



TRANSWESTERN

# 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)	1,963.6	(2,389.9)	↑	(1,754.3)	↑
OVERALL VACANCY RATE	17.0%	15.2%	↑	12.2%	↓
OVERALL VACANT SF (MSF)	77.8	69.6	↑	55.4	↓
UNDER CONSTRUCTION (MSF)	1.1	2.3	↓	10.2	↔
ASKING RENT (PSF)	\$74.09	\$72.79	↑	\$74.88	↑
SALES VOLUME (Millions)	\$1,333.7	\$1,418	↓	\$2,390.9	↔

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

## MANHATTAN NABS LARGEST U.S. LEASE OF 2023

Manhattan leasing activity measured 8.6 MSF in the fourth quarter, lifted by the largest U.S. lease of the year – a massive 765,000 SF relocation by law firm Paul, Weiss – and several sizeable renewals and expansions. Leasing for the full year totaled 25.8 MSF, about 19% lower than the 2022 total. Manhattan’s other indicators continue to show improvement: the borough exceeded 1.9 MSF of positive net absorption for a second straight quarter, rents recorded year-over-year growth, and availability decreased both in-quarter and from year-end 2022.

“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.”

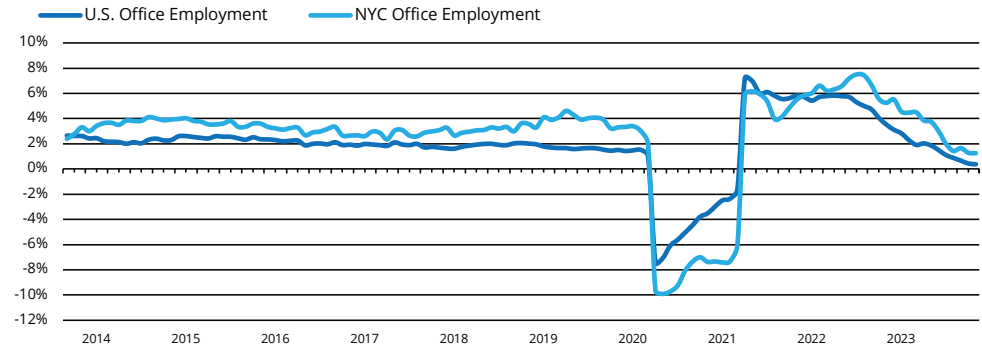


### ECONOMY

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

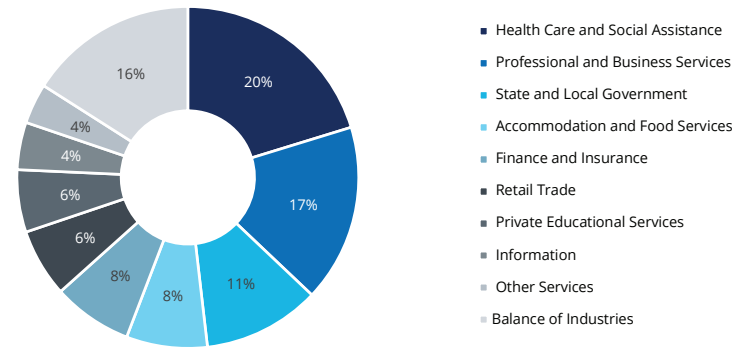
- New York City's office-using sectors now support 2.1 million jobs, more than 5% above the pre-COVID level. The rate of growth has slowed considerably, however, most recently to 1.3% year-over-year. Outside of the initial COVID slump, this is the slowest pace in more than a decade.
- On a national level, 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 U.S., 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



