



TRANSWESTERN

MIDTOWN SOUTH 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)	(439.5)	(1,034.8)	↑	(434.3)	↑
OVERALL VACANCY RATE	17.7%	14.7%	↑	11.1%	↓
OVERALL VACANT SF (MSF)	14.3	11.8	↑	8.7	↓
UNDER CONSTRUCTION (MSF)	0.5	1.2	↓	1.3	↔
ASKING RENT (PSF)	\$79.90	\$74.72	↑	\$77.78	↑
SALES VOLUME (Millions)	\$258.5	\$341.2	↓	\$770.4	↔

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

RENTS GROWING IN MIDTOWN SOUTH

Midtown South logged second quarter results that mimicked its first quarter performance, including record-high availability and negative net absorption. The submarket tallied just 673,900 SF of leasing activity, less than half of the Q1 total, with no leases exceeding 50,000 SF reported. The high availability was not a deterrent to rents, which increased both in-quarter and year-over-year.

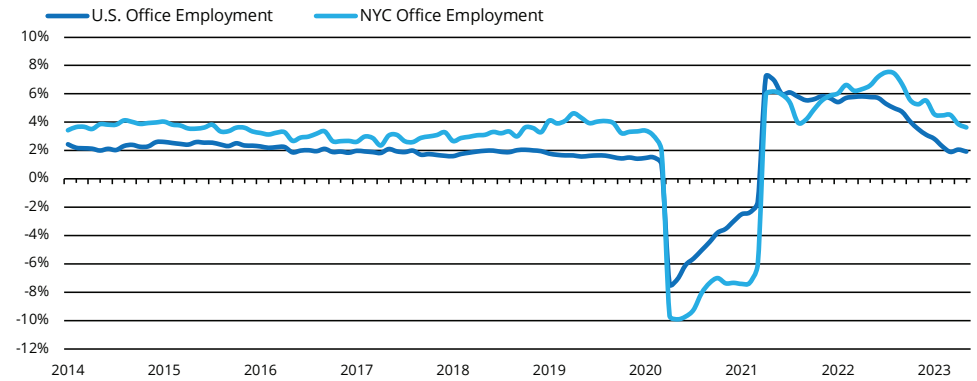
“As it relates to rent growth, we continue to see new construction and high-end Class A assets push rents in each of the major submarkets,” said Rory Murphy, Partner, Transwestern. “The separation between Class A and everything else continues to be the story in the market. Leasing activity continues 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

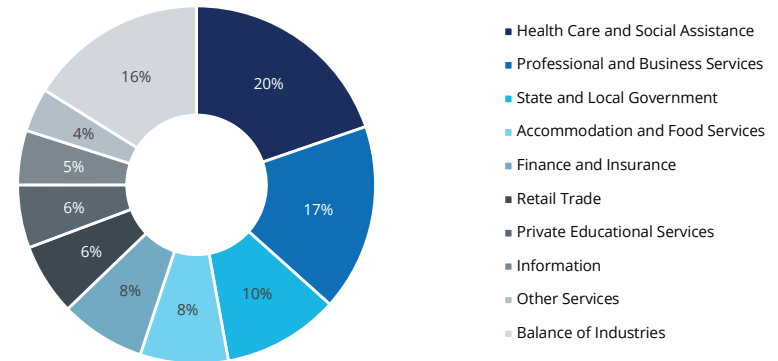
- New York City office employment continues to reach new peaks and now supports almost 2.1 million jobs, some 3.8% higher than the pre-COVID level. The rate of growth has been slowing, most recently to 3.6% year-over-year, though still above the immediate pre-COVID pace.
- Office jobs also continue to 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



