

# MIDTOWN MANHATTAN OFFICE MARKET

Q1 2024



## TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	5.1	5.3	↓	7.5	↓
NET ABSORPTION (Thousands SF)	(775.9)	(524.1)	↓	(829.2)	↑
OVERALL VACANCY RATE	15.7%	14.2%	↑	11.8%	↓
OVERALL VACANT SF (MSF)	44.4	40.8	↑	33.3	↓
UNDER CONSTRUCTION (MSF)	0.3	2.2	↓	8.2	↔
ASKING RENT (PSF)	\$81.52	\$77.49	↑	\$80.75	↑
SALES VOLUME (Millions)	\$255.5	\$52	↑	\$1,391.4	↑

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

## MIDTOWN DOMINATES Q1 LEASING

Midtown leasing topped 4 million square feet in Q1, accounting for about 75% of Manhattan deal activity. The deals included five leases exceeding 100,000 SF, representing a combination of new leases, renewals, expansions, and subleases. Absorption turned negative, driving a small increase in availability, though this is not an unusual occurrence for a first quarter. Asking rent increased as new and improved spaces continued to gain traction with potential tenants.

“While a slow start to any year is typical, results this quarter have given good reason for market confidence, with increased tour activity, longer lease terms coming into play, and sublease availability declining in many areas of Manhattan,” said Thomas Hines, Senior Vice President, Transwestern. “Continued momentum will be driven largely by interest rate movement and further clarity around return-to-office policies, but we are seeing positive signs from some very important indicators within the fabric of the Manhattan office market.”

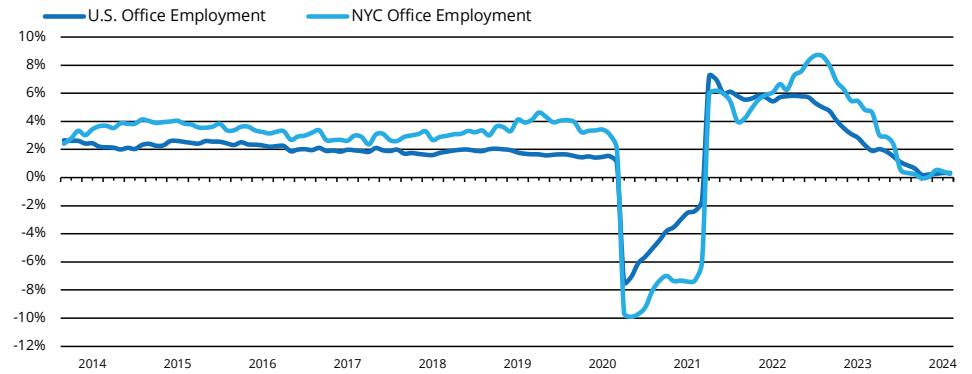


### ECONOMY

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

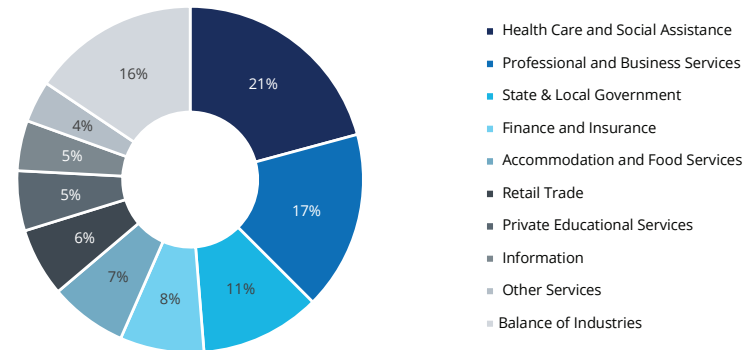
- New York City's office-using sectors now support almost 2.1 million jobs, about 4% higher than the pre-COVID level. The rate of growth has slowed considerably, however, most recently to 0.3% year-over-year. Outside of the initial COVID slump, the last eight months have seen some of the slowest growth in more than a decade.
- On a national level, there has been a small reduction in office jobs from their May 2023 peak, now incorporating 35.2 million positions. As in NYC, job growth has slowed to a ten-year low, with year-over-year improvement trending below 1% since mid-2023.
- The unemployment rate in New York City has stabilized over the past year and remains at 5.1%. National unemployment currently stands at 3.8%, compared with 3.5% immediately prior to the pandemic.
- New York City's Health Care & Social Assistance industry created nearly 72,000 new jobs over the past year, far surpassing all other sectors. Robust job increases were also seen in the State & Local Government sectors. On the downside, layoffs and economic uncertainty have contributed to an employment decrease in the Information sector and the Professional & Business Services sector, which each shed around 16,000 jobs in the past year.
- 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 diverse business sectors support a strength that will continue to propel the city forward during 2024.

