

FIGURES | MIDTOWN MANHATTAN | Q4 2022

Leasing stalled in Q4, but finished up 15% annually

▼ 2.57M
Leasing Activity

▼ (2.08)M
Net Absorption

▲ 18.3%
Availability Rate

▲ 14.2%
Vacancy Rate

▶ \$83.31
Average Asking Rent

Note: Arrows indicate change from previous quarter.

QUICK FACTS

- Leasing activity totaled 2.57 million sq. ft. in Q4, 30% behind the five-year quarterly average of 3.70 million sq. ft.
- Year-to-date leasing activity totaled 14.81 million sq. ft., up 15% from the same time last year.
- Renewal activity totaled 1.87 million sq. ft. in Q4, bringing the year-to-date total to 4.15 million sq. ft.
- The availability rate rose 90 bps from the previous quarter to 18.3% and was up 70 bps from a year ago.
- Net absorption was negative 2.08 million sq. ft. in Q4, bringing the year-end total to negative 1.68 million sq. ft.
- At \$83.31 per sq. ft., the average asking rent was essentially flat both quarter-over-quarter and year-over-year.
- The sublease availability rate rose 30 bps from the prior quarter to 4.5%, with the average asking rent up 6% from one year ago to \$62.96 per sq. ft.

Market Overview

Midtown's 2.57 million sq. ft. of leasing activity in Q4 fell 30% short of the five-year quarterly average and was 44% lower than the total in Q3. Despite reduced demand in the final months of 2022, annual leasing totaled 14.8 million sq. ft.—a 15% increase over 2021. Renewal activity ticked upward in Q4 to 1.87 million sq. ft., 70% greater than the five-year quarterly renewal average, indicating increased caution in the market as the economy seems poised to enter a recession in 2023. Financial services remained Midtown's primary driver of activity, accounting for 45% of new leasing in 2022—up from 35% in 2021. Net absorption was negative 2.08 million sq. ft. in Q4, driven by large block space additions greater than 100,000 sq. ft., the largest of which was 894,000 sq. ft. at Penn2. Corresponding to absorption, availability climbed to 18.3%—up 90 bps from Q3, but still the lowest of Manhattan's three major markets. At \$83.31 per sq. ft., average asking rent remained stable both quarter-over-quarter and year-over-year. Quality product remains in high demand, with seven of the ten largest new leases in 2022 occurring in buildings that are either new construction or comprehensively renovated product.

Economic Overview

On a national level, inflation remains the primary economic focus and the economy will likely face a moderate recession in H1 2023. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates – but despite this good news inflation remains a headwind. Consequently, the Federal Reserve continues its aggressive tightening program, which has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023 means that firms are looking to cut costs and reduce headcount.

In NYC, office-using employment (OUE) continues to hold up despite the economic uncertainty. OUE reached 1.82 million as of November 2022 and is just shy of its 1.83 million all-time high reached in February 2020. The OUE recovery has been boosted by the business and professional services, advertising, media and telecom, and tech industry sectors. Looking ahead, NYC’s OUE faces potential contraction or slowed growth amid recent announcements of impending layoffs by large local office occupiers.

As of November 2022, NYC’s overall unemployment rate stood at 5.8%, up just 20 bps from its pandemic era low point in September 2022. 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 November 2022 national unemployment rate of 3.7%.

Leasing Activity

Midtown finished Q4 2022 with 2.57 million sq. ft. of leasing activity, down 44% from the prior quarter and 30% behind the five-year quarterly average. Despite slowed leasing activity in the final months of the year, Midtown still reached 14.81 million sq. ft. of activity in 2022—a 15% improvement over 2021.

