



TRANSWESTERN

# DOWNTOWN MANHATTAN OFFICE MARKET

## Q4 2023



### TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.3	5.2	↑	7.4	↓
NET ABSORPTION (Thousands SF)	938.3	(15.3)	↑	(426.2)	↑
OVERALL VACANCY RATE	19.9%	17.9%	↑	14.6%	↔
OVERALL VACANT SF (MSF)	18.2	16.5	↑	13.5	↔
UNDER CONSTRUCTION (MSF)	0.2	0.1	↔	0.2	↔
ASKING RENT (PSF)	\$55.48	\$57.60	↓	\$60.08	↔
SALES VOLUME (Millions)	\$7.7	\$620.1	↓	\$313.8	↑

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

## LARGE DEAL BOOSTS DOWNTOWN LEASING

A 538,000 SF lease extension from the New York City Administration for Children’s Services helped raise Downtown leasing to 1.2 MSF in Q4, driving total activity of 4.3 MSF in 2023. The improvement in leasing contributed to the strongest quarterly absorption since late 2018. Even so, Downtown’s outlook remains mixed: removal of excess space for redevelopment or residential conversion has helped availability decrease in each of the last two quarters, but the availability rate is still elevated and continues to pressure asking rents, which decreased year-over-year.

“While 2024 will continue to test business confidence and decision making across many sectors, we are certainly seeing a shift as it relates to underlying market activity,” said Rory Murphy, Partner, Transwestern. “New York’s diverse tenant base, led largely by the financial services and legal sectors in 2023, continues to be the differentiator when compared to other markets across the country.”

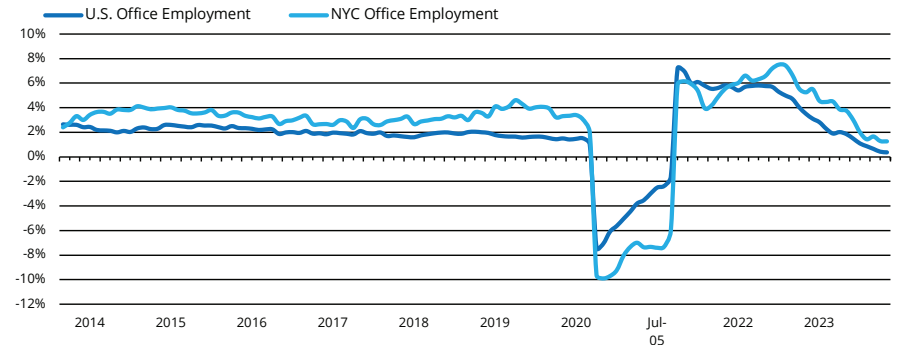


### ECONOMY

#### Office jobs still growing, but pace has slowed

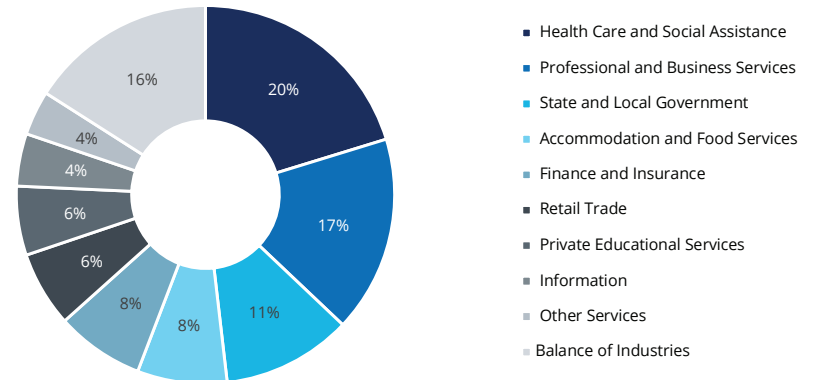
- New York City's office-using sectors now support 2.1 million jobs, more than 5% above the pre-COVID level. The rate of growth has slowed considerably, however, most recently to 1.3% year-over-year. Outside of the initial COVID slump, this is the slowest pace in more than a decade.
- On a national level, there has been a small reduction in office jobs from their May peak, now measuring 35.1 million positions. As in NYC, job growth has slowed to a ten-year low, with year-over-year improvement of just 0.4% in November.
- The unemployment rate in New York City has stabilized over the past year and remains at 5.3%, a level it has occupied for most of the last six months. National unemployment currently stands at 3.7%, slightly above the pre-pandemic level.
- New York City's Health Care & Social Assistance industry continues to lead job growth, adding more positions over the last year than any other sector. Robust job increases were also seen in the Private Educational Services sector and the Accommodation & Food Services sector. On the downside, layoffs by tech companies have contributed to an employment decrease in the Information sector, which shed almost 25,000 jobs in the past year. Wholesale and Retail Trade jobs have also decreased, along with jobs in the Transportation, Warehousing, & Utilities sector, as higher interest rates and the uncertain economy led to a pullback in consumer spending.
- While the commercial real estate environment is still adapting to the prevalence of hybrid work, now the most common structure for "office" jobs across the US, New York's varied market sectors indicate a strength that will continue to propel the city forward as we enter 2024.

