TRANSWESTERN

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)	(2,683.5)	(1,208.3)	↓	(1,828.6)	↑
OVERALL VACANCY RATE	17.3%	15.6%	↑	12.7%	↔
OVERALL VACANT SF (MSF)	79.3	71.9	↑	57.5	↔
UNDER CONSTRUCTION (MSF)	2.3	2.8	↔	9.5	↑
ASKING RENT (PSF)	$75.27	$71.66	↑	$74.71	↑
SALES VOLUME (Millions)	$473.4	$504	↓	$2,314.3	↔

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

MANHATTAN SEES QUIET START TO 2024

Manhattan leasing activity measured 5.3 MSF in the first quarter, including five leases that exceeded 100,000 SF each and several sizeable long-term renewals and expansions. Still, quarterly leasing was about 3.5% below the year-ago level and net absorption was negative, while availability increased amid several inventory additions. Rents grew, albeit slightly, from Q4, continuing their upward trajectory.

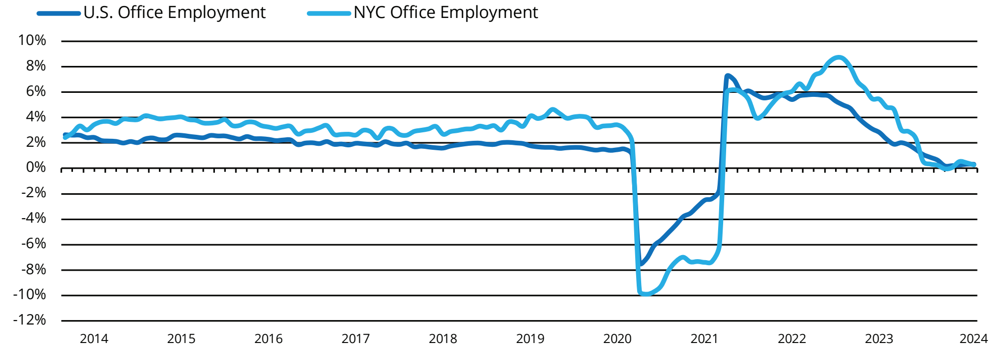
“While a slow start to any year is typical, results this quarter have given good reason for market confidence, with increased tour activity, longer lease terms coming into play, and sublease availability declining,” said Thomas Hines, Senior Vice President, Transwestern. “Continued momentum will be driven 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

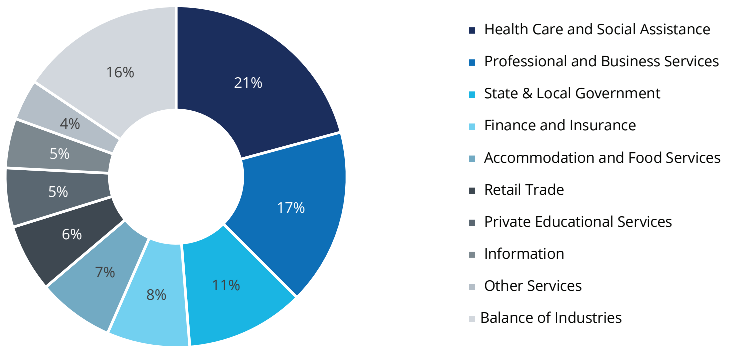
- New York City's office-using sectors now support almost 2.1 million jobs, about 4% higher than the pre-COVID level. The rate of growth has slowed considerably, however, most recently to 0.3% year-over-year. Outside of the initial COVID slump, the last eight months have seen some of the slowest growth 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 and Local Government sectors. On the downside, layoffs and economic uncertainty have contributed to an employment decrease in the Information sector and the Professional and 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



