The Office Sector in New York City

New York City is a major center for global business. More than 250,000 businesses are located in the City, and 43 of the companies included in the S&P 500 Index have headquarters located here, the highest number of any city. Companies with a global presence have a significant impact on the City’s economic activity. The industries that make up the City’s office sector employ large numbers of people and, particularly before the COVID-19 pandemic began, use large portions of office space. As a result, the City has the world’s largest office property market by area.

The City is home to two of the largest central business districts in the world, and between 2011 and 2021, strong demand more than doubled the total market value of office properties to reach a total of $172 billion. Due to higher assessment rates, these properties supply more than a quarter of the City’s property tax revenue. Since the pandemic began, however, use of this office space has changed dramatically. Stay-at-home orders forced many office workers to shift to remote work, as businesses reliant on in-person interactions with customers were forced to reduce capacity or remain closed for extended periods. As a result, the total market value of office buildings fell 16.6 percent citywide in fiscal year (FY) 2022, the first decline in more than 20 years.

The new and prolonged remote work arrangements have raised questions about the future of office space. Employers are assessing how they use shared office space while considering shifts in worker preferences and the feasibility of long-term remote work. Some businesses have already instituted permanent hybrid remote-work arrangements, and others are contemplating similar plans. As these developments unfold, the future of office real estate is largely uncertain.

Highlights

- New York City’s office sector employed a total of 1.6 million people in 2019, the highest level on record. Office sector employment makes up about a third of all City jobs, compared to a quarter in the rest of the State and in the nation.

- In FY 2021, office market property values reached $172 billion and billable values (the market value on which property tax is levied) reached $71 billion. Both figures had more than doubled over the past 10 years.

- Office employment in the City fell 5.7 percent in 2020, while total employment dropped 11.1 percent, with many shifting to remote work.

- The office sector is responsible for an outsized portion of the City’s economic activity. In 2019, the sector contributed $705 billion (66.2 percent) of the City’s gross product.

- Office market demand has begun to reflect the impact of the pandemic. Asking rents are down 4.2 percent in the second quarter of 2021, while vacancy rates are at 18.3 percent, a level not seen in over 30 years in New York City.

- The full market value of office buildings fell $28.6 billion citywide on the FY 2022 final assessment roll, the first decline in total office property market values since at least FY 2000.

- Office real estate decline made up 54.9 percent of the reduction in overall billable values (5.2 percent), and more than half of the $1.7 billion decline in property taxes in FY 2022.

- Manhattan alone had 463.8 million square feet of office inventory as of the second quarter of calendar year 2021, accounting for nearly 11 percent of all office space in the nation.

- In FY 2021, the office sector provided an estimated $6.9 billion in direct revenue in property taxes, real estate transaction taxes, mortgage taxes and commercial rent taxes.
Office Sector Employment

While many industries provide at least some jobs that take place in an office setting, the primary occupiers of office space are in the industries of professional and business services (46.7 percent of the office sector), finance and real estate (30.5 percent), information and technology (13.9 percent) and government (8.9 percent). This report collectively refers to these as the office sector.¹ Since the early 2000s, office sector jobs have consistently accounted for more than one-third of the City’s total employment, compared to one quarter in the rest of New York State and in the nation. The majority of office jobs are in Manhattan. Of the three major business districts in Manhattan (Midtown, Midtown South, and Downtown; see Figure 1), the majority of office sector jobs are located in Midtown, which has more than two-thirds of the total.

Ten percent of New York City office jobs were lost in the recession between 2000 and 2003 (an annualized loss of 2.6 percent), and employment had not yet fully recovered before the 2008 financial crisis (see Figure 2). That crisis led to the Great Recession, during which the office sector, particularly the financial services component, suffered steeper employment losses (5 percent in 2009 alone). Because the recession was sparked by the financial crisis, the financial sector bore the brunt of job losses (see Figure 3). Financial services’ share of office sector jobs declined from 35.0 percent in 2000 to 30.1 percent in 2019.

In the aftermath of the Great Recession, the economy experienced the longest and strongest expansion since the 1950s (for further discussion, see the Office of the State Comptroller’s (OSC’s) 2017 report on the City’s office market).² Office employment in the City grew steadily from 2009 to 2019 at an annualized rate of 2.0 percent, reaching an all-time peak of 1.6 million jobs.

Sources: NYS Department of Labor; OSC analysis

FIGURE 1
Office Submarkets in Manhattan

FIGURE 2
Office Employment in New York City

Midtown
Midtown South
Downtown

*Year-to-date
In 2020, as a result of the pandemic-induced recession, the number of office jobs fell 5.7 percent to 1.5 million (see Figure 4). Although nearly 100,000 jobs were lost, the office sector fared better than the citywide average and far better than the sectors most affected by social distancing restrictions, such as leisure and hospitality (which lost 41.9 percent of its jobs).

