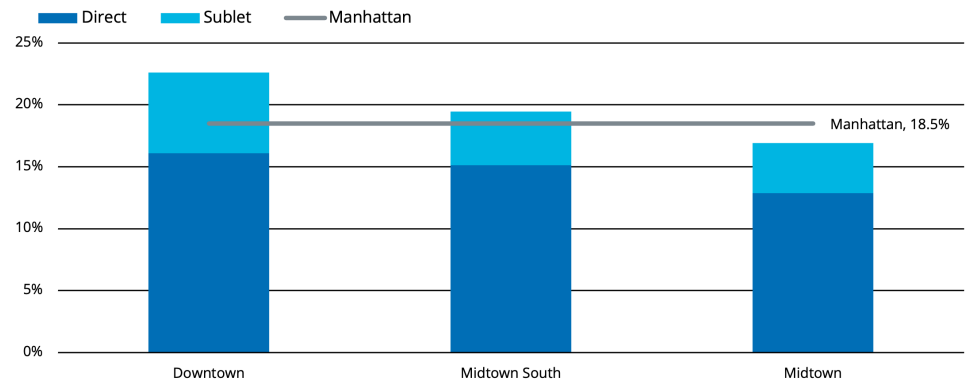
Availability returns to COVID-era peak

- The Manhattan availability rate closed out 2022 by returning to the peak 18.5% level where it started the year. Overall availability is currently 0.6 pp higher than a year ago.
- Direct availability increased to 13.9% in Q4 after falling in each of the last two quarters. Sublet availability bucked the trend by decreasing 0.1 pp from its peak to 4.6% at year-end. Sublet space now represents 24.9% of the available total.
- Downtown was the only submarket to see a decrease in overall availability, which fell 0.6 pp to 22.7% as both sublet and direct availability declined. In addition to 766,300 SF of leasing activity, the submarket was helped by the withdrawal of several large blocks, some of which exceeded 100,000 SF. 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.
- Midtown South availabilities rose 0.7 pp to 19.5%, their highest on record. The rate was driven up by several large direct additions including a 553,000 SF block at One Madison, currently under renovation, and 133,500 SF at 105 Madison Avenue. While direct availability increased, the sublet availability rate declined for a second straight quarter, reaching 4.4%.
- Despite increasing from last quarter, Midtown’s overall availability remains the lowest of the three major submarkets at 16.9%. Both sublet and direct availability increased in Q4 as the handful of large leases was overpowered by sizeable block additions in every corridor, including full-building availabilities at 220 W 42nd Street and 511 Fifth Avenue.
- Availability has been mired in the 18% range for nearly two years and a slow fourth quarter did not improve that figure. Still, the major renovations underway across Manhattan along with pent-up demand from Class A tenants will continue to drive activity over the next twelve months, allowing availability to decrease.

