

MIDTOWN MANHATTAN OFFICE MARKET

Q1 2023



TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	5.4	6.9	↓	7.3	↓
NET ABSORPTION (Thousands SF)	(524.1)	(2,142.7)	↑	(941.0)	↑
OVERALL VACANCY RATE	14.2%	12.7%	↑	10.5%	↓
OVERALL VACANT SF (MSF)	40.8	36.3	↑	29.2	↓
UNDER CONSTRUCTION (MSF)	2.2	9.6	↓	11.0	↑
ASKING RENT (PSF)	\$77.49	\$73.45	↑	\$80.82	↑
SALES VOLUME (Millions)	\$37.0	\$1,699	↓	\$1,577.7	↑

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

MIDTOWN SEES MIXED RESULTS

Midtown continues to be a tale of two markets as we enter 2023. Leasing totaled 2.8 MSF, driven by four leases exceeding 100,000 SF, including two substantial renewals. Still, with only a handful of new leases exceeding 50,000 SF, absorption remained negative, and availability increased from year-end. Rents slipped from Q4 but remain above their year-ago level, led by increased asking prices on Class A space.

“Tenants are continuing to get a handle on the shifting landscape as they balance hybrid work plans alongside a general concern over the current economic climate,” said Thomas Hines, Senior Vice President, Transwestern. “We are seeing tenants become more active as they recognize opportunities to leverage the market and take advantage of historically high availability. The landlords who have been forward-thinking with renovations and developed a unique identity for their assets are seeing the most success in attracting occupiers.”

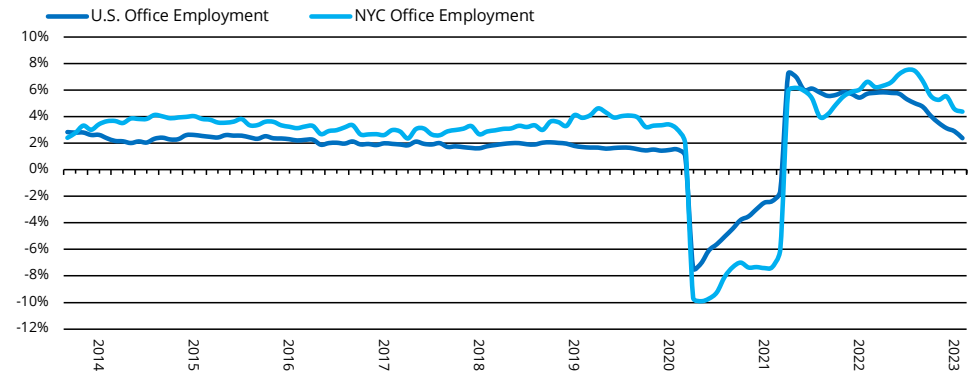


ECONOMY

NYC office employment still growing

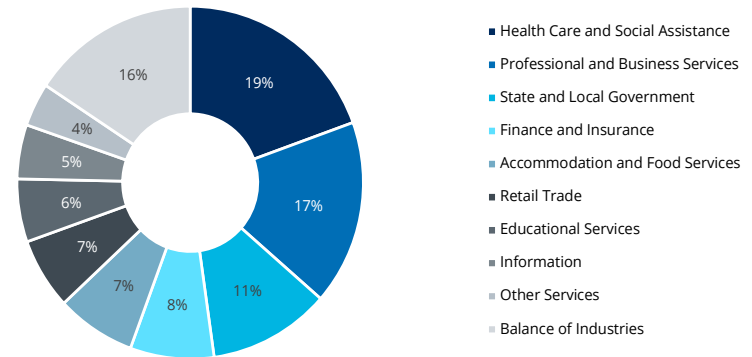
- New York City office employment is now 2% higher than the pre-COVID level, translating to almost 2.1 million office employees. Office jobs grew 4.4% from a year ago in February. Moreover, recent population data shows a large influx of Gen Z into New York City, infusing the workforce with young talent.
- Office jobs also continue to increase nationally, reaching 35.1 million positions as of February 2023, some 5.7% higher than the pre-COVID level. Annual job growth is normalizing but still above the pre-COVID pace at 2.4%.
- Helped by the strong showing in the office sector, New York City's overall unemployment rate is holding in the mid-5% range. The February rate of 5.4% is 1.5 percentage points [pp] below the year-ago level. National unemployment currently stands at 3.5%, on par with pre-COVID rates.
- New York City's Health Care & Social Assistance industry continues to add more jobs than any other sector, gaining about 73,100 jobs over the past year. Robust job increases were also seen in the Accommodation & Food Services sector and the Finance & Insurance sector; the latter added nearly 16,000 jobs in the past year despite its slower progress in earlier quarters. Information and Educational Services were among the sectors showing declines year-over-year.
- New York's economy faces challenges, including tech job layoffs, federal interest rate hikes, and the recent banking crisis, any of which could lead to a bump in unemployment over the next few quarters. Additionally, Kastle office data suggests reoccupancy levels are below 50% and have not made any real progress over the last six months. While the hybrid and work-from-home trends mean there is less correlation between lower employment levels and decrease in office usage than there has been historically, the uncertain economic conditions are likely to weigh on the commercial real estate market in the near term.