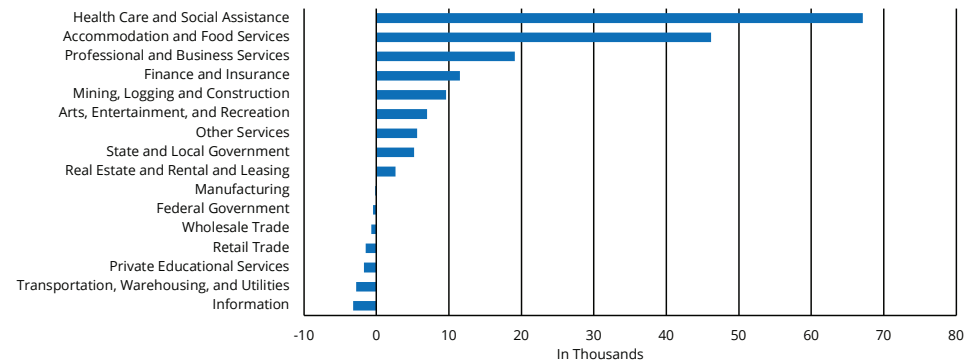
SHARE OF EMPLOYEES BY INDUSTRY

New York City | May 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



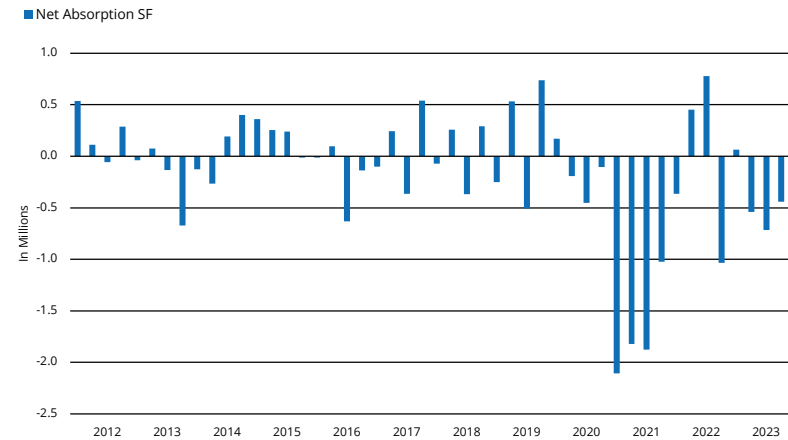


NET ABSORPTION

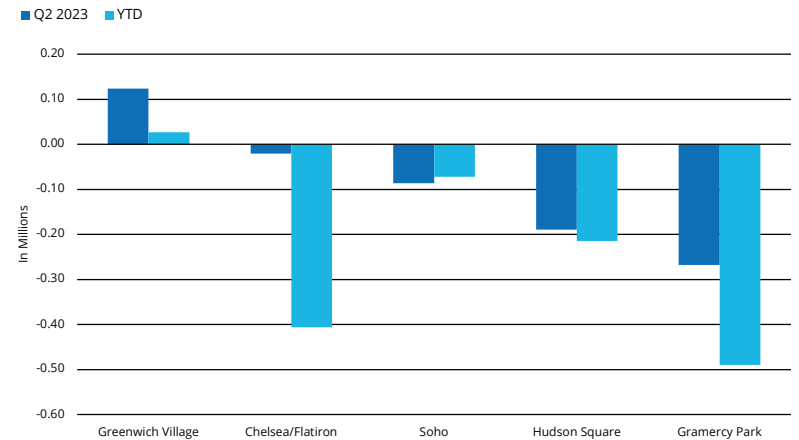
Midtown South absorption remains negative

- Midtown South logged a third straight quarter of negative net absorption in Q2, though it was an improvement on Q1's results. Take-up measured negative 439,500 SF, bringing year-to-date absorption to negative 1.2 MSF. In comparison, absorption in the first half of 2022 was negative 128,200 SF.
- Most of Midtown South's submarkets showed only small changes in net absorption from Q1. Greenwich Village logged the only positive quarterly absorption at 123,700 SF. Some of the upside was due to the removal of office space at 400 Lafayette Street, which was sold to NYU. Additionally, a large block at 51 Astor Place was pushed out to a future availability and is no longer actively marketing; the space was vacated by IBM in a move to One Madison.
- The Gramercy Park submarket had the weakest absorption at negative 267,700 SF; several large block additions along Park Avenue South contributed to the negative tally.
- Two leases signed this quarter involved moves from Midtown – Arcade Songs will relocate from the Plaza District to 19,000 SF at 60 Charlton Street in the Hudson Square submarket, and TRITECH is leaving Penn Plaza for 12,000 SF at 333 Seventh Avenue in Chelsea/Flatiron.
- While absorption has been predominantly negative in Midtown South for the last three years, recent quarters have not been out-of-scale with the pre-COVID era. We foresee improvement as new and upgraded inventory continue to drive further interest in the submarket.

