Planned residential conversion reduces supply amid sluggish leasing

▼ 0.78M	▲ 0.57M	▼ 21.9%	▼ 18.3%	▼ $58.31
SF Leasing Activity	SF Net Absorption	Availability Rate	Vacancy Rate	PSF Average Asking Rent

Note: Arrows indicate change from previous quarter.

QUICK FACTS

- Leasing activity totaled 784,000 sq. ft. during Q4, down 8% from Q3 2022 and 25% behind the five-year quarterly average of 1.05 million sq. ft.
- Annual leasing activity totaled 3.13 million sq. ft. up 12% year-over-year.
- Renewals amounted to 90,000 sq. ft. in Q4, bringing the year-to-date figure to 466,000 sq. ft.
- Quarterly absorption was positive 566,000 sq. ft. during Q4, bringing the year-to-date total to positive 489,000 sq. ft.
- The availability rate decreased to 21.9%, down 60 basis points (bps) both quarter-over-quarter and year-over-year.
- The sublease availability rate decreased to 6.4%, down 30 bps quarter-over-quarter, with sublet space accounting for 29.3% of total available space at the end of 2022.
- Average asking rents were up 1% from the prior quarter to $58.31 per sq. ft. though down 2% year-over-year.

Market Overview

A lack of large transactions Downtown held leasing to 784,000 sq. ft. of activity in Q4, an 8% decrease from the prior quarter and 25% behind from the five-year quarterly average. Q4 was the second lowest quarterly leasing total of 2022. Annual leasing activity has grown steadily since the pandemic, notching 3.13 million sq. ft. in 2022, a 12% increase year-over-year. Renewals totaled 90,000 sq. ft. in Q4, bringing the year-to-date figure to 466,000 sq. ft. Despite the quarterly decline in leasing, Downtown notched 566,000 sq. ft. of positive absorption in Q4, the highest quarterly absorption since Q3 2019, due to the removal of 827,000 sq. ft. of office space being converted to residential use at 25 Water Street. This brought annual absorption to 489,000 sq. ft. Subsequently, the availability rate decreased 60 basis points (bps) both quarter-over-quarter and year-over-year to 21.9%. The sublease availability rate decreased to 6.4%, down 30 bps quarter-over-quarter, with sublet space accounting for 29.3% of total available space at the end of 2022. The average asking rent was $58.31 per sq. ft, up 1% from the prior quarter though down 2% year-over-year.

Economic Overview

On a national level, inflation remains the primary economic focus and the expectation is the economy will 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

Downtown leasing slowed 8% from the prior quarter to 784,000 sq. ft. in Q4 2022 and trailed the five-year quarterly average by 25%. Despite the below average quarter, annual leasing activity totaled 3.13 million sq. ft. up 12% year-over-year and has improved each year since the onset of the pandemic.

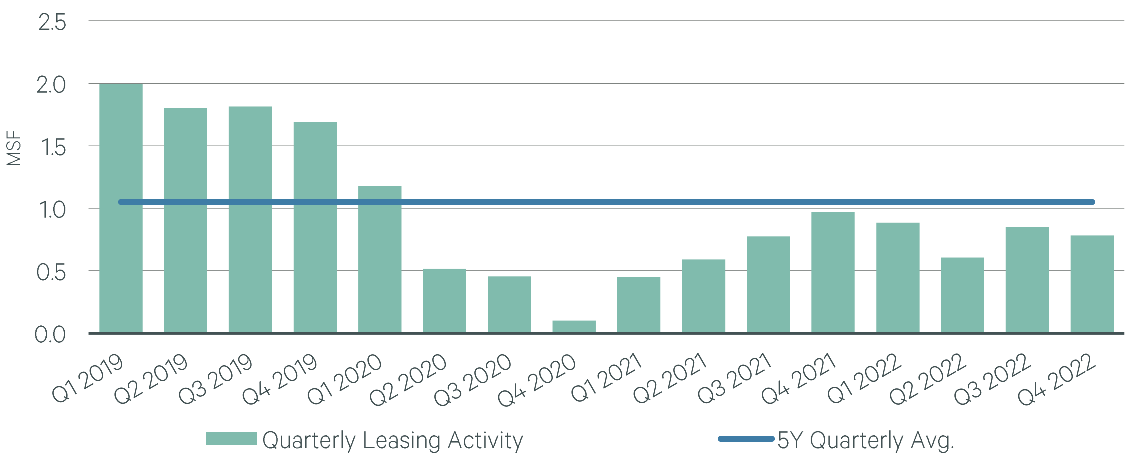
Tenant relocations into Downtown during the fourth quarter totaled 172,000 sq. ft. comprised of a flurry of small to mid-size tenants across the market— only a 4% decrease over Q3 relocation volume. This was a positive outcome for the market but still below the five-year quarterly average of 274,000 sq. ft.

