



TRANSWESTERN

# 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)	1,926.9	1,605.3	↑	(1,713.3)	↑
OVERALL VACANCY RATE	16.4%	14.4%	↑	11.8%	↓
OVERALL VACANT SF (MSF)	75.1	66.0	↑	53.4	↓
UNDER CONSTRUCTION (MSF)	0.9	8.0	↓	11.1	↔
ASKING RENT (PSF)	\$74.54	\$71.34	↑	\$74.93	↑
SALES VOLUME (Millions)	\$347.8	\$2,516	↓	\$2,466.3	↔

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

## ABSORPTION REACHES A FIVE-YEAR HIGH

Manhattan leasing activity measured 5.0 MSF in the third quarter of 2023. The largest deals were a mammoth 708,000 SF renewal and expansion from DavisPolk, and a 183,300 SF renewal by the City of New York for three of its agencies. While leasing was lower than in Q2, Manhattan’s other indicators showed strong improvement. Net absorption reached almost two million SF, the best result since 2018, and availability decreased, driven by a sizeable reduction in available sublet space. Rents increased for a second straight quarter, pushed upward by rates at new and renovated Class A product.

“Sublease supply, which has been an indicator of uncertainty, was down across Manhattan, particularly in Midtown, which saw a sharp decrease,” 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, and we expect that to continue as we close out 2023.”

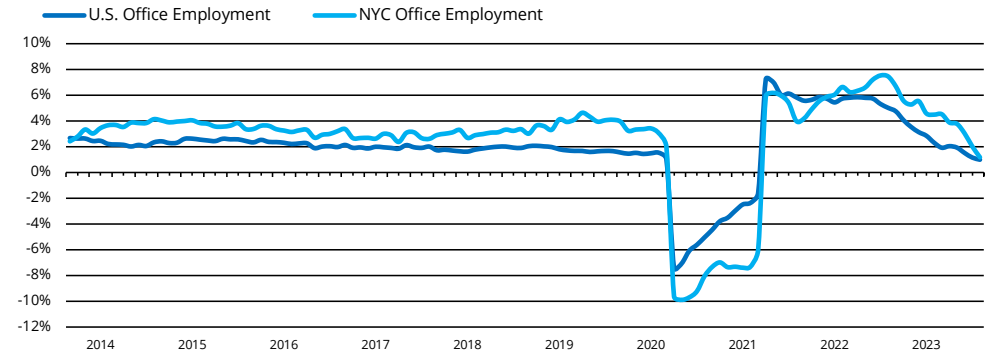


### ECONOMY

#### Office employment growth is slowing

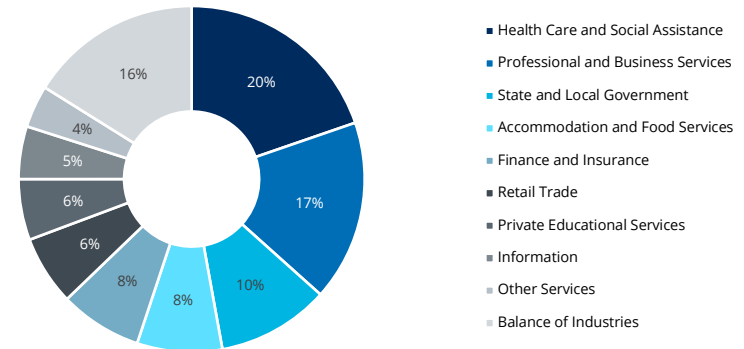
- New York City office employment is now 3.6% above the pre-COVID level with 2.1 million jobs. The rate of growth has slowed considerably, however, most recently to 1.2% year-over-year. Outside of the initial COVID slump, this is the slowest year-over-year growth in more than a decade.
- On a national 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



