



TRANSWESTERN

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)	(819.2)	(86.0)	↓	(1,813.9)	↑
OVERALL VACANCY RATE	15.6%	14.3%	↑	11.4%	↓
OVERALL VACANT SF (MSF)	71.9	65.5	↑	51.5	↓
UNDER CONSTRUCTION (MSF)	0.8	8.0	↓	11.8	↔
ASKING RENT (PSF)	\$73.77	\$72.03	↑	\$74.92	↑
SALES VOLUME (Millions)	\$1,640.7	\$1,526	↑	\$2,579.4	↑

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

RENEWALS HELP DRIVE 5.8 MSF IN LEASING

Manhattan leasing activity reached 5.8 MSF in the second quarter of 2023, spurred by several big renewals and a substantial new government agency agreement. Even so, availability rose to its highest on record as roughly thirty large blocks were added. Most were for direct space, which in turn allowed a small decrease in sublet availability. Absorption was again negative, though an improvement on the previous two quarters. Rent growth remains uneven, but year-over-year rates have risen for five consecutive quarters, driven by new construction and renovated Class A product.

“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 remains a big 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.”

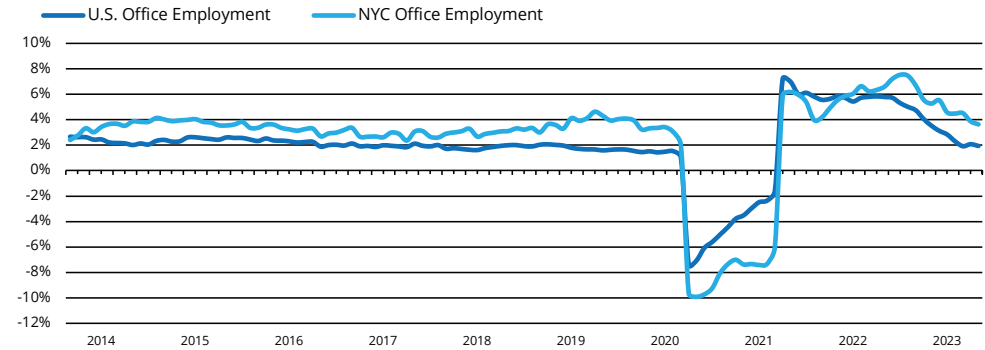


ECONOMY

NYC office employment still growing

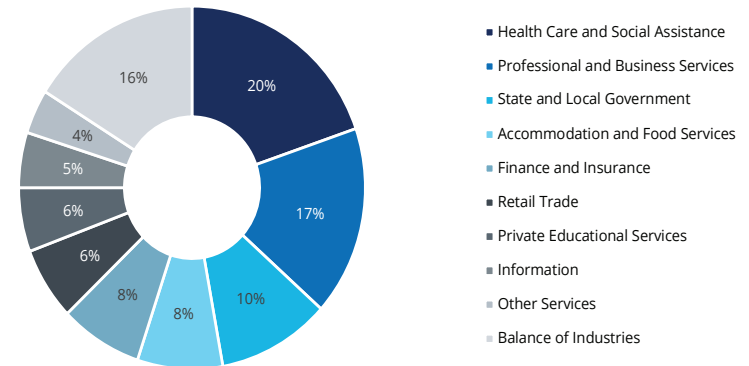
- New York City office employment continues to reach new peaks and now supports almost 2.1 million jobs, some 3.8% higher than the pre-COVID level. The rate of growth has been slowing, most recently to 3.6% year-over-year, though still above the immediate pre-COVID pace.
- Office jobs also continue to 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. 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



