TRANSWESTERN

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)	(292.1)	(819.2)	↑	(1,909.3)	↑
OVERALL VACANCY RATE	17.0%	15.6%	↑	13.1%	↔
OVERALL VACANT SF (MSF)	77.6	71.9	↑	59.5	↔
UNDER CONSTRUCTION (MSF)	2.0	0.8	↑	8.7	↑
ASKING RENT (PSF)	$76.40	$73.77	↑	$74.51	↑
SALES VOLUME (Millions)	$633.1	$2,293	↓	$1,958.2	↑

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

DEAL ACTIVITY PICKS UP IN Q2

Manhattan recorded 7.5 MSF of leasing activity in Q2 as nearly 20 deals exceeding 50,000 SF were signed, including sizeable expansions and long-term renewals from tenants spanning a multitude of industries. Leasing totaled 13.3 MSF in the first half of the year, compared with 10.8 MSF during the same period in 2023. Rents grew for a second straight quarter, reaching their highest level since mid-2020 as landlords pushed asking prices at trophy buildings. Absorption was negative this quarter despite healthy take-up in the Class A space, and availability ticked upward amid a small increase in sublet offerings.

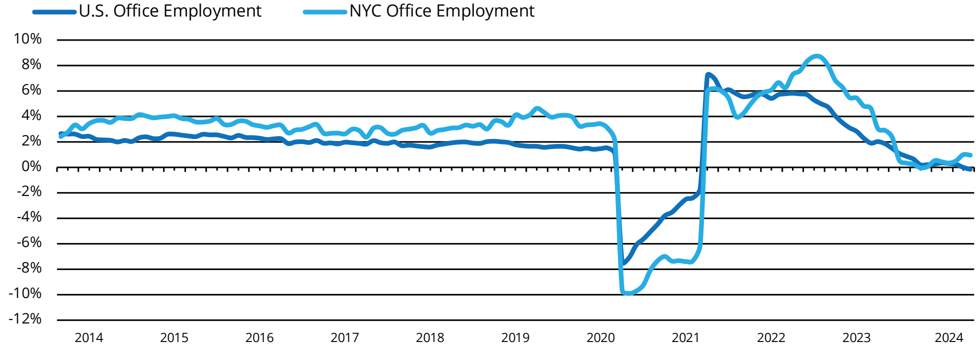
“The increased touring activity over the past several months translated to leasing transactions this quarter, especially in submarkets like Grand Central, where several large leases were signed, resulting in the submarket experiencing tightening availability,” said Lauren Davidson, Senior Vice President, 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

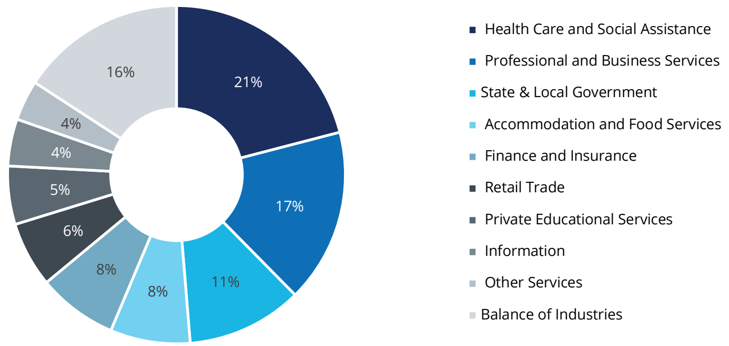
- New York City's office-using sectors now support more than 2.1 million jobs, about 4% higher than the pre-COVID level. While the rate of NYC's office job growth has slowed considerably over the last year, it saw a small uptick in the most recent period.
- Nationally, office-using jobs decreased by 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