Y-O-Y CHANGE IN OFFICE JOBS



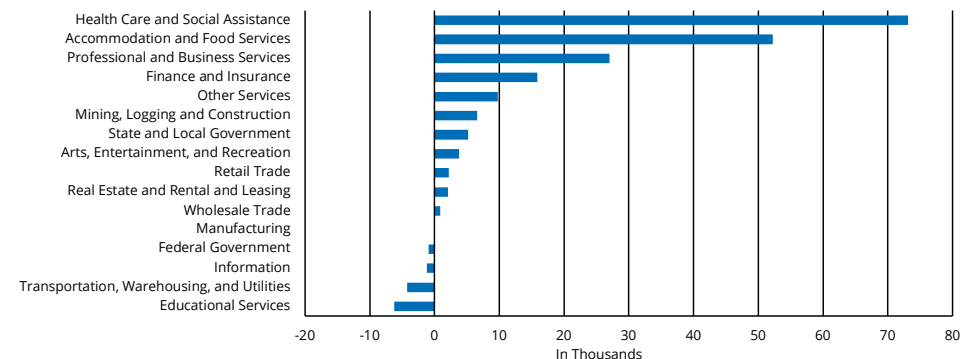
SHARE OF EMPLOYEES BY INDUSTRY

New York City | February 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



Source: Bureau of Labor Statistics, Transwestern

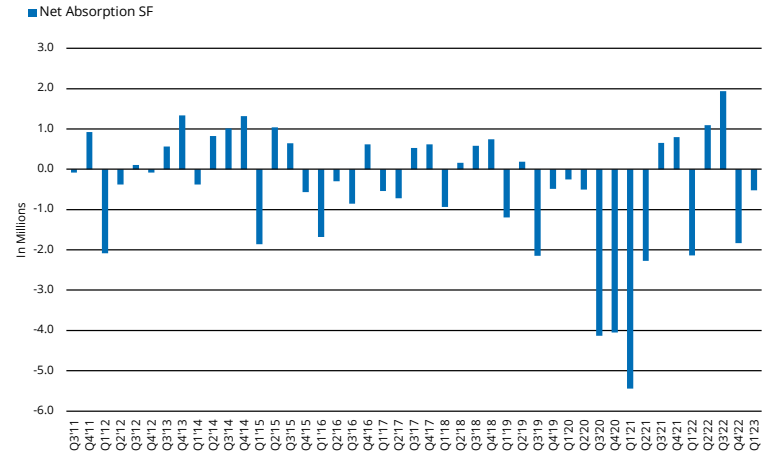


NET ABSORPTION

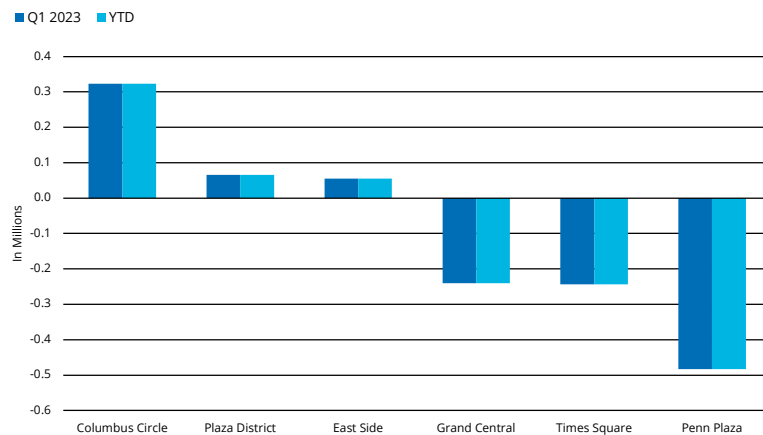
Midtown absorption remains negative

- Midtown recorded 524,100 SF of negative net absorption in the first quarter, an improvement on the negative 1.8 MSF of Q4 2022. The result was not out of scale with pre-pandemic levels. Rolling four quarter net absorption was positive at 674,300 SF, compared with negative 3 million SF in the prior four quarters (Q2 2021 - Q1 2022).
- Columbus Circle was Midtown's only submarket to show significant positive absorption. While there were no substantial new leases in the submarket, a 536,600 SF block was removed from availability due to 1740 Broadway's status with the special servicer, contributing to 322,600 SF of positive absorption. The largest deal in the submarket was CBS Broadcasting's renewal of its 186,900 SF space at 555 W 57th Street.
