



TRANSWESTERN

# MIDTOWN MANHATTAN OFFICE MARKET

Q4 2023



## TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	5.3	5.2	↑	7.4	↓
NET ABSORPTION (Thousands SF)	1,429.9	(1,836.1)	↑	(850.0)	↑
OVERALL VACANCY RATE	15.4%	13.9%	↑	11.4%	↓
OVERALL VACANT SF (MSF)	44.0	39.8	↑	32.2	↓
UNDER CONSTRUCTION (MSF)	0.5	2.0	↓	8.9	↔
ASKING RENT (PSF)	\$80.86	\$78.09	↑	\$80.95	↑
SALES VOLUME (Millions)	\$1,069.3	\$478	↑	\$1,470.5	↔

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

## STRONG ACTIVITY IN MIDTOWN LED BY LARGEST LEASE IN U.S.

Midtown leasing reached 5.8 MSF in Q4, the highest in two years and contributing to 16.8 MSF of deal activity in 2023. Leasing was boosted by the largest U.S. deal of the year, a 765,000 SF relocation and expansion from law firm Paul, Weiss. More than 15 leases exceeding 50,000 SF were signed in Midtown, contributing to one of the highest quarterly absorption totals in the last decade. Availability decreased, led by the ongoing reduction in sublease space, and rents increased from their year-ago level.

“While 2024 will continue to test business confidence and decision making across many sectors, we are certainly seeing a shift as it relates to underlying market activity,” said Rory Murphy, Partner, Transwestern. “New York’s diverse tenant base, led largely by the financial services and legal sectors in 2023, continues to be the differentiator when compared to other markets across the country.”

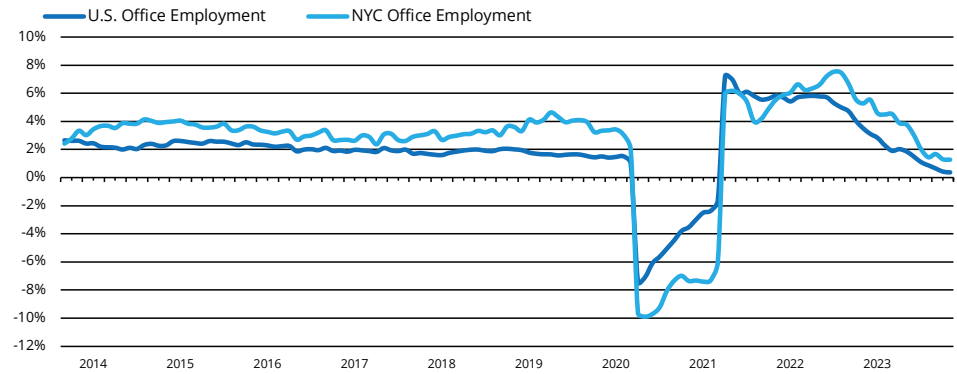


### ECONOMY

#### Office jobs still growing, but pace has slowed

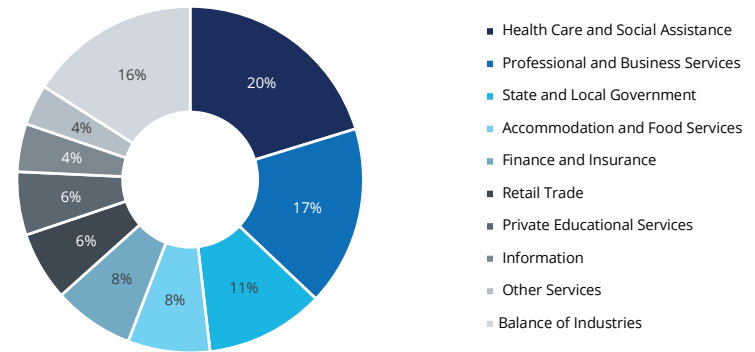
- New York City's office-using sectors now support 2.1 million jobs, more than 5% above the pre-COVID level. The rate of growth has slowed considerably, however, most recently to 1.3% year-over-year. Outside of the initial COVID slump, this is the slowest pace in more than a decade.
- On a national level, there has been a small reduction in office jobs from their May peak, now measuring 35.1 million positions. As in NYC, job growth has slowed to a ten-year low, with year-over-year improvement of just 0.4% in November.
- The unemployment rate in New York City has stabilized over the past year and remains at 5.3%, a level it has occupied for most of the last six months. National unemployment currently stands at 3.7%, slightly above the pre-pandemic level.
- New York City's Health Care & Social Assistance industry continues to lead job growth, adding more positions over the last year than any other sector. Robust job increases were also seen in the Private Educational Services sector and the Accommodation & Food Services sector. On the downside, layoffs by tech companies have contributed to an employment decrease in the Information sector, which shed almost 25,000 jobs in the past year. Wholesale and Retail Trade jobs have also decreased, along with jobs in the Transportation, Warehousing, & Utilities sector, as higher interest rates and the uncertain economy led to a pullback in consumer spending.
- While the commercial real estate environment is still adapting to the prevalence of hybrid work, now the most common structure for "office" jobs across the US, New York's varied market sectors indicate a strength that will continue to propel the city forward as we enter 2024.

