

FIGURES | DOWNTOWN MANHATTAN | Q3 2022

Flight-to-Quality Propels 41% Quarterly Leasing Improvement

▲ 0.85M
SF Leasing Activity

▲ 0.10M
SF Net Absorption

▼ 22.5%
Availability Rate

▲ 18.7%
Vacancy Rate

▼ \$57.69
PSF Average Asking Rent

Note: Arrows indicate change from previous quarter.

QUICK FACTS

- Leasing activity totaled 851,000 sq. ft. during Q3, up 41% from Q2 2022 but 20% behind the five-year quarterly average.
- Year-to-date leasing activity totaled 2.34 million sq. ft. during Q3, up 29% from the same period last year.
- Renewals amounted to 141,000 sq. ft. in Q3, bringing the year-to-date figure to 376,000 sq. ft.
- Quarterly absorption was positive 96,000 sq. ft. during Q3, bringing the year-to-date total to negative 77,000 sq. ft.
- The availability rate decreased to 22.5%, down 10 basis points (bps) from the previous quarter but up 160 bps from the prior year.
- The sublease availability rate remained the same quarter-over-quarter at 6.7%, with sublet space accounting for 29.9% of total available space at the end of Q3 2022.
- Average asking rents were down 1% from the prior quarter to \$57.69 per sq. ft. and virtually unchanged from one year ago.

Market Overview

A duo of large transactions led Downtown to 851,000 sq. ft. of leasing activity in Q3, the third highest quarterly total since Q1 2020 and a 41% increase from the prior quarter. Despite the improvement, leasing activity trailed the five-year quarterly average by 20%. Quarterly activity signified a reversal of the leasing decline seen since the end of 2021. The uptick in leasing contributed to 96,000 sq. ft. of positive absorption in Q3, bringing the year-to-date total to negative 77,000 sq. ft. This resulted in a 10 bps decline in the availability rate to 22.5%. The market's availability rate remains elevated 160 bps year-over-year. Sublease availability remained at a peak pandemic level of 6.7%, after adding a net 48,000 sq. ft. in Q3. Sublease space represented 29.9% of all available space Downtown. Average asking rent decreased 1% from the prior quarter to \$57.69 per sq. ft.

Economic Overview

On a national level, the problems associated with inflation continue to run their course. Although the pace of inflation may have started to plateau, aggressive rate hikes and Fed balance sheet reductions have resulted in the beginning of a slowdown in the U.S. economy. Consequently, we expect the economy to contract early next year, and unemployment to rise. Once inflation is tamed, both capital and real estate markets will become more predictable again.

While higher rates and the increase in the cost of capital may force firms to rethink future hiring plans, NYC’s office-using employment (OUE) continued to see solid gains though the first two months of Q3 2022, but slowed from the red-hot pace of Q2. As a result, OUE has recovered roughly 245,000 of the 251,000 jobs lost due to the pandemic, reaching 1.82 million as of August 2022, and is now less than 1% shy of the pre-pandemic all-time high. The OUE recovery has been boosted by the business and professional services, advertising, media and telecom, and tech industry sectors.

After touching a pandemic era low point of 6.0% in July 2022, NYC’s overall unemployment rate edged up to 6.6% as of August. At this level it remains down considerably from its 21.0% pandemic peak, but higher than the 3% range seen just prior to the pandemic. It also remains higher than the August 2022 national unemployment rate of 3.7%.

Leasing Activity

Downtown recorded 851,000 sq. ft. of leasing in Q3 2022, a 41% increase from the previous quarter and a reversal of the quarterly decline seen in the past two quarters. Although leasing improved compared to the prior quarter, it still trailed the five-year quarterly average by 20%. Year-to-date leasing is 29% ahead of the same period in 2021.

