



TRANSWESTERN

DOWNTOWN MANHATTAN OFFICE MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.3	4.6	↑	7.4	↓
NET ABSORPTION (Thousands SF)	717.3	(398.8)	↑	(397.9)	↑
OVERALL VACANCY RATE	18.9%	17.6%	↑	14.2%	↔
OVERALL VACANT SF (MSF)	17.4	16.4	↑	13.1	↔
UNDER CONSTRUCTION (MSF)	0.0	0.1	↔	0.2	↔
ASKING RENT (PSF)	\$55.70	\$56.58	↓	\$60.48	↔
SALES VOLUME (Millions)	\$0.0	\$0.0	↔	\$276.8	↑

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

LARGE DEALS BOOST DOWNTOWN LEASING

Two deals exceeding 100,000 SF helped drive 807,500 SF in Downtown leasing activity in Q3, though this result was the lowest since mid-2022. Absorption saw its strongest quarter since late 2018, and both sublet and direct availability decreased. Downtown’s outlook remains mixed as elevated availability is still weighing on asking rents, which decreased from Q2 and from a year ago. Still, several sizeable renewals reflected tenants’ ongoing faith in the submarket.

“Sublease supply, which has been an indicator of uncertainty, was down across Manhattan,” said Chase Gordon, Senior Vice President, Transwestern. “We are seeing signs of stability re-enter the office market, particularly as tenants firm up their back-to-office plans.”

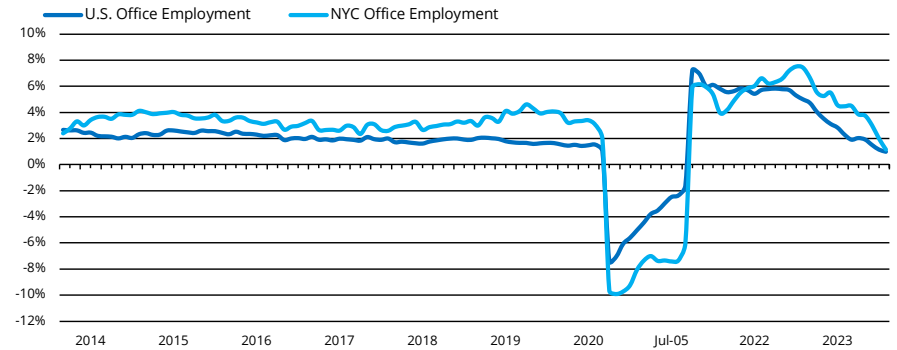


ECONOMY

Office employment growth is slowing

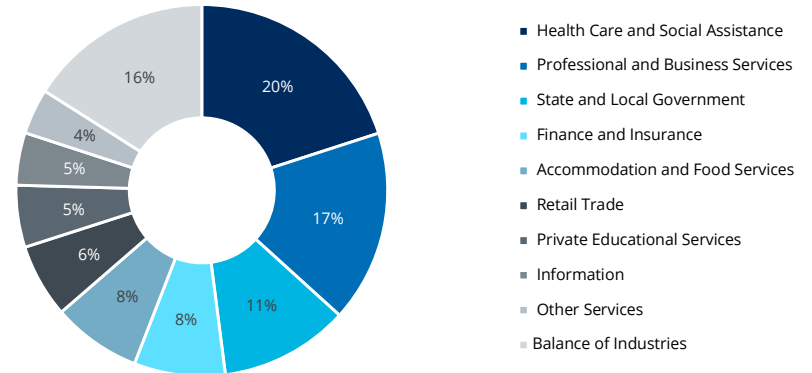
- New York City office employment is now 3.6% above the pre-COVID level with 2.1 million jobs. The rate of growth has slowed considerably, however, most recently to 1.2% year-over-year. Outside of the initial COVID slump, this is the slowest year-over-year growth in more than a decade.
- On a national level, there has been a small reduction in office jobs from their May peak, now measuring 35.2 million positions. As in NYC, job growth has slowed below the pre-COVID pace, with year-over-year growth of just 1.0% in August.
- The unemployment rate in New York City is stabilizing in the mid-5% range and measured 5.3% in August. National unemployment currently stands at 3.8%, slightly above the pre-pandemic level.
- New York City's Health Care & Social Assistance industry continues to lead the recovery, adding more jobs over the last year than any other sector. Robust job increases were also seen in the Accommodation & Food Services sector and Private Educational Services sector. On the downside, layoffs by tech companies have contributed to an employment decrease in office sectors like Information and Professional & Business Services. As higher interest rates have led to a pullback in consumer spending, Wholesale and Retail Trade jobs have decreased, along with jobs in the Transportation, Warehousing, & Utilities sector.
- 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



