



TRANSWESTERN

MIDTOWN SOUTH 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	↑	7.5	↓
NET ABSORPTION (Thousands SF)	(404.6)	(538.5)	↑	(478.0)	↑
OVERALL VACANCY RATE	19.3%	16.7%	↑	12.4%	↓
OVERALL VACANT SF (MSF)	15.6	13.2	↑	9.8	↓
UNDER CONSTRUCTION (MSF)	0.3	0.3	↔	1.2	↔
ASKING RENT (PSF)	\$81.85	\$79.29	↑	\$78.08	↑
SALES VOLUME (Millions)	\$256.8	\$320.1	↓	\$669.3	↔

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

RENTS GROW AS LEASING INTENSIFIES

Midtown South recorded nearly 4.7 MSF of leasing activity in 2023. The Q4 leasing total of 1.6 MSF was the highest since Q3 2022 and included half a dozen deals exceeding 50,000 SF. Despite the year-end surge, absorption continued its negative streak and availability increased its record high, though sublet availability was unchanged from Q3. The high availability was not a deterrent to rents, which have been advancing steadily amid the delivery of new and newly renovated trophy space.

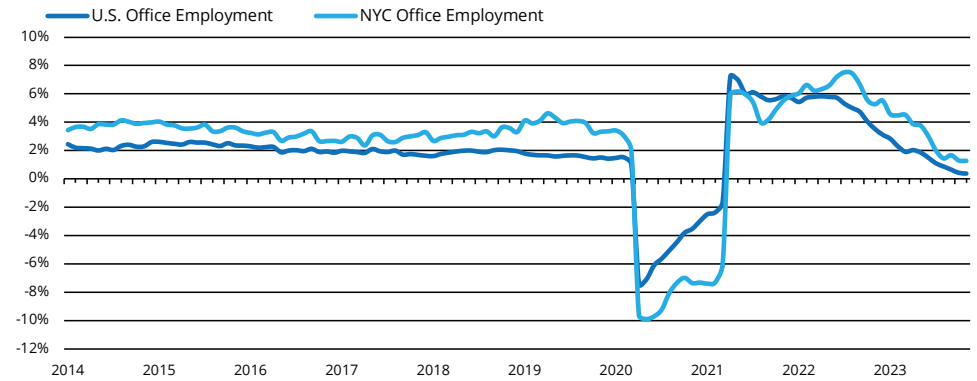
“While 2024 will continue to test business confidence and decision making across many sectors, we are certainly seeing a shift as it relates to underlying market activity,” said Rory Murphy, Partner, Transwestern. “New York’s diverse tenant base, led largely by the financial services and legal sectors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

ECONOMY

Office jobs still growing, but pace has slowed

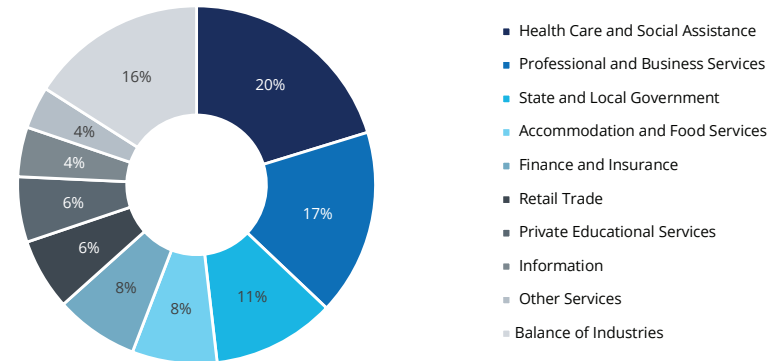
- New York City's office-using sectors now support 2.1 million jobs, more than 5% above the pre-COVID level. The rate of growth has slowed considerably, however, most recently to 1.3% year-over-year. Outside of the initial COVID slump, this is the slowest pace in more than a decade.
- On a national level, 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



