



TRANSWESTERN

DOWNTOWN MANHATTAN OFFICE MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.3	5.5	↓	7.3	↓
NET ABSORPTION (Thousands SF)	(859.1)	(146.1)	↓	(454.7)	↑
OVERALL VACANCY RATE	19.0%	17.4%	↑	13.8%	↓
OVERALL VACANT SF (MSF)	17.5	16.1	↑	12.8	↓
UNDER CONSTRUCTION (MSF)	0.1	0.1	↔	0.2	↔
ASKING RENT (PSF)	\$56.21	\$57.06	↓	\$60.91	↔
SALES VOLUME (Millions)	\$20.2	\$187	↓	\$253.1	↑

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

LARGE GOVERNMENT DEAL CARRIES DOWNTOWN LEASING

Manhattan’s largest deal of the quarter helped propel the Downtown submarket’s leasing activity to 1.4 MSF, the highest since late 2021. There were also several sizeable renewals, reflecting tenants’ ongoing faith in the submarket, though the outlook is still mixed. Absorption was negative after a very mild positive turn in Q1, driving availability to a cycle high. Asking rents lifted slightly but are below their year-ago level as large amounts of sublet space remain a concern.

“As it relates to rent growth, we continue to see new construction and high-end Class A assets push rents in each of the major submarkets,” said Rory Murphy, Partner, Transwestern. “The separation between Class A and everything else continues to be the story in the market. Leasing activity continues to be driven by tenants looking to improve upon their amenity and space offerings as employees return to office.”

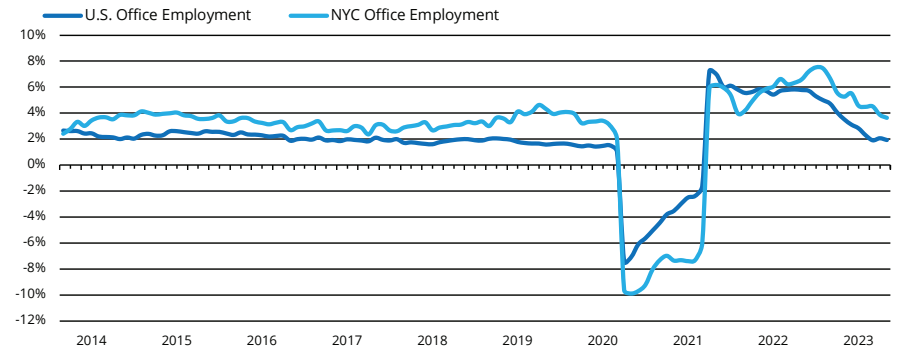


ECONOMY

NYC office employment still growing

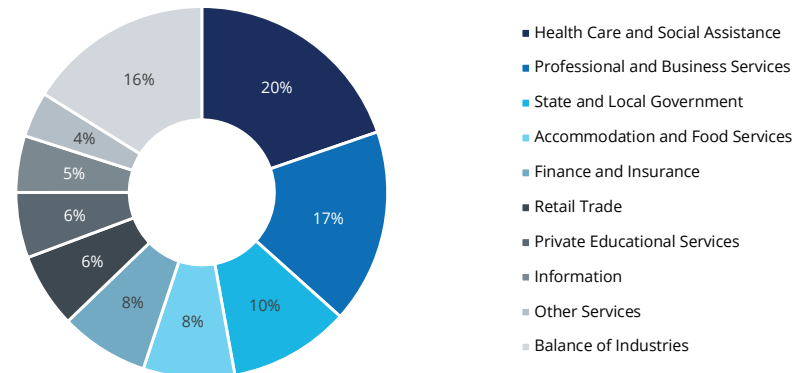
- New York City office employment continues to reach new peaks and now supports almost 2.1 million jobs, some 3.8% higher than the pre-COVID level. The rate of growth has been slowing, most recently to 3.6% year-over-year, though still above the immediate pre-COVID pace.
- Office jobs also continue to increase nationally, approaching 35.3 million positions as of May 2023, about 6.2% higher than the pre-COVID level. As in NYC, job growth is normalizing but still above the pre-COVID pace at 1.9% per annum.
- New York City's overall unemployment rate is stabilizing in the mid-5% range and measured 5.3% in May. National unemployment currently stands at 3.6%, on par with pre-COVID levels.
- New York City's Health Care & Social Assistance industry remains the leader during this recovery period, adding more jobs over the last year than any other sector. Robust job increases were also seen in the Accommodation & Food Services sector, the Professional & Business Services sector, and the Finance & Insurance sector. The latter added nearly 11,500 jobs in the past year, and many financial firms are strongly pushing to get employees back on site. On the downside, ongoing tech layoffs have triggered a big reduction in NYC's Information sector. As consumer economic concerns have mounted, Wholesale and Retail Trade jobs have also decreased, along with jobs in the Transportation, Warehousing, & Utilities sector.
- New York's streets and restaurants appear crowded with people once again, but not all office workers have gotten the memo; Kastle occupancy data suggests office attendance still has not surpassed the 50% mark with any regularity, though a recent REBNY report suggests midweek attendance is above 70%. While the hybrid and work-from-home trends mean there is less correlation between employment levels and office usage than there has been historically, the uncertain economic conditions are likely to continue weighing on the commercial real estate market in the near term.

