

# Manhattan Office Market April 2020

## Sales Volume and Buying Trends

Manhattan remains a premier global investment environment despite the current social and economic challenges it faces. Following a relatively strong month of transactions in January 2020, statistics for the following three months suggest investors are being cautious. This report analyzes trends in investment sales in the Manhattan Class A and B office market, including Midtown, Midtown South, and Downtown submarkets from January 2019 through April 2020.

### **FEATURE: COVID-19 and its Impact on the Office Market**

The Manhattan office market peaked in 2015 but remained stable through 2019 and the first month of 2020. The global COVID-19 pandemic surfaced in the United States in Mid-March. Since then, strict social distancing orders have been issued to curb the spread of the virus, including stay-at-home orders and the closing of non-essential business.

Closures have displaced thousands of workers. The New York City unemployment rate reached 14.6% as of April 2020, compared to a rate of only 3.7% one year prior.

### **Short Term Impact**

In recent years, even prior to current conditions, market participants started to rethink the layout and functionality of the Manhattan office market stock. The

“flight to quality” trend, as exemplified by recent developments in Midtown’s Far West Side submarket, suggests that prospective tenants may desire to work in areas that were not previously sought after. As a parallel, the potential for landlords to increase rent could be restricted by the demand for product over location. Other downward pressure, such as fears of a prolonged recession, could shift tenant demand as well.

Governor Cuomo recently unveiled a plan to open New York State in phases, and the data suggests New York City will be one of the last regions to reopen. Certain office uses are expected to be included in phase 2 of the reopening, but that is likely to be announced near the end of June or early July. It will be interesting to see how the existing stock of office space will function and change in response.

### **Long Term Impact**

The impact of COVID-19 on the Manhattan office market will unfold over time. Remote working and the need for additional spacing between workers may impact demand for office space. Most likely, the ideas of co-working space and open floor plans that were growing pre-pandemic, will be debated. Hiring could remain low due to economic hardship. These are just a few of the concerns the market faces going forward.

**The Manhattan Office Market in Context**

To understand current conditions, it is helpful to have a benchmark for comparison purposes. 2015 was considered, by most, the peak of Manhattan Investment Sales activity. In that year, there were a total of 112 transactions, yielding an aggregate volume of \$21.6 billion. On average, there were nine transaction per month, averaging \$1.8 billion. Since 2015, sales activity has been steadily declining both in number of transactions, and in transaction volume. For 2019, there were only 53 transaction, reflecting a decline of 53% from 2015 levels, and total volume was \$12.4 billion, roughly 42% below levels seen in 2015.