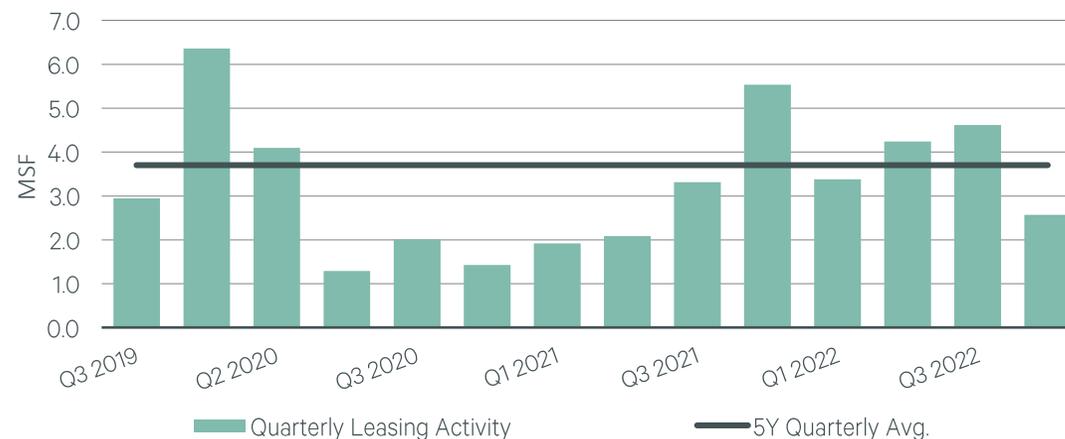
Renewal activity (which is counted outside of leasing activity) picked up significantly in Q4, reaching 1.87 million sq. ft., 70% ahead of the five-year quarterly renewal average.

FIGURE 1: Top Lease Transactions for Q4 2022

Size (Sq. Ft.)		Tenant	Address
665,666	R	Fox Corporation	1211 Avenue of the Americas
486,209	R	News Corporation, Ltd.	1211 Avenue of the Americas
219,395	E	Kohlberg, Kravis, Roberts & Co.	30 Hudson Yards
214,706	R	Stifel, Nicolaus & Company, Incorporated	787 Seventh Avenue
191,258	RE	Ann Taylor, Inc.	7 Times Square Tower

Source: CBRE Research, Q4 2022. Renewal (R), Expansion (E), Renewal and Expansion (RE).

FIGURE 2: Leasing Activity | Quarterly Historical



Source: CBRE Research, Q4 2022.

Renewals accounted for 42% of total leasing velocity (renewals combined with leasing activity) in Q4 – well above the historical ratio of approximately 25%—driven by the two largest transactions for the quarter: Fox Corporation’s 666,000 sq. ft. renewal and News Corporation, Ltd.’s 486,000 sq. ft. renewal, both at 1211 Avenue of the Americas. In annual terms, renewals accounted for 22% of all leasing velocity in 2022, a figure more in line with historical norms.

Flight-to-quality remained a primary driver of leasing in Midtown throughout 2022. Seven of the top ten new leases of 2022 were in new construction or comprehensively renovated buildings, including five in the Hudson Yards neighborhood, such as Kohlberg, Kravis, Roberts & Co.’s 219,000 sq. ft. expansion at 30 Hudson Yards. In line with the continued flight-to-quality, the ceiling for premium-priced space continues to rise—Midtown saw more transactions with taking rents of \$200 per sq. ft. or greater in 2022 than ever before. The volume of leasing in the market’s high-end space has been supported by strong demand from the financial services industry which provided the lion’s share of Midtown’s leasing, accounting for 45% in 2022—up from 35% in for full-year 2021. Professional services provided the second largest percentage of activity, at 10%, followed closely by the legal sector, with 9%.

While Midtown’s better-quality assets continued to see strong demand, the broader market is still recovering. On an annual basis, nearly every submarket surpassed the 2021 leasing totals, but Q4’s leasing across the submarkets slowed considerably.

Only two of Midtown’s nine submarkets managed to surpass their five-year quarterly average leasing figures in Q4—Plaza and Park Avenue. Plaza reached 247,000 sq. ft. of activity in the fourth quarter, 53% ahead of the five-year average but still only the second highest leasing quarter of the year. Park Avenue surpassed its five-year average by 19% and the prior quarter by 10%, posting 560,000 sq. ft. of activity with a plethora of leases all under 100,000 sq. ft. Annually, Park Avenue reached 2.14 million sq. ft., the third highest annual total of the past ten years.