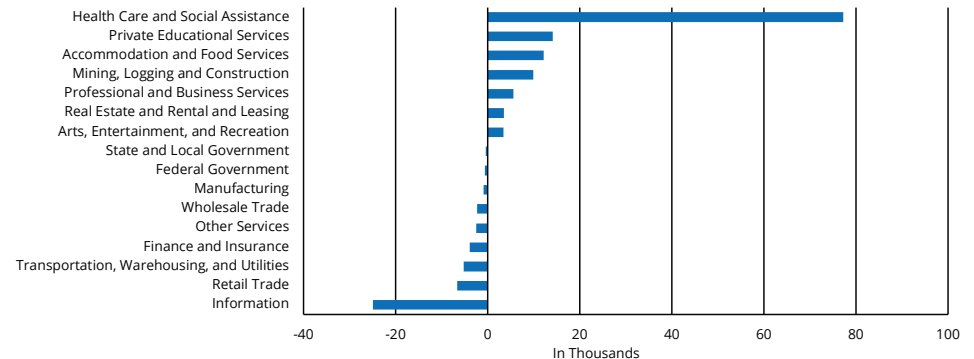
SHARE OF EMPLOYEES BY INDUSTRY

New York City | November 2023



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



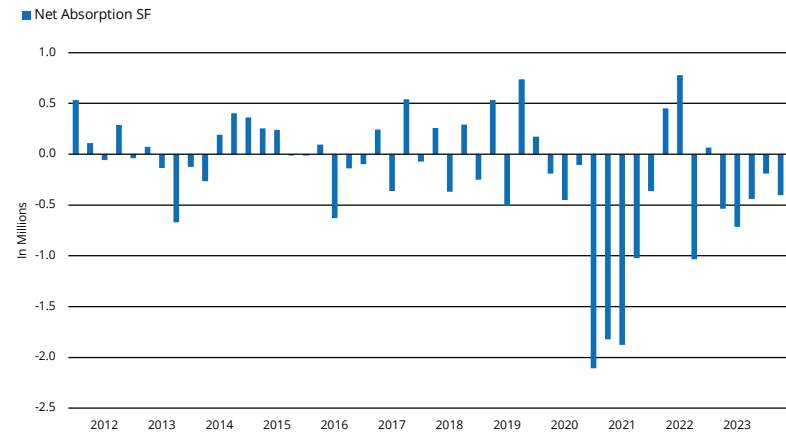


NET ABSORPTION

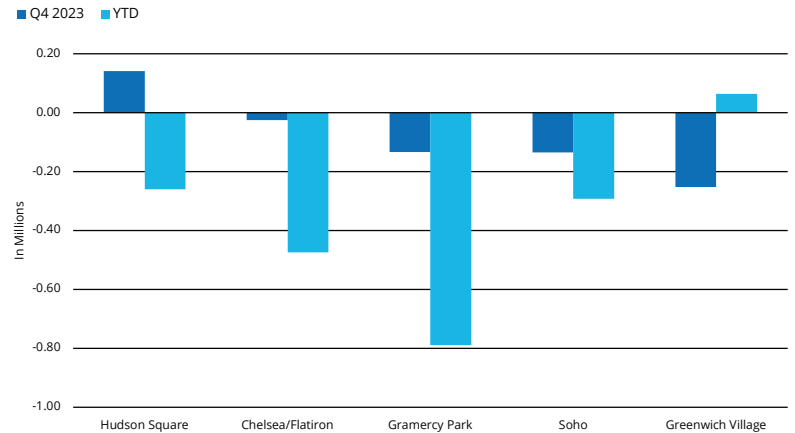
Midtown South absorption remains negative

- Midtown South recorded negative absorption in nearly every submarket this quarter, summing to negative 404,600 SF. This was the fifth straight quarter of negative results. For the full year 2023, absorption was negative 1.8 MSF, considerably worse than the negative 730,200 SF measured in 2022.
- The largest new lease in Midtown South this quarter was from law firm Quinn Emanuel, which took 131,700 Sf at 295 Fifth Avenue in the Gramercy Park submarket. Gramercy Park also faced a massive 524,200 SF addition at 11 E 26th Street (11 Madison Square North), where renovations are underway, and a 62,600 SF addition at 386 Park Avenue South, contributing to 134,000 SF of negative absorption in the quarter.
- In the Chelsea/Flatiron submarket, quarterly absorption was relatively flat at negative 24,800 SF. Large commitments by Ralph Lauren, fitting into 255,800 SF at 601 West 26th Street and Palantir, seeing 140,300 SF at 620 Avenue of the Americas were renewals and did nothing to improve take-up.
- 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. Leasing has been on the upswing since mid-year and we foresee continued improvement in 2024 as deals by tenants in diverse industries drive renewed interest in the submarket.

