

DOWNTOWN MANHATTAN OFFICE MARKET

Q1 2024



TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.1	5.3	↓	7.5	↓
NET ABSORPTION (Thousands SF)	(396.1)	32.3	↓	(471.1)	↑
OVERALL VACANCY RATE	20.8%	18.1%	↑	15.1%	↔
OVERALL VACANT SF (MSF)	18.9	16.7	↑	13.9	↔
UNDER CONSTRUCTION (MSF)	0.2	0.1	↔	0.1	↔
ASKING RENT (PSF)	\$55.16	\$55.70	↓	\$59.69	↔
SALES VOLUME (Millions)	\$0.0	\$273.5	↓	\$251.0	↑

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

DOWNTOWN AWAITS RECOVERY

Downtown saw a quiet start to 2024, recording very limited Q1 leasing totaling less than half a million square feet. With few significant deals, absorption turned negative, reversing some of the progress made in late 2023, and availability rose again. The high availability rate continues to pressure asking rents, which decreased to their lowest point in a decade. Removal of excess space through redevelopment or residential conversion continues and should help market fundamentals as we move through 2024.

“While a slow start to any year is typical, results this quarter have given good reason for market confidence, with increased tour activity, longer lease terms coming into play, and sublease availability declining in many areas of Manhattan,” said Thomas Hines, Senior Vice President, Transwestern. “Continued momentum will be driven largely by interest rate movement and further clarity around return to office policies, but we are seeing positive signs from some very important indicators within the fabric of the Manhattan office market.”

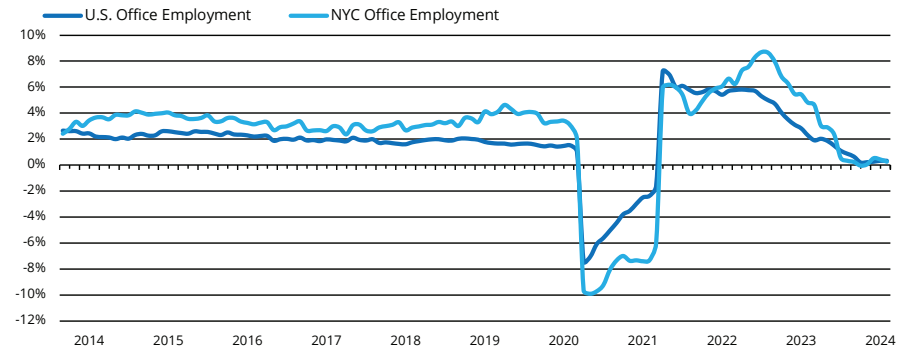


ECONOMY

Office jobs still growing, but pace has slowed

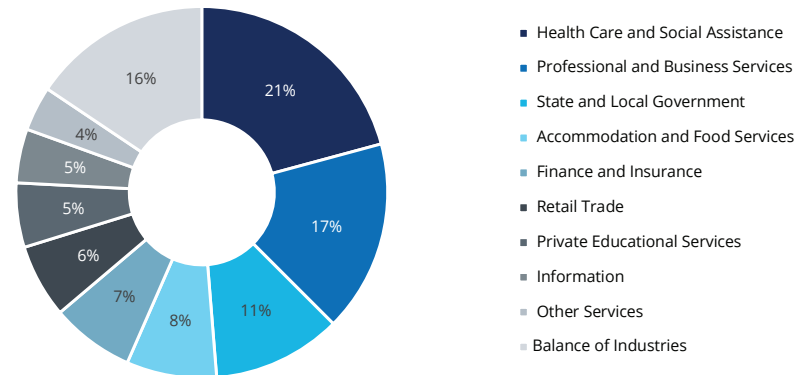
- New York City's office-using sectors now support almost 2.1 million jobs, about 4% higher than the pre-COVID level. The rate of growth has slowed considerably, however, most recently to 0.3% year-over-year. Outside of the initial COVID slump, the last eight months have seen some of the slowest growth in more than a decade.
- On a national level, there has been a small reduction in office jobs from their May 2023 peak, now incorporating 35.2 million positions. As in NYC, job growth has slowed to a ten-year low, with year-over-year improvement trending below 1% since mid-2023.
- The unemployment rate in New York City has stabilized over the past year and remains at 5.1%. National unemployment currently stands at 3.8%, compared with 3.5% immediately prior to the pandemic.
- New York City's Health Care & Social Assistance industry created nearly 72,000 new jobs over the past year, far surpassing all other sectors. Robust job increases were also seen in the State & Local Government sectors. On the downside, layoffs and economic uncertainty have contributed to an employment decrease in the Information sector and the Professional & Business Services sector, which each shed around 16,000 jobs in the past year.
- 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 diverse business sectors support a strength that will continue to propel the city forward during 2024.