FIGURE 1: Top Lease Transactions for Q4 2022

Size (Sq. Ft.)		Tenant	Address
62,115		IDEAL School of Manhattan	5 Hanover Square
59,550		Vibrant Emotional Health	80 Pine Street
56,043		AXA Financial, Inc.	225 Liberty Street
44,985	R	City College for Worker Education	25 Broadway
42,777	E	Brookfield Properties Corp.	225 Liberty Street

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

FIGURE 2: Leasing Activity | Quarterly Historical



Source: CBRE Research, Q4 2022.

Flight-to-quality was a significant driver of activity during the fourth quarter with three of the top five largest leases all committing to new construction or significantly renovated buildings in the Downtown West submarket.

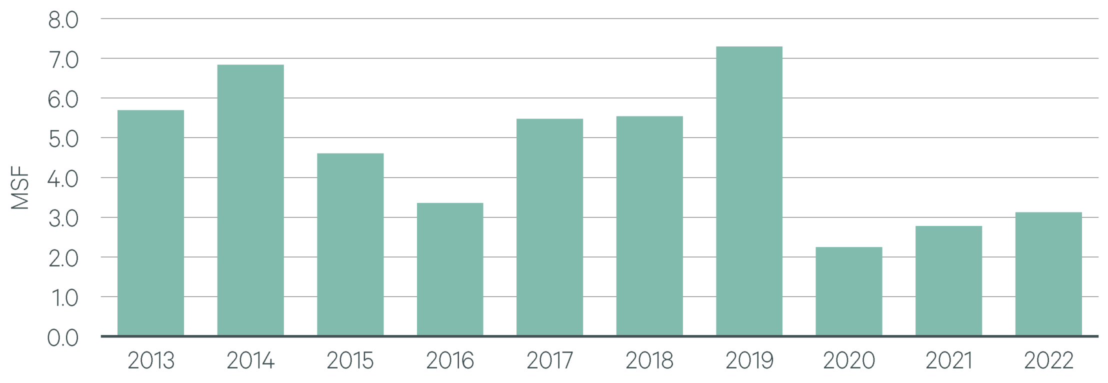
Downtown West notched 253,000 sq. ft. of leasing activity in Q4—a 28% decrease from the previous quarter and 17% behind its five-year quarterly average. Downtown West accounted for two of the five largest leases Downtown in Q4: AXA Financial, Inc.'s 56,000 sq. ft. lease and Brookfield Properties Corp.'s 43,000 sq. ft. expansion, both at 225 Liberty Street. The submarket has benefited from the post-pandemic flight-to-quality trend led by an active quarter at 1 World Trade Center which logged 154,000 sq. ft. of activity led by Scale Facilitation's 36,000 sq. ft. sublease, Templafy's 27,000 sq. ft. lease, Koneska Health's 26,000 sq. ft. sublease and CLO's 17,000 sq. ft. sublease along with four direct deals under 10,000 sq. ft. Downtown West logged 1.02 million square feet of activity in 2022 a 36% increase over the prior year and largest annual increase of all the Downtown submarkets.

The Financial submarket's Q4 leasing activity was 457,000 sq. ft.—up 5% from Q3 though 29% behind its five-year quarterly average. The submarket accounted for Downtown's two largest new leases this quarter: the IDEAL School of Manhattan's 62,000 sq. ft. lease at 5 Hanover Square and Vibrant Emotional Health's 60,000 sq. ft. lease at 80 Pine Street. The Financial submarket inked 1.88 million sq. ft. of activity in 2022, a 20% increase over 2021 and marking two-years of steady growth in activity.

City Hall logged 74,000 sq. ft. of leasing activity during Q4, up 18% from the third quarter. Leasing activity remained 25% below the five-year quarterly average despite increasing each quarter throughout 2022. City Hall's only sizeable new lease was Medrite Urgent Care's 30,000 sq. ft. lease at 40 Fulton Street. City Hall logged 225,000 sq. ft. of leasing in 2022, a 52% decrease year-over-year. Due to a dearth of large deals City Hall was the only Downtown submarket to see leasing activity decrease annually.

