



TRANSWESTERN

# MIDTOWN SOUTH 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)	(190.8)	64.7	↓	(431.2)	↑
OVERALL VACANCY RATE	18.8%	14.7%	↑	11.7%	↓
OVERALL VACANT SF (MSF)	15.2	11.7	↑	9.2	↓
UNDER CONSTRUCTION (MSF)	0.3	1.2	↓	1.2	↔
ASKING RENT (PSF)	\$80.88	\$73.38	↑	\$77.99	↑
SALES VOLUME (Millions)	\$165.1	\$33.3	↑	\$738.4	↔

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

## RENTS GROW DESPITE RISING AVAILABILITY

Midtown South recorded 957,100 SF of leasing activity in Q3, with a 66,000 SF sublease as the submarket’s largest transaction. Availability increased its record high, though sublet availability decreased, and absorption continued its negative streak. The high availability was not a deterrent to rents, which have been advancing steadily and increased both in-quarter and year-over-year.

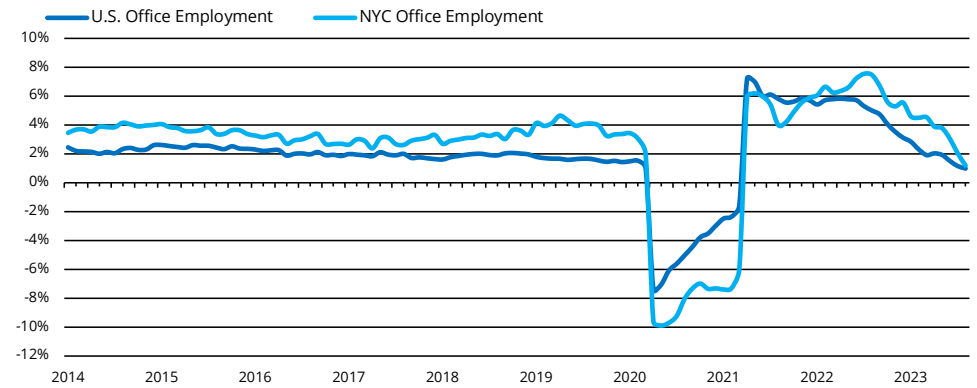
“Sublease supply, which has been an indicator of uncertainty, was down across Manhattan,” said Chase Gordon, Senior Vice President, Transwestern. “We are seeing signs of stability re-enter the office market, particularly as tenants firm up their back-to-office plans.”

**ECONOMY**

**Office employment growth is slowing**

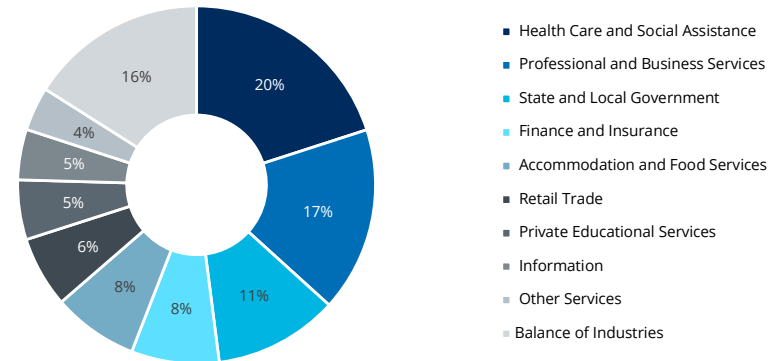
- New York City office employment is now 3.6% above the pre-COVID level with 2.1 million jobs. The rate of growth has slowed considerably, however, most recently to 1.2% year-over-year. Outside of the initial COVID slump, this is the slowest year-over-year growth in more than a decade.
- On a national 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**



