

# MIDTOWN MANHATTAN OFFICE MARKET

Q3 2023



## TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	5.3	4.6	↑	7.4	↓
NET ABSORPTION (Thousands SF)	1,400.4	1,939.5	↓	(884.2)	↑
OVERALL VACANCY RATE	14.8%	13.2%	↑	11.1%	↔
OVERALL VACANT SF (MSF)	42.5	37.8	↑	31.1	↔
UNDER CONSTRUCTION (MSF)	0.2	6.7	↓	9.7	↔
ASKING RENT (PSF)	\$81.48	\$77.93	↑	\$80.92	↑
SALES VOLUME (Millions)	\$182.7	\$2,483	↓	\$1,451.1	↔

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

## MAJOR RENEWAL LIFTS MIDTOWN LEASING

Midtown leasing reached 3.2 MSF in Q3, lower than Q2 but ahead of the Q1 result. Leasing was boosted by one of the year’s largest deals, a 708,000 SF renewal from DavisPolk that also had an expansion component. This, plus almost a dozen new deals exceeding 50,000 SF, contributed to 1.4 MSF of positive net absorption in the submarket. Availability decreased, led by the ongoing reduction in sublease space, and rents increased, from both Q2 and their year-ago level.

“Sublease supply, which has been an indicator of uncertainty, was down across Manhattan, particularly in Midtown, which saw a sharp decrease,” said Chase Gordon, Senior Vice President, Transwestern. “We are seeing signs of stability re-enter the office market, particularly as tenants firm up their back-to-office plans.”

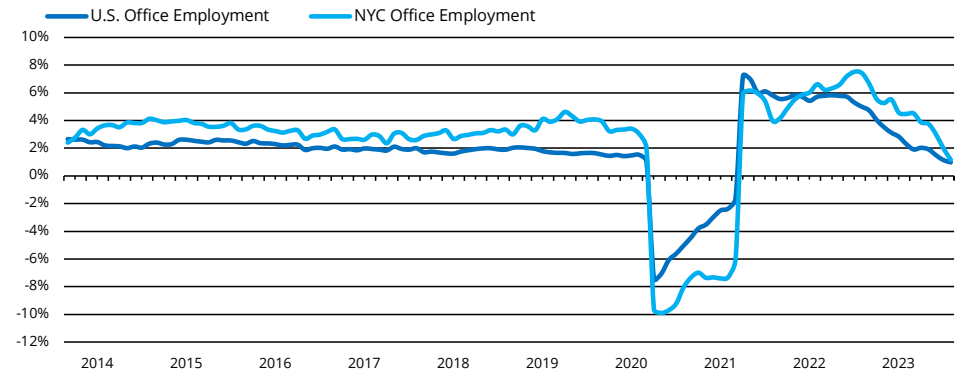


### ECONOMY

#### Office employment growth is slowing

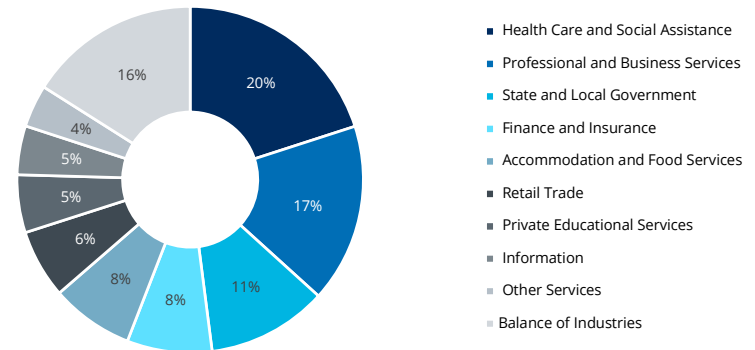
- New York City office employment is now 3.6% above the pre-COVID level with 2.1 million jobs. The rate of growth has slowed considerably, however, most recently to 1.2% year-over-year. Outside of the initial COVID slump, this is the slowest year-over-year growth in more than a decade.
- On a national level, there has been a small reduction in office jobs from their May peak, now measuring 35.2 million positions. As in NYC, job growth has slowed below the pre-COVID pace, with year-over-year growth of just 1.0% in August.
- The unemployment rate in New York City is stabilizing in the mid-5% range and measured 5.3% in August. National unemployment currently stands at 3.8%, slightly above the pre-pandemic level.
- New York City's Health Care & Social Assistance industry continues to lead the recovery, adding more jobs over the last year than any other sector. Robust job increases were also seen in the Accommodation & Food Services sector and Private Educational Services sector. On the downside, layoffs by tech companies have contributed to an employment decrease in office sectors like Information and Professional & Business Services. As higher interest rates have led to a pullback in consumer spending, Wholesale and Retail Trade jobs have decreased, along with jobs in the Transportation, Warehousing, & Utilities sector.
- 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