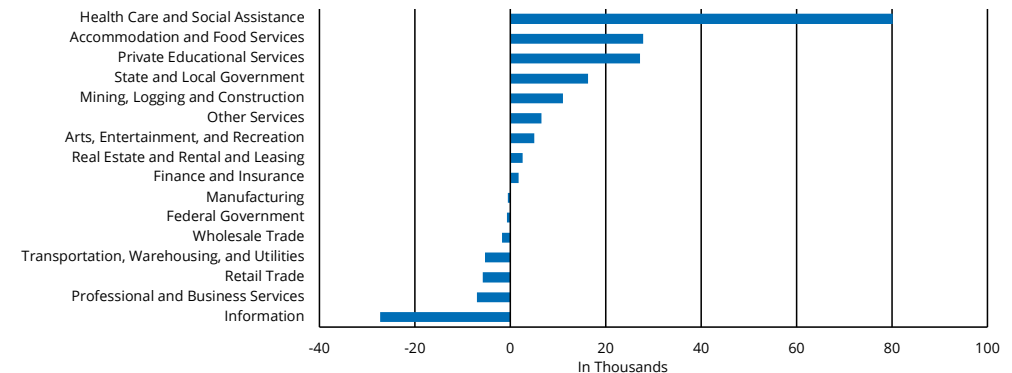
### SHARE OF EMPLOYEES BY INDUSTRY

New York City | August 2023



### Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



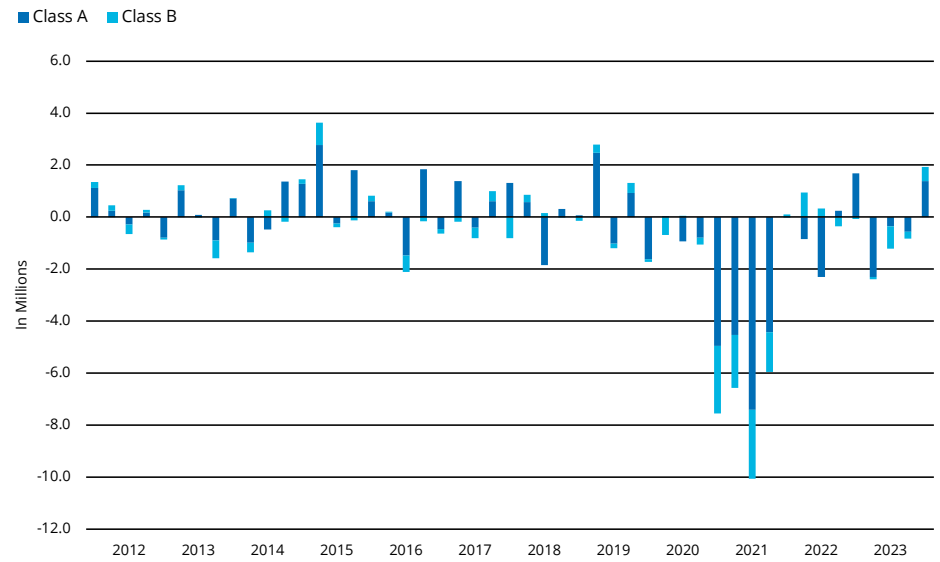


### NET ABSORPTION

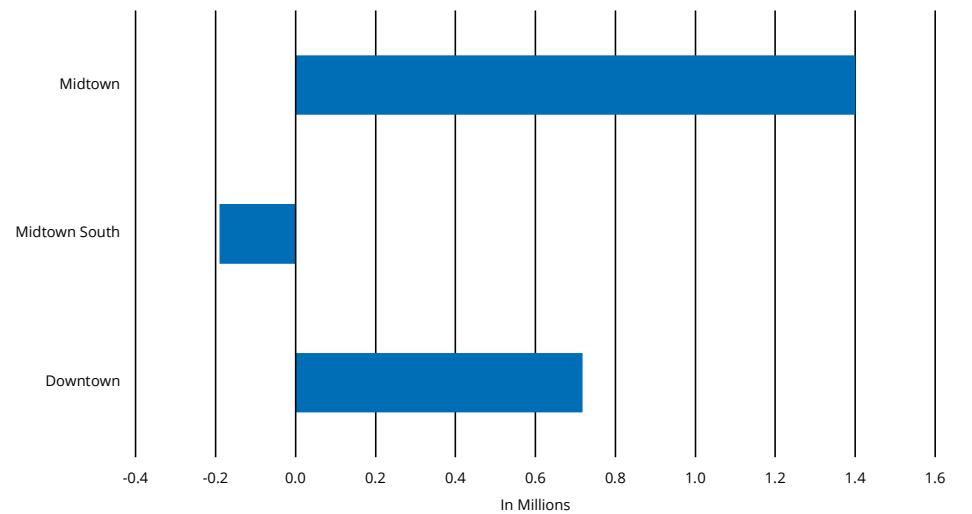
#### Strong absorption lifts Q3

- Manhattan recorded more than 1.9 MSF of positive net absorption in Q3 2023, the highest quarterly total since 2018. Absorption was positive in both Class A and Class B assets. Year-to-date absorption of negative 100,500 SF was an improvement over the negative 441,100 SF logged during the same period in 2022.
- Midtown had the strongest absorption among Manhattan’s three major submarkets with more than 1.4 MSF taken up in the quarter. Large new leases in Midtown included 117,200 SF by Empire State Development at 655 Third Avenue, and 89,000 SF by Marshall Wace at 66 Hudson Boulevard. The withdrawal of several large blocks of space, including a 554,800 SF sublet block at 535 W 46th Street, also helped boost the submarket’s absorption result.
- Downtown’s 717,300 SF of positive absorption was its strongest since 2018. As in Midtown, the withdrawal of previously offered spaces, including five large blocks totaling more than 750,000 SF, helped with the positive tally. Downtown’s largest new lease was Tower Research Capital’s 120,000 SF direct deal at 120 Broadway.
- Midtown South recorded 190,800 SF of negative net absorption. The submarket’s largest deal was a 66,000 SF sublease and direct extension by Ramp at 28-40 West 23rd Street. Midtown South saw the withdrawal of several large sublet blocks, but also faced a 288,500 SF sublet addition at 375 Hudson Street, a 116,000 SF direct addition at 114-116 Fifth Avenue, and a 90,100 SF block at the Puck Building which is now within twelve months of occupancy.
- About 15 leases exceeding 50,000 SF were signed in Manhattan this quarter, contributing to one of the highest quarterly absorption totals in the last decade. Many leases were for terms of 10 years or more, and several included an expansion component, which should generate further confidence going forward.