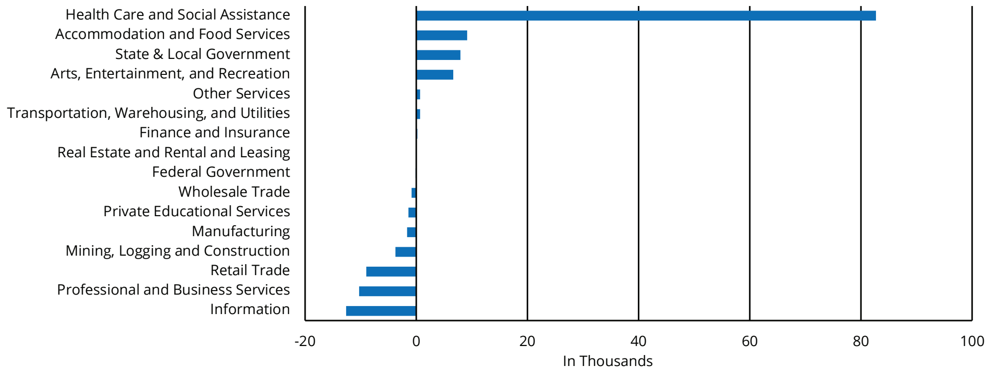
SHARE OF EMPLOYEES BY INDUSTRY

New York City | May 2024



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



All sources: Bureau of Labor Statistics, NYS Department of Labor, Transwestern

NET ABSORPTION

Class A assets drive improved absorption across Manhattan

- New York City continues to spin a tale of two markets, led by increasing demand for Class A assets. While not quite the best of times or the worst of times, net absorption measured 1.1 MSF in the Class A space, while Class B recorded negative 1.4 MSF, the lowest in three years. The quarter's largest lease, Bloomberg's 946,800 SF deal at 731 Lexington Avenue, was a renewal and did not affect absorption.

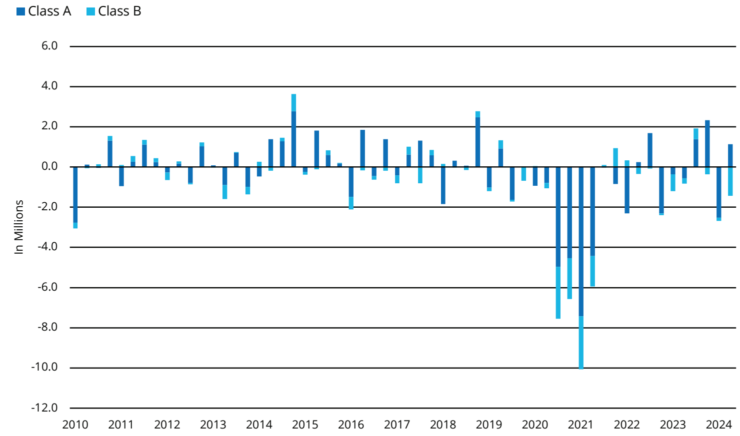
- The combined absorption across Manhattan was negative 292,100 SF, a major improvement on Q1's negative 2.7 MSF, which was burdened by the addition of 1.1 MSF at the under-construction Terminal Warehouse complex in Midtown South. Looking at the first half of the year, absorption measured negative 3.0 MSF, compared with negative 2.0 MSF in the first half of 2023.

- Midtown was the only Manhattan submarket to record negative net absorption in Q2, though its Class A absorption trended positive. Sizeable new leases included Covington & Burling at 30 Hudson Yards (235,500 SF), Bain & Company at 22 Vanderbilt (235,200 SF), and Major League Soccer at PENN 2 (125,000 SF). However, absorption was hampered by more than a dozen large block additions, including two blocks exceeding half a million square feet each at 636 Eleventh, where Ogilvy/WPP is preparing to leave, and 30 Hudson Yards, where WarnerMedia is offering a massive block for sublet.

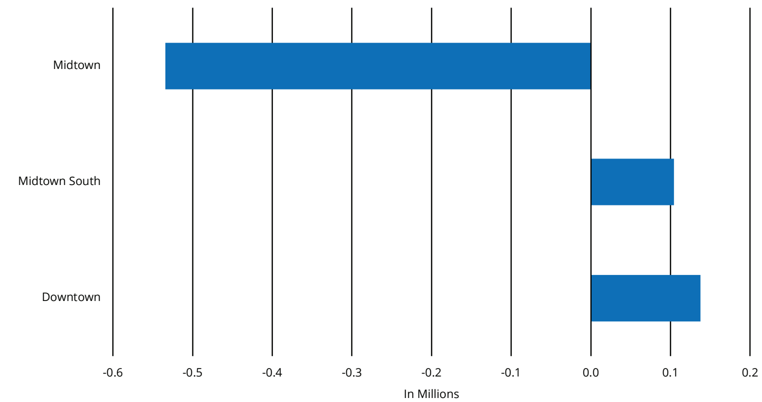
- Midtown South and Downtown each recorded over 100,000 SF of positive net absorption in Q2, boosted by the largest 2024 leases of their respective submarkets. In Midtown South, American Eagle soared into 63 Madison Avenue, mixing sublet and direct agreements for a combined 337,100 SF. Downtown, Stripe inked a 148,100 SF sublease from AIG at 28 Liberty Street.

- More than half a dozen leases exceeding 100,000 SF were signed in Manhattan this quarter, all in class A space. Most of these leases represented an expansion from their current footprints, and many were for terms of 15 years or longer, all indicators of continued confidence in the market and boding well for improved absorption in the second half of the year.

