



# Manhattan office market report

Q3 2023

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**AVISON  
YOUNG**

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# Manhattan office market trends

## -1.7 msf

### **decline in available sublease space pushes down overall availability**

From Q2 to Q3 2023, the total availability decreased by 1.7 million square feet (msf)- nearly all of which can be attributed to a decline in available sublease space. The total availability rate dropped from 19.9% in Q2 to 19.6% in Q3, comprising 15.4% direct availability and 4.2% sublet availability.

During Q3 2023, more than 2 msf of sublease space was removed from the market, which includes 1 msf of sublet leasing. Many tenants are now either choosing to reclaim their space or delaying their decision-making processes, both of which are expected to impact availability in the coming quarters.

## -33.6%

### **decrease in year-to-date leasing activity from last year**

Year-to-date leasing activity for 2023 currently stands at 17.8 msf, which is 33.6% lower than the same time in 2022. Historically, average leasing activity per year through Q3 (2000 – 2019) stood at 28.8 msf; this year falls 38.2% below the average.

If this trend continues through the end of the year, leasing activity is projected to reach approximately 23.8 msf for 2023. This would make 2023 the weakest year of leasing activity since 2020 when it totaled 23.2 msf. Despite the overall decline in leasing activity, it's worth noting that most of the leases being signed are in top-tier assets, indicating a continued trend of flight to quality.

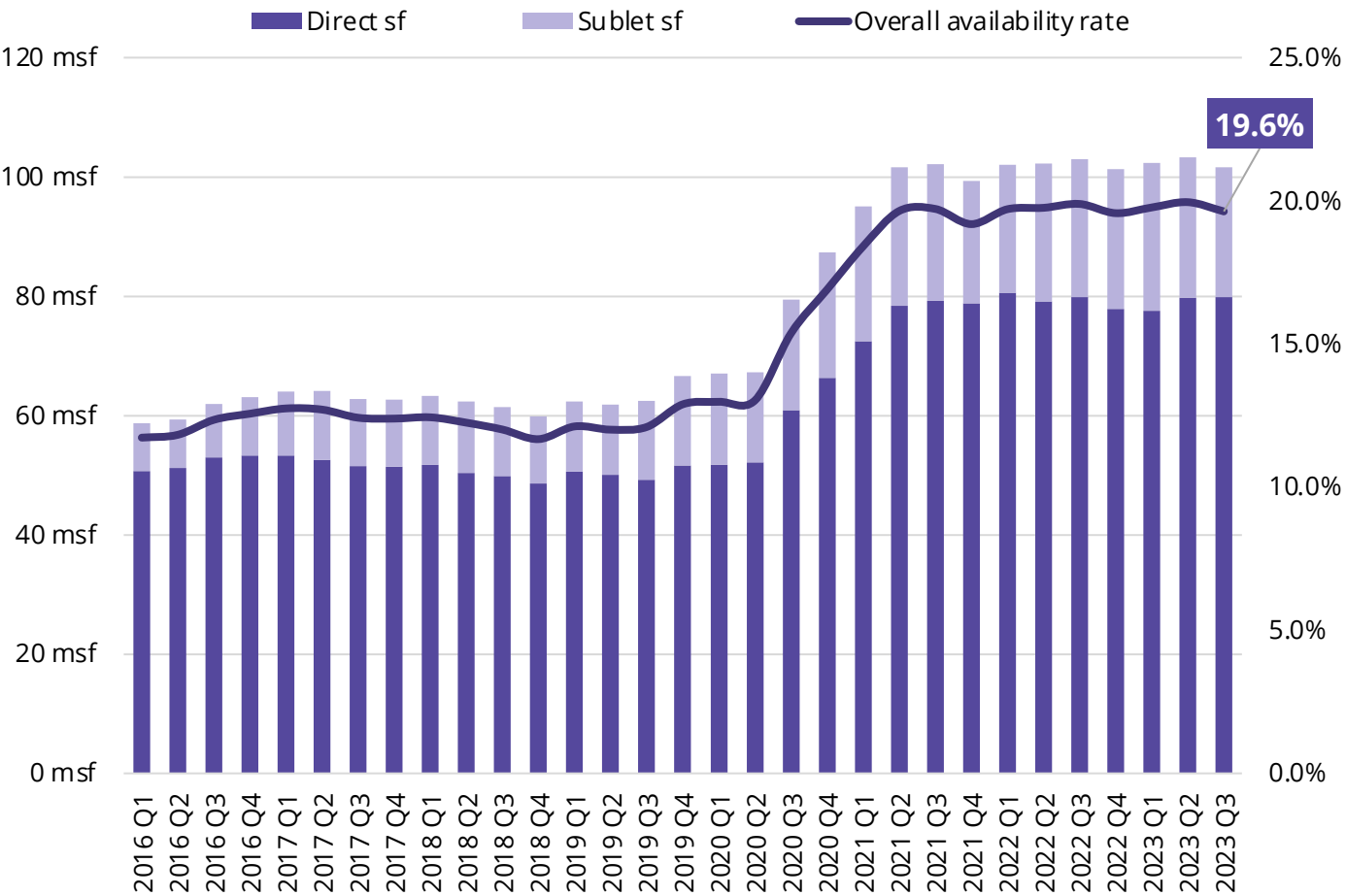
## 67.7%

### **of large occupiers are renewing while small to mid-size occupiers are relocating**

In 2023, occupiers of different sizes are adopting distinct strategies in response to market conditions. Large occupiers with spaces exceeding 100,000 square feet have opted for a protective approach, with only 32.3% choosing to relocate and the majority, 67.7%, opting to renew.

On the other end of the spectrum, small to mid-size occupiers, ranging from 25,000 to 50,000 square feet, have capitalized on the tenant-friendly market, resulting in a breakdown of 67.6% relocations, 25.0% renewals, and 7.4% expansions.

# Available space



The overall availability rate has decreased since last quarter, mostly due to a decrease in available sublease space.

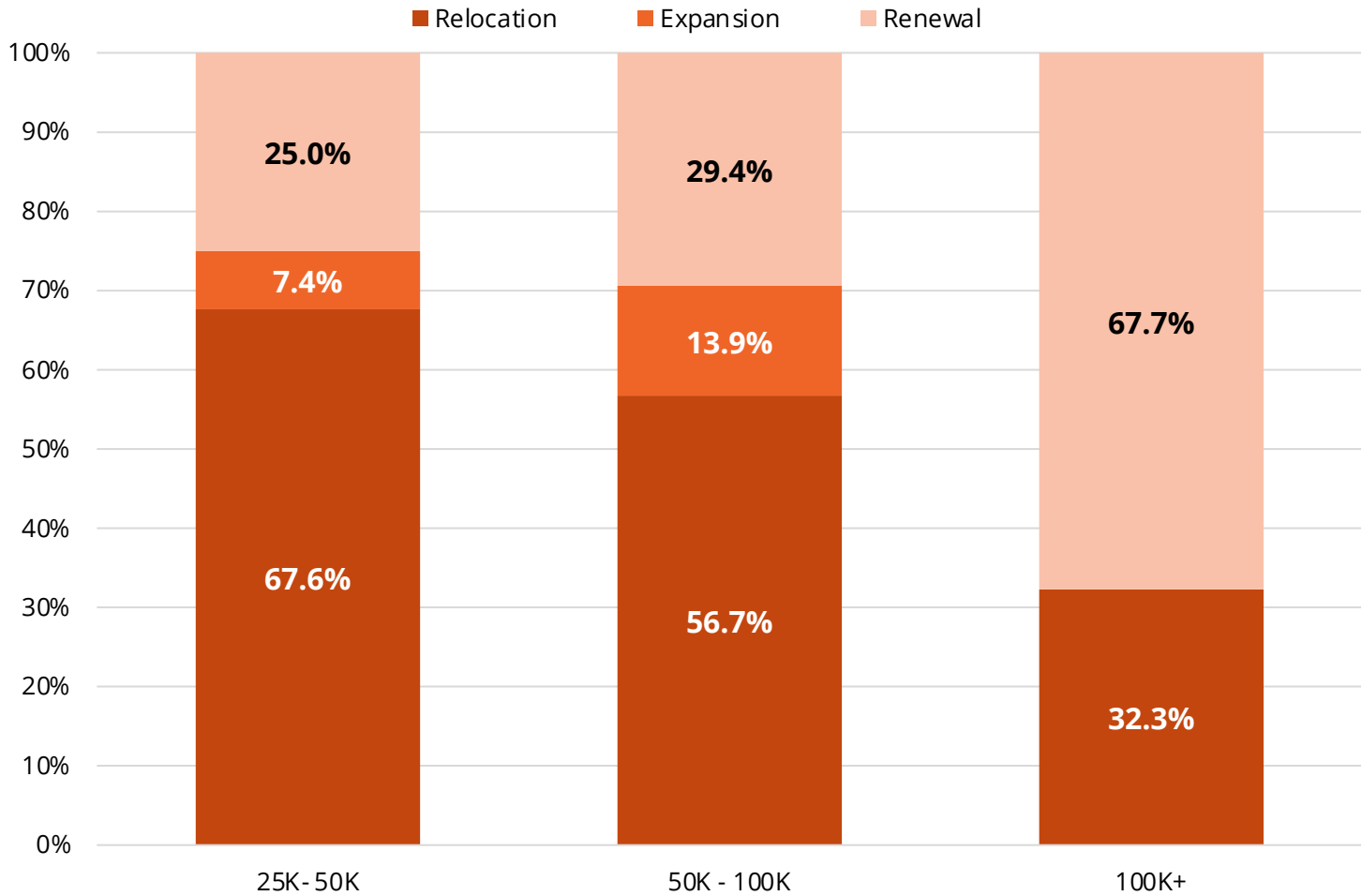
# Leasing activity



Year-to-date leasing activity falls well below the pre-COVID average – if annualized through the end of the year, leasing activity will barely surpass 2020 leasing.