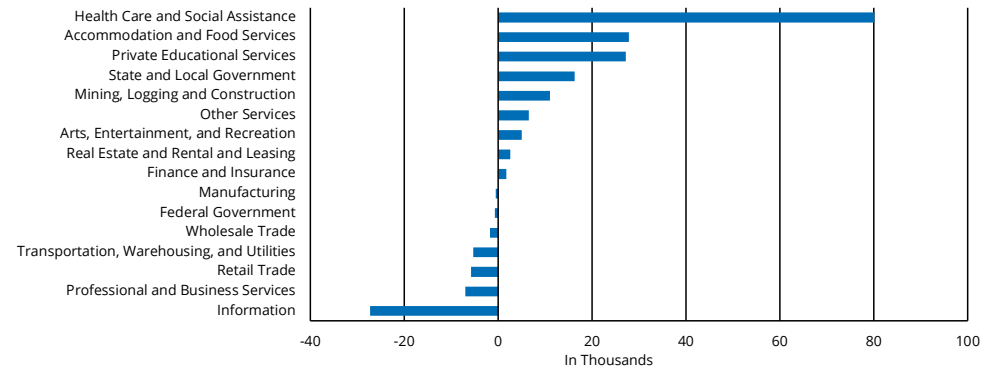
SHARE OF EMPLOYEES BY INDUSTRY

New York City | August 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



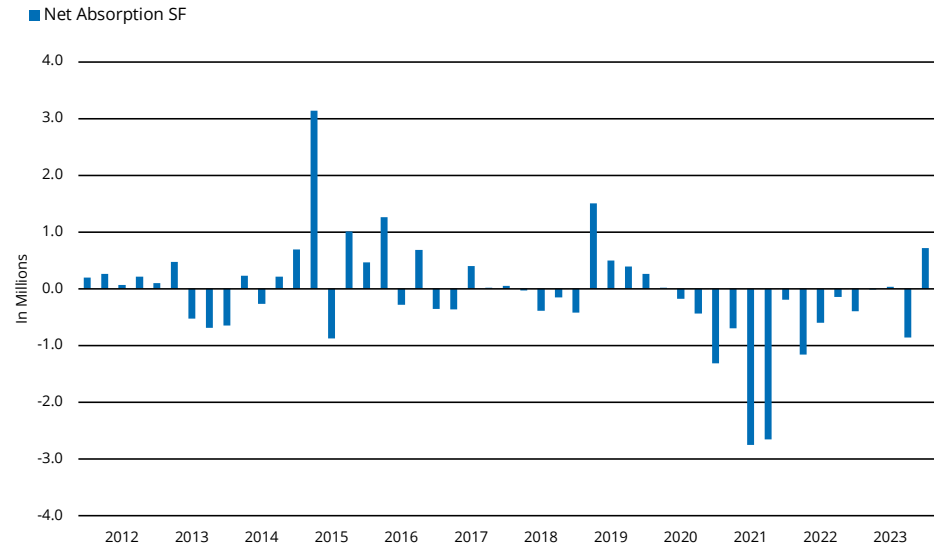


NET ABSORPTION

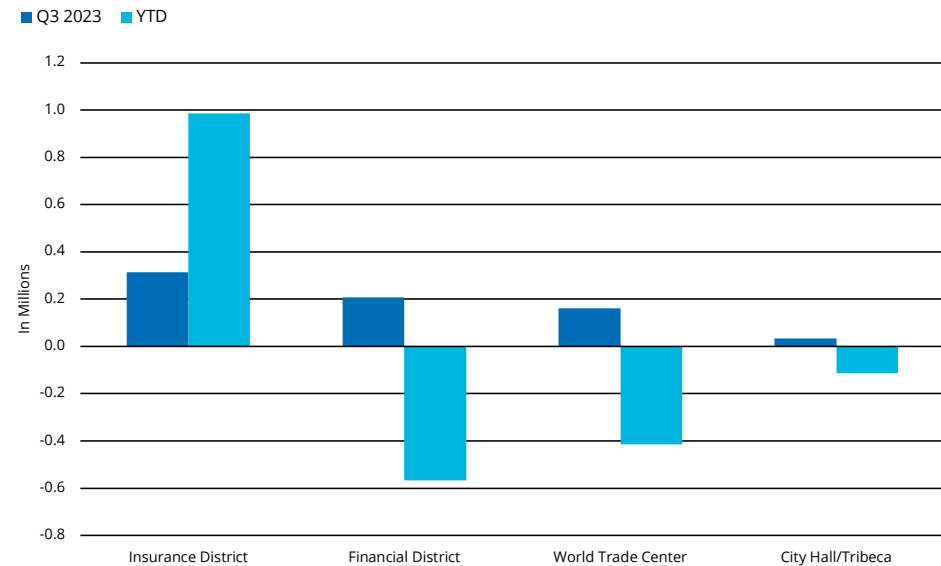
Downtown absorption turns positive again

