TRANSWESTERN

MIDTOWN SOUTH MANHATTAN OFFICE MARKET

Q3 2024

TRENDLINES

	Q3 2024	Q3 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (NYC)	5.2	5.1	↑	7.6	↔
NET ABSORPTION (Thousands SF)	1,278.8	(190.8)	↑	(504.7)	↑
OVERALL VACANCY RATE	20.5%	18.8%	↑	14.3%	↔
OVERALL VACANT SF (MSF)	16.7	15.2	↑	11.5	↔
UNDER CONSTRUCTION (MSF)	1.3	0.3	↑	1.2	↔
ASKING RENT (PSF)	$85.79	$80.88	↑	$78.53	↑
SALES VOLUME (Millions)	$183.3	$171.1	↑	$583.5	↑

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

MIDTOWN SOUTH ADVANCES AGAIN

After some setbacks in the first half of 2024, Midtown South is on the move once again. The third quarter saw availability decrease and absorption turn positive as the submarket logged 1.3 MSF of leasing. There were five deals exceeding 50,000 SF across a variety of sectors including fintech, biotech, food and beverage, and fashion. Asking rents took a step down from Q2 as some higher priced space was leased up, but are ahead of their year-ago level with more than a million square feet of high-priced trophy space on offer.

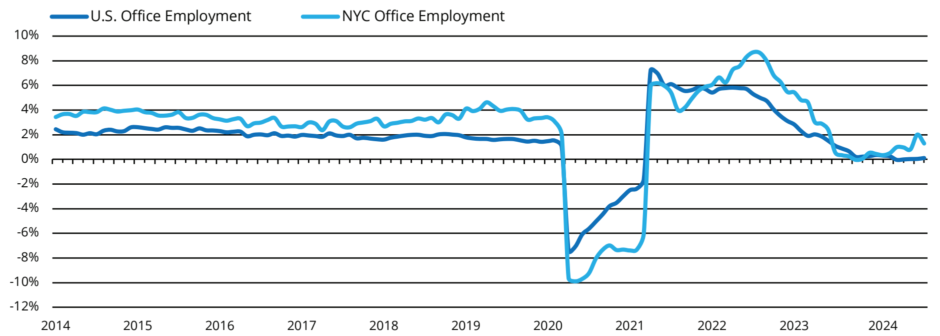
“This quarter’s strong leasing figure, particularly Manhattan’s year-to-date number up 31% compared to last year, bears out the increased enthusiasm that has been noticeable in the market,” said Patrick Heeg, Partner, Transwestern. “We’ve been seeing leasing decisions being made faster, increased touring activity, and greater openness to longer terms. As tenants solidify their in-office work plans, they are in a much better position when entering lease negotiations.”

ECONOMY

NYC's office jobs continue to increase ahead of the national pace

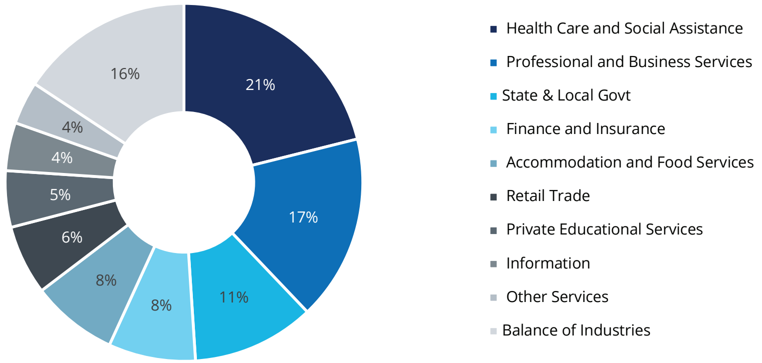
- New York City's office-using sectors now support more than 2.1 million jobs, a peak level for the region. Most recently, jobs grew 1.3% from a year ago, accelerating from the pace seen in late 2023 and early 2024.
- On a national level, growth in office-using jobs has plateaued over the last six months; employment in these sectors increased just 0.1% year-over-year.
- The unemployment rate in New York City currently stands at 5.2%, the upper edge of the tight range it has occupied for the last two years. The national unemployment rate is 4.1%, compared with its early 2020 bottom of 3.5%.
- The Health Care & Social Assistance industry continues to dominate NYC's job creation with almost 92,000 new jobs over the past year. This far surpasses all other sectors, but significant increases were also seen in the Accommodation & Food Services sector and the Private Educational Services sector. On the downside, some of the larger office-using sectors coped with a net loss of jobs over the past year.
- Traditional office-using sectors are getting back on track, even as hybrid work has become the most common structure for these jobs. Meanwhile, New York's diverse business economy provides a strong foundation that will continue to propel the city forward in late 2024 and into 2025.

