TRANSWESTERN

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)	(1,196.2)	(1,960.4)	↑	(1,757.5)	↑
OVERALL VACANCY RATE	15.6%	13.5%	↑	11.1%	↓
OVERALL VACANT SF (MSF)	71.9	61.9	↑	49.9	↓
UNDER CONSTRUCTION (MSF)	2.8	11.3	↓	12.5	↔
ASKING RENT (PSF)	$71.62	$68.68	↑	$74.95	↑
SALES VOLUME (Millions)	$441.7	$4,109	↓	$2,623.5	↑

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

MANHATTAN LEASING TOTALS 4.6 MSF

Manhattan leasing activity measured 4.6 MSF in the first quarter of 2023, the lowest in two years. There were five deals exceeding 100,000 SF, including two new leases and two expansions. Large block additions affected every one of Manhattan's fifteen submarkets, leaving absorption in the red and pushing availability to its highest level on record, as sublet availability surpassed 5% of total inventory. Rent growth remains uneven; rents decreased from Q4 2022 but were ahead of their year-ago level.

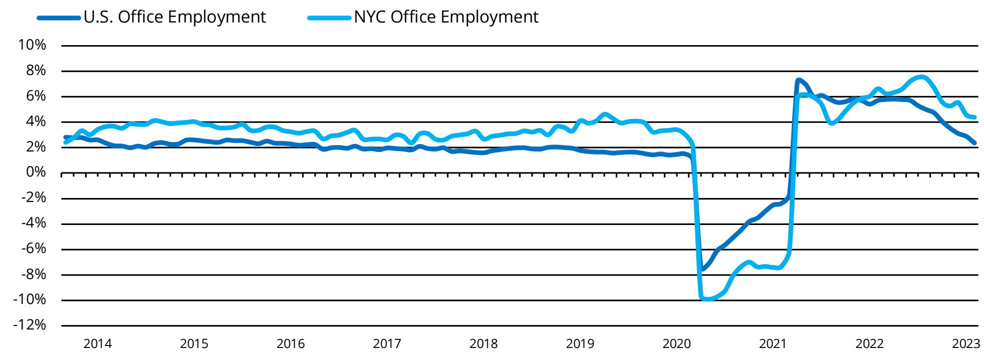
"Tenants are continuing to get a handle on the shifting landscape as they balance hybrid work plans alongside a general concern over the current economic climate," said Thomas Hines, Senior Vice President, Transwestern. "We are seeing tenants become more active as they recognize opportunities to leverage 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

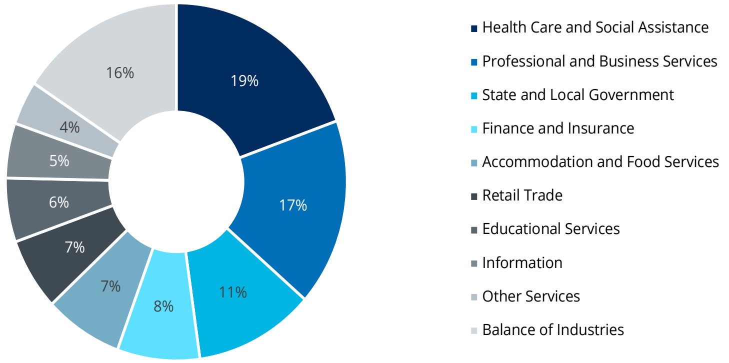
- New York City office employment is now 2% higher than the pre-COVID level, translating to almost 2.1 million office employees. Office jobs grew 4.4% from a year ago in February. Moreover, recent population data shows a large influx of Gen Z into New York City, infusing the workforce with young talent.
- 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