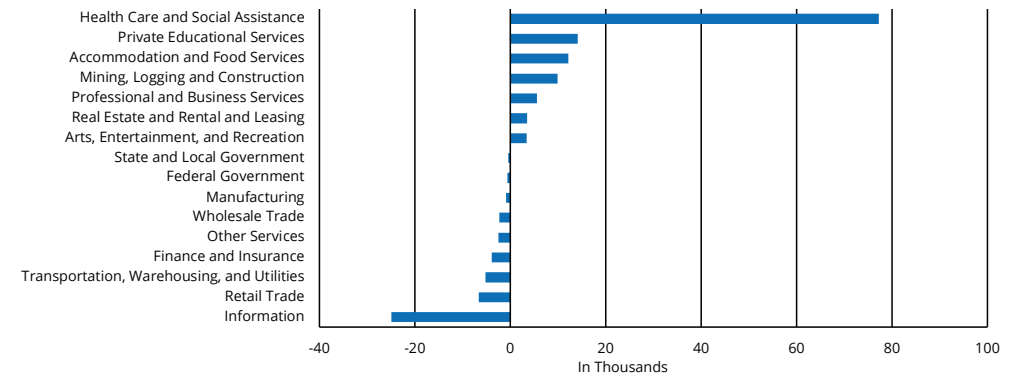
### SHARE OF EMPLOYEES BY INDUSTRY

New York City | November 2023



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

New York City



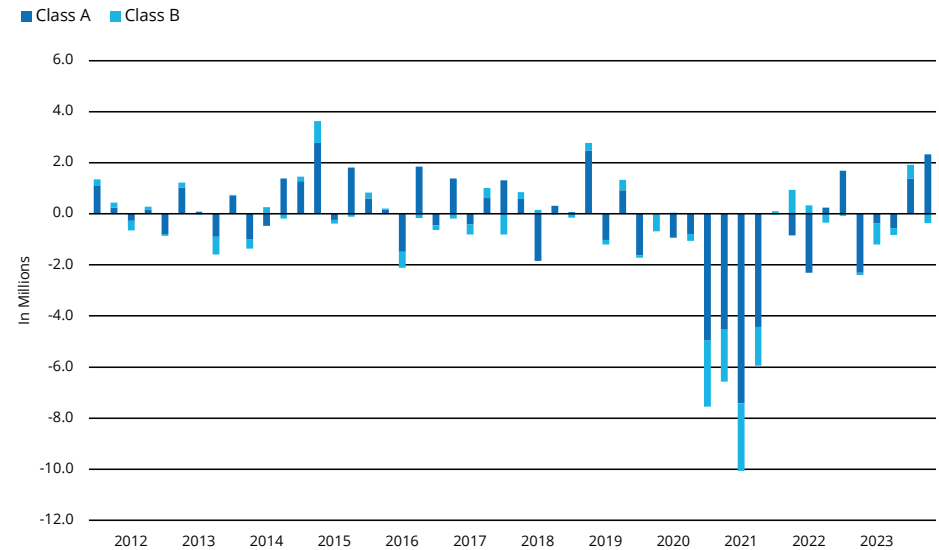


### NET ABSORPTION

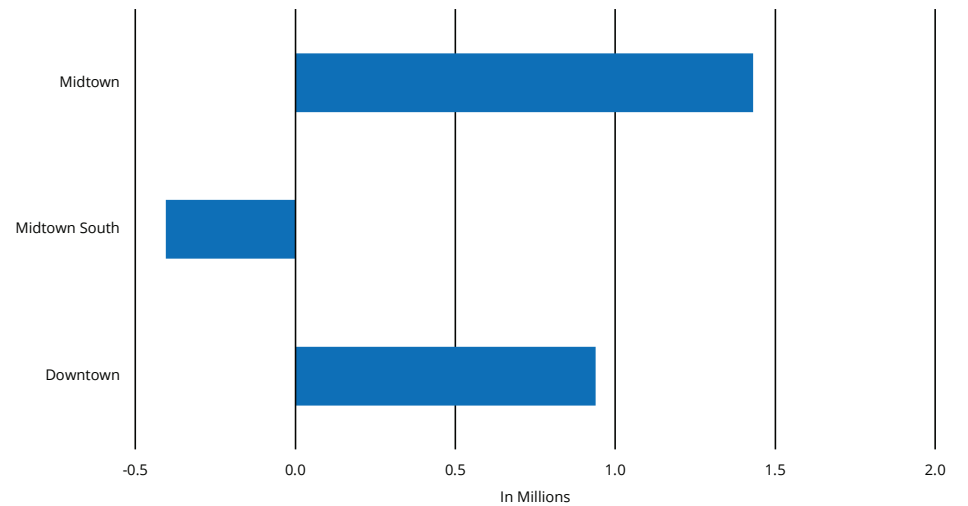
#### Manhattan closes 2023 with robust absorption

- Absorption climbed to almost 1.9 MSF for the year 2023, a complete swing of the pendulum from the negative 2.8 MSF recorded in 2022. More than 1.9 MSF of positive absorption was registered in each of the last two quarters, overcoming negative results seen earlier in the year. Positive absorption was driven largely by Class A space; in contrast, Class B recorded negative take-up through most of 2023.
- The quarter's largest new lease was also the year's largest, not only in Manhattan but for the entire country, as law firm Paul, Weiss signed for a whopping 765,000 SF at 1345 Avenue of the Americas in Midtown. The transaction had little bearing on absorption, as the lease was signed before the space was officially on the market. Even so, more than 1.4 MSF was taken up in Midtown this quarter; other large deals included Weill Cornell Medicine, which grew to almost 300,000 SF at 575 Lexington Avenue, PJT Partners, expanding to 369,900 SF at 280 Park Avenue, and King & Spalding, which took 175,500 SF at 1290 Avenue of the Americas.
- Downtown's 938,300 SF of net absorption was its strongest since 2018 and was driven by two large subleases: Duolingo signed for 85,700 SF at 4 World Trade and Jane Street Group took 56,900 SF at 250 Vesey Street. Absorption was also helped by the withdrawal of more than 1 million SF at 111 Wall Street where marketing and renovations have been temporarily halted.
- Midtown South recorded 404,600 SF of negative net absorption as nine large blocks were added to the submarket's available total. The area's largest new lease was law firm Quinn Emanuel's 131,700 SF direct deal at 295 Fifth Avenue. There were also expansions from Current at 620 Avenue of the Americas (71,700 SF), and Doordash at 200 Fifth Avenue (115,400 SF), while ICONIQ Capital took 69,100 SF at 360 Park Avenue South.
- Almost 30 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 expansions, indicating a growing confidence in the market.