- The addition of nine large blocks totaling almost 995,000 SF contributed to 483,400 SF of negative net absorption in the Penn Plaza submarket. The block additions were somewhat balanced by new leases as STV relocated to 65,250 SF at 350 Fifth Ave, Jordache fashioned 47,000 SF at 1385 Broadway, and LM Cohen tallied up 31,400 SF at 1359 Broadway.
- Midtown's largest new deal was Citadel's 393,150 SF master lease of 40 E 52nd Street in the Plaza District. Citadel also signed the quarter's largest overall deal in a renewal and expansion covering 585,500 SF at nearby 350 Park Avenue, which did not significantly affect absorption. The new Citadel lease and a 119,000 SF lease from Wilson Sonsini at 31 W 52nd Street helped keep Plaza District absorption in positive territory despite large block additions at 9 W 57th Street and 1270 Avenue of the Americas.
- Absorption levels have been constrained the last two quarters as leasing slowed amid economic uncertainty. However, recent renewals and expansions by established companies should help generate further confidence as we move through 2023.

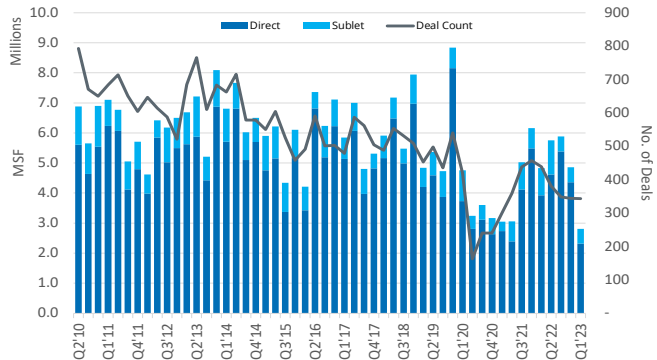
NET ABSORPTION - MIDTOWN



NET ABSORPTION BY SUBMARKET



MIDTOWN LEASING ACTIVITY



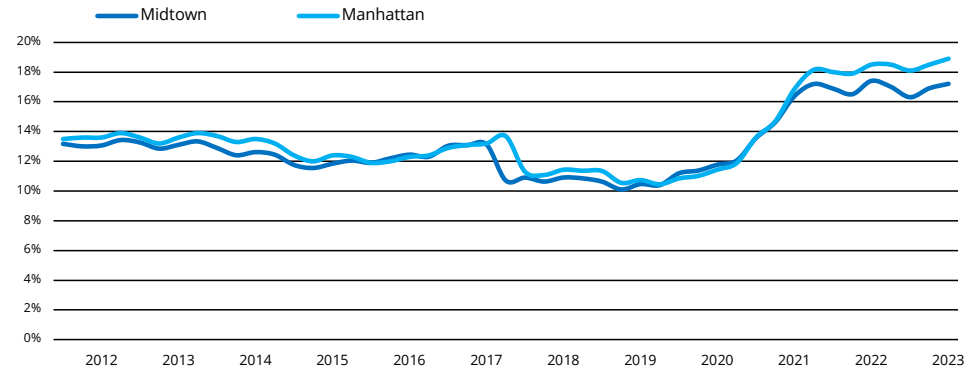


AVAILABILITY

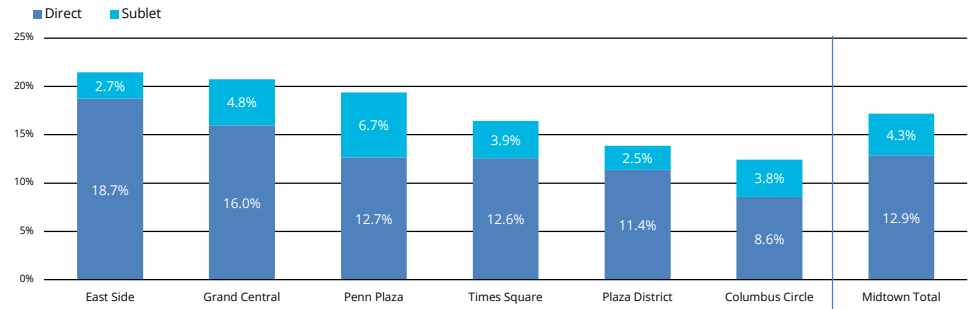
Midtown availability still trending below the Manhattan average