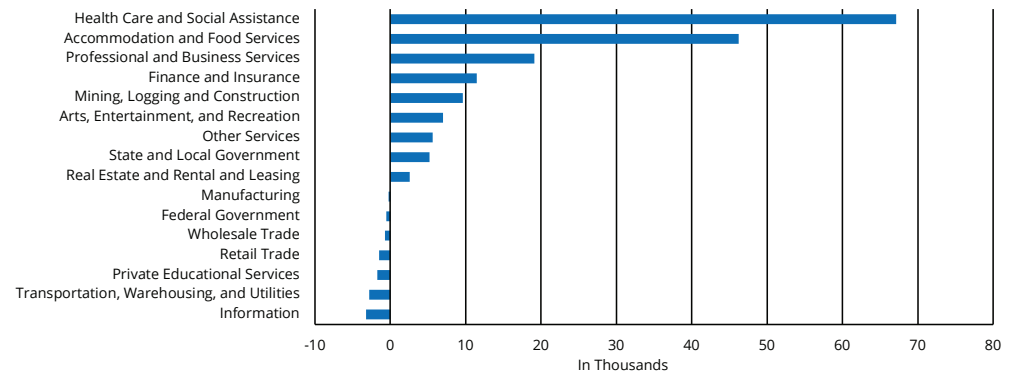
SHARE OF EMPLOYEES BY INDUSTRY

New York City | May 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



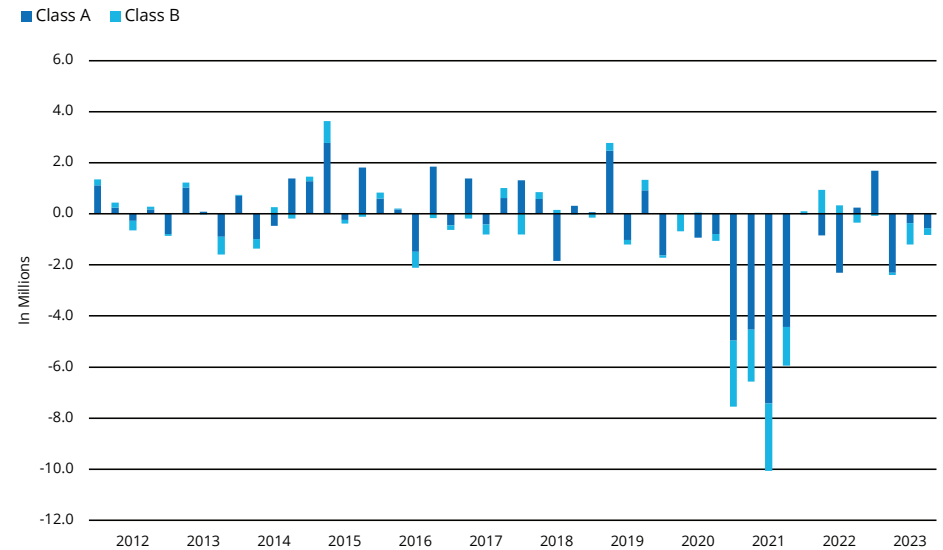


NET ABSORPTION

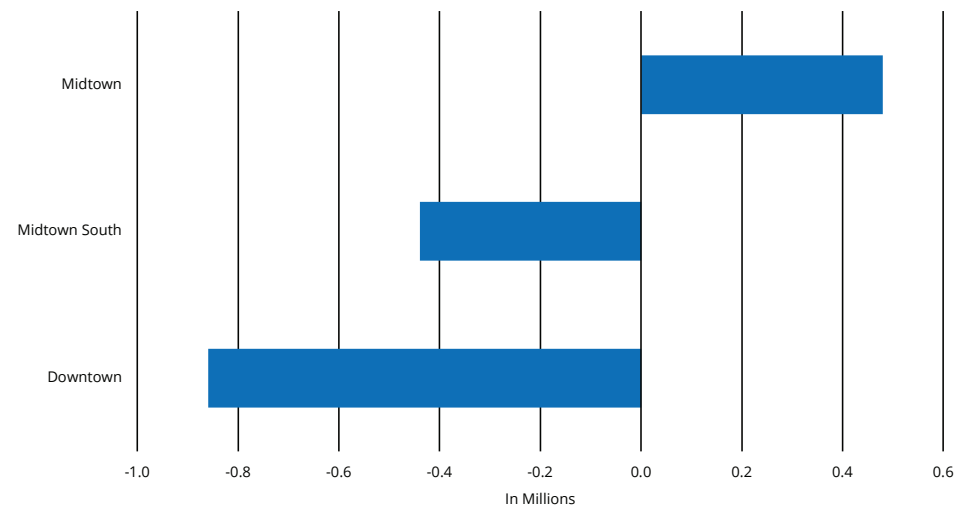
Absorption improves in Q2

- Manhattan recorded 819,200 SF of negative net absorption in Q2 2023, a big improvement on the negative 1.2 MSF logged in Q1. Absorption for the first half of 2023 was on par with the first half of 2022 at negative 2.0 MSF.
- Midtown was the only one of Manhattan’s major submarkets with positive absorption this quarter, at 479,400 SF. The submarket scored several large new leases, including Clayton, Dubilier & Rice’s 143,500 SF deal for new headquarters at 550 Madison Avenue, Child Mind Institute’s 81,800 SF lease at 825 Third Avenue, and EQT Partners’ 76,200 SF deal at 245 Park Avenue. The former two deals both represented significant expansions from their prior footprints.
- The Downtown submarket boasted the largest new lease of the quarter, as the NYC Department of Citywide Administrative Services signed for 640,000 SF at 110 William Street. Also Downtown, the Legal Aid Society took 72,100 SF at 199 Water Street. Deals like these were counteracted by large block additions, including 278,400 SF at One New York Plaza, 72,000 SF at 75 Maiden Lane, and a 188,700 SF sublet addition from Spotify at 4 World Trade, constraining absorption to negative 859,100 SF.
- Midtown South recorded 439,500 SF of negative net absorption in Q2. Leasing activity was very quiet in terms of new deals while roughly half a dozen blocks exceeding 50,000 SF were added to the submarket’s available inventory. The largest of these was a 199,000 SF space at 220 Eleventh Avenue, under construction and now within twelve months of occupancy.
- Manhattan absorption appears to be stabilizing, with results that are similar to quarterly levels registered prior to the COVID era. Recent long-term renewals and expansions by established companies should help generate further confidence as we enter the second half of the year.