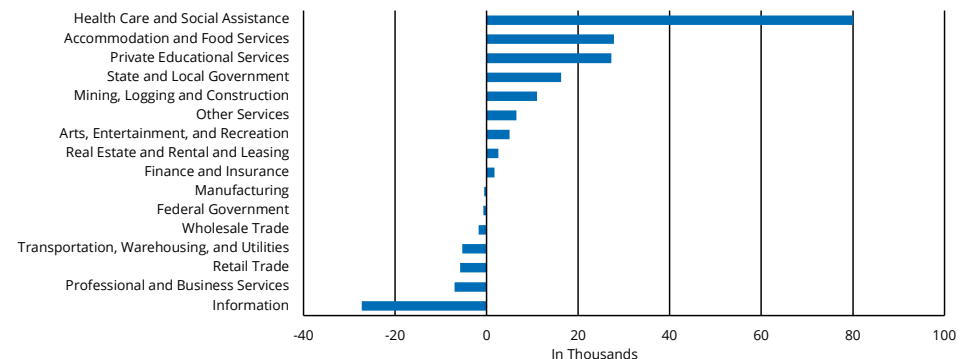
### SHARE OF EMPLOYEES BY INDUSTRY

New York City | August 2023



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

New York City



Source: Bureau of Labor Statistics, Transwestern

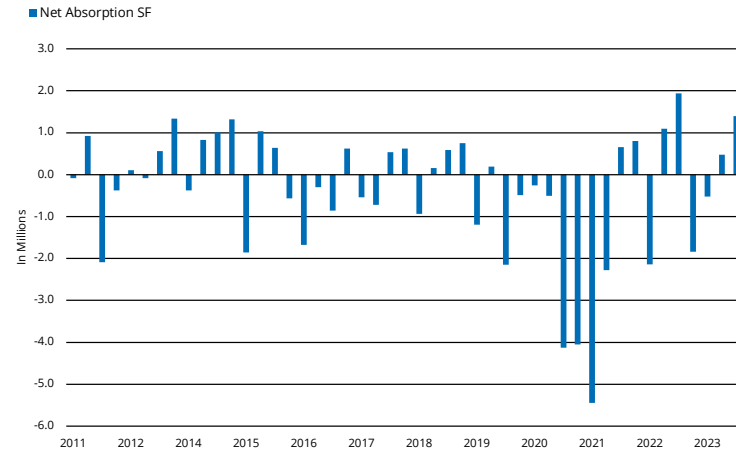


### NET ABSORPTION

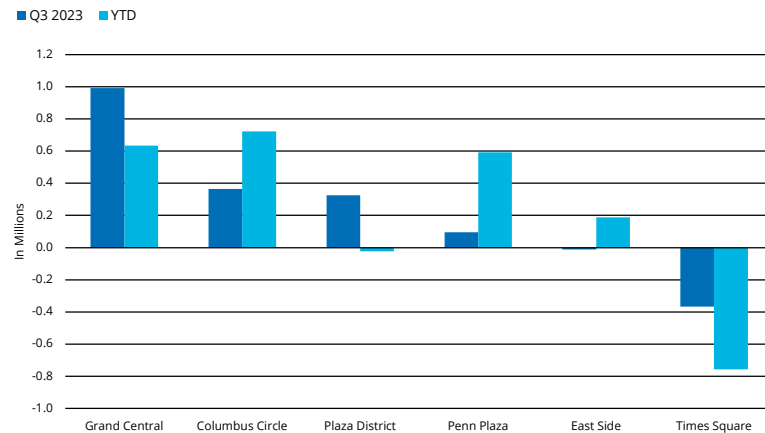
#### Absorption stays positive

- Midtown recorded just over 1.4 MSF of positive net absorption in Q3, improving for a third straight quarter. As in Q2, both Class A and Class B space recorded positive take-up. Year-to-date absorption approached 1.4 MSF, compared with 891,700 SF during the same period in 2022.
- Among Midtown’s submarkets, Grand Central had the strongest absorption at 992,100 SF. Absorption was helped by a 117,200 SF signing from Empire State Development, Midtown’s largest new lease of the quarter, the expansion from DavisPolk at 450 Lexington Avenue, and a 45,500 SF sublease from Atlas SP at 230 Park Avenue. Also contributing to the positive absorption was the withdrawal of several large direct blocks that totaled more than 328,500 SF.
- Columbus Circle and the Plaza District each recorded more than 325,000 SF of positive absorption. In the Plaza District, CVC signed a 52,200 SF lease at 767 Fifth Avenue. There were no large leases noted in the Columbus Circle submarket, but the withdrawal of two large sublet blocks helped with the healthy take-up.
- Times Square was the only Midtown submarket to see significant negative absorption in Q3, pushed down by three large block additions at 825 Eighth Avenue, 1166 Avenue of the Americas, and 7 Times Square. These blocks represented more than 1.1 MSF that was previously on the market and is now within twelve months of occupancy.
- Absorption has been slowly improving in Midtown, with positive results in four of the last six quarters. Recent renewals and expansions by established companies are a good sign for the submarket and should help generate further confidence as we finish 2023.