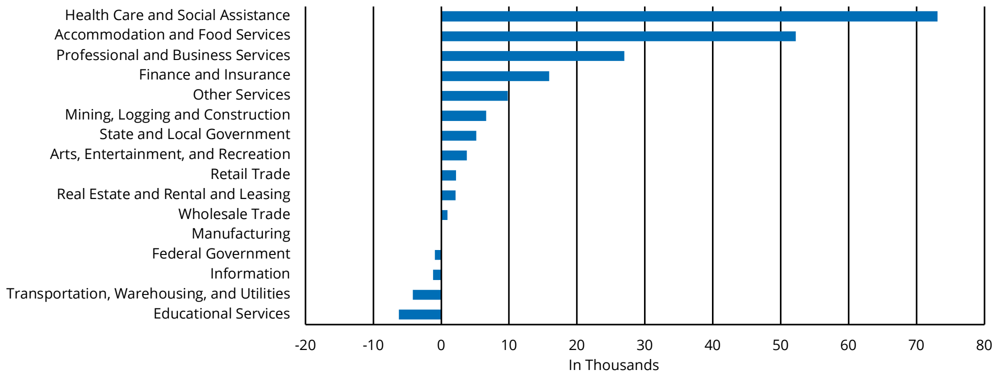
SHARE OF EMPLOYEES BY INDUSTRY

New York City | February 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



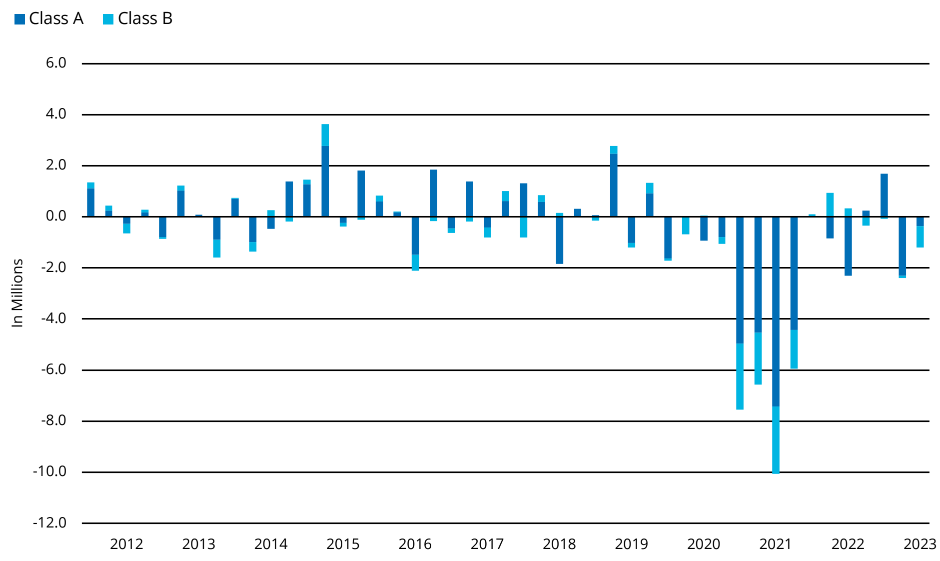
All sources: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