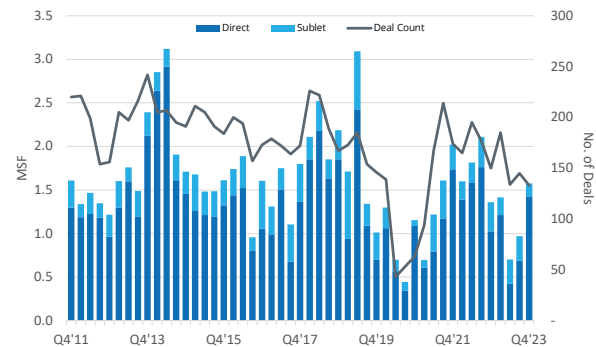
NET ABSORPTION - MIDTOWN SOUTH



NET ABSORPTION BY SUBMARKET



MIDTOWN SOUTH LEASING ACTIVITY

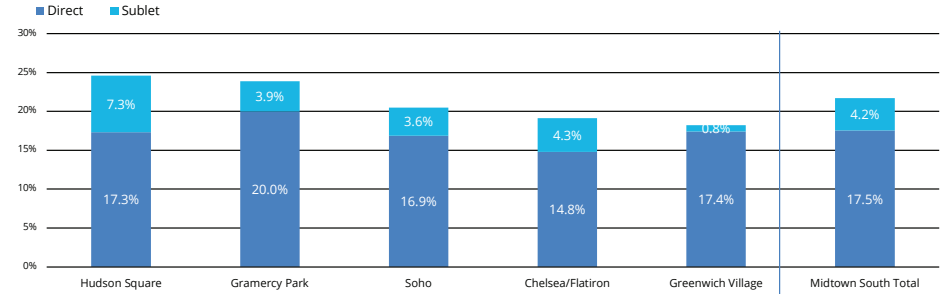


AVAILABILITY

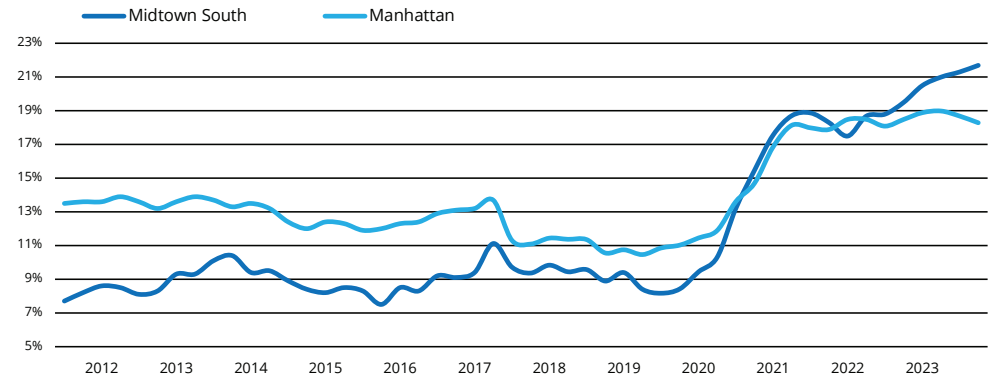
Availability rises again

- Midtown South’s availability rate continued upward, reaching 21.7% at year-end, its highest on record. The rate is 2.2 percentage points [pp] higher than a year ago and 5.9 pp above the five-year average.
- The increase was largely fueled by a rise in direct availability, which climbed to 17.5%. In contrast, sublet availability held steady at 4.2%, some 0.2 pp lower than its year-ago level.
- The largest deals signed in Midtown South this quarter were renewals, doing little to tame the rising availability. There were also six block additions exceeding 50,000 SF that contributed 945,400 SF to the availability pool.
- Greenwich Village availability jumped 3.8 pp from Q3 to 18.2%, still the lowest in Midtown South. The increase was generated as two large blocks came within twelve months of occupancy: 143,800 SF at 51 Astor Place, where IBM’s lease is expiring, and 78,200 SF at 770 Broadway, where Verizon is moving out. Greenwich Village continues to exhibit Manhattan’s lowest sublet availability rate at 0.8%.
- 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 over the past year. However, new commitments are coming from a variety of sectors, including law firms and financial services firms. With market conditions improving throughout Manhattan, pent-up demand from occupiers could help bring availability down over the next few quarters.

