TRANSWESTERN

DOWNTOWN MANHATTAN OFFICE MARKET

Q1 2023

TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.4	6.9	↓	7.3	↓
NET ABSORPTION (Thousands SF)	32.3	(596.2)	↑	(419.2)	↑
OVERALL VACANCY RATE	18.1%	16.3%	↑	13.5%	↓
OVERALL VACANT SF (MSF)	16.7	15.2	↑	12.5	↓
UNDER CONSTRUCTION (MSF)	0.1	0.1	↔	0.2	↔
ASKING RENT (PSF)	$55.70	$57.11	↓	$61.32	↑
SALES VOLUME (Millions)	$273.5	$8.7	↑	$252.6	↑

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

DOWNTOWN READYING FOR RECOVERY

Downtown leasing totaled 536,200 SF in Q1, with just one new lease exceeding 50,000 SF noted. Asking rents fell to their lowest point since the onset of COVID as the ongoing increase in sublease space continued to place downward pressure on rates. Still, the submarket is continuing to see small improvements as we move through 2023: Downtown had the only positive net absorption among Manhattan's three major submarkets, and numerous assets are being eyed for upgrades and conversions, which should generate renewed interest from occupiers.

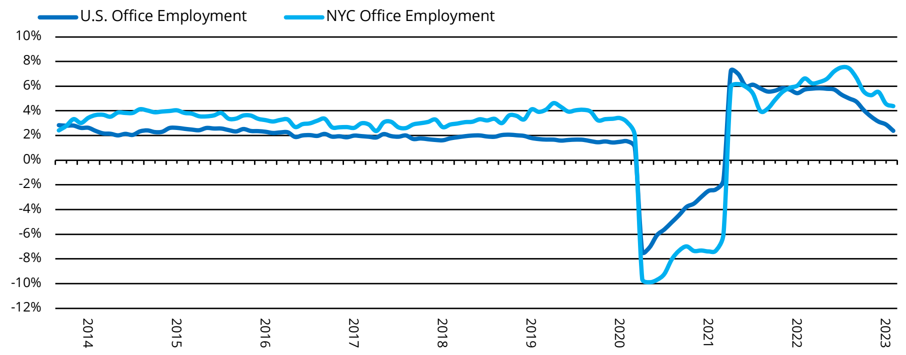
"Tenants are continuing to get a handle on the shifting landscape as they balance hybrid work plans alongside a general concern over the current economic climate," said Thomas Hines, Senior Vice President, Transwestern. "We are seeing tenants become more active as they recognize opportunities to leverage the market and take advantage of historically high availability. The landlords who have been forward-thinking with renovations and developed a unique identity for their assets are seeing the most success in attracting occupiers."

ECONOMY

NYC office employment still growing

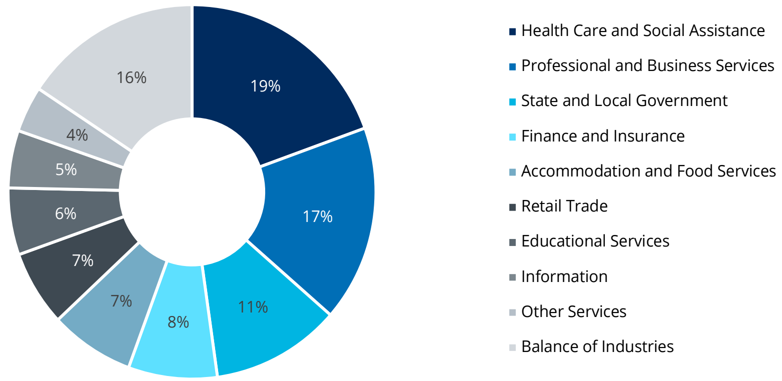
- New York City office employment is now 2% higher than the pre-COVID level, translating to almost 2.1 million office employees. Office jobs grew 4.4% from a year ago in February. Moreover, recent population data shows a large influx of Gen Z into New York City, infusing the workforce with young talent.
- Office jobs also continue to increase nationally, reaching 35.1 million positions as of February 2023, some 5.7% higher than the pre-COVID level. Annual job growth is normalizing but still above the pre-COVID pace at 2.4%.
- Helped by the strong showing in the office sector, New York City's overall unemployment rate is holding in the mid-5% range. The February rate of 5.4% is 1.5 percentage points [pp] below the year-ago level. National unemployment currently stands at 3.5%, on par with pre-COVID rates.
- New York City's Health Care & Social Assistance industry continues to add more jobs than any other sector, gaining about 73,100 jobs over the past year. Robust job increases were also seen in the Accommodation & Food Services sector and the Finance & Insurance sector; the latter added nearly 16,000 jobs in the past year despite its slower progress in earlier quarters. Information and Educational Services were among the sectors showing declines year-over-year.
- New York's economy faces challenges, including tech job layoffs, federal interest rate hikes, and the recent banking crisis, any of which could lead to a bump in unemployment over the next few quarters. Additionally, Kastle office data suggests reoccupancy levels are below 50% and have not made any real progress over the last six months. While the hybrid and work-from-home trends mean there is less correlation between lower employment levels and decrease in office usage than there has been historically, the uncertain economic conditions are likely to weigh on the commercial real estate market in the near term.

