TRANSWESTERN

MIDTOWN MANHATTAN OFFICE MARKET

Q2 2024

TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	4.8	5.0	↓	7.5	↔
NET ABSORPTION (Thousands SF)	(534.2)	479.4	↓	(865.3)	↑
OVERALL VACANCY RATE	15.6%	14.0%	↑	12.2%	↓
OVERALL VACANT SF (MSF)	44.3	40.1	↑	34.4	↓
UNDER CONSTRUCTION (MSF)	0.3	0.2	↔	7.4	↔
ASKING RENT (PSF)	$82.96	$80.34	↑	$80.51	↑
SALES VOLUME (Millions)	$415.9	$1,494.7	↓	$1,080.7	↑

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

MIDTOWN SEES STRONGER LEASING

Midtown leasing topped 5.5 million square feet in Q2, accounting for almost 75% of Manhattan deal activity. Transactions included half a dozen leases exceeding 100,000 SF, all in Class A space and representing a combination of new leases, renewals, expansions, and subleases. Class A saw positive absorption, but the overall figure was dragged down by negative take-up in the Class B space, increasing the availability rate. Asking rents continued their upward momentum as both new and newly renovated spaces remained in demand.

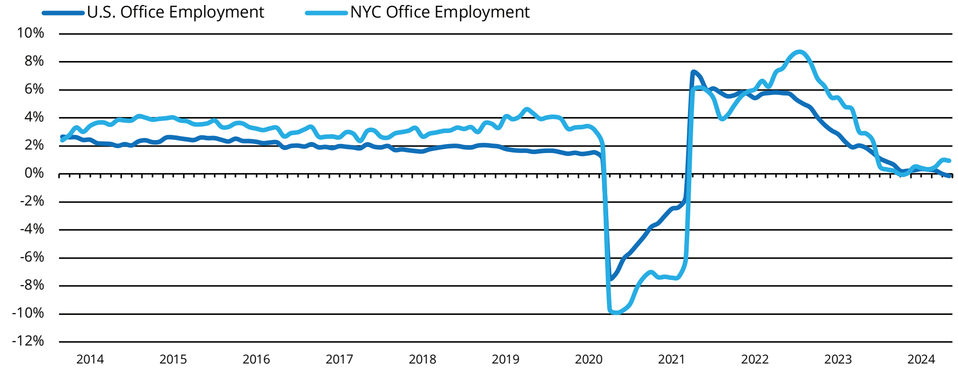
“The increased touring activity over the past several months translated to leasing transactions this quarter, especially in submarkets like Grand Central, where several large leases were signed, resulting in the submarket experiencing tightening availability,” said Lauren Davidson, Senior Vice President, Transwestern. “As 2024 continues, we expect to see market fundamentals remain favorable to tenants, as owners offer attractive concession packages, particularly from Class B assets as they try to compete.”

ECONOMY

NYC's office job growth quickens, bucking the national trend

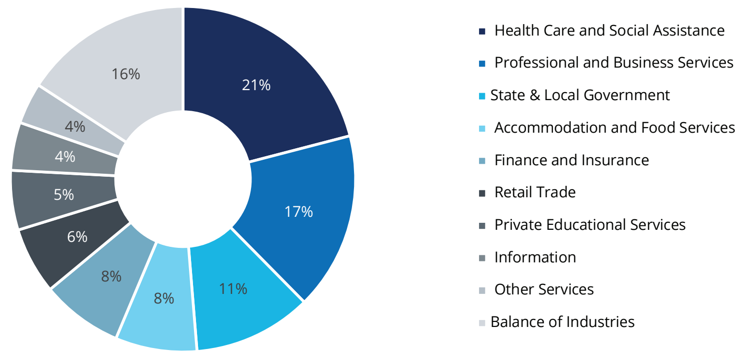
- New York City's office-using sectors now support more than 2.1 million jobs, about 4% higher than the pre-COVID level. While the rate of NYC's office job growth has slowed considerably over the last year, it saw a small uptick in the most recent period.
- Nationally, office-using jobs decreased by 0.2% year-over-year in May, their first year-over-year decline since early 2021.
- The unemployment rate in New York City has dropped below 5% after trending close to that level for 18 months. The current rate of 4.8% is the lowest since mid-2022. National unemployment currently stands at 4.1%, compared with its early 2020 bottom of 3.5%.
- New York City's Health Care & Social Assistance industry created about 82,700 new jobs over the past year, far surpassing all other sectors. Robust increases were also seen in the Arts, Entertainment & Recreation sector and the Accommodation & Food Services sector, along with State and Local Government jobs. On the downside, layoffs and economic uncertainty have contributed to employment decreases in two of New York's major office-using fields; the Information sector and Professional & Business Services sector shed a combined 23,000 jobs in the past year.
- New York's diverse business sectors provide a strong foundation that will continue to propel the city forward during 2024, even as hybrid work remains the most common structure for "office" jobs across the US.