Y-O-Y CHANGE IN OFFICE JOBS



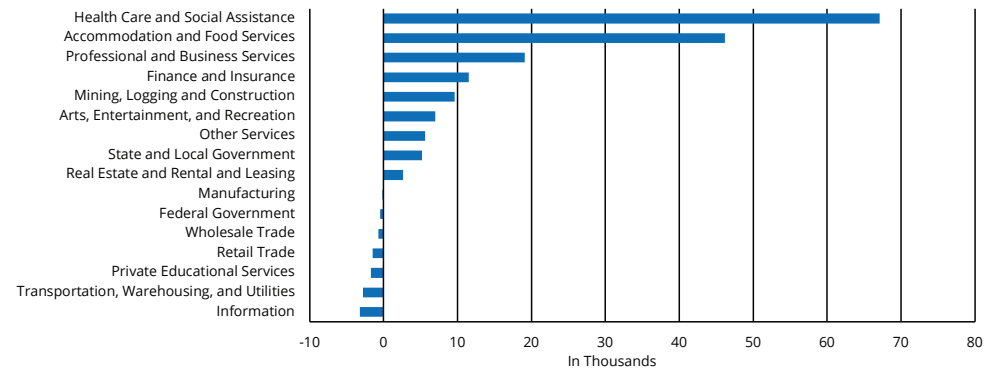
SHARE OF EMPLOYEES BY INDUSTRY

New York City | May 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



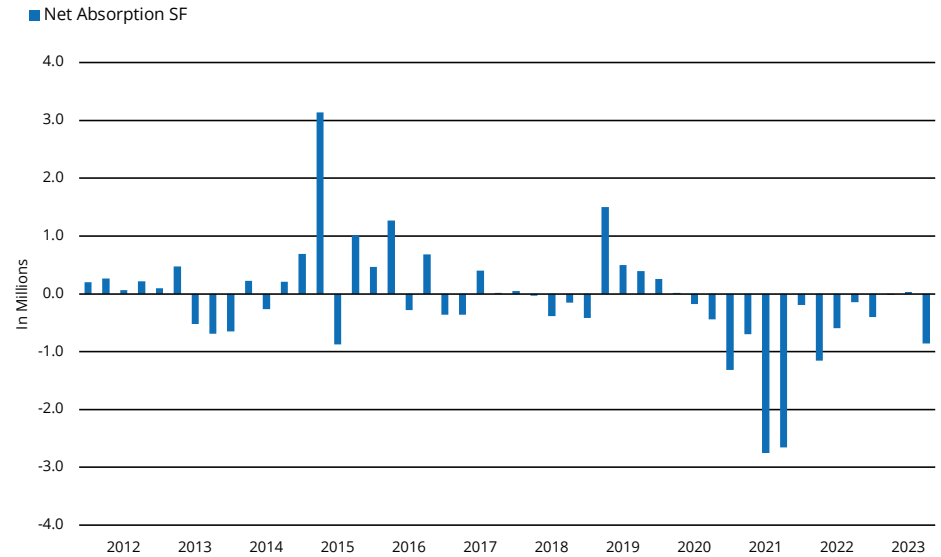


NET ABSORPTION

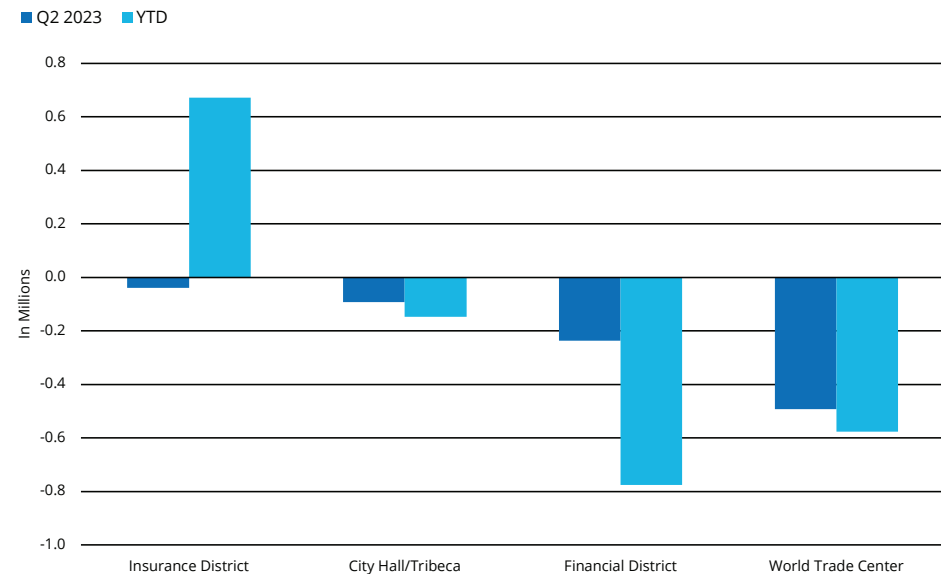
Downtown absorption back in the red

- After a positive result in Q1, Downtown Manhattan logged 859,100 SF of negative net absorption in Q2. All four of Downtown’s smaller submarkets likewise saw a negative result. Absorption for the first half of the year measured negative 826,800 SF, similar to the negative 742,300 SF tallied in the first half of 2022.
- Manhattan’s largest new lease of the quarter was signed in Downtown’s Insurance District submarket, where the NYC Department of Citywide Administrative Services took a 20-year deal for 640,000 SF. Even with this boost, absorption in the Insurance District was mostly flat at negative 38,200 SF.
- Large blocks were added in every Downtown submarket, further impeding absorption. The Financial District was hit the hardest by these, facing a 278,400 SF block at 1 New York Plaza, now within 12 months of occupancy, a 60,900 SF direct addition at 32 Old Slip, previously listed as sublet space, and a 51,500 SF sublet block at 120 Broadway. Absorption fell to negative 236,000 SF in this submarket.
- The World Trade Center submarket had Downtown’s lowest absorption at negative 492,200 SF. New deals were sparse; the largest was a 41,900 SF sublease from The Messenger at 195 Broadway. Large block additions included a 188,700 SF sublet from Spotify at 4 World Trade and a 52,000 SF sublet at 255 Greenwich Street that was previously defined as coworking space but has now been added to available sublet inventory.
- Downtown has been struggling with absorption since the pandemic began. Recent renewals by established tenants like Scotiabank (131,000 SF) and the Legal Aid Society (72,100 SF), should help generate further confidence as we enter the second half of the year. 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