Y-O-Y CHANGE IN OFFICE JOBS



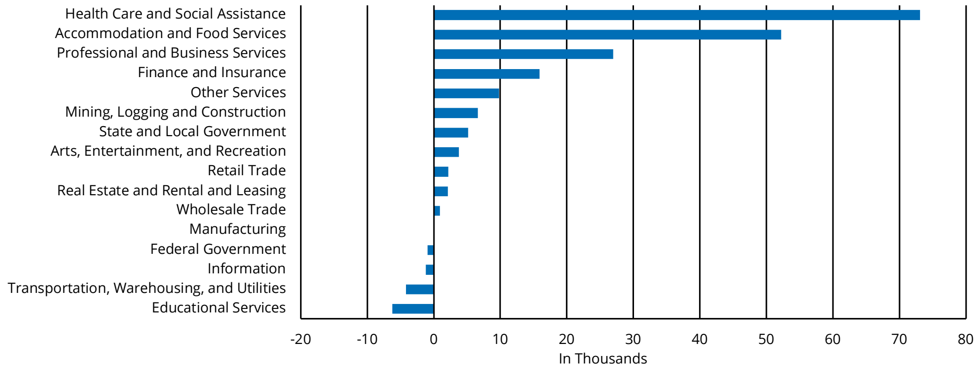
SHARE OF EMPLOYEES BY INDUSTRY

New York City | February 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



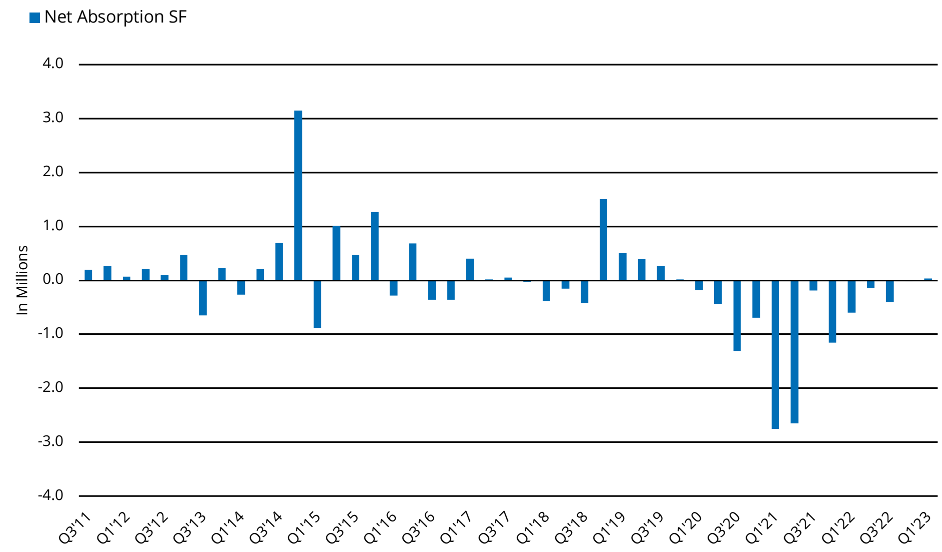
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