### NET ABSORPTION BY CLASS



### NET ABSORPTION BY SUBMARKET



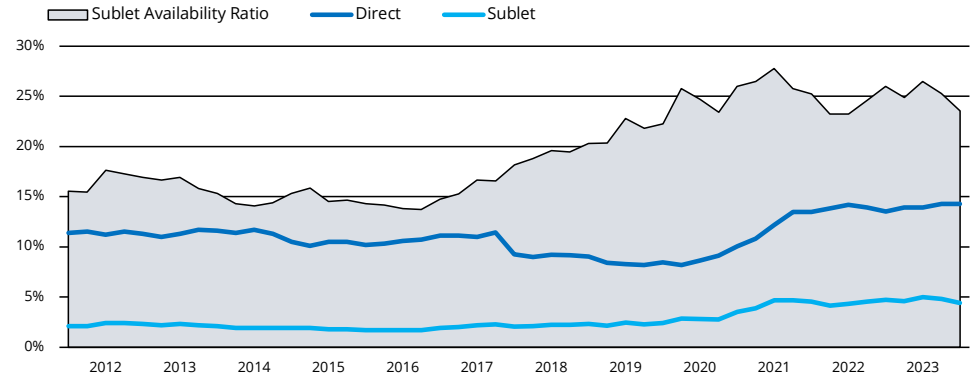


### AVAILABILITY

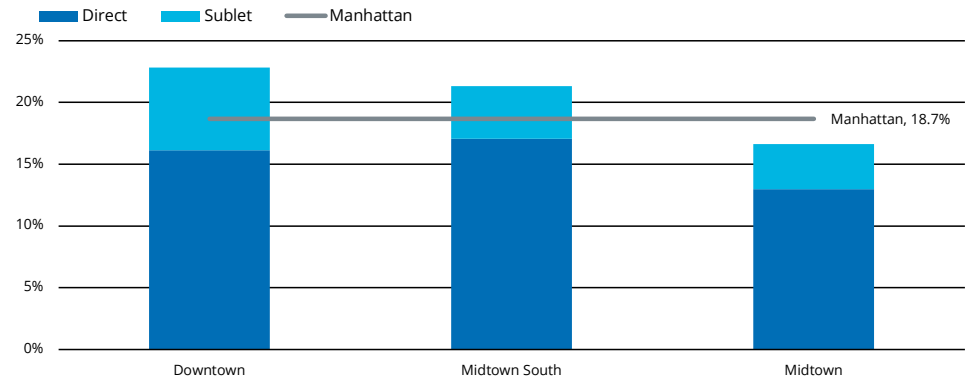
#### Availability rate decreases to 18.7%

- After increasing in each of the last three quarters, Manhattan’s availability rate fell 0.3 percentage points [pp] to 18.7% in Q3 2023. Overall availability is 0.6 pp higher than a year ago.
- Direct availability was unchanged from last quarter at 14.3%. Sublet space decreased by 2 MSF, pushing sublet availability to 4.4%, the lowest level since early 2022. Sublet availability decreased in all three major submarkets and now represents 23.3% of the available total.
- Downtown availability fell 0.7 pp from last quarter’s high to 22.8%. Sublet availability fell to 6.7%, still representing almost 30% of the total. Downtown continues to see significant availabilities, including nearly a dozen buildings that each are marketing more than half a million square feet. These large availabilities nonetheless present attractive, discounted opportunities for anchor tenants.
- Availability in Midtown decreased 0.4 pp to 16.6%, about 5 pp above the pre-COVID level. While roughly a dozen new deals exceeding 50,000 SF were signed in Midtown, their impact was somewhat dampened by large block additions. The large new leases included four sublet deals; sublet availability fell to 3.6%, its lowest since Q4 2020.
- Midtown South overall availability increased 0.3 pp to 21.3%, the highest on record for the submarket. There were six large block additions, mostly for direct space, and only one new lease exceeding 50,000 SF.
- Manhattan’s availability rate had been creeping upward amid market uncertainty and plateauing reoccupancy levels, but the gradual decrease in sublet space is helping relieve the pressure. Pent-up demand from tenants looking for an entry or re-entry into the Manhattan market could help bring availability down. The flight to quality may deepen the divide between Class A and B space; Class B availability is currently 19.8%, compared with 18.4% in Class A.