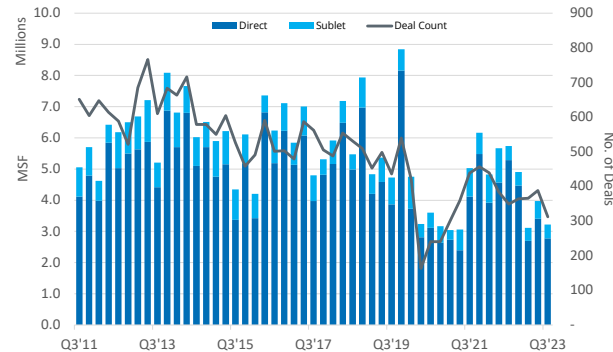
### NET ABSORPTION - MIDTOWN



### NET ABSORPTION BY SUBMARKET



### MIDTOWN LEASING ACTIVITY



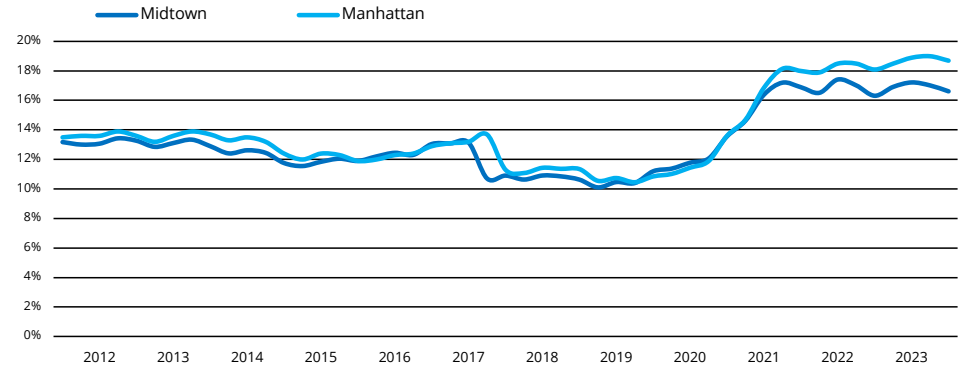


### AVAILABILITY

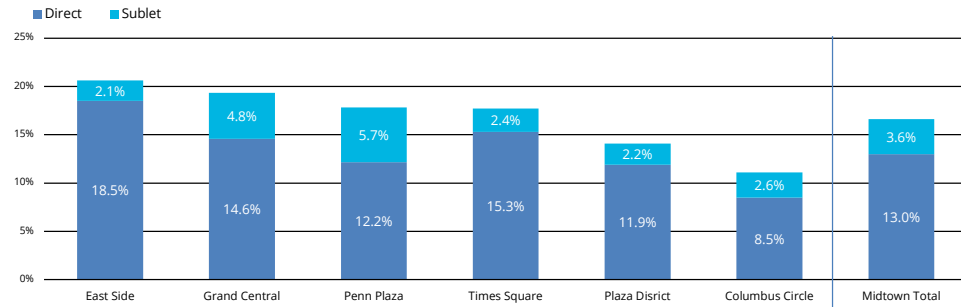
#### Midtown availability decreases

- Midtown’s overall availability rate decreased 0.4 percentage points [pp] to 16.6% in Q3 2023, remaining in the range it has occupied for almost three years. In comparison, the submarket’s 5-year pre-pandemic average availability level was 11.5%.
- Midtown’s sublet availability rate fell to 3.6%, the rate likewise decreasing in each individual submarket. Four of Midtown’s submarkets have sublet availability rates at or below 2.6%, some of the lowest levels in Manhattan.
- For more than a year, Midtown’s Columbus Circle submarket has retained Manhattan’s lowest overall availability. The rate decreased by 1.2 pp to 11.1% this quarter as the submarket saw the withdrawal of two large sublet spaces: 94,500 SF at 1675 Broadway and 69,300 SF at 3 Columbus Circle.
- Availability in the Grand Central submarket dropped 1.7 pp from Q2 to 19.3%. Empire State Development’s lease at 655 Third Avenue contributed to the decrease, as did the withdrawal of large direct blocks at 150 E 42nd Street, 405 Lexington Avenue, and 529 Fifth Avenue.
- Midtown’s highest sublet availability is found in the Penn Plaza submarket, which took on two sizeable sublet block additions at 11 Penn Plaza and 66 Hudson Boulevard. Currently five Penn Plaza buildings are offering more than 200,000 SF of sublet space each, with additional sublease opportunities anticipated in the fourth quarter.
