



TRANSWESTERN

# MIDTOWN SOUTH MANHATTAN OFFICE MARKET

Q4 2022



## TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	5.8	7.5	↓	7.3	↓
NET ABSORPTION (Thousands SF)	(538.5)	452.6	↓	(380.4)	↑
OVERALL VACANCY RATE	16.7%	13.5%	↑	10.0%	↓
OVERALL VACANT SF (MSF)	13.2	10.8	↑	7.8	↓
UNDER CONSTRUCTION (MSF)	0.3	1.8	↓	1.3	↔
ASKING RENT (PSF)	\$79.29	\$72.06	↑	\$77.54	↑
SALES VOLUME (Millions)	\$303.7	\$2,640.9	↓	\$1,057.1	↑

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

## MIDTOWN SOUTH SEES MIXED RESULTS

Midtown South closed the year with record-high availability, increased rents, and a few large lease signings. The submarket recorded 1.2 MSF of leasing activity, including two deals exceeding 50,000 SF. Annual leasing of 6.6 MSF was about 20% higher than the 2021 total. Net absorption was negative in quarter as well as for the year, and while overall availability increased, sublet availability decreased for a second straight quarter. Notably, rents in Midtown South surpassed their Midtown counterparts for the first time on record.

“As we continue to move through 2023 it will remain a historically great time for tenants to leverage the market,” said Rory Murphy, Partner. “We ended 2022 with a slower leasing quarter than anticipated, as broader economic uncertainty made decision-making and real estate planning more complicated. While we continue to see an overall flight to quality pushing Class A rents, we are simultaneously seeing landlords reach as it relates to concession packages and net effective rents.”

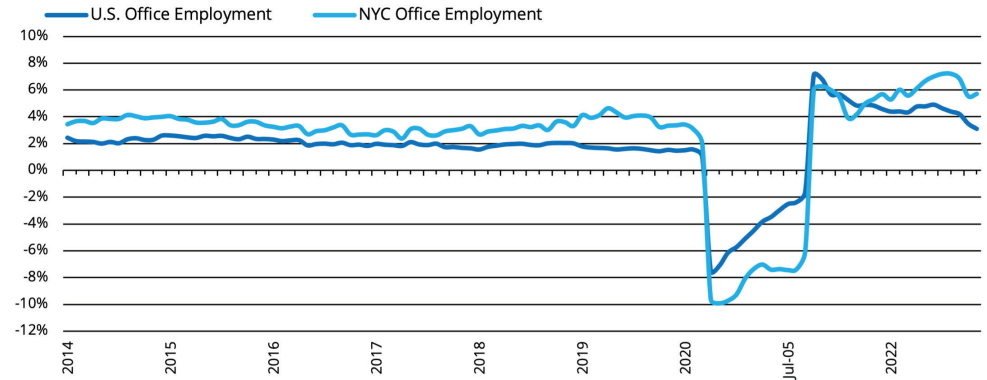


### ECONOMY

#### NYC office employment setting new records

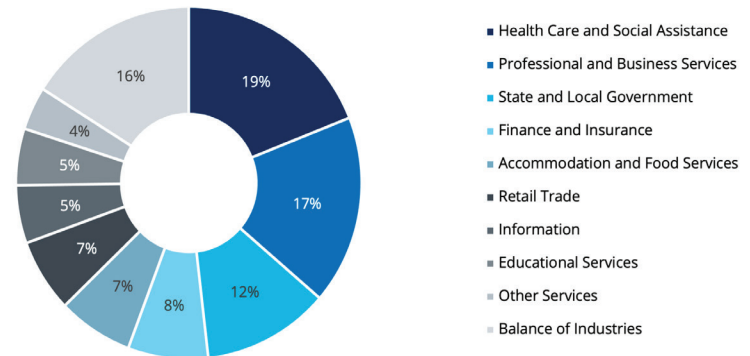
- New York City office employment grew 5.7% from a year ago in November as jobs continued to surpass their prior levels. The city now supports almost 2.1 million office-using positions.
- This figure also continues to increase nationally. The US sustained a record 34.5 million office-using jobs as of November, some 4.1% higher than the pre-COVID peak. Annual job growth is normalizing but still above pre-COVID levels at 3.1%.
- In addition to the strong showing in the office sector, New York City's overall unemployment has lowered considerably from its COVID peak. The rate was 5.8% in November, only slightly off its September bottom of 5.6%. National unemployment currently stands at 3.7%, about 0.5 percentage points [pp] below its year-ago level.
- NYC's Health Care and Social Assistance industry added about 59,800 jobs over the past year, more than any other sector. Robust job increases were also seen in the Professional and Business Services sector, Accommodation and Food Services sector, and Arts, Entertainment, and Recreation sector. The city's crucial Finance and Insurance sector continues its slow-and-steady recovery, adding 8,200 jobs in the past year, while jobs in Educational Services showed a decline from a year ago.
- We have observed that the hybrid employment and work-from-home trends mean there is less correlation between rising employment levels and increase in office usage than there has been historically. There have also been major layoffs recently in the tech sector, which are expected to continue in 2023 and could disrupt the earlier gains. However, the continued momentum in job growth and the ongoing decline in unemployment are an indication of the city's resilience.