NET ABSORPTION BY CLASS



NET ABSORPTION BY SUBMARKET



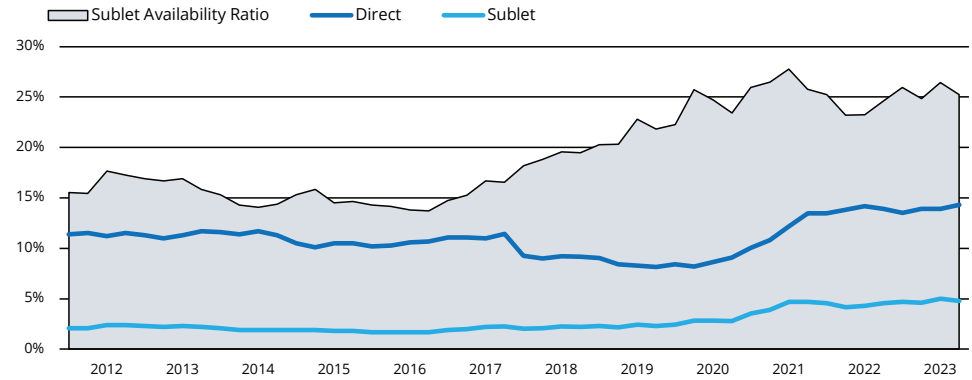


AVAILABILITY

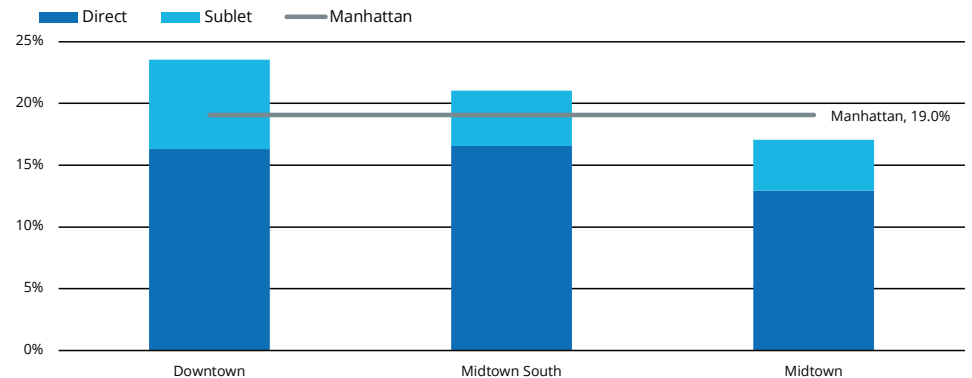
Availability continues upward

- Manhattan availability is still on the rise and reached an all-time peak of 19.0% in Q2 2023. Overall availability is 0.5 percentage points [pp] higher than a year ago.
- Direct availability increased 0.4 pp from Q1 to 14.3%, likewise a new high for Manhattan, while sublet availability decreased 0.2 pp to 4.8%. Sublet availability is now 22 MSF and represents 25.3% of the available total.
- Midtown recorded a decrease in overall availability, which fell 0.2 pp to 17.0%, mainly due to a decrease in available sublet space. Several large sublet blocks were withdrawn, including 108,200 SF from Deloitte at 30 Rockefeller Plaza and a combined 100,200 SF from Lyft and Peloton, which will reoccupy their respective spaces at 441 Ninth Avenue. Counteracting the 0.2 pp decrease in sublet availability, there were a dozen direct block additions exceeding 50,000 SF, including several that were previously marketed and are now within 12 months of occupancy.
- Midtown South also saw sublet availability decrease, though overall availability increased 0.5 pp to 21.0%, the highest on record for the submarket. There were seven large block additions, all for direct space, and virtually no large new leases to counteract these new availabilities.
- Downtown's overall availability rose another 0.9 pp to 23.5%, its highest on record, and sublet availability rose to 7.2%, representing almost 31% of the total. There are a dozen Downtown buildings with more than 500,000 SF of available space, presenting attractive, discounted opportunities for anchor tenants.
- Manhattan's availability rate had begun to stabilize in 2022 but is moving upward again amid market uncertainty and plateauing reoccupancy levels. Pent-up demand from tenants looking for an entry into the Manhattan market could help bring availability down, but the divide between Class A and B is likely to become deeper amid the flight to quality; Class B availability is currently 20.3%, compared with 18.7% in Class A.