# Year-to-date 2023 transaction activity by lease type



Year-to-date, large occupiers are signing a higher proportion of renewals, while small to mid-size occupiers are opting to relocate.

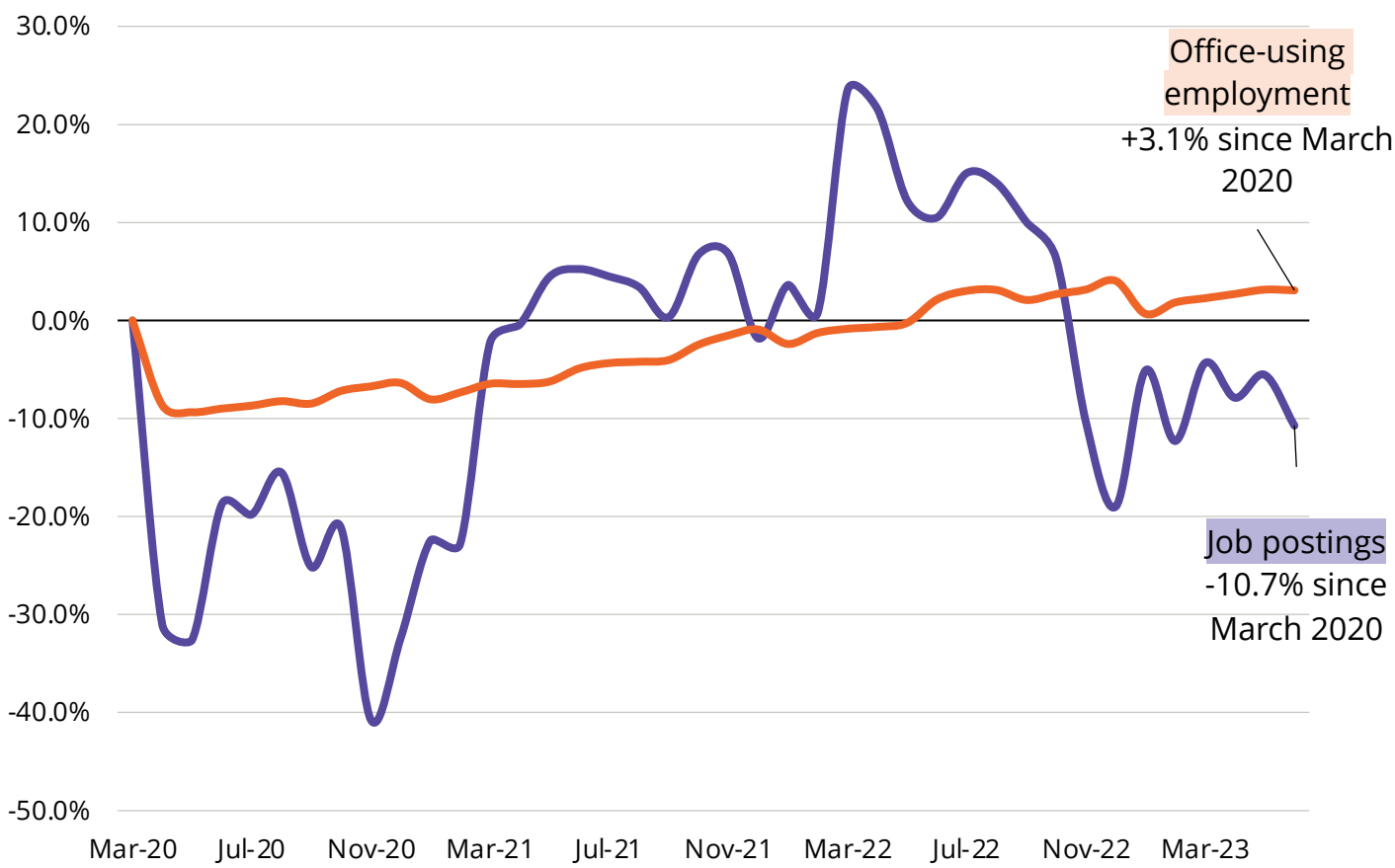
# Occupier trends

BANK OF AMERICA TOWER



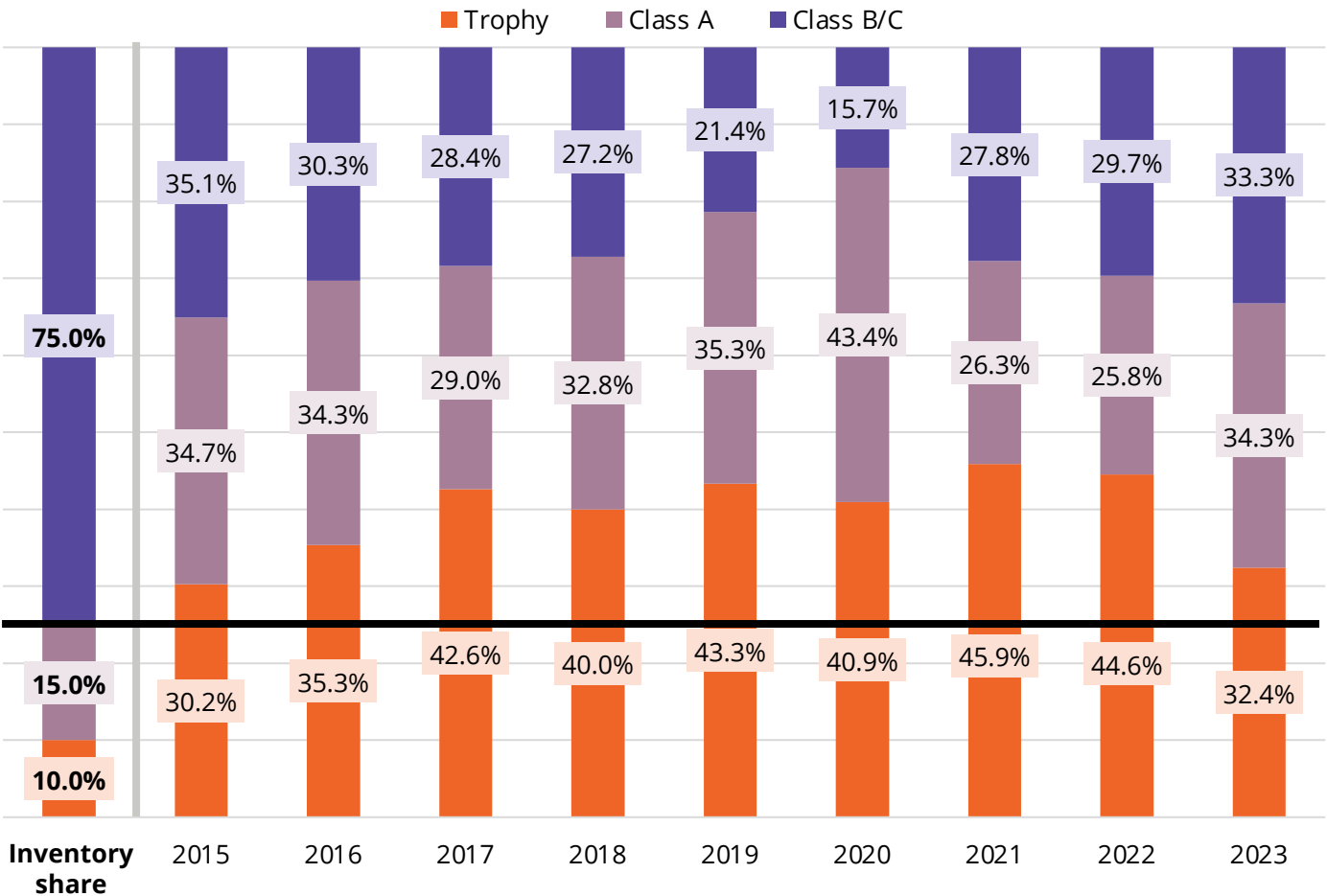


# 'High-value' employment and job postings



Hiring efforts for attorneys, software engineers, front-office traders and other high-value job sectors are trending downward.