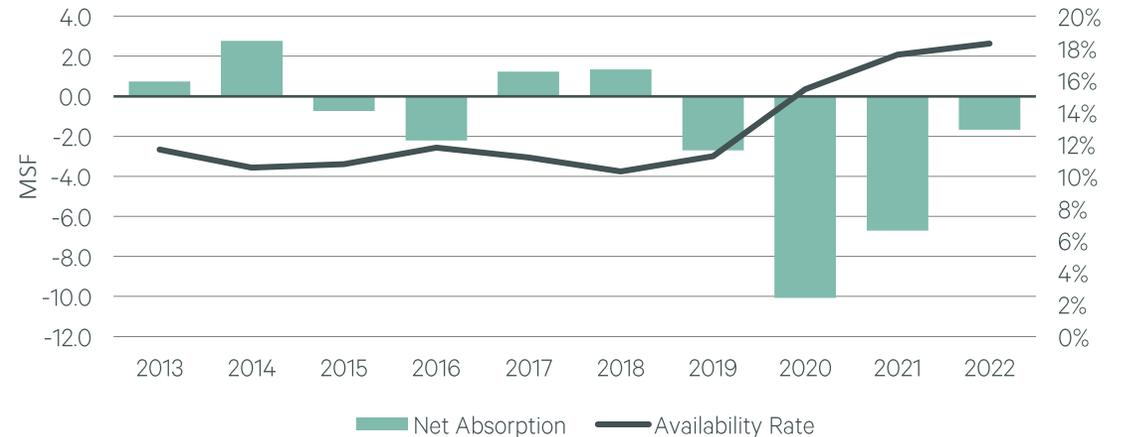
Fifth/Madison Avenue, with 189,000 sq. ft. of leasing activity, fell 14% short of the five-year quarterly average but logged a strong 2022, with 1.15 million sq. ft. of leasing for the year. The annual total is the second highest annual figure of the past ten years, with activity driven by leasing at two major redevelopments: 660 Fifth Avenue and 550 Madison Avenue. Penn District/Hudson Yards, with 473,000 sq. ft. of activity, fell 29% short of the five-year quarterly average but managed 2.63 million sq. ft. in 2022—an 81% improvement over the prior year.

FIGURE 3: Leasing Activity | By Submarket



Source: CBRE Research, Q4 2022.

FIGURE 4: Net Absorption & Availability Rate | Historical



Source: CBRE Research, Q4 2022.

Leasing activity in Midtown’s other submarkets came in well under their respective five-year averages, but in most cases were an improvement on the prior year. Grand Central notched 420,000 sq. ft. in Q4 and reached 2.92 million sq. ft. for the year—a 25% increase over the 2021 total. Sixth Avenue/Rockefeller Center had a slow quarter as well, with 252,000 sq. ft. of activity, 52% below the five-year average, but still contributing to a year-end total of 2.02 million sq. ft., a nearly 20% increase from 2021. Times Square South posted 184,000 sq. ft. for the quarter and 1.34 million sq. ft. in 2022, narrowly passing the prior year’s total.

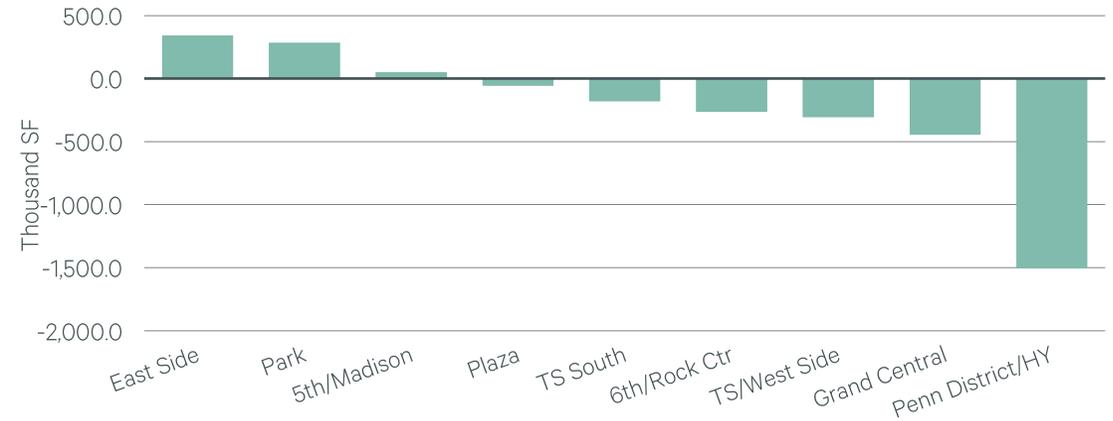
Only two submarkets failed to surpass 2021 leasing totals: the East Side and Times Square/West Side. The East Side reached only 622,000 sq. ft. of leasing in 2022, 20% behind the 2021 total. The submarket’s slow leasing is due to an inventory comprised largely of commodity buildings, which are struggling to compete with higher quality product elsewhere in Midtown. Times Square/West Side—with 1.16 million sq. ft. of leasing—fell 42% short of the prior year’s total, though 2021’s figure was unusually high for the submarket.