- Midtown’s overall availability rate increased 0.3 pp to 17.2% in Q1 2023, though this is 0.2 pp below the submarket peak posted one year ago and 1.7 pp below the Manhattan level.
- Both direct and sublet availability increased from last quarter in Midtown as a slowdown in leasing met up with roughly two dozen block additions exceeding 50,000 SF. Seven of these were sublet blocks, three of which exceeded 100,000 SF, driving sublet availability to 4.3%, its highest level in at least ten years. Sublet availability now represents more than 25% of all available space in Midtown.
- Most of Midtown’s smaller submarkets experienced a rise in overall availability, with Grand Central and Penn Plaza recording the largest increases from last quarter at 0.7 pp each. Penn Plaza’s sublet availability rate has risen for four straight quarters and is the highest in Midtown at 6.2%; sublet blocks exceeding 100,000 SF were added at 1440 Broadway, 450 West 33rd Street, and 1633 Broadway in Q1.
- In contrast, Columbus Circle’s overall availability dropped 1.2 pp from Q4 and remains the lowest in Manhattan at 12.4%. The East Side submarket also experienced a small decrease in availability to 21.5%, though this is still one of the highest levels in Manhattan.
- Midtown has maintained an availability rate below the Manhattan average since the onset of the pandemic while continuing to follow the market’s general trend. Negative absorption and excess sublet space are keeping availability elevated as reoccupancy stalls, but these conditions also favor tenants who are actively looking in Midtown.

SUBMARKET AVAILABILITY VS MANHATTAN



SUBMARKET AVAILABILITY



Source: CoStar, Transwestern

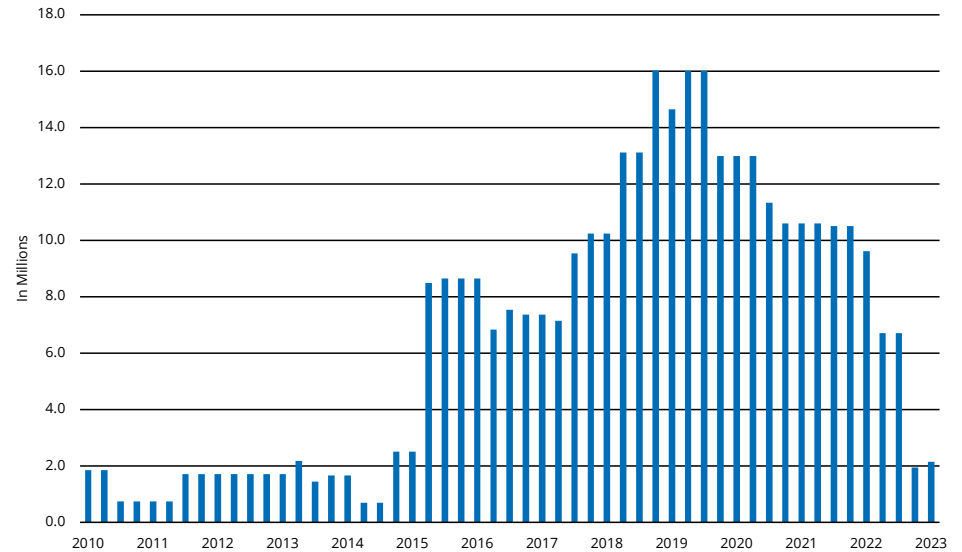


UNDER CONSTRUCTION

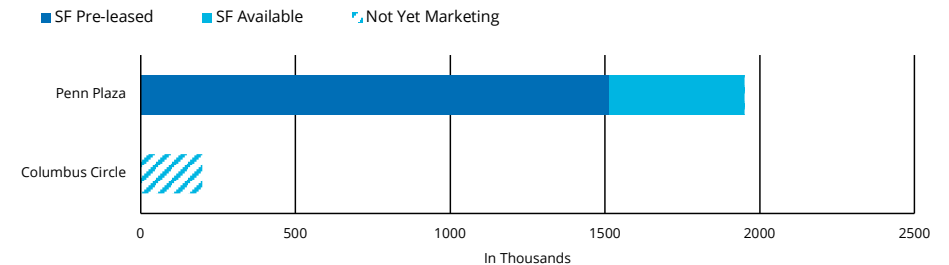
Development slows, but Midtown stays in the game

