



TRANSWESTERN

MIDTOWN SOUTH 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)	104.2	(439.5)	↑	(560.0)	↑
OVERALL VACANCY RATE	19.8%	17.7%	↑	13.7%	↔
OVERALL VACANT SF (MSF)	16.2	14.3	↑	10.9	↔
UNDER CONSTRUCTION (MSF)	1.5	0.5	↑	1.2	↔
ASKING RENT (PSF)	\$86.86	\$79.90	↑	\$78.40	↑
SALES VOLUME (Millions)	\$228.9	\$276.0	↓	\$619.8	↑

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

NEW LEASES DRIVE POSITIVE ABSORPTION

The Midtown South submarket recorded positive absorption for the first time in almost two years, as several large Class A subleases drove take-up. Available sublet space decreased from last quarter while direct availability increased, leaving overall availability unchanged from Q1. Leasing activity reached 1.3 MSF, bringing the total to 2.4 MSF at mid-year, ahead of the 1.9 MSF logged in the first half of 2023, and rents continued to rise after getting a boost last quarter from the addition of more than 1 million SF of high-priced premium office space at the Terminal Warehouse development.

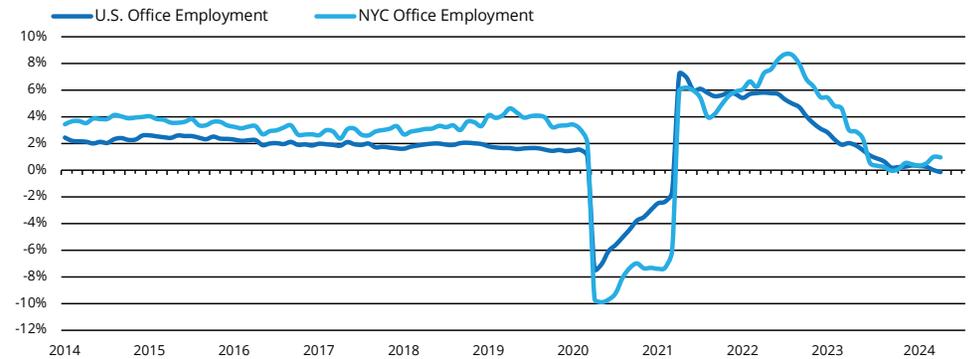
“The increased touring activity over the past several months translated to leasing transactions this quarter, especially in submarkets like Gramercy Park, where several leases were signed, resulting in the submarket experiencing tightening availability,” said Lauren Davidson, Senior Vice President, Transwestern. “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

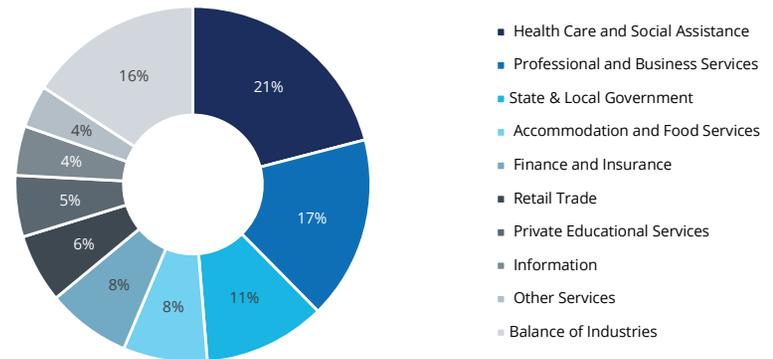
- New York City's office-using sectors now support more than 2.1 million jobs, about 4% higher than the pre-COVID level. While the rate of NYC's office job growth has slowed considerably over the last year, it saw a small uptick in the most recent period.
- Nationally, office-using jobs decreased by 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