Y-O-Y CHANGE IN OFFICE JOBS



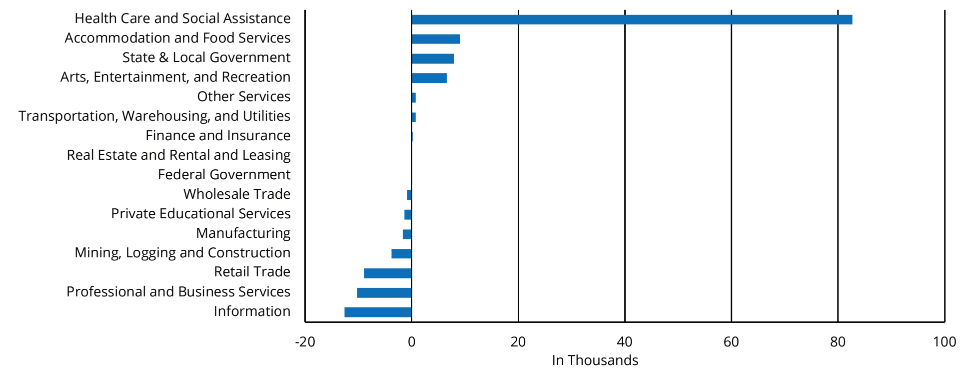
SHARE OF EMPLOYEES BY INDUSTRY

New York City | May 2024



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



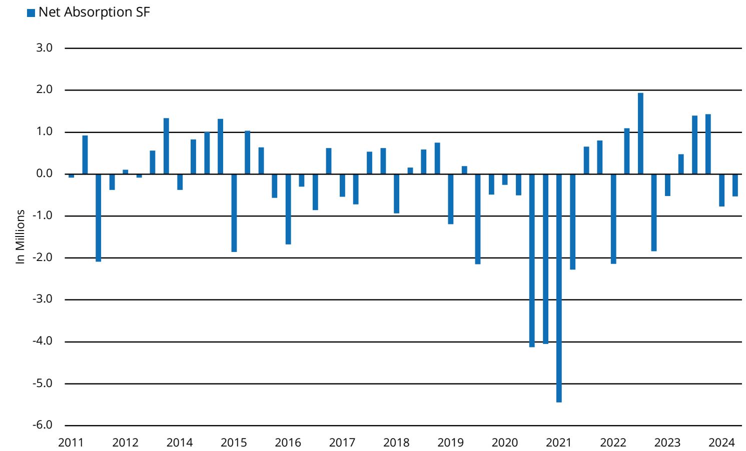
Source: Bureau of Labor Statistics, NYS Department of Labor, Transwestern

