



Q1 2023

MANHATTAN OFFICE MARKET REPORT



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ECONOMIC UPDATE

New York City's labor market neared pandemic recovery this February, with total employment at 4.67 million, recapturing 96% of the 972,000 jobs lost during the pandemic. The national unemployment rate stood at 3.6%, while New York City's rate was 5.4%, a slight uptick from the prior month but contracting from 6.9% a year ago. The city's labor force participation rate, which represents the share of the working age population who were employed or looking for a job, reached an all-time high of 61.7%. Despite the resilience of the labor market, mass layoffs, particularly within the technology sector, continued into the new year - a trend that could lead to an uptick in national and local unemployment rates.

Persisting disruptions in the national and local economies are likely to weigh on the office market through the course of the year. Inflation remains elevated at 5.0%, leading the Federal Reserve to continue its path of tightening monetary policy through increasing rates, with the latest hike bringing interest rates to a range of 4.75% - 5.0%. Concurrently, recent bank collapses have deepened financial concerns and led to even further credit tightening, which has already begun to impact owners' ability to refinance as banks take a more risk-averse stance towards lending.

In the first quarter, leasing activity in Manhattan totaled just 5.5 million square feet, a 31.4% decline from the same period last year and a 29.9% decline from last quarter. Larger deals were driven by renewals, indicative of tenants' hesitancy to commit to significant real estate decisions in the current market. Meanwhile, availability stood at 18.4%, reflecting an additional 36.2 million square feet on the market compared to 2020 Q2, leading to a persisting supply-demand imbalance in the market. According to Kastle Systems, average daily office occupancy was 45.8% this quarter and has yet to surpass 50% in New York City, suggesting that hybrid and remote-work transitions made during the pandemic are likely to persist long-term and may lead to a further reduction in office demand, or may encourage tenants to hold off on making new real estate commitments.

KEY METRIC HIGHLIGHTS



UNEMPLOYMENT (FEBRUARY)
5.4% NYC
3.6% U.S.



