



TRANSWESTERN

MIDTOWN SOUTH 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	↓	7.6	↓
NET ABSORPTION (Thousands SF)	(1,511.5)	(716.5)	↓	(528.3)	↑
OVERALL VACANCY RATE	19.4%	17.9%	↑	13.0%	↔
OVERALL VACANT SF (MSF)	16.0	14.4	↑	10.3	↔
UNDER CONSTRUCTION (MSF)	1.6	0.5	↑	1.2	↔
ASKING RENT (PSF)	\$86.43	\$77.54	↑	\$78.24	↑
SALES VOLUME (Millions)	\$218.0	\$179.0	↑	\$671.8	↔

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

NEW TROPHY SPACE BOOSTS RENTS

The addition of 1.2 million square feet of premium office space at Terminal Warehouse drove a sizeable increase in Midtown South’s asking rents this quarter. The downside was the inevitable increase in availability, also largely attributable to this new space, though sublet availability logged a decrease. Absorption was negative as leasing velocity of just 825,600 SF was pitted against the significant inventory expansion and several other large block additions.

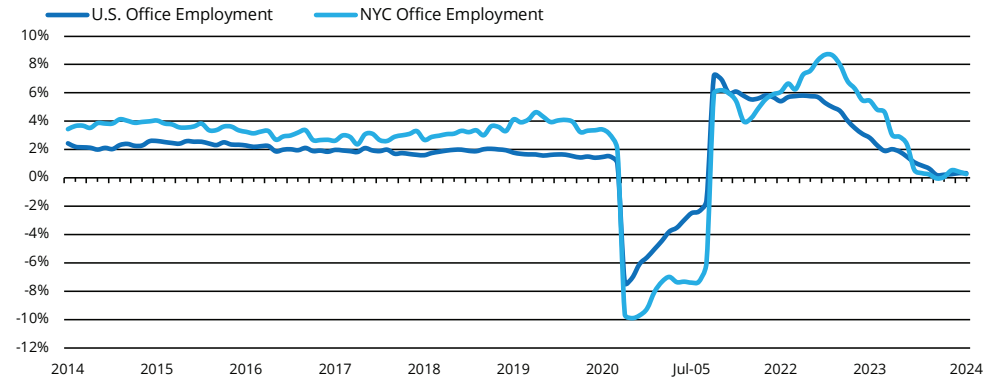
“While a slow start to any year is typical, results this quarter have given good reason for market confidence, with increased tour activity, longer lease terms coming into play, and sublease availability declining,” said Thomas Hines, Senior Vice President, Transwestern. “Continued momentum will be driven 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

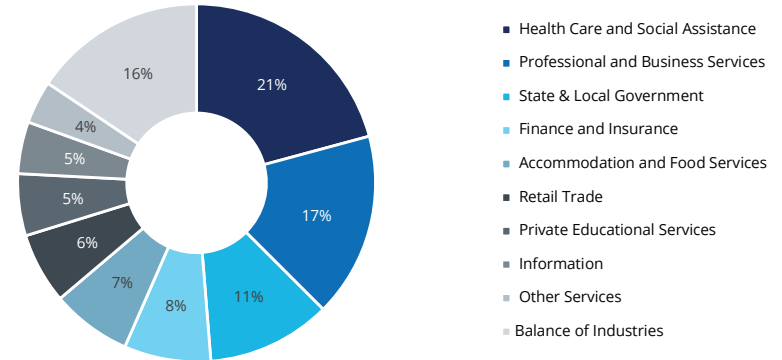
- New York City's office-using sectors now support almost 2.1 million jobs, about 4% higher than the pre-COVID level. The rate of growth has slowed considerably, however, most recently to 0.3% year-over-year. Outside of the initial COVID slump, the last eight months have seen some of the slowest growth 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