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



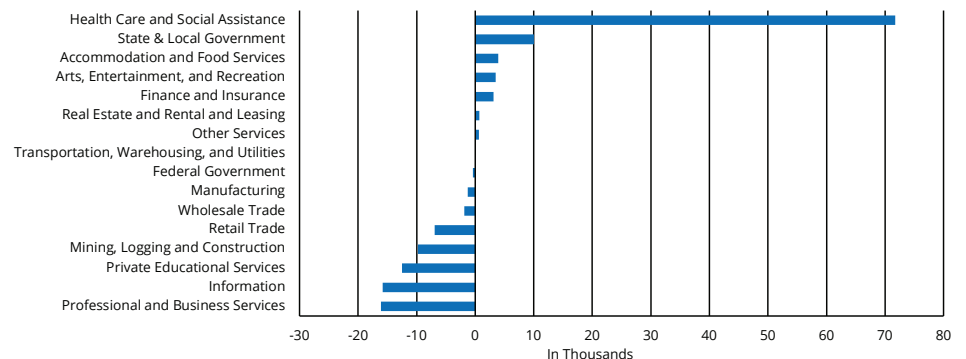
### SHARE OF EMPLOYEES BY INDUSTRY

New York City | February 2024



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

New York City



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

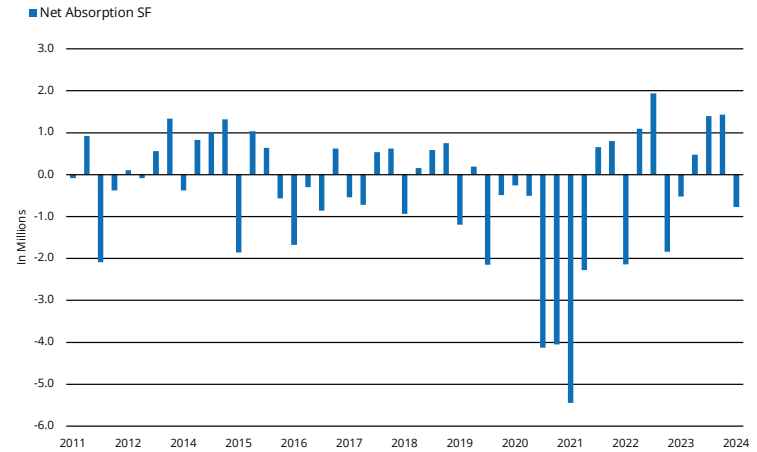


### NET ABSORPTION

#### Absorption turns negative to start the year

- Midtown absorption was negative in Q1, following three positive quarters. The submarket recorded 775,900 SF of negative net absorption, though this was not out of scale with pre-pandemic levels. Both Class A and Class B space recorded negative take-up.
- Among Midtown’s submarkets, Penn Plaza had the strongest absorption at 458,600 SF. The tally was helped by a 170,800 SF renewal and expansion from Burlington Stores at 1400 Broadway, a 113,400 SF sublease from Betterment at 5 Manhattan West, and an 89,300 SF sublease from JRM Construction Management at 111 West 33rd Street. Absorption totals also benefited from the withdrawal of several large direct and sublet blocks that totaled about 427,500 SF.
- Similarly, space withdrawals contributed to 302,000 SF of positive absorption in the Times Square submarket, where there were also new leases from Selfhelp Community Services (45,700 SF) at 1180 Avenue of the Americas and Daiwa Capital Markets (44,100 SF) at 1251 Avenue of the Americas.
- Columbus Circle was the spoilsport, recording almost 1.4 million square feet [MSF] of negative absorption as it took on three massive sublet block additions plus a 288,200 SF direct block where Macquarie Group is preparing to depart from 125 West 55th Street. Helping to counter these additions, the submarket scored a 142,900 SF lease from Intercontinental Exchange at 1345 Avenue of the Americas, along with a 74,000 SF lease from Citizens Bank and a 68,100 SF sublease from Nexstar Media Group, both at 1301 Avenue of the Americas.
- Notably, the largest lease of the quarter – Michael Kors’ renewal of 203,000 SF at 11 West 42nd Street – did nothing to improve absorption. However, this deal and several other long-term renewals and expansions are a hopeful sign for the submarket and should generate further confidence over the next few quarters.

