
3Q23

Manhattan Office Market Overview



NEWMARK

Market Observations

Economy

- While the region’s labor market remains on relatively solid footing and the annual job growth rate continues to exceed the national average, cracks continue to show.
- Unemployment increased slightly, following several large layoffs in office-using employment and entertainment sector employment slowing due to nation-wide strikes.
- Construction and Education sectors lead all industries in regional annual job growth, underlining seasonal employment and large-scale construction projects underway after a pandemic slowdown.
- The number of office jobs has rebounded from pre-pandemic levels, remaining close to the previously recorded high.

Major Transactions

- Leasing activity is down from one year ago as large relocations are occurring less frequently. Just one of the top five deals during the quarter was a true relocation as Tower Research Capital moved from 377 Broadway to 120 Broadway.
- Law firm Davis, Polk & Wardwell signed a twenty-five-year renewal at 450 Lexington Avenue, also expanding one floor to occupy twenty-four floors across the building.
- New York City Agency DCAS signed a twenty-year lease at 110 William Street, taking 640,000 square feet with plans to fully occupy by 2025.

Leasing Market Fundamentals

- The vacancy rate increased 20 basis points during the third quarter to 13.7%, as five properties added blocks of space greater than 100,000 square feet.
- Absorption was negative 424,871 square feet in the third quarter, the most positive output in the previous four quarters.
- Sublease space was down significantly from the previous quarter as firms such as Lyft withdrew space from the market with intentions to re-occupy the space with new return to office policies.
- Leasing activity through the first three quarters of the year reached 20.5 million square feet, 24.4% below the output from one year ago.

Outlook

- Uncertainty persists in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Disparate demand between FIRE and TAMI industries will continue and have residual impacts to all Manhattan markets, particularly Midtown South.

1. Economy
2. Leasing Market Fundamentals

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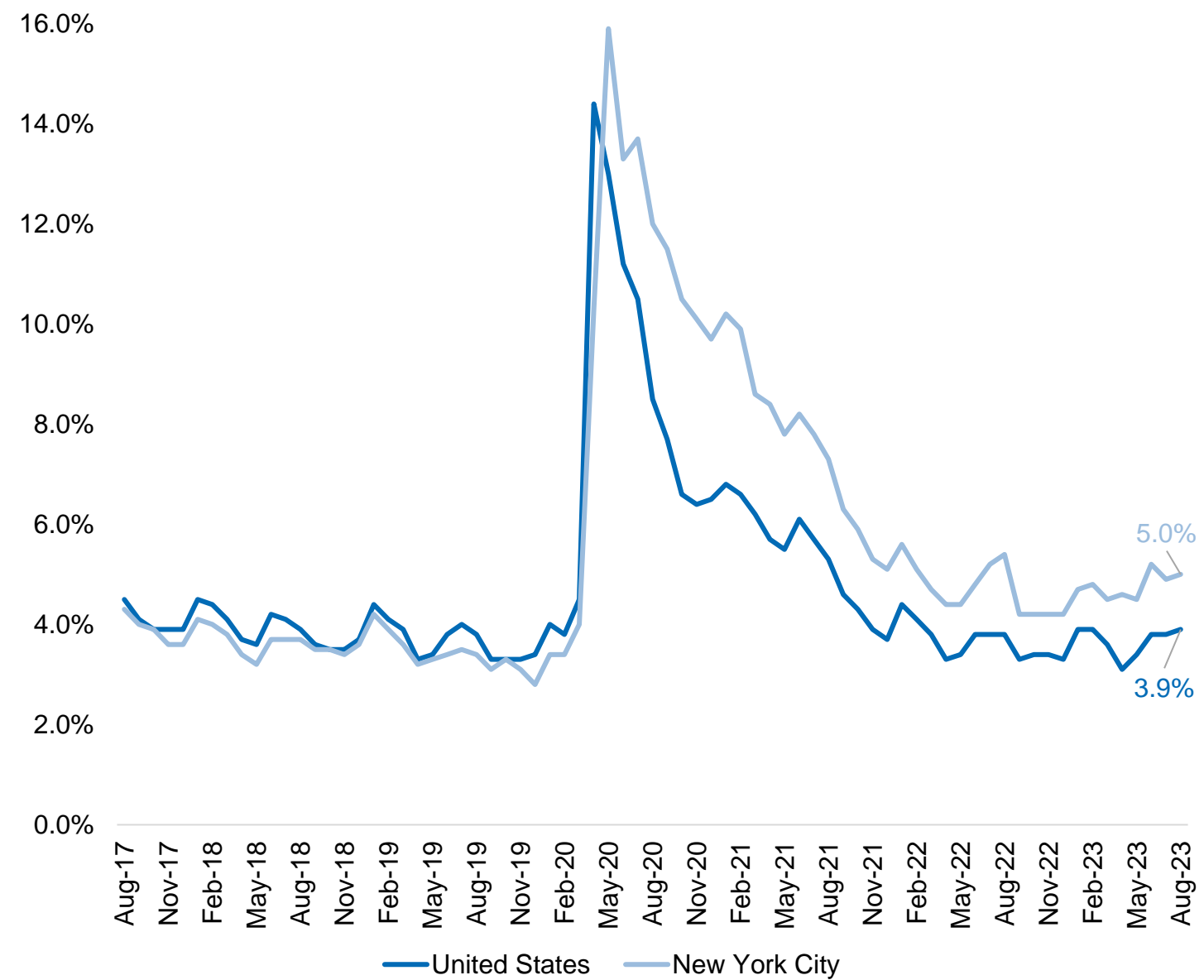
Economy