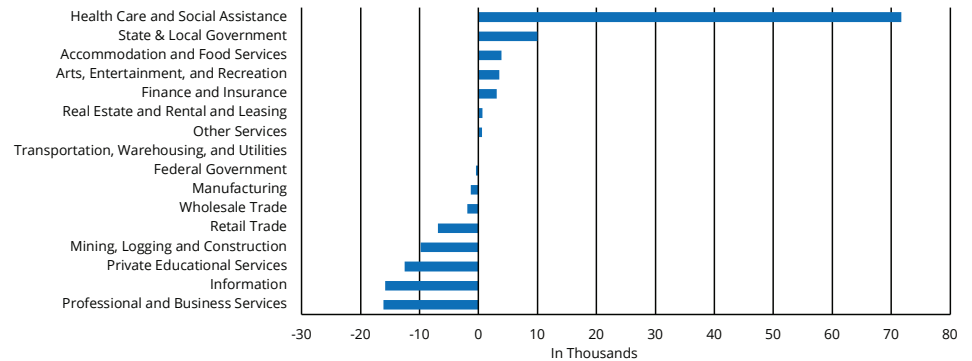
SHARE OF EMPLOYEES BY INDUSTRY

New York City | February 2024



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



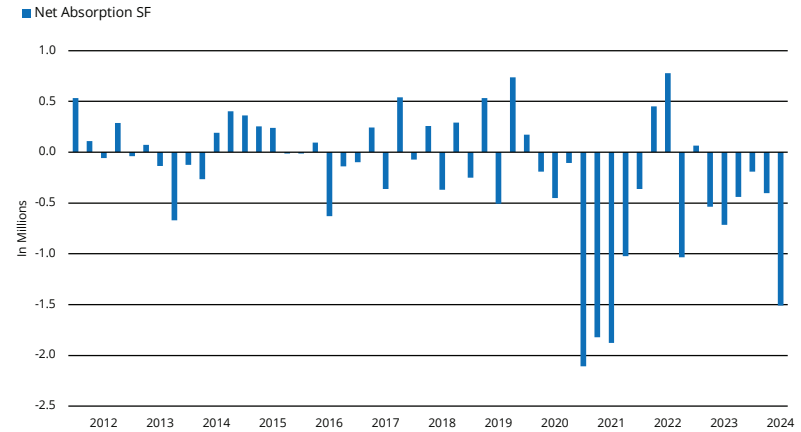


NET ABSORPTION

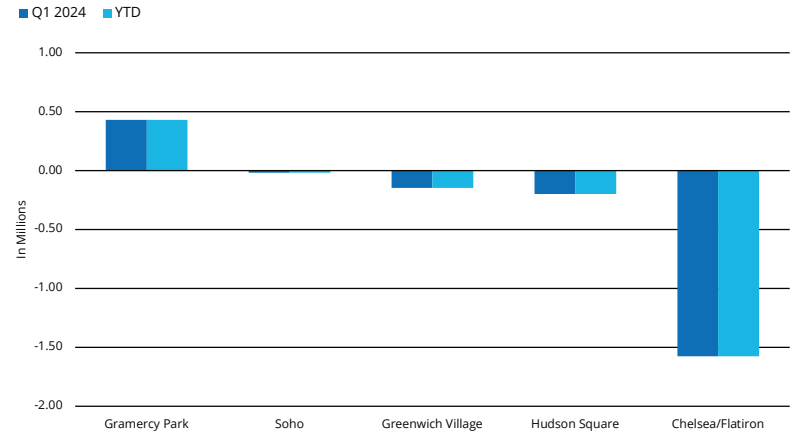
Midtown South absorption remains negative

- Midtown South recorded negative absorption in nearly every submarket this quarter, summing to negative 1.5 million SF. This was the sixth straight quarter of negative results and the lowest total since early 2021.
- Absorption was driven down by the marketing of more than 1.2 MSF of space at two new properties: Terminal Warehouse (271 Eleventh Avenue) in the Chelsea/Flatiron submarket, and 360 Bowery in the Greenwich Village submarket. Chelsea/Flatiron also took on a 336,100 SF block addition at 200 Fifth Avenue, ultimately recording 1.6 MSF of negative net absorption in quarter.
- Gramercy Park was the only Midtown South submarket to see positive net absorption. The submarket registered the two largest leases in Midtown South as Rebecca School took 71,300 SF at 35 East 21st Street and Coinbase rang up 67,200 SF at One Madison. There was also a significant block pulled from marketing at 11 East 26th Street, helping secure positive take-up of 429,900 SF.
- 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 further improvement through 2024 as new and upgraded space draws tenants from diverse industry sectors that may not have previously considered the submarket.