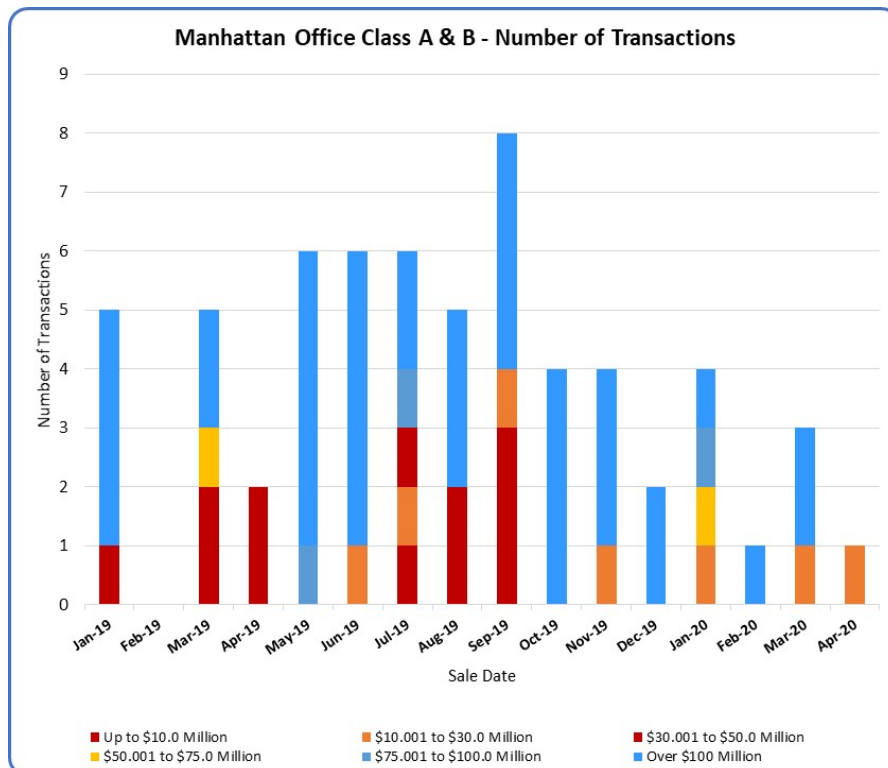
Manhattan Office Class A & B				
Investment Tranche	2015		2019	
	Number	Volume	Number	Volume
Up to \$10.0 Million	22	\$97,450,988	9	\$33,000,000
\$10.001 to \$30.0 Million	11	\$196,911,312	4	\$75,650,000
\$30.001 to \$50.0 Million	13	\$557,589,825	3	\$120,050,000
\$50.001 to \$75.0 Million	11	\$716,039,151	1	\$75,000,000
\$75.001 to \$100.0 Million	9	\$802,500,000	2	\$186,460,207
Over \$100 Million	46	\$19,236,711,500	34	\$11,939,992,329
<b>Total # Transactions</b>	<b>112</b>	<b>\$21,607,202,776</b>	<b>53</b>	<b>\$12,430,152,536</b>
<b>Monthly Average</b>	<b>9</b>	<b>\$1,800,600,231</b>	<b>4</b>	<b>\$1,035,846,045</b>

**Number of Sales Transactions**

We tracked the number of monthly Class A and B office sales recorded in Manhattan (excluding the Uptown submarket), segmented into tranches as seen below. Over the 16-month period, there have been a total of 62 transactions. Nearly 15% of these transactions were below \$10 million, roughly 24% were between \$10 and \$100 million, and approximately 61% were above \$100 million.

Historical Transaction Volume - Manhattan Office Class A & B																		
Number of Transactions	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	Total	% of Total
Up to \$10.0 Million	1	0	1	2	0	0	1	1	3	0	0	0	0	0	0	0	9	14.5%
\$10.001 to \$30.0 Million	0	0	0	0	0	1	1	0	1	0	1	0	1	0	1	1	7	11.3%
\$30.001 to \$50.0 Million	0	0	1	0	0	0	1	1	0	0	0	0	0	0	0	0	3	4.8%
\$50.001 to \$75.0 Million	0	0	1	0	0	0	0	0	0	0	0	0	1	0	0	0	2	3.2%
\$75.001 to \$100.0 Million	0	0	0	0	1	0	1	0	0	0	0	0	1	0	0	0	3	4.8%
Over \$100 Million	4	0	2	0	5	5	2	3	4	4	3	2	1	1	2	0	38	61.3%
<b>Total # Transactions</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>2</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>4</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>62</b>	<b>100.0%</b>
% Change from Prior Month	-	-100.0%	N/A	-60.0%	200.0%	0.0%	0.0%	-16.7%	60.0%	-50.0%	0.0%	-50.0%	100.0%	-75.0%	200.0%	-66.7%	-	-

In terms of number of transactions, the largest number of monthly transactions occurred in September 2019, which represented a 60% increase from the prior month. Compared to the peak of eight sales in September 2019, the results for March and April 2020 were significantly lower, at three sales and one sale, respectively. The figures are portrayed graphically below. In April 2020, the only category that recorded a transaction had a sale price less than \$30.0 million.