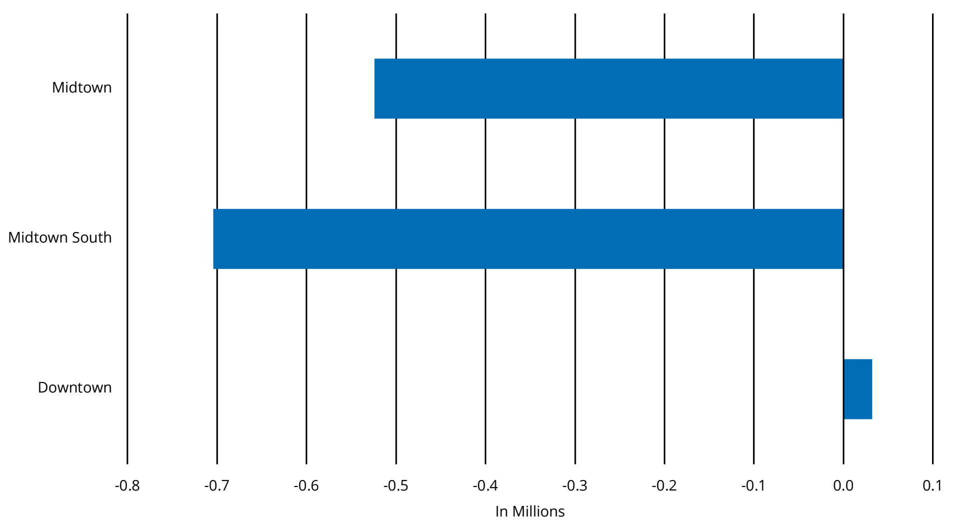
Absorption improves from Q4

- Manhattan recorded 1.2 MSF of negative net absorption in Q1 2023, a big improvement on the negative 2.4 MSF logged in Q4 2022.
- Downtown Manhattan saw the only positive result among Manhattan's three major submarkets, eking out 32,300 SF of net absorption. Most of the upside was due to a 676,000 SF block that was removed from the market at 175 Water Street; the building is preparing for a major overhaul now that its former anchor, AIG, has moved to Midtown.
- More than 20 blocks exceeding 50,000 SF, summing to over 2.2 MSF, were added in Midtown, its second consecutive quarter with this scope of additions. However, the submarket also benefited from several large new leases including Citadel's 393,150 SF deal at 40 E 52nd Street, Wilson Sonsini's 119,000 SF relocation to 31 W 52nd Street, which represents a significant expansion, and Joele Frank's 78,350 SF deal at 22 Vanderbilt Avenue (formerly known as 335 Madison Avenue). Submarket absorption improved sharply from last quarter, though still at negative 524,100 SF.
- Large block additions also contributed to more than 704,000 SF of negative net absorption in Midtown South. These additions included 143,800 SF of direct space at 51 Astor Place, where IBM's lease is set to expire, and a full-building, 199,000 SF sublet from Twitter at 245-249 W 17th Street. The largest new lease in Midtown South was a 92,300 SF sublease by Braze at 63 Madison Avenue.
- Though still negative, Manhattan absorption has improved from a year ago and is not out of scale with quarterly levels registered prior to the COVID era. Recent renewals and expansions by established companies should help generate further confidence as we move through 2023.

NET ABSORPTION BY CLASS



NET ABSORPTION BY SUBMARKET

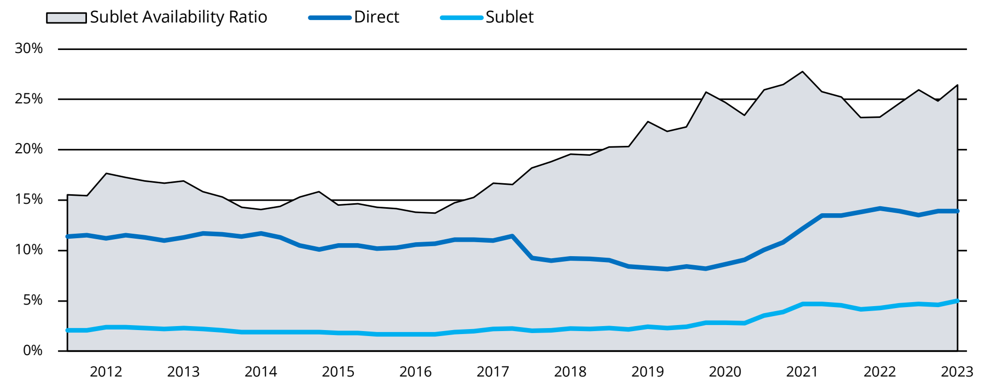


AVAILABILITY

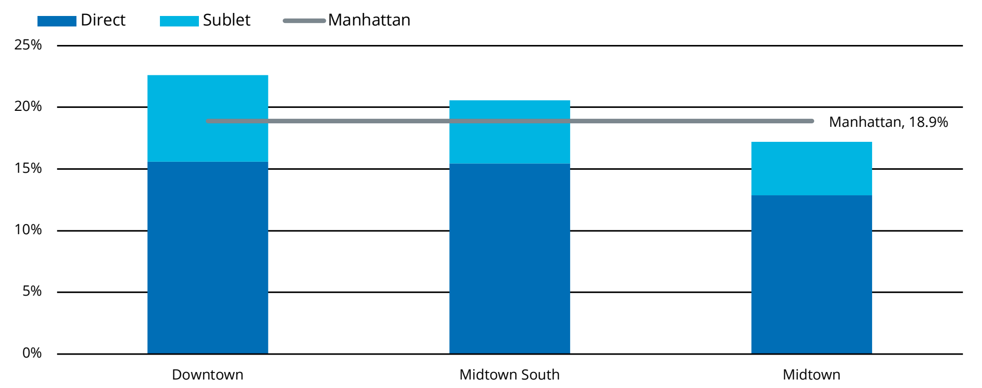
Availability drifts to record high

- The Manhattan availability rate reached an all-time peak of 18.9% in Q1 2023. Overall availability is currently 0.5 pp higher than a year ago.
- Both sublet and direct availability surpassed their prior peaks as well, with sublet availability now at 5.0% of total inventory, equating to 23.1 million square feet and representing 26.5% of the available total.
- Downtown was the only one of Manhattan's main submarkets to see a slight decrease in overall availability, which fell 0.1 pp to 22.6%. This was mainly due to a decrease in direct space; in contrast, sublet availability rose 0.5 pp to 7.0% of inventory, and now represents more than 31% of Downtown's available total. There are almost 20 Downtown buildings with more than 100,000 SF of sublease space available. Two of these are marketing more than half a million SF each of sublease space, presenting attractive, discounted opportunities for potential occupiers.
- Midtown South availabilities rose 1.1 pp to 20.6%, their highest on record, as both sublet and direct availability rates increased. Eight blocks exceeding 50,000 SF were added in the submarket, with only a handful of large leases to counteract the additional inventory.
- In Midtown, more than 2 million square feet of large block additions worked in opposition to a batch of sizable leases, many of which were renewals and did not help decrease availability. While direct availability was unchanged from last quarter, a rise in sublet space drove the overall availability rate up 0.4 pp to 17.2% in Q1.
- Manhattan's availability rate had begun to stabilize in 2022 but is moving upward again amid market uncertainty and plateauing reoccupancy levels. The divide between Class A and B is likely to become deeper amid the flight to quality; Class B availability is currently 20.1%, compared with 18.5% in Class A. Pent-up demand from tenants looking for an entry into the Manhattan market could help bring availability down as conditions improve.

