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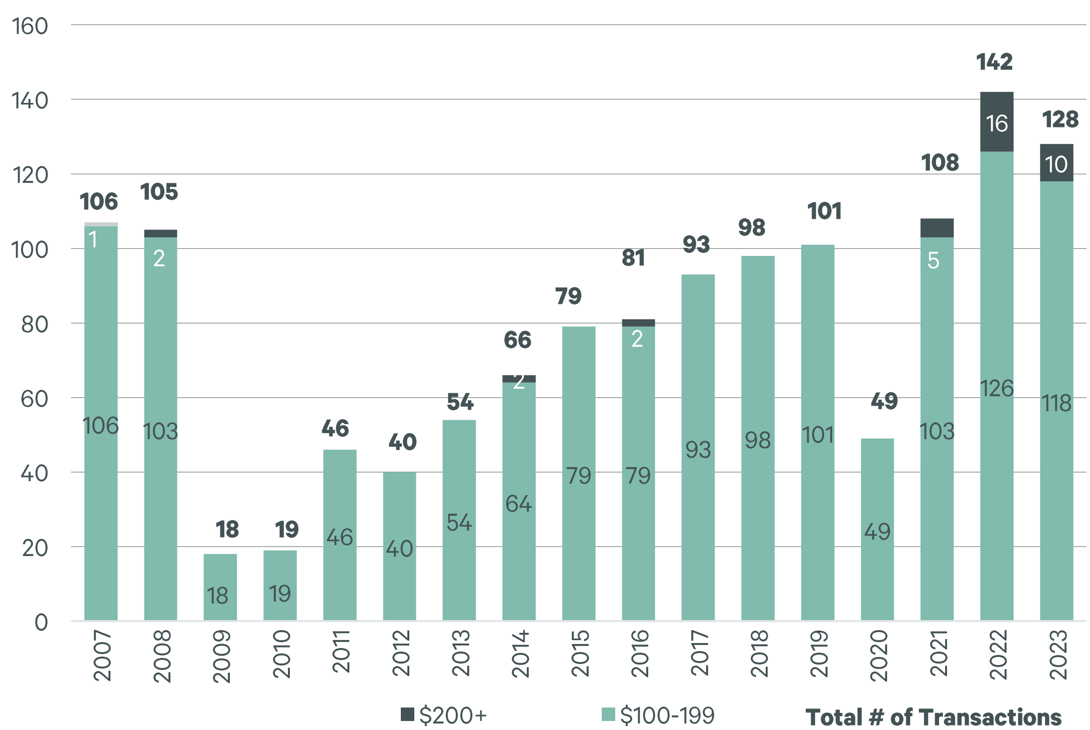
BRIEF | Evolving Workforces

$100+ per sq. ft. Market Remained Robust in 2023

By Michael Slattery, Jared Koeck

Manhattan's office market witnessed an unbalanced 2023. The high end of the market seemed impervious to the woes that beset the rest of Manhattan. The 128 transactions at $100+ per sq. ft that closed in 2023 marked the second-highest annual total ever—35% above the 10-year average and only 10% behind 2022's record-setting figure of 142 deals. Transactions at $200+ per sq. ft. also achieved the second-best all-time total with 10 deals in 2023, demonstrating that the highest reaches of Manhattan's office market remain on the rise.