### DIRECT VS SUBLET AVAILABILITY RATE



### AVAILABILITY RATE BY SUBMARKET



All sources: CoStar, Transwestern

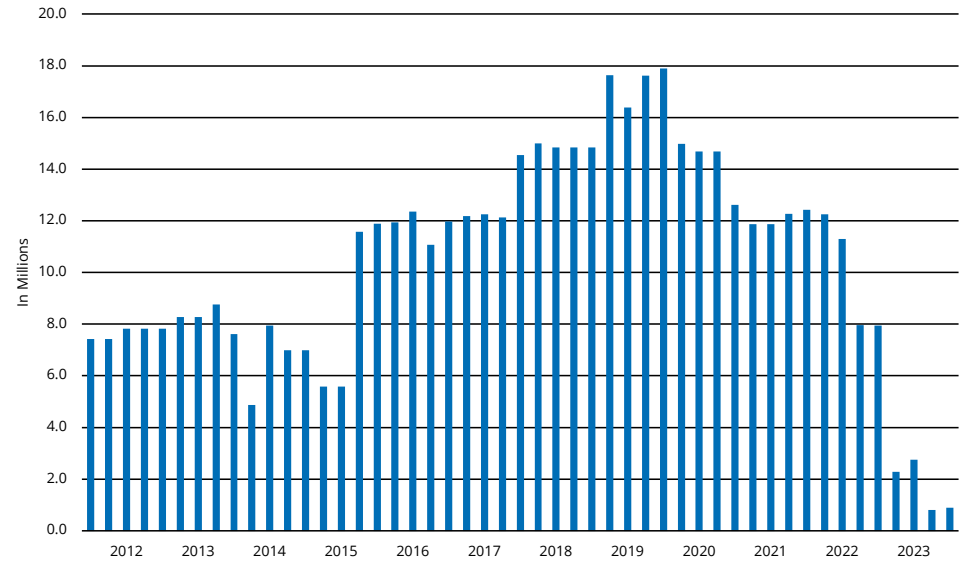


### UNDER CONSTRUCTION AND RECENT DELIVERIES

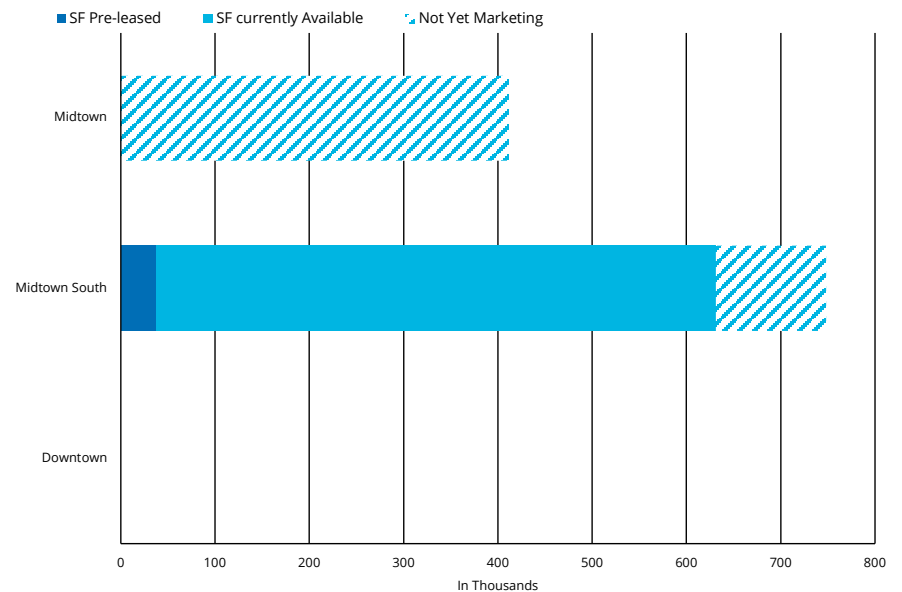
#### New construction yields to redevelopment