- In a reversal from Q2, all of Downtown’s submarkets showed positive net absorption in Q3. Overall, Downtown logged 717,300 SF of positive take-up, the strongest result since late 2018. Year-to-date absorption measured negative 109,500 SF, compared with negative 1.1 million SF during the first three quarters of 2022.
- Downtown’s largest new lease was a 120,000 SF signing from Tower Research Capital. The investment firm took a 15-year deal for new headquarters at 120 Broadway in Downtown’s Financial District submarket. Financial District absorption reached nearly 208,000 SF, though some of the positive take-up was generated by the withdrawal of two large sublet blocks at 55 Water Street and 85 Broad Street.
- Absorption in the Insurance District was even higher at 314,400 SF, largely resulting from space adjustments at 110 William Street, where the NYC Administration for Children’s Services signed a 640,000 lease earlier this year.
- Renewals and extensions this quarter by established tenants like New York City’s Office of Management and Budget, Office of the Actuary, and Mayor’s Office of Contract Services, which signed a joint lease extension for 183,300 SF at 255 Greenwich Street, and the Municipal Credit Union, which renewed for 93,500 SF at 22 Cortlandt Street, should help generate further confidence going forward.
- Additionally, there are several high-profile office-to-residential conversions underway Downtown, which should assist absorption by removing under-utilized space.

NET ABSORPTION - DOWNTOWN



NET ABSORPTION BY SUBMARKET



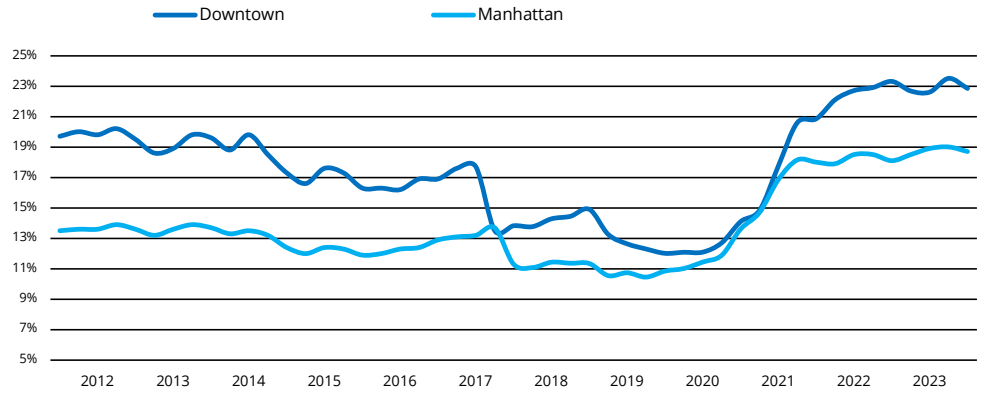


AVAILABILITY

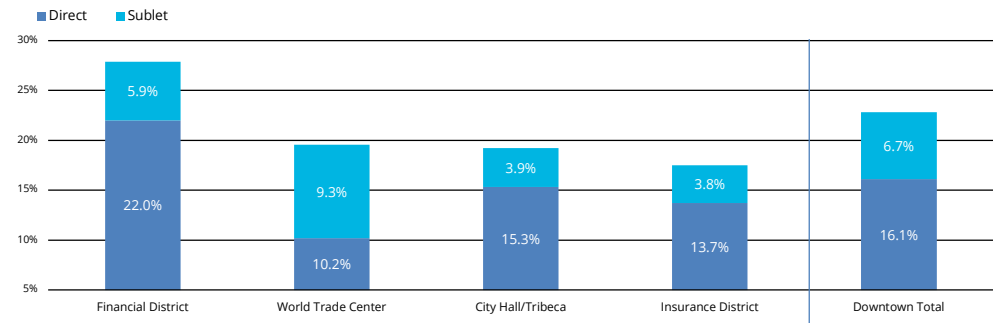
Availability dips as sublet space decreases