- Since late 2020, Midtown has maintained a lower availability rate than Manhattan overall, and the gap has now widened to 2.1 pp as submarket recovery speeds up. Excess sublet space in Midtown is still keeping availability elevated, but these conditions also favor tenants who are actively looking for a home in the submarket.

### SUBMARKET AVAILABILITY VS MANHATTAN



### SUBMARKET AVAILABILITY



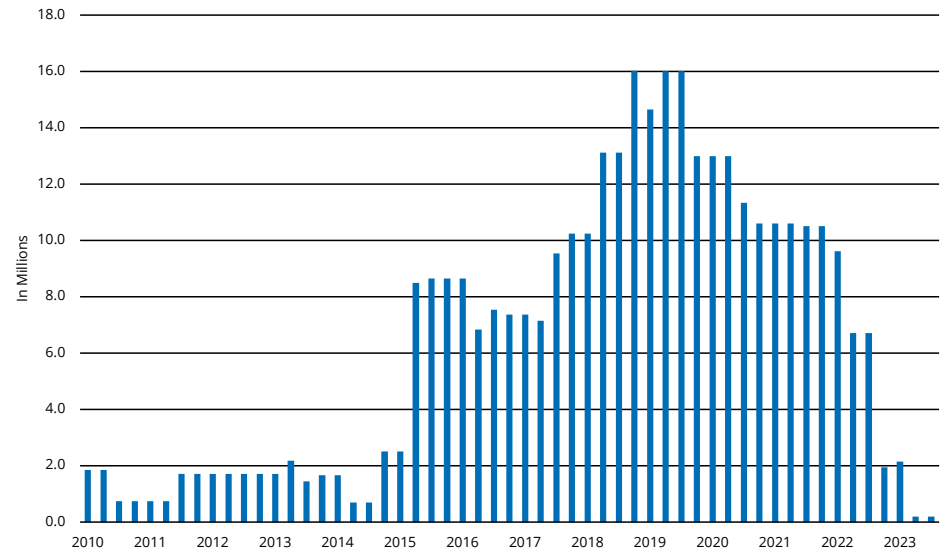


### UNDER CONSTRUCTION

#### Development cools, preps for a reset

- New office construction in Midtown is at its lowest level in more than a decade. Instead, emphasis is being placed on residential development and adaptive reuse, such as 330 West 42nd Street, which is prepping its upper floors for residential units (the base will remain office space).
- Even so, new offices continue to rise around Midtown. Active projects include a 200,000 SF tower at 125 West 57th Street, representing the first new core construction in the Columbus Circle submarket since 2014, and a 212,000 SF tower at 520 Fifth Avenue. Complementing the new construction, more than 2.5 MSF of office space is under renovation in Midtown. This includes PENN2, which is seeking an anchor tenant for its revamped base floors.
- Concurrent with the swing toward renovations and redevelopment, there is 6.2 MSF of core office space proposed or planned in Midtown, dominated by a 2.6 MSF tower addressed at 175 Park Avenue in the Grand Central submarket. The property would replace the Hyatt Grand Central and incorporate hotel and retail components. Demolition sites at 343 Madison Avenue, 665 Fifth Avenue, and 415 Madison Avenue are also readying 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. Meanwhile, we are also seeing numerous Class B assets preparing for capital improvements in order to compete for tenants.