Job losses have not been spread evenly across the office sector. Financial activities has fared better than the overall office average, with total jobs down 4.1 percent compared to February 2020. The information industry also had lower job losses than the total office sector, at 3.0 percent of jobs, while business services has been hit harder, with 7.3 percent of jobs lost (see Figure 4). Business services was more affected by the pandemic because it has more jobs that require employees to be on-site, such as janitorial and maintenance services, mail and shipping centers, and travel agencies.

Although office jobs accounted for 36.8 percent of all New York City jobs in 2020, they were responsible for an outsized portion of the City’s economic activity. In 2019, the office sector contributed $705 billion to the City’s gross product based on data from the Bureau of Economic Analysis. This represented 66.2 percent of the City’s total annual output of nearly $1.1 trillion.

The office sector includes more than 350 different occupations. The most common type was in management, which accounted for almost a fifth of office workers in New York City in 2019 (see Figure 5). Other top occupations were in office and administrative support (10.2 percent), computers and mathematics (9.1 percent), sales (8.8 percent) and finance (8.7 percent). The most common occupations outside of the office sector were home health aides, teachers, nurses, retail salespeople and cashiers.

Office sector workers are well-paid, with an average annual salary of $183,900 in 2020. Even when excluding the financial securities

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**FIGURE 3**
Shares of Jobs Lost in Economic Downturns since 2000

![Chart showing shares of jobs lost in economic downturns](chart)

In 2020, as a result of the pandemic-induced recession, the number of office jobs fell 5.7 percent to 1.5 million (see Figure 4). Although nearly 100,000 jobs were lost, the office sector fared better than the citywide average and far better than the sectors most affected by social distancing restrictions, such as leisure and hospitality (which lost 41.9 percent of its jobs).

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Office sector workers are well-paid, with an average annual salary of $183,900 in 2020. Even when excluding the financial securities
industry, known for its generous compensation packages, the average office sector salary is $145,290. This is higher than the citywide average ($110,190) and much higher than the average for nonoffice jobs ($62,730).

Office sector salaries have increased 25.3 percent since 2007, the peak before the Great Recession. However, after adjusting for inflation, average salaries did not surpass 2007 levels until 2020, and then by just 0.5 percent. In contrast, average nonoffice salaries have grown 9.1 percent since 2007 when adjusting for inflation.

Worker Characteristics

According to the U.S. Census Bureau, about 1.6 million City residents worked in the office sector in New York City in 2019. Office workers tend to exhibit different economic and demographic characteristics from nonoffice workers.

Office workers are less likely to reside in the City than workers in other sectors (70 percent compared to 81 percent). As a result, office workers tend to have longer commutes. Prior to the onset of the pandemic, the median commute time for the City’s office workers was 45 minutes, slightly higher than the citywide median of 40 minutes and much higher than the national median of 25 minutes. More than 333,034 workers were supercommuters (traveling more than 60 minutes to work), and 93,188 were megacommuters (traveling more than 90 minutes to work).

The typical office worker in New York City tends to: earn a significantly higher salary than a nonoffice worker; have a bachelor’s degree; be a millennial (those currently between the ages of 25 and 40); and identify as White (see Figure 6). In 2019, the median salary earned by office workers was $80,000, double the median for all other workers ($40,000). More than a third (36 percent) of office workers earned a salary of more than $100,000, almost triple the share (13 percent) of other workers.

In addition to high pay, office jobs are more likely than nonoffice jobs to offer health care benefits. The share of office employees with employer-sponsored health insurance is 85 percent, much higher than the share among nonoffice workers (63 percent).

Office workers are also more likely to be male (58 percent), whereas 50 percent of all other workers are male. The lower share among all other workers is mainly due to the lower-than-
average share of men in the educational services and the health care and social assistance sectors.

Office workers are also more likely to be younger, with a median age of 39, compared to 41 for all other workers.

Hispanic workers accounted for the second-highest share of office workers, at 18 percent (compared with 29 percent in other sectors), while Asian workers made up 15 percent (the same as in other sectors), and Black or African American workers made up 13 percent (compared with 21 percent in other sectors).

The City’s office workers are less likely to be immigrants, as only one-third of office sector employees were immigrants compared to 45 percent of nonoffice employees. Of immigrant workers in the office sector, the largest shares were from China (9.9 percent), India (8.9 percent) and the Dominican Republic (7.3 percent). Over a fifth (21 percent) of immigrants in the sector came from Europe, almost double the share (11 percent) in other employment sectors. The share of immigrant office workers from Latin America was 36 percent, much lower than the share in other sectors (53 percent).