DIRECT VS SUBLET AVAILABILITY RATE



AVAILABILITY RATE BY SUBMARKET



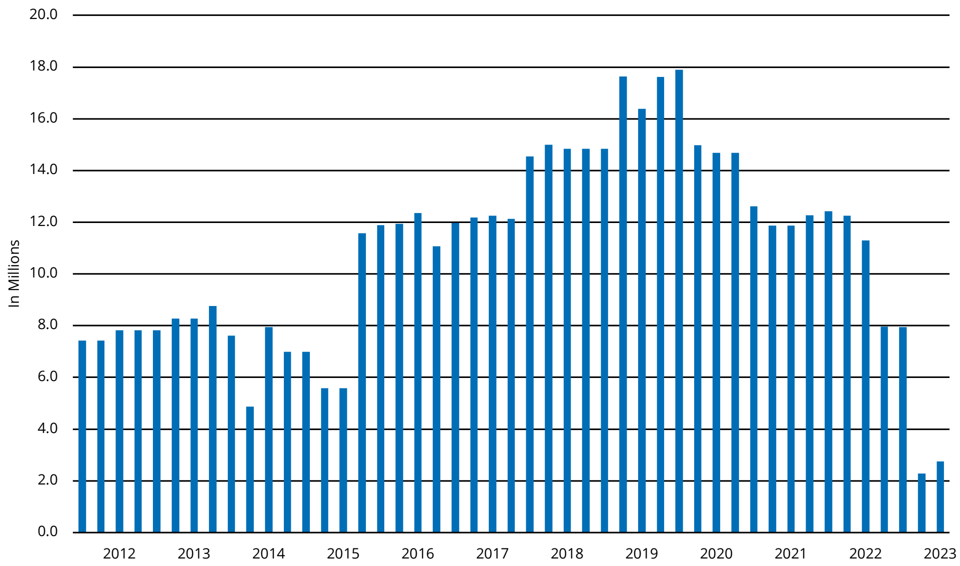
All sources: CoStar, Transwestern

UNDER CONSTRUCTION AND RECENT DELIVERIES

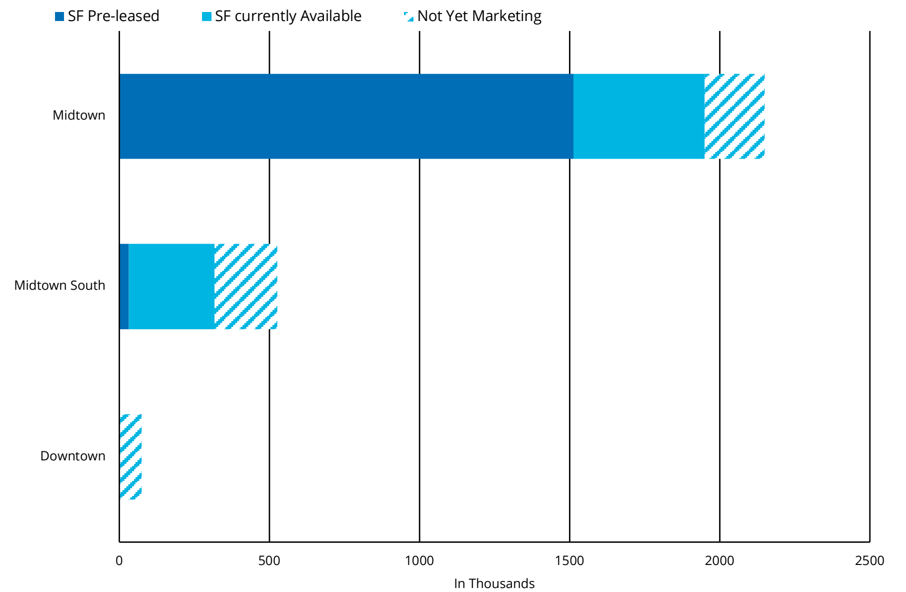
Construction and renovations are taking a breather