DIRECT VS SUBLET AVAILABILITY RATE



AVAILABILITY RATE BY SUBMARKET



All sources: CoStar, Transwestern

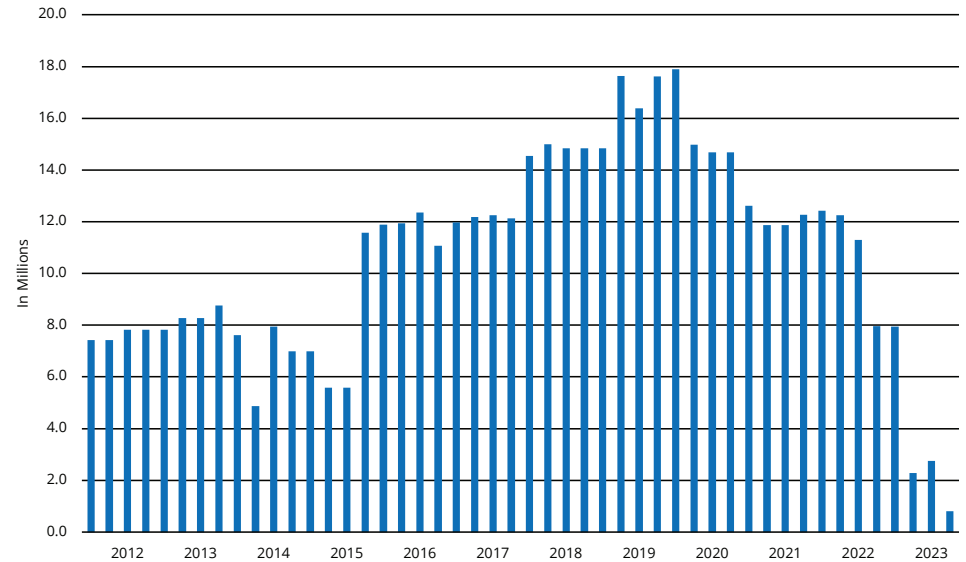


UNDER CONSTRUCTION AND RECENT DELIVERIES

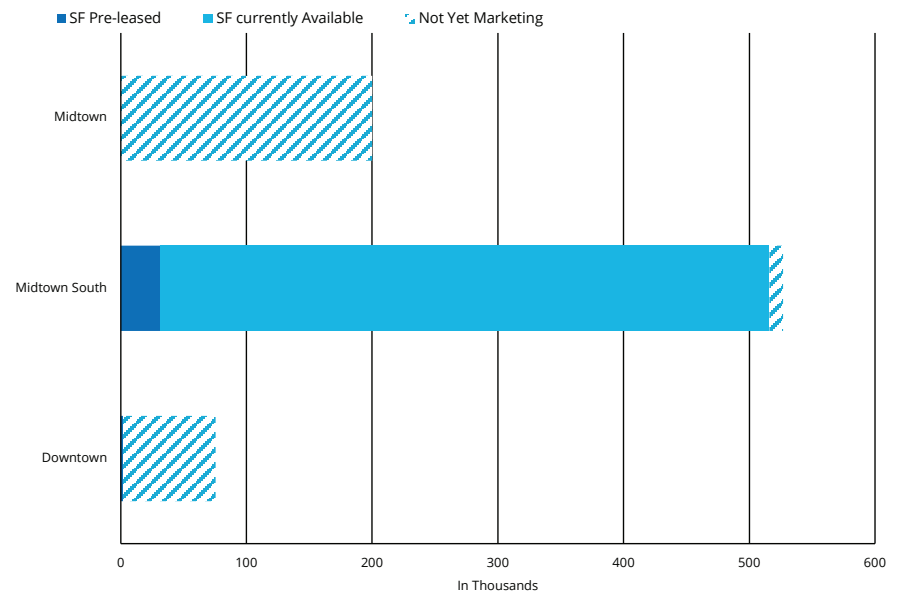
New construction yields to redevelopment