NET ABSORPTION

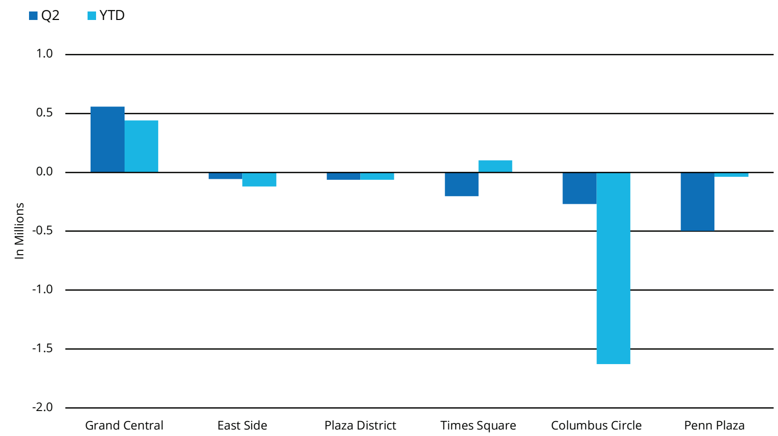
Absorption stays negative

- Midtown absorption totaled negative 534,200 SF in Q2, slightly better than the Q1 result. Absorption for the first half of the year was negative 1.3 MSF, compared with negative 44,700 SF in the first half of 2023. Like Manhattan overall, Midtown saw a sharp division between the classes; while Class A dominated the large lease deals, leading to positive Class A absorption, it was overtaken by negative absorption in Class B assets.
- Grand Central was the only Midtown submarket to register positive absorption. A 235,200 SF direct lease from Bain & Company, and two 80,000 SF leases from TD Securities and Duane Morris, all at the recently refurbished 22 Vanderbilt, helped drive 557,700 SF of positive take-up.
- The Plaza District recorded the largest lease of the year, Bloomberg's renewal of 946,800 SF at 731 Lexington Avenue. Nearby, Industrious took 232,900 SF of WeWork's former space at 12 E 49th Street and Antares Capital renewed and expanded for 76,000 SF at 280 Park Avenue. These deals did little to improve absorption in the Plaza District as most of the space was already leased out; take-up was flat at negative 64,000 SF.
- Penn Plaza faced several additions, including a 512,900 SF sublet block from WarnerMedia at 30 Hudson Yards, and a 290,400 SF block at 50 Hudson Yards, where Meta is vacating. A 235,600 SF sublease from Covington & Burling at 30 Hudson Yards and Major League Soccer's 125,000 SF direct deal at PENN 2 helped soften the impact, but absorption was in the red at negative 497,800 SF.
- Most of the large leases signed in Midtown this quarter represented an expansion from their current footprints, and many were for terms of 15 years or longer. These are indicators of continued confidence in this submarket and bode well for improved absorption in the second half of the year.