### Y-O-Y CHANGE IN OFFICE JOBS



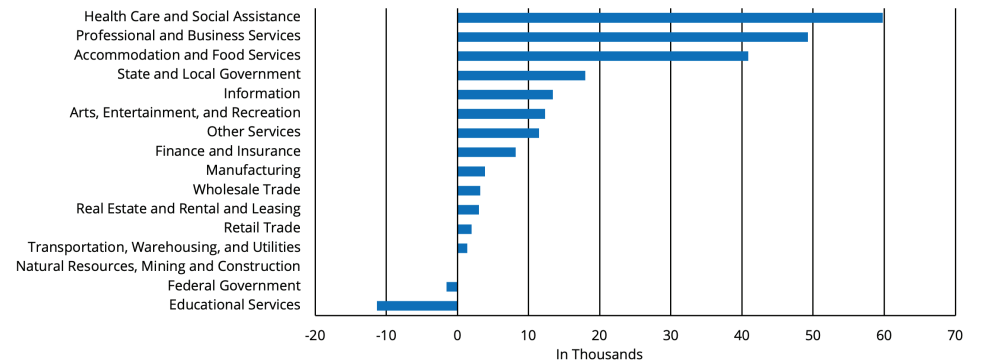
### SHARE OF EMPLOYEES BY INDUSTRY

New York City | November 2022



### Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



Source: Bureau of Labor Statistics, Transwestern

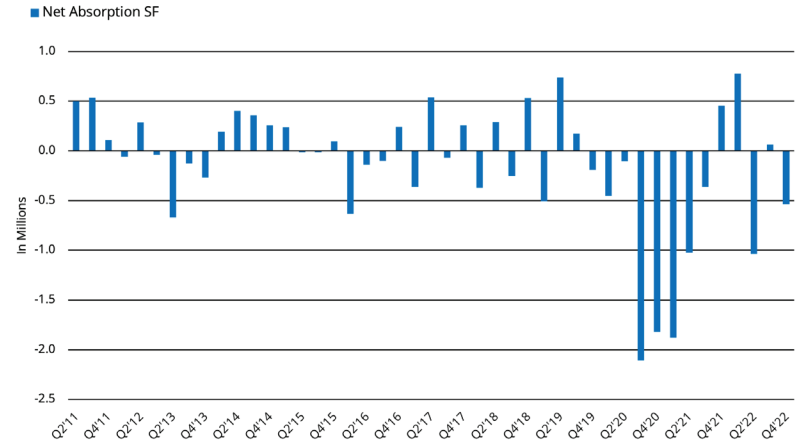


### NET ABSORPTION

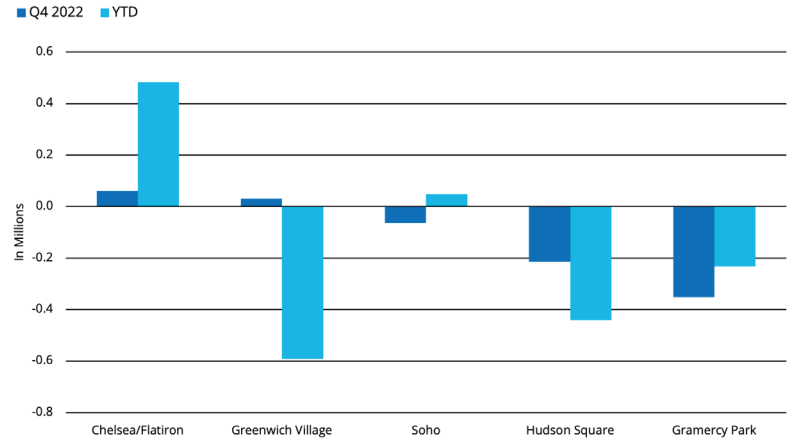
#### Midtown South absorption swings to negative

