

BRIEF | Future Cities

Hidden in Plain Sight: Pockets of Strength in the Manhattan Market

By Michael Slattery

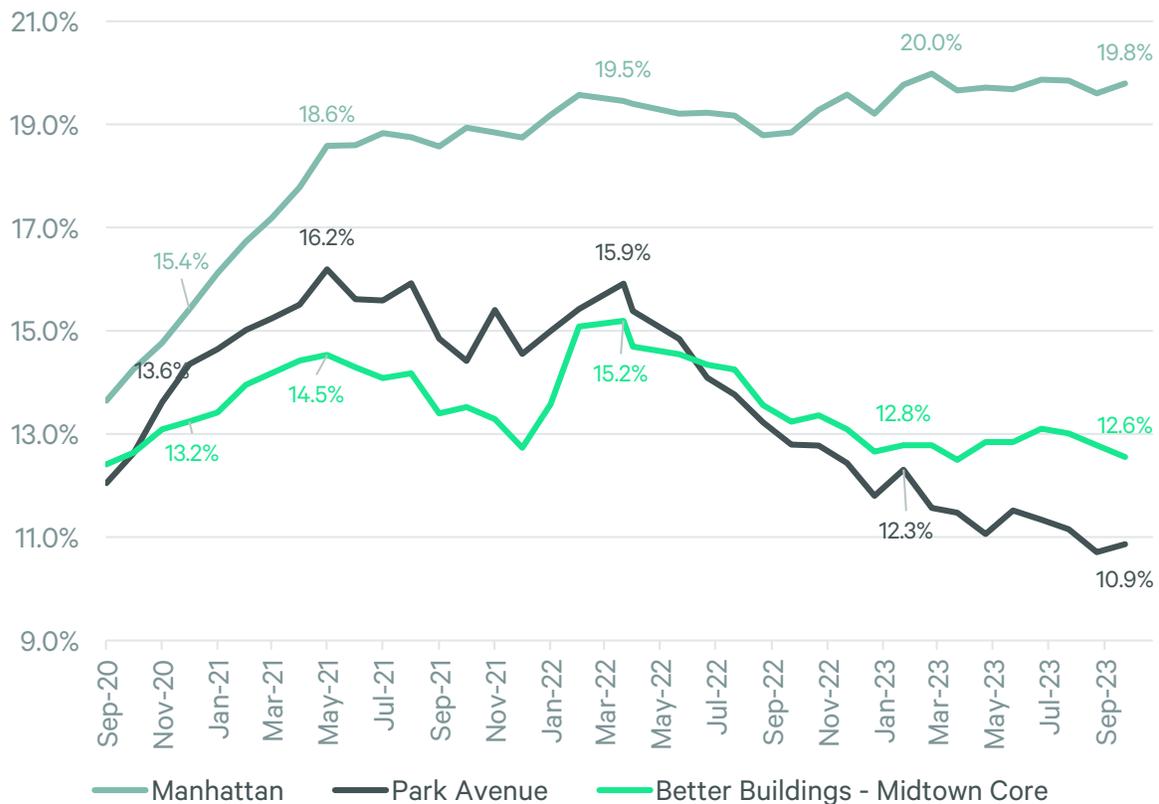
Better buildings in Midtown's core and the entire Park Avenue submarket have emerged as pockets of strength within Manhattan's office market. Tenants' preference for quality spaces and superior locations has led to focused leasing in these areas, causing significant declines in availability. This is a notable contrast to the performance of the overall Manhattan market, where the availability rate remains near-record high levels at 19.8%. The elevated volume of available space continues to present a challenge for the market, but the availability of "the right type" of space is dwindling.

Better buildings¹ in Midtown's core submarkets have been most sought after due to multiple factors: the assets' physical qualities—which bring natural light and air into the space; strong amenities for both the business (conferencing) and employee satisfaction (on-site food, wellness offerings, proper workspaces for collaboration or "head down" work); and access to various modes of transit. The better buildings in Midtown's core submarkets of Grand Central, Plaza, Park, Sixth/Rock and Fifth/Madison submarkets represent 71.7 million sq. ft., which is larger than the size of the entire Baltimore office market (68 million sq. ft.). This set of buildings saw the availability rate decline 250 basis points from 15.1% to 12.6% over the past 20 months—not far off from market equilibrium range of 10-12%.

Park Avenue experienced a more dramatic drop in availability—down 530 basis points from its 16.2% peak in May 2021. September's availability fell to 10.9% the lowest among Midtown's submarkets and only 190 bps from its pre-pandemic rate. In 2023, the submarket witnessed numerous deals signed over \$100 per sq. ft. and several \$200 per sq. ft. transactions. Strong demand is expected to persist resulting in further tightening of supply in Park Avenue especially among larger blocks. The scarcity of large blocks within Park Avenue may cause demand to expand to other proximate areas or fuel leasing at future office developments in the vicinity.

The story of the Manhattan office market remains nuanced, but the outlook for the “right type” of office product (modern, amenity rich in superior locations) are where companies feel confident in committing to even in uncertain times. Areas or buildings that can provide these types of environments to occupiers should come out on top of an unbalanced market recovery.

FIGURE 1: Availability Rate Comparison | Manhattan vs. Park vs. Better Buildings – Midtown Core



Source: Data as of October 1, 2023.

Contacts

Michael Slattery
 Tri-State Research Director
 212-656-0583
 Michael.Slattery@cbre.com

Footnote:

1. Better buildings – CBRE has identified 220 “better buildings” in the Manhattan market that represent higher quality assets including new construction, extensively renovated buildings, and other buildings that have fully modernized building systems, desirable location, access to transit, abundant light & air, and ample amenities.

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