# Transaction activity by asset class

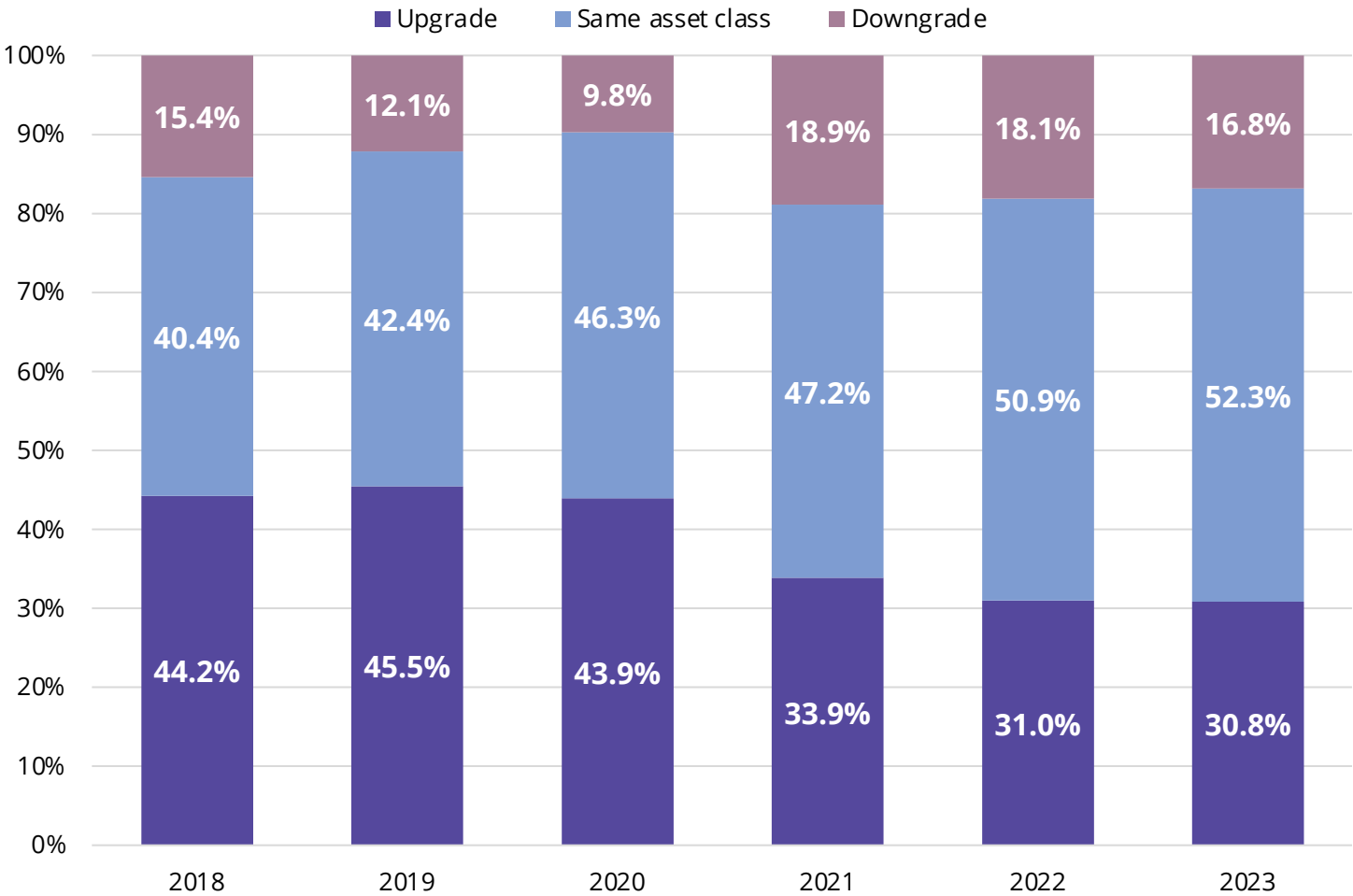


Trophy and Class A properties, despite comprising only the top 25% of office inventory, have accounted for a significant 66.7% of demand in 2023 thus far.

Note: Trophy properties represent the top 10% of the Manhattan office market in terms of rents and build date. Class A properties represent the top 25% but not the top 10%. Source: AVANT by Avison Young, CoStar

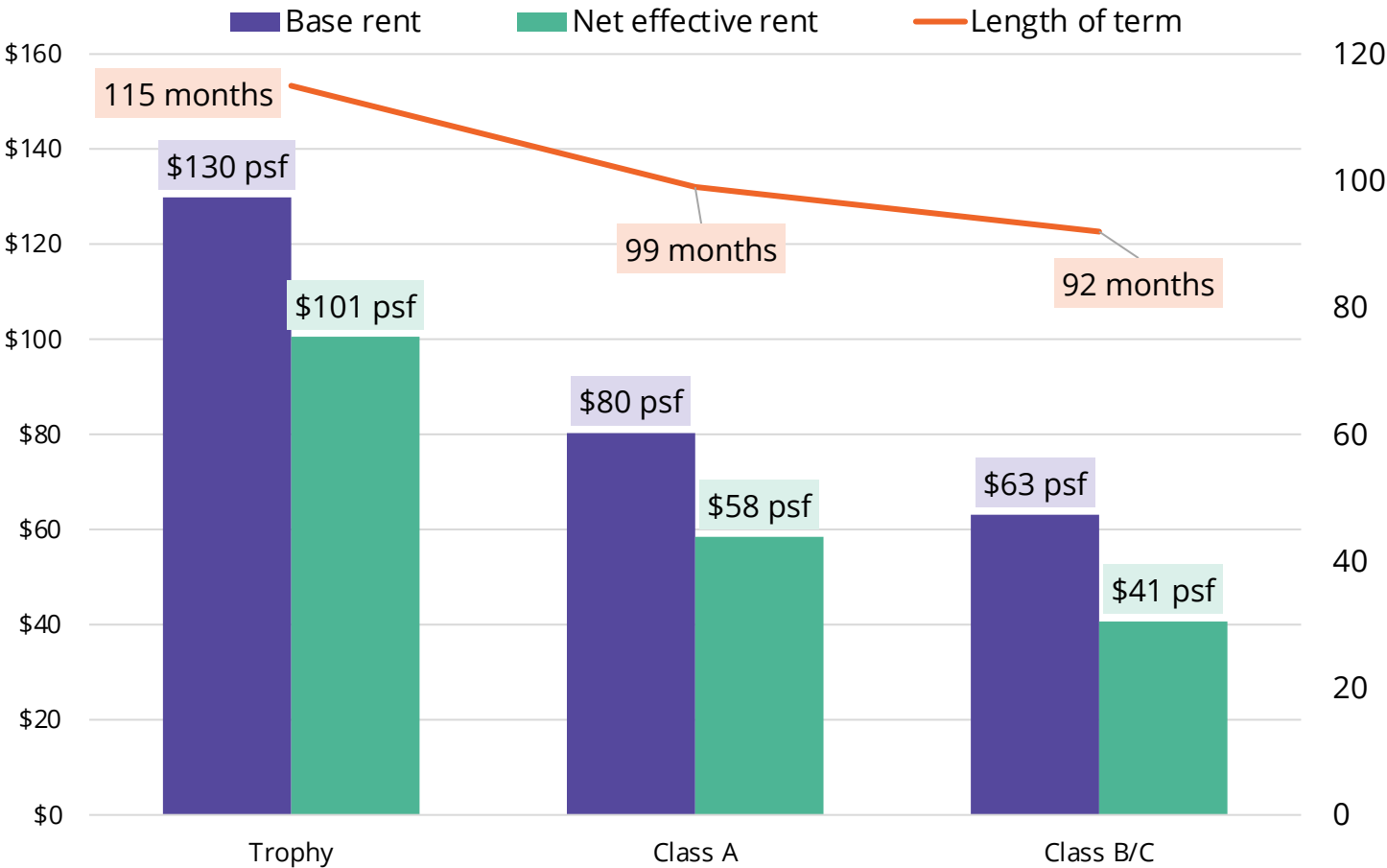


# Relocations by year



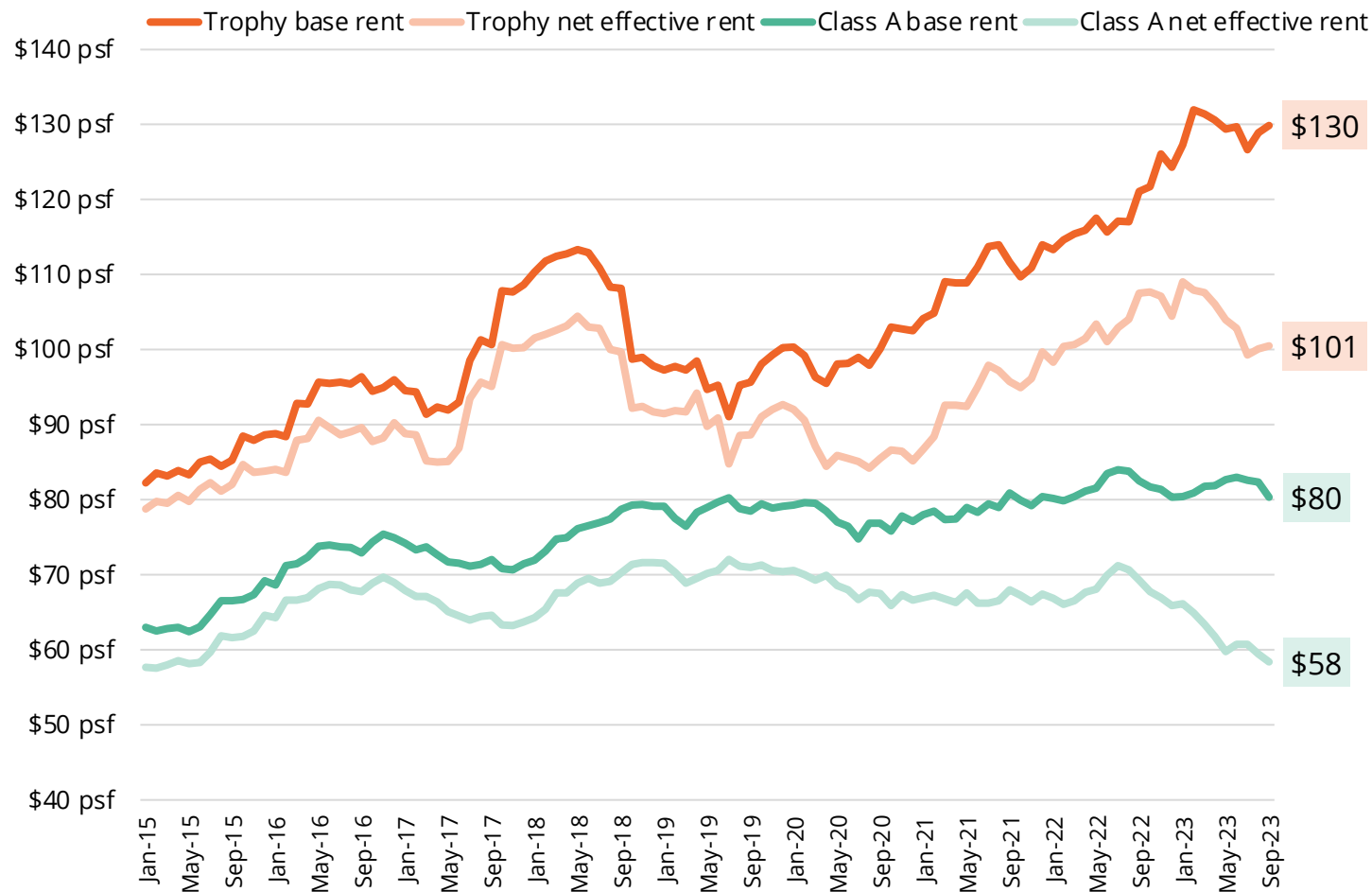
Since 2018, less than 20% of annual relocations have involved a downgrade to space in lower-quality buildings. The majority have instead chosen to either upgrade or remain within their existing high-tier asset class.

