



TRANSWESTERN

MIDTOWN SOUTH 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)	(704.4)	778.5	↓	(397.2)	↑
OVERALL VACANCY RATE	18.0%	13.0%	↑	10.5%	↓
OVERALL VACANT SF (MSF)	14.5	10.5	↑	8.2	↓
UNDER CONSTRUCTION (MSF)	0.5	1.6	↓	1.3	↔
ASKING RENT (PSF)	\$77.25	\$71.54	↑	\$77.59	↑
SALES VOLUME (Millions)	\$131.2	\$2,401.3	↓	\$892.8	↔

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

MIDTOWN SOUTH HOLDING STEADY

Midtown South began 2023 similar to how it ended 2022—with record-high availability, negative net absorption, and modest rent growth. The submarket recorded 1.2 MSF of leasing activity in Q1, including two deals exceeding 50,000 SF. One of these was a substantial renewal, which, along with several smaller relocations from other submarkets, signifies the continued desirability of Midtown South relative to its peer submarkets.

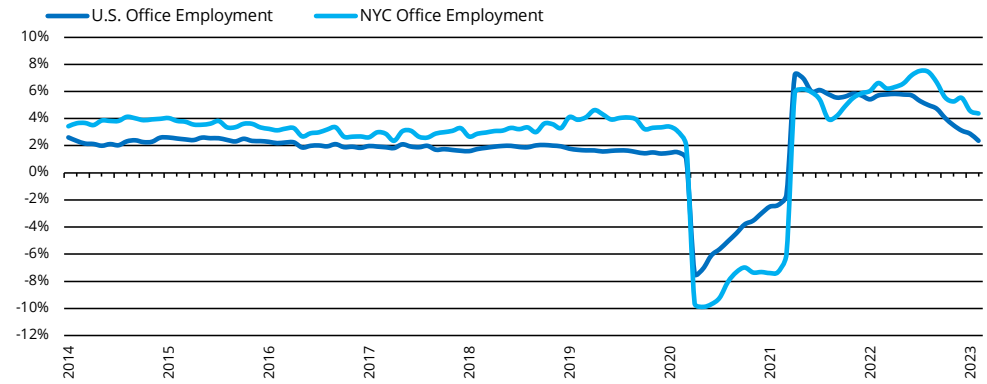
“Tenants are continuing to get a handle on the shifting landscape as they balance hybrid work plans alongside a general concern over the current economic climate,” said Thomas Hines, Senior Vice President, Transwestern. “We are seeing tenants become more active as they recognize opportunities to leverage 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

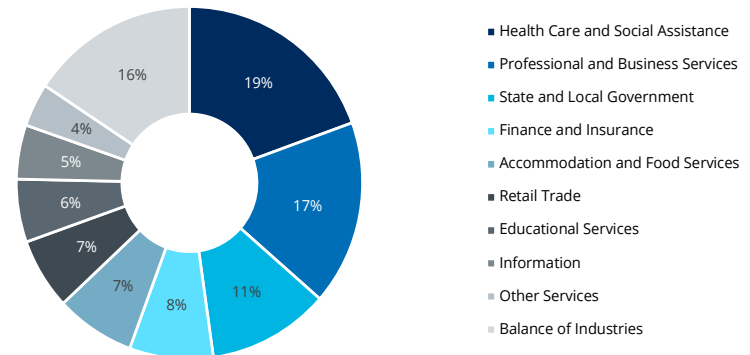
- New York City office employment is now 2% higher than the pre-COVID level, translating to almost 2.1 million office employees. Office jobs grew 4.4% from a year ago in February. Moreover, recent population data shows a large influx of Gen Z into New York City, infusing the workforce with young talent.
- 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