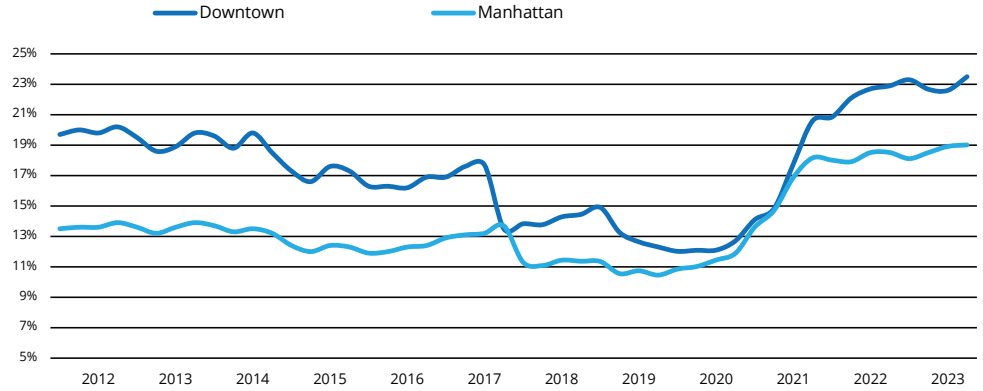


AVAILABILITY

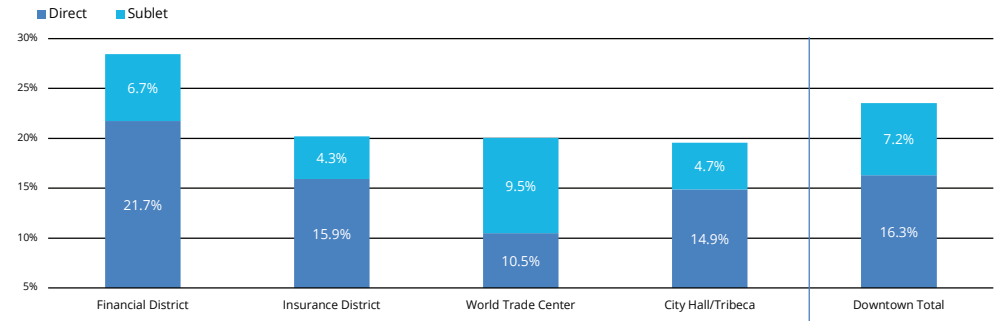
Availability at new high

- Downtown’s availability rate increased 0.9 percentage points [pp] from Q1 to 23.5%, the highest level in more than a decade. In comparison, Downtown’s average availability was around 15% in the five years pre-pandemic.
- Both direct and sublet availabilities increased, a trend mirrored in nearly every one of Downtown’s submarkets. The exceptions were City Hall/ Tribeca and the Financial District, which each saw a small decrease in sublet availability, though their direct and overall rates increased. The Financial District continues to exhibit the highest overall availability in all of Manhattan at 28.4%.
- The World Trade Center submarket retains Downtown’s highest sublet availability rate at 9.5%, a full pp higher than last quarter, equating to almost 48% of that neighborhood’s total available space. The Insurance District has Downtown’s lowest sublet availability at 4.3%, representing 21.1% of the available total.
- Downtown’s availability rate has trended above the Manhattan average for the last decade, and the gap has widened considerably since the onset of COVID. There are roughly three dozen Downtown assets with more than 200,000 SF of space available, and ten of these have at least that much sublet space currently on the market. These buildings present attractive, discounted opportunities for large occupiers.

