Q2 2023

MANHATTAN OFFICE MARKET REPORT

FOR MORE INFORMATION, PLEASE CONTACT:

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ECONOMIC UPDATE

New York City's economy continued to show signs of progress through Q2 2023 with total nonfarm jobs reaching 4.68 million in May, a 99.2% recovery to pre-pandemic levels. In May, the citywide unemployment rate was 5.3%, a slight contraction from 5.4% in April and 5.5% a year ago. Comparatively, the May national unemployment rate was 3.7%, an increase from 3.4% in April and 3.6% a year ago. New York City's labor force participation rate reached 62.4%, the highest level on record and an indication of confidence from the labor market in the city's resilience. Daily subway ridership in Q2 2023 averaged 69.9% of pre-pandemic levels, an improvement from 61.1% during the same quarter last year. Ridership recovery along the LIRR and Metro-North reached 76.9% and 70.2% of pre-pandemic levels respectively, while bridge and tunnel volumes have surpassed their pre-pandemic level. Tourism continued to rebound, with hotel occupancy averaging 84.0% and Broadway attendance reaching 90.0% of pre-pandemic levels in May.

The return-to-office trend has seen marginal improvement over the year, but remains below pre-pandemic normalcy. Kastle Systems' back-to-work barometer placed New York City office occupancy at 47.7% of pre-pandemic levels this quarter, while PlacerAi reported weekday occupancy reached 68.2% of pre-pandemic levels this May. According to a survey of employers by Challenger, Gray & Christmas, 31.6% of employers reported that most employees have returned to the office, with hybrid work allowed on a case-by-case basis.

Despite these signs of progress, persisting economic pressure and hybrid work continue to slow leasing momentum, with activity in the second quarter totaling 6.2 million square feet, a 31.4% year-over-year decline. The federal funds rate held steady at 5.0% - 5.25% in June after 11 consecutive rate hikes since March 2022, with additional increases possible this year if the economy does not sufficiently cool. Inflation was 4.0% in May, the smallest 12-month increase since March 2021 but still above the Federal Reserve's 2.0% target rate. According to Bloomberg, the New York City metro area has the highest CMBS loan debt of any metro area set to mature by Q4 2024 with a balance of $39.8 billion. The increased cost of debt combined with lowered demand and occupancy could lead to a decline in office values and could make it difficult to refinance maturing loans, leading to possible mortgage extensions or owners turning over keys to lenders.

KEY METRIC HIGHLIGHTS

UNEMPLOYMENT (MAY)

5.3% NYC
3.7% U.S.

FEDERAL FUNDS RATE

5.00% - 5.25% VS.
0.75% - 1.0% A YEAR AGO

12- MONTH INFLATION RATE (MAY)

4.0% VS 8.6%
A YEAR AGO

NYC OFFICE OCCUPANCY

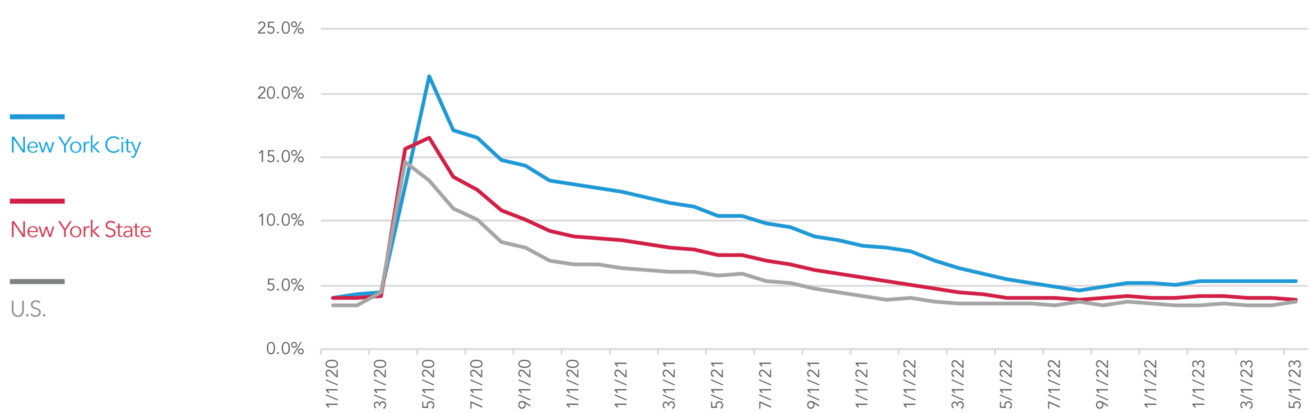
KASTLE SYSTEMS
47.7% WEEKDAY OCCUPANCY IN Q2 2023 VS **38.7%** IN Q2 2022