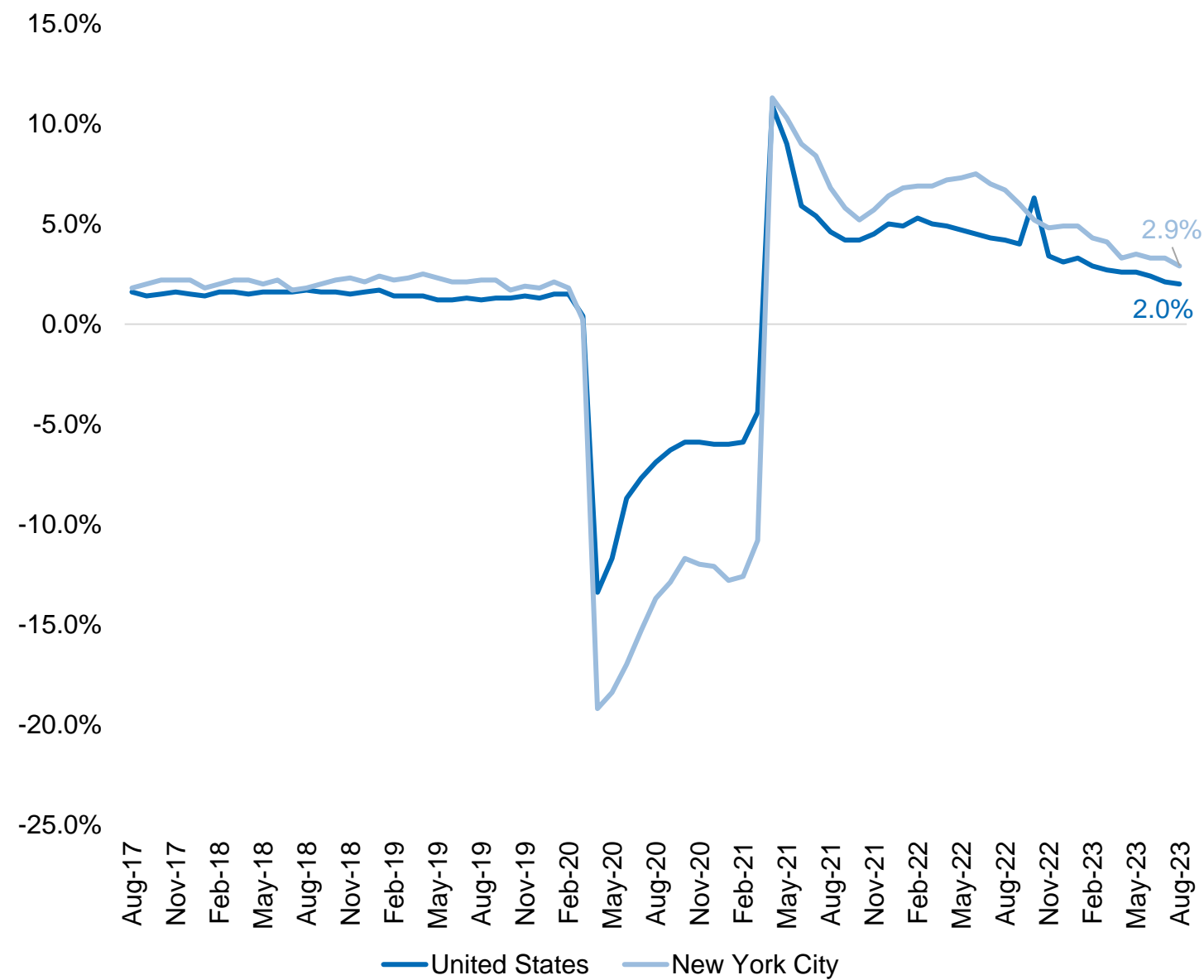
Metro Employment Trends Signal A Slowing Economy

While the region’s labor market remains on relatively solid footing and the annual job growth rate continues to exceed the national average, cracks continue to show. Unemployment increased slightly, following several large layoffs in office-using employment and entertainment sector employment slowing due to nation-wide strikes.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