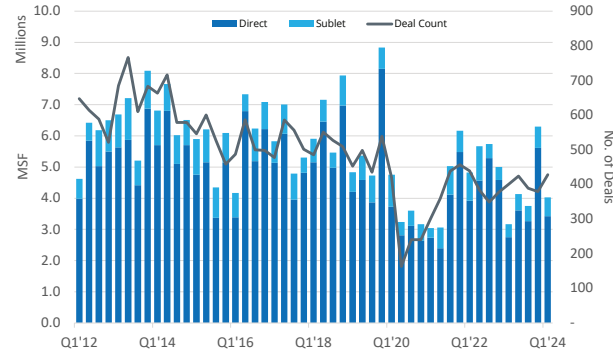
### NET ABSORPTION - MIDTOWN



### NET ABSORPTION BY SUBMARKET



### MIDTOWN LEASING ACTIVITY



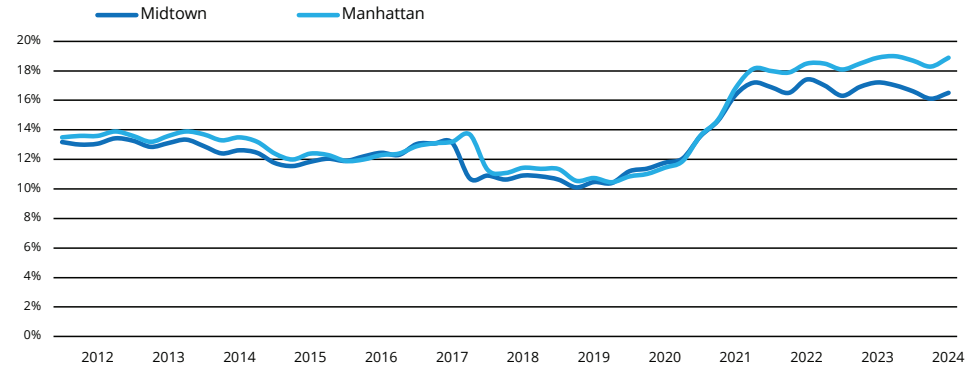


### AVAILABILITY

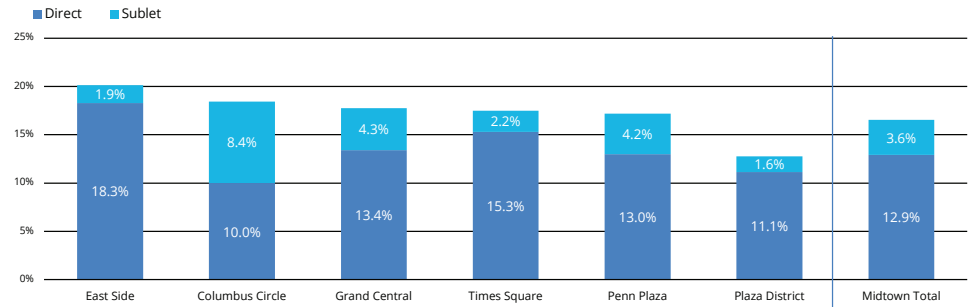
#### Midtown availability increases

- Midtown’s overall availability rate increased 0.4 percentage points [pp] to 16.5% in Q1 2024, remaining in the range it has occupied since the pandemic began. In comparison, the submarket’s 5-year pre-pandemic average availability level was 11.5%. Most of Midtown’s submarkets saw only a small change in their availability level from Q4.
- Sublet availability bumped up to 3.6% in Midtown as four sublet blocks exceeding 100,000 SF were added, but the rate is still 0.7 pp below the year-ago level. Three of Midtown’s districts have sublet availability rates at or below 2.2%, some of the lowest levels in Manhattan.
- Three of the aforementioned large sublet blocks landed in the Columbus Circle submarket, which previously had one of the lowest availability rates in the city. Sublet additions topped 1.1 MSF, driving sublet availability up 4 pp to 8.4% and triggering a 5 pp increase in overall availability to 18.4%. Sublet space in Columbus Circle now represents 45.6% of available space, the highest ratio in Manhattan.
- Since late 2020, Midtown has maintained a lower availability rate than Manhattan overall. The gap has now widened to 2.4 pp as Midtown continues to lead the city’s leasing activity. Excess sublet space remains a concern, but current conditions still favor tenants who are actively looking for a home in the submarket.