DIRECT VS SUBLET AVAILABILITY RATE



AVAILABILITY RATE BY SUBMARKET



All sources: CoStar, Transwestern

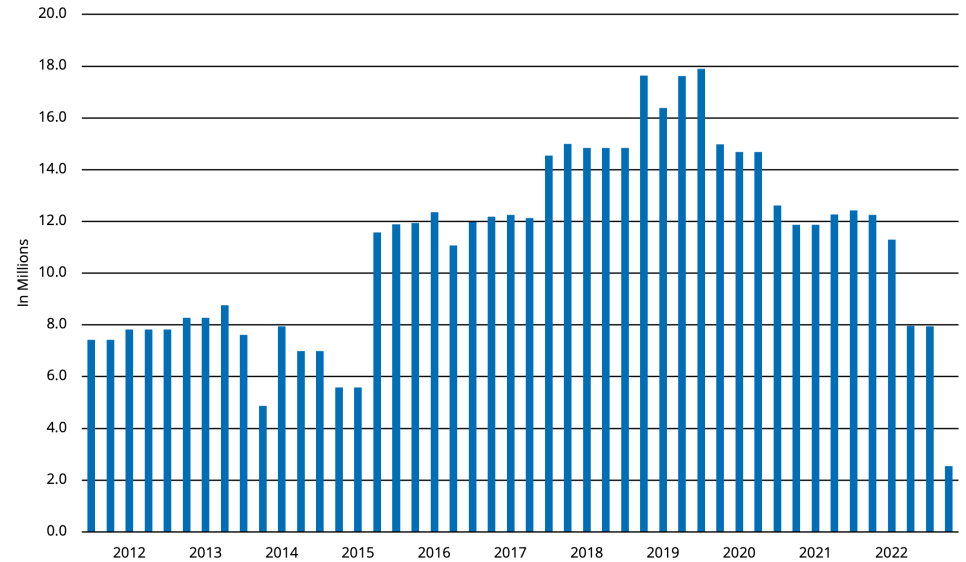


UNDER CONSTRUCTION AND RECENT DELIVERIES

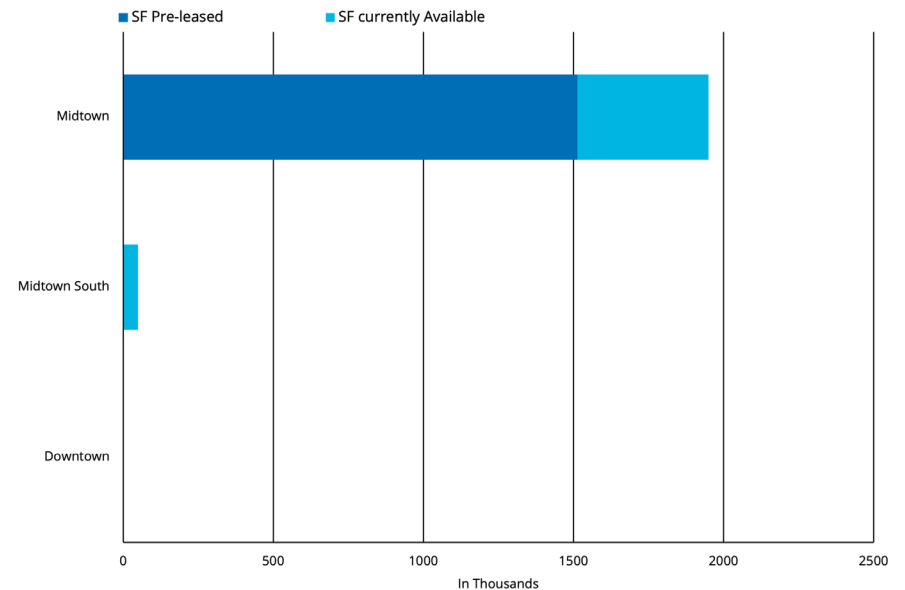
Construction and renovations continue to drive market interest

- Manhattan construction levels are at their lowest point in over a decade, with just four new buildings underway. The new construction equates to roughly 2.3 MSF, well below the five-year quarterly average of 13.1 MSF. Another 4.3 MSF is under renovation across the borough.
- Midtown continues to be the hub for a large portion of Manhattan’s premier office space, particularly in the Penn District and Hudson Yards areas of Penn Plaza. Both The Spiral (66 Hudson Blvd) and 50 Hudson Yards were completed in Q4, while Two Manhattan West (385 Ninth Avenue) is expected to deliver in early 2023. Notably, construction at 3 Hudson Boulevard has been put on hold. The tower has been removed from the in-construction total until progress resumes.
- The long-anticipated redevelopment of the Farley Post Office at 341 Ninth Avenue was completed in Q4, as was the 16-story 555 Greenwich Street in Midtown South. Projects under construction include 132 W 14th Street, which will be developed into boutique office space, and the Hudson Arts Building at 220 Eleventh Avenue. In addition, there are renovations underway at 295 Fifth Avenue and One Madison Avenue.
- Looking Downtown, transformation continues at 56 North Moore Street, 111 Wall Street, which is open for leasing, and 101 Franklin Street, due to finish in 2024. As a side note, 25 Water Street, formerly known as Four New York Plaza, has been removed from Downtown’s inventory based on anticipated conversion to residential.
- In addition to the current construction, there is 13.1 MSF of Class A office product proposed or planned in Manhattan. Many buildings are preparing for major renovations; as market conditions improve, we expect to see more Class B assets improve their offerings in order to compete for tenants.