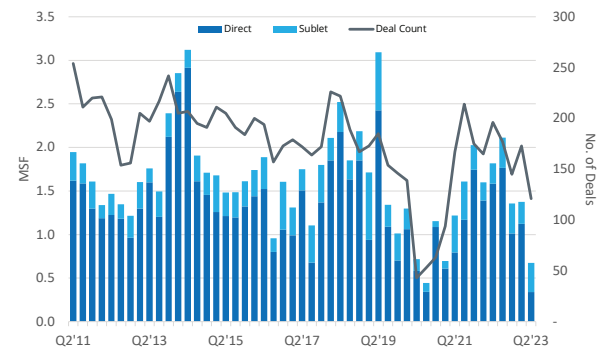
NET ABSORPTION - MIDTOWN SOUTH



NET ABSORPTION BY SUBMARKET



MIDTOWN SOUTH LEASING ACTIVITY

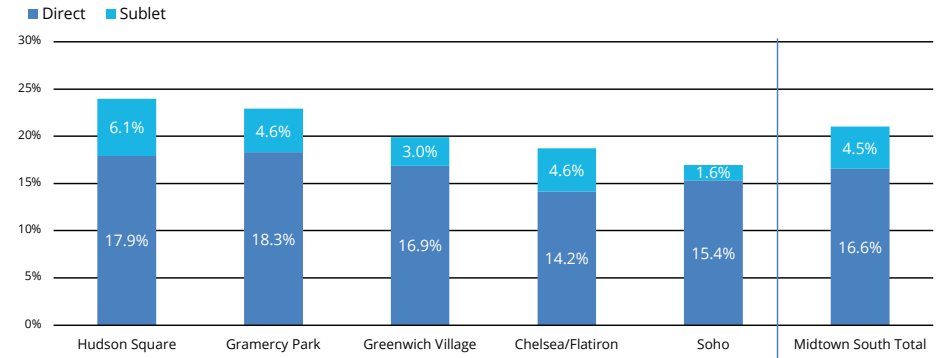


AVAILABILITY

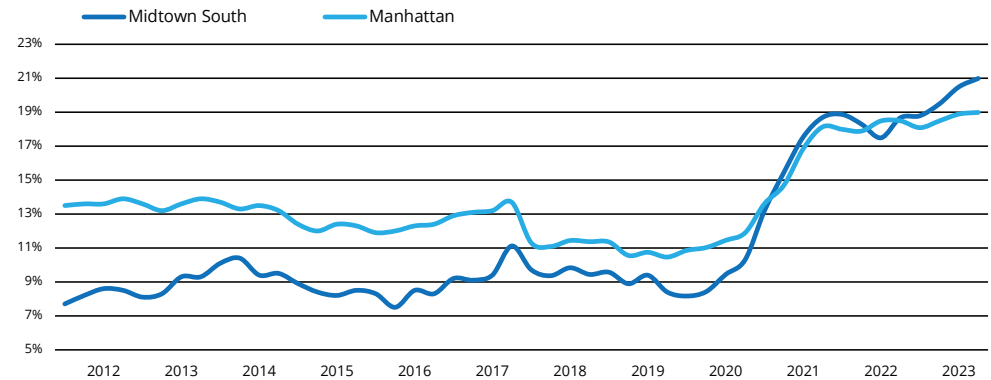
Sublet availability decreases amid rise in overall rate

- Midtown South’s availability rate continued upward in the second quarter, reaching 21.0%, its highest on record. The rate is 2.3 percentage points [pp] higher than a year ago and 6.5 pp above the five-year rolling average.
- The biggest deals signed in Midtown South were for sublet space, including a 38,000 SF commitment from Via Transportation and a 19,300 SF deal from LiveRamp, both at 114-116 Fifth Avenue in the Chelsea/Flatiron submarket. Leases like these contributed to a 0.6 pp decrease in sublet availability, now 4.5%. In contrast, direct availability rose to 16.6% amid the addition of seven large blocks of space.
- The Hudson Square submarket increased the most from Q1, facing large block additions at 395 Hudson Street, 6 Hudson Square, and 375 Hudson Street. Hudson Square has the highest availability in Midtown South at 24.0%, as well as the highest sublet availability at 6.1%.
- In Soho, still the tightest submarket in Midtown South, availability increased 1.7 pp to 17.0%. Expiring leases at 555 Broadway and 568-678 Broadway were a factor in the increased availability level.
- Midtown South’s availability level has been rising steadily from its 2021 plateau. Layoffs and uncertainty in the tech sector, which comprises a large percentage of submarket tenants, have contributed to the increase. However, pent-up demand from occupiers looking for an entry into this evolving area could help bring availability down as we enter the second half of the year.

