MARKET REPORT

Office

New York Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

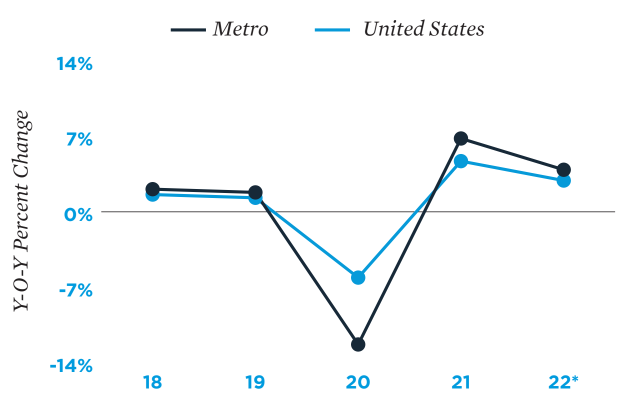
4Q/22

Stock Expansion Reaches Post-2020 High; Tenants Flock to Upper-Tier Properties

Acute supply injection tests demand for amenity-rich space. Prodigious stock growth is underway this year as developers finalize multiple high-profile trophy assets, which broke ground before the onset of the health crisis. However, a majority of this space has been leased prior to completion. Larger firms are eagerly pursuing square footage in Class A properties to entice workers back to Manhattan and Brooklyn offices. More than 3.1 million square feet was absorbed on a net basis in this segment during the second quarter alone, the highest figure in nearly half a decade. Net absorption in other office classes was slightly negative during the same time frame, as tenants shied away from lower-tier properties.

Hybrid workforces dominate New York's office landscape. The return to office appears to be accelerating after Labor Day. According to data collected by the Partnership for NYC, office usage in Manhattan reached 49 percent of the 2019 level by mid-September. However, less than one-tenth of workers are physically present five days a week, as nearly 80 percent of the borough's traditional office-using firms plan to utilize a hybrid model as their predominant post-pandemic policy. This shift may negatively impact demand for space in the long run. Roughly 22 percent of surveyed employers plan to downsize square footage within the next half decade, ahead of the 20 percent expecting to increase their office space needs. Nevertheless, some institutions like Goldman Sachs have mandated a full return to the office, facilitating a solid backstop for demand in the future.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

170,000 JOBS
will be created

EMPLOYMENT:

New York's employment base expands by a robust 3.9 percent in 2022 as recovery continues. The city's traditional office-using employers entered September with job counts surpassing the December 2019 equivalent.

9,600,000 SQ. FT.
will be completed

CONSTRUCTION:

Two notable office towers in the Hudson Yards neighborhood contribute to 60 percent of the square footage coming online this year, as the second-highest amount of space is finalized in an annual span since 2007.

40 BASIS POINT
increase in vacancy

VACANCY:

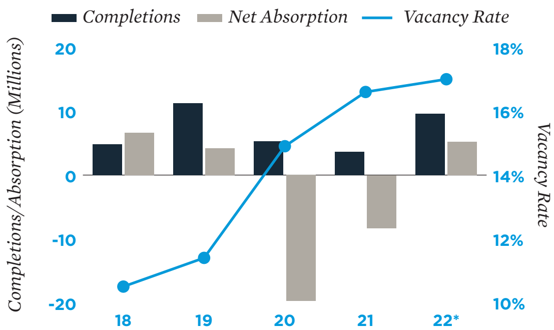
Though leasing activity has increased as the year progresses, the rapid rate of inventory expansion will put acute upward pressure on availability. This will bring the rate to 17.0 percent by the end of the year.

1.3% INCREASE
in asking rent

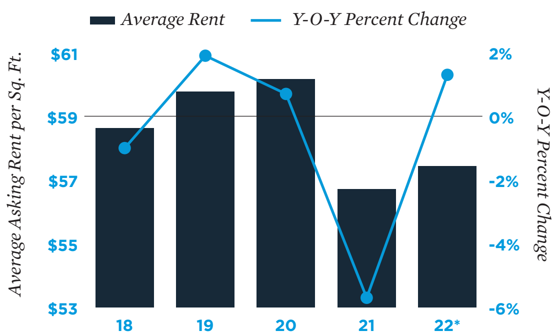
RENT:

Asking rents post the fastest year-end rate of advance since the onset of the health crisis. At $57.44 per square foot, the mean marketed rent will end 2022 roughly 3.9 percent short of the December 2019 equivalent.

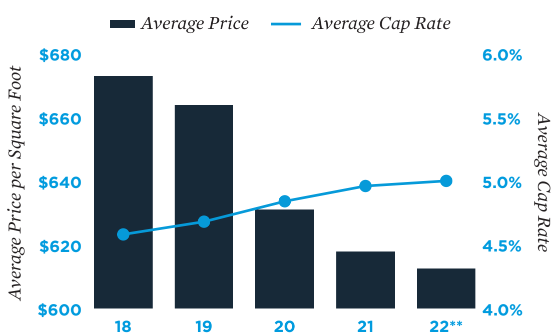
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

Brooklyn Office:

John Horowitz *First Vice President, Division Manager*

One MetroTech Center, Suite 2001

Brooklyn, NY 11201

Tel: (718) 475-4300 | john.horowitz@marcusmillichap.com

Prepared and edited by:

Luke Murphy

Research Analyst | Research Services

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

2Q 2022 - 12-Month Period

CONSTRUCTION

6,708,000 sq. ft. completed

- New York's construction pipeline approached 16 million square feet as of August, comprising the largest in the nation.
- Midtown and Midtown South accounted for nearly 4.8 million square feet completed during the 12-month period ended in June. Much of the remaining space was dispersed throughout Brooklyn and Queens.

VACANCY

40 basis point decrease in vacancy Y-O-Y

- Availability declined on an annual basis during the second quarter for the first time since 2019, ending this period at 16.7 percent.
- Following tenant trends favoring amenity-rich stock, Class A properties led vacancy compression with a 60-basis-point decline to 18.6 percent. Still, this is well over the year-end 2019 rate of 13.0 percent.

RENT

2.0% increase in the average asking rent Y-O-Y

- The mean marketed rent entered July at $56.77 per square foot, the highest level observed since 2020, and 5 percent below the 2019 rate.
- Competition for higher-quality leases facilitated a 3.3 percent advance in the Class A segment during the 12-month span ended in June, bringing the mean marketed rent to $65.68 per square foot.

Investment Highlights

- As health restrictions lessened across the five boroughs, investors came back in force during the trailing year ended in June, with transaction velocity eclipsing the prior span by more than 50 percent. In the first two quarters of this year, deal flow slowed somewhat in response to COVID-19 variants and mounting capital headwinds, though the number of trades was still comparable to years leading up to the health crisis.
- Though transaction activity returned to the pre-pandemic pace, uncertainty over future office demand translated to continued pricing declines. The mean price per square foot of assets traded during the 12-month period ended in the second quarter declined roughly 2 percent from the previous period to $610. Additionally, the average cap rate rose 10 basis points, reaching the 5.0 threshold for the first time since 2014.
- Lengthy commutes are often cited by firms facing difficulty calling employees back to the office. In response to these concerns, prospective buyers could shift capital to assets near residential zones or major commuter transit hubs. Though Penn Plaza and Grand Central are among the higher-priced submarkets for investors, lower-tier assets can trade below $15 million in these locales.

Price: $250