



Manhattan office market report

Q2 2023

**AVISON
YOUNG**

Manhattan office market trends

19.9%

Availability rate continues its upward surge to record highs

Manhattan's office availability rate has reached 19.9% (103.3 msf) - up 20 basis points (bps) from Q1's 19.7% availability. Direct availability has increased 60 bps to 15.4% (79.8 msf), while sublease availability has decreased 30 bps to 4.5% (23.5 msf). Midtown's availability rate is currently at 18.8%, Midtown South's is at 20.8% and Downtown's is at 22.9%.

Despite the strong demand for high quality sublease space, with over 1 msf of subleases signed this quarter, the increase in direct availability is outweighing the subleases being signed or taken off the market - causing overall availability to continue to grow.

72.6%

Trophy & Class A continue to capture outsized share of demand

Through the first half of 2023, Trophy and Class A properties (the top 25% of office inventory) represented 72.6% of leasing activity with Trophy representing 32.0% and Class A representing 40.6% - marking the first time since 2020 that Class A received a larger share of leasing activity than Trophy.

Despite tepid leasing activity, the Manhattan office market continues to experience the "flight-to-quality" trend, where the top portion of office inventory significantly outperforms the rest of the market in leasing volume.

-39.5%

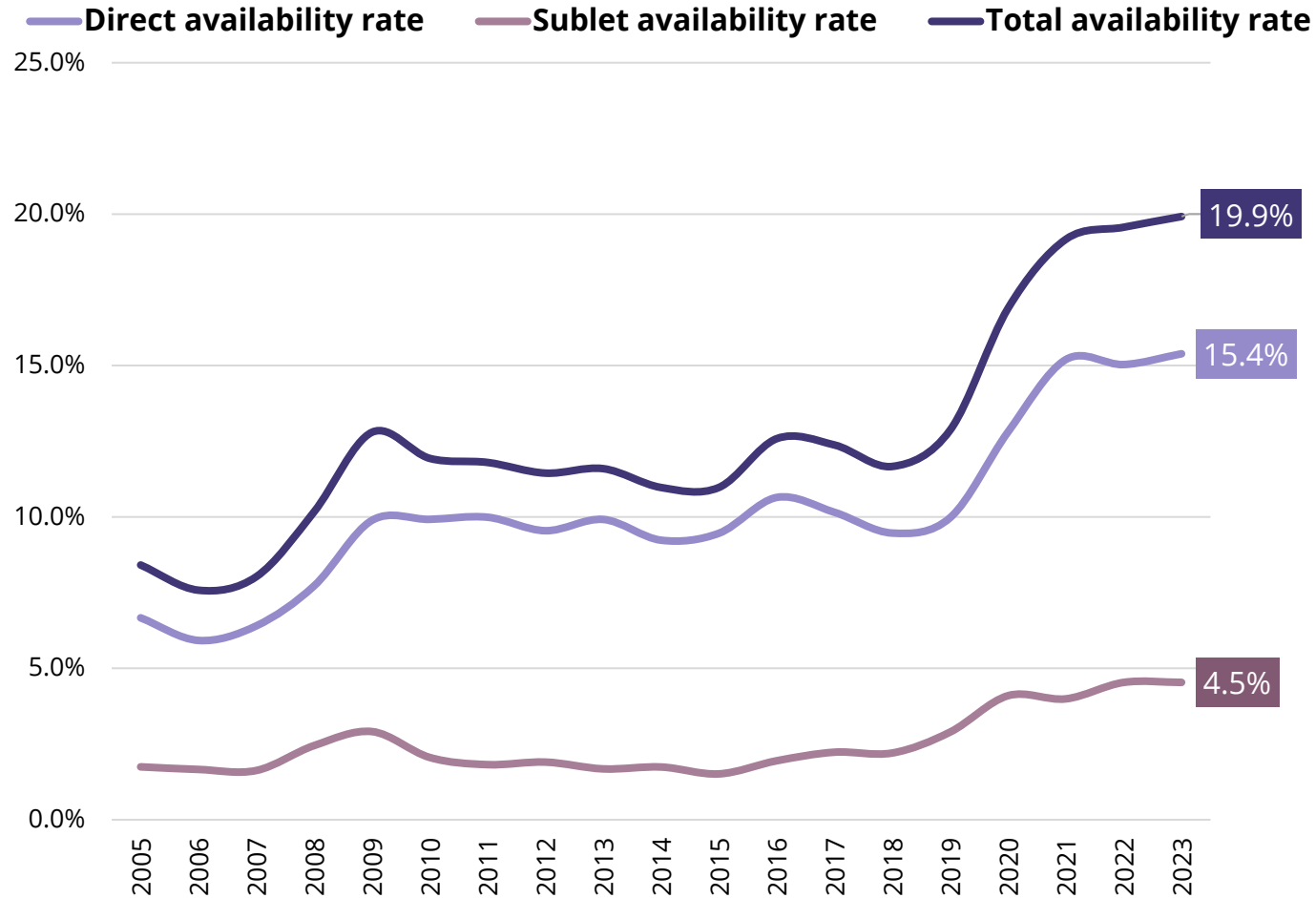
Leasing activity falls well below pre-COVID average

Historically, leasing activity from 2000 - 2019, averaged 20.1 msf through the first half of each year. Through the first half of 2023, Manhattan has experienced 12.2 msf of leasing activity - 39.5% below the 2000-2019 average and 29.8% below this time last year.

While this activity is historically low, the previous low watermark over the last two decades was in 2009. Of the direct leases being signed, 52.5% year-to-date have been renewals, which is indicative of the slowdown in leasing velocity. Historically, renewals represent less than 30% of leases on average.

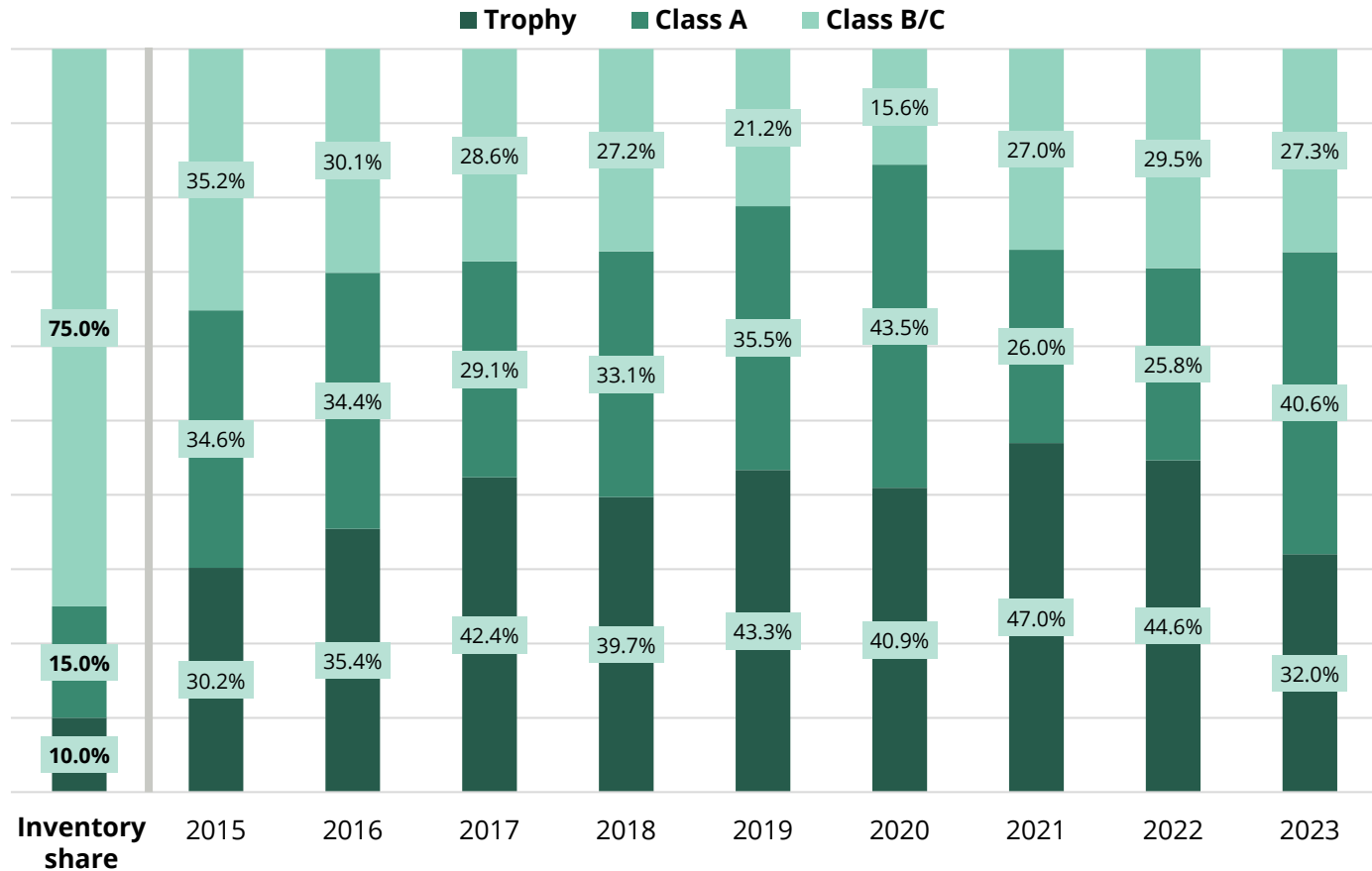
Given the recent slow down in activity, this trend could continue through the end of the year.

