

Manhattan Office Market May 2020 Sales Volume and Buying Trends

The Manhattan Office Market is facing a lot of uncertainty as the effects of the crisis continue to unfold. While still performing below historical figures, the market exhibited a modest rebound in May 2020, when compared to April 2020. This report analyzes trends in investment sales in the Manhattan Class A and B office market, including the Midtown, Midtown South, and Downtown submarkets from January 2019 through May 2020.

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

The Manhattan office market peaked in 2015 but during 2019 and the first month of 2020 the market appeared stable. 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.

Recently, we have seen a rise in new cases across the country. This brings more uncertainty in the short-term, and it clouds the long-term effects, which will unfold over time.

Short Term Impact

In recent years, even prior to current conditions, market participants started to rethink the layout and functionality of Manhattan office space. The general trend of reducing the amount of square

feet per capita was on the rise, to the point that bench-working was becoming the norm. Private offices were on a downward trend, particularly for large corporate users. Now, with the advent of COVID-19 and the need for proper distancing, combined with the newly discovered “work from home: concept”, many companies are now carefully considering different options.

If there is a large decline in tenant demand, we could see downward pressure on rents and a lag in leasing activity.

Previously, the leasing demand for new, modernized office space had driven the market’s fundamentals. However, if work from home strategies remain effective, we could see the implementation of more technological-focused work strategies, which could alter demand for traditional office space.

Long Term Impact

With shifts in tenant demand, a changing office landscape in Manhattan, and uncertainty about the timeframe of the pandemic, there are many questions that the Manhattan office market is facing. The month of May showed healthy signs of transaction activity, but with a rise in new cases, we could see more regulations in social-distancing orders, and subsequently, skepticism involving the investment climate.

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 transactions 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 transactions, reflecting a decline of 53% from 2015 levels, and total volume was \$12.4 billion, roughly 42% below levels seen in 2015.

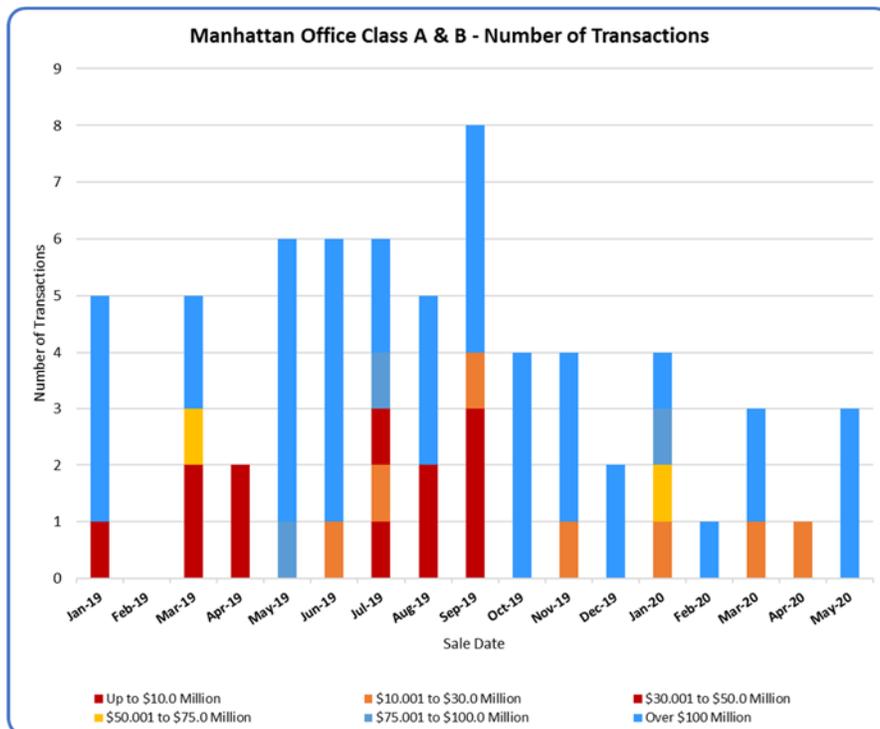
Manhattan Office Class A & B				
Investment Tranche	2015		2019	
	Number	Volume	Number	Volume
Up to \$10.0 Million	22	\$97,450,988	9	\$33,000,000
\$10.001 to \$30.0 Million	11	\$196,911,312	4	\$75,650,000
\$30.001 to \$50.0 Million	13	\$557,589,825	3	\$120,050,000
\$50.001 to \$75.0 Million	11	\$716,039,151	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
Total # Transactions	112	\$21,607,202,776	53	\$12,430,152,536
Monthly Average	9	\$1,800,600,231	4	\$1,035,846,045