Y-O-Y CHANGE IN OFFICE JOBS



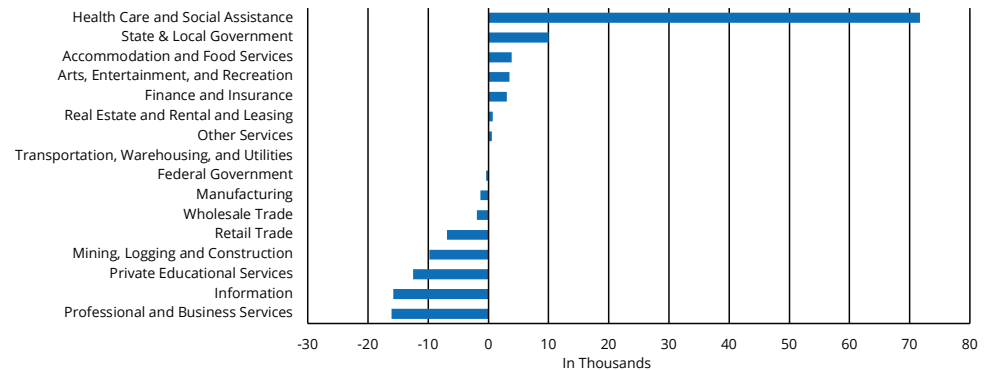
SHARE OF EMPLOYEES BY INDUSTRY

New York City | February 2024



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



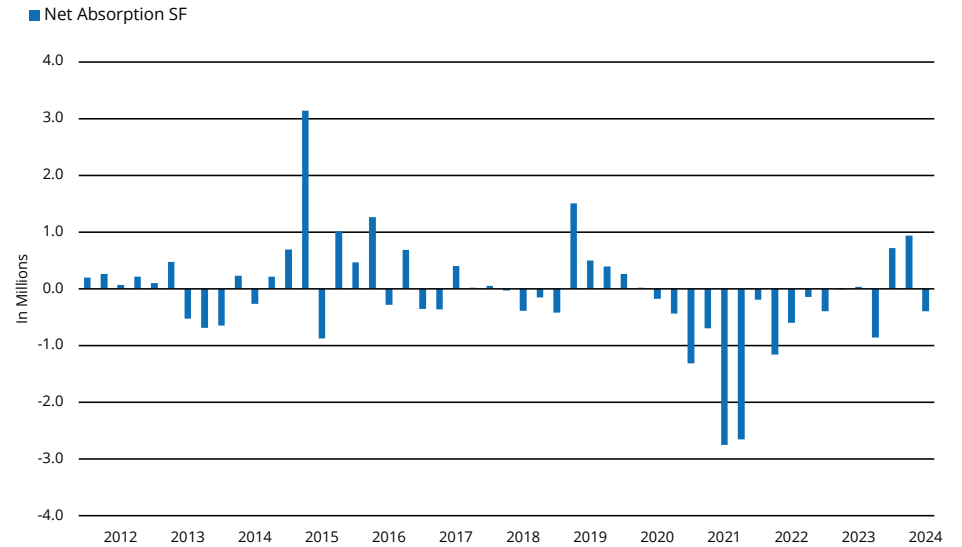


NET ABSORPTION

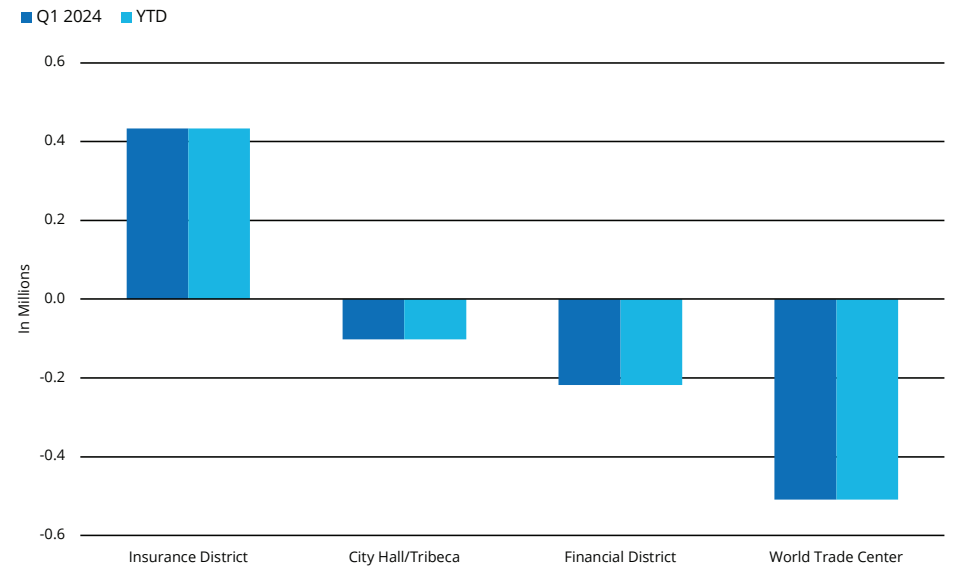
Absorption returns to negative territory