FIGURE 1: $100+ per-sq.-ft. Transactions | 2007 - 2023



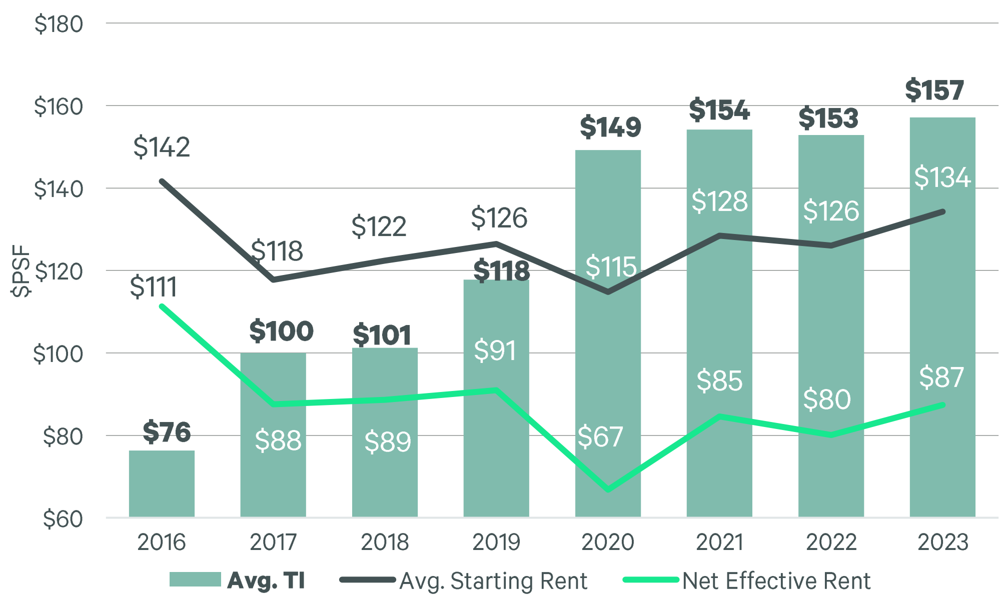
Source: CBRE Research. Data as of December 28, 2023.

The $100+ market began its post-pandemic rally in 2021. Manhattan's overall leasing activity (new leases and expansions) fell 25% year-over-year in 2023, but the count of $100+ per sq. ft. transactions fell only 10% during the same period. Transaction volume by square footage for $100+ per sq. ft. deals was robust, reaching 4.4 million sq. ft. and breaking the 4 million sq. ft. barrier for only the fourth time ever.

Financial services—always a leader in the $100+ per sq. ft. market—surged, accounting for 73% of $100+ per sq. ft. transactions completed in 2023, and 63% of the square footage leased. The tech sector's retreat in the face of industry headwinds impacted its share of leasing in the $100+ per sq. ft. market, accounting for only 5% of transaction count and 6% of square footage, down substantially from the industry's 2019 peak of 50% share by square footage and 13% by deal count.

The $100+ per sq. ft. market saw demand shift its concentration to Midtown's core—deals there totaled 3.3 million sq. ft., representing 75% of all $100+ per sq. ft. transactions in 2023, up from 39% in 2022 and the highest level since 2016. Penn District/Hudson Yards accounted for 12% of $100+ per sq. ft. transactions by square footage, down from each of the last three years, while Midtown South accounted for 13% of $100+ per sq. ft. activity, down from a high of 32% in 2019.

FIGURE 2: $100+ per-sq.-ft. Net Effective Rent, Starting Rent, and TI Comparison | 2016 - 2023



Source: CBRE Research. Data as of December 28, 2023.

The shift in $100+ per sq. ft. activity mirrors the wider trend of financial services leasing in high-quality buildings in the core of Midtown, close to transportation in highly amenitized areas. Park Avenue, which witnessed the most $100+ per sq. ft. transactions by count amongst any single submarket in 2023, has seen its availability rate fall to 9.4%—the only submarket in Manhattan with availability under 10%.

Net effective rents for $100+ per sq. ft. deals improved from the prior year and are almost back to pre-pandemic levels. The primary driver was the surge in starting rent in 2023, which rose 6% from 2022, helping push net effective rent to $87 per sq. ft. Combined with shrinking availability rates amongst high-quality buildings, the top end of the market is nearly back to normal, while the rest of the market lags significantly.

Manhattan's overall office leasing faltered in 2023, but the high-end market showed its resilience with a strong pace of $100+ per sq. ft. transactions. The second consecutive year of double digit $200+ per sq. ft. transactions demonstrates that 2022 was not an anomaly and that the ceiling for Manhattan's premier office space is rising to new heights. This momentum is expected to continue for high end product and should begin to spill over into the next tier of assets as the best spaces in the market become in short supply.

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