Y-O-Y CHANGE IN OFFICE JOBS



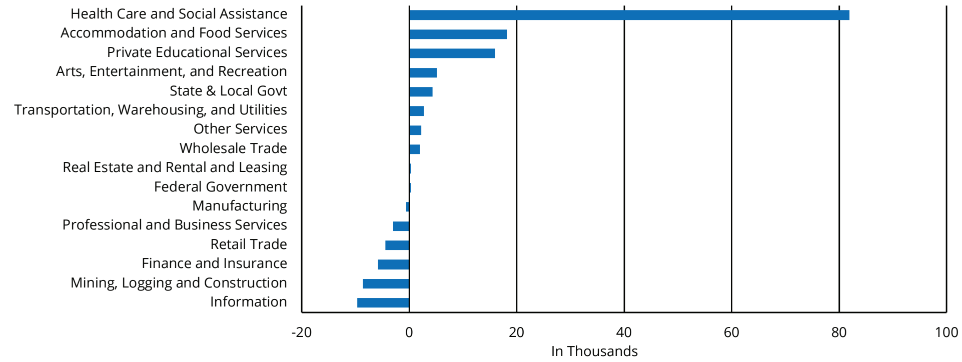
SHARE OF EMPLOYEES BY INDUSTRY

New York City | August 2024



Y-O-Y CHANGE IN JOBS BY INDUSTRY

New York City



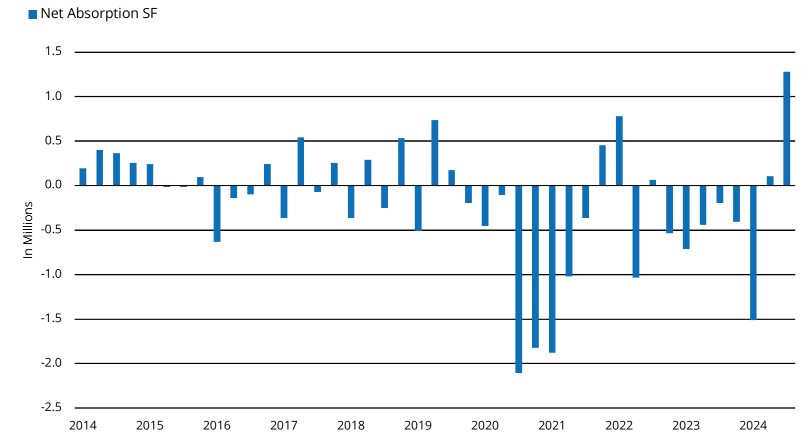
Source: Bureau of Labor Statistics, NYS Department of Labor, Transwestern