### NET ABSORPTION BY CLASS



### NET ABSORPTION BY SUBMARKET



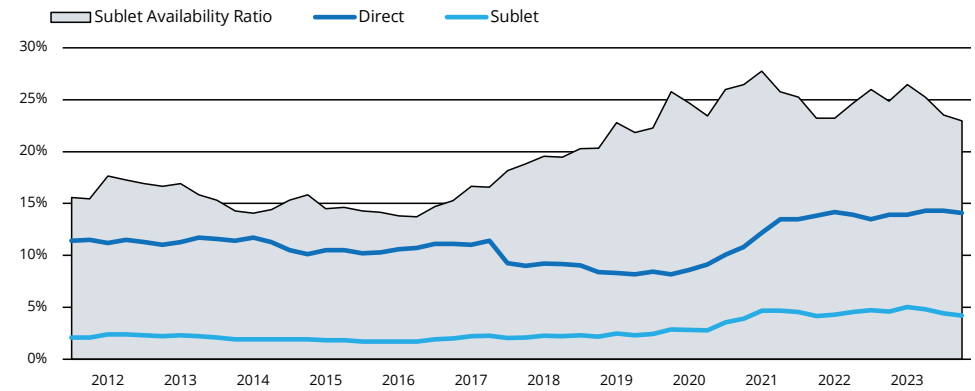


### AVAILABILITY

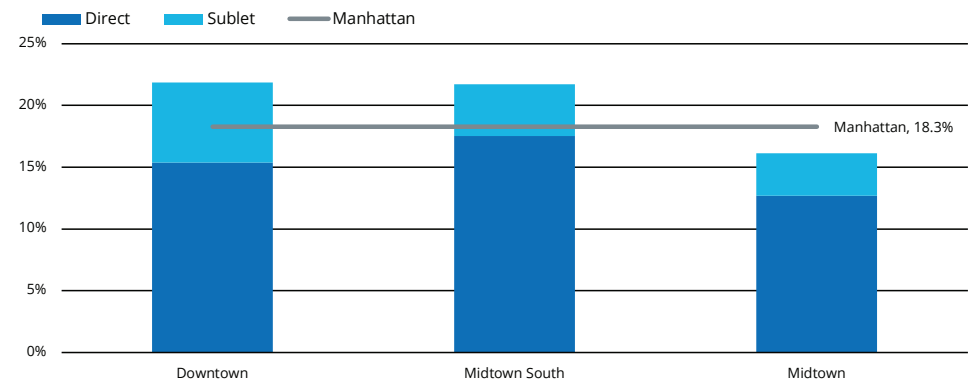
#### Availability rate is decreasing again

- Manhattan’s availability rate decreased for a second straight quarter, falling 0.4 percentage points [pp] to 18.3% at year-end 2023. Overall availability is 0.2 pp lower than a year ago.
- Both direct and sublet availability decreased from Q3, to a respective 14.1% and 4.2%. Sublet space is below 20 MSF for the first time since early 2022, representing just 22.9% of the total, the lowest ratio since late 2019.
- Downtown’s high availability level of 21.9% remains a concern. Availability is down 0.9 pp from last quarter, but sublet availability of 6.5% represents almost 30% of the total. Nearly a dozen Downtown buildings are marketing more than half a million square feet each. These large availabilities nonetheless present attractive, discounted opportunities for anchor tenants.
- Availability in Midtown decreased 0.5 pp to 16.1%, within 5 pp of the pre-COVID level. In addition to nine new deals exceeding 50,000 SF, there were several renewals with sizeable expansion components. The new leases included two large sublet deals; sublet availability fell to 3.4%, its lowest since Q4 2020.
- In contrast, Midtown South availability increased for a seventh straight quarter to a record 21.7%. While the submarket saw several new and expansion deals, it also faced numerous large additions, including a 524,200 SF block at 11 East 26th Street where renovations are underway and a 139,100 SF sublet block from Verizon at Essex Crossing.
- An increase in deal activity and a gradual decrease in offered sublet space have helped stabilize Manhattan’s availability rate. Still, the flight to quality is widening the gap between Class A and B space; Class A availability has decreased 0.7 pp from a year ago, while Class B has risen by 1.1 pp.