### SUBMARKET AVAILABILITY VS MANHATTAN



### SUBMARKET AVAILABILITY



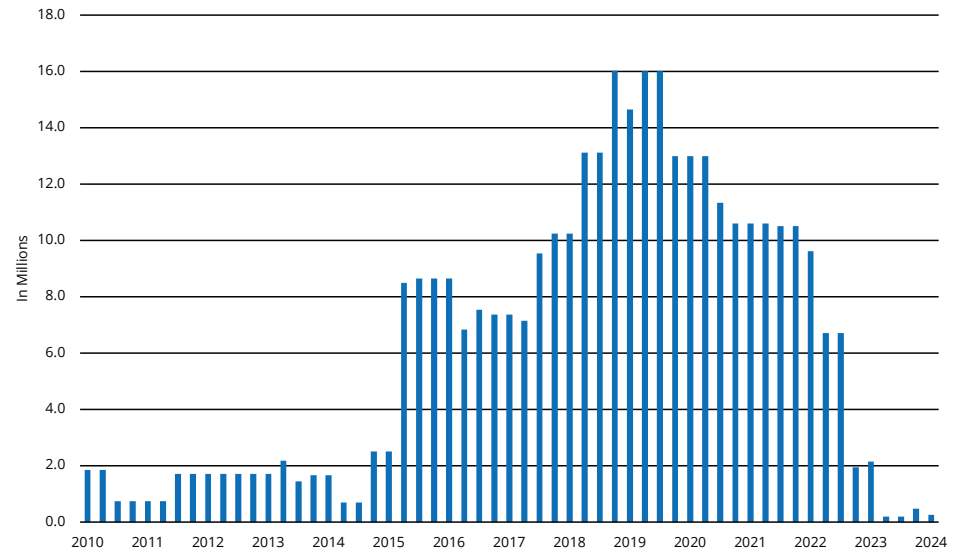


### UNDER CONSTRUCTION

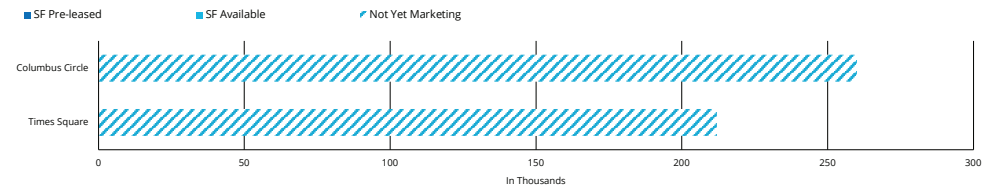
#### Development and redevelopment seeking a balance

- New office construction in Midtown remains near its lowest level in more than a decade, but there are signs of an uptick. 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 7.0 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, incorporating hotel and retail components, while across town in the Penn Plaza submarket, Tishman Speyer has proposed a 1.2 MSF tower at 70 Hudson Yards.
- As more new projects are announced, existing Class B assets continue to highlight renovations, capital improvements, and adaptive reuse in order to compete for tenants. Such projects include the overhaul of 330 West 42nd Street, which is prepping its upper floors for residential units (the base will remain office space), and PENN 2, which is seeking an anchor tenant for its recently revamped base floors (MLS Soccer signed a 125,000 SF lease just after the close of Q1; the building still has almost 875,000 SF on offer).
- The likeliness of new projects getting underway depends largely on an improvement in economic conditions and investor confidence, as well as the securing of an anchor tenant, but the demolition sites that are appearing across Midtown are signs of faith in the submarket.