PLACERAI
68.2% RECOVERY TO 2019 IN NYC VS **61.7%** NATIONWIDE

SUBWAY RIDERSHIP

3.25 MILLION
AVERAGE DAILY RIDERS IN Q2 2023
69.9% OF PRE-PANDEMIC LEVELS

SEASONALLY ADJUSTED UNEMPLOYMENT RATE



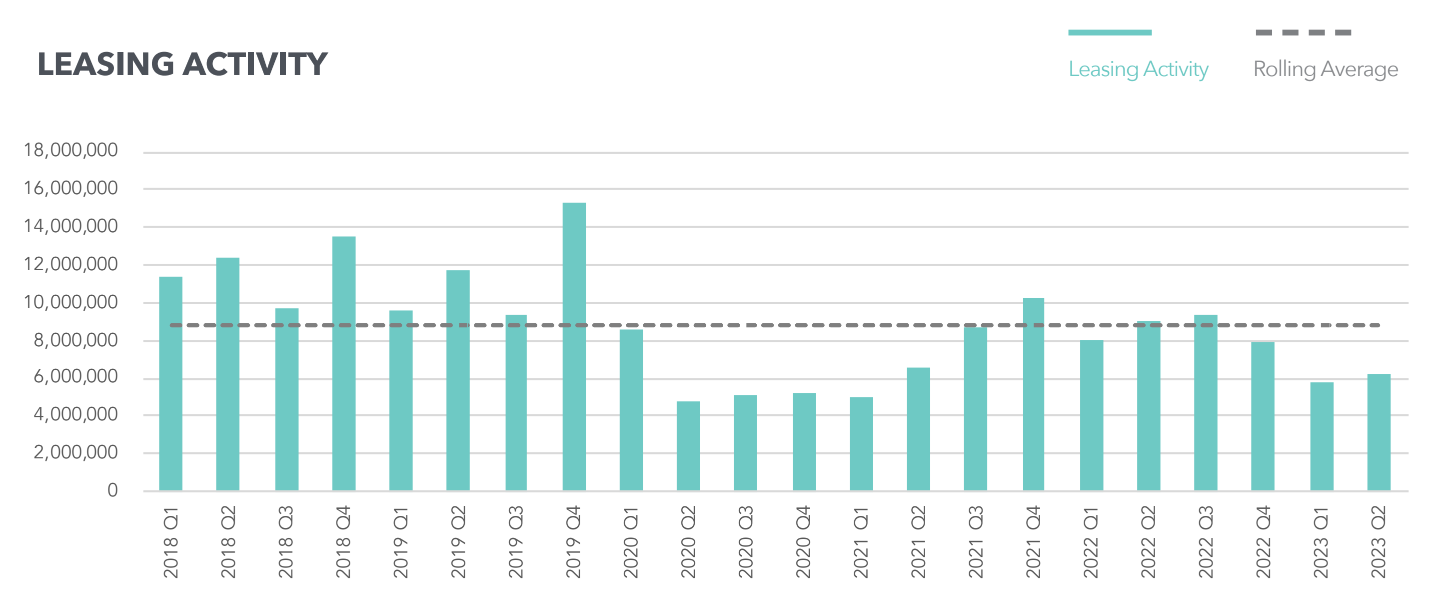
LEASING ACTIVITY

Leasing activity fell below historical levels in the second quarter to 6.2 million square feet, reflecting a 31.4% year-over-year decline and a 29.5% decline from the five-year rolling quarterly average of 8.8 million square feet. Q2 2023 leasing activity outpaced the first quarter due to a 630,000 square foot lease signed at 110 William Street by the Department of Citywide Administrative Services, leading to a 7.4% quarter-over-quarter increase in total activity. For the first half of 2023, leasing activity totaled 11.9 million square feet, a 29.8% drop from 17.1 million square feet in the first half of last year. June bolstered Q2 2023 leasing activity, with 3.2 million square feet leased, or 52.3% of total quarterly activity.

The overall compression in leasing activity can be partly attributed to the slowdown in large transactions, with just 6 leases this quarter exceeding 100,000 square feet, a notable 50% decline from 12 leases in Q2 2022 over this threshold. Small and mid-sized deals dominated the market this quarter, with 67.4% of square footage leased and 98.7% of total transactions signed across deals 50,000 square feet and under. This quarter's largest transactions were primarily expiration driven, with renewals representing 4 of the 6 transactions over 100,000 square feet, indicating that companies continue to take a wait-and-see approach towards real estate transactions. Larger transactions were dominated by traditional industries, with financial services, legal services, and real estate firms accounting for 8 of the 10 largest deals.