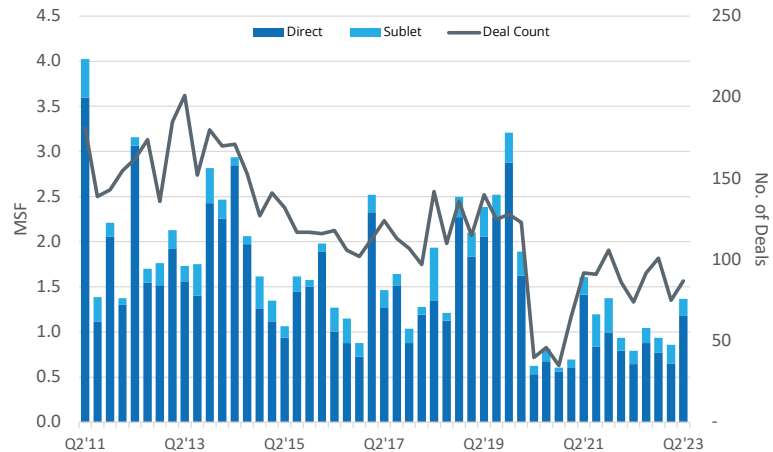
SUBMARKET AVAILABILITY VS MANHATTAN



SUBMARKET AVAILABILITY



DOWNTOWN LEASING ACTIVITY



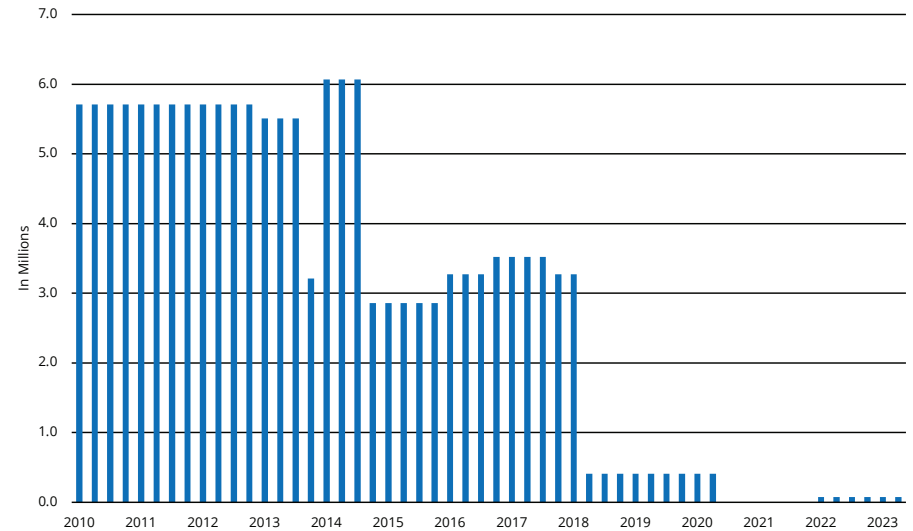


UNDER CONSTRUCTION

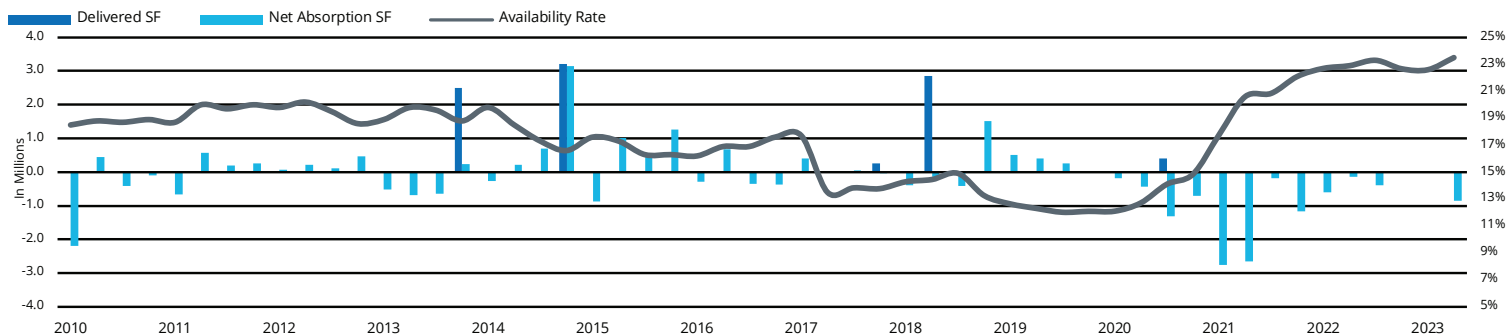
Rejuvenated spaces coming to Downtown

- 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 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 3.0 million SF of new core office product proposed for Downtown. The bulk of this outlook is represented by 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 also depends on an improvement in market conditions and investor confidence.