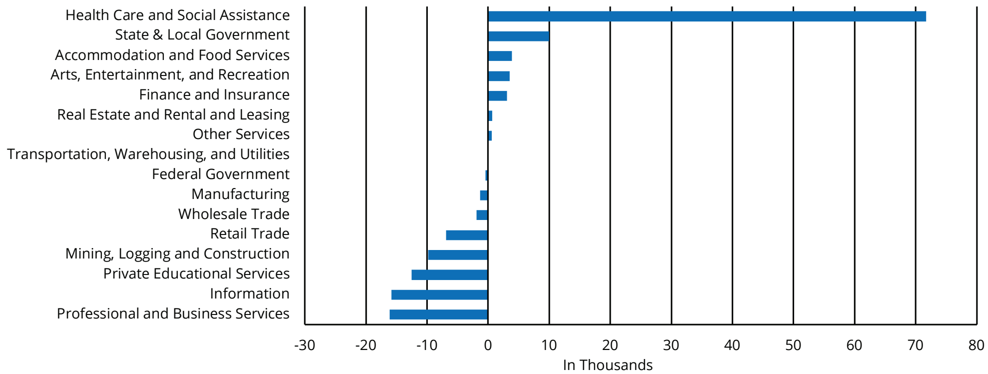
SHARE OF EMPLOYEES BY INDUSTRY

New York City | February 2024



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



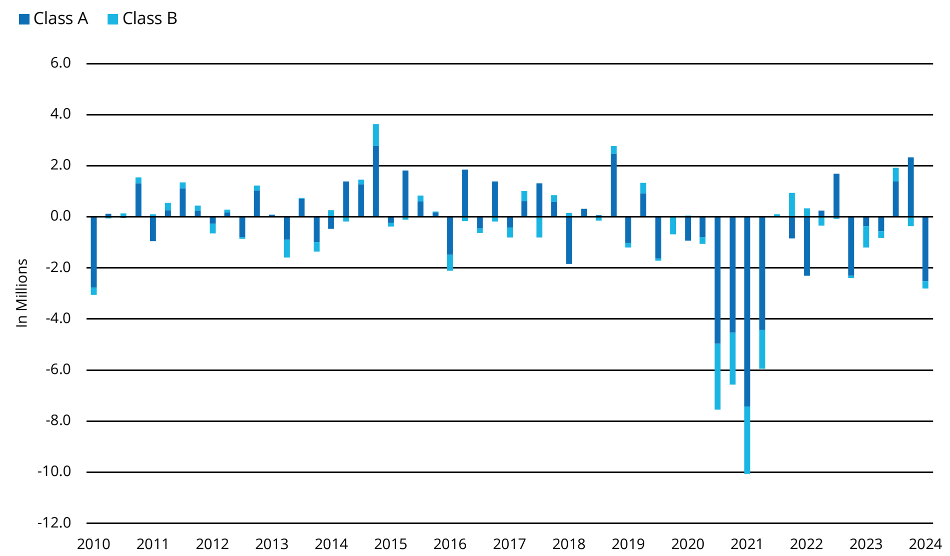
All sources: Bureau of Labor Statistics, NYS Department of Labor, Transwestern

NET ABSORPTION

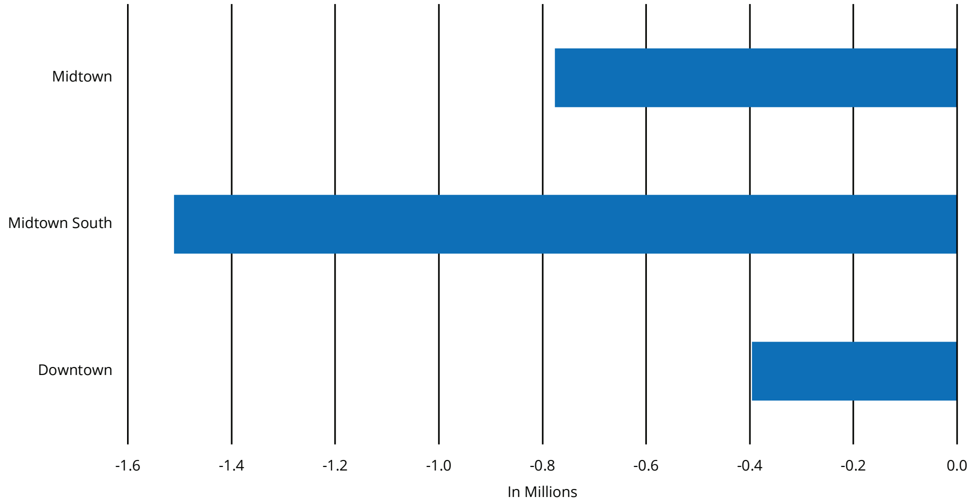
Manhattan begins 2024 with negative net absorption