- Downtown recorded 396,100 Sf of negative absorption in Q1, following two straight quarters of positive demand. Nearly all of Downtown’s submarkets logged a negative result amid limited leasing activity that was compounded by half a dozen large block additions.
- In Downtown’s Financial District submarket, these additions included two sublet blocks at 55 Water Street totaling 461,500 SF, a 167,700 SF direct block at 14 Wall Street, and a 120,900 SF direct block at 200 Liberty Street. The Financial District also claimed Downtown’s largest lease, a 42,500 SF signing from the New York State Office of Temporary and Disability Assistance at 26 Broadway, but this was not enough to overcome the deficit, and absorption sank to negative 217,700 SF.
- The World Trade Center submarket logged a 34,300 SF sublease from Circle Internet Financial at One World Trade but faced direct block additions of 119,200 SF at 2 Washington Street and 52,000 SF at 255 Greenwich Street, leading to 409,300 SF of negative net absorption.
- The Insurance District was the only Downtown region to record positive absorption, though this was largely generated by the removal of a 473,000 SF block of space at 222 Broadway. The block was pulled from active marketing as the building prepares for sale and conversion to residential use.
- While Downtown has lagged Manhattan’s other submarkets during the recovery, it has nonetheless shown improvement over the last two years. Absorption is trending closer to pre-COVID levels and excess stock continues to be evaluated for adaptive reuse. New leases, albeit smaller ones, from a mix of tenant sectors, alongside renewals and expansions by established occupiers, are evidence of confidence in this evolving submarket.

