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Manhattan office perspectives

Q4 2022

New York Research

Manhattan office market at-a-glance

Despite economic headwinds and high-profile layoffs, New York's labor market remains tight for highly skilled talent.

- Employment numbers in New York have nearly recovered to pre-2020 numbers. Even with big name layoffs and slowdowns in job postings, there are still more than 11 open software jobs for every unemployed worker.
- With return to office rates at around 58% on peak days, more employers across the city are drawing people back into the office for at least part of the week.

Leasing volume falls sharply in Q4 as firms wait to see how deep an economic correction lies ahead.

- Q4 2022 leasing volume totaled 5.3 million s.f., 28% lower than Q4 2021. Despite this slowdown, total leasing volume in 2022, 26.5 million s.f., still managed to top 2021's total by 31%.
- Deals made in Q4 trended smaller. Only four leases over 100,000 s.f. were signed, compared to 17 in Q3 2022 and 15 in Q4 2021.

Several large deliveries and an increase in available sublease space drove vacancy up.

- Almost 8 million s.f. of new space was delivered in Q4, including 50 Hudson Yards and The Spiral. In addition, sublease vacancy is at an all-time high of 21.2 million s.f.
- Supply continues to outweigh demand, even in new construction. This imbalance drove vacancy up to 15.9%. Despite this, average asking rents remain stable at $76.44 p.s.f.

The bifurcation between prime and commodity space widens further, with new construction taking top rents.

- A quarter of annual leasing was in deals over $100 p.s.f., and net effective rents for new construction are at an all-time high of 41% higher than the rest of Trophy and Class A.
- To stay competitive, property owners are creatively proving their value to tenants, offering generous concessions, financially and in terms of flexibility. To attract new tenants, owners are undertaking major renovations, building out top-of-the-line amenity spaces.

Source: JLL Research

Submarket overview

Vacancy rates remain high and asking rents remain well below pre-pandemic levels as the market faces continued economic headwinds.

Trophy, Class A & B	MIDTOWN		MIDTOWN SOUTH		DOWNTOWN		OVERALL	
Inventory	**288.3M s.f.**		**81.2M s.f.**		**99.1M s.f.**		**468.6M s.f.**	
Direct vacant	**31.2M s.f.**		**9.0M s.f.**		**13.1M s.f.**		**53.3M s.f.**	
Sublease vacant	**11.9M s.f.**		**3.4M s.f.**		**5.9M s.f.**		**21.2M s.f.**	
Direct Asking Rent	**$88.01/s.f.**		**$87.10/s.f.**		**$62.70/s.f.**		**$81.64/s.f.**	
Q1 2020 Asking Rent	*$89.75*	*(1.9%)*	*$90.91*	*(4.2%)*	*$69.08*	*(9.2%)*	*$84.78*	*(3.7%)*
Current Vacancy	**14.9%**		**15.3%**		**19.1%**		**15.9%**	
Q1 2020 Vacancy	*7.8%*	*+7.2%*	*6.2%*	*+9.1%*	*8.5%*	*+10.6%*	*7.7%*	*+8.2%*