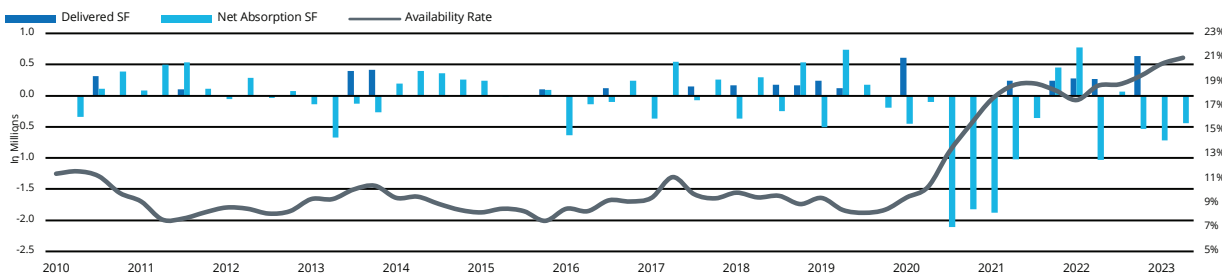
SUBMARKET AVAILABILITY



SUBMARKET AVAILABILITY VS MANHATTAN



DELIVERY IMPACT ON KEY INDICATORS



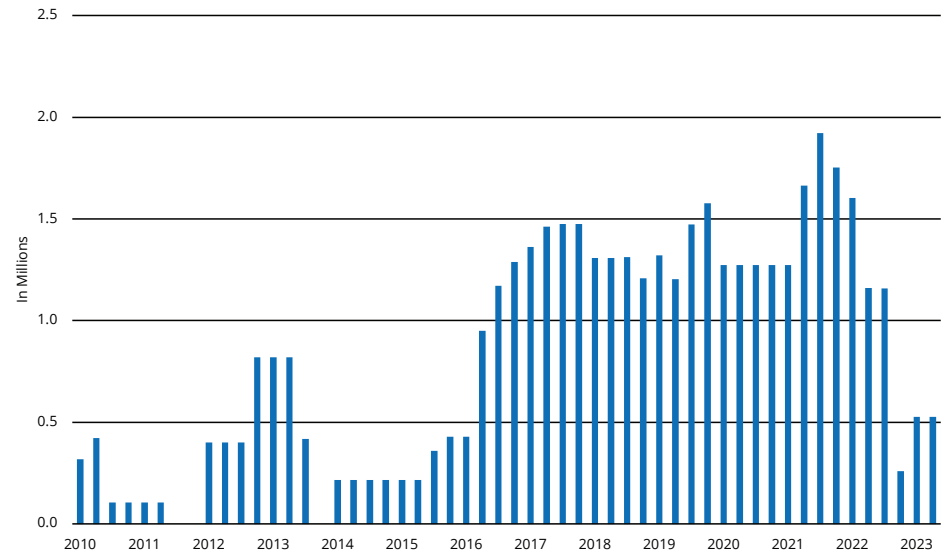


UNDER CONSTRUCTION

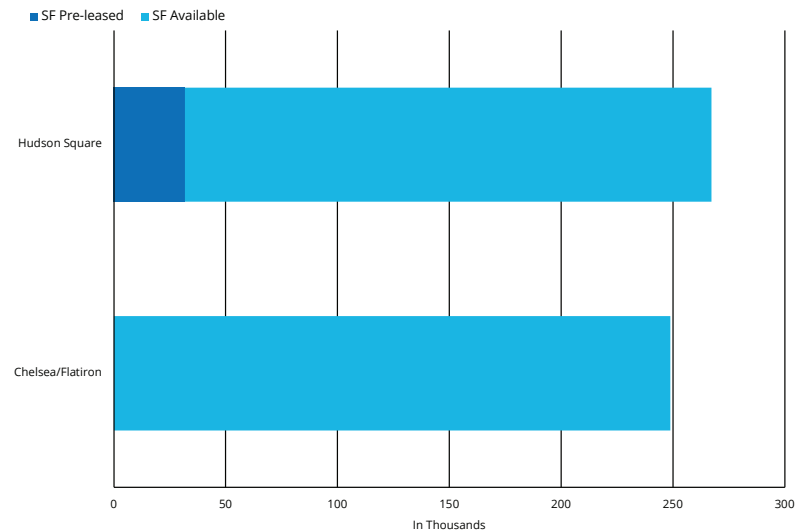
New development transforming Midtown South

