

# MIDTOWN MANHATTAN OFFICE MARKET

Q2 2023



## TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	5.3	5.5	↓	7.3	↓
NET ABSORPTION (Thousands SF)	479.4	1,094.9	↓	(924.9)	↑
OVERALL VACANCY RATE	14.0%	13.1%	↑	10.7%	↓
OVERALL VACANT SF (MSF)	40.1	37.6	↑	30.0	↓
UNDER CONSTRUCTION (MSF)	0.2	6.7	↓	10.3	↔
ASKING RENT (PSF)	\$80.34	\$78.32	↑	\$80.85	↑
SALES VOLUME (Millions)	\$1,362.1	\$998	↑	\$1,526.7	↑

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

## MIDTOWN LEASING IMPROVES

Midtown leasing activity reached 3.7 MSF in Q2, a 24% increase over the Q1 level. Leasing was driven by several sizeable renewals and expansions, along with four new leases exceeding 50,000 SF that contributed to positive absorption in both Class A and Class B space. Availability decreased mildly, led by a reduction in sublease space, and rents increased, both from Q1 and their year-ago level, topping the \$80 PSF mark for the first time since 2020.

“As it relates to rent growth, we continue to see new construction and high-end Class A assets push rents in each of the major submarkets,” said Rory Murphy, Partner, Transwestern. “The separation between Class A and everything else remains a big story in the market. Leasing activity continues to be driven by tenants looking to improve upon their amenity and space offerings as employees return to office.”

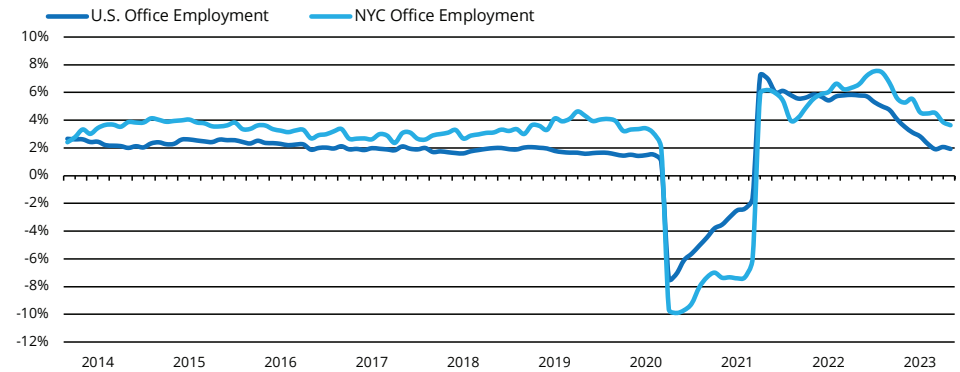


### ECONOMY

#### NYC office employment still growing

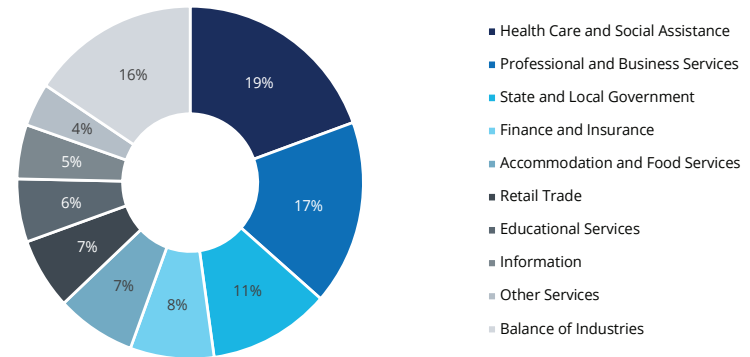
- New York City office employment continues to reach new peaks and now supports almost 2.1 million jobs, some 3.8% higher than the pre-COVID level. The rate of growth has been slowing, most recently to 3.6% year-over-year, though still above the immediate pre-COVID pace.
- Office jobs also continue to increase nationally, approaching 35.3 million positions as of May 2023, about 6.2% higher than the pre-COVID level. As in NYC, job growth is normalizing but still above the pre-COVID pace at 1.9% per annum.
- New York City's overall unemployment rate is stabilizing in the mid-5% range and measured 5.3% in May. National unemployment currently stands at 3.6%, on par with pre-COVID levels.
- New York City's Health Care & Social Assistance industry remains the leader during this recovery period, adding more jobs over the last year than any other sector. Robust job increases were also seen in the Accommodation & Food Services sector, the Professional & Business Services sector, and the Finance & Insurance sector. The latter added nearly 11,500 jobs in the past year, and many financial firms are strongly pushing to get employees back on site. On the downside, ongoing tech layoffs have triggered a big reduction in NYC's Information sector. As consumer economic concerns have mounted, Wholesale and Retail Trade jobs have also decreased, along with jobs in the Transportation, Warehousing, & Utilities sector.
- New York's streets and restaurants appear crowded with people once again, but not all office workers have gotten the memo; Kastle occupancy data suggests office attendance still has not surpassed the 50% mark with any regularity, though a recent REBNY report suggests midweek attendance is above 70%. While the hybrid and work-from-home trends mean there is less correlation between employment levels and office usage than there has been historically, the uncertain economic conditions are likely to continue weighing on the commercial real estate market in the near term.