Midtown, the largest market segment with 326.8 million square feet, captured the strongest demand this quarter with 3.99 million square feet leased, or 64.4% of Manhattan's activity. Midtown also drove some of the quarter's largest transactions, including Paul Hastings' renewal and expansion to 256,840 square feet at 200 Park Avenue and Wachtell, Lipton, Rosen & Katz's 242,464 square foot renewal at 51 West 52nd Street. Due to the large transaction at 110 William Street, leasing activity in the Downtown market reached its highest level since Q4 2021 with 1.34 million square feet leased in Q2 2023, reflecting a 45.5% quarter-over-quarter and 69.3% year-over-year increase. Conversely, leasing activity in Midtown South totaled 868,494 square feet, marking the segment's lowest level of activity since Q3 2020 and a 59.6% year-over-year decline.

The high-end market continued to outperform the rest of the market, with Class A space driving 68.7% of total leasing activity this quarter at 4.3 million square feet leased, while trophy properties captured 807,087 square feet, or 13.0% of total activity. This trend was even more pronounced in Midtown, where trophy properties accounted for 19.1% of the segment's activity.

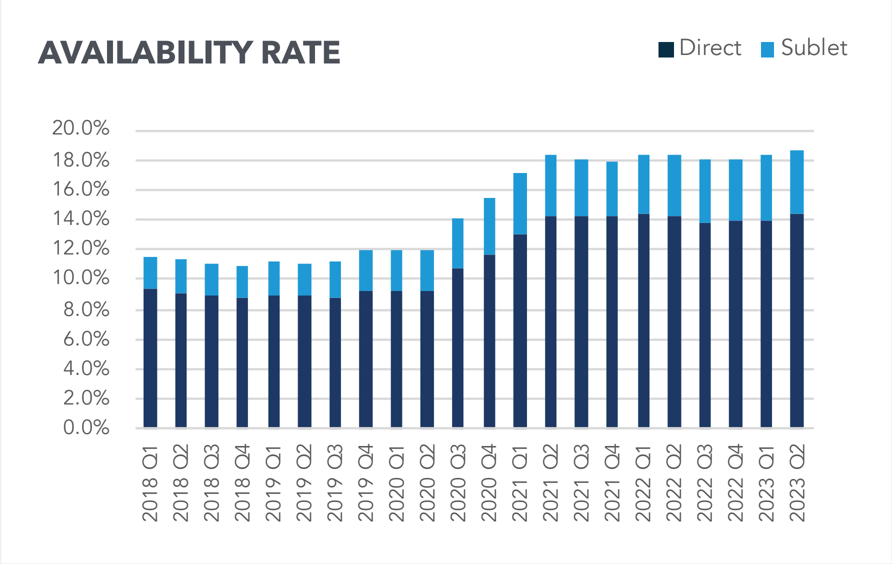


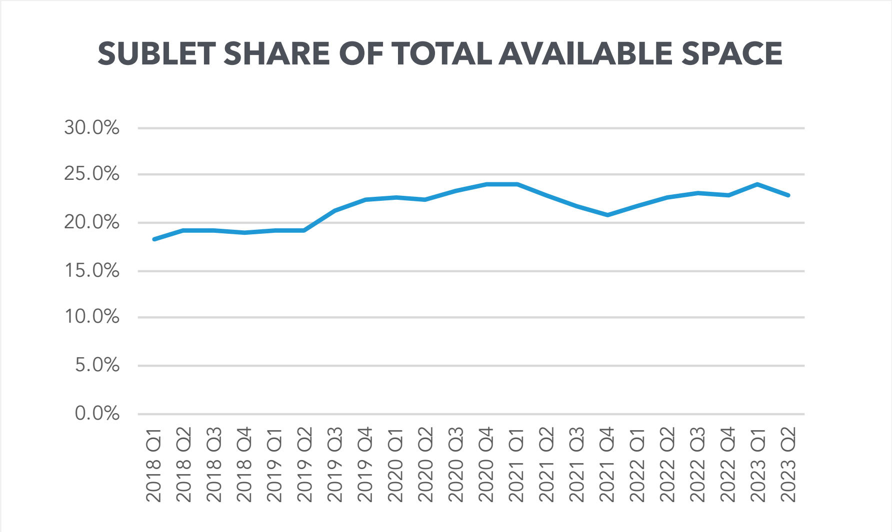
AVAILABILITY

Manhattan's availability rate reached its highest level on record in Q2 2023 at 18.7%, reflecting 103.5 million square feet of available space. This represented a 1.7 million square foot increase quarter-over-quarter and year-over-year from 18.3% and was driven by an uptick in direct availability, which increased by 0.5 percentage points (pp) to 14.4%, while sublet availability inched down by 0.1pp to 4.3%. Sublet space as a share of total available space declined from 24.1% last quarter to 22.8% in Q2 2023, with 23.6 million square feet of available sublet space on the market.

Compared to the prior quarter and year, availability increased across both Class A and Class B&C assets. Class A properties closed the quarter at 19.2% availability, up by 0.4pp from the prior quarter, while Class B&C assets closed the quarter at 17.6% availability, up 0.2pp from the same period. Despite the dominating flight-to-quality trend, trophy space availability increased by 1.1pp quarter-over-quarter to 15.4%, but declined by 0.3pp from 15.7% during the same quarter last year.