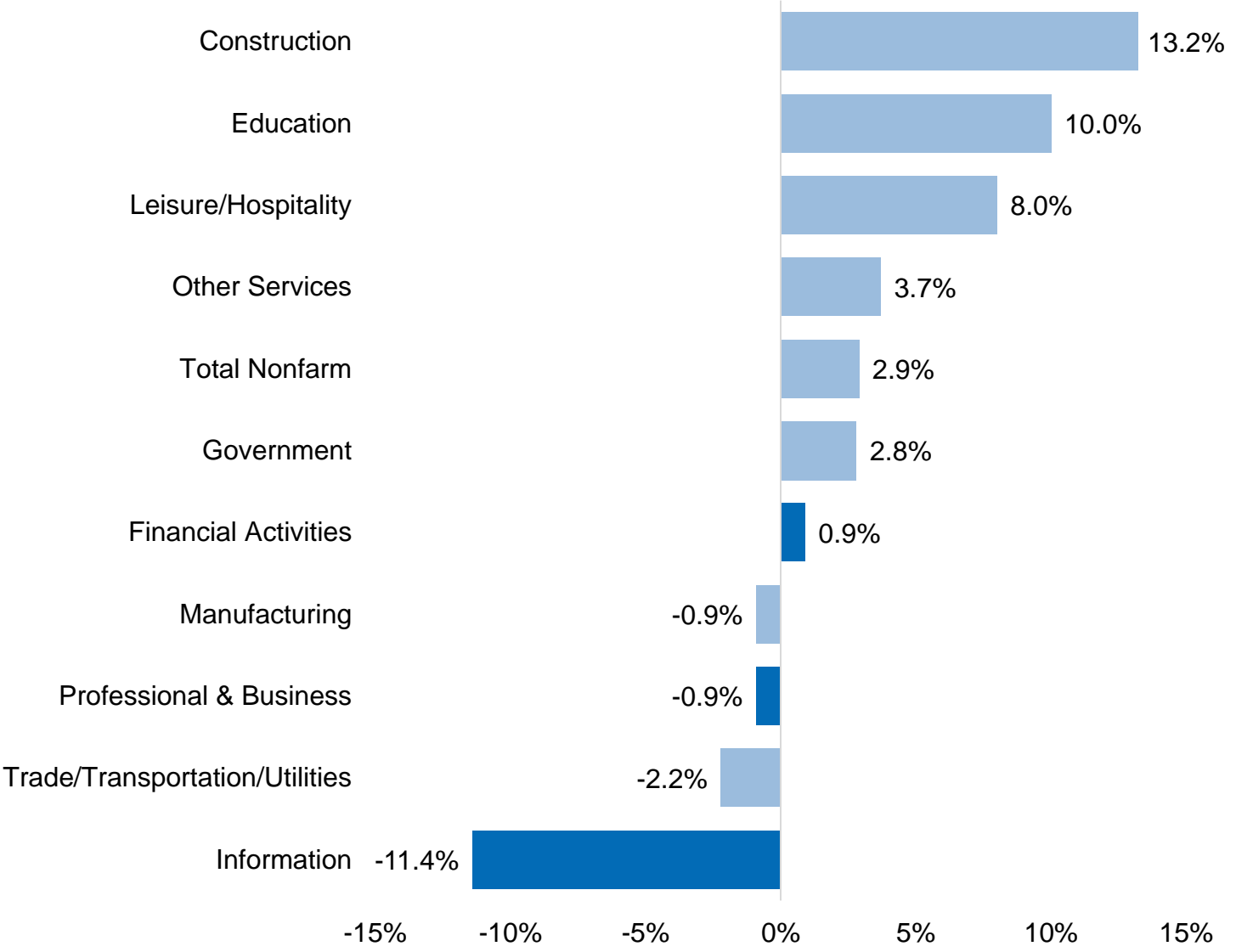
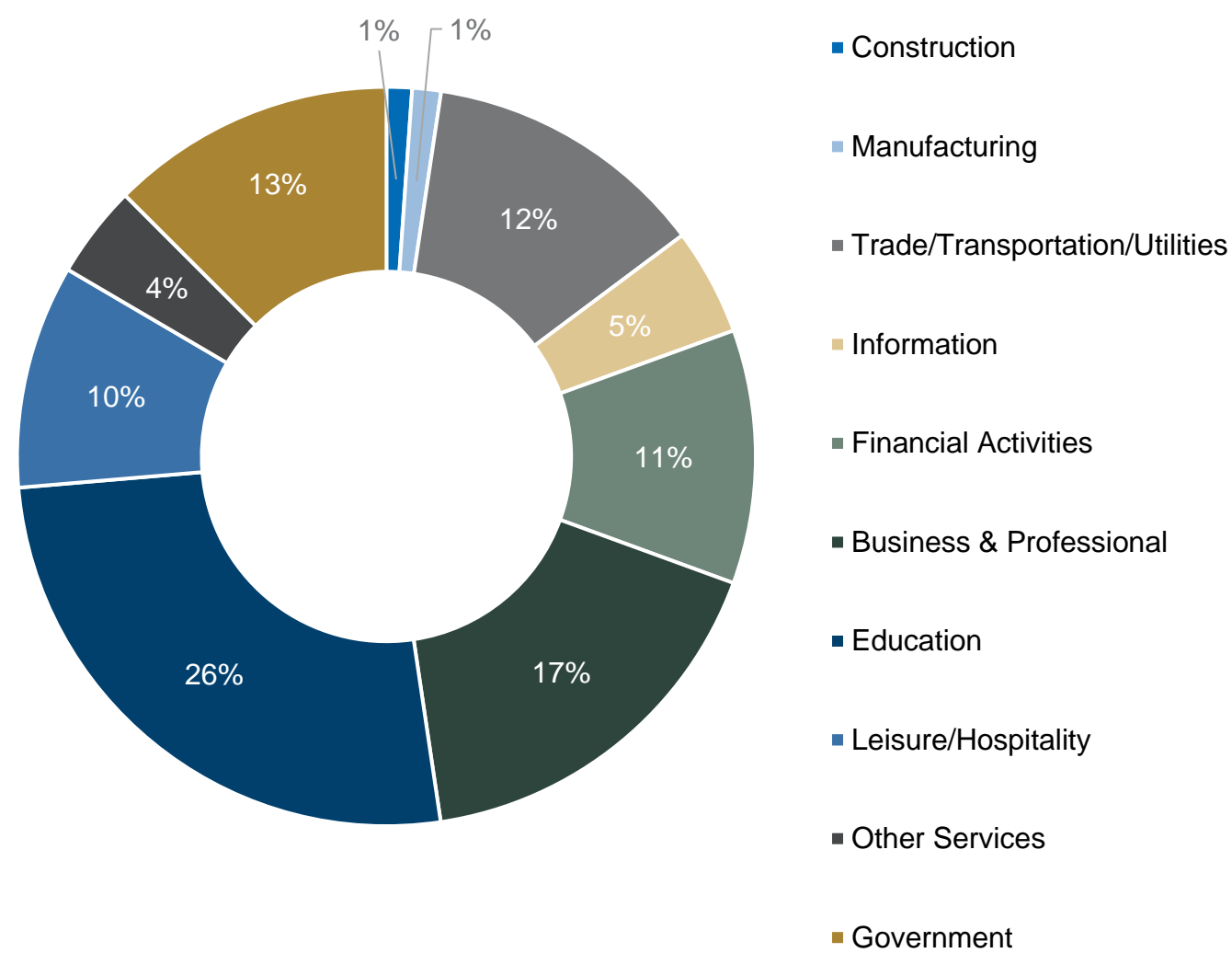
Source: U.S. Bureau of Labor Statistics, New York City

Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

Construction and Education sectors lead all industries in regional annual job growth, underlining seasonal employment and large-scale construction projects underway after a pandemic slowdown. Office-occupying and adjacent industries saw annual job gains only in the financial activities industries.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