Availability rate



The total availability rate for Manhattan office space has reached a post-2005 high of 19.9%, which accounts for 103.3 million square feet.

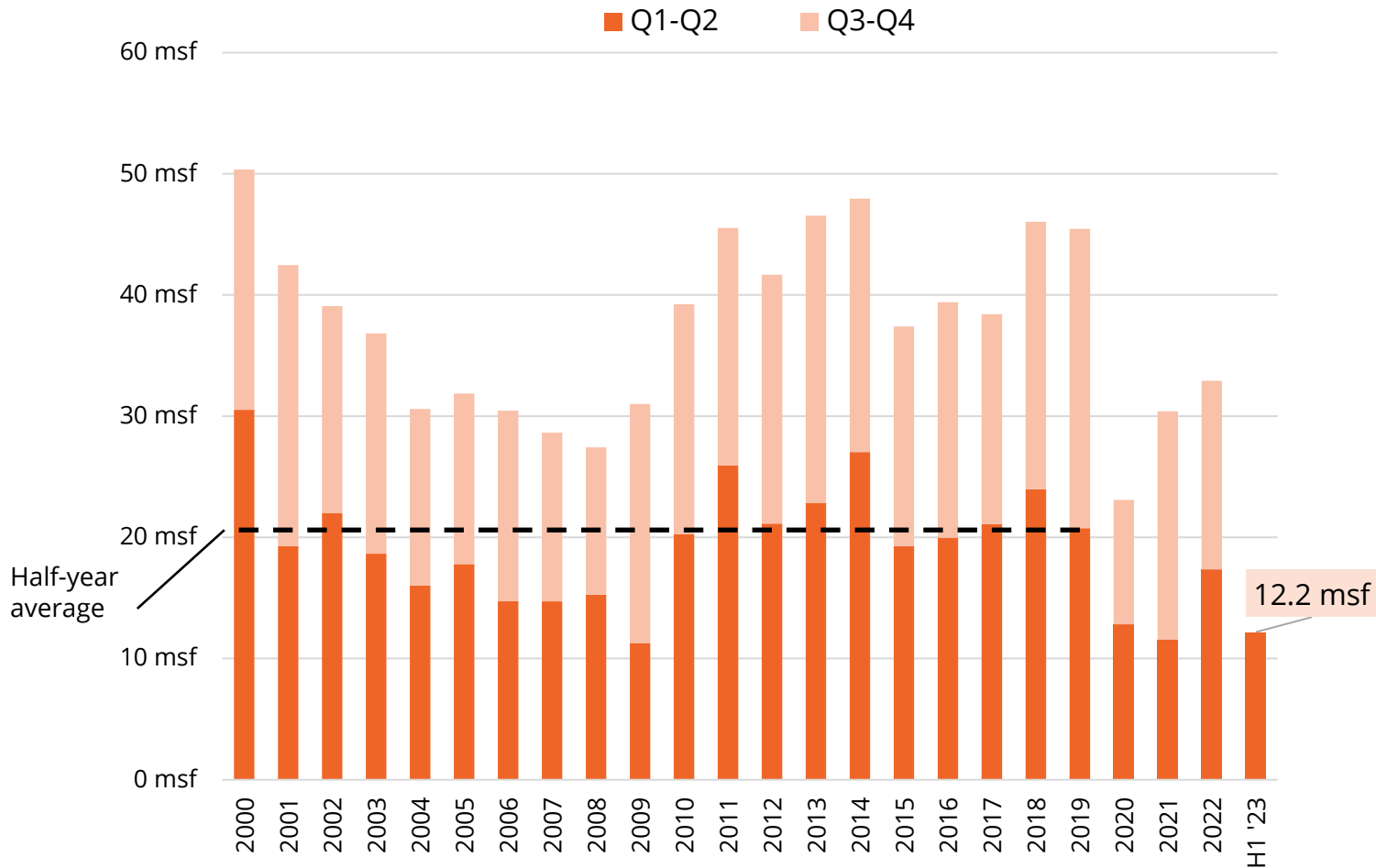
Transaction activity by asset class



Through Q1 & Q2 2023, Trophy and Class A properties (the top 25% of office inventory) have accounted for 72.6% of leasing activity by square footage.