- With the completion of 50 Hudson Yards and The Spiral at 66 Hudson Boulevard last quarter, construction activity in Midtown is tapering off, but there are still a number of active projects generating interest.
- In Midtown’s Penn Plaza submarket, where most of the recent new construction has been centered, the 2.0 MSF tower known as Two Manhattan West (385 Ninth Avenue) is due to complete this year. The property is 78% leased. In the Columbus Circle submarket, a 200,000 SF tower at 125 West 57th Street is underway with delivery expected in 2025. This will be the first new core construction in Columbus Circle since the 2014 completion of 250 W 55th Street.
- Elsewhere in Midtown, there are major renovations taking place at 390 Park Avenue in the Plaza District and 330 W 42nd Street in the Times Square submarket, the latter of which is being eyed for residential conversion as well. Several demolition sites, including 343 Madison Avenue and 415 Madison Avenue in the Grand Central submarket, are prepping for new office towers.
- Additionally, there is 8.9 MSF of core office space proposed or planned in Midtown over the next few years, including two towers that would top 2 MSF each. The likeliness of these projects getting underway depends largely on an improvement in economic conditions and investor confidence.

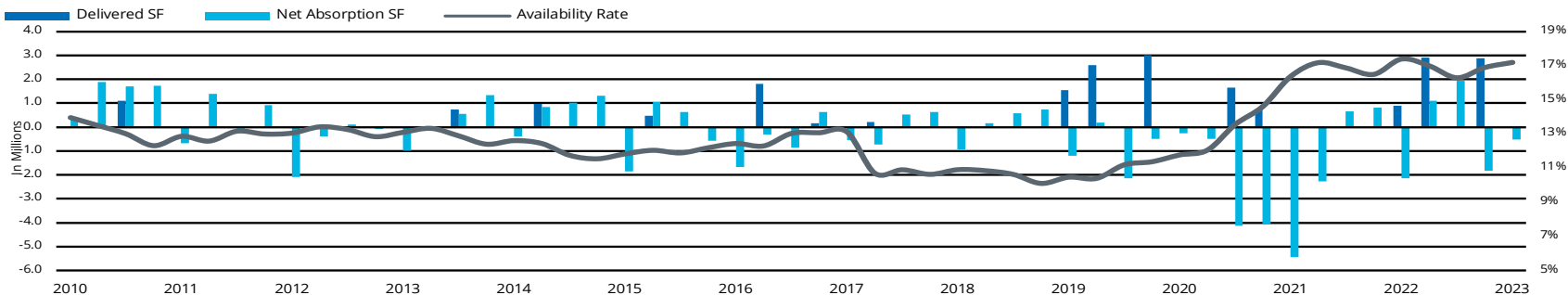
UNDER CONSTRUCTION - MIDTOWN



UNDER CONSTRUCTION BY SUBMARKET



DELIVERY IMPACT ON KEY INDICATORS



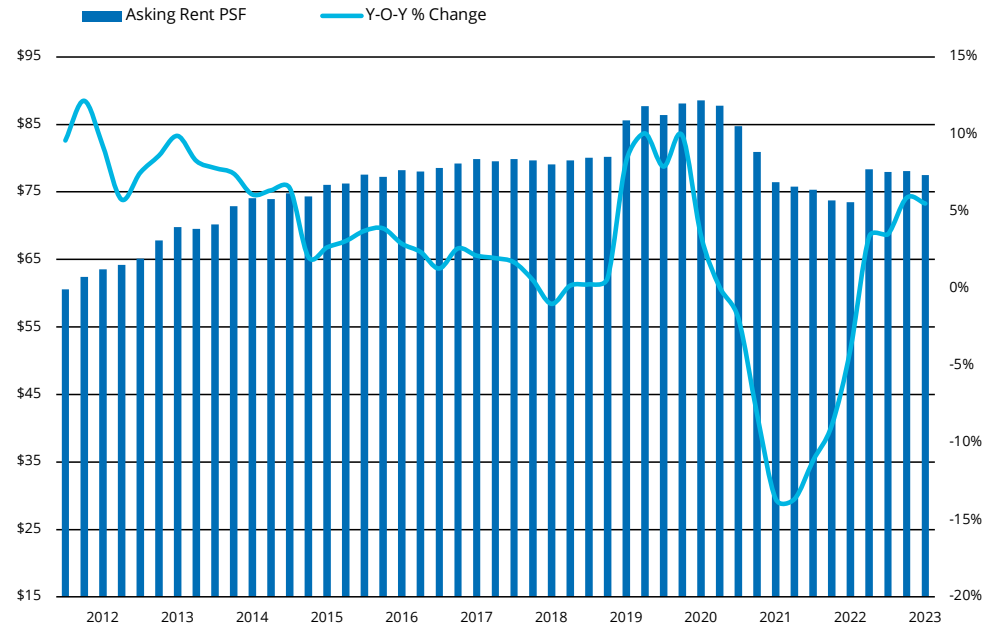


RENTAL RATES

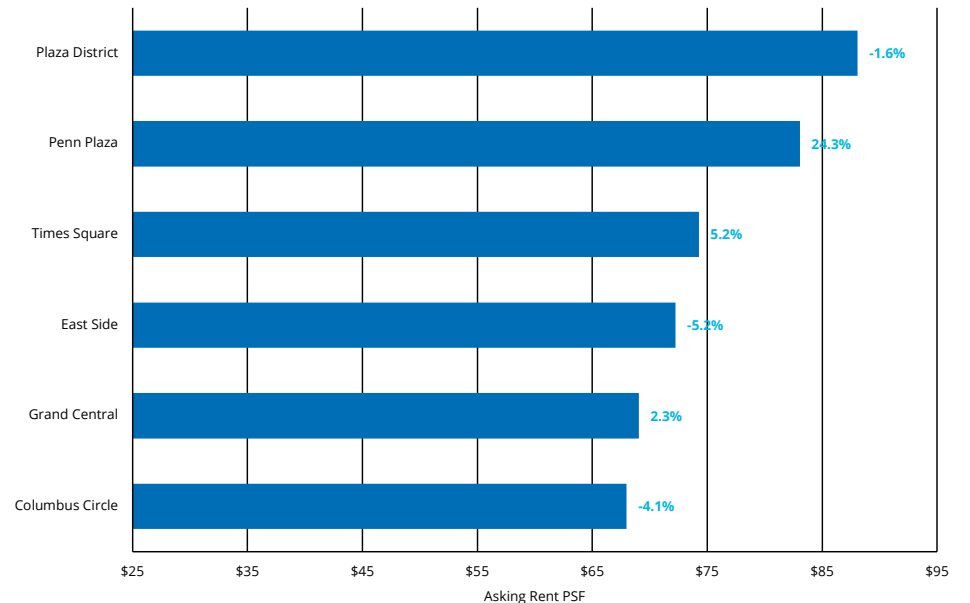
Midtown rents see uneven rise

- Midtown’s average asking rents grew by 5.5% year-over-year, their fourth straight quarter of year-over-year growth. Asking rents now average \$77.49 PSF, a small decrease from the Q4 2022 level and 12.5% below their early 2020 peak.
- Rents are seeing pockets of increase all over Midtown, and much of the growth can be attributed to high asking prices at new and renovated trophy assets like 66 Hudson Boulevard (The Spiral), Penn 1, 425 Park Avenue, 30 Hudson Yards, One Manhattan West, and 550 Madison Avenue. Most of these have large blocks of space available, and are asking over \$100 PSF, in some cases over \$200 PSF.
- On the other hand, excess sublet space is still applying downward pressure on rental rates, resulting in the gradual and uneven growth pattern seen over the last year.
- Amid this restrained environment, we are seeing increased opportunities for tenants, particularly at non-trophy and Class B assets, as well as buildings with high vacancies. Rents should begin rising again as the market stabilizes and landlords push further to accommodate the flight to quality.