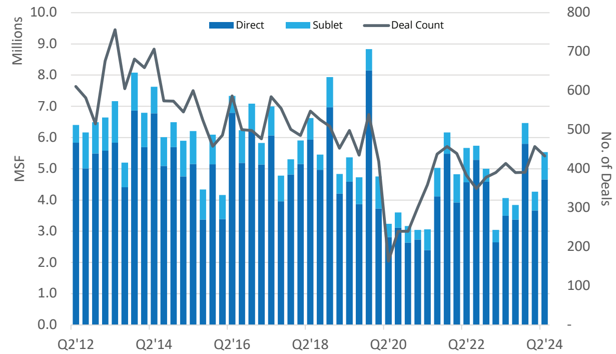
NET ABSORPTION - MIDTOWN



NET ABSORPTION BY SUBMARKET



MIDTOWN LEASING ACTIVITY



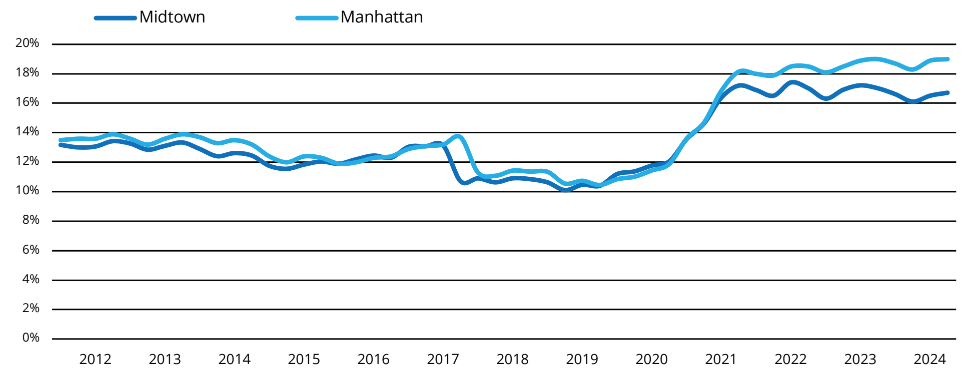
Source: CoStar, Transwestern

AVAILABILITY

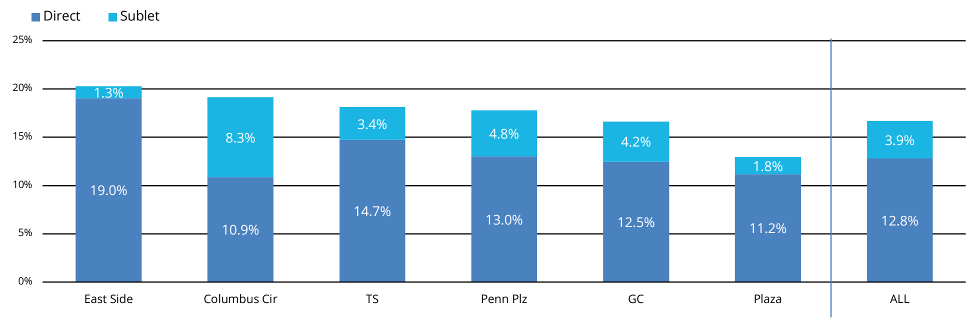
Midtown availability increases

- Midtown's overall availability rate increased 0.2 percentage points [pp] to 16.7% in Q2 2024, remaining in the range it has occupied since early 2021. In comparison, the submarket's average availability from 2015 to 2020 was 11.5%.
- Fifteen block additions exceeding 50,000 SF each contributed to the increase in availability; every one of Midtown's submarkets had at least one block addition exceeding 100,000 SF.
- Sublet availability increased for a second straight quarter, reaching 3.9%, while direct availability decreased 0.1 pp to 12.8%. Despite the increase, two of Midtown's submarkets (East Side and Plaza District) have sublet availability rates at or below 2.0%, some of the lowest levels in Manhattan.
- The Plaza District also has the lowest overall availability in all of Manhattan at 13.0%, though it did increase slightly from Q1. Grand Central saw the biggest decrease in availability from Q1, falling 1.2 pp to 16.6% as large blocks at 623 Fifth Avenue and 635 Madison Avenue were withdrawn from marketing and a handful of mid-size deals were signed.
- Columbus Circle, which until recently had one of the lowest availability rates in the city, increased to 19.1% as the under-construction 125 W 57th Street opened 172,700 SF for leasing. Columbus Circle also has a high proportion of sublet space, comprising 43.2% of total availability, one of the city's highest ratios.
- We expect the flight to quality will continue to widen the gap between Class A and B space, lowering availability amid Midtown's plethora of trophy assets. 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