**Pre-Pandemic Office Space Use**

The office sector (as defined in this report) is not a homogenous group of workers. The three main industries within this sector are financial activities; technology, advertising, media and information (TAMI); and professional and business services. Though government also comprises a significant share, this analysis focuses on office space for private companies. The occupancy of rented office space by these industries has changed markedly over the decades (see Figure 7). For example, tenant occupancy by financial firms has declined as a result of job losses, while employment in TAMI firms grew 34 percent over the past decade.

Over the past 30 years, square footage usage has also diverged, with the financial industry utilizing less space per worker and TAMI and professional services taking up more.

Data from Cushman & Wakefield, an international commercial real estate services firm, illustrates the changes to the City’s economy in recent decades. In the 1990s, the financial industry dominated office space, using nearly three times the total space of the TAMI industry and more than three times that of business services. From 2010 to 2020, the relative shares of these industries changed (see Figure 8). While banks and other financial firms still occupy the most office space, their usage per employee has declined by 13.4 percent. At the same time, the

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**FIGURE 7**
Share of Total Office Space Occupied by Major Industries – Historical Trends

<table>
<thead>
<tr>
<th>Industry</th>
<th>1990</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>48.8%</td>
<td>39.6%</td>
<td>35.6%</td>
</tr>
<tr>
<td>TAMI (Information)</td>
<td>16.7%</td>
<td>18.5%</td>
<td>25.1%</td>
</tr>
<tr>
<td>Professional &amp; Business</td>
<td>14.1%</td>
<td>18.5%</td>
<td>15.5%</td>
</tr>
<tr>
<td>All Other</td>
<td>20.4%</td>
<td>23.4%</td>
<td>23.8%</td>
</tr>
</tbody>
</table>

Sources: Cushman & Wakefield; OSC analysis

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**FIGURE 8**
Office Space Square Footage Utilized Per Employee in Major Industries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Activities</td>
<td>421.4</td>
<td>430.1</td>
<td>372.5</td>
<td>-11.6%</td>
<td>-13.4%</td>
</tr>
<tr>
<td>TAMI (Information)</td>
<td>278.8</td>
<td>403.1</td>
<td>420.5</td>
<td>50.9%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Business Services</td>
<td>116.7</td>
<td>174.5</td>
<td>129.1</td>
<td>10.6%</td>
<td>-26.0%</td>
</tr>
<tr>
<td>Total</td>
<td>268.4</td>
<td>313.9</td>
<td>276.7</td>
<td>3.1%</td>
<td>-11.8%</td>
</tr>
</tbody>
</table>

Sources: Cushman & Wakefield; OSC analysis
TAMI industry now utilizes 4.3 percent more space per employee than it did in 2010. During the same period, professional services experienced strong job growth (a 16.7 percent increase), but by 2020 used 26.0 percent less space per worker.

Job growth in the TAMI industry is expected to continue in the coming years. In 2016, the New York City Economic Development Corporation announced its LifeSci NYC initiative, a $500 million plan to create 16,000 life sciences jobs in the City. As a home to leading tech firms, medical research centers, academic institutions, and pharmaceutical and biotech companies, the City has all the necessary components to support this emerging industry. In 2021, spurred by the success of the program to date, the total planned investment was doubled to $1 billion, with plans to develop additional life science space and support a total of 40,000 jobs.

The City’s Office of Management and Budget forecasts annual employment growth in the financial industry at 1.3 percent over the five-year period ending in 2025. Business services employment is forecast to grow at 4.3 percent annually, outpacing the expected total private sector growth rate of 3.8 percent. The information industry (a proxy for TAMI) is projected to grow 3.4 percent annually, but it has only grown its occupancy of space per employee by less than half a percent over the past decade.

As two of the three major office industries are occupying less space per worker than a decade ago, and the industry that is increasing space per worker is seeing less than average growth, there is a significant risk to office market demand. These factors suggest that property owners will need to find effective solutions to address the rising vacancies and increased inventory levels resulting from reduced demand, discussed in detail below.

Historically, employment in the office sector is a key driver of demand for office space. As the workforces of businesses in the sector grow, they require more space to operate (see Figure 9). However, among the myriad impacts of the COVID-19 pandemic is the shift of many workers from in-office to remote work. By 2020, long-term trends in office space usage indicated that some firms may have been finding ways to cut administrative costs and utilize space more efficiently and productively. This suggests that some companies are fundamentally reconsidering their office space requirements.