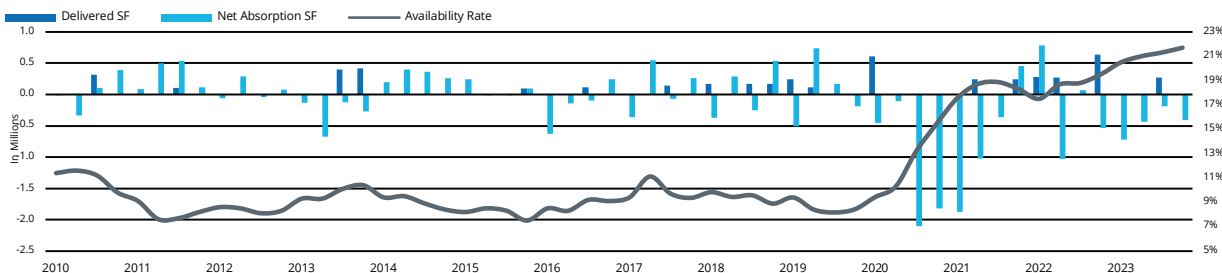
SUBMARKET AVAILABILITY



SUBMARKET AVAILABILITY VS MANHATTAN



DELIVERY IMPACT ON KEY INDICATORS



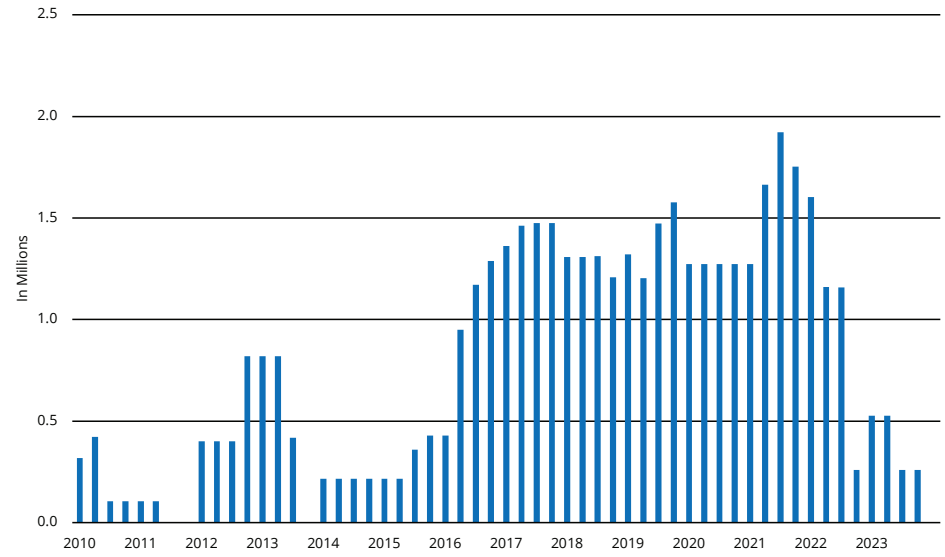


UNDER CONSTRUCTION

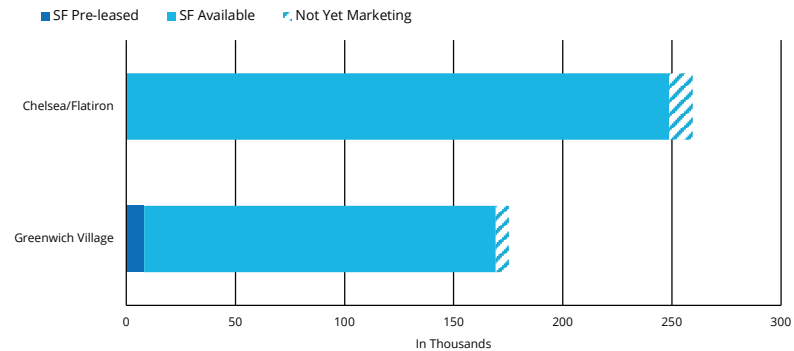
New development transforming Midtown South