Net Absorption and Availability

Quarterly net absorption was negative 2.08 million sq. ft. in Q4, only the second instance of negative absorption in the past six quarters. Large space additions over 100,000 sq. ft. at eight different buildings easily outstripped slowed leasing and drove negative absorption, leaving the 2022 total at negative 1.68 million sq. ft. The availability rate saw a corresponding increase of 90 bps from Q3 to 18.3%.

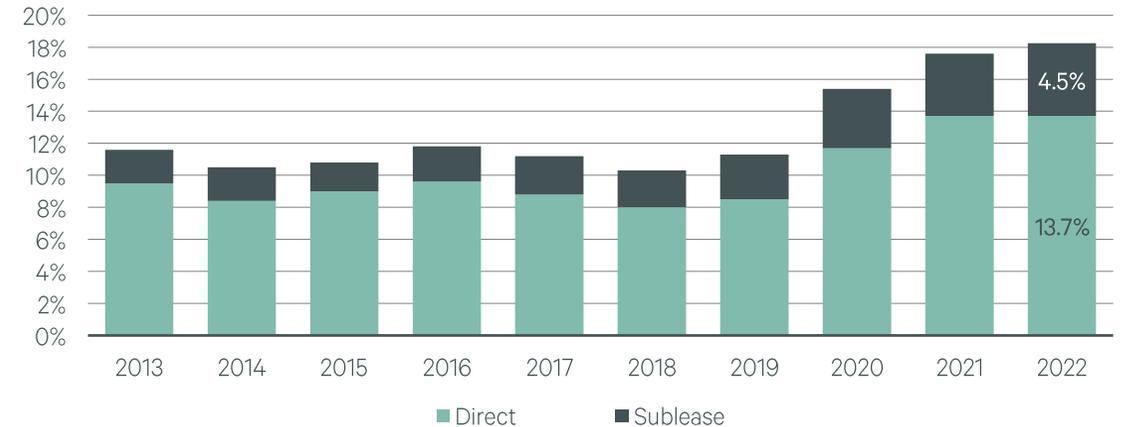
Absorption was negative in six of Midtown’s nine submarkets. The East Side posted the best quarterly figure, with 344,000 sq. ft. of positive absorption in spite of slow leasing due to the sale of space at 885 Third Avenue to Memorial Sloan Kettering. Relatively few space additions allowed the East Side to manage 45,000 of positive absorption for the year—one of only three submarkets to do so. Park Avenue notched 286,000 sq. ft. of positive absorption in Q4 with strong leasing and only one space addition over 50,000 sq. ft., totaling 790,000 sq. ft. of positive absorption for 2022 and bringing the availability rate down 280 bps year-over-year to 11.8%—the lowest of all Manhattan’s submarkets. Fifth/Madison Avenue reached 51,000 sq. ft. of positive absorption in Q4, though 2022’s total was negative 854,000 sq. ft. due to 1.28 million sq. ft. coming available at 660 Fifth Avenue at the beginning of the year. The substantial negative absorption caused the submarket’s availability rate to rise 740 bps year-over-year to 25.3%, the third highest availability rate of all of Manhattan’s submarkets.