- New construction in Manhattan is at its lowest level in at least a decade, following the Q2 delivery of Two Manhattan West. The 2.0 million SF asset had previously represented the bulk of the borough's in-progress new construction.
- In Midtown South, the boutique office building at 132 W 14th Street and the 267,200 SF tower at 555 Greenwich Street are both expected to deliver later this year. In Midtown, there are several demolition sites on Madison Avenue where preparation for new office towers are underway.
- Complementing the new construction, more than 4 million SF of office space is under renovation across the borough. Major reconstruction projects include One Madison Avenue, which is wrapping up extensive renovations in Midtown South, and Downtown's 111 Wall Street, now open for leasing, and 101 Franklin Street, due to finish in 2024.
- Still, Manhattan's development scene is evolving. A recent announcement from Gov. Kathy Hochul put the kibosh on plans for additional office space in Midtown's Penn Plaza submarket. Several prime Manhattan office buildings are being targeted for residential conversion, including Downtown's 25 Water Street, already underway, 160 Water Street, where Vanbarton recently secured a \$272 million construction loan, and 55 Broad Street, which is being sold to a Silverstein joint venture. In Midtown, 330 West 42nd Street and 609 Fifth Avenue are also prepping for conversion.
- Even with the shift toward renovations and redevelopment, there is currently 10.4 MSF of Class A office product proposed or planned in Manhattan, including two properties expected to top out at more than 2.5 MSF each. Getting these projects underway depends largely on an improvement in market conditions and investor confidence, as well as the likelihood of securing an anchor tenant. Meanwhile, we are also seeing numerous Class B assets preparing for capital improvements in order to compete for tenants.

UNDER CONSTRUCTION



UNDER CONSTRUCTION BY SUBMARKET



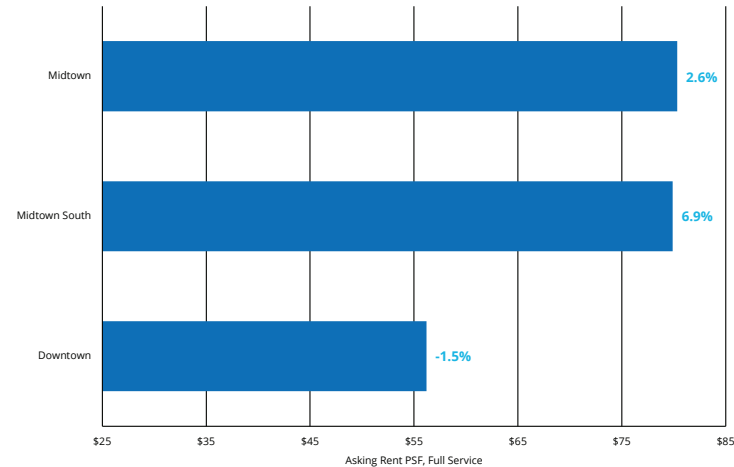


RENTAL RATES

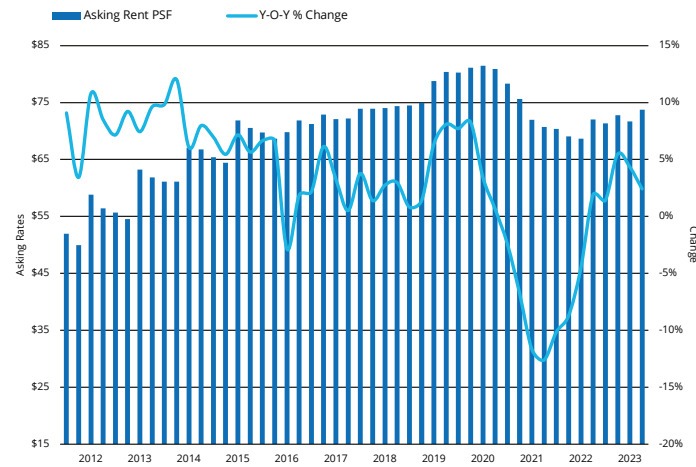
Rents continue to step their way upward

- Manhattan asking rents recorded a fifth straight quarter of year-over-year growth, improving 2.4% from Q2 2022 to \$73.77 PSF. Both Class A and Class B rents increased from Q1 and from their year-ago levels. Overall, asking rents remain 9.4% below their Q1 2020 peak.
- Midtown South rents are again approaching their Midtown counterparts at a respective \$79.90 PSF and \$80.34 PSF. Both submarkets saw an increase from Q1, driven by high priced space in trophy buildings like 425 Park Avenue and One Bryant Park in Midtown, both asking over \$200 PSF, and One Madison and 220 Eleventh Avenue in Midtown South, each starting around \$150 PSF.
- Downtown asking rates increased mildly from last quarter to \$56.21 PSF, though this was a decrease of 1.5% year-over-year. Downtown's 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, but trophy and Class A+ spaces are still trading at a premium. Additionally, we are seeing increased opportunities for tenants, in terms of asking rents and concessions at non-trophy and Class B assets, as well as buildings with high vacancies.