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



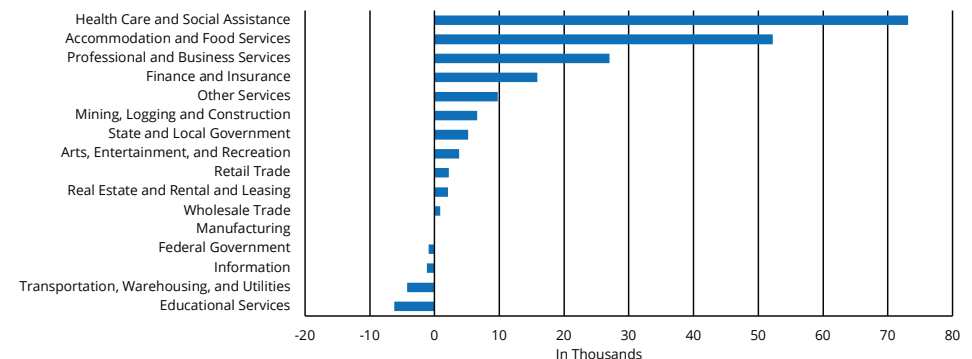
### SHARE OF EMPLOYEES BY INDUSTRY

New York City | May 2023



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

New York City



Source: Bureau of Labor Statistics, Transwestern

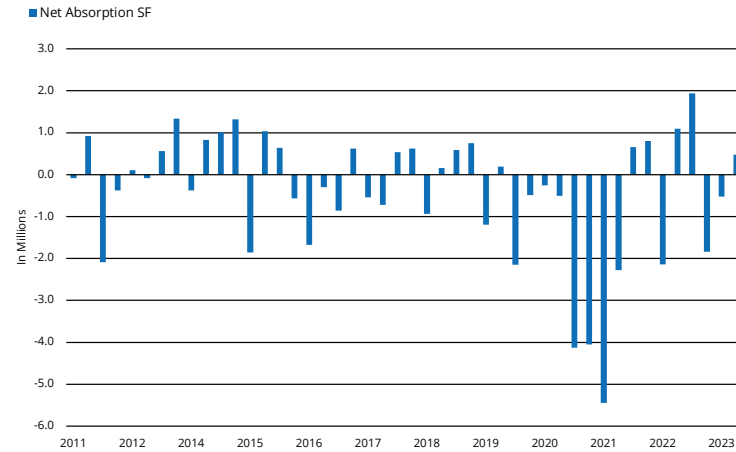


### NET ABSORPTION

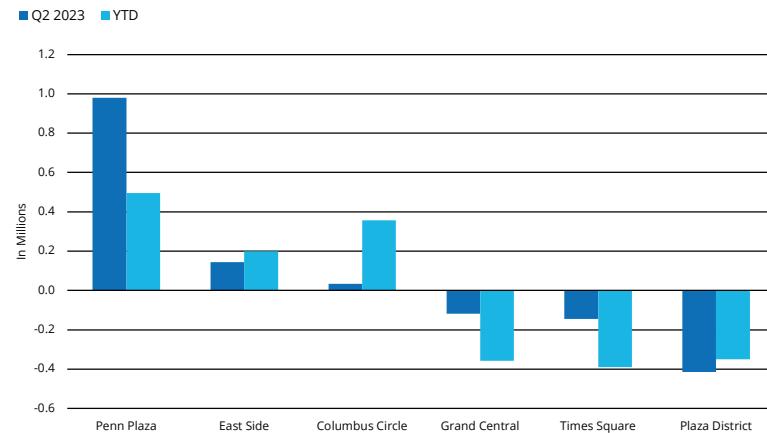
#### Absorption returns to positive territory