FEDERAL FUNDS RATE
4.75% - 5.0%
0.0% - 0.25% A YEAR AGO



12-MONTH INFLATION RATE
5.0% IN MARCH
VS 8.5% A YEAR AGO

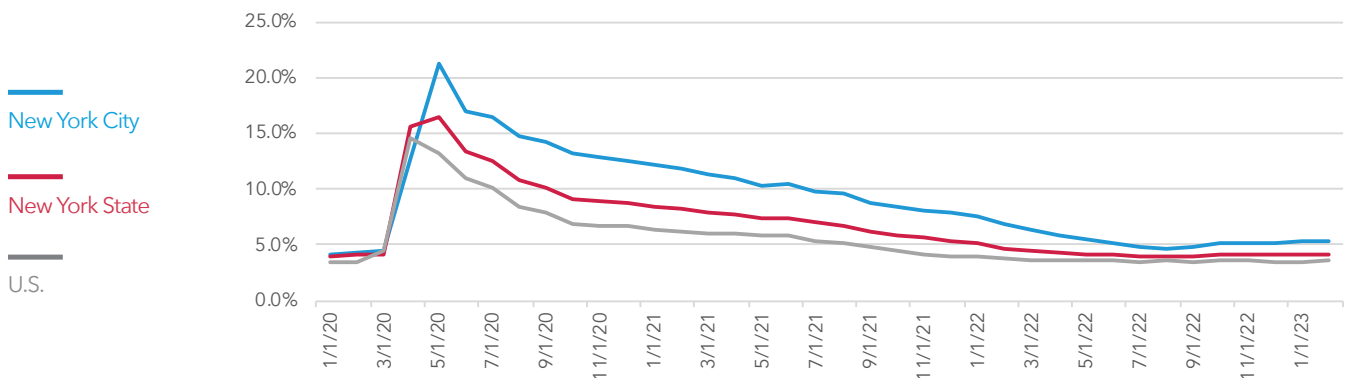


OFFICE OCCUPANCY
45.8% WEEKLY
AVERAGE IN 2023 Q1
VS. 28.8% A YEAR AGO



SUBWAY RIDERSHIP
3.1 MILLION
AVERAGE DAILY RIDERS IN 2023 Q1
UP 24.1% FROM A YEAR AGO

SEASONALLY ADJUSTED UNEMPLOYMENT RATE



MANHATTAN LEASING ACTIVITY

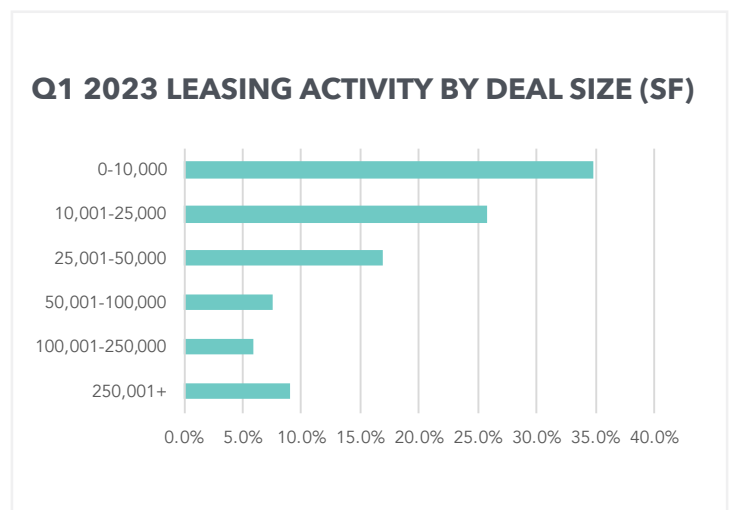
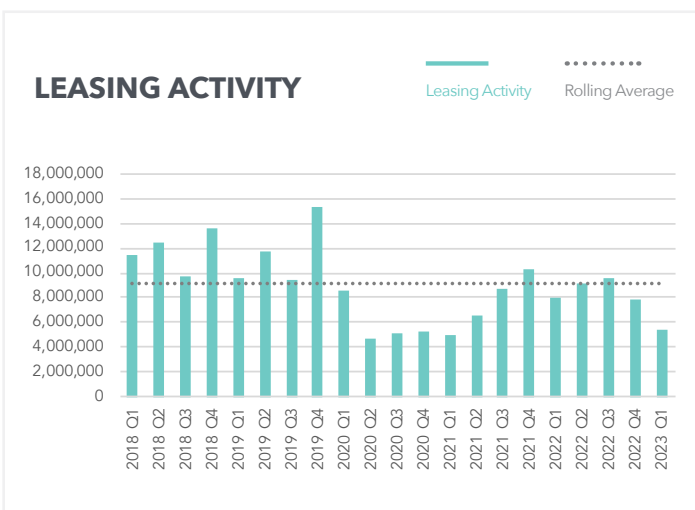
Leasing activity slowed during the first quarter of 2023 in Manhattan to 5.5 million square feet, marking the lowest quarterly activity since 2021 Q1 when leasing totaled 4.96 million square feet. This represented a 29.9% quarter-over-quarter and 31.4% year-over-year decline. Additionally, 2023 Q1 activity lagged the five-year quarterly rolling average of 9.1 million square feet by 39.6%, further demonstrating the impacts of tightened monetary policy, global financial pressures, and lingering fears of a recession on Manhattan’s office market.

First quarter leasing activity was led by smaller transactions, with leases of 25,000 square feet and below capturing 60.1% of total market activity. Just four transactions exceeded 100,000 square feet this quarter, accounting for 14.9% of total square footage leased. The three largest deals of the quarter were renewals – Two Sigma for 265,217 square feet at 100 Avenue of the Americas, Cadwalader Wickersham & Taft for 225,000 square feet at 200 Liberty Street, and CBS for 186,882 square feet at 555 West 57th Street.

Leasing activity contracted across the three major segments of Midtown, Midtown South, and Downtown. Midtown, the largest segment, captured 56.7% of Manhattan’s demand

with 3.1 million square feet leased, but registered the largest percentage decline quarter-over-quarter and year-over-year of 39.2% and 39.7% respectively. Midtown South followed with 1.5 million square feet leased, 15.0% down from the prior quarter and 21.2% down year-over-year. Downtown continued to lag historical levels with 825,966 square feet of leasing activity in the first quarter, falling 12.4% quarter-over-quarter and 12.1% year-over-year.

With leasing activity over the last few years bolstered by demand for high-end space, recent economic shocks have exacerbated an already softened market, leading to a quarter-over-quarter decline in Class A demand. Leasing activity for Class A space reached its lowest level on record with 3.0 million square feet leased in 2023 Q1, dropping 45.5% from 5.5 million square feet last quarter and lagging the three-year (2017-2019) pre-pandemic average of 7.2 million square feet by 57.9%. Meanwhile, Class B&C properties leased 2.4 million square feet, a 5.7% uptick from 2.3 million square feet last quarter but trailing the three-year pre-pandemic quarterly average of 3.7 million square feet by 34.3% and 2022 Q1’s level of 2.8 million square feet by 13.7%.