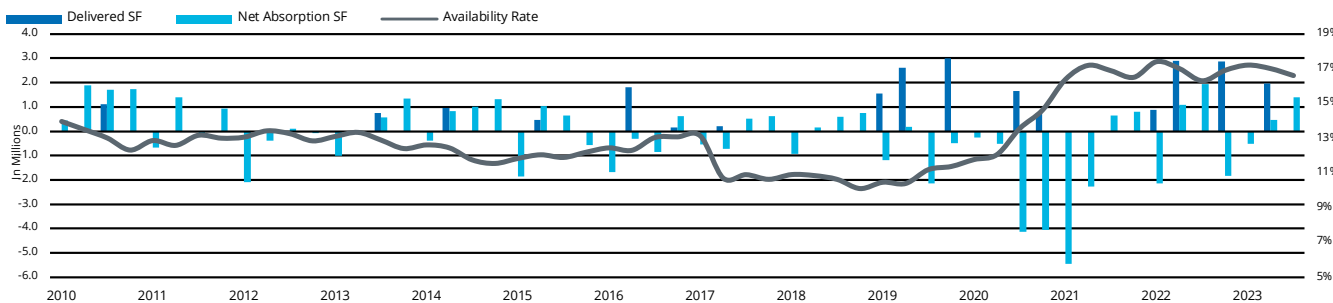
### UNDER CONSTRUCTION - MIDTOWN



### NOTABLE CONSTRUCTION

ADDRESS	RBA	AVAILABLE SPACE	SUBMARKET	STATUS	ANTICIPATED COMPLETION
125 W 57th St.	200,000	NA	Columbus Circle	Under Construction	2025
520 Fifth Avenue	212,000	NA	Times Square	Under Construction	2026
330 W 42nd St	680,000	603,836	Times Square	Under Renovation	2023
PENN 2	1,842,700	193,050	Penn Plaza	Under Renovation	2023