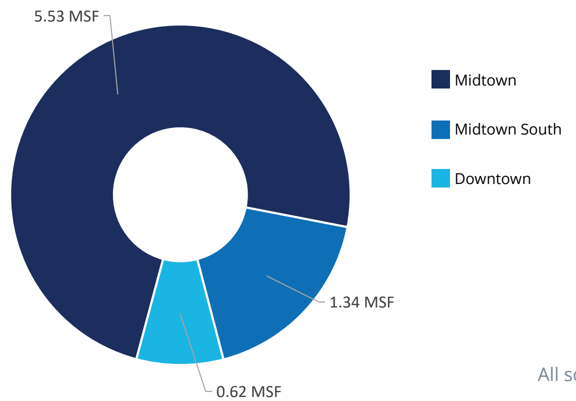
NET ABSORPTION BY CLASS



NET ABSORPTION BY SUBMARKET



SHARE OF LEASING BY SUBMARKET



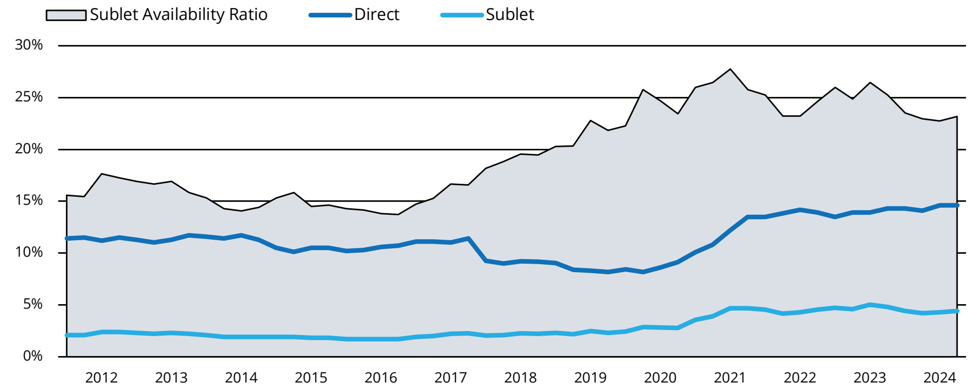
All sources: CoStar, Transwestern

AVAILABILITY

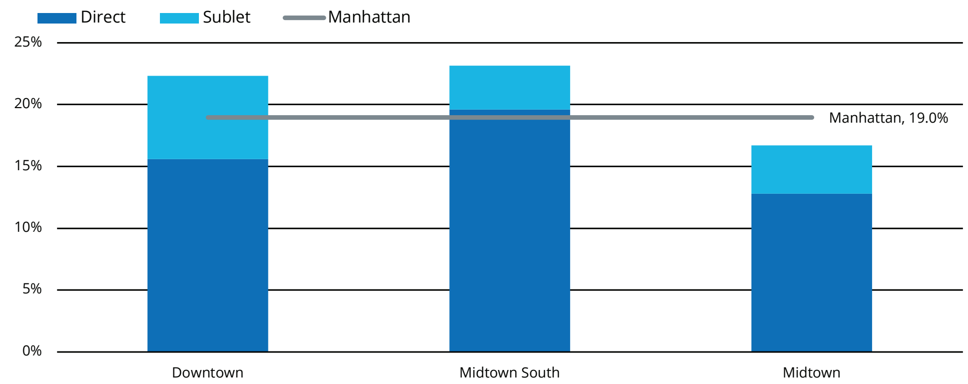
Availability rate rises again

- Manhattan's availability rate increased 0.1 percentage points [pp] to 19.0% in Q2, corresponding with a 0.1 pp rise in sublet availability to 4.4%. Overall availability is on par with the year-ago level.
- Mirroring the quality divide seen in net absorption, Class A availability decreased from Q1 as large deals were primarily signed in new and trophy assets. Meanwhile, Class B availability increased from last quarter and now stands at 22.1%, some 1.8 pp higher than a year ago, and more than double the pre-COVID level.
- Midtown South continues to register Manhattan's highest overall availability, driven upward in early 2024 amid the Terminal Warehouse addition. The availability rate of 23.2% also reflects eight large block additions in Q2, nearly all for direct space. In contrast, major sublease commitments from American Eagle (162,300 SF portion of a combined sublet and direct lease), Pinterest (40,300 SF), and Arch Labs (40,300 SF) helped lower Midtown South's sublet availablity rate by 0.5 pp to 3.5%, now the lowest in Manhattan.
- Downtown's availability level decreased 0.2 pp from Q1 but remains a concern at 22.3%. Sublet availablity of 6.7% is the highest of Manhattan's three submarkets; Downtown comprises roughly 20% of Manhattan's office inventory, but encompasses 30% of the borough's available sublease space.
- Both sublet and direct availability increased in Midtown, bringing the overall rate up 0.2 pp to 16.7%.
- The flight to quality will continue to widen the gap between Class A and B space through the second half of 2024. As Class A space becomes more scarce, large availabilities at less well-positioned assets throughout the city are showcasing a range of attractive, discounted opportunities for tenants.