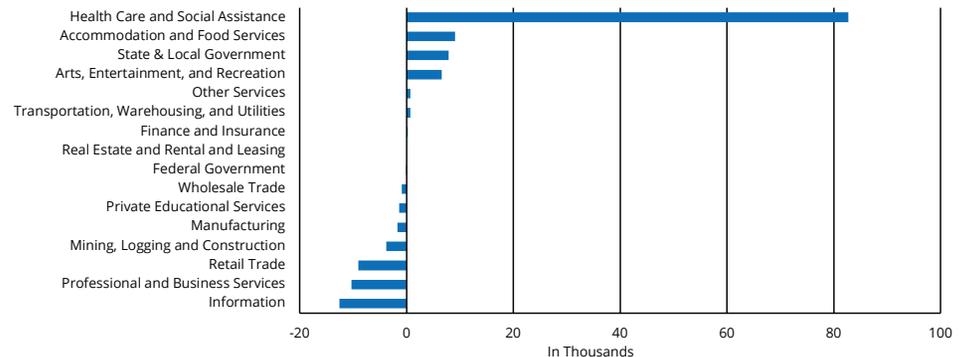
SHARE OF EMPLOYEES BY INDUSTRY

New York City | May 2024



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



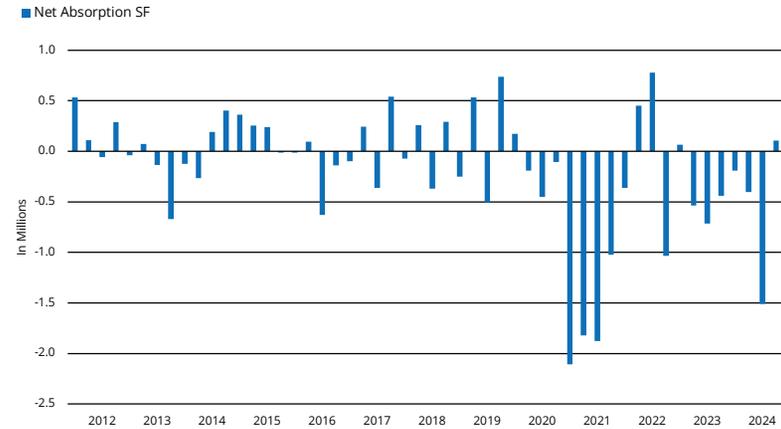


NET ABSORPTION

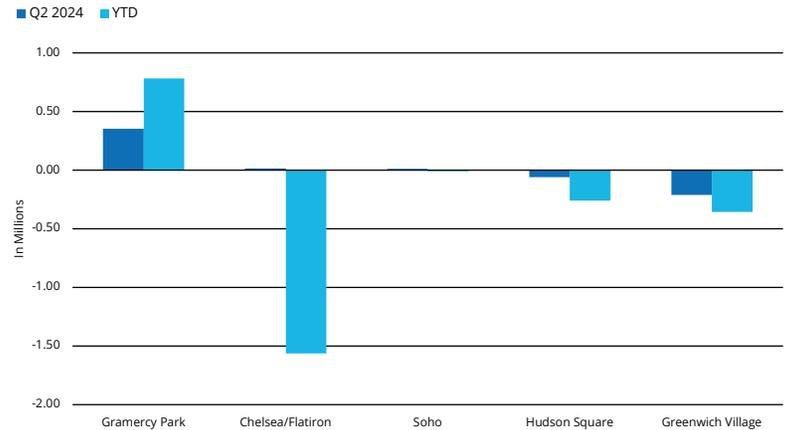
Midtown South absorption turns positive

- Midtown South recorded positive absorption for the first time since 2022, summing to just over 100,000 SF in the second quarter. Absorption for the first half of the year was negative 1.4 MSF, pulled down by the multiple blocks of space added in the first quarter at Terminal Warehouse (271 Eleventh Avenue) in the Chelsea/Flatiron submarket. While negative, the year-to-date total was in line with the negative 1.2 MSF taken up in the first half of 2023.
- The Gramercy Park submarket was the only region to see significant positive absorption, taking on the lion's share of Midtown South's leasing activity. American Eagle soared into a 20-year commitment, migrating from Midtown into 337,100 SF at 63 Madison Avenue, a mix of sublet and direct terms. Additionally, the Daily Mail signed for 42,200 SF at the newly renovated 51 Astor Place; and 225 Park Avenue South notched a pair of 40,300 SF subleases from Pinterest and Arch Labs.
- Greenwich Village saw negative absorption of 211,700 SF, while Midtown South's other submarkets recorded relatively flat absorption; Chelsea/Flatiron and Soho tiptoed into positive territory, while Hudson Square was mildly negative.
- While still maintaining its reputation as a tech hub, Midtown South has also drawn leases from a variety of other industries over the last few years. Tenants are likewise being enticed from Midtown and Downtown, and we foresee further improvement through 2024 as the area's new and upgraded spaces continue to attract attention.