- Midtown recorded 479,400 SF of positive absorption in the second quarter, following two quarters with negative results. Both Class A and Class B space had positive take-up. Absorption in the first half of 2023 totaled negative 44,700 SF, a big improvement on the negative 1 million square feet generated in the first half of 2022.
- Absorption in Penn Plaza measured 979,000 SF, the strongest of any Midtown submarket. The positive take-up was boosted by the removal of several previously listed spaces, including a 198,600 SF sublet block at 450 W 33rd Street and a combined 100,000 SF at 441 Ninth Avenue where Lyft and Peloton each decided to reoccupy spaces previously listed for sublet.
- The Plaza District submarket scored Midtown's largest new leases as law firm Clayton, Dubilier & Rice took 143,500 SF for new headquarters at 550 Madison Avenue and the nonprofit Child Mind Institute signed for 81,800 SF at 825 Third Avenue. There was also a 50,000 SF expansion by GIC at 280 Park Avenue and a 57,300 SF sublease from ExodusPoint Capital Management at 65 E 55th Street. The submarket nonetheless recorded 414,800 SF of negative absorption as four sizeable blocks were listed, including a 98,800 SF sublet from Disney/Marvel at 1290 Avenue of the Americas and three direct spaces of over 200,000 SF each.
- Absorption has been constrained over the last three quarters as leasing slowed amid economic uncertainty but is hewing closer to pre-pandemic levels. Recent renewals and expansions by established companies should help generate further confidence as we enter the second half of 2023.