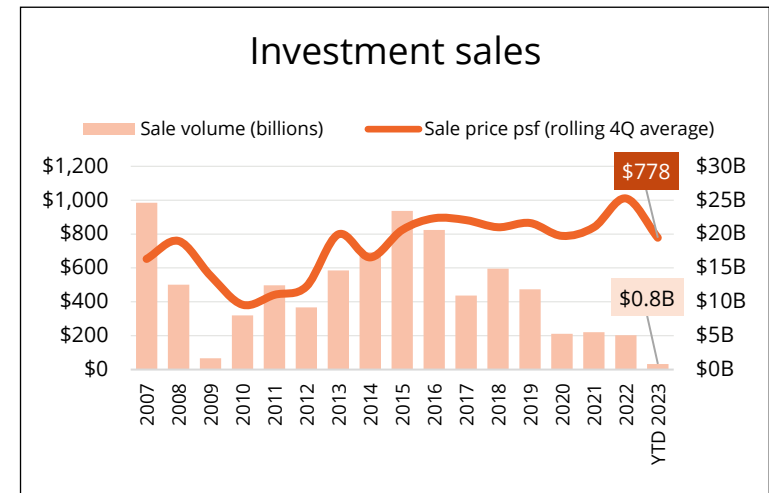
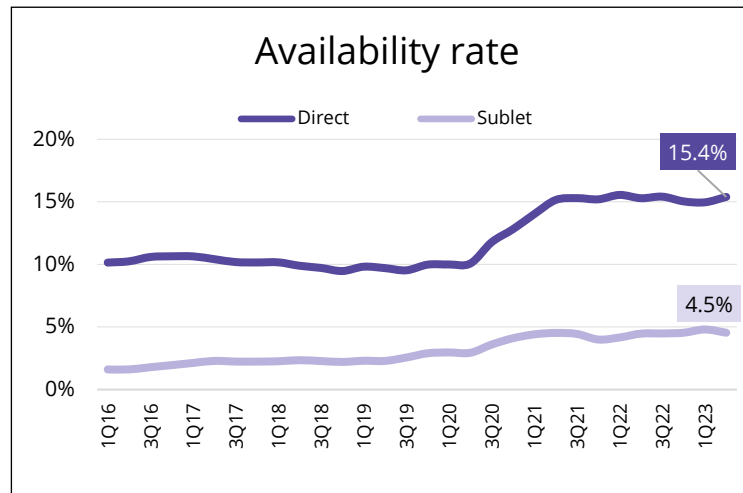
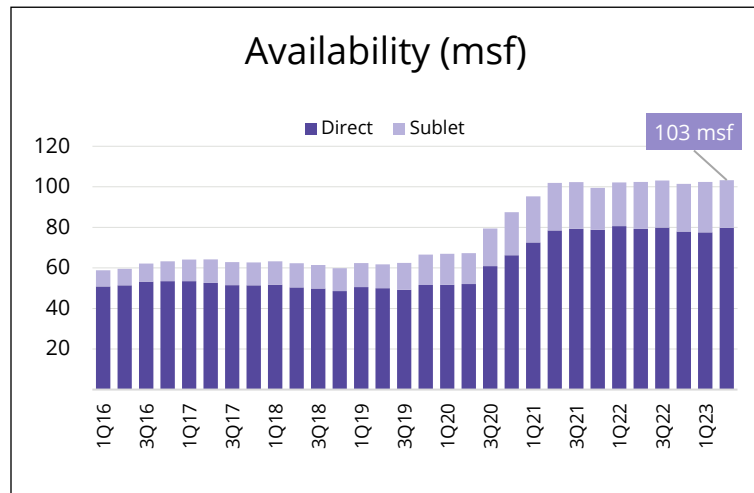
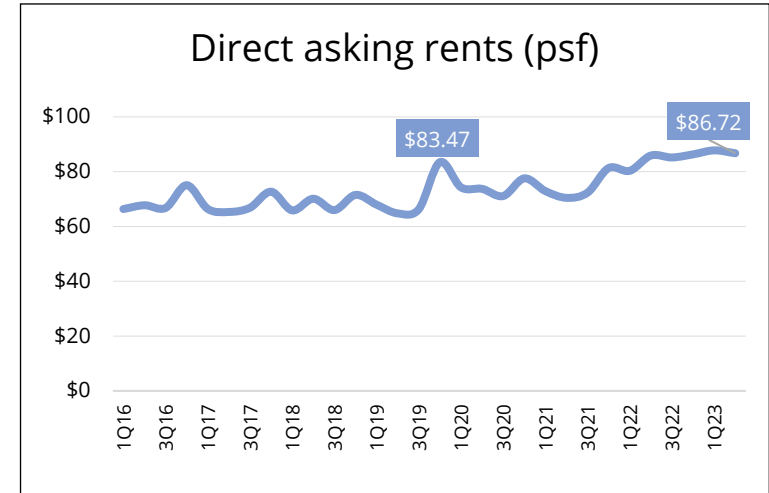
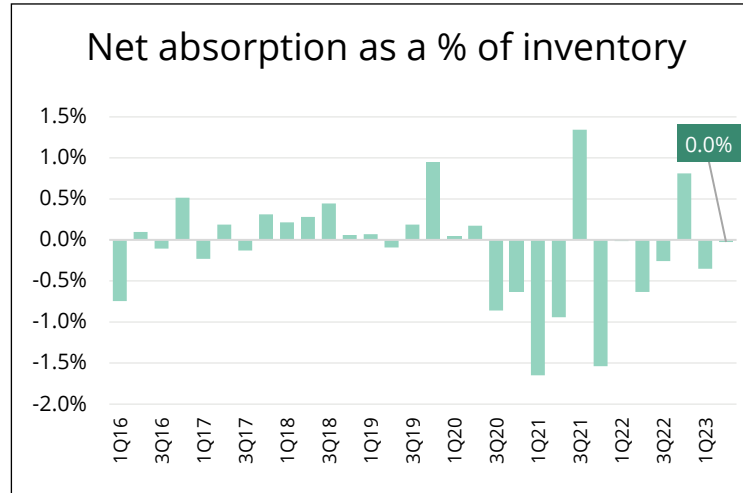
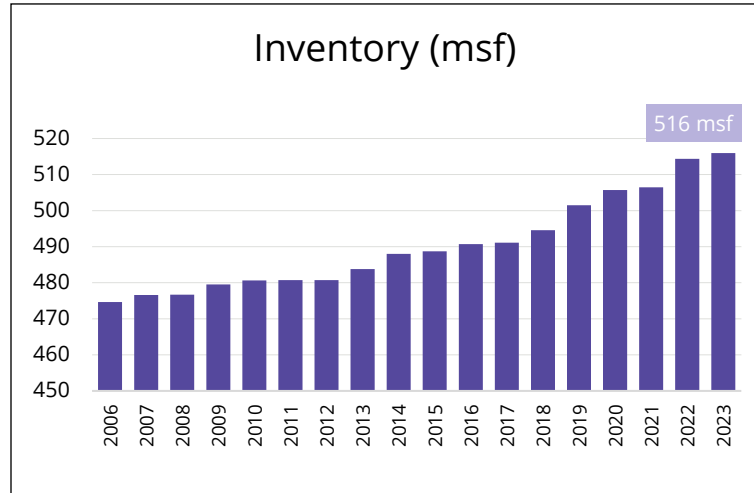
Source: AVANT by Avison Young, CoStar
 Note: Trophy properties represent the top 10% of the Manhattan office market in terms of rents and build date. Class A properties represent the top 25% but not the top 10%.

Leasing activity



Q1 and Q2 2023 achieved only 12.2 msf of leasing activity – 39.5% below the 2000-2019 half-year average, and 29.8% below half-year 2022.

Manhattan office market indicators



Transaction activity by lease type

+23.0%

Percent increase in renewals as a share of total leasing activity, post-COVID vs. pre-COVID

The distribution of transaction activity by lease type has shifted from Q1 to Q2 2023. In Q1, renewals accounted for 60.4% of leasing activity as a result of Fox and News Corp. renewing for over 1 million square feet combined. Year to date, leasing activity for renewals dropped to 52.5% - while direct relocations grew from 33.9% in Q1 to 40.9% year to date.