### DELIVERY IMPACT ON KEY INDICATORS



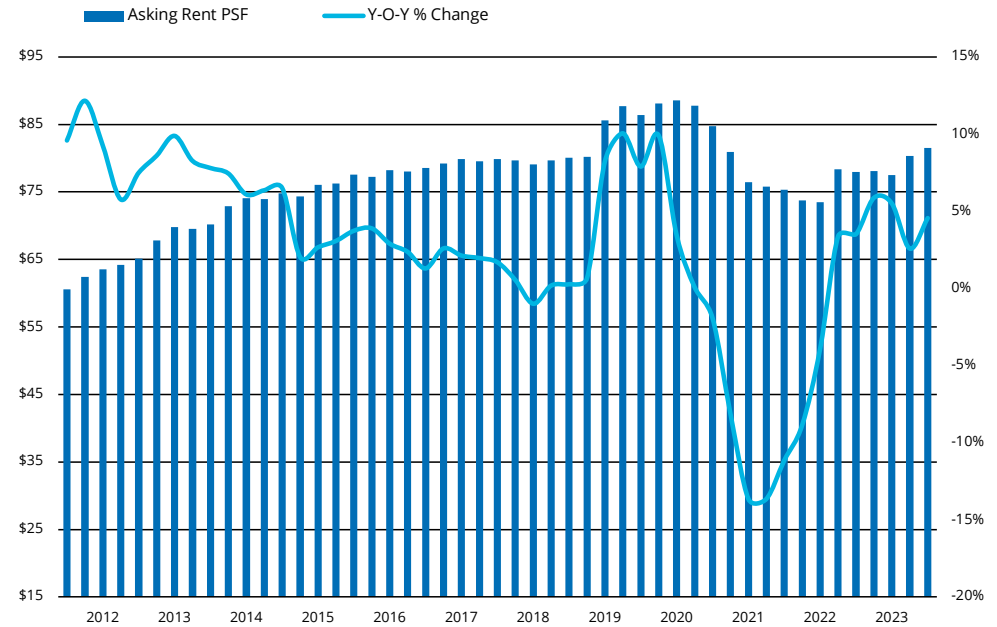


### RENTAL RATES

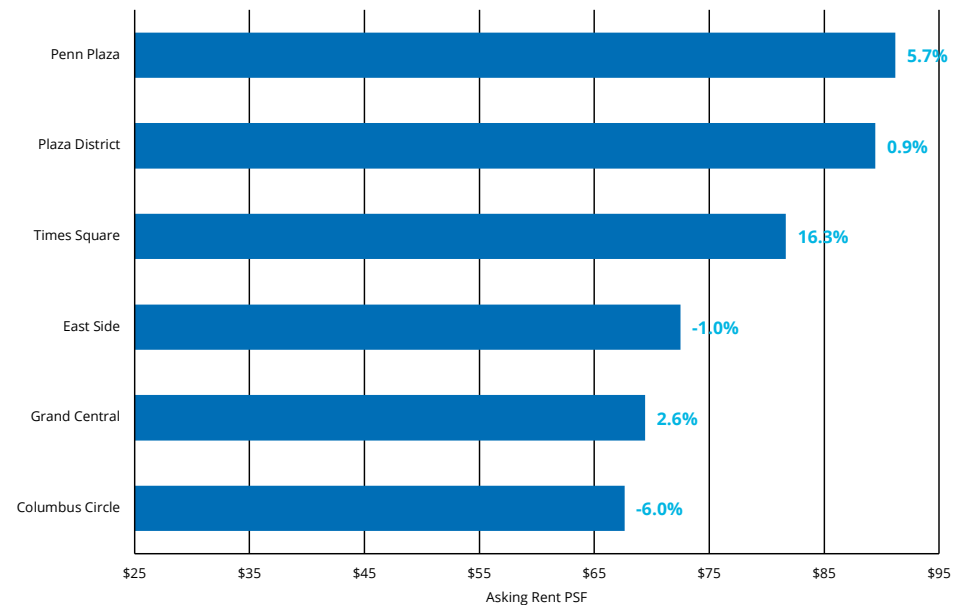
#### Midtown rents rising on trophy asking rates

- Midtown’s average asking rents grew by 4.6% year-over-year, their sixth straight quarter of annual growth. Asking rents now average \$81.48 PSF, their highest since Q3 2020 and within 8% of their pre-pandemic level.
- Much of the recent growth can be attributed to high asking prices at new and renovated trophy assets like 550 Madison Avenue, 30 Hudson Yards, 66 Hudson Boulevard, 50 Hudson Yards, 425 Park Avenue, and 1 Bryant Park. Most of these have significantly large blocks of space available, with asking rates of over \$150 PSF, and in some cases over \$200 PSF.
- While excess sublet space is still applying some downward pressure on rental rates, it is beginning to ease up. Rents have increased in each of the last two quarters as Midtown’s available sublet space decreased by more than 2 million square feet.
- As sublet space eases further, the tightening in availability will help to drive rents upward. Renovations and redevelopment of existing buildings will allow further gains as landlords continue pushing to accommodate the flight to quality. In the meantime, landlords will continue reaching for tenants, particularly at non-trophy and Class B assets.

