Manhattan Office Market Topics & Trends – Q4 2020

With uncertainty abound in the Manhattan Class A and B office market, sales volume in 2020 was down considerably compared to recent years and fundamentals are currently being highly monitored. The COVID-19 crisis wreaked havoc on the market since March 2020, and it continues to cause problems in 2021. Total dollar volume in 2020 was down over 73% from 2016, with decreases seen over the past three years. This report analyzes the trends in market fundamentals and investment sales in the Manhattan Class A and B office market, including the Midtown, Midtown South, and Downtown submarkets.

FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the world and New York City to a halt. The spread of the virus was so rapid, that nations, states, and local municipalities were forced to take drastic measures. In addition to the health risk itself, there was ongoing societal angst with most US citizens living under state mandated lockdown orders. Some offices have begun to resume occupancy, but at limited capacities, and the return of full-time occupancy is still uncertain.

For the commercial real estate market, this crisis has had short-term impacts which are now obvious. It will also have long-term impacts that will unfold over time.

Short Term Impact

The pandemics negative effects are evident during Q4 2020 and into 2021. Most companies are operating virtually and will continue to do so for the foreseeable future. Work from home measures have proven to be both cost effective and equally productive for most companies. One alarming figure exhibited in this study is net absorption for the most recent quarter. Q4 2020 exhibited a net absorption of negative 4.5 million square feet, a record setting figure.

Older office parks in the suburbs have been in relatively high demand recently, due to the ability to space out workers, and the proximity to those who live in suburbs. This brings up the question, will this be a trend that carries into the future?

Long Term Impact

Manhattan is at a troublesome spot given population density and reliance on mass transit. The effectiveness of vaccine distribution strategies will play a vital role in the recovery of the Manhattan office market, and only time will tell how it will play out.