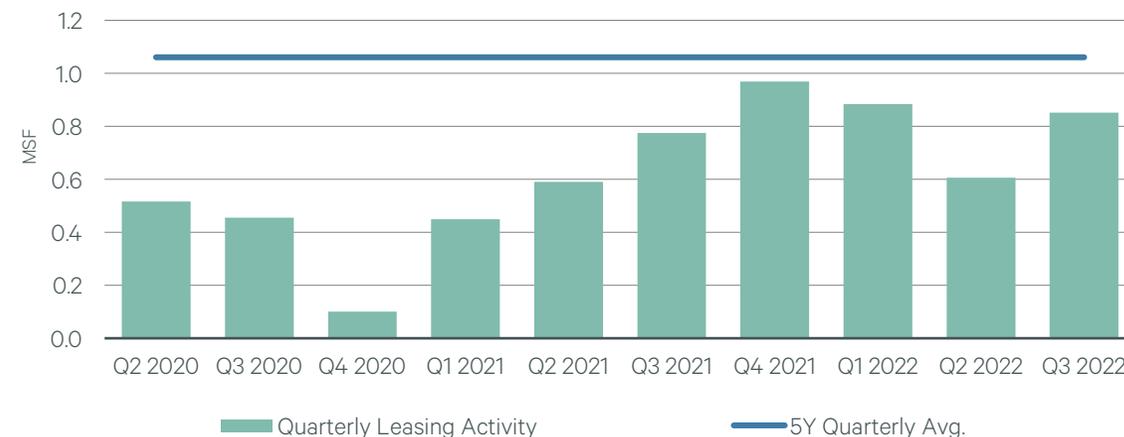
Tenant relocations into Downtown during the third quarter totaled 180,000 sq. ft. comprised solely by Freshfields Bruckhaus Deringer LLP’s relocation to 3 World Trade Center—a 176% improvement over Q2 relocation volume. A positive outcome for the market but still below the five-year quarterly average of 289,000 sq. ft.

FIGURE 1: Top Lease Transactions for Q3 2022

Size (Sq. Ft.)		Tenant	Address
179,724		Freshfields Bruckhaus Deringer LLP	3 World Trade Center
112,526	R	New York County District Attorney’s Office	250 Vesey Street
109,234		NYC Housing Development Corporation	120 Broadway
76,052	E	Fiserv, Inc.	1 Broadway
47,355		New York Life Insurance Company	1 World Trade Center

Source: CBRE Research, Q3 2022. Renewal (R), Expansion (E), Renewal and Expansion (RE).

FIGURE 2: Leasing Activity | Quarterly Historical



Source: CBRE Research, Q3 2022.

Flight-to-quality was a significant driver of activity during the third quarter with the five largest leases all committing to new construction or significantly renovated buildings.

Downtown West, a submarket with a high concentration of new and high-quality assets, outperformed Downtown’s other markets during Q3 and achieved its highest quarterly activity since Q1 2020. The submarket’s 352,000 sq. ft. leasing in Q3 was a 62% increase over the second quarter and 19% ahead of its five-year quarterly average. Downtown West accounted for two of the top five deals in Downtown in Q3: Freshfields Bruckhaus Deringer LLP’s 180,000 sq. ft. relocation to 3 World Trade Center and New York Life Insurance Company’s 47,000 sq. ft. sublease at 1 World Trade Center.

The Financial submarket’s Q3 leasing activity was 436,000 sq. ft.—down 32% from Q2 and 34% behind its five-year quarterly average. The New York City Housing Development Corporation’s 109,000-sq.-ft. lease at 120 Broadway was the submarket’s largest, followed by Fiserv, Inc.’s 76,000-sq.-ft. expansion for the remainder of space at 1 Broadway.

City Hall logged 63,000 sq. ft. of leasing activity during Q3, up 10% from the second quarter but 40% below the five-year quarterly average. Deals below 10,000 sq. ft. drove activity in the submarket in the third quarter, led by Delete Blood Cancer DKMS’s 8,000 sq. ft. lease at 40 Fulton Street.

Renewals totaled 141,000 sq. ft. during the third quarter, bringing the full year-to-date total to 376,000 sq. ft. The largest was the New York County District Attorney Office’s 113,000 sq. ft. renewal at 250 Vesey Street and Baycrest Partners’ 14,000 sq. ft. renewal at 40 Wall Street.

FIGURE 3: Leasing Activity | Annual Historical



Source: CBRE Research, Q3 2022.

FIGURE 4: Leasing Activity | By Submarket



Source: CBRE Research, Q3 2022.

Net Absorption and Availability

Increased quarterly leasing activity resulted in 96,000 sq. ft. of positive absorption Downtown in Q3; however, the year-to-date total remained negative 77,000 sq. ft. This marked the second quarter of positive absorption since Q3 2019. The availability rate decreased 10 bps quarter-over-quarter to 22.5%. Availability remained up 160 bps year-over-year and the third highest quarterly availability rate Downtown since 1996.