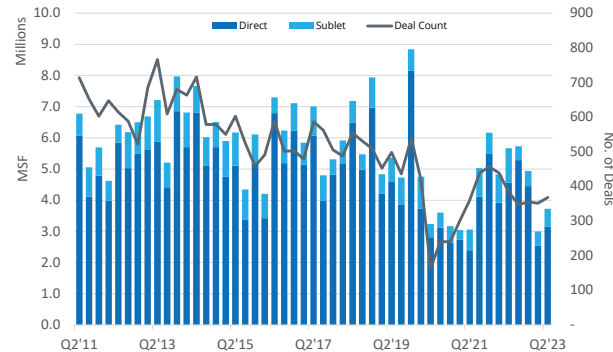
### NET ABSORPTION - MIDTOWN



### NET ABSORPTION BY SUBMARKET



### MIDTOWN LEASING ACTIVITY



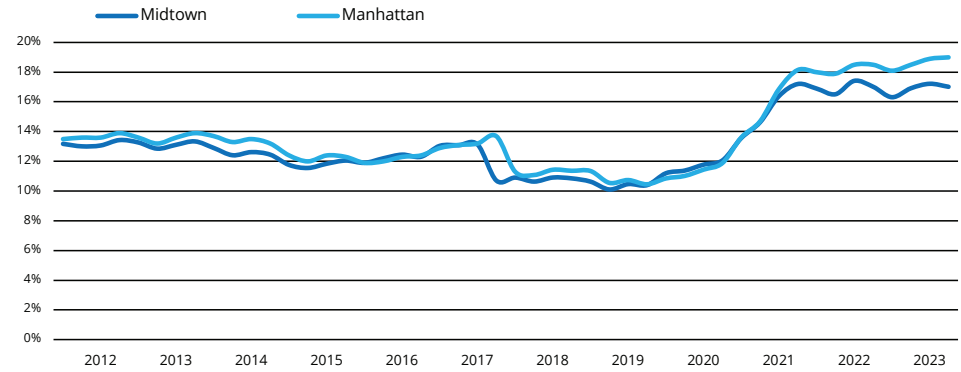


### AVAILABILITY

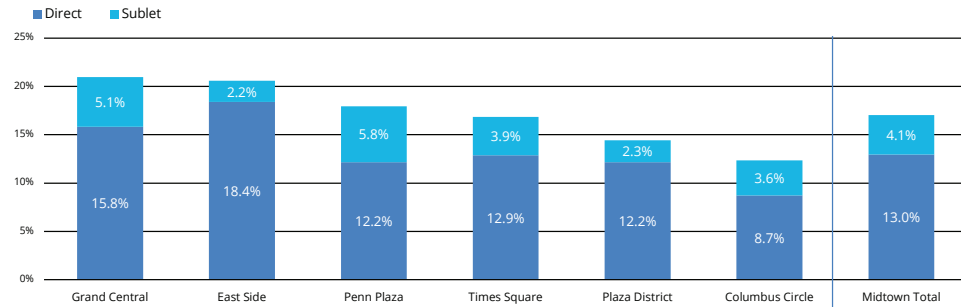
#### Midtown availability decreases

- Midtown’s overall availability rate decreased 0.2 percentage points [pp] to 17.0% in Q2 2023, remaining in the range it has occupied for ten quarters. The rate is 1.1 pp below the early 2022 peak and 2.0 pp below the overall Manhattan level. In comparison, Midtown’s 5-year pre-pandemic average availability level was 11.5%.
- Direct availability saw a slight increase from last quarter to 13.0%, its highest in a year. There were 16 block additions exceeding 50,000 SF, including seven direct blocks exceeding 100,000 SF each. Sublet availability edged down to 4.1% and now represents 24.1% of all available space in Midtown.
- Most of Midtown’s smaller submarkets experienced less than a 1 pp change in availability from Q1, whether positive or negative. The exception was Penn Plaza, where the removal of previously offered sublet spaces factored into a 1.4 pp reduction in overall availability, now 18.0%. Even with the removals, Penn Plaza’s sublet availability rate remains the highest in Midtown at 5.8%. There are currently several buildings in Penn Plaza offering more than 300,000 SF of sublet space each, including the Empire State Building, 30 Hudson Yards, 450 W 33rd St, and 1440 Broadway.
- For the past year, Columbus Circle has retained the lowest overall availability in Manhattan. Availability dropped further to 12.3% this quarter as the submarket saw a 159,000 SF renewal and expansion from HPS Investment Partners at 40 W 57th Street.
- 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. Excess sublet space is still keeping availability elevated, but these conditions also favor tenants who are actively looking in Midtown.

### SUBMARKET AVAILABILITY VS MANHATTAN



### SUBMARKET AVAILABILITY



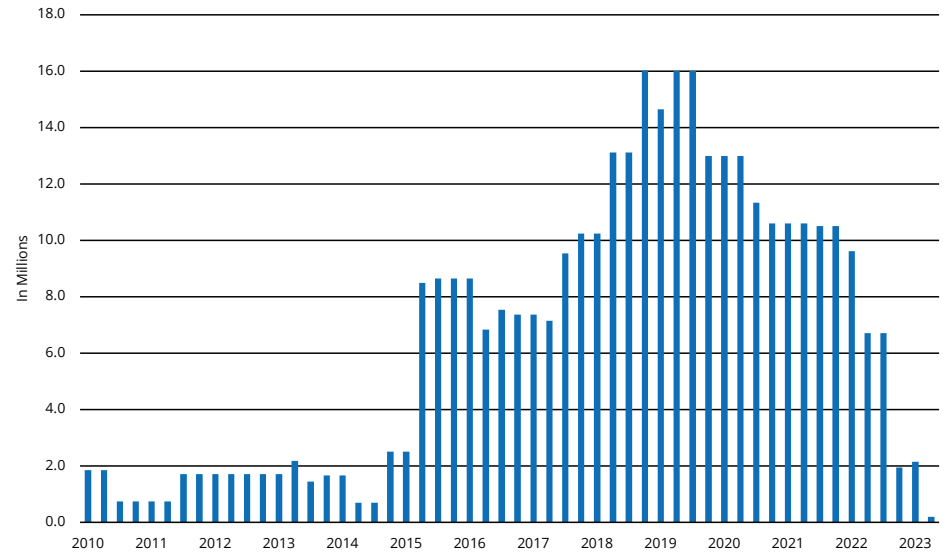


### UNDER CONSTRUCTION

#### Development cools, preps for a reset

- With the completion of Two Manhattan West this quarter, new construction in Midtown is at its lowest level in more than a decade. The 2.0 million SF asset at 380 Ninth Avenue had previously represented the bulk of Midtown’s — and Manhattan’s — in-progress new construction, following the late 2022 delivery of 50 Hudson Yards and The Spiral (66 Hudson Boulevard).
- One major project still underway in Midtown is a 200,000 SF tower at 125 West 57th Street in the Columbus Circle submarket, expected in 2025. This will be the first new core construction in Columbus Circle since 2014.
- Aside from the new construction, 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 considered for residential conversion as well.
- Additionally, there is 6.0 MSF of core office space proposed or planned in Midtown, including a 2.6 MSF tower addressed at 175 Park Avenue in the Grand Central submarket. The mixed-use property would replace the Hyatt Grand Central and incorporate hotel and retail components as well.
- Several demolition sites, including 343 Madison Avenue in the Grand Central submarket, and 665 Fifth Avenue and 415 Madison Avenue in the Plaza District, are already prepping for proposed office buildings. The likeliness of these projects getting underway depends largely on an improvement in economic conditions and investor confidence, as well as the securing of an anchor tenant.