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



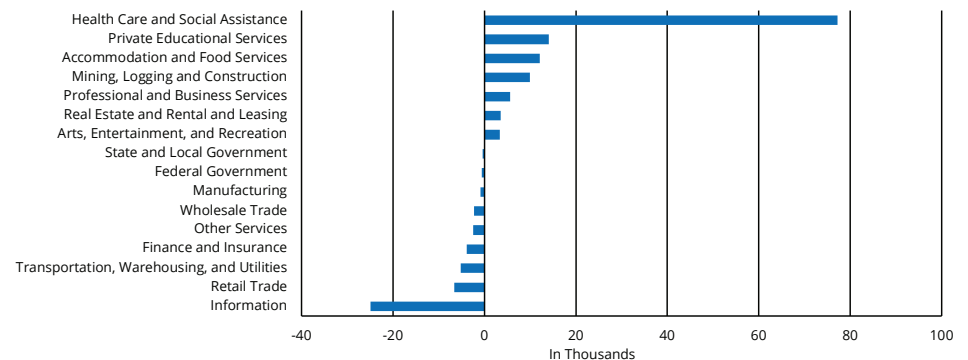
### SHARE OF EMPLOYEES BY INDUSTRY

New York City | November 2023



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

New York City



Source: Bureau of Labor Statistics, NYS Department of Labor, Transwestern

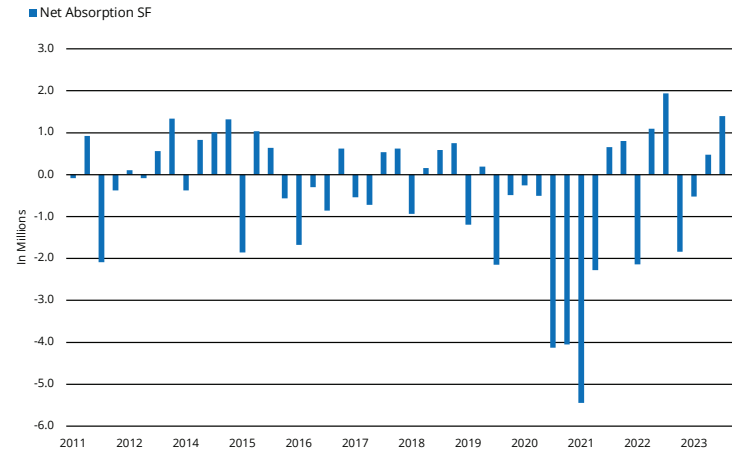


### NET ABSORPTION

#### Absorption improves for a fourth straight quarter

- Midtown recorded just over 1.4 MSF of positive net absorption in Q4, slightly ahead of the Q3 result, and the second-highest quarterly total in the last decade. Full year absorption measured nearly 2.8 MSF, compared with negative 944,400 SF in 2022. Both Class A and Class B space recorded positive take-up in quarter and for the full year.
- Among Midtown’s submarkets, Grand Central had the strongest absorption at 1 million SF. Absorption was helped by a 76,700 SF signing from Stonepeak at 245 Park Avenue and a 51,200 gem by Effy Jewelry owner Hematian Realty at 390 Madison Avenue. Also contributing to positive absorption was the withdrawal of several large direct and sublet blocks that totaled about 374,000 SF.
- The Plaza District recorded a robust 977,600 SF of positive absorption in Q4, as Weill Cornell Medicine expanded to 297,100 SF at 575 Lexington Avenue, PJT Partners grew to 269,900 Sf at 280 Park Avenue, and King & Spalding grabbed 175,500 SF at 1290 Avenue of the Americas. The withdrawal of a 200,900 SF sublet block at 437 Madison Avenue helped with the healthy take-up.
- Columbus Circle recorded negative absorption in Q4, despite the massive Paul, Weiss lease at 1345 Sixth Avenue; the deal had no effect on absorption as the space was not actively marketing. Columbus Circle tallied a 48,900 SF hit by MLB Players Association at 1325 Sixth Avenue, but it had to contend with large block additions totaling more than 815,500 SF at 1745 Broadway and 1633 Broadway.
- Absorption has seen strong improvement in Midtown over the last year, surging ahead of immediate pre-pandemic levels. Recent long-term renewals and expansions (Weill Cornell signed for 30 years and Paul, Weiss for 20 years) are a hopeful sign for the submarket and should generate further confidence as we enter 2024.