Source: JLL Research

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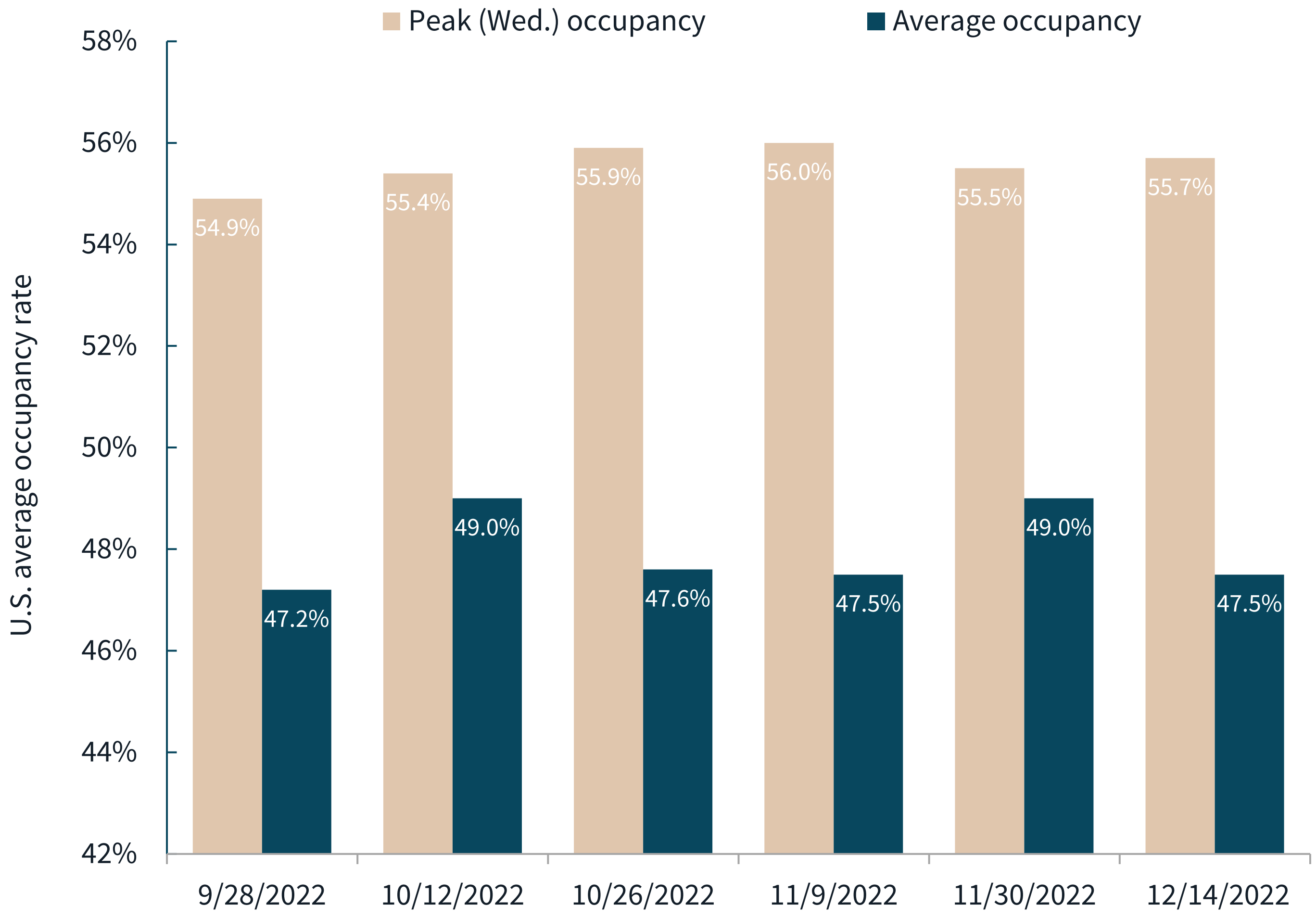
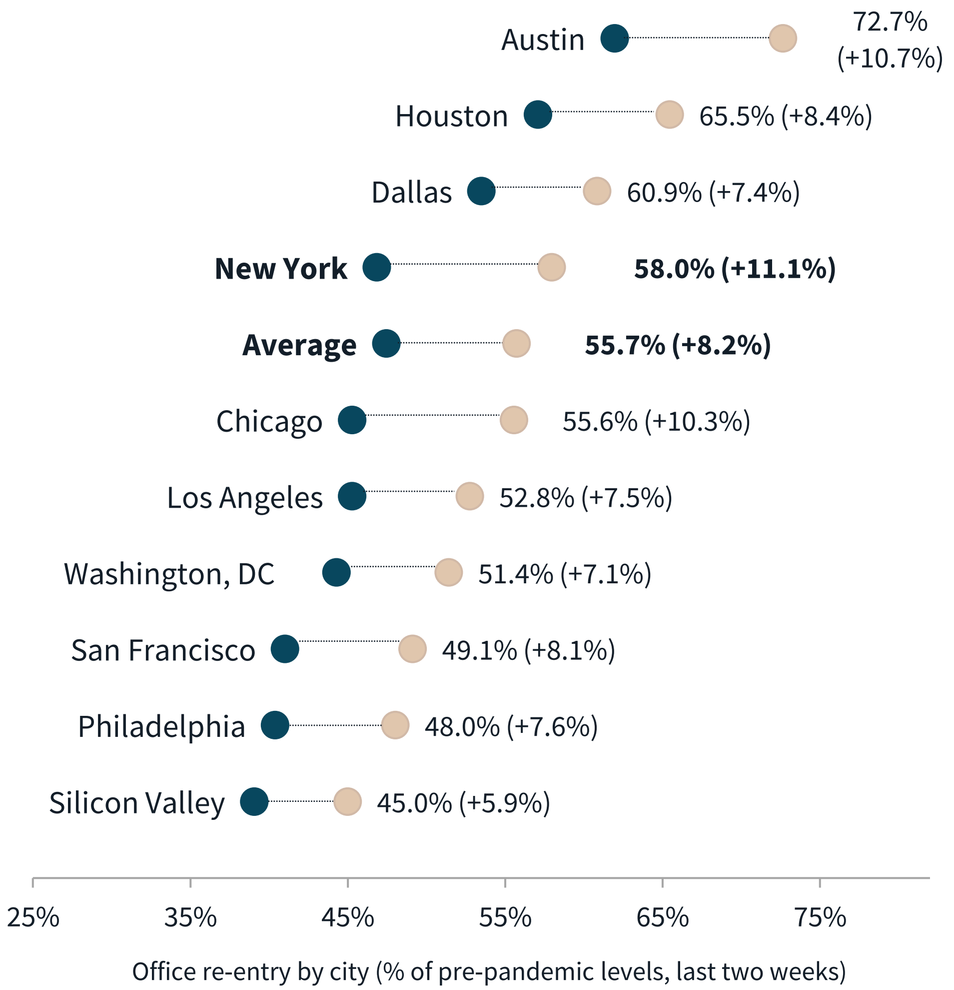
Office re-entry progresses, hybrid schedules create mid-week crowding