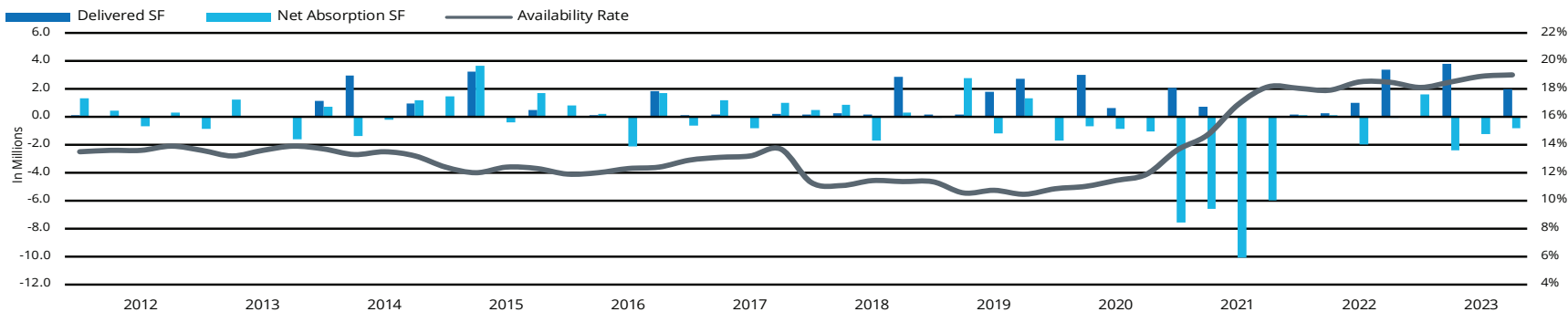
ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



