Manhattan office market report

Q2 2024

AVISON YOUNG

Manhattan office market trends

14.6 msf

Manhattan leasing activity YTD 2024 outperformed Q1-Q2 2023

YTD 2024 leasing activity in Manhattan reached 14.6 million square feet (msf) – marking an increase of 18.7% compared to Q1-Q2 2023. Despite the year-over-year increase, YTD leasing activity still falls 30.7% below the pre-COVID (2000 – 2019) Q1-Q2 average of 21.1 msf.

Additionally, the number of 100k+ sf transactions through Q2 increased from 11 in 2023 to 14 in 2024. The increase in large-block leasing activity bodes well for surpassing 2023 by the end of 2024.

19.6%

Manhattan availability rate stabilized mid-year

Quarter-over-quarter, the overall availability rate in Manhattan has dropped by 10 basis points (bps) from 19.7% to 19.6%. Despite a slight fluctuation in direct and sublet availabilities, the overall availability rate has remained relatively stable for the past 12 quarters.

Compared to last quarter, direct available space decreased by 700k sf while sublet available space only dropped by 70k sf. These small variances pushed the overall availability rate to drop by 10 bps.

42%

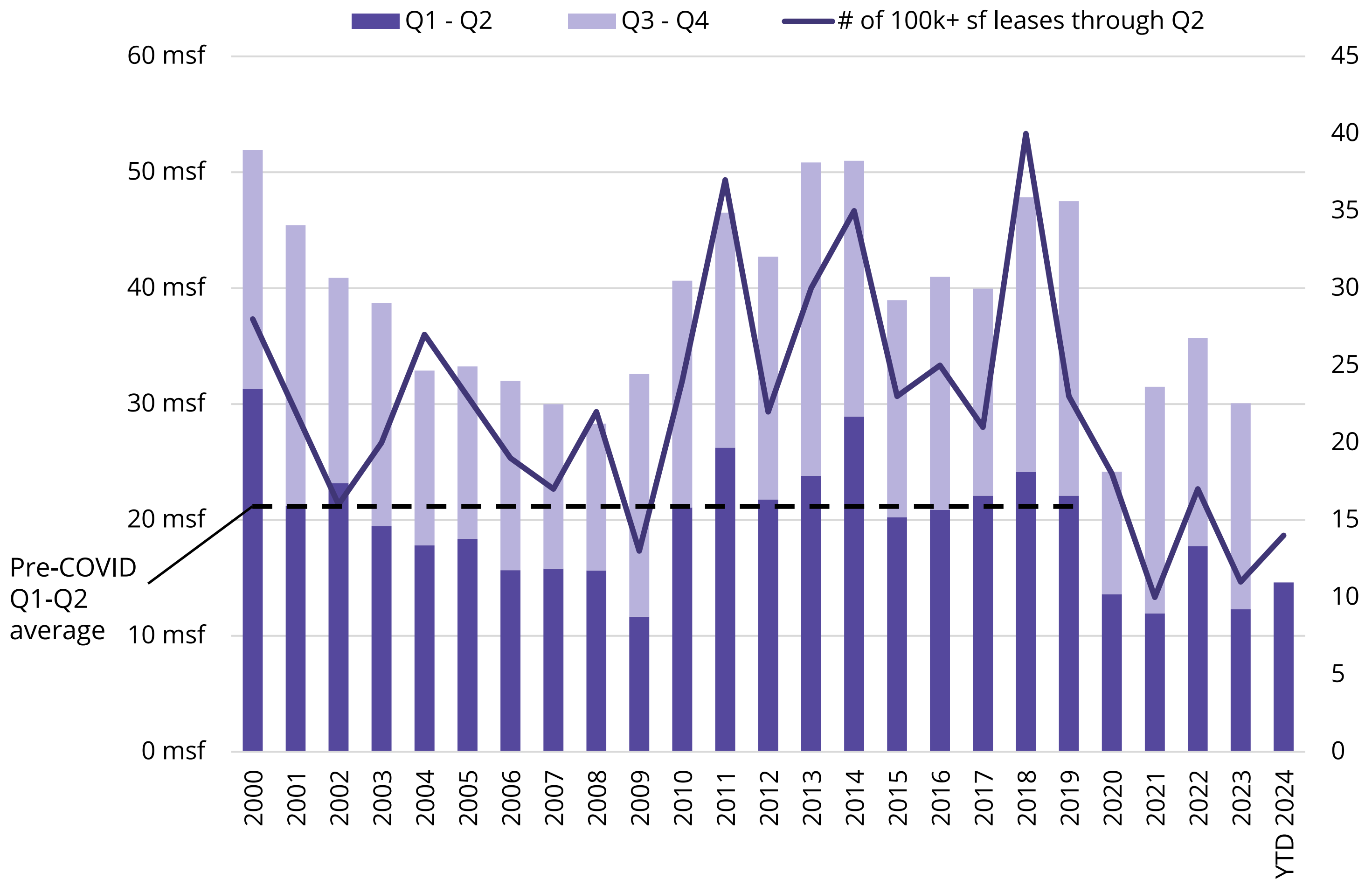
of YTD transaction activity was captured by class A properties

Year-to-date, class A properties have captured 42% of transaction activity by square footage, while only representing 15% of the Manhattan office market. Trophy properties, the top 10% of the market, have accounted for 36.2% of transaction activity and class B/C properties have accounted for the remaining 21.8%.

Aside from 2020, class A's YTD share of transaction activity at 42% marks the highest level in the last 10 years, only followed by 2019 where class A accounted for 35.3% of transaction activity. Further, four out of the six largest leases signed this quarter were in class A buildings.

Source: AVANT by Avison Young, CoStar

Leasing activity



Through the first half of 2024, Manhattan leasing activity has been quite strong compared to other post-COVID years – surpassing three out of the last four years' midway point.

At 14.6 msf, 2024 leasing activity is up 18.7% from the same time last year despite remaining significantly below the pre-COVID (2000 – 2019) half-year average of 21.1 msf.

Source: AVANT by Avison Young, CoStar

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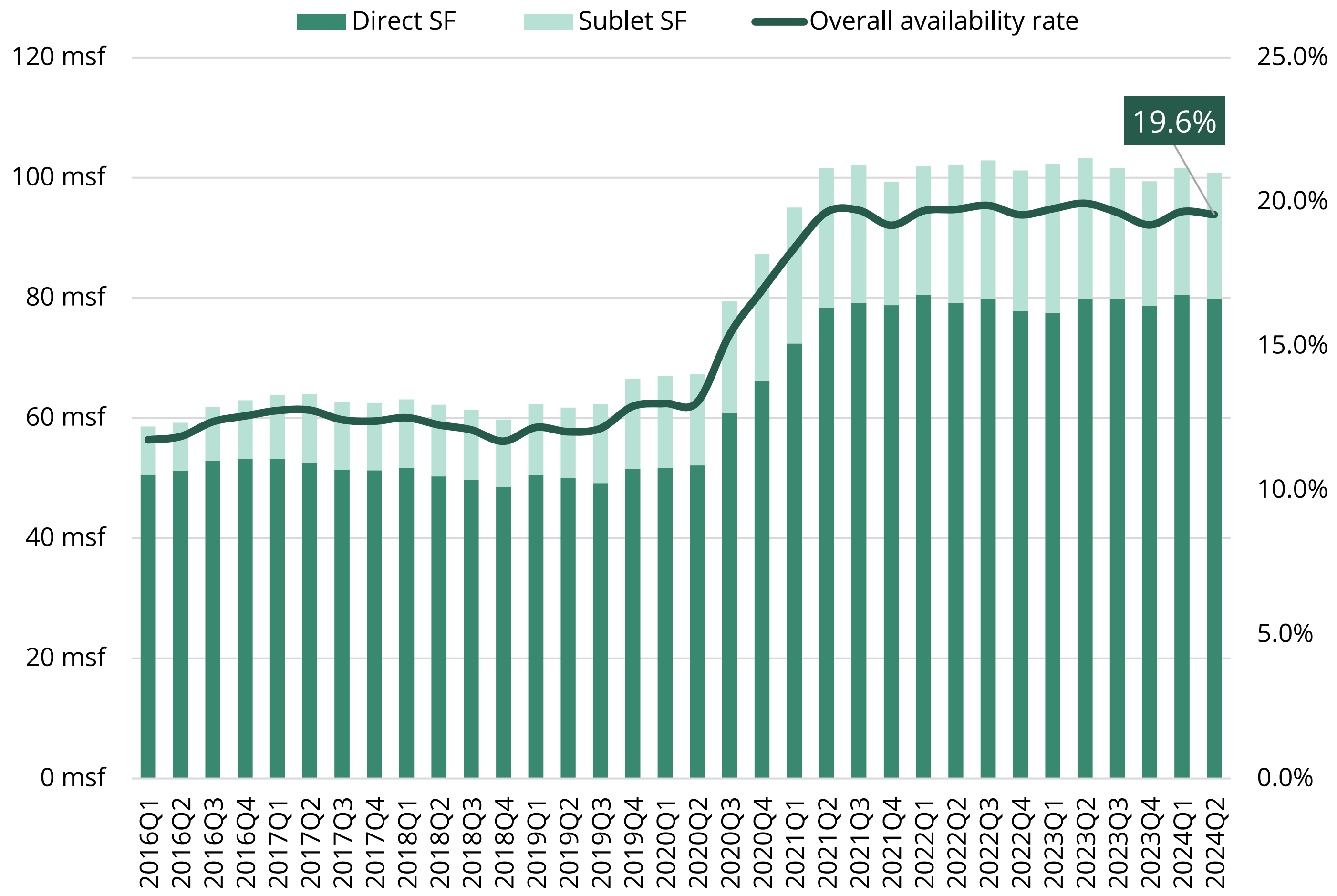
Available space



Source: AVANT by Avison Young, CoStar

Total available space in Manhattan began to stabilize in mid-2021 and has remained that way ever since – currently at 100.8 msf.