- Downtown’s availability rate decreased 0.7 percentage points [pp] from Q2 to 22.8% in Q3. In comparison, Downtown’s average availability was around 15% in the five years pre-pandemic. Both direct and sublet availabilities decreased in Q3.
- Notably, sublet availability decreased in every Downtown submarket, though some saw a rise in direct availability rates. Sublet availability is now 6.7% Downtown, representing 29.4% of the available total.
- The World Trade Center submarket retains Downtown’s highest sublet availability rate at 9.3%, equating to almost 48% of that neighborhood’s total available space. The Insurance District has Downtown’s lowest sublet availability at 3.8%, representing 21.7% of the available total.
- Downtown’s availability rate has trended above the Manhattan average for the last decade. 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.
- Many of Downtown’s buildings are being eyed for adaptive reuse, which would serve to remove excess space from the submarket, especially as relates to class B space and non-trophy assets.

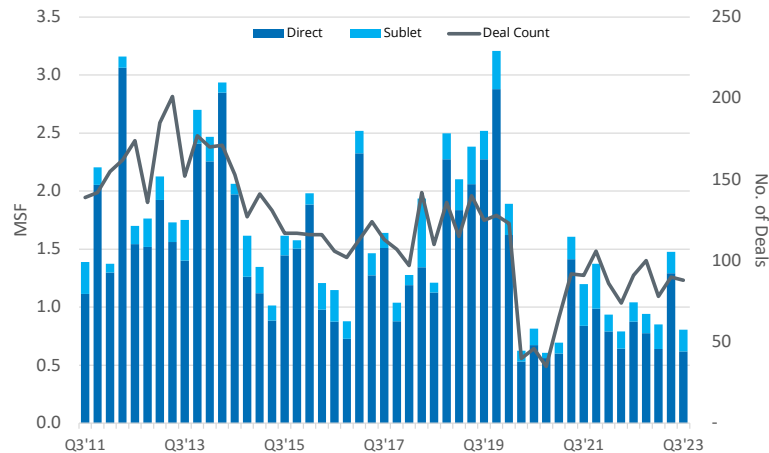
SUBMARKET AVAILABILITY VS MANHATTAN



SUBMARKET AVAILABILITY



DOWNTOWN LEASING ACTIVITY



Source: CoStar, Transwestern

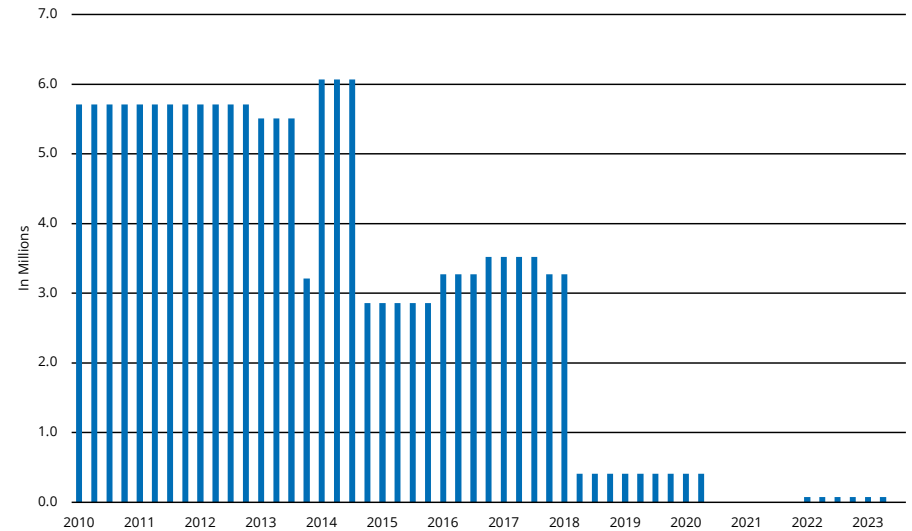


UNDER CONSTRUCTION

Downtown transformation continues