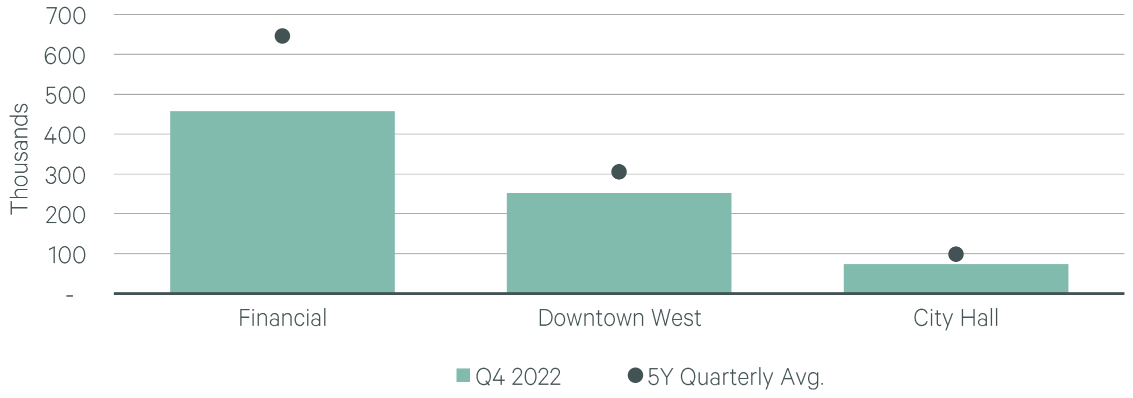
Renewals totaled 90,000 sq. ft. during the fourth quarter, bringing the full year-to-date total to 466,000 sq. ft. The largest was the CUNY, City College for Worker Education's 45,000 sq. ft. renewal at 25 Broadway followed by Lucas & Mercanti, LLP's 15,000 sq. ft. renewal at 30 Broad Street.

FIGURE 3: Leasing Activity | Annual Historical



Source: CBRE Research, Q4 2022.

FIGURE 4: Leasing Activity | By Submarket



Source: CBRE Research, Q4 2022.

Net Absorption and Availability

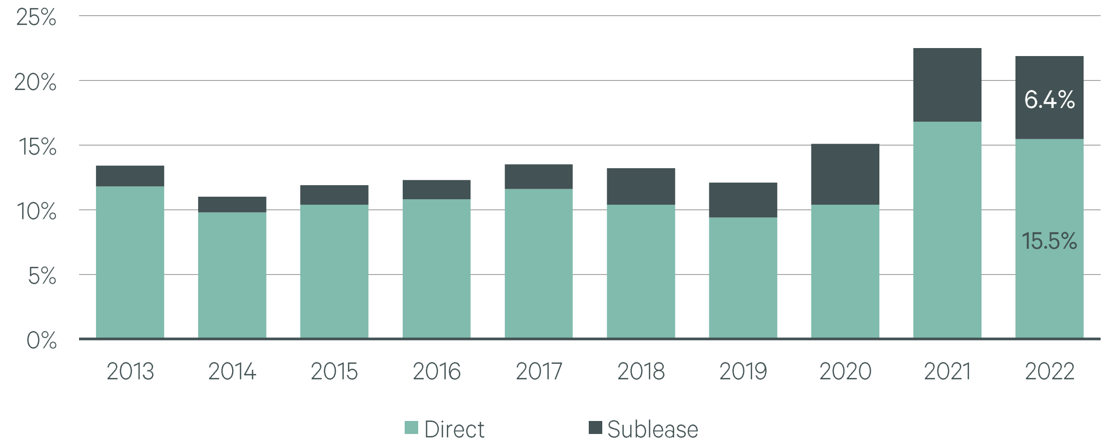
Downtown notched 566,000 sq. ft. of positive absorption in Q4—the highest quarterly absorption since Q3 2019—due to the removal of 827,000 sq. ft. of office space being converted to residential use at 25 Water Street. Following two years of negative quarterly absorption Downtown experienced three quarters of positive absorption in 2022. This brought the annual total to 489,000 sq. ft. of positive absorption resulting in a decline in the availability rate of 60 bps both quarter-over-quarter and year-over-year to 21.9%.