NET ABSORPTION - DOWNTOWN



NET ABSORPTION BY SUBMARKET



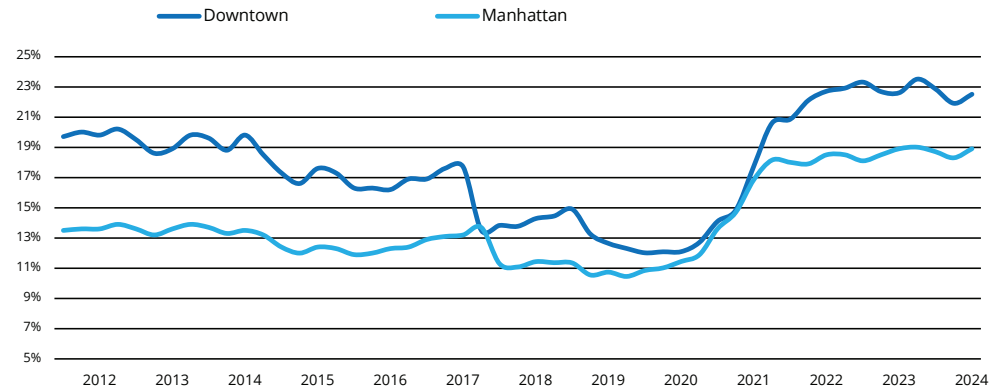


AVAILABILITY

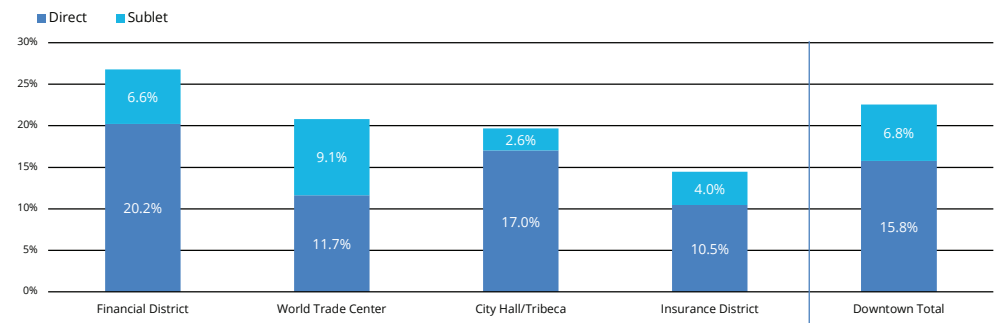
Availability continues to rise

- Downtown’s availability rate increased 0.6 percentage points [pp] to 22.5% in Q1, finishing slightly below the year-ago level. In comparison, Downtown’s average availability was around 15% during the five years pre-pandemic.
- Both direct and sublet availabilities increased from their Q4 2023 levels, with most Downtown submarkets recording a rise. Downtown’s sublet availability rate now measures 6.8%, some 0.4 pp below its Q2 2023 peak.
- The Financial District submarket saw overall availability increase 1 pp from last quarter to 26.8%, the highest in all of Manhattan. The increase came amid massive space additions at 55 Water Street, 14 Wall Street, 200 Liberty Street, and 125 Broad Street.
- The World Trade Center submarket saw availability increase 1.7 pp from last quarter to a new peak of 20.8%. This submarket retains Downtown’s highest sublet availability rate at 9.1%, equating to 44.0% of the total available space.
- At the other end of the spectrum, City Hall/Tribeca has a sublet availability rate of only 2.6%, one of the lowest in Manhattan. The rate dropped 0.8 pp from last quarter, helped along as Havas reclaimed four of the floors it was offering for sublease at 200 Hudson Street.
- There are more than 30 Downtown assets that have at least 200,000 SF of space available; nine of these have more than 200,000 SF of sublease space on offer. These spaces nonetheless offer attractive, discounted opportunities for large occupiers. We expect Downtown availability to stabilize during 2024 as market conditions improve, particularly as more under utilized space is withdrawn from the submarket.