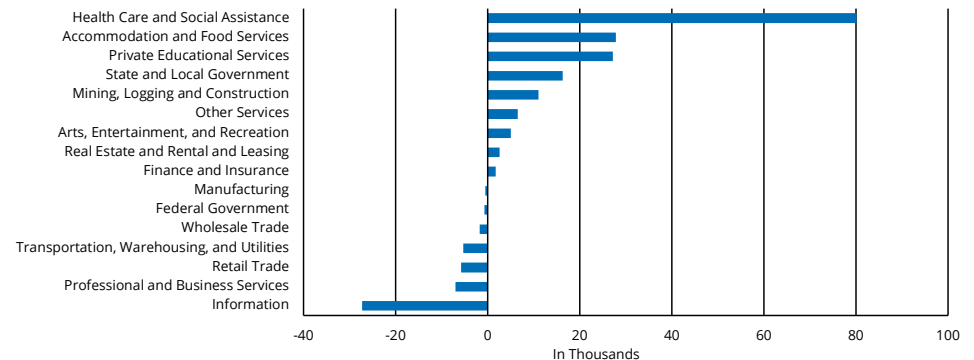
**SHARE OF EMPLOYEES BY INDUSTRY**

New York City | August 2023



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

New York City



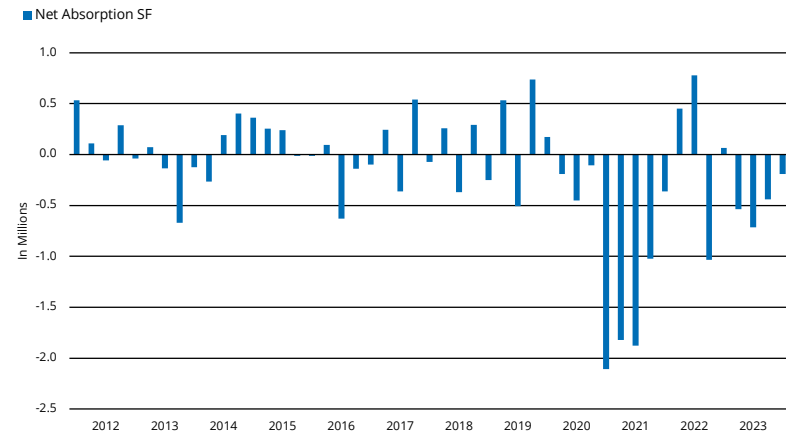


### NET ABSORPTION

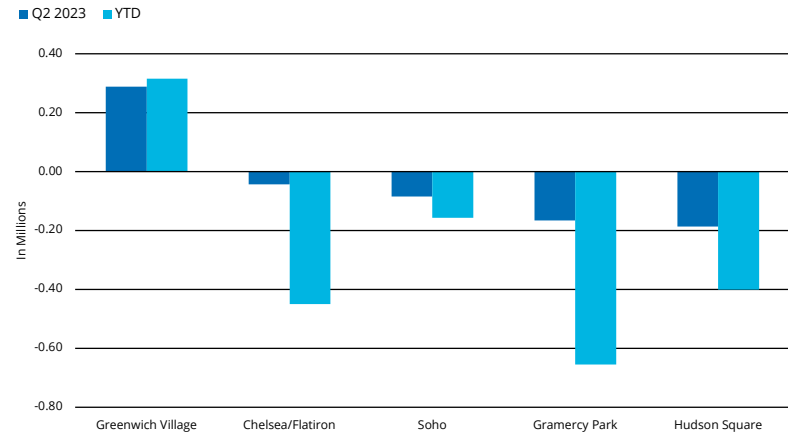
#### Midtown South absorption remains negative

- Midtown South absorption measured negative 190,800 SF in Q3. This was the fourth straight quarter of negative net absorption, though it was an improvement on both Q1 and Q2 results. The year-to-date total of negative 1.3 MSF was somewhat worse than the same period in 2022, which measured negative 191,700 SF.
- Most of Midtown South's submarkets also recorded negative absorption in Q3. The exception was Greenwich Village, which had 288,900 SF of positive take-up. Transactions driving absorption in the Village included a 42,200 SF sublease signed by Intuit at 51 Astor Place, a 71,300 SF block that was removed at the same building (it is now listed as retail space), and a 78,200 SF space at 770 Broadway that has been pushed out to late-2024 availability.
- Fintech startup Ramp signed a 66,000 SF sublease at 28-40 W 23rd Street in the Chelsea/Flatiron submarket. This was the largest lease of the quarter in Midtown South, but block additions exceeding 50,000 SF at 114-116 Fifth Avenue, 90 Fifth Avenue, and 50 W 23rd Street, kept Chelsea/Flatiron's absorption constrained to negative 43,000 SF.
- Large block additions in the Hudson Square, Soho, and Gramercy Park submarkets also negatively affected absorption, as there was little leasing activity to counteract the added space.
- 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 continues to drive further interest in the submarket.