The overall availability rate has remained nearly unchanged from Q1 2024 at 19.6%, despite a slight decrease in available sublet and direct space.

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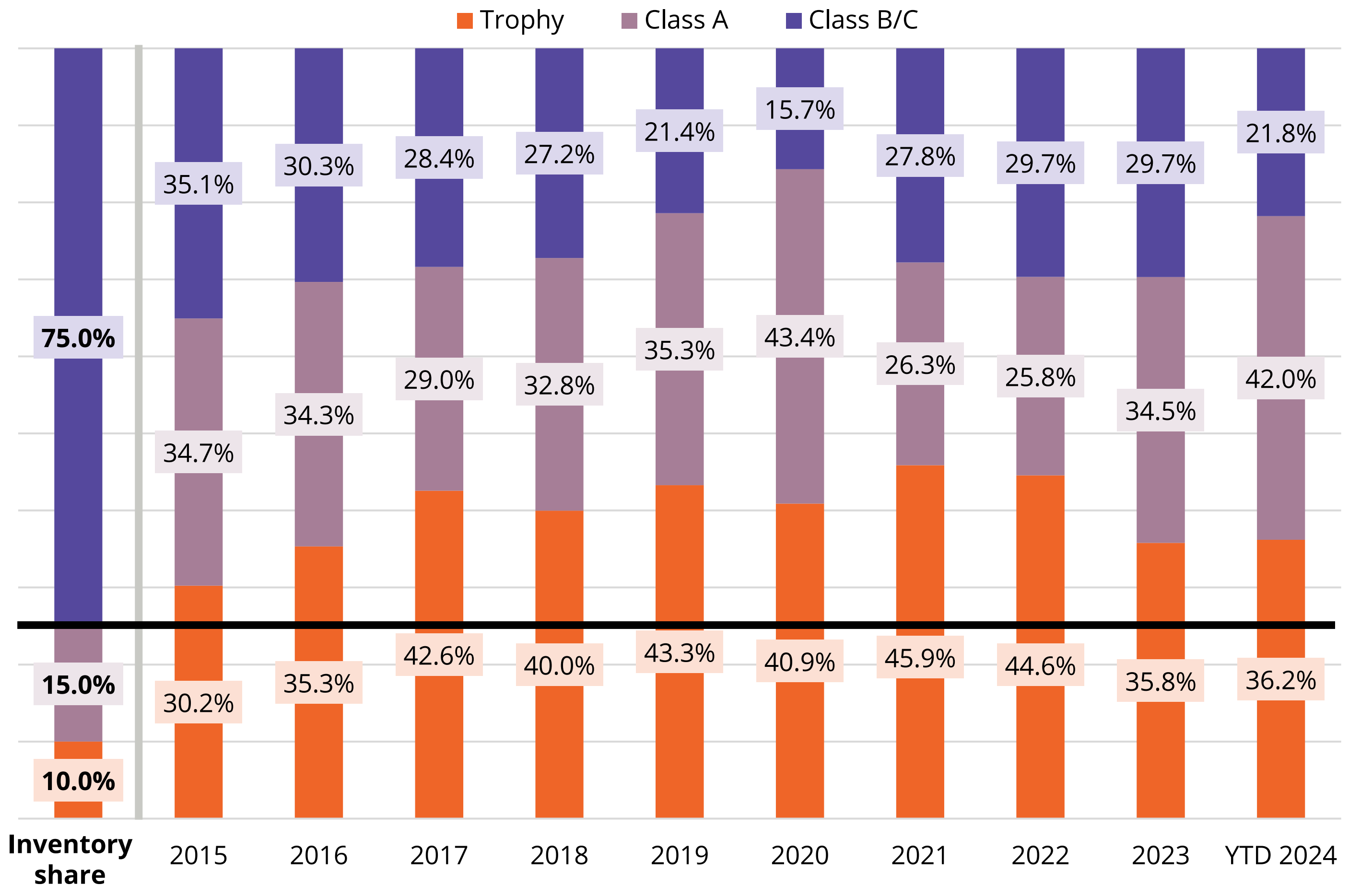
Transaction activity by asset class, by square footage



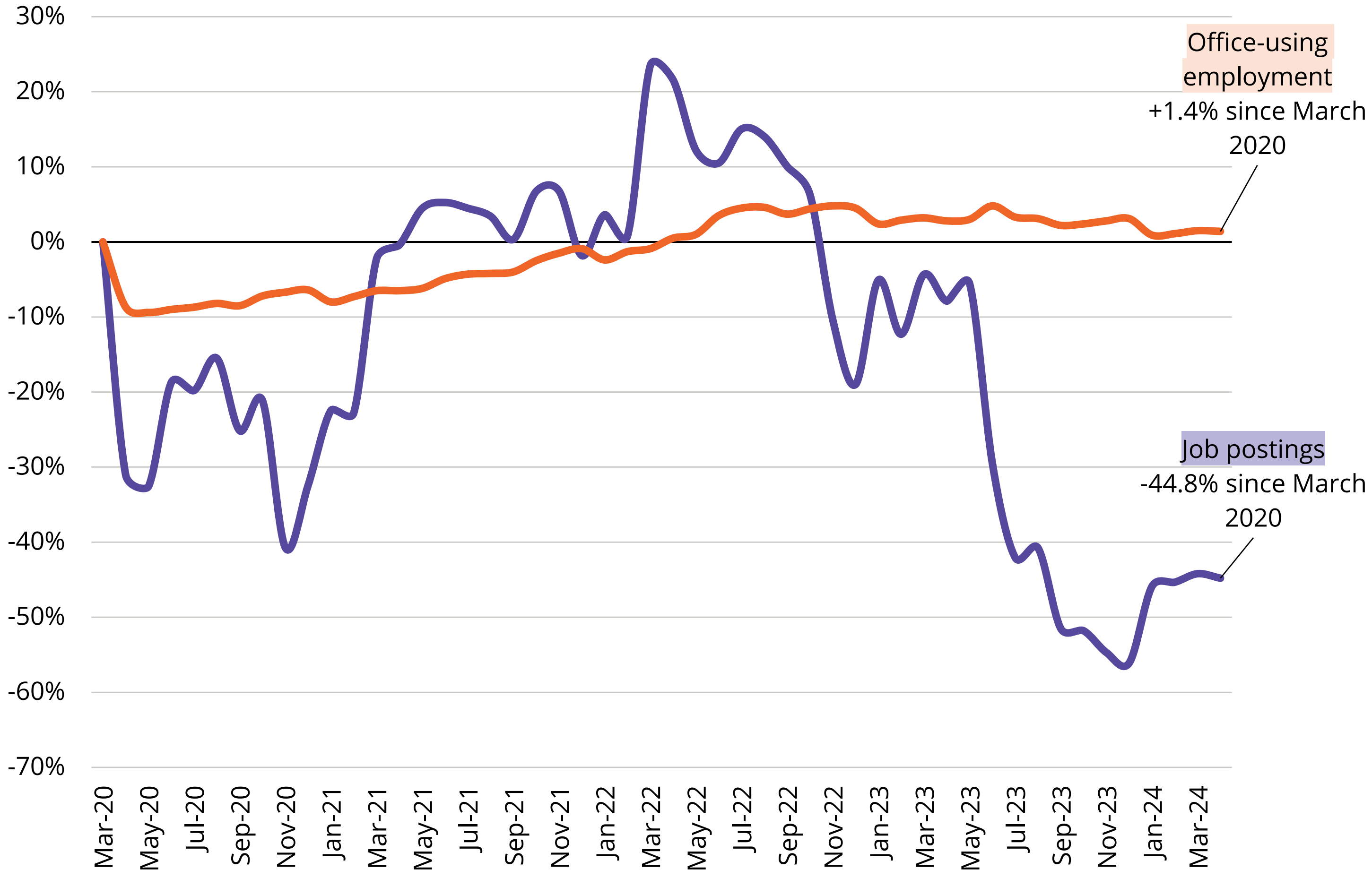
Year-to-date, class A properties have captured 42% of all Manhattan transaction activity by square footage. Excluding 2020, this is class A's highest share of transaction activity in the last 10 years.

Additionally, trophy's share has grown slightly compared to 2023, while class B/C's share has more significantly decreased. Together, trophy and class A – the top 25% of inventory – have accounted for 78.2% of leasing activity thus far in 2024.