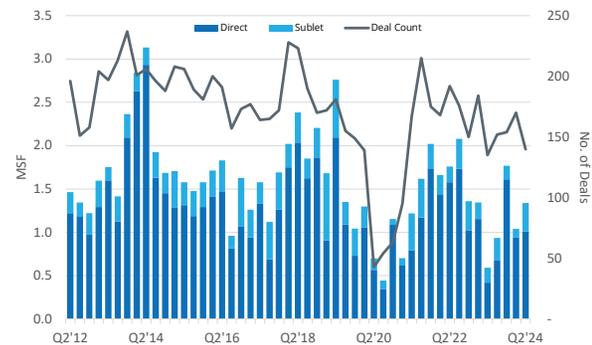
NET ABSORPTION - MIDTOWN SOUTH



NET ABSORPTION BY SUBMARKET



MIDTOWN SOUTH LEASING ACTIVITY



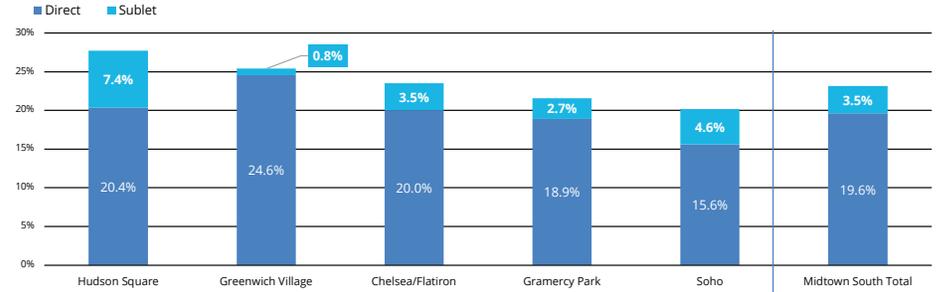


AVAILABILITY

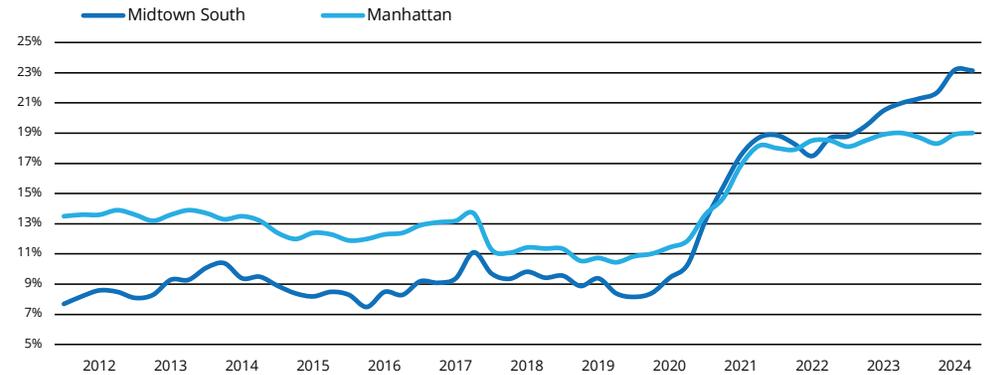
Availability holds steady

- Midtown South's Q2 availability rate was unchanged from last quarter at 23.2%, representing a peak for the submarket, but a shift occurred in the distribution of direct and sublet space. Direct availability climbed 0.4 percentage points [pp] to 19.6%, the highest on record for the submarket, while sublet availability fell 0.5 pp to 3.5%, its lowest since 2020 and the lowest among Manhattan's three main districts.
- Currently, all five of Midtown South's submarkets have availability levels exceeding 20%. Hudson Square and Greenwich Village have two of the three highest availability rates in all of Manhattan at a respective 27.7% and 25.4%. Availability increased from last quarter in both submarkets amid sizeable block additions: Hudson Square took on a 157,100 SF addition at 770 Broadway where Meta is planning to exit, and Greenwich Village faced an addition of 111,100 SF at 330 Hudson Street. Notably, Greenwich Village has the lowest sublet availability in all of Manhattan, now at less than 1%.
- Gramercy Park was the only submarket to show a significant decrease in availability, owing to the concentration of leasing activity in this area.
- Layoffs and uncertainty in the tech sector, which has traditionally represented a large percentage of Midtown South's tenants, along with an explosion of new space, have contributed to the submarket's rising availability of late. However, pent-up demand from occupiers in an increasingly diverse tenant base could help bring availability down over the next few quarters.