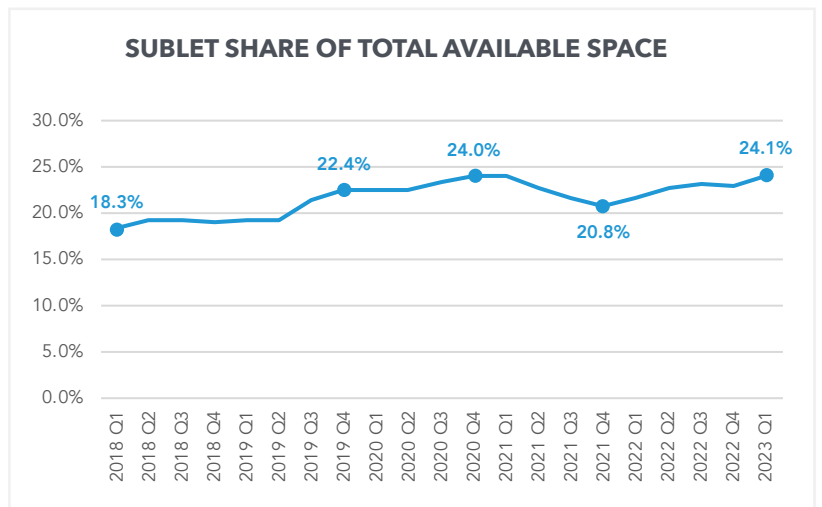
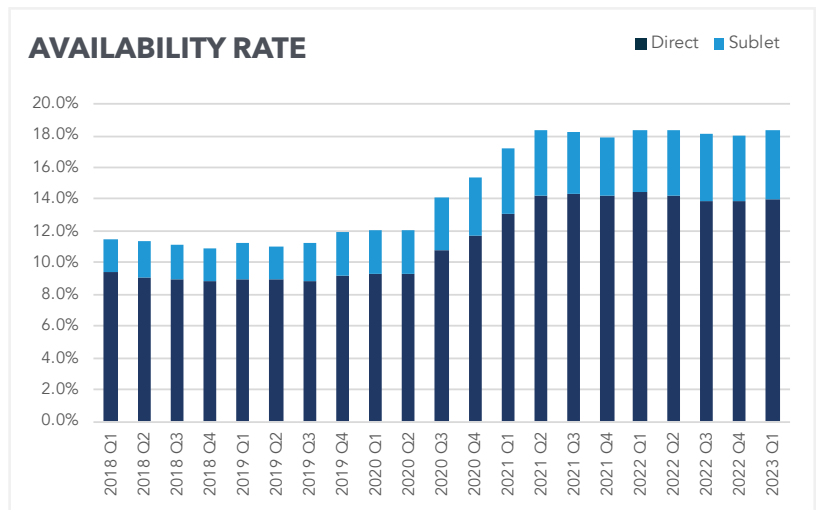


AVAILABILITY

As leasing activity softened, Manhattan’s availability rate ticked up 0.3 percentage points quarter-over-quarter to 18.4% but remained unchanged year-over-year. Relative to 2020 Q2, when availability stood at 12.0% before sharply climbing to pandemic highs, the current availability rate reflects an additional 36.2 million square feet on the market. While the market’s availability rate - which accounts for both vacant and currently occupied space available for lease - has leveled off for several quarters, true vacancy has risen by 10.6 million square feet over the year, accounting for 77.3% of total available space, the highest level in 10 years.

In 2023 Q1, availability increased quarter-over-quarter in both Class A and Class B&C properties. Class A availability closed the quarter at 18.9%, a 0.3 percentage point increase from the prior quarter but a decline of the same magnitude from 19.2% in the first quarter of 2022. Meanwhile, Class B&C availability was 17.5%, up 0.4 percentage points from the fourth quarter of last year and up from 16.9% in the first quarter of 2022. Availability in the trophy market remained unchanged quarter-over-quarter at 14.3%, but contracted from 15.7% year-over-year.

At 24.6 million square feet, available sublet space grew to its highest historical level in the first quarter of 2023, accounting for 24.1% of total available space on the market. This represents an additional 9.9 million square feet of listed available sublet space on the market compared to 2020 Q2. Downtown registered the highest amount of sublet space as a share of total availability at 29.9%, reflecting 6.7 million square feet of space. Midtown, the largest segment, had the most available sublet space on the market totaling 12.9 million square feet, accounting for 22.1% of total available space in Midtown.