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

Market drivers

Office-using employment and job postings

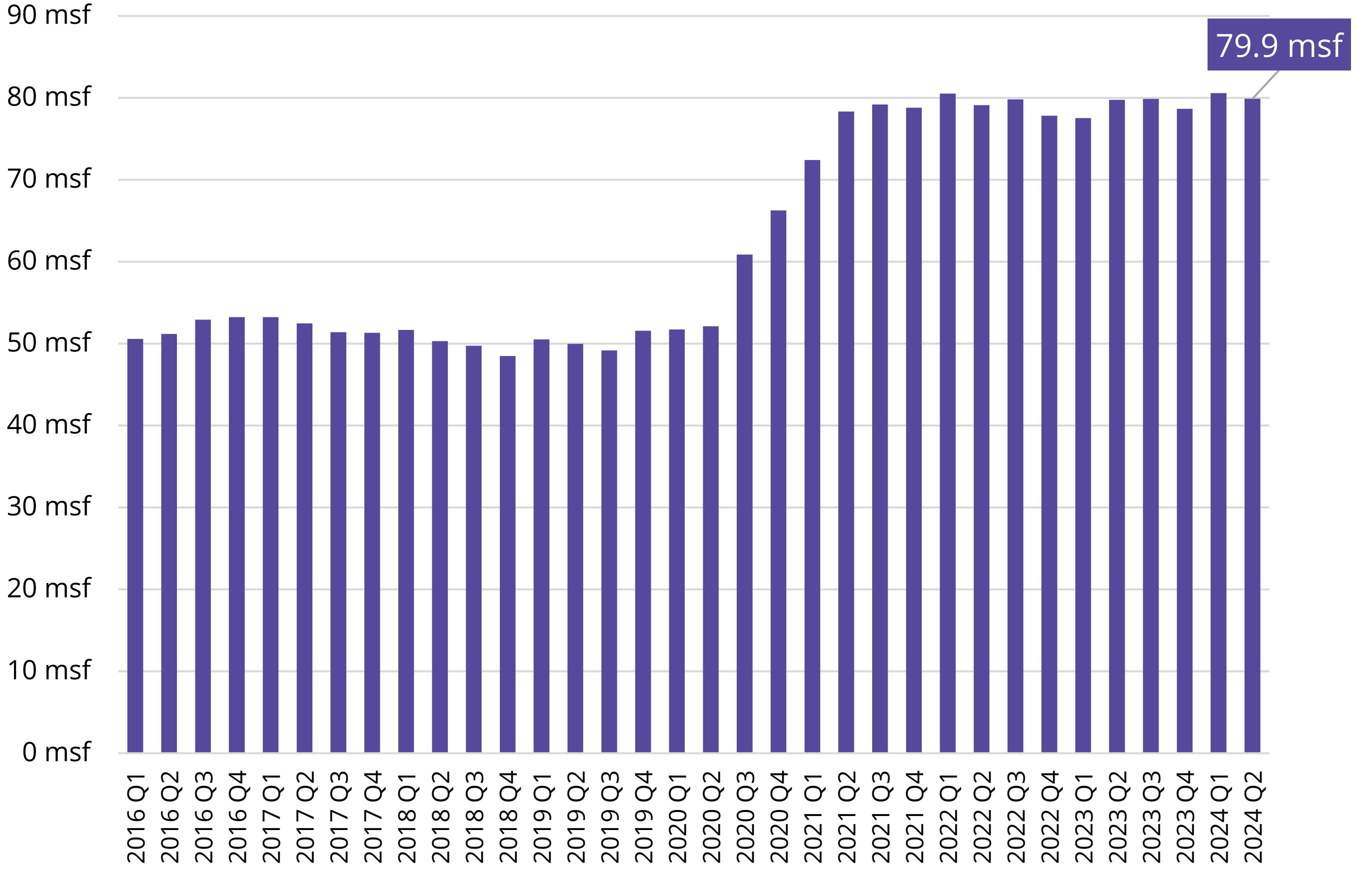


Office-using employment in Manhattan, despite experiencing slight decreases throughout the past 12-months, has grown 1.4% since March 2020.

Conversely, job postings in Manhattan have decreased by 44.8% since March 2020, but have increased since the start of 2024.

Source: BLS.gov, Lightcast

Available direct space



Source: AVANT by Avison Young, CoStar

Direct available space at 79.9 msf remains nearly unchanged from Q1 2024, only dropping by 700,000 sf.

This figure remains significantly elevated compared to pre-COVID values but is consistent with the post-COVID Manhattan office market availability trend.

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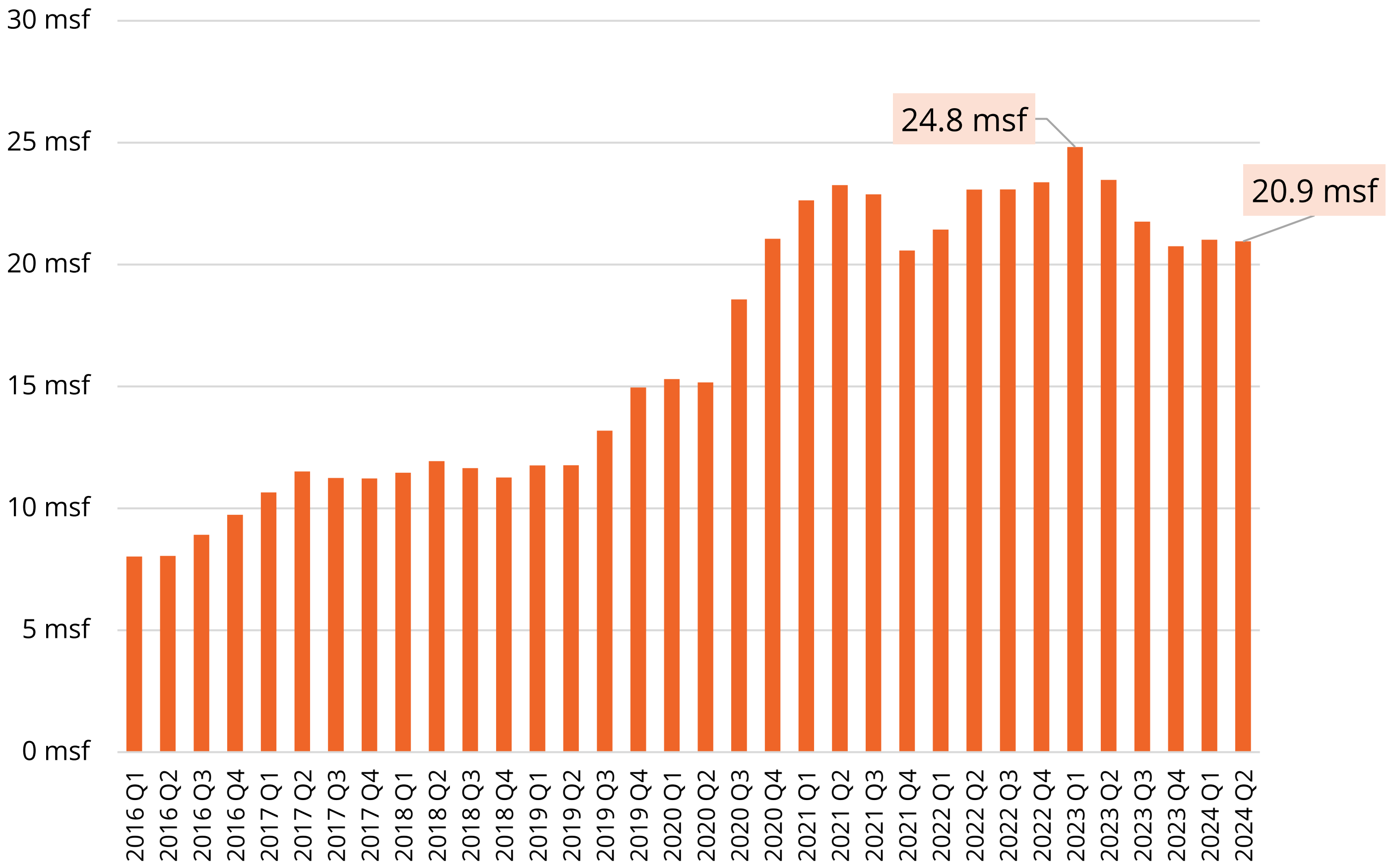
Available sublet space



Source: AVANT by Avison Young, CoStar

Available sublet space in Manhattan has been significantly more volatile than direct space in recent years.

Over the last 6 quarters, available sublet space has dropped from its peak in Q1 2023 by 3.9 msf – or 15.7%.

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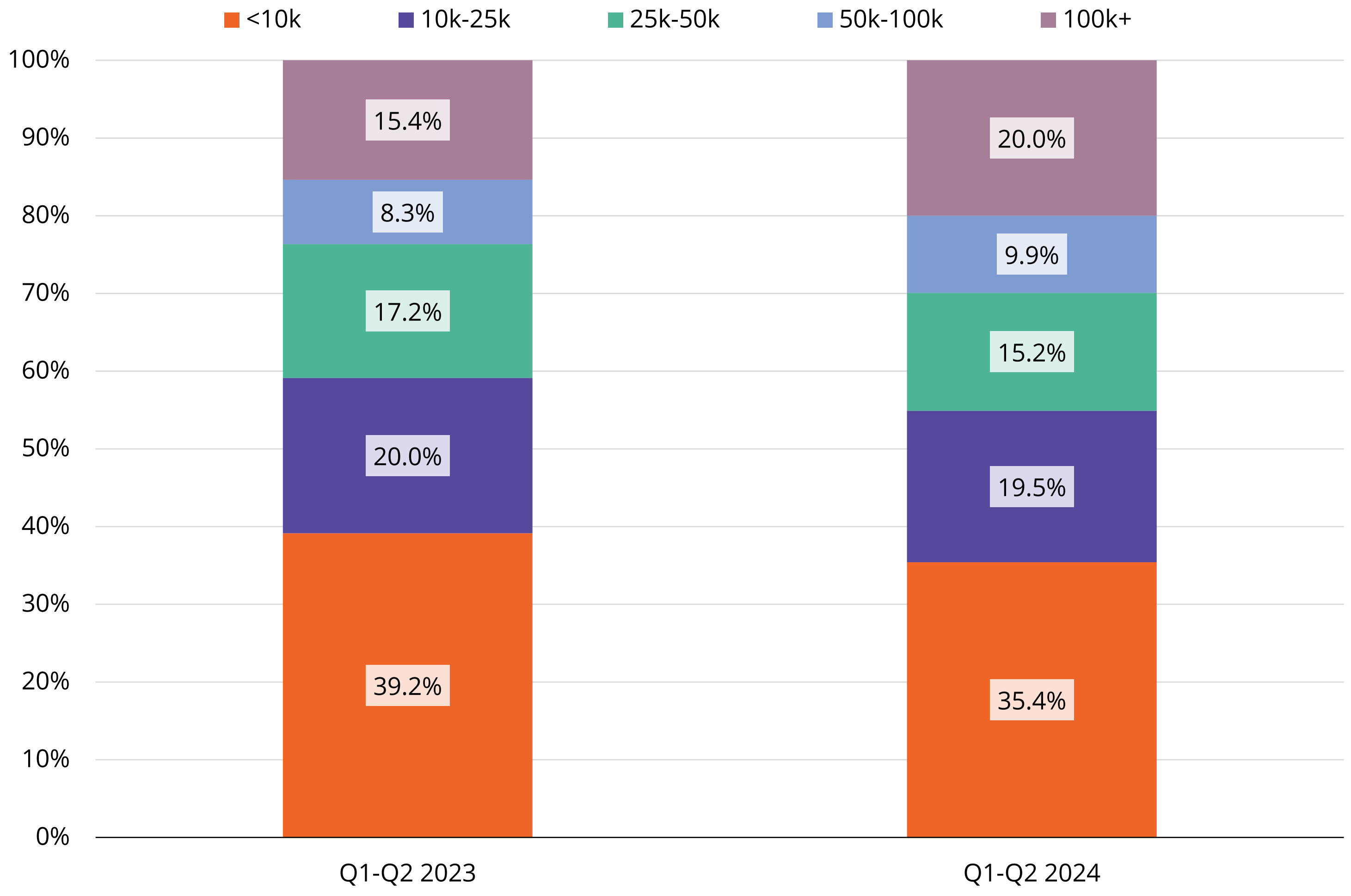
Transaction activity by size tranche