- Midtown South logged negative 538,500 SF of net absorption in Q4, with negative results amid both Class A and Class B assets. Full year absorption was negative 730,200 SF, a vast improvement on the negative 2.8 MSF recorded in 2021.
- The Chelsea/Flatiron submarket had Midtown South's highest absorption at 60,150 SF. Greenwich Village also generated positive absorption of 31,400 SF. The lack of large leases kept absorption constrained in both submarkets.
- Midtown South's largest leases were signed in the Gramercy Park submarket: Braze engaged a 92,300 SF sublease from Freshly at 63 Madison Avenue and Fedcap Group leased 85,000 SF at Zero Irving. Even so, Gramercy Park had the weakest absorption in Midtown South as it was faced with three sizeable block additions including 553,000 SF at One Madison, now under renovation.
- While Midtown South was not able to generate positive absorption for the full year, the result was nonetheless a major improvement on the previous two years' totals. We foresee further progress in 2023 as new and upgraded inventory drives interest in the submarket.

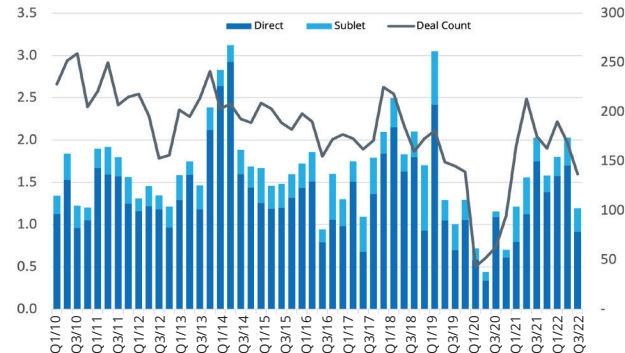
### NET ABSORPTION - MIDTOWN SOUTH



### NET ABSORPTION BY SUBMARKET



### MIDTOWN SOUTH LEASING ACTIVITY

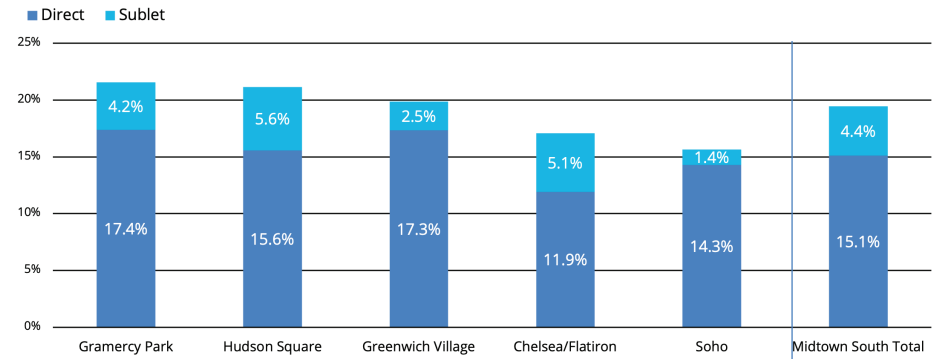


**AVAILABILITY**

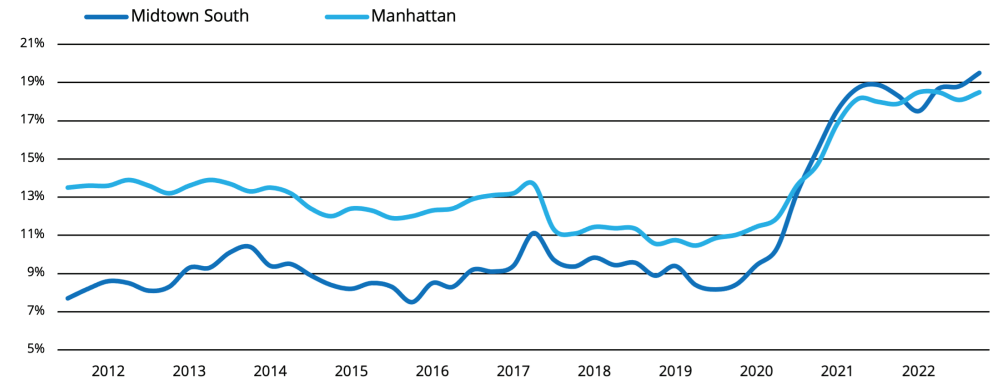
**Sublet availability decreases again amid rise in overall rate**

- Midtown South’s availability rate increased to 19.5% in the fourth quarter, its highest on record. The rate is 1.2 pp higher than a year ago and 6.1 pp above the five-year rolling average.
- Sublet availability declined in Q4, in contrast with the increased direct availability rate. A significant sublease from Braze and the withdrawal of a large sublet block at 675 Avenue of the Americas helped bring the rate down.
- Greenwich Village and Chelsea/Flatiron were the only Midtown South submarkets to register a decrease in overall availability from Q3. Soho’s rate increased slightly, but the submarket continues to hold Midtown South’s lowest availability at 15.7%.
- Gramercy Park availability increased to 21.6%, the highest in Midtown South, as more than 550,000 SF became available amid renovations at One Madison. Another 133,500 SF was added at 105 Madison Avenue along with a 67,200 SF sublet block at 35 E 21st Street. These large additions overpowered the scatter of leases signed in the submarket.
- With sublet availability already on the decline in Midtown South, we anticipate general availability levels to decrease further over the next 12 months, driven largely by pent-up demand from Class A tenants.