How Remote Work Sustained Office Employment During COVID-19

Telework, or remote work, is not a new concept. However, its usage has historically varied by class of worker (i.e., if the worker is self-employed, works in the private sector, or works in government) and wage level. According to the Pew Research Center’s analysis of the U.S. Bureau of Labor Statistics’ National Compensation Survey, between 2010 and 2020, private industry workers nationwide with wages in the highest 10th percentile were the most likely to have access to telework compared to all other private industry workers, with 16 percent having access even in 2010.8 This group grew by seven percentage points over the next 10 years to 23 percent in 2020.9
Prior to the pandemic, usage of remote work also varied nationally by establishment size and industry type. According to the survey, 13 percent of establishments with 500 workers or more had access to flexible workplace benefits in 2017, compared to only 5 percent for those with fewer than 100 workers. The difference suggests that larger employers were more open to remote-work arrangements prior to the pandemic (and also may be more patient in requiring employees to return to work).

As is currently the case, even in 2010 office workers were more likely than other workers to have access to teleworking options, with management, business and financial occupations having the greatest flexibility (starting at 18 percent in 2010 and peaking at 25 percent in 2020). This compares to an annual average of 8 percent of all private industry workers in the Northeast.

When the pandemic began, offices around the nation began closing rapidly. According to Kastle Systems, a security company that manages access systems in select office buildings, keycard swipes in the City began to decline in the first week of March 2020. Though not all office buildings use Kastle’s systems, their data is a useful proxy for overall office occupancy. By mid-April, Kastle data showed that office entry rates had fallen to less than 5 percent of the baseline level (see Figure 10).

At a national level, the financial activities and business services industries experienced large increases in the share of employed people working from home between 2019 and 2020, by 40 and 25 percentage points, respectively. Relatively small increases occurred in other sectors, such as the hospitality, transportation, retail and manufacturing sectors, as these required face-to-face interaction and therefore remote work was often not possible.

As of late September 2021, Kastle data showed that only 28.9 percent of workers had returned to offices in New York City. As of the latest return-to-work survey from the Partnership for New York City, 41 percent of office employees were expected to return to work by the end of September 2021, down from the Partnership’s May estimate of 62 percent.

Telework has not been without its challenges, however. Significant shares of Pew respondents indicated that having an adequate workspace, being able to get their work done without interruptions, and feeling motivated to do their work have all been very or somewhat difficult. This was especially true for those with school-age children and those earning relatively low incomes.

Partly due to these challenges, the embrace of remote work by the office sector has changed dramatically over the course of the pandemic. Early in 2021, some office employers with a major presence in the City announced policies allowing employees to work remotely at least on a part-time basis for the foreseeable future (see Figure 11).

Then, in May and June 2021 as COVID-19 infection rates fell to the lowest levels since the beginning of the pandemic, many firms planned a September return to offices to coincide with the start of the school year. This included the City itself, which announced that all of its employees would be required to return to offices beginning...
September 13. However, the Delta variant of COVID-19 has upended many of these plans.14

In addition to fears over the highly contagious variant, mass transit issues continue to impact the return of workers to the office. In the survey by the Partnership for New York City, 84 percent of employers reported that employee perceptions of mass transit are still an obstacle to returning to the office because of concerns about personal safety, especially in and around public transit hubs like Grand Central and Penn Station. This is supported by data from subway stations in Manhattan’s central business districts. Turnstile traffic at Grand Central Terminal, Penn Station/34th Street and Fulton Center stations was less than 40 percent of pre-pandemic levels in September according to OSC’s subway ridership dashboard.15 But while the majority of employers recognize employee perceptions of mass transit, only 16 percent ranked public transit safety as a primary concern.

Safety concerns extend beyond public transit to crime and public safety, with 9 percent of employers ranking it as a primary concern. In particular, the survey found that employees have voiced safety concerns as a result of increased hate crimes against Asian American people.

**Office Real Estate**

Many private commercial real estate firms produce data on the office market. Those firms’ figures do not always align because of differences in methodology and proprietary data, but there is agreement on overall market trends. Because each offers a slightly different set of data products, there is some variation between the data in some of the figures in this report depending on the source. We used data from the firms Cushman & Wakefield, Jones Lang Lasalle, CBRE, Colliers and Newmark.

New York City houses the largest office real estate market in the world by area. While there are commercial districts in each of the five boroughs, the three largest business districts are in Manhattan (Midtown, Midtown South and Downtown). Together, they contained 464 million square feet of office inventory as of the second
quarter of 2021 (see Figure 12). This accounts for nearly 11 percent of all office space in the nation. Office space in Manhattan alone is larger than the amount in all other U.S. cities, and Brooklyn and Queens have more than 64 million square feet of combined office space, rivaling Silicon Valley in terms of size.