New York above national average in terms of office occupancy during peak days, but still behind when averaging over the work week.

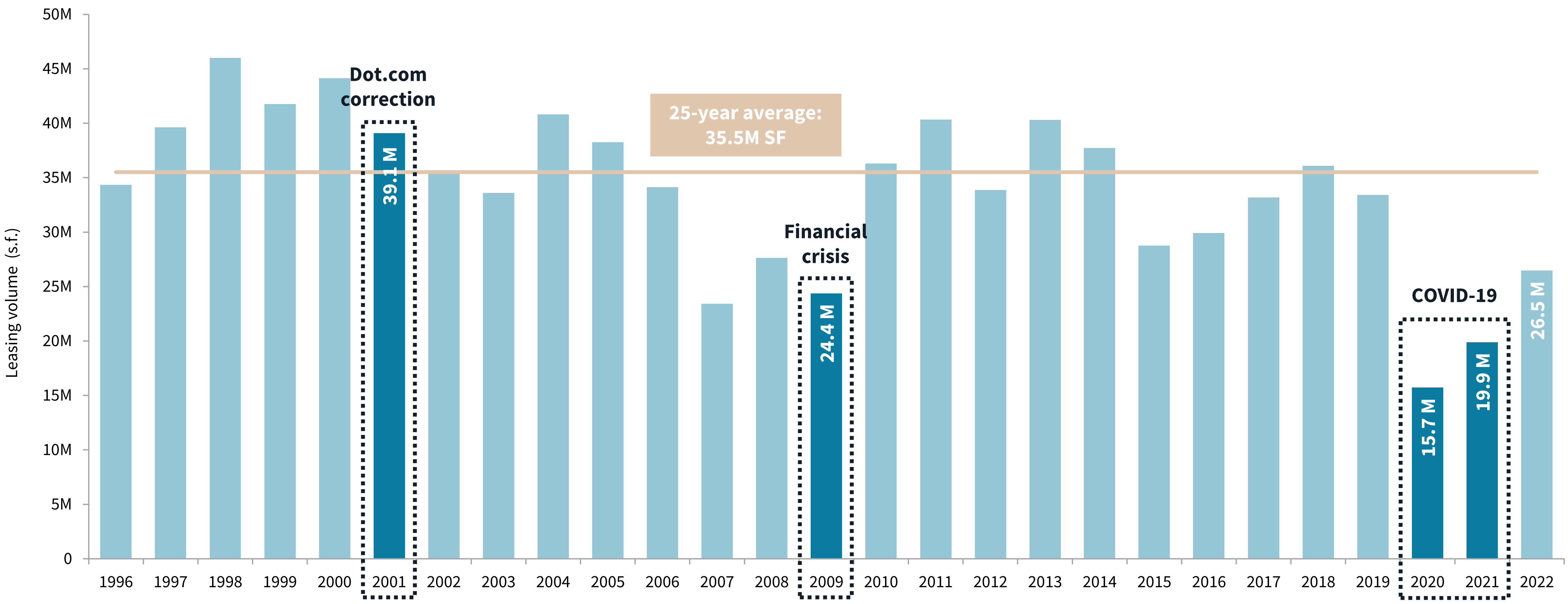




Source: JLL Research, Kastle

Leasing volume