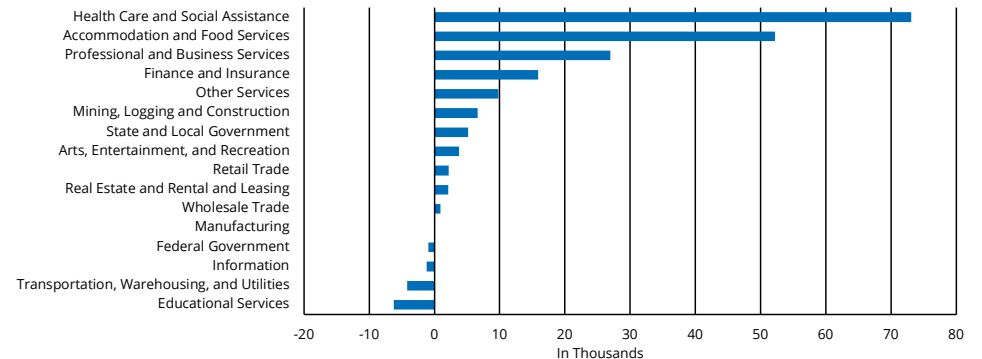
SHARE OF EMPLOYEES BY INDUSTRY

New York City | February 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



Source: Bureau of Labor Statistics, Transwestern

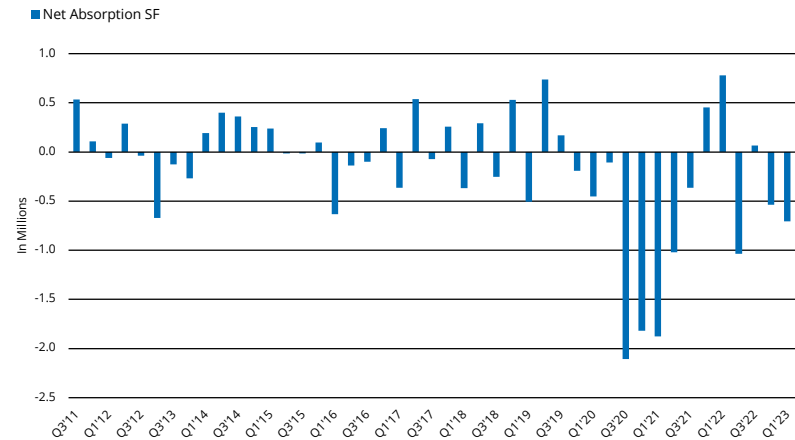


NET ABSORPTION

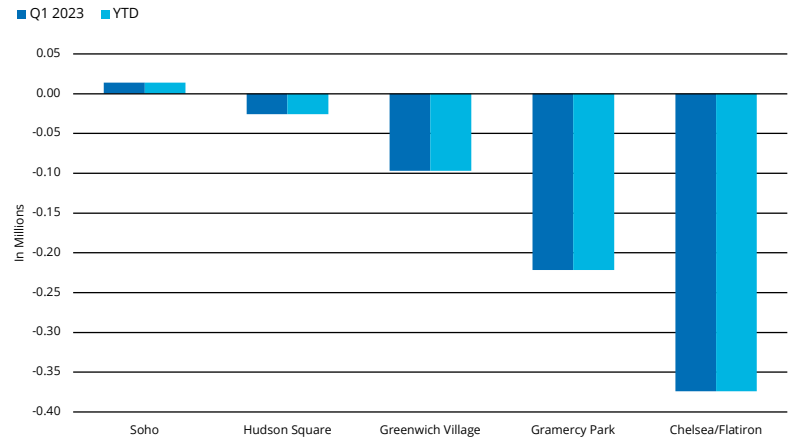
Midtown South absorption remains negative

- Midtown South logged 704,400 SF of negative net absorption in the first quarter, slightly worse than the Q4 2022 result. In comparison, Q1 2022 absorption was positive at 778,500 SF.
- Soho logged the only positive absorption among Midtown South’s submarkets this quarter, though mostly flat at 13,800 SF. There were no large new leases in Soho and only one block addition that exceeded 50,000 SF.
- The Chelsea/Flatiron submarket recorded Midtown South’s weakest absorption at negative 373,900 SF. The submarket faced four large block additions amid quiet leasing activity, the largest new deals being a 21,200 SF lease from FirstMark at 641 Avenue of the Americas and a 20,000 SF commitment by Brown Harris Stevens at 100 Fifth Avenue.
- Midtown South has recorded negative absorption in three of the last four quarters, but we foresee improvement as new and upgraded inventory drives interest in the submarket. Recent commitments by established companies, such as Two Sigma’s 265,200 SF renewal at 100 Avenue of the Americas and retailer Esprit’s deal to establish a Global Creative Headquarters at 160 Varick Street, should help generate further confidence in 2023.