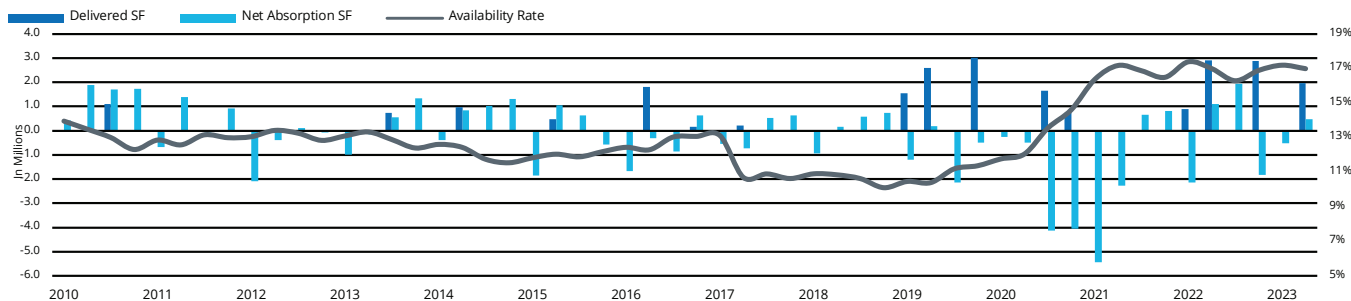
### UNDER CONSTRUCTION - MIDTOWN



### NOTABLE CONSTRUCTION

Address	RBA	Available Space	Submarket	Status	Anticipated Completion
125 W 57th St.	200,000	0	Columbus Circle	Under Construction	2025
330 W 42nd St	680,000	603,836	Times Square	Under Renovation	2023
390 Park Ave	252,593	193,050	Plaza District	Under Renovation	2023