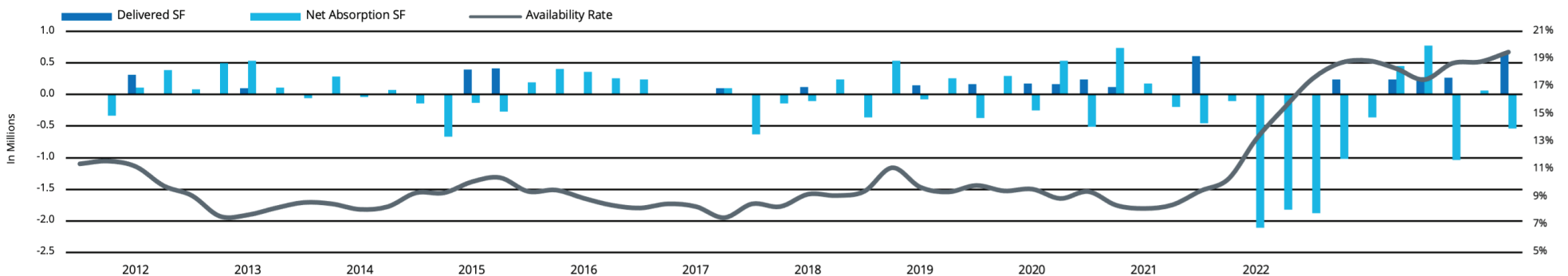
**SUBMARKET AVAILABILITY**



**SUBMARKET AVAILABILITY VS MANHATTAN**



**DELIVERY IMPACT ON KEY INDICATORS**



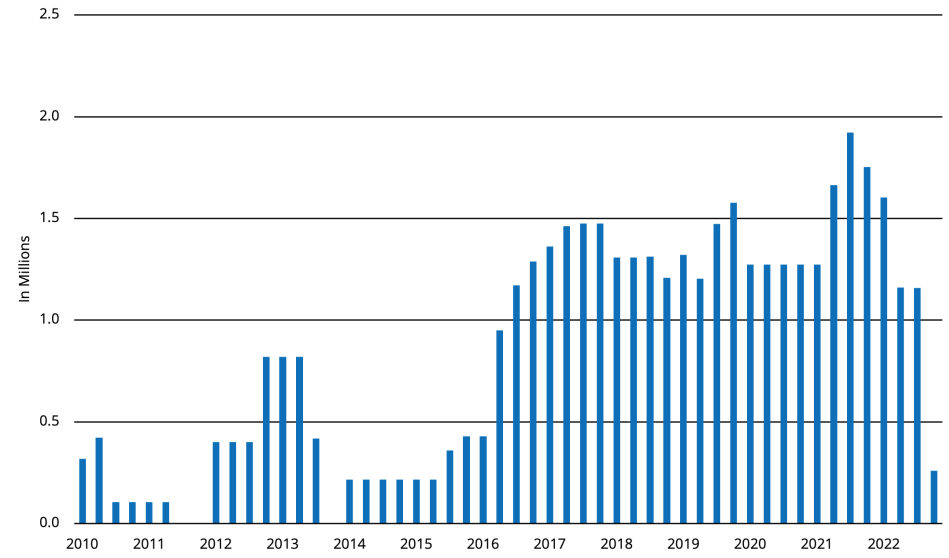


### UNDER CONSTRUCTION

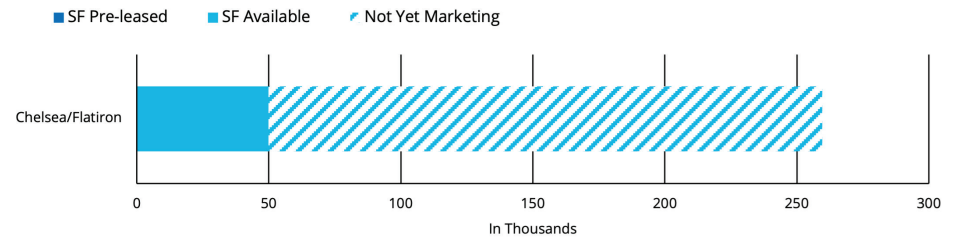
#### New development transforming Midtown South