- Outside of owner-occupied assets, Midtown South has only about 435,000 SF of high-quality core office properties under construction. Nearly all of the new space is currently available for lease, presenting attractive opportunities for occupiers in this unique, evolving district.
- In the Chelsea/Flatiron submarket, the boutique office building known as Le Gallerie (132 W 14th Street) is scheduled to deliver in early 2024, followed by 220 Eleventh Avenue later in the year. Construction in the Greenwich Village submarket includes a 121,300 SF building at 360 Bowery and a 54,000 SF building at 1 Saint Marks Place. 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 Chelsea/Flatiron.
- The likelihood of these proposed projects getting underway depends on an improvement in market conditions and investor confidence, as well as securing an anchor tenant. In the meantime, Midtown South’s updated, modern office spaces and 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



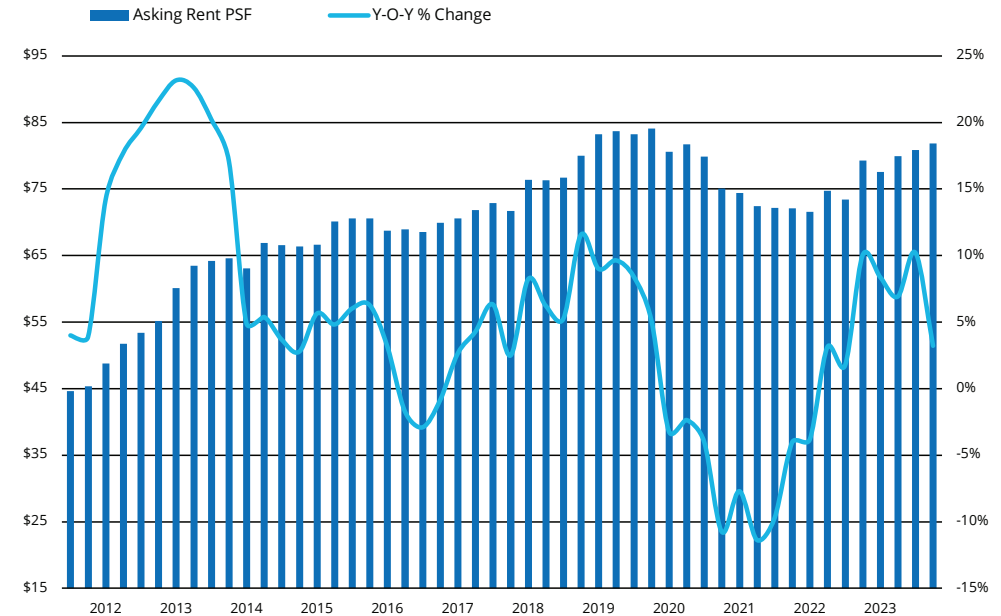


RENTAL RATES

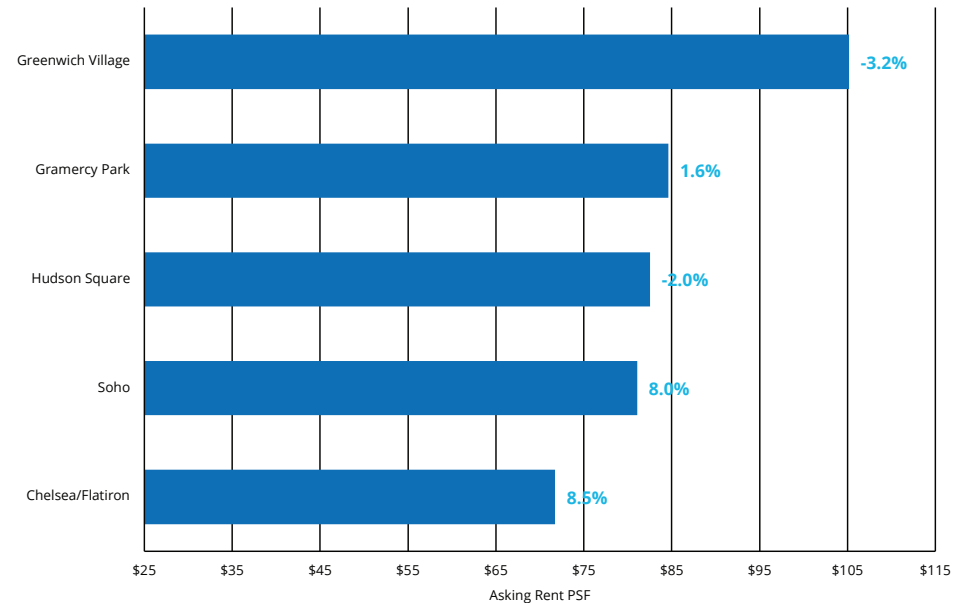
Trophy space continues to boost rents

- Midtown South rents improved to \$81.85 PSF at the end of 2023, their highest level since late 2019. Rents are up 1.2% from last quarter and 3.2% from a year ago, marking a seventh straight quarter of year-over-year growth.
- Midtown South had the fastest rent growth among Manhattan’s three major submarkets from 2014-2019. Asking rents are now on par with Midtown and have been playing seesaw for the top position this year. Midtown South came out ahead again in Q4, some 1.2% ahead of its northern neighbor, despite Midtown’s much lower availability.
- Rents are being driven up by the delivery of Class A and trophy space, notably in buildings like the revamped One Madison in Gramercy Park, which has seen multiple deals north of \$150 PSF. Nearby, 11 Madison Square North is asking \$115 per square foot on its newly renovated floors. In Chelsea/Flatiron, the soon-to-be completed Hudson Arts Building has full availability of 199,000 SF and is asking between \$120 and \$200 PSF.
- Midtown South’s general upward trend in rents has come as landlords push to accommodate the flight to quality and 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