- Manhattan construction levels remain extremely low, with about 2.8 MSF of new core office underway. This is well below the five-year quarterly average of 12.5 MSF. Another 4.1 MSF is under renovation across the borough.
- Two Manhattan West, in Midtown, is nearly complete and represents the bulk of the new construction at almost 2 million square feet. Another large Midtown tower, 3 Hudson Boulevard, was put on hold late last year and removed from the under-construction total. Several demolition sites in Midtown, including 343 Madison Avenue and 415 Madison Avenue, are prepping for new office towers.
- In Midtown South, One Madison Avenue is wrapping up its extensive renovations, while the boutique office building at 132 W 14th Street and the 267,200 SF tower at 555 Greenwich Street are expected to deliver later this year. Additionally, major upgrades were recently completed at 295 Fifth Avenue and 360 Park Avenue South. Looking Downtown, transformation continues at 56 North Moore Street, 111 Wall Street, which is now open for leasing, and 101 Franklin Street, due to finish in 2024.
- Several prime Manhattan buildings are being targeted for residential conversions, including Downtown's 160 Water Street and Midtown's 330 West 42nd Street, as Mayor Eric Adams pushes to streamline the approval process. Conversion is already underway at Downtown's 25 Water Street and Midtown's 609 Fifth Avenue, and these buildings have been removed from Manhattan's office inventory.
- Despite the lull in new office activity, there is currently 13.4 MSF of Class A office product proposed or planned in Manhattan, including three properties expected to top out at more than 2.5 MSF each. The likeliness of these projects getting underway depends largely on an improvement in market conditions and investor confidence. Meanwhile, we are also seeing numerous Class B assets preparing for renovations in order to compete for tenants.