- There are currently two core office properties under construction in Midtown South, encompassing 259,700 SF of high-quality office space. About 20% of that space is currently available for lease.
- Midtown South saw two high-profile completions in Q4: the long-anticipated redevelopment of the Farley Post Office at 341 Ninth Avenue in Chelsea/Flatiron, and the 16-story 555 Greenwich Street in Hudson Square. The former includes a 322,300 SF block of available sublet space from dentsu, which leased the space prior to the pandemic and offered it for sublease in mid-2020.
- There are two major projects under construction in the Chelsea/Flatiron submarket: Le Gallerie, which will offer boutique office space at 132 W 14th Street, and the full-block Hudson Arts Building at 220 Eleventh Avenue. In addition, renovations are underway at 295 Fifth Avenue and One Madison Avenue, both in Gramercy Park.
- Another 1.3 MSF of core office product is proposed in Midtown South. Most of this proposed square footage is encompassed by a 1.1 MSF waterfront tower addressed at 260 Twelfth Avenue in the Chelsea/Flatiron submarket.
- Midtown South has seen a growing divide between old and new, as modern office space with updated amenities is attracting a fresh set of occupiers to the submarket. As market conditions improve, we expect further enhancements to Class B/C inventory that will allow the older stock to compete for tenants.

### UNDER CONSTRUCTION - MIDTOWN SOUTH



### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

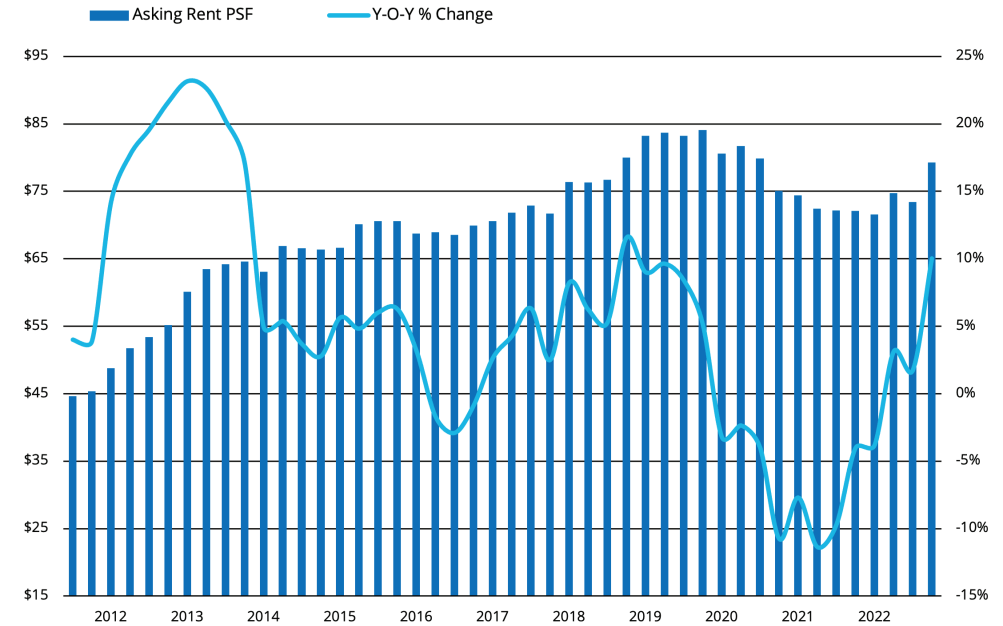


### RENTAL RATES

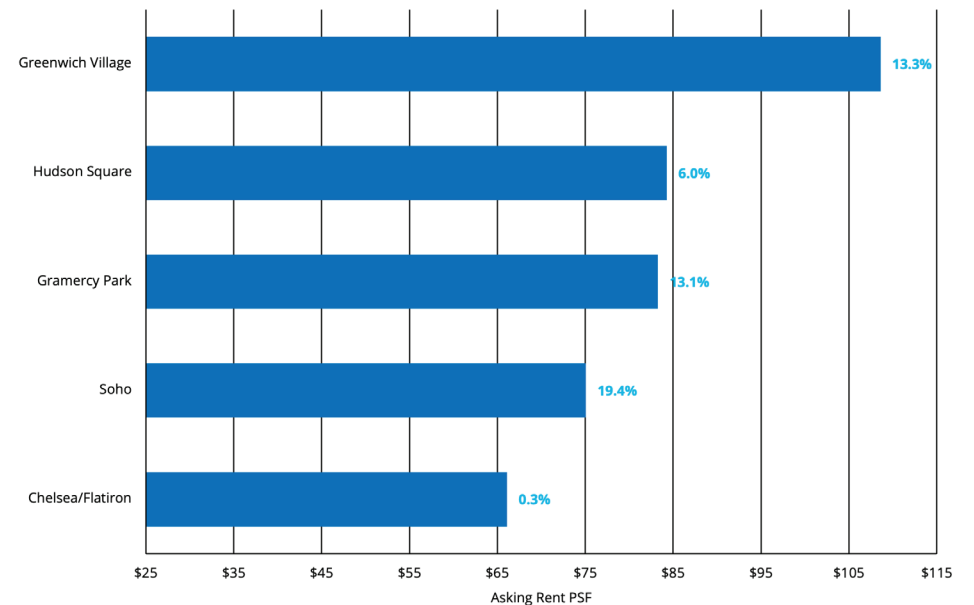
#### New construction and upgrades drive rent growth

- Midtown South saw asking rents surpass their Midtown counterparts for the first time on record in Q4. Rents increased 8.1% from last quarter to end the year at \$79.29 PSF. This is about 10% higher than the Q4 2021 level and 5.7% below the 2019 peak.
- Rents increased in all Midtown South’s submarkets, both in-quarter and year-over-year.
- Gramercy Park saw the largest jump from last quarter as rent growth of 15% was driven by a half-million square foot block at One Madison with a price tag of \$147 PSF.
- Prior to the pandemic, Midtown South had the fastest rent growth among Manhattan’s three major submarkets, increasing by almost 27% from 2014-2019. Sublet space is finally easing up, which will help take pressure off rents going forward, and we expect rates to rise further as landlords continue to push to accommodate the flight to quality.