DIRECT VS SUBLET AVAILABILITY RATE



AVAILABILITY RATE BY SUBMARKET



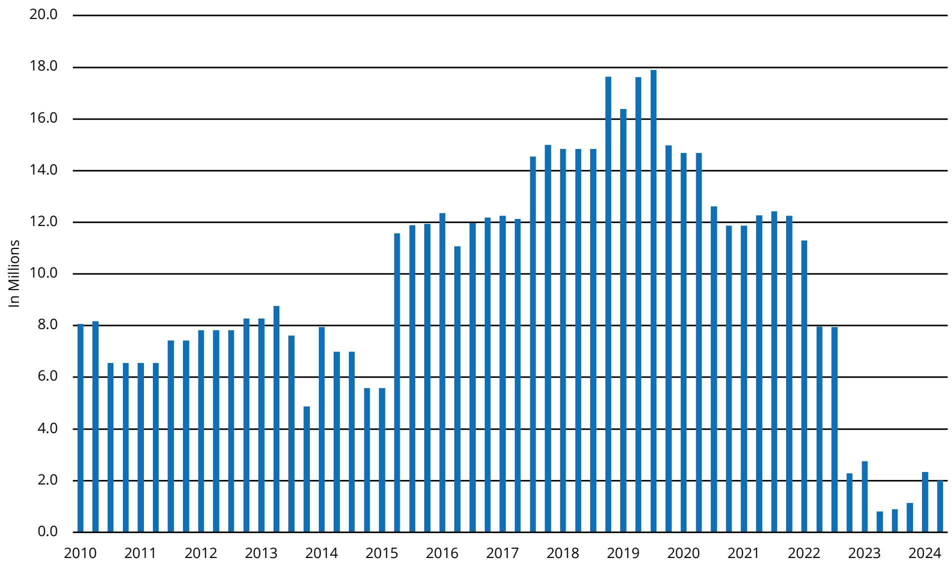
All sources: CoStar, Transwestern

UNDER CONSTRUCTION AND RECENT DELIVERIES

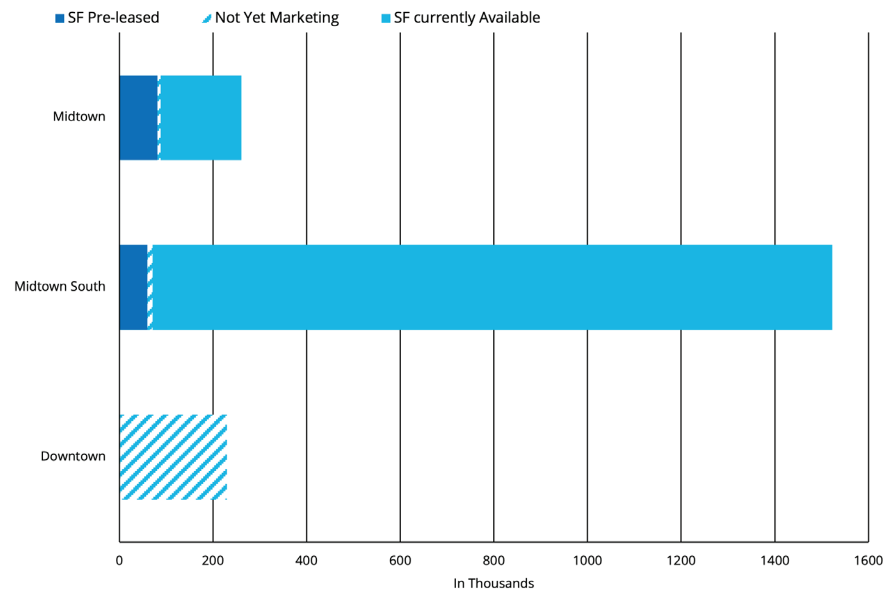
Construction remains low

- High office vacancies in Manhattan are continuing to shift the focus away from spec development. Instead, developers are weighing their options for transforming underperforming assets via renovations and capital improvements, leaving new construction near its lowest level in a decade.
- The largest new construction project in the city is Terminal Warehouse at 271 Eleventh Avenue in Midtown South. The century-old full-block structure will yield to four modern office buildings totaling over a million square feet. Midtown South is notably the site of most of the city's other new construction, and includes Le Gallerie (132 W 14th Street), expected to deliver sometime this year, 220 Eleventh Avenue, One High Line, and 1 Saint Marks Place, along with the just-completed 360 Bowery.
- New office space is likewise underway at Downtown's 250 Water Street; the project also incorporates hotel and multifamily components. In Midtown new construction includes 125 West 57th Street and 520 Fifth Avenue.
- Major ongoing office renovation projects include Downtown's 60 Wall Street and 111 Wall Street, as well as Midtown's PENN2, which saw a 126,000 SF lease from Major League Soccer this quarter, and Park 53, the redevelopment of Midtown's former Banco Santander Building.
- Currently, about 14.5 MSF of Class A office product is proposed in Manhattan, including the 430,000 SF One Grand on the border of Midtown South and Downtown, and six properties with planned RBA of more than 1 million SF each. However, getting these underway depends on improvement in both market conditions and investor sentiment, as well as the likelihood of securing an anchor tenant. 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, will lead to increased activity in secondary markets and Class B buildings.