When comparing the first half of 2024 to the first half of 2023, the shares of leases under 10k sf and leases above 100k sf stand out as changing the most year-over-year.

Leases under 10k sf dropped from 39.2% to 35.4% of transaction activity (a 10% decrease), and leases above 100k sf increased from 15.4% to 20% of transaction activity (a 29.9% increase) – signifying a positive shift in transactions among large occupiers.

Source: AVANT by Avison Young, CoStar

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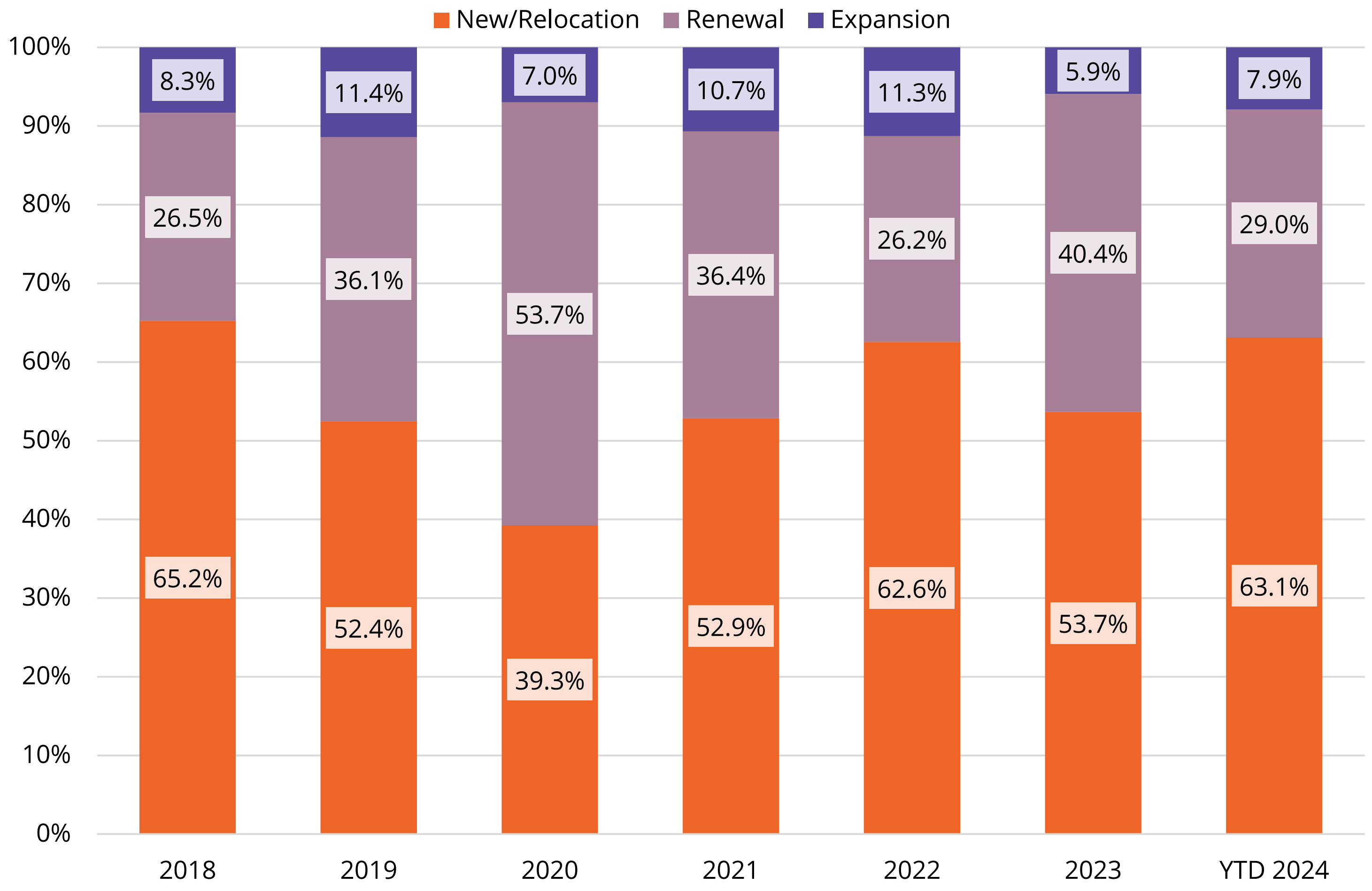
Transaction activity by lease type



Each lease type's share of transaction activity year-to-date sits near historical averages. However, new/relocations' share of transaction activity is the highest level since 2018.

2023 experienced a significantly oversized share of renewals but has regressed back towards normalcy in 2024.

Source: AVANT by Avison Young.

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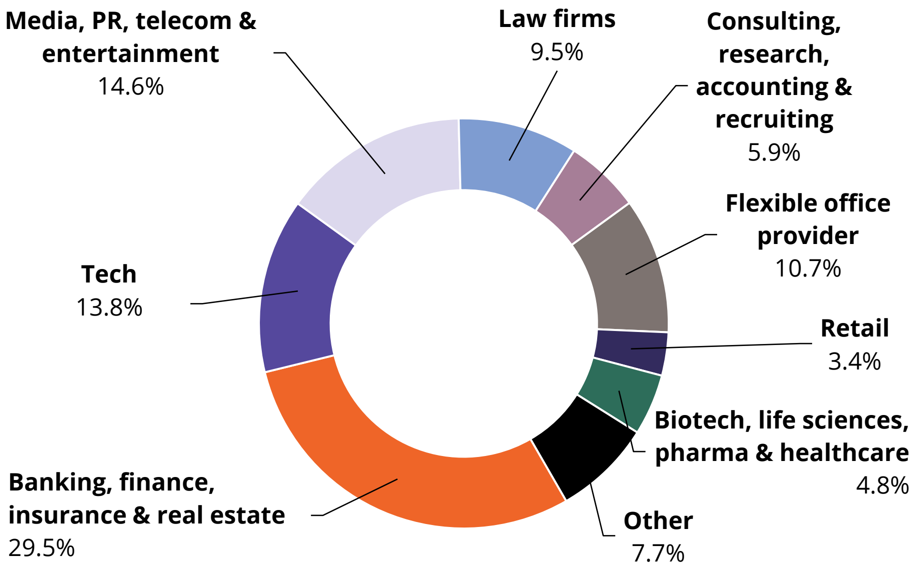
Leasing activity share by industry

-88.8% decrease in flexible office providers' share of total leasing activity, post-COVID vs. pre-COVID