# Lease economics by class



Higher-quality assets are experiencing longer lease terms and a wider gap between base and net effective rents, indicating a clear trend towards a flight to quality.

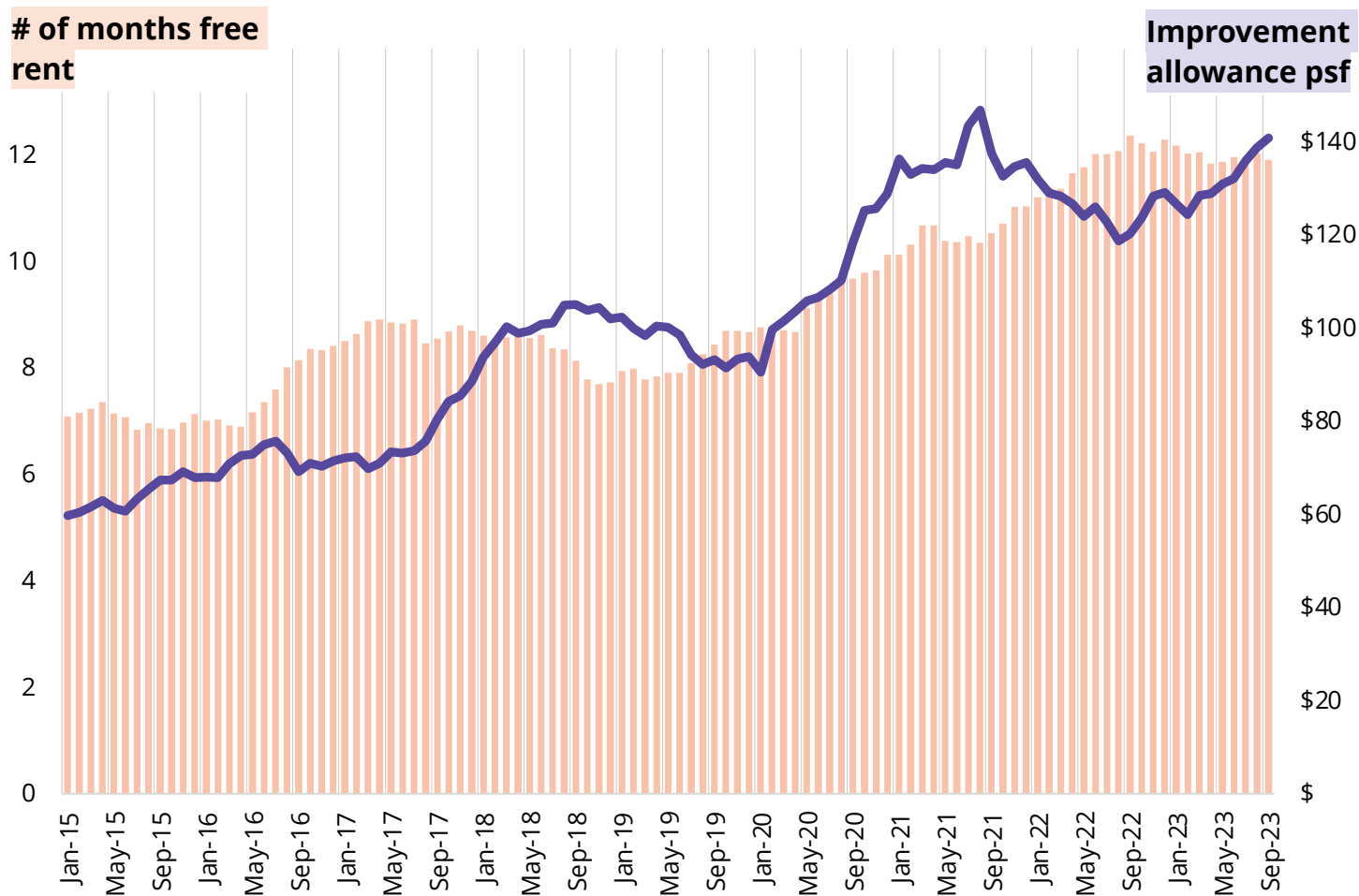
# Base and net effective rents by class



The gap between base and net effective rents is widening in both Trophy and Class A properties, driven by landlords offering substantial concession packages to attract demand.

Note: Direct relocations only. Trophy properties represent the top 10% of the Manhattan office market in terms of rents and build date. Class A properties represent the top 25% but not the top 10%. Source: AVANT by Avison Young

# Trophy office concession packages

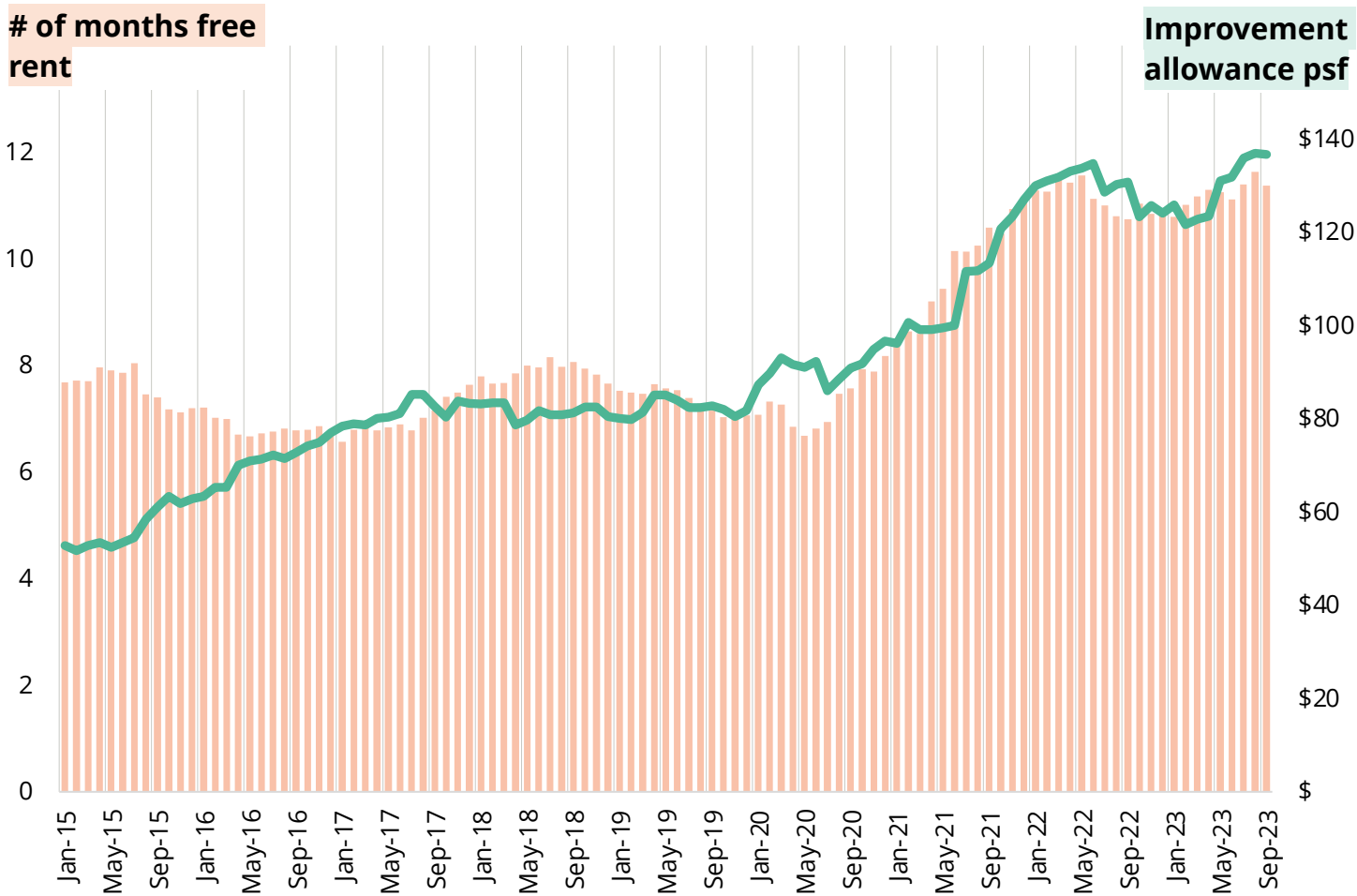


Tenant improvement allowances for Trophy properties experienced decreases in 2021 and 2022. However, a recent decline in demand has led to an increase back to \$141 per square foot (psf).

Source: AVANT by Avison Young  
Note: Direct relocations only. Trophy properties represent the top 10% of the New York City office market in terms of rents and build date. Normalized to 10-year lease terms.