Sublease space decreased for the first quarter since Q3 2019, declining by a net 278,000 sq. ft. in Q4. Sublease space totaled 5.82 million sq. ft. and accounted for 29.3% of all available space in the market, which equated to a 6.4% availability rate—the highest among the Manhattan markets.

The Financial submarket logged 568,000 sq. ft. of positive absorption during Q4, pushing the availability rate down 100 bps from the previous quarter to 27.4%. The Financial submarket's availability rate is the highest among Downtown's three submarkets. The largest driver of the Financial submarket and Downtown's positive absorption was the removal of 827,000 sq. ft. of available direct and sublet space at 25 Water Street for residential conversion. The Financial submarket's largest space addition in Q4 was 120,000 sq. ft. of direct space at 199 Water Street, that was previously listed though possession now falls within 12 months of occupancy. Followed by 63,000 sq. ft. of direct space at 140 Broadway. The submarket also saw a flurry of sublease space additions including: Integro Insurance Brokers Ltd.'s 54,000 sq. ft. space at 1 State Street, 45,000 sq. ft. of Friedman LLP's space and 44,000 sq. ft. of HealthFirst, Inc.'s space, both at 1 Liberty Plaza along with 42,000 sq. ft. of Orchard Technologies, Inc's space at 195 Broadway.

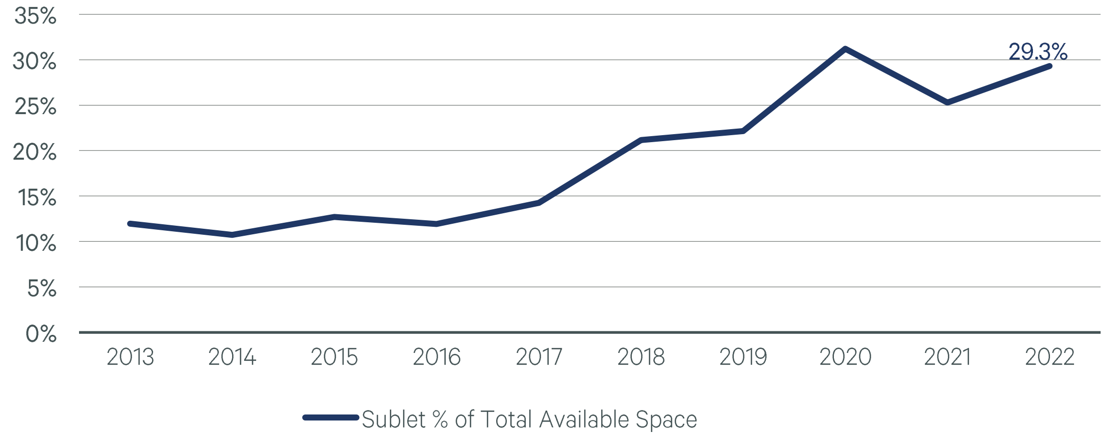
City Hall saw 93,000 sq. ft. of negative absorption in Q4—its second quarter of negative absorption in 2022. This pushed the availability rate up 70 bps quarter-over-quarter to 12.7% though the availability rate is down 20 bps year-over-year from 12.9%. Two direct space additions above 25,000 sq. ft. drove negative absorption in Q4 including 34,000 sq. ft. at 116 Nassau Street and 28,000 sq. ft. at 233 Broadway. Library Journal's 12,000 sq. ft. sublease space at 123 William Street was City Hall's only sublease space addition above 10,000 sq. ft. in the fourth quarter.

FIGURE 5: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q4 2022.