- Midtown South has over half a million square feet of high-quality core office properties under construction. About 92% of that space is currently available for lease, presenting opportunities for tenants in the market.
- 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. The former should be completed in the second half of 2023, with the latter due next year.
- In the Hudson Square submarket, the 16-story 555 Greenwich Street is nearly complete, while in the Gramercy Park submarket, major renovations are underway at One Madison Avenue.
- Another 1.5 MSF of core office product is proposed in Midtown South over the next several years. 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 this and other projects getting underway depends on an improvement in market conditions and investor confidence, as well as securing an anchor tenant.
- Midtown South’s updated, modern office spaces with in-demand amenities have been attracting a new mix of occupiers to the submarket, with some establishing their first NYC outpost and others migrating from Midtown or Downtown. 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



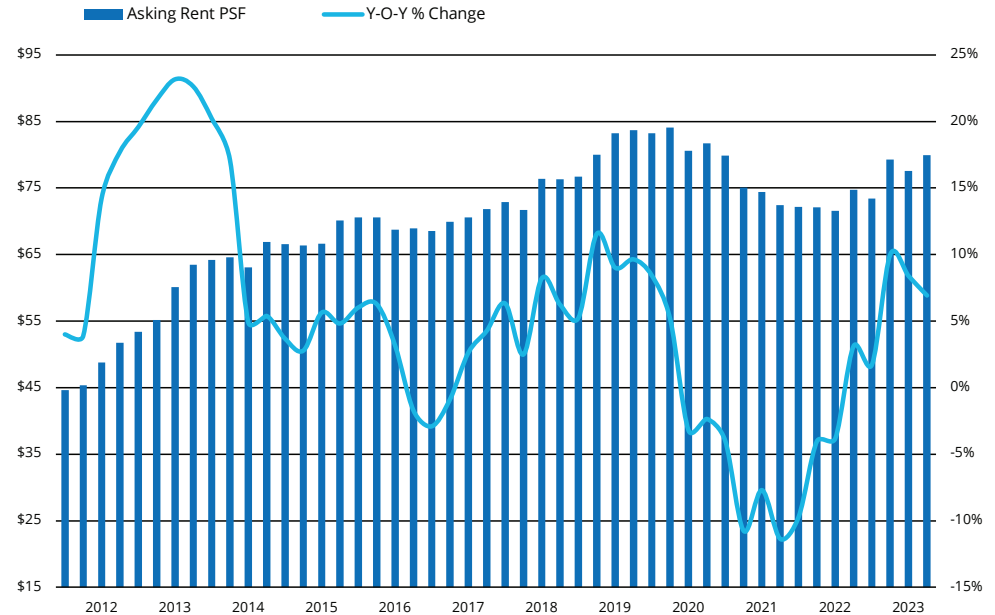


RENTAL RATES

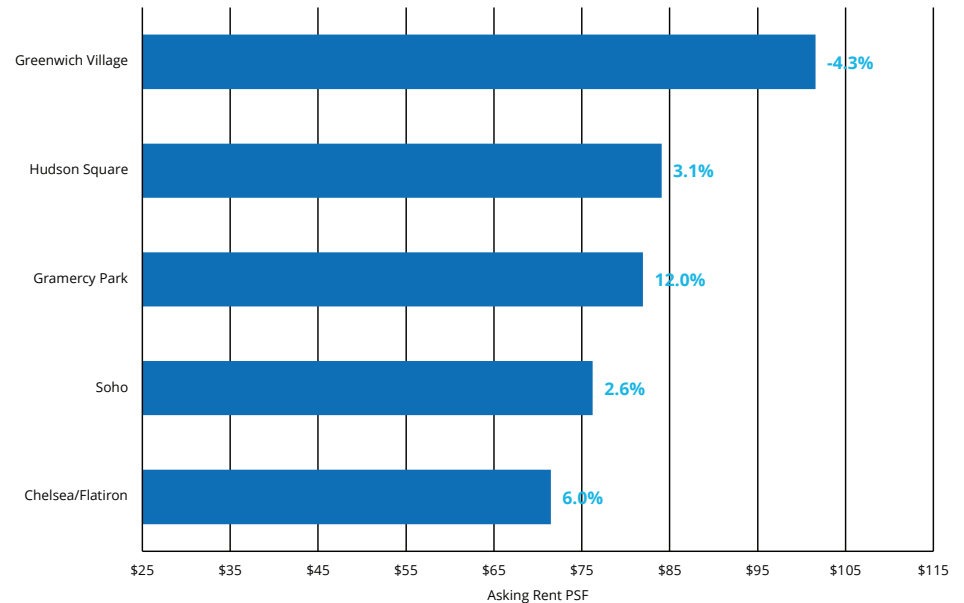
Trophy space continues to boost annual rent growth

- Midtown South rents have now experienced five straight quarters of year-over-year growth. The average asking rent of \$79.90 per square foot is 6.9% higher than the year-ago level.
- Rents were up 3.0% from Q1 and are at their highest level since mid-2020, within 5% of the 2019 peak. With the exception of Greenwich Village, all of Midtown South’s submarkets experienced an increase in asking rents from last quarter as well.
- Class A and trophy space have 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. The soon-to-be completed Hudson Arts Building in Chelsea/Flatiron has full-building availability of 199,000 SF and is asking between \$120 and \$200 PSF for spaces now 12 months away from occupancy.
- Midtown South had the fastest rent growth among Manhattan’s three major submarkets from 2014-2019. The submarket is once again seeing a general upward trend in rents as landlords push to accommodate the flight to quality, and this has been advanced further by the net decrease in sublet space over the past year. Amid this hopeful backdrop, 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