UNDER CONSTRUCTION - DOWNTOWN



DELIVERY IMPACT ON KEY INDICATORS



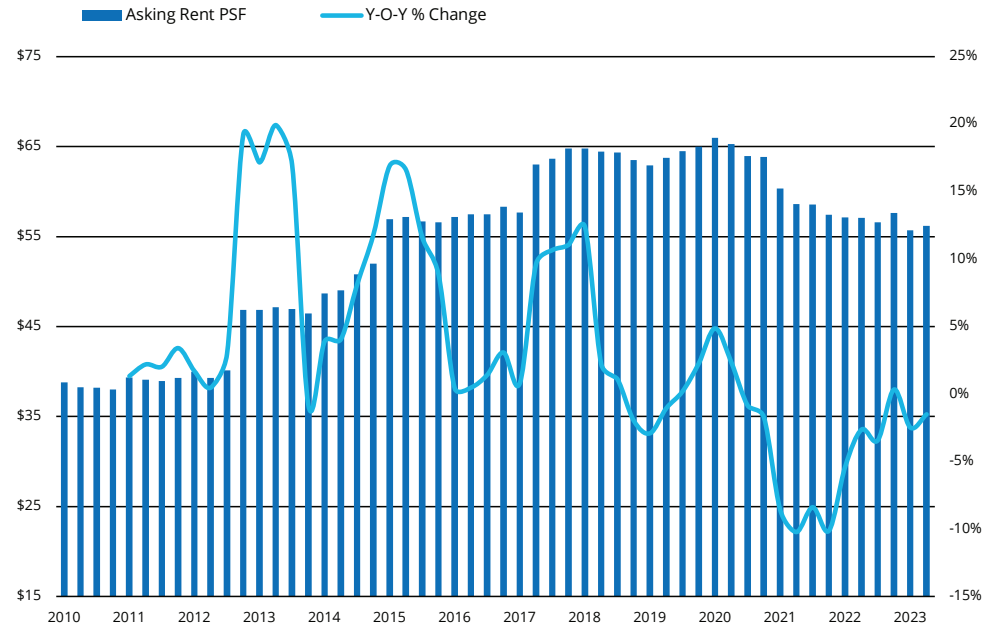


RENTAL RATES

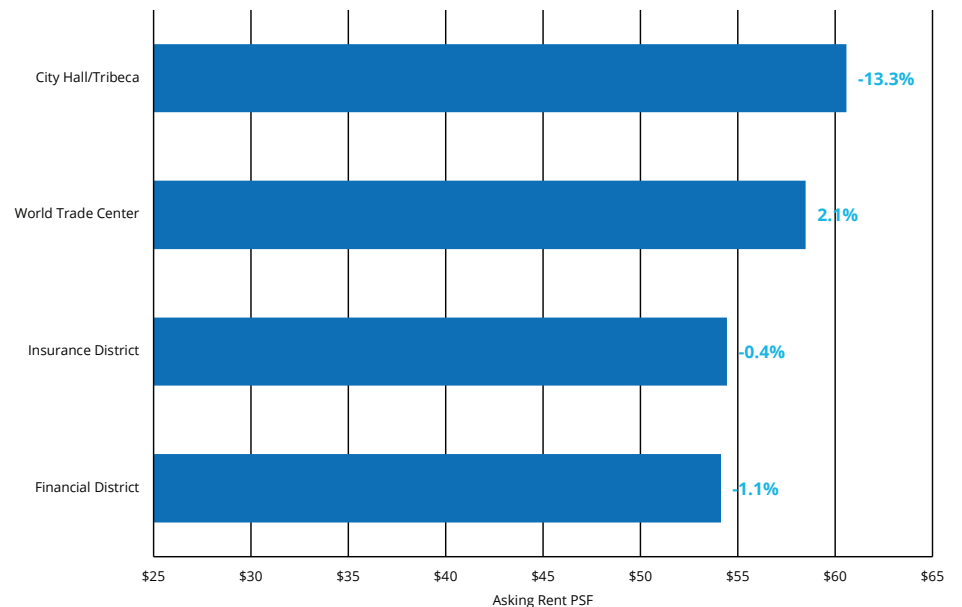
Downtown rents increase again

- Downtown rents ticked up to \$56.21 PSF in Q2, an increase of 0.9% from last quarter. Rents are now 1.5% below their year-ago level, and 14.8% below the pre-pandemic peak of \$65.98 PSF.
- In actuality, most of Downtown’s submarkets saw rents decrease, both quarter-on-quarter and year-over-year. The one exception was the World Trade Center submarket, where rents have increased 2.1% from a year ago, helping drive up the overall Downtown rate.
- The general excess of sublet space is continuing to inhibit meaningful rent growth Downtown. Recent sublet additions have been priced as low as \$36-\$40 PSF in some cases. Additionally, as Class A properties are seeing some improvement in lease-up rates, lower priced space in less desirable assets remains 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 high-vacancy buildings.
- Downtown’s numerous revitalization projects should draw further interest to the area 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