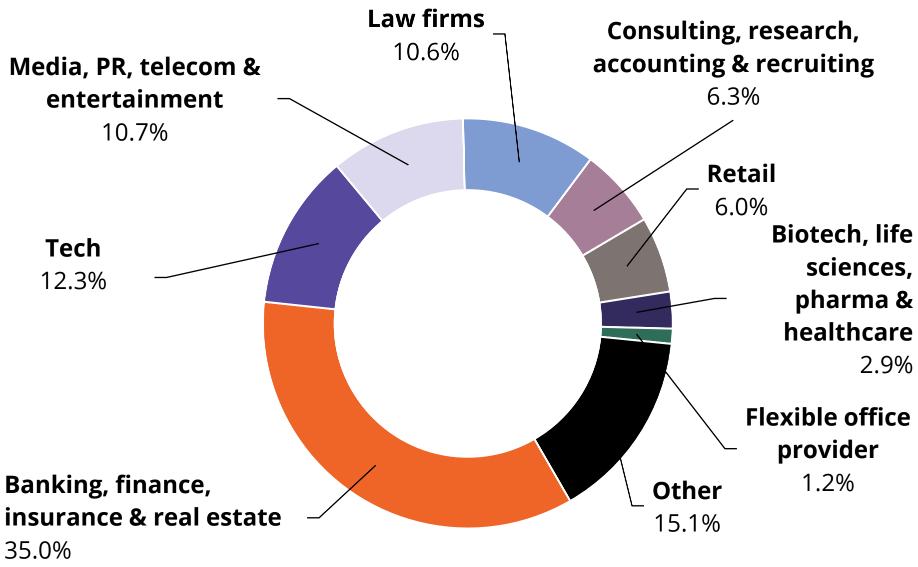
Pre-COVID

2018 to March 2020



Post-COVID

April 2020 to Present



Source: AVANT by Avison Young

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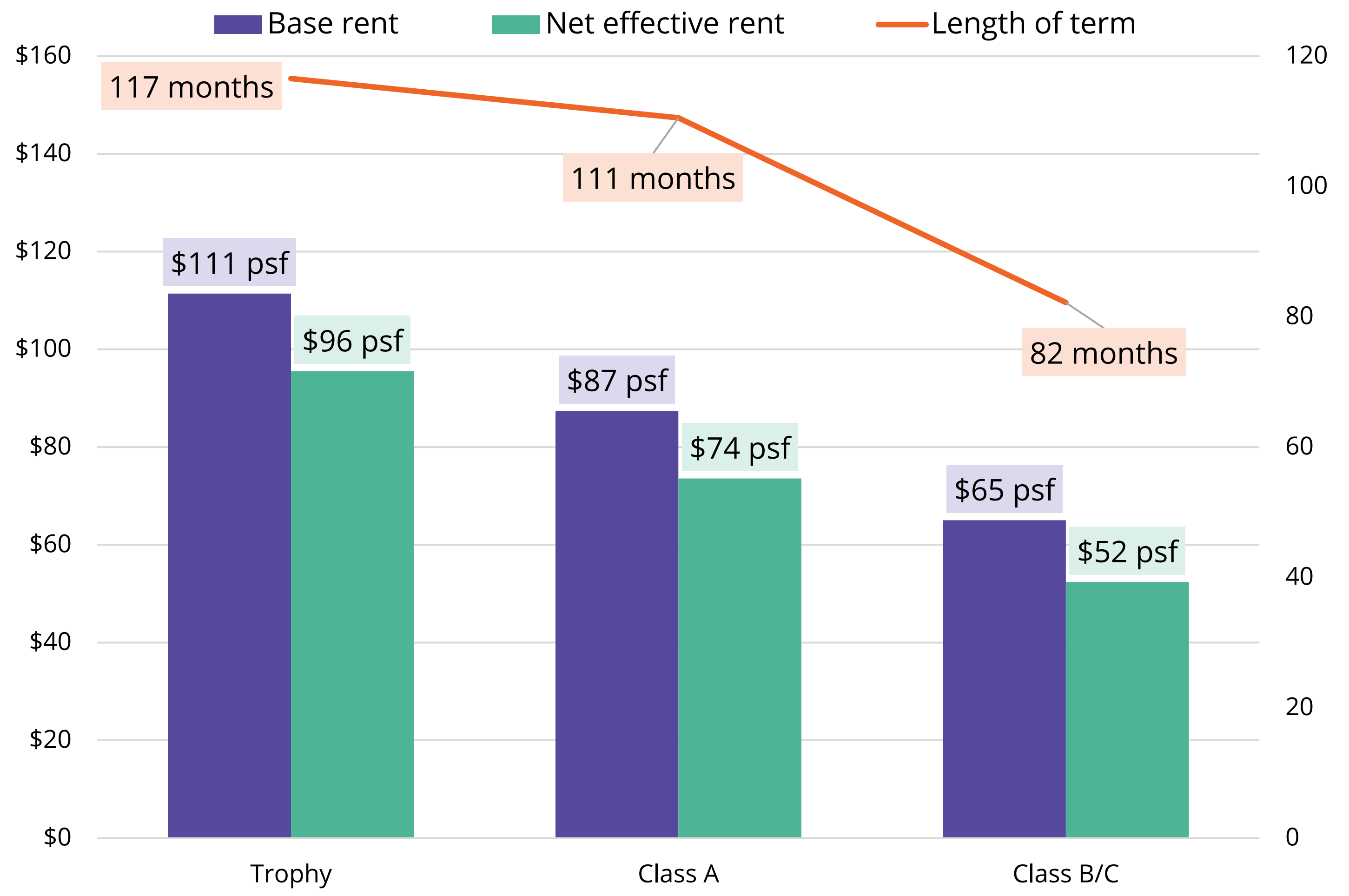
Lease economics by class



To no surprise, trophy leases are averaging the longest lease terms at 117 months while class B/C leases are averaging the shortest lease terms at 82 months.

All asset classes are currently seeing gaps between base rents and net effective rents in the $12 - $16 range.

Direct relocations only. 12-month average, weighted by lease size.
Source: AVANT by Avison Young

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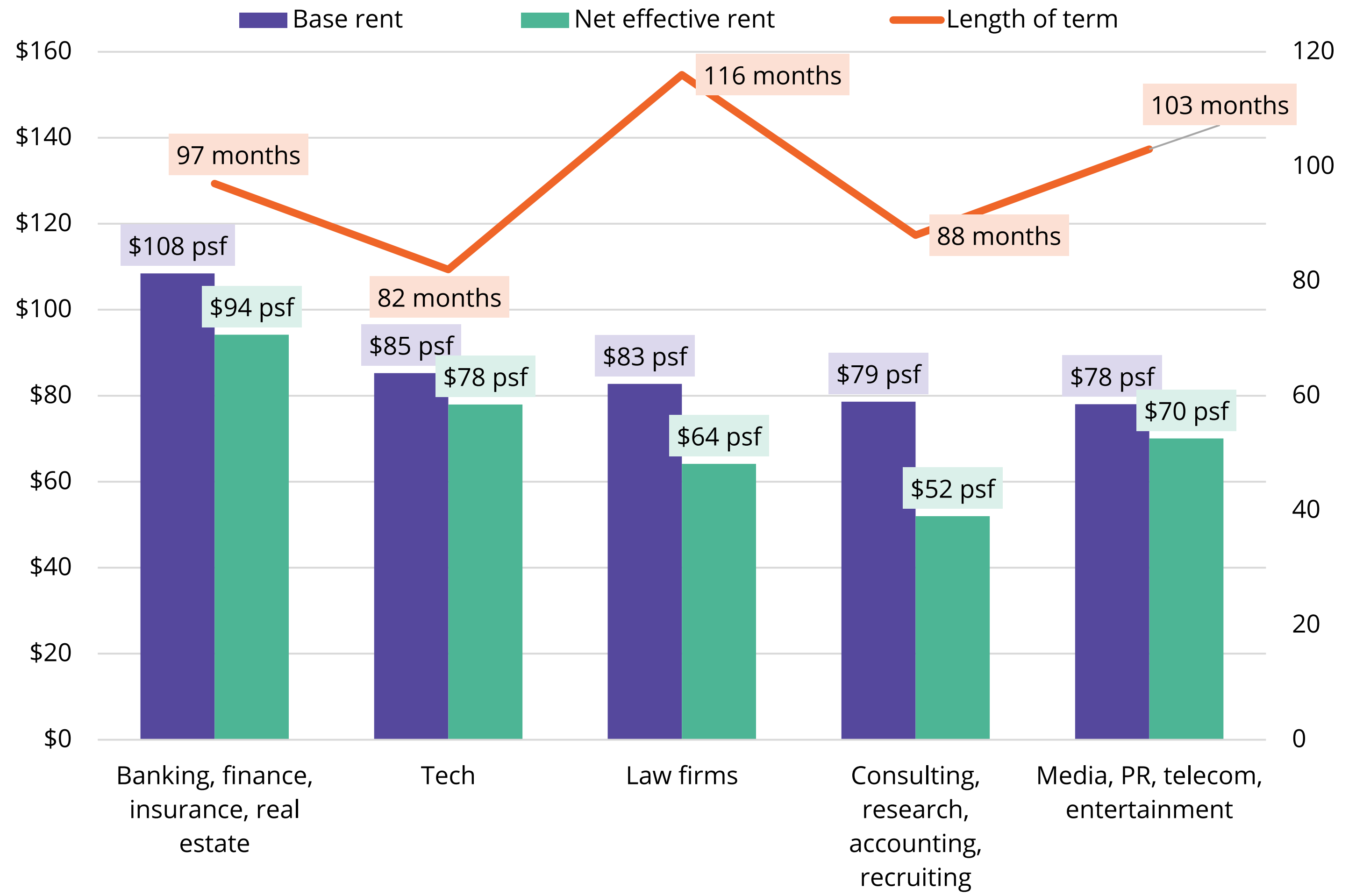
Lease economics by industry



Direct relocations only. 12-month average, weighted by lease size.
Source: AVANT by Avison Young

Historically, different office-using industries in Manhattan tend to average different rental rates and lease terms.

Over the past 12-months, banking, finance, insurance, and real estate tenants have seen the highest average base rent of $108 psf and law firms are signing longer term leases on average at 116 months.