UNDER CONSTRUCTION



UNDER CONSTRUCTION BY SUBMARKET



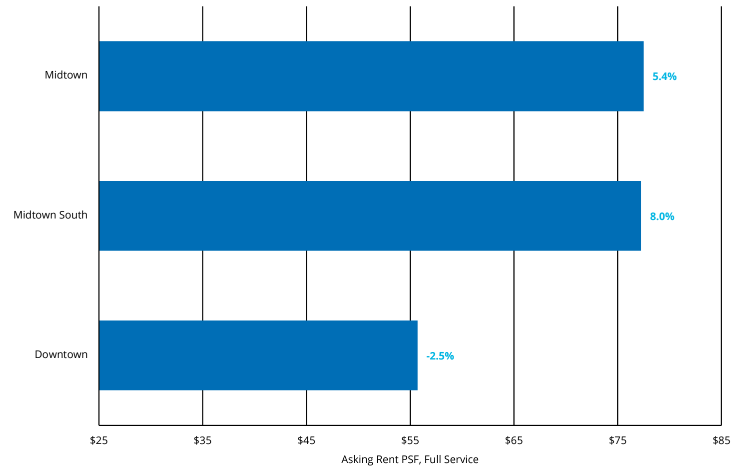
All sources: CoStar, Transwestern

RENTAL RATES

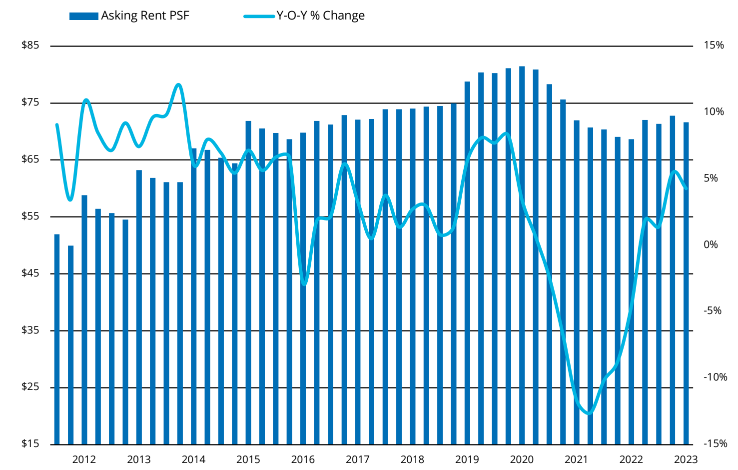
Rents make uneven progress

- Manhattan asking rents grew 4.3% from their Q1 2022 level to $71.62 PSF, though this was a decrease of 1.6% from year-end 2022. Both Class A and Class B rents moved up year-over-year. Overall, asking rents remain 12.1% below their Q1 2020 peak.
- Midtown South rents, which surpassed their Midtown counterparts for the first time in Q4, have dropped back again, closing Q1 at $77.25 PSF. Midtown rents also decreased from last quarter and are now at $77.49 PSF.
- Despite the decreases from Q4, both Midtown and Midtown South saw rents increase year-over-year, lifted by high-priced availabilities at some of the city's most desirable properties like 66 Hudson Boulevard, 1 Vanderbilt, and One Madison.
- After a slight increase last quarter, Downtown rates decreased again to $55.70 PSF, as the high amount of available sublet space is keeping rent growth in check.
- Manhattan's general excess of sublet space continues to put pressure on rents. 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.

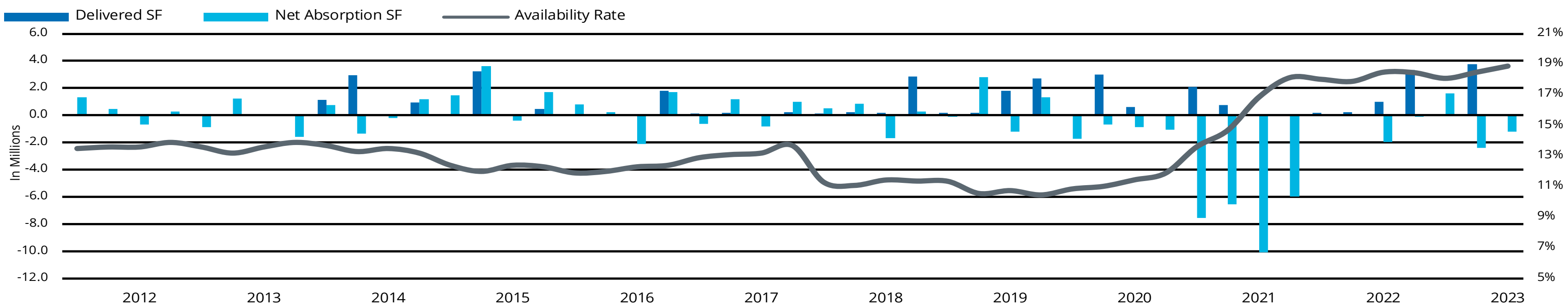
ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