Pre-COVID

2018 to March 2020

New leases,
direct
relocations
58.7%



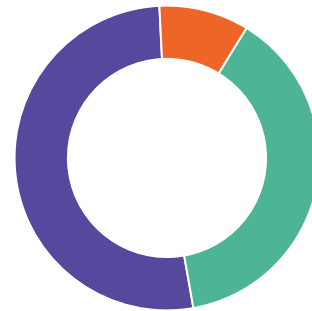
Expansions
10.0%

Direct
renewals
31.3%

Post-COVID

April 2020 to Present

New leases,
direct
relocations
52.0%

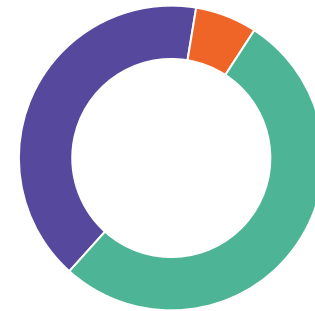


Expansions
9.5%

Direct
renewals
38.5%

Q1-Q2 2023

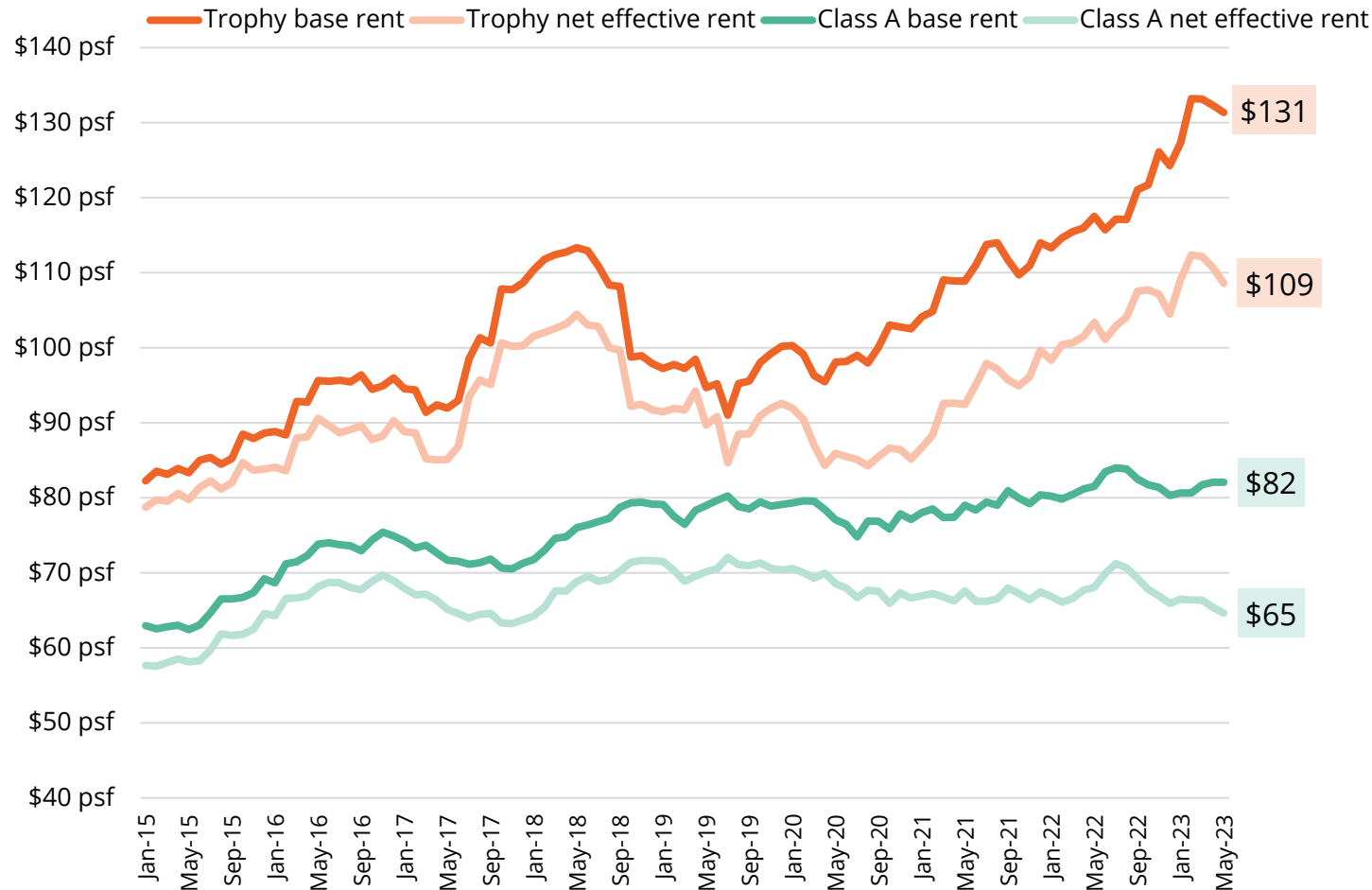
New leases,
direct
relocations
40.9%



Expansions
6.6%

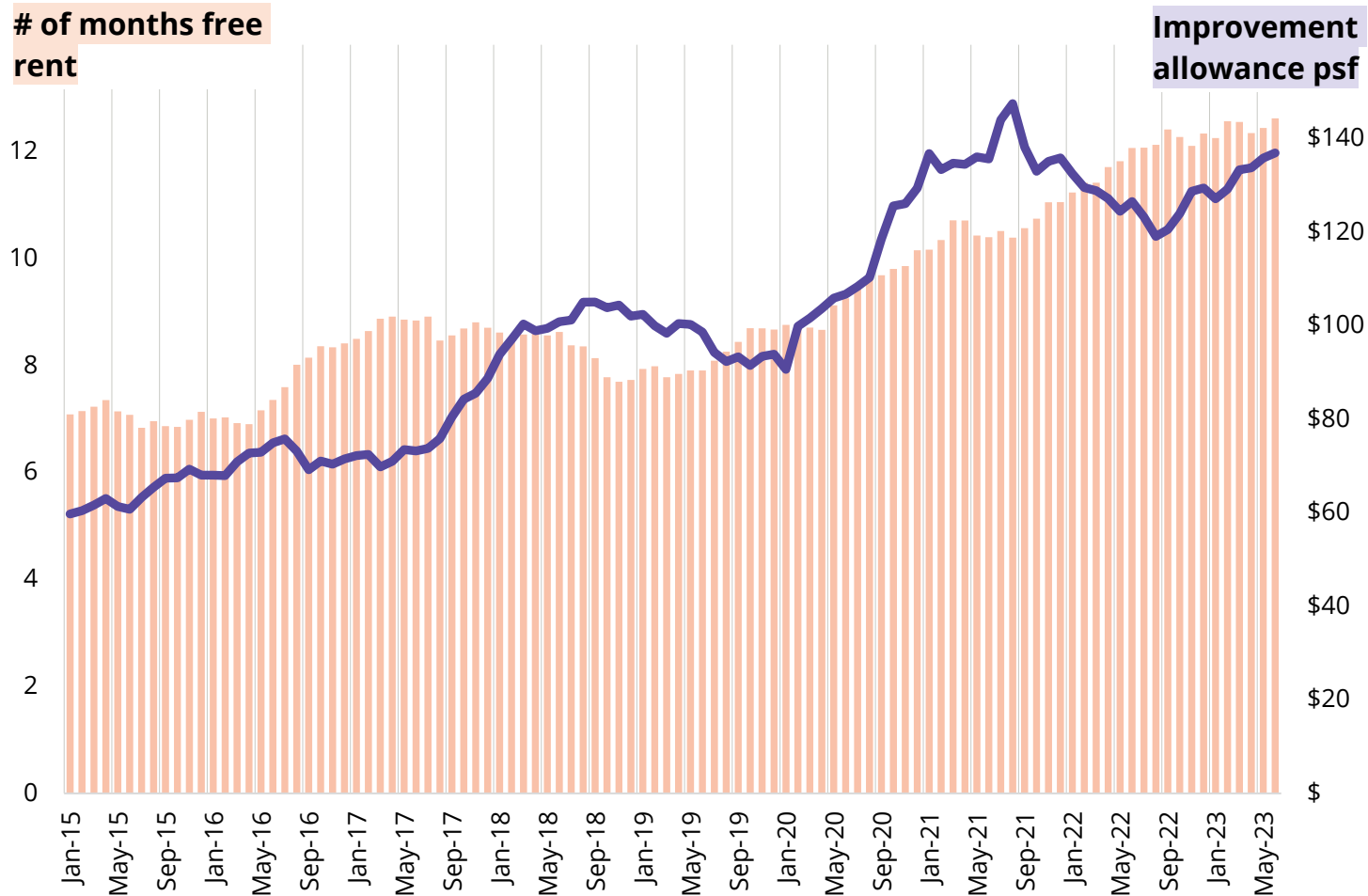
Direct
renewals
52.5%

Base and net effective rents by class



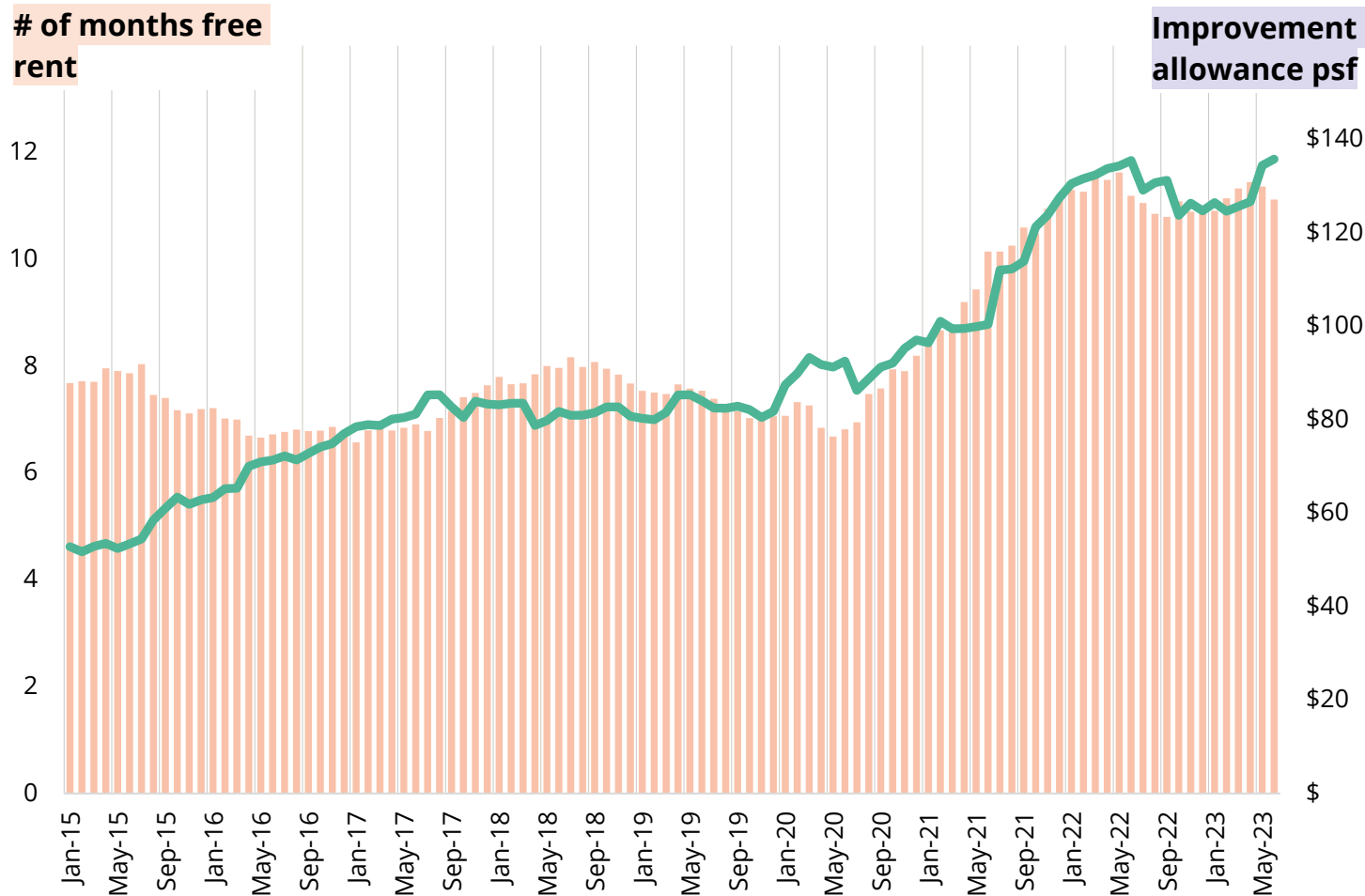