MARKET RENTS

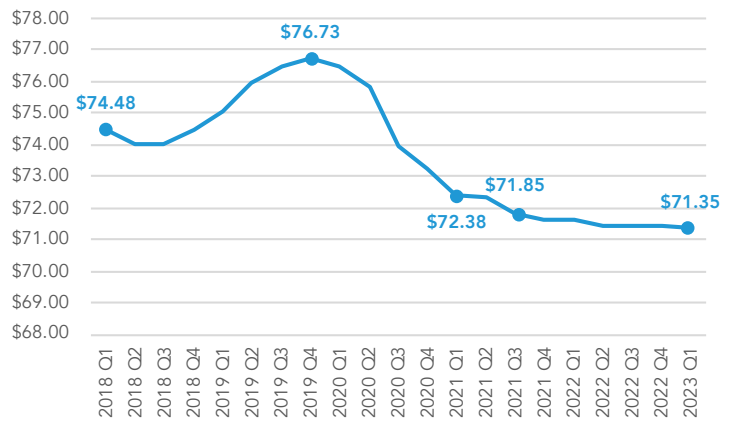
Following a sharp decline during the first two years of the pandemic, Manhattan market rents have remained relatively flat at a five-year low for the last seven quarters, ending the first quarter of 2023 at \$71.35 per square foot (PSF). Market rents were on the rise pre-pandemic, peaking at \$76.73 PSF in 2019 Q4, 7.0% above the current average. Rents across all asset classes continued to lag pre-pandemic peaks, but the high-end market has exhibited a faster recovery compared to the Class B&C market. Class A rents averaged \$80.08 PSF during the first quarter, 1.9% down from their five-year rolling average of \$81.66 PSF, while trophy space averaged \$92.83 PSF, a 1.8% decline from the same period. Class B&C rents trailed their five-year rolling average of \$59.24 PSF by 6.5% and their peak of \$63.04 PSF by 12.2%, ending the quarter at \$55.37 PSF.

Midtown notched the highest overall market rents of \$77.13 PSF, 5.9% below their peak of \$81.97 PSF in 2019 Q4 and 2.8% below their five-year quarterly average of \$79.33 PSF. Compared to the five-year rolling average, Midtown South exhibited the most price softening, with 2023 Q1 market rents averaging \$68.05 PSF, a 4.7% decline. This was primarily driven by Midtown South's Class B&C market, which closed the first quarter at \$59.45 PSF, 5.6% below their five-year average. Notably, Midtown South's Class A rent of \$87.76 PSF continued to outpace Midtown's Class A rent of \$85.83 PSF.

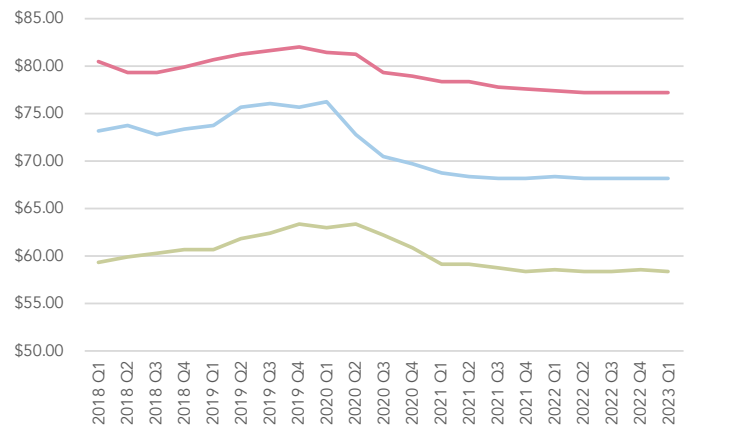
NET ABSORPTION

2023 Q1 net absorption totaled negative 3.59 million square feet, the greatest magnitude of negative absorption in the last eight quarters. This was driven by 2.06 million square feet of direct space and 1.59 million square feet of sublet space returned to market. Midtown South had the most space vacated totaling 1.82 million square feet, driven by large blocks of space brought back to market at 345 Hudson Street (406,438 SF), 770 Broadway (234,526 SF), and 601 West 26th Street (157,165 SF). Midtown followed with negative absorption of 1.63 million square feet, while Downtown had minimal negative absorption totaling 146,017 square feet.