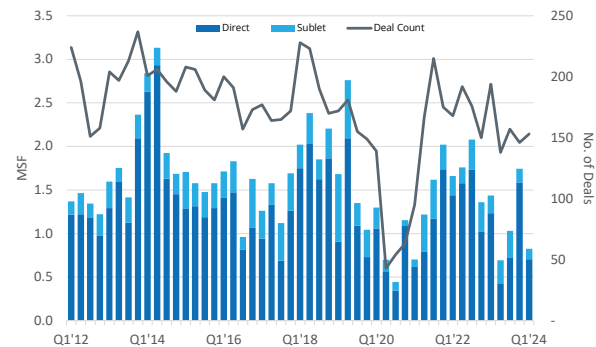
NET ABSORPTION - MIDTOWN SOUTH



NET ABSORPTION BY SUBMARKET



MIDTOWN SOUTH LEASING ACTIVITY



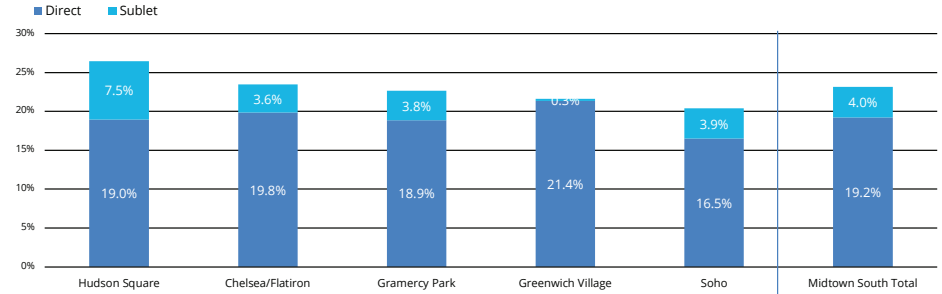


AVAILABILITY

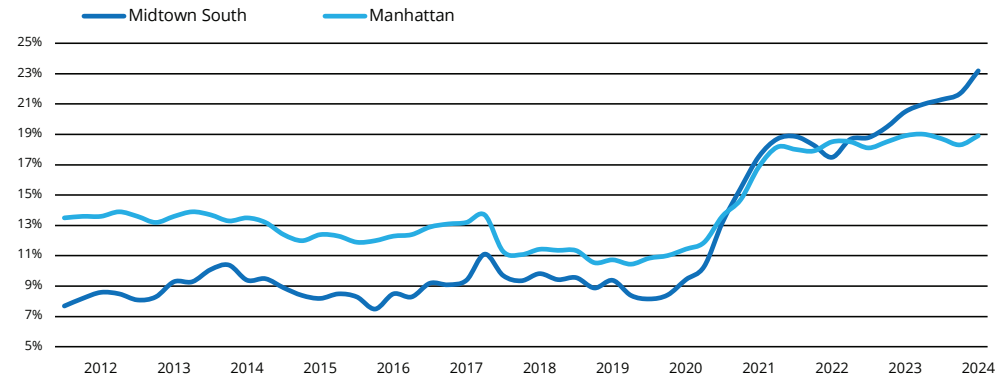
Availability rises again

- Midtown South’s availability rate jumped 1.5 percentage points [pp] from year-end 2023, reaching 23.2% in Q1. This is its highest on record and 2.7 pp higher than a year ago. Midtown South has now surpassed Downtown for the highest overall availability in Manhattan.
- The increase was largely fueled by a rise in direct availability, which climbed to 19.2% amid the new stock. There were few large leases to help counteract the additions. Greenwich Village and Chelsea/Flatiron both saw overall availability increase several percentage points from year-end as their newest properties, 360 Bowery and Terminal Warehouse, opened for leasing.
- In contrast, sublet availability in Midtown South decreased by 0.2 pp to 4.0%, its lowest level since 2020. Notably, Greenwich Village continues to have the lowest sublease availability in all of Manhattan, now down to 0.3%.
- Layoffs and uncertainty in the tech sector, which has traditionally represented a large percentage of Midtown South’s tenants, have contributed to the submarket’s rising availability over the past several quarters. Recent commitments, meanwhile, have come from a variety of other sectors, including education, law, and financial services firms. With the increased amount of upgraded space on offer, pent-up demand from occupiers could help bring availability down over the next few quarters.