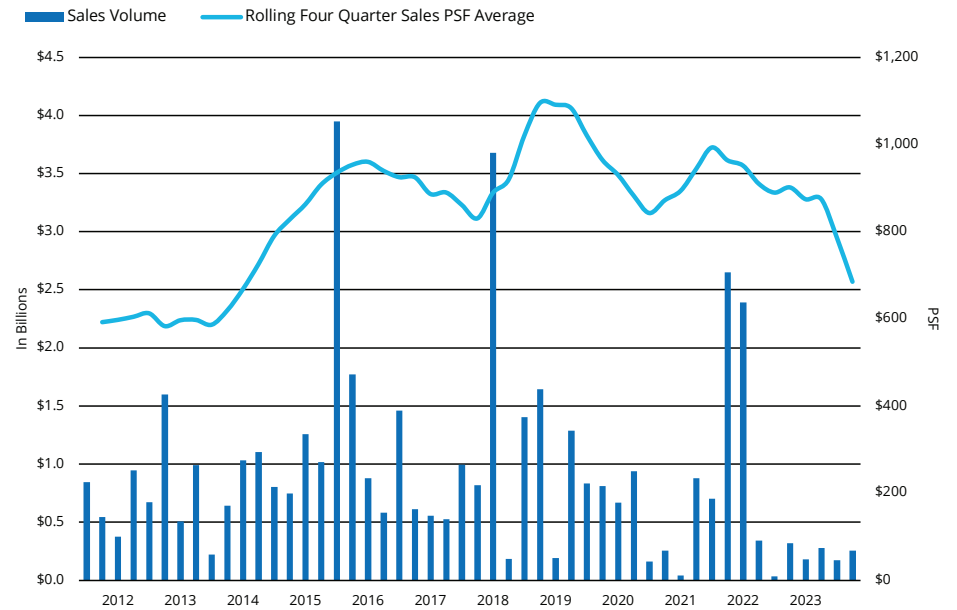


SALES

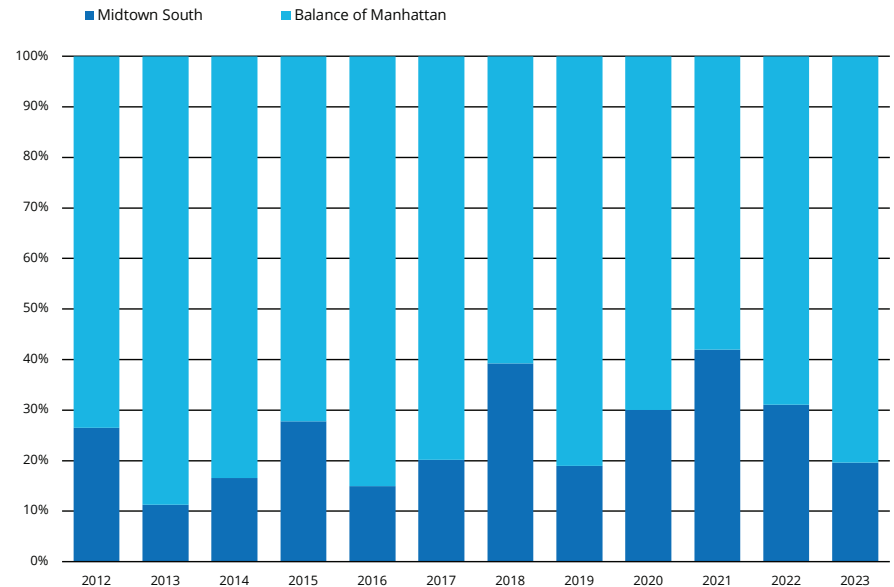
Transaction volume stays quiet

- Midtown South saw only a few office sales this quarter, summing to deal volume of \$256.8 million. For perspective, the average quarterly sales volume in the five years prior to the pandemic was about \$1.2 billion. Full year transaction volume for 2023 totaled just \$882.8 million, compared with \$3.1 billion in 2022 – though the elevated 2022 result was due largely to Google’s \$2.2 billion headquarters purchase of 550 Washington Street.
- The Flatiron Building (175 Fifth Avenue) found itself changing hands once again in Q4, as The Brodsky Organization purchased a partial stake from GFP Real Estate. GFP bought the landmark building at auction earlier in the year and plans to convert it to residential use. Both transactions valued the property at \$161 million, translating to \$894 PSF.
- A little further south, Sovereign Partners paid \$126.5 million for 100-104 Fifth Avenue, roughly half of what seller Clarion Partners paid for it a decade ago. The pricing worked out to \$456 PSF for the asset, which is 98.4% leased.