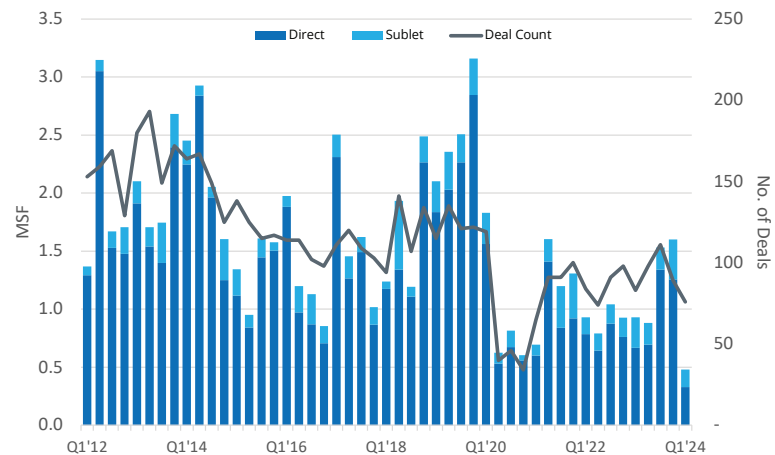
SUBMARKET AVAILABILITY VS MANHATTAN



SUBMARKET AVAILABILITY



DOWNTOWN LEASING ACTIVITY



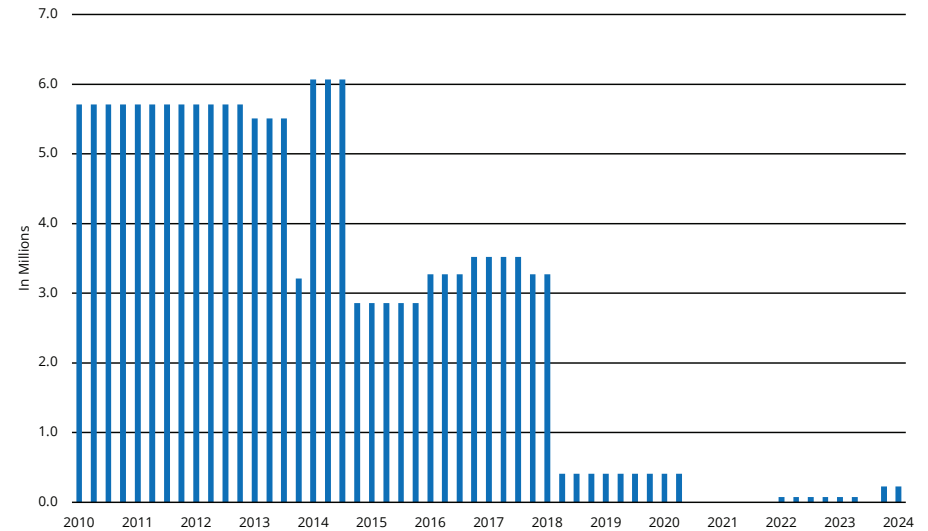


UNDER CONSTRUCTION

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.
- One major ground-up construction project underway Downtown is the mixed-use tower located at 250 Water Street. The tower is expected to complete in 2025 and will include 230,000 SF of office space at its base, though it is not yet available for leasing.
- 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. The likelihood of completion also depends on an improvement in market conditions and investor confidence.
- Several prominent Downtown office properties are now undergoing or preparing for residential conversion, including 25 Water Street, 160 Water Street, 55 Broad Street and 222 Broadway. 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. In the meantime, upgraded and renovated spaces should help Downtown benefit from the ongoing flight to quality.

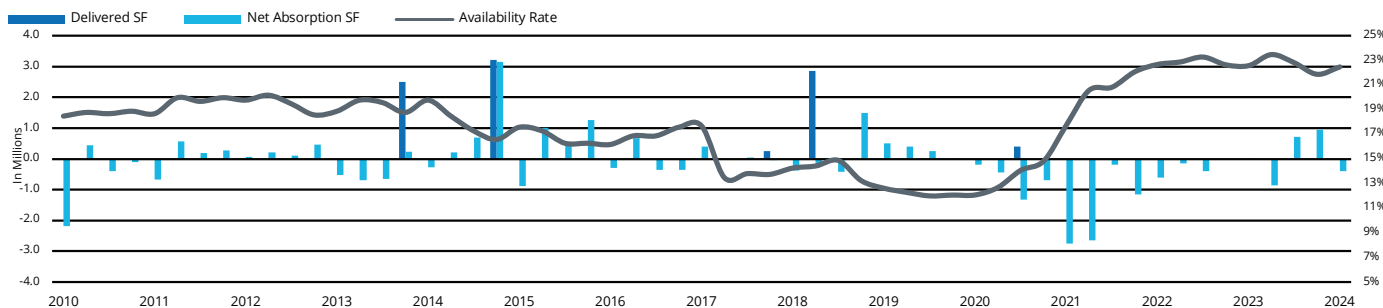
UNDER CONSTRUCTION - DOWNTOWN



DOWNTOWN CONSTRUCTION/RENOVATIONS IN PROGRESS

PROPERTY	SUBMARKET	RBA	STATUS	YEAR EXPECTED
250 Water St	Insurance District	230,000	Under Construction	2025
111 Wall St	Financial District	1,038,700	Under Renovation	2024
60 Wall St	Financial District	1,625,500	Under Renovation	2025