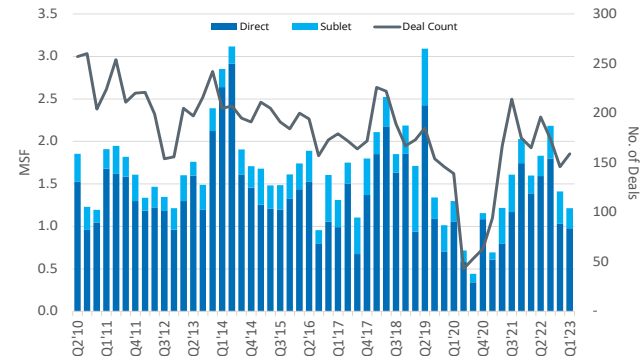
NET ABSORPTION - MIDTOWN SOUTH



NET ABSORPTION BY SUBMARKET



MIDTOWN SOUTH LEASING ACTIVITY



Source: CoStar, Transwestern

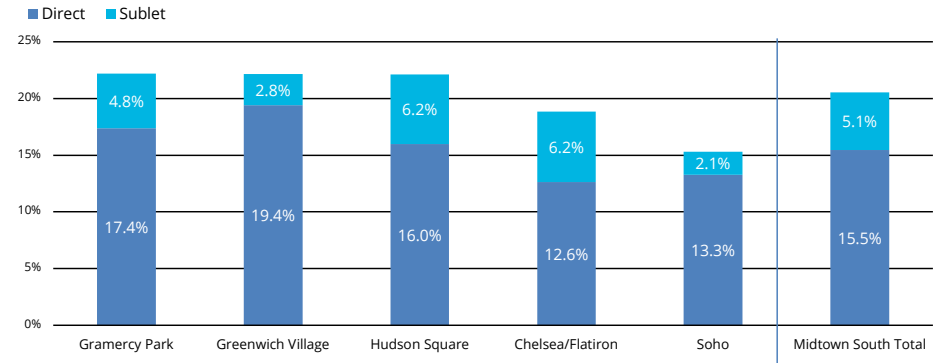


AVAILABILITY

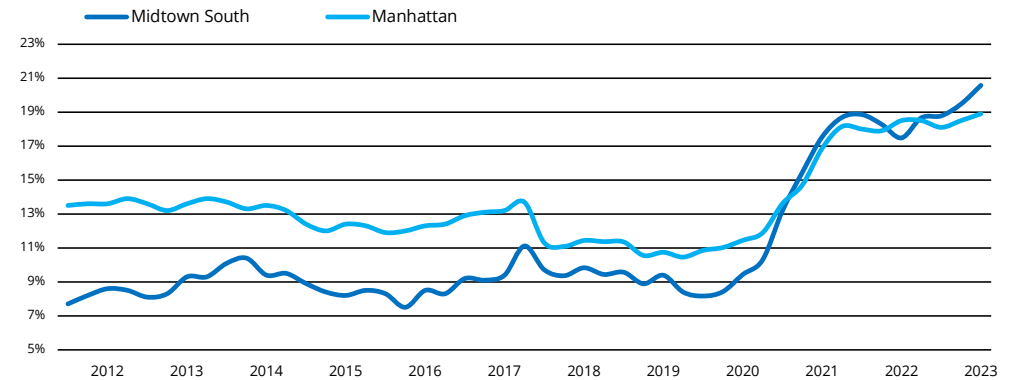
Sublet availability increases again amid rise in overall rate

- Midtown South’s availability rate increased to 20.6% in the first quarter, its highest on record. The rate is 3.1 pp higher than a year ago and 6.6 pp above the five-year rolling average.
- Eight blocks exceeding 50,000 SF were added to the submarket in Q1, contributing to the rise in availability. The blocks were a mix of sublet and direct space, driving availability to increase in each segment. Midtown South sublet availability now stands at 5.1%, just below its Q1 2021 peak.
- In the Chelsea/Flatiron submarket, where availability rose 1.7 pp from last quarter to 18.8%, large block additions included a 199,000 SF sublet from Twitter at 245-249 West 17th Street, a 98,400 SF triplex space at 115 W 18th Street, and an 80,700 SF full-building opportunity at 511 W 25th Street, where WeWork is moving out.
- Other large additions in Midtown South included a 143,800 SF direct block at 51 Astor Place in Greenwich Village, where IBM is preparing to depart for One Madison, and all the office space at 836 Broadway, amounting to over 72,000 SF, in the Gramercy Park submarket. These two submarkets, along with Hudson Square, are all citing availability levels above 20%.
- Midtown South’s availability rate has moved upward over the last four quarters amid economic uncertainty, particularly in the tech sector that comprises a large percentage of its tenants. However, pent-up demand from occupiers looking for an entry into this evolving submarket could help bring availability down as we move through 2023.