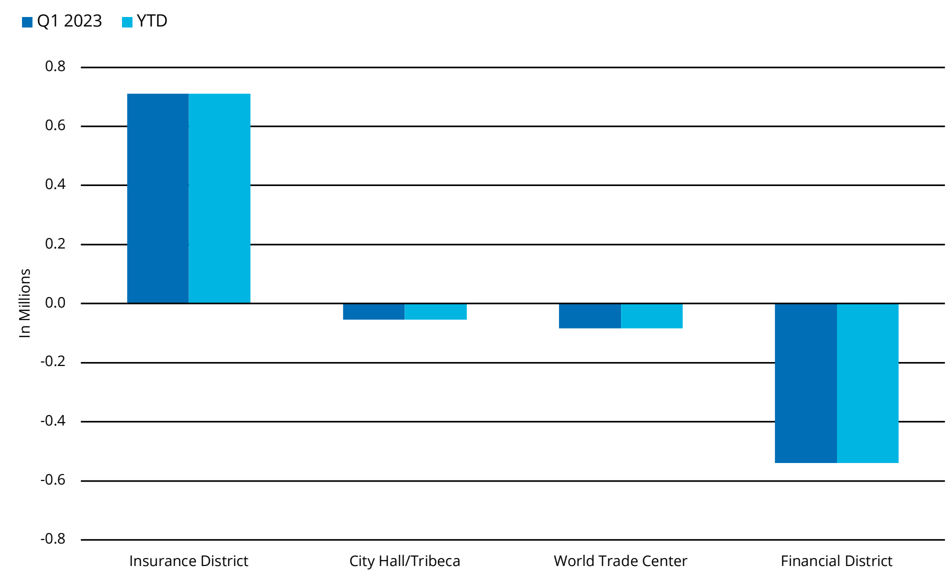
Downtown absorption turns positive

- Downtown Manhattan logged 32,250 SF of positive net absorption in Q1, the first positive result after 12 negative quarters.
- Among Downtown's smaller submarkets, the Insurance District was the only division to see a positive result, generated as a 676,000 SF block was taken off the market at 175 Water Street. The building withdrew the space in preparation for a major overhaul now that former anchor AIG has moved to Midtown.
- The largest lease signed Downtown was a 68,500 SF sublease made up by Revlon at 55 Water Street in the Financial District submarket. This submarket also faced four block additions exceeding 50,000 SF each, including a previously listed 107,000 SF block at 32 Old Slip that is now within twelve months of lease-up, contributing to more than half a million square feet of negative net absorption.
- Large blocks were also added in the City Hall/Tribeca and World Trade Center submarkets, which ended with respective absorption of negative 54,700 SF and negative 83,800 SF. Activity in the latter submarket included a 48,500 SF sublease from Axsome Therapeutics at One World Trade, a 44,000 SF sublease from StubHub, which traded Midtown for 3 World Trade, and Capstone's 40,200 SF relocation within 7 World Trade.
- Absorption in Downtown Manhattan is gradually improving but continues to be challenged by large block additions and by the submarket's high proportion of older building stock. Recent renewals and expansions by established companies should help generate further confidence as we move through 2023. Additionally, there are several high-profile office-to-residential conversions underway Downtown, which should assist absorption going forward.