Sublease space increased for the fourth quarter in a row, though net additions only totaled 48,000 sq. ft. in Q3. Sublease space totaled 6.10 million sq. ft. and accounted for 29.9% of all available space in the market, which equates to a 6.7% availability rate—the highest among the Manhattan markets.

The Financial submarket logged 248,000 sq. ft. of negative absorption during Q3, pushing the availability rate up 40 bps to 28.4%—highest among Downtown’s three submarkets and the highest quarterly rate since Q3 1995. The Financial submarket added three direct spaces above 50,000 sq. ft. during the quarter including 104,000 sq. ft. at 120 Broadway, 90,000 sq. ft. at 77 Water Street and 59,000 sq. ft. at 44 Wall Street. Several mid-sized tenants withdrew their sublease space to back-fill their space, including Fitch Ratings, Inc.’s 105,000 sq. ft. sublease space at 33 Whitehall Street and Hugo Boss Fashions Inc.’s 69,000 sq. ft. sublease space at 55 Water Street. These withdrawals partially mitigated the impact of new sublease additions, led by 138,000 sq. ft. of Daily Pay sublease space at 55 Water Street, 72,000 sq. ft. of Fireman's Fund Insurance Companies space at 28 Liberty Street, 62,000 sq. ft. of QBE Reinsurance Corp. space at 55 Water Street and 46,000 sq. ft. of Morgan Stanley space at 1 New York Plaza. The submarket saw a net increase of 204,000 sq. ft. of sublease space in Q3.

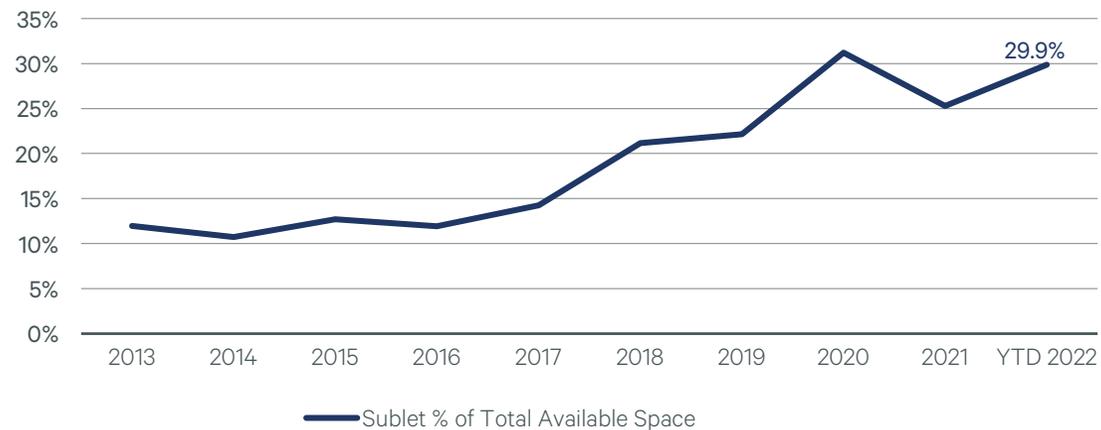
City Hall saw 42,000 sq. ft. of negative absorption in Q3—its first quarter of negative absorption since Q3 of 2021. This moved the availability rate up 30 bps quarter-over-quarter to 12.0% though the availability rate is down 120 bps year-over-year from 13.2%. Twilio's 36,000 sq. ft. of sublease space was the market’s largest new availability. The submarket recorded one other space addition above 10,000 sq. ft. in Q3 with 10,400 sq. ft. of direct space at 250 Broadway.

FIGURE 5: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q3 2022.