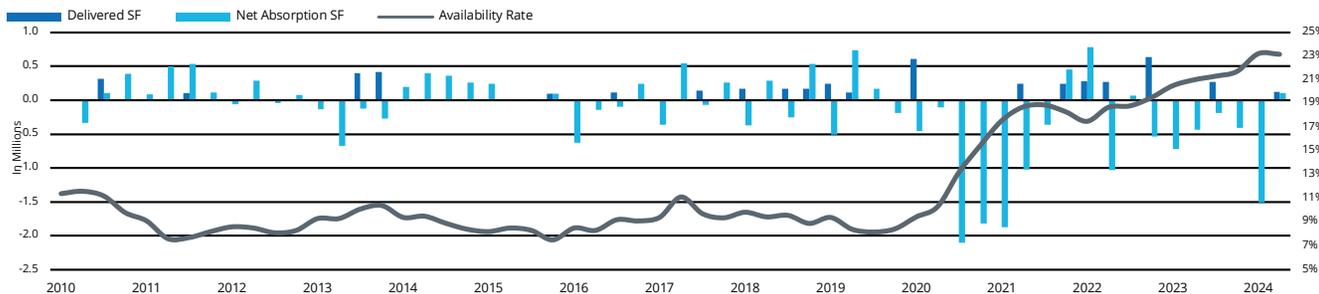
SUBMARKET AVAILABILITY



SUBMARKET AVAILABILITY VS MANHATTAN



DELIVERY IMPACT ON KEY INDICATORS



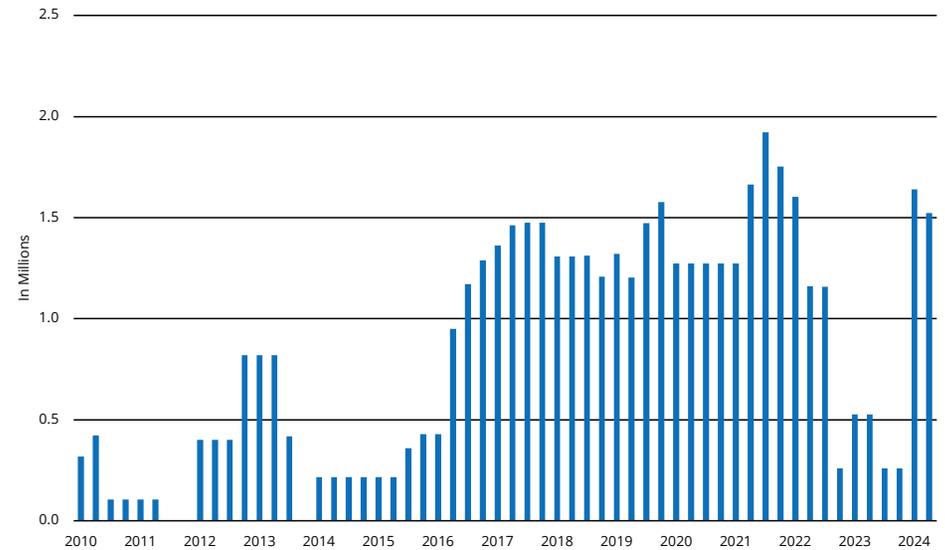


UNDER CONSTRUCTION

New development transforming Midtown South

- Outside of owner-occupied assets, Midtown South has about 1.5 MSF of high-quality core office properties under construction, far more than Midtown or Downtown. Nearly all of the under-construction space is currently available for lease, presenting attractive opportunities for tenants in this evolving district.
- Most of the under-construction inventory is found at Terminal Warehouse in the Chelsea/Flatiron submarket, 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) and the nine story Hudson Arts building at 220 Eleventh Avenue are nearly complete.
- The Greenwich Village submarket is anticipating the delivery of 1 St. Marks Place later this year, on the heels of the recently completed 360 Bowery.
- There is an additional 1.8 MSF of core office product proposed or planned in Midtown South over the next several years. Most of this planned inventory is encompassed by another mammoth development in Chelsea/Flatiron, the 1.1 MSF West Chelsea Waterfront tower, addressed at 260 Twelfth Avenue. 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.
- An improvement in market conditions and investor sentiment, along with the securing of an anchor tenant, are necessary conditions in getting these projects underway. In the meantime, Midtown South’s newest spaces should continue to attract occupiers, with some establishing their first NYC outpost and others relocating from Midtown or Downtown. We are also seeing numerous Class B assets preparing for and undergoing capital improvements in order to compete for tenants.