### DIRECT VS SUBLET AVAILABILITY RATE



### AVAILABILITY RATE BY SUBMARKET



All sources: CoStar, Transwestern

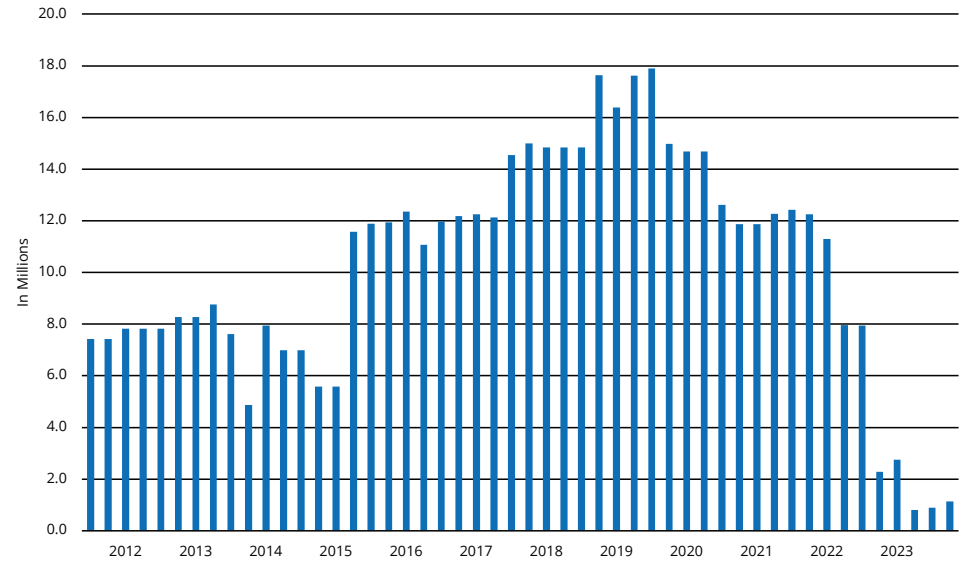


### UNDER CONSTRUCTION AND RECENT DELIVERIES

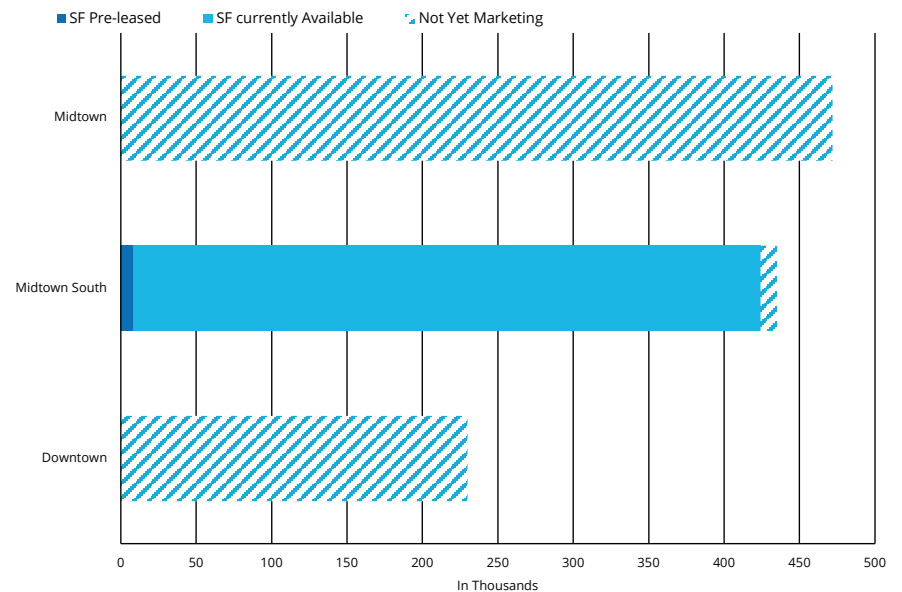
#### New construction yields to redevelopment; office-to-resi conversions climb

