



TRANSWESTERN

DOWNTOWN MANHATTAN OFFICE MARKET

Q2 2024



TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.8	5.0	↓	7.5	↔
NET ABSORPTION (Thousands SF)	137.8	(859.1)	↑	(484.0)	↑
OVERALL VACANCY RATE	18.8%	19.0%	↓	15.4%	↓
OVERALL VACANT SF (MSF)	17.1	17.5	↓	14.3	↓
UNDER CONSTRUCTION (MSF)	0.2	0.1	↔	0.1	↔
ASKING RENT (PSF)	\$54.96	\$56.21	↓	\$59.25	↔
SALES VOLUME (Millions)	\$165.2	\$522.4	↓	\$313.7	↑

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

DOWNTOWN SEES SOME IMPROVEMENT

Downtown leasing approached 617,000 SF in Q2, bringing the total for the first half of the year to 1.1 million SF. Positive absorption led to a small decrease in availability, though the rate remains high and continues to pressure asking rents, which decreased in both Class A and Class B space. Removal of excess space through redevelopment and residential conversion continues and should help market fundamentals as we move through 2024.

“The increased touring activity over the past several months translated to leasing transactions this quarter, as nearly 20 deals topping 50,000 SF were signed across Manhattan, with each major submarket represented,” said Lauren Davidson, Senior Vice President, Transwestern. “As 2024 continues, we expect to see market fundamentals remain favorable to tenants, as owners offer attractive concession packages, particularly from Class B assets as they try to compete.”

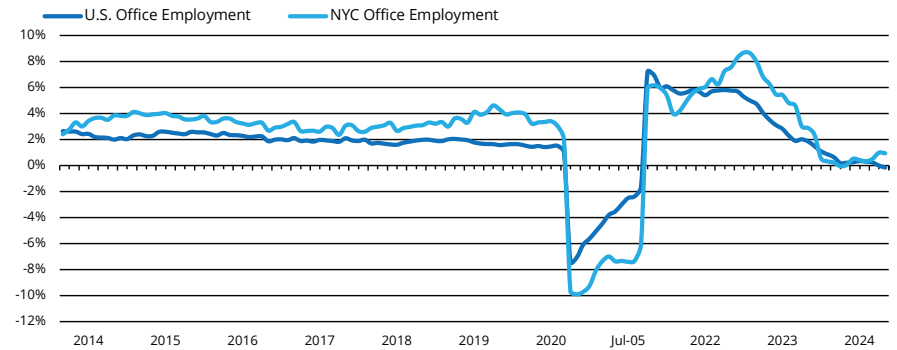


ECONOMY

NYC's office job growth quickens, bucking the national trend

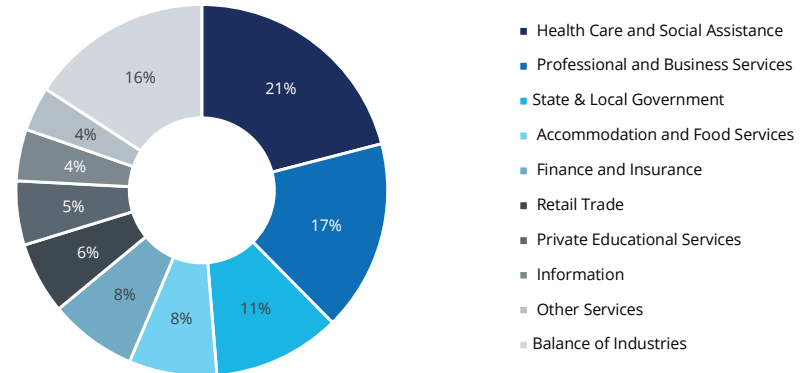
- New York City's office-using sectors now support more than 2.1 million jobs, about 4% higher than the pre-COVID level. While the rate of NYC's office job growth has slowed considerably over the last year, it saw a small uptick in the most recent period.
- Nationally, office-using jobs decreased by 0.2% year-over-year in May, their first year-over-year decline since early 2021.
- The unemployment rate in New York City has dropped below 5% after trending close to that level for 18 months. The current rate of 4.8% is the lowest since mid-2022. National unemployment currently stands at 4.1%, compared with its early 2020 bottom of 3.5%.
- New York City's Health Care & Social Assistance industry created about 82,700 new jobs over the past year, far surpassing all other sectors. Robust increases were also seen in the Arts, Entertainment & Recreation sector and the Accommodation & Food Services sector, along with State and Local Government jobs. On the downside, layoffs and economic uncertainty have contributed to employment decreases in two of New York's major office-using fields; the Information sector and Professional & Business Services sector shed a combined 23,000 jobs in the past year.
- New York's diverse business sectors provide a strong foundation that will continue to propel the city forward during 2024, even as hybrid work remains the most common structure for "office" jobs across the US.