UNDER CONSTRUCTION - MIDTOWN SOUTH



UNDER CONSTRUCTION BY SUBMARKET



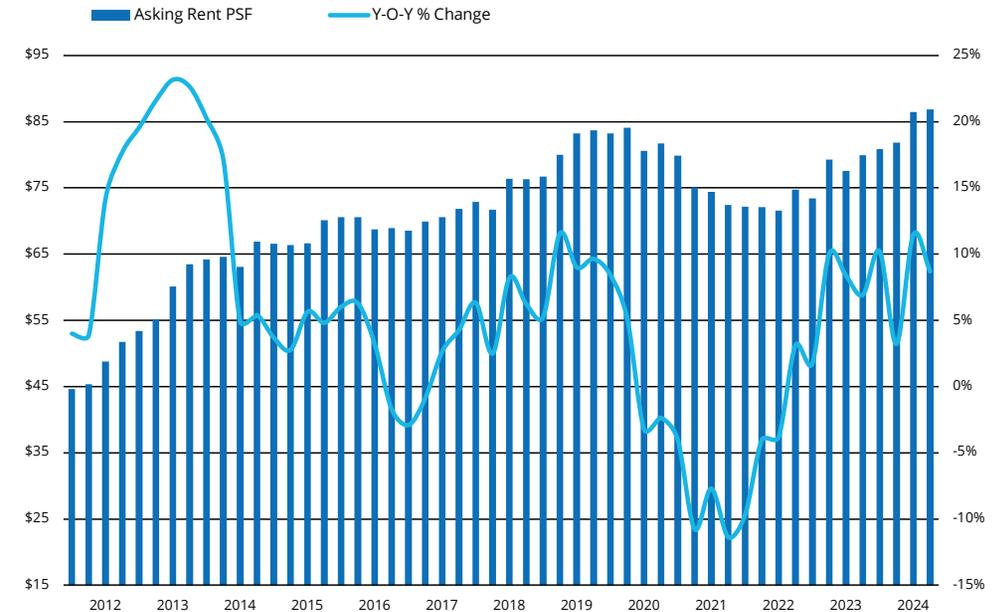


RENTAL RATES

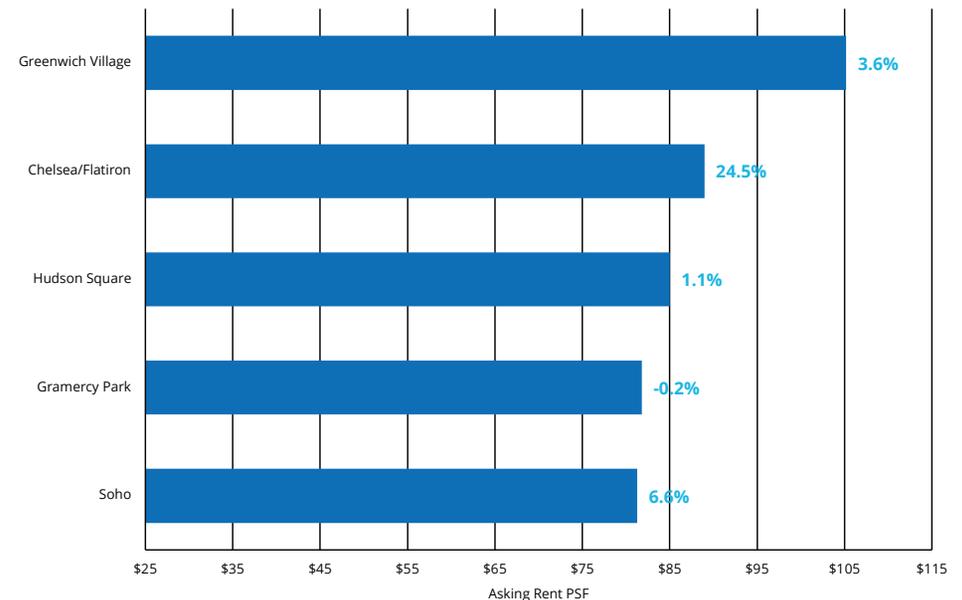
Trophy space keeping rents elevated

- Midtown South rents lifted 0.5% from Q1 and are at their highest on record, some 8.7% above the year-ago level. This was their ninth straight quarter of year-over-year growth.
- Rent growth has been accelerated by the delivery of Class A and trophy space and was boosted by the marketing of brand-new premium space at Terminal Warehouse beginning in Q1. Pricing varies among the project's four office buildings, from the upper \$80s PSF at the low end, to nearly \$200 PSF for the best-appointed spaces.
- Other projects that are boosting Midtown South's asking rates include 770 Broadway in Greenwich Village, asking \$110 on floors being vacated by Meta, and the soon-to-be completed Hudson Arts Building in Chelsea/Flatiron, which has full availability of 199,000 SF and is asking \$150 PSF.
- Midtown South had the fastest rent growth among Manhattan's three major submarkets from 2014-2019. Over the last year, neighborhood rents have played seesaw with their Midtown counterparts and are now 4.7% higher, as Midtown South landlords push to accommodate the flight to quality. The rise has been advanced further by Midtown South's net decrease in sublet space over the past year, while Midtown has seen the opposite phenomenon.
- While rents at premium spaces are keeping asking rates elevated, we are also seeing increased opportunities for tenants at non-trophy and Class B assets, and large concession packages are still happening to entice tenants.