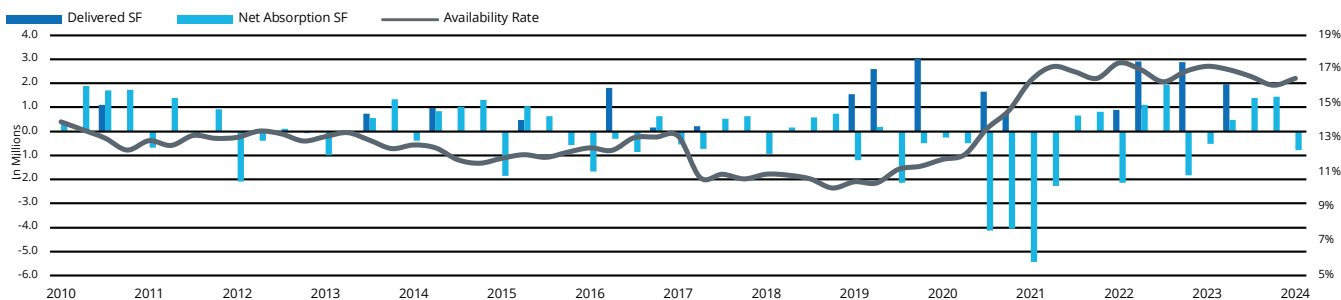
### UNDER CONSTRUCTION - MIDTOWN



### UNDER CONSTRUCTION BY SUBMARKET



### DELIVERY IMPACT ON KEY INDICATORS



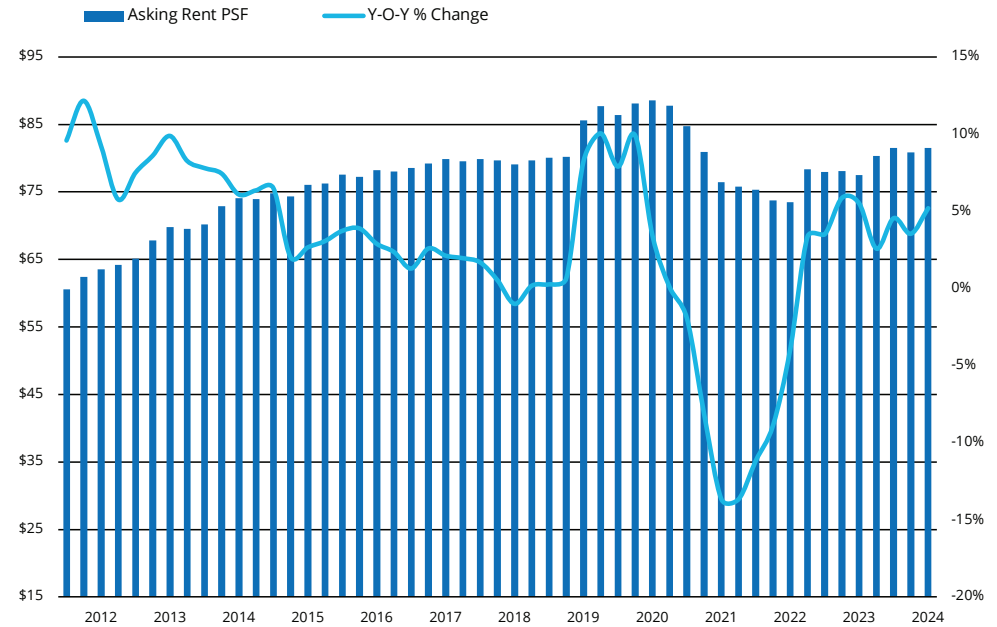


### RENTAL RATES

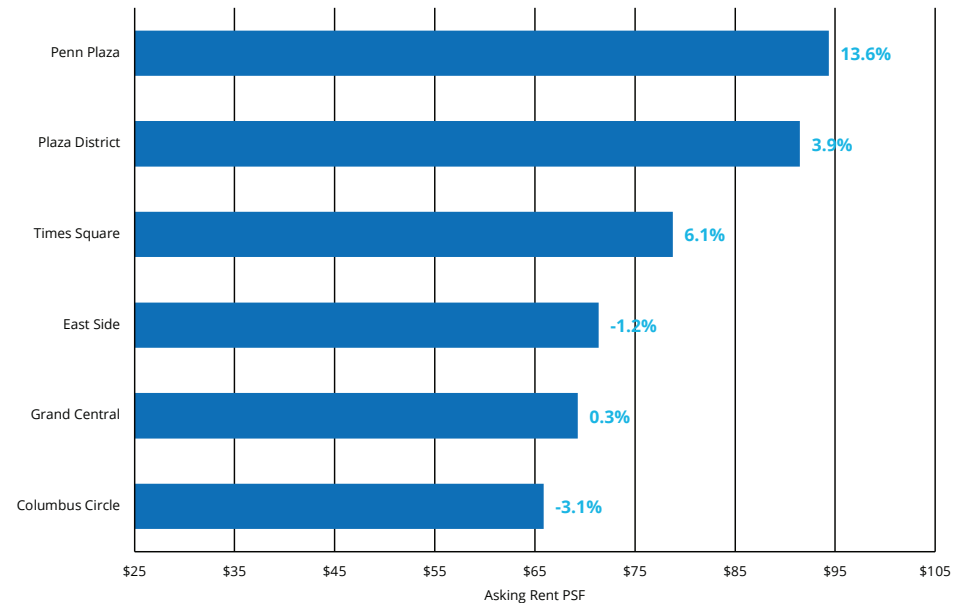
#### Trophy asking rates drive Midtown rents higher