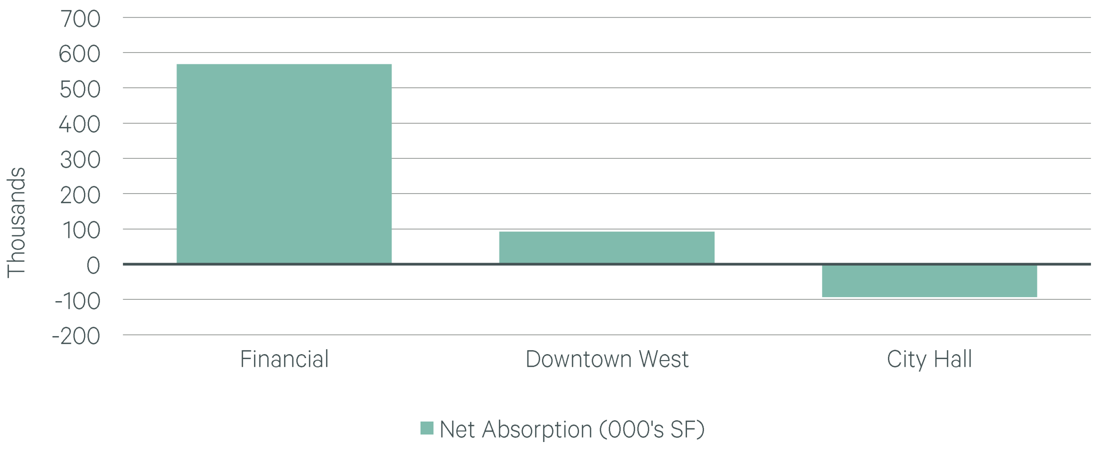
FIGURE 6: Sublease Space as a % of Available Space | Historical



Source: CBRE Research, Q4 2022.

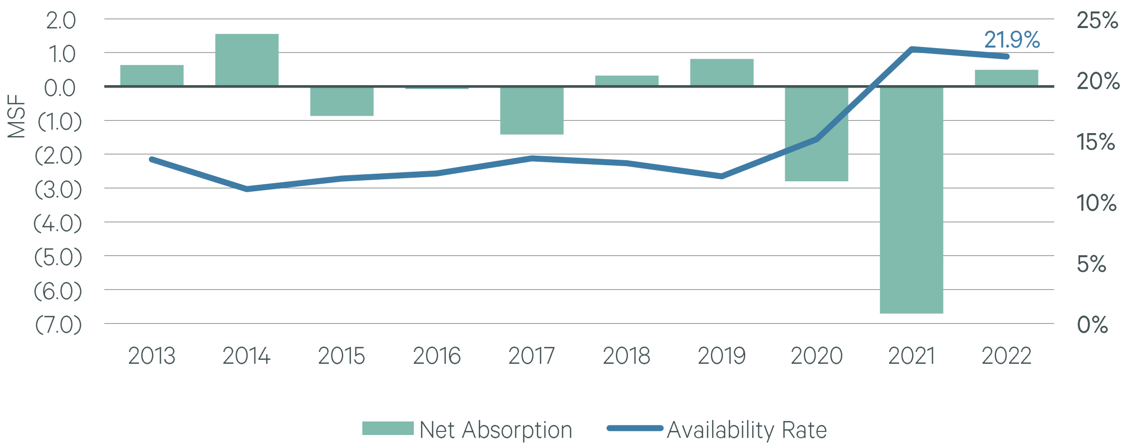
Downtown West recorded 92,000 sq. ft. of positive absorption in Q4 driving the availability rate down 40 bps quarter-over-quarter to 12.6%. The submarket's availability rate declined 200 bps from one year ago. Downtown West had 1.41 million sq. ft. of sublease space on the market in Q4, a 3% increase quarter-over-quarter and 5% increase year-over-year. Dotdash Meredith's plan to reoccupy 110,000 sq. ft. of sublease space at 225 Liberty Street was Downtown West's largest space removal in Q4. This removal was offset by two sublease space additions of over 50,000 sq. ft. College Board's 114,000 sq. ft. sublease space addition at 250 Vesey Street and Wonder's 69,000 sq. ft. sublease addition at 4 World Trade Center. The aforementioned flight-to-quality trend and tenants looking to take advantage of high-quality sublet space at the World Trade Center complex continue to be a bright spot Downtown.