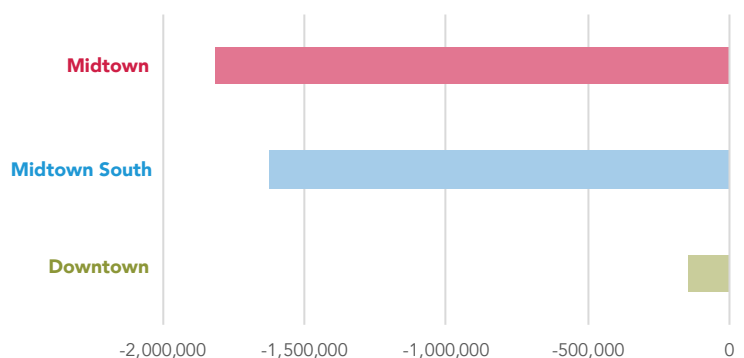
MANHATTAN MARKET RENT



MARKET RENT BY MAJOR SUBMARKET



2023 Q1 NET ABSORPTION SQUARE FEET



MIDTOWN

With 3.1 million square feet leased, Midtown drove leasing activity in 2023 Q1, capturing 59.7% of total market activity. Despite this, activity declined a substantial 39.2% from last quarter, which saw 5.1 million square feet leased largely due to Fox and News Corp's renewals at the end of the year for a combined 951,666 square feet at 1211 Avenue of the Americas. This quarter, Grand Central captured the highest leasing volume of 777,984 square feet, while demand was lowest in Hudson Yards with just 39,838 square feet in activity. Leasing activity declined year-over-year across all of Midtown's submarkets except for the West Side, which had an 80.2% increase from 2022 Q1 to 364,906 square feet, largely driven by Wilson Sonsini Goodrich & Rosati's new lease for 132,502 square feet at 31 West 52nd Street. Class A properties captured the most demand in Midtown at 1.98 million square feet compared to 1.14 million square feet across Class B&C assets.

Midtown's availability rate contracted 0.6 percentage points year-over-year to 17.7%, but rose marginally from 17.5% last quarter. This was consistent across the Midtown Class A market, with 2023 Q1 availability at 17.5%, a decline from 18.2% a year ago but up slightly from 17.2% in 2022 Q4. Availability in Midtown's Class B&C market remained unchanged at 18.4%. 5 of the 10 Midtown submarkets saw year-over-year contractions in availability, with the largest decline in the Fifth/Madison market from 23.3% to 20.4%. Penn Plaza had the highest availability rate of 24.0%, while Park Avenue had the lowest at 10.6%.

Market rents declined marginally across all Midtown submarkets from the first quarter of last year, resulting in an end of quarter rent of \$77.13 per square foot (PSF), down from \$77.46 PSF in 2022 Q1 and 2.8% below the five-year rolling average of \$79.33 PSF. Consistent with historical trends, the high-end markets of Hudson Yards and Park Avenue had the highest overall market rents of \$105.67 PSF and \$96.40 PSF respectively, while the Garment District, where 88% of the inventory is Class B&C space, had the lowest at \$49.53 PSF. Market rent contraction was exhibited across all asset classes, with Midtown Class A space averaging \$85.83 PSF while Class B&C rents averaged \$53.83 PSF.

As leasing activity softened, first quarter net absorption in Midtown was negative 1.63 million square feet, a sharp decline from positive 4.47 million square feet absorbed in the prior quarter. 7 out of 10 of Midtown's submarket had negative absorption, with the most space returned to market in the East Side totaling 566,440 square feet. The West Side submarket had the most space absorbed at 286,286 square feet. Consistent with Manhattan, Midtown's negative net absorption was nearly evenly driven by direct and sublet space- 780,891 square feet of direct space came back to market, compared to 846,207 square feet of sublet space.

TOP LEASING TRANSACTIONS



555 WEST 57TH STREET
186,882 SF
10 YEARS
RENEWAL
WEST SIDE



31 WEST 52ND STREET
132,502 SF
16.5 YEARS
NEW
AVENUE OF THE AMERICAS/
ROCKEFELLER CENTER



22 VANDERBILT AVENUE
78,353 SF
16 YEARS
NEW
GRAND CENTRAL

	2023 Q1	2022 Q4	2022 Q1
LEASING ACTIVITY	3,117,566	5,126,471	5,170,205
AVAILABILITY	17.7%	17.5%	18.3%
MARKET RENT	\$77.13	\$77.14	\$77.46
NET ABSORPTION	-1,627,098	4,471,191	763,005

MIDTOWN SOUTH

Midtown South leased 1.5 million square feet in the first quarter, a 15.0% quarter-over-quarter and 21.2% year-over-year decline. Leasing activity was led by Class B&C properties, which drove 1.2 million square feet of demand in the area. Madison/Union Square captured the most activity with 429,948 square feet leased, a marginal 3.2% decline from 444,243 square feet in the first quarter of last year. Greenwich Village/Noho/Meatpacking captured the lowest leasing volume totaling just 88,465 square feet, down 61.2% year-over-year. Despite the current volatility of the industry, technology tenants continue to have a strong affinity for Midtown South, with two of the largest deals this quarter including Two Sigma's renewal of 265,217 square feet at 100 Avenue of the Americas and Braze's sublease of 92,306 square feet at 63 Madison Avenue.