UNDER CONSTRUCTION



UNDER CONSTRUCTION BY SUBMARKET



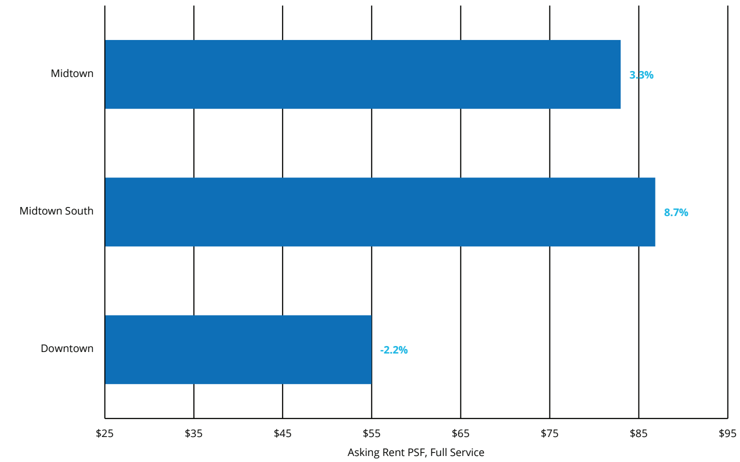
All sources: CoStar, Transwestern

RENTAL RATES

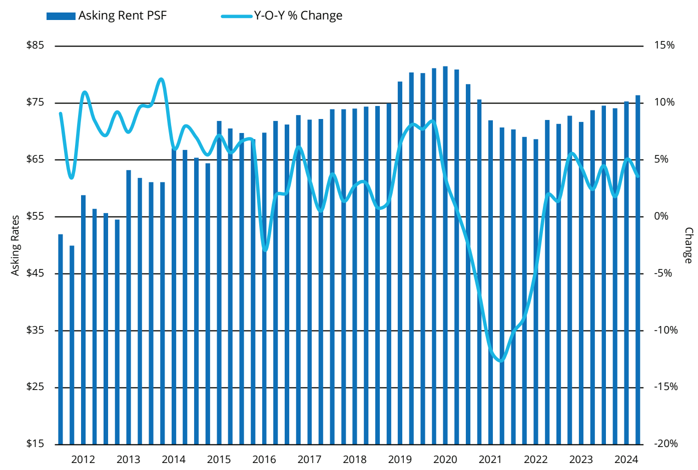
Trophy assets drive rents higher

- Manhattan asking rents increased for a second straight quarter and are up 3.6% from a year ago at $76.40 PSF. Rents have now seen nine straight quarters of year-over-year growth. The increase in asking rents is largely due to premium pricing combined with high availability at the newest assets.
- Midtown South rents reached $86.86 PSF in Q2, an increase of 0.5% from last quarter. Rents have pulled ahead of their Midtown counterparts over the last year and have already surpassed their late 2019 peak. Trophy assets like One Madison, 220 Eleventh Avenue, and Terminal Warehouse are asking upwards of $150 for well-appointed spaces. The relatively low amount of sublet space on offer in Midtown South is also contributing to the higher rents.
- In Midtown, rents grew 1.8% from Q1 to $82.96 PSF, likewise driven by high asking rates at desirable properties like 550 Madison Avenue, 1 Bryant Park, 9 West 57th Street, 30 Hudson Yards, and 425 Park Avenue, all asking over $200 PSF.
- In contrast, Downtown rents continue to create new lows as large pockets of sublet space drag down pricing. Rents dropped 0.4% from last quarter, falling below $55 PSF for the first time in almost a decade.
- Despite the continued pressure on rents, the newest trophy and Class A+ spaces are asking for and receiving premium prices. On the other hand, we are seeing increased opportunities for tenants at non-trophy and Class B assets, particularly those with high vacancies. Larger concession packages are still happening across the board to get these spaces filled.