Y-O-Y CHANGE IN OFFICE JOBS



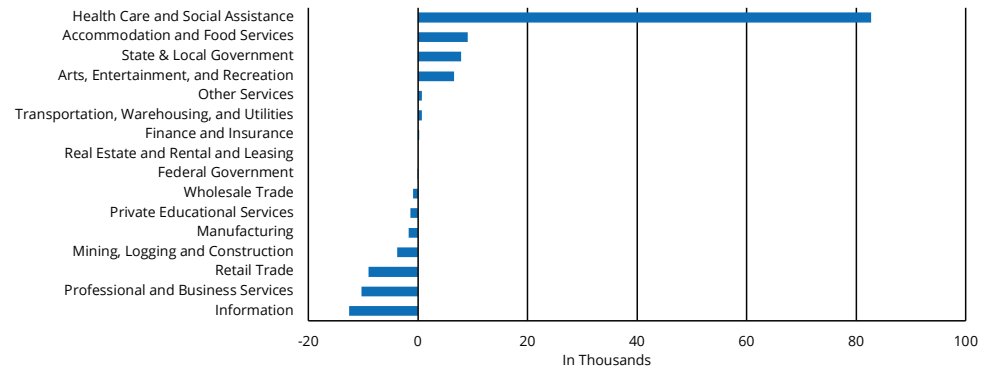
SHARE OF EMPLOYEES BY INDUSTRY

New York City | May 2024



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



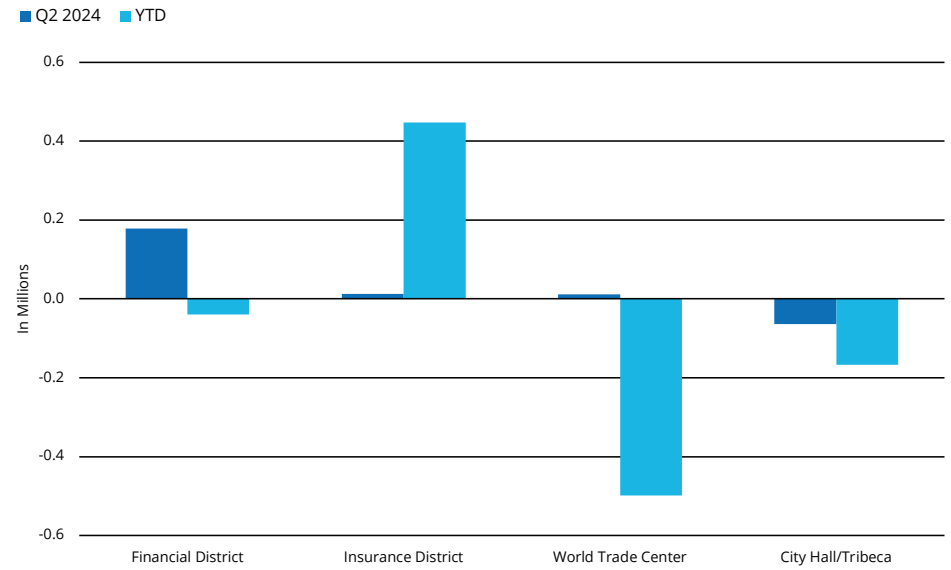


NET ABSORPTION

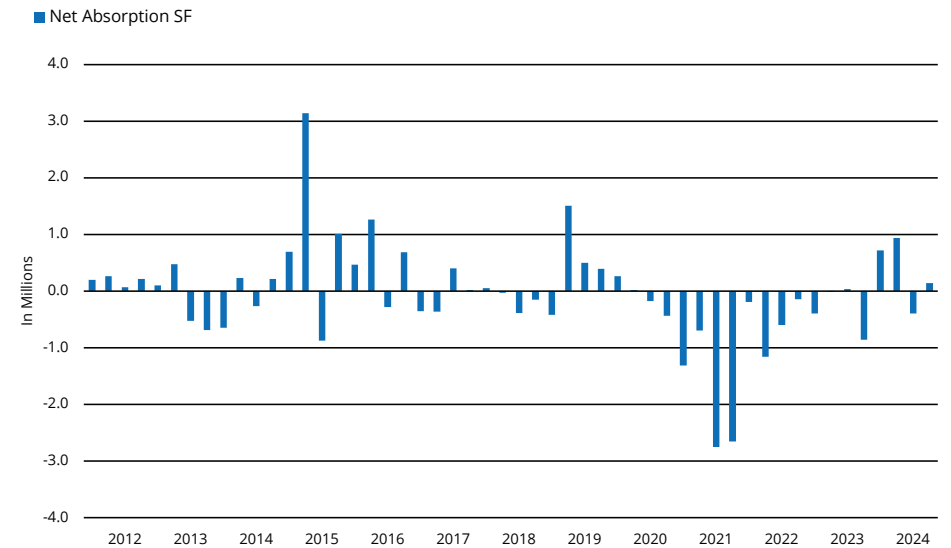
Absorption returns to positive territory

- Downtown absorption was positive in Q2 with 137,800 SF taken up. While year-to-date absorption measured negative 258,300 SF, it compares favorably with negative 826,800 SF in the first half of 2023.
- The Financial District was the only Downtown submarket to see significant positive absorption, driven largely by a 145,100 SF sublease from Stripe at 28 Liberty Street. Absorption was also helped by the withdrawal of large blocks at 180 Maiden Lane and 140 Broadway.
