MARKET IN MINUTES
Savills Research

Q3 2022 - Office

Manhattan

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Stronger Downtown leasing and "flight to quality" helps propel third quarter activity

Manhattan office leasing activity continued its rebound with third quarter volume of 9.1 million square feet (msf) up 12.7% from the pre-pandemic third quarter (2015-2019) average of 8.1 msf. Office leasing volume totals 25.3 msf year-to-date and is clearly on track to surpass last year's 26.0 msf of activity. A string of sizeable deals, most notably in Midtown and Downtown, pushed Q3 2022 leasing demand up 7.7% on quarter, in what was anticipated to be a typical soft summer season. Downtown quarterly leasing volume of 1.5 msf was its highest since the start of the pandemic. A total of 16 deals were signed in excess of 100,000 square feet (sf), compared to 11 last quarter, with five of the top 10 executed in higher quality Trophy buildings (including Freshfields Bruckhaus Deringer's 179,724 square foot relocation to 3 World Trade Center Downtown). Ten out of 12 major relocations (closed deals 50,000+ sf) in Q3 involved tenants who added space, bucking expectations of widespread footprint reductions due to hybrid work arrangements. Churchill Asset Management is among the firms expanding, and it will relocate from 18,500 sf at 430 Park Avenue to 52,124 sf at 375 Park Avenue. Corporate decisions to either add space or right-size real estate footprints continue to vary, with return-to-office policies and workforce planning in an uncertain economy playing a major role. Although physical office occupancy in Manhattan sits close to its highest level post the start of the pandemic, the long-run equilibrium remains to be seen.

Overall availability rate down, lowest since first quarter of 2021

Stronger leasing coupled with limited major inventory additions to the market drove Manhattan's overall availability rate down 60 basis points (bps) from last quarter's 18.6% level, to 18.0% in Q3 2022. This rate has decreased in each of the last two quarters from the cycle peak of 19.1% reached in Q1 2022. Significant direct leases primarily drove direct space down 3.7% by a net 2.5 msf on quarter. Sublease inventory declined 2.8% and sits at 20.2 msf, down from 20.8 msf both one year and quarter ago. Most (424,000 sf) of the 546,000-sf sublease block from Publicis at 1675 Broadway was removed from the market, which drove sublease availability down, though much of the less amenity-rich sublease and commodity space in Manhattan remains available.

Overall rents decline as best-in-class space is removed from available market

Manhattan average asking rents of $75.90 per square foot (psf) are down 1.6% on quarter and up 1.1% year over year. Midtown Class A asking rents dropped again, down 1.8% on the quarter to $93.83 psf as tenants continue to secure the most expensive, best-in-class space, thereby removing it from the available market. The same holds true for Downtown overall and Class A, with total rents down 1.3% on quarter, dropping below the $60.00 psf level for the first time in four quarters to $59.49 psf. Rent growth in Midtown South is virtually flat as landlords hold their ask steady for top quality space.

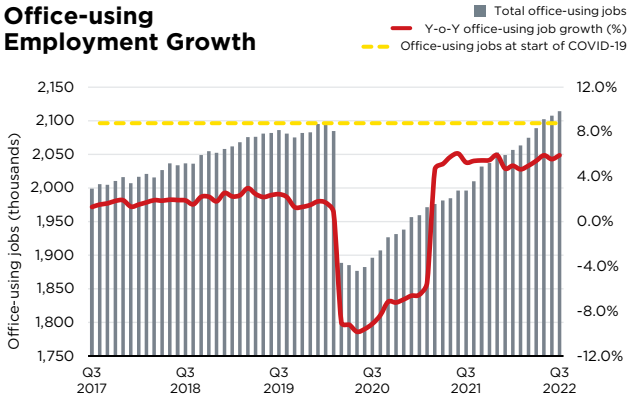
Outlook

- Downtown leasing made a comeback this quarter as tenants search for lower-priced, high-quality product, and best-in-class options in Midtown dwindle; expect demographics and an easy commute to play a role in Downtown location selection for those companies with younger cohorts who reside in Brooklyn and the NJ waterfront
- Will more companies significantly alter their office footprint going forward? Return to office policy and workforce planning will continue to drive this decision-making
- New York metro office-using employment has fully recovered and surpassed its pre-pandemic peak; growing economic uncertainty may weigh on job growth going forward, and impact landlord pricing power when it comes to real estate

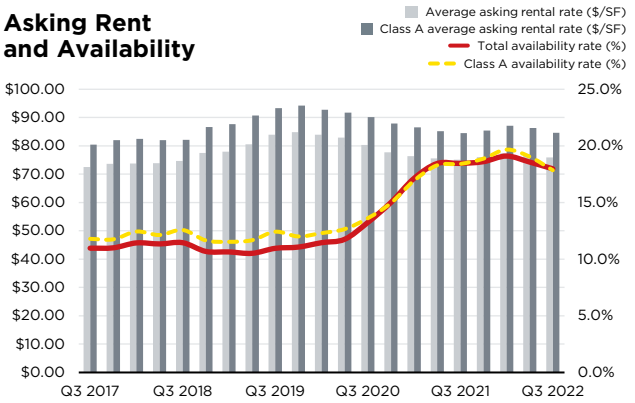
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	467.6 MSF	469.6 MSF	▲
Availability Rate	18.4%	18.0%	▼
Asking Rental Rate	$75.08	$75.90	▲
Class A Asking Rental Rate	$84.42	$84.64	▲
Quarterly Leasing Activity	7.7 MSF	9.1 MSF	▲
Available Sublease Space	20.8 MSF	20.2 MSF	▼

