Manhattan office market report

Q4 2022

AVISON YOUNG

Manhattan office market trends

+15.5%

increase in leasing activity from 2021 to 2022, despite recent slowdown

2022 leasing activity has outperformed leasing activity from 2021 (32.4 msf vs. 28.1 msf) and has reached the highest post-COVID annual volume of leasing activity. Despite the year-over-year increase, Q4 2022 leasing activity of 5.4 million square feet (msf) was significantly lower than previous Q4s, which is historically the strongest leasing quarter of the year.

Given the recent slowdown in leasing activity and recessionary concerns, Q1 and Q2 2023 are likely to follow similar demand trends as Q4 2022.

18.6%

overall availability rate – 20 basis points higher than Q3 2022, reaching record levels

Total office availability in Manhattan has increased by 20 basis points from 18.4% in Q3 2022 to 18.6% in Q4 – reaching record highs of available space. An abundance of both direct and sublease space was added to the market in Q4 2022, causing direct available space to reach 97.6 msf and sublet available space to reach 23.6 msf.

As a result of anticipated economic slowdowns as well as new space deliveries, availability is likely to continue upward in the coming quarters – furthering tenant-favorable market conditions.

-30.6%

decrease in Manhattan job postings from October to November

In November 2022, Manhattan saw the largest month-over-month decline in job postings post-COVID. The tech industry experienced the largest drop in job postings, decreasing by 57.0% from October to November – largely as a result of major nationwide tech layoffs.

Job posting data serves as a predictive indicator for potential future demand as well as potential disposition of space. This has been demonstrated by tech tenants in Manhattan putting space back on the market following company layoffs.

Manhattan office market trends

55.7%

Manhattan return-to-work efforts, week of December 12, 2022 vs. week of December 9, 2019

Manhattan return-to-office rates have been trending upwards towards pre-COVID normalcy. Compared to 2021, this year has demonstrated stronger return-to-work efforts. In December 2021, office visitor volumes were 45.1% of December 2019 levels – and are now up to 55.7%.

Most major office-using industries in Manhattan are above 50% of 2019 levels, with the exceptions of technology, consulting, and public relations – industries that have struggled to garner a strong return to office presence.

$21.15 psf

difference in Class A base and net effective rents, December 2022

In an effort to compete with Trophy properties, landlords of high-quality Class A properties are offering historically large concession packages. These concession packages are used to induce tenant commitments, causing the gap between Class A base and net effective rents to continue to widen.

In March 2020, the gap between Class A base and net effective rents was $10.04. By Q3 2022, this gap increased to $17.26. Q4 2022 saw the gap hit a record high of $21.15 psf.

$6.6B

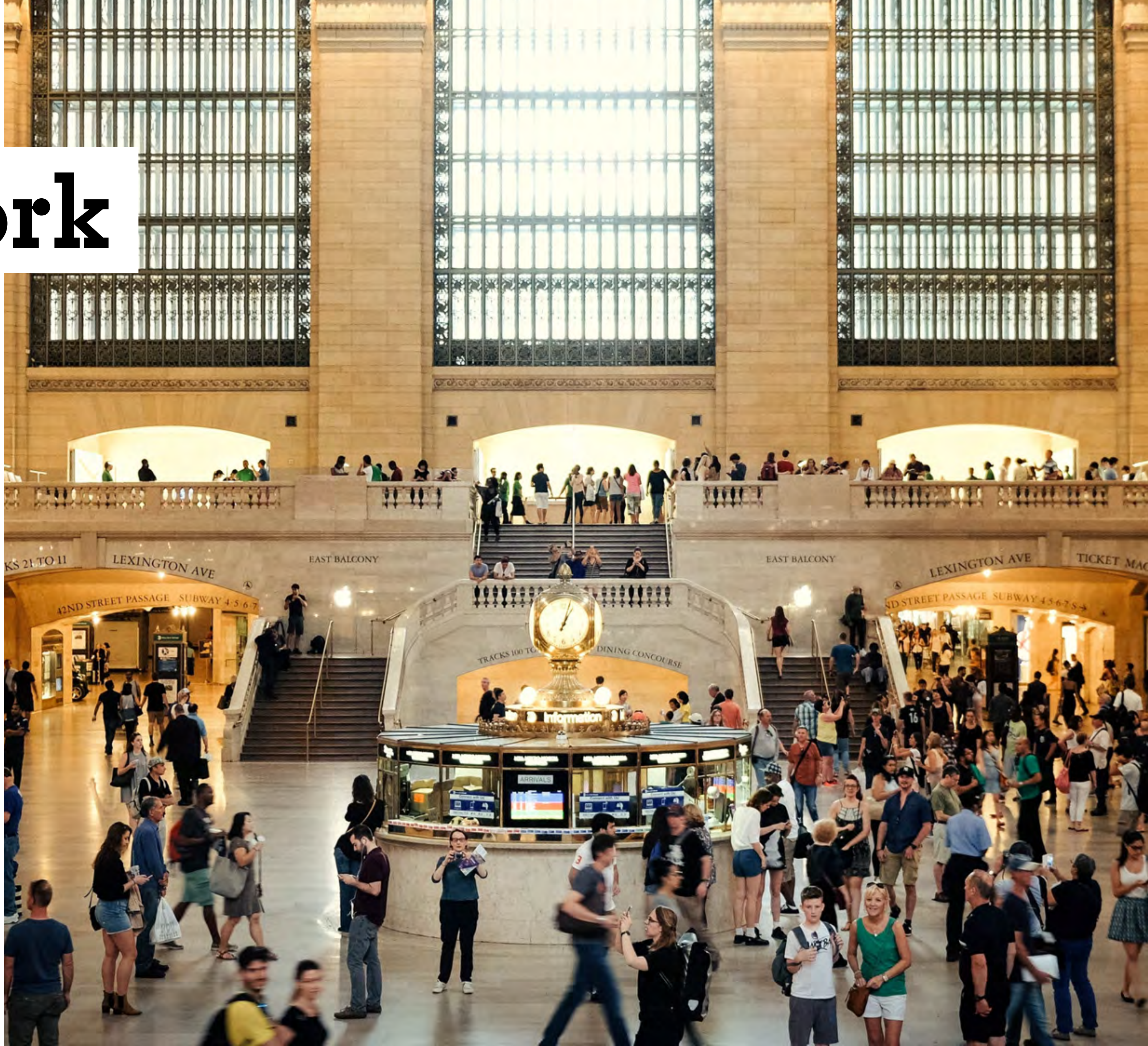
of Manhattan office sales in 2022

Total sale volume in Q4 2022 increased compared to Q3 2022 due to several major transactions that closed just before year end. The sale of 1330 Avenue of the Americas for $320 million and the sale of the office condo at 885 Third Avenue for $300 million were the notable sales of the quarter.

A slowdown in investment activity is likely to occur in the coming quarters due to current economic uncertainty, higher interest rates, and occupier concerns that are facing the Manhattan office market.

Return-to-work efforts

Exploring Avison Young's Vitality Index

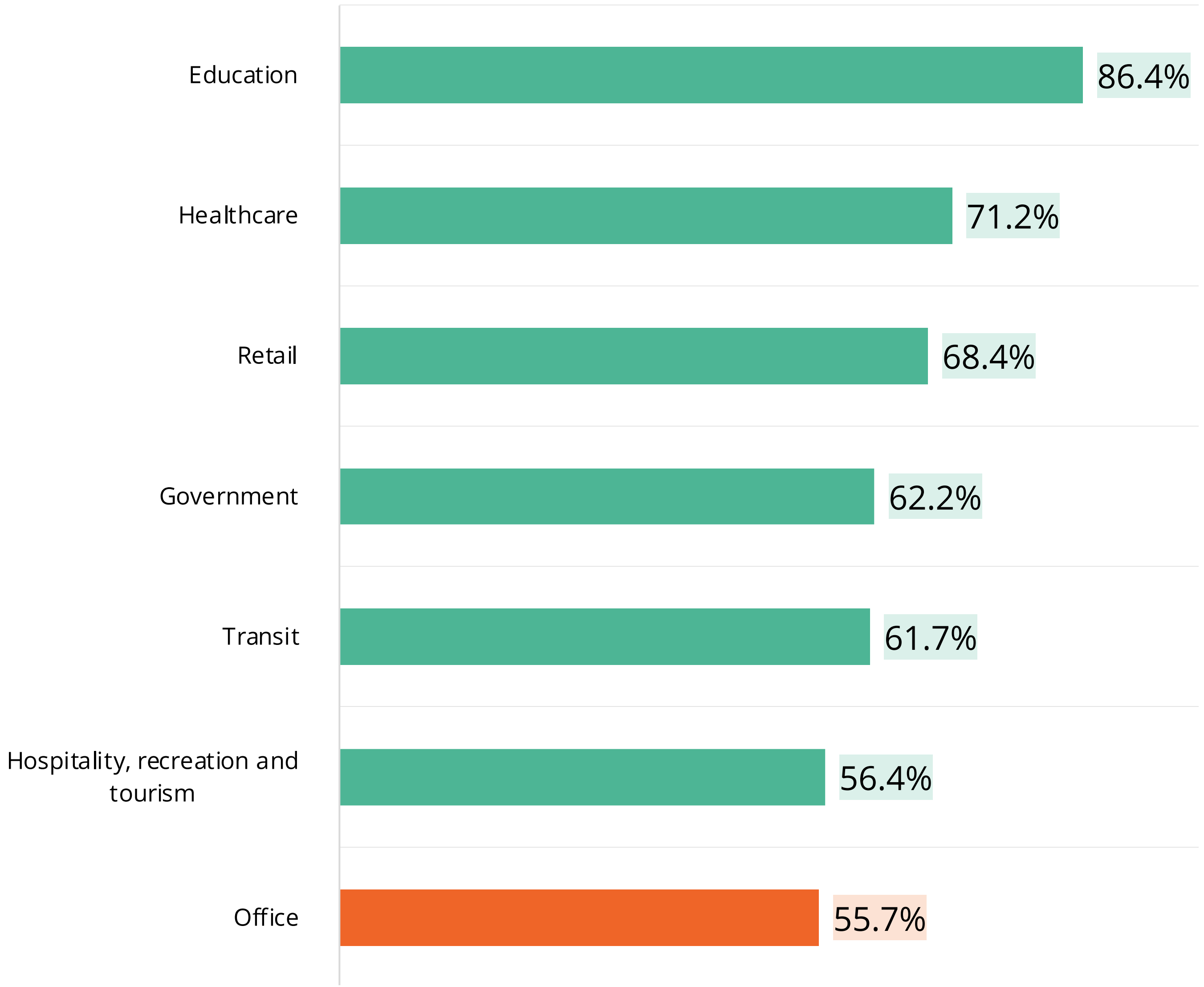


Manhattan visitor volumes by property

65.6%

Manhattan overall visitor volumes, week of December 12, 2022 vs. week of December 9, 2019.

Overall Manhattan visitor volumes are at 65.6% of pre-COVID levels when compared to the same week in 2019, led largely by education. Office remains the property type with the lowest visitor volumes relative to 2019 levels.



Source: Orbital Insight, AVANT by Avison Young
Note: Representative locations. Weekdays only.

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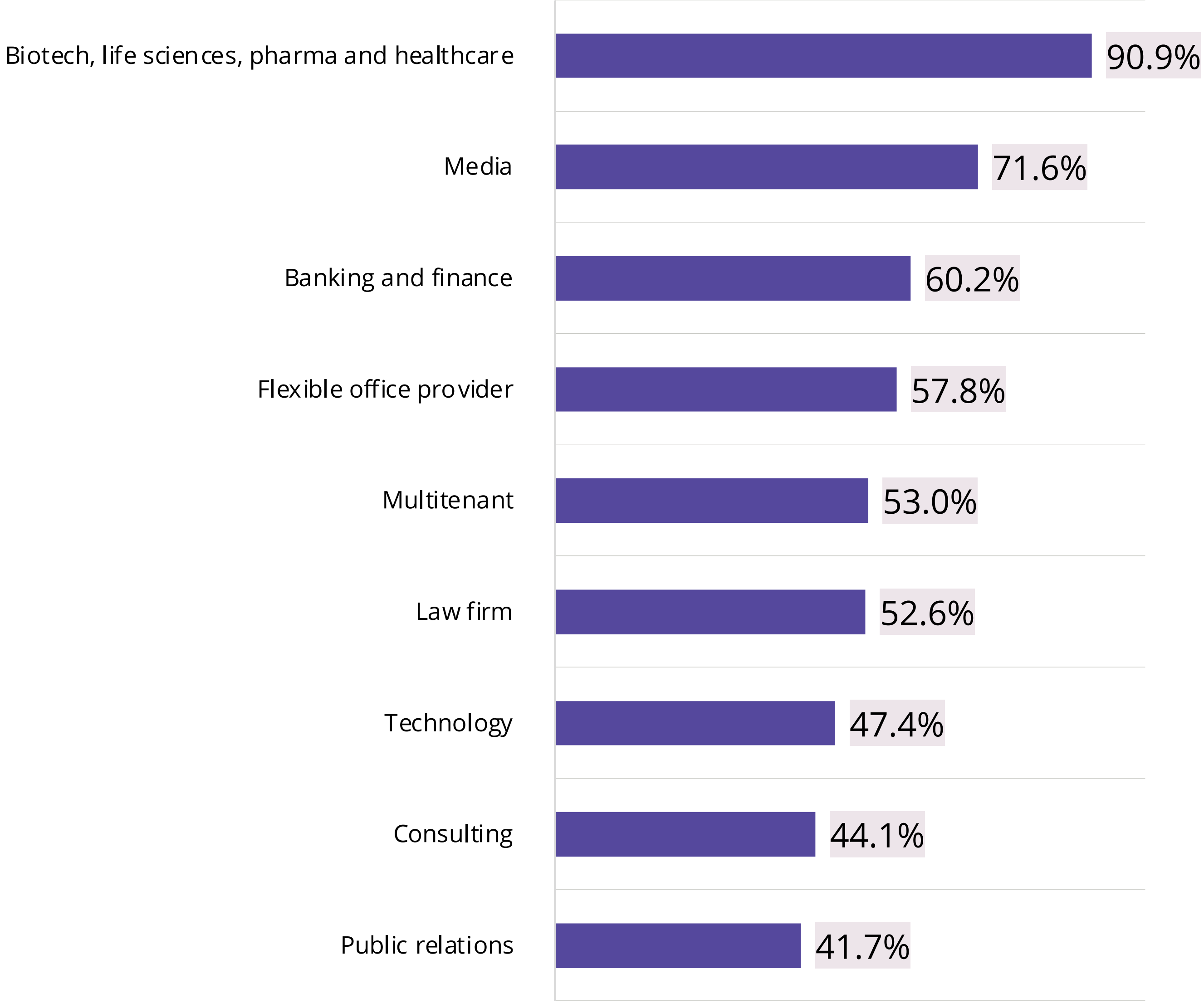
Manhattan return-to-work efforts by industry

55.7%

Manhattan office visitor volumes, week of December 12, 2022 vs. week of December 9, 2019.

Office visitor volumes for major industries in Manhattan continue towards stronger in-person visitation, reaching over half of 2019 levels and surpassing Q3 2022 (51.0%).



Source: Orbital Insight, AVANT by Avison Young
Note: Representative office locations. Weekdays only.