- Absorption was negative in the City Hall/Tribeca submarket and flat in the Insurance District and World Trade Center submarkets. The latter recorded several mid-size subleases including 48,000 SF from financial company Kroll at One World Trade, 44,800 SF from Wasserman at 1 Liberty Plaza, and 41,900 SF from tech firm Nagarro at 195 Broadway.
- While Downtown’s fundamentals are still somewhat tepid, the area is showing signs of improvement. New leases and subleases have driven positive absorption in three of the last four quarters. Several of this quarter’s deals involved migration from another submarket; Kroll moved from Midtown and Wasserman relocated from Brooklyn. Renewals and expansions by established occupiers are further evidence of confidence in this evolving submarket.

NET ABSORPTION - DOWNTOWN



NET ABSORPTION BY SUBMARKET



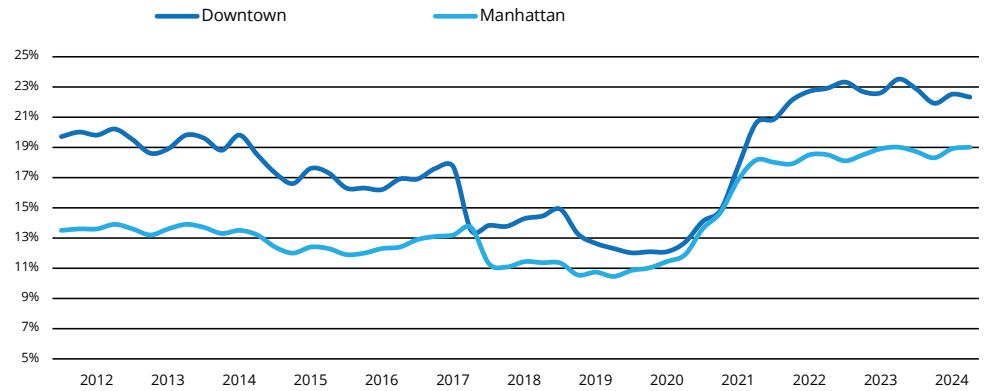


AVAILABILITY

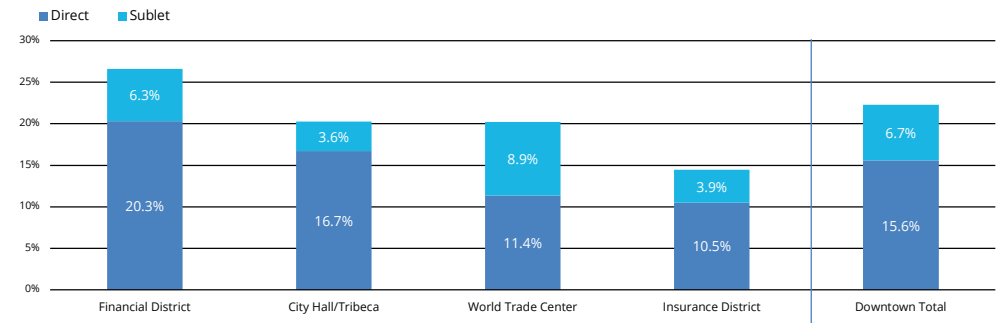
Availability is elevated, but stabilizing