FIGURE 8: Quarterly Net Absorption | By Submarket



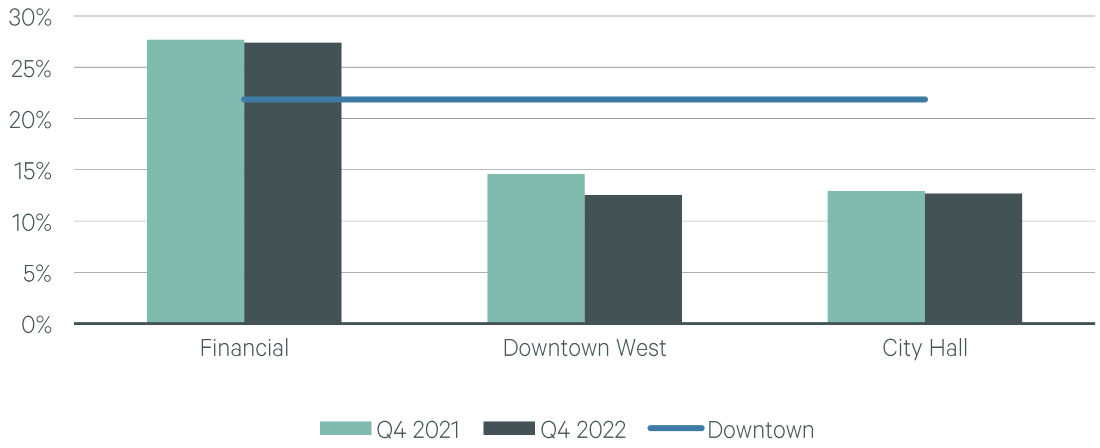
Source: CBRE Research, Q4 2022.

FIGURE 7: Net Absorption | Historical



Source: CBRE Research, Q4 2022.

FIGURE 9: Availability Rate | By Submarket



Source: CBRE Research, Q4 2022.

Average Asking Rent

Downtown's Q4 average asking rent was $58.31 per sq. ft.—a 1% increase from Q3 2022 but down 2% from one year ago. The removal of two large blocks over 100,000 sq. ft. priced below the market average contributed to the modest asking rent increase.

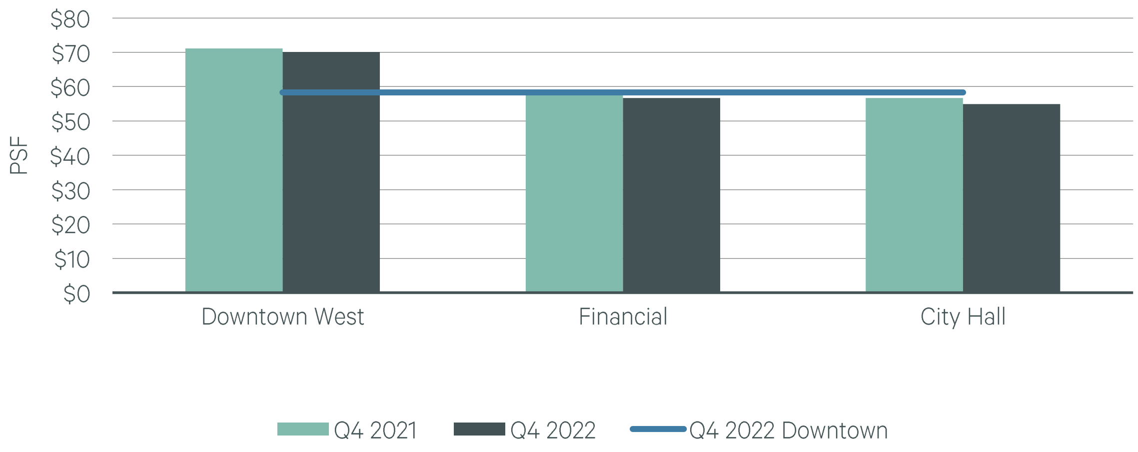
Downtown West's average asking rent saw the largest percentage increase in Q4, up 3% quarter-over-quarter though down 2% year-over-year to $70.08 per sq. ft. The removal of sublease space was the primary driver for the increase in asking rents.

The Financial submarket's asking rent remained flat quarter-over-quarter at $56.73 though it was down 2% year-over-year.

City Hall's average asking rent decreased 1% to $54.88 since Q3 and was down 3% annually with the addition of a pair of mid-sized blocks (25,000-99,000 sq. ft.) below the market average.