- Most of Downtown’s recent construction activity has been focused on renovations and repositioning, rather than ground-up development. There are significant upgrades underway in several Downtown assets, with more expected to follow.
- Even with the swing toward redevelopment, there is about 3.1 MSF of Class A office product proposed or planned Downtown. The bulk of this outlook is represented by a 2.8 MSF tower addressed at 2 World Trade. Completion dates for proposed properties extend through 2028, with some hinging on securing an anchor tenant.
- Several prominent but struggling Downtown office properties are undergoing residential conversion, including 25 Water Street and nearby 160 Water Street. Additionally, the latest plan for the long anticipated 5 World Trade includes more housing and less office space than originally proposed. 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.
- We are currently seeing numerous Class B office assets preparing for renovations in order to compete for tenants. New and upgraded 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.

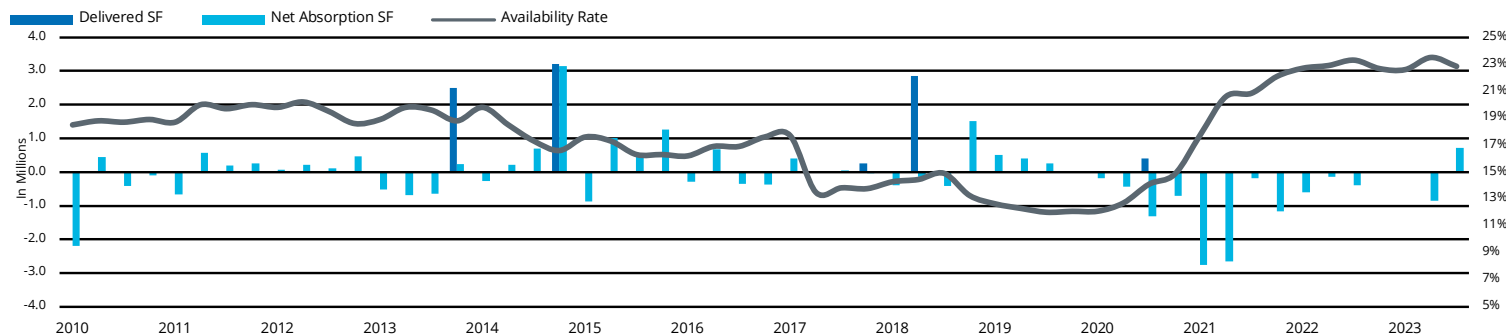
UNDER CONSTRUCTION - DOWNTOWN



DOWNTOWN CONSTRUCTION/RENOVATIONS IN PROGRESS

PROPERTY	SUBMARKET	RBA	YEAR BUILT	YEAR EXPECTED
111 Wall St	Financial District	1,038,722	1966	2023
101 Franklin St	City Hall/Tribeca	235,000	1948	2024
60 Wall St	Financial District	1,625,483	1987	2025