- Midtown’s average asking rent grew 0.8% from Q4, reaching \$81.52 PSF in the first quarter, within 8% of the pre-pandemic peak. Rents are up 5.2% from a year ago, marking an eighth straight quarter of year-over-year 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 has eased considerably over the last twelve months. Midtown’s available sublet space has decreased by nearly 2.3 MSF after peaking at 12.5 MSF a year ago, removing a sizeable amount of lower-priced space from the submarket.
- Despite general economic challenges and the prevalence of hybrid work, the newest trophy and Class A+ spaces are asking for and receiving premium prices. The other side of this coin is that we are seeing increased opportunities for tenants in terms of asking rents and concessions at non-trophy and Class B assets, particularly those with high vacancies.

### ASKING RENT - MIDTOWN



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



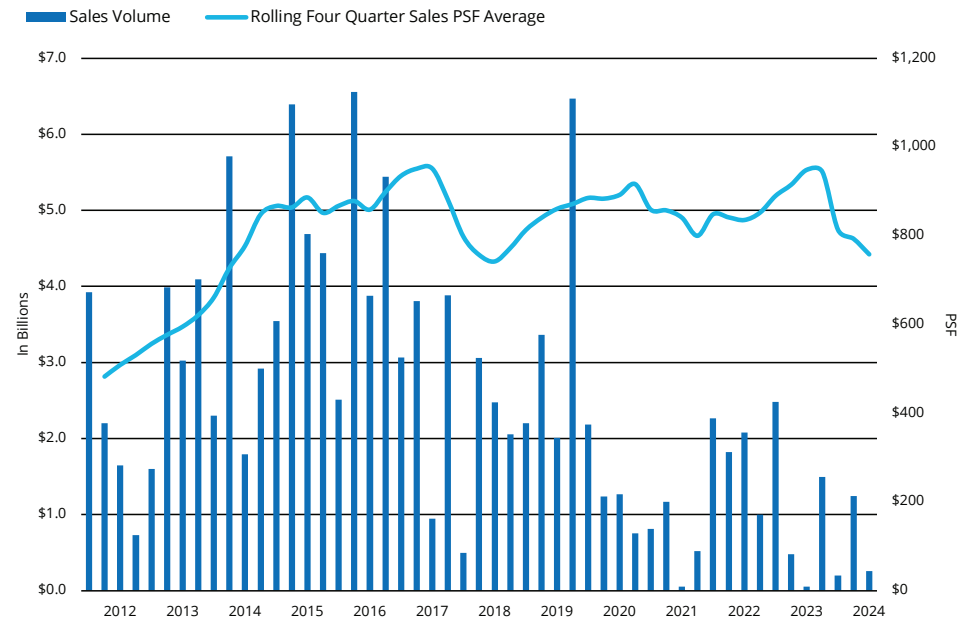


### SALES

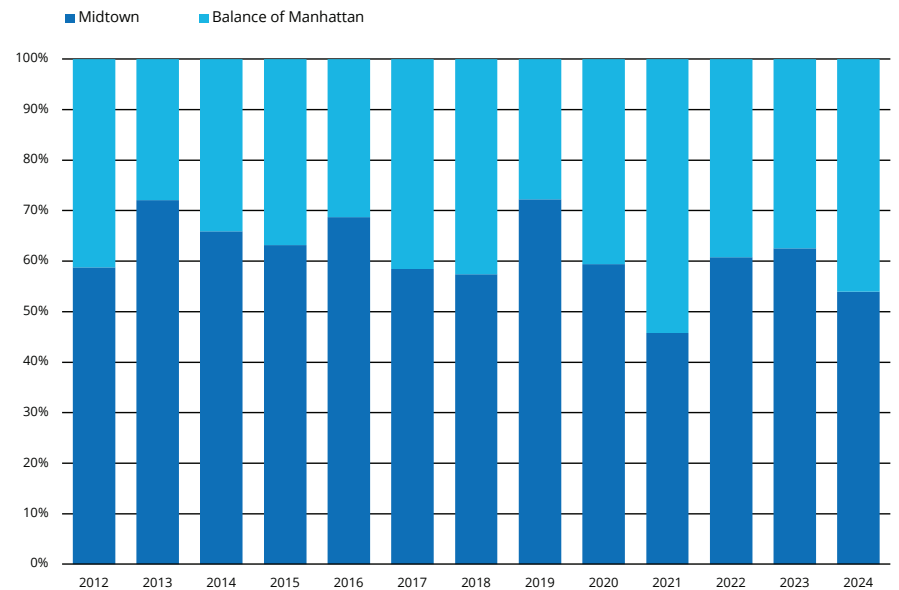
#### Transaction volume remains low

- Core office sales were scarce in Q1, leaving Midtown sales volume at a lackluster \$255.5 million. Total volume for the last four quarters (Q2 2023 – Q1 2024) was \$3.2 billion, compared with \$4.0 billion in the prior four quarters (Q2 2022 – Q1 2023). For comparison, the four-quarter rolling sales volume averaged \$13.7 billion in the five years prior to the pandemic.