Availability declined in Midtown to 17.6%, down from 17.7% last quarter and 18.1% in Q2 2022. Midtown was the only major segment to exhibit a decline in availability this quarter, while availability in Midtown South and Downtown increased 1.0pp each quarter-over-quarter to 20.8% and 19.6% respectively.





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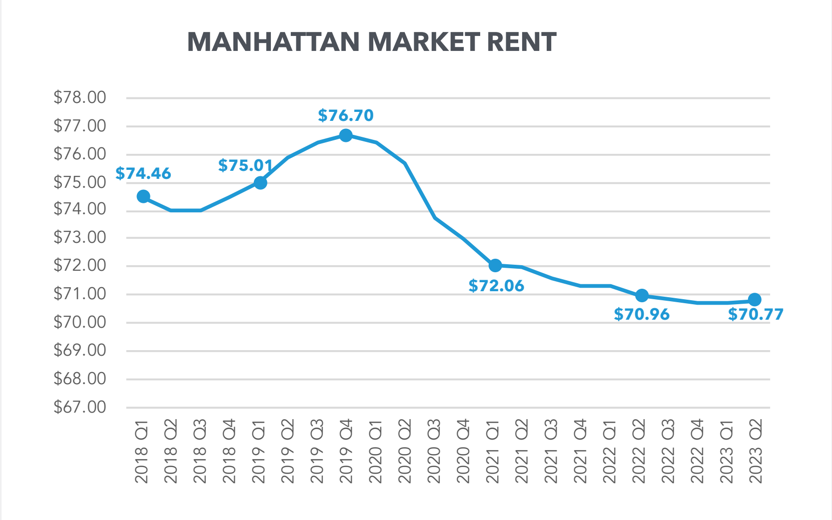
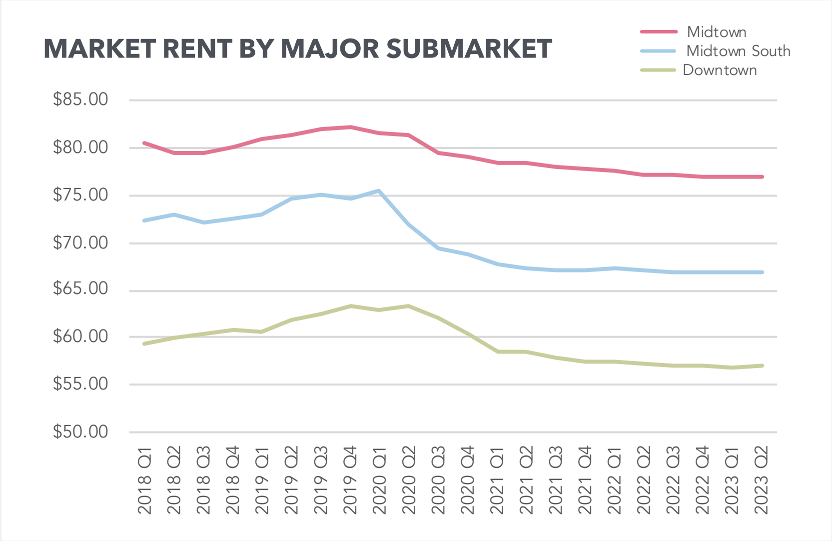
MARKET RENTS

After declining during the pandemic, Manhattan market rents have remained relatively stable over the last several quarters, averaging $70.77 PSF in Q2 2023, but still 7.7% down from their pre-pandemic peak of $76.70 PSF. This was consistent across all asset classes, with Class B&C market rents exhibiting the largest lag of 13.2% from their pre-pandemic peak, ending the quarter at $54.75 PSF. Manhattan Class A properties captured an average market rent of $79.54 PSF this quarter, 5.5% below their pre-pandemic peak of $84.15 PSF, while trophy assets exhibited the smallest decline of 4.1% for an average market rent of $92.87 PSF.