Trophy net effective rents at \$109 psf have increased 24.8% from pre-COVID (March 2020) – while Class A net effective rents at \$65 psf have decreased 6.7% from pre-COVID due to record concession packages being offered.

Trophy office concession packages



Trophy tenant improvement allowances, currently at \$137 psf, have grown 34.7% compared to pre-COVID levels (March 2020).

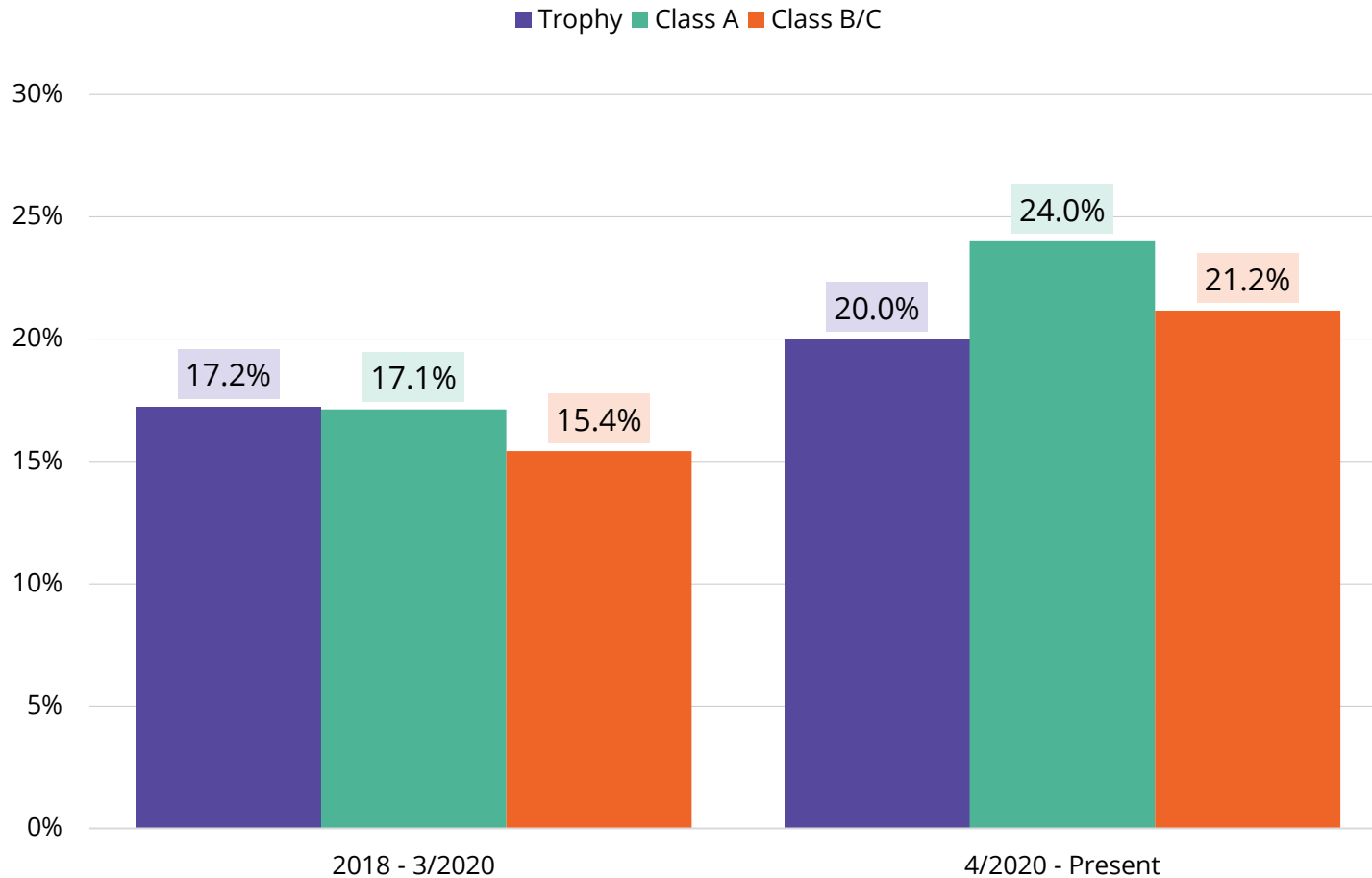
Class A office concession packages



Class A tenant improvement allowances, currently at \$136 psf, have grown 45.5% compared to pre-COVID levels (March 2020).

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.