- Downtown’s availability rate marked a small decrease in Q2, falling 0.2 percentage points [pp] to 22.3%, and is now 1.2 pp below the year-ago level. Availability has stayed in a tight range over the last four years, though it remains elevated compared with the average 15% availability rate seen between 2015 and 2019.
- Both direct and sublet availabilities decreased from their Q1 levels. Notably, the submarket’s four largest deals were all for sublet space. Downtown’s sublet availability rate now measures 6.7%, about 0.5 pp below its year-ago peak; in that time, roughly 571,200 SF of sublease space has been either leased up, re-occupied, or withdrawn from offering.
- Most Downtown submarkets saw their availability decrease, albeit mildly, from last quarter. The exception was the City Hall/Tribeca submarket, where availability increased by 0.6 pp amid negative absorption.
- The Financial District submarket retains one of the highest availability rates in Manhattan at 26.6%, while the World Trade Center submarket has the city’s highest sublet availability rate at 8.9%, equating to 43.8% of the total available space.
- There are currently 30 Downtown assets that have at least 200,000 SF of space available, many of which include large blocks of sublease space. These availabilities present attractive, discounted opportunities for large occupiers.

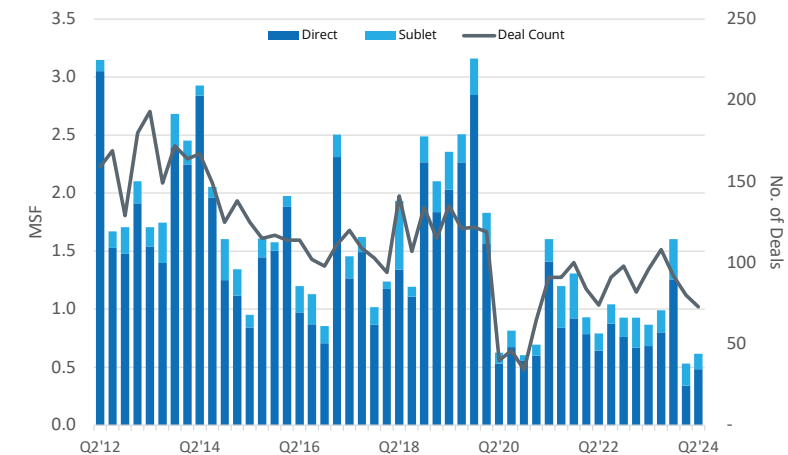
SUBMARKET AVAILABILITY VS MANHATTAN



SUBMARKET AVAILABILITY



DOWNTOWN LEASING ACTIVITY



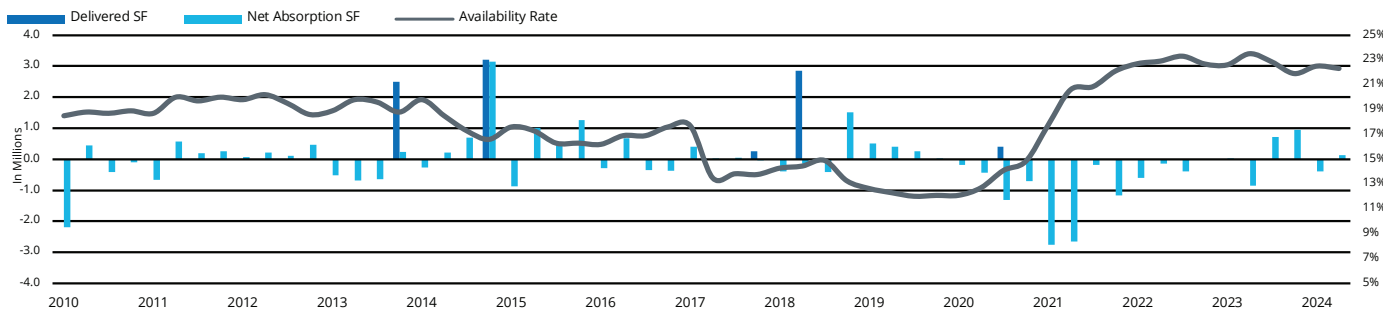


UNDER CONSTRUCTION