ASKING RENT - MIDTOWN



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



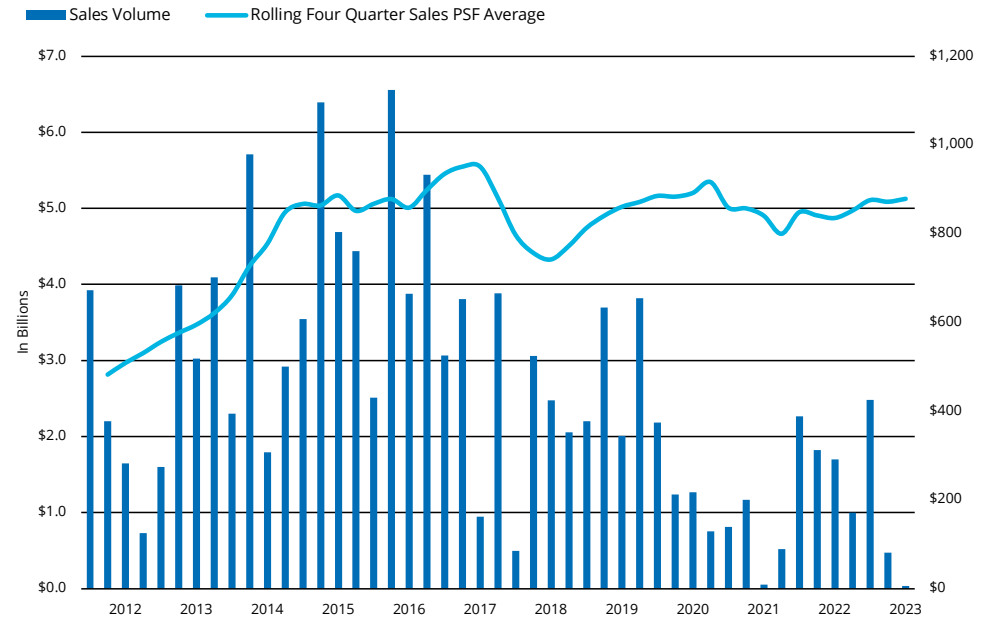


SALES

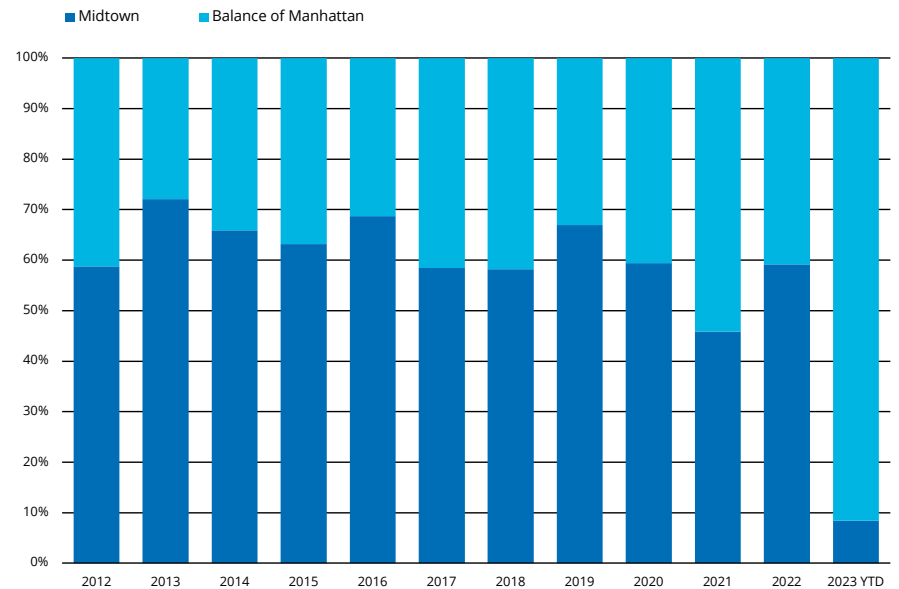
Transaction sales are quiet in Q1

- Midtown posted its lowest sales volume in at least a decade with just \$37 million trading hands and no core office trades closed. Rolling four-quarter volume sank to \$4 billion, compared with \$6.3 billion traded in the prior four quarters.
- Midtown’s most notable first quarter deal was not completed; the landmark Flatiron Building at 175 Fifth Avenue was auctioned off for \$190 million in March, but failed to receive a deposit from the buyer, requiring a repeat auction, now scheduled for Q2.
- A few high-profile deals are pending in Midtown. These include 529 Fifth Avenue in the Grand Central submarket, which will be sold to Empire Capital Holdings for a reported \$105 million, working out to \$383 PSF for seller Silverstein Properties. Additionally, 126 East 56th Street is in contract to sell to Sovereign Partners for \$110 million, or \$611 PSF. Pearlmark currently owns the property, known as Tower 56, in the Columbus Circle submarket.
- Higher interest rates and the overall economic climate contributed to investors’ reluctance to take on more debt as we entered 2023. Transaction volume will likely remain constrained over the next several quarters due to banking uncertainty, limited liquidity, ongoing price discovery, and reduced occupancy levels in office product.

SALES VOLUME - MIDTOWN



MIDTOWN % OF MANHATTAN TOTAL





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
CITADEL	350 Park Ave	Plaza District	Direct Renewal / Expansion	585,500
CITADEL	40 E 52nd St	Plaza District	Direct	393,200
CBS	555 W 57th St	Columbus Circle	Direct Renewal	186,900
WILSON SONSINI GOODRICH & ROSATI	31 W 52nd St	Plaza District	Direct	119,000
JOELE FRANK	22 Vanderbilt Ave	Grand Central	Direct	78,400

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
450 W 33 RD ST	Penn Plaza	310,900	Sublet
1440 BROADWAY	Penn Plaza	289,600	Sublet
825 EIGHTH AVE	Times Square	167,700	Direct
99 PARK AVE	Grand Central	164,400	Direct
555 W 57 TH ST	Columbus Circle	142,100	Direct