Midtown South's availability rate reached its highest level in the last six years at 20.0%, reflecting a 1.0 percentage point increase from the fourth quarter of 2022 and a 1.9 percentage point increase from the same period last year. This was driven by an increase in available supply across both Class A and Class B&C assets. Available Class A supply totaled 7.6 million square feet for a rate of 23.3%, an uptick from 20.8% year-over-year. Meanwhile, Class B&C availability increased from 16.8% to 18.5% over the same period to a total of 13.8 million square feet in available supply. Availability rose most substantially in the Greenwich Village/Noho/Meatpacking submarket, growing from 12.2% in Q1 2022 to 20.6% this quarter, a 761,842 SF increase.

Midtown South market rents averaged \$68.05 PSF this quarter, a marginal 0.4% compression year-over-year. This reflected a 10.7% decline from their recent pre-pandemic peak of \$76.23 PSF and a 4.8% decline from their five-year rolling average of \$71.46 PSF. Comparable with Manhattan overall, the higher-end markets of Class A and trophy space have recovered closer to their rolling averages, closing the quarter at \$87.76 PSF and \$93.55 PSF, both representing 3.4% declines. Meanwhile, Class B&C space averaged market rents of \$59.45 PSF, down 5.6% from their five-year average.

Net absorption totaled negative 1.82 million square feet in Midtown South, with the most space returned in Chelsea/Flatiron, Hudson Square, and Greenwich Village/Noho/Meatpacking. Madison/Union Square and Soho/Lower East Side, the two submarkets with the highest demand this quarter, were the only two submarkets in the area with positive absorption this quarter. By way of comparison, the first quarter of last year had 228,384 square feet of positive absorption in Midtown South, with all but two of the submarkets exhibiting positive absorption levels.

TOP LEASING TRANSACTIONS

TWO SIGMA

100 AVENUE OF THE AMERICAS
265,217 SF
7 YEARS
RENEWAL
SOHO/LOWER EAST SIDE



63 MADISON AVENUE
92,306 SF
11 YEARS
SUBLET
MADISON/UNION SQUARE



160 VARICK STREET
38,248 SF
10 YEARS
NEW
HUDSON SQUARE

	2023 Q1	2022 Q4	2022 Q1
LEASING ACTIVITY	1,505,975	1,771,476	1,911,510
AVAILABILITY	20.0%	19.0%	18.1%
MARKET RENT	\$68.05	\$68.14	\$68.35
NET ABSORPTION	-1,816,205	-661,215	228,384

DOWNTOWN

Downtown leasing activity in the first quarter of 2023 totaled 825,966 square feet, dropping 12.4% year-over-year and 45.0% from the five-year rolling average of 1.5 million square feet. Over 90% of Downtown's quarterly activity took place in the World Trade Center (405,841 SF) and Financial District (340,087 SF) submarkets. Notably, the World Trade Center captured the second largest deal of the quarter, Cadwalader Wickersham & Taft's renewal and contraction to 225,000 square feet at 200 Liberty Street. 32.2% of Downtown's leasing activity was driven by subleases, a higher proportion than the 20.4% in the overall Manhattan market. Significant subleases included Revlon's 68,518 square foot sublet at 55 Water Street, King's College's 52,542 square foot sublet and renewal at 52 Broadway, and StubHub's 44,032 square foot sublet at 3 World Trade Center.

Downtown's availability rate remained on par with recent quarters at 18.7%, elevated from the pre-pandemic level of 10.5%. The Financial District had the highest overall availability rate of any Manhattan submarket at 24.8%, reflecting an additional 7.8 million square feet of available supply compared to 2020 Q2 when availability significantly climbed. City Hall had the lowest availability rate at 12.2%. Compared to the other two major segments, Downtown had the largest share of sublet space relative to total availability at 29.9%.

At \$58.34 PSF, 2023 Q1 Downtown market rents remained well below other segments and declined marginally from \$58.48 PSF last quarter and 3.3% from their five-year rolling average of \$60.31 PSF. Tribeca commanded the highest overall market rents of \$71.76 PSF, while City Hall had the lowest at 52.74 PSF. Downtown Class A space captured significantly lower rents relative to Midtown and Midtown South at \$61.32 PSF, just \$11.01 above the Class B&C market rent of \$50.31 PSF.