Total leasing activity in 2022 surpassed that of the past two years, but remains well below a typical year.



Source: JLL Research

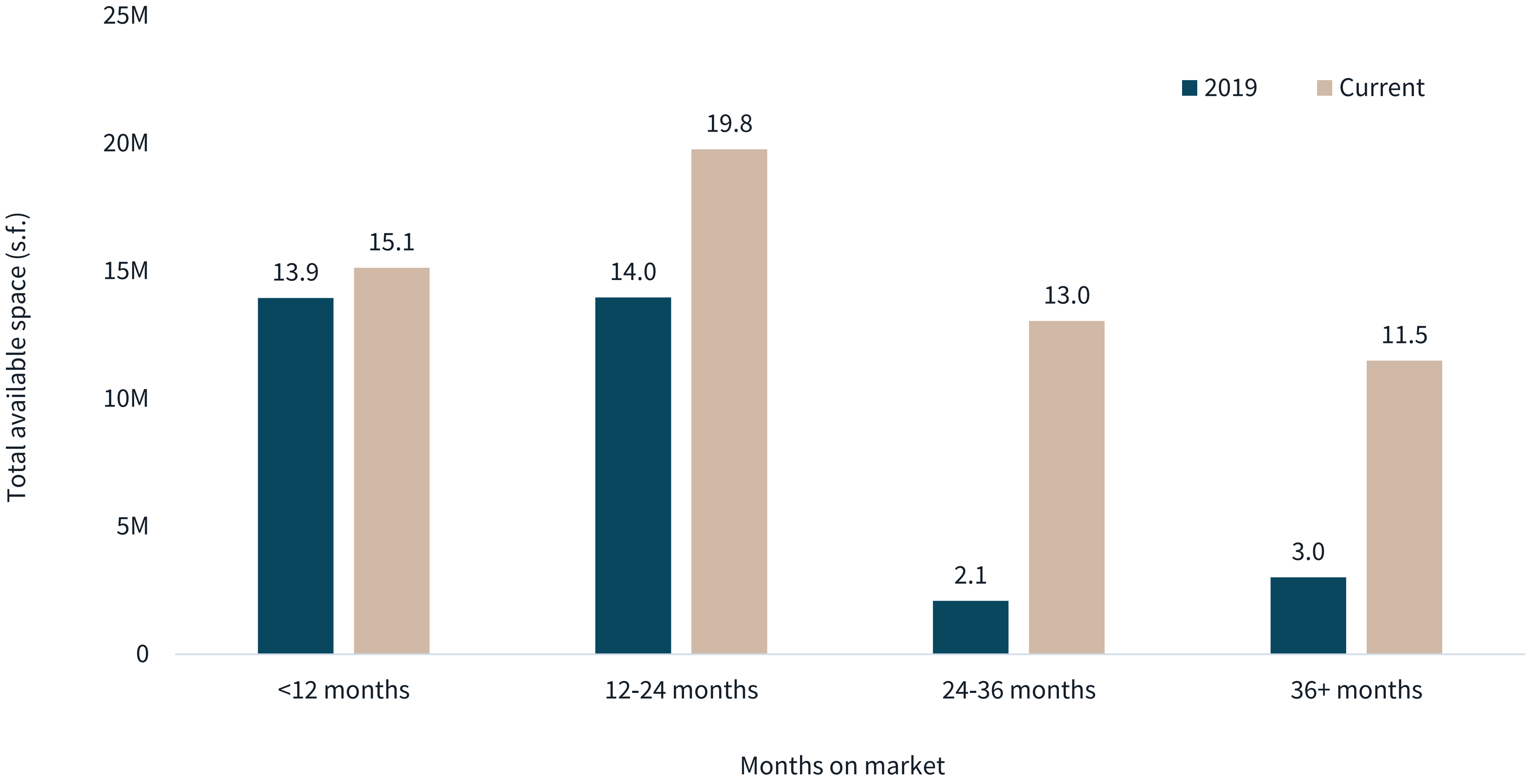
Functionally obsolete space keeping office vacancy rates high