- High office vacancies in Manhattan have shifted the focus away from spec development and more toward renovations and capital improvements. In response, new construction remains near its lowest level in at least a decade.
- In Midtown South, the boutique office building known as Le Gallerie (132 W 14th Street) is expected to deliver in early 2024, and construction continues at 220 Eleventh Avenue, 360 Bowery, and 1 St. Marks Place. Other new projects are underway Downtown at 250 Water Street, and in Midtown at 125 West 57th Street and 520 Fifth Avenue.
- Major office renovation projects include Downtown’s 60 Wall Street, and PENN2 in Midtown, which is seeking an anchor tenant for its recently overhauled base floors. We are also seeing numerous Class B assets undergoing capital improvements and improving amenity offerings in order to compete for tenants.
- Still, underused office buildings are increasingly part of the quest to create more housing. Several prime properties have been targeted for conversion, including Midtown’s 330 West 42nd Street, where upper floors will become residential units (the base will remain office space), Midtown South’s landmark Flatiron Building, which sold at auction earlier in 2023, and Downtown’s 25 Water Street, the largest office-to-residential conversion in the nation at 1.1 MSF. Additionally, plans for Downtown’s long anticipated 5 World Trade have shifted to include more housing and less office space.
- Despite the challenging environment, there is about 12.6 MSF of Class A office product proposed in Manhattan, with demolition already proceeding at a few sites. Four of these properties could top out at more than 1 million SF each; getting these underway depends on improvement in market conditions and investor sentiment, as well as the likelihood of securing an anchor tenant.

### UNDER CONSTRUCTION



### UNDER CONSTRUCTION BY SUBMARKET



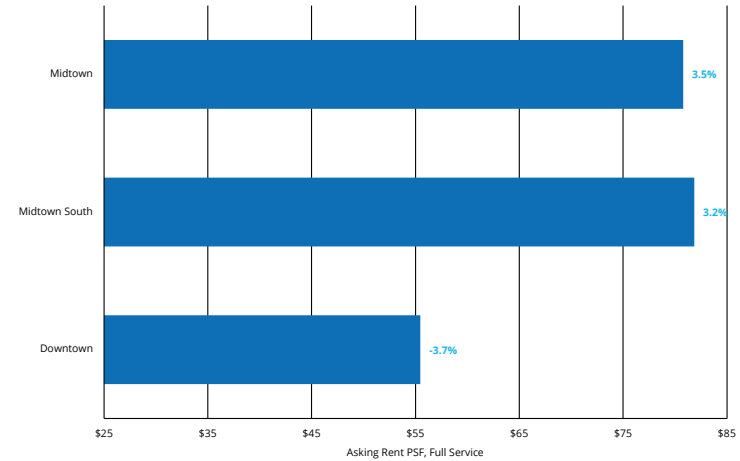


### RENTAL RATES

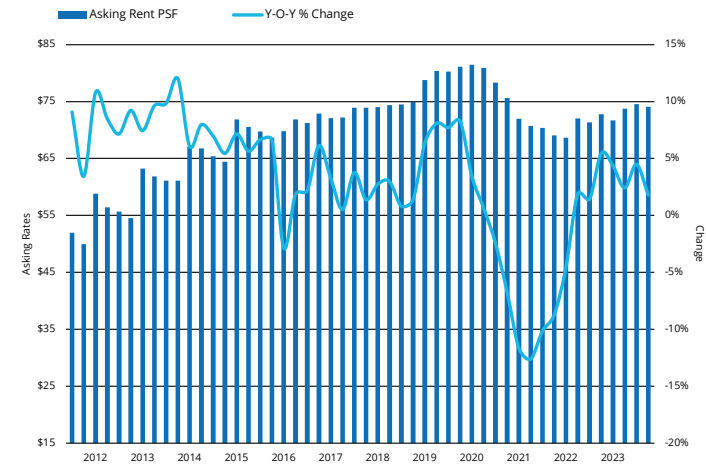
#### Rents show year-over-year improvement

- Manhattan asking rents decreased mildly from Q3 but increased 1.8% year-over-year to \$74.09 PSF. Overall, asking rents are 9.0% below their Q1 2020 peak.
- Midtown South rents have played seesaw with their Midtown counterparts over the last year and swapped places once again in Q4. Midtown South's average asking rent increased to \$81.85 PSF, while Midtown rents decreased to \$80.86 PSF. Rents in both submarkets are higher than their year-ago levels.
- Rent growth in these two submarkets has been driven by high priced space in trophy buildings like 550 Madison Avenue, 30 Hudson Yards, and 425 Park Avenue in Midtown, all asking over \$200 PSF, and One Madison and 220 Eleventh Avenue in Midtown South, each starting at around \$150 PSF.
- Downtown rents, meanwhile, are at a new low of \$55.48 PSF after decreasing 0.4% from last quarter and 3.7% from a year ago. Downtown's high amount of available sublet space continues to weigh on asking rates.
- Manhattan's general excess of sublet space is still putting pressure on rents, but the newest trophy and Class A+ spaces are asking for 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.