NET ABSORPTION - DOWNTOWN



NET ABSORPTION BY SUBMARKET



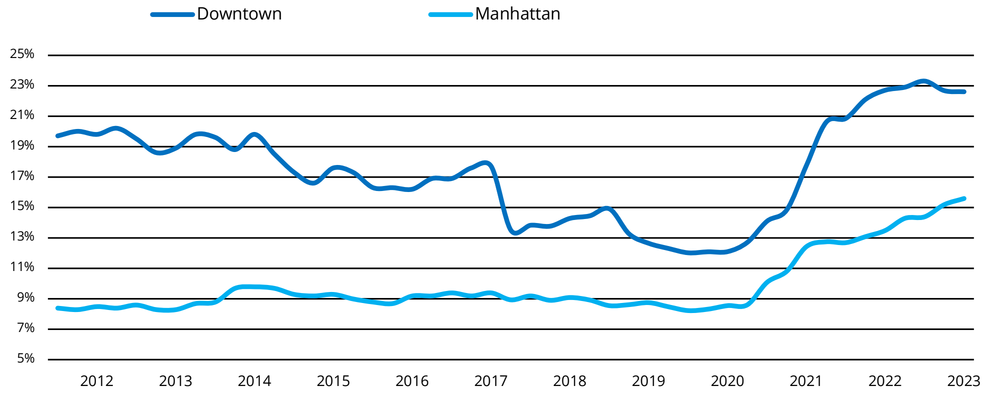
Source: CoStar, Transwestern

AVAILABILITY

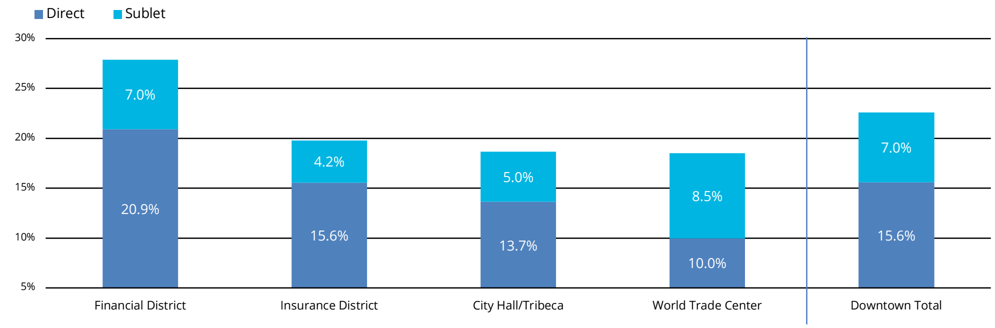
Availability decreases mildly

- Downtown's availability rate decreased 0.1 pp from year-end to 22.6% in the first quarter. In comparison, Downtown's average availability level was around 15% in the five years pre-pandemic.
- Direct availabilities fell by 0.5 pp to 15.6%. As direct leasing was quiet Downtown, the decrease in availability can be largely attributed to the withdrawal of AIG's former space in the Insurance District, which is no longer being marketed. The Insurance District was likewise the only Downtown submarket to record a decrease in availability.
- In contrast, Downtown sublet availability rose 0.5 pp, returning to its Q3 2022 peak of 7%. This represents 31.1% of Downtown's total availability. While a few moderately sized subleases were signed this quarter, large sublet blocks are still prevalent. There are currently ten Downtown assets with more than 200,000 SF of sublet space available, presenting attractive, discounted opportunities for large occupiers.
- The World Trade Center submarket retains Downtown's highest sublet availability rate at 8.5%, equating to 46% of that neighborhood's total available space. The Insurance District has the lowest sublet availability at 4.2%, representing 21.4% of the available 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 the last two quarters have seen a slight narrowing as Downtown's rate begins to descend. Still, we are cautious of market uncertainty and plateauing reoccupancy levels that could cause the rate to rise again.