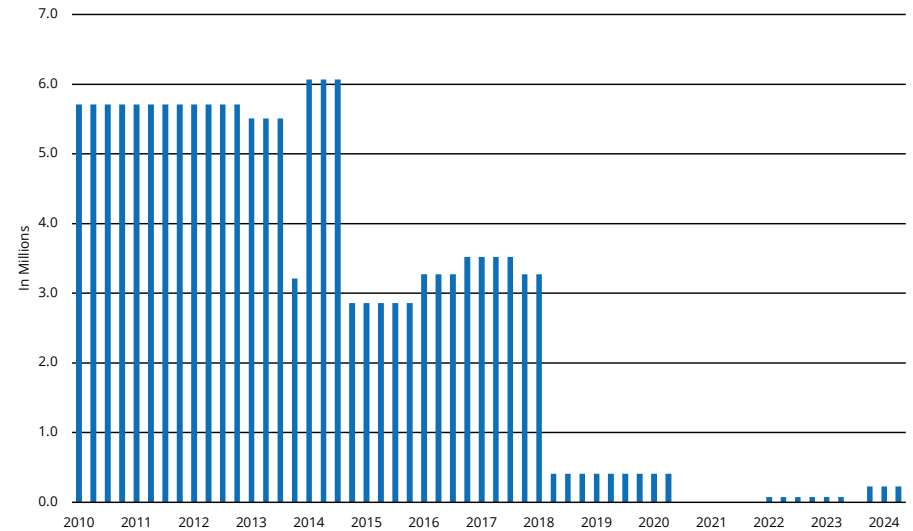
Downtown transformation continues

- High office vacancies in Downtown Manhattan are continuing to shift the focus away from spec development, pointing instead towards renovations and repositioning.
- Major renovations recently wrapped up at 111 Wall Street, while 1980s-era assets like 60 Wall Street and 175 Water Street (soon to be known as 161 Water Street) are now undergoing significant transformation and modernization. The latter building was one of the first recipients of a new tax abatement through NYC’s M-CORE program, which is designed to help finance renovations at aging office properties.
- The only major ground-up office construction currently underway Downtown is located at 250 Water Street in the Insurance District. The tower is expected 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, mostly represented by a 2.8 MSF tower addressed at 2 World Trade. Improvement in market conditions and investor sentiment, along with the securing of an anchor tenant, are necessary conditions in getting these projects underway.
- As of now, the pipeline of “ready to lease” new construction opportunities remains extremely limited. It will be important to monitor whether continued demand for top tier assets, coupled with the lack of new stock and removal of outdated buildings for residential use, will lead to increased activity in the Class B space.

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	1,625,500	Under Renovation	2025
175 Water Street	Insurance District	716,400	Under Renovation	2026