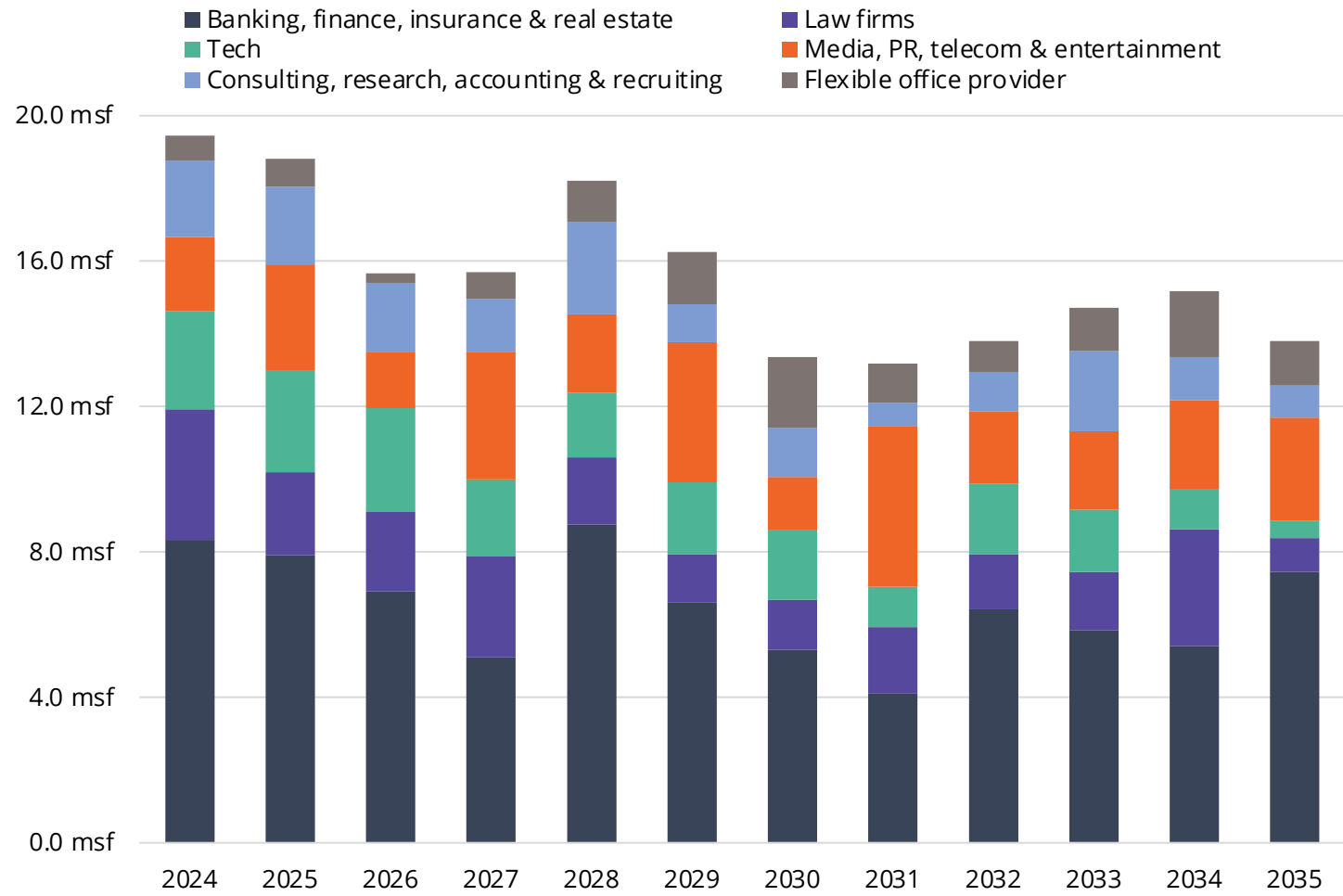
# Class A office concession packages



Much like Trophy properties, Class A properties also witnessed a recent decrease in tenant improvement allowances, but they have since rebounded close to their peak and now stand at \$137 per square foot (psf).

Source: AVANT by Avison Young  
Note: Direct relocations only. Class A properties represent the top 25% but not the top 10% of the New York City office market in terms of rents and build date. Normalized to 10-year lease terms.

# Upcoming lease expirations by major sector



Among major sectors, financial services tenants make up 41.6% of expiring leases by square footage through 2035.

# Office development pipeline

**20 properties**

proposed, under construction

**15.1 msf**

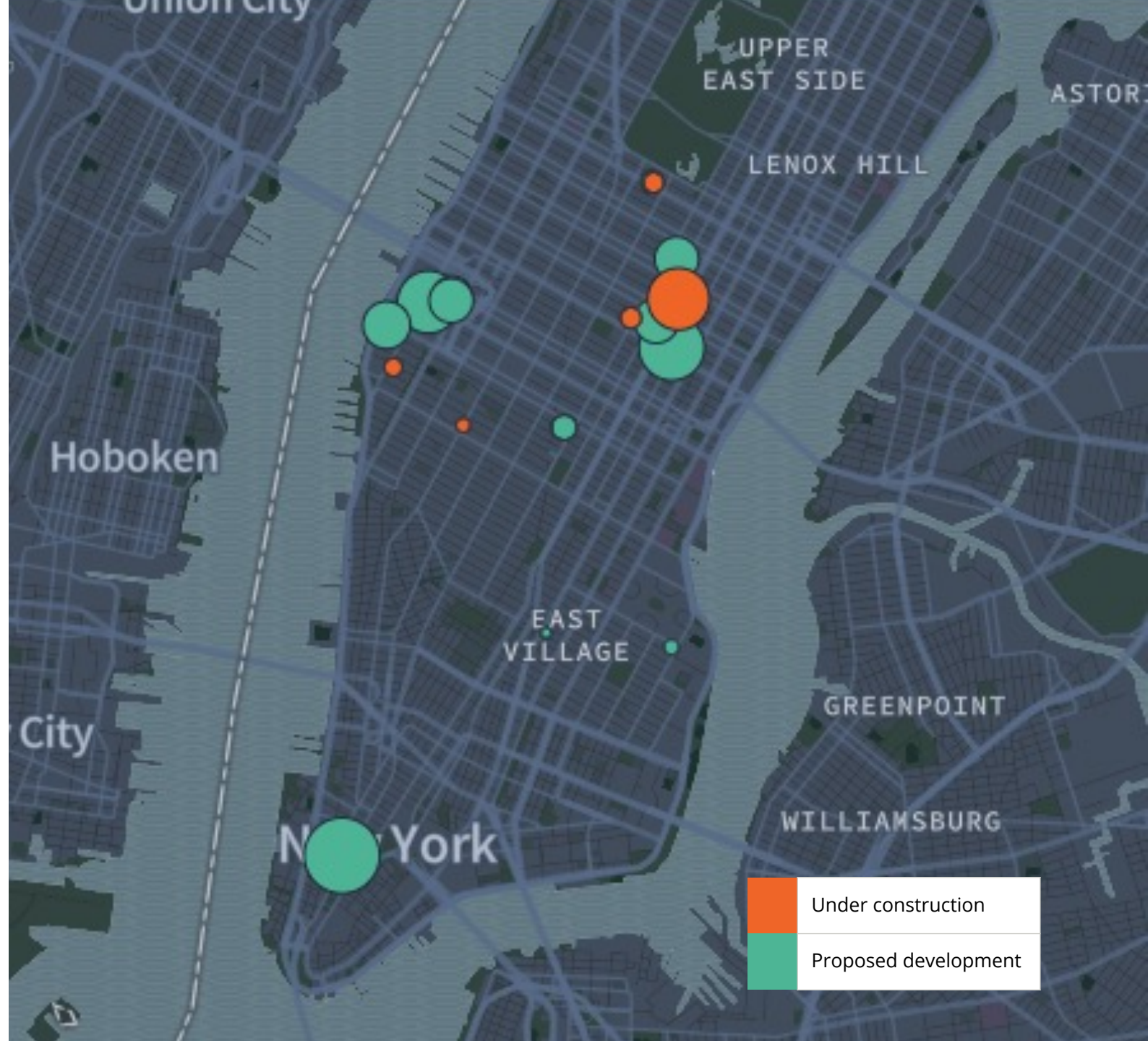
proposed, under construction

**+1.9%**

percentage point increase to current  
availability rate (19.6%)