Source: CoStar, Real Capital Analytics, Transwestern

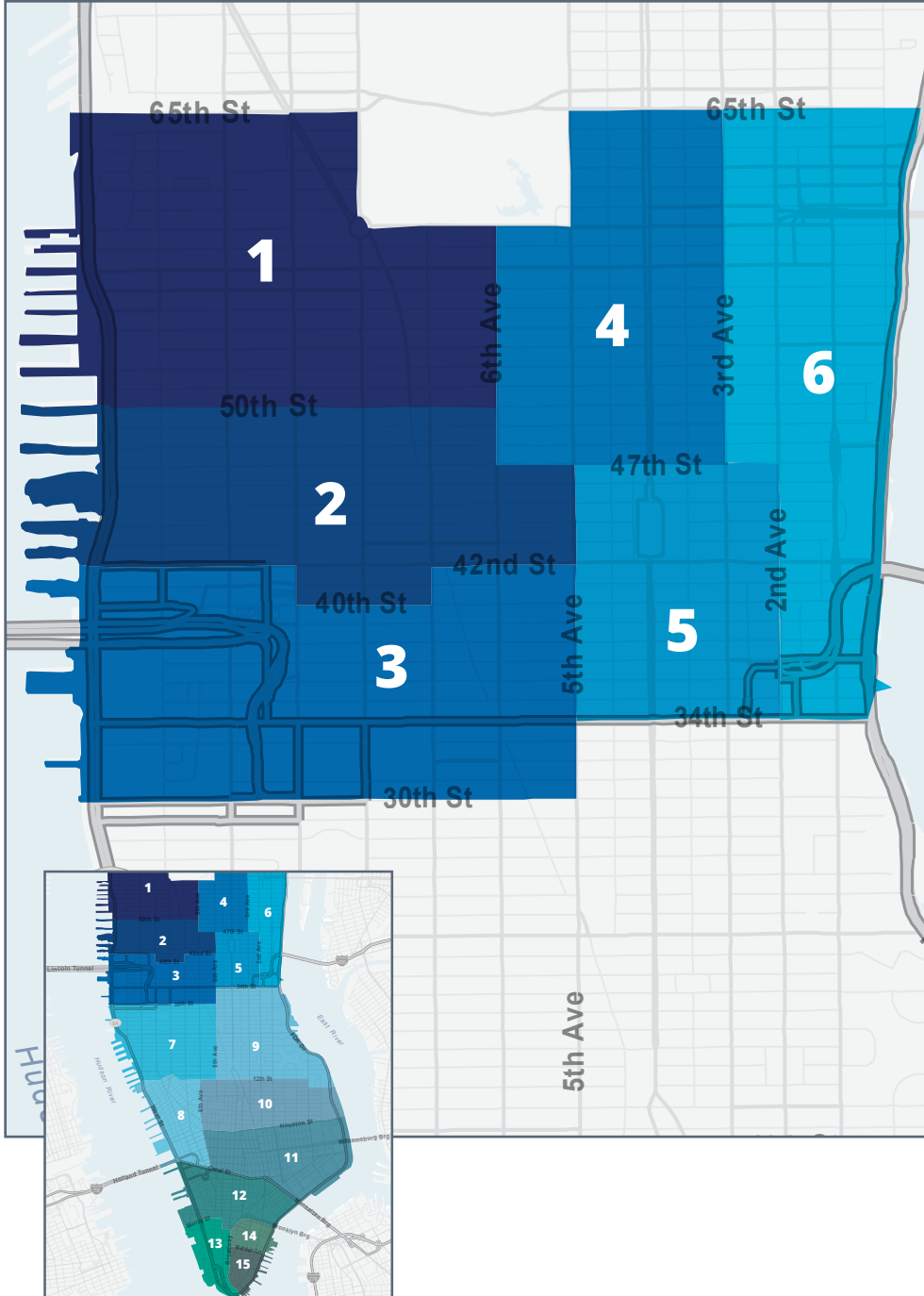


MARKET INDICATORS

All Classes of Space | Q1 2023

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
COLUMBUS CIRCLE	31,032,095	322,619	322,619	12.4%	10.5%	\$70.54	\$59.04	\$67.99
EAST SIDE	14,930,788	55,027	55,027	21.5%	19.8%	\$72.40	\$52.83	\$72.24
GRAND CENTRAL	57,402,954	-240,444	-240,444	20.8%	16.6%	\$70.47	\$60.12	\$69.04
PENN PLAZA	69,422,476	-483,443	-483,443	19.4%	14.1%	\$97.05	\$56.76	\$83.05
PLAZA DISTRICT	71,231,016	65,950	65,950	13.9%	12.7%	\$88.12	\$87.37	\$88.08
TIMES SQUARE	43,521,362	-243,778	-243,778	16.4%	14.2%	\$78.15	\$58.26	\$74.27
MIDTOWN TOTAL	287,540,691	-524,069	-524,069	17.2%	14.2%	\$81.42	\$59.65	\$77.49

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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