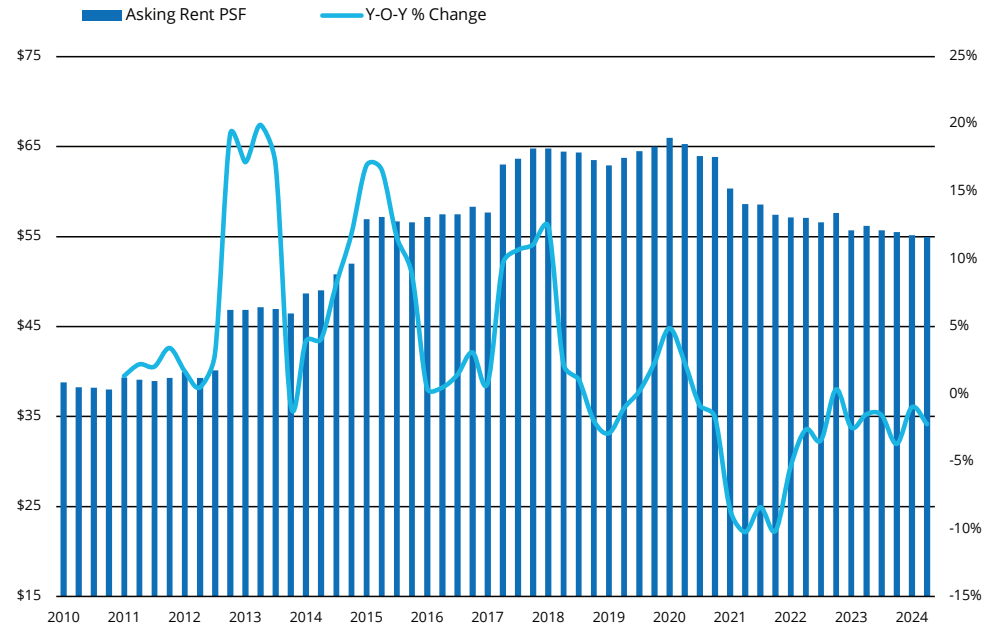


RENTAL RATES

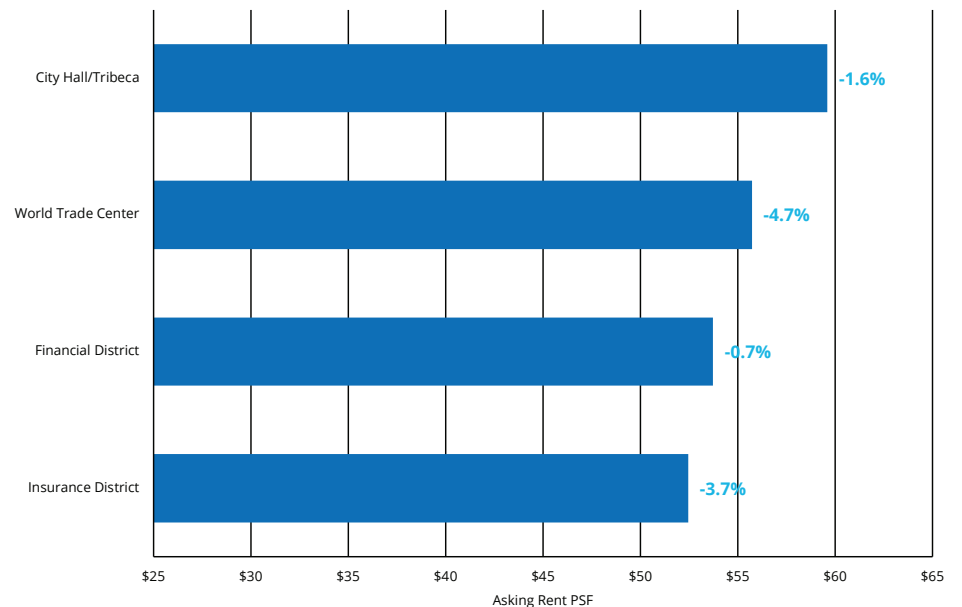
Downtown rents continue to decrease

- Downtown rents are at their lowest point in a decade after slipping 0.4% from Q1 to \$54.96 PSF. Nearly all submarkets saw a decrease from last quarter, and asking rates are now 16.7% below their early 2020 peak of \$65.98 PSF.
- The average asking price for Class A space is \$56.42, about 23% higher than Class B pricing. Most of the recent large deals have been signed in the Class A space, 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 lower rents nevertheless represent ample opportunities for tenants, particularly at non-trophy and Class B assets, as well as high-vacancy buildings. Large concession packages are still happening to entice tenants, and the area’s ongoing reinvention should draw further interest from occupiers as we move through 2024.