UNDER CONSTRUCTION



UNDER CONSTRUCTION BY SUBMARKET



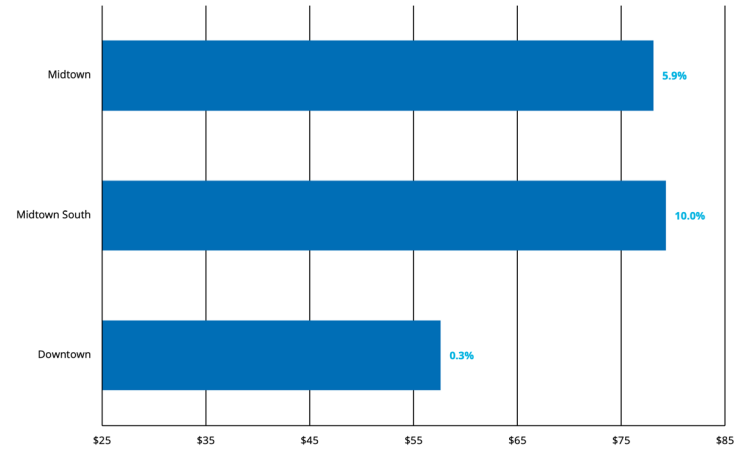


RENTAL RATES

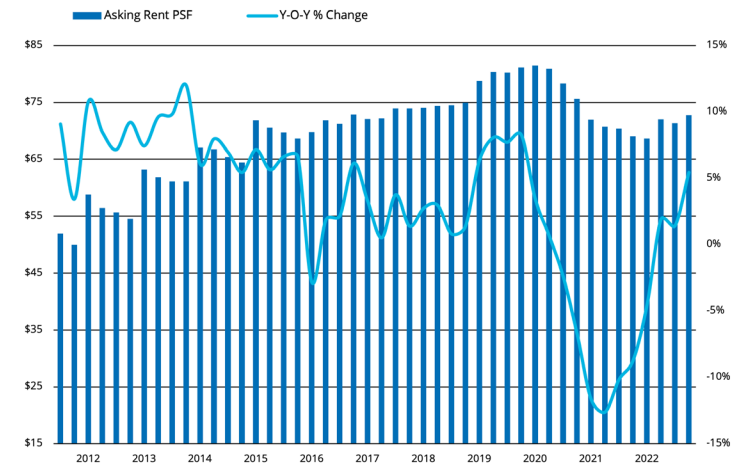
Rents record strongest annual growth of pandemic

- Manhattan asking rents grew 5.4% from their year-ago level to \$72.79 PSF, an increase of 2.0% from last quarter. Class A rents gained 6.0% year-over-year, while Class B moved up 1.1% over the same time period. Overall, asking rents remain 10.6% below their Q1 2020 peak.
- Increases were logged in all three of Manhattan's major submarkets, both in-quarter and year-over-year, a first since the onset of COVID. The pricey new availabilities at trophy properties, particularly in Midtown and Midtown South, helped contribute to the rise in asking rents.
- Midtown South saw rents surpass their Midtown counterparts for the first time on record, finishing the year at \$79.29 PSF, compared with \$72.06 PSF a year ago. Midtown's rents came in at \$78.09 PSF, some 5.9% above the year ago level.
- Downtown rates increased for the first time since the pandemic began, reaching \$57.60 PSF. While high sublet availability continues to put pressure on Downtown rents, some sublets in buildings like Four World Trade and One Liberty Plaza are citing above-average asking prices.
- Sublet space is finally easing up, which will help take pressure off rents going forward. We expect rents to continue their gradual rise as landlords continue to push to accommodate the flight to quality.