### Y-O-Y CHANGE IN OFFICE JOBS



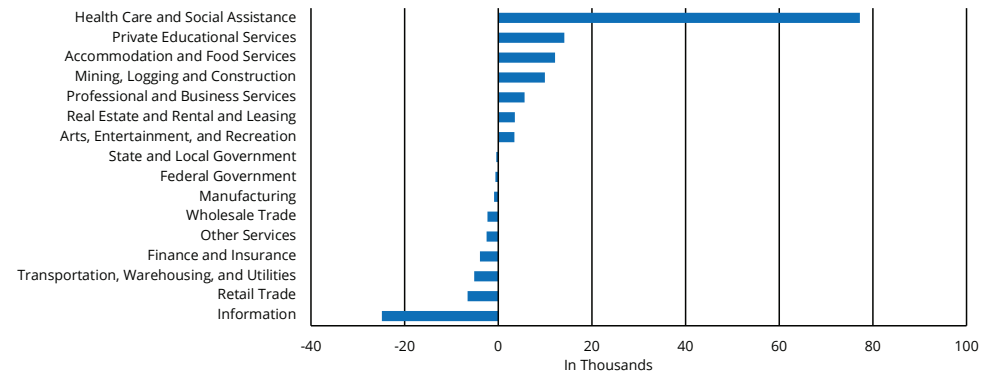
### SHARE OF EMPLOYEES BY INDUSTRY

New York City | November 2023



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

New York City



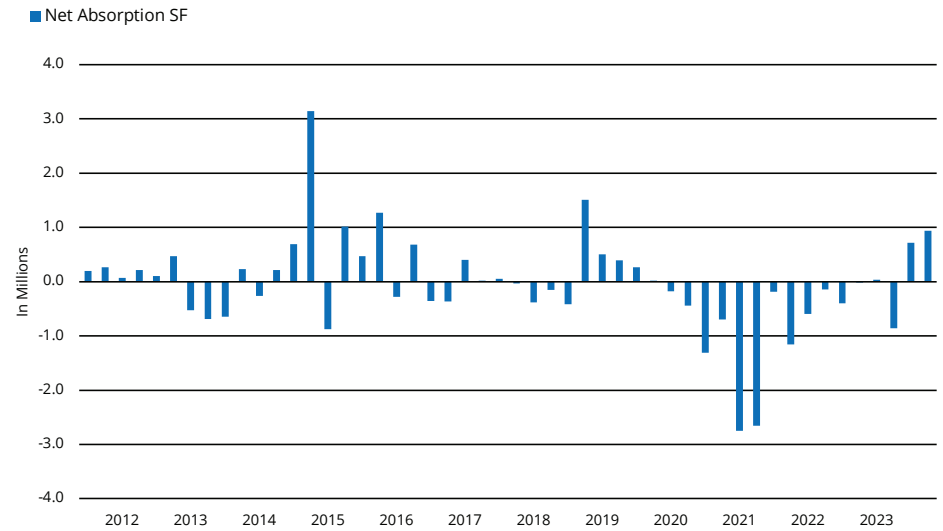


### NET ABSORPTION

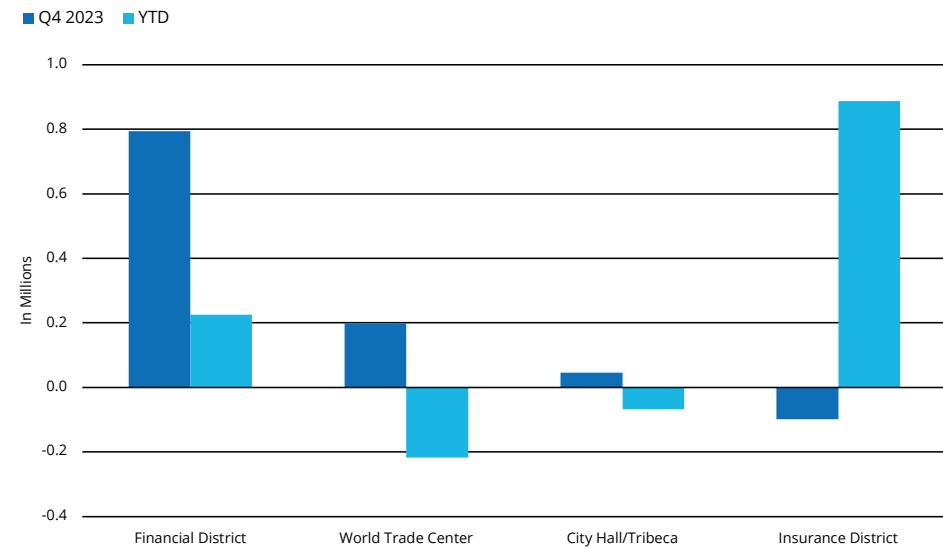
#### Strong quarterly absorption contributes to a positive 2023

- Downtown absorption was positive for a second straight quarter in Q4, improving on Q3 with more than 938,300 SF taken up, the strongest result since late 2018. Full year absorption measured 828,800 SF, the first positive tally since 2019. In comparison, 2022 absorption was negative 1.2 MSF.
- Notably, Downtown’s largest deal, the 538,000 SF signing by NYC’s Administration for Children’s Services was an extension of an existing lease and did not help with absorption.
- Downtown’s Financial District submarket far outpaced its neighbors with 793,200 SF of positive net absorption. A great deal of this can be attributed to the withdrawal of more than 1.1 MSF at 111 Wall Street, where marketing and renovations have been temporarily halted.
- The largest new deal Downtown was from Jane Street Group, which took a 56,900 SF sublease at 250 Vesey Street in the World Trade Center submarket. Nearby at 225 Liberty Street, Masterworks signed for 43,300 SF. These leases, plus several other new deals, helped the World Trade Center submarket reach 197,900 SF of positive demand in Q4.
- While Downtown has generally lagged Manhattan’s other submarkets during the recovery, it is beginning to see improvements. Absorption in the second half of 2023 was on par with pre-COVID levels, and new leases from a mix of tenant sectors alongside renewals by established occupiers show a continued faith in this evolving submarket.