- 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.

SALES VOLUME - MIDTOWN SOUTH



MIDTOWN SOUTH % OF MANHATTAN SALES VOLUME





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
RALPH LAUREN	601 W 26th St	Chelsea / Flatiron	Direct Renewal	255,750
PALANTIR	620 Ave of the Americas	Chelsea / Flatiron	Direct Renewal	140,345
QUINN EMANUEL	295 Fifth Ave	Gramercy Park	Direct	131,661
DOORDASH	200 Fifth Ave	Chelsea / Flatiron	Direct	115,382
CURRENT	620 Ave of the Americas	Chelsea / Flatiron	Direct Expansion	71,700
ICONIQ CAPITAL	360 Park Ave S	Gramercy Park	Direct	69,100

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
11 E 26TH ST	Gramercy Park	524,200	Direct
51 ASTOR PL	Greenwich Village	143,800	Direct
155 DELANCEY ST	Soho	139,100	Sublet
200 VARICK ST	Hudson Square	81,800	Sublet
770 BROADWAY	Greenwich Village	78,200	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
175 FIFTH AVE*	Gramercy Park	\$160,988,400	180,000	894	The Brodsky Organization	GFP Real Estate
100-104 FIFTH AVE	Chelsea/Flatiron	\$126,500,000	277,400	456	Sovereign Partners	Clarion Partners