- Transactions in Q1 included the sale of a 38,000 SF property at 5 East 59th Street in the Plaza District for \$26 million, translating to pricing of \$683 PSF, and an 88,100 SF property at 225 W 39th Street in Penn Plaza, which traded for \$22.2 million, fetching a mere \$252 PSF.
- Looking ahead, sales are pending at 1370 Avenue of the Americas and 219-235 East 42nd Street.
- Elevated interest rates and the overall economic climate in the wake of COVID-19 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 could be coming in the second half of 2024, which would help bump up transaction volume from its recent lows.

### SALES VOLUME - MIDTOWN



### MIDTOWN % OF MANHATTAN SALES VOLUME





**NOTABLE LEASES**

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
MICHAEL KORS	11 W 42nd St	Times Square	Renewal	203,000
BURLINGTON STORES	1400 Broadway	Penn Plaza	Renewal / Expansion	170,800
INTERCONTINENTAL EXCHANGE	1345 Ave of the Americas	Columbus Circle	Direct	142,900
ARCHDIOCESE OF NEW YORK	488 Madison Ave	Plaza District	Direct	142,300
BETTERMENT	5 Manhattan West	Penn Plaza	Sublease	113,400

**NOTABLE NEW AVAILABILITIES**

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
1675 BROADWAY	Columbus Circle	448,500	Sublet
1285 AVE OF THE AMERICAS	Columbus Circle	402,600	Sublet
3 COLUMBUS CIRCLE	Columbus Circle	358,800	Sublet
125 W 55TH ST	Columbus Circle	288,200	Direct
437 MADISON AVE	Plaza District	210,100	Direct