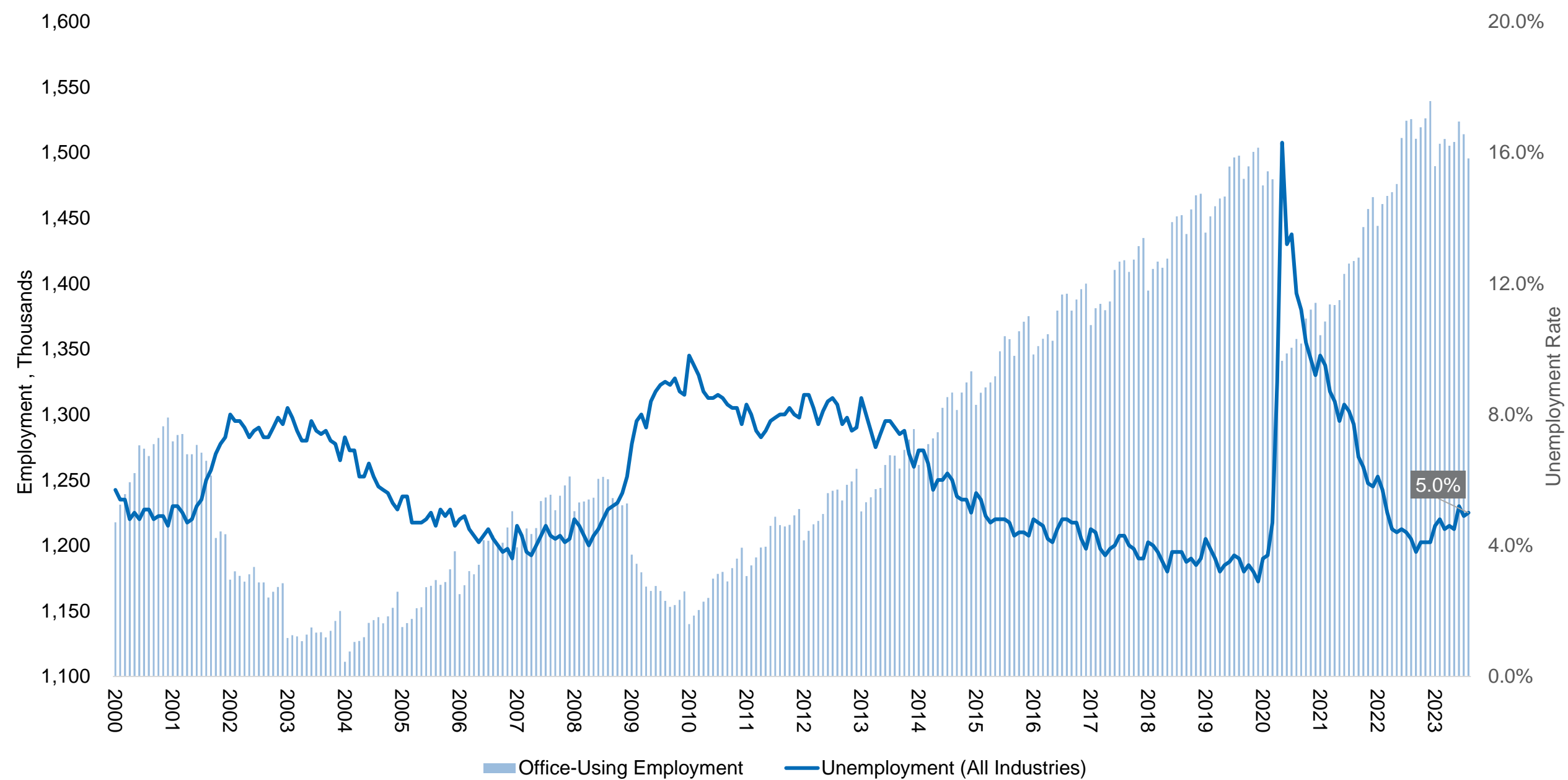


Source: U.S. Bureau of Labor Statistics, New York City

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded from pre-pandemic levels, remaining close to the previously recorded high. Unemployment has grown, lead by significant layoffs in the information sector and entertainment industry volatility.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, New York City
Note: August 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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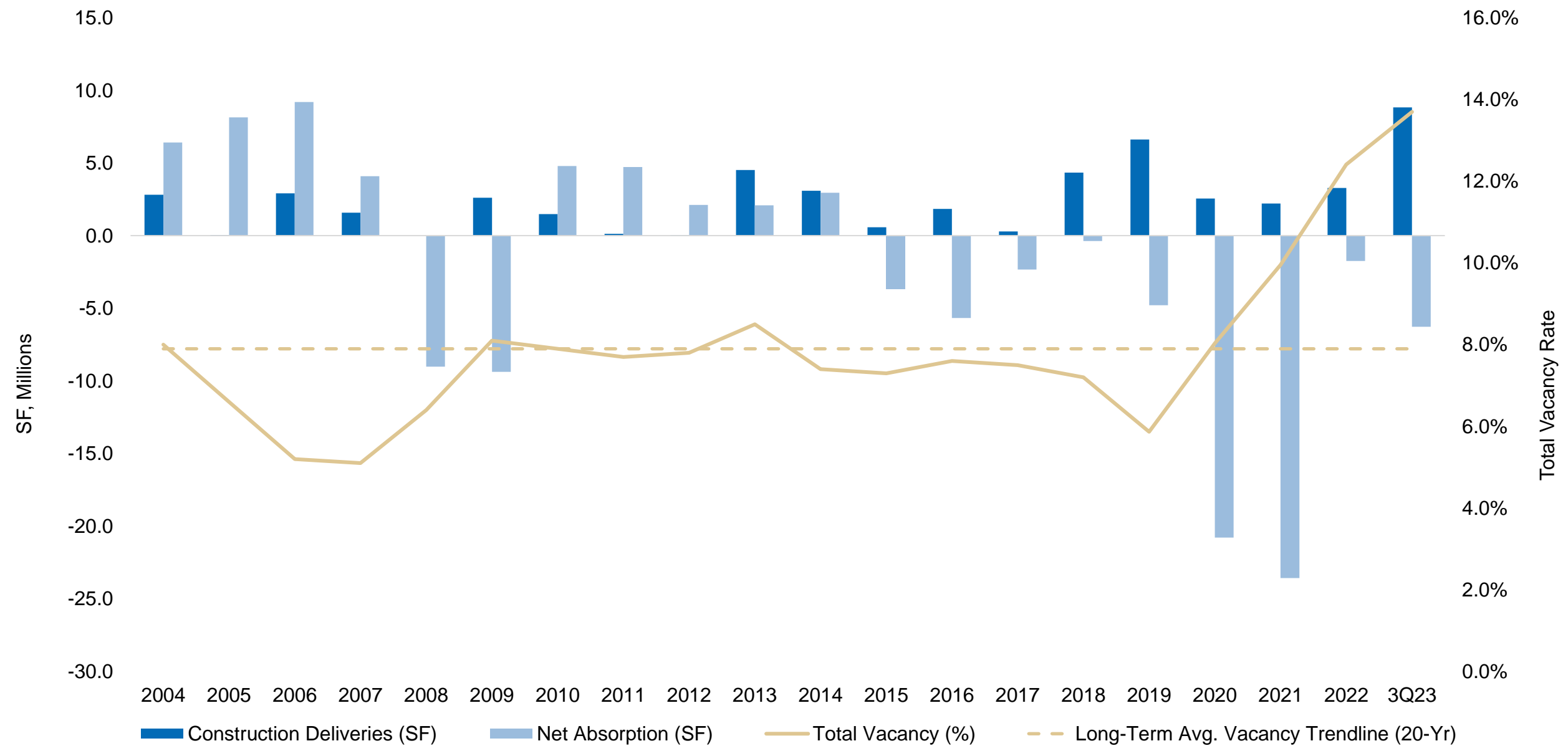
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

The vacancy rate increased 20 basis points during the third quarter to 13.7%, as five properties added blocks of space greater than 100,000 square feet. Absorption was negative 424,871 square feet in the third quarter, the most positive output in the previous four quarters.