DELIVERY IMPACT ON KEY INDICATORS



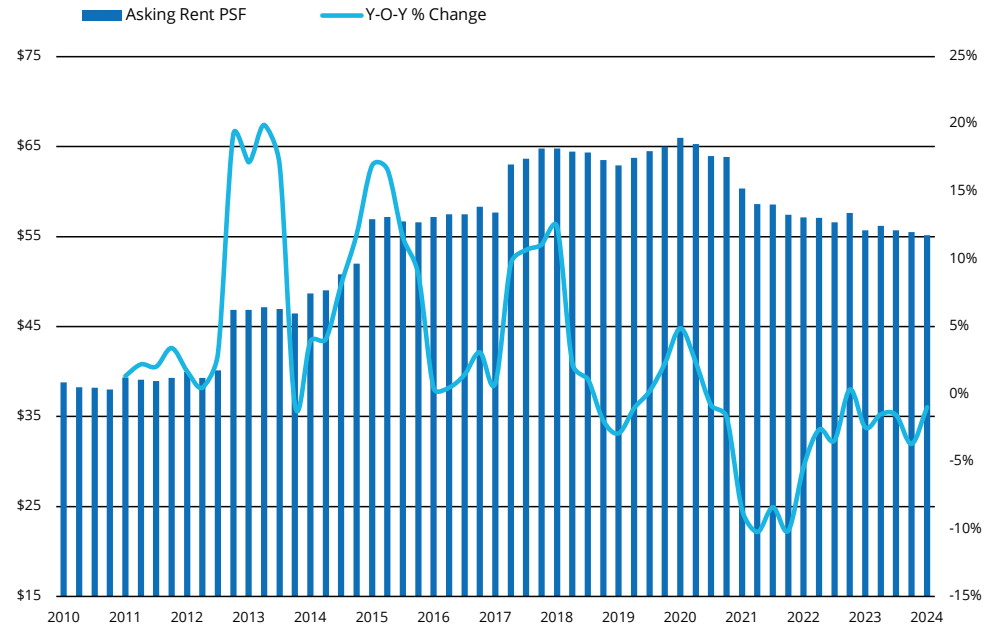


RENTAL RATES

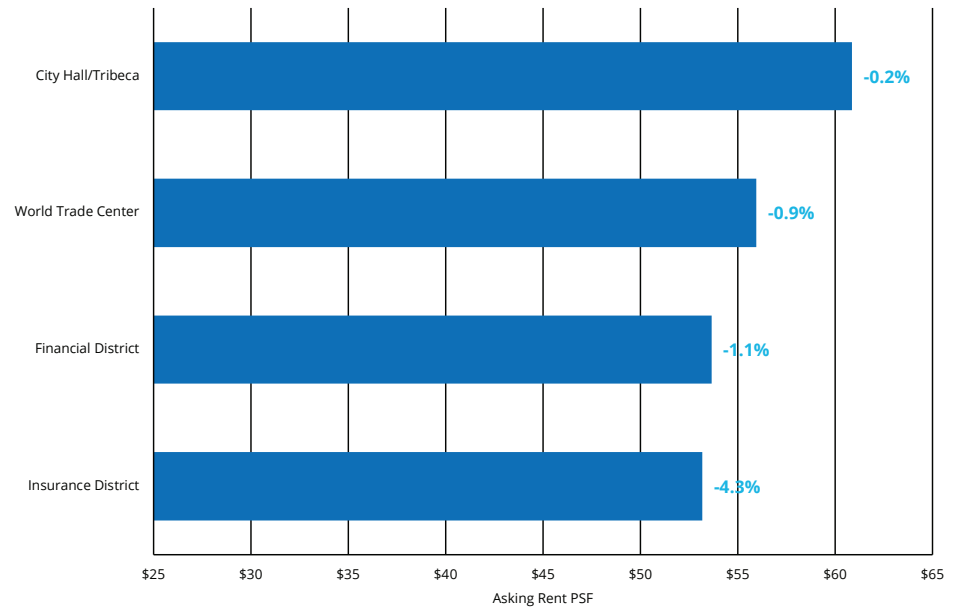
Downtown rents continue to decrease

- Downtown rents are at their lowest point in a decade after slipping 0.6% from Q4 to \$55.16 PSF. Asking rents are now 16.4% below the pre-pandemic peak of \$65.98 PSF. All of Downtown’s individual submarkets posted a year-over-year decrease.
- Despite the lowered asking rates, recent deals at Class A properties including One World Trade, 250 Vesey Street, 3 World Trade, 7 World Trade, 225 Liberty Street, and 107 Greenwich Street have fetched well above the Downtown average, continuing to support the “tale of two markets” narrative.
- The flip side of this coin is that lower priced space remains on the market, reducing the overall asking rate. The excess of sublet space Downtown compounds this problem.
- The lowered rents nevertheless represent ample opportunities for tenants, 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 as we move through 2024, and rents should begin to stabilize as availability tightens further.