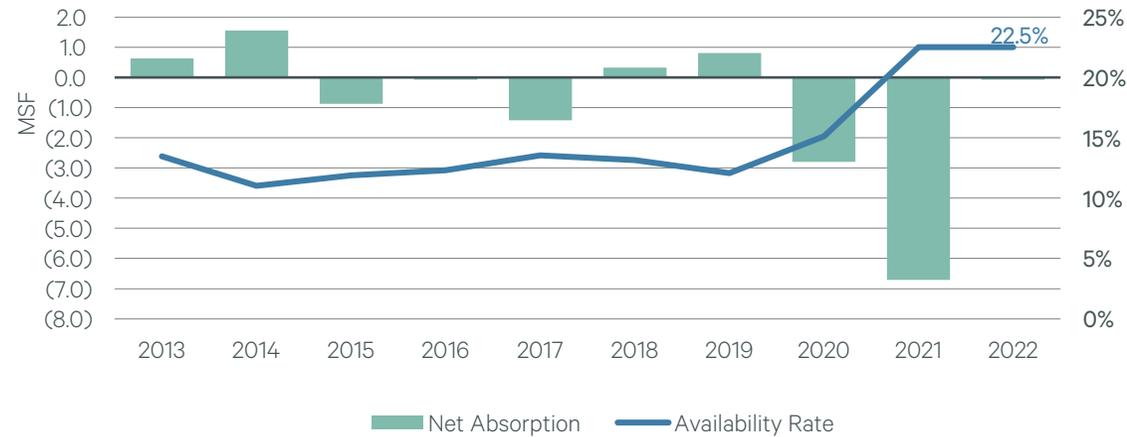
FIGURE 6: Sublease Space as a % of Available Space | Historical



Source: CBRE Research, Q3 2022.

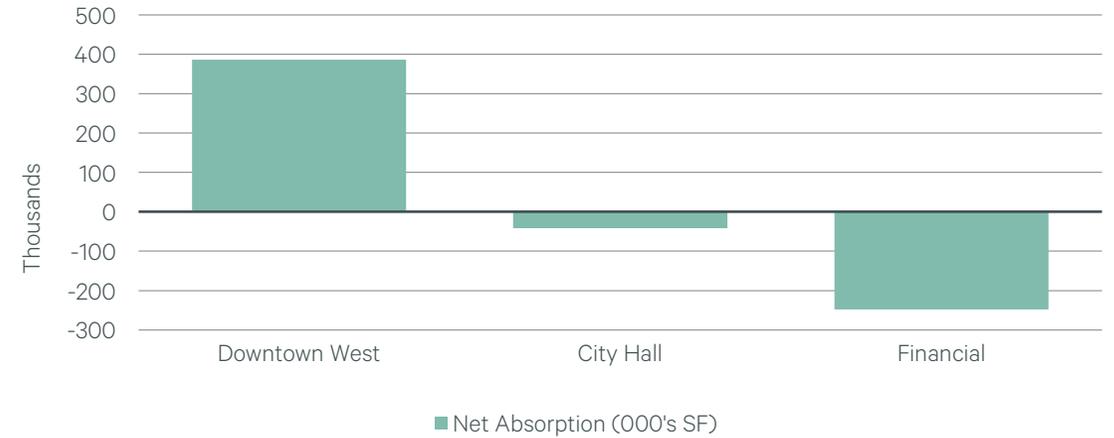
Downtown West remains a bright spot. The submarket recorded 386,000 sq. ft. of positive absorption in the third quarter, the highest quarterly absorption since Q3 2019. The availability rate decreased 200 bps quarter-by-quarter to 13.0%, down 130 bps from one year ago. This submarket has seen positive absorption, a result of the post-pandemic flight-to-quality trend led by the aforementioned direct and sublease transactions at the World Trade Center complex. Additionally, relatively little space came to market in the quarter, with only three spaces above 25,000 sq. ft. added to the submarket—43,000 sq. ft. of Commerzbank AG sublease space at 225 Liberty Street, 41,000 sq. ft. of direct space at 1 World Trade Center and 34,000 sq. ft. of Hyperscience sublease space also at 1 World Trade Center.

FIGURE 7: Net Absorption | Historical



Source: CBRE Research, Q3 2022.

FIGURE 8: Quarterly Net Absorption | By Submarket



Source: CBRE Research, Q3 2022.

FIGURE 9: Availability Rate | By Submarket



Source: CBRE Research, Q3 2022.