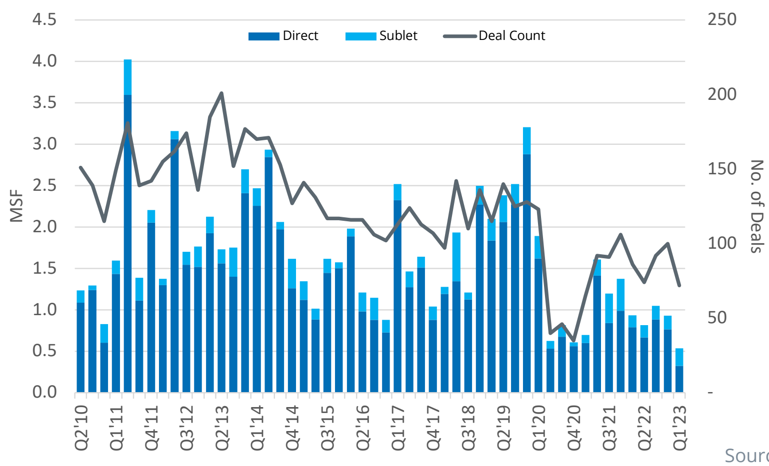
SUBMARKET AVAILABILITY VS MANHATTAN



SUBMARKET AVAILABILITY



DOWNTOWN LEASING ACTIVITY



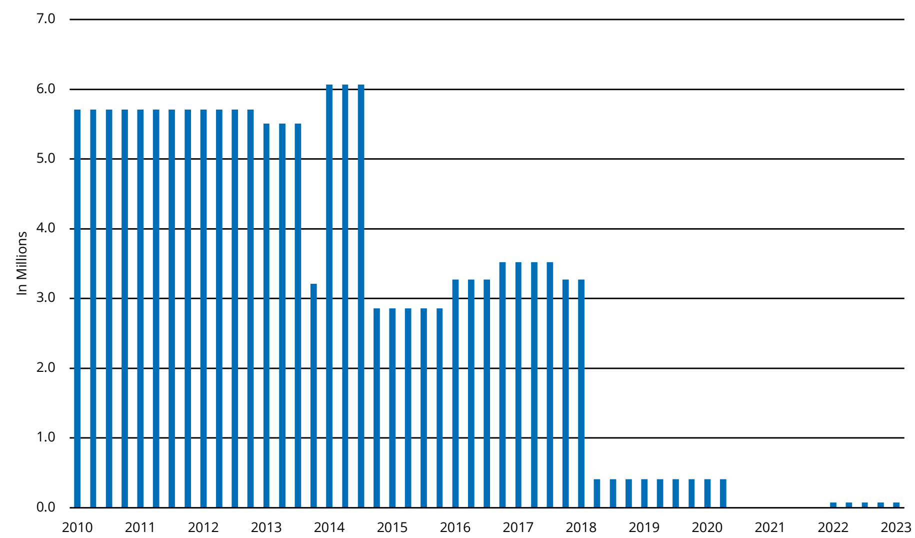
Source: CoStar, Transwestern

UNDER CONSTRUCTION

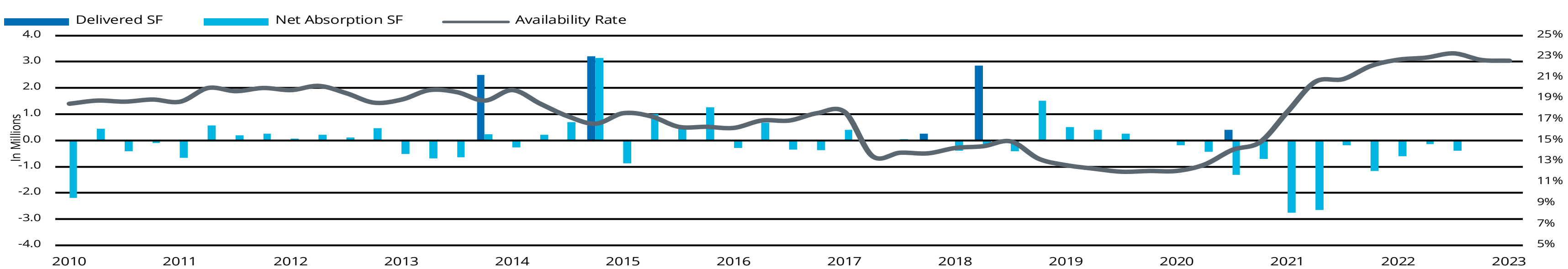
Rejuvenated spaces should drive submarket interest

- Most of Downtown's construction activity continues to be focused on renovations and repositioning, rather than ground-up development. There are significant upgrades underway in several Downtown assets, with more expected to follow.
- Current redevelopment projects include 111 Wall Street in the Financial District submarket, which is now open for leasing after a $100 million overhaul, and the former parking garage at 56 North Moore Street in the City Hall/Tribeca submarket, which is being revamped as 75,400 SF of boutique Class A office product.
- Several Downtown properties are being evaluated for conversion to residential. Transformation is already underway at 25 Water Street, and nearby 160 Water Street is being targeted as well. Alterations like these will not only support Downtown's evolution as a 24/7 live-work area, but also serve to remove excess office stock from inventory.
- Apart from the restructuring, there is also 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 proposed properties range from 2025 out through 2028, with some hinging on securing an anchor tenant.
- We are currently seeing numerous Class B assets preparing for renovations in order to compete for tenants. New and renovated spaces should help Downtown benefit from the ongoing flight to quality, but the likelihood of completion depends on an improvement in market conditions and investor confidence.