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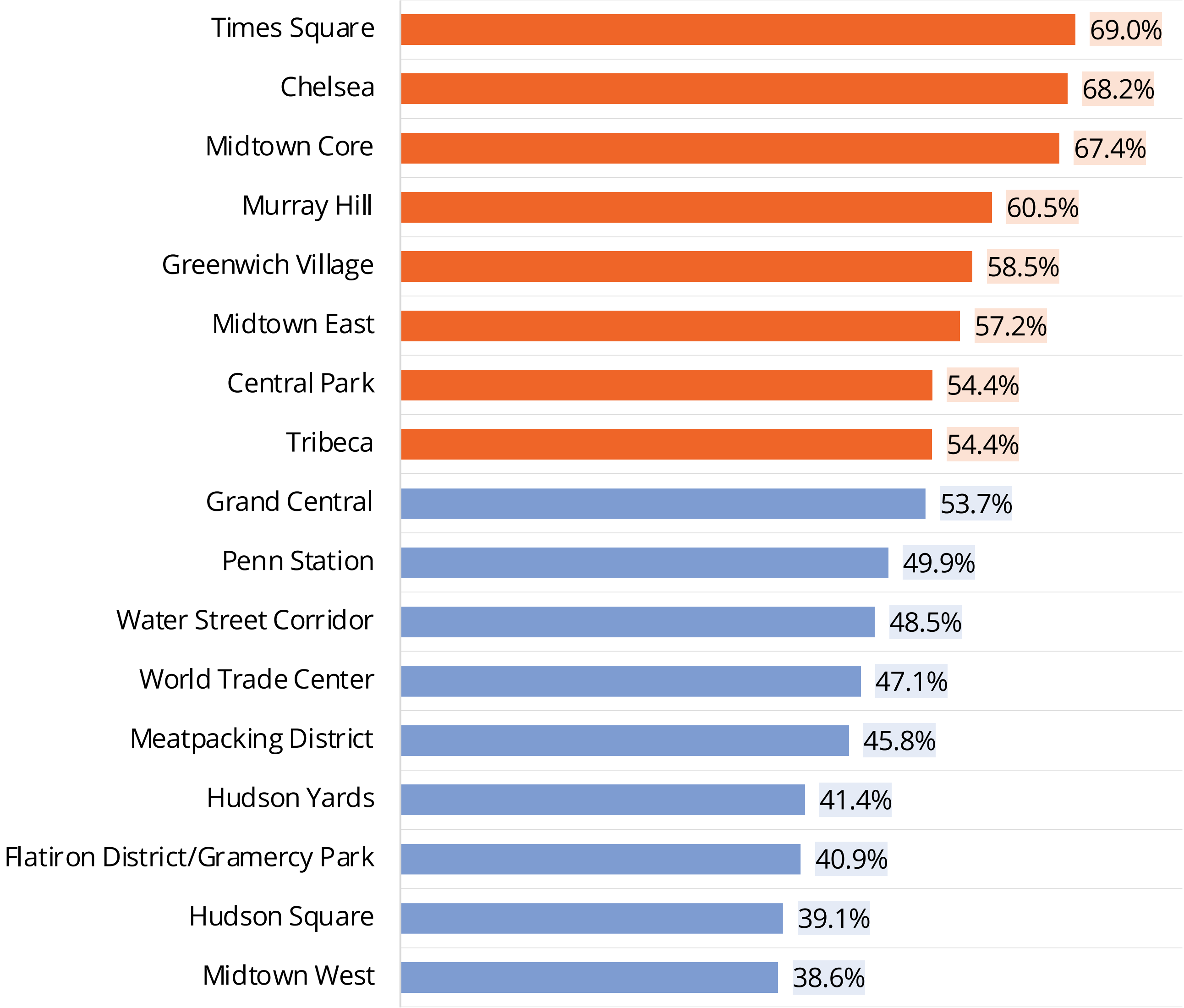
Manhattan return-to-office by submarket

61.2%

average visitor volumes at top eight submarkets, week of December 12, 2022 vs. week of December 9, 2019

Offices located in mixed-use and transit-oriented neighborhoods, such as Times Square, Chelsea, and Murray Hill have reported stronger office visitor volumes relative to peer submarkets.



Source: Orbital Insight, AVANT by Avison Young
Note: Representative office locations. Weekdays only.

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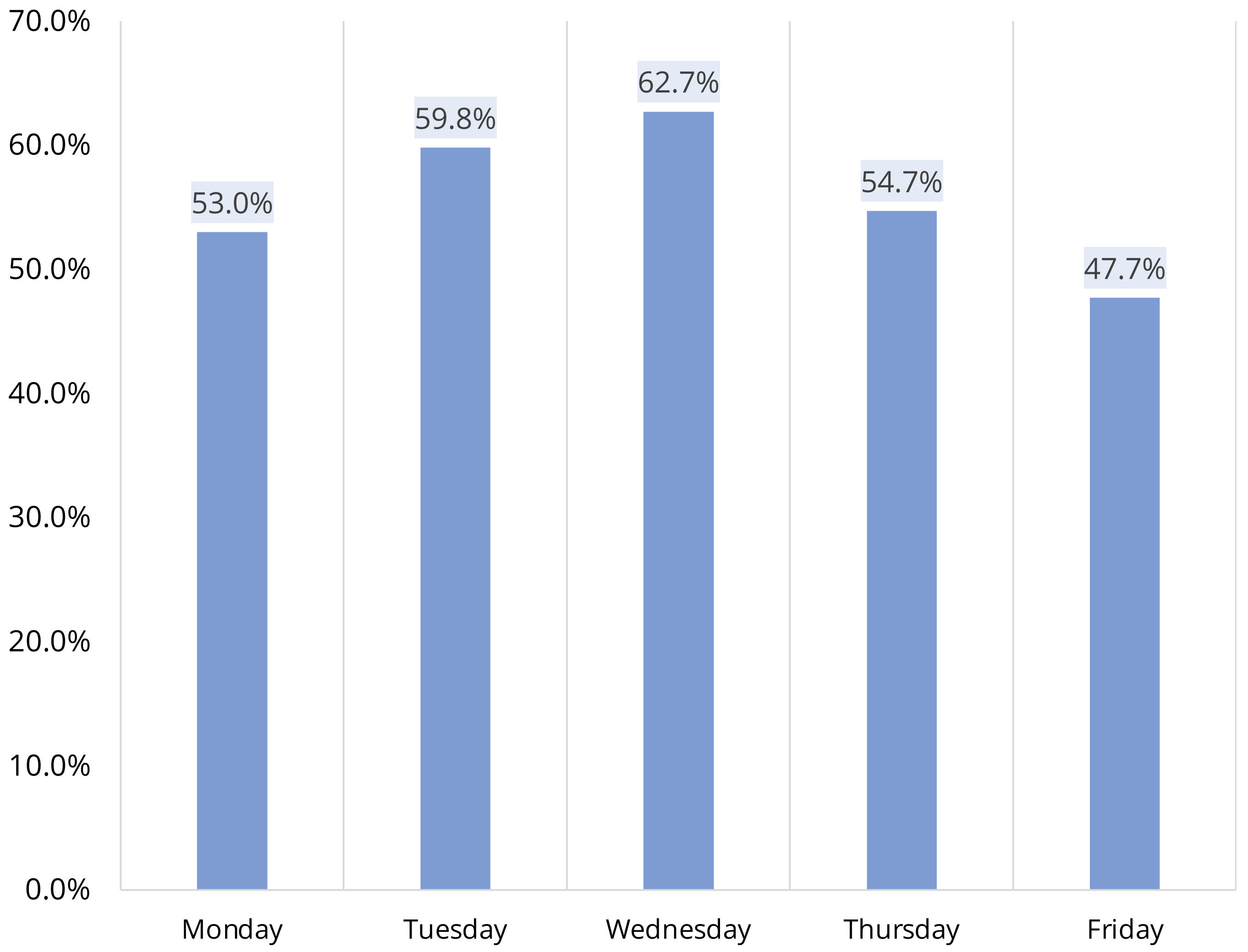
Manhattan return-to-office rates per day of the week

55.7%

Manhattan office visitor volumes, week of December 12, 2022 vs. week of December 9, 2019.

Offices in Manhattan have more mid-week visitation, with Mondays and Fridays lagging behind relative to 2019 levels.



Source: Orbital Insight, AVANT by Avison Young
Note: Representative office locations. Weekdays only.

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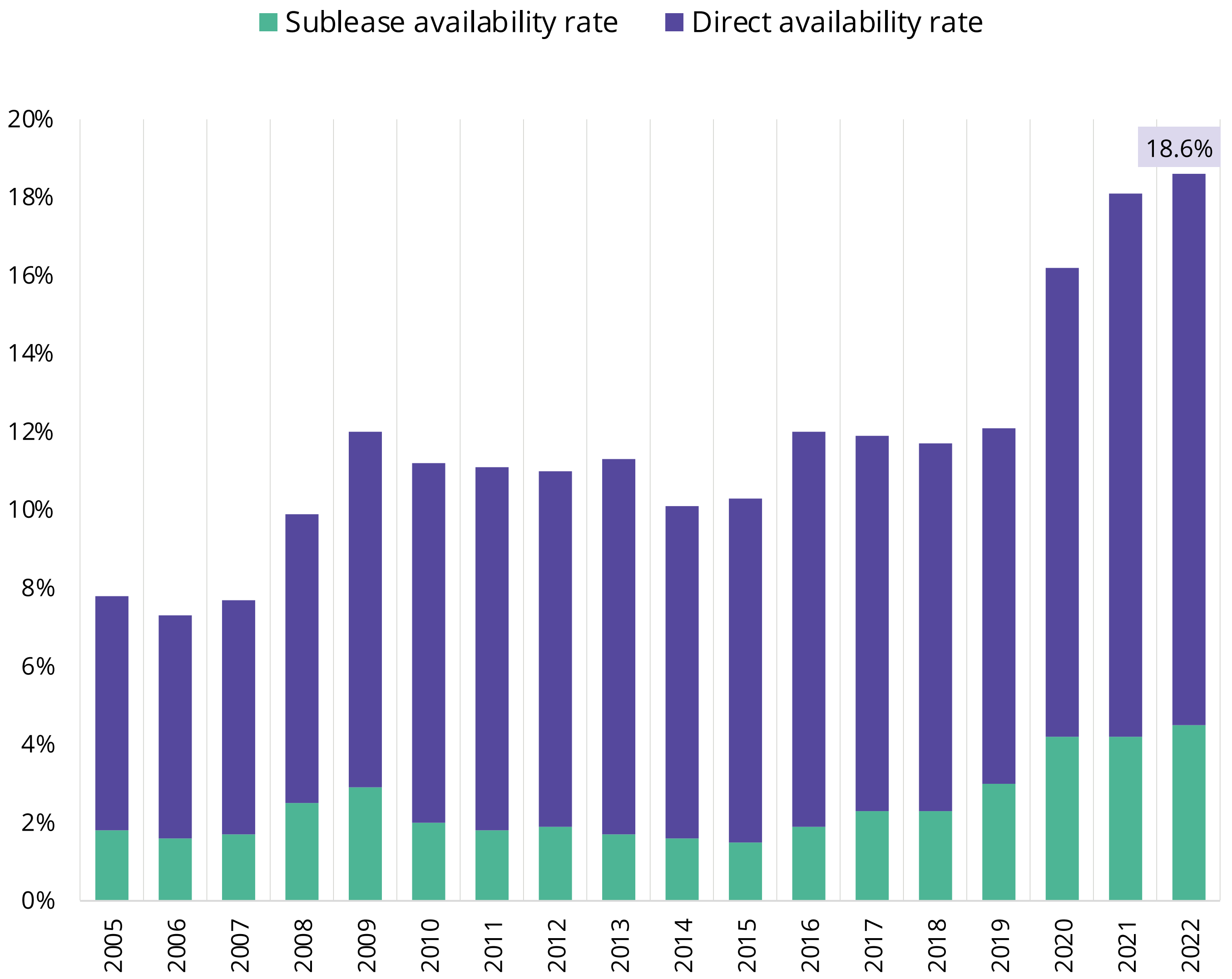
Let's examine more prevailing office trends

Office market availability rate

18.6%

Manhattan office availability rate as of Q4 2022.

Office availability in Manhattan has increased by 20 basis points from 18.4% in Q3 2022 to 18.6% in Q4 – marking the highest year-end availability rate dating back to 2005. Direct availability increased 20 basis points to 14.1%, while sublease availability remained at 4.5% from last quarter.



Source: CoStar
Note: Availability rate includes all availabilities, both direct and sublet, for existing, under construction and under renovation properties.

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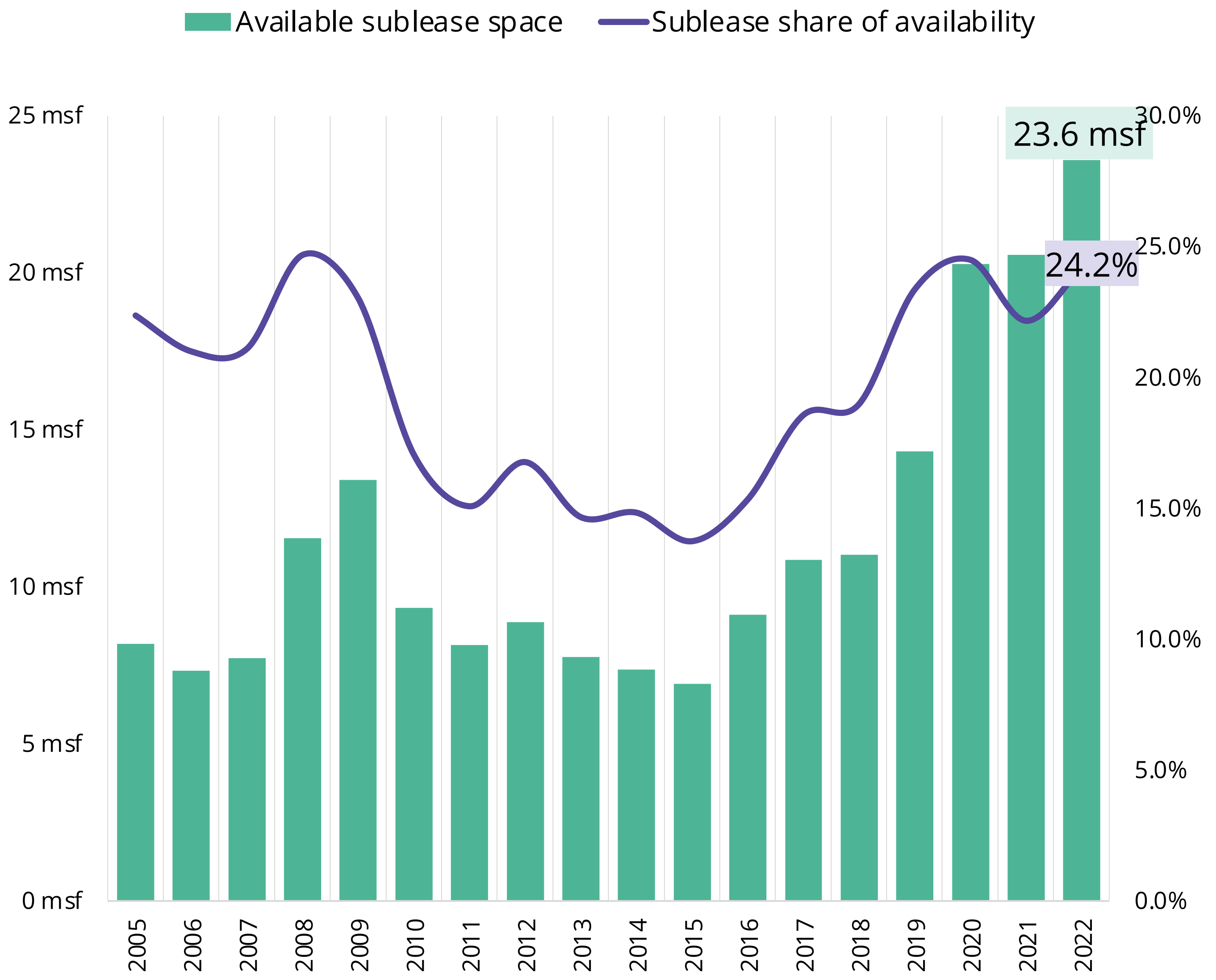
Available sublease space

23.6 msf

of available sublease space in Manhattan.