ASKING RENT - MIDTOWN SOUTH



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



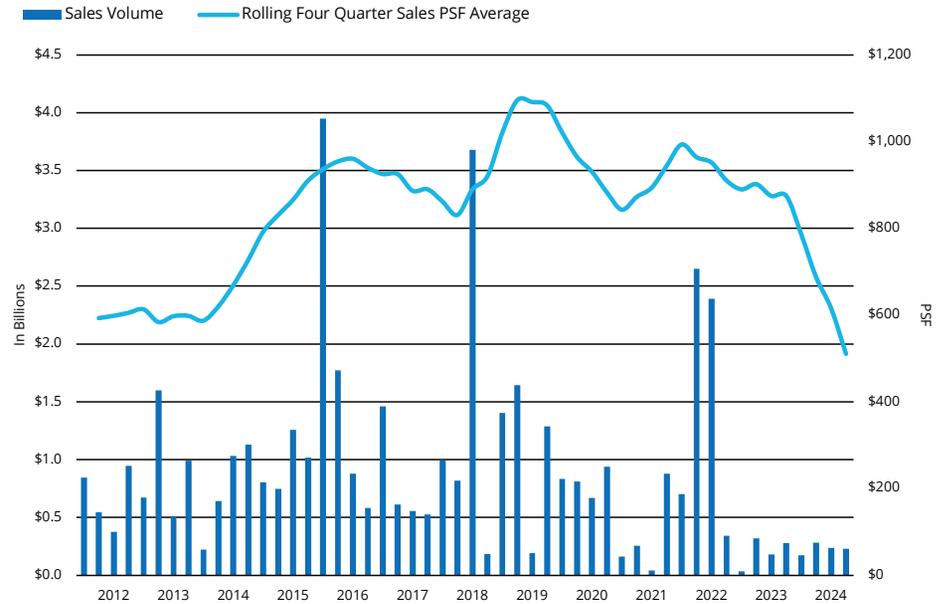


SALES

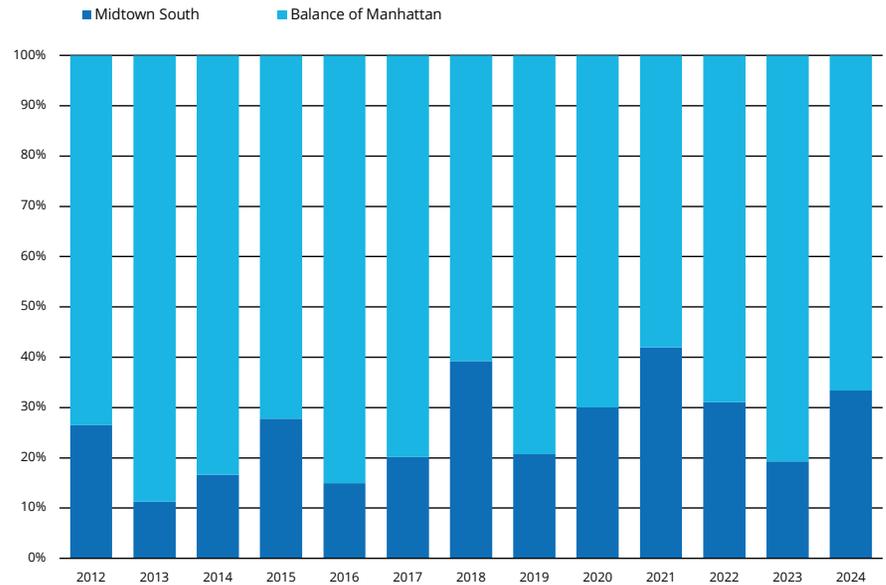
Transaction volume stays quiet

- Midtown South office sales volume remained near its recent lows, reaching \$228.9 million in Q2. This is well below the five-year average of \$619.8 million.
- Transaction volume for the first half of the year was \$465.9 million, slightly higher than the \$455.0 million transacted in the first half of 2023.
- Assets that changed hands in Q2 include 95 Madison Avenue in the Gramercy Park submarket, which sold for \$65 million and will likely be converted to residential use by buyer Sunlight Development, and 8-12 West 14th Street in Chelsea/Flatiron, which traded to Legion Investment Group and EJS Group for \$57.5 million. Pricing for these properties worked out to \$445 PSF and \$479 PSF, respectively.
- 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 SOUTH



MIDTOWN SOUTH % OF MANHATTAN SALES VOLUME





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
AMERICAN EAGLE	63 Madison Ave	Gramercy Park	Mix - Sublet and Direct	337,100
HERRICK	2 Park Ave	Gramercy Park	Renewal	76,800
DAILY MAIL	51 Astor Place	Greenwich Village	Direct	42,200
PINTEREST	225 Park Ave S	Gramercy Park	Sublease	40,300
ARCH LABS	225 Park Ave S	Gramercy Park	Sublease	40,300

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
11 MADISON AVE	Gramercy Park	195,500	Direct
770 BROADWAY	Greenwich Village	157,100	Direct
330 HUDSON ST	Hudson Square	111,100	Direct
16 E 34TH ST	Gramercy Park	69,100	Direct
115 W 18TH ST	Chelsea/Flatiron	57,700	Direct