UNDER CONSTRUCTION - DOWNTOWN



DELIVERY IMPACT ON KEY INDICATORS



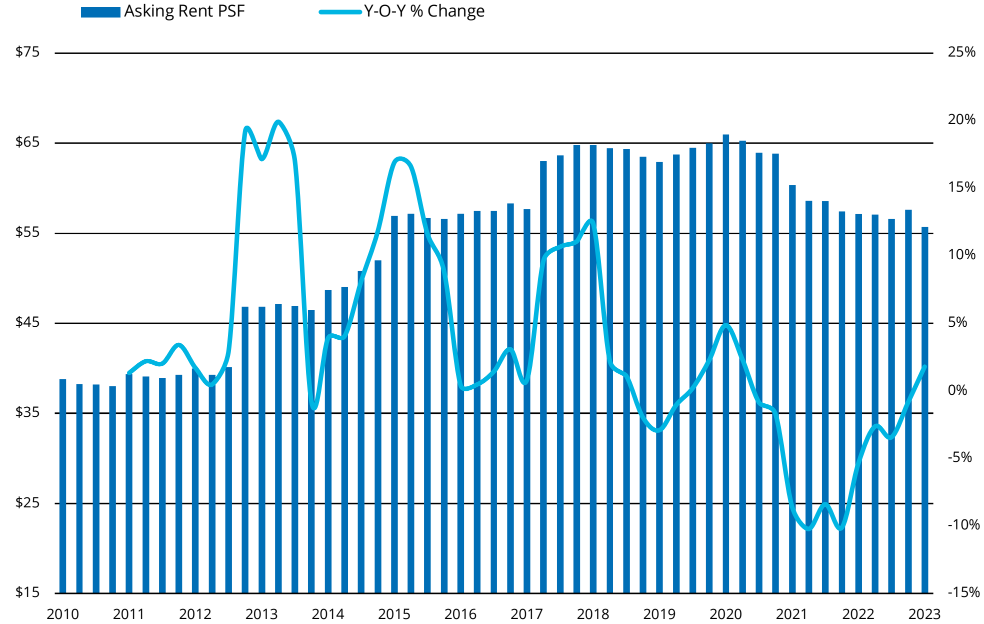
Source: CoStar, Transwestern

RENTAL RATES

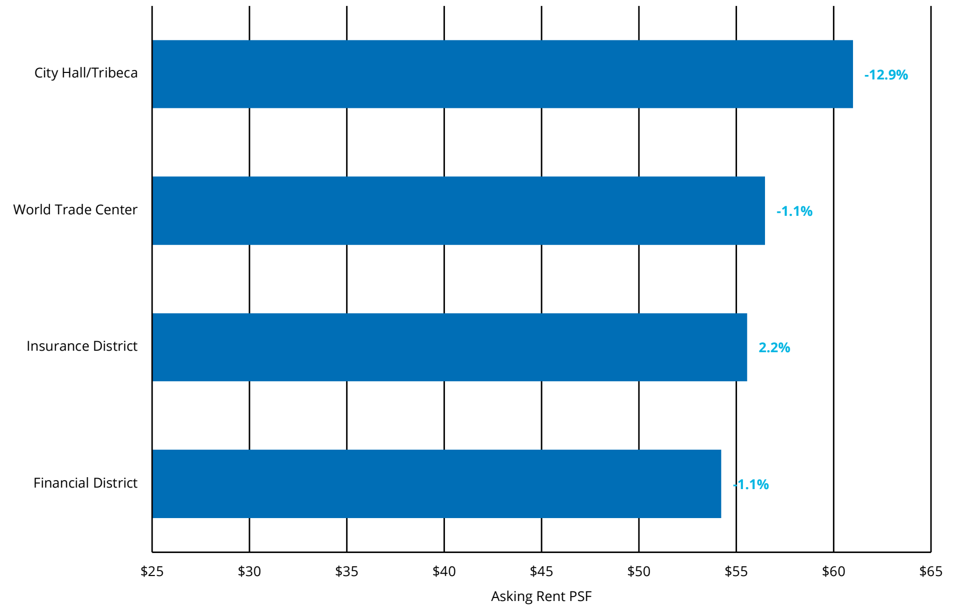
Downtown rents fall again

- After a brief tick upward in Q4, Downtown rents fell to their lowest in almost a decade, dropping 3.3% to $55.70 PSF. Rents are now 2.5% below their year-ago level, and 15.6% below the pre-pandemic peak of $65.98 PSF.
- Rent decreases were seen in all of Downtown's submarkets, both quarter-on-quarter and year-over-year. The one exception was the Insurance District, where rents increased 2.2% from a year ago.
- Downtown's general excess of sublet space is continuing to inhibit meaningful rent growth. Additionally, as some Class A properties like One World Trade, 3 World Trade and 4 World Trade have seen strong lease-up rates, lower priced space has remained on the market, keeping rents in check.
- Amid this restrained environment, we are seeing increased opportunities for tenants, particularly at non-trophy and Class B assets, as well as buildings with high vacancies.
- Downtown's numerous 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