ASKING RENT



DELIVERY IMPACT ON KEY INDICATORS



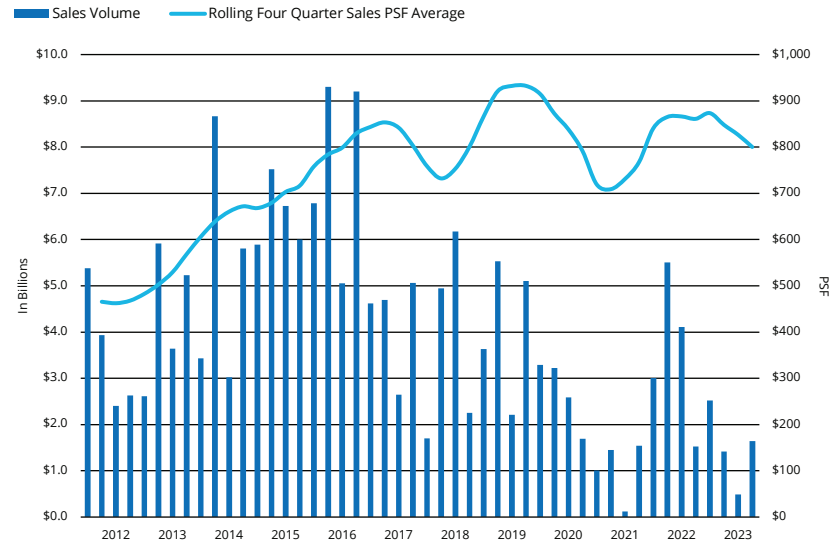


SALES

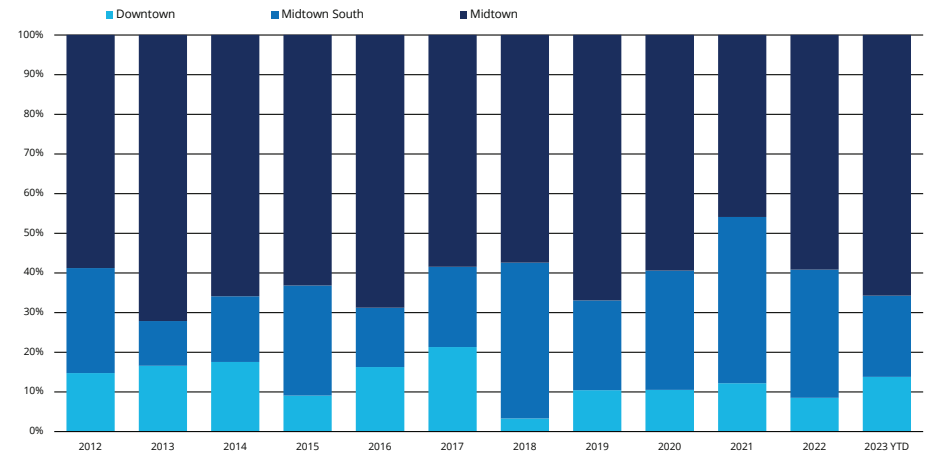
Transaction volume improves

- Manhattan office sales volume increased to \$1.6 billion in Q2 2023, ahead of the previous two quarters' results. Four-quarter rolling volume measured \$6.1 billion, compared with \$14.1 billion in the four prior quarters (Q3 2021-Q2 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 \$734 PSF, below the 5-year average of \$830 PSF. Pricing has been uneven of late due to the low number of core transactions. Cap rates rose to 5.6%, their highest in over a decade.
- The largest transaction in Q2 was the partial sale of 245 Park Avenue, which valued the building at \$2 billion. Japanese firm Mori Trust purchased a 49.5% interest from SL Green, working out to pricing of \$1,160 per square foot for the Midtown asset. The sale of 400 Lafayette Street in Midtown South also claimed pricing above \$1,000 PSF, trading to New York University for \$97.5 million.
- Another high-profile transaction was the auction of the Flatiron Building in Midtown South for \$161 million. The landmark, which was unsuccessfully auctioned in Q1, went on the block again and fetched pricing of \$894 PSF from buyer GFP Real Estate. Also in Midtown, 529 Fifth Avenue sold for \$107.6 million and 126 E 56th Street closed at \$113 million.
- Higher interest rates, the recent bank woes, and the overall economic climate have all contributed to investors' reluctance to take on more debt in recent quarters, but deals appear to be picking up. 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
NYC DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES	110 William St	Downtown	Direct	640,000
PAUL HASTINGS	200 Park Ave	Midtown	Renewal / Expansion	256,800
WACHTELL, LIPTON, ROSEN & KATZ	51 W 52nd St	Midtown	Renewal	242,500
HPS INVESTMENT PARTNERS	40 W 57th St	Midtown	Renewal / Expansion	159,000
CLAYTON, DUBILIER & RICE	550 Madison Ave	Midtown	Direct	143,500
SCOTIABANK	250 Vesey St	Downtown	Renewal	131,000

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
1290 AVE OF THE AMERICAS	Midtown	390,900	Direct
1 NEW YORK PLAZA	Downtown	278,400	Direct
31 W 52ND ST	Midtown	266,400	Direct
135 E 57TH ST	Midtown	246,000	Direct
50 HUDSON YARDS	Midtown	205,500	Direct
220 ELEVENTH AVE	Midtown South	199,000	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
245 PARK AVE*	Midtown	\$2,000,000,000	1,724,000	\$1,160	Mori Trust	SL Green
175 FIFTH AVE	Midtown South	\$161,000,000	180,000	\$894	GFP Real Estate	Sorgente SGR, ABS Partners Real Estate, Nathan Silverstein
126 E 56TH ST	Midtown	\$113,000,000	180,000	\$628	Sovereign Partners	Pearlmark RE Partners
529 FIFTH AVE	Midtown	\$107,608,985	273,900	\$393	Empire Capital Holdings, Fifth City Realty LLC	Loeb Partners Realty, Silverstein Properties
400 LAFAYETTE ST	Midtown South	\$97,500,000	93,000	\$1,048	New York University	Sand Associates