**1.9 msf**

pre-leased



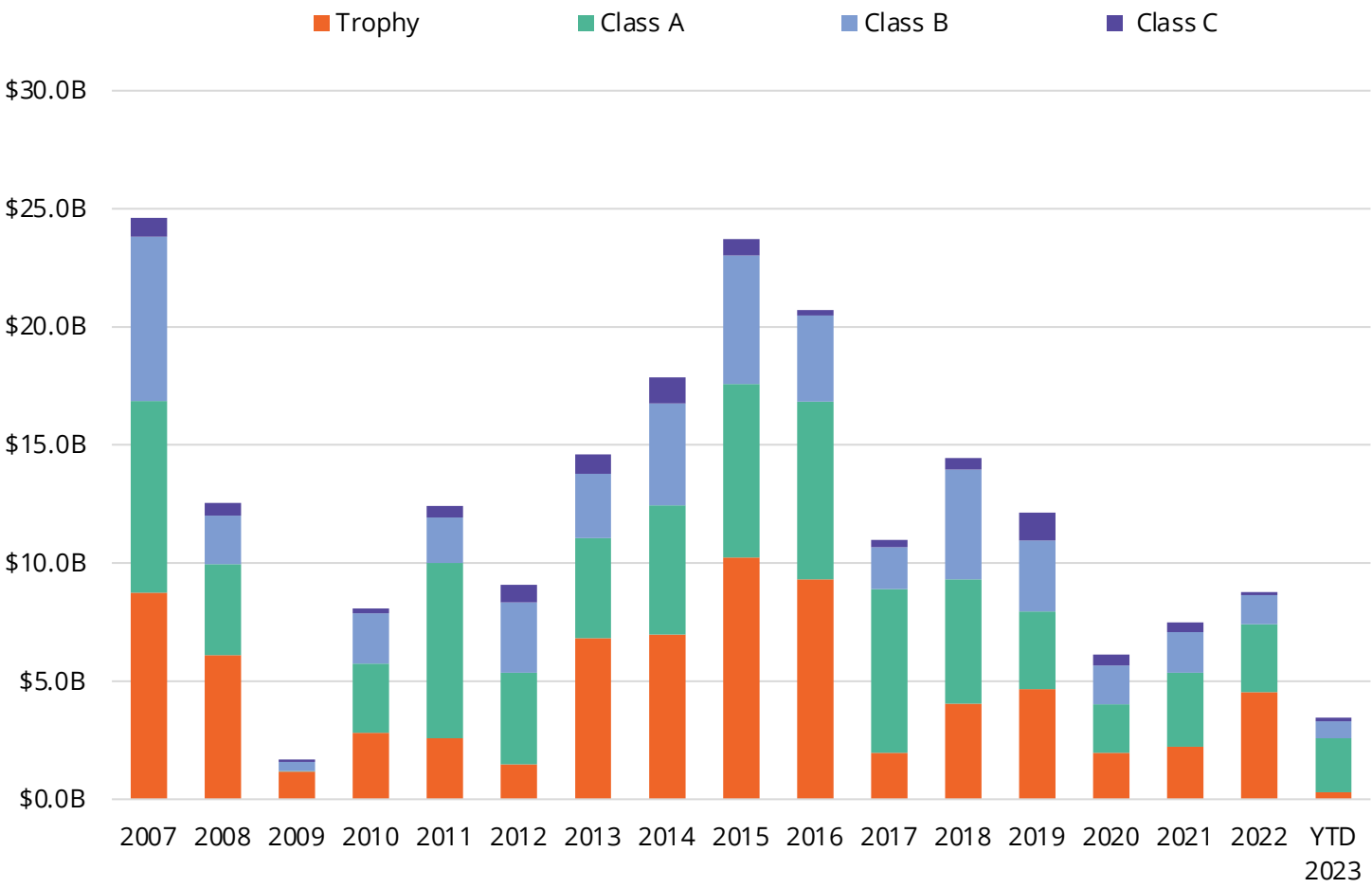


# Investment sales



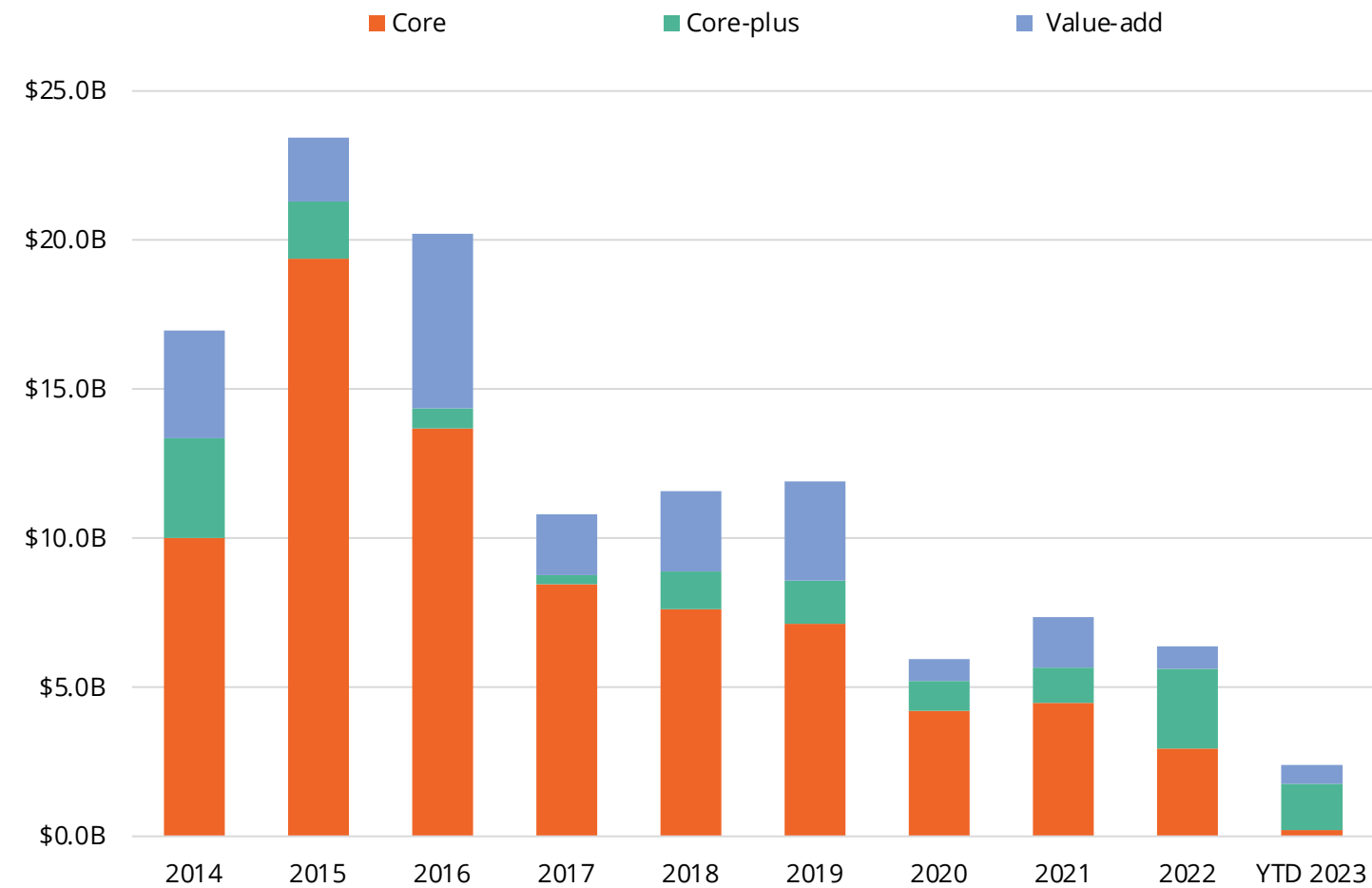


# Office investment dollar volume



Year-to-date investment sales amount to \$3.5 billion. When annualized to \$4.6 billion, the office investment volume for 2023 has seen a significant decrease of 47.4% year-over-year and a substantial drop of 64.1% compared to the yearly average from 2007 to 2022.

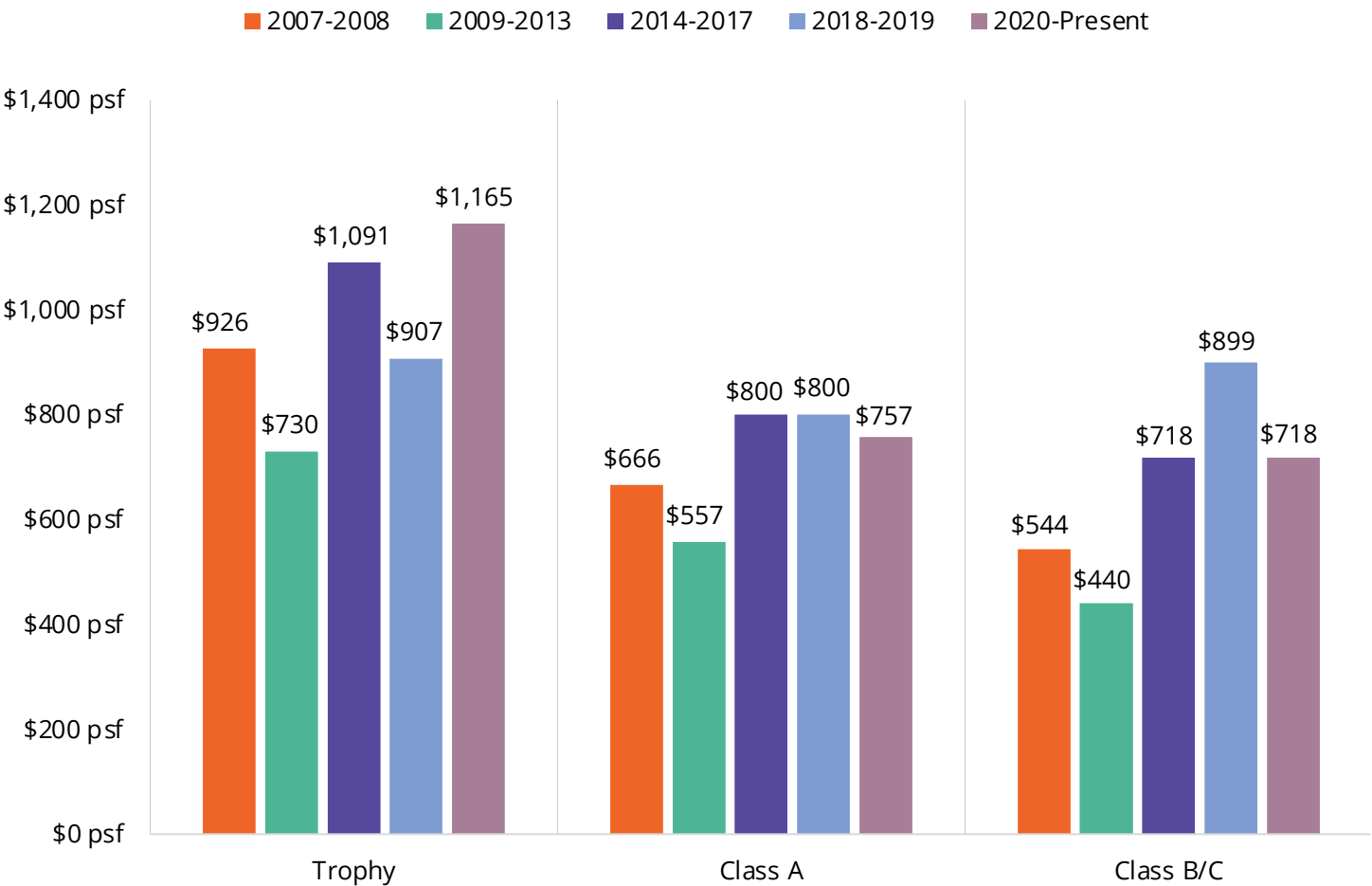
# Investment volume by asset profile



**Core deals have represented just 8.6% of YTD 2023 transaction volume, down from 59.2% in 2020-2022 and 69.8% in 2014-2019.**