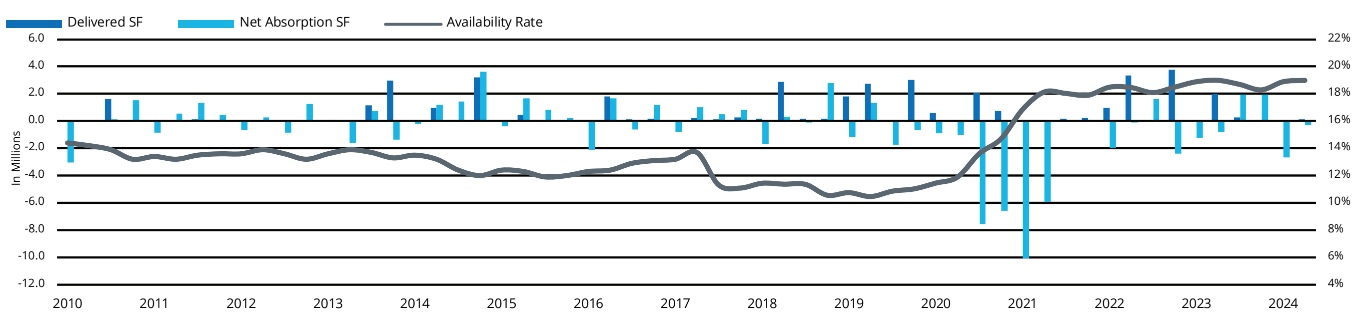
ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