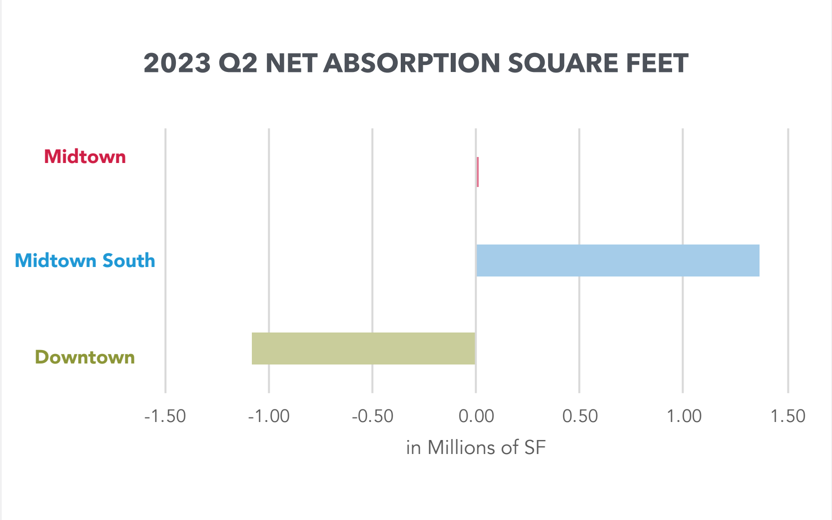
Midtown notched the highest overall market rent of $76.99 PSF, though this represented a slight year-over-year decline from $77.18 PSF and a 6.3% decline from their peak of $82.20 PSF. Additionally, Midtown captured the highest Class A and trophy market rents of $85.85 PSF and $97.13 PSF respectively. Midtown South market rents averaged $66.93 PSF this quarter, on par with recent quarters but a notable 11.2% lag from their peak of $75.39 PSF. Midtown South Class A and trophy rents trailed Midtown at $84.66 PSF and $88.19 PSF respectively. On par with historical trends, Downtown captured the lowest market rents averaging $56.99 PSF, a 10.0% decline from their pre-pandemic peak of $63.29 PSF.





NET ABSORPTION

Net absorption totaled positive 301,866 square feet this quarter, an improvement from 3.21 million square feet returned to market the prior quarter and 3.65 million square feet returned to market in Q2 2022. Positive absorption was driven by Midtown South, which had 1.37 million square feet taken off the market, largely due to the recent completion of St. John's Terminal at 534-564 Washington Street, which totals 1.3 million square feet and is owned and occupied by Google. Meanwhile, 1.08 million square feet was added back to the Downtown market, primarily due to the listing of separate blocks totaling 100,000+ square feet at three properties in the Financial District.



MIDTOWN

With 3.99 million square feet leased, Midtown's leasing activity increased 24.4% quarter-over-quarter, but compressed 34.5% from 6.1 million square feet leased in Q2 2022. Midtown's Q2 2023 activity remained below the five-year rolling average of 5.43 million square feet and the three-year (2017-2019) pre-pandemic average of 6.71 million square feet quarterly. Leasing activity was led by Avenue of the Americas/Rockefeller Center, which captured 949,845 square feet in transactions, largely driven by 100,000+ square feet transactions at 51 West 52nd Street and 40 West 57th Street. Activity was bolstered by the high-end market, with Class A activity totaling 3.1 million square feet and trophy activity totaling 763,083 square feet, accounting for 77.5% and 19.1% of Midtown's overall activity respectively. Leasing activity declined year-over-year across all Midtown submarkets besides Avenue of the Americas/Rockefeller Center, Park Avenue, and Penn Plaza.

Midtown's availability rate closed the quarter at 17.6%, down 0.5pp year-over-year and 0.1pp quarter-over-quarter. Availability contracted across all asset classes in Midtown, bringing Class A availability to 17.5% and Class B&C availability to 17.9%. 6 of the 10 Midtown submarkets exhibited declines in availability year-over-year, with the largest drop of 3.2pp within the Fifth/Madison submarket. However, consistent with Manhattan overall, Midtown has seen significant growth in available space since the pandemic's onset that has yet to be absorbed, with an additional 16.06 million square feet on the market compared to Q4 2019's 12.8% availability rate.

Market rents in Midtown have remained relatively stable over the last several quarters, but have fallen 6.3% below their pre-pandemic peak of $82.20 PSF, ending Q2 2023 at $76.99 PSF. Submarkets with new construction and high-quality space captured the strongest rents, led by Hudson Yards at $105.51 PSF and Park Avenue at $95.13 PSF. Consistent with historical trends, the Garment District and Penn Plaza had the lowest market rents at $48.98 PSF and $58.71 PSF respectively. Midtown's Class A and trophy market rents have exhibited a faster recovery than the market overall. Midtown Class A market rents averaged $85.58 PSF and trophy market rents averaged $97.13 PSF, down 4.3% and 3.4% respectively from their peak levels.

Midtown net absorption totaled positive 17,090 square feet this quarter, driven by 514,753 square feet of sublet space removed from the market. Hudson Yards had the most significant positive net absorption of 709,152 square feet, primarily driven by the delivery of Two Manhattan West which was significantly pre-leased. Negative net absorption was led by Grand Central with 638,289 square feet listed on the market this quarter.