- New York City recorded nearly 2.7 million square feet (MSF) of negative net absorption in Q1, the lowest result since mid-2021. Large block additions and new availabilities at under-construction projects contributed to the negative results.
- While Midtown generated the bulk of leasing activity, it also faced 15 large block additions totaling almost 2.7 MSF, leading to absorption of negative 775,900 SF. The largest office lease in Midtown was Michael Kors, designing a 203,000 SF renewal of its headquarters at 11 West 42nd Street. Other large leases included Burlington Stores, which expanded to 170,800 SF at 1400 Broadway, Intercontinental Exchange, signing for 142,900 SF at 1345 Avenue of the Americas, and the Archdiocese of New York, which took 142,300 SF at 488 Madison Avenue.
- Midtown South had the lowest absorption among Manhattan's submarkets at negative 1.5 MSF. The area was greatly affected by the marketing of more than 1.2 MSF of space at two new properties: Terminal Warehouse (271 Eleventh Avenue) and 360 Bowery. There were also five large block additions, including 215,400 SF at 63 Madison Avenue and 336,100 SF at 200 Fifth Avenue. The largest lease in the submarket was by Rebecca School, which signed for 71,300 SF at 35 East 21st Street.
- Large block additions and a dearth of leasing activity were also a concern Downtown, contributing to 396,100 SF of negative net absorption.
- Negative absorption is not uncommon in the first quarter of a new year, and Q1 2024 indeed followed the pattern that has prevailed for the past decade. Still, more than a dozen leases exceeding 50,000 SF were signed in Manhattan this quarter. Many were for terms of 15 years or longer, and several were renewals or expansions, all indicators of continued confidence in the market.

NET ABSORPTION BY CLASS



NET ABSORPTION BY SUBMARKET



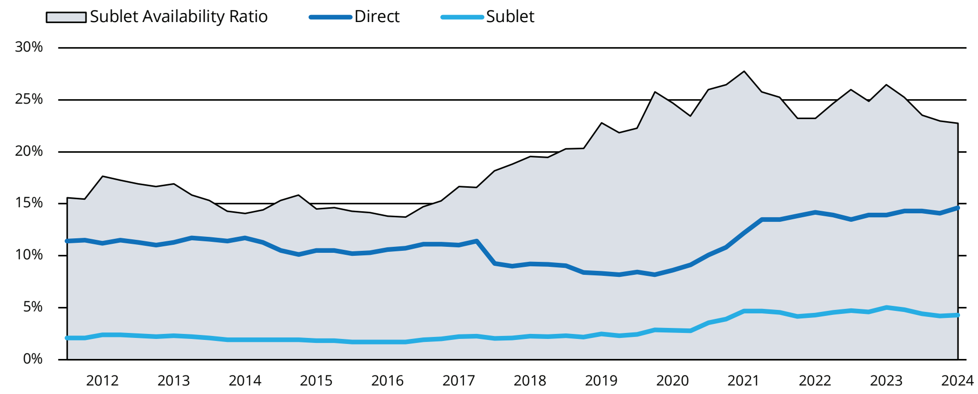
All sources: CoStar, Transwestern

AVAILABILITY

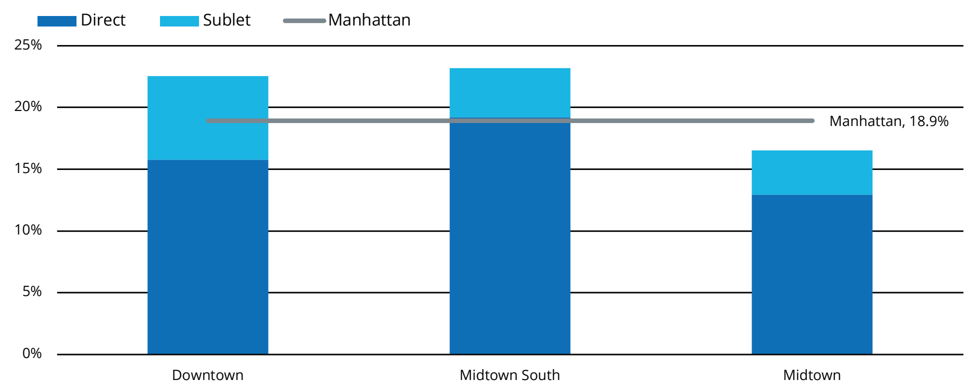
Availability rate rises

- Manhattan's availability rate increased 0.6 percentage points (pp) in Q1, reaching 18.9%.
- While overall availability is on par with the year-ago level, the breakdown between sublet and direct availability has changed significantly. Direct availability is 0.7 pp higher than the Q1 2023 level at 14.6%, while sublet availability has decreased 0.7 pp to 4.3% over the same time period. Sublet availability remains below 20 MSF and represents just 22.8% of the total, the lowest ratio since late 2019.
- Midtown South has now surpassed Downtown for the highest overall availability in Manhattan, rising 1.5 pp to 23.2%. The jump was triggered by the added space at Terminal Warehouse and 360 Bowery, but also reflects several large moveouts, such as Circle Internet Financial and Ekimetrics, which migrated Downtown, and Tikehau Capital, which left for Midtown.
- Downtown's high availability level of 22.5% also remains a concern. Availabilty is up 0.6 pp from Q4 and is slighly below the year-ago level, while sublet availablity of 6.8% represents more than 30% of the total. There are nine Downtown buildings that are marketing more than half a million square feet each; two of these have more than half a million square feet of sublease space available.
- Overall availability in Midtown increased 0.4 pp to 16.5%, with a sublet availablity rate of 3.6%, the lowest levels in Manhattan.
- The flight to quality is widening the gap between Class A and B space; Class A availability has decreased 0.1 pp from a year ago, while Class B has risen by 0.6 pp. Meanwhile, the large availabilities throughout the city present a multitude of attractive, discounted opportunities for anchor tenants.