Concessions as a share of lease term

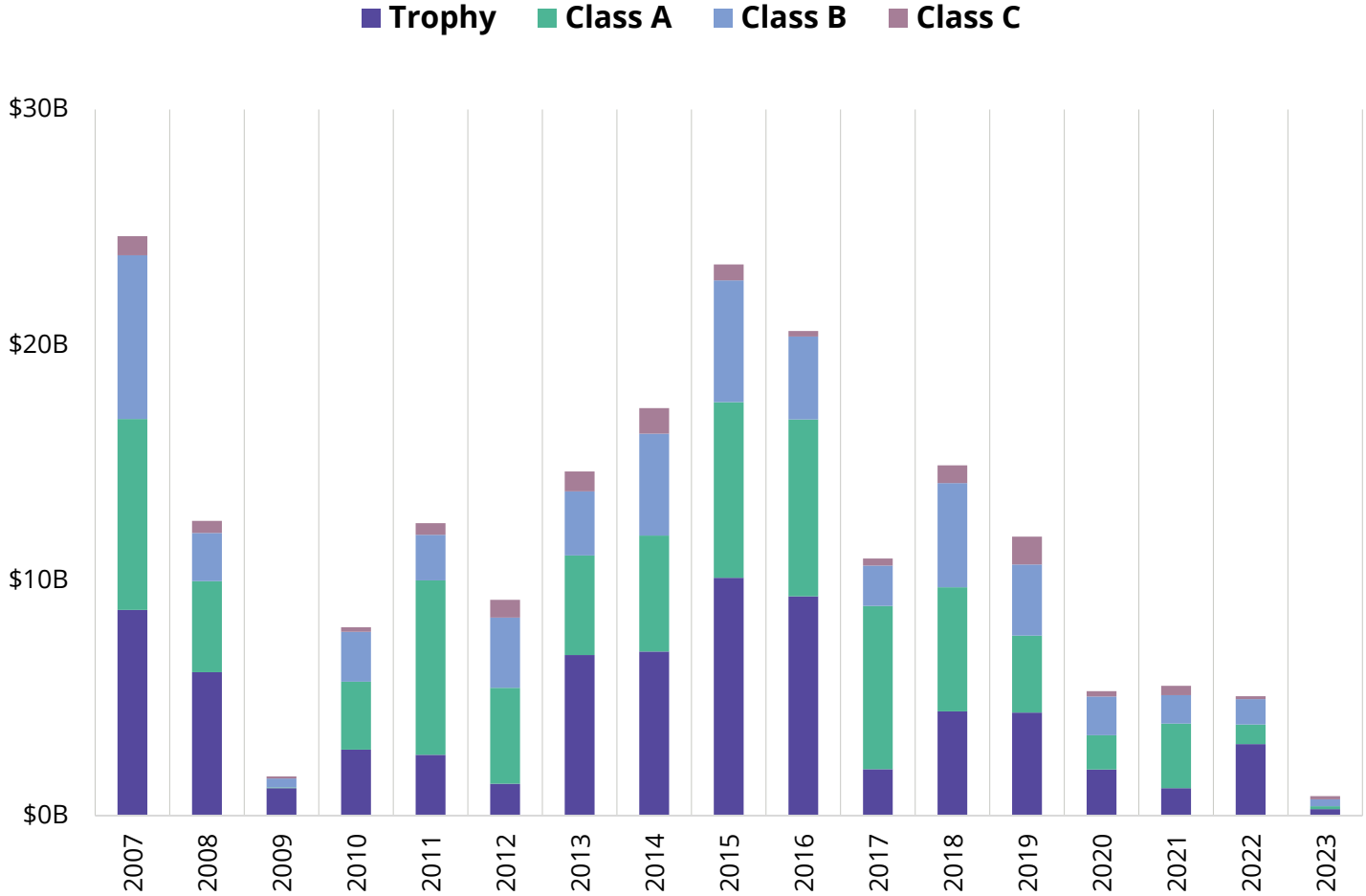


Class A tenants are currently receiving concession packages worth an average of 24.0% of their total rent in the form of free rent and tenant improvement allowances.

Manhattan office investment sales



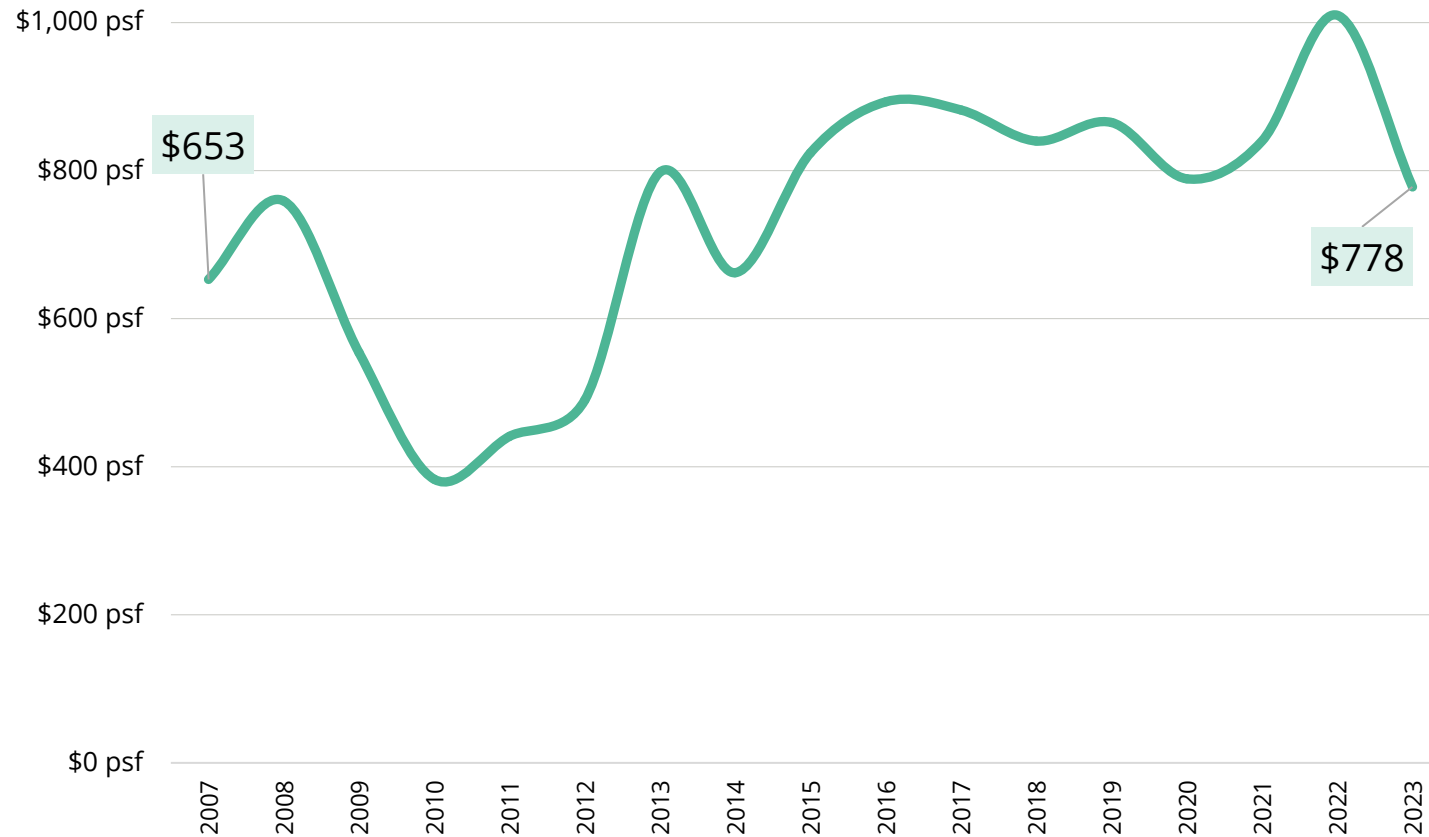
Manhattan office investment dollar volume



The Manhattan office sales market continues to struggle, only reaching \$831 million in sales year-to-date which equals \$1.7B annually, the lowest of any year since 2009.