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 17-month period, there have been a total of 65 transactions. Nearly 14% of these transactions were below \$10 million, roughly 23% were between \$10 and \$100 million, and approximately 63% 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	May-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	0	9	13.8%
\$10.001 to \$30.0 Million	0	0	0	0	0	1	1	0	1	0	1	0	1	0	1	1	0	7	10.8%
\$30.001 to \$50.0 Million	0	0	1	0	0	0	1	1	0	0	0	0	0	0	0	0	0	3	4.6%
\$50.001 to \$75.0 Million	0	0	1	0	0	0	0	0	0	0	0	0	1	0	0	0	0	2	3.1%
\$75.001 to \$100.0 Million	0	0	0	0	1	0	1	0	0	0	0	0	1	0	0	0	0	3	4.6%
Over \$100 Million	4	0	2	0	5	5	2	3	4	4	3	2	1	1	2	0	3	41	63.1%
Total # Transactions	5	0	5	2	6	6	6	5	8	4	4	2	4	1	3	1	3	65	100.0%
% 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%	200.0%	-	-

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. In April 2020, the only category that recorded a transaction had a sale price less than \$30.0 million; however, May was marked by a significant increase in the number of sales, and sales volume, and more notable were all in the "Over \$100 Million" category. The figures are portrayed graphically below.