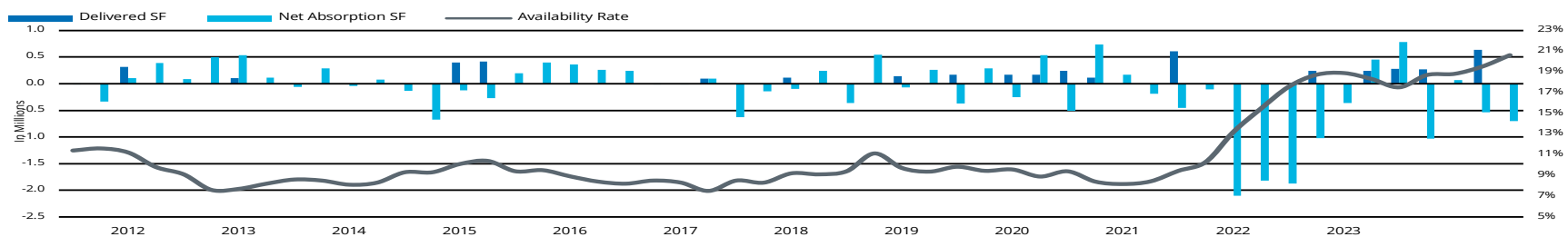
SUBMARKET AVAILABILITY



SUBMARKET AVAILABILITY VS MANHATTAN



DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

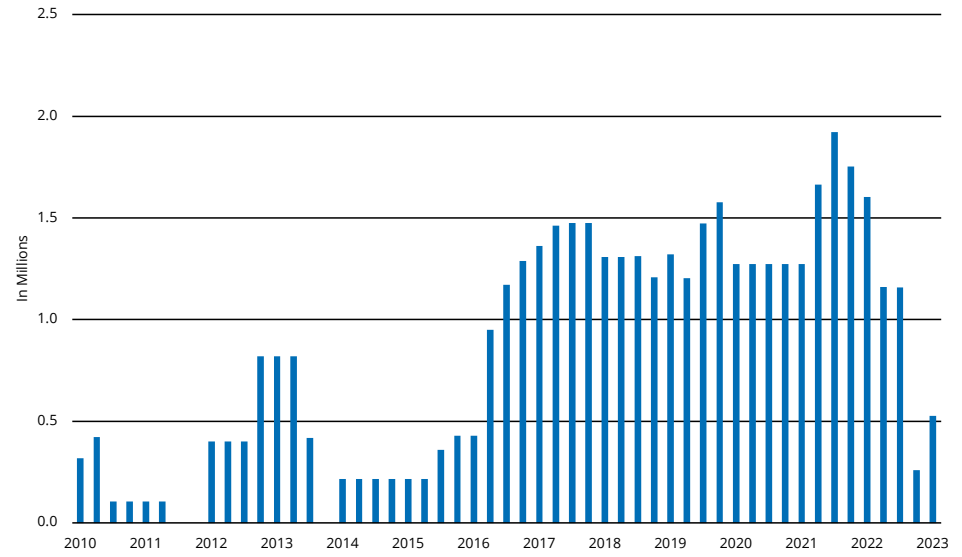


UNDER CONSTRUCTION

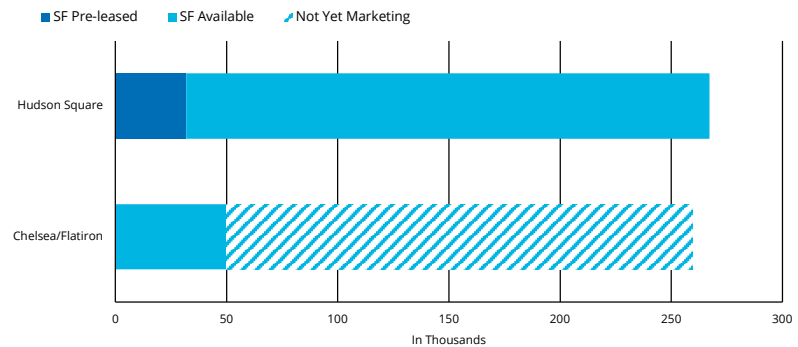
New development transforming Midtown South