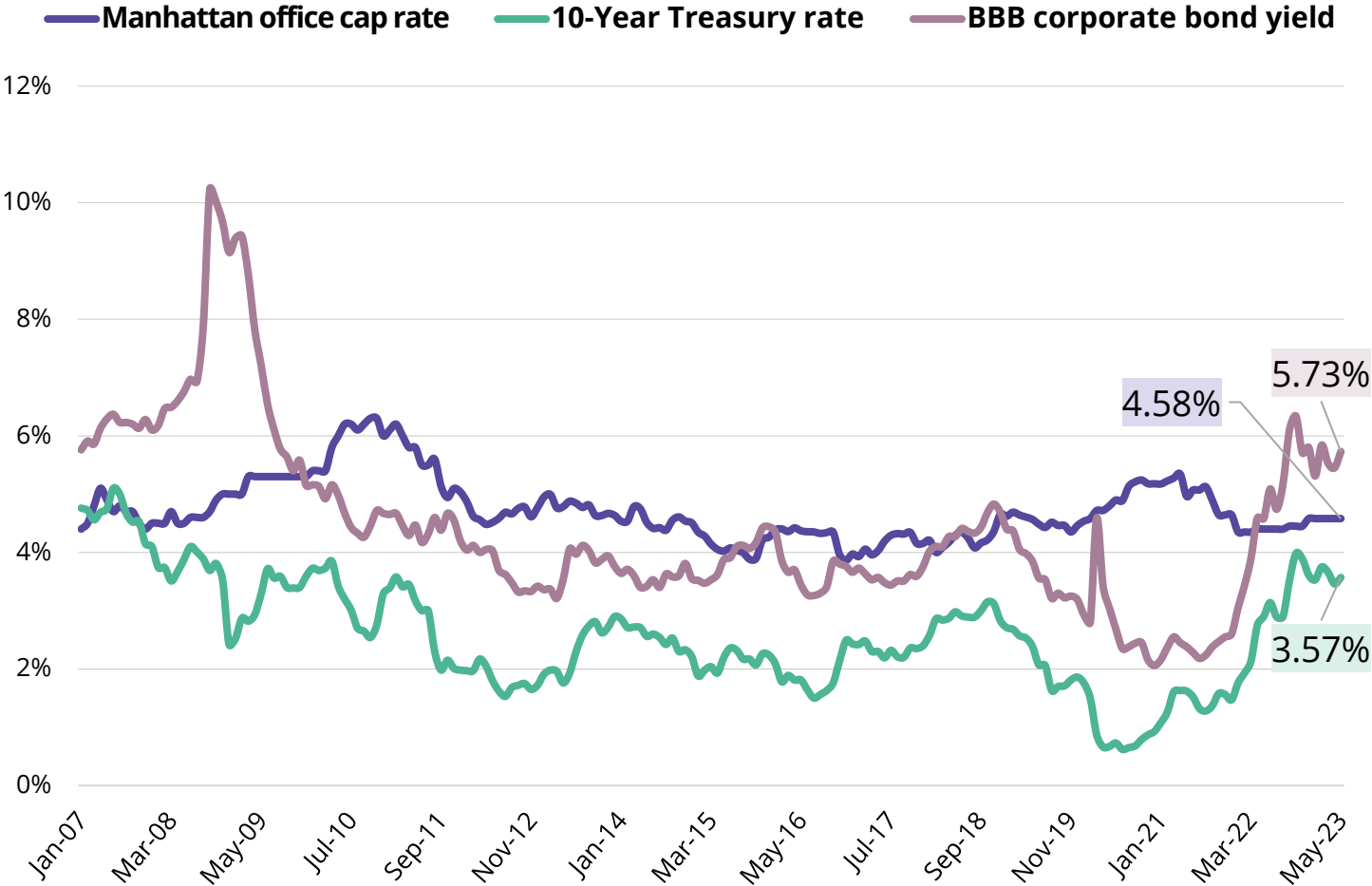
Manhattan investment sales pricing

Price psf, 12-month rolling average



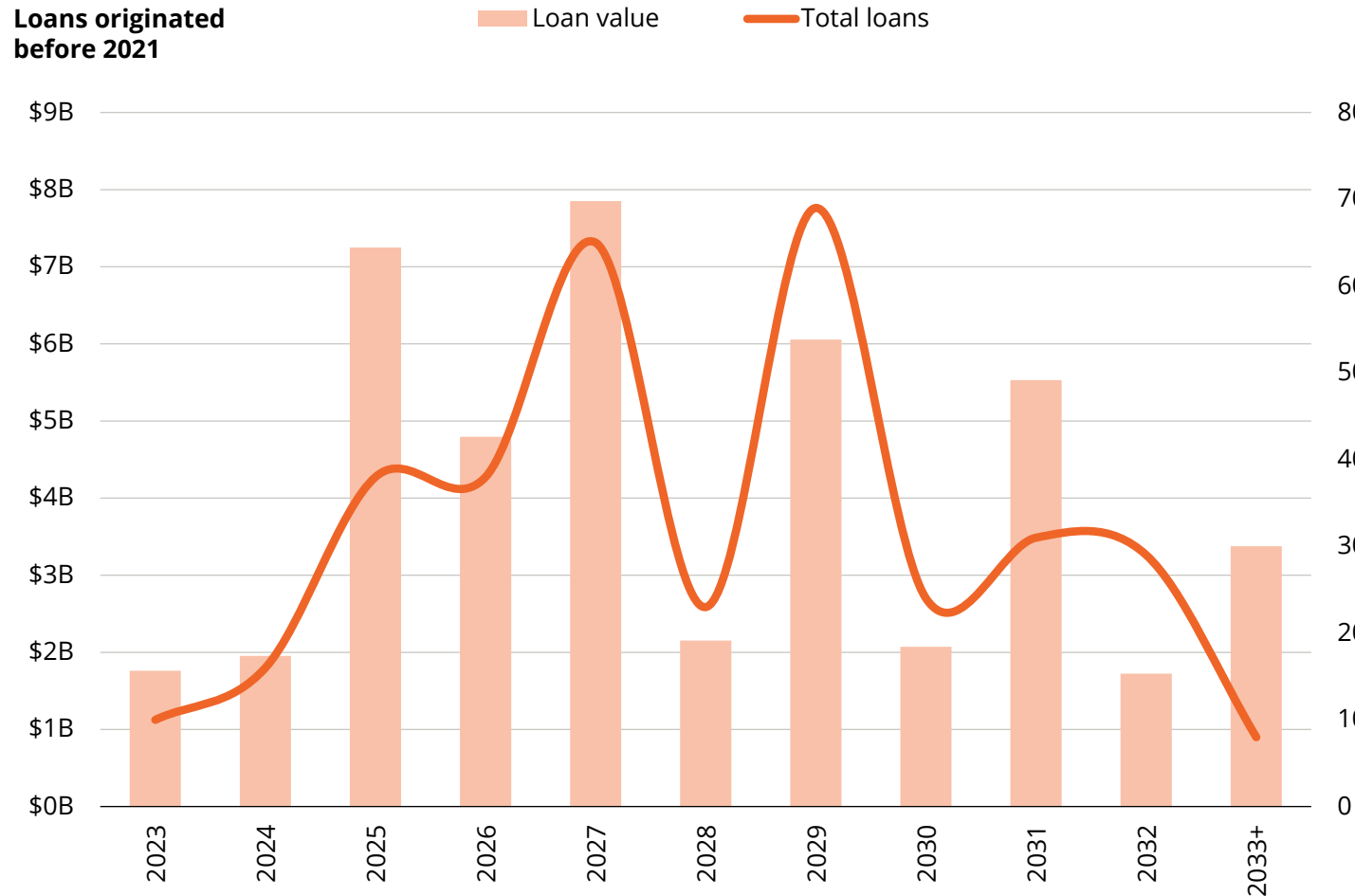
Average price per square foot has fallen to \$778 in 2023 as a result of headwinds in the office sector. In addition, rising interest rates, lack of capital available for non-prime assets, and few trophy sales have contributed to a slumping average.