ASKING RENT - DOWNTOWN



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



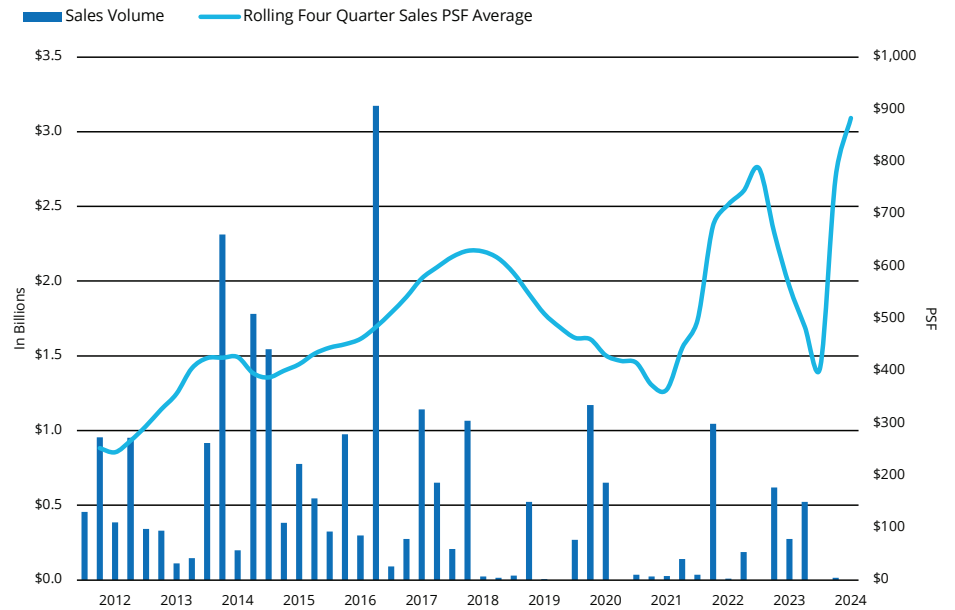


SALES

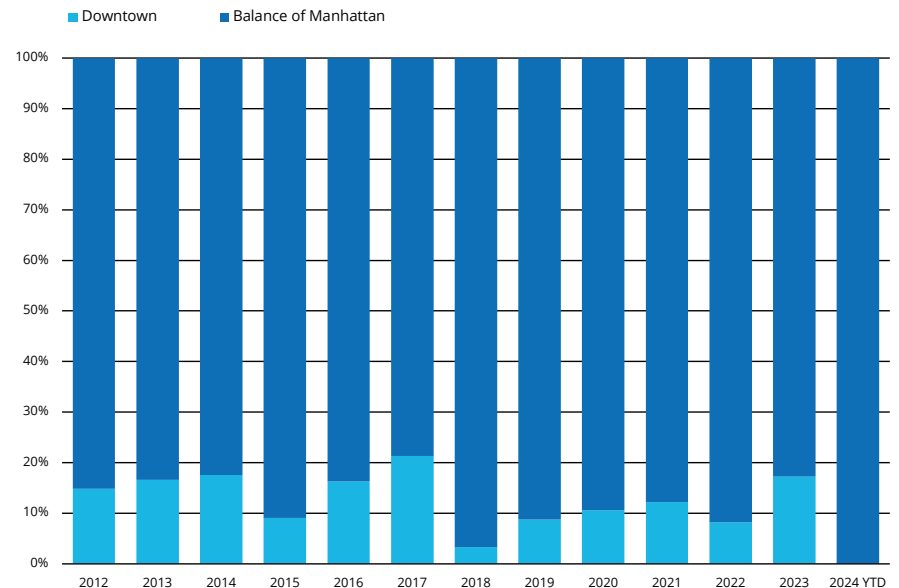
No notable sales Downtown this quarter

- Downtown sales activity bottomed out in Q1 with no significant deals recorded. Volume for the past four quarters (Q2 2023 — Q1 2024) summed to \$536.4 million, compared with \$1.1 billion in the prior four quarters (Q2 2022 — Q1 2023). In comparison, Downtown’s average annual sales volume for the five years preceding the pandemic was \$2.3 billion.
- Looking ahead, there is one major sale pending Downtown. GFP Real Estate is in contract to buy the tower at 222 Broadway, which is slated for residential redevelopment. The sale is expected to close at around \$150 million, less than one-third of what Deutsche Bank paid for the asset in 2014.
- Elevated interest rates and the overall economic climate in the wake of COVID-19 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 could be coming in the second half of 2024, which would help bump up transaction volume from its recent lows.
- Downtown’s continuing transformation should also help attract more notice from buyers as fundamentals improve.

SALES VOLUME - DOWNTOWN



DOWNTOWN % OF MANHATTAN SALES VOLUME





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
NEW YORK STATE OFFICE OF TEMPORARY AND DISABILITY ASSISTANCE	26 Broadway	Financial District	Direct	42,500
CIRCLE INTERNET FINANCIAL	One World Trade	World Trade Center	Sublease	34,300
HELLOFRESH	28 Liberty St	Financial District	Sublease / Expansion	34,115
DRIVEWEALTH	28 Liberty St	Financial District	Sublease / Expansion	29,269
EKIMETRICS	120 Broadway	Financial District	Direct	24,400