Total sublease availability has seen a quarter-over-quarter increase of about 300,000 square feet from Q3 2022, reaching a record high. Although available sublease space is at a record level, its share of overall availability has yet to surpass the 2008 peak of 24.7%.



Source: CoStar
Note: Availability rate includes all availabilities, both direct and sublet, for existing, under construction and under renovation properties.

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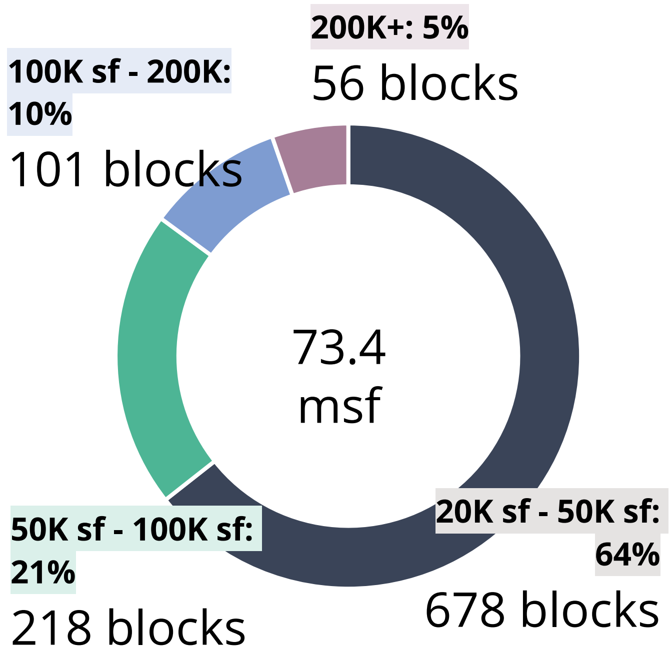
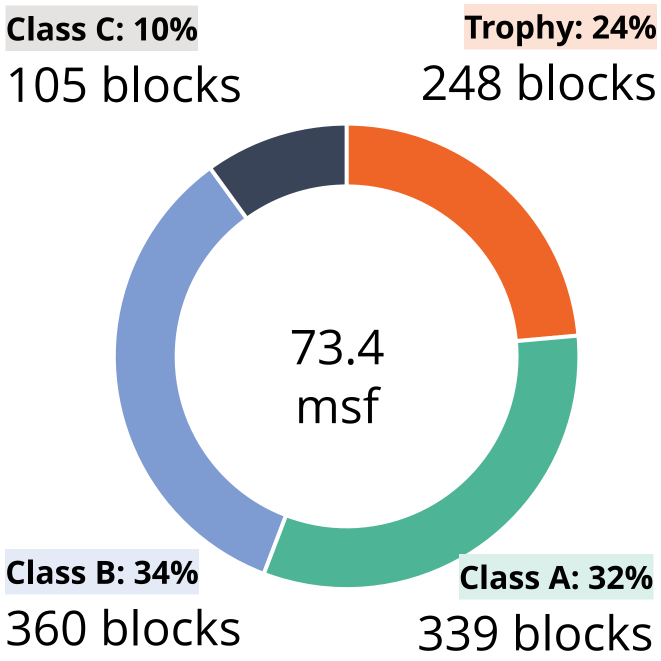
Office large block availability (20,000+ sf)

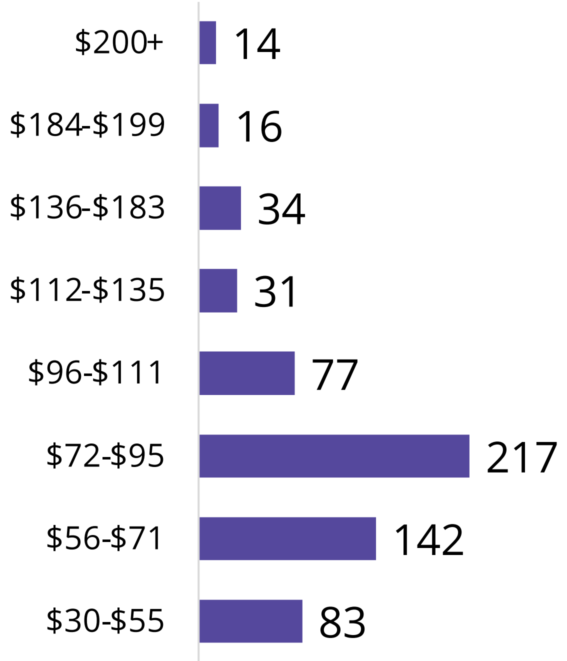
Number of blocks by size



Number of blocks by class



Asking rents*



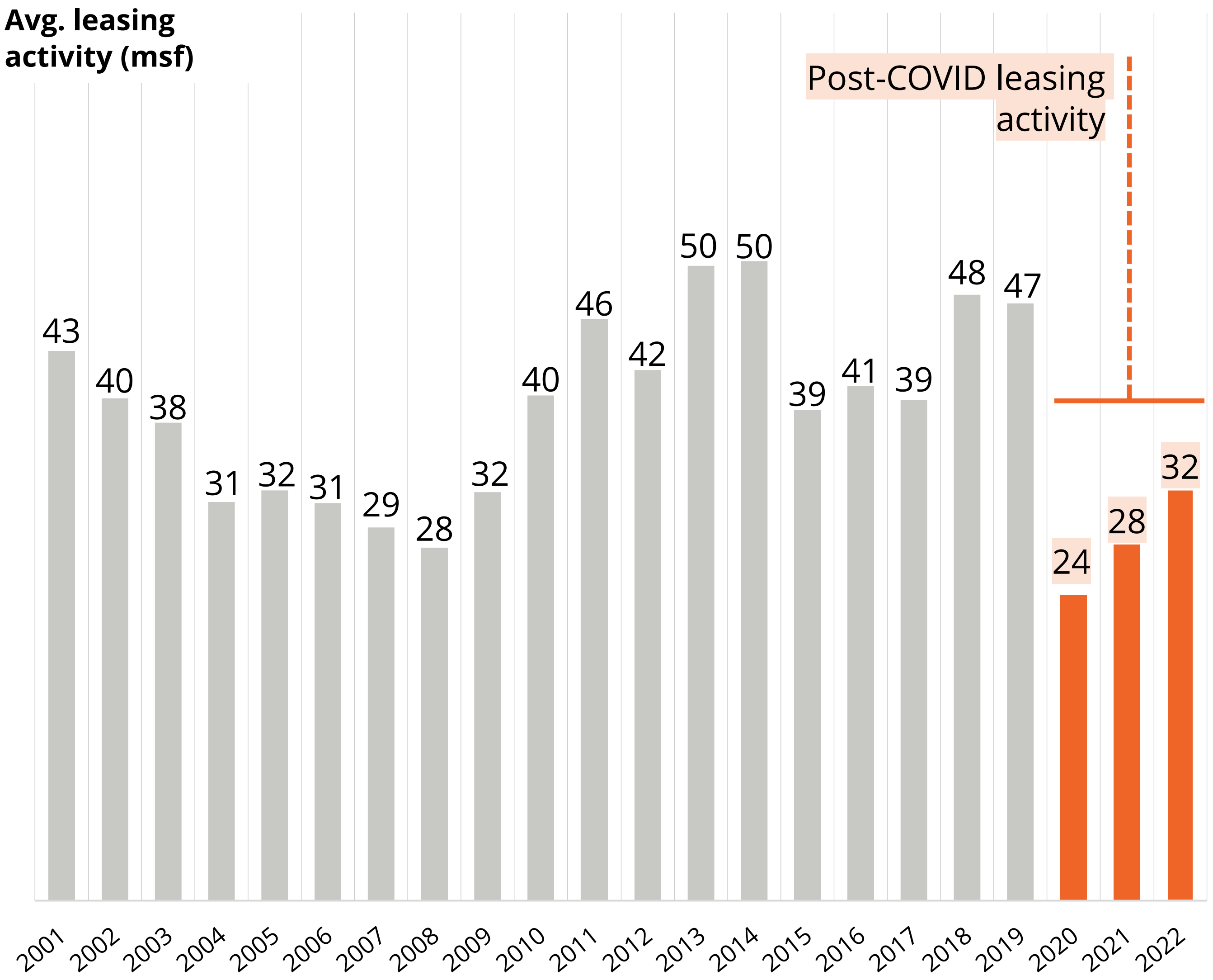
Source: CoStar, AVANT by Avison Young
Note: 20,000+ sf blocks. Asking rents for some blocks are undisclosed. Availability includes all availabilities, both direct and sublet, for existing, under construction and under renovation properties.

Office leasing activity

+15.5%

Manhattan office leasing activity, 2022 vs. 2021.

With 5.4 msf of leasing activity in Q4, 2022 leasing has outperformed leasing activity from 2021 (32.4 msf vs. 28.1 msf). Although 2022 leasing activity has surpassed 2021, Q4 2022 leasing activity has slowed down from previous quarters – down 43.2% from Q3 2022.



Source: CoStar

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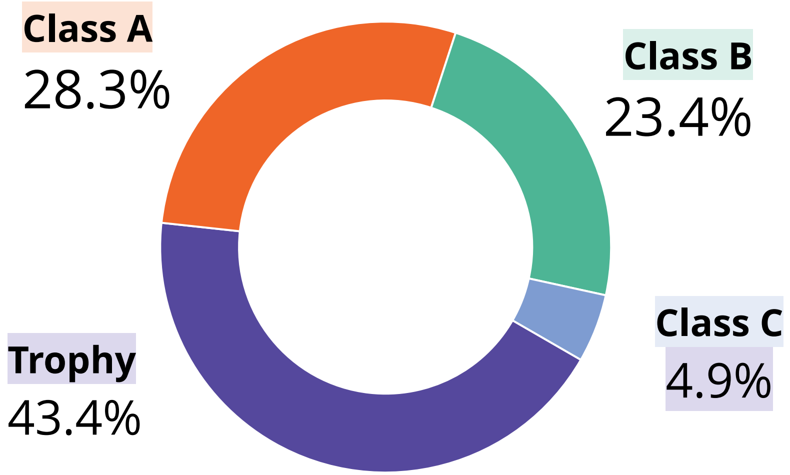
Flight-to-quality trend continues

72.8%

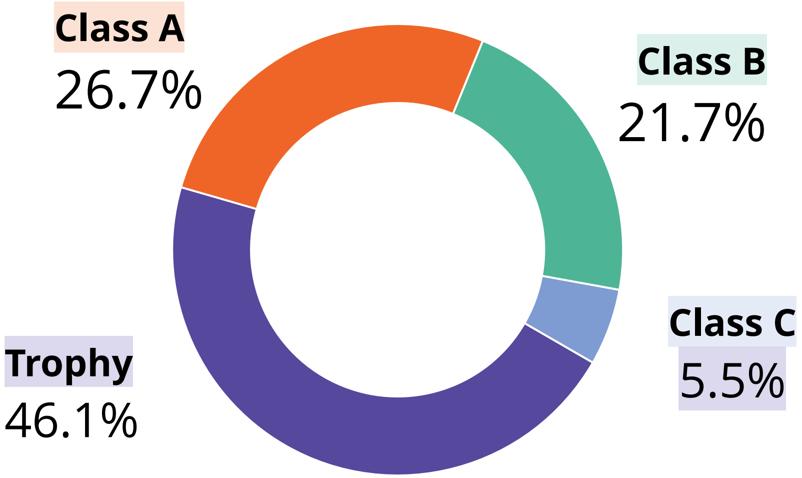
of post-pandemic leasing activity is in Trophy and Class A office assets.

The 'flight-to-quality' trend that has persisted for several years has been exacerbated as transit-oriented, top-of-market options gain leasing traction while commodity offerings have struggled to attract tenant commitments. From January 2018 to the COVID lockdown in March 2020, 71.7% of leasing activity was in Trophy and Class A space. Post-COVID, this figure marginally increased to 72.8%.

From 2018 through March 2020



Post-COVID



Source: AVANT by Avison Young

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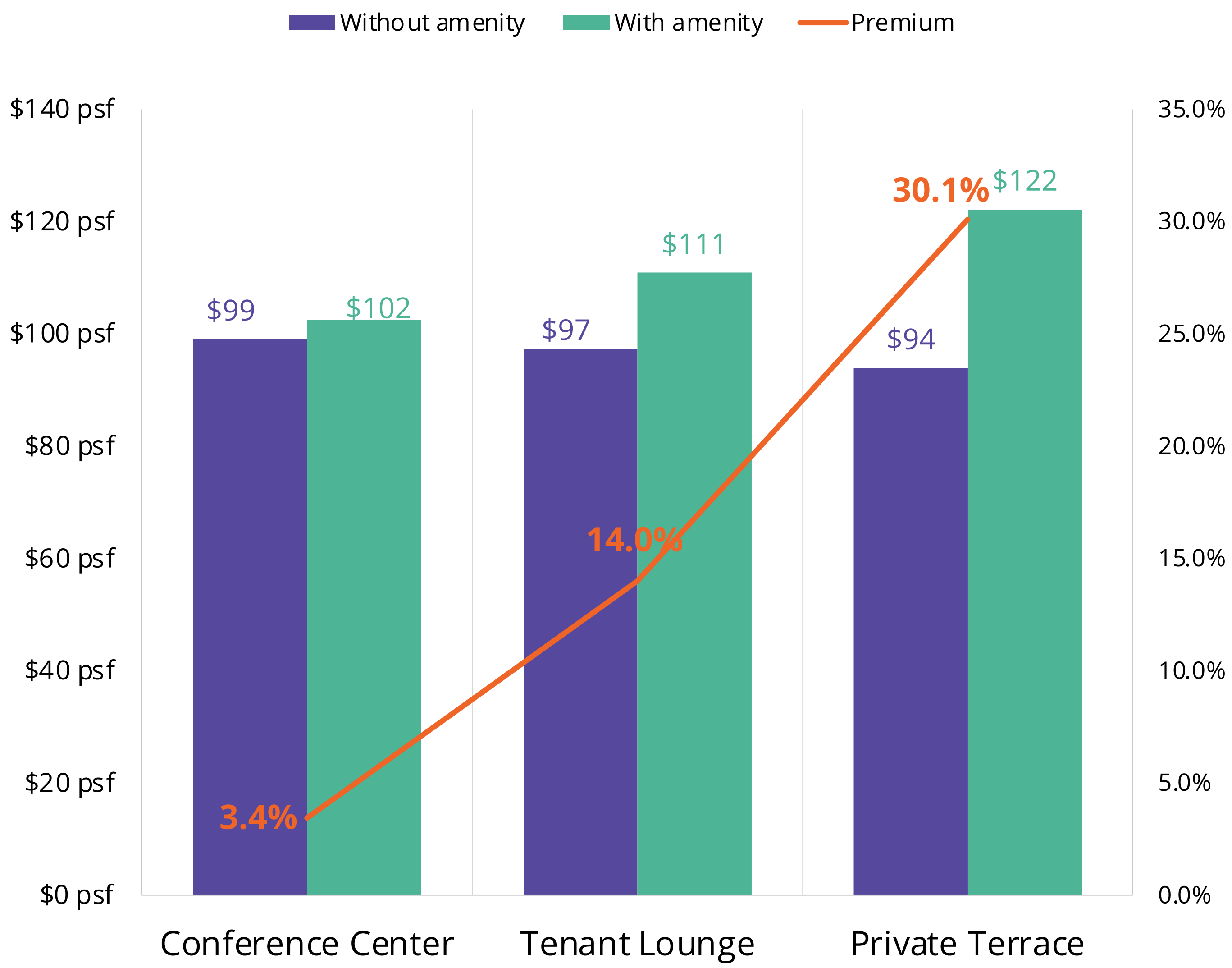
Manhattan amenity rent premiums

+15.8%

average base rent premium for buildings with a conference center, tenant lounge, or private terrace.