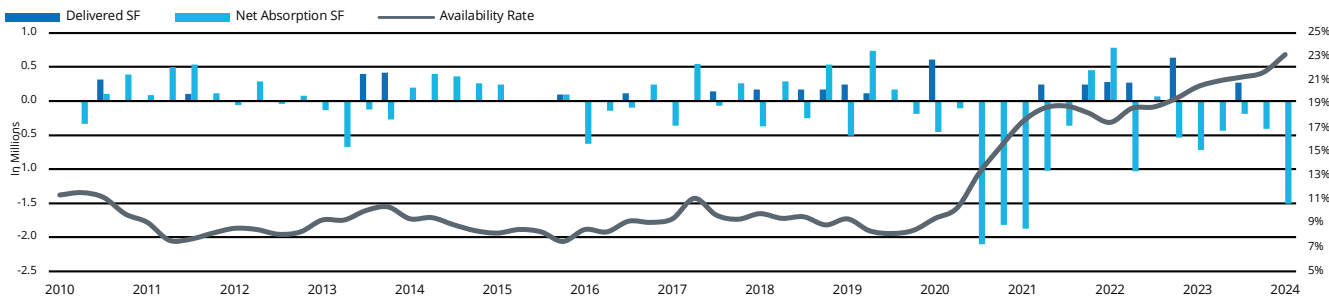
SUBMARKET AVAILABILITY



SUBMARKET AVAILABILITY VS MANHATTAN



DELIVERY IMPACT ON KEY INDICATORS



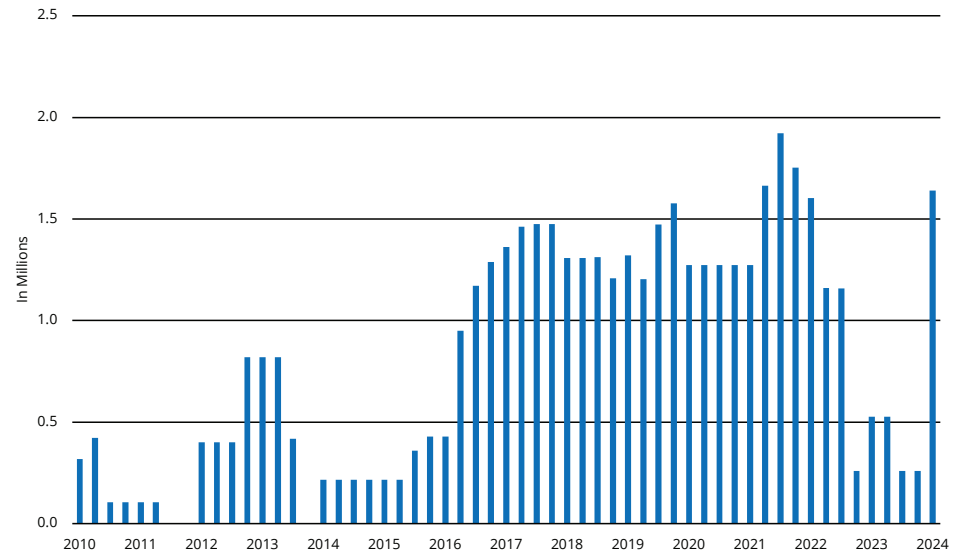


UNDER CONSTRUCTION

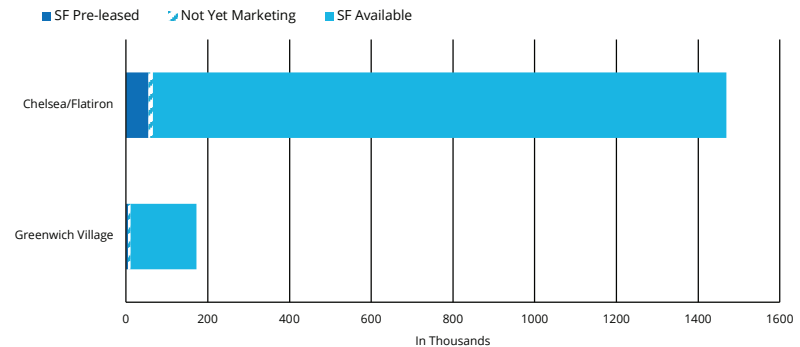
New development transforming Midtown South