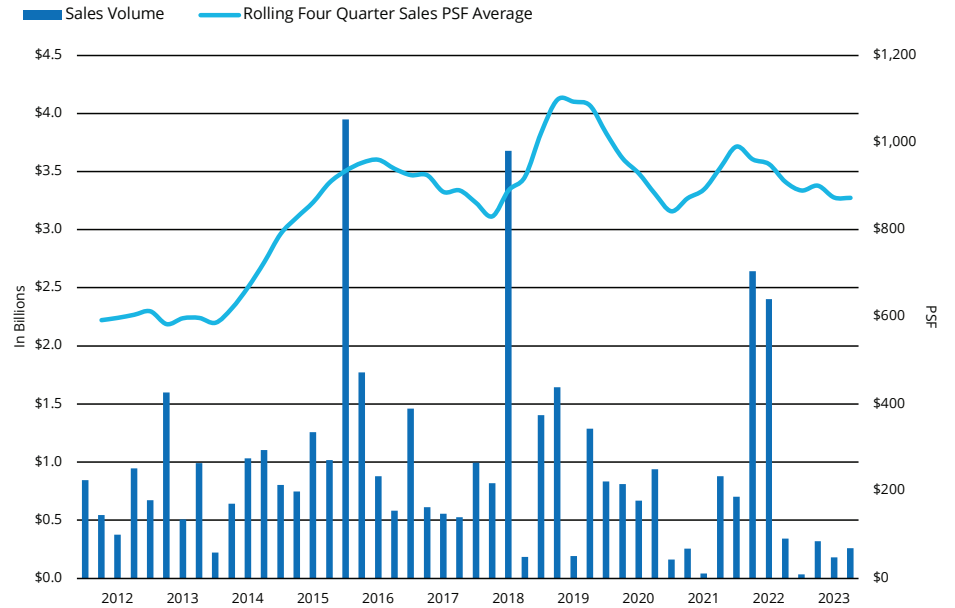


SALES

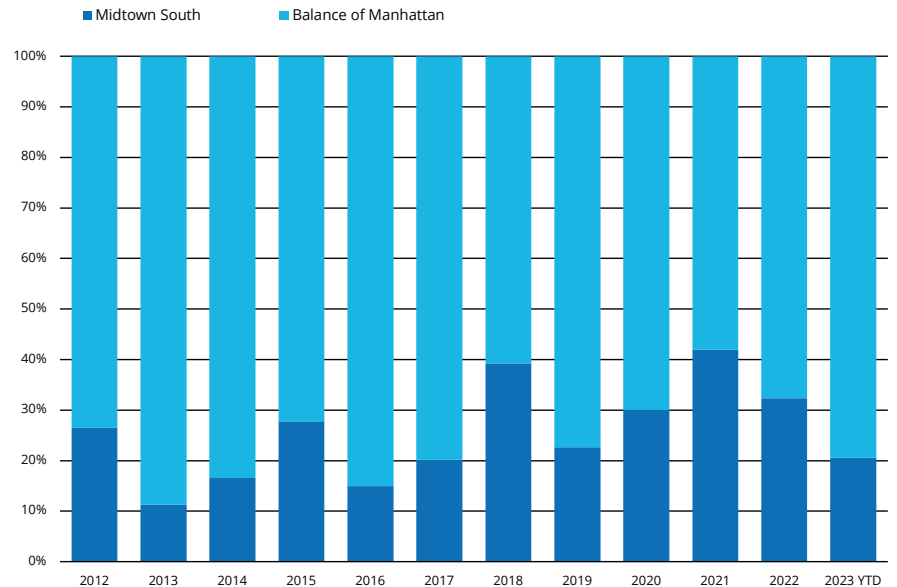
Transaction volume remains low

- Midtown South saw only a few sales transactions this quarter, summing to deal volume of \$258.5 million. Volume for the first half of 2023 totaled \$437.5 million, compared with \$2.7 billion in the first half of 2022 – though the elevated 2022 result was due largely to Google’s \$2.2 billion headquarters purchase of 550 Washington Street. For perspective, the average quarterly sales volume in the five years prior to the pandemic was about \$1.2 billion.
- The auction sale of the Flatiron Building in the Gramercy Park submarket was the largest transaction in Midtown South this quarter. The Fifth Avenue landmark, which was unsuccessfully auctioned in Q1, went back on the block in May and fetched \$161 million. This translated to pricing of \$894 PSF for buyer GFP Real Estate.
- Another significant transaction was NYU’s purchase of the 93,000 SF low-rise at 400 Lafayette Street in Greenwich Village. The building sold for \$97.5 million, working out to more than \$1,000 PSF, and will be used for faculty offices, essentially removing it from rentable inventory going forward.