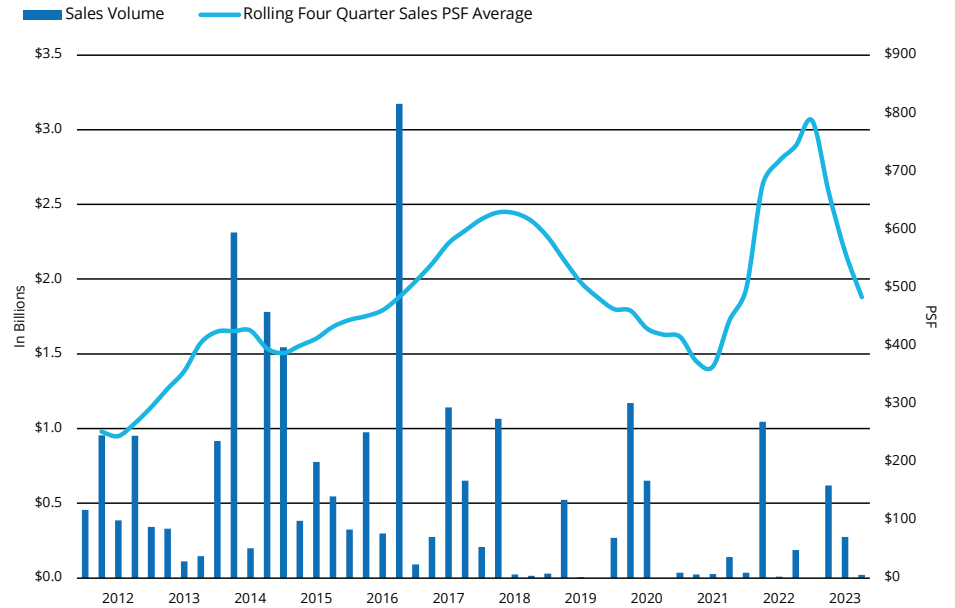


SALES

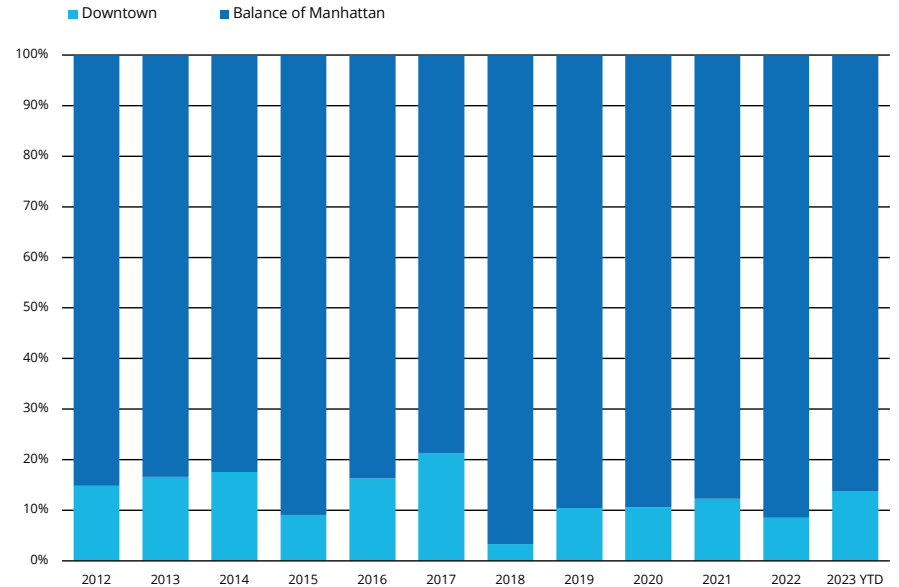
Downtown logs a quiet quarter

- Downtown sales activity was lackluster once again in Q2, a trend that has been persistent since the onset of COVID. For perspective, Downtown’s average quarterly sales volume in the five years prior to the pandemic was roughly \$577.7 million.
- Year-to-date volume measured \$293.7 million, higher than the \$195.7 million dealt in the first half of 2022.
- Higher interest rates and the overall economic climate contributed to investors’ reluctance to take on more debt in the first half of 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 SALES VOLUME





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
NYC CITYWIDE ADMINISTRATIVE SERVICES	110 William St	Insurance	Direct	630,000
SCOTIABANK	250 Vesey St	World Trade Center	Direct Renewal	131,000
THE LEGAL AID SOCIETY	199 Water St	Insurance	Direct Renewal	72,100
THE MESSENGER	195 Broadway	World Trade Center	Sublease	41,900
THE CENTER FOR REPRODUCTIVE RIGHTS	199 Water St	Insurance	Direct Renewal	35,995

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
1 NEW YORK PLAZA	Financial District	278,400	Direct
4 WORLD TRADE	World Trade Center	188,700	Sublet
75 MAIDEN LN	Insurance	72,300	Direct
32 OLD SLIP	Financial District	60,900	Direct
60 HUDSON ST	City Hall/Tribeca	53,400	Direct