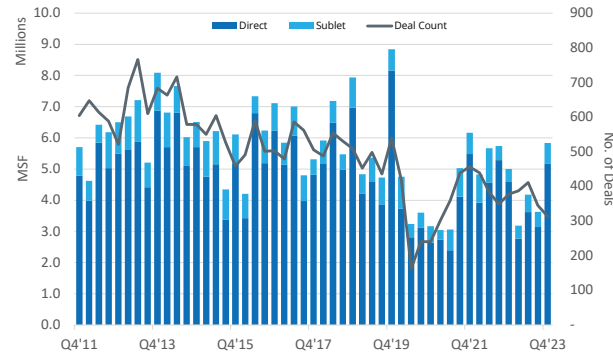
### NET ABSORPTION - MIDTOWN



### NET ABSORPTION BY SUBMARKET



### MIDTOWN LEASING ACTIVITY



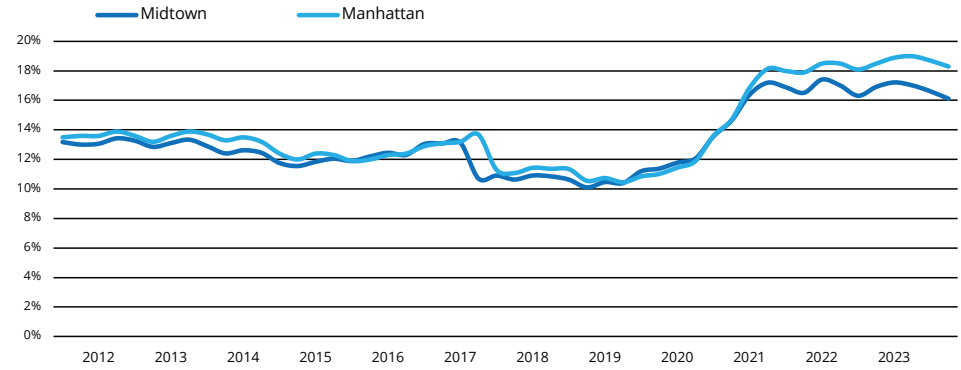


### AVAILABILITY

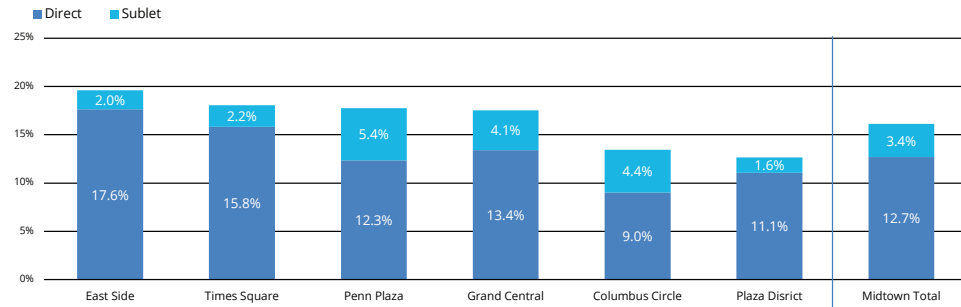
#### Midtown availability decreases

- Midtown’s overall availability rate decreased 0.5 percentage points [pp] to 16.1% in Q4 2023, its lowest level since late 2020. In comparison, the submarket’s 5-year pre-pandemic average availability level was 11.5%.
- Midtown’s sublet availability rate fell to 3.4%, also representing a three-year low. Three of Midtown’s submarkets have sublet availability rates at or below 2.2%, some of the lowest levels in Manhattan. The largest sublease this quarter was Solomon Partners’ 70,700 SF deal at 1251 Avenue of the Americas, but there was also more than 750,000 SF in sublease space withdrawn from marketing in Midtown.
- Availability in the Plaza District tightened to 12.7%, now the lowest in Manhattan, as several large deals were completed. In contrast, the Columbus Circle submarket, which had previously claimed Manhattan’s lowest availability, faced several large block additions that contributed to a 2.4 pp rise in the rate, now 13.5% and still one of the tightest in the city.
- Midtown’s highest sublet availability is found in the Penn Plaza submarket, which took on sizeable sublet block additions at 550 West 34th Street and PENN 1 totaling 173,200 SF. The sublet availability rate of 5.4% is equivalent to more than 30% of Penn Plaza’s total available space; currently seven Penn Plaza buildings are marketing at least 150,000 SF of sublet space.