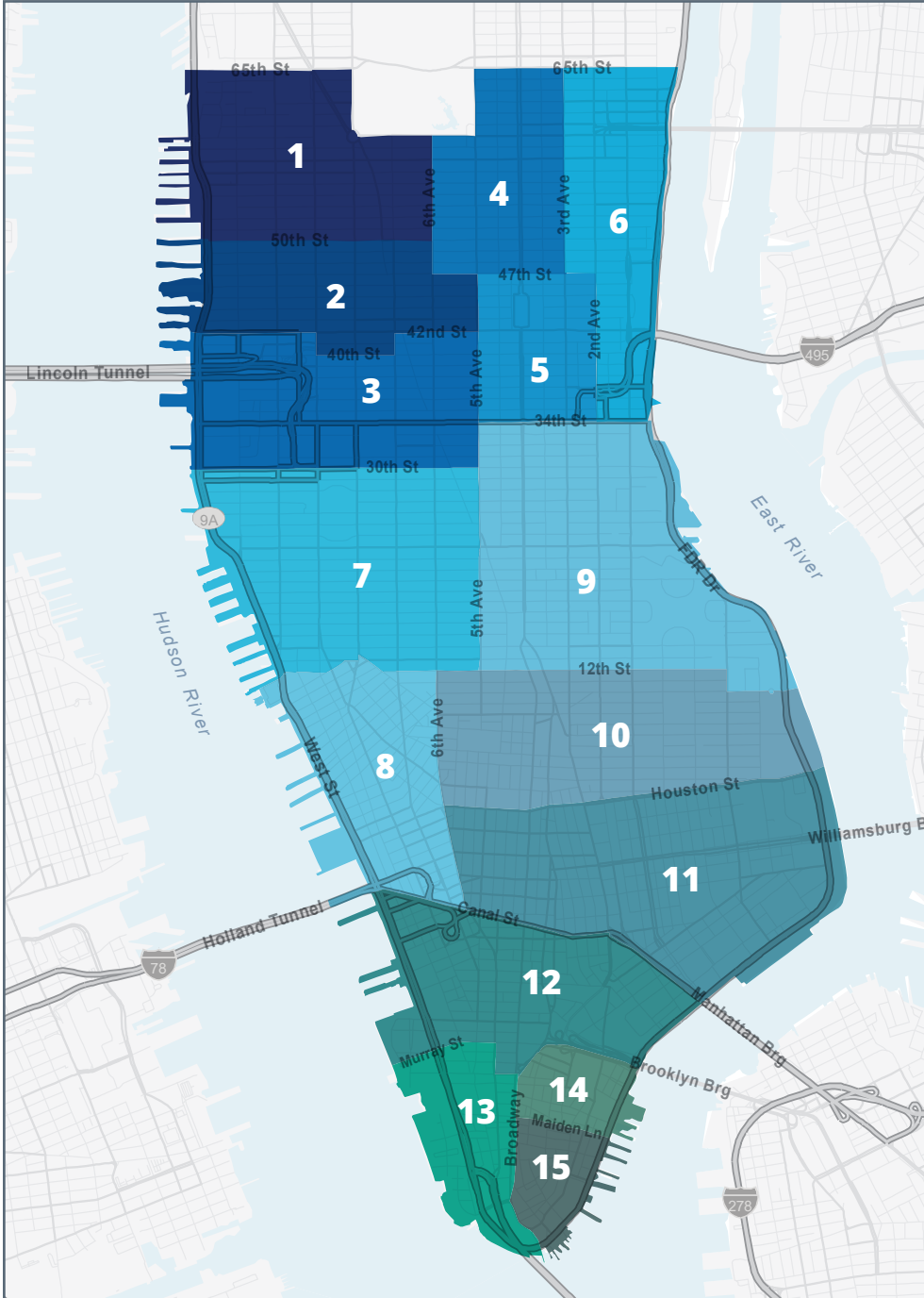
* = Partial interest



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
CHELSEA/FLATIRON	26,854,652	-20,299	-406,256	18.7%	16.9%	\$110.16	\$61.75	\$71.47
GRAMERCY PARK	32,250,813	-267,673	-489,465	22.9%	20.0%	\$101.35	\$62.56	\$81.96
GREENWICH VILLAGE	5,674,219	123,690	26,865	19.9%	18.0%	\$117.67	\$99.75	\$101.58
HUDSON SQUARE	10,022,616	-189,287	-214,975	24.0%	15.5%	\$87.62	\$78.99	\$84.06
SOHO	5,891,485	-85,973	-72,184	17.0%	12.2%	\$78.38	\$74.66	\$76.23
MIDTOWN SOUTH TOTAL	80,693,785	-439,542	-1,156,015	21.0%	17.7%	\$99.26	\$67.97	\$79.90
COLUMBUS CIRCLE	30,974,161	33,614	356,233	12.3%	10.7%	\$70.78	\$57.61	\$67.81
EAST SIDE	14,866,008	144,003	199,030	20.6%	19.3%	\$72.52	\$73.20	\$72.53
GRAND CENTRAL	57,440,225	-117,211	-357,655	21.0%	16.5%	\$70.63	\$62.03	\$69.51
PENN PLAZA	69,479,195	979,029	495,586	18.0%	13.1%	\$108.22	\$56.93	\$92.58
PLAZA DISTRICT	71,188,690	-414,815	-348,865	14.4%	12.7%	\$87.27	\$88.91	\$87.34
TIMES SQUARE	43,395,082	-145,223	-389,001	16.8%	14.5%	\$78.59	\$58.54	\$74.31
MIDTOWN TOTAL	287,343,361	479,397	-44,672	17.0%	14.0%	\$84.46	\$60.14	\$80.34
TOTAL	460,289,345	-819,208	-2,027,494	19.0%	15.6%	\$77.38	\$61.26	\$73.77



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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