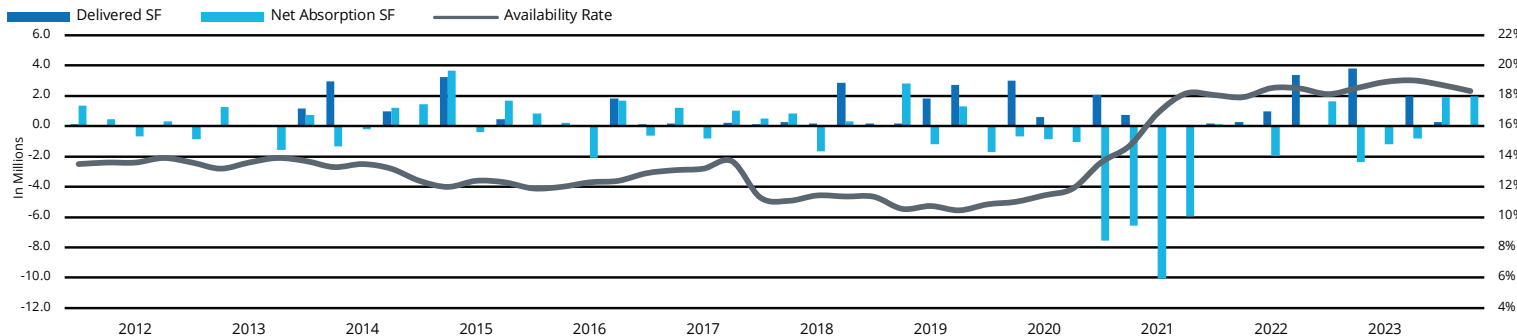
### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