### ASKING RENT - MIDTOWN



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



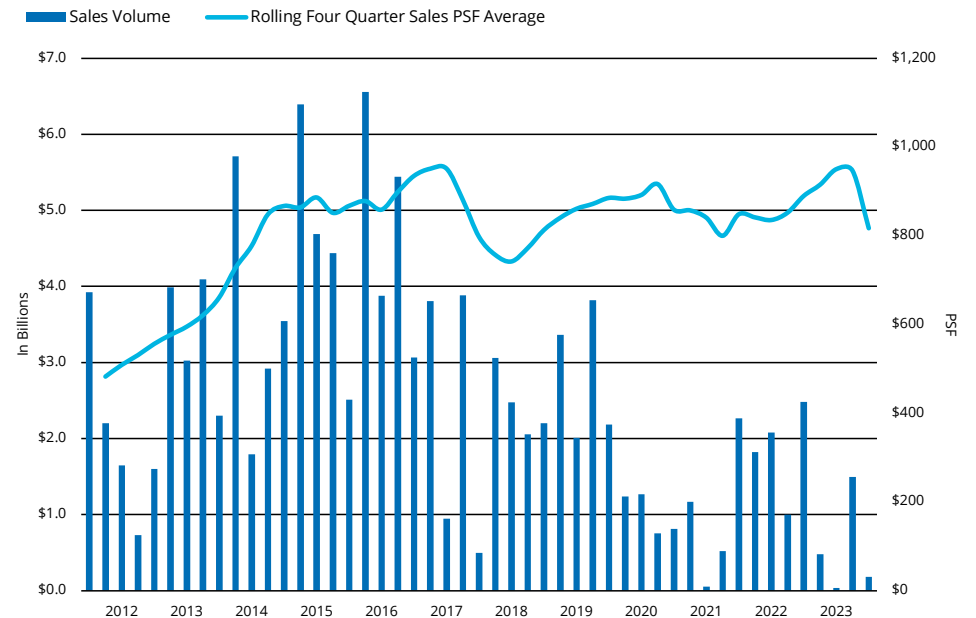


### SALES

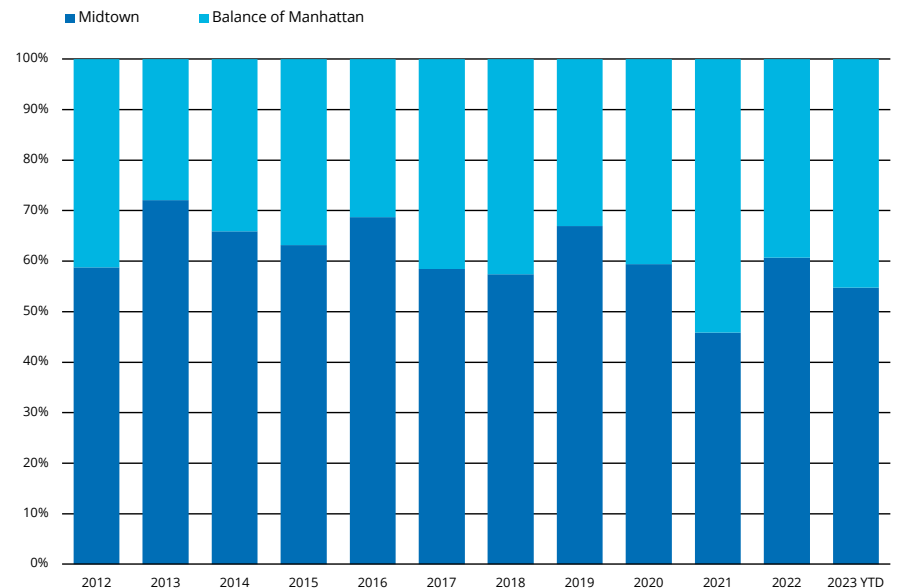
#### Office sales fall again

- Midtown sales volume fell to less than \$200 million in Q3, one of the lowest quarterly results in a decade. Year-to-date volume reached just \$1.7 billion, compared with \$5.6 billion traded over the same period in 2022.
- Midtown’s largest transaction in Q3 was the sale of 510 Fifth Avenue for \$50 million. Reuben Brothers purchased the 61,200 SF asset from Vornado, working out to \$817 PSF.
- In the Penn Plaza submarket, Korean media company MediaWill and Tony Park bought 110 W 32nd Street for \$37 million, translating to \$326 per square foot. The building will be delivered vacant.
- With the Federal Reserve considering an additional rate hike, elevated interest rates and the overall economic climate are leaving investors reluctant to take on more debt and more risk. 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
DAVISPOLK	450 Lexington Ave	Grand Central	Renewal / Expansion	708,000
EMPIRE STATE DEVELOPMENT	655 Third Ave	Grand Central	Direct	117,200
MARSHALL WACE	66 Hudson Blvd	Penn Plaza	Direct	89,000
BBVA NEW YORK	385 Ninth Ave	Penn Plaza	Direct	73,800
EISLER CAPITAL	66 Hudson Blvd	Penn Plaza	Direct	71,300

## NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
825 EIGHTH AVE	Times Square	600,000	Direct
1166 AVE OF THE AMERICAS	Times Square	280,100	Direct
7 TIMES SQUARE	Times Square	267,000	Direct
11 PENN PLAZA	Penn Plaza	101,500	Sublet
550 MADISON AVE	Plaza District	95,700	Direct