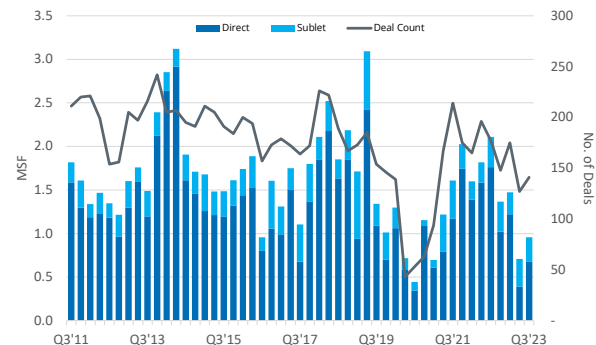
### NET ABSORPTION - MIDTOWN SOUTH



### NET ABSORPTION BY SUBMARKET



### MIDTOWN SOUTH LEASING ACTIVITY



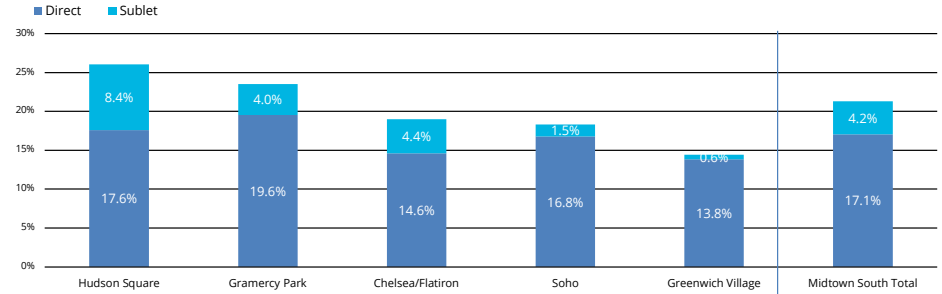


### AVAILABILITY

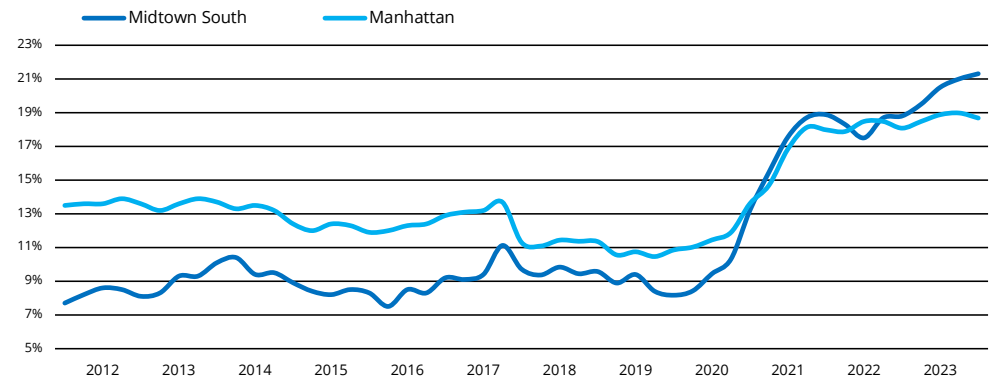
#### Sublet availability decreases amid rise in overall rate

- Midtown South’s availability rate continued its upward path, reaching 21.3% in Q3, its highest on record. The rate is 2.5 percentage points [pp] higher than a year ago and 6.2 pp above the five-year rolling average.
- The biggest deals signed in Midtown South were for sublet space, contributing to a 0.3 pp decrease in sublet availability. The sublet availability rate is now 4.2%, the lowest in three years. In contrast, direct availability rose another 0.5 pp to 17.1% amid the addition of five large direct blocks spread across nearly all Midtown South’s submarkets.
- The Hudson Square submarket saw availability rise by 2 pp to 26%, the second highest level in all of Manhattan. A major driver of this increase was a 288,500 SF block at 375 Hudson Street that became available as sublet space this quarter.
- The only submarket to see a significant decrease in availability was Greenwich Village, which fell 5.5 pp to 14.4%. Not only does Greenwich Village now have the lowest availability in Midtown South, replacing Soho’s claim to that title, but the Intuit sublease helped compress sublet availability to 0.6%, the lowest in Manhattan.
- Layoffs and uncertainty in the tech sector, which comprises a large percentage of Midtown South’s tenants, have contributed to the submarket’s rising availability in the past year. However, pent-up demand from occupiers could help bring the rate down over the next few quarters.