### ASKING RENT



### DELIVERY IMPACT ON KEY INDICATORS



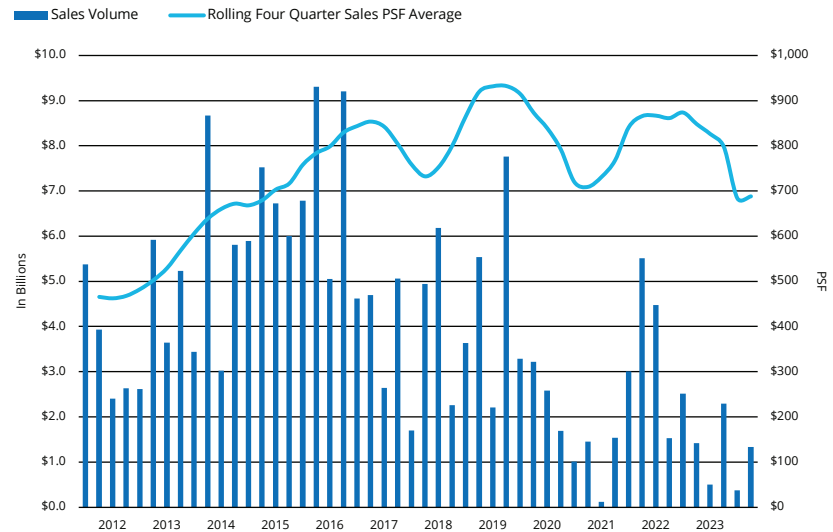


### SALES

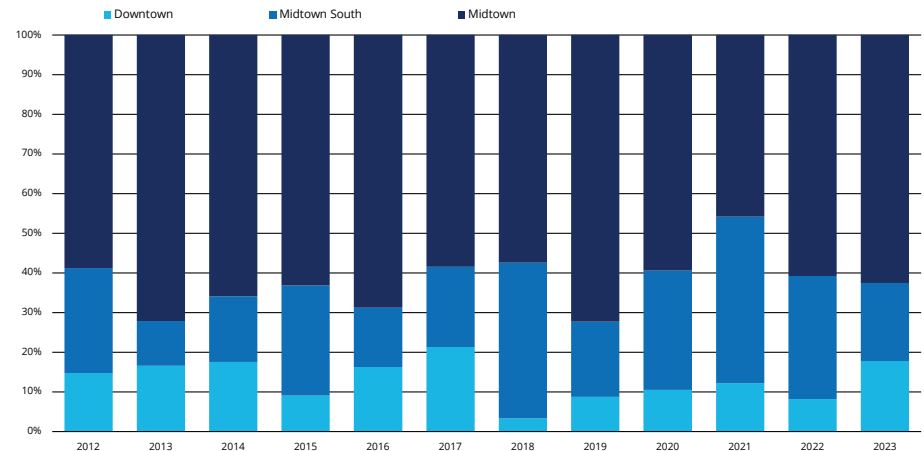
#### Transaction volume increases

- Manhattan office sales volume was about \$1.3 billion in Q4 2023, well above the Q3 result. Volume for the full year 2023 measured \$4.5 billion, compared with \$9.9 billion in 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 \$772 PSF, about 3.1% lower than the 5-year average of \$797 PSF. Both pricing and cap rates have been uneven of late due to the low number of core transactions.
- The largest office transaction in Q4 was the sale of 724 Fifth Avenue for \$425 million. Prada bought the building, and neighboring 720 Fifth Avenue, which sold for \$410 million, from Wharton Properties. Located along Fifth Avenue's luxury retail corridor, the buildings fetched sky-high pricing of \$6,534 PSF and \$3,385 PSF, respectively. Other high-profile deals included a 25% stake in the Flatiron Building, which translated to pricing of \$894 PSF, and the 277,400 SF office condo at 100-104 Fifth Avenue, which sold to Sovereign partners for \$126.5 million.
- Looking ahead, Related Companies is planning to buy 625 Fifth Avenue for \$632.5 million, while Signa Holding is marketing a 50% stake in the Chrysler Building, which it purchased in 2019 for \$151 million in a venture with RFR. In Midtown South's Hudson Square submarket, Edward J. Minskoff Equities is marketing a stake in 101 Avenue of the Americas, while nearby 185 Varick is up for sale and will likely be converted to residential use.
- 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



### OFFICE SALES BY SUBMARKET





**NOTABLE LEASES**

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
PAUL, WEISS	1345 Ave of the Americas	Midtown	Direct	765,000
NYC ADMINISTRATION FOR CHILDREN'S SERVICES	150 William St	Downtown	Direct Extension	538,000
METLIFE	200 Park Ave	Midtown	Direct Extension	400,000
WEILL CORNELL MEDICINE	575 Lexington Ave	Midtown	Direct Renewal / Expansion	296,100
PJT PARTNERS	280 Park Ave	Midtown	Direct Renewal / Expansion	269,900
RALPH LAUREN	601 W 26th St	Midtown South	Direct Renewal	255,750
KING & SPALDING	1290 Ave of the Americas	Midtown	Direct	175,500
DENTONS	1221 Ave of the Americas	Midtown	Direct Renewal	159,500

**NOTABLE NEW AVAILABILITIES**

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
11 E 26TH ST	Midtown South	524,200	Direct
1745 BROADWAY	Midtown	314,700	Sublet
1633 BROADWAY	Midtown	253,300	Sublet
1633 BROADWAY	Midtown	190,400	Direct
950 SIXTH AVE	Midtown	180,500	Direct
1120 AVE OF THE AMERICAS	Midtown	177,300	Direct

**NOTABLE SALES**

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
724 FIFTH AVENUE	Midtown	\$425,000,000	65,000	\$6,538	Prada	Wharton Properties
720 FIFTH AVENUE	Midtown	\$410,000,000	121,100	\$3,386	Prada	Wharton Properties
175 FIFTH AVE*	Midtown South	\$160,988,400	180,000	\$894	Brodsky Organization	GFP Real Estate
100-104 FIFTH AVE	Midtown South	\$126,500,000	277,400	\$456	Sovereign Partners	Clarion Partners