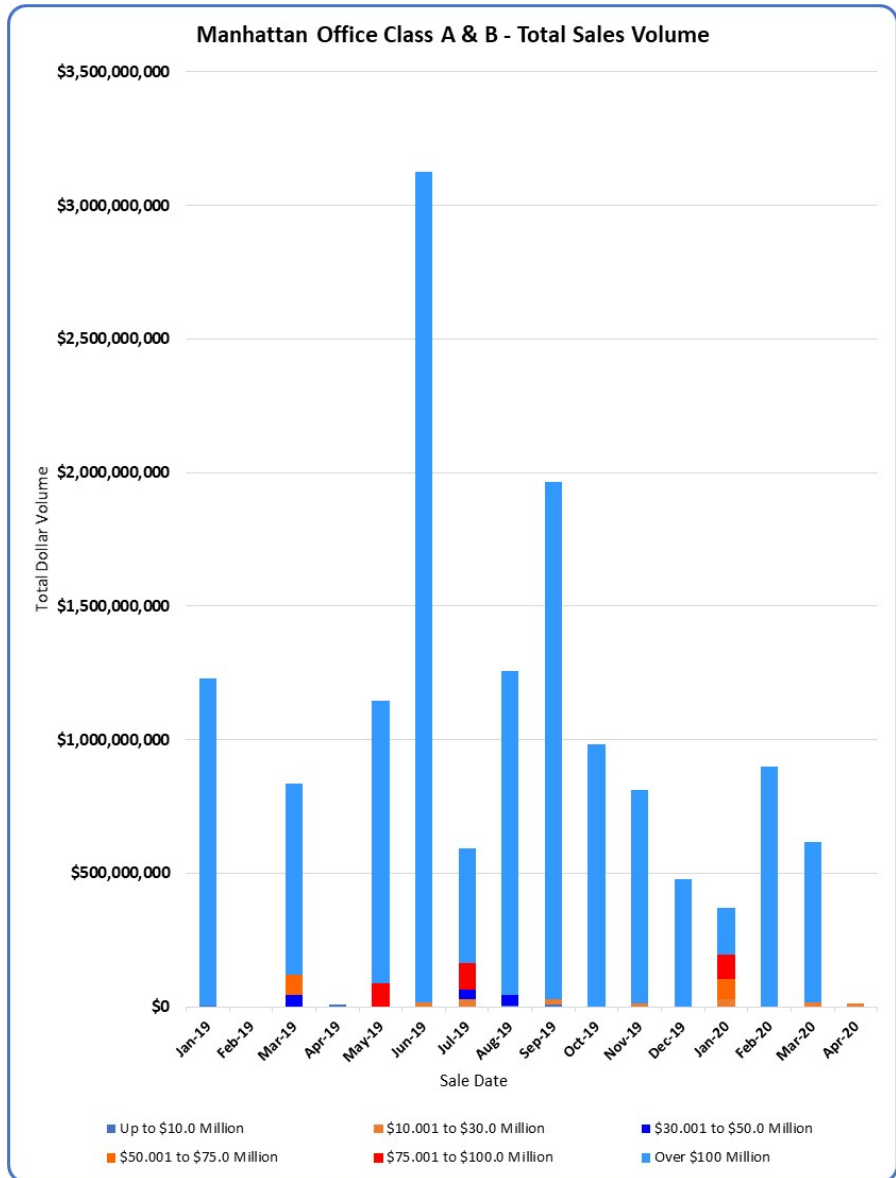
**Dollar Volume of Sales Transactions**

In 2019, the average monthly sales volume was over \$1.0 billion, with the peak occurring in June 2019 at over \$3 billion. Comparatively, the average monthly sales volume in 2020 was roughly \$0.5 billion as of April 2020, reflecting a decrease of over 54%. We tracked the dollar volume of monthly sales by tranche as seen below.