- New construction in Manhattan is near its lowest level in at least a decade, as the last of the properties that were underway before the pandemic are reaching completion.
- In Midtown South, 555 Greenwich was delivered in Q3, and the boutique office building at 132 W 14th Street is expected to deliver later this year. Office construction continues at 220 Eleventh Street, 360 Bowery, and 278 Eighth Avenue, along with Midtown’s 125 W 57th Street and 520 Fifth Avenue.
- Complementing the new construction, more than 5.4 MSF of office space is under renovation across the borough. Major projects include Downtown’s 111 Wall Street, One Madison Avenue in Midtown South, and PENN2, which is seeking an anchor tenant for its revamped base floors in Midtown.
- Manhattan’s development scene is evolving, with an emphasis on residential development amid high office vacancy levels and a need for more housing. Several prime Manhattan office buildings have already begun conversion, including Midtown’s 330 West 42nd Street, which is prepping its upper floors for residential units (the base will remain office space). Additionally, plans for Downtown’s long anticipated 5 World Trade have now shifted toward more housing and less office space.
- Even with the swing toward renovations and redevelopment, there is about 10.7 MSF of Class A office product proposed or planned in Manhattan, and demolition has already begun at several sites. Three of the proposed properties are expected to top out at more than 1 million SF each; getting these 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



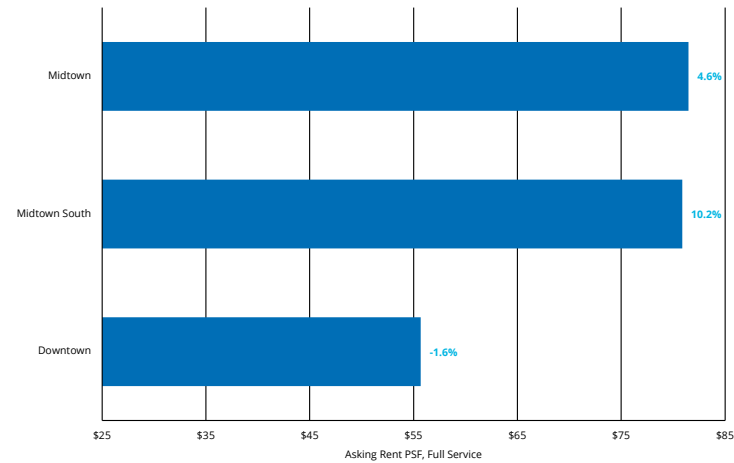


### RENTAL RATES

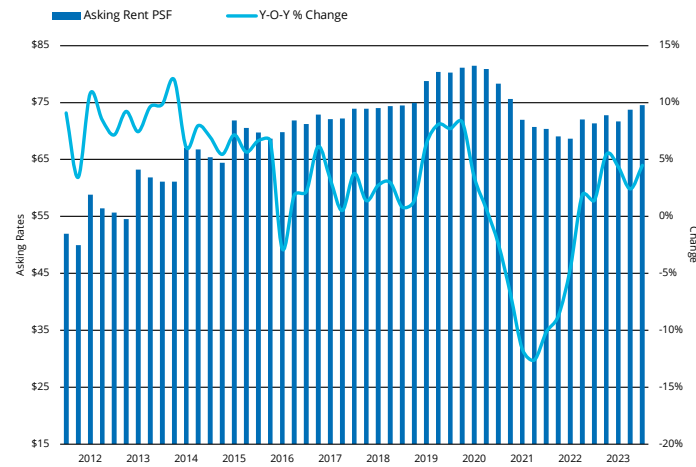
#### Rents increasing across Manhattan

- Manhattan asking rents recorded a sixth straight quarter of year-over-year growth in Q3, improving 4.5% to \$74.54 PSF. Overall, asking rents remain 8.5% below their Q1 2020 peak.
- Midtown South rents are sticking close to their Midtown counterparts at a respective \$80.88 PSF and \$81.48 PSF. Both submarkets saw rents increase from Q2, driven by high priced space in trophy buildings like 550 Madison Avenue, 30 Hudson Yards, 50 Hudson Yards, 425 Park Avenue, and 1 Bryant Park in Midtown, all asking over \$200 PSF, and One Madison and 220 Eleventh Avenue in Midtown South, each starting at around \$150 PSF.
- Downtown's high amount of available sublet space is limiting rent growth. Asking rates decreased 0.9% from last quarter to \$55.70 PSF, a reduction of 1.6% from a year ago. Downtown rents are now 15.6% below their early 2020 peak.
- Manhattan's general excess of sublet space continues to put pressure on rents, but the newest trophy and Class A+ spaces are asking and receiving premium prices. Additionally, we are seeing increased opportunities for tenants in terms of asking rents and concessions at non-trophy and Class B assets, particularly those with high vacancies.