DELIVERY IMPACT ON KEY INDICATORS



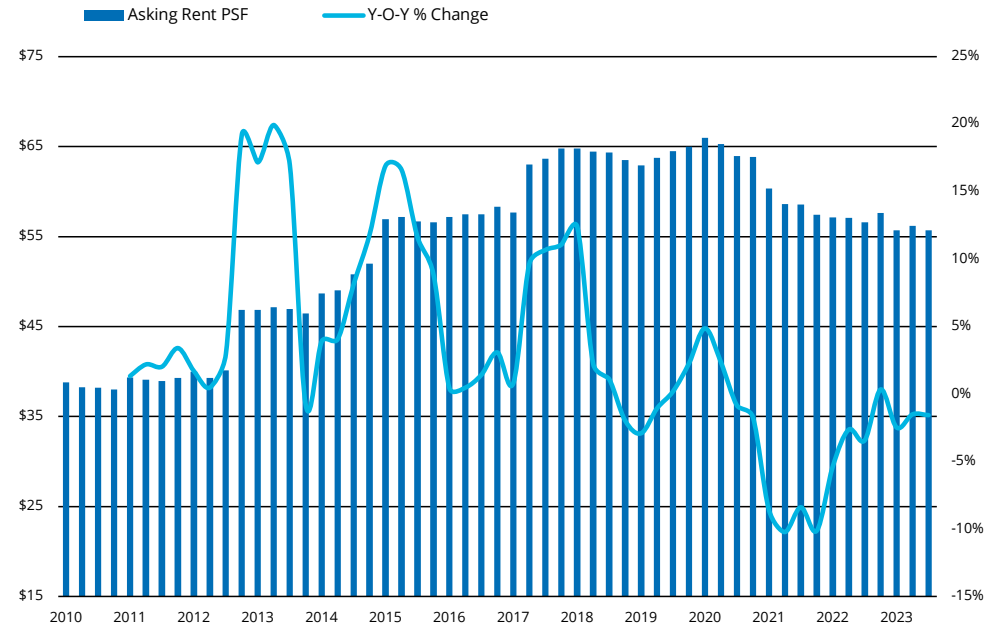


RENTAL RATES

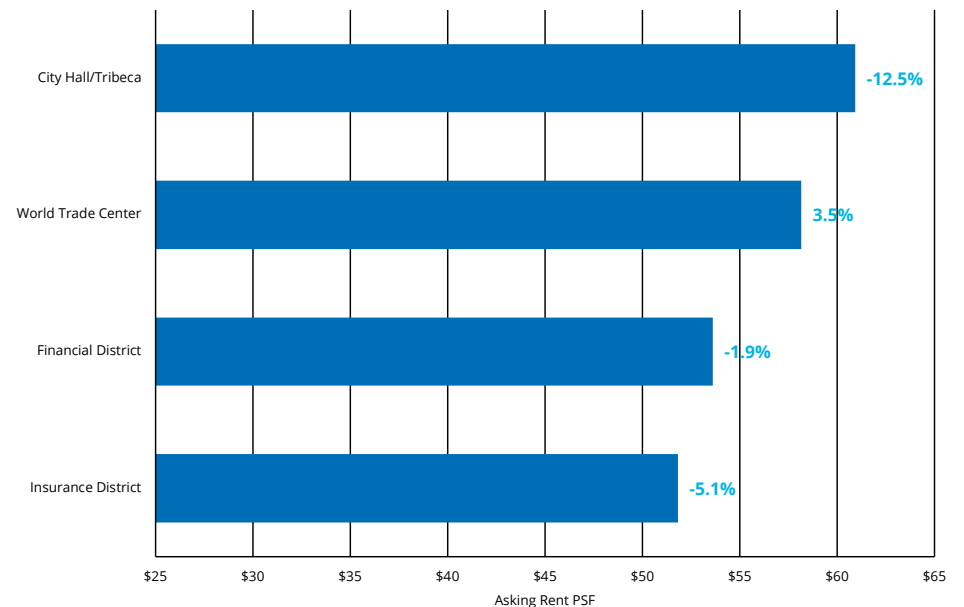
Downtown rents decrease again

- Downtown rents have been see-sawing the last few quarters and dipped in Q3, decreasing 0.9% to \$55.70 PSF. Rents are now 1.6% below their year-ago level, and 15.6% below the pre-pandemic peak of \$65.98 PSF.
- Most of Downtown’s submarkets saw less than a 1% gain or loss from last quarter. The one exception was the Insurance District, where rents fell almost 5% from Q2 as a large block of high-priced Class A space at 110 William Street was removed from the available inventory.
- The general excess of sublet space is still inhibiting 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.
- Downtown remains a tenants’ market, particularly at non-trophy and Class B assets, as well as high-vacancy buildings. The area’s ongoing reinvention should draw further interest from occupiers, and rents should stabilize as availability tightens.