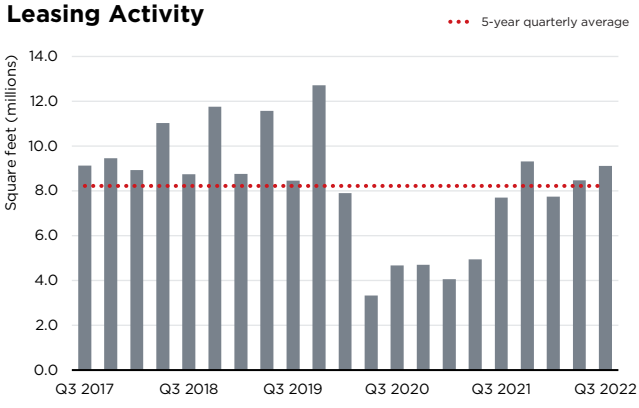
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

6.6%
NYC unemployment rate
(as of August 2022)

5.9%
Office-using employment growth
year over year (as of Aug 2022)

13.2 msf
Office space currently
under construction

Top Transactions

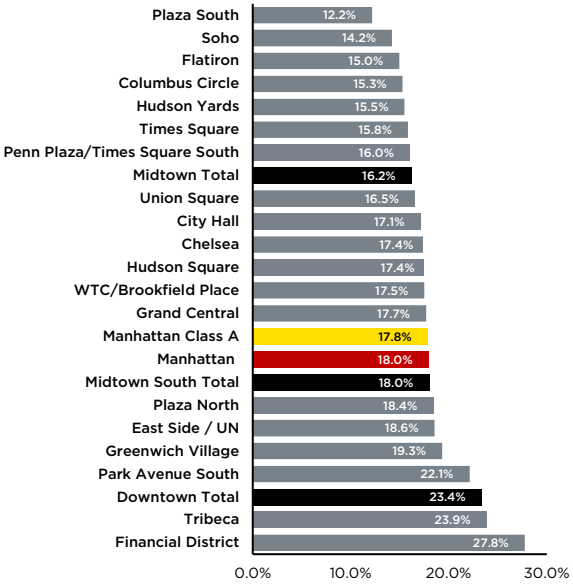
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
KPMG	455,739	385 Ninth Avenue (Two Manhattan West)*	Relocation	Hudson Yards	Business, Professional, and Consulting Services
Franklin Templeton	347,474	One Madison Avenue*	New Lease	Park Avenue South	Financial Services & Insurance
D.E. Shaw & Co., L.P.	282,505	385 Ninth Avenue (Two Manhattan West)*	Relocation	Hudson Yards	Financial Services & Insurance
Indeed	247,494	1120 Avenue of the Americas	Renewal and Expansion	Grand Central	Business, Professional, and Consulting Services
Freshfields Bruckhaus Deringer US LLP	179,724	3 World Trade Center*	Relocation	WTC/Brookfield Place	Legal Services
Edelman Inc.	173,618	250 Hudson Street	Renewal	Hudson Square	Business, Professional, and Consulting Services
Cohen & Steers	160,960	1166 Avenue of the Americas	Relocation	Grand Central	Financial Services & Insurance
Jane Street Capital	155,762	250 Vesey Street	Expansion	WTC/Brookfield Place	Financial Services & Insurance
O'Melveny & Myers LLP	142,221	1301-1315 Avenue of the Americas	Relocation	Columbus Circle	Legal Services
Blue Owl Capital	137,660	375 Park Avenue*	New Lease	Plaza South	Financial Services & Insurance

* Trophy Building

Source: Savills Research

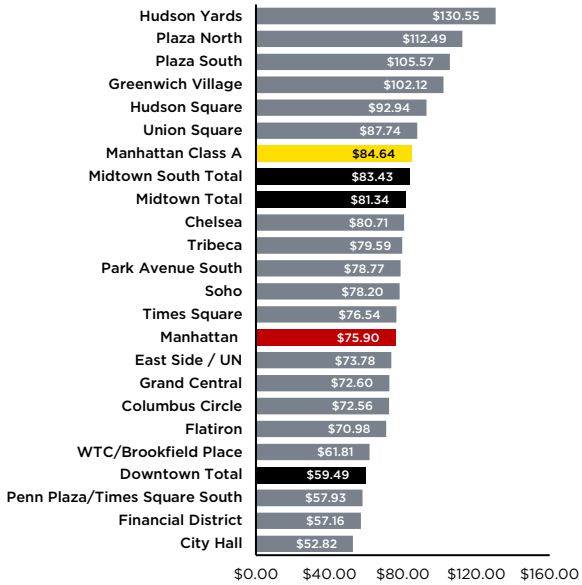
Availability Rate Comparison (%)

Manhattan Submarkets



Rental Rate Comparison ($/SF)

Manhattan Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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