NET ABSORPTION

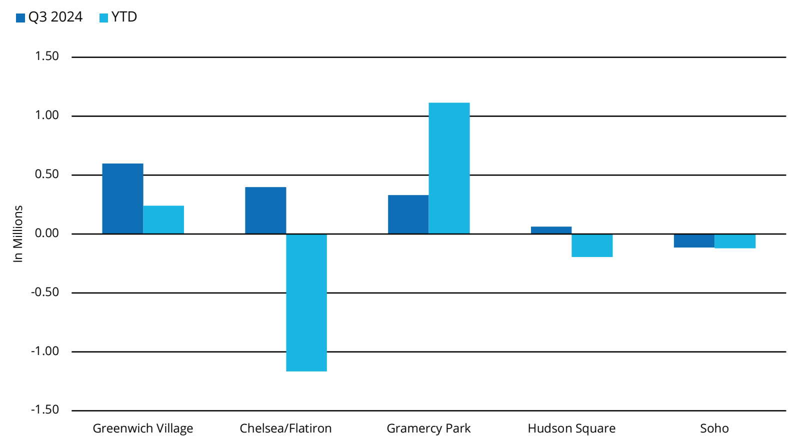
Midtown South sees robust absorption

- Midtown South logged positive absorption to the tune of 1.3 MSF in Q3, though a significant portion of the take-up came from the withdrawal of previously offered space. Year-to-date absorption was negative 128,600 SF owing to negative results early in the year, but this compares favorably with the negative 1.3 MSF of absorption during the same period of 2023.
- Most of Midtown South's submarkets registered positive demand in Q3, led by Greenwich Village with 599,200 SF of net absorption. Driving factors were Chobani's 121,000 SF full building lease at 360 Bowery, and the removal of 391,600 SF at 770 Broadway in anticipation of a rumored master lease.
- In Chelsea/Flatiron, net absorption improved to 398,900 SF as Ramp doubled in size to 132,000 SF at 28-40 West 23rd Street, DSM-Firmenich took 56,900 SF at 641 Avenue of the Americas, and e.l.f. Beauty expanded at 16 West 22nd Street. Additionally, 67,000 SF was withdrawn at the recently-sold 636 Avenue of the Americas.
- Absorption in Gramercy Park reached 331,100 SF and incorporated a 60,000 SF commitment from Bridgewater Associates at 295 Fifth Avenue. Only Soho showed negative absorption; the submarket faced a 91,600 SF block addition at 575 Broadway amid slow leasing activity.
- While absorption has been predominantly negative in Midtown South for the last three years, it is beginning to turn around. This quarter's deals included several long-term expansions and renewals, an indicator of confidence in planning. We foresee improvement as new and upgraded inventory drives further interest in the submarket.