### NET ABSORPTION - DOWNTOWN



### NET ABSORPTION BY SUBMARKET



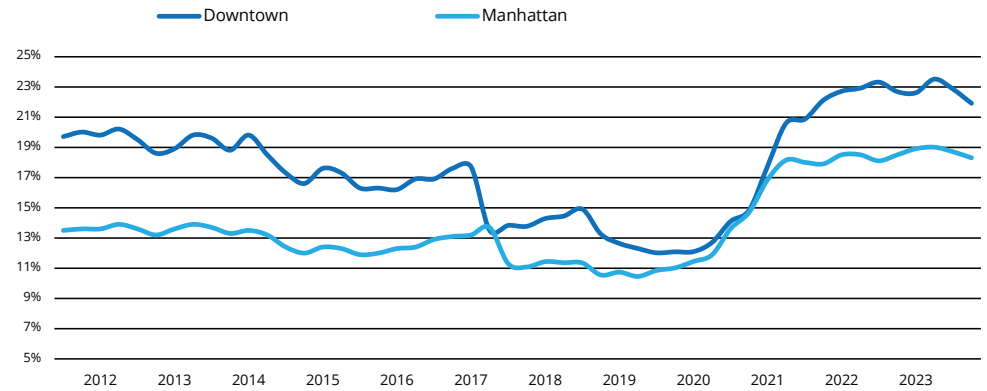


### AVAILABILITY

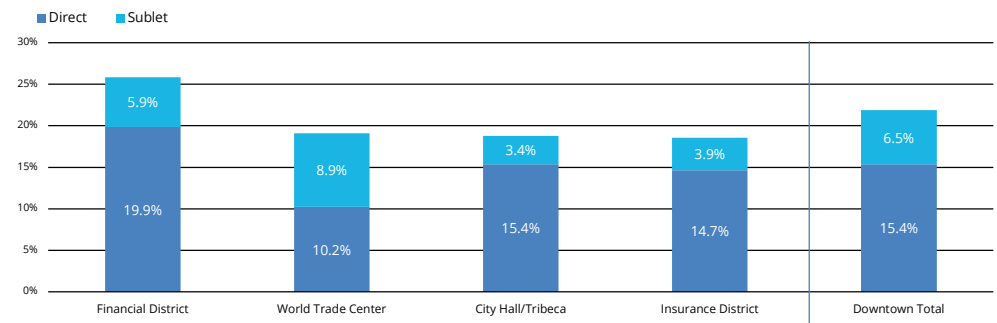
#### Availability dips to two-year low

- Downtown’s availability rate decreased for a second straight quarter, falling 0.9 percentage points [pp] from Q3 to 21.9% at year end. This is 0.8 pp below the year-ago level and the lowest since Q3 2021. In comparison, Downtown’s average availability was around 15% in the five years pre-pandemic.
- Both direct and sublet availabilities decreased in Q4, with most Downtown submarkets also recording a drop. Downtown’s sublet availability rate now measures 6.5%, a decrease of 0.2 pp from Q3, though unchanged from year-end 2022.
- The World Trade Center submarket retains Downtown’s highest sublet availability rate at 8.9%, equating to 46.5% of that neighborhood’s total available space. Notable sublet additions in Q4 included an 84,400 SF block from CME Group at 300 Vesey Street.
- The Financial District submarket saw overall availability drop 2.1 pp from last quarter, due largely to the massive space withdrawal at 111 Wall Street, but still carries the highest level in all of Manhattan at 25.8%.
- Downtown’s availability rate has trended above the Manhattan average for the last decade. There are more than 30 Downtown assets with upwards of 200,000 SF of space available. These spaces nonetheless offer attractive, discounted opportunities for large occupiers.
- With additional buildings being eyed for adaptive reuse, we expect a further decrease in Downtown availability in 2024 as more under-utilized space is withdrawn from the submarket.