ASKING RENT



DELIVERY IMPACT ON KEY INDICATORS



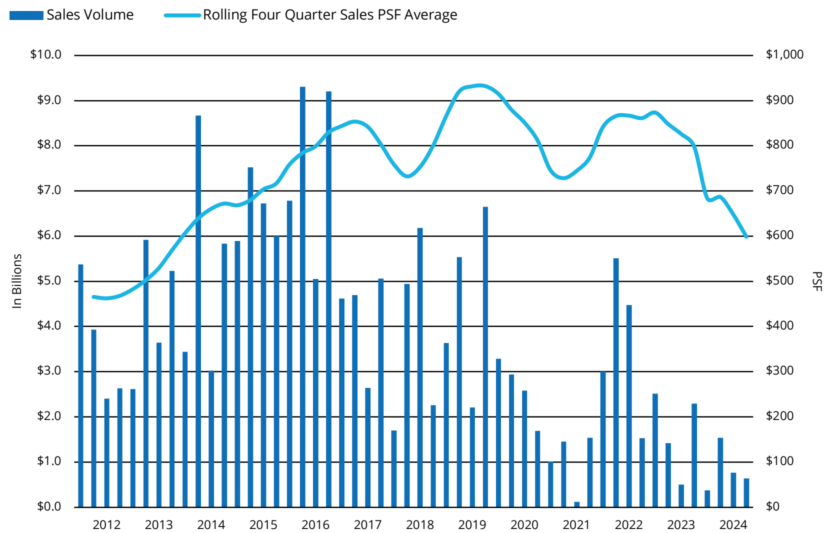
All sources: CoStar, Transwestern

SALES

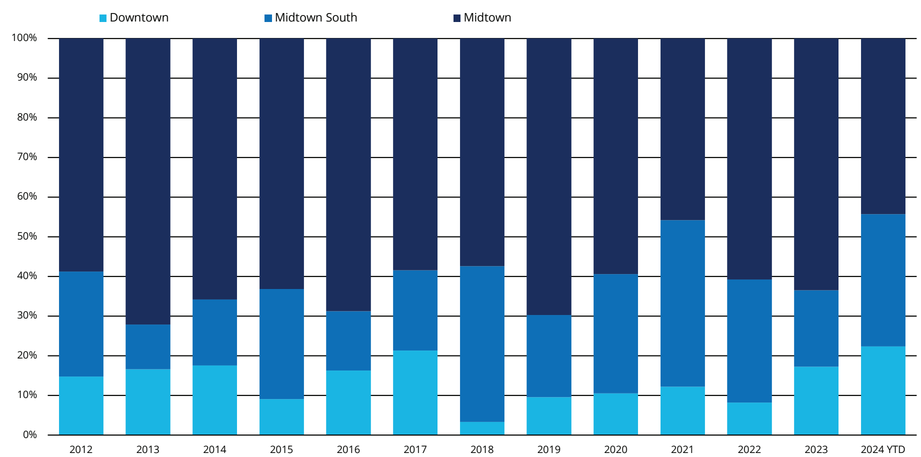
Transaction volume stays low

- Manhattan office sales volume measured $633.1 million in Q2 2024, one of the lowest totals in the last decade. Volume for the last four quarters (Q3 2023–Q2 2024) totaled $3.3 billion, compared with $6.7 billion in the prior four quarters (Q3 2022—Q2 2023). These totals are far below the 10-year average four-quarter rolling sales volume of $15.3 billion.
- The largest deal of the quarter was Yellowstone's purchase of the remaining debt on the recently renovated 1740 Broadway. The special servicer was in possession of the 621,000 SF building in Midtown, which traded at $298 PSF, compared with its 2014 sale price of nearly $1,000 PSF.
- Several Q2 deals supported the trend of residential conversion: 95 Madison Avenue, already slated for transformation, was purchased by Sunlight Development for $65 million; 5 West 13th Street sold for $57.5 million to condo developer Legion Investment Group, which plans to demolish the structure; and 101 Franklin Street, which sold for $96.5 million, is also being eyed for residential, replacing earlier plans for an office overhaul. Downtown's 80 Pine Street and 222 Broadway both have sales pending and are being considered for residential conversion as well.
- It's not all residential, though: other large deals on the horizon include 780 Third Avenue and 1370 Avenue of the Americas in Midtown, each expected to fetch more than $150 million and maintain their status as Class A office towers.
- 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. 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



OFFICE SALES BY SUBMARKET



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
BLOOMBERG	731 Lexington Ave	Midtown	Renewal	946,800
AMERICAN EAGLE	63 Madison Ave	Midtown South	Mix - Sublet and Direct	337,100
COVINGTON & BURLING	30 Hudson Yards	Midtown	Sublet; will convert to Direct	235,500
BAIN & COMPANY	22 Vanderbilt Ave	Midtown	Direct	235,200
INDUSTRIOUS	12 E 49th St	Midtown	Direct	232,900
STRIPE	28 Liberty St	Downtown	Sublet	145,100
TRADE DESK	1114 Ave of the Americas	Midtown	Expansion	126,000
MAJOR LEAGUE SOCCER	PENN 2	Midtown	Direct	125,000

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
535 W 46TH STREET	Midtown	525,100	Direct
30 HUDSON YARDS	Midtown	512,900	Sublet
1221 AVE OF THE AMERICAS	Midtown	315,600	Direct
50 HUDSON YARDS	Midtown	290,400	Sublet
PENN 2	Midtown	250,600	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1740 BROADWAY*	Midtown	$185,895,188	603,900	$308	Yellowstone Real Estate Investments	Blackstone
101 FRANKLIN ST (59-63 LEONARD ST)	Downtown	$96,500,000	240,000	$402	Cannon Hill Capital Partners, TPG RE Finance Trust, Skylight RE Partners	Columbia Property Trust
95 MADISON AVE (89 MADISON AVE)	Midtown South	$65,000,000	146,200	$445	Sunlight Development	Skylar Family
8-12 W 14TH ST (5 W 13TH ST)	Midtown South	$57,500,000	120,000	$479	Legion Investment Group, EJS Group	Friedman Management, Arnold Penner Real Estate, Philips International, Rhodes Building Management
390 FIFTH AVE	Midtown	$50,200,000	135,000	$372	Hilson Management Corp	KMF Holding Corporation