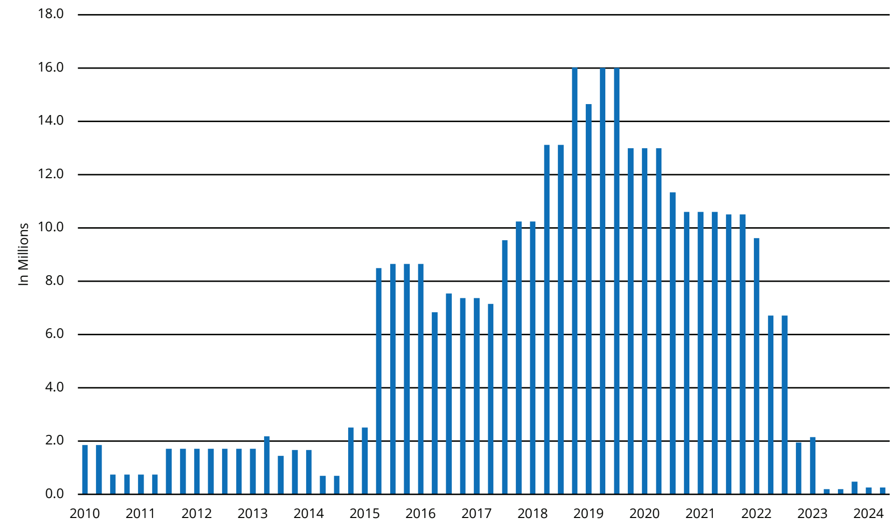
Source: CoStar, Transwestern

UNDER CONSTRUCTION

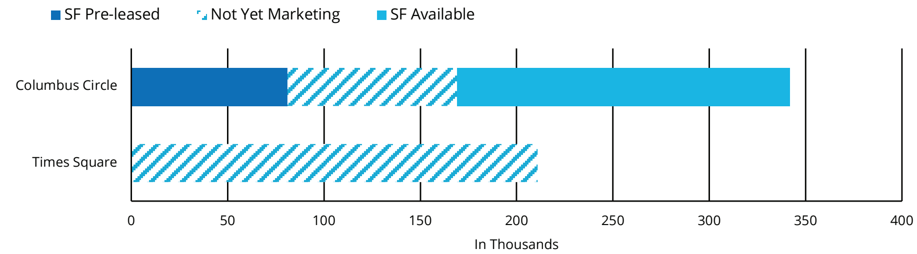
Development and redevelopment seek a balance

- New office construction in Midtown remains near its lowest level in more than a decade. Active projects include the aforementioned 125 West 57th Street (260,000 SF), representing the first new core construction in the Columbus Circle submarket since 2014, and a 212,000 SF tower at 520 Fifth Avenue.
- Meanwhile, existing assets continue to highlight renovations, capital improvements, and adaptive reuse in order to compete for tenants. PENN 2 has nearly 1.3 MSF of newly renovated space available and 850 Third Avenue is in line for an upgrade, after receiving a tax abatement through NYC's M-CORE program, designed to help finance renovations at aging office buildings.
- In addition, there is nearly 10 million SF of new office product proposed in Midtown, dominated by several multi-use projects with large office components. These include the 2.6 MSF Commodore at 175 Park Avenue; a 1.5 MSF tower at 570 Fifth Avenue that just received a major investment from IKEA; a 1.2 MSF tower at 70 Hudson Yards; and the 1.8 MSF Citadel Enterprise building at 350 Park Avenue.
- Demolition sites appearing across Midtown are signs of faith in the submarket, but 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. In the meantime, the pipeline of "ready to lease" new construction opportunities remains extremely limited. It will be important to monitor whether continued demand for top tier assets, coupled with the lack of new stock, will lead to increased activity in secondary markets and Class B buildings.