TOP LEASE TRANSACTIONS

PAUL HASTINGS

200 PARK AVENUE
256,840 SF
RENEWAL/EXPANSION

WLRK
Wachtell, Lipton, Rosen & Katz

51 WEST 52ND STREET
242,464 SF
RENEWAL

HPS

40 WEST 57TH STREET
159,000 SF
RENEWAL/EXPANSION

	Q2 2023	Q1 2023	Q2 2022
LEASING ACTIVITY	3,994,107	3,211,553	6,097,657
AVAILABILITY	17.6%	17.7%	18.1%
MARKET RENT	$76.99	$76.87	$77.18
NET ABSORPTION	17,090	(1,267,231)	(1,938,318)

MIDTOWN SOUTH

Leasing activity in Midtown South compressed dramatically in Q2 2023, totaling just 868,494 square feet, the lowest quarterly volume since Q3 2020 and a 59.6% year-over-year decline. The most drastic decline was felt in Madison/Union Square, where activity fell 73.0% year-over-year to 165,057 square feet. A possible driver of this slowdown is the persisting turmoil in the tech sector, which is traditionally attracted to the Midtown South market, as industry giants such as Meta, Amazon and Google executed substantial layoffs over the last several months and startup funding remains limited after the collapse of Silicon Valley Bank. 38% of Midtown South's leasing activity this quarter was attributed to subleases, a notable increase from 10% during Q2 2022.

Availability in Midtown South increased 2.5pp year-over-year and 1.0pp quarter-over-quarter to 20.8%, bringing total available space to 22.3 million square feet. Park Avenue South and SoHo/Lower East Side exhibited the highest year-over-year rise in availability of 7.9pp and 4.7pp respectively. Availability in Midtown South has increased over the last three quarters, and most significantly in the Class A market. Midtown South's Class A availability rate closed the second quarter at 24.8%, reflecting a 4.1pp and 1.36 million square foot year-over-year increase. This quarter, nearly 72,000 square feet was relisted for lease at 6 Hudson Square and 375 Hudson Street, while three separate blocks exceeding 100,000 square feet were listed in the last few quarters and have yet to be absorbed.

Despite the drop in demand, market rents in Midtown South have remained stable over the last ten quarters, averaging $66.93 PSF in Q2 2023. This was consistent across all asset classes, with Class A market rents averaging $84.66 PSF and Class B&C market rents averaging $59.08 PSF. However, Midtown South market rents have not rebounded to their pre-pandemic peak. Overall market rents remain 11.1% below their pre-pandemic peak of $75.39 PSF while Class A and Class B&C market rents remain respectively 9.9% and 12.2% below their peak levels. Greenwich Village/NoHo/Meatpacking captured the highest market rents at $73.79 PSF followed by Hudson Square at $72.05 PSF.

In Q2 2023, 1.37 million square feet of available space was removed from the Midtown South market, with 4 out of 6 submarkets experiencing positive absorption. The largest driver of this was the recent delivery of St. John's Terminal in Hudson Square, which is owned and fully occupied by Google. Park Avenue South and Madison/Union Square had negative net absorption due to several small and mid-sized blocks of space coming back to market.

TOP LEASE TRANSACTIONS

386 PARK AVENUE SOUTH
26,242 SF
SUBLEASE

SKANSKA

350 FIFTH AVENUE
25,000 SF
NEW, DIRECT

/LiveRamp

114 FIFTH AVENUE
19,326 SF
SUBLEASE

	Q2 2023	Q1 2023	Q2 2022
LEASING ACTIVITY	868,494	1,645,263	2,151,641
AVAILABILITY	20.8%	19.8%	18.3%
MARKET RENT	$66.93	66.87	$67.00
NET ABSORPTION	1,365,211	(1,880,777)	(660,018)

DOWNTOWN

Downtown leasing activity totaled 1.3 million square feet in Q2 2023, the highest volume since Q4 2021. This reflected a 69.3% year-over-year and 45.5% quarter-over-quarter increase. The increase in leasing activity was entirely driven by the end-of-quarter signing of 630,000 square feet at 110 William Street by the Department of Citywide Administrative Services – without this transaction, Downtown's Q2 2023 leasing activity would total just 711,439 square feet, below Q1 2023 and Q2 2022 activity. City Hall captured the most demand with 813,043 square feet leased, followed by the Financial District with 269,985 square feet leased. This quarter, no transactions occurred in Tribeca, which has not surpassed 50,000 square feet in activity since Q3 2021. Other notable transactions this quarter included Scotiabank's 131,048 square foot renewal at 250 Vesey Street and the Municipal Credit Union's renewal of 93,500 square feet at 22 Cortlandt Street.

Availability rose marginally across the Downtown market, increasing 0.5pp year-over-year and 1.0pp quarter-over-quarter to 19.6%, with available space totaling 23.2 million square feet. 18.9 million square feet of available space is within Class A properties, which had an availability rate of 21.8% this quarter compared to 13.4% (4.3 million square feet) within Class B&C properties. Downtown has seen a significant increase in available sublet space since the onset of the pandemic, with sublet space reflecting 29.7%, or 6.9 million square feet, of total available space. Tribeca and the World Trade Center had the highest year-over-year increases in availability of 1.7pp and 1.5pp respectively, while the Financial District had the highest overall availability rate at 25.6% this quarter.