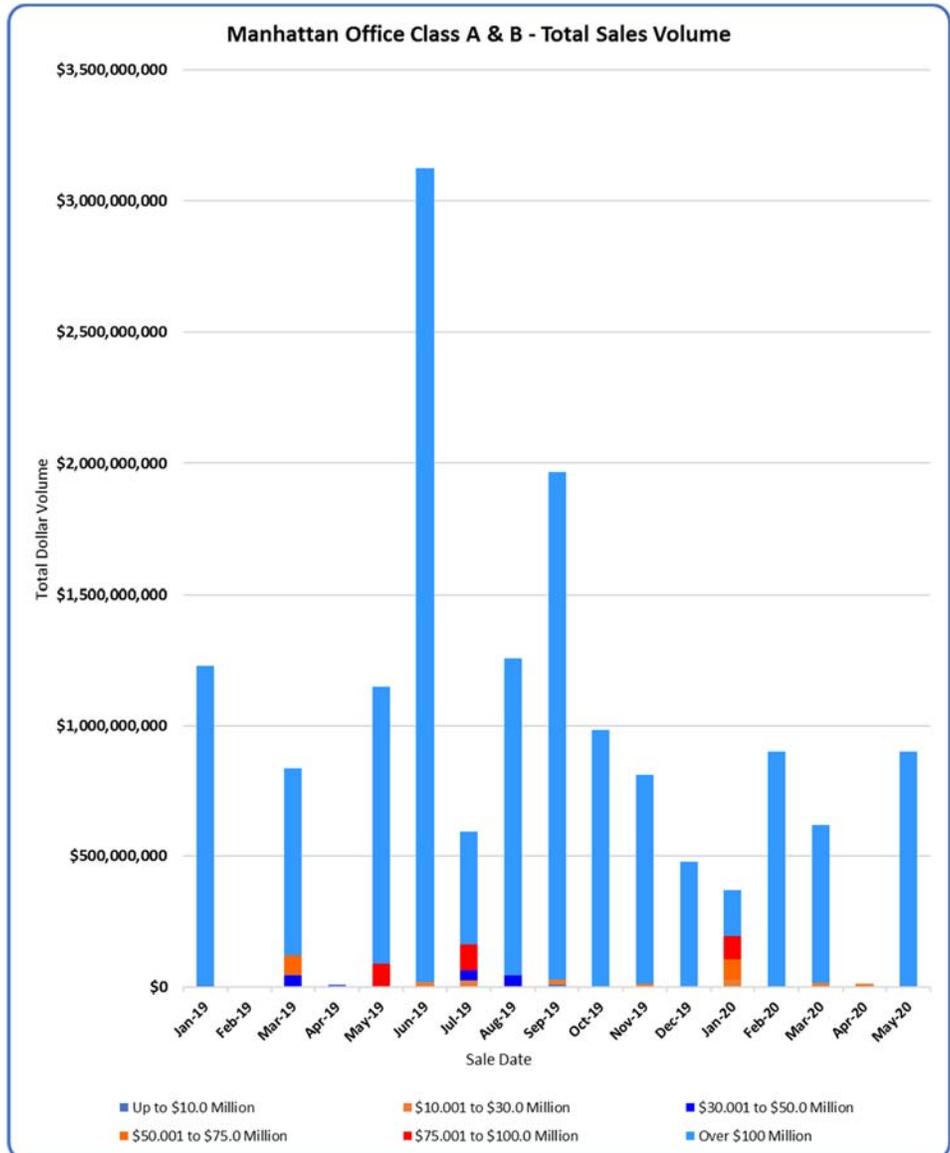
Dollar Volume of Sales Transactions

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 \$0.6 billion as of May 2020, reflecting a decrease of approximately 46%. We tracked the dollar volume of monthly sales by tranche as seen below.

Historical Transaction Volume - Manhattan Office Class A & B (in Millions)																			
Dollar Volume of Transacti	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	May-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	\$0.0	\$33.0	0.2%
\$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	\$0.0	\$134.9	1.0%
\$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	\$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	\$0.0	\$150.0	1.1%
\$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	\$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	\$900.2	\$12,580.0	94.6%
Total Dollar Volume	\$1,229.8	\$0.0	\$836.0	\$9.9	\$1,147.3	\$3,124.6	\$592.7	\$1,255.5	\$1,965.2	\$982.5	\$810.0	\$476.8	\$370.0	\$900.0	\$616.8	\$12.5	\$900.2	\$13,294.4	100.0%
% 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%	7101.6%	-	-

Over the analysis period, the category with the highest transaction volume is in the "Over \$100 Million" category, which comprises nearly 95% 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.

Total Dollar Volume - Manhattan Office	
Jan-19	\$1,229,804,370
Feb-19	\$0
Mar-19	\$836,000,000
Apr-19	\$9,850,000
May-19	\$1,147,338,580
Jun-19	\$3,124,550,888
Jul-19	\$592,660,207
Aug-19	\$1,255,467,500
Sep-19	\$1,965,230,991
Oct-19	\$810,000,000
Nov-19	\$987,690,080
Dec-19	\$476,750,000
Jan-20	\$370,000,000
Feb-20	\$900,000,000
Mar-20	\$616,750,000
Apr-20	\$12,500,000
May-20	\$900,200,000
Min	\$0
Max	\$3,124,550,888
2019 Ave	\$1,036,278,551
2020 Ave	\$559,890,000

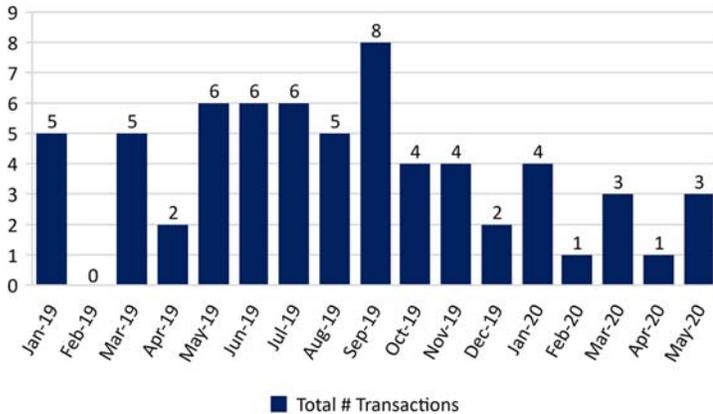


Over the analysis period, the total sales volume in the Manhattan Class A and B office market has been characterized by high priced deals, with a lower amount of dollar volume being attributed to smaller deals.