- Midtown South has over half a million square feet of high-quality core office properties under construction. About 54% of that space is currently available for lease.
- Two of the major construction projects are located 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 the Hudson Square submarket, the 16-story 555 Greenwich Street is nearly complete, and in the Gramercy Park submarket, major renovations are underway at One Madison Avenue.
- Recent completions in Midtown South include the long-anticipated redevelopment of the Farley Post Office at 341 Ninth Avenue in Chelsea/Flatiron, and the redesign of 295 Fifth Avenue in Gramercy Park. The former is offering a 322,300 SF block of space from dentsu, which leased the space prior to the pandemic and offered it for sublease in mid-2020.
- Another 1.5 MSF of core office product is proposed in Midtown South. Most of this planned inventory is encompassed by a 1.1 MSF waterfront tower addressed at 260 Twelfth Avenue in the Chelsea/ Flatiron submarket. The likelihood of these projects getting underway depends on an improvement in market conditions and investor confidence.
- Midtown South has seen a growing divide between old and new, as modern office space with updated amenities has attracted a fresh set of occupiers. In addition to the planned new construction, 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

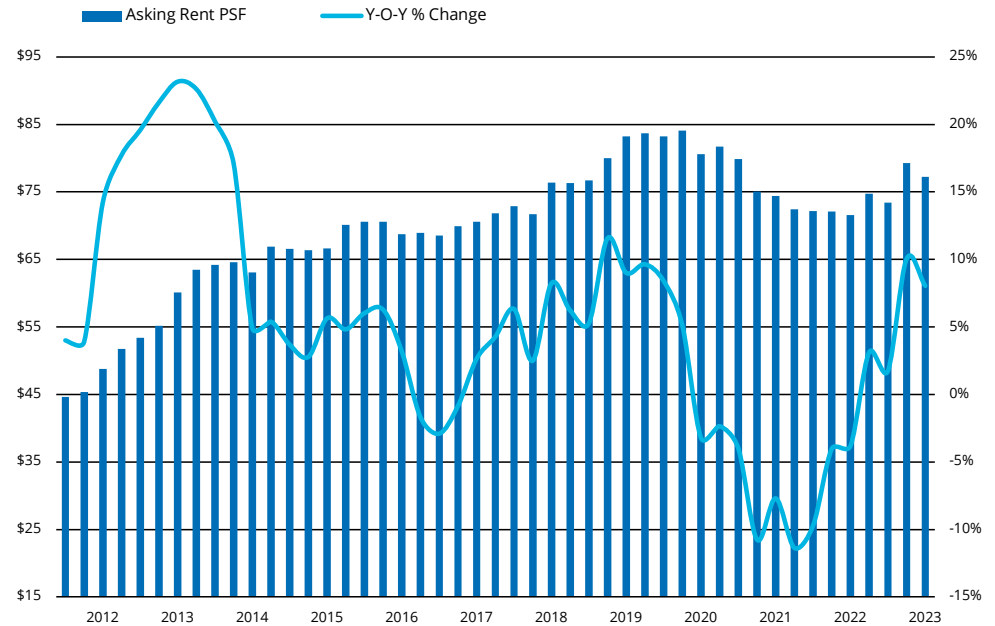


RENTAL RATES

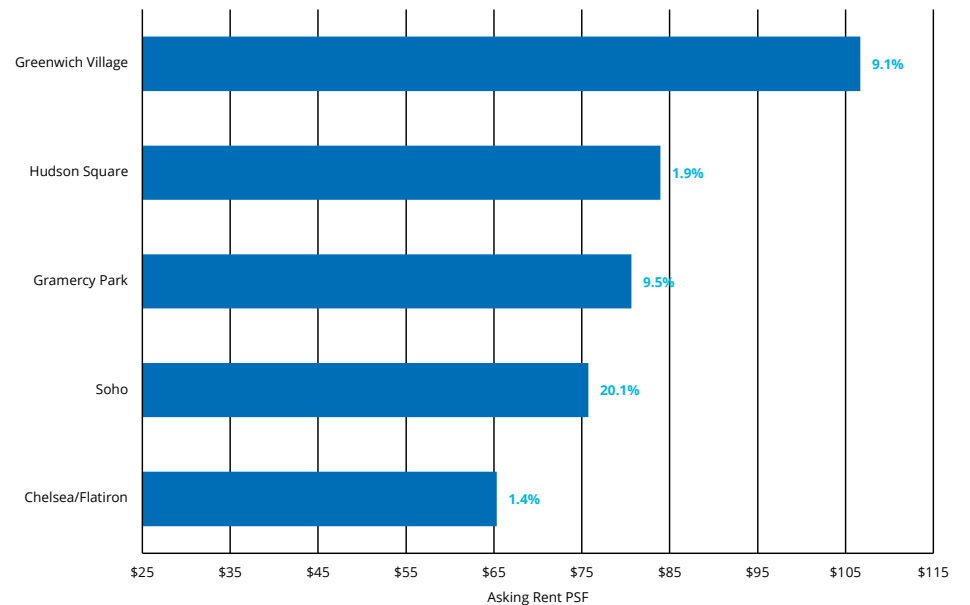
Annual rent growth boosted by trophy space

- Midtown South rents have now experienced four straight quarters of year-over-year growth. The average asking rent of \$77.25 per square foot is 8.1% higher than the year-ago level, and 8.2% below the 2019 peak.
- In contrast with the year-over-year growth, rents decreased 2.6% from Q4, leaving them back below their Midtown counterparts after surpassing them last quarter. Most of Midtown South’s submarkets experienced a decrease from last quarter as well.
- Class A trophy space has been driving overall rent growth in Midtown South, notably in buildings like the revamped One Madison; following Franklin Templeton’s commitment in 2022, the property has seen multiple deals north of \$150 psf. Leases signed at the building this quarter include 18,500 SF by 777 Partners, and 29,000 SF by Palo Alto Networks, both with starting rates above \$180 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. The submarket has seen a general upward movement in rents since 2022 as landlords push to accommodate the flight to quality, but the excess sublet space is keeping growth in check. Amid this more restrained environment, we are seeing increased opportunities for tenants, particularly at non-trophy and Class B assets.