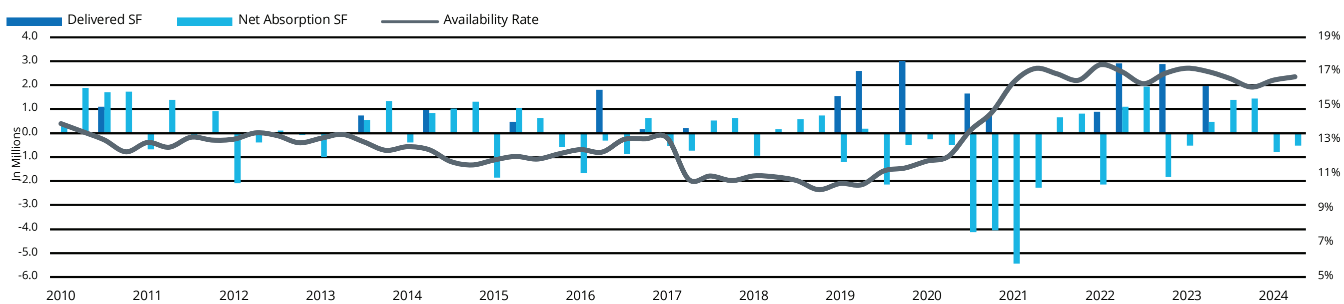
UNDER CONSTRUCTION - MIDTOWN



UNDER CONSTRUCTION BY SUBMARKET



DELIVERY IMPACT ON KEY INDICATORS



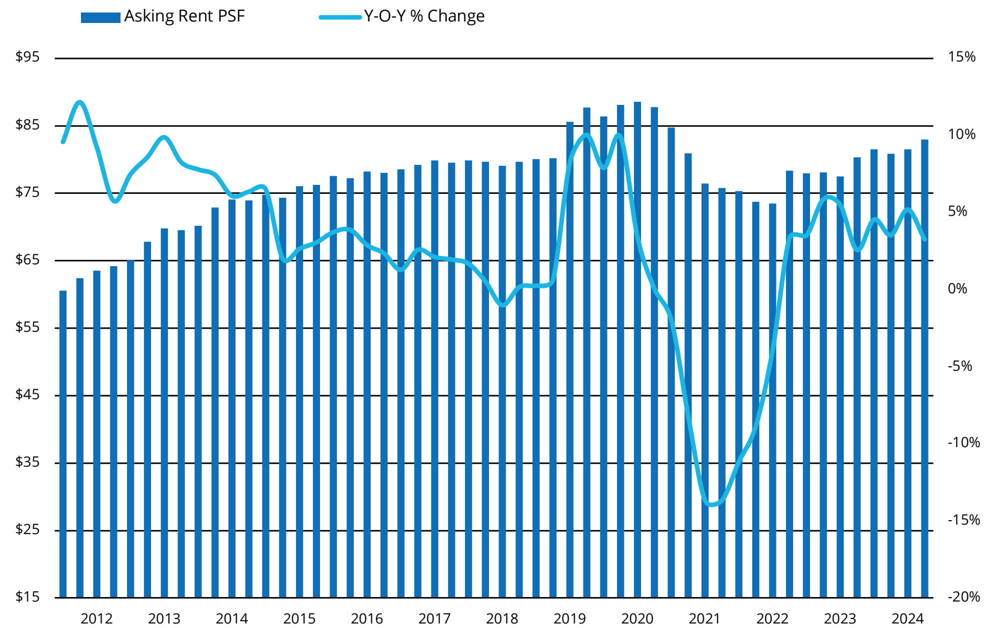
Source: CoStar, Transwestern

RENTAL RATES

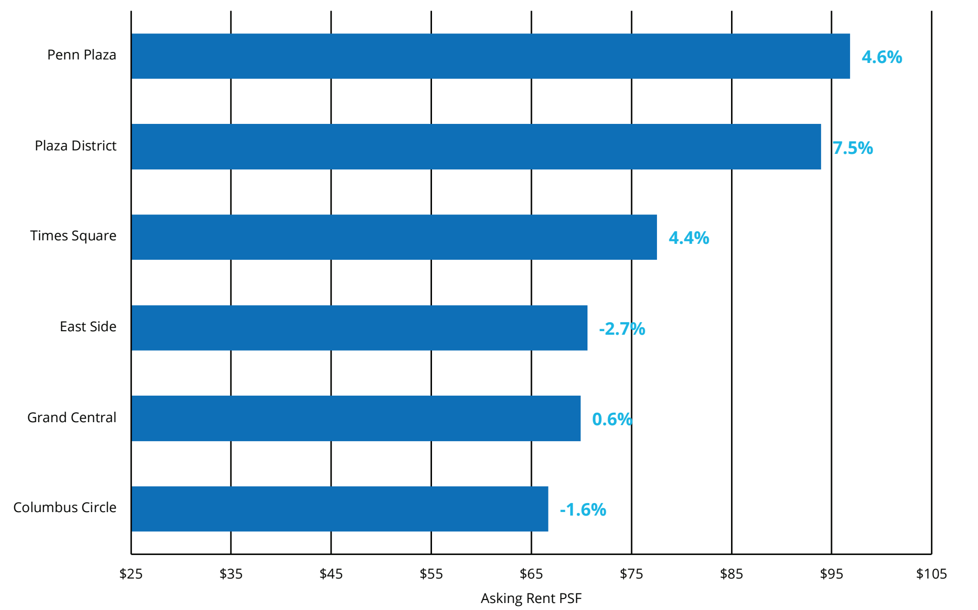
Trophy asking rates spur rent growth in Midtown

- Midtown's average asking rent grew 1.8% from Q1, reaching $82.96 PSF in the second quarter. Rents are up 3.3% from a year ago, marking a ninth 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. Average Class A rents are now approaching the $88 PSF mark, within 5% of their early 2020 peak and 4% higher than their year-ago level.
- While excess sublet space is still applying downward pressure on asking rates, it has begun to ease. Midtown's available sublet space has decreased by nearly 1.4 MSF after peaking at 12.5 MSF in early 2023, removing a sizeable amount of this lower-priced space from the submarket average.
- Despite general economic challenges, 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 and those not well situated to public transportation. Large concession packages are still happening to entice tenants.