- Since late 2020, Midtown has maintained a lower availability rate than Manhattan overall, and the gap has now widened to 2.2 pp as improved leasing velocity drives the submarket’s recovery. 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



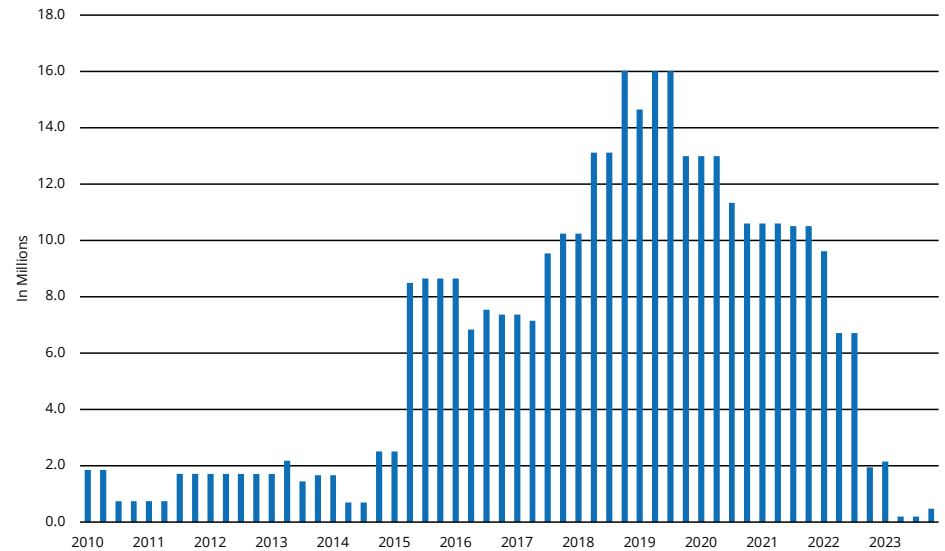


### UNDER CONSTRUCTION

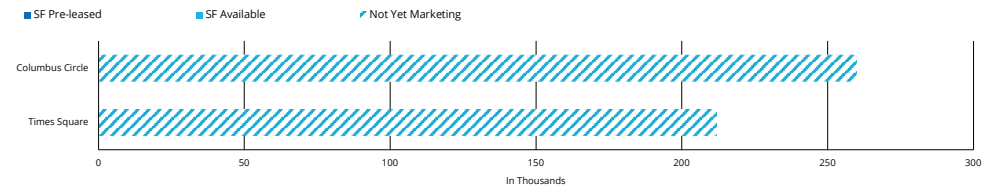
#### Development cools, preps for a reset

- 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 the overhaul of 330 West 42nd Street, which is prepping its upper floors for residential units (the base will remain office space).
- Currently, there is roughly 1 MSF under renovation in Midtown. This includes PENN 2, which is seeking an anchor tenant for its revamped base floors.
- With that said, ground-up development is still happening around Midtown. Active projects include a 260,000 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.
- In addition, there is 7.6 MSF of core office space proposed or planned in Midtown, dominated by two projects. In the Grand Central submarket, a 2.6 MSF tower addressed at 175 Park Avenue would replace the Hyatt Grand Central and incorporate hotel and retail components. Across town, Tishman Speyer has proposed a 1.2 MSF tower at 70 Hudson Yards in the Penn Plaza submarket.
- The likeliness of these, and other, 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.