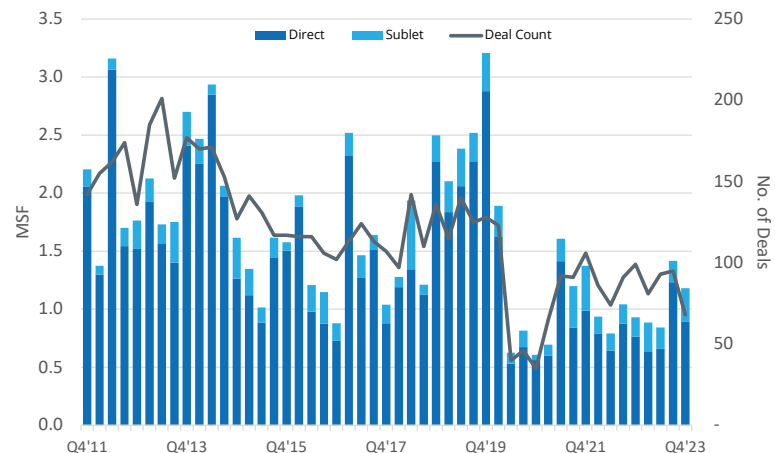
### SUBMARKET AVAILABILITY VS MANHATTAN



### SUBMARKET AVAILABILITY



### DOWNTOWN LEASING ACTIVITY



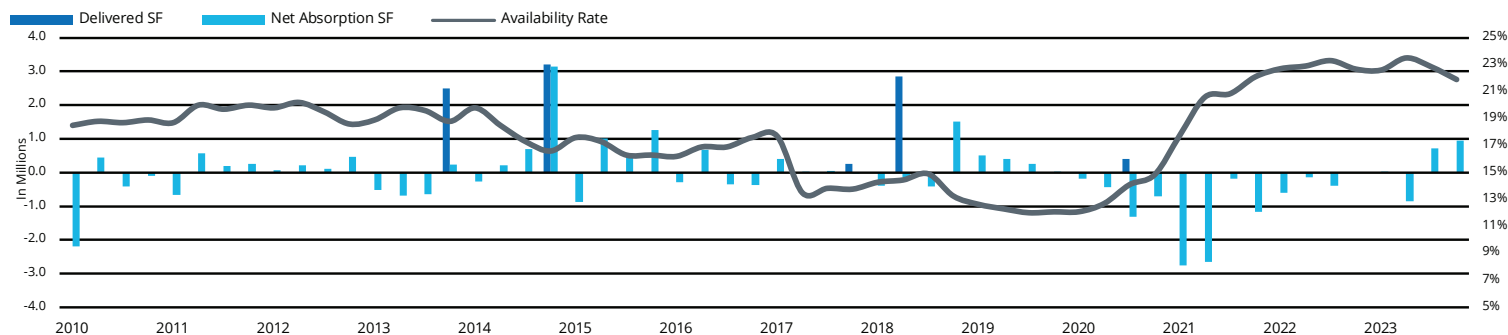


### UNDER CONSTRUCTION

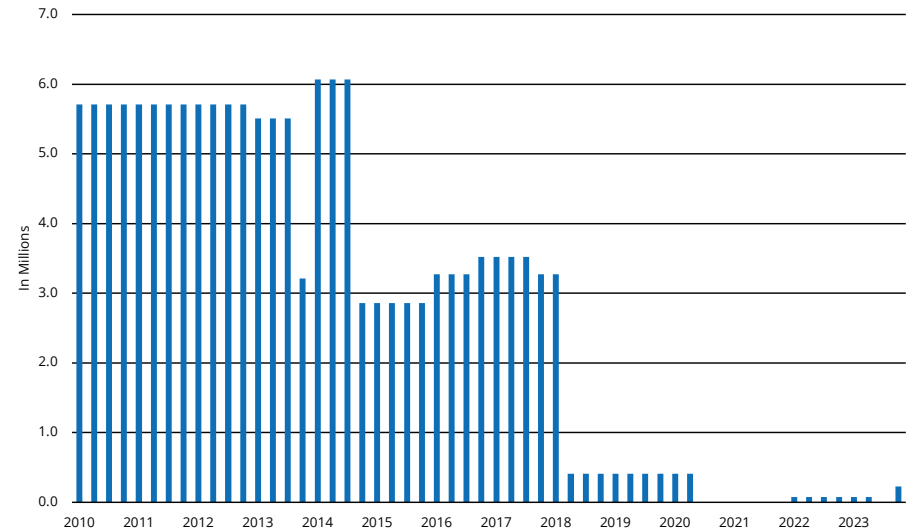
#### Downtown transformation continues

- 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. In particular, we are seeing numerous Class B assets preparing for renovations in order to compete for tenants.
- The most prominent ground-up construction Downtown is happening at 250 Water Street. The mixed-use tower is expected to complete in 2025 and will include 230,000 SF of office space at its base.
- Additionally, there is about 3.1 MSF of new Class A office product proposed 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.
- Complementing the proposed new office space, several prominent Downtown office properties are now 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.
- 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.

### DELIVERY IMPACT ON KEY INDICATORS



### UNDER CONSTRUCTION - DOWNTOWN



### DOWNTOWN CONSTRUCTION/RENOVATIONS IN PROGRESS

PROPERTY	SUBMARKET	RBA	STATUS	YEAR EXPECTED
250 Water St	Insurance District	230,000	Under Construction	2025
60 Wall St	Financial District	1,625,483	Under Renovation	2025