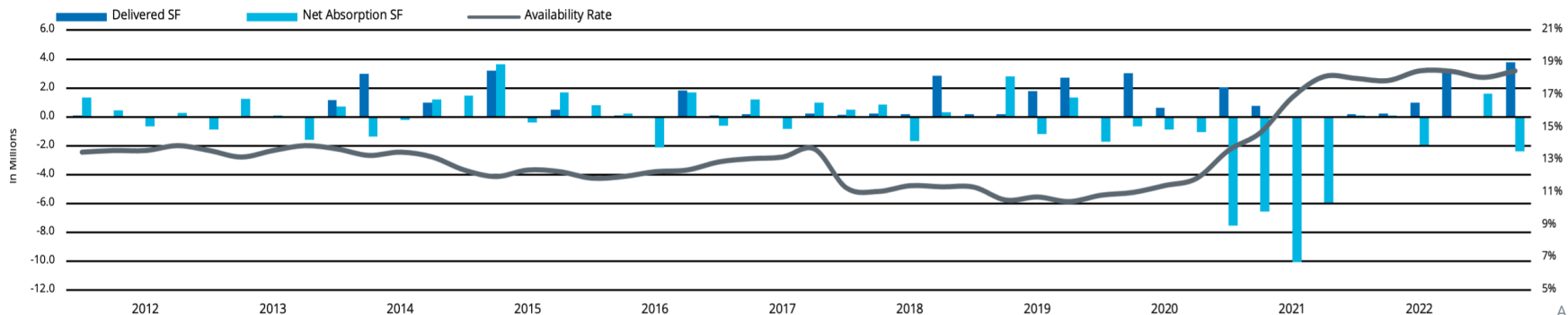
ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