NOTABLE NEW AVAILABILITIES

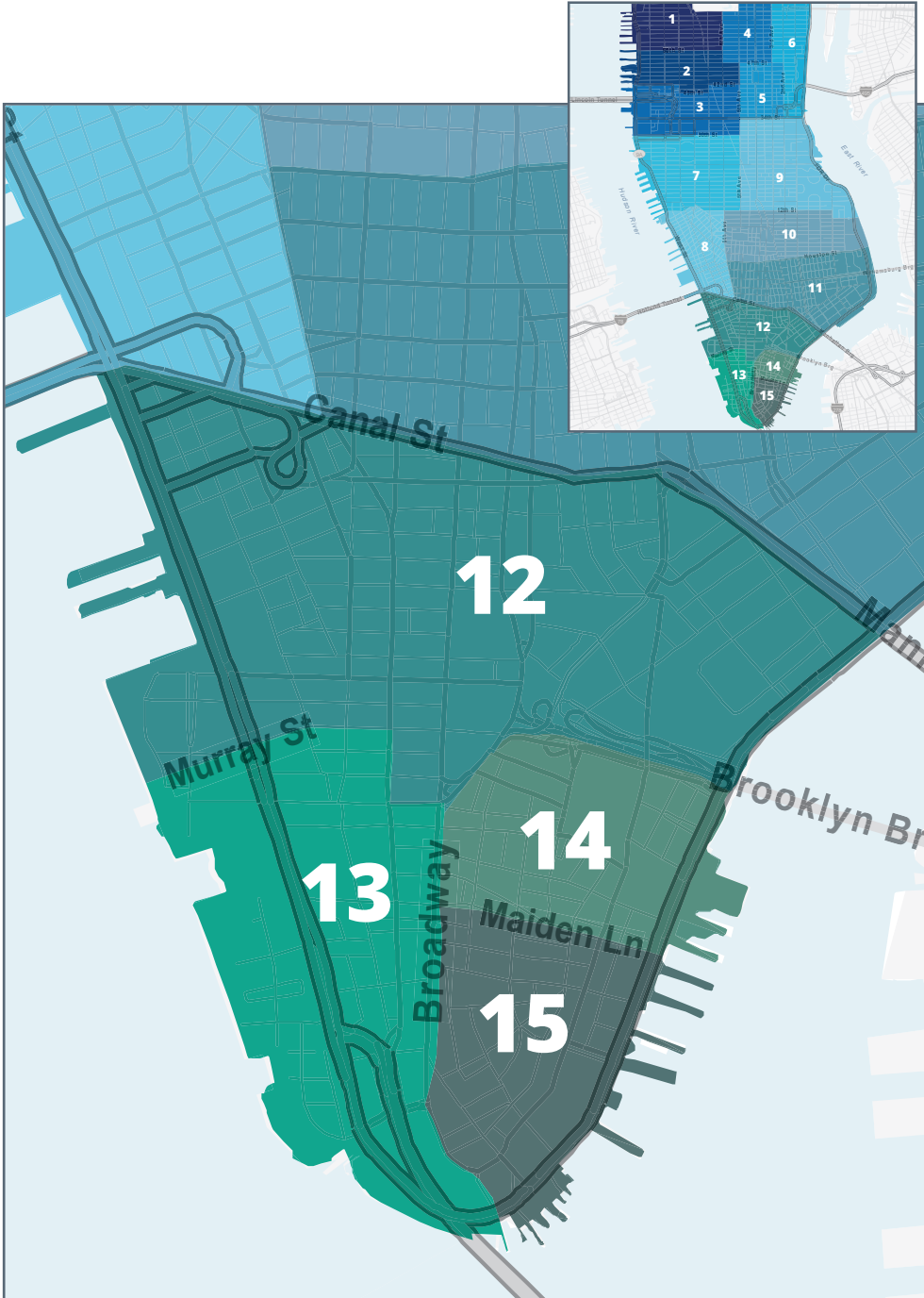
ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
55 WATER ST	Financial District	469,300	Sublet
200 LIBERTY ST	World Trade Center	161,000	Direct
2 WASHINGTON ST	World Trade Center	119,200	Direct
225 BROADWAY	City Hall / Tribeca	87,700	Mixed
60 HUDSON ST	City Hall / Tribeca	63,200	Direct



MARKET INDICATORS

All Classes of Space | Q1 2024

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	10,148,464	-102,581	-102,581	19.7%	20.1%	\$63.39	\$50.26	\$60.87
FINANCIAL DISTRICT	38,390,724	-217,726	-217,726	26.8%	25.4%	\$54.45	\$48.48	\$53.66
INSURANCE DISTRICT	9,425,035	433,481	433,481	14.5%	19.8%	\$58.36	\$40.32	\$53.18
WORLD TRADE CENTER	32,783,297	-509,287	-509,287	20.8%	15.9%	\$57.41	\$43.34	\$55.96
DOWNTOWN TOTAL	90,747,520	-396,113	-396,113	22.5%	20.8%	\$56.59	\$46.25	\$55.16



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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