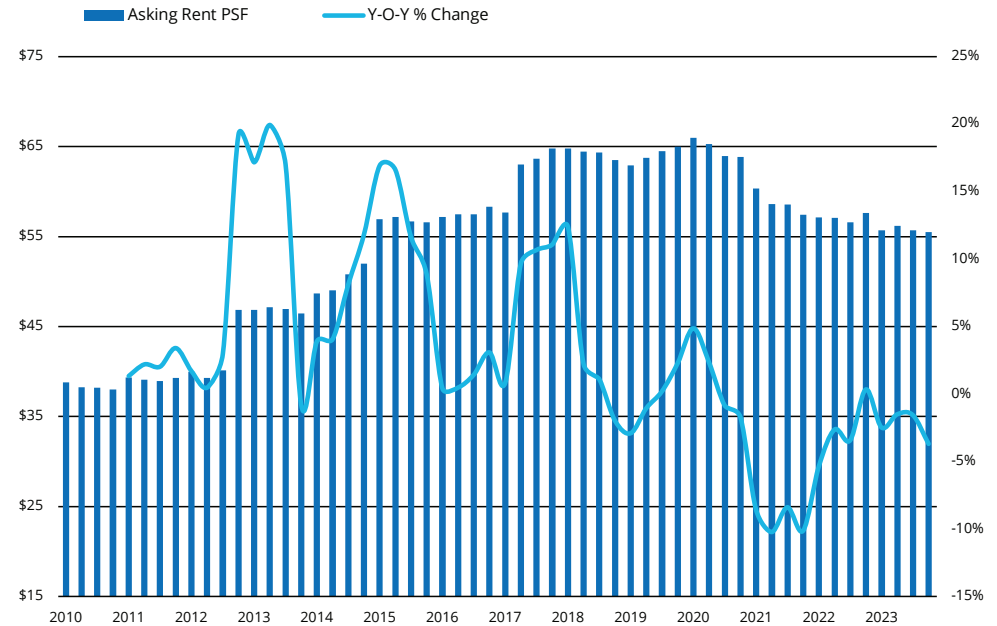


### RENTAL RATES

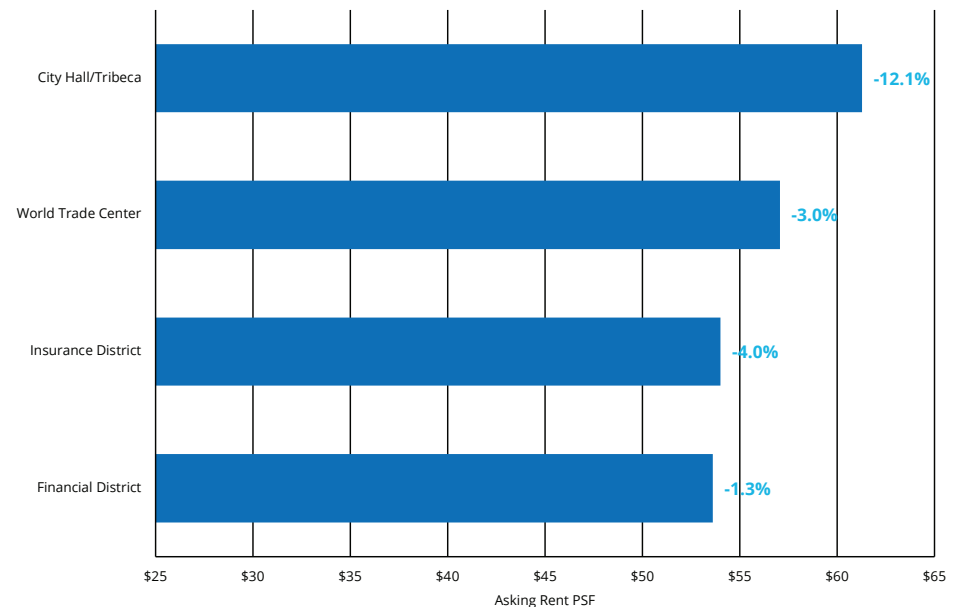
#### Downtown rents decrease again

- Downtown rents dipped mildly in Q4, decreasing 0.4% to \$55.48 PSF. Rents are now 3.7% below their year-ago level, and 15.9% below the pre-pandemic peak of \$65.98 PSF.
- All of Downtown’s submarkets experienced a year-over-year decline in rents as the general excess of sublet space continued to keep prices in check. 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, or space is removed altogether, as in the case of 111 Wall Street, lower priced space remains on the market, reducing the overall asking rate.
- Meanwhile, recent deals at One World Trade, 250 Vesey Street, 3 World Trade, 7 World Trade, and 107 Greenwich have fetched well above the Downtown average, continuing to support the “tale of two markets” narrative.
- Plenty of opportunities remain for tenants Downtown, 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 further.