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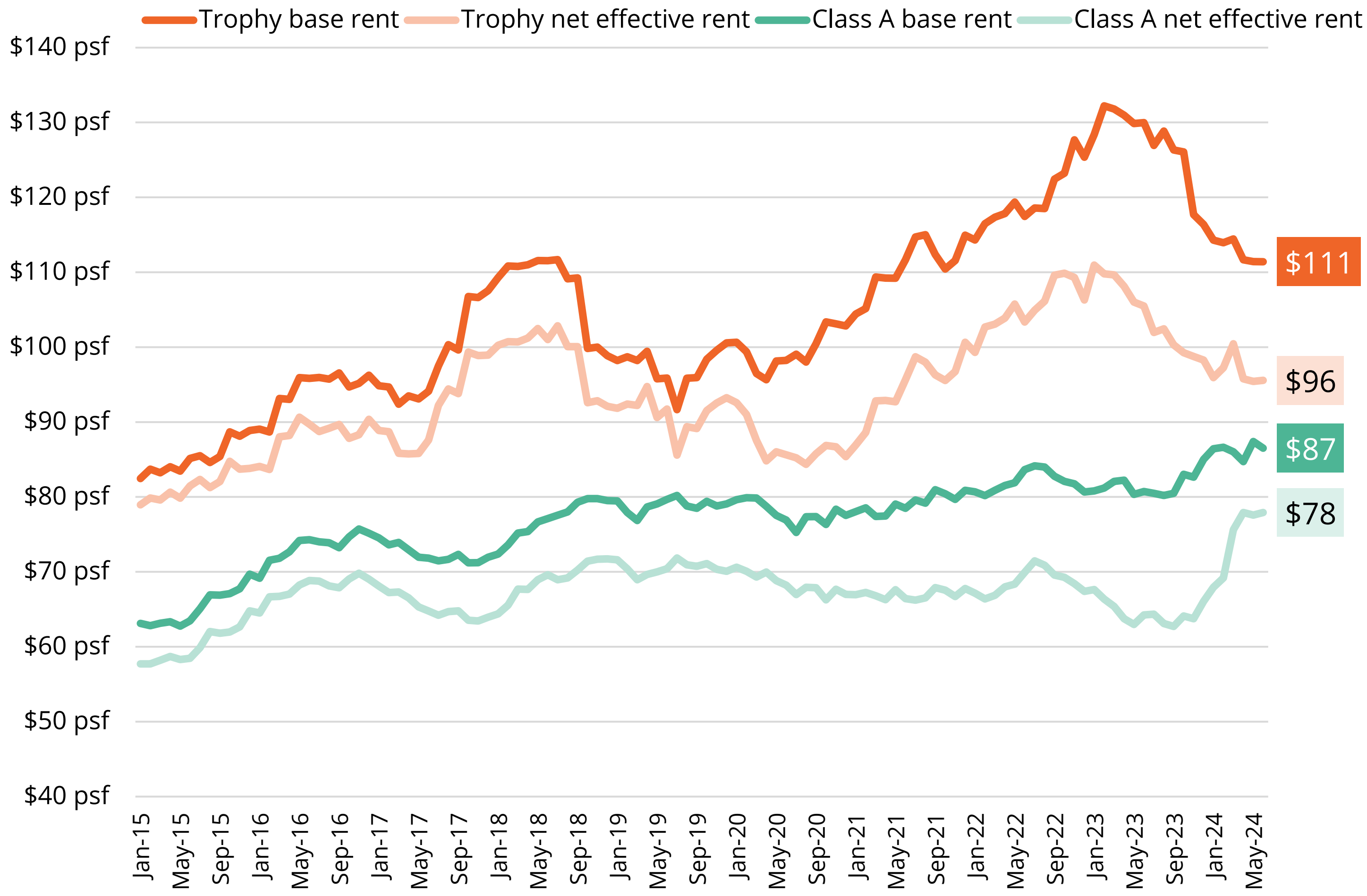
Base and net effective rents by class



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

As a result of many of the top tier product being leased in the last several quarters, trophy base and net effective rents have experienced a slight decline throughout 2024 so far.

Meanwhile, class A base and net effective rents continue their slow and steady upward trend stemming from the historically high demand.

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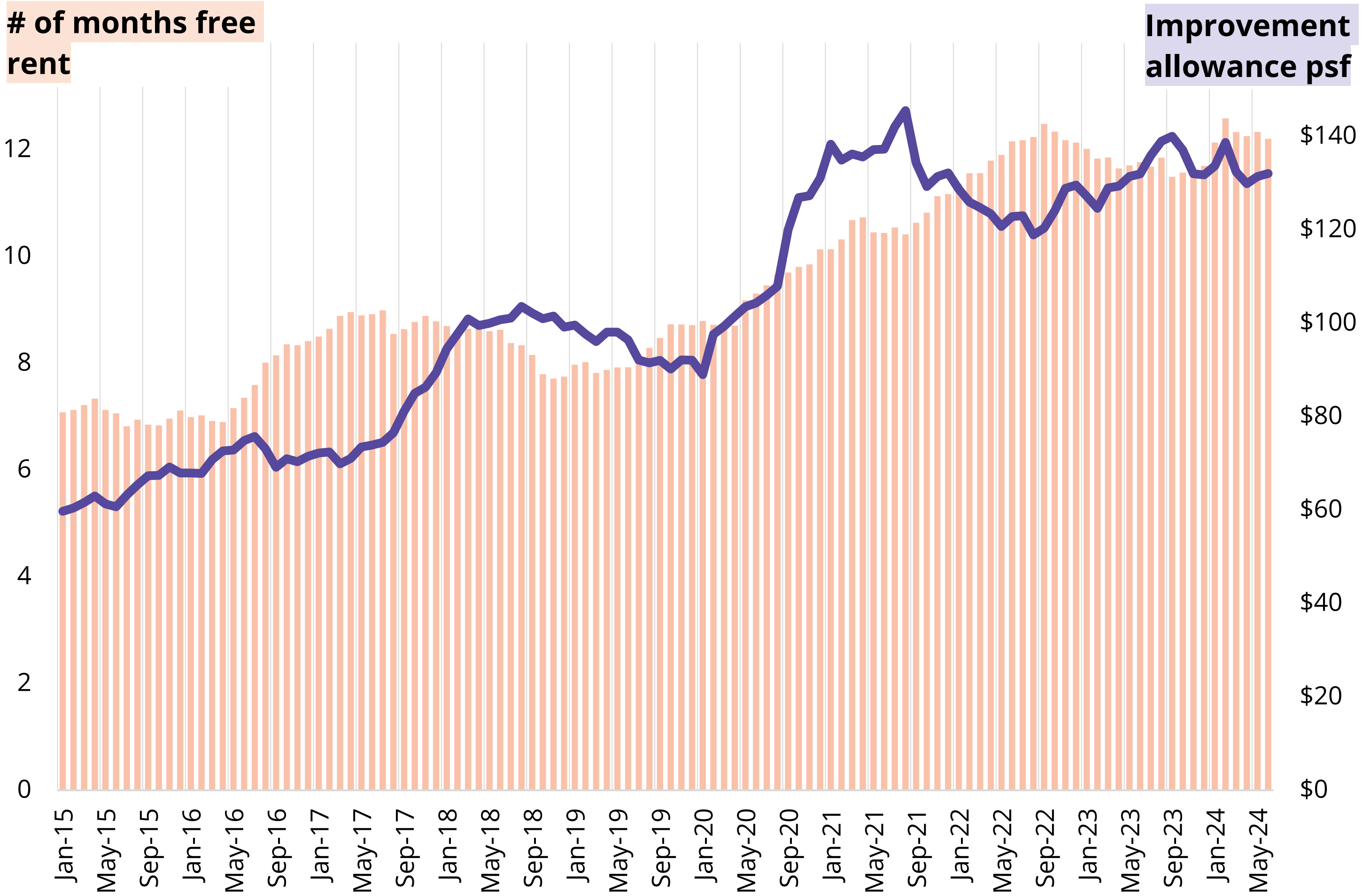
Trophy office concession packages



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

Tenant improvement allowances and free rent months for trophy properties in Manhattan are currently at $132 psf and 12 months, respectively.

Tenant improvement allowances for trophy properties have experienced some fluctuation throughout 2024. However, they currently match year-end 2023 at $132 psf, signaling a stabilization of trophy concession packages.

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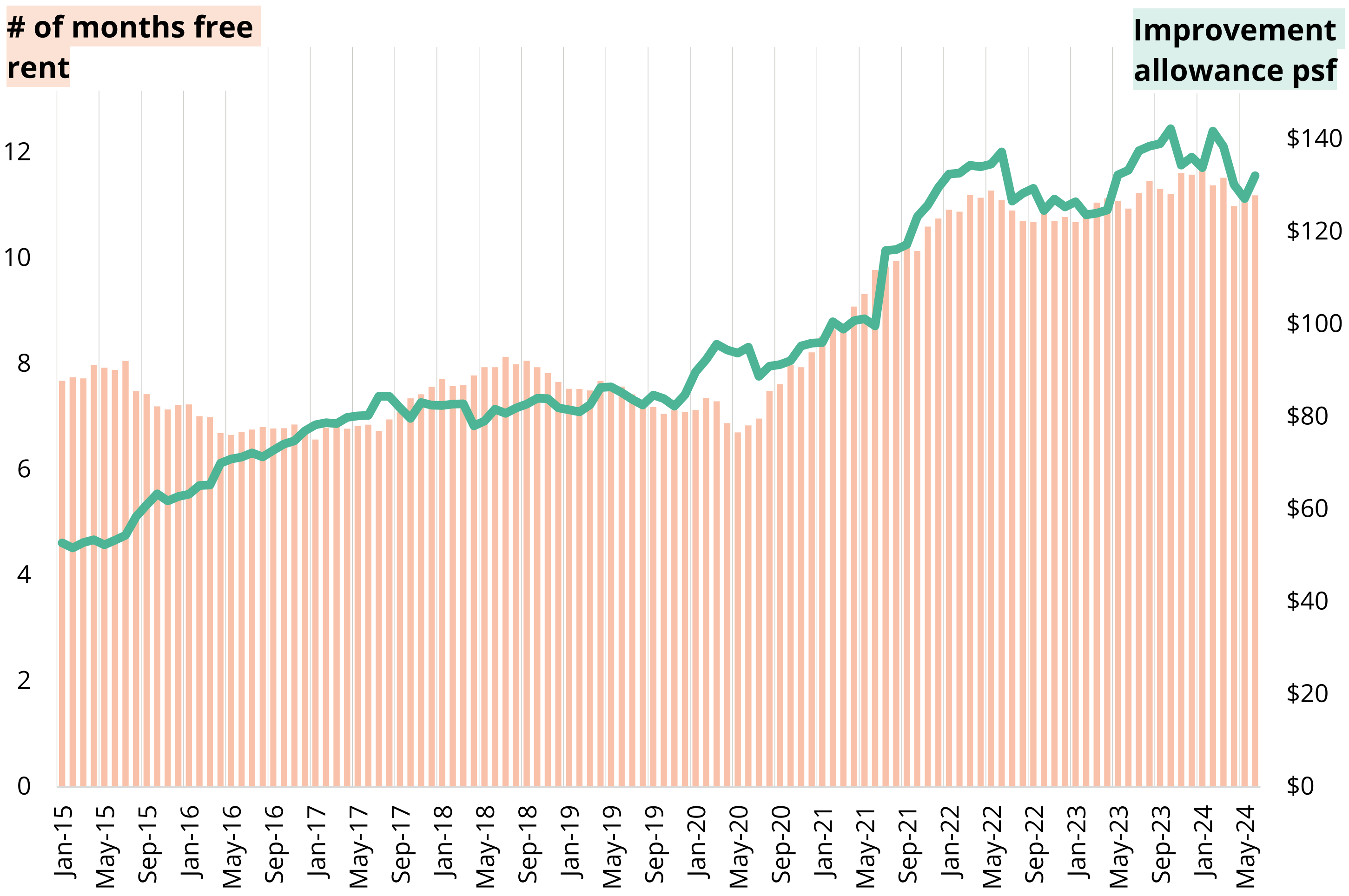
Class A office concession packages



Tenant improvement allowances and free rent months for class A properties in Manhattan are currently at $132 psf and 11 months, respectively.