The graph on the right demonstrates the large increase in sales volume for institutional grade assets over the past month.

As the dust settles, market participants will be eager to see how the market is responding, and transaction and dollar volume will be tracked closely.

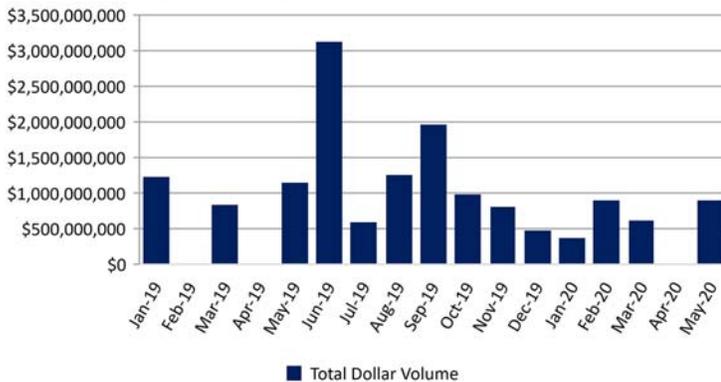
TOTAL NUMBER OF TRANSACTIONS - MANHATTAN OFFICE CLASS A & B



SALES (2019-2020): Volume

Pre-COVID-19, sales volume fluctuated, ranging from zero to eight sales per month from January 2019 through March 2020. In the first two months following the COVID-19 outbreak, there were four transactions, with three of them occurring in May. Comparing May 2019 to May 2020, the decline in the 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 June 2020. Will the number of transactions continue to rise, or will investors be skeptical of the current climate?

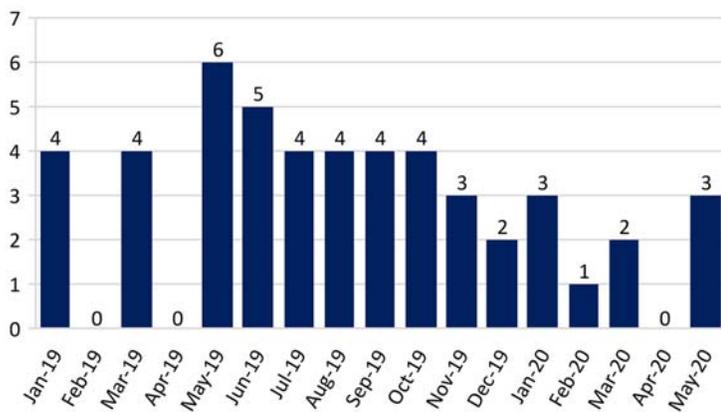
TOTAL SALES VOLUME - MANHATTAN OFFICE CLASS A & B



Dollar Volume of Sales

The number of transactions increased significantly from April to May 2020, and dollar volume followed, with an increase from April of \$12.5 million to \$900 million in May. While this number is still below the 2019 average of \$1.0 billion, it is a sign that there is still optimism among market participants. The first five months of 2020 tallied \$2.8 billion in sales volume, which is lower than the \$3.2 billion recorded in the same period in 2019 (down 13%). From January 2019 through March 2020, the average deal size was nearly \$258 million. In May 2020, the average deal was \$300 million, an increase of over 16%.

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



Transactions over \$30M

Market participants were hesitant to pursue higher priced deals in April 2020, as there were no sales exceeding \$30 million. This turned around in May, with three sales occurring in the "Over \$100 Million" category. Between January 2019 and March 2020, the average number of sales over \$30 million was 3.1 per month, and this is directly in line with the number of sales seen in May 2020. Market participants will continue to track these metrics as the effects of the crisis continue to unfold.



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