- Higher interest rates and the overall economic climate 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.

SALES VOLUME - MIDTOWN SOUTH



MIDTOWN SOUTH % OF MANHATTAN SALES VOLUME





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
VIA TRANSPORTATION	114-116 Fifth Ave	Chelsea / Flatiron	Sublease	38,800
LIVERAMP	114-116 Fifth Ave	Chelsea / Flatiron	Sublease	19,300
ARCADE SONGS	60 Charlton St	Hudson Square	Direct	19,000
MILLERKNOLL	251 Park Ave S	Gramercy Park	Expansion	15,300
TRITECH	333 Seventh Ave	Chelsea / Flatiron	Direct	12,000

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
220 ELEVENTH AVE	Chelsea	199,000	Direct
395 HUDSON ST	Hudson Square	159,400	Direct
601 W 26TH ST	Chelsea	123,400	Direct
555 BROADWAY	Soho	102,200	Direct
287 PARK AVE S	Gramercy	74,900	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
175 FIFTH AVE	Gramercy Park	\$161,000,000	180,000	\$894	GFP Real Estate	Sorgente SGR, ABS Partners Real Estate, Nathan Silverstein
400 LAFAYETTE ST	Greenwich Village	\$97,500,000	93,000	\$1,048	New York University	Sand Associates