<b>Historical Transaction Volume - Manhattan Office Class A &amp; B (in Millions)</b>																		
Dollar Volume of Transactions	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	Total	% of Total
Up to \$10.0 Million	\$5.8	\$0.0	\$2.1	\$9.9	\$0.0	\$0.0	\$1.6	\$4.2	\$9.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$33.0	1.0%
\$10.001 to \$30.0 Million	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$18.0	\$25.7	\$0.0	\$20.5	\$0.0	\$11.5	\$0.0	\$30.0	\$0.0	\$16.8	\$12.5	\$134.9	1.4%
\$30.001 to \$50.0 Million	\$0.0	\$0.0	\$43.3	\$0.0	\$0.0	\$0.0	\$37.3	\$39.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$120.1	0.9%
\$50.001 to \$75.0 Million	\$0.0	\$0.0	\$75.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$75.0	\$0.0	\$0.0	\$0.0	\$150.0	1.5%
\$75.001 to \$100.0 Million	\$0.0	\$0.0	\$0.0	\$0.0	\$89.0	\$0.0	\$97.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$90.0	\$0.0	\$0.0	\$0.0	\$276.5	2.1%
Over \$100 Million	\$1,224.1	\$0.0	\$715.6	\$0.0	\$1,058.3	\$3,106.6	\$430.7	\$1,211.8	\$0.0	\$982.5	\$798.5	\$476.8	\$175.0	\$900.0	\$600.0	\$0.0	\$11,679.8	93.1%
<b>Total Dollar Volume</b>	<b>\$1,229.8</b>	<b>\$0.0</b>	<b>\$836.0</b>	<b>\$9.9</b>	<b>\$1,147.3</b>	<b>\$3,124.6</b>	<b>\$592.7</b>	<b>\$1,255.5</b>	<b>\$1,965.2</b>	<b>\$982.5</b>	<b>\$810.0</b>	<b>\$476.8</b>	<b>\$370.0</b>	<b>\$900.0</b>	<b>\$616.8</b>	<b>\$12.5</b>	<b>\$13,162.1</b>	<b>100.0%</b>
% Change from Prior Month	-	-100.0%	N/A	-98.8%	11548.1%	172.3%	-81.0%	111.8%	56.5%	-50.0%	-17.6%	-41.1%	-22.4%	143.2%	-31.5%	-98.0%	-	-

Over the analysis period, the category with the highest transaction volume is in the "Over \$100 Million" category, which comprises 93.1% of all dollar volume. The category that recorded the second highest amount of transactions was the "\$75.001 to \$100.0 Million" category, which comprises only 2.1% of all dollar volume. Middle market transaction volume remained relatively low throughout the analysis period.

<b>Total Dollar Volume - Manhattan Office</b>	
<b>Jan-19</b>	\$1,229,804,370
<b>Feb-19</b>	\$0
<b>Mar-19</b>	\$836,000,000
<b>Apr-19</b>	\$9,850,000
<b>May-19</b>	\$1,147,338,580
<b>Jun-19</b>	\$3,124,550,888
<b>Jul-19</b>	\$592,660,207
<b>Aug-19</b>	\$1,255,467,500
<b>Sep-19</b>	\$1,965,230,991
<b>Oct-19</b>	\$810,000,000
<b>Nov-19</b>	\$987,690,080
<b>Dec-19</b>	\$476,750,000
<b>Jan-20</b>	\$370,000,000
<b>Feb-20</b>	\$900,000,000
<b>Mar-20</b>	\$616,750,000
<b>Apr-20</b>	\$12,500,000
<b>Min</b>	\$0
<b>Max</b>	\$3,124,550,888
<b>2019 Ave</b>	\$1,036,278,551
<b>2020 Ave</b>	\$474,812,500

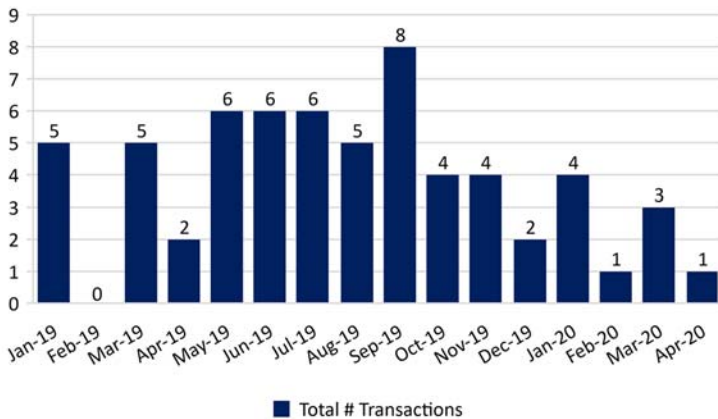


The graph on the right illustrates participants current concerns over committing to assets worth more than \$30 million (typically Class A and trophy assets).