\* = Partial interest

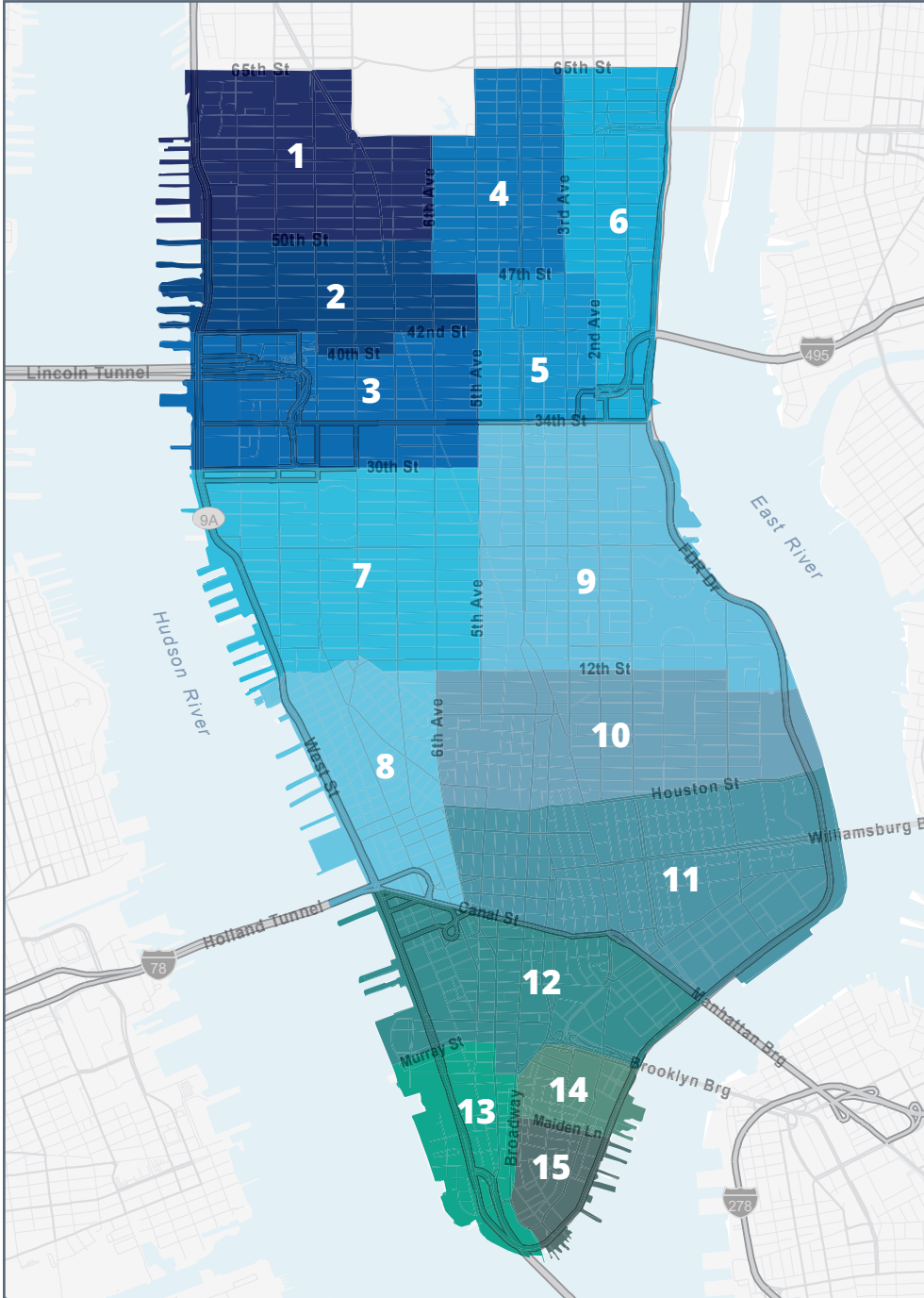




MARKET INDICATORS

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
CITY HALL/TRIBECA	10,077,685	45,873	-67,634	18.8%	17.7%	\$63.39	\$49.81	\$61.27
FINANCIAL DISTRICT	39,002,320	793,225	225,966	25.8%	23.6%	\$54.44	\$48.24	\$53.62
INSURANCE DISTRICT	9,688,805	-98,679	887,465	18.5%	24.1%	\$57.66	\$40.37	\$54.01
WORLD TRADE CENTER	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>
CHELSEA/FLATIRON	26,643,520	-24,814	-474,069	19.1%	18.5%	\$107.72	\$61.81	\$71.74
GRAMERCY PARK	32,247,698	-133,959	-789,490	23.9%	21.2%	\$100.93	\$72.49	\$84.61
GREENWICH VILLAGE	5,982,863	-251,828	63,981	18.2%	16.3%	\$127.90	\$102.88	\$105.16
HUDSON SQUARE	9,963,456	141,429	-259,717	24.6%	20.3%	\$87.40	\$77.55	\$82.55
SOHO	5,954,617	-135,470	-292,133	20.5%	14.7%	\$90.42	\$74.85	\$81.06
<b>MIDTOWN SOUTH TOTAL</b>	<b>80,792,154</b>	<b>-404,642</b>	<b>-1,751,428</b>	<b>21.7%</b>	<b>19.3%</b>	<b>\$100.19</b>	<b>\$72.12</b>	<b>\$81.85</b>
COLUMBUS CIRCLE	30,933,781	-701,353	20,352	13.5%	13.1%	\$68.22	\$57.82	\$65.88
EAST SIDE	14,903,204	148,064	336,121	19.6%	18.9%	\$72.14	\$57.77	\$71.98
GRAND CENTRAL	57,011,617	1,042,181	1,676,644	17.5%	16.7%	\$70.56	\$62.04	\$69.34
PENN PLAZA	69,117,395	104,858	696,207	17.8%	17.6%	\$106.66	\$56.68	\$91.54
PLAZA DISTRICT	70,928,191	977,628	953,936	12.7%	12.7%	\$89.22	\$87.18	\$89.12
TIMES SQUARE	43,228,059	-141,438	-897,545	18.1%	14.7%	\$81.20	\$56.22	\$79.13
<b>MIDTOWN TOTAL</b>	<b>286,122,247</b>	<b>1,429,940</b>	<b>2,785,715</b>	<b>16.1%</b>	<b>15.4%</b>	<b>\$84.87</b>	<b>\$59.75</b>	<b>\$80.86</b>
<b>TOTAL</b>	<b>458,686,624</b>	<b>1,963,647</b>	<b>1,863,098</b>	<b>18.3%</b>	<b>17.0%</b>	<b>\$77.36</b>	<b>\$62.94</b>	<b>\$74.09</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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