### ASKING RENT - MIDTOWN SOUTH



### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

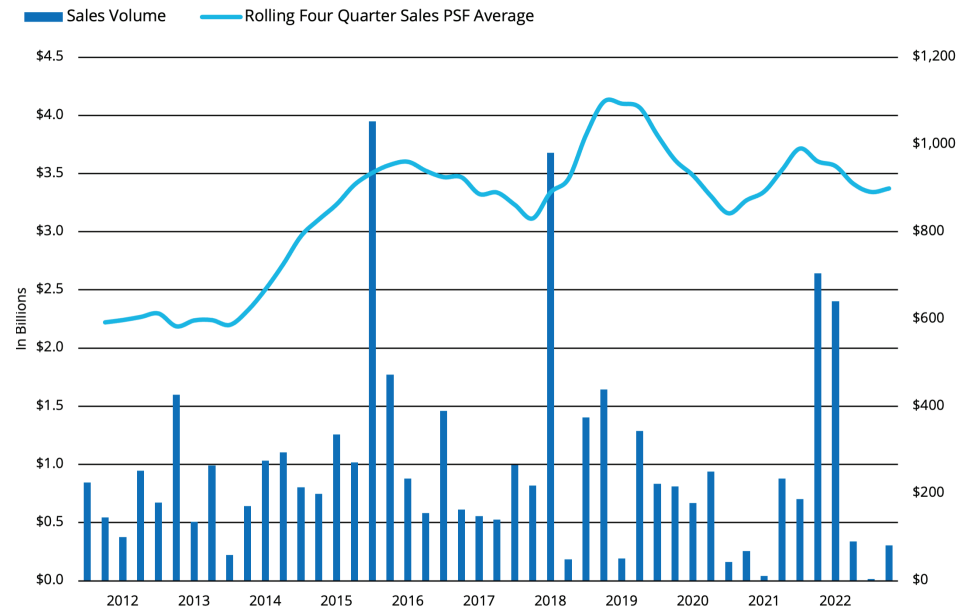


### SALES

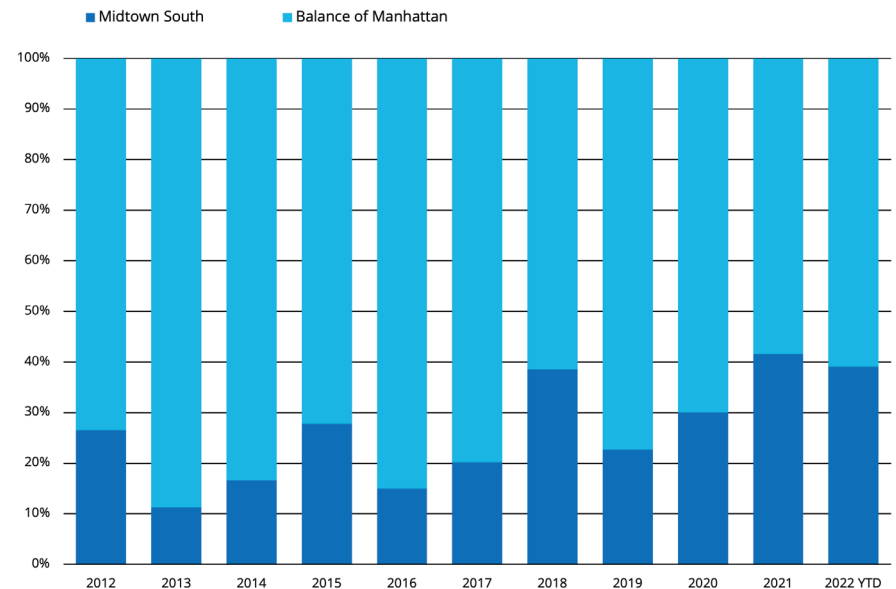
#### Transaction volume remains low in Midtown South

- Midtown South saw only a handful of transactions this quarter, summing to deal volume of \$303.7 million.
- Annual volume approached \$3.1 billion, owing largely to the \$2 billion sale of 550 Washington Street in the first quarter. The total was about 28% below the 2021 result of \$4.3 billion.
- The largest core transaction in Q4 was the sale of the minority interest in 200 Fifth Avenue. Boston Properties bought the asset for a reputed \$280.2 million, valuing the building at just over \$1 billion and working out to pricing of more than \$1,100 PSF for sellers L&L and JPM Asset Management.
- Higher interest rates and the overall economic climate contributed to investors' reluctance to take on debt through the second half of 2022. New York City was not exempt from this phenomenon and sales did not finish the fourth quarter as strongly as anticipated, despite several high-profile transactions.
- As we move into 2023, transaction volume will likely remain constrained due to limited liquidity, ongoing price discovery, and limited occupancy levels in office product.

### SALES VOLUME - MIDTOWN SOUTH



### MIDTOWN SOUTH % OF MANHATTAN TOTAL



Source: Real Capital Analytics, Transwestern



## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
FEDCAP GROUP	124 E 14 <sup>th</sup> St	Gramercy Park	Direct	85,000
DAVID ZWIRNER GALLERY	520 W 20 <sup>th</sup> St	Chelsea	Direct	36,000
COMPSTAK	675 Ave of the Americas	Chelsea	Direct	25,600

## NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
1 MADISON AVE	Gramercy Park	553,000	Direct
105 MADISON AVE	Gramercy Park	133,500	Direct
625 AVE OF THE AMERICAS	Chelsea	105,500	Direct
1 HUDSON SQ	Hudson Square	80,500	Sublet
568-578 BROADWAY	Soho	60,000	Direct

## NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
200 FIFTH AVENUE	Midtown South	\$280,200,000*+	878,000	\$1182	Boston Properties	L&L JV JPM Asset Mgmt