Over the analysis period, the total sales volume in the Manhattan Class A and B office market has been characterized by high priced deals, with a lower amount of dollar volume being attributed to smaller deals.

Only time will tell how market participants approach the higher priced assets in this climate, but we expect things to loosen up as the pandemic abates and the economy shows signs of stabilization.

TOTAL NUMBER OF TRANSACTIONS - MANHATTAN OFFICE CLASS A & B



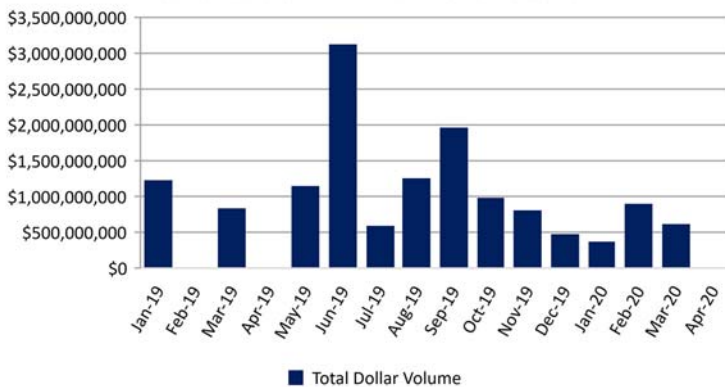
**SALES (2019-2020): Volume**

Pre-COVID-19, sales volume was fluctuating, ranging from zero to eight sales per month from January 2019 through March 2020. In April 2020, there was only 1 transaction, the lowest of the study period since February 2019. Comparing April 2019 to April 2020, the decline in number of transactions was 50%. It is no surprise to see the number of transactions fall, although market watchers will be anxiously awaiting the results for May 2020. How will market participants react to the current climate?

**Dollar Volume of Sales**

While the number of transactions decreased over 66% from March to April 2020, dollar volume decreased more than 98% from \$0.6 billion to a paltry \$0.01 billion. From January 2019 through March 2020, average monthly sales volume was \$954 million. The first four months of 2020 tallied \$1.9 billion in sales volume, which is lower than the \$2.1 billion recorded in the same period in 2019 (down 8.5%). Further, from January 2019 through March 2020, the average deal size was nearly \$258 million. In April 2020, the average deal was \$12.5 million, a drop of over 95%.

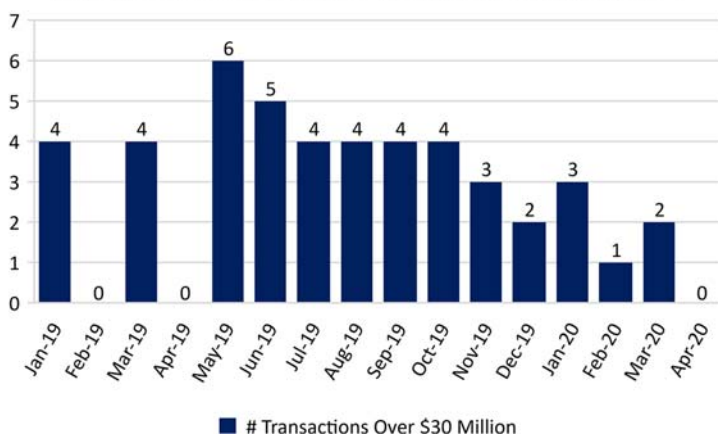
TOTAL SALES VOLUME - MANHATTAN OFFICE CLASS A & B



**Transactions over \$30M**

As previously stated, market participants are hesitant to pursue higher priced deals in this climate. There were no sales exceeding \$30 million in April 2020, which indicates the concern over committing to institutional grade assets by market participants. Prior to that, between January 2019 and March 2020, the average number of sales over \$30 million was 3.1 per month. Market participants will be watching these metrics carefully, and only time will tell how they will operate in these uncertain times.

TRANSACTIONS OVER \$30 MILLION - MANHATTAN OFFICE CLASS A & B



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