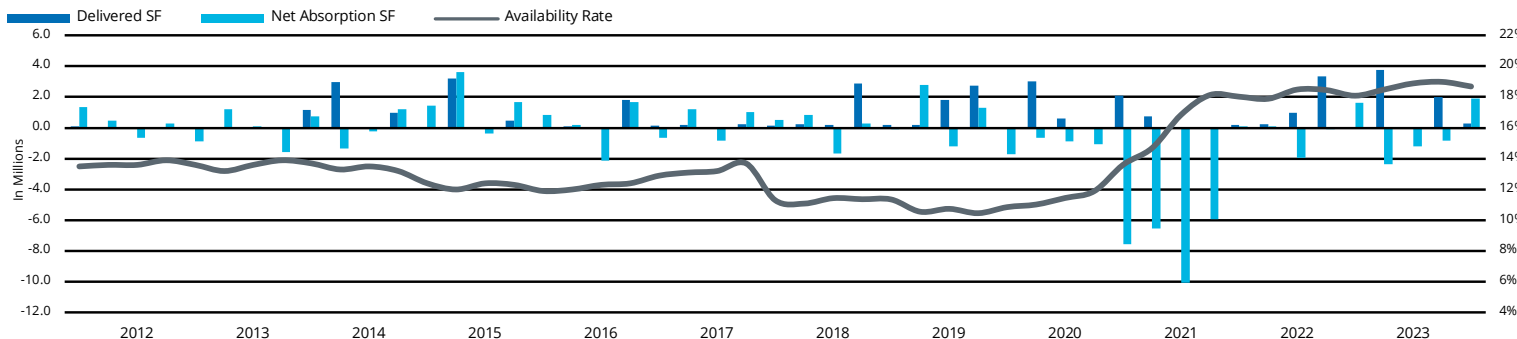
### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



### ASKING RENT



### DELIVERY IMPACT ON KEY INDICATORS



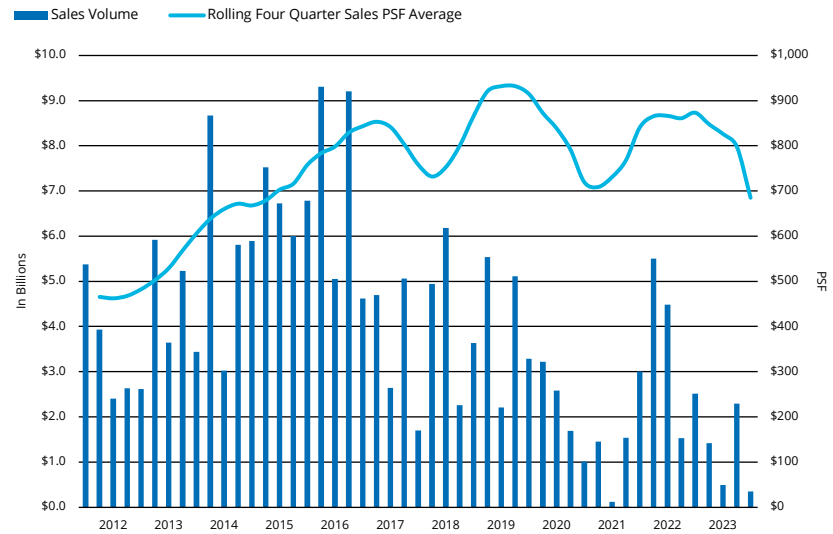


### SALES

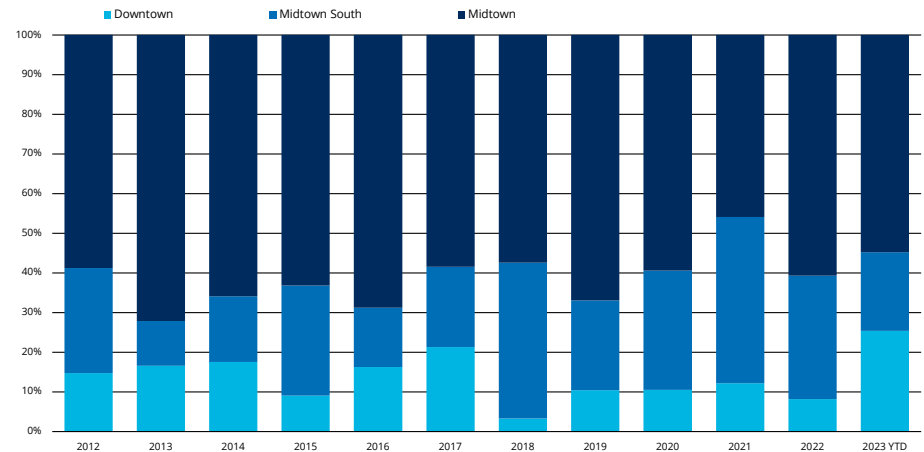
#### Transaction volume falls

- Manhattan office sales volume was about \$347.8 million in Q3 2023, well below Q2's result and the lowest since Q1 2021. Four-quarter rolling volume measured \$4.5 billion, compared with \$14.0 billion in the four prior quarters (Q4 2021-Q3 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 \$489 PSF, well below the 5-year average of \$807 PSF. Cap rates rose to 6.0%, their highest in over a decade. Both pricing and cap rates have been uneven of late due to the low number of core transactions.
- The largest office transaction in Q3 was the sale of 510 Fifth Avenue for \$50 million. The Reuben Brothers purchased the 61,200 SF Midtown asset from Vornado, working out to \$817 PSF. This was followed by Adams & Company's purchase of 16 Madison Square West in Midtown South for \$43.6 million. The transaction fetched \$168 PSF for seller Rockrose Development.
- Looking ahead, Sovereign Partners is in contract to buy 100-104 Fifth Avenue in Midtown South for \$125 million, though this is nearly half of the price it sold for a decade ago. The CBS Broadcast Center on West 57th Street in Midtown is also on the market, along with Downtown's 80 Pine Street.
- While the Federal Reserve seems to have eased off additional interest hikes for now, the elevated rates and 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