Downtown market rents have declined by a marginal 0.5% year-over-year to $56.99 PSF in the second quarter. Market rents began to decline after Q2 2020 and have yet to recover, currently standing 10.0% below their peak level of $63.29 PSF. Class B&C market rents have the biggest lag from their peak level, averaging $48.37 PSF, 13.8% below peak. Tribeca and the World Trade Center had the highest market rents of $69.69 PSF and $63.92 PSF, while City Hall had the lowest at $51.32 PSF.

Downtown was the only major submarket with negative net absorption this quarter totaling 1.08 million square feet returned to market. 885,117 square feet of returned space was direct space, while 195,318 square feet of sublet space was listed. Negative net absorption was primarily driven by the Financial District, with 856,055 square feet listed on the market this quarter. This was led by the return of three separate 100,000+ square feet spaces at 28 Liberty Street, 1 New York Plaza, and 88 Pine Street.

TOP LEASE TRANSACTIONS

110 WILLIAM STREET
630,000 SF
NEW, DIRECT

250 VESEY STREET
131,048 SF
RENEWAL

22 CORTLANDT STREET
93,500 SF
RENEWAL

	Q2 2023	Q1 2023	Q2 2022
LEASING ACTIVITY	1,341,439	921,927	792,214
AVAILABILITY	19.6%	18.6%	19.1%
MARKET RENT	$56.99	$56.96	$57.27
NET ABSORPTION	(1,080,435)	15,355	(1,056,527)

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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	54,654,570	200,000	949,845	15.0%	14.0%	22.5%	$85.03	$88.27	$58.67	39,030
MIDTOWN	East Side	30,353,177	0	348,118	17.1%	20.0%	6.5%	$71.83	$75.74	$58.28	(318,512)
MIDTOWN	Fifth/Madison	29,202,829	0	355,876	19.5%	20.0%	16.9%	$94.67	$98.92	$71.97	75,261
MIDTOWN	Garment District	23,953,113	0	380,157	15.5%	17.3%	15.2%	$48.98	$65.17	$46.70	129,072
MIDTOWN	Grand Central	60,083,121	212,000	615,063	19.3%	20.5%	15.5%	$71.53	$76.15	$56.40	(638,289)
MIDTOWN	Hudson Yards	18,661,653	0	48,752	17.0%	16.6%	33.7%	$105.51	$106.88	$46.62	709,152
MIDTOWN	Park Avenue	26,152,050	1,871,767	640,276	10.8%	10.5%	19.2%	$95.13	$96.18	$65.18	(101,701)
MIDTOWN	Penn Plaza	31,060,823	0	416,780	23.4%	21.0%	24.6%	$58.71	$74.58	$50.08	408,846
MIDTOWN	Times Square	28,553,139	0	153,274	21.2%	20.3%	28.1%	$75.98	$79.03	$52.61	(136,418)
MIDTOWN	West Side	24,101,699	0	85,966	16.3%	17.6%	15.1%	$66.83	$80.70	$54.42	(149,351)
MIDTOWN	**Midtown**	**326,776,174**	**2,283,767**	**3,994,107**	**17.6%**	**17.5%**	**17.9%**	**$76.99**	**$85.85**	**$53.44**	**17,090**
MIDTOWN SOUTH	Chelsea/Flatiron	33,507,128	298,983	284,800	19.5%	30.2%	17.2%	$61.35	$92.34	$54.86	148,018
MIDTOWN SOUTH	Greenwich Village/ Noho/Meatpacking	10,607,471	173,291	146,235	18.5%	25.2%	15.3%	$73.79	$96.46	$62.75	163,488
MIDTOWN SOUTH	Hudson Square	12,305,314	1,467,227	52,144	18.9%	12.7%	24.4%	$72.05	$78.50	$66.32	1,155,309
MIDTOWN SOUTH	Madison/Union Square	25,293,123	0	165,057	21.1%	26.3%	18.1%	$65.95	$81.38	$57.26	(91,223)
MIDTOWN SOUTH	Park Avenue South	16,184,182	0	131,751	26.5%	28.6%	25.0%	$70.32	$83.42	$60.80	(159,130)
MIDTOWN SOUTH	Soho/Lower East Side	7,395,889	0	88,507	20.6%	29.1%	19.1%	$68.86	$77.14	$67.37	148,749
MIDTOWN SOUTH	**Midtown South**	**105,293,107**	**1,939,501**	**868,494**	**20.8%**	**24.8%**	**19.1%**	**$66.93**	**$84.66**	**$59.08**	**1,365,211**
DOWNTOWN	City Hall	23,772,082	0	813,043	12.0%	16.0%	9.2%	$51.32	$55.33	$48.43	(97,045)
DOWNTOWN	Financial District	57,906,814	0	269,985	25.6%	28.2%	17.3%	$54.02	$56.76	$45.08	(856,055)
DOWNTOWN	Tribeca	8,654,324	0	0	14.1%	11.6%	17.1%	$69.69	$78.03	$59.83	(115,292)
DOWNTOWN	World Trade Center	28,433,426	0	258,411	15.2%	15.5%	1.9%	$63.92	$64.38	$46.02	(12,043)
DOWNTOWN	**Downtown**	**118,766,646**	**0**	**1,341,439**	**19.6%**	**21.8%**	**13.4%**	**$56.99**	**$60.19**	**$48.37**	**(1,080,435)**
	Manhattan	**550,835,927**	**4,223,268**	**6,204,040**	**18.7%**	**19.2%**	**17.6%**	**$70.77**	**$79.54**	**$54.75**	**301,866**