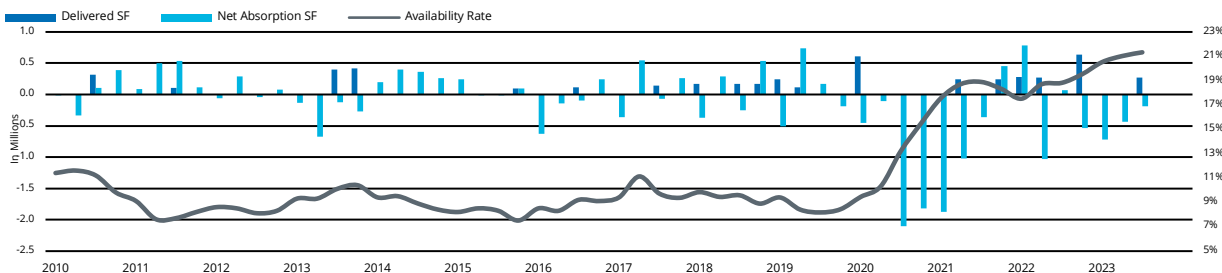
### SUBMARKET AVAILABILITY



### SUBMARKET AVAILABILITY VS MANHATTAN



### DELIVERY IMPACT ON KEY INDICATORS



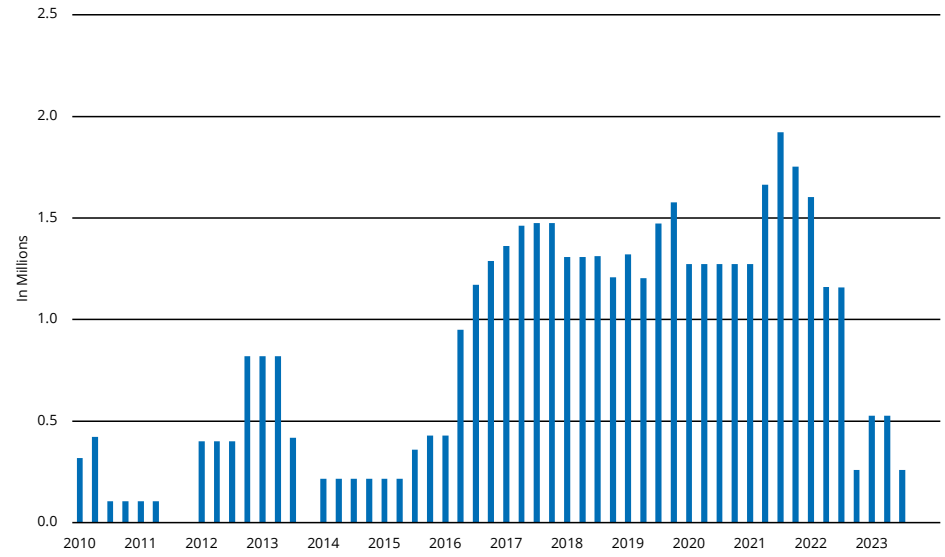


### UNDER CONSTRUCTION

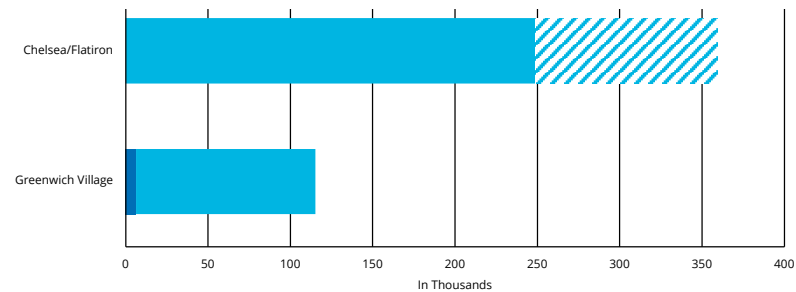
#### New development transforming Midtown South