Conference centers, tenant lounges, and private terraces are three of the most sought-after amenities in modern office buildings. In Manhattan, private terraces reported the highest premium, with base rents averaging 30.1% higher than buildings without a private terrace.



Source: AVANT by Avison Young
Note: Trophy and Class A properties only.

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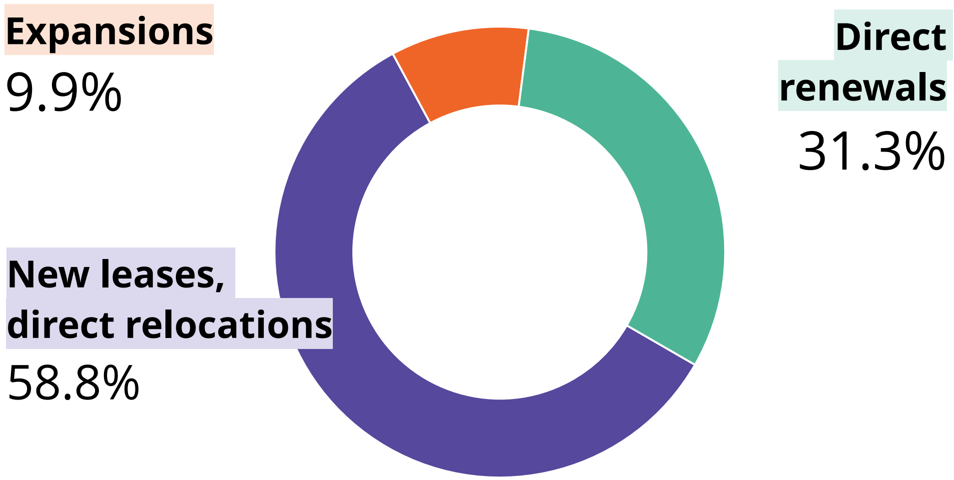
Transaction activity by lease type

+4.1%

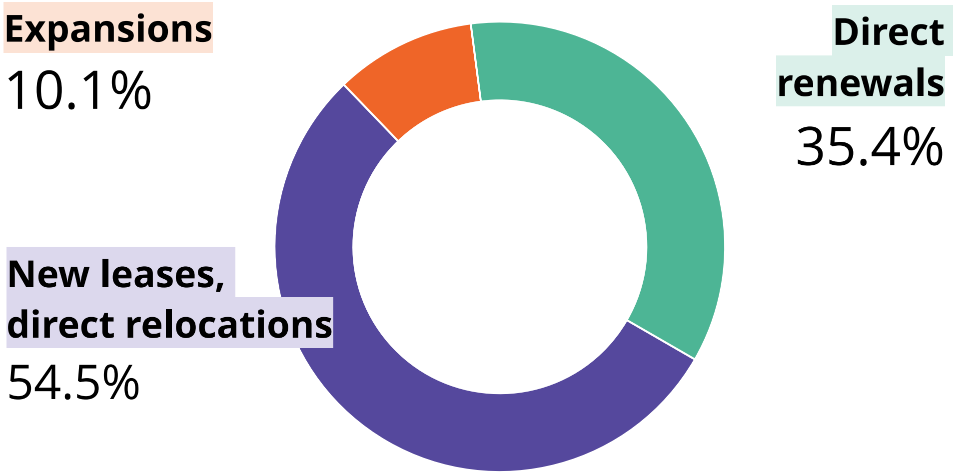
percentage point increase in renewals as a share of total leasing activity post-COVID.

When comparing pre-COVID to post-COVID, the breakdown of lease activity by lease type remains largely unchanged. Direct relocations share of overall leasing saw a decrease of 4.3%, while renewals share of leasing saw an increase of 4.1%.

From 2018 through March 2020



Leasing activity post-COVID



Source: AVANT by Avison Young. Direct leases only.

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Net absorption

-1.8 msf

net absorption in 2022.

Following a quarter of positive net absorption in Q3 2022, Q4 reported a net absorption of negative 1.1 million square feet. Significant amounts of space added to the market coupled with tepid leasing activity led to the significant amount of negative absorption in Q4. Although Q1 and Q3 2022 reported positive net absorption, negative net absorption in Q2 and Q4 outweighed the positive, leading to a year-end net absorption of -1.8 million square feet.

Source: AVANT by Avison Young, CoStar

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Office development pipeline

37 properties

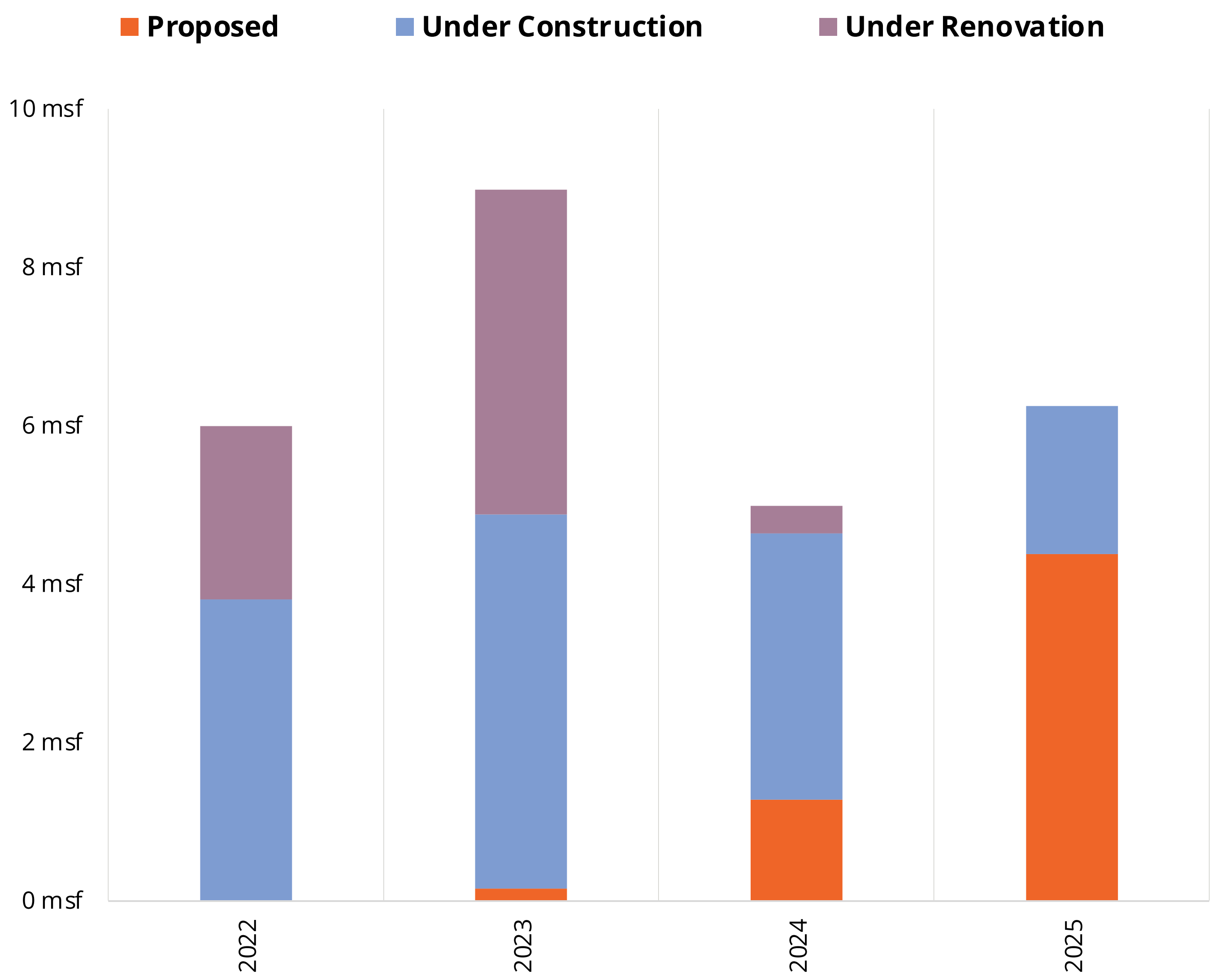
proposed, under construction / renovation

26.2 msf

proposed, under construction

4.9%

share of office inventory



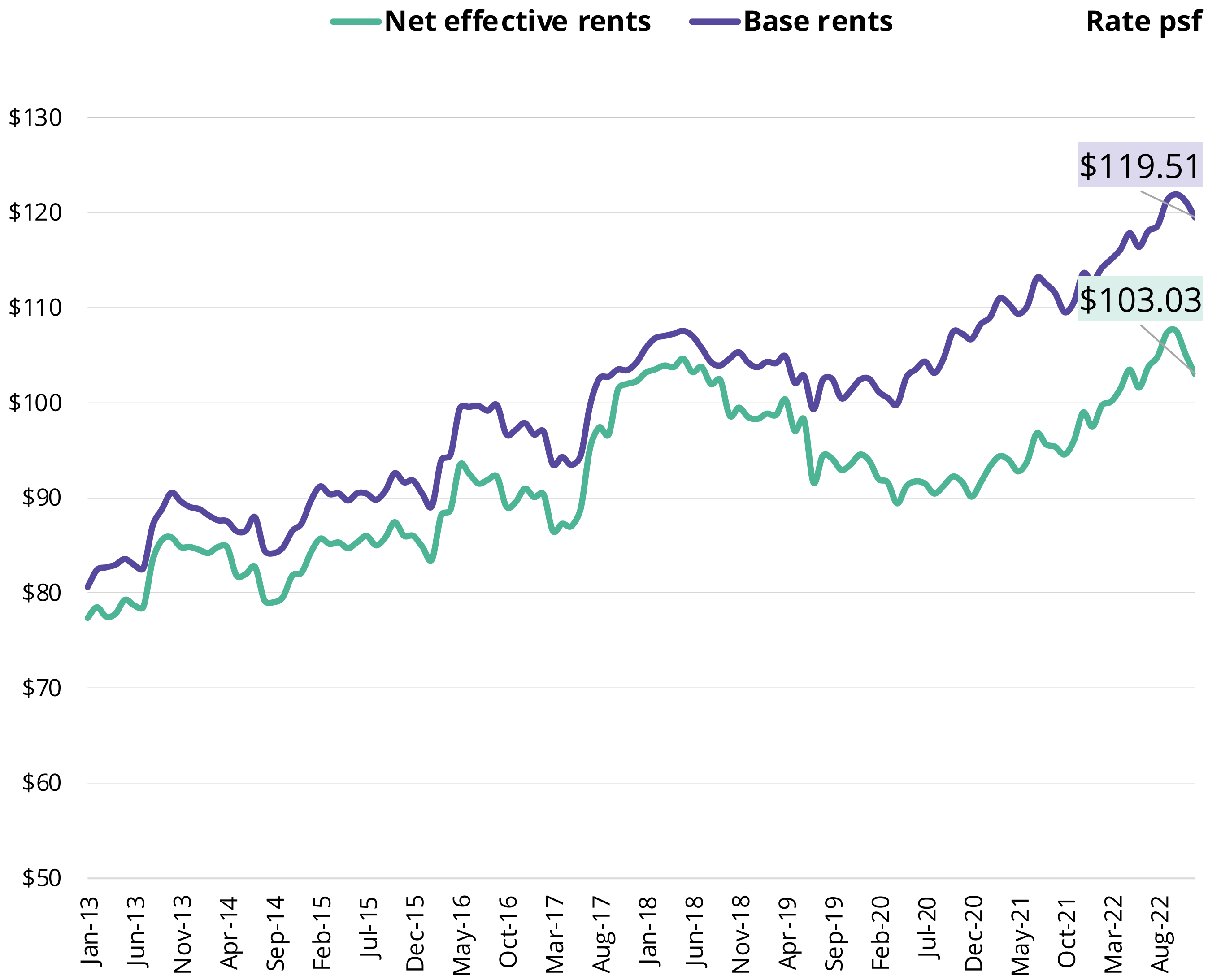
Source: AVANT by Avison Young

Trophy net effective rents and base rents

+12.5%

Trophy direct relocation net effective rents, December 2022 vs. March 2020.

Trophy direct relocation average base rents and net effective rents have been steadily increasing since 2013. Despite a slight decrease in December 2022, they seem to be continuing their upward trends - average base rents are now at $119.51 psf and net effective rents are at $103.03 psf.



Source: AVANT by Avison Young
Note: Direct relocations only. Trophy properties represent the top 10% of the Manhattan office market in terms of rents and build date.

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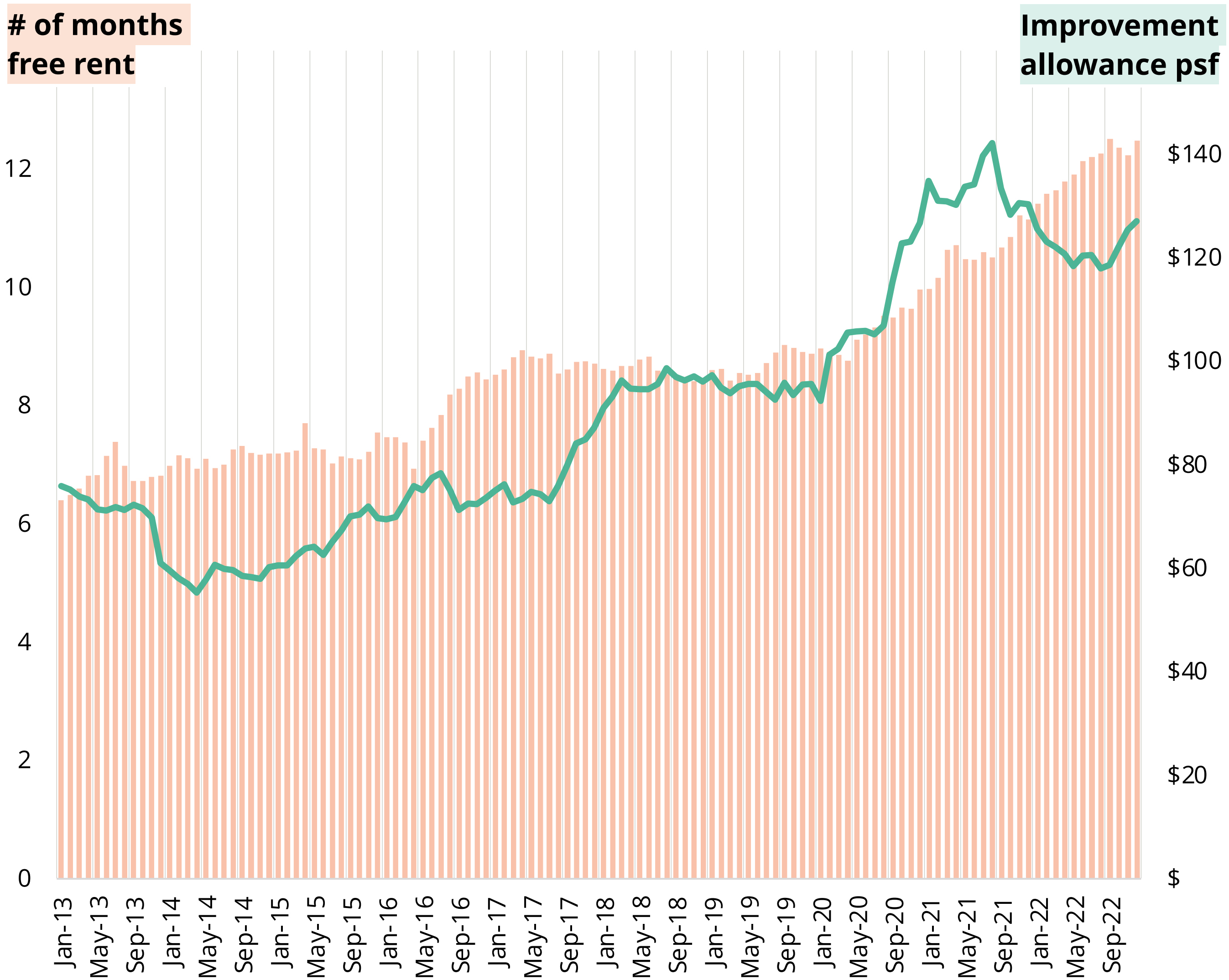
Trophy office concessions packages

+24.1%

Trophy direct relocation tenant improvement allowances, December 2022 vs. March 2020.