The market value of all office properties in the City was $172 billion in FY 2021, accounting for 52.9 percent of all Class 4 (commercial and industrial) property in the City. Cushman & Wakefield estimates that more than 13 million square feet of office space is currently under construction, and real estate firm Colliers expects at least 25 million square feet to come onto the market by 2024.

Commercial real estate brokers designate office space in New York City by classes based on factors that include location and access to transit, building and security amenities, building infrastructure, and mechanical systems. Class A buildings are highly regarded assets that compete for premier tenants. The most high-end Class A buildings are referred to as trophy buildings. Examples include the new developments at 50 Hudson Yards, 390 Madison Avenue, One Vanderbilt near Grand Central Terminal, and the One World Trade Center tower. These command premium prices for their cachet, modern designs, views and amenities. Class B buildings compete for a wider range of tenants, and tend to be older and have fewer high-end amenities.

**Market Indicators Showed Stability Prior to Pandemic**

New York City’s office sector generally experienced growth after the Great Recession amid steady gains in office-using employment that peaked in the fourth quarter of 2019, as discussed above. The health of the office sector real estate market is determined by the demand for and supply of office space. Measurements of health in the sector include average asking rents, vacancy rates, total inventory, net absorption (defined as the total square footage that became

<table>
<thead>
<tr>
<th>Market</th>
<th>Size (millions of square feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhattan</td>
<td>463.8</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>336.4</td>
</tr>
<tr>
<td>Chicago</td>
<td>256.2</td>
</tr>
<tr>
<td>Dallas</td>
<td>194.1</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>189.7</td>
</tr>
<tr>
<td>Houston</td>
<td>173.7</td>
</tr>
<tr>
<td>Boston</td>
<td>168.6</td>
</tr>
<tr>
<td>New Jersey</td>
<td>155.3</td>
</tr>
<tr>
<td>Atlanta</td>
<td>153.5</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>138.8</td>
</tr>
</tbody>
</table>

Sources: Jones Lang LaSalle; OSC analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Asking Rent (all classes)</th>
<th>Vacancy Rate</th>
<th>Total Inventory (square feet)</th>
<th>Net Absorption (square feet)</th>
<th>Under Construction (square feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$71.58</td>
<td>8.5%</td>
<td>394,693,400</td>
<td>4,474,300</td>
<td>12,087,300</td>
</tr>
<tr>
<td>2016</td>
<td>$72.82</td>
<td>9.3%</td>
<td>396,941,600</td>
<td>2,558,000</td>
<td>12,493,000</td>
</tr>
<tr>
<td>2017</td>
<td>$72.25</td>
<td>8.9%</td>
<td>398,983,700</td>
<td>7,413,100</td>
<td>13,301,700</td>
</tr>
<tr>
<td>2018</td>
<td>$72.28</td>
<td>9.2%</td>
<td>401,028,700</td>
<td>10,402,900</td>
<td>15,359,100</td>
</tr>
<tr>
<td>2019</td>
<td>$73.41</td>
<td>11.1%</td>
<td>408,857,500</td>
<td>2,555,800</td>
<td>13,558,400</td>
</tr>
<tr>
<td>2020</td>
<td>$73.16</td>
<td>15.2%</td>
<td>404,682,400</td>
<td>-15,277,800</td>
<td>14,748,600</td>
</tr>
<tr>
<td>2021 (Q2)</td>
<td>$70.26</td>
<td>18.3%</td>
<td>405,592,200</td>
<td>-11,275,400</td>
<td>13,331,800</td>
</tr>
</tbody>
</table>

Note: Figures are for the fourth quarter of each year, except net absorption, which is for the full year. For 2021, the most recent available data is the second quarter.

Sources: Cushman & Wakefield; OSC analysis
occupied minus the total that became vacant), and square footage under construction (see Figure 13).

Based on available data, vacancy rates hovered at an annual average of 9.0 percent over 2015 to 2018. The vacancy rate did tick upward by two percentage points in 2019, due to record delivery of new space (more than 7 million square feet in the fourth quarter alone). Over the period, high vacancy rates coincided with low net absorption, driven by the low demand for office properties.

Average asking rents for all building classes held steady in 2018. Despite the increase in vacancies, asking rents grew by 1.6 percent in 2019 due to the high prices of new properties.

In addition to the indicators listed above, new leasing and renewal activity also provide insight on the health of the market. New leasing in 2019 totaled 34.7 million square feet, the third consecutive year with more than 30 million square feet of new leasing. Tech companies such as Facebook and Amazon helped spur the increase in activity, with Facebook leasing 1.5 million square feet throughout 50 Hudson Yards and Amazon leasing approximately 339,000 square feet at 460 West 34th Street in 2019.

Renewals in the fourth quarter of 2019 totaled 2.8 million square feet, led by Morgan Stanley’s 1.2 million square foot renewal at One New York Plaza.