FIGURE 5: Quarterly Net Absorption | By Submarket



Source: CBRE Research, Q4 2022.

FIGURE 6: Sublease and Direct Availability Rate | Historical



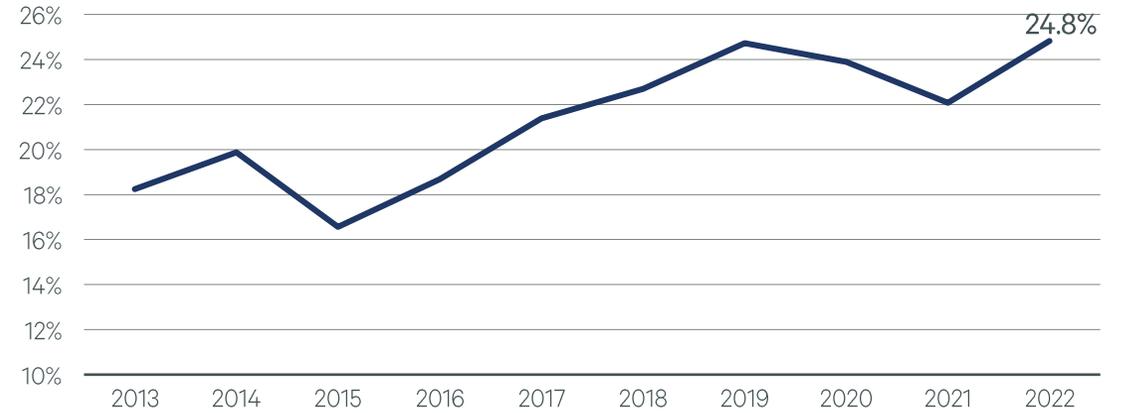
Source: CBRE Research, Q4 2022. Percentages do not add up to 18.3% due to rounding.

Penn District/Hudson Yards had the most substantial negative absorption in Q4 at 1.50 million sq. ft., primarily from Penn2, where 894,000 sq. ft. entered availability statistics, along with 167,000 sq. ft. at Penn1, and a 148,000 sq. ft. Guardian Life Insurance Company of America sublet at 10 Hudson Yards. Availability experienced a corresponding increase of 420 bps quarter-over-quarter to 22.1%. Grand Central saw 444,000 sq. ft. of negative absorption in Q4, due in part to Visiting Nurse Service of New York’s 267,000-sq.-ft.-sublet coming available at 220 East 42nd Street. The submarket notched 638,000 sq. ft. of negative absorption for the year, enough to push availability up 140 bps year-over-year to 18.2%.

Sixth Avenue/Rockefeller Center experienced negative absorption of 264,000 sq. ft. in the fourth quarter due to reduced leasing activity and a 254,000 sq. ft. space entering availability statistics at 51 West 52nd Street. However, Sixth Avenue/Rockefeller managed 148,000 sq. ft. of positive absorption for the year, driving availability down 30 bps year-over-year to 12.3%—the second lowest availability rate in Manhattan.

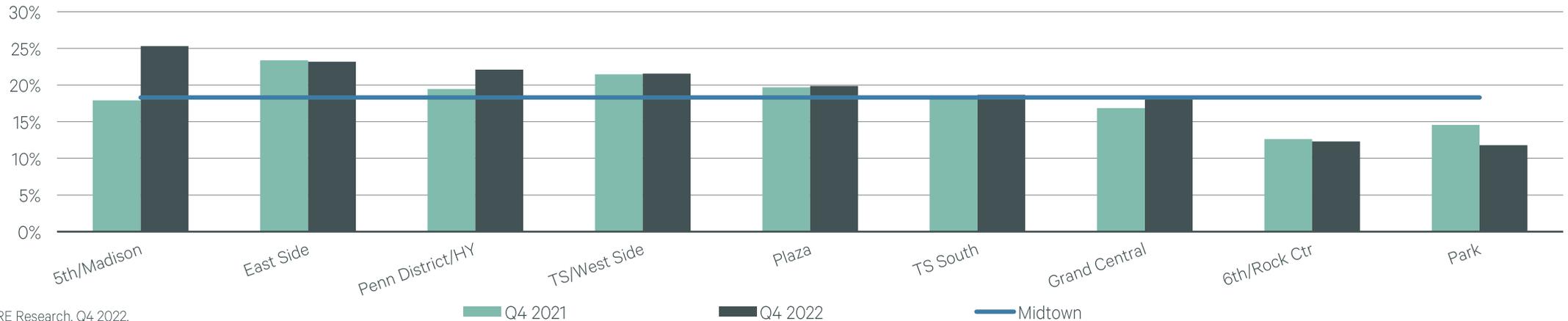
Sublet space climbed steadily through 2022, reaching 11.47 million sq. ft., reaching a new all-time high in December 2022. Sublease space now accounts for 24.8% of all available space, up 50 bps from the prior quarter.