DIRECT VS SUBLET AVAILABILITY RATE



AVAILABILITY RATE BY SUBMARKET



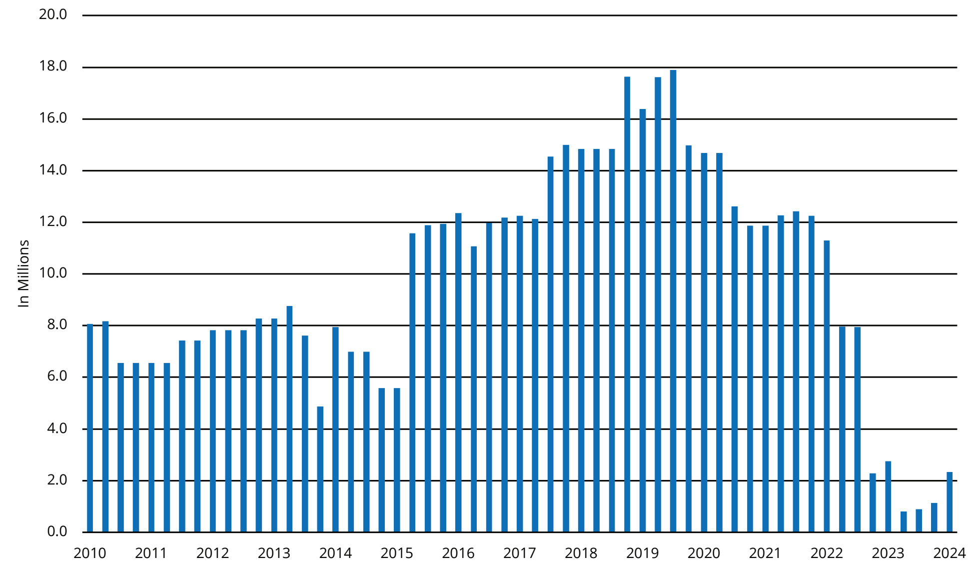
All sources: CoStar, Transwestern

UNDER CONSTRUCTION AND RECENT DELIVERIES

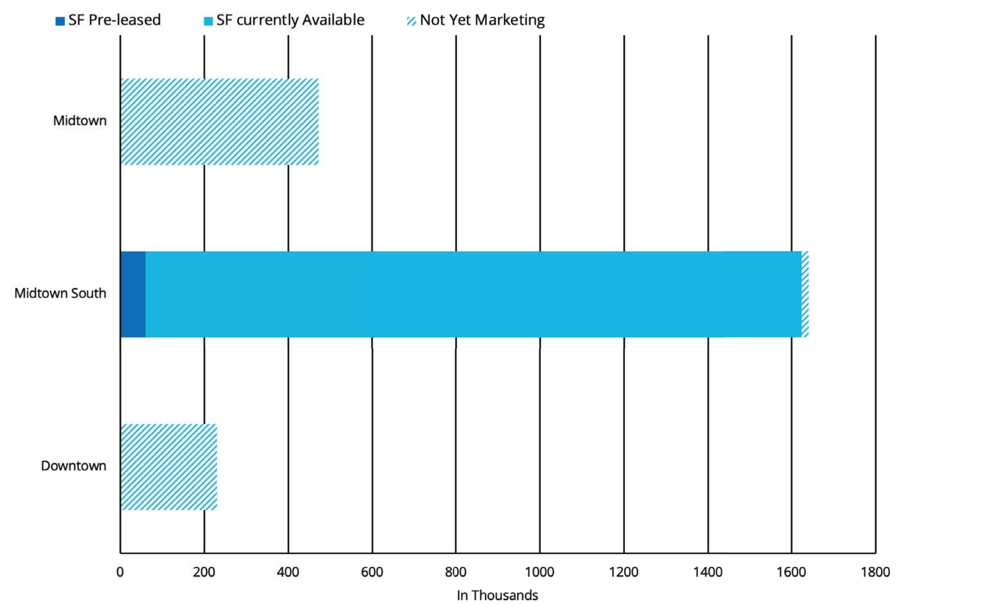
More construction underway, but office to resi conversions are still progressing