Class A tenant improvement allowances have slightly dropped in Q2 2024. They are currently 3% below year-end 2023 at $132 per square foot and at the same value as trophy properties given the similarity in quality.

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. Normalized to 10-year lease terms.
Source: AVANT by Avison Young

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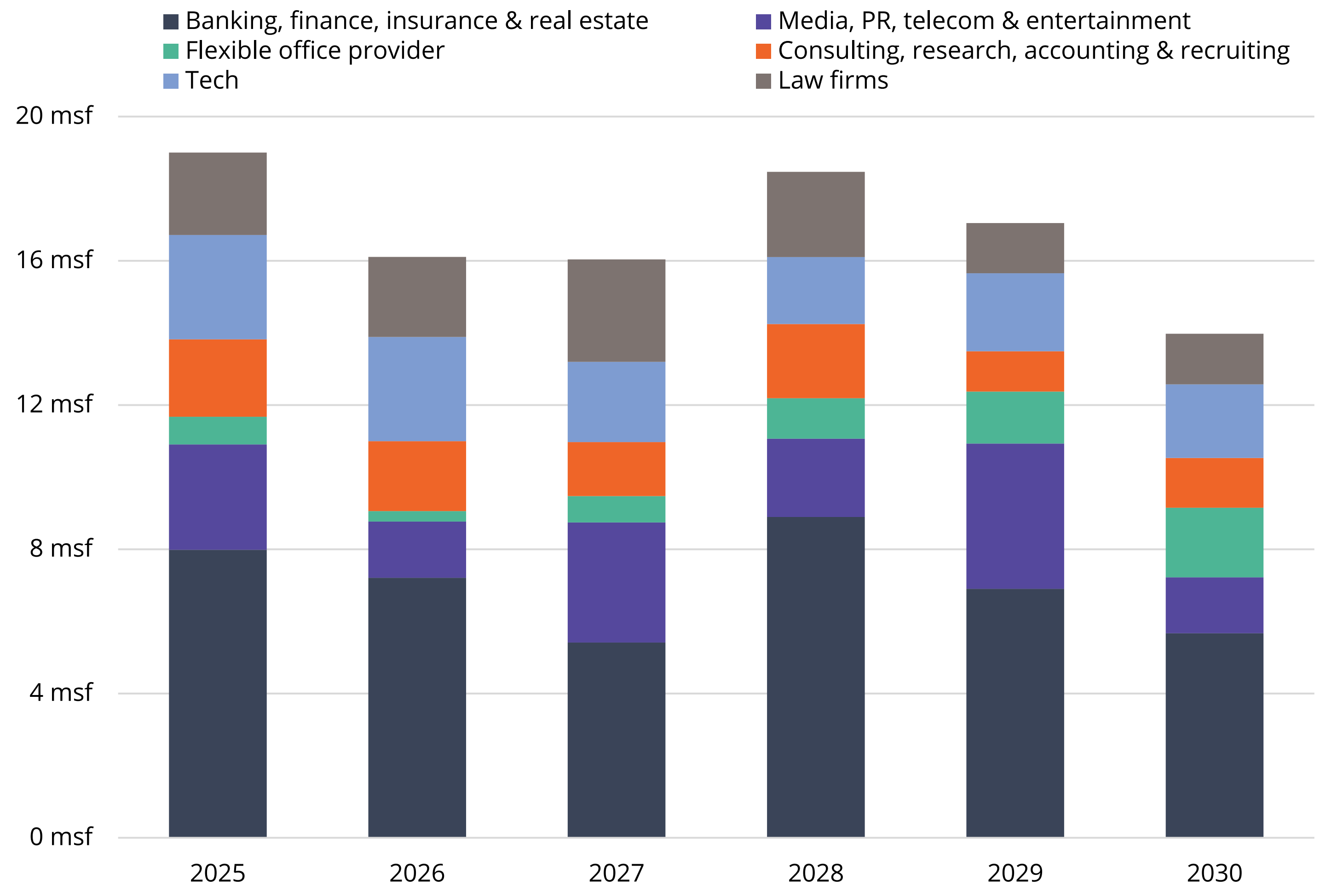
Upcoming lease expirations by major industry



Source: AVANT by Avison Young

Banking, finance, insurance, and real estate tenants make up 41.8% of expiring leases by square footage among major office-using industries from 2025 to 2030, totaling 36 msf. The next largest share of lease expirations is Media & PR at 15.5%. This bodes well for future demand.

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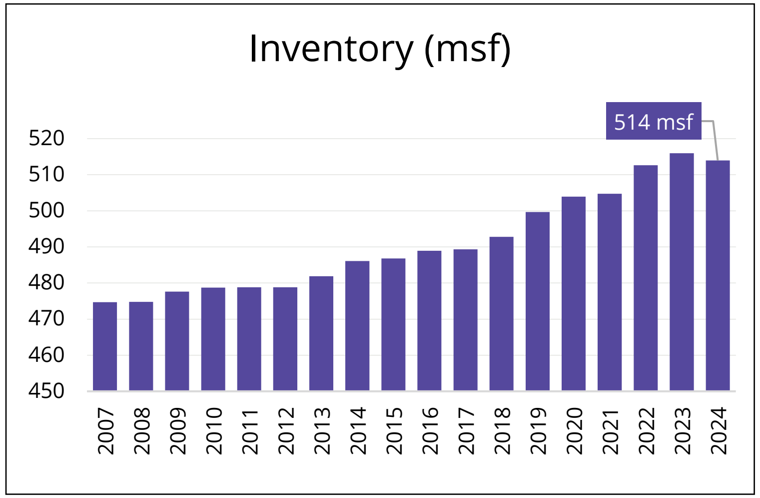
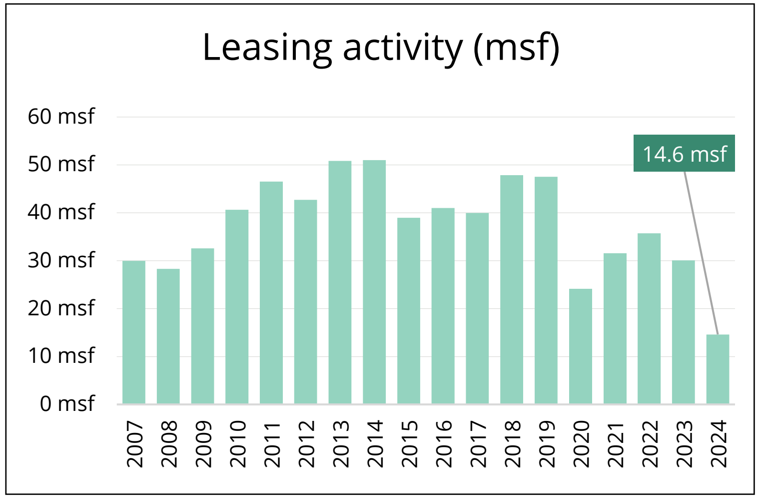
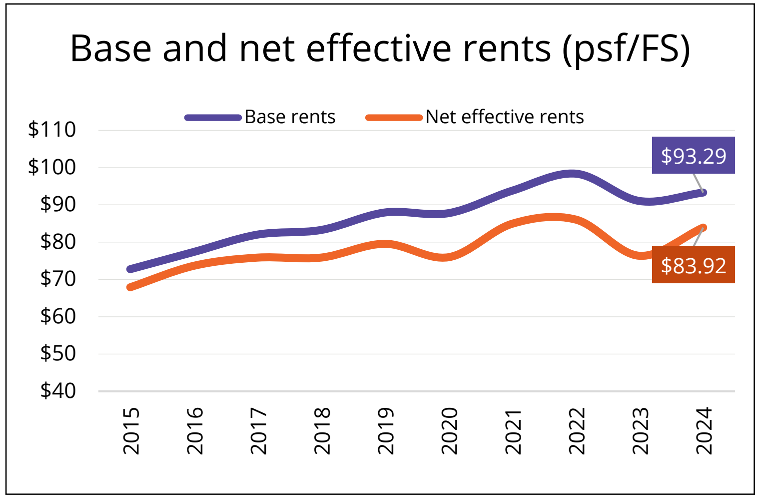
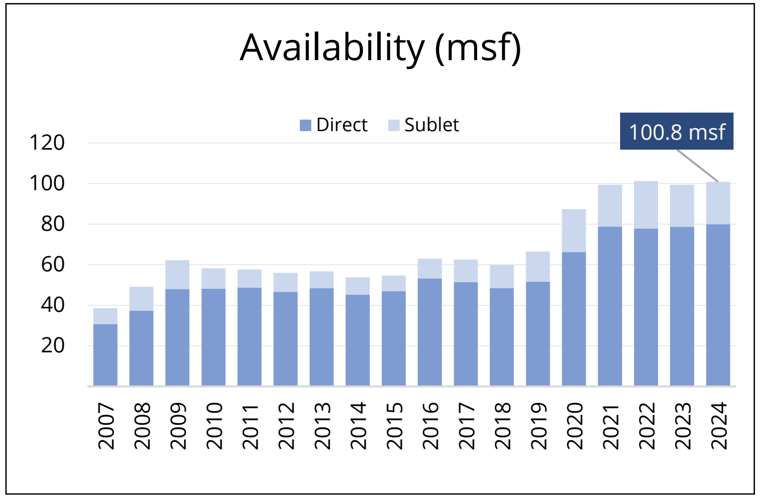
Appendix