ASKING RENT - DOWNTOWN



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



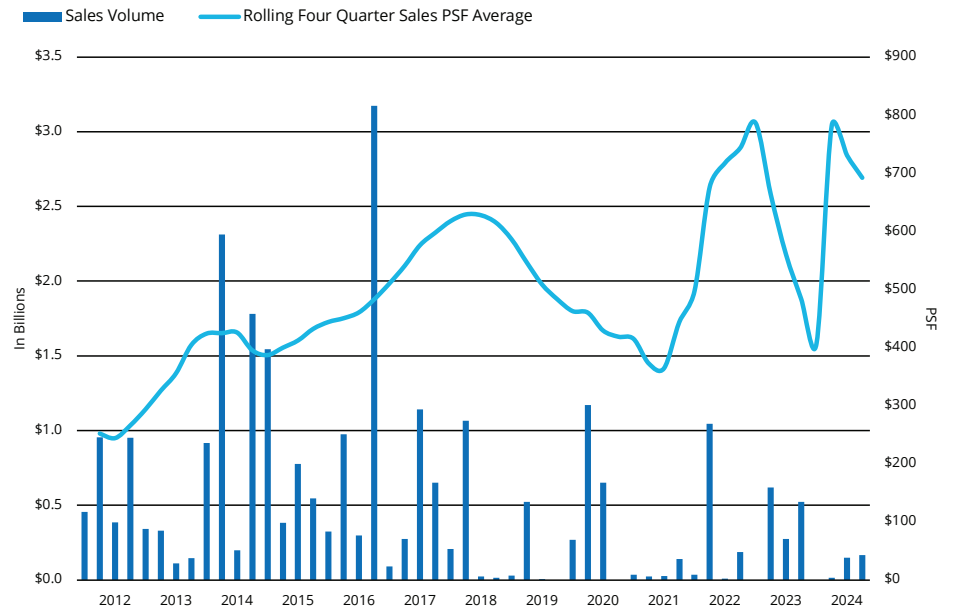


SALES

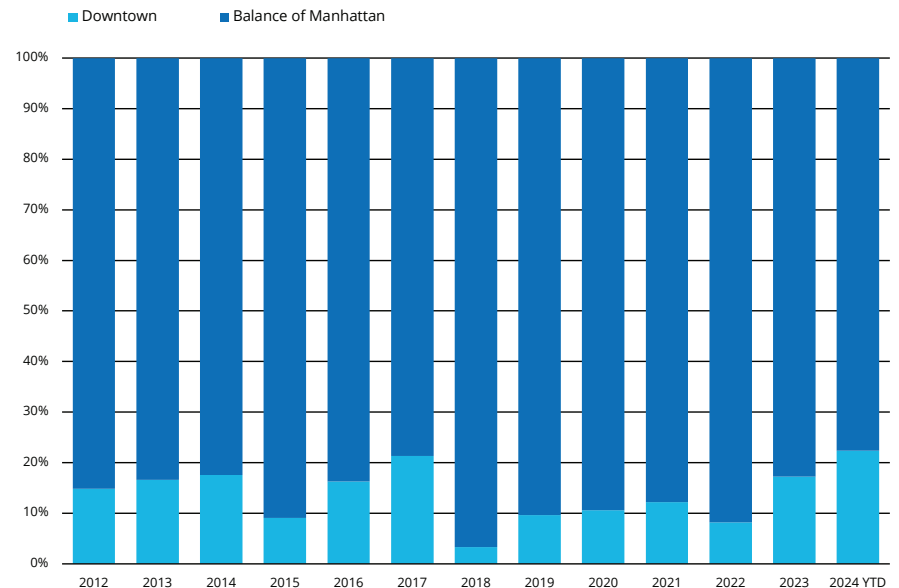
Transaction volume falls again

- Downtown office sales continue to dwindle; volume was just \$164.2 million in Q2, compared with a five-year average quarterly total of \$294.5 million. Year-to-date, \$312.7 million has traded Downtown, less than half of the \$795.9 million sold in the first half of 2023.
- The largest Downtown transaction was the sale of 101 Franklin Street to Cannon Hill Capital Partners, TPG RE Finance Trust, and Skylight RE Partners for \$96.5 million. The 15-story building in the City Hall/Tribeca submarket was initially anticipating an overhaul of its office space, but the purchasers, who paid roughly \$400 PSF, are planning a residential conversion.
- The sale of 180 Maiden Lane closed just after the end of the quarter, fetching \$297 million, and will help boost volume totals for the second half of the year. The 1.2 MSF tower last sold for \$470 million in 2015.
- Continued uncertainty amid the current economic climate has left investors reluctant to take on more debt and more risk, citing limited liquidity and ongoing price discovery. Downtown’s ongoing transformation should attract more notice from buyers, but with the Federal Reserve still dragging its feet on cutting interest rates, debt remains costly and we expect investors will proceed with caution over the next few quarters.

SALES VOLUME - DOWNTOWN



DOWNTOWN % OF MANHATTAN SALES VOLUME





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
STRIPE	28 Liberty St	Financial District	Sublet	145,100
KROLL	One World Trade	World Trade Center	Sublet	48,000
WASSERMAN	1 Liberty Plaza	World Trade Center	Sublet	44,800
NAGARRO	195 Broadway	World Trade Center	Sublet	41,900

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
32 AVE OF THE AMERICAS	City Hall/Tribeca	66,600	Sublet
111 JOHN ST	Insurance District	55,000	Direct
ONE WORLD TRADE	World Trade Center	54,600	Sublet
120 BROADWAY	Financial District	52,200	Direct
32 OLD SLIP	Financial District	52,200	Sublet