### DELIVERY IMPACT ON KEY INDICATORS



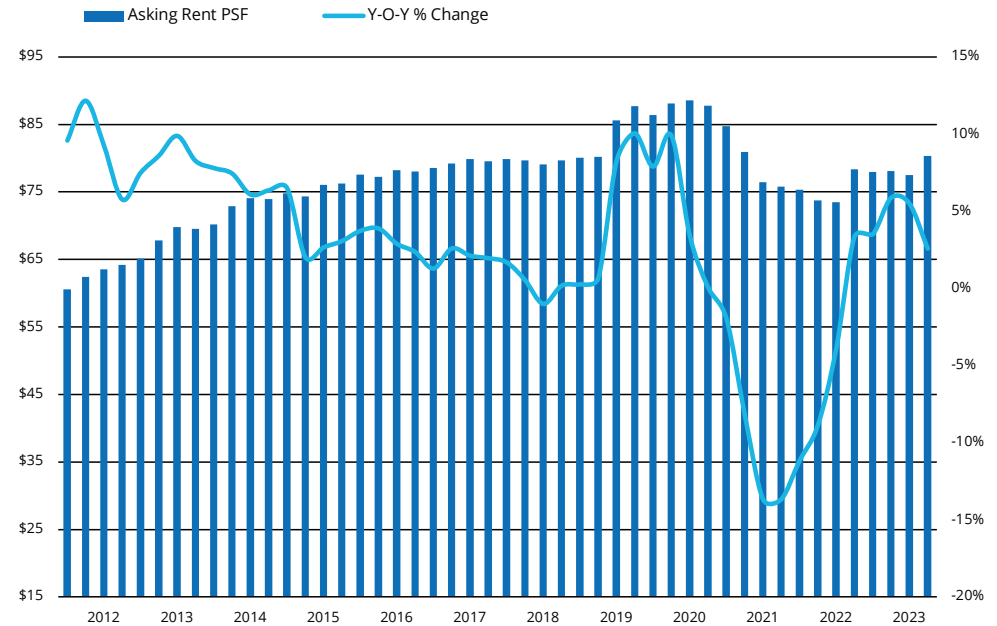


### RENTAL RATES

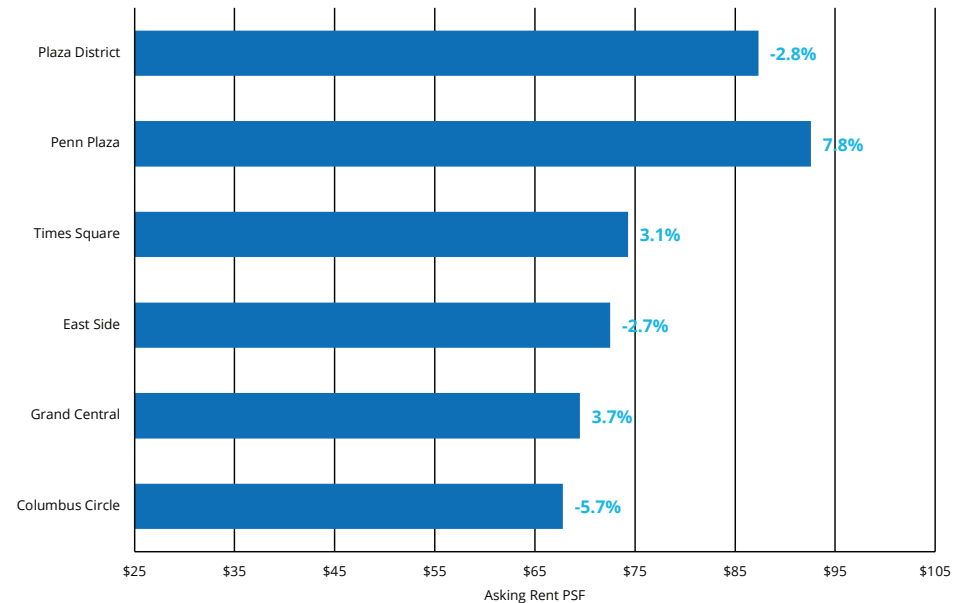
#### Midtown rents rising on trophy asking rates

- Midtown’s average asking rents grew by 2.6% year-over-year, their fifth straight quarter of annual growth. Asking rents now average \$80.34 PSF, surpassing the \$80 PSF mark for the first time since 2020 and within 10% of their pre-pandemic level.
- Much of the recent growth can be attributed to high asking prices at new and renovated trophy assets like The Spiral, Penn 1, 425 Park Avenue, 30 Hudson Yards, 50 Hudson Yards, One Manhattan West, and 550 Madison Avenue. Most of these have significantly large blocks of space available, with asking rates of over \$100 PSF, and in some cases over \$200 PSF.
- On the other hand, excess sublet space is still applying some downward pressure on rental rates, resulting in the gradual and uneven growth pattern seen over the last year. As sublet space eases, we expect to see additional rent growth, though concessions are still widely available.
- Amid this varied 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 further and landlords continue pushing to accommodate the flight to quality.

