MARKET REPORT

Office

New York City Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

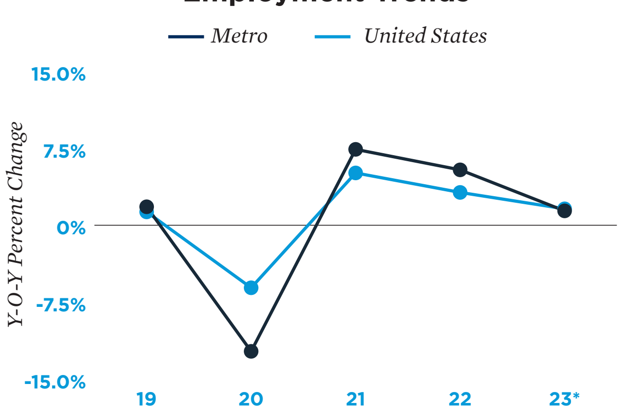
4Q/23

Foot Traffic Recovery and Strong Leasing in Prime Business Districts Bode Well for City's Office Sector

Midtown offices see jump in utilization, leasing. Manhattan's prime office corridors are entering the latter half of the year poised for further improvement. Placer.ai's New York City office index noted foot traffic in Midtown and Lower Manhattan was just 14.5 percent behind the January 2020 baseline. This places local office attendance at the highest level since the onset of the health crisis, and decidedly outperforms the national average, which recorded visitation at 32.3 percent below the pre-pandemic norm. Leasing data indicates that firms are targeting floor plans in neighborhoods with major commuter nodes to incentivize office attendance. While a 17.6 percent vacancy figure in Midtown in the second quarter remains 490 basis points ahead of the year-end 2019 equivalent, more than 7.1 million square feet was absorbed on a net basis during the 12-month period ended in June, the highest total since at least 2007.

Rapid development contributes to top-tier availability. Although recent absorption figures have been positive, the market has had to contend with substantial inventory expansion that has been underway since 2019. Almost 14 million square feet of Class A office space was absorbed in the two-year period ended this June, which nevertheless fell short of supply additions by a slight degree. As of September, more than 6 million square feet of top-tier office space is slated for delivery by the middle of 2025, indicating supply pressure on amenity-rich assets will continue until then, at least.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook

65,000 JOBS
will be created

EMPLOYMENT:

Strong overall hiring this year is being counterbalanced by downsizing in traditional office-using fields. The professional and business services sector shrank by a net of 26,000 jobs prior to the end of August.

6,000,000 SQ. FT.
will be completed

CONSTRUCTION:

Development declines on an annual basis, following the completion of nearly 9.2 million square feet in 2022. This year's construction schedule still exceeds the post-2006 average of 4.3 million square feet per annum.

50 BASIS POINT
increase in vacancy

VACANCY:

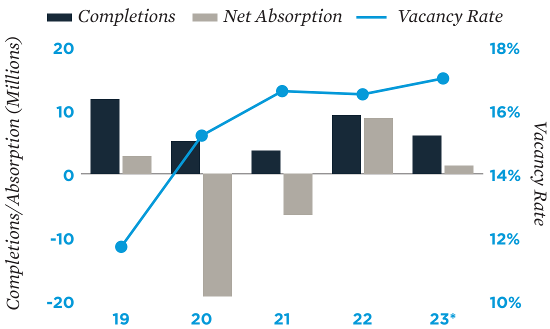
Vacancy will resume an upward trend following a 10-basis-point decrease in 2022, bringing the year-end metric to 17.0 percent. The relinquishment of mid- and lower-tier offices will contribute to the bulk of this increase.

0.9% DECREASE
in asking rent

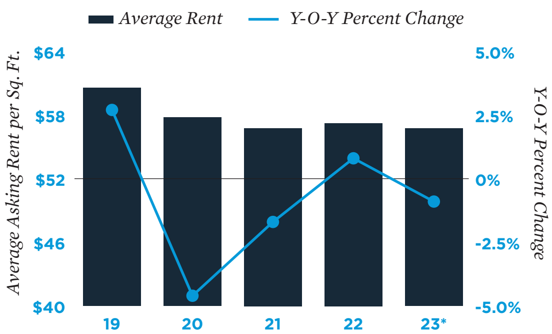
RENT:

After a 0.8 percent advance in 2022, asking rents will decline on an annual basis this year, backtracking on the previous year's gains. The mean marketed rate will close out 2023 at $56.74 per square foot.

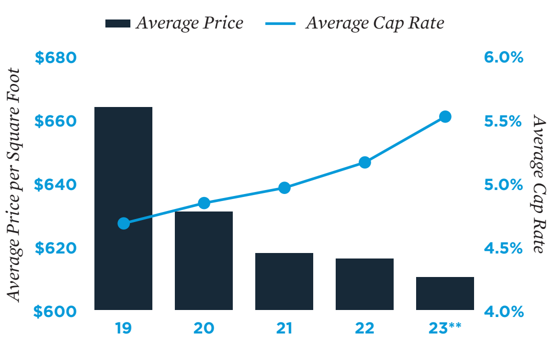
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q 2023 - 12-Month Period

CONSTRUCTION

10,980,000 sq. ft. completed

- Development during the 12-month period ended in June was second only to the 2019 calendar year, when 11.7 million square feet was completed.
- More than 8 million square feet finalized during this span stems from just four projects added to Hudson Yards and adjacent neighborhoods, which are proximate to multiple major commuter hubs.

VACANCY

20 basis point increase in vacancy Y-O-Y

- Vacancy rose to 16.9 percent during the yearlong span ended in June, driven by a 30-basis-point increase to 14.3 percent in the Class B/C segment.
- Class A vacancy held roughly flat at 19.0 percent this period, with an 8.2-million-square-foot net absorption total counterbalanced by multiple large speculative projects coming to market.

RENT

1.7% decrease in the average asking rent Y-O-Y

- An overall decline during the 12-month period ended in June drove the average marketed rate to $56.10 per square foot.
- As desirable Class A floor plans leave the market, the overall rent is declining, with the segment's mean asking rate falling 2.6 percent to $63.95 per square foot in June. Class B/C rents fell just 0.8 percent this span.

Investment Highlights

- Contrasting a challenging period in many major markets, transaction velocity in New York's office sector remained stable during the first six months of 2023, and was comparable to the immediate pre-pandemic equivalent. Notably, deal flow between April and June of this year was the second-busiest such period since the onset of the health crisis for transactions in the $15 million price tranche, suggesting institutional investors anticipate a further recovery in top-tier office utilization.
- Declining entry costs could open the door to buyers previously priced out of the market. Investors seeking out Class B/C options could pursue assets in the outer boroughs. In addition to lower pricing in these areas, the North and South Brooklyn submarkets boast some of the lowest Class B/C metrics of any zones featuring more than 10 million square feet of mid- and lower-tier stock, with local rates of 8.9 and 9.6 percent, respectively.
- Brooklyn and Queens remain the most popular boroughs for medical office investment, owing to the large, stable residential populations in these areas. Buyers are heavily targeting mid-20th century builds, though many assets in this category had undergone renovations in the last five years.

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Price: $250