Source: CoStar, Transwestern

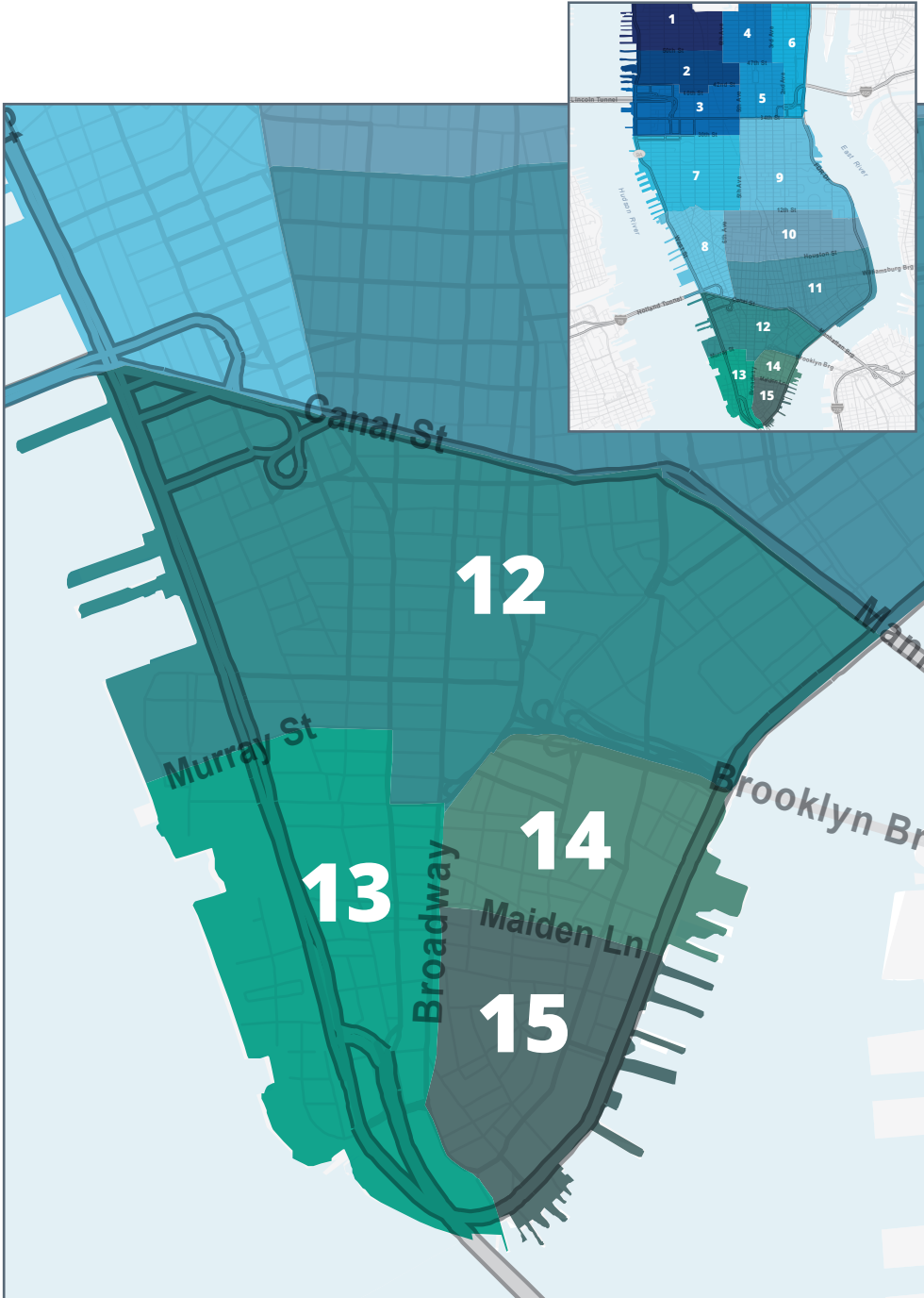


MARKET INDICATORS

All Classes of Space | Q2 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	-92,714	-147,415	19.6%	17.8%	\$63.24	\$46.38	\$60.58
FINANCIAL DISTRICT	38,943,684	-235,987	-775,231	28.4%	23.0%	\$54.94	\$48.50	\$54.13
INSURANCE DISTRICT	9,961,995	-38,197	671,773	20.2%	18.0%	\$57.14	\$40.16	\$54.45
WORLD TRADE CENTER	33,268,835	-492,165	-575,934	20.0%	14.9%	\$60.13	\$42.97	\$58.49
DOWNTOWN TOTAL	92,252,199	-859,063	-826,807	23.5%	19.0%	\$57.67	\$45.66	\$56.21

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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