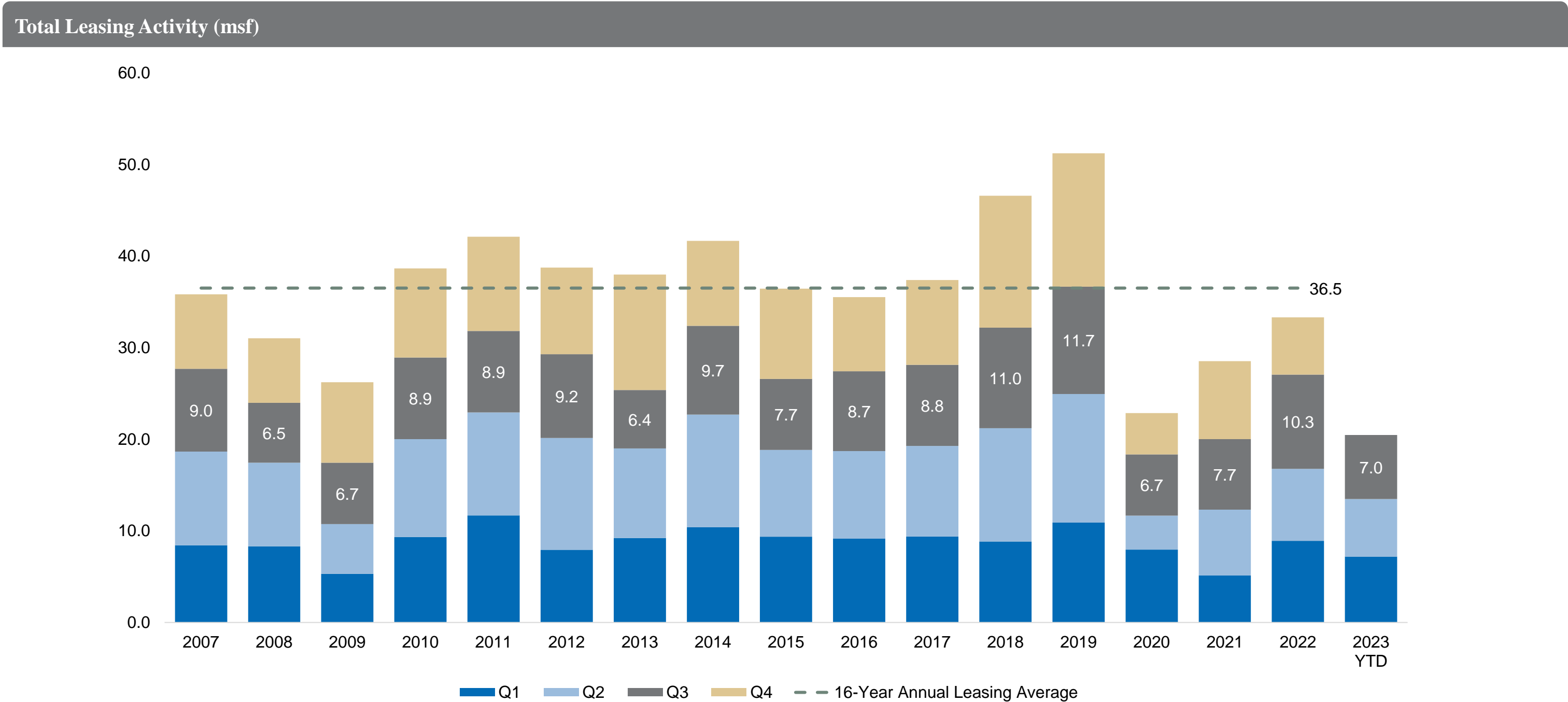
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Pace Has Slowed

Leasing activity through the first three quarters of the year reached 20.5 million square feet, 24.4% below the output from one year ago. There were two deals completed in the third quarter for more than 600,000 square feet, by New York City DCAS and Davis Polk.



Source: Newmark Research

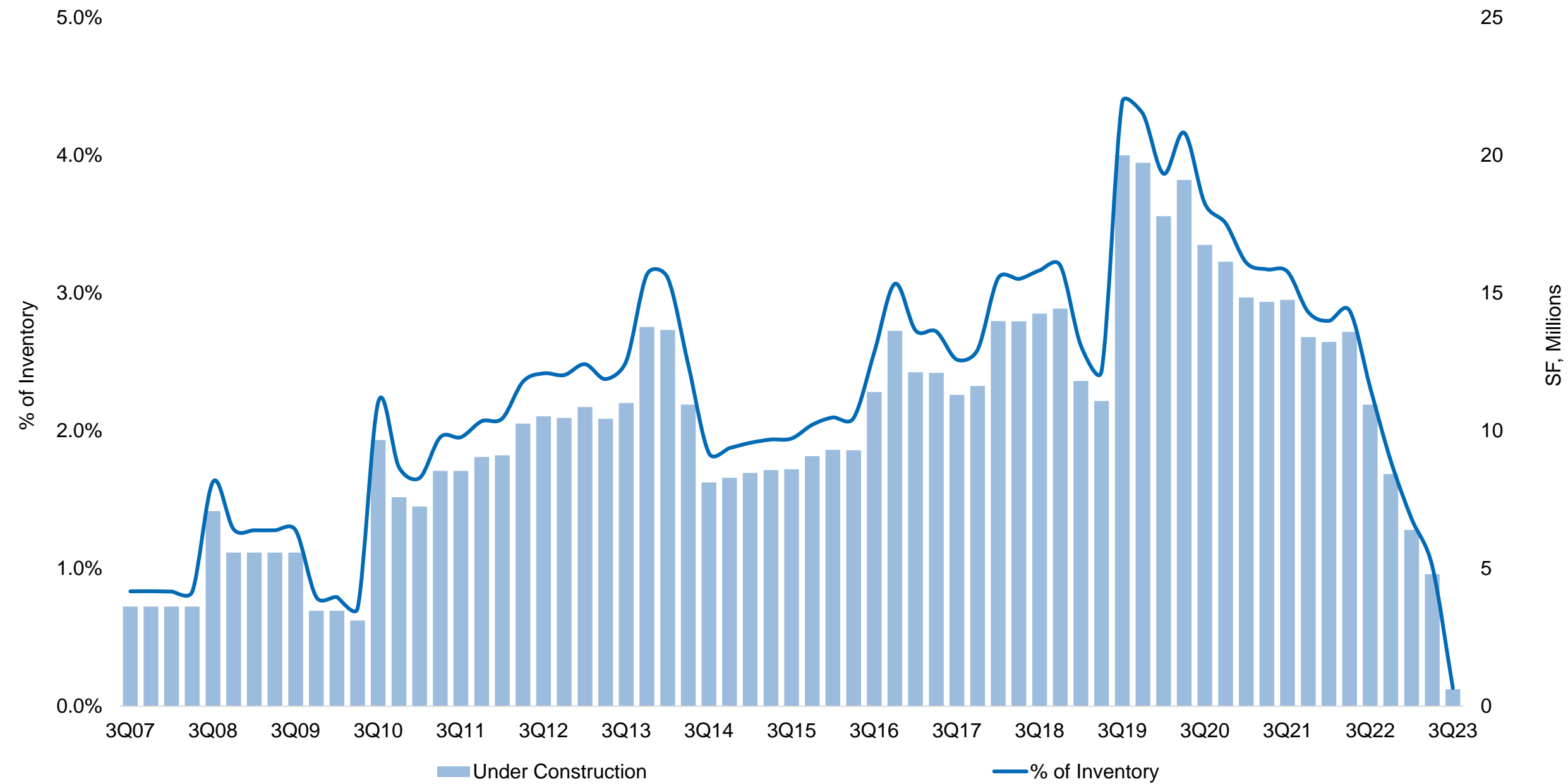
Vacancy Continues to Increase While Tenant Demand Drops