Trophy concession packages increased significantly following the pandemic; however, there has been a steady drop-off in average tenant improvement allowances since mid-2021. This recent decline represents a sign of continued strong demand for Trophy properties and increasing landlords' leverage. On the other hand, November 2022 has seen the largest month-over-month increase in average tenant improvement allowances since the peak in August 2021.



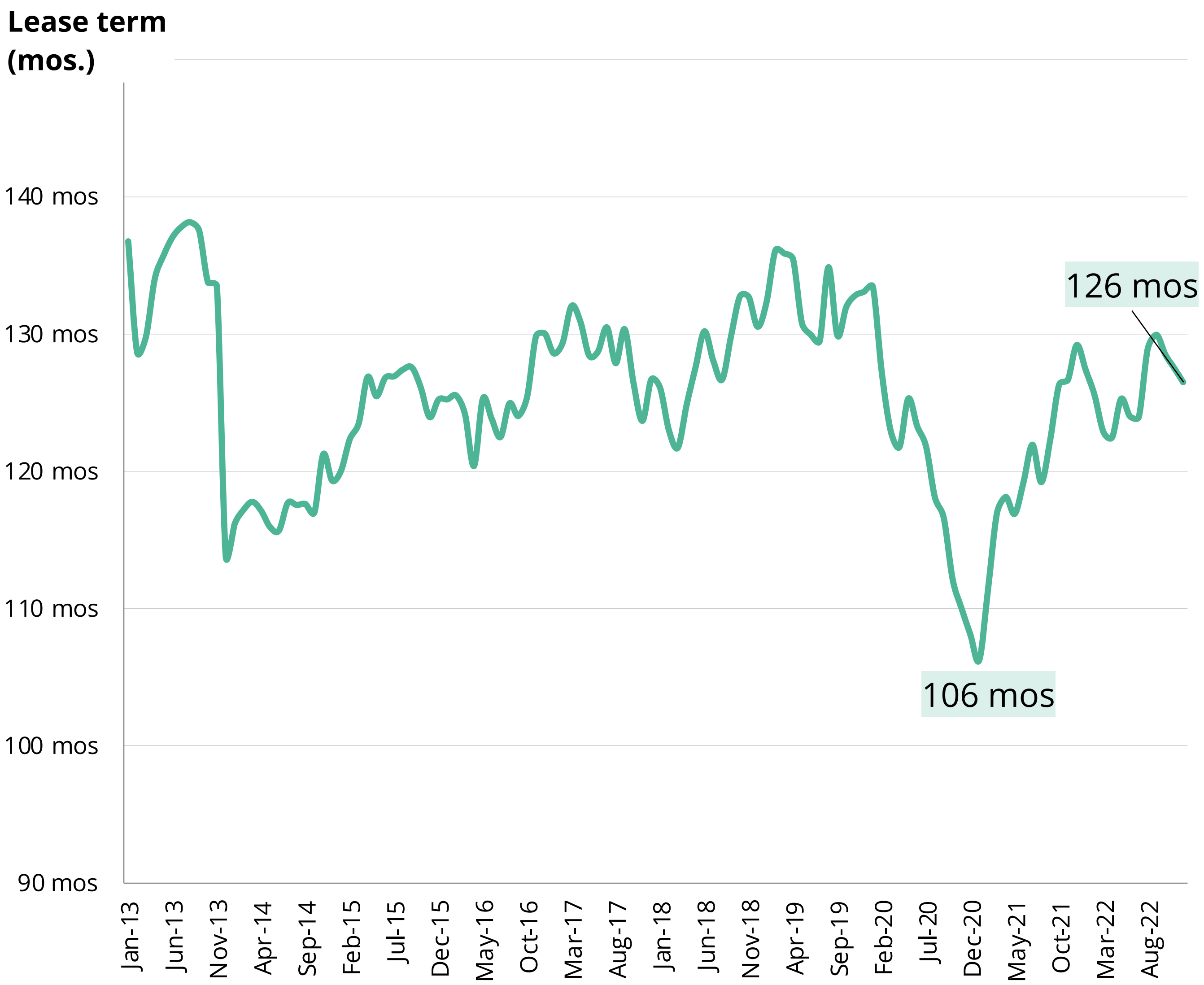
Source: AVANT by Avison Young
Note: Direct relocations only. Normalized to 10-year lease terms. Trophy properties represent the top 10% of the Manhattan office market in terms of rents and build date.

Trophy average lease term

126 months

Current 12-month moving average lease term length.

Trophy properties have seen consistently strong demand in Manhattan throughout the last several years. While demand was still high during the pandemic, the average length of lease term saw a significant decrease – and went as low as 106 months in January 2021. However, terms have since returned towards pre-COVID normalcy, averaging just over 10 years per lease – just 2.9% below pre-COVID levels.



Source: AVANT by Avison Young
Note: Direct relocations only. Trophy properties represent the top 10% of the Manhattan office market in terms of rents and build date.

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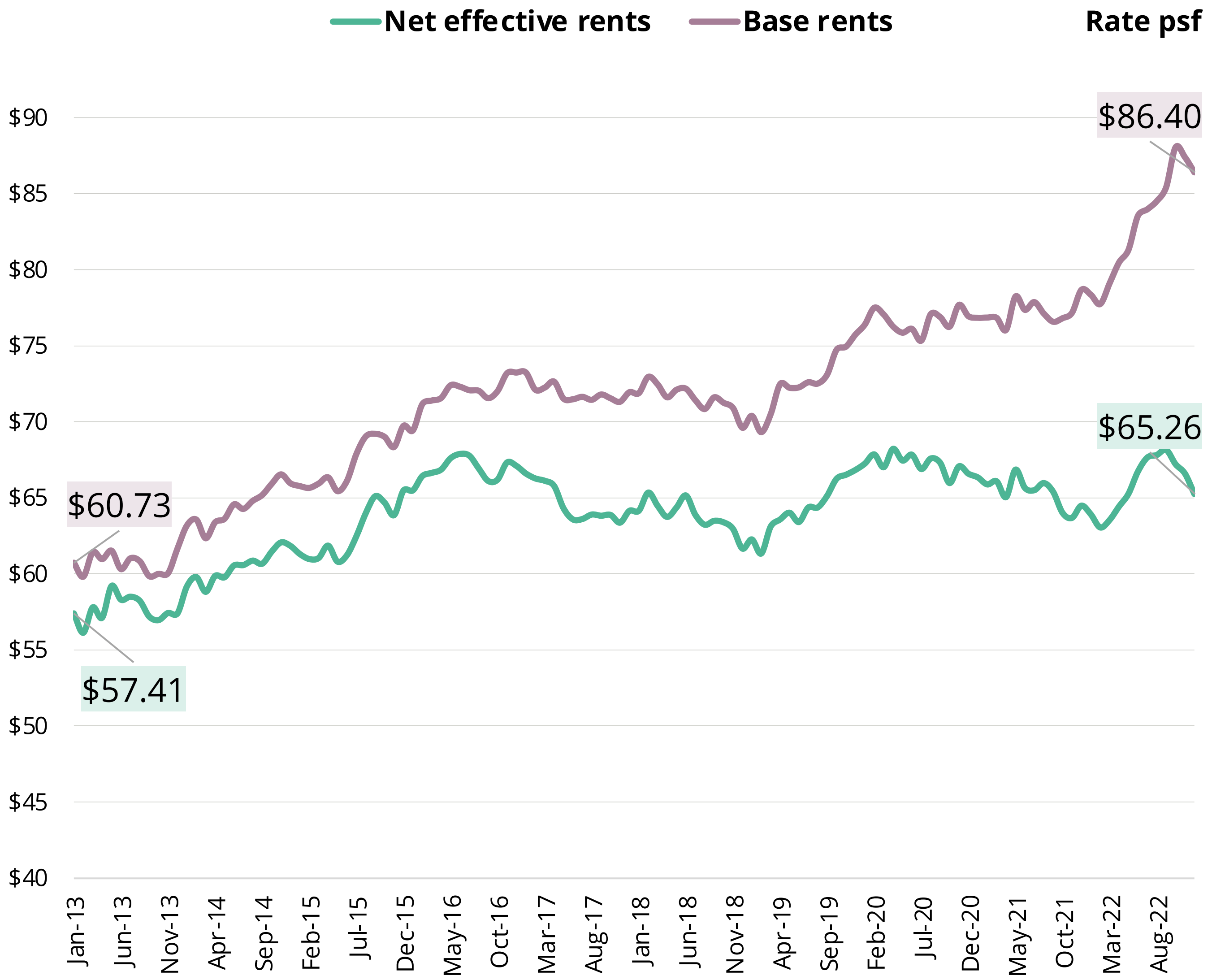
Class A net effective rents and base rents

-2.6%

Class A direct relocation net effective rents, December 2022 vs. March 2020.

Within Class A properties throughout Manhattan, demand continues to lean towards higher quality assets – causing landlords to continue to offer considerably larger concessions. As a result, Class A base rents in Manhattan continue to rise, while net effective rents have largely leveled out. However, since Q3 2022, base rents have decreased by 4.3%.



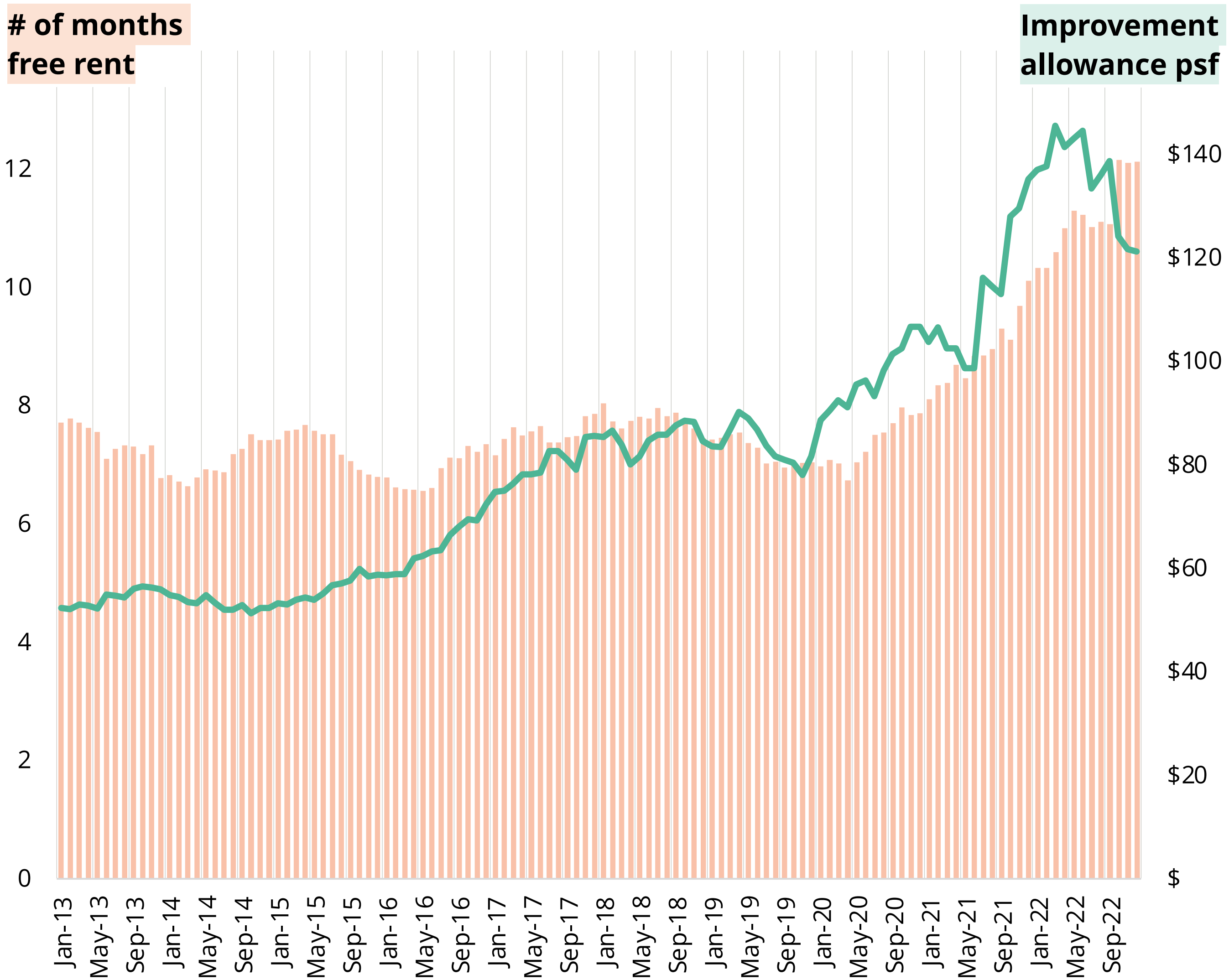
Source: AVANT by Avison Young
Note: Direct relocations only. Class A properties represent the top 25% but not the top 10% of the Manhattan office market in terms of rents and build date.

Class A office concessions packages

+31.1%

Class A direct relocation tenant improvement allowances, December 2022 vs. March 2020.

Class A free rent periods and tenant improvement allowances, when normalizing for 10-year lease terms, are at 12.1 months and $121.21 psf, respectively. While both figures are still significantly above pre-COVID levels, average tenant improvement allowances are 16.7% lower than the peak in March 2022. Free rent months have continued to grow, but at a much slower rate than in previous recent months.