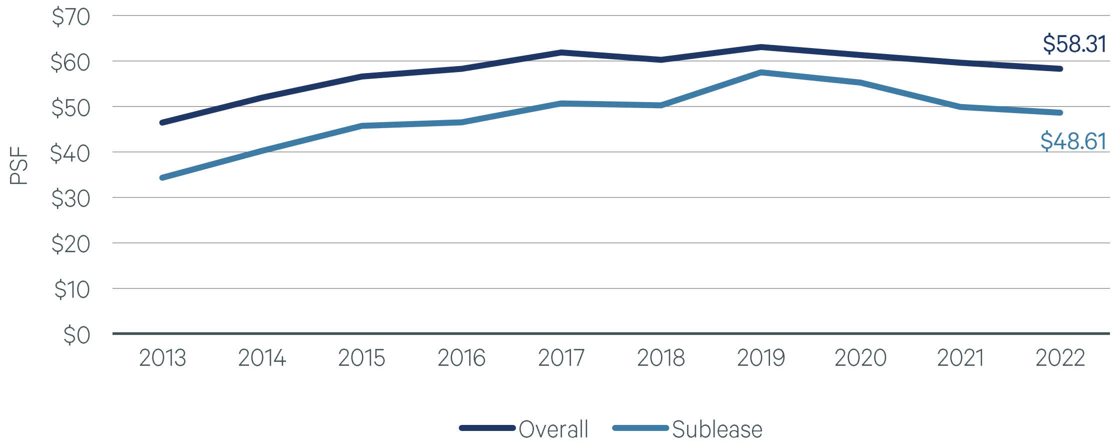
Downtown's direct space held a 28% premium to its sublease space, compared to 38% in Midtown South and 43% in Midtown. At $48.61 per sq. ft., the sublet asking rent in Downtown increased 3% from Q3 2022 and still down 3% from one year ago.

FIGURE 10: Average Asking Rent | By Submarket



Source: CBRE Research, Q4 2022.

FIGURE 11: Average Asking Rent | Historical



Source: CBRE Research, Q4 2022.

Taking Rent Index

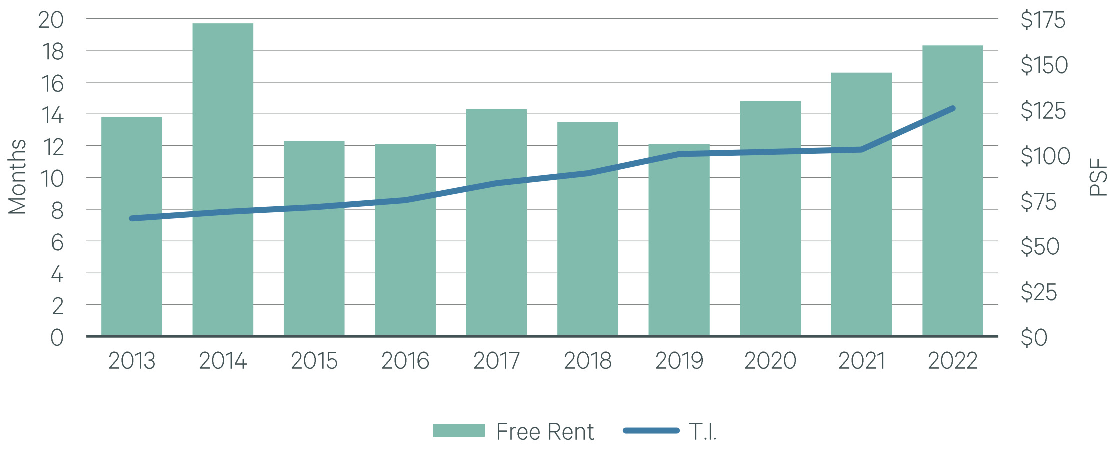
The taking rent index decreased 260 bps quarter-over-quarter to reach 90.7%— 560 bps below its pre-pandemic level. The subdued leasing and concentrated activity in better quality assets has kept this rate in a healthy range, but should not be expected for lesser quality space. Concession packages for new leases of raw space completed in Q4 2022 remained at an all-time high, averaging $125.55 per sq. ft. in tenant improvement (TI) allowance, up 25% from pre-pandemic levels.

The average free rent period increased 10% from year-end 2021 to 18 months and was up 51% from the average of 12 months' free rent seen in 2019, as landlords continue to increase incentives to entice tenants to sign new, long-term leases.