Average Asking Rent

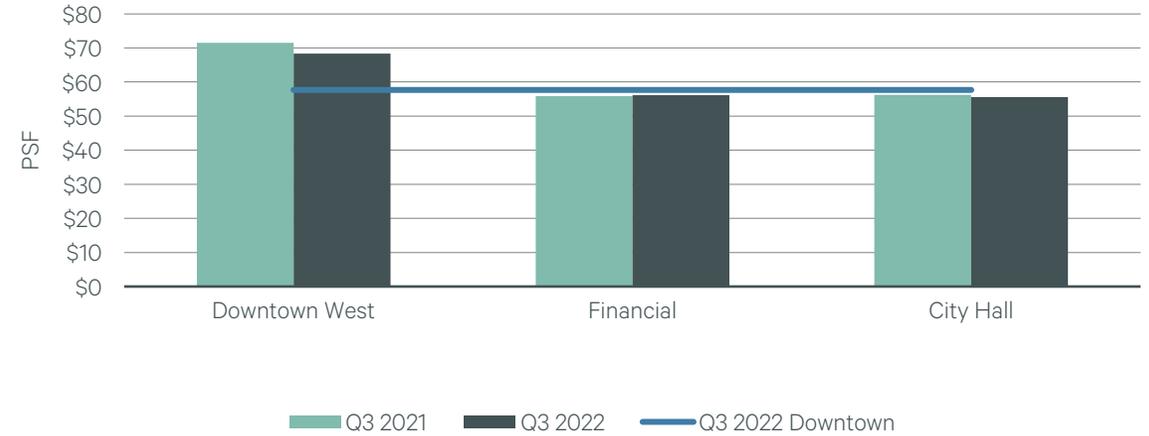
Downtown’s Q3 average asking rent was \$57.69 per sq. ft.—a 1% decline from Q2 2022 and virtually unchanged from one year ago. The removal of higher priced space and the addition of sublease space priced below the market average contributed to the modest asking rent decline. Downtown’s quarterly decline was in step with the overall Manhattan market which also experienced a 1% decline in average asking rents.

Downtown West asking rents saw the largest percentage change in Q3 down 2% quarter-over-quarter and down 4% year-over-year to \$68.36 per sq. ft. The removal of 180,000 sq. ft. of direct space at the top-end of the market was the primary reason for the decrease in asking rents.

Both City Hall and the Financial submarket’s asking rent remained flat quarter-over-quarter. Financial’s average asking rent was \$56.18 per sq. ft., flat from the prior year. City Hall asking rent was \$55.59 per sq. ft., down 1% annually.

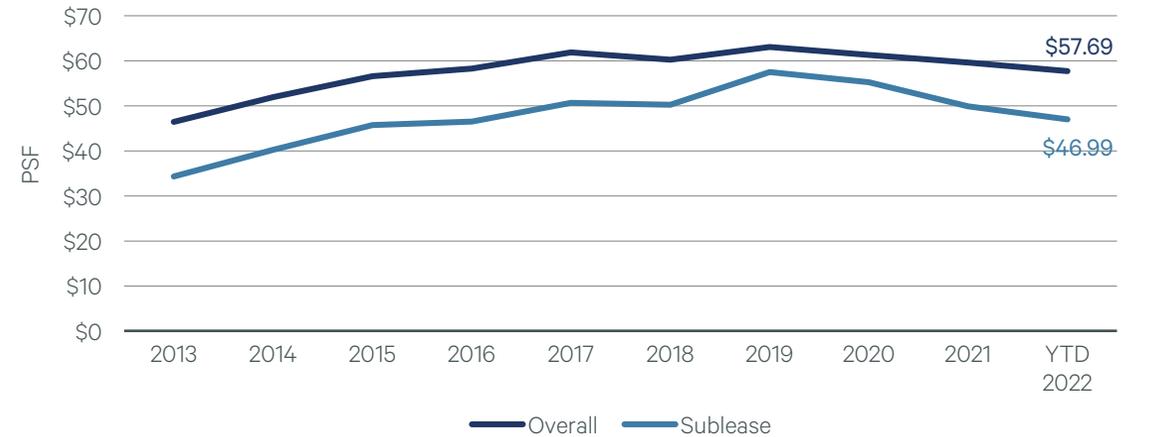
Downtown’s direct space held a 32% premium to its sublease space, compared to 31% in Midtown South and 41% in Midtown. At \$46.99 per sq. ft., the sublet asking rent in Downtown decreased 2% from Q2 2022 and was down 6% from one year ago.

FIGURE 10: Average Asking Rent | By Submarket



Source: CBRE Research, Q3 2022.

FIGURE 11: Average Asking Rent | Historical



Source: CBRE Research, Q3 2022.