ASKING RENT - DOWNTOWN



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



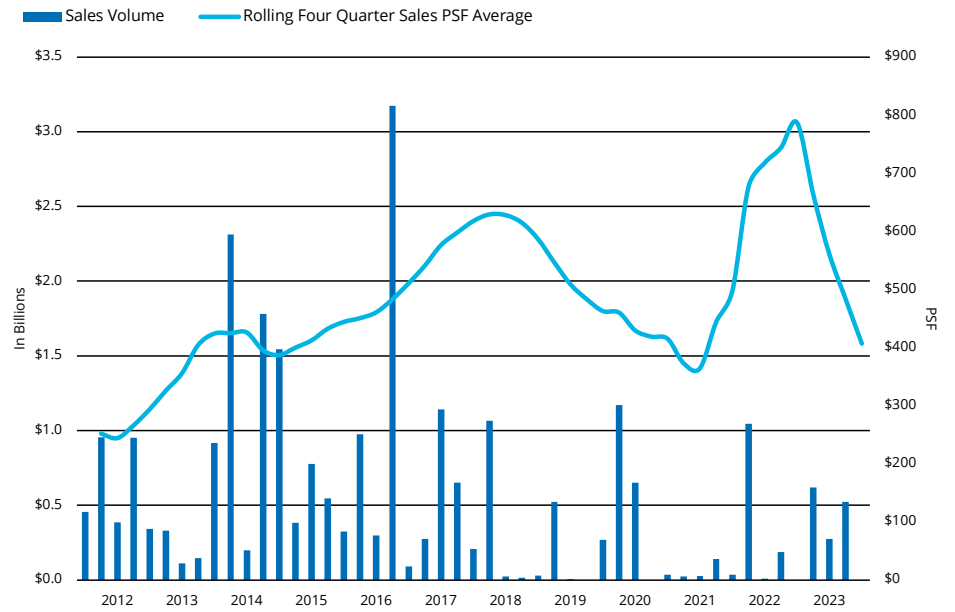


SALES

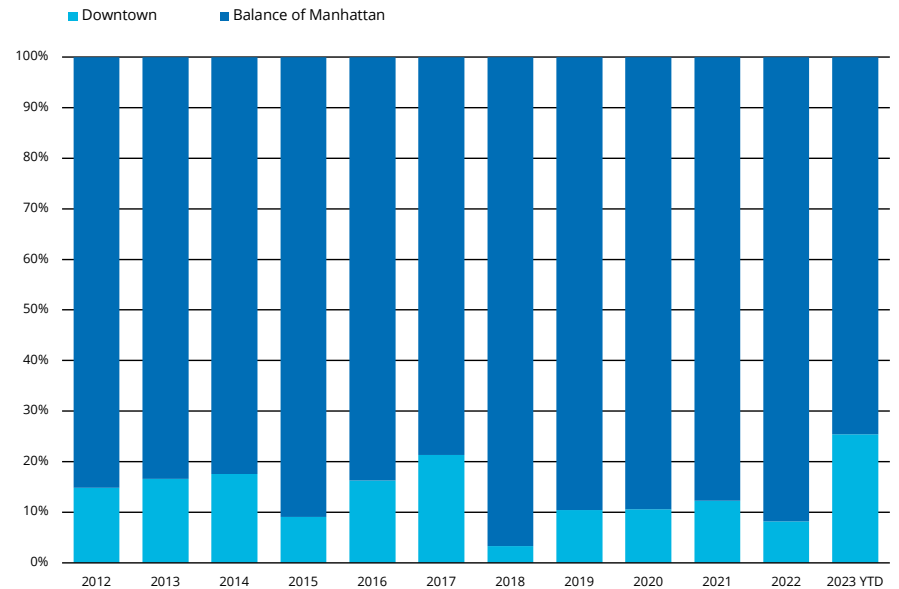
No notable sales Downtown this quarter

- Downtown sales activity was largely absent in Q3. Year-to-date volume measured \$795.9 million, compared with \$195.7 million during the first three quarters of 2022.
- Two Class A properties in Downtown’s Financial District submarket are reportedly searching for buyers. The 1.1 MSF tower at 80 Pine Street was renovated in 2021 and is 97.5% leased. The 19-story tower at 100 Wall Street is 86% leased and last sold for \$270 million in 2015.
- With the Federal Reserve considering an additional rate hike, elevated interest rates and the overall economic climate are leaving investors reluctant to take on more debt and more risk. 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
NEW YORK CITY AGENCIES*	255 Greenwich St	World Trade Center	Direct / Extension	183,300
TOWER RESEARCH CAPITAL	120 Broadway	Financial District	Direct	120,000
GOLDEN GOOSE	120 Broadway	Financial District	Direct	13,071

* Office of Management and Budget, Mayor’s Office of Contract Services, New York City Office of the Actuary