ASKING RENT - MIDTOWN



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



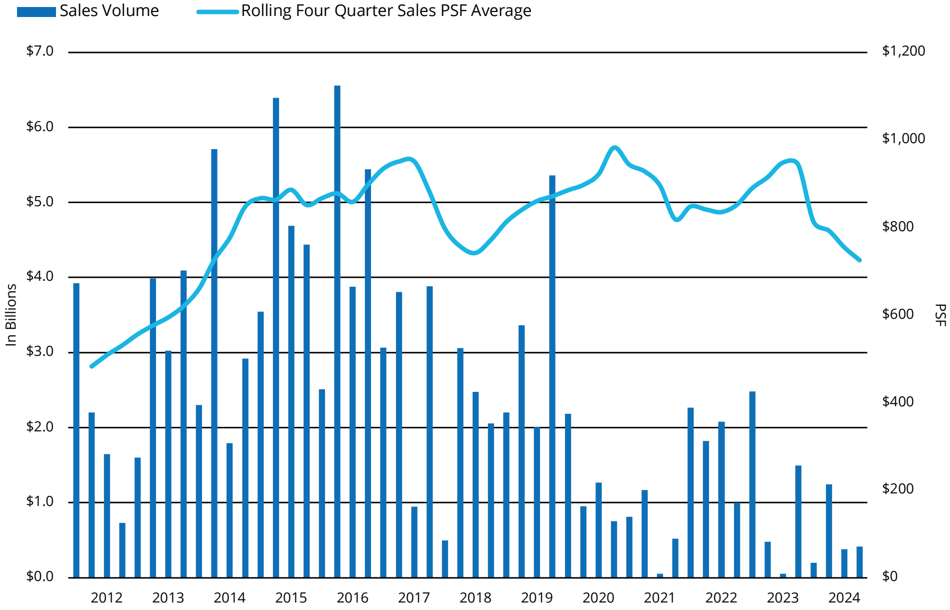
Source: CoStar, Transwestern

SALES

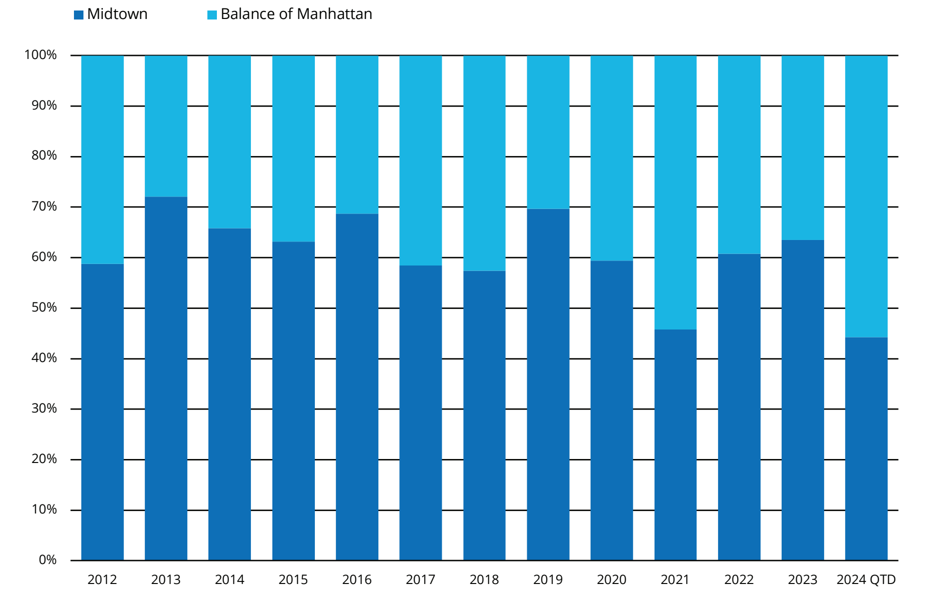
Transaction volume remains low

- Core office sales were scarce again in Q2, leaving Midtown transaction volume at a lackluster $238.9 million. This is well below the $1.1 billion quarterly average recorded over the last five years. Total volume for the first half of the year was $618 million, compared with $1.5 billion in the first half of 2023.
- Midtown was the site of Manhattan's largest transaction of the quarter, Yellowstone's purchase of the remaining debt on the recently renovated 1740 Broadway. The special servicer was in possession of the Columbus Circle asset, which traded at roughly $300 PSF, compared with its 2014 sale price of $1,000 PSF.
- The Class B office at 390 Fifth Avenue in Penn Plaza sold to Hilson Management for $50.2 million, working out to $372 PSF. Additionally, Sovereign Partners bought The Gardens, a 489,100 SF tower at 780 Third Avenue in the East Side submarket; this sale, which closed at $177 million, was announced after the close of Q2 and is not included in the statistics here.
- Looking ahead, other large deals on the horizon include 1370 Avenue of the Americas in the Plaza District, expected to sell to Barings for $160 million, and JPMorganChase's pending $300 million purchase of 250 Park Avenue, adjacent to their new Plaza District headquarters.
- Continued uncertainty amid the current economic climate has left investors reluctant to take on more debt and more risk, citing limited liquidity and ongoing price discovery. With the Federal Reserve still dragging its feet on cutting interest rates, debt remains costly, and we expect investors will proceed with caution over the next few quarters.

SALES VOLUME - MIDTOWN



MIDTOWN % OF MANHATTAN SALES VOLUME



Source: Real Capital Analytics, Transwestern

NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
BLOOMBERG	731 Lexington Ave	Plaza District	Extension/Expansion	946,800
COVINGTON & BURLING	30 Hudson Yards	Penn Plaza	Sublet (will convert to direct)	235,500
BAIN & COMPANY	22 Vanderbilt Ave	Grand Central	Direct	235,200
TRADE DESK	1114 Ave of the Americas	Times Square	Expansion	126,000
MAJOR LEAGUE SOCCER	PENN 2	Penn Plaza	Direct	125,000

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
535 W 46TH STREET	Times Square	525,100	Direct
30 HUDSON YARDS	Penn Plaza	512,900	Sublet
1221 AVE OF THE AMERICAS	Times Square	315,600	Direct
50 HUDSON YARDS	Penn Plaza	290,400	Sublet
PENN 2	Penn Plaza	250,600	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1740 BROADWAY *	Columbus Circle	$185,895,200	603,900	$308	Yellowstone RE Investments	Blackstone
780 THIRD AVE**	East Side	$177,000,000	489,100	$362	Sovereign Partners	Nuveen
390 FIFTH AVE	Penn Plaza	$50,200,000	135,000	$372	Hilson Management Corp	KMF Holding Corporation