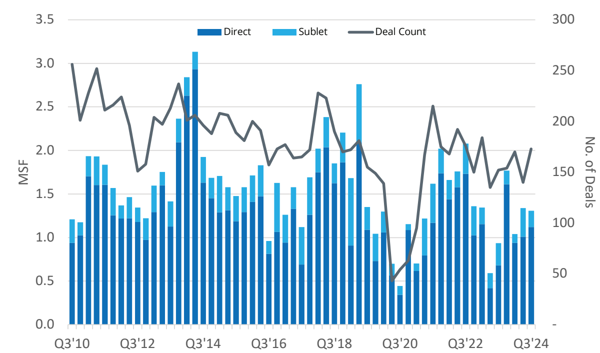
NET ABSORPTION - MIDTOWN SOUTH



NET ABSORPTION BY SUBMARKET



MIDTOWN SOUTH LEASING ACTIVITY



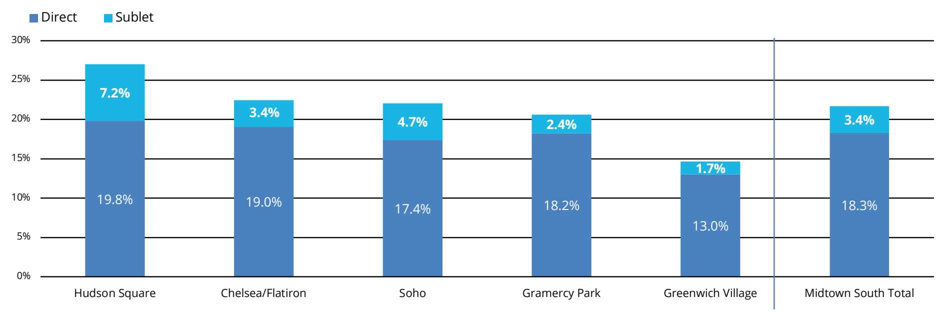
Source: CoStar, Transwestern

AVAILABILITY

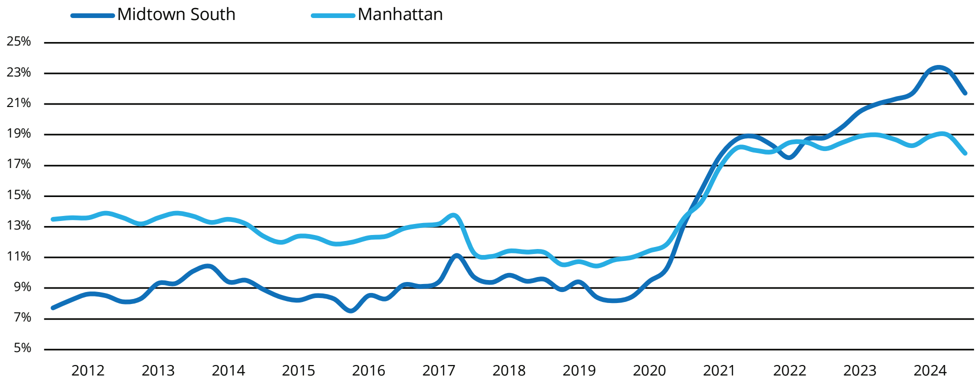
Availability decreases amid modest leasing

- Midtown South's availability rate tightened from Q2 to 21.7% in the third quarter. Both sublet and direct availabilities decreased, although the overall rate is still 0.4 percentage points [pp] higher than a year ago and 3.8 pp above the five-year rolling average.
- Sublet availability in Midtown South continues to trend downward, landing at 3.4% in Q3, the lowest point since mid-2020. Midtown South has just 2.8 MSF of sublet space on offer, representing 21.7% of the available total.
- Greenwich Village saw the largest decrease in availability from Q2 amid its strong net absorption. It now has the lowest overall availability in Midtown South at 14.7%, while its sublet availability of 1.7% is one of the lowest in Manhattan. Soho, previously the tightest Midtown South submarket, saw availability increase to 22% on negative absorption.
- Hudson Square continues to have the highest availability rate in all of Manhattan at 27.0%, as well as one of the highest sublet availabilities at 7.2%, though both levels decreased from Q2.
- Midtown South's availability level had been rising steadily since 2022 but recent quarters have suggested a turnaround. While layoffs and uncertainty in the tech sector, which comprises a large percentage of submarket tenants, certainly contributed to the increase, there has been renewed interest from occupiers across sectors as pent-up demand meets with ample opportunities at new construction.