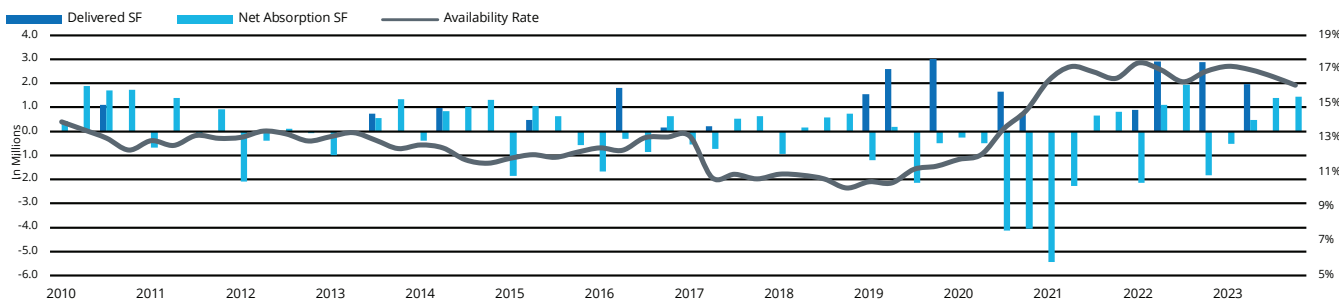
### UNDER CONSTRUCTION - MIDTOWN



### UNDER CONSTRUCTION BY SUBMARKET



### DELIVERY IMPACT ON KEY INDICATORS



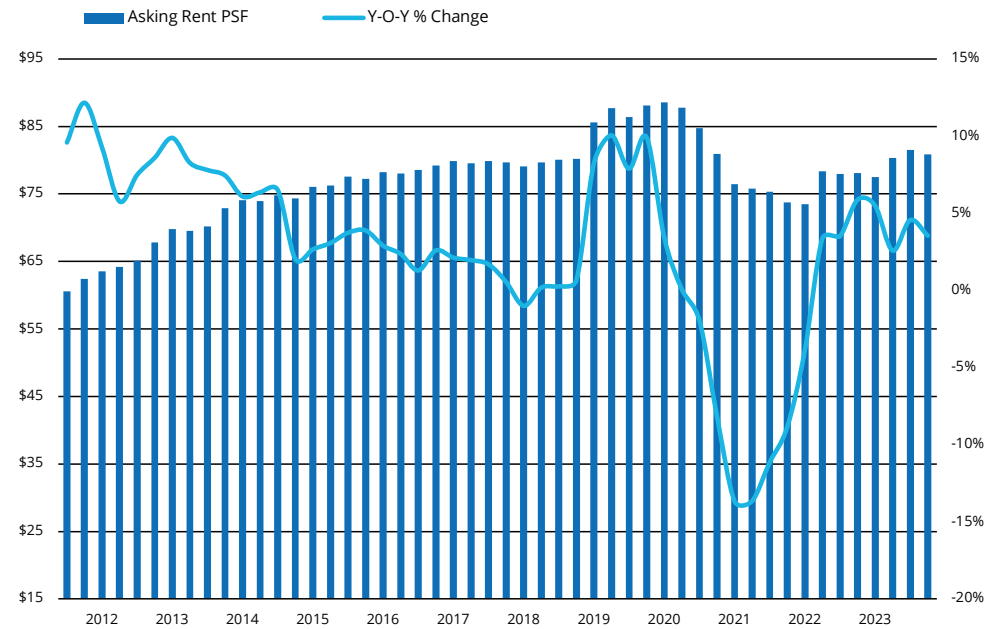


### RENTAL RATES

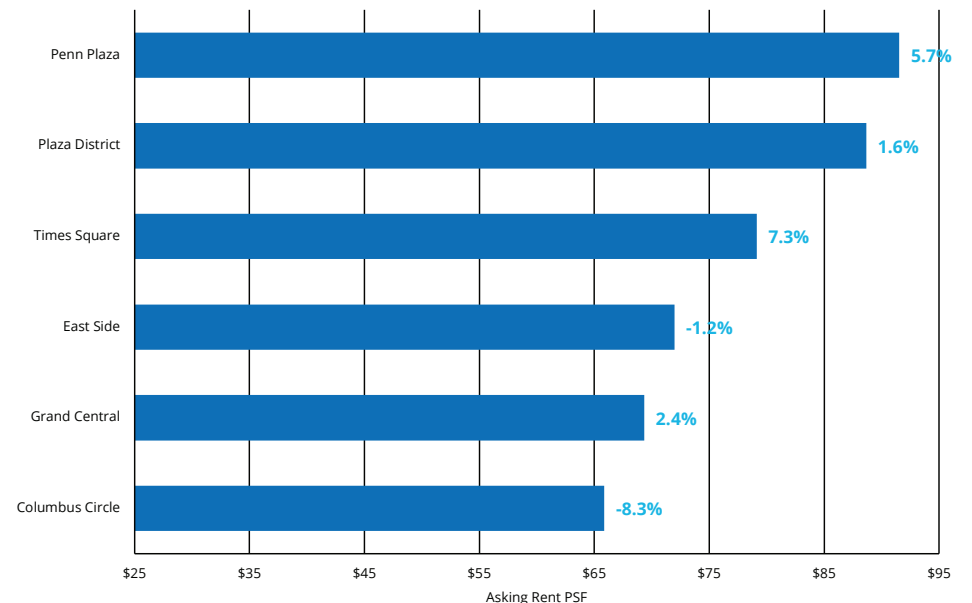
#### Midtown rents rising on trophy asking rates

- Midtown’s average asking rent finished the year at \$80.86 PSF, representing annual growth of 3.5% and bringing rates to within 9% of their pre-pandemic peak. Rents have now recorded seven straight quarters of annual growth.
- Much of the recent rent 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, and 425 Park Avenue. 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. Midtown’s available sublet space has decreased by more than 2.6 million square feet after peaking at 12.5 MSF in Q1, removing a sizeable amount of lower-priced space from the submarket.
- As sublet space continues to decrease, the tightening in availability and removal of these lower-priced spaces will help drive rents further upward. Renovations and redevelopment of existing buildings will allow additional 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