* = Debt Sale
** = Not included in sales figures

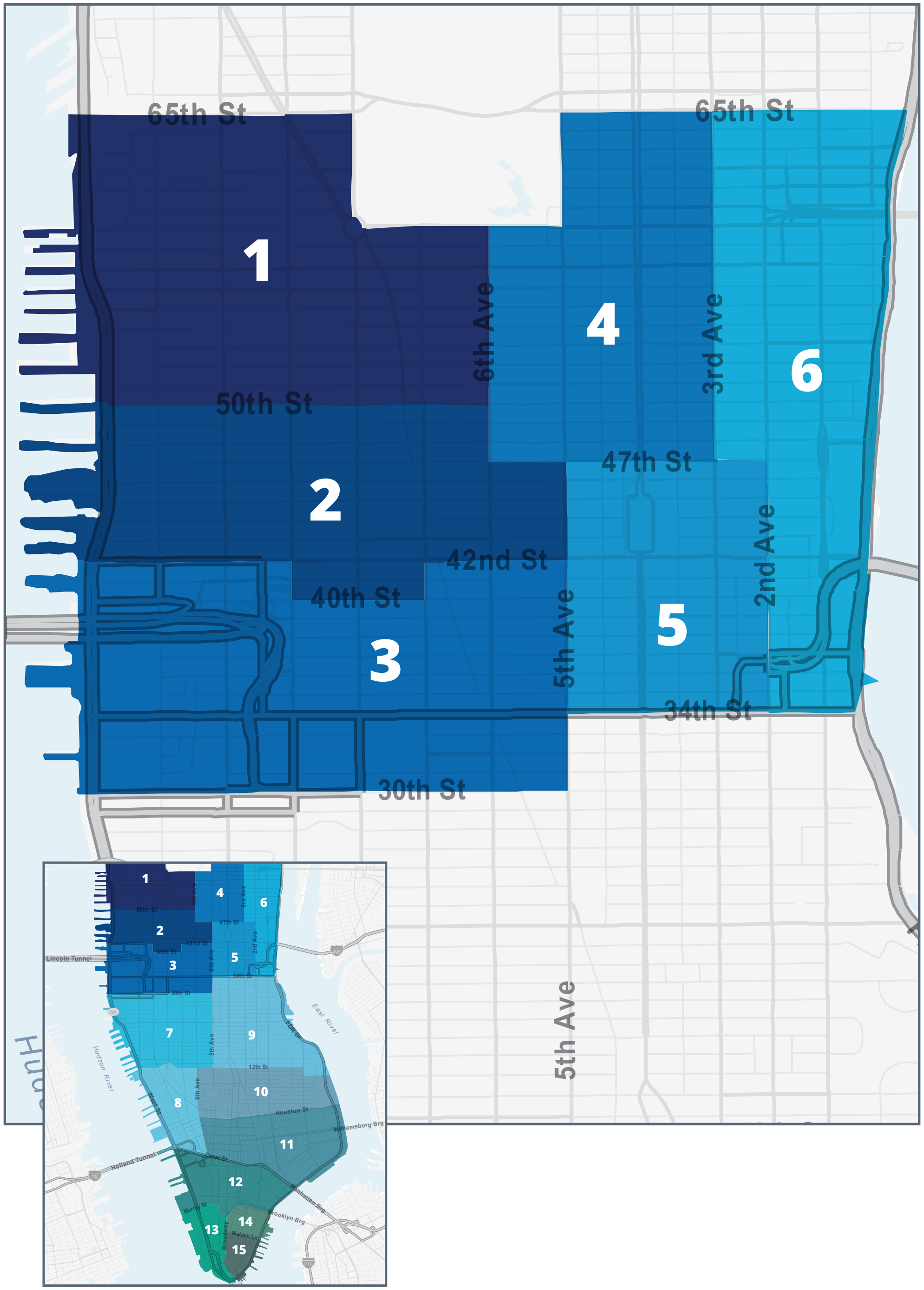
Source: CoStar, Real Capital Analytics, Transwestern

MARKET INDICATORS

All Classes of Space | Q2 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	30,426,123	-270,625	-1,625,998	19.1%	14.6%	$68.61	$58.01	$66.70
EAST SIDE	14,996,771	-58,286	-121,136	20.3%	18.2%	$71.18	$64.90	$70.60
GRAND CENTRAL	57,461,821	557,694	440,182	16.6%	16.2%	$69.24	$73.46	$69.90
PENN PLAZA	69,220,384	-497,773	-39,193	17.8%	18.4%	$117.38	$56.47	$96.84
PLAZA DISTRICT	69,795,937	-64,029	-64,765	13.0%	13.6%	$94.32	$85.77	$93.93
TIMES SQUARE	42,273,402	-201,140	100,855	18.1%	13.3%	$81.92	$58.18	$77.56
MIDTOWN TOTAL	**284,174,438**	**-534,159**	**-1,310,055**	**16.7%**	**15.6%**	**$87.96**	**$61.35**	**$82.96**

Source: CoStar, Transwestern



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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