FIGURE 7: Sublease Space as a % of Available Space | Historical



Source: CBRE Research, Q4 2022.

FIGURE 8: Availability Rate | By Submarket



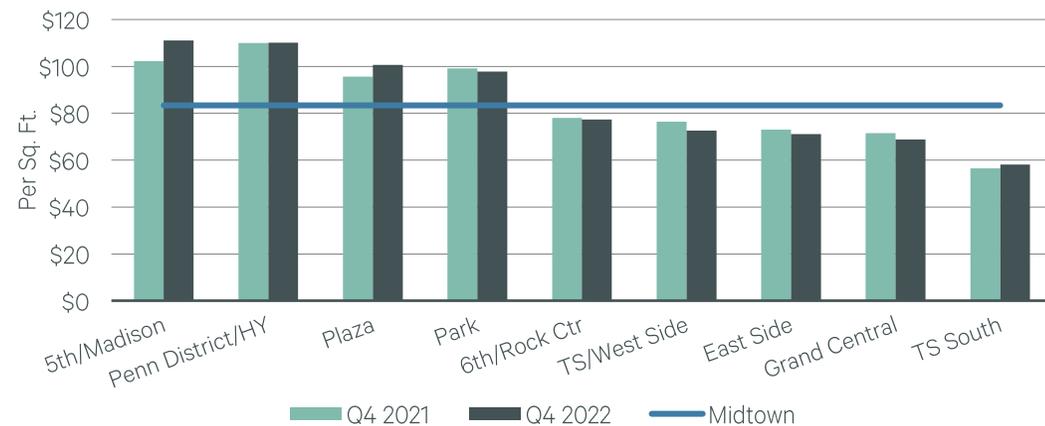
Source: CBRE Research, Q4 2022.

Average Asking Rent

Midtown’s average asking rent was \$83.31 per sq. ft. in Q4 2022—virtually unchanged both quarter-over-quarter and year-over-year. However, Midtown’s overall rent stability belies substantial changes within the submarkets.

Quarterly changes in average asking rent were either minimal or non-existent, though year-over-year the increases were more substantial. The most significant change from the prior quarter occurred in Sixth Avenue/Rockefeller Center, where average asking rent climbed 2% to \$77.36 per sq. ft. as 69,000 sq. ft. of space priced at and above \$200 per sq. ft. came online at 1 Bryant Park. Fifth/Madison Avenue saw average asking rent increase 9% year-over-year to \$111.04 per sq. ft.—the highest of any of Manhattan’s submarkets—as 1.28 million sq. ft. of space priced well above the average came available at 660 Fifth Avenue. Plaza’s average asking rent increased 5% year-over-year to \$100.63 per sq. ft. as space priced above the average came available at several buildings early in 2022. Times Square South, despite average asking rent being virtually unchanged quarter-over-quarter, saw an increase of 3% from the prior year to \$58.12 per sq. ft., though it is still the lowest asking rent in Midtown.

FIGURE 9: Average Asking Rent | By Submarket



Source: CBRE Research, Q4 2022.

FIGURE 10: Average Asking Rent | Historical



Source: CBRE Research, Q4 2022.

FIGURE 11: Concession Values | Rent Abatement and T.I. Allowance



Source: CBRE Research, Q4 2022.