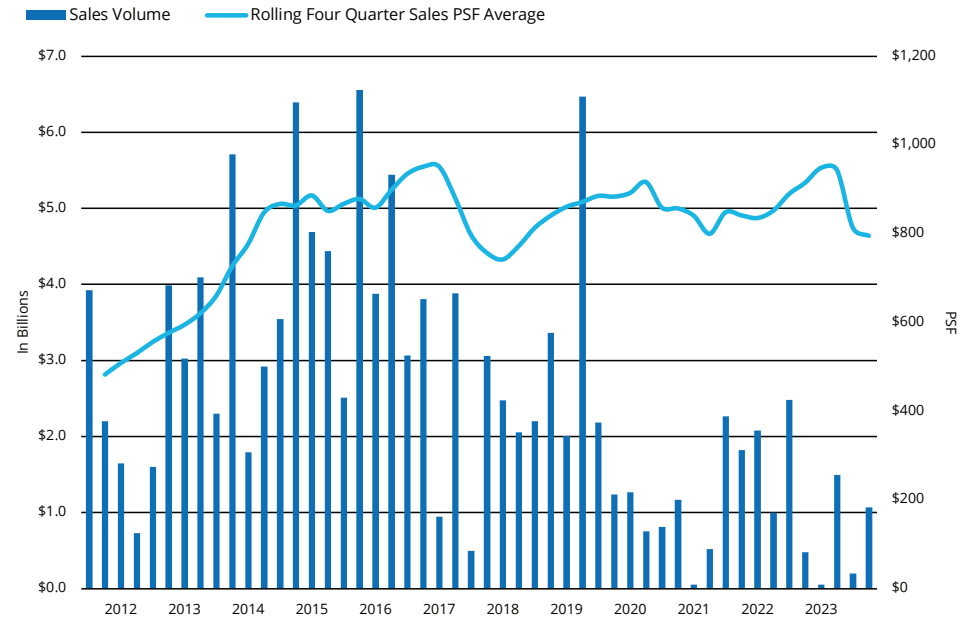


### SALES

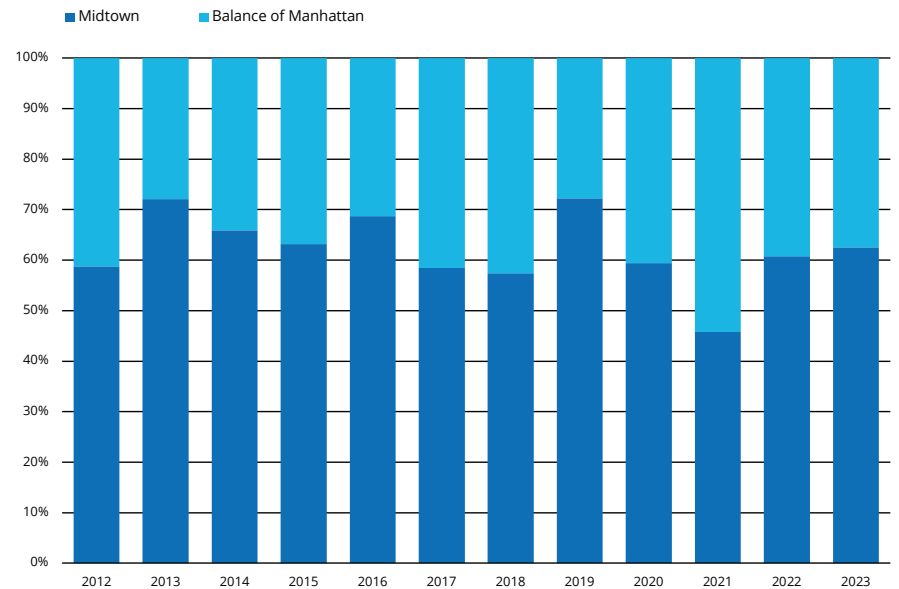
#### Adjacent assets lift Q4 volume

- Midtown sales volume increased to nearly \$1.1 billion in Q4, owing largely to the sale of side-by-side properties on Fifth Avenue. Full year volume reached \$2.8 billion in 2023, compared with \$6.0 billion traded during 2022.
- The largest office transaction in Q4 was the sale of 724 Fifth Avenue in Midtown’s Plaza District for \$425 million. Prada bought the building, and neighboring 720 Fifth Avenue, which sold for \$410 million, from Wharton Properties. The buildings, located amid Fifth Avenue’s luxury retail corridor, fetched sky-high pricing of \$6,534 PSF and \$3,385 PSF, respectively.
- Elevated interest rates and the overall economic climate have left investors reluctant to take on more debt and more risk, due to banking uncertainty, limited liquidity and ongoing price discovery. However, the Federal Reserve has hinted that interest rate cuts will be coming in 2024, which could help bump up transaction volume from its recent sluggish pace.
- To that end, several significant deals are on the horizon. Related Companies is planning to buy 625 Fifth Avenue in the Plaza District for \$632.5 million, and KSR Capital just announced it will purchase a minority stake in 1410 Broadway in the Penn Plaza submarket, with pricing anticipated to value the building at \$170 million.

### SALES VOLUME - MIDTOWN



### MIDTOWN % OF MANHATTAN SALES VOLUME





## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
PAUL, WEISS	1345 Ave of the Americas	Columbus Circle	Direct	765,000
METLIFE	200 Park Ave	Grand Central	Direct Extension	400,000
WEILL CORNELL MEDICINE	575 Lexington Ave	Plaza District	Direct renewal / expansion	296,100
PJT PARTNERS	280 Park Ave	Plaza District	Direct renewal / expansion	269,900
KING & SPALDING	1290 Ave of the Americas	Plaza District	Direct	175,500
DENTONS	1221 Ave of the Americas	Times Square	Direct Renewal	159,500

## NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
1745 BROADWAY	Columbus Circle	314,700	Sublet
1633 BROADWAY	Columbus Circle	253,300	Sublet
1633 BROADWAY	Columbus Circle	190,400	Direct
950 SIXTH AVE	Penn Plaza	180,500	Direct
1120 AVE OF THE AMERICAS	Times Square	177,300	Direct