- Outside of owner-occupied assets, Midtown South has about 1.6 MSF of high-quality core office properties under construction, far more than Midtown or Downtown. Nearly all of the new space is currently available for lease, presenting attractive opportunities for occupiers in this evolving district.
- The Chelsea/Flatiron submarket is home to the city's largest in-progress office development. Terminal Warehouse at 271 Eleventh Avenue is technically a redevelopment of a century-old, full-block historic warehouse into a modern, Class A setting. The finished project will include four office buildings totaling 1.2 million SF.
- Also in Chelsea/Flatiron, the boutique office building known as Le Gallerie (132 W 14th Street) is scheduled to deliver this year, along with the 9-story Hudson Arts building at 220 Eleventh Avenue. 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 and undergoing capital improvements in order to compete for tenants.
- There is an additional 1.9 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. Also proposed are a 430,800 SF tower at One Grand Street in Hudson Square and a 301,200 SF tower at 3 West 29th Street 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 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



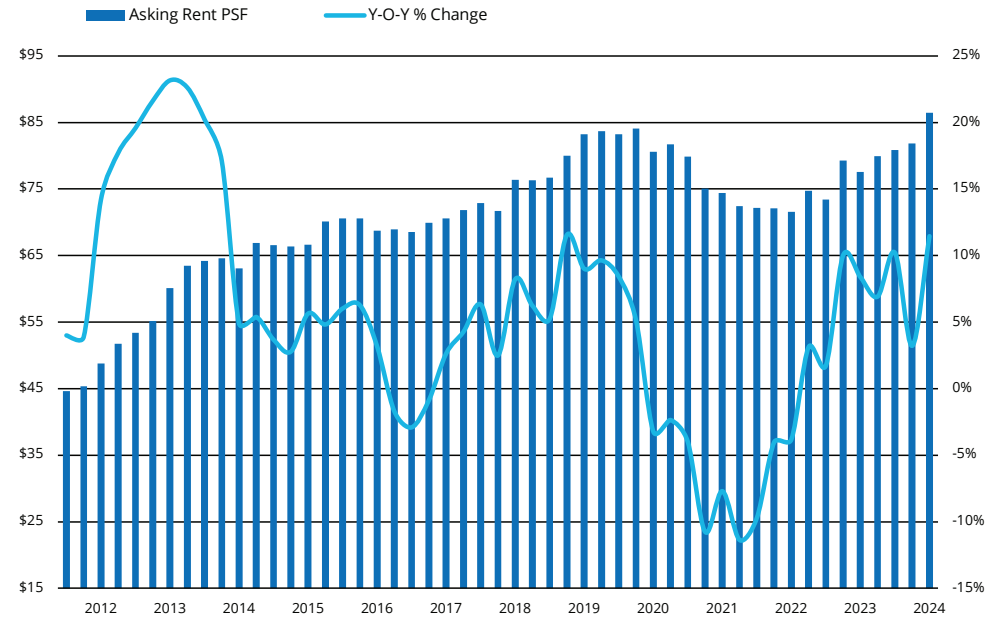


RENTAL RATES

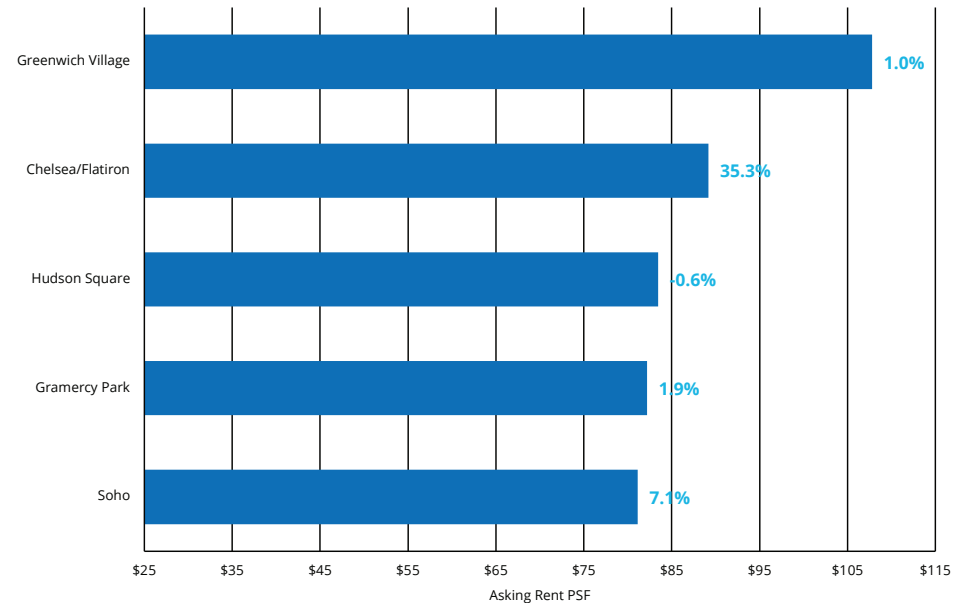
Trophy space drives a spike in rents

- Midtown South rents shot up 11.5% percent from their year-ago level to \$86.43 PSF in Q1. This was the eighth straight quarter of year-over-year growth, and a 5.6% increase from year-end 2023.
- Midtown South had the fastest rent growth among Manhattan’s three major submarkets from 2014 – 2019. Recent developments have set rents soaring again; asking rates are ahead of their Midtown counterparts after playing seesaw throughout 2023.
- Rent growth has been driven by the delivery of Class A and trophy space and was boosted by the marketing of brand-new space at Terminal Warehouse. Pricing varies among the project’s four office buildings, from the upper \$80s PSF at the low end, to nearly \$200 PSF for some of the most prime spaces.
- Other projects that are boosting Midtown South’s asking rates are the revamped One Madison in Gramercy Park, which has seen multiple deals north of \$150 PSF, and nearby 11 Madison Square North, 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 upwards of \$150 PSF.
- The continuing upward trend in rents has come as Midtown South landlords push to accommodate the flight to quality and has been advanced further by the net decrease in sublet space over the past year. However, we are also seeing landlords continue to reach for tenants, particularly at non-trophy and Class B assets.