**Market Indicators Reflect COVID Impact**

The office sector began experiencing measurable changes in demand in the second quarter of 2020, when new leasing in Manhattan fell to 2.5 million square feet, 75 percent below the level one year earlier. Together, TAMI and financial services accounted for more than half the demand for new leases of spaces that were 10,000 square feet and greater. Renewal activity fared better at 7.2 million square feet, a decrease of 8.5 percent from 2019. According to CBRE, a third of leases at large Manhattan buildings will be expiring over the next three years, leaving about two-thirds to be renewed starting in 2024.

Average asking rents showed little change in the early stages of the pandemic, then spiked in the third quarter of 2020 as the One Vanderbilt trophy property came online and set records for asking prices. However, asking rents began to fall significantly in the fourth quarter of 2020. By the second quarter of 2021, asking rents were down 4.2 percent from the prior year.

Though all of the Manhattan office market experienced declines, the effects were not spread evenly among the component submarkets (see Figure 14). The Midtown South office market fared worse than Midtown or Downtown, as

**FIGURE 14**
Manhattan Office Performance in Major Business Districts
2020 Q1 through 2021 Q2

<table>
<thead>
<tr>
<th>Market</th>
<th>Average Asking Rent (all classes)</th>
<th>Overall Vacancy Rates</th>
<th>Asking Rent Change</th>
<th>Vacancy Rate Change</th>
<th>Net Absorption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020 Q1</td>
<td>2021 Q2</td>
<td>2020 Q1</td>
<td>2021 Q2</td>
<td>(20 Q1-21 Q2)</td>
</tr>
<tr>
<td>Midtown</td>
<td>$76.45</td>
<td>$73.79</td>
<td>12.3%</td>
<td>19.0%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Midtown South</td>
<td>$76.79</td>
<td>$68.96</td>
<td>8.5%</td>
<td>17.5%</td>
<td>-10.2%</td>
</tr>
<tr>
<td>Downtown</td>
<td>$62.42</td>
<td>$60.13</td>
<td>10.6%</td>
<td>17.0%</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Manhattan Total</td>
<td>$73.57</td>
<td>$70.26</td>
<td>11.3%</td>
<td>18.3%</td>
<td>-4.5%</td>
</tr>
</tbody>
</table>

Note: Net absorption total includes areas outside of major business districts.
Sources: Cushman & Wakefield; OSC analysis
asking rents fell at more than twice the rate in those submarkets.

Class A asking rents increased in Midtown and Midtown South and remained steady in Manhattan overall in the second quarter of 2020, suggesting that high-priced space was minimally affected by the pandemic initially. This trend continued in the third quarter before asking rents began declining in the fourth quarter of 2020, led by additional sublease spaces coming on the market and putting downward pressure on prices even for Class A buildings. This trend continued through the second quarter of 2021.

Falling demand can be seen clearly in the net absorption of office space. Net absorption had been softening even before the onset of the pandemic, but that trend has strengthened and extended to seven consecutive quarters of negative absorption in the office market (see Figure 15).

Negative net absorption will drive vacancy rates upward as more office space remains unoccupied. In the first months of the pandemic the vacancy rate increased only slightly, from 11.1 percent in the fourth quarter of 2019 to 11.9 percent in the second quarter of 2020. This trend then accelerated rapidly over the next several months, reaching 18.3 percent vacancy by the second quarter of 2021. The current vacancy rate is at a level not seen in more than 30 years (see Figure 16), reflecting the expectations of fewer in-office employees.

While both direct and sublease vacancies have grown during the pandemic, the sublease supply has increased at a faster rate as a result of office tenants making strategic decisions to offload unused office space in a hybrid-work world. Whether tenants will pursue these subleases only as a short-term strategy until the pandemic abates or decide to fundamentally and permanently restructure their workspaces has profound implications for demand in the New York City office market.

Reduced demand for office space caused the market values of all office properties to drop by $28.6 billion (16.6 percent) in the City’s final assessment of real properties for FY 2022. This contributed to an overall decline in billable values of 5.2 percent, the first decline in more than 20 years. Though office properties represented 26.2 percent of billable values, they were responsible for 54.9 percent of the overall decline in FY 2022. Some of the City’s most expensive office properties dropped even further (see Figure 17). For example, the market price of the World Trade Center complex dropped by 23.1 percent.

Investment companies that exclusively hold office properties in the City also underperformed,
experiencing weakness in their share prices as a result of the pandemic. Three real estate investment trusts (REITs) with extensive office property holdings in the City (SL Green Realty, Vornado Realty Trust and the Empire State Realty Trust) all saw market values decline by at least 40 percent in 2020 (see Figure 18). The REITs have shown significant improvement in 2021, though the spread of the Delta variant has caused additional declines in recent months. All three remain below their pre-pandemic levels.