Note: Includes partial interest sales, recapitalizations and condo sales.  
Excludes owner-user sales.  
Source: AVANT by Avison Young, RCA

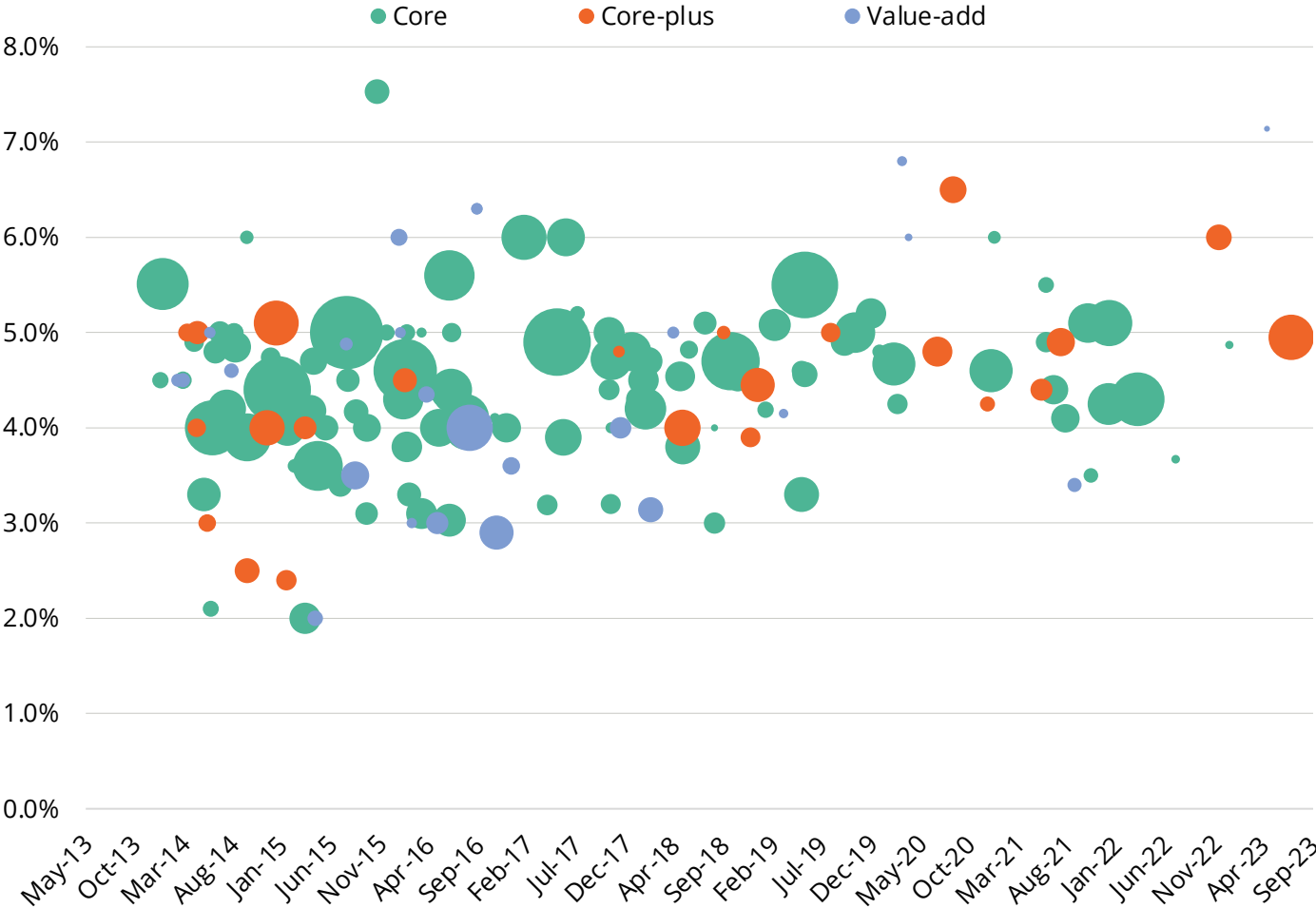
# Investment sales pricing trends



Trophy asset pricing has remained stable, while asset values for Class B/C properties have depreciated by 20.2% since the onset of the pandemic.

Note: Includes partial interest sales, recapitalizations, owner-user and condo sales  
Source: AVANT by Avison Young, RCA

# Manhattan cap rate trends



Cap rates have shown an upward trend, although the scarcity of investment liquidity has largely made yields difficult to ascertain.

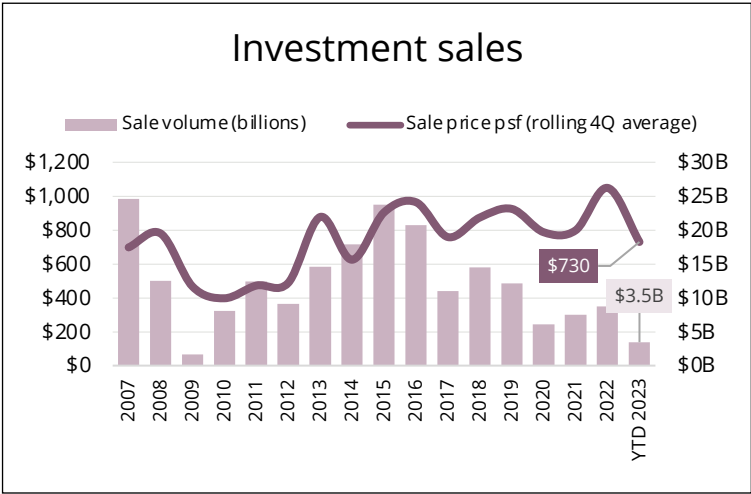
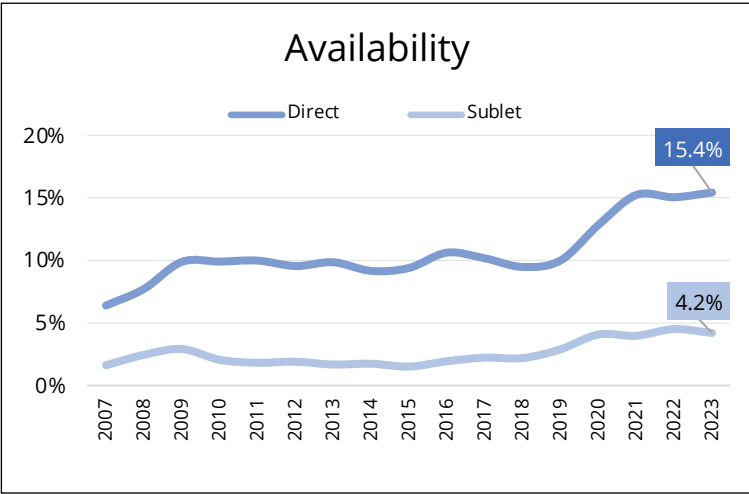
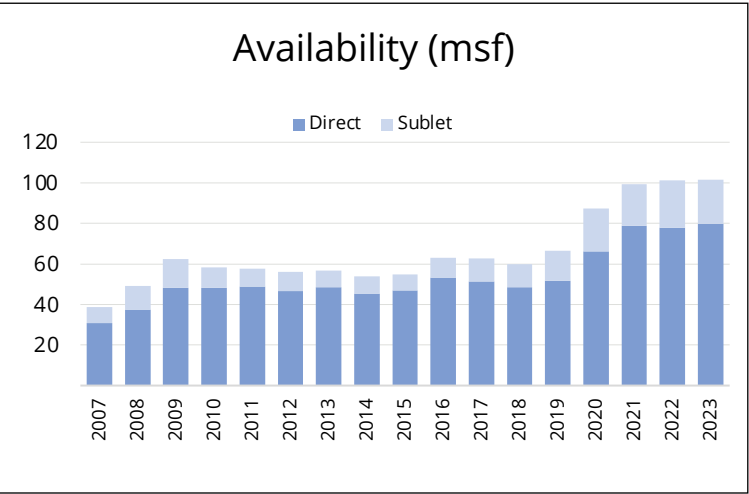
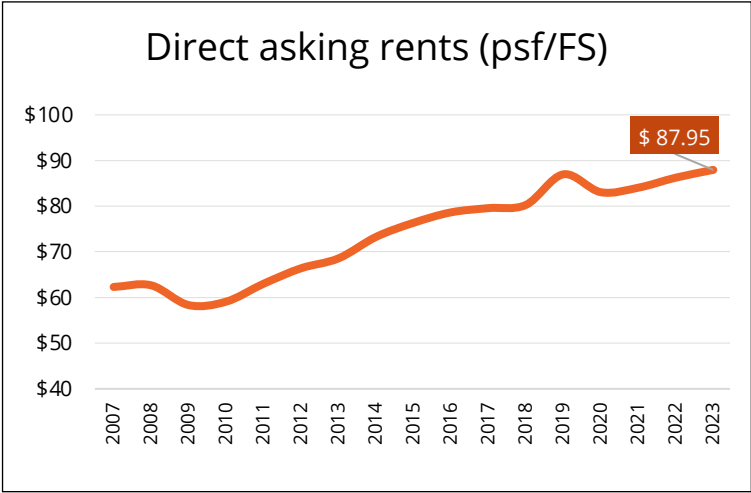
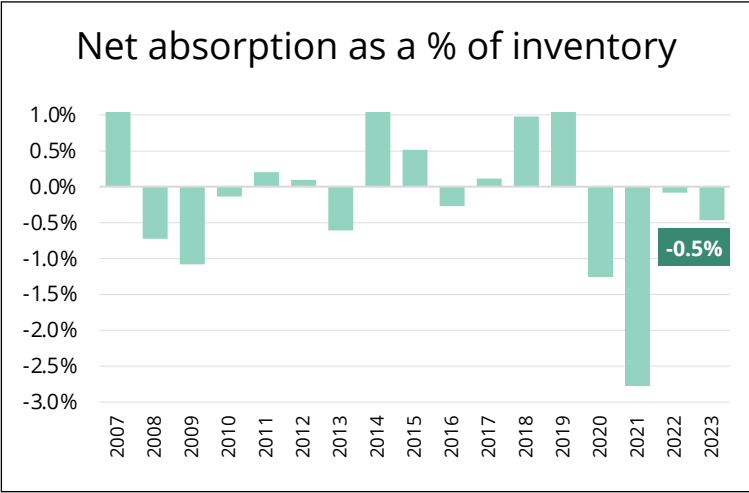
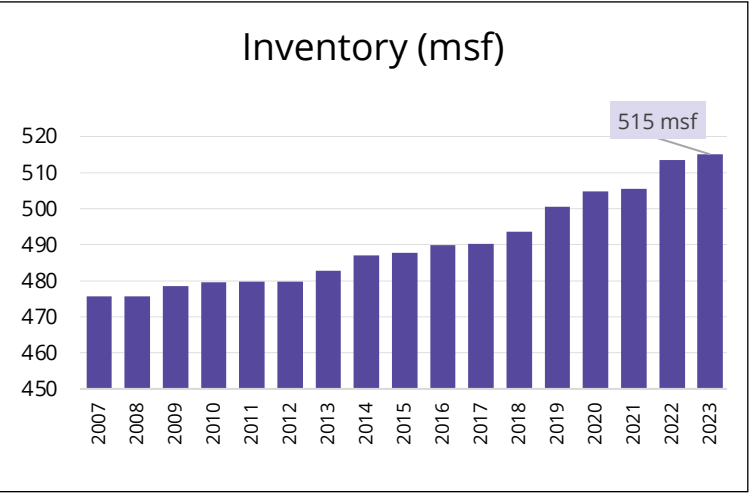
Note: Scaled to size of partial-interest investment volume. Includes partial interest sales, recapitalizations, owner-user and condo sales  
Source: AVANT by Avison Young, RCA