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

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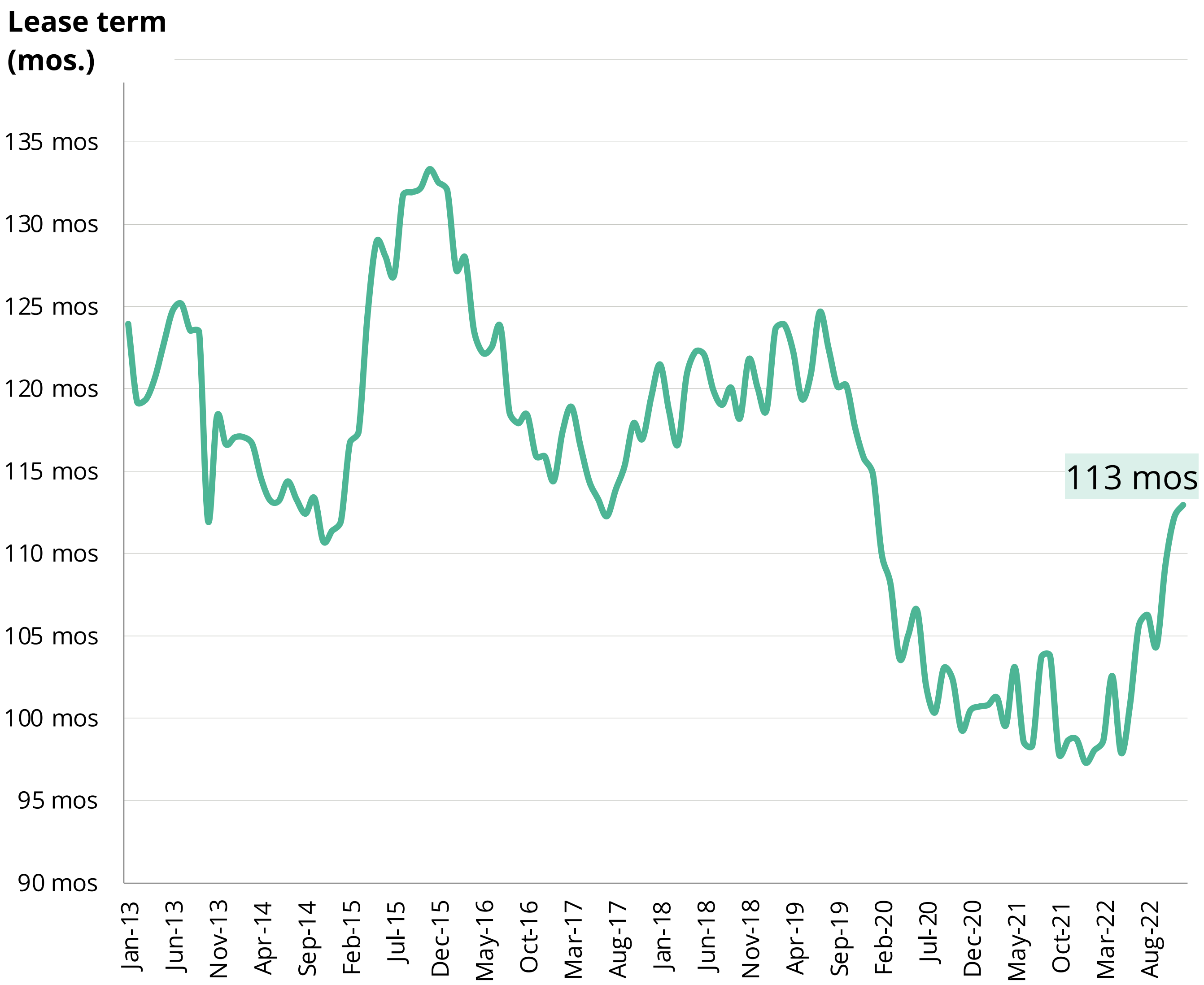
Class A average lease term

113 months

Current 12-month moving average lease term length.

Class A properties were already seeing a decrease in average length of lease term in late 2019 before the pandemic, which was further accelerated by the lockdown in March 2020. Term lengths have begun to recover but still sit 4.5% below pre-COVID levels at 113 months per lease, on average.



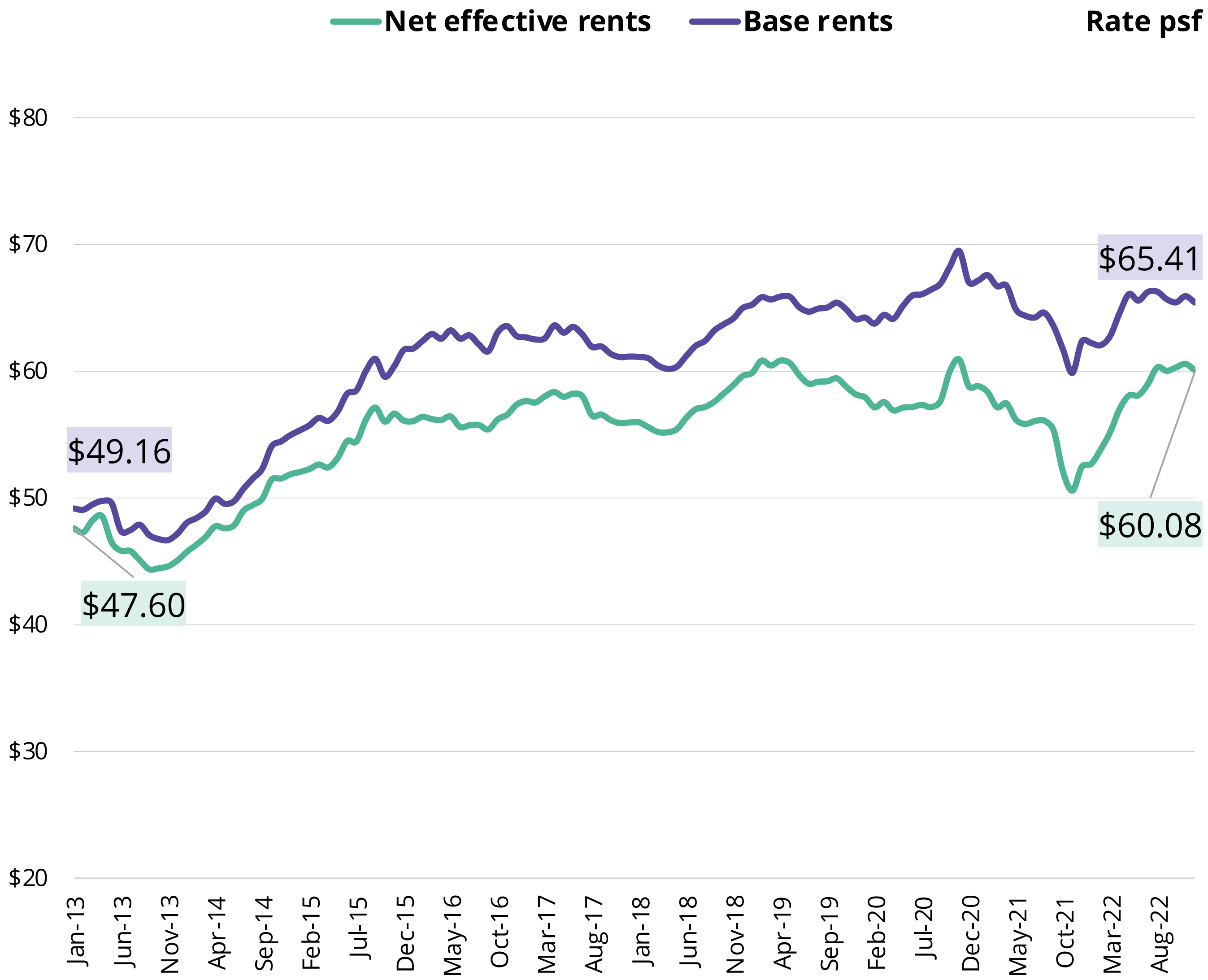
Source: AVANT by Avison Young
Note: Direct relocations only. Class A properties represent the top 25% but not the top 10% of the Manhattan office market in terms of rents and build date.

Class B and C net effective rents and base rents

+4.4%

Class B and C direct relocation net effective rents, December 2022 vs. March 2020.

Class B and C buildings' base and net effective rents, currently at $65.41 and $60.08, both saw a significant decrease from 2020 through late 2021 but are now higher than pre-COVID levels. Tenants currently occupying Class B and C buildings are largely renewing or moving to higher quality buildings within the asset class, causing the Class B and C market to effectively rise.



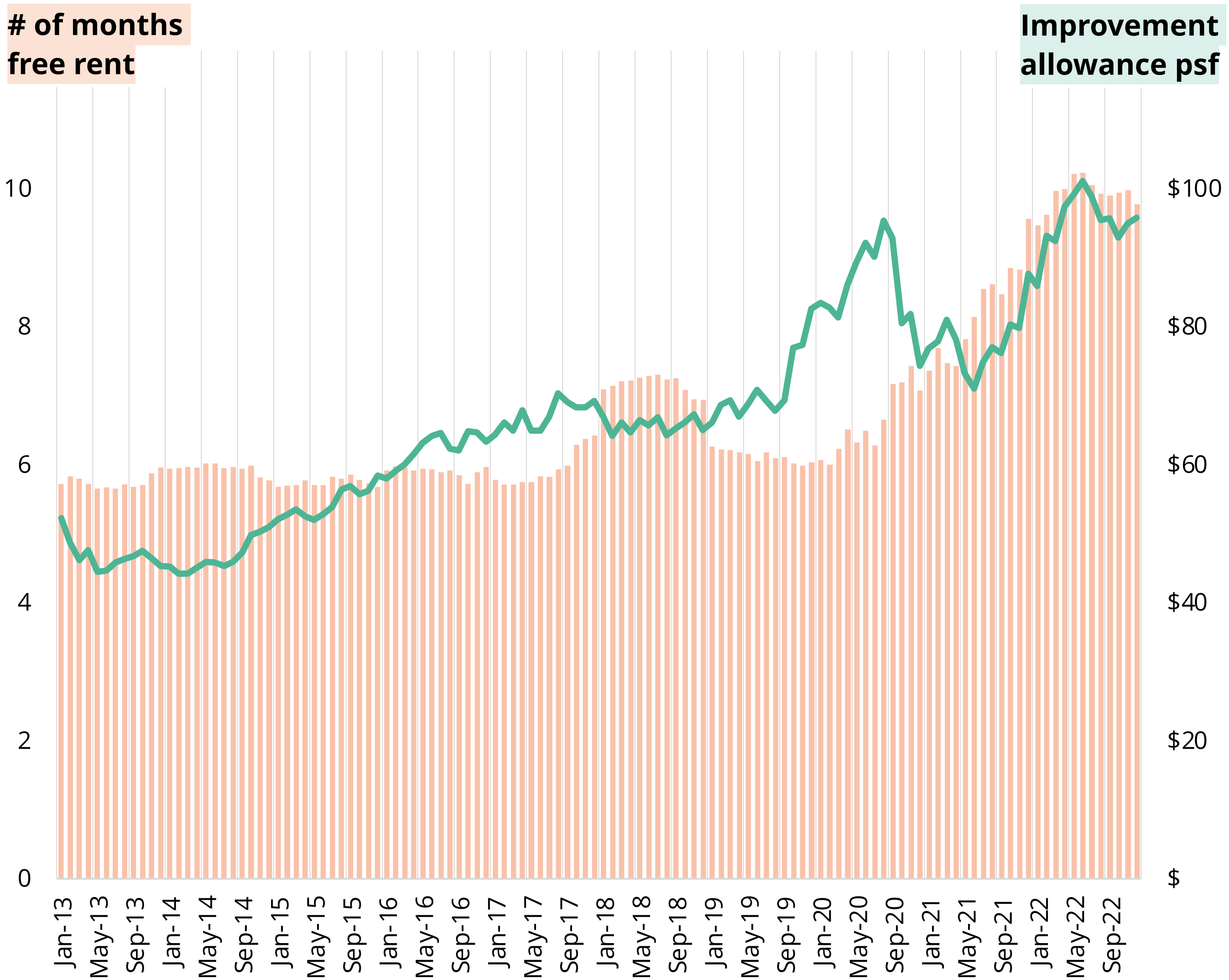
Source: AVANT by Avison Young
Note: Direct relocations only.

Class B and C office concessions packages

+17.8%

Class B and C direct relocation tenant improvement allowances, December 2022 vs. March 2020.

Class B and C free rent periods and tenant improvement allowances, when normalizing for 10-year lease terms, are at 9.8 months and $95.81 psf, respectively. Both concession values are near Class B and C record highs, as landlords of these assets continue to feel market pressure to increase concession packages.



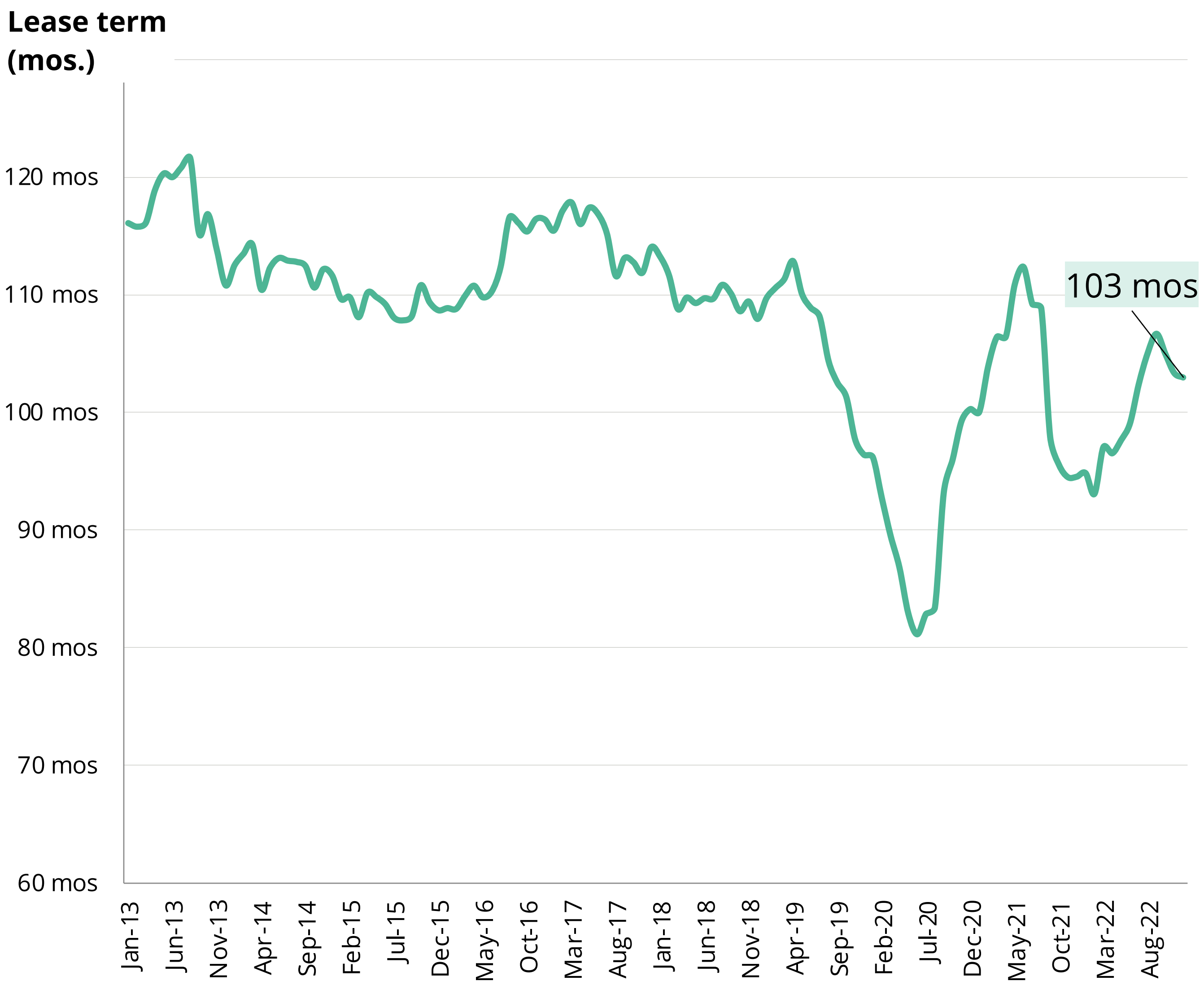
Source: AVANT by Avison Young
Note: Direct relocations only. Normalized to 10-year lease terms

Class B and C average lease term

103 months

Current 12-month moving average lease term length.

Like Class A properties, Class B and C properties were reporting a decrease in average lease term prior to the lockdown in March 2020. However, Class B and C properties have made a significant recovery in average lease term length, currently 15.0% above pre-COVID levels.



Source: AVANT by Avison Young
Note: Direct relocations only.