Downtown's quarterly net absorption totaled negative 146,017 square feet, driven by City Hall which had 227,269 square feet returned to market. Negative absorption was driven by 312,596 square feet of sublet space, while direct absorption registered at positive 166,579 square feet. By way of comparison, pre-pandemic net absorption averaged positive 260,300 square feet per quarter between 2017 and 2019. The Financial District was the only submarket in the area with positive net absorption totaling 268,961 square feet.

TOP LEASING TRANSACTIONS

CADWALADER

Cadwalader, Wickersham & Taft LLP

200 LIBERTY STREET
225,000 SF
RENEWAL/CONTRACTION
WORLD TRADE CENTER

REVLON

55 WATER STREET
68,518 SF
10 YEARS
SUBLET
FINANCIAL DISTRICT



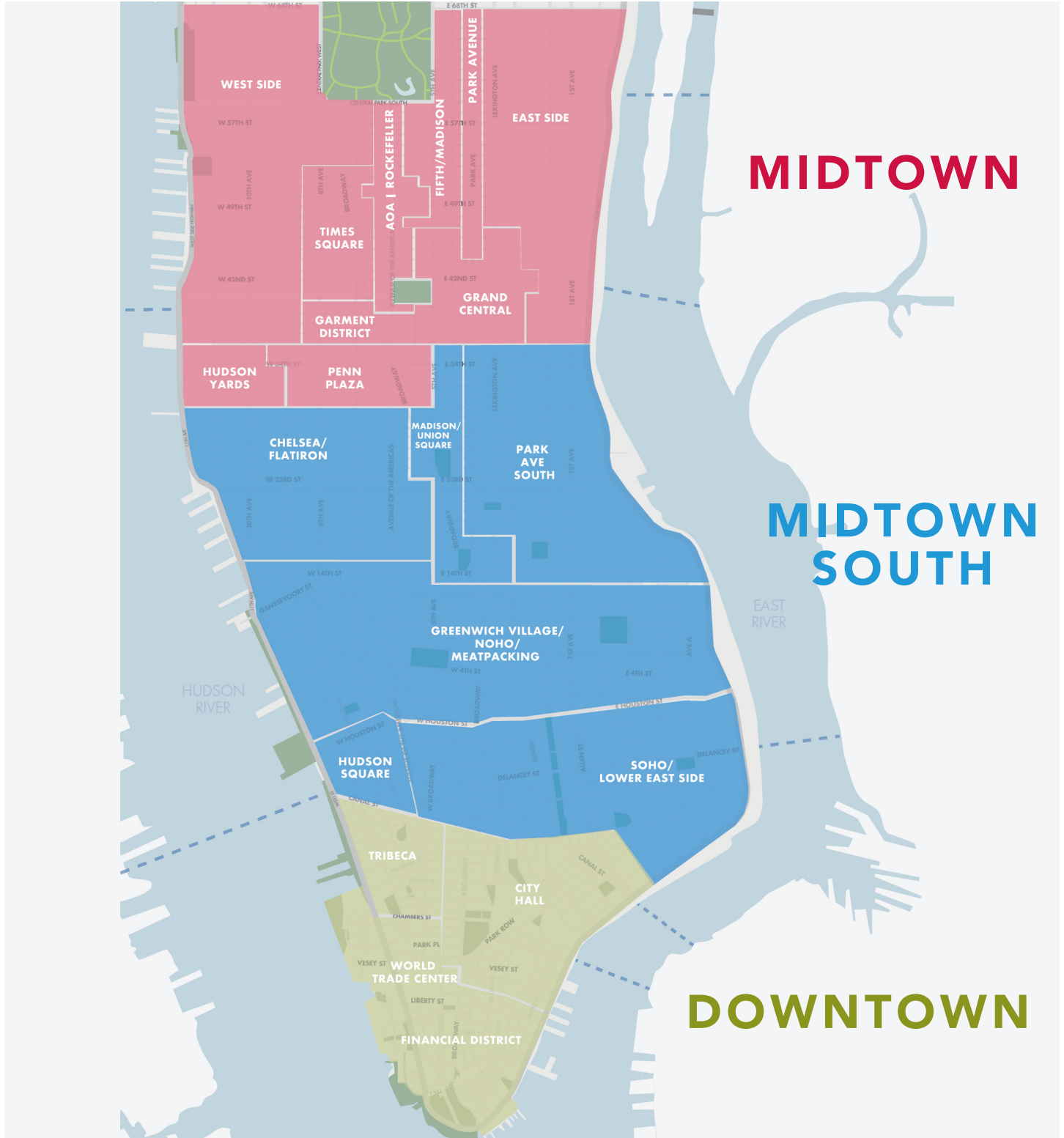
THE KING'S COLLEGE
NEW YORK CITY

52 BROADWAY
52,542 SF
12 YEARS
SUBLET/RENEWAL
FINANCIAL DISTRICT

	2023 Q1	2022 Q4	2022 Q1
LEASING ACTIVITY	825,966	942,951	939,829
AVAILABILITY	18.7%	18.6%	18.9%
MARKET RENT	\$58.34	\$58.48	\$58.46
NET ABSORPTION	-146,017	178,350	-830,249