### ASKING RENT - MIDTOWN



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



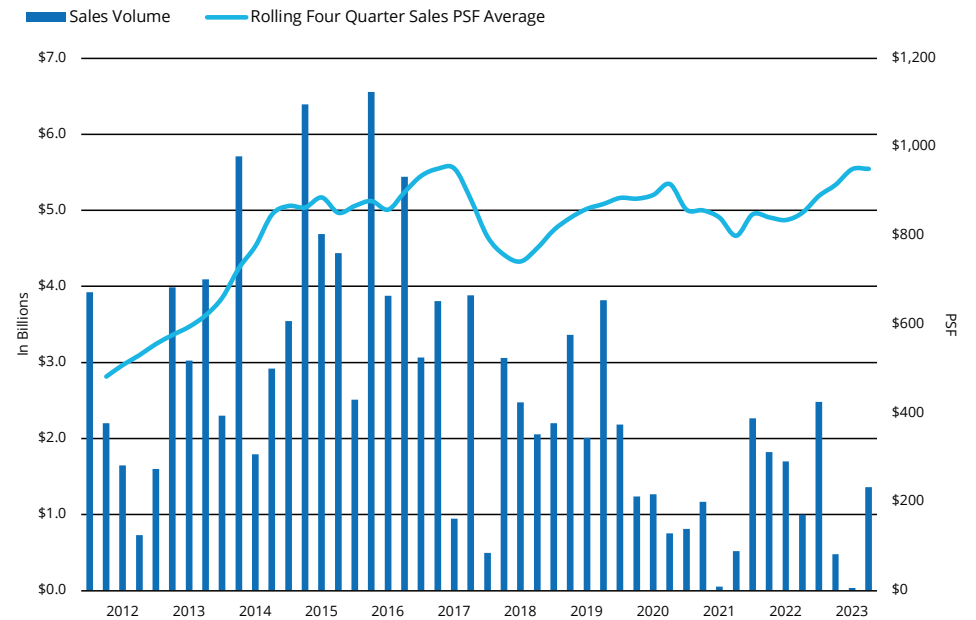


### SALES

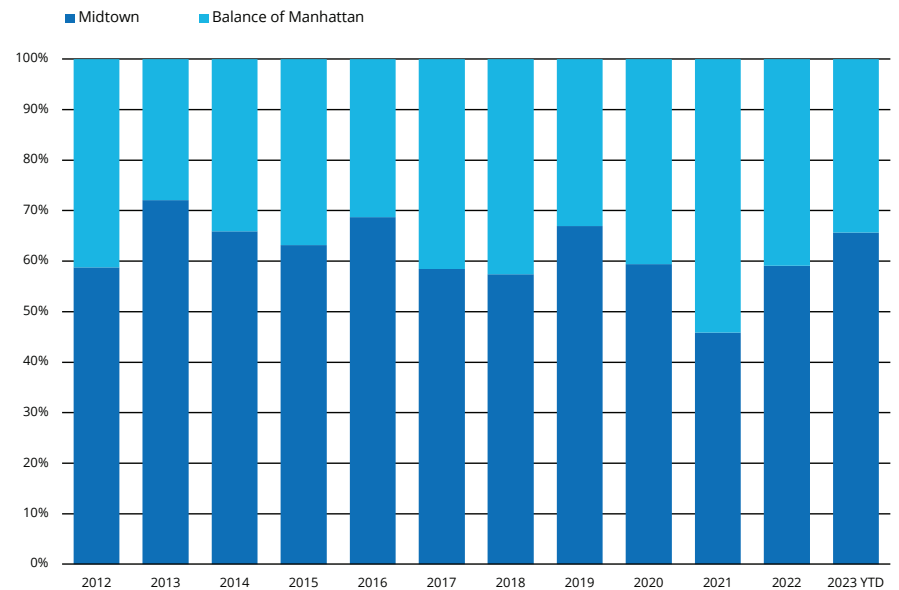
#### Office sales gain some traction

- Midtown sales volume improved to \$1.4 billion in the second quarter as a few notable assets changed hands. Volume for the first half was only slightly more than the Q2 total and equated to roughly half of the \$2.7 billion traded during the first half of 2022.
- Midtown’s largest transaction in Q2 was the partial sale of 245 Park Avenue, which valued the building at \$2 billion. Japanese firm Mori Trust purchased a 49.5% interest from SL Green, working out to pricing of \$1,160 per square foot for the asset in the Grand Central submarket.
- Also in Grand Central, the 20-story tower at 529 Fifth Avenue was sold to Empire Capital Holdings and Fifth City Realty LLC for \$107.6 million, working out to \$393 PSF. Further north, in the Plaza District, 126 E 56th Street sold to Sovereign Partners for \$113 million, or \$628 PSF.
- Higher interest rates and the overall economic climate all contributed to investors’ reluctance to take on more debt in the first half of 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 SALES VOLUME





## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
PAUL HASTINGS	200 Park Ave	Grand Central	Renewal / Expansion	256,800
WACHTELL, LIPTON, ROSEN & KATZ	51 W 52nd St	Columbus Circle	Renewal	242,500
HPS INVESTMENT PARTNERS	40 W 57th St	Columbus Circle	Renewal / Expansion	159,000
CLAYTON, DUBILIER & RICE	550 Madison Ave	Plaza District	New Direct	143,500
GIC	280 Park Ave	Plaza District	Renewal / Expansion	99,600

## NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
1290 AVE OF THE AMERICAS	Plaza District	390,900	Direct
31 W 52ND ST	Plaza District	266,400	Direct
135 E 57TH ST	Plaza District	246,000	Direct
50 HUDSON YARDS	Penn Plaza	205,500	Direct
1133 AVE OF THE AMERICAS	Times Square	148,000	Direct

## NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
245 PARK AVE*	Grand Central	\$2,000,000,000	1,724,000	\$1,160	Mori Trust	SL Green
126 E 56TH ST	Plaza District	\$113,000,000	180,000	\$628	Sovereign Partners	Pearlmark RE Partners
529 FIFTH AVE	Grand Central	\$107,608,985	273,900	\$393	Empire Capital Holdings, Fifth City Realty LLC	Loeb Partners Realty, Silverstein Properties