ASKING RENT - MIDTOWN SOUTH



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



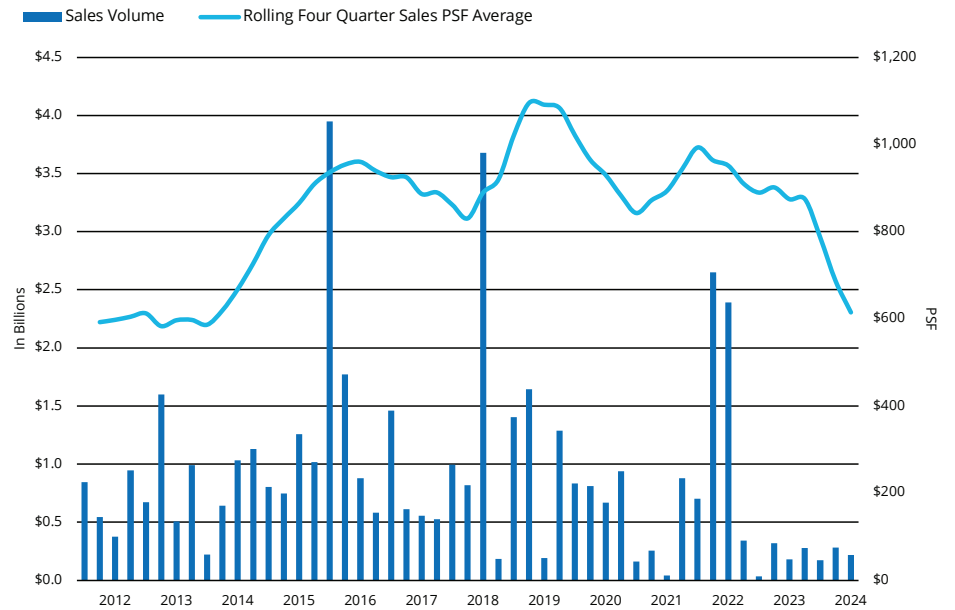


SALES

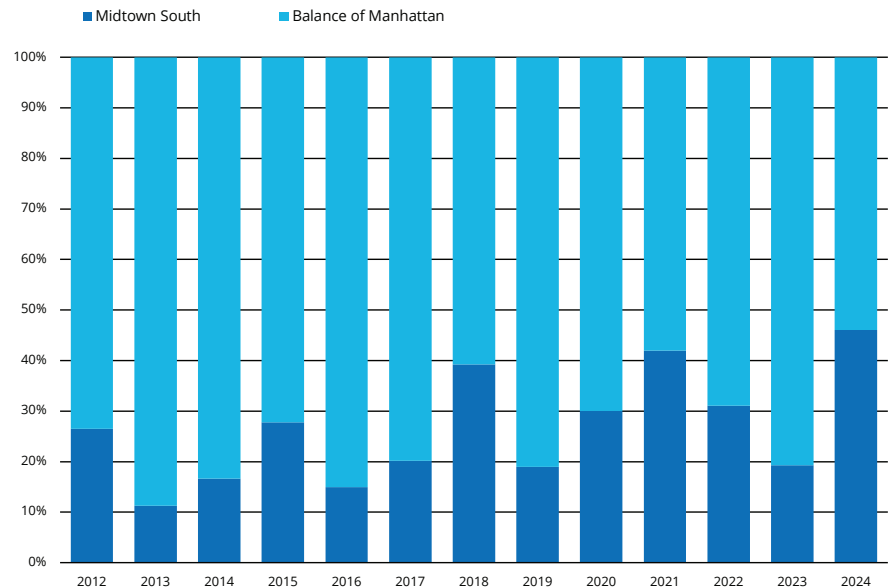
Transaction volume stays quiet

- Midtown South saw only a few office sales this quarter, summing to deal volume of \$218.0 million. For perspective, the average quarterly sales volume in the five years prior to the pandemic was about \$1.2 billion.
- Transaction volume for the past four quarters (Q2 2023 — Q1 2024) totaled \$945.3 million, compared with \$873.7 million in the prior four quarters (Q2 2022 — Q1 2023). In comparison, the four-quarter rolling average in the five years prior to the pandemic was \$4.9 billion.
- Assets that changed hands in Q1 include 211 Centre Street, which sold for \$51.1 million, and 25 East 22nd Street, which sold for \$27 million. While the deal prices were relatively low, they translated to more than \$1,000 PSF for each trade.
- 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 SOUTH



MIDTOWN SOUTH % OF MANHATTAN SALES VOLUME





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
REBECCA SCHOOL	35 E 21st St	Gramercy Park	Direct	71,300
COINBASE	One Madison Ave	Gramercy Park	Direct	67,200
MONEYLIION	245-249 W 17th St	Chelsea / Flatiron	Sublease	35,400

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
271 11TH AVE	Chelsea / Flatiron	1,107,500	Direct
200 FIFTH AVE	Chelsea / Flatiron	336,100	Direct
63 MADISON AVE	Gramercy Park	216,400	Direct
360 BOWERY	Greenwich Village	112,000	Direct
601 W 26TH ST	Chelsea / Flatiron	109,300	Direct