NOTABLE SALES

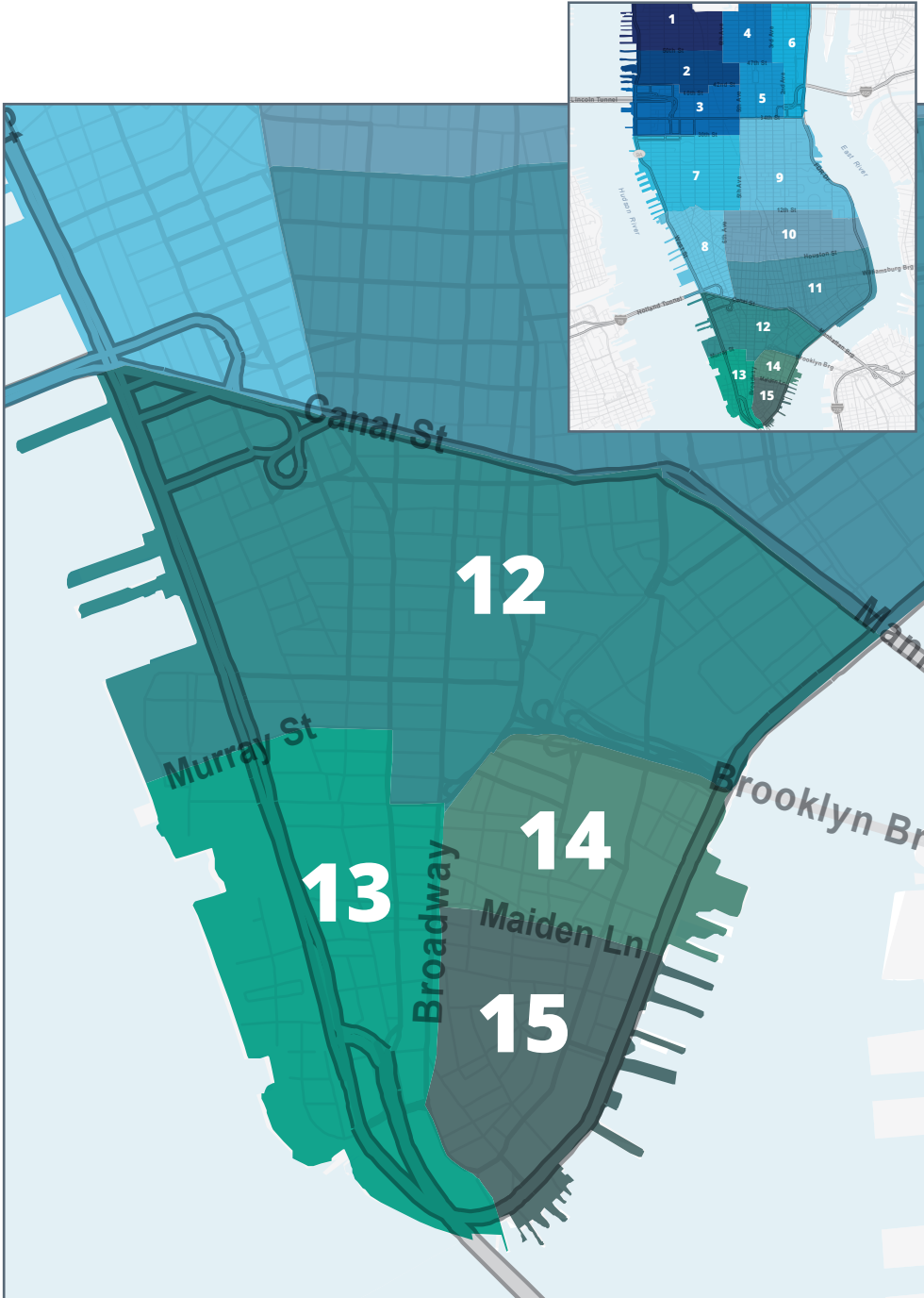
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
101 FRANKLIN ST (59-63 LEONARD ST)	City Hall/Tribeca	\$96,500,000	240,000	\$402	Cannon Hill Capital Partners, TPG RE Finance Trust, Skylight RE Partners	Columbia Property Trust



MARKET INDICATORS

All Classes of Space | Q2 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	10,152,774	-64,238	-166,819	20.3%	20.9%	\$62.04	\$49.43	\$59.60
FINANCIAL DISTRICT	37,955,472	178,145	-39,581	26.6%	20.9%	\$54.51	\$48.64	\$53.73
INSURANCE DISTRICT	9,341,687	13,018	446,499	14.4%	20.1%	\$58.53	\$39.54	\$52.45
WORLD TRADE CENTER	33,646,860	10,900	-498,387	20.2%	15.5%	\$57.11	\$43.45	\$55.73
DOWNTOWN TOTAL	91,096,793	137,825	-258,288	22.3%	18.8%	\$56.42	\$46.04	\$54.96



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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