NOTABLE NEW AVAILABILITIES

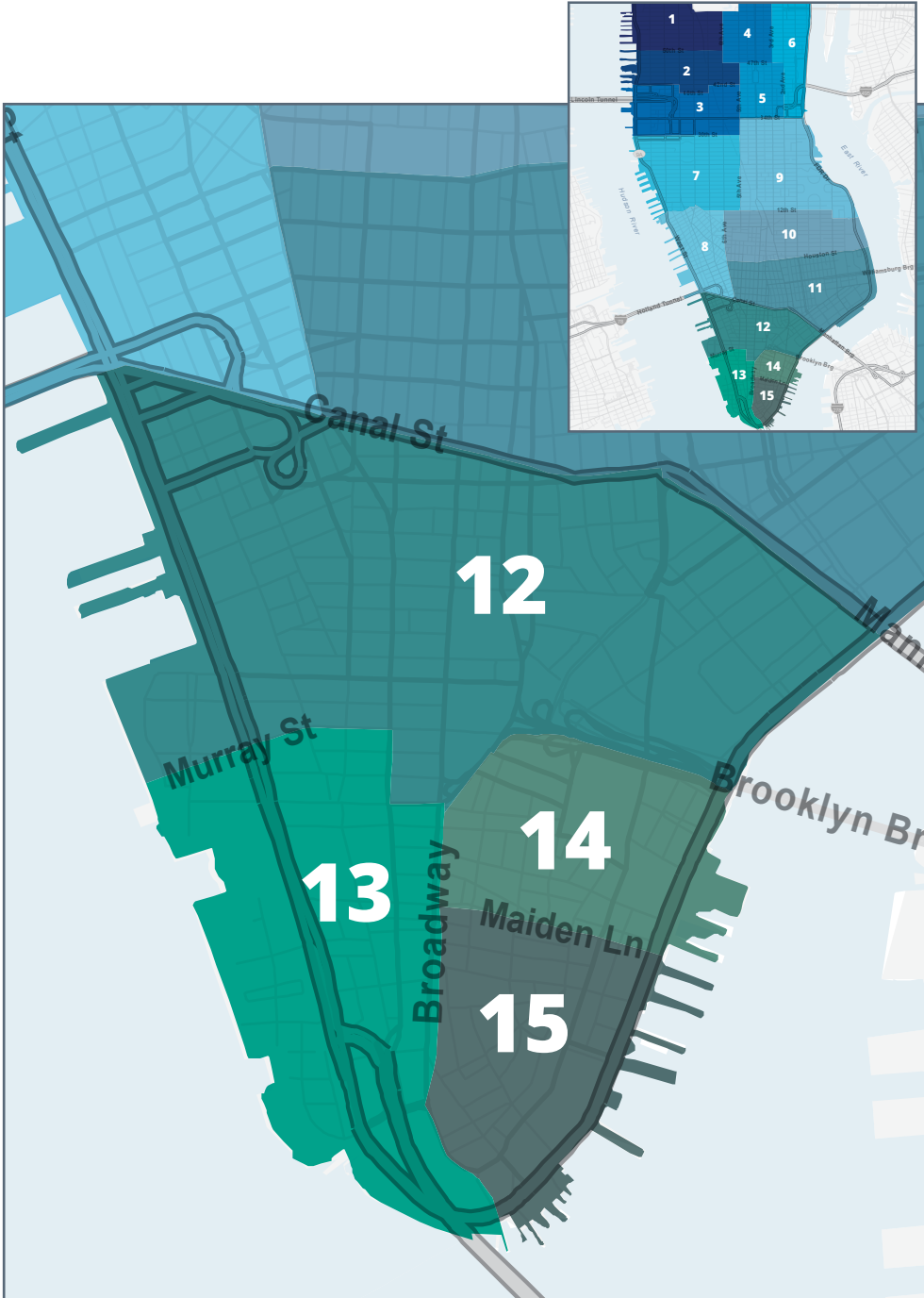
ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
1 NEW YORK PLAZA	Financial District	90,200	Direct
55 WATER ST	Financial District	68,000	Sublet
100 CHURCH ST	World Trade Center	66,700	Sublet
408-410 BROADWAY	City Hall/Tribeca	60,000	Direct
83 MAIDEN LN	Insurance District	56,000	Direct



MARKET INDICATORS

All Classes of Space | Q3 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	33,908	-113,507	19.2%	18.3%	\$63.52	\$49.01	\$60.93
FINANCIAL DISTRICT	38,934,374	207,972	-567,259	27.9%	23.1%	\$54.43	\$48.28	\$53.62
INSURANCE DISTRICT	9,694,446	314,371	986,144	17.5%	17.3%	\$54.98	\$40.60	\$51.83
WORLD TRADE CENTER	33,273,576	161,018	-414,916	19.6%	14.8%	\$59.70	\$41.99	\$58.16
DOWNTOWN TOTAL	91,980,081	717,269	-109,538	22.8%	18.9%	\$57.17	\$45.75	\$55.70



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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