SUBMARKET STATISTICS

	Submarket	Inventory	Under Construction	Leasing Activity	Availability Rate	Availability Class A	Availability Class B&C	Market Rent	Market Rent Class A	Market Rent Class B&C	Net Absorption
MIDTOWN	Avenue of the Americas/Rockefeller Center	54,622,355	200,000	469,479	14.9%	13.8%	23.5%	\$85.91	\$89.14	\$59.49	-310,651
	East Side	30,481,958	0	134,752	16.7%	19.7%	6.4%	\$72.61	\$76.48	\$59.30	-566,440
	Fifth/Madison	29,225,810	0	305,928	20.4%	20.6%	19.6%	\$94.61	\$98.59	\$73.32	286,286
	Garment District	24,194,208	0	385,283	16.6%	19.1%	16.2%	\$49.53	\$65.85	\$47.31	-157,551
	Grand Central	59,730,172	827,782	777,984	18.9%	19.8%	15.5%	\$69.62	\$73.64	\$55.34	-357,855
	Hudson Yards	16,777,736	1,950,140	39,838	17.4%	17.0%	33.7%	\$105.67	\$107.05	\$46.67	-336,643
	Park Avenue	26,177,427	1,871,767	232,449	10.6%	10.3%	19.0%	\$96.40	\$97.46	\$65.76	48,120
	Penn Plaza	30,982,660	0	298,865	24.0%	23.0%	24.5%	\$58.80	\$73.62	\$50.87	-413,676
	Times Square	28,614,115	0	108,080	21.9%	20.9%	29.3%	\$76.92	\$79.92	\$53.85	-10,786
	West Side	24,145,601	0	364,908	16.3%	17.2%	15.4%	\$67.46	\$81.95	\$54.54	192,098
	Midtown	324,952,042	4,849,689	3,117,566	17.7%	17.5%	18.4%	\$77.13	\$85.83	\$53.83	-1,627,098
MIDTOWN SOUTH	Chelsea/Flatiron	33,404,677	298,983	348,334	20.0%	30.4%	17.9%	\$61.86	\$95.58	\$54.75	-787,399
	Greenwich Village/Noho/Meatpacking	10,574,063	173,291	88,465	20.6%	25.9%	17.9%	\$74.66	\$99.44	\$62.56	-461,529
	Hudson Square	11,031,575	2,767,227	103,805	16.3%	10.7%	21.4%	\$74.62	\$83.59	\$66.67	-501,941
	Madison/Union Square	25,248,508	0	429,948	20.8%	26.0%	17.9%	\$67.18	\$83.96	\$57.66	48,586
	Park Avenue South	16,053,493	0	145,373	22.3%	23.5%	21.6%	\$70.53	\$84.32	\$61.50	-199,012
	Soho/Lower East Side	7,472,189	0	390,050	17.7%	28.6%	15.7%	\$71.94	\$85.05	\$69.60	85,090
	Midtown South	103,784,505	3,239,501	1,505,975	20.0%	23.3%	18.5%	\$68.05	\$87.76	\$59.45	-1,816,205
DOWNTOWN	City Hall	23,772,082	0	50,613	12.2%	16.5%	9.2%	\$52.74	\$56.52	\$50.01	-227,269
	Financial District	58,068,751	0	340,087	24.8%	27.6%	15.7%	\$54.99	\$57.45	\$47.04	268,961
	Tribeca	8,654,324	0	29,425	13.1%	11.4%	15.2%	\$71.76	\$78.99	\$63.20	-37,400
	World Trade Center	28,521,773	0	405,841	13.4%	13.7%	1.9%	\$65.75	\$66.22	\$47.32	-150,309
	Downtown	119,016,930	0	825,966	18.7%	21.0%	12.5%	\$58.34	\$61.32	\$50.31	-146,017
	Manhattan	547,753,477	8,089,190	5,499,507	18.4%	18.9%	17.5%	\$71.35	\$80.08	\$55.37	-3,589,320





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