- Midtown South has almost half a million square feet of high-quality core office properties under construction. About 75% of that space is currently available for lease, presenting opportunities for occupiers in this unique, evolving district.
- The third quarter saw the delivery of 555 Greenwich Street in the Hudson Square submarket, and the completion of renovations at One Madison Avenue in the Gramercy Park submarket.
- In Chelsea/Flatiron, the boutique office building at 132 W 14th Street is scheduled to deliver later this year, while construction continues at 220 Eleventh Avenue and 278 Eighth Avenue, both slated for delivery in 2024. In the Greenwich Village submarket, a 121,300 SF building addressed at 360 Bowery is also underway. We are also seeing numerous Class B assets preparing for capital improvements in order to compete for tenants.
- Despite the recent emphasis on office renovations and redevelopment, rather than ground-up construction, there is another 1.5 MSF of core office product proposed or planned 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 should continue to attract a new mix of occupiers to the submarket, with some establishing their first NYC outpost and others migrating from Midtown or Downtown.

### UNDER CONSTRUCTION - MIDTOWN SOUTH



### UNDER CONSTRUCTION BY SUBMARKET



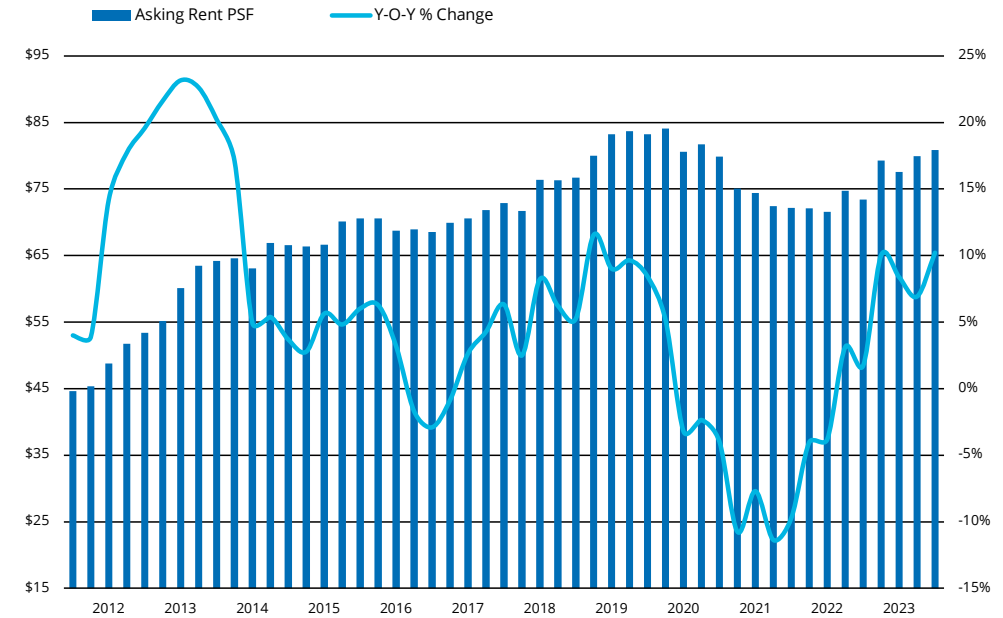


### RENTAL RATES

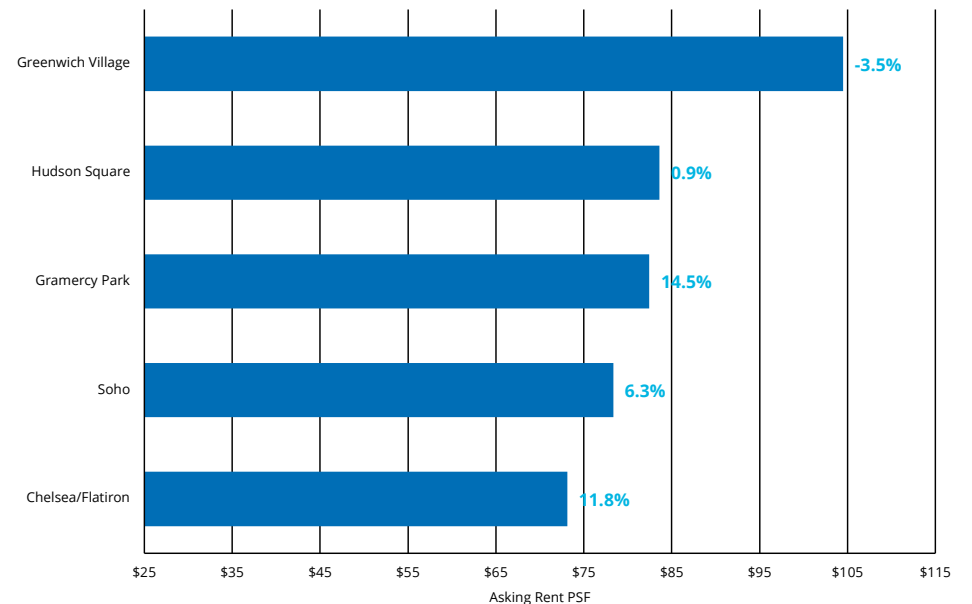
#### Trophy space continues to boost rent growth

- Midtown South rents have now experienced six straight quarters of year-over-year growth. The average asking rent of \$80.88 PSF is a full 10.2% higher than the year-ago level. This represents growth of 1.2% from Q2. With the exception of Hudson Square, all of Midtown South’s submarkets experienced an increase in asking rents from last quarter as well.
- Rents in Midtown South are at their highest level since mid-2020, within 4% of the 2019 peak, and on par with well-established areas in Midtown.
- Rents have been driven up by the delivery of Class A and trophy space, notably in buildings like the revamped One Madison, which 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 less than 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. In the meantime, we continue to see landlords reaching for tenants, particularly at non-trophy and Class B assets.