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Deliveries Continue While New Construction Slows

With the deliveries of 550 Washington Street and 555 Greenwich Street during the third quarter, total square-footage under construction has fallen to 617,617 square feet. There is also an additional 6.7 million square feet that is undergoing significant renovation.

Office Under Construction and % of Inventory

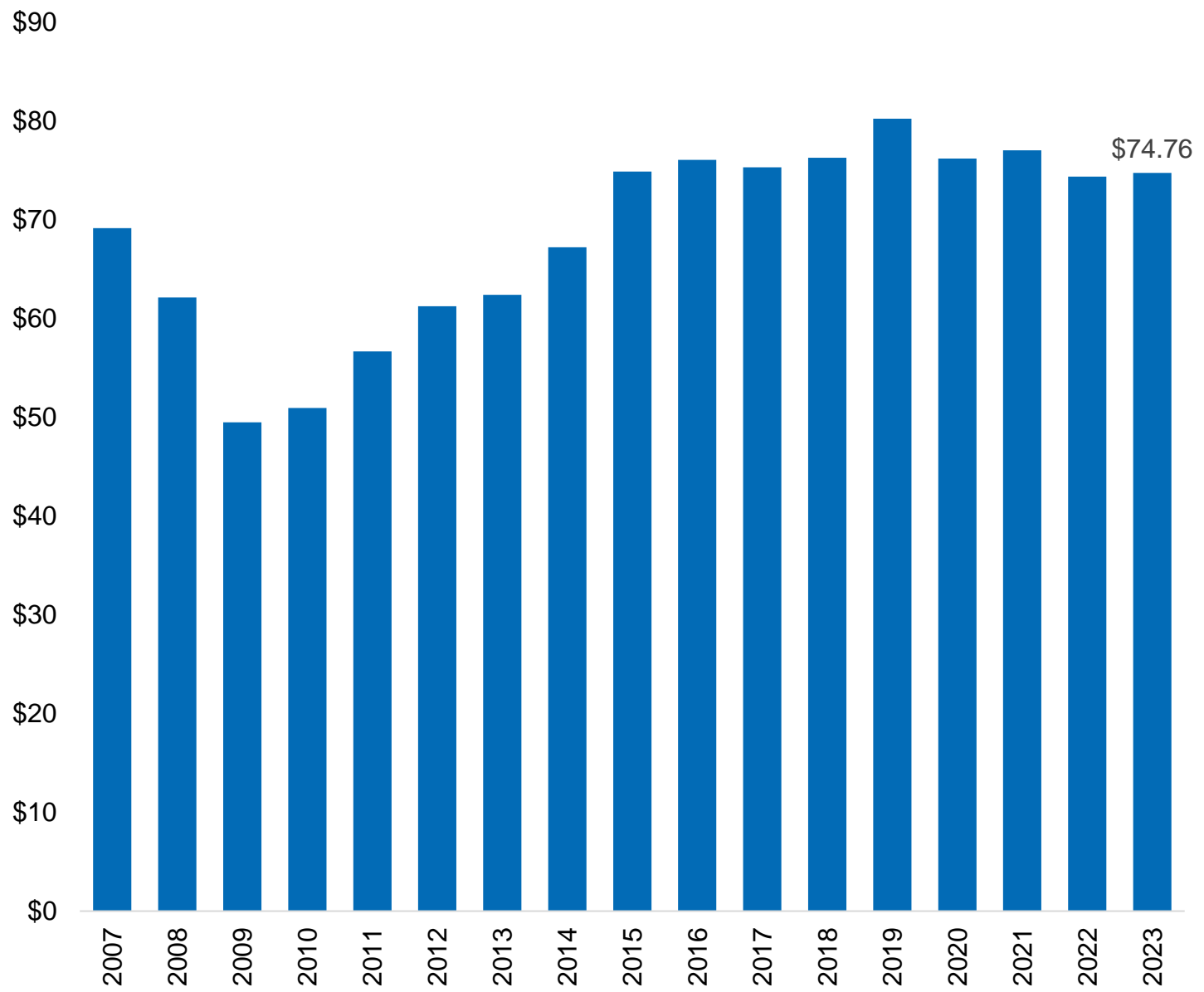


Source: Newmark Research

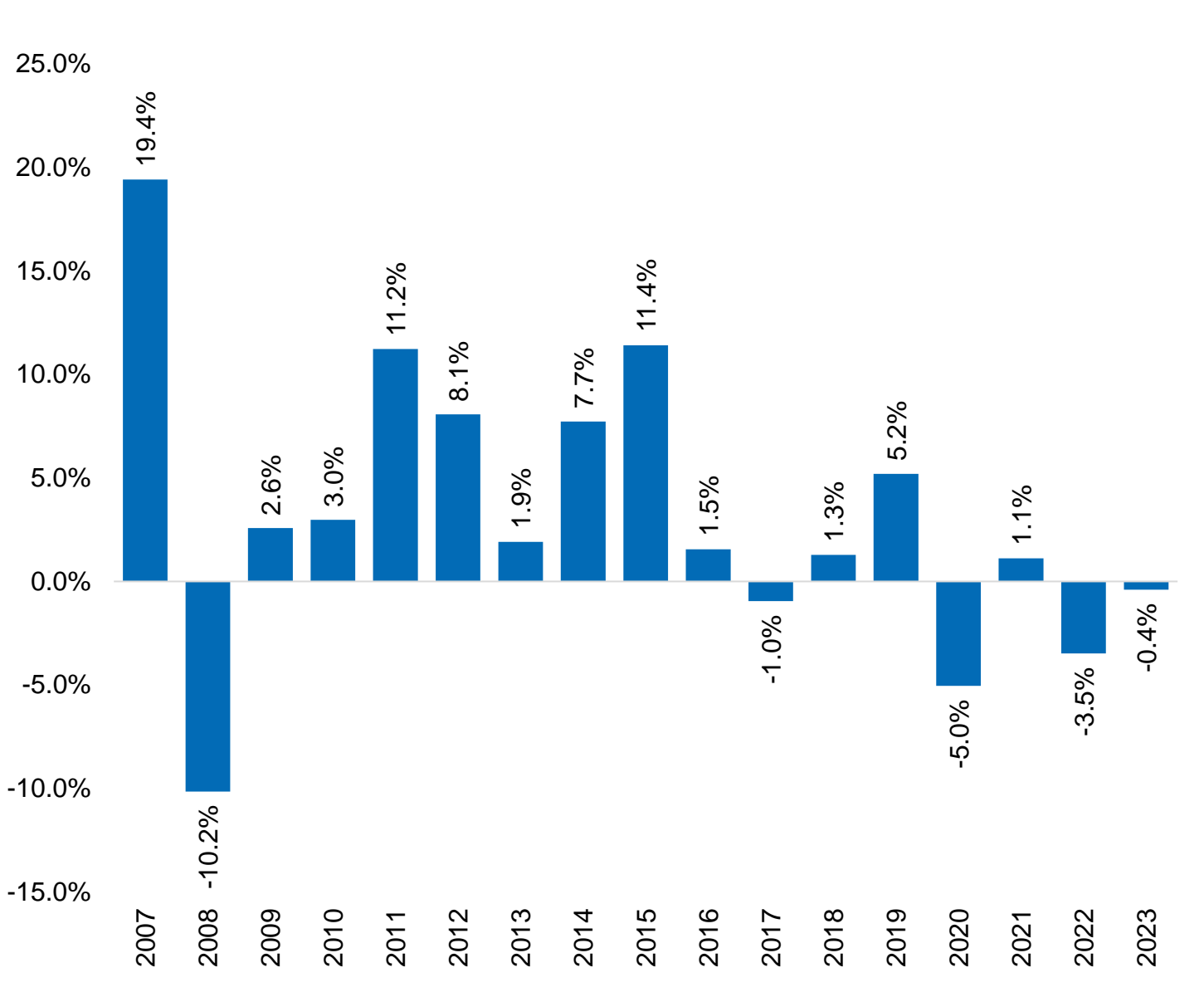
Overall Rents Remain Steady Supported by Trophy Asset Demand

Overall asking rents have been propped up by new construction and trophy assets since 2020. As space is leased up in high-quality buildings, expect asking rents to decline accordingly.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

