



Transwestern Real Estate Services: Manhattan office market outlook-Q2 2023

August 15, 2023 - Front Section

Manhattan, NY For the second consecutive quarter, the Manhattan office market posted a record high availability rate, closing the second quarter of 2023 at 19%, up from 18.9% last quarter. However, the quarter was not without some positives, as leasing activity and average rents were up over the last quarter, according to research from Transwestern Real Estate Services (TRS).

The record availability was spurred on by the addition to the market of approximately 30 large blocks of space exceeding 50,000 s/f each. As most of those blocks were for direct space, the sublet availability declined during the quarter. The largest lease of the quarter was a 640,000-square-foot deal for the NYC Department of Citywide Administration Services at 110 William St. in the downtown submarket, while an additional four lease renewals topped 100,000 s/f.

“As it relates to rent growth, we continue to see new construction and high-end, class A assets push rents in each of the major submarkets,” said Rory Murphy, Partner at Transwestern. “The separation between class A and everything else remains a big story in the market. Leasing activity continues to be driven by tenants looking to improve their amenity and space offerings as employees return to the office.”

Additional notable results from the report include:

Leasing activity measured 5.8 million s/f in the second quarter, which is up from last quarter.

Sublet availability, which has been a concern since the start of COVID, edged down a bit to 4.8%, for a total of more than 22 million s/f of available sublet space.

Absorption was negative 819,000 s/f and negative two million s/f year-to-date.

While still in the negative, the absorption rate was a marked improvement over the preceding two quarters, of 1.2 million s/f and 2.4 million s/f, respectively.

Average asking rents bumped up 3% since last quarter to \$73.77 per s/f, the highest figure since late 2020, with increases in both class A and class B space.

The asking rents have recorded five straight quarters of year-over-year growth, improving 2.4% from the second quarter of 2022.

Manhattan office sales volume increased to \$1.6 billion, far exceeding last quarter's disappointing \$441.7 million figure. However, the current four-quarter rolling volume of \$6.1 billion is dwarfed by the average four-quarter rolling sales volume in the five years prior to the pandemic of approximately \$20 billion.

"There is definitely a continued level of uncertainty brewing in the market, and it's particularly evident in the record high availability figures and the fairly empty construction pipeline, with the lowest amount of office construction in at least a decade," said Corrie Slewett, research manager at Transwestern. "The average asking rents provide a dose of good news, though. While they have been up and down over the past few quarters, we're on a five-quarter streak of year-over-year quarterly growth."

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