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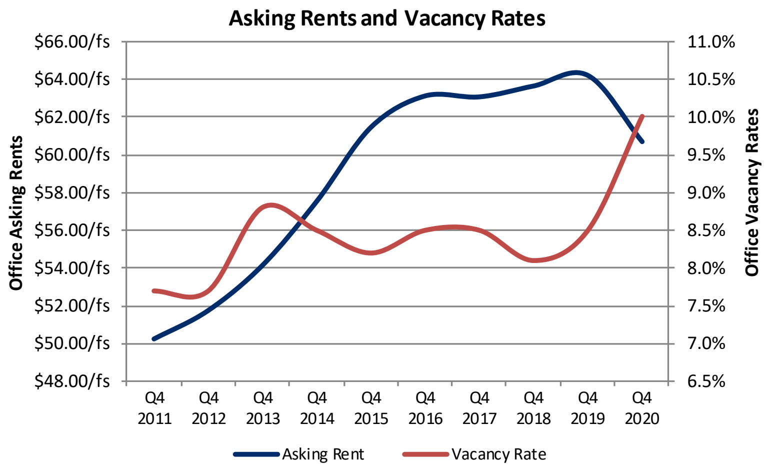
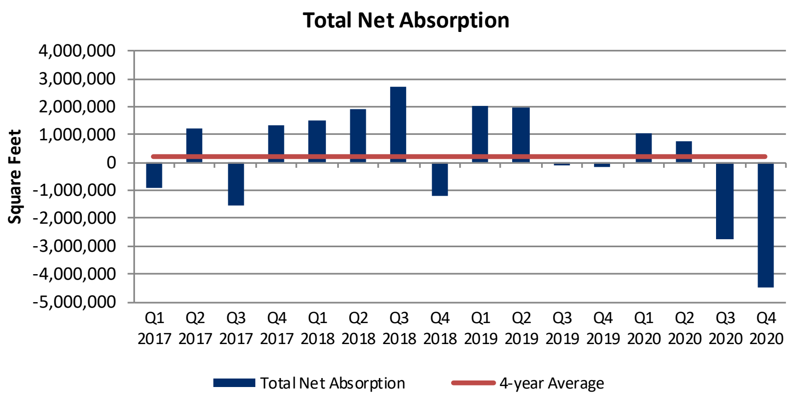
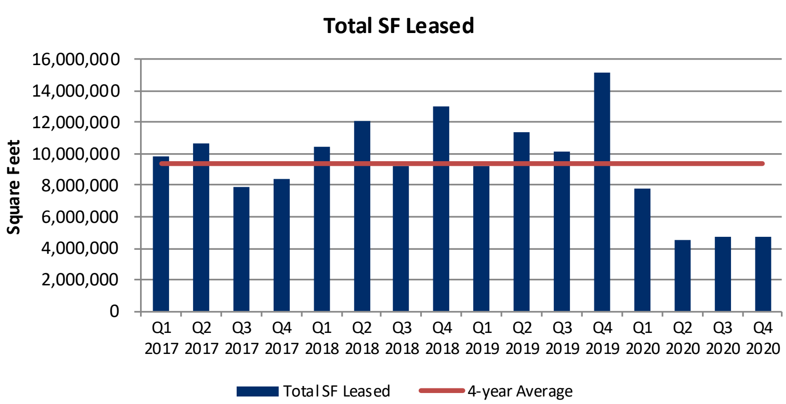
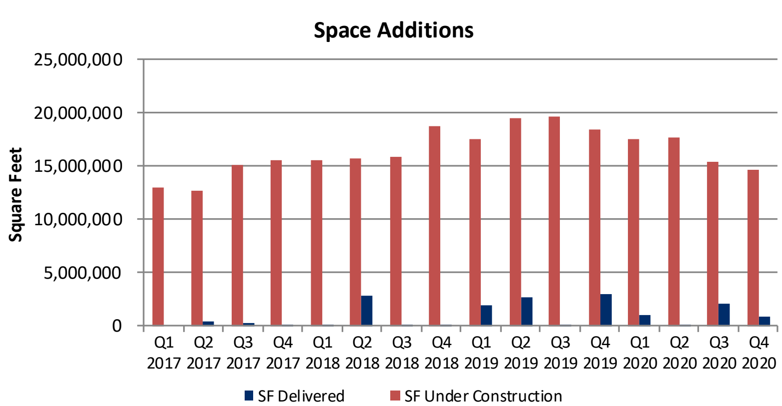








MARKET FUNDAMENTALS: Average Asking Rents & Vacancy

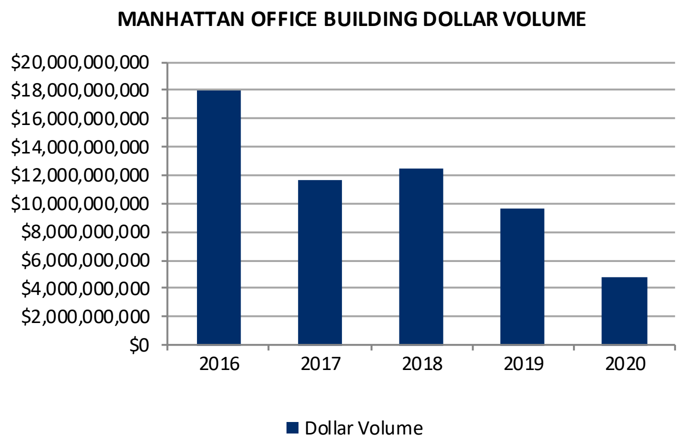
Prior to the pandemic, fundamentals were healthy. Between Q4 2011 and Q4 2020, vacancy rates fluctuated between a low of 7.7% (Q4 2011 and Q4 2012) and a high of 10.0% (Q4 2020). Over the past year, vacancy rates have increased sharply, reversing a downward trend that began in Q4 2017. Asking rents declined sharply in Q4 2020, exhibiting the lowest asking rent figure ($60.67) since Q4 2014 ($57.51). The pandemic has caused an extended dip in demand, vacancies are rising, and rent is declining. We are in a tenant's market.