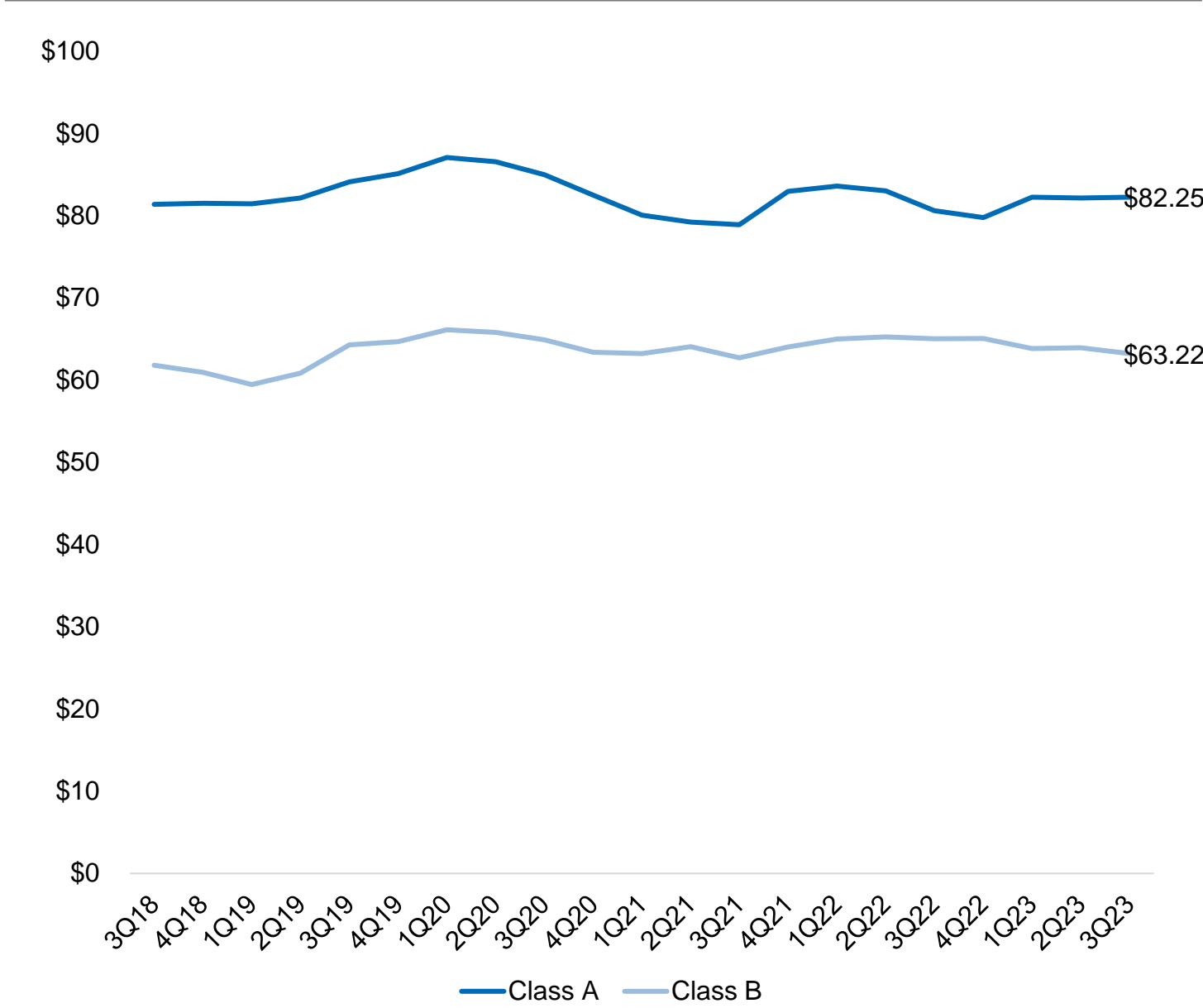


Source: Newmark Research

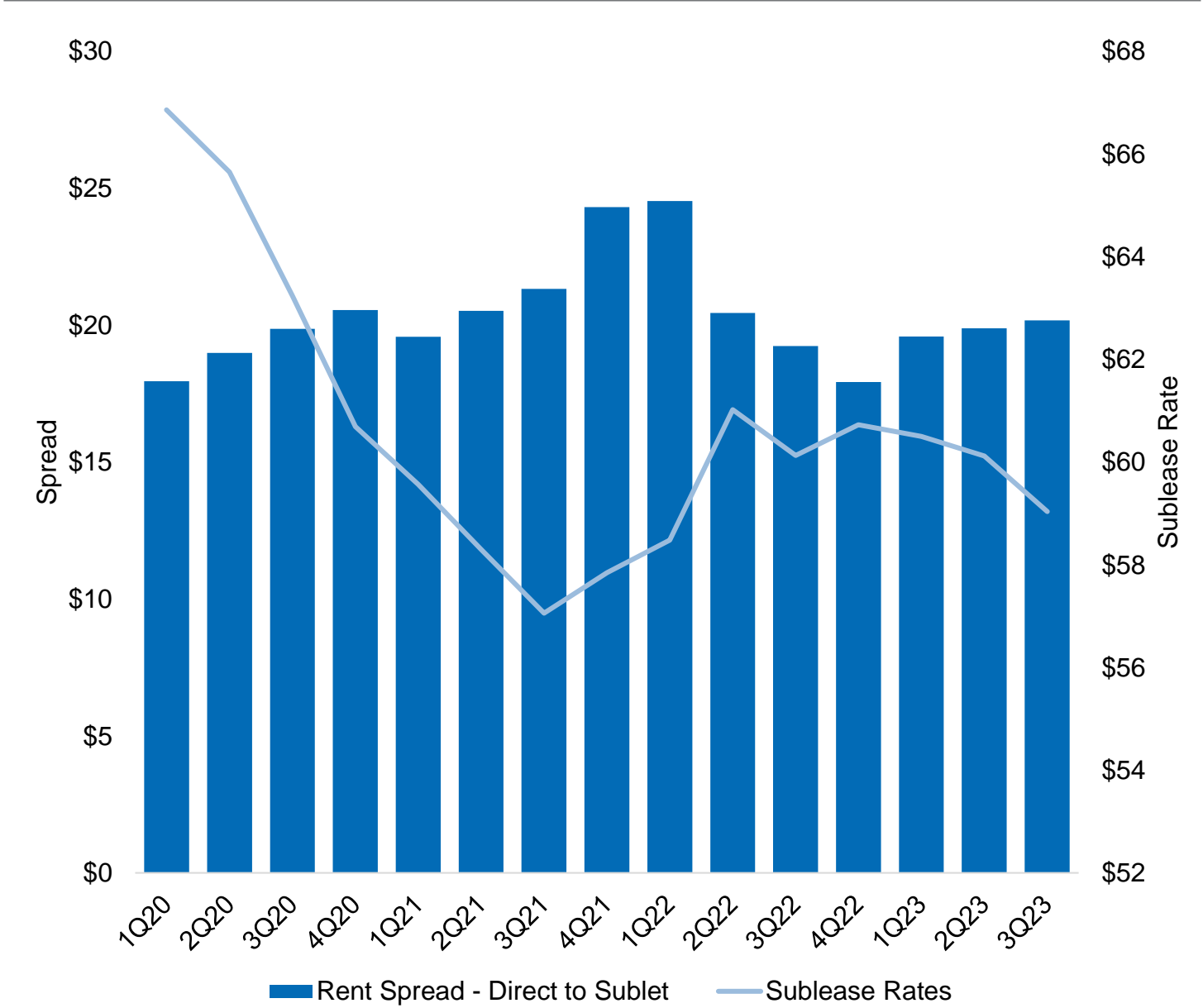
Asking Rent Delta Between Classes Continues to Increase

The gap between class A and B asking rents has risen by 11.4% from 2022 to 2023. Class A rents increased slightly during the quarter, while class B rents declined, further maintaining a flight-to-quality in Manhattan.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Notable Lease Transactions

Leasing activity is down from one year ago as large relocations are occurring less frequently. Just one of the top five deals during the quarter was a true relocation as Tower Research Capital moved from 377 Broadway to 120 Broadway.

Notable 3Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Davis, Polk & Wardwell	450 Lexington Avenue	Grand Central	Lease Renewal & Expansion	700,000
Law firm Davis, Polk & Wardwell signed a twenty-five-year renewal at 450 Lexington Avenue, also expanding one floor to occupy twenty-four floors across the building.				
The City of New York Department of Citywide Administrative Services (DCAS)	110 William Street	Downtown East	Lease Renewal & Expansion	640,000
New York City Agency DCAS signed a twenty-year lease at 110 William Street, taking 640,000 square feet with plans to fully occupy by 2025.				
The City of New York	255 Greenwich Street	Downtown West	Lease Renewal	183,255
Three New York City Agencies, the Office of Management and Budget, Mayor’s Office of Contracts, and the Office of the Actuary renewed 183,255 square feet on the entire sixth through ninth floors.				
Tower Research Capital	120 Broadway	Downtown East	Direct Lease	121,903
Trading firm Tower Research Capital took 121,903 square feet at 120 Broadway, singing on the entire thirty-seventh through thirty-ninth floors.				
Selendy & Gay PLLC	1290 Avenue of the Americas	Sixth Avenue/ Rockefeller Center	Direct Lease	117,181
Law firm Selendy & Gay signed a direct lease at 1290 Avenue of the Americas after occupying space in the building as a subtenant.				

Source: Newmark Research

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