Times Square/West Side saw the largest drop in average asking rent year-over-year, falling 5% to \$72.60 per sq. ft. as space priced above the average was steadily leased throughout the year. Grand Central experienced the second largest drop in average asking rent from the prior year, falling 4% to \$68.76 per sq. ft., also due to space priced above the average—primarily at 1 Vanderbilt Avenue—getting leased during 2022. Average asking rent in the East Side dropped 3% year-over-year, falling to \$71.08 per sq. ft., driven by space at 885 Third Ave—priced above the submarket average—getting removed from availability.

Taking Rent Index

The taking rent index decreased 40 bps quarter-over-quarter to 88.2%, however it was up 100 bps year-over-year. Concession packages for new leases of raw space averaged \$150.47 per sq. ft. in tenant improvement allowance (TI)—up 6% from 2021—and 17 months of free rent. TI allowances continued to push all-time highs—94% of the transactions in 2022 had TI values of \$130 per sq. ft. or higher.

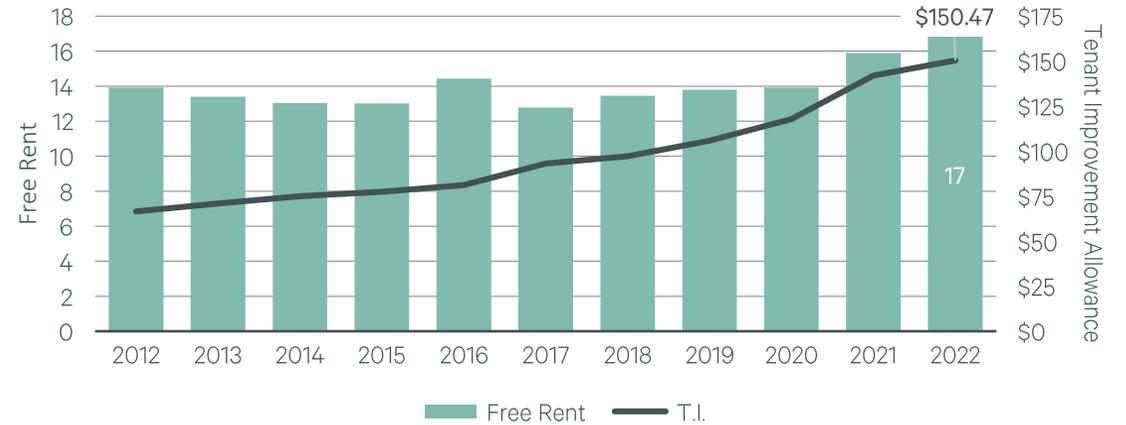
Development Pipeline

The development pipeline in Midtown has two major office construction projects delivering between 2023 and 2024: Two Manhattan West and 270 Park Avenue. Collectively, these projects account for 3.82 million sq. ft. of new development and are 88% pre-leased.

Following D.E. Shaw & Co.’s 283,000-sq.-ft. lease in September and Crowell & Moring LLP’s expansion in December, Brookfield Properties’ Two Manhattan West is now 77% pre-leased.

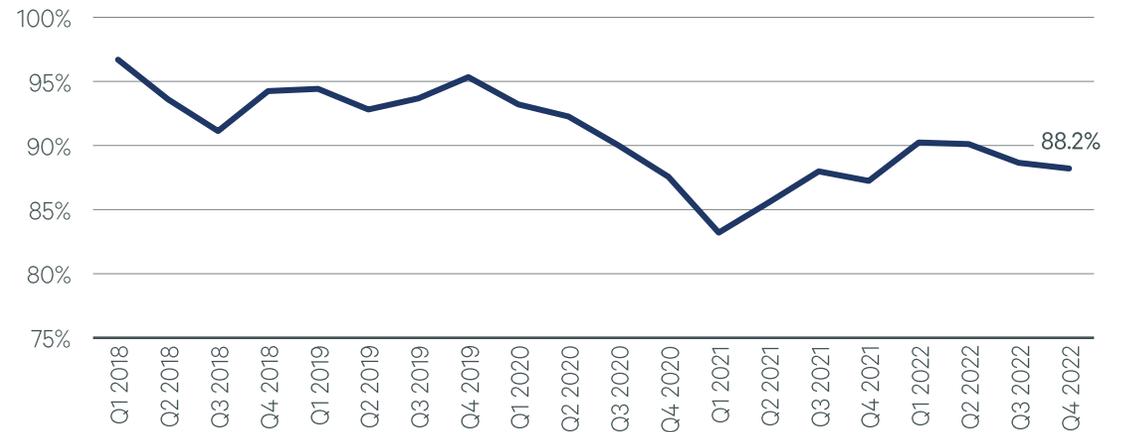
The second new construction project is the forthcoming JPMorgan Chase headquarters at 270 Park Avenue. The building will be one of the first skyscrapers to go up under the new Midtown East rezoning surrounding Grand Central Terminal.