Taking Rent Index

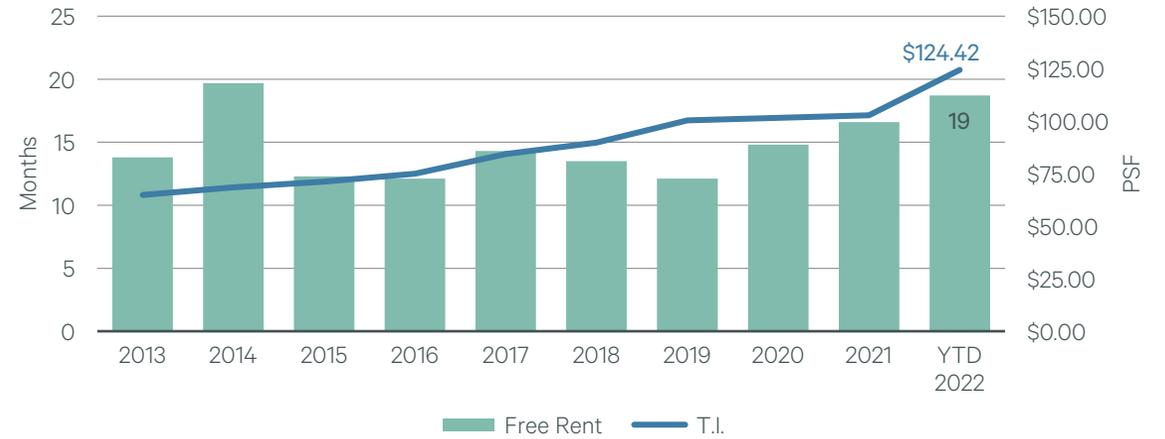
The taking rent index decreased 60 bps quarter-over-quarter to reach 93.3%—remaining around its pre-pandemic level. The subdued leasing and concentrated activity in better quality assets has kept this rate in a healthy range, but should not be expected for lesser quality space. Concession packages for new leases of raw space completed in Q3 2022 remained at an all-time high, averaging \$124.24 per sq. ft. in tenant improvement (TI) allowance, up 24% from pre-pandemic levels.

The average free rent period increased 13% from year-end 2021 to 19 months and was up 54% from the average of 12 months’ free rent seen in 2019 before the pandemic, as landlords continued to increase incentives to entice tenants to sign new, long-term leases.

Development Pipeline

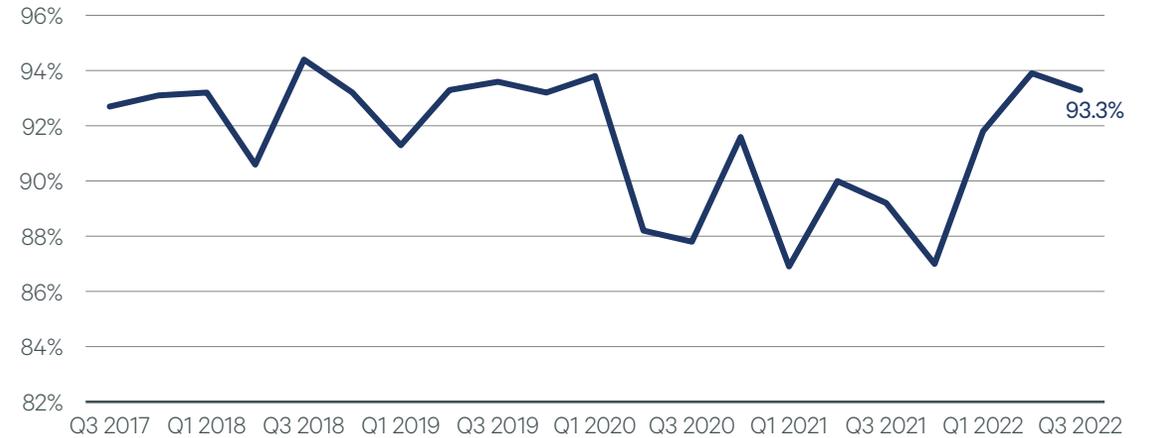
The development pipeline in Downtown remained limited. The only sizable development project on the horizon is Silverstein’s planned 2.80 million sq. ft. 2 World Trade Center, which is not yet under construction.