## NOTABLE SALES

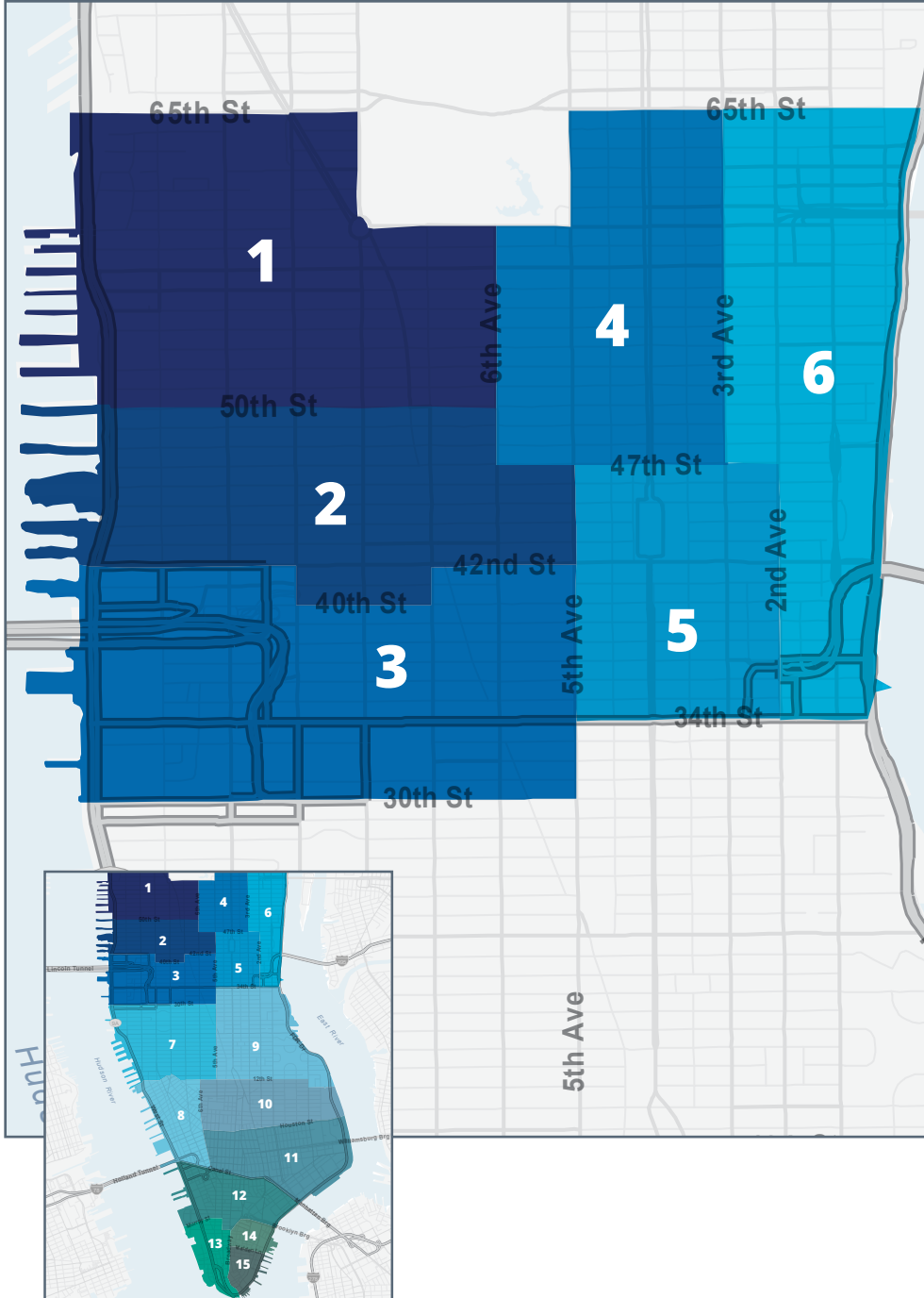
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
510 FIFTH AVE	Times Square	\$50,000,000	61,200	\$817	Reuben Brothers	Vornado
110 W 32ND ST / 115 W 31ST ST	Penn Plaza	\$37,000,000	113,409	\$326	MediaWill, Tony Park	RJF 110 Realty
343 MADISON AVE (341-347 MADISON AVE)	Grand Central	\$35,200,000	351,900	\$100	Boston Properties	MTA



**MARKET INDICATORS**

All Classes of Space | Q3 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	31,124,264	365,472	721,705	11.1%	10.2%	\$70.90	\$57.81	\$67.63
EAST SIDE	14,887,780	-10,973	188,057	20.6%	19.5%	\$72.47	\$74.36	\$72.51
GRAND CENTRAL	57,108,078	992,118	634,463	19.3%	16.3%	\$70.42	\$64.05	\$69.43
PENN PLAZA	69,417,327	95,763	591,349	17.8%	17.2%	\$107.53	\$55.05	\$91.18
PLAZA DISTRICT	70,568,091	325,173	-23,692	14.1%	13.0%	\$89.44	\$89.91	\$89.46
TIMES SQUARE	43,269,825	-367,106	-756,107	17.7%	13.9%	\$83.53	\$57.96	\$81.67
<b>MIDTOWN TOTAL</b>	<b>286,375,365</b>	<b>1,400,447</b>	<b>1,355,775</b>	<b>16.6%</b>	<b>14.8%</b>	<b>\$85.64</b>	<b>\$59.67</b>	<b>\$81.48</b>



### 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](mailto:Corrie.Slewett@transwestern.com)

212.537.7690

### ABOUT TRANSWESTERN

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