Impact on Tax Revenue

The office sector contributes significantly to the City’s tax revenues in many complex ways. Direct and quantifiable taxes from the office sector include property taxes and real estate transaction taxes. Indirect and difficult-to-quantify effects include sales taxes from office-worker spending and personal income taxes from residents who choose to live in New York City to enable shorter commutes. This analysis focuses on the office market’s direct tax implications on the City.

OSC estimates that in 2021 the City’s office sector will provide at least $6.9 billion in direct revenue in property taxes, real estate transaction taxes, mortgage taxes and commercial rent taxes (see Figure 19). This revenue exceeds the annual budgets for Sanitation, Fire, Transportation, and Parks and Recreation departments, combined. This is a conservative estimate that does not include secondary and indirect contributions, including sales and personal income tax impacts.

The City’s largest and most stable source of tax revenue is the real property tax, which is levied on the assessed value of commercial and residential real estate. In FY 2021, the City collected $31 billion in property taxes, which accounted for nearly half (48.0 percent) of all tax revenues. Because property taxes are paid based on assessments from the prior year, FY 2021 property tax collections grew despite reduced demand in the real estate market, as they were based on assessments made early in 2020.

Property taxes are calculated based on the assessment and market value of real estate in the

### FIGURE 17

Change in Market Value of the Most Expensive Office Properties in New York City FY 2022 Final Roll Compared to FY 2021

<table>
<thead>
<tr>
<th>Property</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Trade Center</td>
<td>-23.1%</td>
</tr>
<tr>
<td>General Motors Building</td>
<td>-15.8%</td>
</tr>
<tr>
<td>Bank of America Tower</td>
<td>-16.1%</td>
</tr>
<tr>
<td>MetLife Building</td>
<td>-9.4%</td>
</tr>
<tr>
<td>McGraw-Hill Building</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Solow Building</td>
<td>-10.4%</td>
</tr>
<tr>
<td>Burlington House</td>
<td>-5.5%</td>
</tr>
<tr>
<td>111 Eighth Avenue</td>
<td>-7.4%</td>
</tr>
<tr>
<td>AXA Financial Center</td>
<td>-4.4%</td>
</tr>
<tr>
<td>One Manhattan West</td>
<td>-1.9%</td>
</tr>
<tr>
<td><strong>Top 10 Properties Total</strong></td>
<td><strong>-12.5%</strong></td>
</tr>
</tbody>
</table>

Sources: NYC Department of Finance; OSC analysis

### FIGURE 18

Performance of Major REITs in New York City

Source: Yahoo Finance; OSC analysis

### FIGURE 19

Office Sector Direct Tax Contributions to New York City Revenue

<table>
<thead>
<tr>
<th>Tax</th>
<th>FY 2020 Collections</th>
<th>FY 2021 Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$5,880.9</td>
<td>$6,323.2</td>
</tr>
<tr>
<td>Property Transfer Tax</td>
<td>209.8</td>
<td>100.5</td>
</tr>
<tr>
<td>Mortgage Recording Tax</td>
<td>251.5</td>
<td>115.3</td>
</tr>
<tr>
<td>Commercial Rent Tax</td>
<td>406.0</td>
<td>395.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,748.2</strong></td>
<td><strong>$6,934.3</strong></td>
</tr>
</tbody>
</table>

Sources: NYC Department of Finance; NYC Office of Management and Budget; OSC analysis
City. Class 4 properties (i.e., commercial real estate such as office and retail buildings) are assessed at a much higher rate than Class 1 (i.e., residential) properties, and therefore comprise an outsized share of the collections.

In FY 2021, office buildings accounted for 12.6 percent of the market value of properties on the City assessment roll, but more than a fourth (26.2 percent) of the billable taxable values at $71.0 billion (see Figure 20). Put into perspective, property taxes from the office sector raise more in taxes than any other property type subcomponent, including single-family homes, multifamily rental buildings, condominium/cooperative units and retail properties, despite an aggregate market value that trails each. Office sector property taxes nearly surpassed total citywide sales tax revenues in FY 2021, though they are not expected to do so in FY 2022 because lower property valuations will reduce overall collections. Property tax collections are expected to decline by 5.4 percent, or $1.7 billion, in fiscal year 2022, more than half of which is due to drops in office billable values. Tax grievance assessment reductions also ticked up in 2021.