Development Pipeline

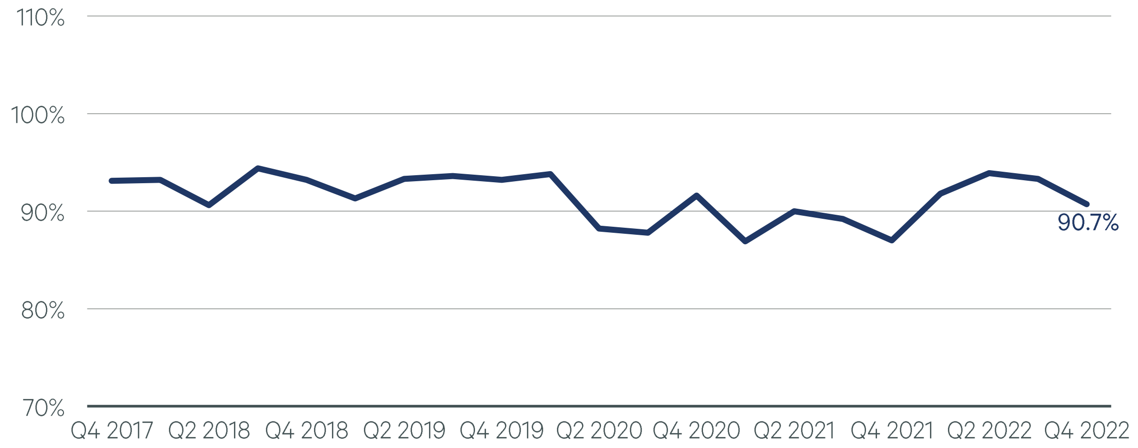
The development pipeline in Downtown remains limited. The only sizable development project on the horizon is Silverstein's planned 2.80 million sq. ft. 2 World Trade Center, which is not yet under construction.

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



Source: CBRE Research, Q4 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, 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.

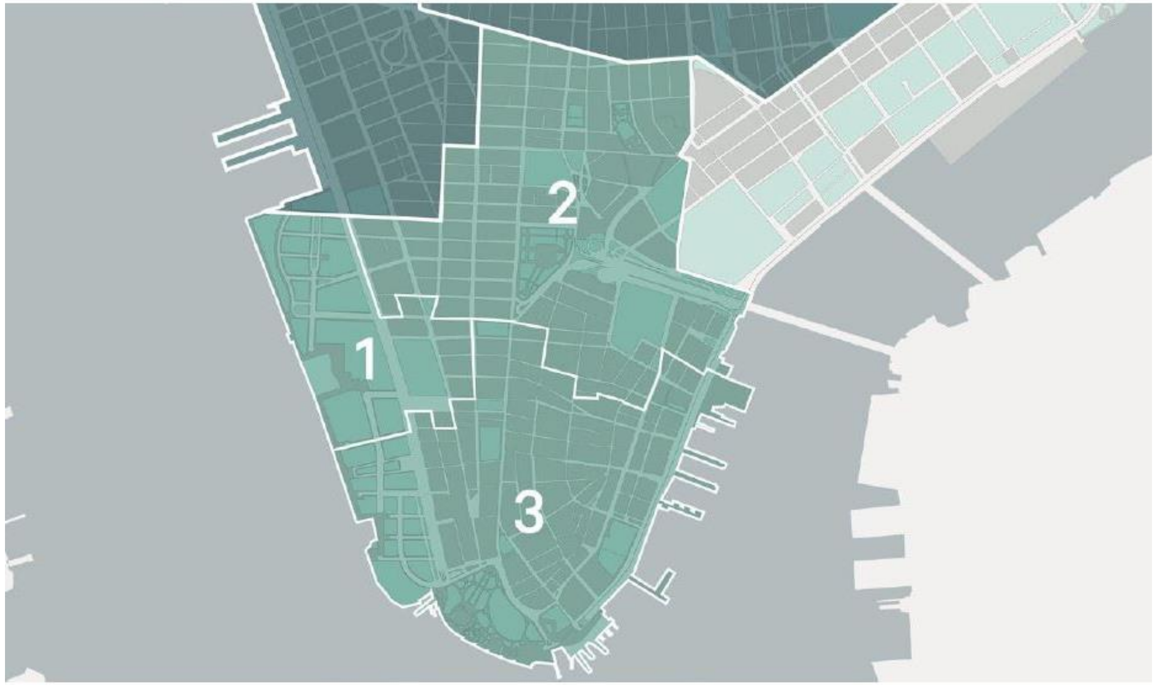
Percentage of Leasing by Industry: The percentage of sq. ft. leased by an industry based on transactions where a tenant and industry have been confirmed.

Survey Criteria

CBRE's market report analyzes fully modernized office buildings that total 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.

CBRE

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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