### ASKING RENT - MIDTOWN SOUTH



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



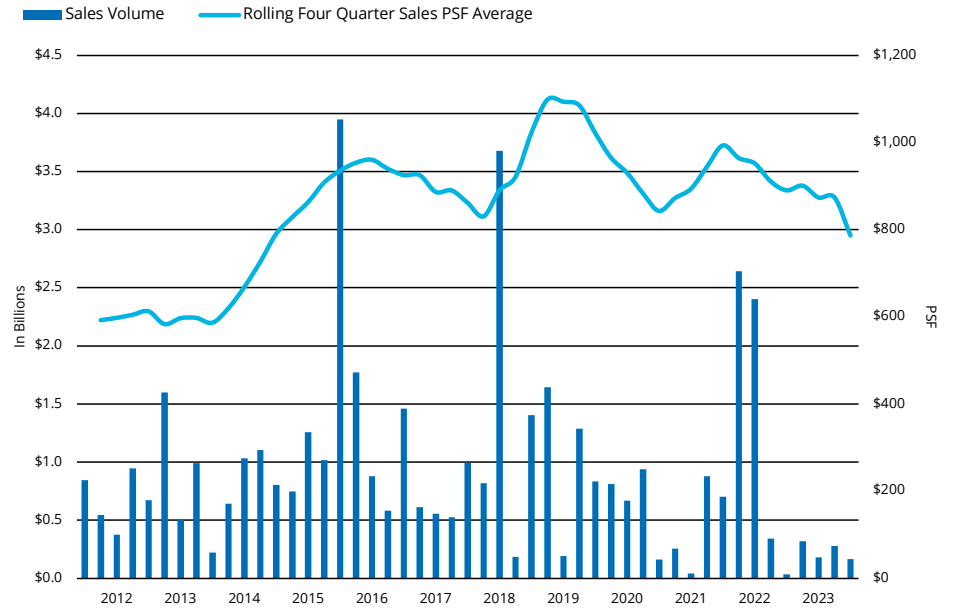


### SALES

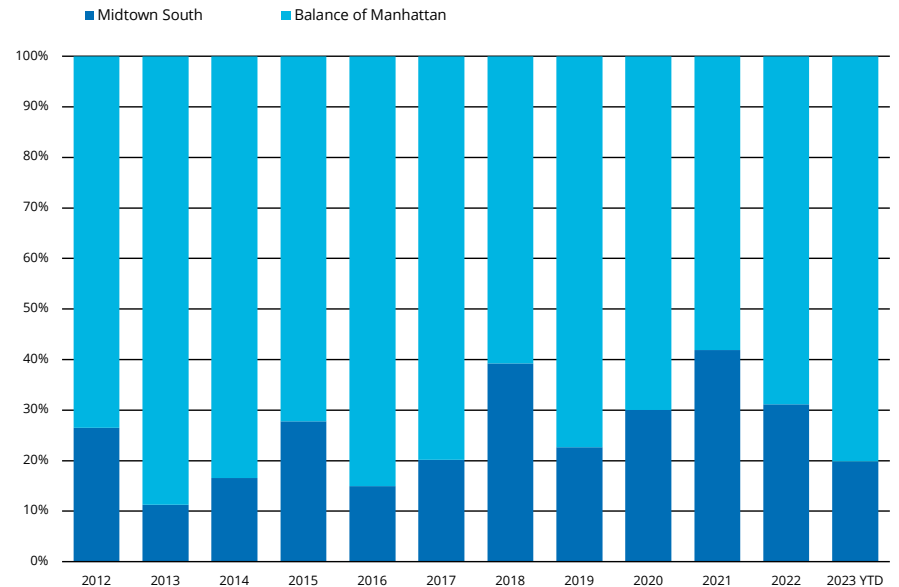
#### Transaction volume sinks further

- Midtown South saw only a few office sales this quarter, summing to deal volume of \$165.1 million. Year-to-date volume totaled just \$620.1 million, compared with \$2.8 billion in the same period 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 largest sale of the quarter was 16 Madison Square West, also known as 1115 Broadway, in the Chelsea/Flatiron submarket. The 259,700 SF property sold to Adams & Company for \$43.6 million, translating to pricing of \$168 PSF for seller Rockrose.
- Also on the horizon in Chelsea/Flatiron, Sovereign Partners is in contract to buy 100-104 Fifth Avenue in for \$125 million, though this is nearly half of what Clarion Partners paid for it a decade ago. This pricing would translate to \$451 per square foot, well below the recent average.
- While the Federal Reserve seems to have eased off additional interest hikes for now, the elevated rates and 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 SOUTH



### MIDTOWN SOUTH % OF MANHATTAN SALES VOLUME





## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
RAMP	28-40 W 23rd St	Chelsea/Flatiron	Sublease	66,000
INTUIT	51 Astor Pl	Greenwich Village	Sublease	42,200
NAVAN	115 W 18th St	Chelsea/Flatiron	Direct	40,650
LACOSTE	136 Madison Ave	Gramercy Park	Direct	18,400
ELITE WORLD GROUP	601 W 26th St	Chelsea/Flatiron	Direct	18,000

## NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
375 HUDSON ST	Hudson Square	288,500	Sublet
2 PARK AVE	Gramercy Park	136,200	Direct
114-116 FIFTH AVE	Chelsea/Flatiron	116,000	Direct
295-309 LAFAYETTE ST	Soho	90,102	Direct
35 E 21ST ST	Gramercy Park	81,200	Direct