### OFFICE SALES BY SUBMARKET





**NOTABLE LEASES**

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
DAVISPOLK	450 Lexington Ave	Midtown	Renewal / Expansion	708,000
NEW YORK CITY AGENCIES*	255 Greenwich St	Downtown	Direct / Extension	183,300
TOWER RESEARCH CAPITAL	120 Broadway	Downtown	Direct	120,000
EMPIRE STATE DEVELOPMENT	655 Third Ave	Midtown	Direct	117,200
MARSHALL WACE	66 Hudson Blvd	Midtown	Direct	89,000

\* Office of Management and Budget, Mayor's Office of Contracts, New York City Office of the Actuary

**NOTABLE NEW AVAILABILITIES**

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
825 EIGHTH AVE	Midtown	600,000	Direct
375 HUDSON ST	Midtown South	288,500	Sublet
1166 AVE OF THE AMERICAS	Midtown	280,100	Direct
7 TIMES SQUARE	Midtown	267,000	Direct
114-116 FIFTH AVE	Midtown South	116,000	Direct
11 PENN PLAZA	Midtown	101,500	Sublet

**NOTABLE SALES**

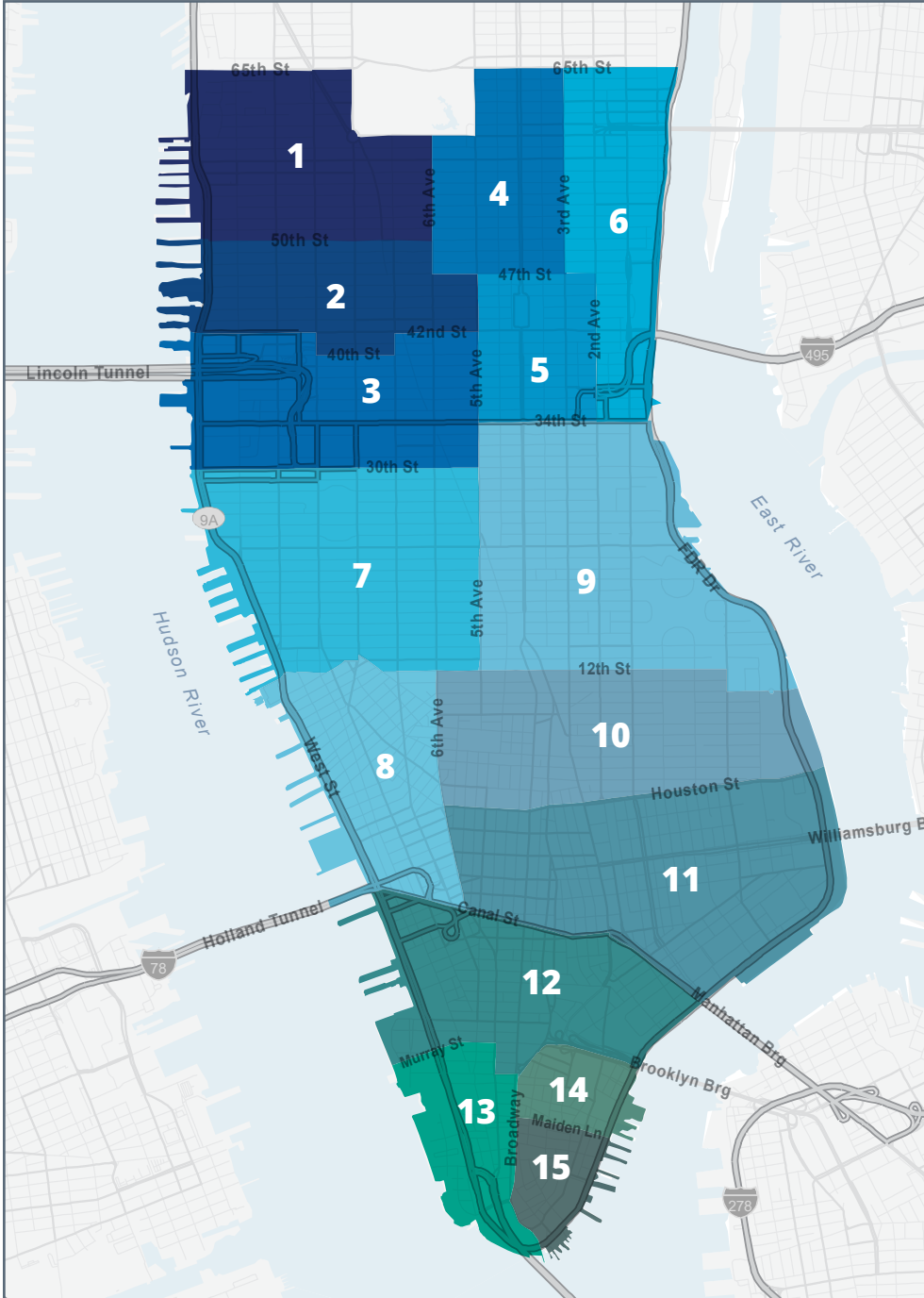
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
510 FIFTH AVE	Midtown	\$50,000,000	61,200	\$817	Reuben Brothers	Vornado
1115 BROADWAY / 16 MADISON SQ W	Midtown South	\$43,600,000	259,700	\$168	Adams & Company	Rockrose
110 W 32ND ST / 115 W 31ST ST	Midtown	\$37,000,000	113,409	\$326	Media Will, Tony Park	RJF 110 Realty
343 MADISON AVE (341-347 MADISON AVE)	Midtown	\$35,200,000	351,900	\$100	Boston Properties	MTA