Office cap rates versus benchmark yields



The gap between office yields and the benchmark 10-year Treasury rate has widened to 101 bps during Q2, signifying a growing risk premium required for office investments.

Manhattan Fixed-rate CMBS office loan maturities



The Manhattan office market will face additional distress as loan maturities approach. Many of the looming maturities of 2025 (\$7.2B) and 2027 (\$7.9B) may not be re-financeable.

Manhattan office market activity

Q2 2023 leasing activity (100,000+ sf)

Tenant	Address	Submarket	Sign date	Size sf	Transaction type	Lease type
Wachtell Lipton Rosen & Katz	51 West 52nd Street	Midtown Core	Jun 2023	250,000	Direct	Renewal
Amazon	1440 Broadway	Times Square	Apr 2023	209,801	Sublease	New
Clayton Dubilier & Rice	550 Madison Avenue	Central Park	Jun 2023	143,528	Direct	New
Scotiabank	250 Vesey Street	World Trade Center	May 2023	131,048	Direct	Renewal
Wilson Sonsini Goodrich & Rosati	31 West 52nd Street	Midtown Core	Apr 2023	118,967	Direct	New

Large contiguous space availabilities added in Q2 2023

Address	Submarket	Space type	Block size sf	Date available
2 Park Avenue	Murray Hill	Direct	200,059	May 2028
55 Water Street	Water Street Corridor	Direct	133,462	Aug 2024
425 Lexington Avenue	Grand Central	Direct	116,334	Immediate
555 Broadway	Soho	Direct	102,236	Immediate

Q2 2023 sales activity (\$25M+)

Buyer(s)	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Sovereign Partners	126 East 56 th Street	Apr 2023	171,571	\$113,000,000	\$659	Pearlmark Real Estate Partners
Empire Capital Holdings & Namdar Realty Group	529 Fifth Avenue	Jun 2023	282,278	\$107,600,000	\$381	Silverstein Properties
New York University	400 Lafayette Street	Apr 2023	118,000	\$97,500,000	\$826	Sand Associates
Mandelbaum & Mandelbaum	245-249 West 55 th Street	Jun 2023	69,168	\$28,500,000	\$412	DuArt Film and Video

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	-	12.2%	1.7%	13.9%	117,854	0.4%	\$134.29
Grand Central	80,399,299	-	14.9%	3.9%	18.8%	(643,465)	(0.8%)	\$85.05
Hudson Yards	17,510,495	1,950,140	9.8%	7.6%	17.5%	21,578	0.1%	\$167.29
Midtown Core	59,416,991	-	10.6%	2.4%	13.1%	693,184	1.2%	\$99.42
Midtown East	23,511,516	-	17.3%	2.3%	19.6%	(545,200)	(2.3%)	\$79.05
Midtown West	3,645,380	-	15.0%	24.1%	39.2%	(10,940)	(0.3%)	\$73.01
Murray Hill	11,057,084	-	22.0%	5.6%	27.6%	(117,152)	(1.1%)	\$71.79
Penn Station	53,018,102	-	15.9%	4.4%	20.2%	(282,932)	(0.5%)	\$86.14
Times Square	35,269,902	-	20.8%	5.1%	26.0%	(155,562)	(0.4%)	\$83.56
Midtown Total	314,973,495	1,950,140	14.8%	4.0%	18.8%	(922,635)	(0.3%)	\$92.81
Chelsea	18,665,172	258,180	21.0%	5.5%	26.4%	(883,794)	(4.7%)	\$74.78
East Village	750,881	-	25.2%	19.7%	44.9%	54,282	7.2%	\$131.67
Flatiron District/Gramercy Park	40,524,446	-	17.6%	4.1%	21.8%	36,182	0.1%	\$104.36
Greenwich Village	7,260,590	112,617	18.7%	0.8%	19.5%	(396,944)	(5.5%)	\$121.55
Hudson Square	11,165,144	-	13.7%	5.2%	18.9%	933,048	8.4%	\$89.75
Lower East Side	2,680,266	-	25.9%	0.8%	26.7%	185,245	6.9%	\$86.13
Meatpacking District	8,238,954	-	3.8%	1.3%	5.1%	12,159	0.1%	\$90.29
SoHo	6,803,125	-	14.0%	3.7%	17.7%	(33,826)	(0.5%)	\$87.70
West Village	293,542	60,674	22.4%	0.9%	23.3%	30,970	10.6%	\$64.65
Midtown South Total	96,382,120	431,471	16.8%	4.0%	20.8%	(62,678)	(0.1%)	\$93.93
City Hall	8,048,874	-	13.0%	1.4%	14.4%	(148,591)	(1.8%)	\$53.62
Financial District	44,736,430	-	20.3%	6.8%	27.2%	(763,216)	(1.7%)	\$68.19
TriBeCa	7,630,681	-	14.7%	7.2%	21.9%	(198,391)	(2.6%)	\$81.82
Water Street Corridor	19,275,395	-	20.3%	7.7%	28.0%	152,854	0.8%	\$63.93
World Trade Center	22,769,692	-	6.2%	7.3%	13.5%	(87,478)	(0.4%)	\$82.36
Downtown Total	102,461,072	-	16.2%	6.7%	22.9%	(1,044,822)	(1.0%)	\$68.47
Upper East Side	535,947	-	6.4%	0.0%	6.4%	35,758	6.7%	-
Upper West Side	1,603,866	-	1.0%	3.8%	4.7%	49,916	3.1%	-
Manhattan Total	515,956,500	2,381,611	15.4%	4.5%	19.9%	(1,944,461)	(0.4%)	\$86.72

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	137,015,439	2,108,320	13.4%	4.7%	18.1%	1,551,110	1.1%	\$122.13
Class A	158,023,807	273,291	17.3%	4.7%	22.1%	(766,989)	(0.5%)	\$79.97
Class B/C	220,594,342	-	15.1%	4.3%	19.4%	(2,728,582)	(1.2%)	\$62.75
Market Total	515,956,500	2,381,611	15.4%	4.5%	19.9%	(1,944,461)	(0.4%)	\$86.72

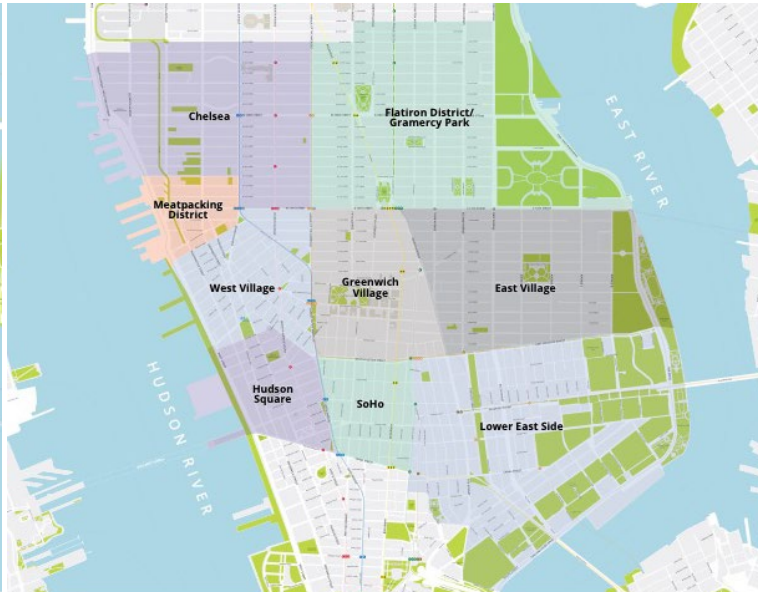


Manhattan submarket map

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 information visit **avisonyoung.com**

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