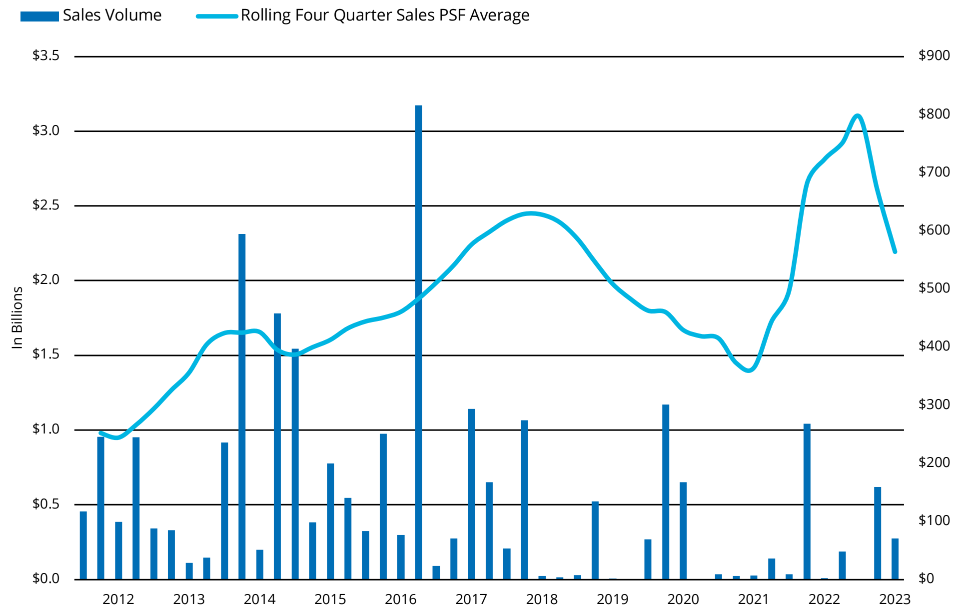
Source: CoStar, Transwestern

SALES

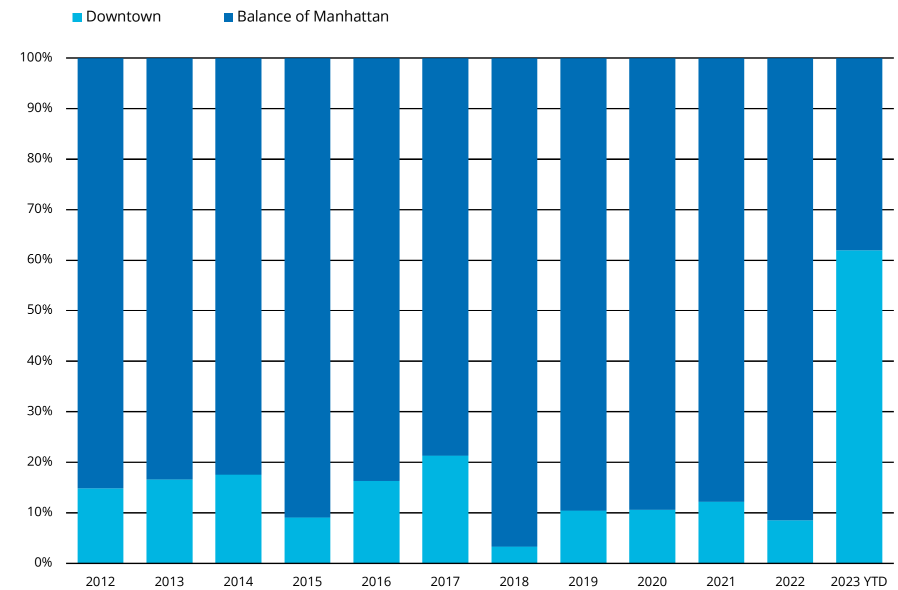
Downtown boasts largest transactional sale of Q1

- The sale of 15 Laight Street in the City Hall/Tribeca submarket comprised the entirety of Downtown's core sales activity in the first quarter, and almost two-thirds of Manhattan's total volume. The 108,000 SF modern midrise asset was sold to Hyundai Motor Group for more than $2,500 per square foot, the highest on record for a Downtown Manhattan core office asset.
- The trade established Downtown sales volume at $273.5 million, less than half the Q4 2022 level. Rolling four-quarter sales volume was $1.1 billion, compared with $1.2 billion in the prior four quarters (Q2 2021 – Q1 2022). For perspective, Downtown's average four-quarter rolling sales volume in the five years prior to the pandemic was roughly $2.4 billion.
- Higher interest rates and the overall economic climate contributed to investors' reluctance to take on more debt as we entered 2023. Transaction volume will likely remain constrained over the next several quarters due to banking uncertainty, limited liquidity, ongoing price discovery, and reduced 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
REVLON	55 Water St	Financial District	Sublease	68,500
AXSOME THERAPEUTICS	One World Trade	World Trade Center	Sublease	48,500
STUBHUB	3 World Trade	World Trade Center	Sublease	44,000
CAPSTONE INVESTMENT ADVISORS	7 World Trade	World Trade Center	Direct Expansion	40,200

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
200 HUDSON ST	City Hall/Tribeca	193,300	Direct
32 OLD SLIP	Financial District	125,100	Direct
85 BROAD ST	Financial District	115,800	Sublet
1 WHITEHALL ST	Financial District	94,200	Direct
195 BROADWAY	World Trade Center	82,000	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
15 LAIGHT ST	City Hall / Tribeca	$273,500,000	108,000	$2532	Hyundai Motor Group	Vanbarton Group