- 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 despite a few recent starts.
- Midtown South is the locus of most of the new buildings. The largest project by far is Terminal Warehouse at 271 Eleventh Avenue, a redevelopment of a century-old full-block historic warehouse. The finished project will include four office buildings totaling 1.2 million SF.
- Also in Midtown South, Le Gallerie (132 W 14th Street) is expected to deliver sometime this year, and construction continues at 220 Eleventh Avenue, 360 Bowery, One High Line, and 3 St. Marks Place. Projects in Midtown include 125 West 57th Street and 520 Fifth Avenue, while Downtown, a new tower is getting started at 250 Water Street.
- Major office renovation projects include Downtown's 60 Wall Street and 111 Wall Street, as well as PENN2 in Midtown, which is seeking an anchor tenant for its recently overhauled base floors.
- Despite the challenging environment, there is about 11.9 MSF of Class A office product proposed in Manhattan, including the 400,000 SF One Grand, on the border of Midtown South and Downtown, and four properties with planned RBA of 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. While underused office buildings are still being eyed in the quest to create more housing, we are also seeing numerous Class B assets undergoing capital improvements and increasing amenity offerings in order to compete for tenants.

UNDER CONSTRUCTION



UNDER CONSTRUCTION BY SUBMARKET



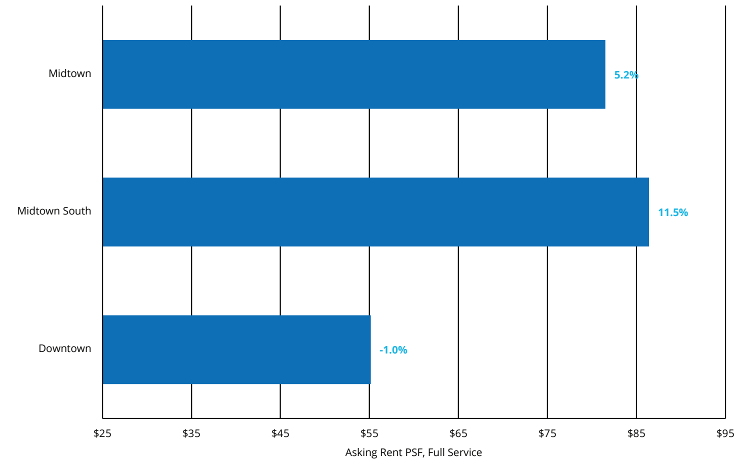
All sources: CoStar, Transwestern

RENTAL RATES

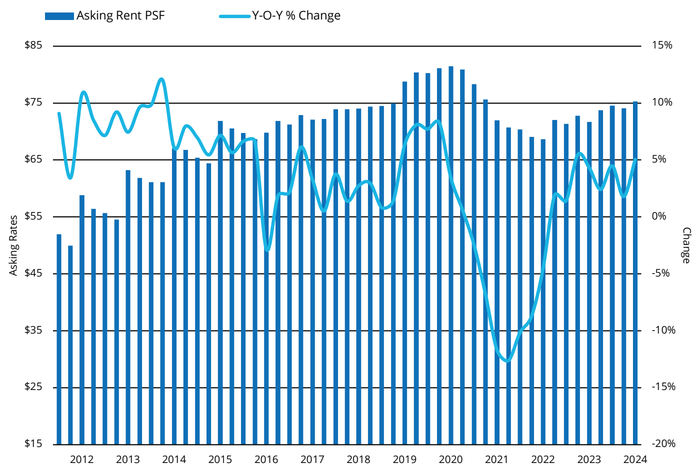
Rents show year-over-year improvement

- Manhattan asking rents increased from year-end and are up 5.0% from a year ago to $75.27 PSF. Rents are now within 8% of their Q1 2020 peak and have seen eight straight quarters of year-over-year growth.
- Midtown South rents have played seesaw with their Midtown counterparts over the last year and pulled further ahead at $86.43 PSF, an increase of 5.6% from last quarter. Midtown rents are up 0.8% from Q4 at $81.52 PSF.
- Rents in these two submarkets are up more than 5% from their year-ago levels, driven by high priced space in trophy buildings. In Midtown, 550 Madison Avenue, 1 Bryant Park, 9 West 57th Street, 30 Hudson Yards, and 425 Park Avenue are all asking over $200 PSF, while One Madison, 220 Eleventh Avenue, and Terminal Warehouse in Midtown South are asking $150 and higher for some spaces.
- Downtown rents, meanwhile, continue to create new lows as excess sublet space drags down pricing. Rents dipped 0.6% from last quarter to $55.16 PSF and are 1.0% below their Q1 2023 level.
- Despite rents being pressured by the overall economy and the general excess of sublet space, the newest trophy and Class A+ spaces are asking for and receiving premium prices. The other side of this coin is that 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.