Source: CoStar, Real Capital Analytics, Transwestern

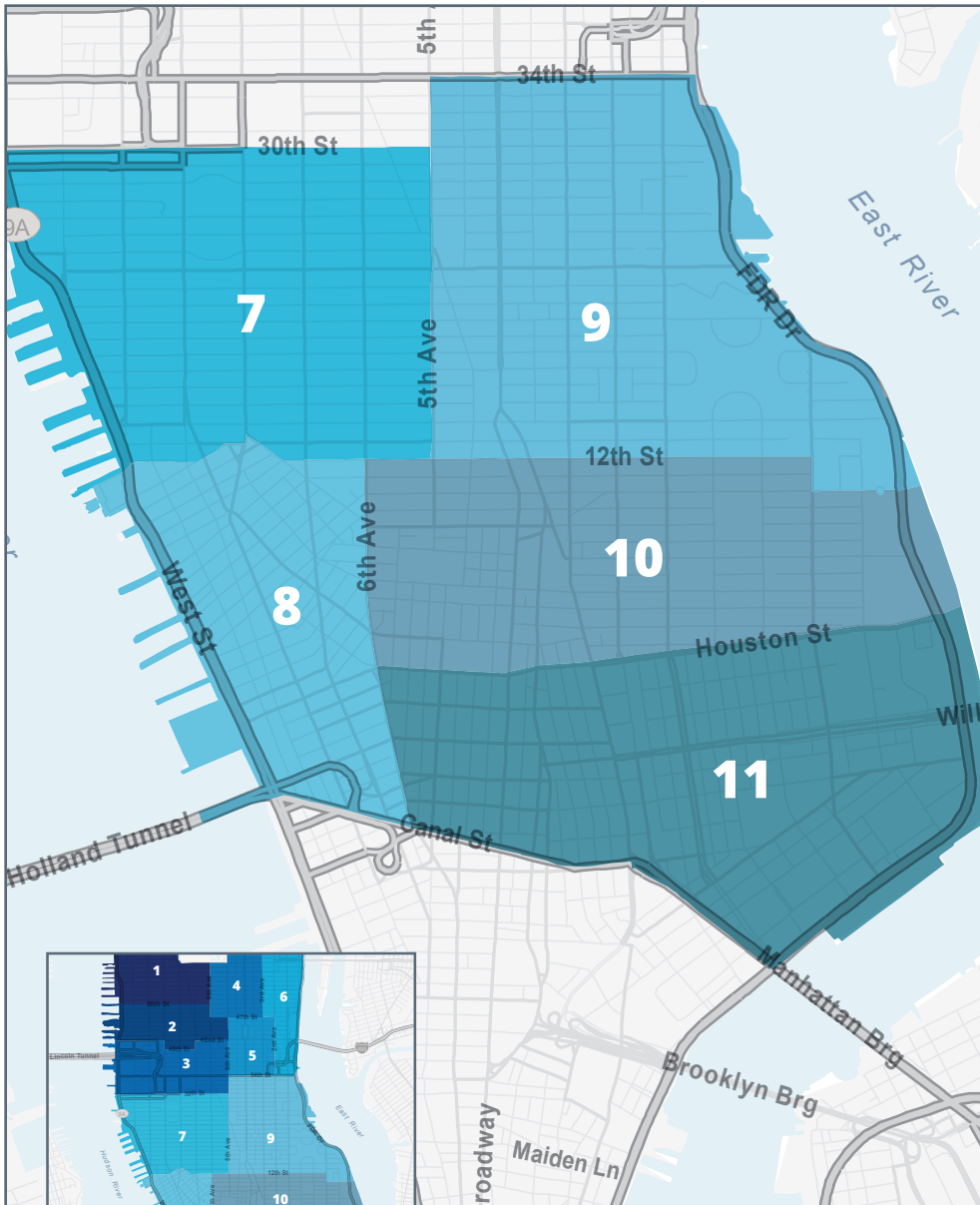


MARKET INDICATORS

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
CHELSEA/FLATIRON	26,854,652	-20,299	-406,256	18.7%	16.9%	\$110.16	\$61.75	\$71.47
GRAMERCY PARK	32,250,813	-267,673	-489,465	22.9%	20.0%	\$101.35	\$62.56	\$81.96
GREENWICH VILLAGE	5,674,219	123,690	26,865	19.9%	18.0%	\$117.67	\$99.75	\$101.58
HUDSON SQUARE	10,022,616	-189,287	-214,975	24.0%	15.5%	\$87.62	\$78.99	\$84.06
SOHO	5,891,485	-85,973	-72,184	17.0%	12.2%	\$78.38	\$74.66	\$76.23
MIDTOWN SOUTH TOTAL	80,693,785	-439,542	-1,156,015	21.0%	17.7%	\$99.26	\$67.97	\$79.90

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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