NOTABLE SALES

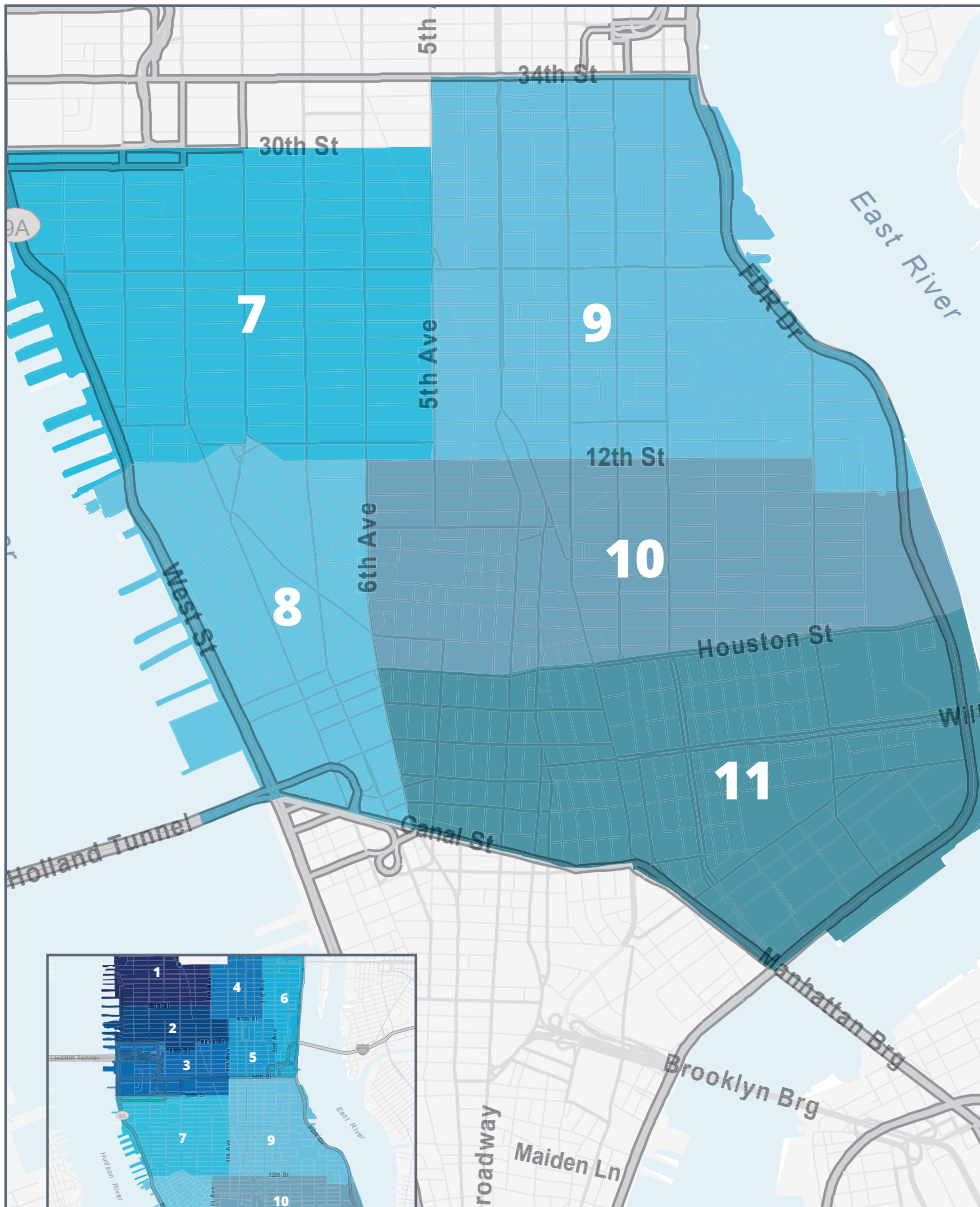
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
211 CENTRE ST	Soho	\$51,098,282	46,700	\$1,094	Museum of Chinese in America	Grand Marshall Machinery
25 E 22ND ST	Gramercy Park	\$27,000,000	19,800	\$1,364	Kodansha	Simons Foundation



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
CHELSEA/FLATIRON	28,439,475	-1,578,044	-1,578,044	23.5%	18.6%	\$122.49	\$62.37	\$89.16
GRAMERCY PARK	32,176,564	429,872	429,872	22.7%	21.7%	\$98.60	\$66.99	\$82.20
GREENWICH VILLAGE	5,600,379	-146,620	-146,620	21.6%	16.0%	\$126.69	\$105.74	\$107.80
HUDSON SQUARE	10,009,653	-197,528	-197,528	26.4%	18.8%	\$90.00	\$77.84	\$83.44
SOHO	6,077,175	-19,218	-19,218	20.4%	15.2%	\$90.04	\$75.82	\$81.13
MIDTOWN SOUTH TOTAL	82,303,246	-1,511,538	-1,511,538	23.2%	19.4%	\$107.79	\$69.87	\$86.43



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

Part of the Transwestern companies, Transwestern Real Estate Services (TRS) strives to add value for investors, owners, and occupiers across all commercial property types. Fueled by a holistic perspective of the real estate life cycle, agility and creativity are hallmarks of our approach, while vast national resources and sound market intelligence underpin customized recommendations and property solutions.

Four dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Clients and investors rely on us for expertise that spans institutional and opportunistic investment, development, hospitality, and brokerage and asset services. Our award-winning, collaborative culture empowers team members with resources and independence to work across boundaries in pursuit of innovative solutions, reinforcing a reputation for service excellence that translates to measurable results. Through offices nationwide and alliance partners around the globe, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).

Copyright ©2024 Transwestern. All rights reserved. No part of this work may be reproduced or distributed to third parties without written permission of the copyright owner. The information contained in this report was gathered by Transwestern from various primary and secondary sources believed to be reliable. Transwestern, however, makes no representation concerning the accuracy or completeness of such information and expressly disclaims any responsibility for any inaccuracy contained herein.