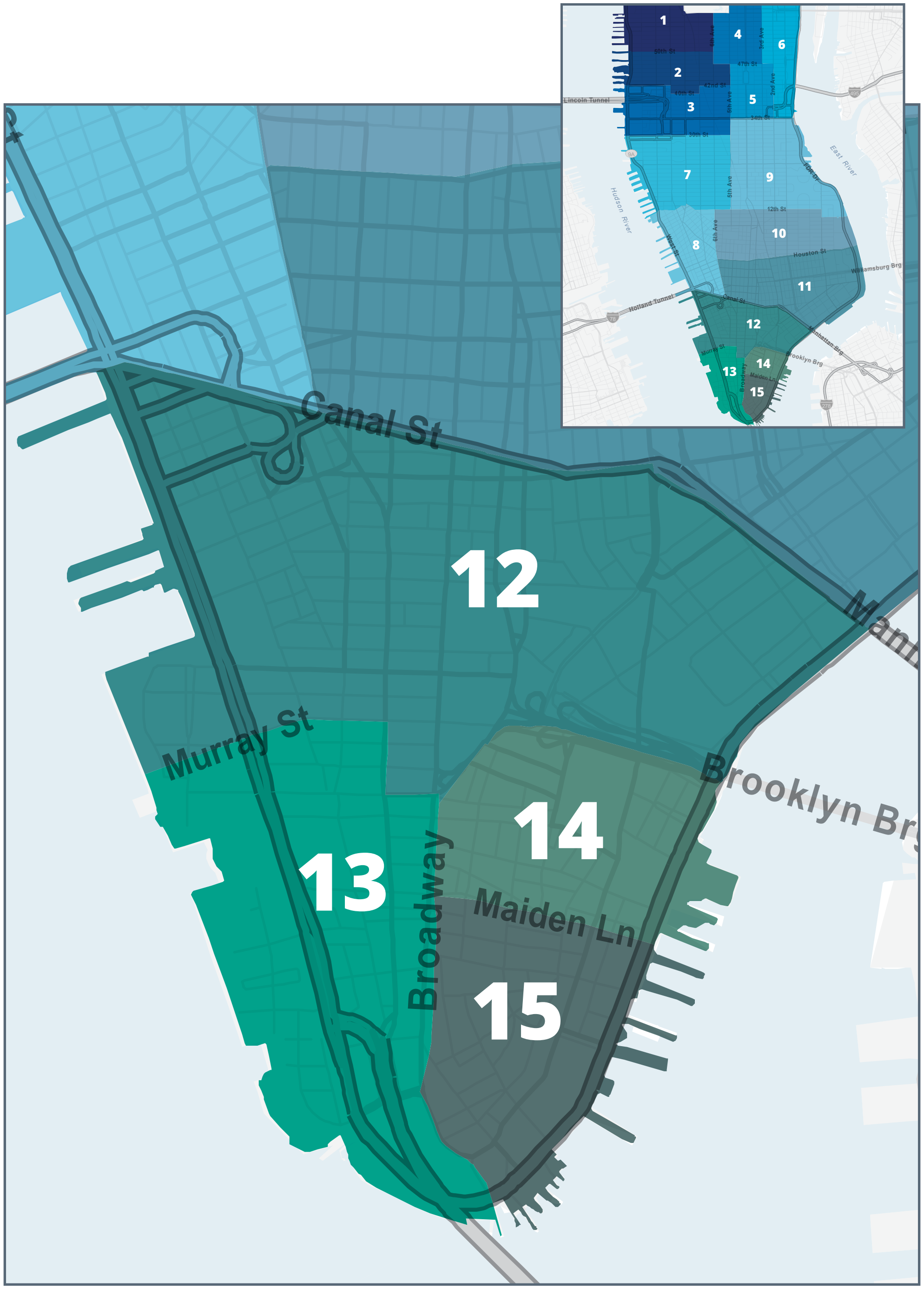
Source: CoStar, Transwestern

MARKET INDICATORS

All Classes of Space | Q1 2023

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	10,077,685	-54,701	-54,701	18.7%	16.6%	$63.44	$46.78	$60.99
FINANCIAL DISTRICT	38,848,503	-539,244	-539,244	27.9%	21.9%	$54.94	$49.31	$54.24
INSURANCE DISTRICT	9,961,995	709,970	709,970	19.8%	16.7%	$57.45	$41.97	$55.55
WORLD TRADE CENTER	33,357,182	-83,769	-83,769	18.5%	14.4%	$58.17	$41.69	$56.48
DOWNTOWN TOTAL	**92,245,365**	**32,256**	**32,256**	**22.6%**	**18.1%**	**$57.00**	**$46.07**	**$55.70**

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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ABOUT TRANSWESTERN

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