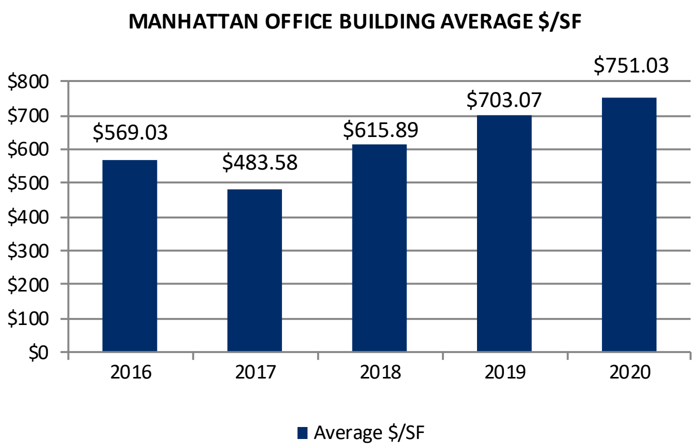
Net Absorption and Leasing Activity

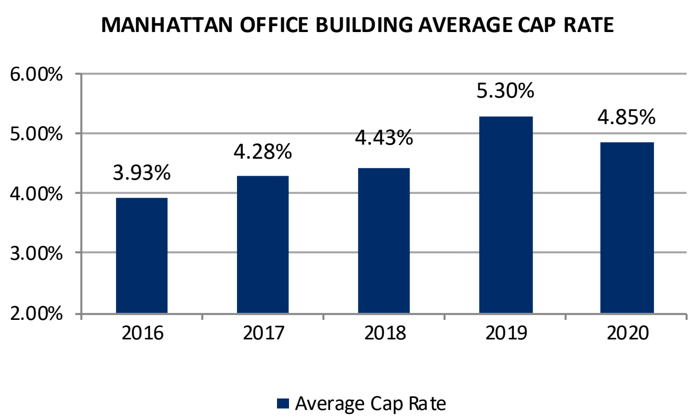
Total net absorption in the Manhattan market has been relatively low since the end of 2019. Q3 and Q4 2020 have both demonstrated alarming figures, at negative 2.7 million and negative 4.5 million square feet, respectively. Total square feet leased is down compared to previous years. Increased leasing activity is not expected to resume anytime soon, as work from home orders have forced much of the workforce to operate from home.

Space Addition Activity

There is still a fairly large amount of space under construction that is waiting to be delivered, indicating an active construction pipeline prior to the pandemic outbreak. With increased transit connectivity, tenants have shifted their focus from just the Midtown core and are now open to different areas of the metro, like Hudson Yards. While construction activity has been allowed to resume post-lockdown, very few projects are underway currently.







SALES (5 YEAR TREND): Volume

Total dollar volume for investment sales of Class A and B office buildings in Manhattan has been decreasing year over year since 2018. Since 2016, when a surge of Chinese investment capital flowed into the metro, there has been a significant decrease in total dollar volume, down to approximately $9.6 billion in 2019, compared to approximately $18 billion in 2016. The 2020 results are 74% lower than 2016 and 51% lower than 2019 figures.

Average Pricing Per SF

There was a significant increase in average pricing in 2020. The average in 2020 was $751 per square foot, which is a 7% increase compared to the pricing seen in 2019, and the highest pricing seen in the analysis period. Market participants will be watching this metric carefully in 2021.

Capitalization Rates

According to PwC Korpacz data, the average cap rate for Class A and B office buildings in Manhattan decreased slightly in the last year. As of a Q1 2020 report, PwC placed this market in expansion through 2020, moving into contraction for 2021 and recession for 2022 and 2023; however, this timeline has shifted due to COVID-19. Price discovery has been an area of difficulty as transaction volume is low, with no transactions occurring from August to November for this asset class. Market participants will be eager to see how cap rates move as more data becomes available.

SOURCE: CoStar, Bisnow, PwC Korpacz, and Marshall & Stevens

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