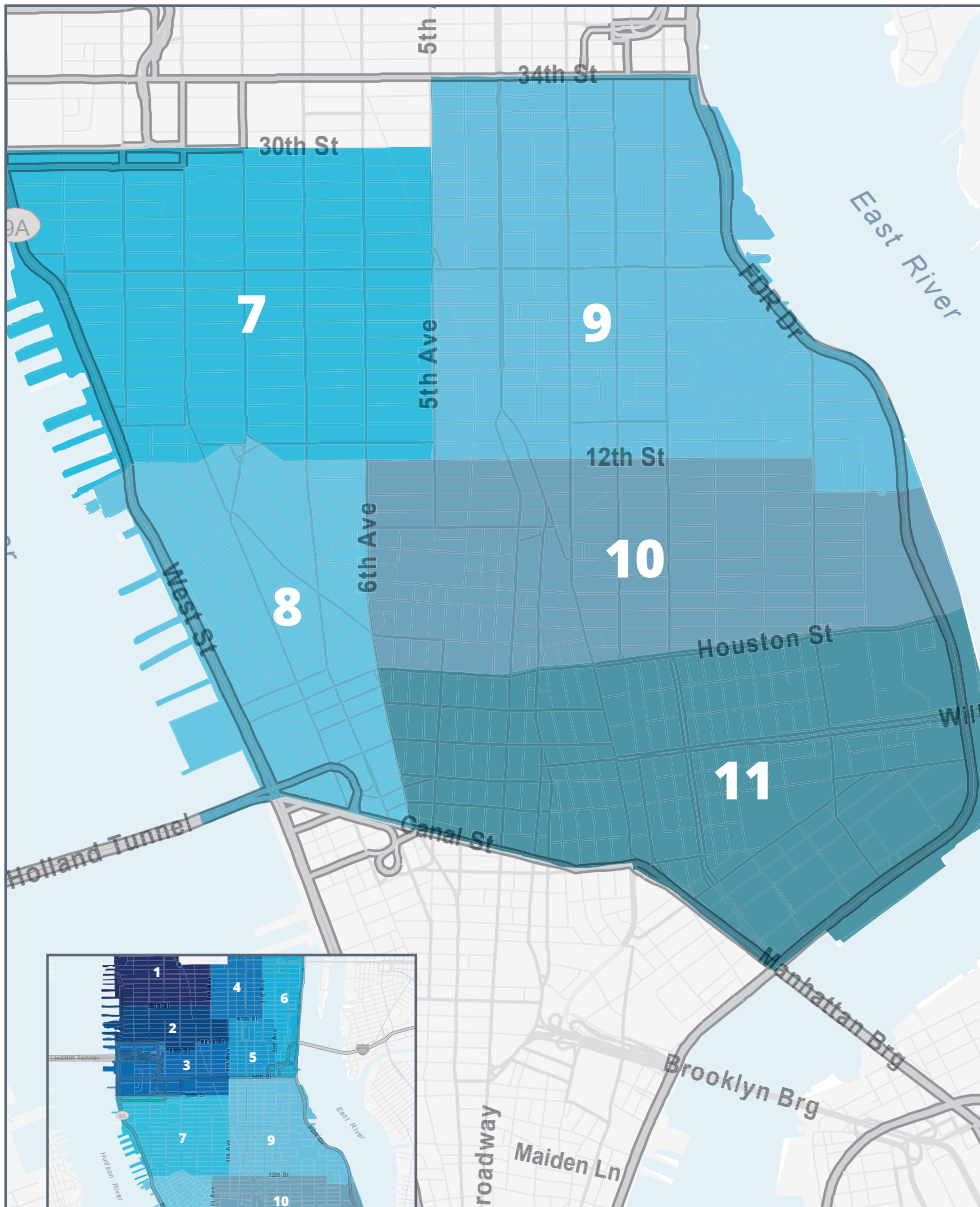
* = Partial interest



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
CHELSEA/FLATIRON	26,643,520	-24,814	-474,069	19.1%	18.5%	\$107.72	\$61.81	\$71.74
GRAMERCY PARK	32,247,698	-133,959	-789,490	23.9%	21.2%	\$100.93	\$72.49	\$84.61
GREENWICH VILLAGE	5,982,863	-251,828	63,981	18.2%	16.3%	\$127.90	\$102.88	\$105.16
HUDSON SQUARE	9,963,456	141,429	-259,717	24.6%	20.3%	\$87.40	\$77.55	\$82.55
SOHO	5,954,617	-135,470	-292,133	20.5%	14.7%	\$90.42	\$74.85	\$81.06
MIDTOWN SOUTH TOTAL	80,792,154	-404,642	-1,751,428	21.7%	19.3%	\$100.19	\$72.12	\$81.85



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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