# Appendix



# Manhattan office market indicators



# Manhattan office market activity

## Q3 2023 leasing activity (100,000+ sf)

Tenant	Address	Submarket	Sign date	Size sf	Transaction type	Lease type
Davis Polk	450 Lexington Avenue	Grand Central	Aug 2023	700,000	Direct	Renewal
NYC Department of Citywide Administrative Services	110 William Street	Financial District	Jul 2023	630,000	Direct	New
City of NY	255 Greenwich Street	World Trade Center	Jul 2023	183,255	Direct	Renewal
Tower Research Capital	120 Broadway	Financial District	Aug 2023	122,000	Direct	New
Empire State Development	655 Third Avenue	Grand Central	Jul 2023	117,181	Direct	New

## Large contiguous space availabilities added in Q3 2023

Address	Submarket	Space type	Block size sf	Date available
850 Third Avenue	Midtown East	Direct	130,500	Immediate
360 Bowery	Greenwich Village	Direct	115,100	June 2024
114-116 Fifth Avenue	Flatiron District/Gramercy Park	Direct	96,600	Immediate
550 Madison Avenue	Central Park	Direct	95,700	Immediate

## Q3 2023 sales activity (\$25M+)

Buyer(s)	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Kaufman Organization, Beacon Capital Partners	875 Avenue of the Americas	Jul 2023	265,000	\$92,500,000	\$349	Sierra Realty & Management
Reuben Brothers	510 Fifth Avenue*	Aug 2023	69,965	\$50,000,000	\$715	Vornado Realty Trust
Rockrose	115 Broadway**	Aug 2023	290,640	\$43,600,000	\$1,250	Adams & Company Real Estate
PD Properties, MediaWill	110 West 32 <sup>nd</sup> Street	Sep 2023	102,145	\$37,000,000	\$362	RJF 110 Realty
Sioni Group	6 East 45 <sup>th</sup> Street	Sep 2023	79,290	\$26,800,000	\$338	Silk & Halpern

# Manhattan office market stats

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Central Park	31,144,726	-	11.3%	1.4%	12.7%	345,212	1.1%	\$152.01
Grand Central	80,388,589	-	14.2%	3.4%	17.6%	(348,343)	(0.4%)	\$85.36
Hudson Yards	17,510,495	1,950,140	9.5%	7.2%	16.7%	(19,896)	(0.1%)	\$173.76
Midtown Core	59,416,991	-	10.8%	2.5%	13.4%	452,343	0.8%	\$114.68
Midtown East	23,511,516	-	18.8%	2.1%	20.9%	(708,183)	(3.0%)	\$80.28
Midtown West	3,645,380	-	17.9%	9.0%	26.9%	38,707	1.1%	\$72.00
Murray Hill	11,057,084	-	21.8%	5.8%	27.6%	(75,135)	(0.7%)	\$72.42
Penn Station	52,837,484	-	15.8%	4.5%	20.4%	(183,698)	(0.3%)	\$85.57
Times Square	35,269,902	-	20.6%	3.8%	24.4%	123,813	0.4%	\$82.17
<b>Midtown Total</b>	<b>314,782,167</b>	<b>1,950,140</b>	<b>14.6%</b>	<b>3.6%</b>	<b>18.2%</b>	<b>(375,180)</b>	<b>(0.1%)</b>	<b>\$95.37</b>
Chelsea	18,665,172	299,672	21.2%	5.3%	26.5%	(899,875)	(4.8%)	\$74.59
East Village	744,085	-	21.0%	9.6%	30.6%	(1,981)	(0.3%)	\$131.67
Flatiron District/Gramercy Park	40,524,446	-	18.2%	3.5%	21.7%	(263,336)	(0.6%)	\$104.64
Greenwich Village	7,296,312	112,617	19.4%	0.5%	19.9%	(373,782)	(5.1%)	\$123.21
Hudson Square	11,124,544	-	16.0%	4.7%	20.7%	805,313	7.2%	\$87.92
Lower East Side	2,680,266	-	24.9%	0.8%	25.7%	204,126	7.6%	\$84.27
Meatpacking District	8,295,936	-	4.8%	1.2%	6.1%	(9,420)	(0.1%)	\$92.35
SoHo	6,579,510	-	15.4%	3.5%	18.9%	(97,553)	(1.5%)	\$72.65
West Village	293,542	60,674	21.4%	0.0%	21.4%	29,807	10.2%	\$64.65
<b>Midtown South Total</b>	<b>96,203,813</b>	<b>472,963</b>	<b>17.5%</b>	<b>3.5%</b>	<b>21.1%</b>	<b>(606,701)</b>	<b>(0.6%)</b>	<b>\$92.92</b>
City Hall	8,048,874	-	14.1%	1.4%	15.3%	(199,355)	(2.5%)	\$55.18
Financial District	44,736,430	-	20.2%	6.7%	26.9%	(888,999)	(2.0%)	\$67.73
Tribeca	7,630,681	-	15.0%	6.2%	21.2%	(284,072)	(3.7%)	\$73.63
Water Street Corridor	18,758,053	-	20.6%	7.9%	28.5%	(26,780)	(0.1%)	\$63.71
World Trade Center	22,769,692	-	6.1%	8.3%	14.5%	(96,106)	(0.4%)	\$85.76
<b>Downtown Total</b>	<b>101,943,730</b>	<b>-</b>	<b>16.2%</b>	<b>6.8%</b>	<b>23.1%</b>	<b>(1,495,312)</b>	<b>(1.5%)</b>	<b>\$68.00</b>
Upper East Side	535,947	-	3.7%	0.0%	3.7%	39,572	7.4%	-
Upper West Side	1,603,866	-	1.0%	2.8%	3.7%	30,152	1.9%	-
<b>Manhattan Total</b>	<b>515,069,523</b>	<b>2,423,103</b>	<b>15.4%</b>	<b>4.2%</b>	<b>19.6%</b>	<b>(2,407,469)</b>	<b>(0.5%)</b>	<b>\$87.95</b>



# Manhattan office market stats by class

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Trophy	137,575,410	2,149,812	13.7%	4.4%	18.1%	2,142,301	1.6%	\$130.53
Class A	157,672,656	273,291	17.1%	4.5%	21.6%	(1,479,940)	(0.9%)	\$79.61
Class B/C	219,821,457	-	15.3%	3.8%	19.1%	(3,069,830)	(1.4%)	\$62.50
<b>Market Total</b>	<b>515,069,523</b>	<b>2,423,103</b>	<b>15.4%</b>	<b>4.2%</b>	<b>19.6%</b>	<b>(2,407,469)</b>	<b>(0.5%)</b>	<b>\$87.95</b>



# Manhattan submarket map

Midtown



Midtown South



Downtown



[Click here to download larger maps](#)



# Office insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and  
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