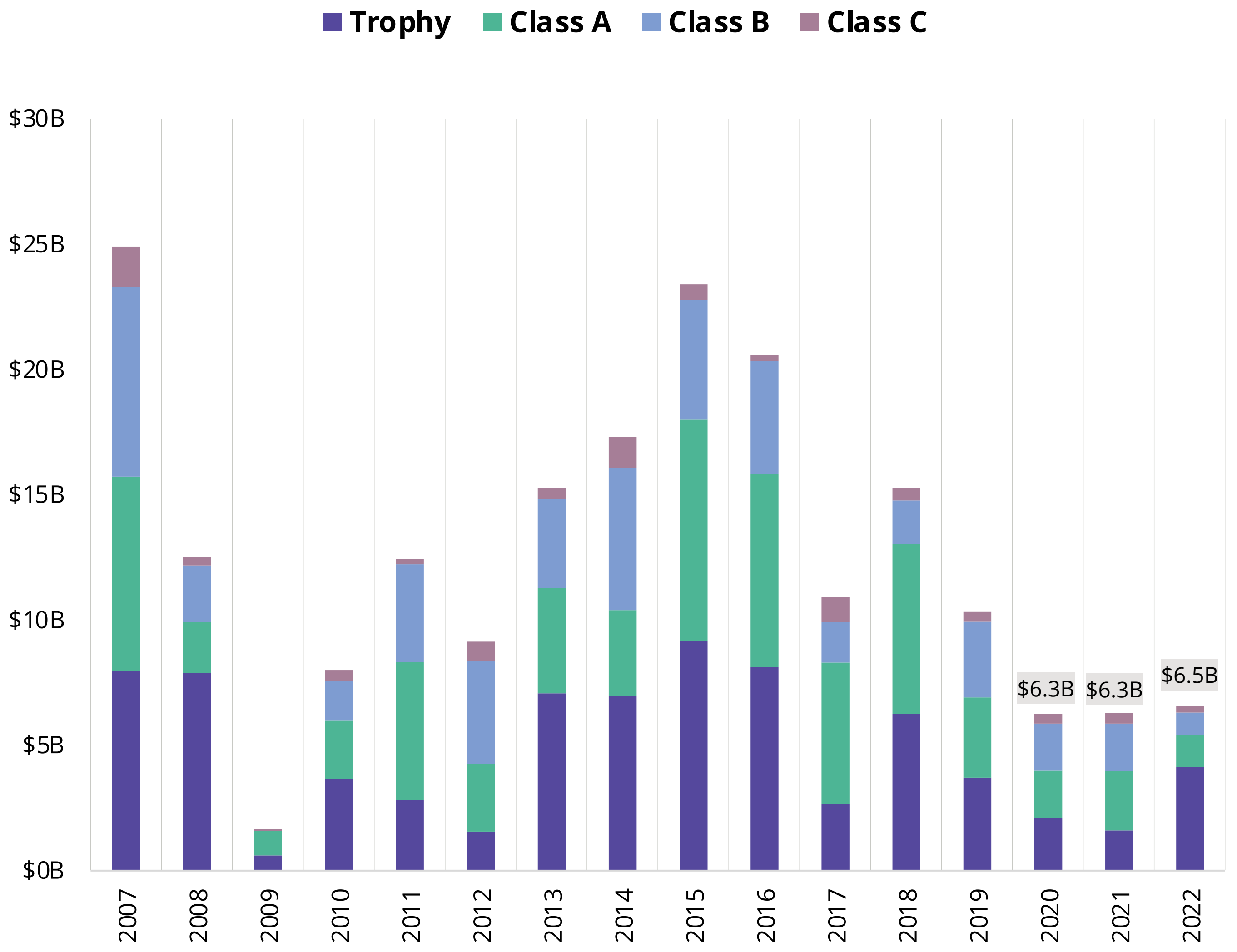
Manhattan office investment sales

Manhattan Office investment dollar volume

$6.6B

2022 Manhattan office dollar volume.

Total sales volume in Q4 2022 increased compared to Q3 2022 due to several major deals that closed by the end of the year. This includes Empire Capital Holdings' purchase of 1330 Avenue of the Americas for $320 million and the office condo sale of 885 Third Avenue to Memorial Sloan Kettering for $300 million. A slowdown in investment activity in the coming quarters is likely to occur due to continued economic and occupier concern, as well as the fact that there are no longer as many prominent deals awaiting closing.



Source: AVANT by Avison Young

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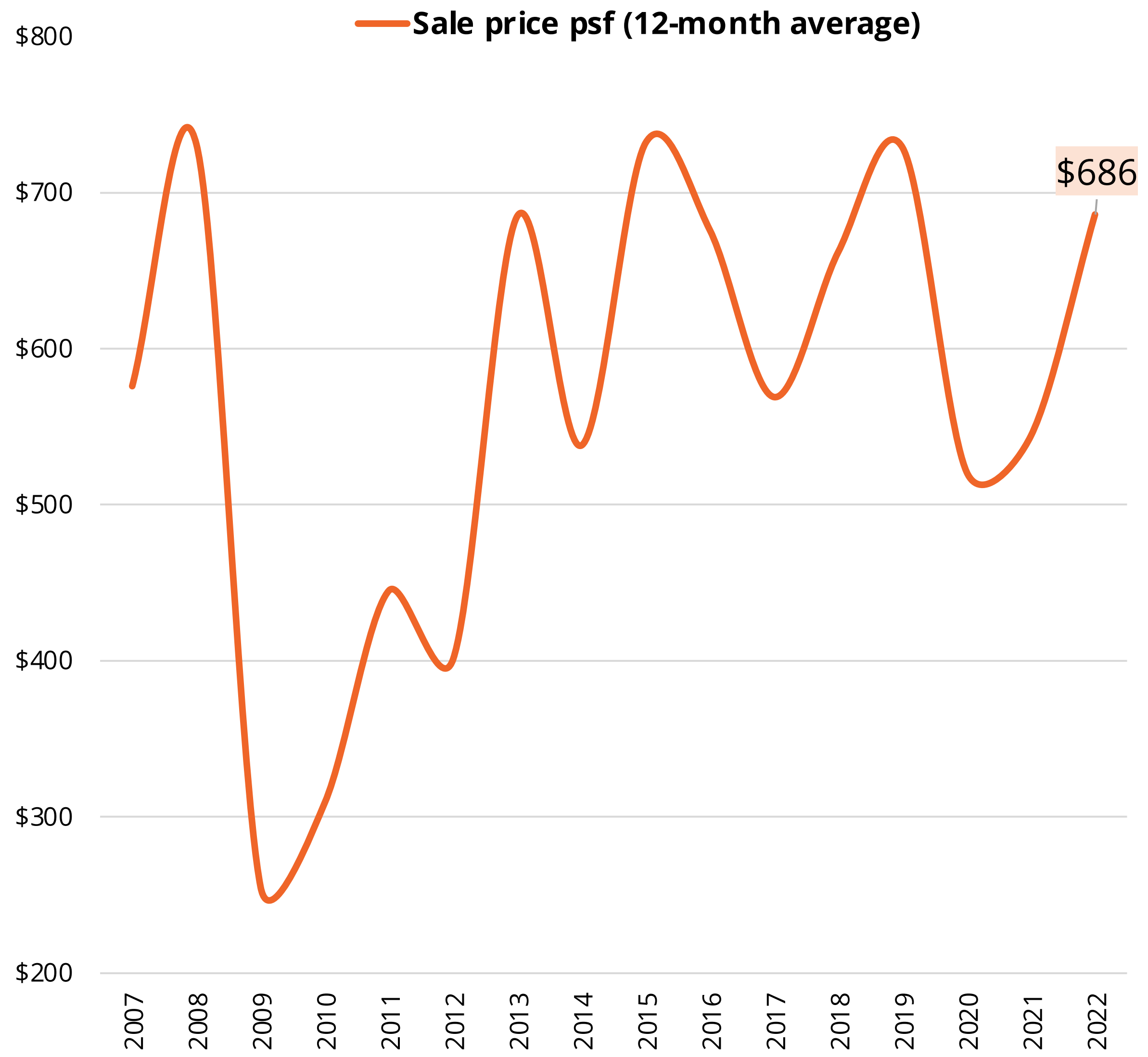
Manhattan investment sales price per square foot

$686 psf

12-month moving average price per square foot.

The 12-month moving average price per square foot of $686 is above the 2021 average ($544 for the year). This increase is likely attributed to more Trophy assets being sold in 2022 compared to 2021 – $4.1B vs. $1.6B. However, higher benchmark interest rates and challenging occupier conditions should cause investor interest to wane and values to decline in 2023.



Source: AVANT by Avison Young, CoStar

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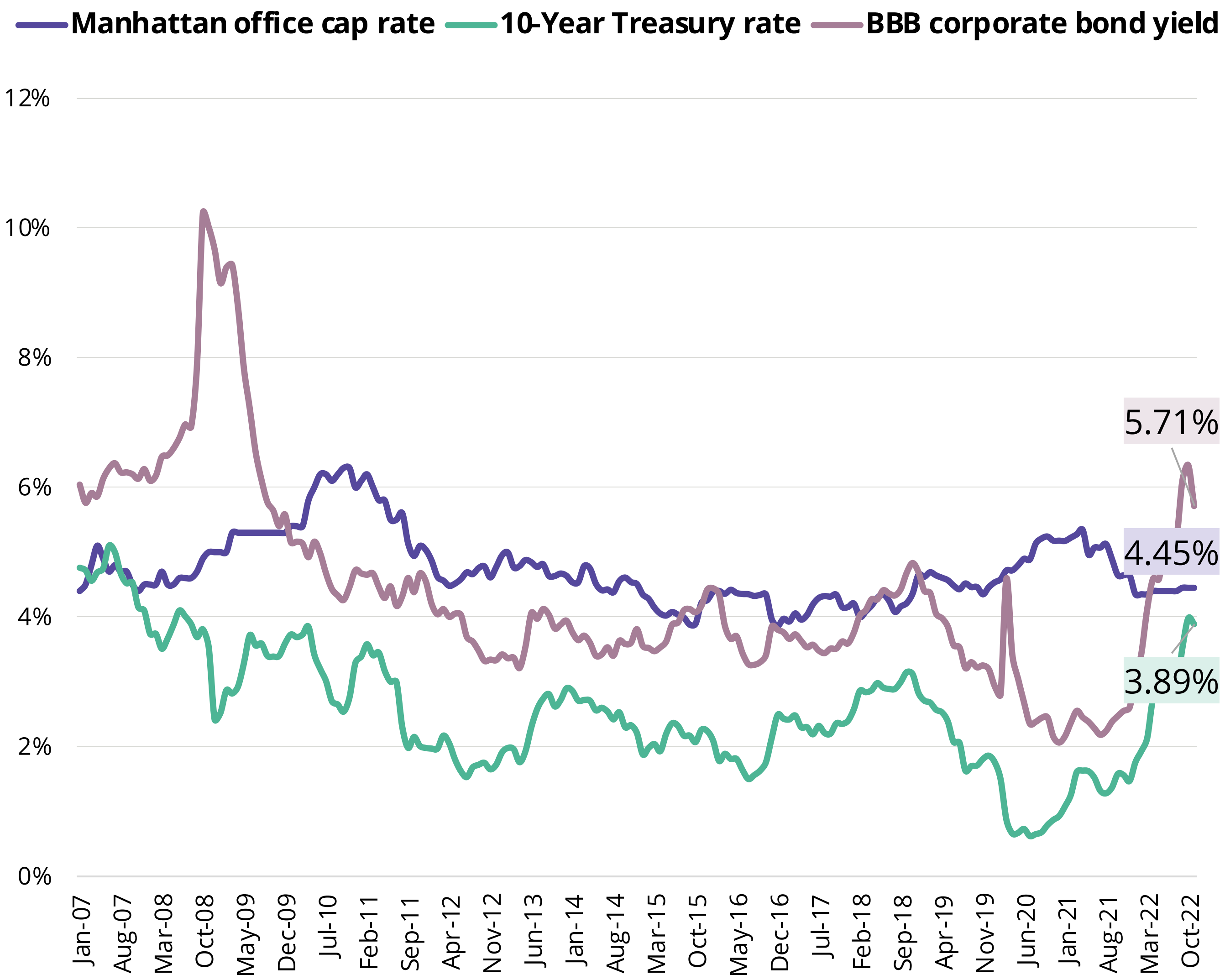
Office cap rates versus benchmark yields

56 bps

Manhattan office market spread vs. 10-year Treasury rate.

The spread between office yields and the benchmark 10-year Treasury rate has narrowed dramatically during the previous quarter, now at only a 56-bps difference as of November 2022. Cap rates are not sufficiently accounting for the recent change in interest rates based on the profile and limited sample size of executed deals. Demand for all but the most desirable properties may continue to take a hit going into 2023.



Source: AVANT by Avison Young; U.S. Department of the Treasury; Federal Reserve Bank of St. Louis

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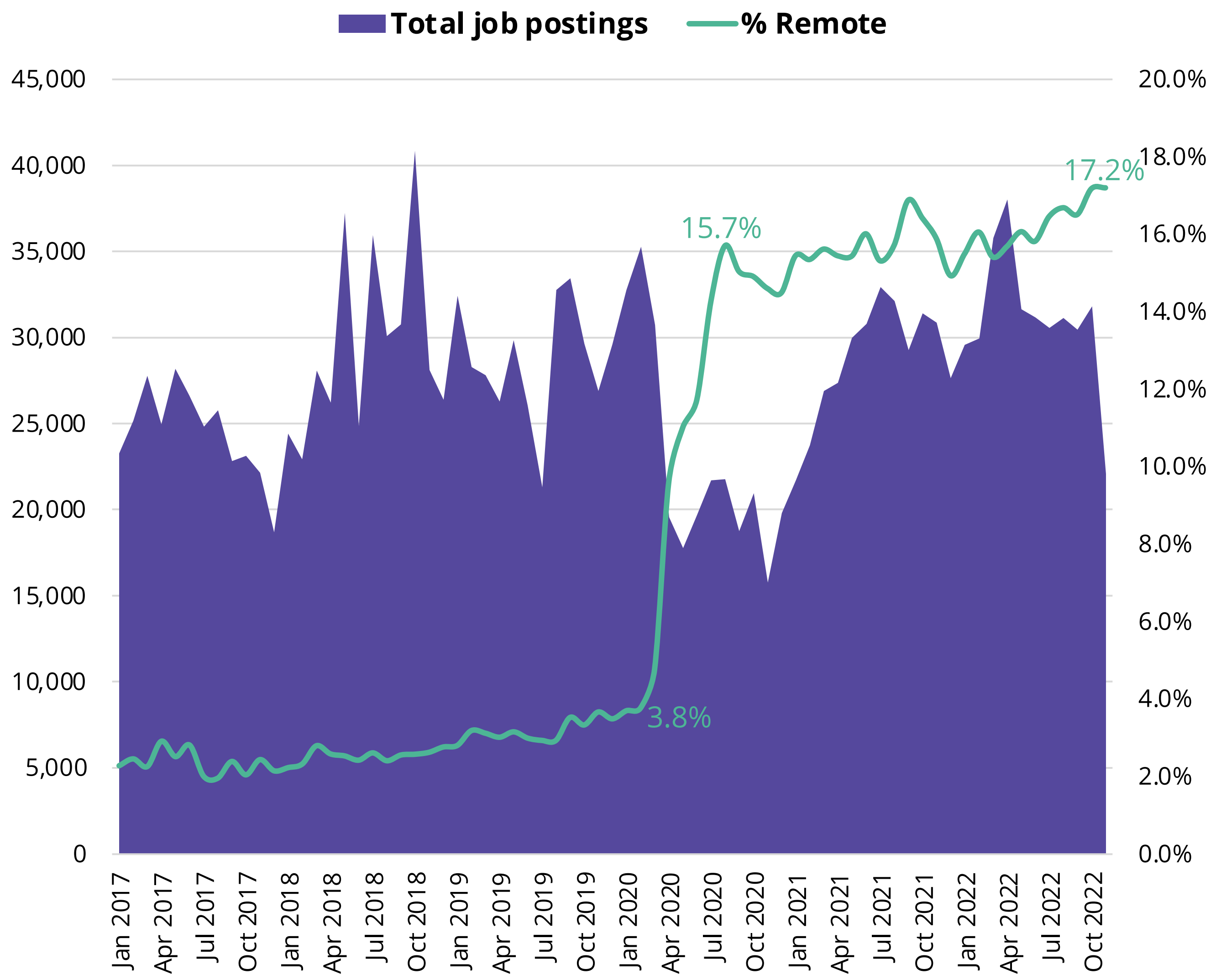
New York City employment and job postings

Manhattan job postings

17.2%

remote share of Manhattan job postings in November 2022.