FIGURE 12: Concession Values | Historical*



*This study examines a blended average of all direct new leases larger than 25,000 sq. ft. with a term length greater than 10 years (omits renewals and expansions).
Source: CBRE Research, Q4 2022.

FIGURE 13: Taking Rent Index | Historical



Source: CBRE Research, Q4 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.

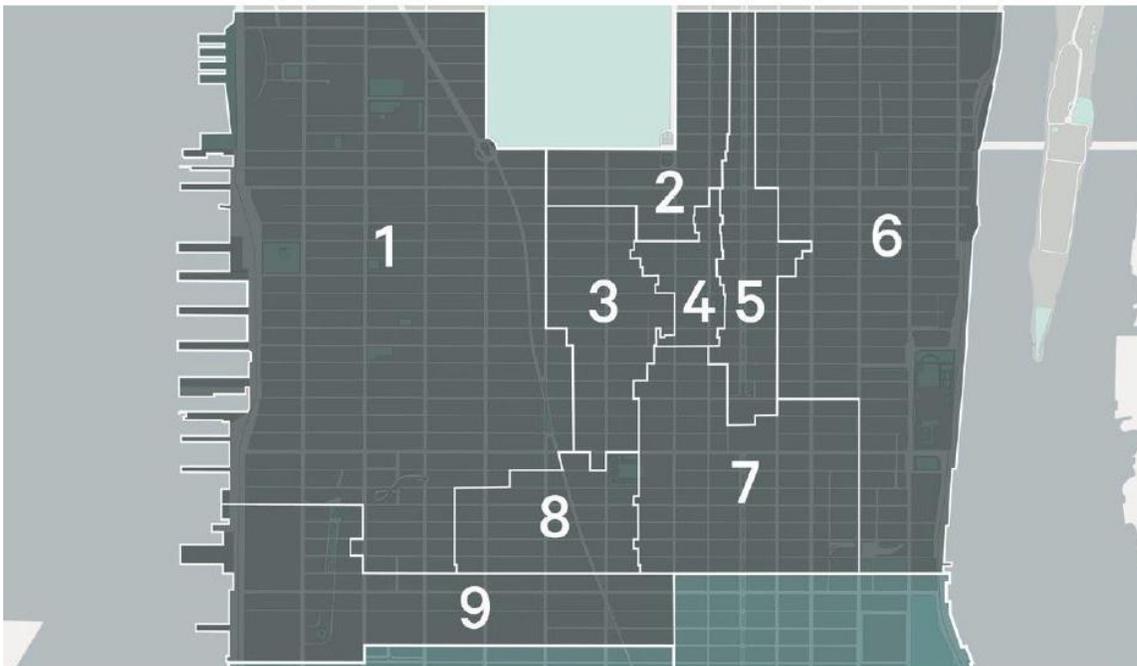
Vacancy: Unoccupied space available for lease.

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 150,000+ sq. ft. in Midtown, 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	Times Sq./West Side	32.2	43
2	Plaza	11.4	23
3	Sixth Avenue/Rockefeller	45.7	45
4	Fifth/Madison	12.0	28
5	Park Avenue	28.7	37
6	East Side	21.5	46
7	Grand Central	46.7	85
8	Times Sq. South	19.4	48
9	Penn District/Hudson Yards	35.6	37
TOTAL INVENTORY		253.2	392

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