**NOTABLE SALES**

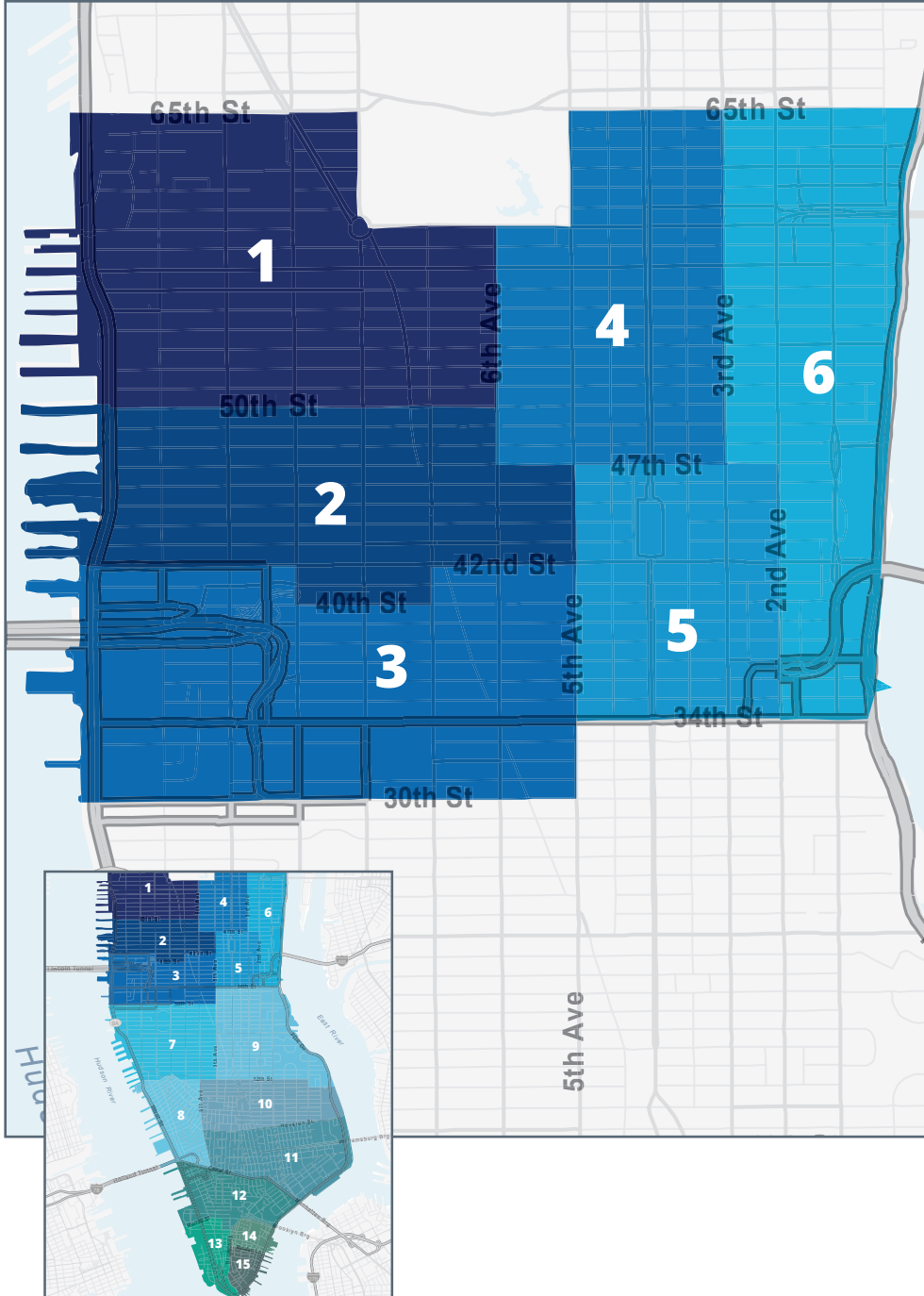
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
5 E 59TH ST	Plaza District	\$26,000,000	38,052	\$683	Avi & Co.	BentallGreenOak, Capstone Equities
225 W 39TH ST	Penn Plaza	\$22,200,000	88,100	\$252	IHL Group	Walter & Samuels



**MARKET INDICATORS**

All Classes of Space | Q1 2024

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	29,873,072	-1,355,373	-1,355,373	18.4%	14.9%	\$67.78	\$57.90	\$65.90
EAST SIDE	14,809,487	-62,850	-62,850	20.2%	18.4%	\$71.38	\$71.62	\$71.39
GRAND CENTRAL	56,959,322	-117,512	-117,512	17.8%	16.5%	\$70.10	\$63.79	\$69.27
PENN PLAZA	68,832,880	458,580	458,580	17.2%	17.9%	\$112.76	\$57.41	\$94.35
PLAZA DISTRICT	70,423,438	-736	-736	12.7%	12.9%	\$91.74	\$86.65	\$91.49
TIMES SQUARE	42,911,830	301,995	301,995	17.5%	15.0%	\$81.06	\$57.06	\$78.77
<b>MIDTOWN TOTAL</b>	<b>283,810,029</b>	<b>-775,896</b>	<b>-775,896</b>	<b>16.5%</b>	<b>15.7%</b>	<b>\$85.71</b>	<b>\$60.41</b>	<b>\$81.52</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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