### ASKING RENT - DOWNTOWN



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



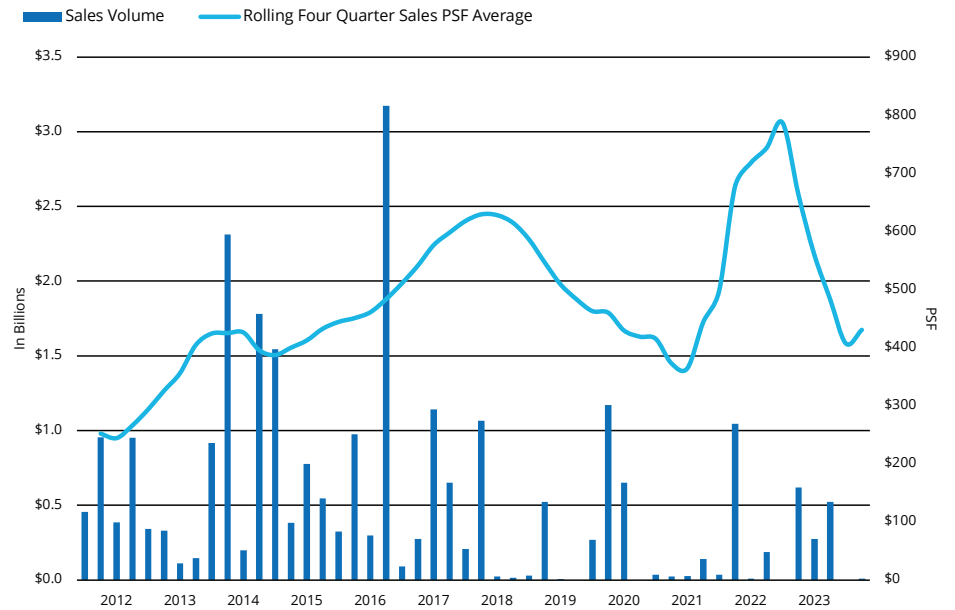


### SALES

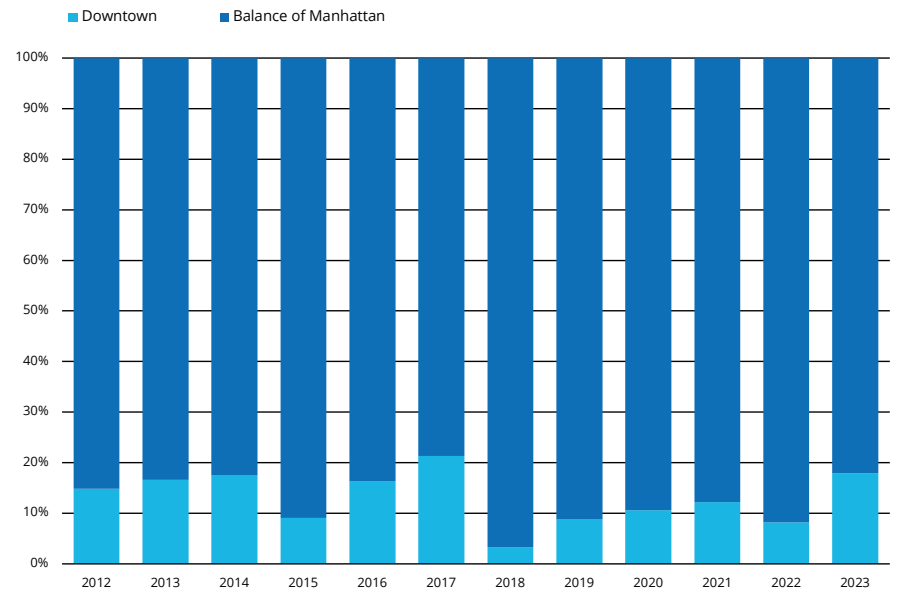
#### No notable sales Downtown this quarter

- Downtown sales activity was again extremely quiet in Q4, after being largely absent in Q3. Annual volume summed to \$803.6 million, compared with \$815.8 million in 2022. In comparison, Downtown’s average annual sales volume for the five years preceding the pandemic was \$2.3 billion.
- 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 has availability of more than 68%. The 19-story tower at 100 Wall Street is about 78% leased and last sold for \$270 million in 2015.
- Elevated interest rates and the overall economic climate have left investors reluctant to take on more debt and more risk, due to banking uncertainty, limited liquidity and ongoing price discovery. However, the Federal Reserve has hinted that interest rate cuts will be coming in 2024, which could help bump up transaction volume from its recent lows.

### SALES VOLUME - DOWNTOWN



### DOWNTOWN % OF MANHATTAN SALES VOLUME





**NOTABLE LEASES**

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
NYC ADMINISTRATION FOR CHILDREN'S SERVICES	150 William St	Insurance District	Direct Extension	538,000
SUCCESS ACADEMY	120 Wall St	Financial District	Renewal/Expansion	94,000
DUOLINGO	4 World Trade	World Trade Center	Sublease	85,700
JANE STREET GROUP	250 Vesey St	World Trade Center	Sublease	56,900
MASTERWORKS	225 Liberty St	World Trade Center	Direct	43,300
PAYONEER	195 Broadway	World Trade Center	Direct	42,000