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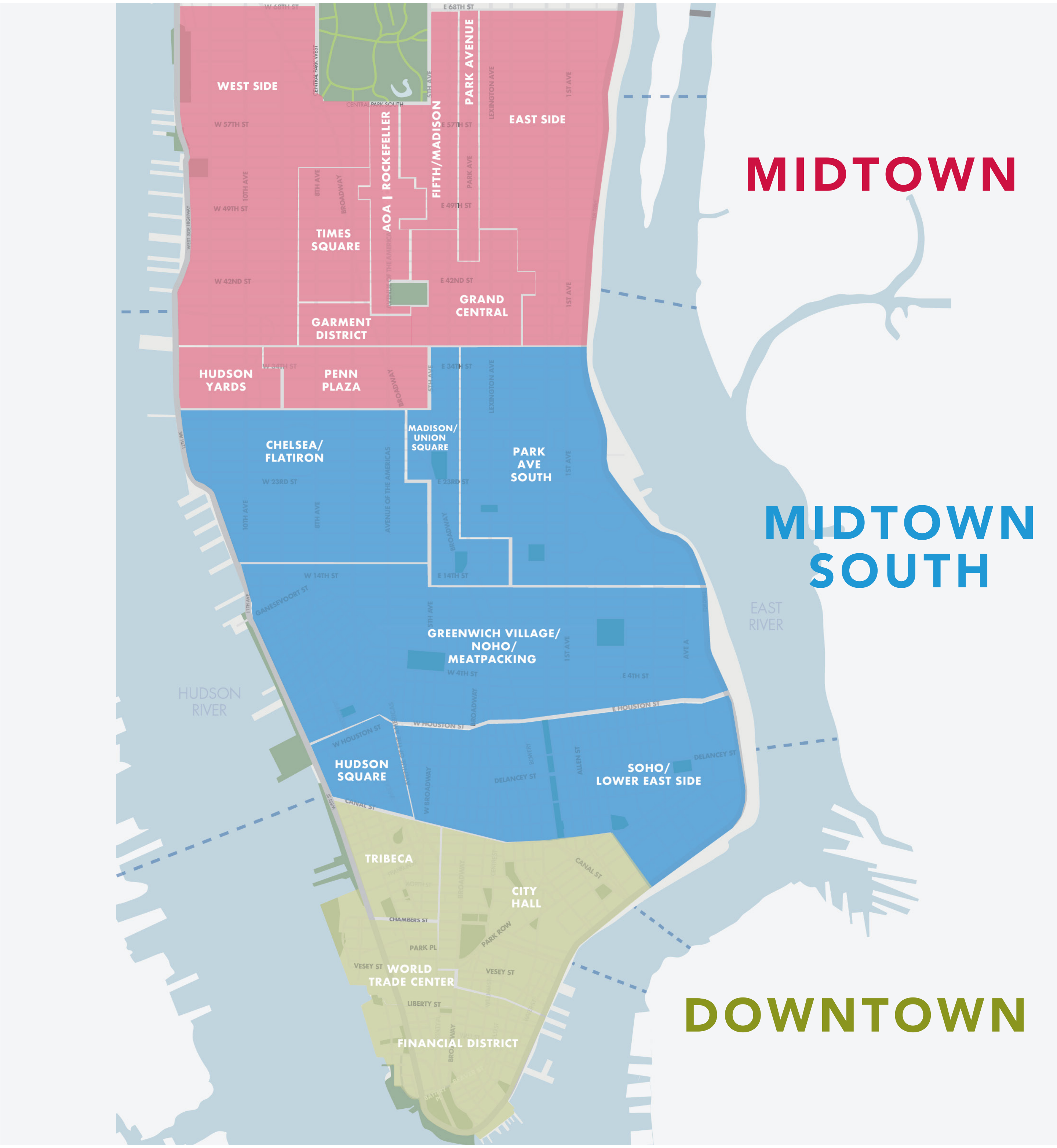

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