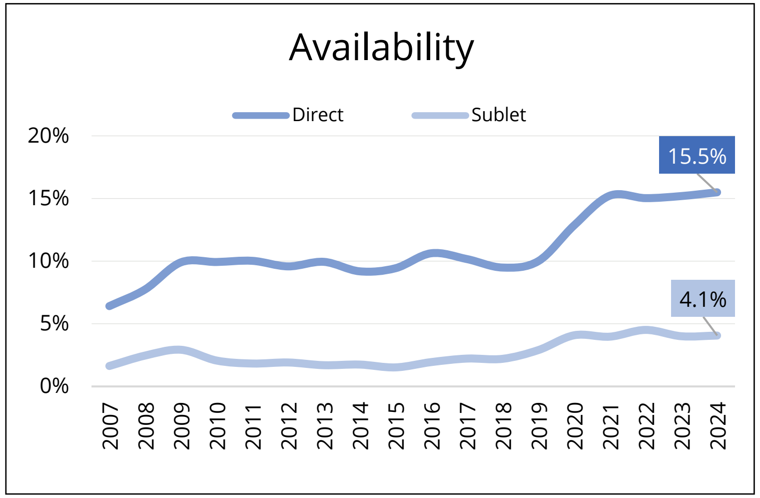
Manhattan office market indicators

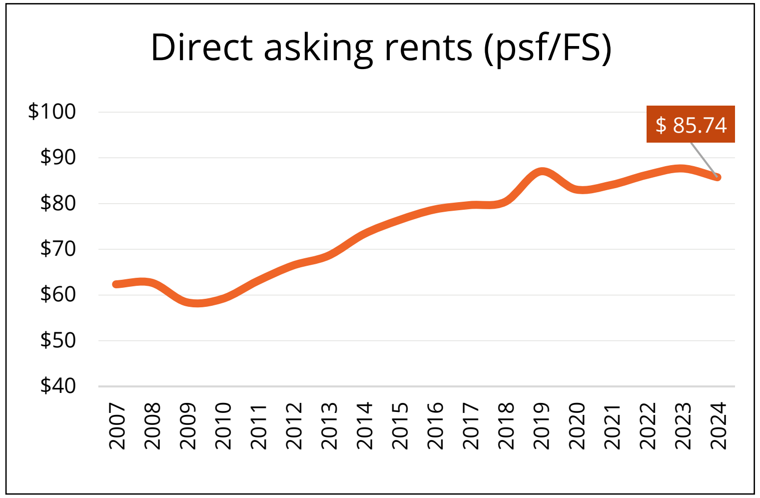












Source: AVANT by Avison Young, CoStar

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Manhattan office market activity

Q2 2024 leasing activity (125,000+ sf)

Tenant	Address	Submarket	Sign date	Size sf	Transaction type	Lease type
Bloomberg	731 Lexington Avenue	Midtown East	May 2024	946,815	Renewal	Direct
American Eagle	63 Madison Avenue	Flatiron District/Gramercy Park	Apr 2024	337,082	New	Direct
Covington & Burling	30 Hudson Yards	Hudson Yards	May 2024	235,479	New	Sublease
Bain & Company	22 Vanderbilt Avenue	Grand Central	May 2024	235,201	New	Direct
Stripe	28 Liberty Street	Financial District	Jun 2024	145,088	New	Sublease
Trade Desk	1114 Avenue of the Americas	Grand Central	May 2024	125,987	Expansion	Direct

Large contiguous space availabilities added in Q2 2024

Address	Submarket	Space type	Block size sf	Date available
535 West 46th Street	Midtown West	Sublease	525,125	Immediate
50 Hudson Yards	Hudson Yards	Sublease	290,439	Immediate
520 Fifth Avenue	Grand Central	Direct	210,886	Oct 2025
401 Fifth Avenue	Murray Hill	Direct	191,080	Immediate
125 West 57th Street	Central Park	Direct	172.685	Oct 2024
333 West 34th Street	Penn Station	Direct	156,224	Mar 2025

Source: AVANT by Avison Young, CoStar

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Manhattan office market stats

Submarket	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Annual direct asking rent psf FS
Central Park	31,201,346	-	10.7%	3.7%	14.4%	$129.95
Grand Central	80,192,319	-	12.6%	3.4%	16.1%	$83.08
Hudson Yards	19,487,097	-	9.0%	5.2%	14.3%	$168.30
Midtown Core	59,260,282	-	11.0%	2.4%	13.5%	$117.52
Midtown East	23,552,998	-	17.3%	1.4%	18.7%	$80.25
Midtown West	3,572,812	-	17.5%	23.6%	41.1%	$61.01
Murray Hill	11,029,299	-	23.1%	3.7%	26.8%	$71.98
Penn Station	52,812,349	-	17.3%	3.2%	20.4%	$78.59
Times Square	35,269,902	-	22.3%	4.9%	27.2%	$80.95
Midtown Total	**316,378,404**	**-**	**14.5%**	**3.6%**	**18.1%**	**$92.10**
Chelsea	17,335,672	199,672	24.2%	5.1%	29.2%	$79.92
East Village	744,085	-	17.4%	0.0%	17.4%	-
Flatiron District/Gramercy Park	40,452,533	-	19.8%	3.1%	22.9%	$102.46
Greenwich Village	7,296,312	112,617	19.0%	0.7%	19.8%	$116.12
Hudson Square	10,725,544	1,200,000	15.3%	5.3%	20.6%	$85.24
Lower East Side	2,680,266	-	24.7%	6.5%	31.3%	$68.78
Meatpacking District	8,301,352	-	4.0%	0.9%	4.9%	$58.84
SoHo	6,579,510	-	14.8%	4.3%	19.0%	$73.16
West Village	293,542	60,674	31.2%	0.0%	31.2%	-
Midtown South Total	**94,408,816**	**1,572,963**	**18.4%**	**3.5%**	**21.9%**	**$94.13**
City Hall	8,025,249	-	14.9%	1.5%	16.4%	$54.70
Financial District	44,311,430	-	20.7%	5.1%	25.8%	$66.62
Tribeca	7,630,681	-	17.0%	3.9%	20.9%	$73.07
Water Street Corridor	18,270,530	-	15.6%	9.6%	25.3%	$61.19
World Trade Center	22,769,692	-	6.9%	7.7%	14.6%	$76.85
Downtown Total	**101,007,582**	**-**	**15.9%**	**6.1%**	**22.0%**	**$66.06**
Upper East Side	535,947	-	2.5%	1.5%	4.0%	-
Upper West Side	1,603,866	-	5.4%	1.5%	6.9%	-
Manhattan Total	**513,934,615**	**1,572,963**	**15.5%**	**4.1%**	**19.6%**	**$85.74**

Source: AVANT by Avison Young, CoStar

Manhattan office market stats by class

Class	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Annual direct asking rent psf FS
Trophy	138,182,673	1,399,672	13.1%	4.4%	17.5%	$131.00
Class A	157,531,000	173,291	16.4%	4.7%	21.1%	$82.48
Class B/C	218,220,942	-	16.5%	3.4%	19.9%	$60.96
Market Total	**513,934,615**	**1,572,963**	**15.5%**	**4.1%**	**19.6%**	**$85.74**

Source: AVANT by Avison Young, CoStar

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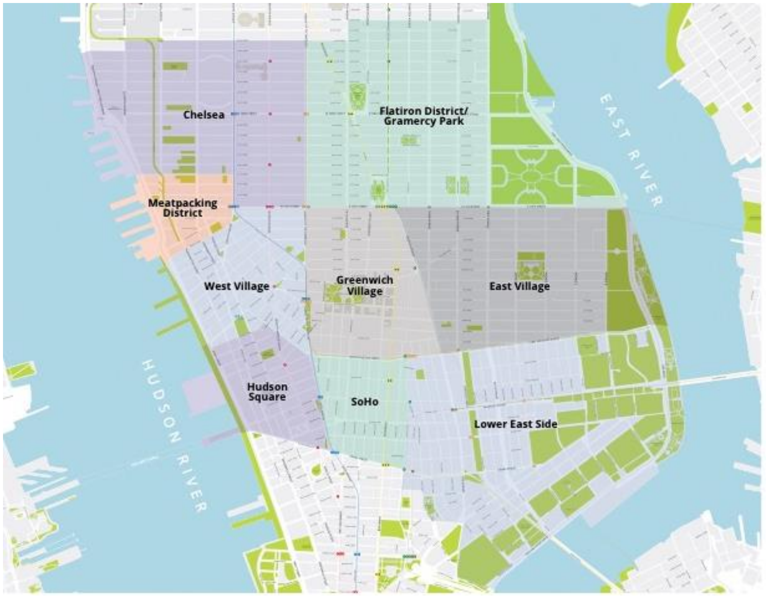
Manhattan submarket map

Midtown

Midtown South



Downtown

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Source: AVANT by Avison Young

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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

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

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