Office properties also contribute to tax revenues via the real property transfer tax (collected on the sale of property from one owner to another) and the mortgage recording tax (collected on the origination of a mortgage for a property). The City collected $1.0 billion in transfer taxes and $816 million in mortgage taxes in FY 2021, the second year of declines due to pandemic impacts (down a total of 31.6 percent from FY 2019). OSC estimates that $216 million of these taxes (11.9 percent of the total) was generated by office properties, less than half of the $461 million (21.9 percent) generated in FY 2020.

The City does not disclose the relative shares of different property types that account for these taxes, but all property transactions are recorded in the Automated City Register Information System (ACRIS). The total dollar volume of office property sales for FY 2021 is at the lowest level since FY 2010 (see Figure 21), when office sales were suppressed because of the lingering effects of the financial crisis. In FY 2021, office properties accounted for 6.5 percent of all sales recorded in ACRIS, compared to an average of 13.9 percent for fiscal years 2011 through 2020. The City anticipates that transaction taxes will resume growth in FY 2022, though residential sales are expected to drive that growth more than commercial transactions.

Finally, office properties contribute to revenues via the commercial rent tax, which is collected on commercial properties in Manhattan below 96th Street. Given the geographic targeting of this tax,
office properties comprise a high share of collections. Commercial rent tax collections peaked in FY 2019 at $907 million, then declined in the next two fiscal years to reach $841 million in FY 2021. This rate of decline (7.3 percent over two years) was smaller than for most other taxes, and the City expects collections to recover by FY 2023. OSC estimates that office properties accounted for $395 million in commercial rent tax collections in FY 2021, nearly half of the total.

**Outlook and Monitoring**

While the COVID-19 pandemic forced workers to shift from performing their professional duties in offices to performing them elsewhere, the increased flexibility around the location of work has allowed the office-using sector to be a stabilizing force in the labor market. Nevertheless, this flexibility has presented challenges for the office real estate, especially since the fourth quarter of 2020, when asking rents began to fall and vacancy rates began to rise as a result of reduced demand for office space in a new hybrid-work environment.

Employment in the sector has remained healthy and is expected to continue to return, which will likely support future demand for space. Multiyear leases extending into 2023 and healthier balance sheets of property owners, as compared to Great Recession levels, have also provided some short-term stability in the office real estate market. However, the continuation of the pandemic, firmer changes to commuting patterns, increasing subleases and vacancies, and the return of demand for residential space are likely to influence considerations of the best use of physical space in the coming months and years.

While it is difficult to compare the New York City office market to other cities given its sheer size, vacancies and the rate of return to offices suggest it is currently lagging behind most other large U.S. cities. Nevertheless, significant leasing and purchase deals have continued, particularly among technology firms. The leasing and purchase of space that is easily reconfigurable, and the subleasing of space to reduce the length of commitments, suggest that firms are still grappling with the pandemic’s impact on their operations, adding more uncertainty and necessitating patience in terms of crafting policy. The City’s tentative assessment roll for FY 2023, to be released in January 2022, will provide further insight on the potential duration and magnitude of the impact on City finances.

The large volume of vacant office space and a chronic shortage of affordable housing has led to dialogue converting space into residential housing. While several proposals were introduced in the State Legislature, only the Housing Our Neighbors with Dignity Act has been passed so far. The act aims to convert commercial space to make available rent-stabilized, affordable housing to low-income households and those experiencing homelessness. However, the act does not override local zoning or building code requirements that currently prevent office-to-residential conversions.

More conversation will follow, especially as a new normal for office workers is established. The City must monitor overall employment and the real estate market to ensure it is adjusting to changing office needs, and to identify ways to mitigate negative impacts on tax revenue and the economy. These discussions should consider the potential implications for the City’s economic diversification and tax structure to ensure the City economy and revenues remain stable and can return to pre-pandemic levels and grow.
Endnotes

1 The office sector includes the following codes from the U.S. Census Bureau’s North American Industry Classification System (NAICS): 51-Information, 52-Finance, 53-Real Estate, 54-Professional, Scientific, and Technical Services, 55-Management of Companies and Enterprises, 56-Administrative and Support Services, and 92-Public Administration, excluding 922-Justice, Public Order, and Safety Activities. These industries (excluding government) are commonly referred to as “supersectors” in the following groupings: Information (NAICS 51), Financial Activities (NAICS 52 & 53), and Business Services (NAICS 54, 55 & 56).


3 New York State Department of Labor, Current Employment Statistics. Figures are not seasonally adjusted.


5 New York State Department of Labor, Quarterly Employment of Census and Wages. Because of data limitations, average salaries refer to jobs in the private sector only.

6 U.S. Census Bureau, American Community Survey. 1-year file for 2019.

7 Cushman & Wakefield provided some historical data, but a complete dataset was not available for calendar year 2000. The public sector is included, where applicable, in this analysis as “All Other” because of data limitations.