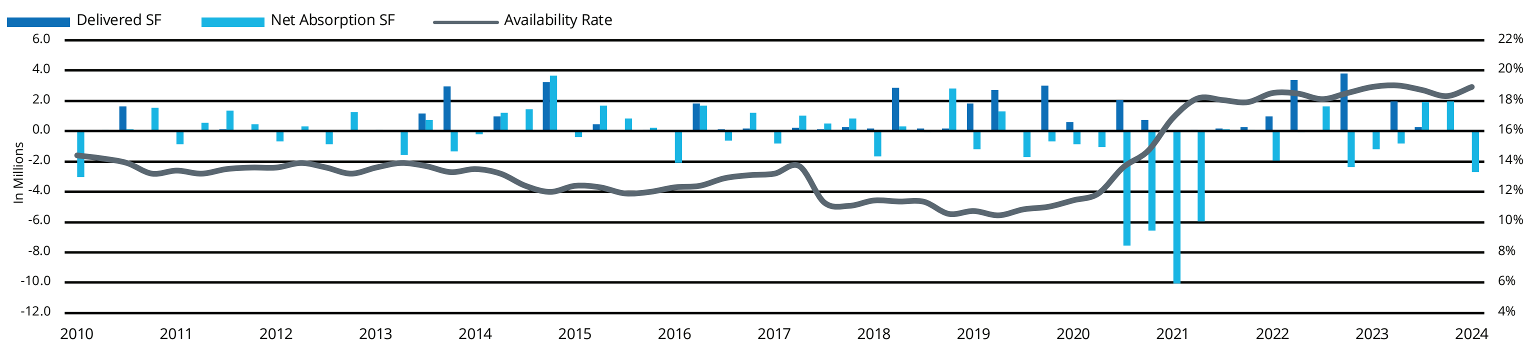
ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