NOTABLE SALES

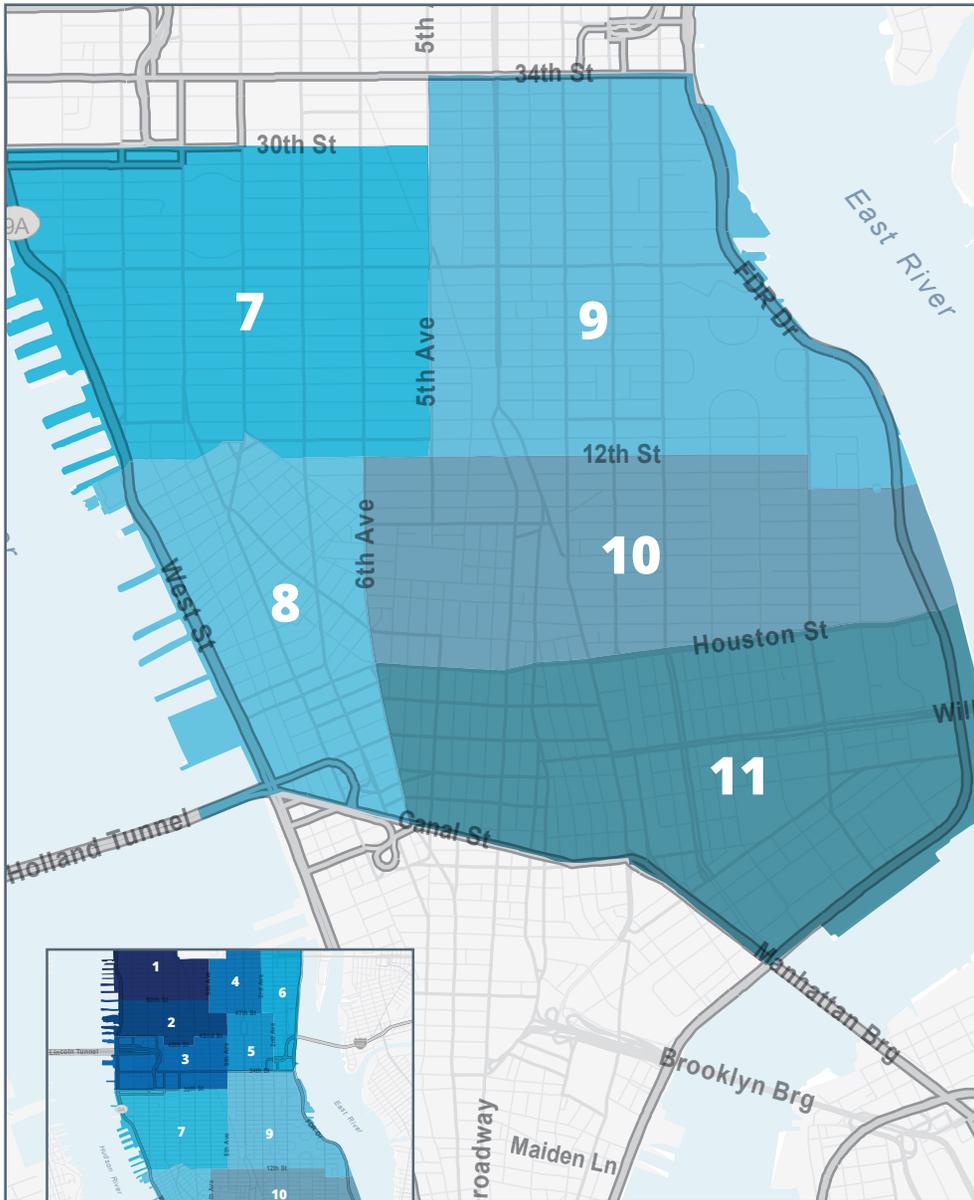
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
95 MADISON AVE (89 MADISON AVE)	Gramercy Park	\$65,000,000	146,200	\$445	Sunlight Development	Skylar Family
8-12 W 14TH ST (5 W 13TH ST)	Chelsea/Flatiron	\$57,500,000	120,000	\$479	Legion Investment Group, EJS Group	Friedman Management, Arnold Penner Real Estate, Philips International, Rhodes Building Management



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
CHELSEA/FLATIRON	28,301,098	13,576	-1,564,468	23.5%	18.9%	\$121.91	\$63.02	\$88.96
GRAMERCY PARK	32,134,235	351,966	781,838	21.6%	20.8%	\$102.93	\$64.81	\$81.80
GREENWICH VILLAGE	5,600,379	-211,672	-358,292	25.4%	21.8%	\$125.20	\$103.85	\$105.19
HUDSON SQUARE	9,770,956	-61,240	-258,768	27.7%	21.8%	\$87.42	\$80.50	\$85.02
SOHO	6,081,703	11,573	-7,645	20.2%	14.1%	\$88.31	\$75.87	\$81.29
MIDTOWN SOUTH TOTAL	81,888,371	104,203	-1,407,335	23.2%	19.8%	\$108.05	\$71.28	\$86.86



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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