ASKING RENT



DELIVERY IMPACT ON KEY INDICATORS



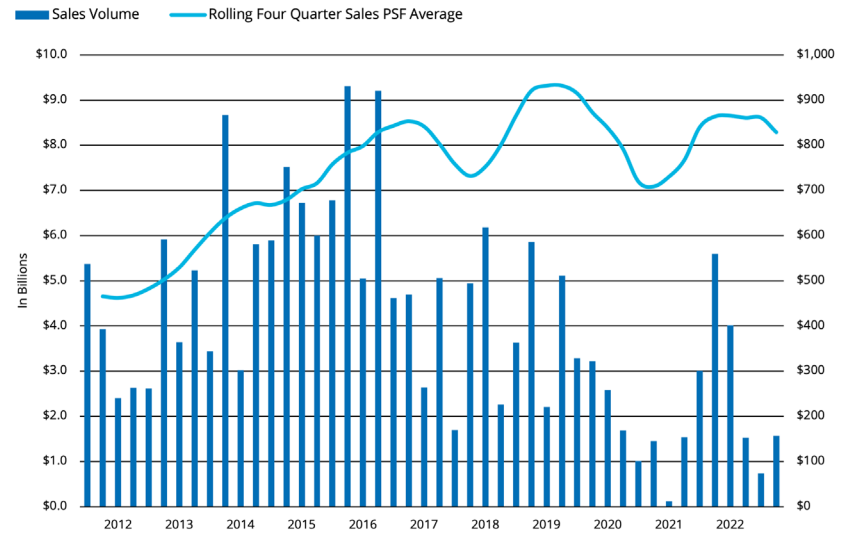


SALES

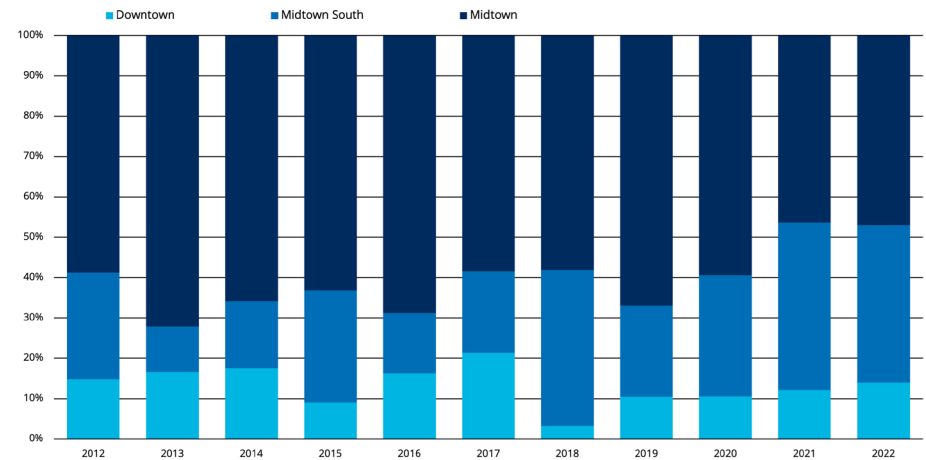
Transaction volume improves

- Manhattan office sales volume reached nearly \$1.6 billion in Q4 2022, an improvement on the two prior quarters. Volume for the full year was roughly \$7.9 billion, below the \$10.3 billion generated in 2021. In comparison, the average annual sales volume in the five years prior to the pandemic was \$19.7 billion.
- The largest transaction in Q4 was the sale of 1330 Avenue of the Americas in Midtown. The tower sold for \$320 million, translating to pricing of \$597 PSF. Other significant trades included the former AIG Headquarters at 175 Water Street for \$252 million, and 25 Water Street, which will be converted to 1300 residential apartment units, for an estimated \$250.8 million. In addition to the sale price, a \$535.8 million construction loan was arranged to support the latter's conversion.
- Additionally, the minority interest in 200 Fifth Avenue was sold for a reputed \$280.2 million, a deal which would value the building at just over \$1 billion, working out to pricing of more than \$1,100 PSF.
- The average sales price for the quarter came in at \$722 PSF, the lowest since Q2 2020.
- 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, despite several high-profile transactions. 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



OFFICE SALES BY SUBMARKET





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
FOX CORP.	1211 Ave of the Americas	Midtown	Direct / Extension	670,000
NEWS CORP.	1211 Ave of the Americas	Midtown	Direct / Extension	486,000
KKR	30 Hudson Yards	Midtown	Direct	219,400
FEDCAP GROUP	124 E 14th St	Midtown South	Direct	85,000
APOLLO GLOBAL MANAGEMENT	9 W 57th St	Midtown	Direct / Expansion	64,700
IDEAL SCHOOL OF MANHATTAN	5 Hanover Sq	Downtown	Direct	63,000
VIBRANT EMOTIONAL HEALTH	80 Pine St	Downtown	Direct	59,600
AXA XL	225 Liberty St	Downtown	Direct	56,000

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
2 PENN PLAZA	Midtown	894,400	Direct
1 MADISON AVE	Midtown South	553,000	Direct
220 EAST 42ND ST	Midtown	266,700	Sublet
220 WEST 42ND ST	Midtown	242,900	Direct
51 WEST 52ND ST	Midtown	232,200	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1330 AVE OF THE AMERICAS	Midtown	\$320,000,000	535,600	\$597	Creed Equities, Nassimi Realty, Empire Capital Holdings, Hakimian Capital, CH Capital Group	Blackstone, RXR Realty
200 FIFTH AVENUE	Midtown South	\$280,200,000*+	878,000	\$1,182	Boston Properties	LandL JV JPM Asset Mgmt
175 WATER ST	Downtown	\$252,000,000	684,000	\$368	99C LLC	Vanbarton Group
FOUR NEW YORK PLAZA / 25 WATER ST	Downtown	\$250,800,000+	1,016,400	\$247	Metro Loft, GFP Real Estate, Rockwood Capital	EDGE Fund Advisors, HSBC Alt
40 FULTON STREET	Downtown	\$101,000,000	251,000	\$402	David Werner	Vornado