Source: CoStar, Real Capital Analytics, Transwestern

\* Partial Interest

+ Price estimated

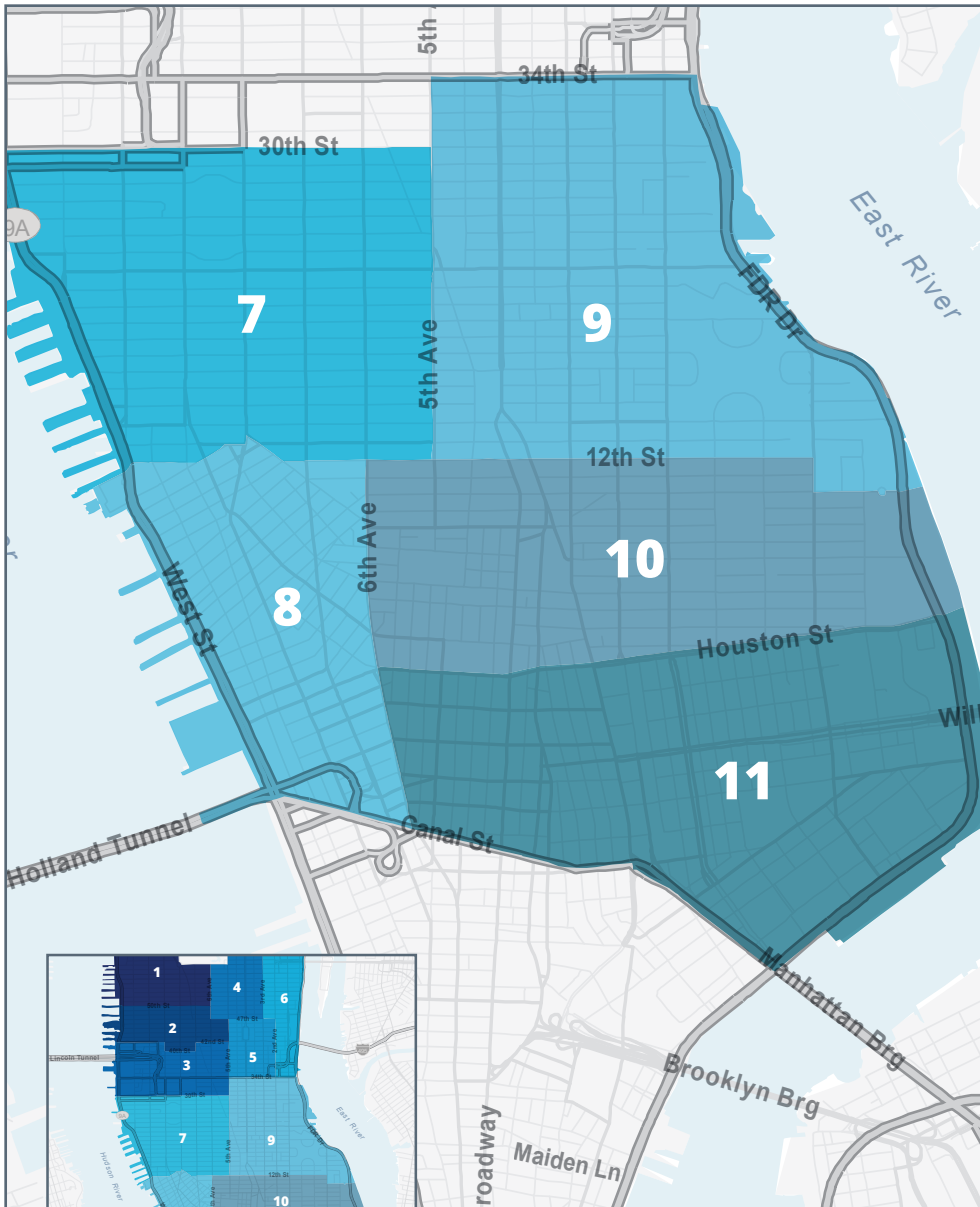


**MARKET INDICATORS**

All Classes of Space | Q4 2022

SUBMARKET	INVENTORY SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	OVERALL AVAILABILITY RATE	OVERALL VACANCY RATE	CLASS A AVERAGE RENT PSF	CLASS B AVERAGE RENT PSF	OVERALL AVERAGE RENT PSF
<b>CHELSEA/FLATIRON</b>	26,505,311	60,150	483,446	17.1%	15.9%	\$97.83	\$60.13	\$66.09
<b>GRAMERCY PARK</b>	32,042,701	-351,767	-231,773	21.6%	19.4%	\$101.81	\$63.36	\$83.28
<b>GREENWICH VILLAGE</b>	5,569,810	31,397	-591,252	19.9%	13.8%	\$109.28	\$108.55	\$108.60
<b>HUDSON SQUARE</b>	9,572,395	-214,355	-439,658	21.2%	12.4%	\$88.85	\$72.78	\$84.27
<b>SOHO</b>	5,716,180	-63,929	49,076	15.7%	14.7%	\$76.70	\$73.59	\$75.06
<b>MIDTOWN SOUTH TOTAL</b>	<b>79,406,397</b>	<b>-538,504</b>	<b>-730,161</b>	<b>19.5%</b>	<b>16.7%</b>	<b>\$97.36</b>	<b>\$67.84</b>	<b>\$79.29</b>

Source: CoStar, Transwestern



### NEW YORK OFFICE SUBMARKETS

#### Midtown

- 1 Columbus Circle
- 2 Times Square
- 3 Penn Plaza
- 4 Plaza District
- 5 Grand Central
- 6 East Side

#### Midtown South

- 7 Chelsea/Flatiron
- 8 Hudson Square
- 9 Gramercy Park
- 10 Greenwich Village
- 11 Soho

#### Downtown

- 12 City Hall/Tribeca
- 13 World Trade Center
- 14 Insurance District
- 15 Financial District

### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in Manhattan. This report includes single-tenant and multi-tenant Class A and B office properties with at least 100,000 SF in Midtown, 50,000 SF in Midtown South, and 75,000 SF in Downtown.

### FOR MORE INFORMATION

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### ABOUT TRANSWESTERN

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