## NOTABLE SALES

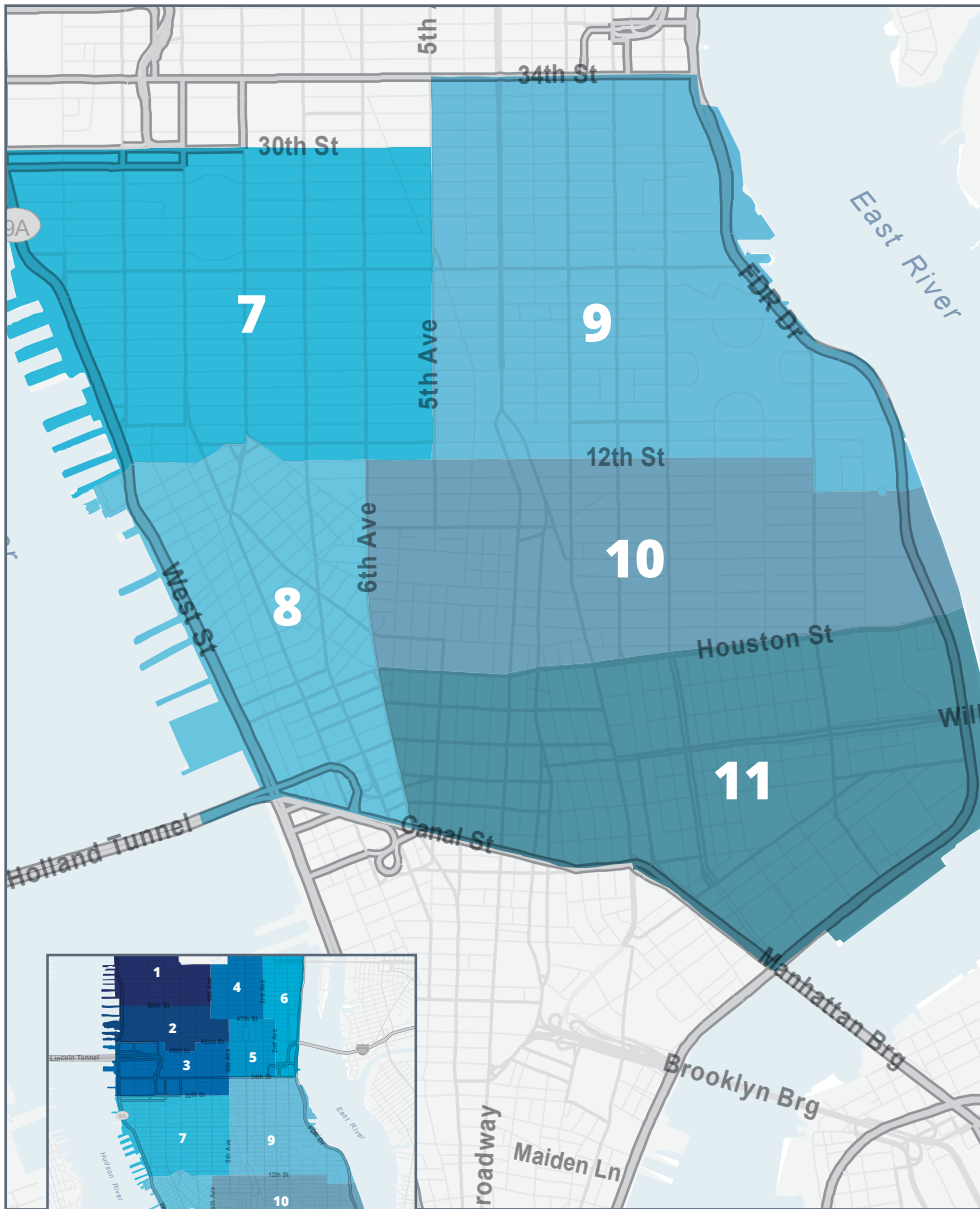
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1115 BROADWAY / 16 MADISON SQ W	Chelsea/Flatiron	\$43,600,000	259,700	\$168	Adams & Company	Rockrose



**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
<b>CHELSEA/FLATIRON</b>	26,684,559	-42,999	-449,255	19.0%	17.9%	\$111.95	\$62.22	\$73.11
<b>GRAMERCY PARK</b>	32,118,371	-166,066	-655,531	23.5%	20.5%	\$102.14	\$63.43	\$82.44
<b>GREENWICH VILLAGE</b>	5,820,134	288,944	315,809	14.4%	18.4%	\$140.00	\$102.28	\$104.51
<b>HUDSON SQUARE</b>	9,949,520	-186,171	-401,146	26.0%	19.7%	\$87.62	\$77.65	\$83.60
<b>SOHO</b>	5,915,115	-84,479	-156,663	18.3%	13.1%	\$81.15	\$76.60	\$78.34
<b>MIDTOWN SOUTH TOTAL</b>	<b>80,487,699</b>	<b>-190,771</b>	<b>-1,346,786</b>	<b>21.3%</b>	<b>18.8%</b>	<b>\$100.49</b>	<b>\$68.80</b>	<b>\$80.88</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

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### ABOUT TRANSWESTERN

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