Source: CoStar, Real Capital Analytics, Transwestern

* = Partial interest

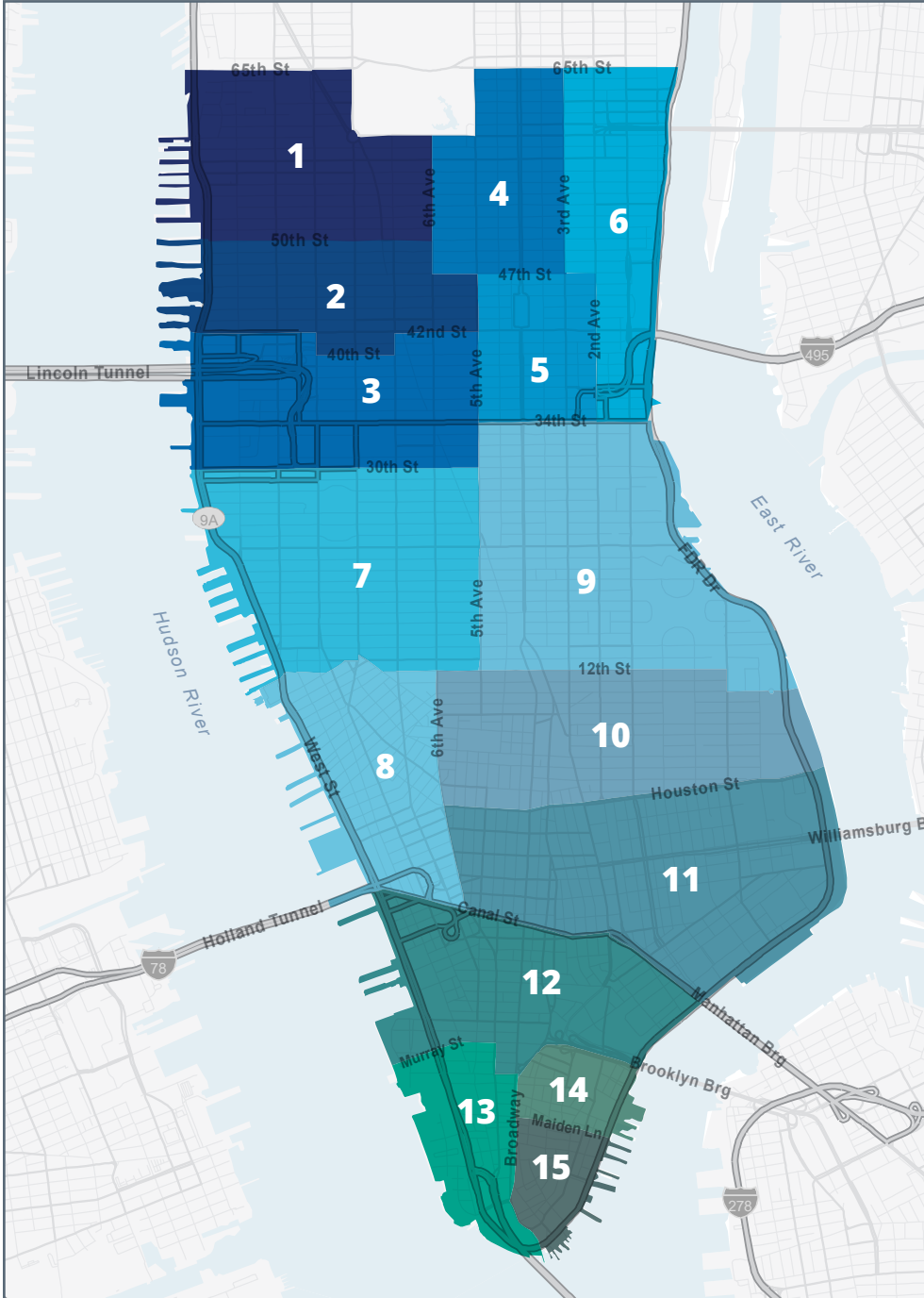
+ = Estimated sale price



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
CHELSEA/FLATIRON	26,505,311	60,150	483,446	17.1%	15.9%	\$97.83	\$60.13	\$66.09
GRAMERCY PARK	32,042,701	-351,767	-231,773	21.6%	19.4%	\$101.81	\$63.36	\$83.28
GREENWICH VILLAGE	5,569,810	31,397	-591,252	19.9%	13.8%	\$109.28	\$108.55	\$108.60
HUDSON SQUARE	9,572,395	-214,355	-439,658	21.2%	12.4%	\$88.85	\$72.78	\$84.27
SOHO	5,716,180	-63,929	49,076	15.7%	14.7%	\$76.70	\$73.59	\$75.06
MIDTOWN SOUTH TOTAL	79,406,397	-538,504	-730,161	19.5%	16.7%	\$97.36	\$67.84	\$79.29
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
TOTAL	457,849,283	-2,389,925	-2,830,976	18.5%	15.2%	\$76.35	\$60.00	\$72.79



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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