ASKING RENT



DELIVERY IMPACT ON KEY INDICATORS



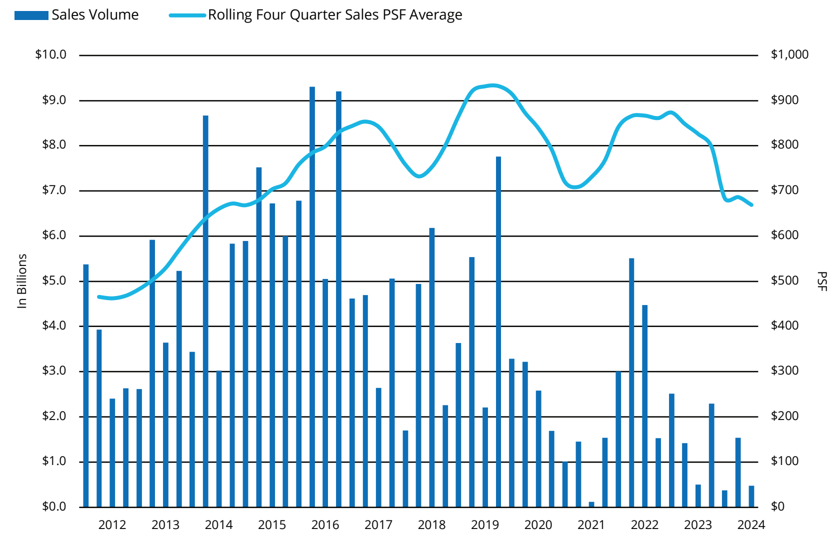
All sources: CoStar, Transwestern

SALES

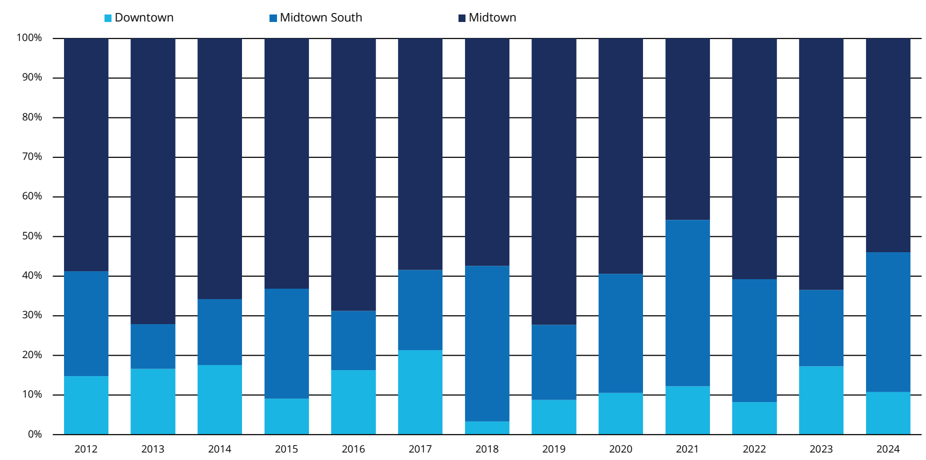
Transaction volume stays low

- Manhattan office sales volume sank to less than half a billion dollars in Q1 2024, one of the lowest totals since the pandemic began. Volume for the last four quarters (Q2 2023–Q1 2024) totaled $4.6 billion, compared with $6.0 billion in the prior four quarters (Q2 2022–Q1 2023). For perspective, the average four-quarter rolling sales volume in the five years prior to the pandemic was about $20 billion.
- The average sales price for the quarter came in at $698 PSF, about 11.2% lower than the 5-year average of $786 PSF. Both pricing and cap rates have been uneven of late due to the low number of core transactions.
- Office sales were scarce and mostly limited to smaller structures. The 47,000 SF office at 211 Centre Street traded for $51.1 million, while 25 East 22nd Street closed at $27 million. Pricing for each of these worked out to more than $1,000 PSF, while the sale of an 88,100 SF office at 225 West 39th Street fetched a mere $252 PSF.
- Looking ahead, sales are pending at 222 Broadway, which is slated for residential redevelopment, 1370 Avenue of the Americas, and 219-235 East 42nd Street.
- 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.

SALES VOLUME



OFFICE SALES BY SUBMARKET



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
MICHAEL KORS	11 W 42nd St	Midtown	Renewal	203,000
BURLINGTON STORES	1400 Broadway	Midtown	Renewal / Expansion	170,800
INTERCONTINENTAL EXCHANGE (ICE)	1345 Ave of the Americas	Midtown	Direct	142,900
ARCHDIOCESE OF NEW YORK	488 Madison Ave	Midtown	Direct	142,300
BETTERMENT	5 Manhattan West	Midtown	Sublease	113,400
EVERCORE	55 E 52nd St	Midtown	Expansion	95,000
JRM CONSTRUCTION MANAGEMENT	111 W 33rd St	Midtown	Sublease	89,300

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
271 ELEVENTH AVE	Midtown South	1,107,500	Direct
55 WATER ST	Downtown	469,300	Sublet
1675 BROADWAY	Midtown	448,500	Sublet
1285 AVE OF THE AMERICAS	Midtown	402,600	Sublet
3 COLUMBUS CIRCLE	Midtown	358,800	Sublet
200 FIFTH AVE	Midtown South	336,100	Direct