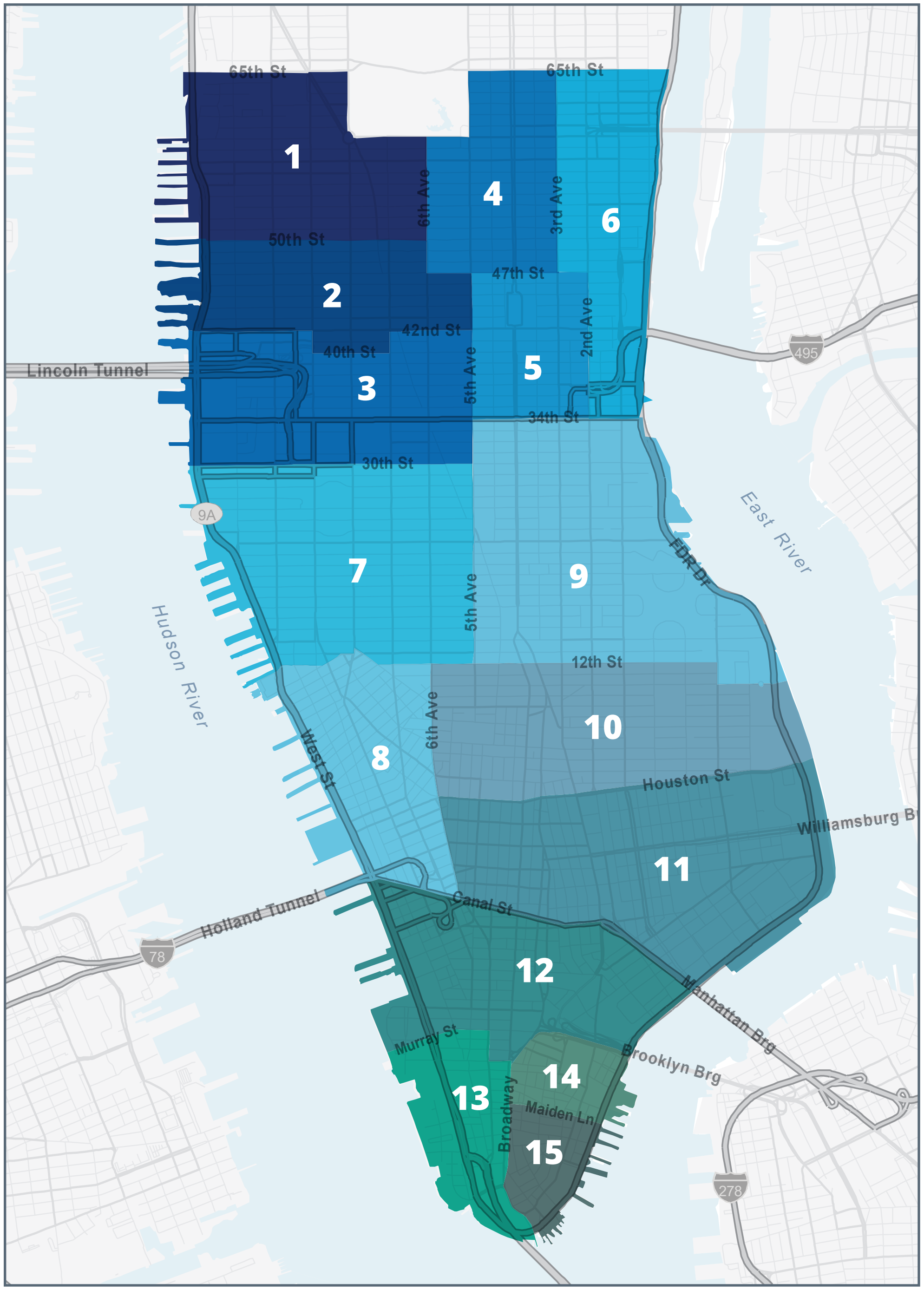
* = Debt sale

Source: CoStar, Real Capital Analytics, Transwestern

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**
CHELSEA/FLATIRON	28,301,098	13,576	-1,564,468	23.5%	18.9%	$121.91	$63.02	$88.96
GRAMERCY PARK	32,134,235	351,966	781,838	21.6%	20.8%	$102.93	$64.81	$81.80
GREENWICH VILLAGE	5,600,379	-211,672	-358,292	25.4%	21.8%	$125.20	$103.85	$105.19
HUDSON SQUARE	9,770,956	-61,240	-258,768	27.7%	21.8%	$87.42	$80.50	$85.02
SOHO	6,081,703	11,573	-7,645	20.2%	14.1%	$88.31	$75.87	$81.29
MIDTOWN SOUTH TOTAL	**81,888,371**	**104,203**	**-1,407,335**	**23.2%**	**19.8%**	**$108.05**	**$71.28**	**$86.86**
COLUMBUS CIRCLE	30,426,123	-270,625	-1,625,998	19.1%	14.6%	$68.61	$58.01	$66.70
EAST SIDE	14,996,771	-58,286	-121,136	20.3%	18.2%	$71.18	$64.90	$70.60
GRAND CENTRAL	57,461,821	557,694	440,182	16.6%	16.2%	$69.24	$73.46	$69.90
PENN PLAZA	69,220,384	-497,773	-39,193	17.8%	18.4%	$117.38	$56.47	$96.84
PLAZA DISTRICT	69,795,937	-64,029	-64,765	13.0%	13.6%	$94.32	$85.77	$93.93
TIMES SQUARE	42,273,402	-201,140	100,855	18.1%	13.3%	$81.92	$58.18	$77.56
MIDTOWN TOTAL	**284,174,438**	**-534,159**	**-1,310,055**	**16.7%**	**15.6%**	**$87.96**	**$61.35**	**$82.96**
TOTAL	**457,159,602**	**-292,131**	**-2,975,678**	**19.0%**	**17.0%**	**$80.66**	**$63.26**	**$76.40**



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.

Four 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.