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
<b>DOWNTOWN TOTAL</b>	<b>91,980,081</b>	<b>717,269</b>	<b>-109,538</b>	<b>22.8%</b>	<b>18.9%</b>	<b>\$57.17</b>	<b>\$45.75</b>	<b>\$55.70</b>
CHELSEA/FLATIRON	26,684,559	-42,999	-449,255	19.0%	17.9%	\$111.95	\$62.22	\$73.11
GRAMERCY PARK	32,118,371	-166,066	-655,531	23.5%	20.5%	\$102.14	\$63.43	\$82.44
GREENWICH VILLAGE	5,820,134	288,944	315,809	14.4%	18.4%	\$140.00	\$102.28	\$104.51
HUDSON SQUARE	9,949,520	-186,171	-401,146	26.0%	19.7%	\$87.62	\$77.65	\$83.60
SOHO	5,915,115	-84,479	-156,663	18.3%	13.1%	\$81.15	\$76.60	\$78.34
<b>MIDTOWN SOUTH TOTAL</b>	<b>80,487,699</b>	<b>-190,771</b>	<b>-1,346,786</b>	<b>21.3%</b>	<b>18.8%</b>	<b>\$100.49</b>	<b>\$68.80</b>	<b>\$80.88</b>
COLUMBUS CIRCLE	31,124,264	365,472	721,705	11.1%	10.2%	\$70.90	\$57.81	\$67.63
EAST SIDE	14,887,780	-10,973	188,057	20.6%	19.5%	\$72.47	\$74.36	\$72.51
GRAND CENTRAL	57,108,078	992,118	634,463	19.3%	16.3%	\$70.42	\$64.05	\$69.43
PENN PLAZA	69,417,327	95,763	591,349	17.8%	17.2%	\$107.53	\$55.05	\$91.18
PLAZA DISTRICT	70,568,091	325,173	-23,692	14.1%	13.0%	\$89.44	\$89.91	\$89.46
TIMES SQUARE	43,269,825	-367,106	-756,107	17.7%	13.9%	\$83.53	\$57.96	\$81.67
<b>MIDTOWN TOTAL</b>	<b>286,375,365</b>	<b>1,400,447</b>	<b>1,355,775</b>	<b>16.6%</b>	<b>14.8%</b>	<b>\$85.64</b>	<b>\$59.67</b>	<b>\$81.48</b>
<b>TOTAL</b>	<b>458,843,145</b>	<b>1,926,945</b>	<b>-100,549</b>	<b>18.7%</b>	<b>16.4%</b>	<b>\$78.26</b>	<b>\$61.29</b>	<b>\$74.54</b>



### 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

Part of the Transwestern companies, Transwestern Real Estate Services (TRS) strives to add value for investors, owners and occupiers across all commercial property types. Fueled by a holistic perspective of the real estate life cycle, agility and creativity are hallmarks of our approach, while vast national resources and sound market intelligence underpin customized recommendations and property solutions.

Five dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Clients and investors rely on us for expertise that spans institutional and opportunistic investment, development, hospitality, and brokerage and asset services. Our award-winning, collaborative culture empowers team members with resources and independence to work across boundaries in pursuit of innovative solutions, reinforcing a reputation for service excellence that translates to measurable results. Through offices nationwide and alliance partners around the globe, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all. Learn more at transwestern.com and @Transwestern.

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