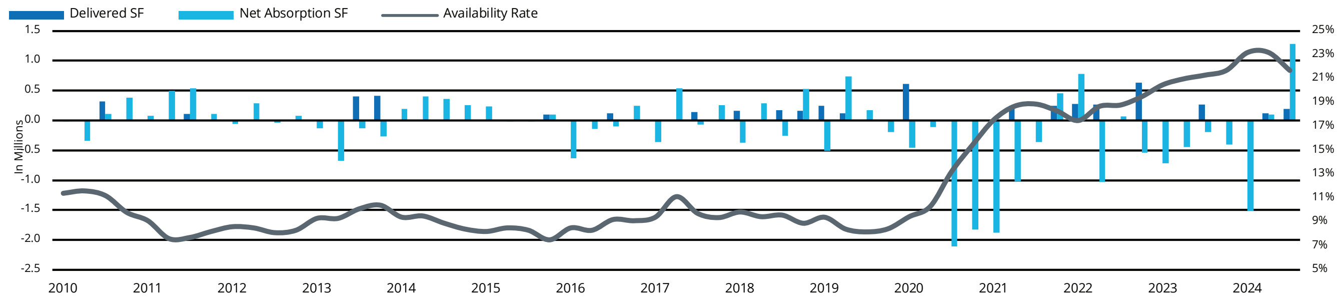
SUBMARKET AVAILABILITY



SUBMARKET AVAILABILITY VS MANHATTAN



DELIVERY IMPACT ON KEY INDICATORS



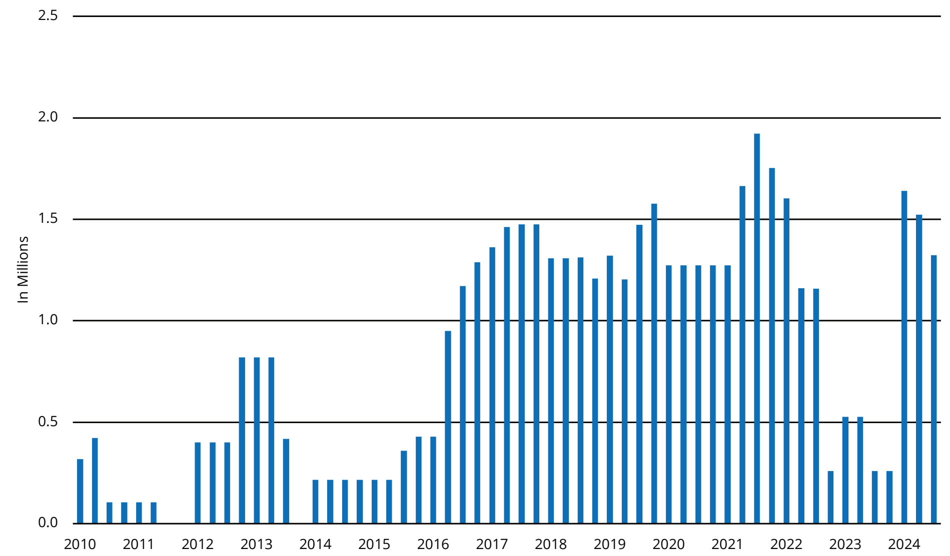
Source: CoStar, Transwestern

UNDER CONSTRUCTION

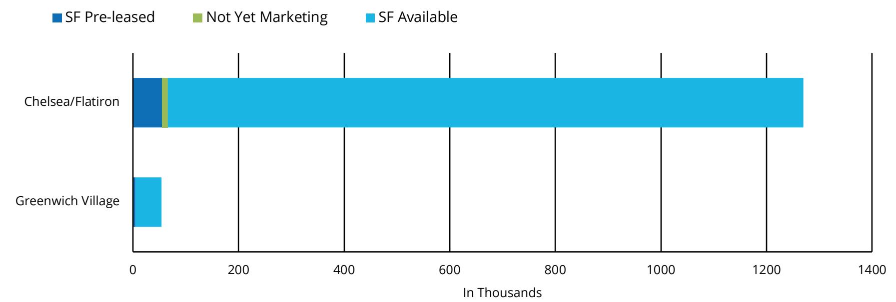
New development transforming Midtown South

- Outside of owner-occupied assets, Midtown South has about 1.3 MSF of high-quality core office properties under construction, far more than Midtown or Downtown. Nearly all of the under-construction space is now available for lease, presenting attractive opportunities for tenants in this evolving district.
- The largest new construction project is itself something of a renovation. Terminal Warehouse, the century-old full-block structure at 271 Eleventh Avenue in Chelsea/Flatiron, is giving way to four modern office buildings totaling over a million square feet; the first of these was delivered in Q3. Other new construction in Chelsea/Flatiron includes Le Gallerie (132 West 14th Street), the Hudson Arts Building (220 Eleventh Avenue), and One High Line.
- 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. Chobani just signed a full building lease at the latter building, which will also feature a community kitchen for people in need, experiential retail space, and an incubator lab focused on social impact.
- There is an additional 1.8 MSF of core office product proposed or planned in Midtown South. Most of this planned inventory is encompassed by another mammoth development in Chelsea/Flatiron, the 1.1 MSF West Chelsea Waterfront tower, 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 proposed projects underway. It will also be important to monitor whether the inflow to these new top-tier assets will trickle over to increased activity in class B buildings.