The share of remote positions in Manhattan sharply increased with the onset of the pandemic, increasing from 3.8% in February 2020 to 15.7% in August 2020. Despite some companies' attempts to increase in-person work, many Manhattan offices remain largely hybrid and remote.



Source: AVANT by Avison Young, Lightcast

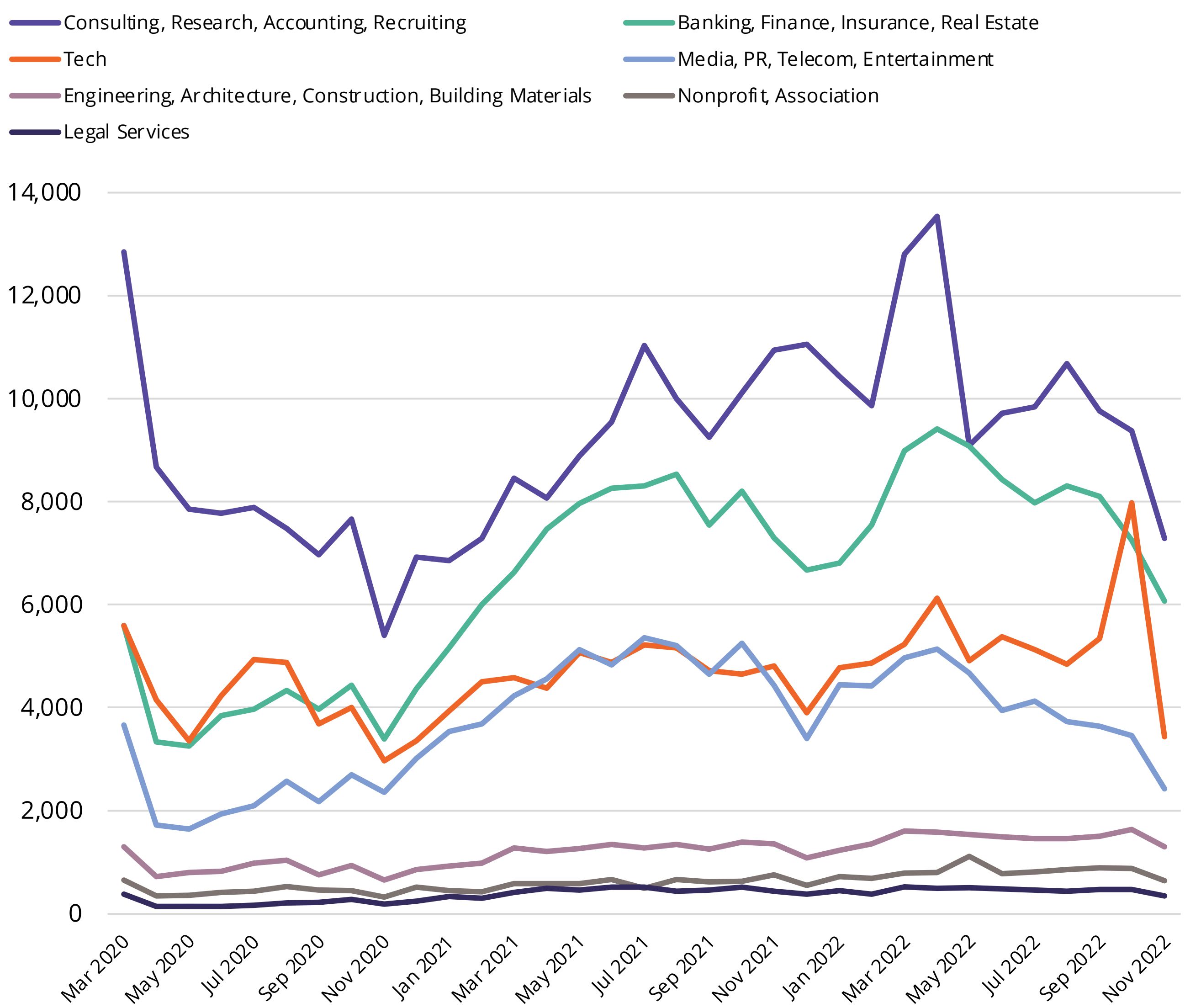
AVANT by AVISON YOUNG

Manhattan job postings

-30.6%

decrease in Manhattan job postings from October 2022 to November 2022.

All industries in Manhattan saw a decline in job postings from October 2022 to November 2022 – a predictive indicator for future demand in Manhattan.



Source: AVANT by Avison Young, Lightcast

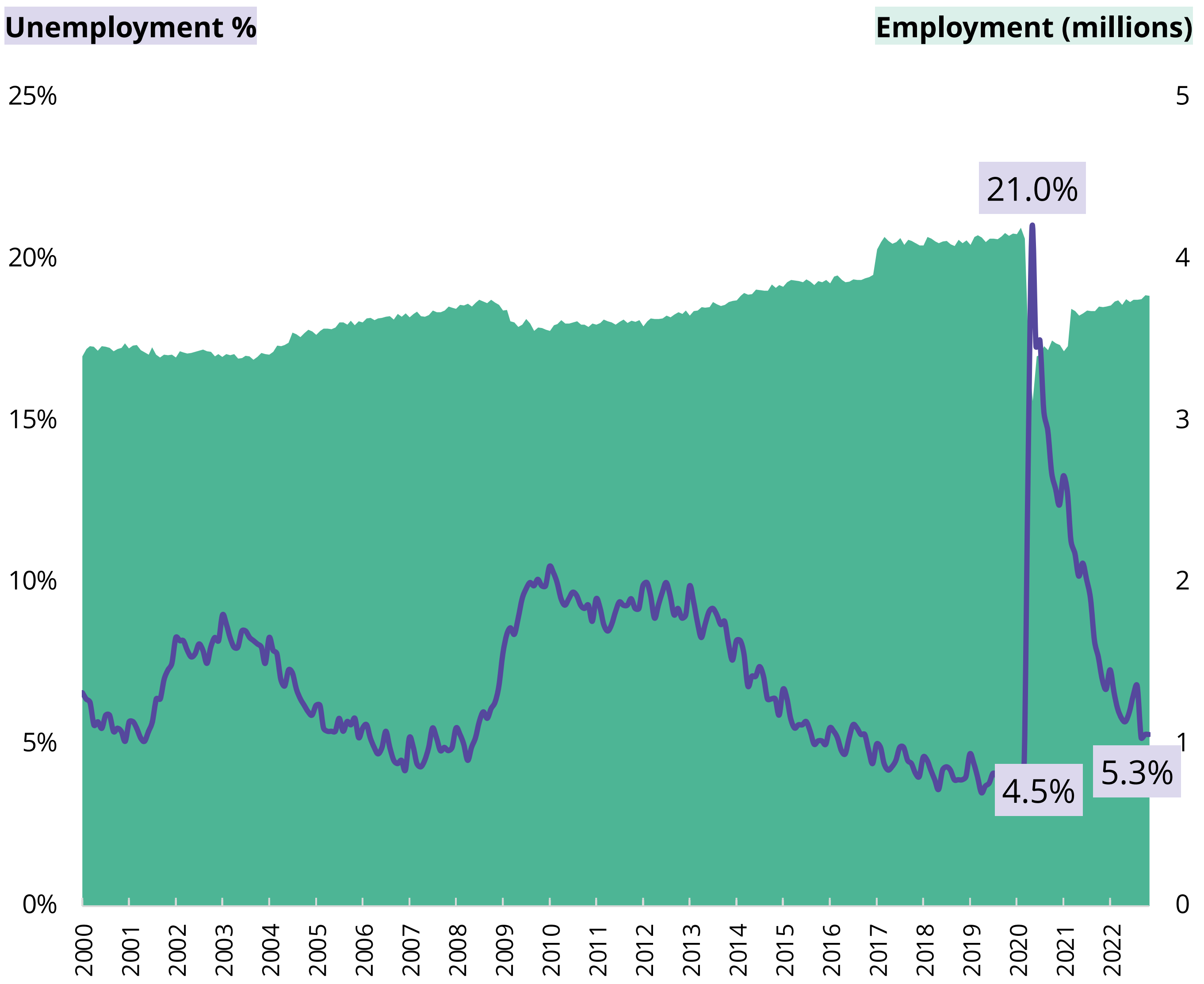
AVANT by AVISON YOUNG

Employment and unemployment rate

5.3%

New York City unemployment rate as of November 2022.

New York City's unemployment rate saw a major increase following the onset of the pandemic, jumping from 4.5% in March 2020 to 21.0% in May 2020. However, in November 2022, employment in New York City is now 20.9% higher than in May 2020, and unemployment has declined to 5.3%.



Source: Bureau of Labor Statistics

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Manhattan office market statistics

Manhattan office market stats

				Availability		Average Asking Rent (psf)	
By Submarket	**Inventory (sf)**	**Under development (sf)**	**Total %**	**Direct %**	**Sublet %**	**Q4 2021**	**Q4 2022**
Central Park	31,286,928	-	16.1%	14.3%	1.8%	$116.91	$119.09
Grand Central	81,496,380	39,487	18.5%	15.0%	3.5%	$77.00	$77.22
Hudson Yards	14,465,035	6,719,950	21.2%	9.1%	12.1%	$169.67	$171.40
Midtown Core	59,307,073	1,871,767	13.0%	10.0%	3.0%	$80.33	$99.62
Midtown East	23,885,825	-	19.2%	17.2%	2.1%	$83.73	$86.37
Midtown West	3,924,684	-	34.6%	11.8%	22.7%	$79.52	$79.52
Murray Hill	11,233,406	-	22.0%	17.4%	4.6%	$69.78	$67.66
Penn Station	52,494,343	615,782	20.5%	15.8%	4.7%	$65.50	$65.65
Times Square	37,025,264	-	21.5%	17.1%	4.3%	$79.11	$77.24
Midtown Total	**315,118,938**	**9,246,986**	**18.4%**	**14.3%**	**4.1%**	**$79.73**	**$82.49**
Chelsea	16,954,497	834,307	26.1%	20.0%	6.2%	$65.10	$66.21
East Village	750,881	-	24.5%	6.1%	18.5%	$139.15	$139.15
Flatiron District/Gramercy Park	40,436,936	-	18.3%	13.6%	4.7%	$77.41	$83.61
Greenwich Village	7,604,487	112,617	18.4%	17.8%	0.6%	$87.04	$93.50
Hudson Square	10,528,597	2,789,213	19.1%	13.7%	5.4%	$76.32	$89.10
Lower East Side	2,577,227	-	23.0%	21.8%	1.2%	$83.62	$92.49
Meatpacking District	8,238,954	-	5.1%	4.0%	1.1%	$114.18	$101.71
SoHo	6,716,827	-	17.8%	14.1%	3.7%	$81.88	$85.26
West Village	392,702	97,674	4.8%	3.6%	1.2%	$71.80	-
Midtown South Total	**94,201,108**	**3,833,811**	**18.7%**	**14.4%**	**4.3%**	**$75.64**	**$80.00**
City Hall	15,125,712	-	7.7%	6.7%	1.0%	$66.25	$65.07
Financial District	44,757,668	-	26.0%	19.5%	6.5%	$62.81	$63.50
TriBeCa	9,162,715	-	16.2%	12.5%	3.8%	$122.79	$123.50
Water Street Corridor	18,835,258	-	24.3%	16.4%	7.9%	$66.95	$66.42
World Trade Center	25,798,103	-	11.1%	5.6%	5.6%	$93.28	$93.06
Downtown Total	**113,679,456**	**-**	**19.1%**	**13.5%**	**5.6%**	**$68.95**	**$69.13**
Upper East Side	1,151,541	-	4.3%	3.2%	1.1%	-	-
Upper West Side	1,792,047	-	3.5%	2.6%	0.9%	-	-
Manhattan Total	**525,943,090**	**13,080,797**	**18.6%**	**14.1%**	**4.5%**	**$76.64**	**$79.06**

Source: AVANT by Avison Young, CoStar

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Office market activity

Recent leasing activity

Tenant name	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Stifel Nicolaus	787 Seventh Avenue	Times Square	Dec 2022	214,706	Renewal	Direct
Ann Taylor	7 Times Square	Times Square	Dec 2022	191,258	Renewal/Expansion	Direct
Fedcap Group	124 East 14th Street	East Village	Oct 2022	85,000	New	Direct
Rokt	175 Varick Street	Hudson Square	Oct 2022	67,684	Expansion	Direct
Outfront Media	90 Park Avenue	Grand Central	Oct 2022	65,816	New	Sublease

Recent sales activity ($100M+)

Buyer	Address	Sale date	Sale price	Sale price (psf)	Seller(s)
Empire Capital Holdings	1330 Avenue of the Americas	Nov 2022	$320,000,000	$599	Blackstone, RXR Realty
Memorial Sloan Kettering	*885 Third Avenue	Dec 2022	$300,400,000	$725	SL Green
Carlo Bellini	175 Water Street	Oct 2022	$252,000,000	$352	Vanbarton Group
Stellar Management	220 Fifth Avenue	Oct 2022	$133,300,000	$786	Dino & Sons Realty
David Werner	40 Fulton Street	Dec 2022	$101,000,000	$401	Vornado Realty Trust

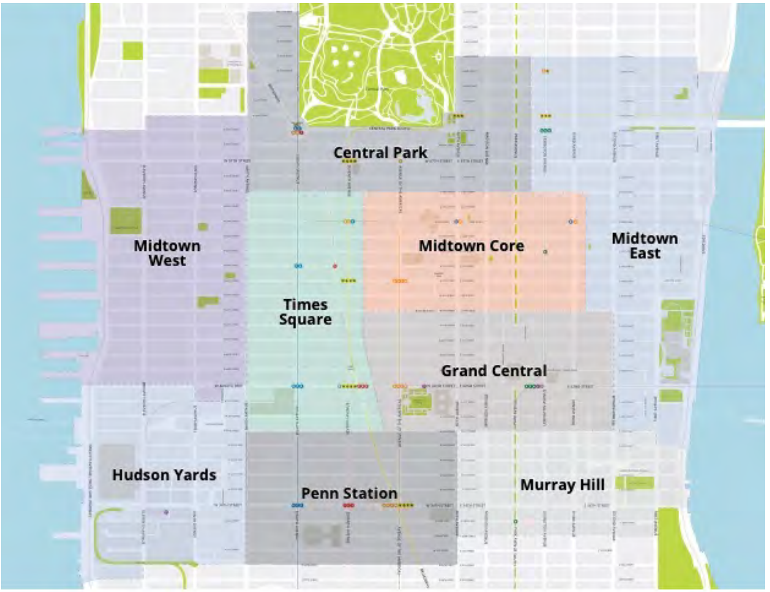
Large contiguous space availabilities added in Q4 2022

Address	Submarket	Space type	Block size (sf)	Date available
220 East 42nd Street	Grand Central	Sublet	308,115	Immediate
220 West 42nd Street	Times Square	Direct	242,903	Immediate
10 Hudson Yards	Hudson Yards	Sublet	148,318	Immediate
105 Madison Avenue	Flatiron District/Gramercy Park	Direct	133,500	Immediate

*Office condo sale

Manhattan submarket map

Midtown



Midtown South

Downtown

Click here to download larger maps

Source: AVANT by Avison Young

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

Vitality Index

- **Visitor volumes:** based on extrapolated, anonymized cell phone pings provided by Orbital Insight at custom, geofenced locations, the Vitality Index tracks visitor volumes at representative areas of interest across markets and property types

For more market insights and information visit **avisonyoung.com**

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