**NOTABLE NEW AVAILABILITIES**

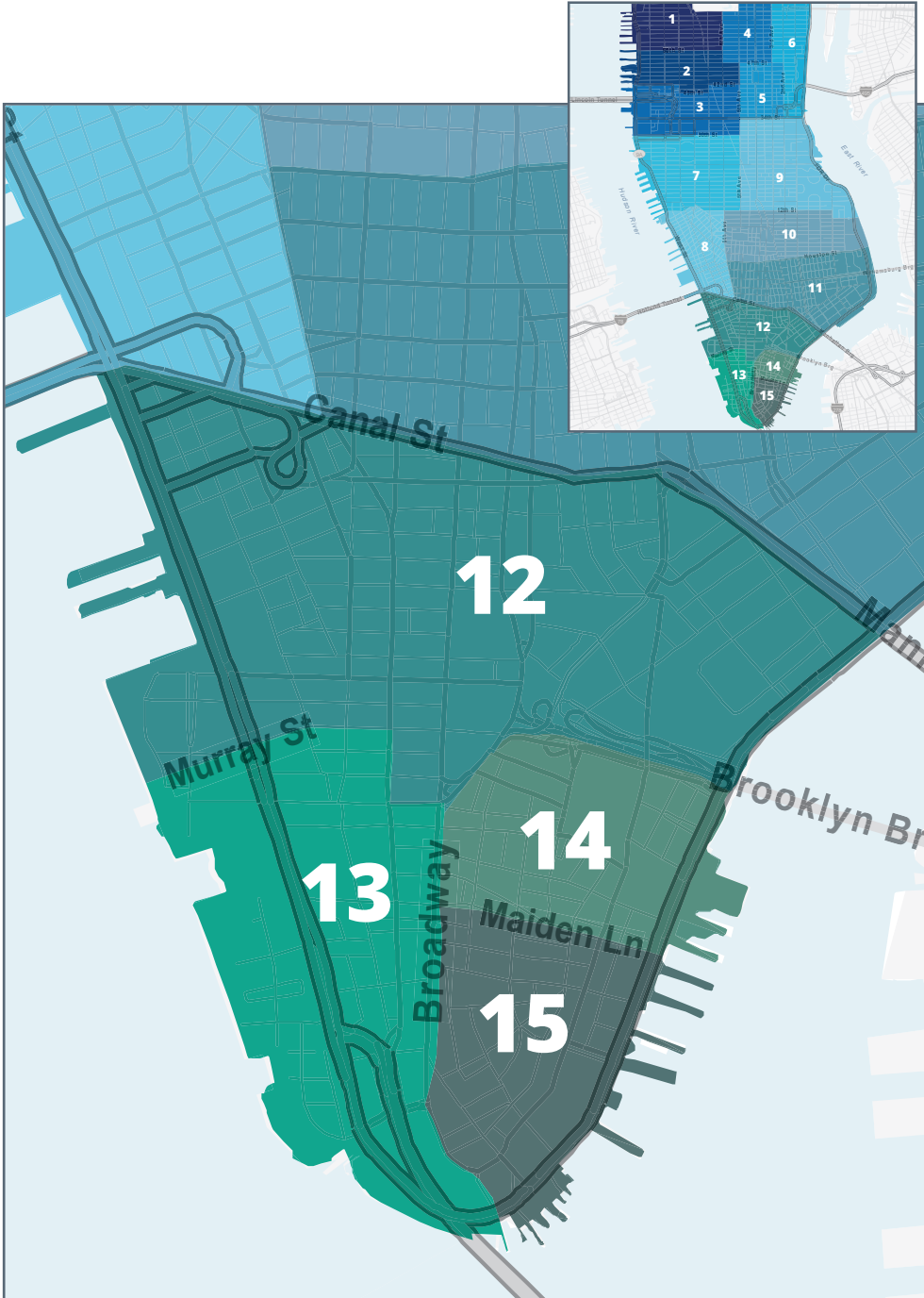
ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
85 BROAD ST	Financial District	115,200	Sublet
140 BROADWAY	Financial District	93,000	Direct
300 VESEY ST	World Trade Center	84,400	Sublet
89 SOUTH ST	Insurance District	79,900	Direct
22 CORTLANDT ST	World Trade Center	66,100	Direct



**MARKET INDICATORS**

All Classes of Space | Q4 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
<b>CITY HALL/TRIBECA</b>	10,077,685	45,873	-67,634	18.8%	17.7%	\$63.39	\$49.81	\$61.27
<b>FINANCIAL DISTRICT</b>	39,002,320	793,225	225,966	25.8%	23.6%	\$54.44	\$48.24	\$53.62
<b>INSURANCE DISTRICT</b>	9,688,805	-98,679	887,465	18.5%	24.1%	\$57.66	\$40.37	\$54.01
<b>WORLD TRADE CENTER</b>	33,003,413	197,930	-216,986	19.1%	14.8%	\$58.69	\$42.33	\$57.06
<b>DOWNTOWN TOTAL</b>	<b>91,772,223</b>	<b>938,349</b>	<b>828,811</b>	<b>21.9%</b>	<b>19.9%</b>	<b>\$56.96</b>	<b>\$45.72</b>	<b>\$55.48</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

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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](http://transwestern.com) and [@Transwestern](https://twitter.com/Transwestern).

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