UNDER CONSTRUCTION - MIDTOWN SOUTH



UNDER CONSTRUCTION BY SUBMARKET



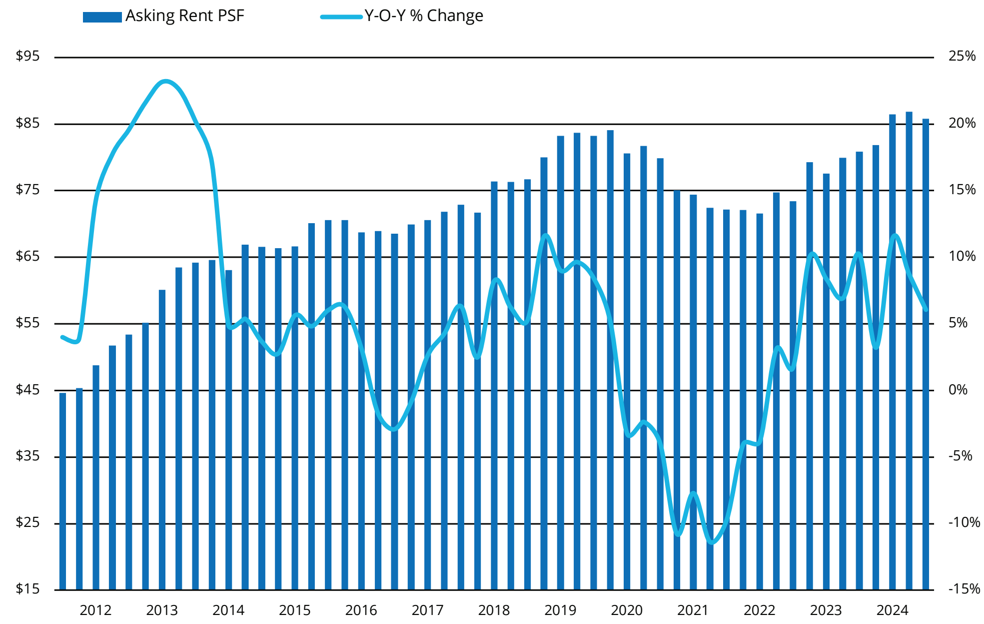
Source: CoStar, Transwestern

RENTAL RATES

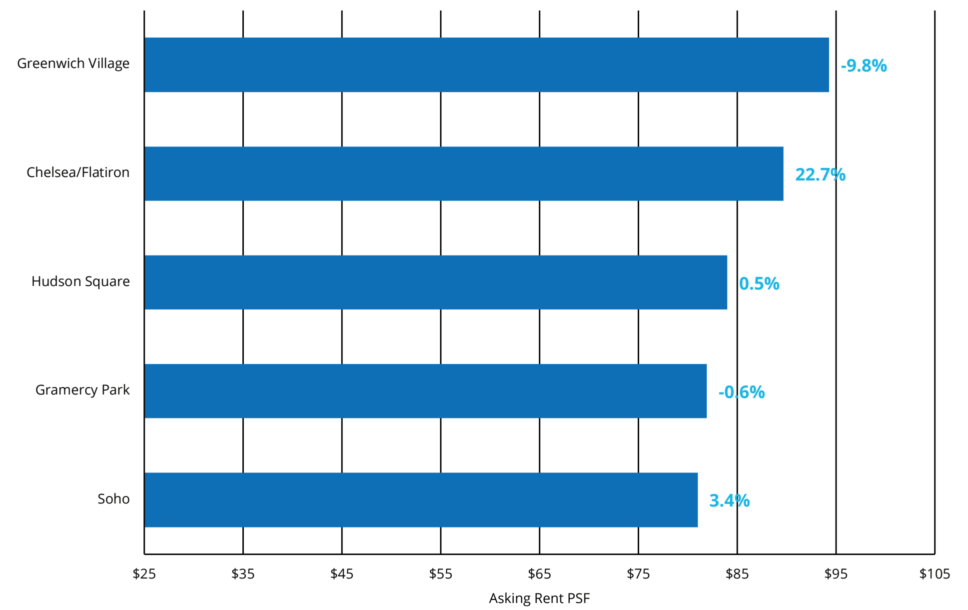
Trophy space keeping rents elevated

- Midtown South asking rents fell slightly from last quarter's record high to $85.79 PSF in Q3. Despite this decrease, rents are 6.1% above the year-ago level, representing ten straight quarters 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 One Madison Avenue in Gramercy Park, 611 Broadway in Soho, and the nearly 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 3.3% higher, as Midtown South landlords push to accommodate the flight to quality. The rise has been advanced further by Midtown South's steady decrease in sublet space, which has shrunk by 18.3% over the past year.
- While rents at premium spaces are keeping asking rates elevated, we are also seeing increased opportunities for occupiers at non-trophy and Class B assets, and large concession packages are still being offered to entice tenants.