ASKING RENT - MIDTOWN SOUTH



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

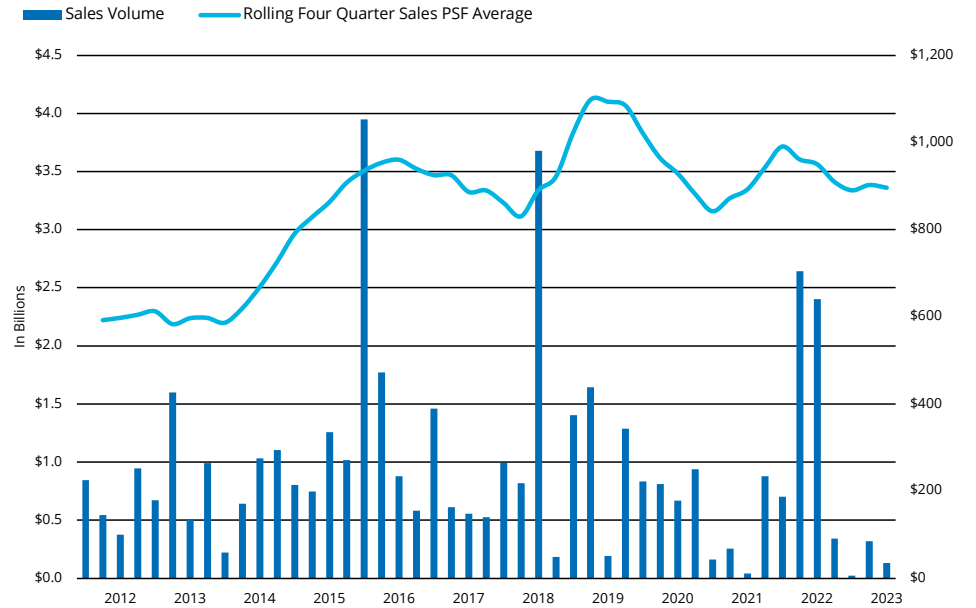


SALES

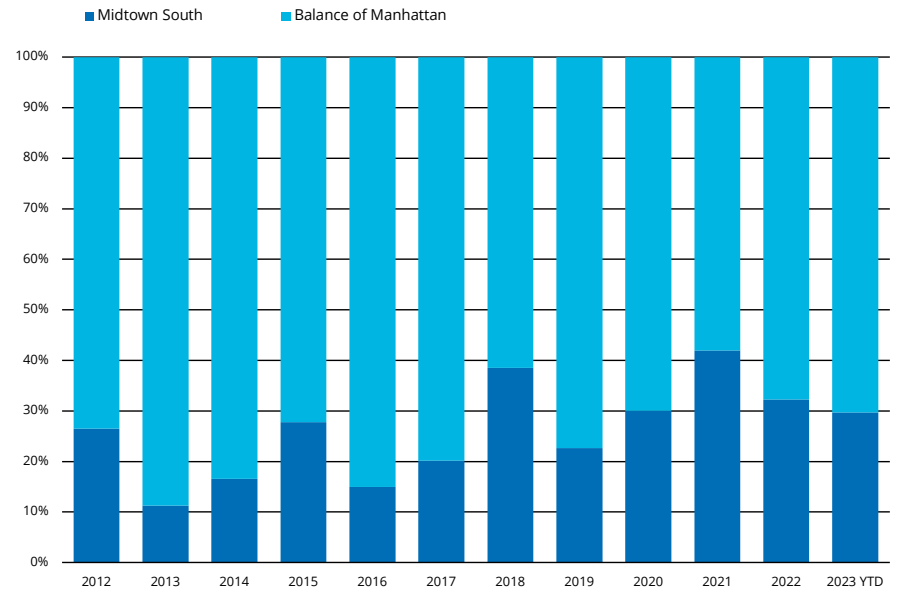
Transaction volume remains low in Midtown South

- Midtown South saw only a handful of transactions this quarter, summing to deal volume of \$131.2 million. Rolling four-quarter sales volume was \$816.6 million, compared with \$6.6 billion in the prior four quarters (Q2 2021-Q1 2022). For perspective, the average four-quarter rolling sales volume in the five years prior to the pandemic was almost \$4.9 billion.
- The largest core transaction in the first quarter was the sale of 149 Madison Avenue in the Gramercy Park submarket. The 119,000 SF asset was sold to Enchante Accessories for \$77 million, translating to \$647 per square foot for seller Columbia Property Trust (PIMCO).
- 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.

SALES VOLUME - MIDTOWN SOUTH



MIDTOWN SOUTH % OF MANHATTAN TOTAL



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
TWO SIGMA	100 Ave of the Americas	Soho	Direct Renewal	265,200
ESPRIT	160 Varick St	Hudson Square	Direct	38,300

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
245-249 W 17TH ST	Chelsea/Flatiron	198,900	Sublet
51 ASTOR PL	Greenwich Village	143,800	Direct
115 W 18TH ST	Chelsea/Flatiron	98,400	Direct
233 SPRING ST	Hudson Square	94,800	Sublet
511 W 25TH ST	Chelsea/Flatiron	80,700	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
149 MADISON AVE	Gramercy Park	\$77,000,000	119,000	\$647	Enchante Accessories	Columbia Property Trust (PIMCO)