NOTABLE SALES

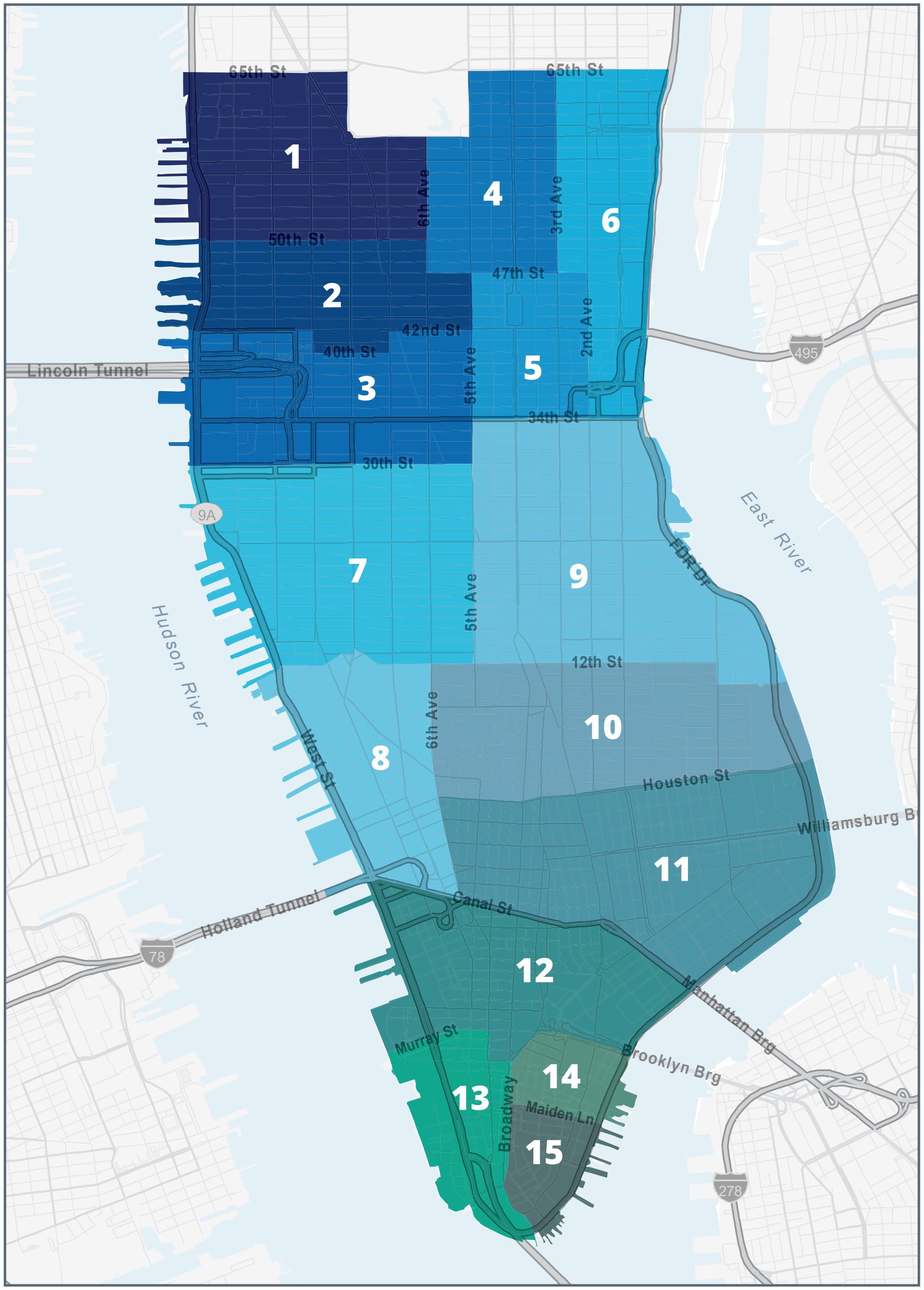
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
211 CENTRE ST	Downtown	$51,098,282	46,700	$1,094	Museum of Chinese in America	Grand Marshall Machinery
25 E 22ND ST	Midtown South	$27,000,000	19,800	$1,364	Kodansha	Simons Foundation
5 E 59TH ST	Midtown	$26,000,000	38,052	$683	Avi & Co.	BentallGreenOak, Capstone Equities
225 W 39TH ST	Midtown	$22,200,000	88,100	$252	IHL Group	Walter & Samuels

Source: CoStar, Real Capital Analytics, Transwestern

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**
CHELSEA/FLATIRON	28,439,475	-1,578,044	-1,578,044	23.5%	18.6%	$122.49	$62.37	$89.16
GRAMERCY PARK	32,176,564	429,872	429,872	22.7%	21.7%	$98.60	$66.99	$82.20
GREENWICH VILLAGE	5,600,379	-146,620	-146,620	21.6%	16.0%	$126.69	$105.74	$107.80
HUDSON SQUARE	10,009,653	-197,528	-197,528	26.4%	18.8%	$90.00	$77.84	$83.44
SOHO	6,077,175	-19,218	-19,218	20.4%	15.2%	$90.04	$75.82	$81.13
MIDTOWN SOUTH TOTAL	**82,303,246**	**-1,511,538**	**-1,511,538**	**23.2%**	**19.4%**	**$107.79**	**$69.87**	**$86.43**
COLUMBUS CIRCLE	29,873,072	-1,355,373	-1,355,373	18.4%	14.9%	$67.78	$57.90	$65.90
EAST SIDE	14,809,487	-62,850	-62,850	20.2%	18.4%	$71.38	$71.62	$71.39
GRAND CENTRAL	56,959,322	-117,512	-117,512	17.8%	16.5%	$70.10	$63.79	$69.27
PENN PLAZA	68,832,880	458,580	458,580	17.2%	17.9%	$112.76	$57.41	$94.35
PLAZA DISTRICT	70,423,438	-736	-736	12.7%	12.9%	$91.74	$86.65	$91.49
TIMES SQUARE	42,911,830	301,995	301,995	17.5%	15.0%	$81.06	$57.06	$78.77
MIDTOWN TOTAL	**283,810,029**	**-775,896**	**-775,896**	**16.5%**	**15.7%**	**$85.71**	**$60.41**	**$81.52**
TOTAL	**456,860,795**	**-2,683,547**	**-2,683,547**	**18.9%**	**17.3%**	**$79.12**	**$62.07**	**$75.27**



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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