ASKING RENT



DELIVERY IMPACT ON KEY INDICATORS



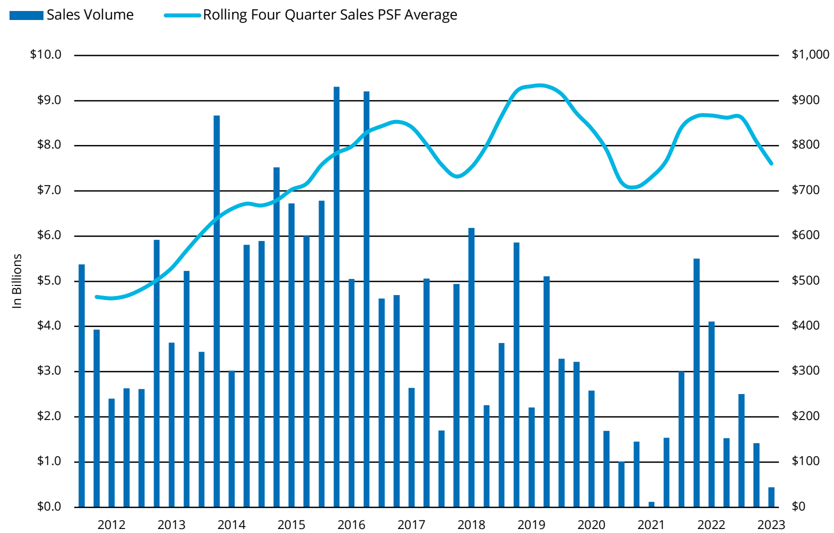
All sources: CoStar, Transwestern

SALES

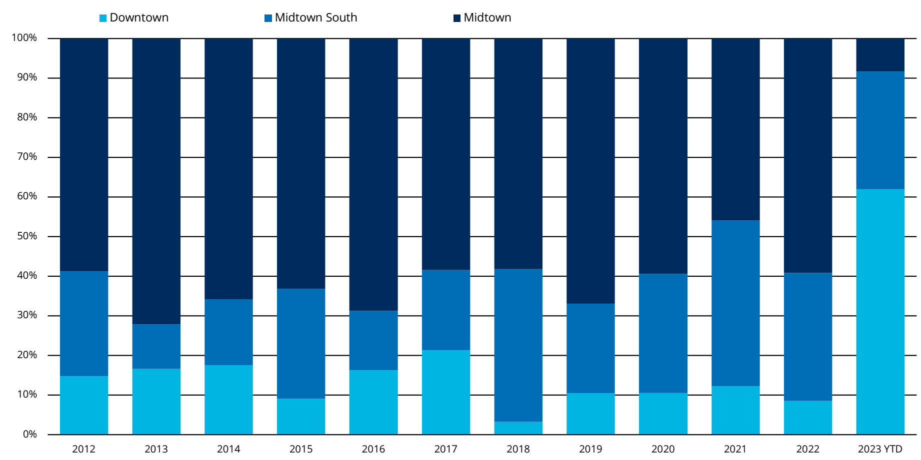
Transaction volume falls

- Manhattan office sales volume was a disappointing $441.7 million in Q1 2023 amid lowered investor confidence. Four-quarter rolling volume measured $5.9 billion, compared with $14.2 billion in the four prior quarters (Q2 2021-Q1 2022). For perspective, the average four-quarter rolling sales volume in the five years prior to the pandemic was roughly $20 billion.
- The average sales price for the quarter came in at $661 PSF, slightly higher than the Q4 level. Pricing has been uneven of late due to the low number of core transactions.
- The largest transaction in Q1 was the sale of 15 Laight Street in Downtown Manhattan. The modern midrise sold to Hyundai Motor Group for $273.5 million, translating to pricing of more than $2,500 PSF. In Midtown South, 149 Madison Avenue sold for $77 million, working out to $647 PSF for buyer Enchante Accessories.
- Several high-profile deals are pending, including Midtown's 529 Fifth Avenue, which will be sold for a reported $105 million, working out to $383 PSF, and 126 East 56th Street, which is expected to close at $110 million, or $611 PSF. Additionally, the landmarked Flatiron Building at 175 Fifth Avenue, was auctioned off for $190 million, but failed to receive a deposit from the buyer, leaving its status in limbo.
- Higher interest rates, the banking collapse, and the overall economic climate all 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



OFFICE SALES BY SUBMARKET



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
CITADEL	350 Park Ave	Midtown	Direct Renewal / Expansion	585,500
CITADEL	40 E 52nd St	Midtown	Direct	393,200
TWO SIGMA	100 Ave of the Americas	Midtown South	Direct Renewal	265,200
CBS	555 W 57th St	Midtown	Direct Renewal	186,900
WILSON SONSINI GOODRICH & ROSATI	31 W 52nd St	Midtown	Direct	119,000
BRAZE	63 Madison Ave	Midtown South	Sublease	92,300

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
450 W 33RD ST	Midtown	310,900	Sublet
1440 BROADWAY	Midtown	289,600	Sublet
200 HUDSON ST	Downtown	193,300	Direct
825 EIGHTH AVE	Midtown	167,700	Direct
99 PARK AVE	Midtown	164,400	Direct