Demand remains strong for new and higher quality spaces, leaving obsolete spaces to linger on the market

More than **24 million s.f.** of office space has been on the market for more than 24 months. This represents **5.3%** of office inventory in New York.

This obsolete space, makes up **one-third** of all vacant space in New York.

Excluding obsolete space, the vacancy rate would fall to **11.3%** from an overall rate of 15.9%.

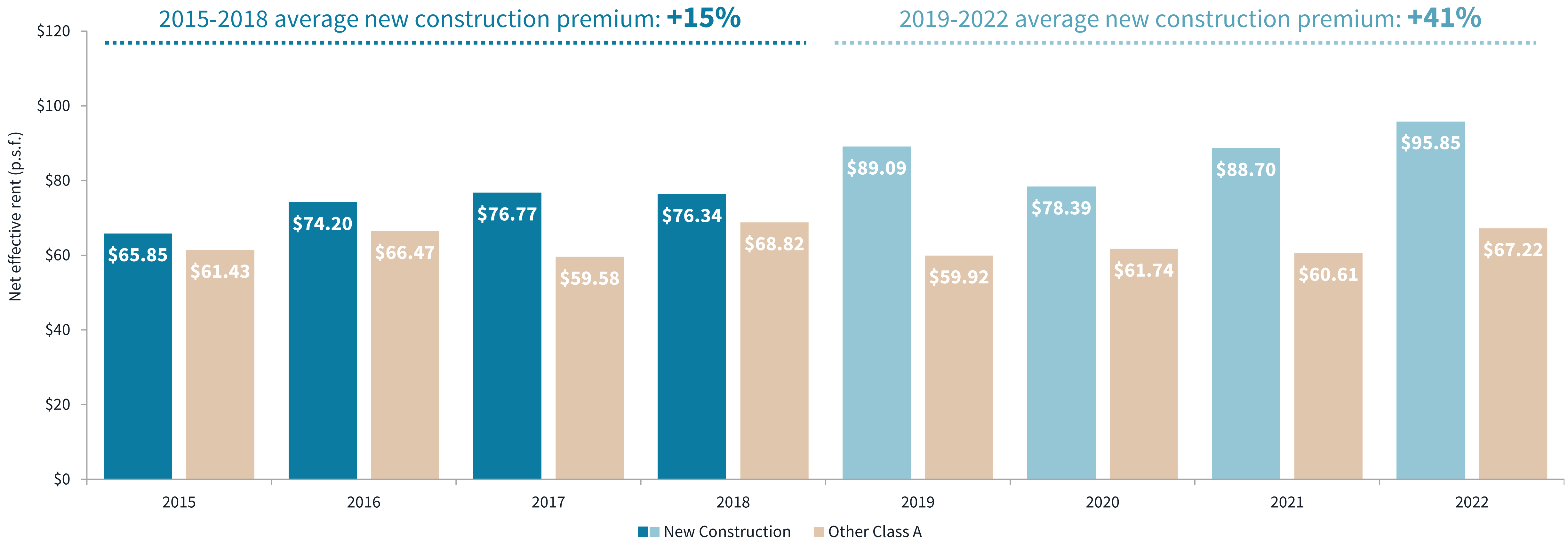


Note: Excludes space in new construction or newly fully renovated properties
Source: JLL Research

Increased demand and premiums for highest quality properties

Tenants are paying 41% more for new construction than other Class A product due to ever-growing demand for the highest quality spaces.

New construction vs. Balance of other Class A NER performance, Manhattan



Note: Class A inclusive of Trophy. New construction refers to buildings that have been delivered or fully repositioned since 2010. Subleases excluded
Source: JLL Research