Source: CoStar, Real Capital Analytics, Transwestern

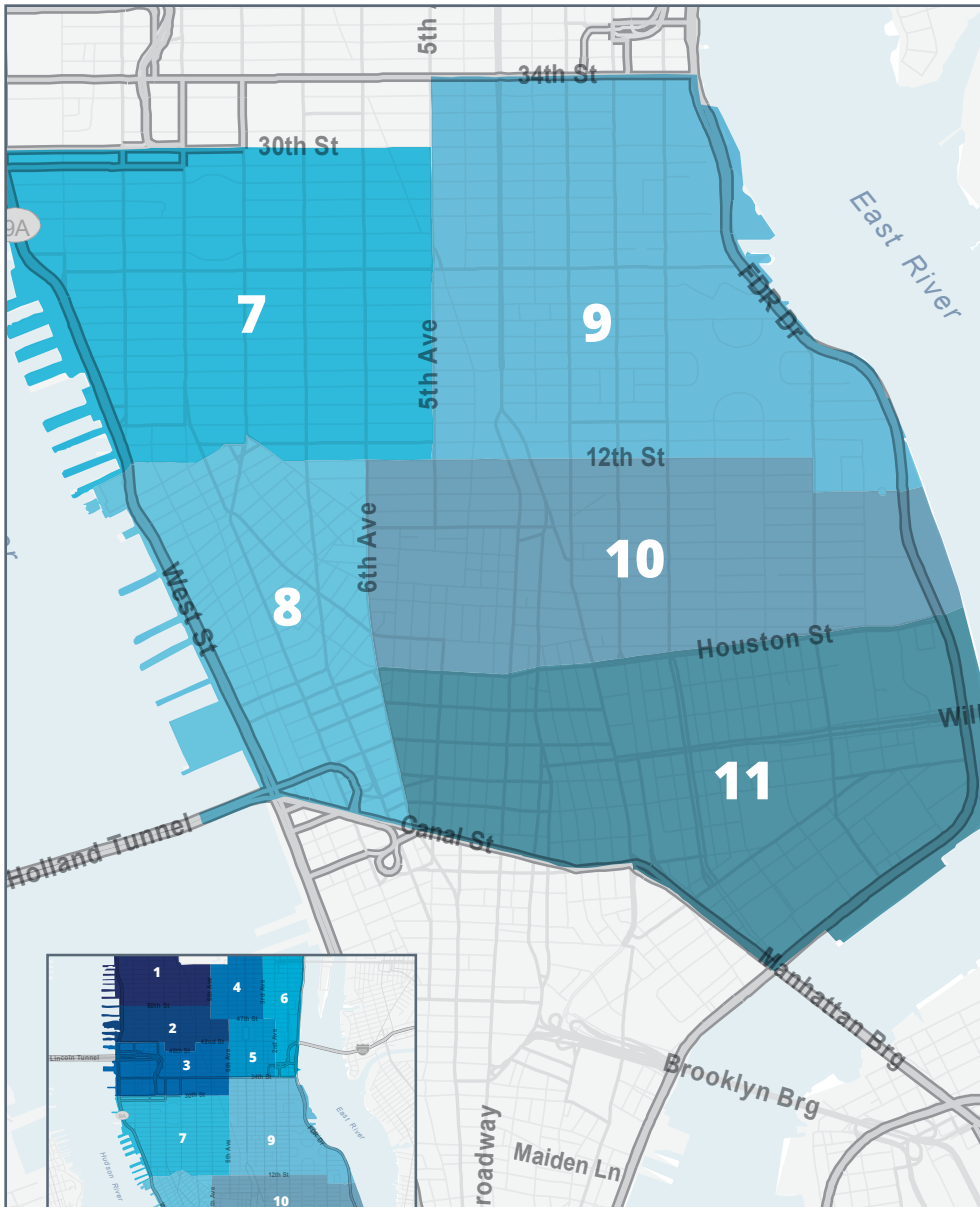


MARKET INDICATORS

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
CHELSEA/FLATIRON	26,965,204	-373,874	-373,874	18.8%	18.0%	\$91.72	\$60.52	\$65.32
GRAMERCY PARK	32,104,877	-221,792	-221,792	22.2%	19.5%	\$98.68	\$61.83	\$80.64
GREENWICH VILLAGE	5,648,768	-96,825	-96,825	22.2%	18.9%	\$111.93	\$106.14	\$106.68
HUDSON SQUARE	10,007,709	-25,688	-25,688	22.1%	14.5%	\$87.29	\$74.98	\$83.94
SOHO	5,971,485	13,789	13,789	15.3%	14.5%	\$77.65	\$73.26	\$75.74
MIDTOWN SOUTH TOTAL	80,698,043	-704,390	-704,390	20.6%	18.0%	\$94.30	\$66.66	\$77.25

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

[Corrie Slewett](#)

Research Manager - New York
National Tenant Advisory Research Leader

Corrie.Slewett@transwestern.com
212.537.7690

ABOUT TRANSWESTERN

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