NOTABLE SALES

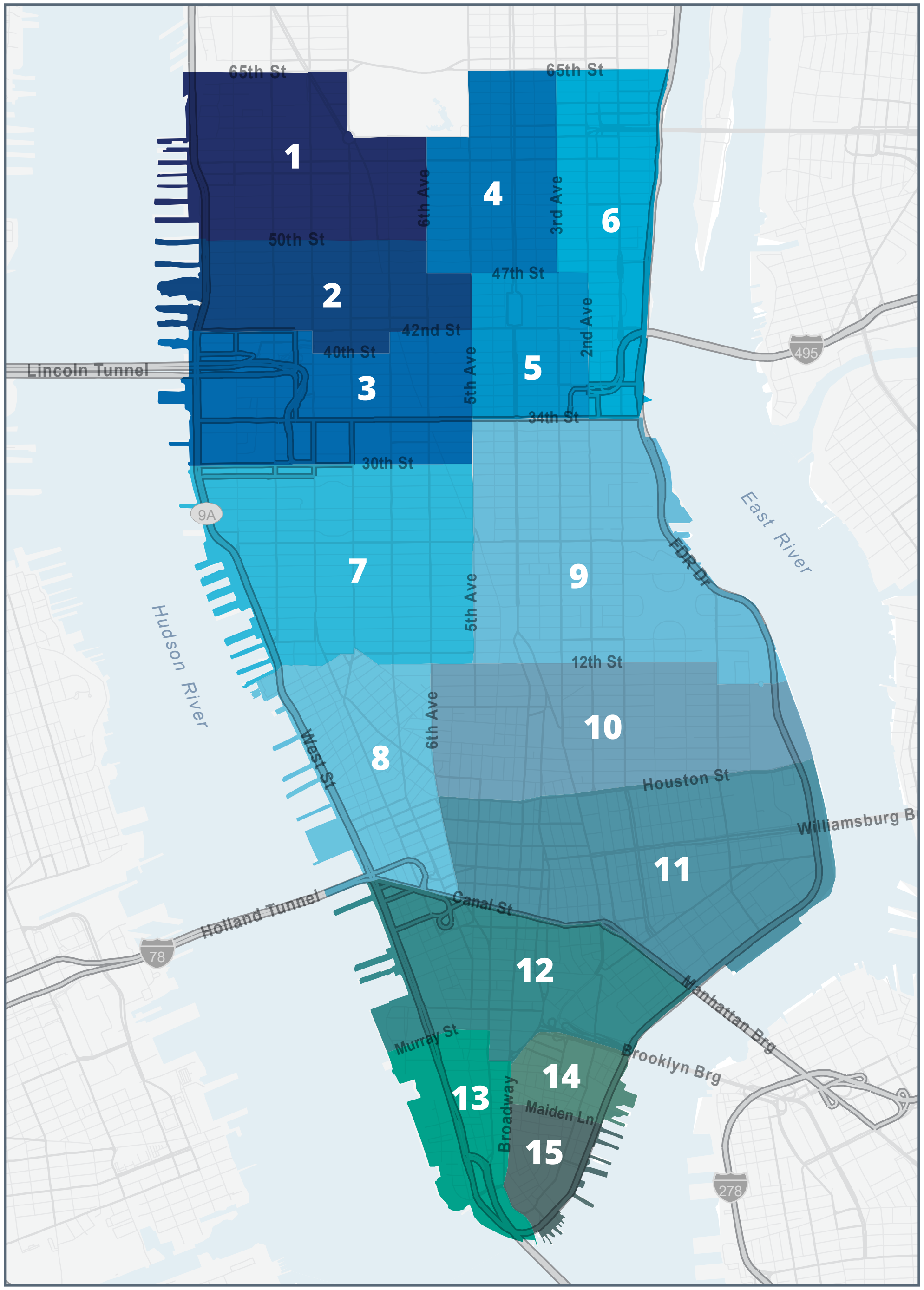
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
15 LAIGHT ST	Downtown	$273,500,000	108,000	$2,532	Hyundai Motor Group	Vanbarton Group
149 MADISON AVE	Midtown South	$77,000,000	119,000	$647	Enchante Accessories	Columbia Property Trust (PIMCO)

Source: CoStar, Real Capital Analytics, 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**
CHELSEA/FLATIRON	26,965,204	-373,874	-373,874	18.8%	18.0%	$91.72	$60.52	$65.32
GRAMERCY PARK	32,104,877	-221,792	-221,792	22.2%	19.5%	$98.68	$61.83	$80.64
GREENWICH VILLAGE	5,648,768	-96,825	-96,825	22.2%	18.9%	$111.93	$106.14	$106.68
HUDSON SQUARE	10,007,709	-25,688	-25,688	22.1%	14.5%	$87.29	$74.98	$83.94
SOHO	5,971,485	13,789	13,789	15.3%	14.5%	$77.65	$73.26	$75.74
MIDTOWN SOUTH TOTAL	**80,698,043**	**-704,390**	**-704,390**	**20.6%**	**18.0%**	**$94.30**	**$66.66**	**$77.25**
COLUMBUS CIRCLE	31,032,095	322,619	322,619	12.4%	10.5%	$70.54	$59.04	$67.99
EAST SIDE	14,930,788	55,027	55,027	21.5%	19.8%	$72.40	$52.83	$72.24
GRAND CENTRAL	57,402,954	-240,444	-240,444	20.8%	16.6%	$70.47	$60.12	$69.04
PENN PLAZA	69,422,476	-483,443	-483,443	19.4%	14.1%	$97.05	$56.76	$83.05
PLAZA DISTRICT	71,231,016	65,950	65,950	13.9%	12.7%	$88.12	$87.37	$88.08
TIMES SQUARE	43,521,362	-243,778	-243,778	16.4%	14.2%	$78.15	$58.26	$74.27
MIDTOWN TOTAL	**287,540,691**	**-524,069**	**-524,069**	**17.2%**	**14.2%**	**$81.42**	**$59.65**	**$77.49**
TOTAL	**460,484,099**	**-1,196,203**	**-1,196,203**	**18.9%**	**15.6%**	**$74.89**	**$60.47**	**$71.62**



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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