\* = Partial interest

Source: CoStar, Real Capital Analytics, Transwestern

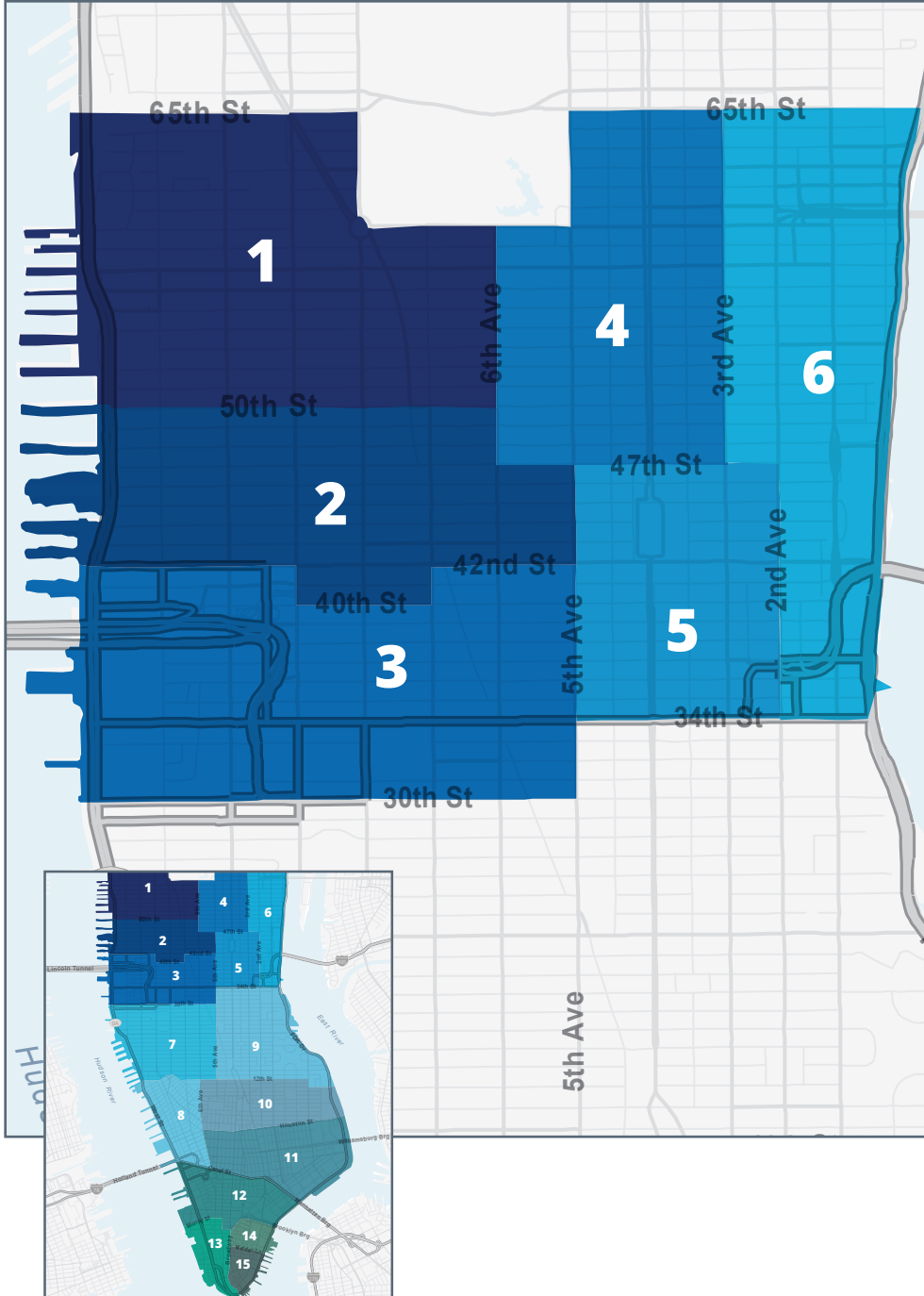


**MARKET INDICATORS**

All Classes of Space | Q2 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	30,974,161	33,614	356,233	12.3%	10.7%	\$70.78	\$57.61	\$67.81
EAST SIDE	14,866,008	144,003	199,030	20.6%	19.3%	\$72.52	\$73.20	\$72.53
GRAND CENTRAL	57,440,225	-117,211	-357,655	21.0%	16.5%	\$70.63	\$62.03	\$69.51
PENN PLAZA	69,479,195	979,029	495,586	18.0%	13.1%	\$108.22	\$56.93	\$92.58
PLAZA DISTRICT	71,188,690	-414,815	-348,865	14.4%	12.7%	\$87.27	\$88.91	\$87.34
TIMES SQUARE	43,395,082	-145,223	-389,001	16.8%	14.5%	\$78.59	\$58.54	\$74.31
<b>MIDTOWN TOTAL</b>	<b>287,343,361</b>	<b>479,397</b>	<b>-44,672</b>	<b>17.0%</b>	<b>14.0%</b>	<b>\$84.46</b>	<b>\$60.14</b>	<b>\$80.34</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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