## NOTABLE SALES

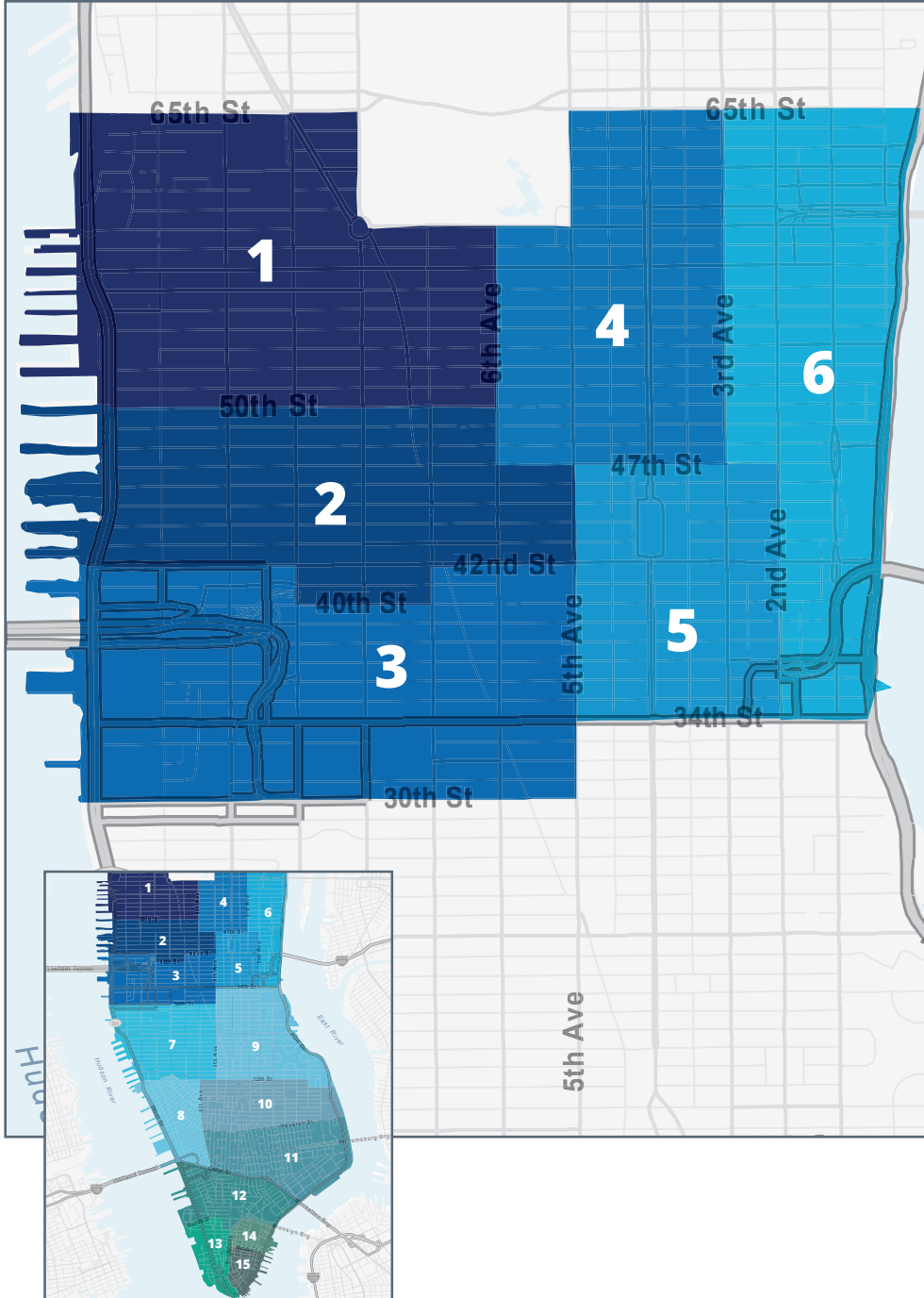
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
724 FIFTH AVENUE	Plaza District	\$425,000,000	65,000	6,538	Prada	Wharton Properties
720 FIFTH AVENUE	Plaza District	\$410,000,000	121,100	3,386	Prada	Wharton Properties



**MARKET INDICATORS**

All Classes of Space | Q4 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	30,933,781	-701,353	20,352	13.5%	13.1%	\$68.22	\$57.82	\$65.88
EAST SIDE	14,903,204	148,064	336,121	19.6%	18.9%	\$72.14	\$57.77	\$71.98
GRAND CENTRAL	57,011,617	1,042,181	1,676,644	17.5%	16.7%	\$70.56	\$62.04	\$69.34
PENN PLAZA	69,117,395	104,858	696,207	17.8%	17.6%	\$106.66	\$56.68	\$91.54
PLAZA DISTRICT	70,928,191	977,628	953,936	12.7%	12.7%	\$89.22	\$87.18	\$89.12
TIMES SQUARE	43,228,059	-141,438	-897,545	18.1%	14.7%	\$81.20	\$56.22	\$79.13
<b>MIDTOWN TOTAL</b>	<b>286,122,247</b>	<b>1,429,940</b>	<b>2,785,715</b>	<b>16.1%</b>	<b>15.4%</b>	<b>\$84.87</b>	<b>\$59.75</b>	<b>\$80.86</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  
212.537.7690

### ABOUT TRANSWESTERN

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