FIGURE 12: Historical Concession Values | Rent Abatement and T.I. Allowance*



Source: CBRE Research, Q3 2022. *This study examines an average of all direct new leases YTD 2022 larger than 25,000 sq. ft. with a term length greater than 10 years (omits renewals and expansions).

FIGURE 13: Taking Rent Index | Historical



Source: CBRE Research, Q3 2022.

Market Area Overview

Definitions

Availability: Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction.

Asking Rent: Weighted average asking rent.

Concession Values: The combination of rent abatement and T.I. allowance. The graph is for new leases for raw space of 25,000 sq. ft. or greater consummated year-to-date, this excludes expansion and renewal deals.

Leasing Activity: Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing, but excluding renewals.

Leasing Velocity: Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing and renewals.

Net Absorption: The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

Rent Abatement: The time between lease commencement and rent commencement.

Taking Rent: Actual, initial base rent in a lease agreement.

Taking Rent Index: Initial taking rents as a percentage of asking rents.

Definitions

T.I.: Tenant improvements.

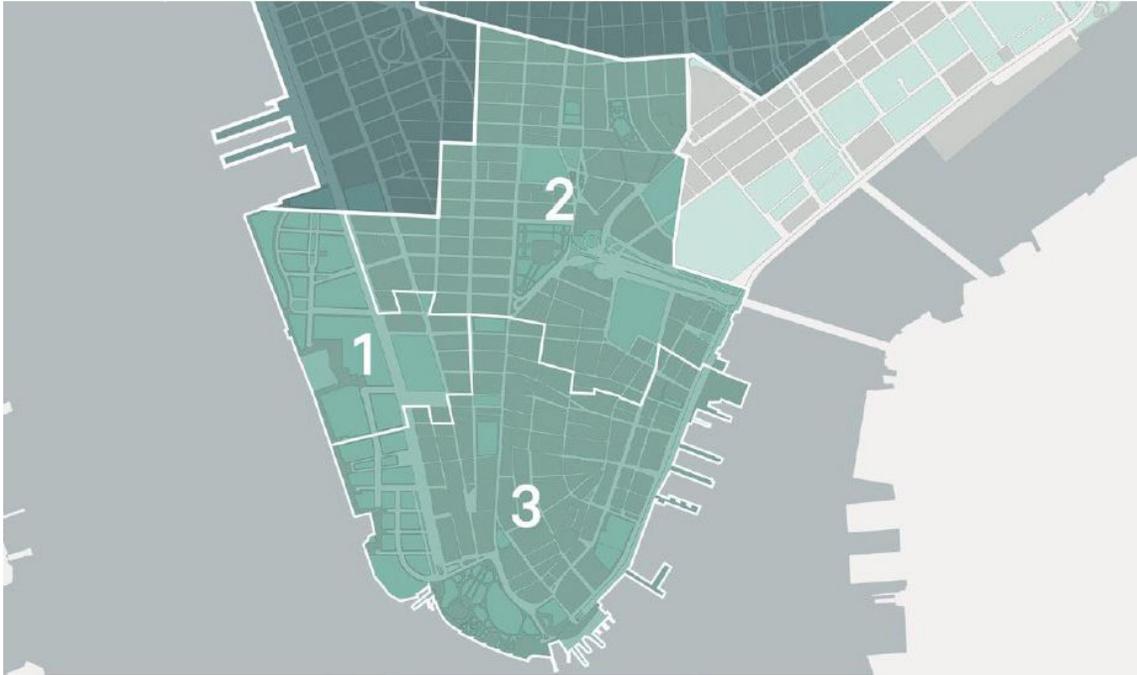
Vacancy: Unoccupied space available for lease.

Percentage of Leasing by Industry: The percentage of sq. ft. leased by an industry based on transactions where a tenant and industry have been confirmed.

Survey Criteria

CBRE's market report analyzes fully modernized office buildings that total 75,000+ sq. ft. in Downtown, including owner-occupied buildings (except those owned and occupied by a government or government agency). New construction must be available for tenant build-out within 12 months. CBRE assembles all information through telephone canvassing and listings received from owners, tenants and members of the commercial real estate brokerage community.

Market Area Overview



Submarket		Total Size (MSF)	No. of Buildings
1	Downtown West	20.0	10
2	City Hall	14.0	31
3	Financial	56.7	80
TOTAL INVENTORY		90.7	121

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