ASKING RENT - MIDTOWN SOUTH



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



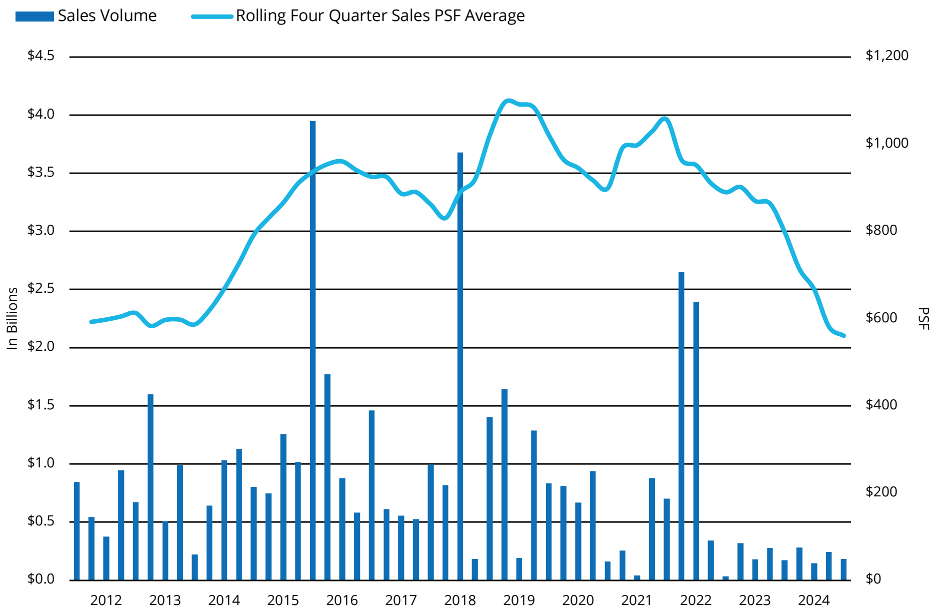
Source: CoStar, Transwestern

SALES

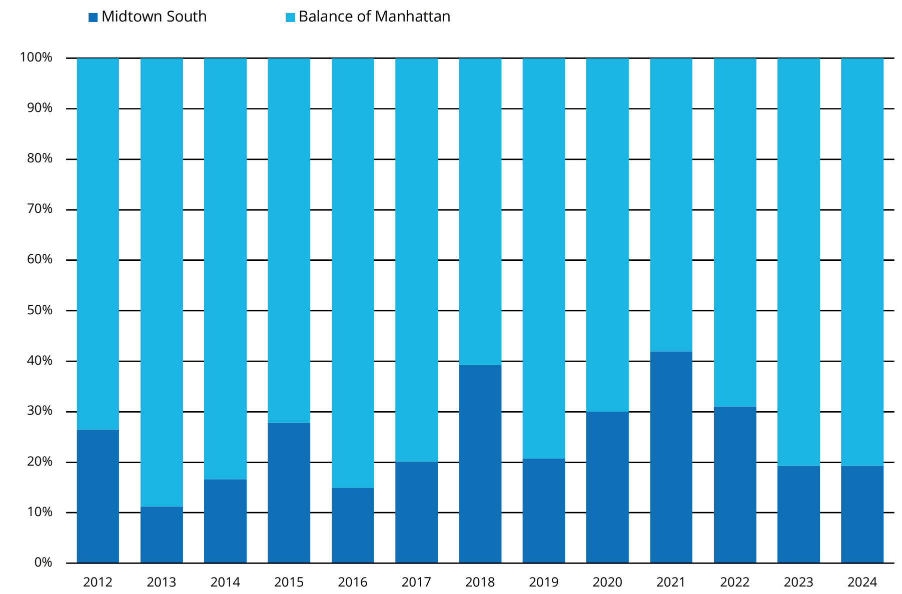
Transaction volume stays quiet

- Midtown South office sales volume remained near its recent lows, summing to $183.3 million in Q3. This is well below the five-year quarterly average of $583.5 million.
- Year-to-date transaction volume was $573.8 million, compared with $626.0 million during the first three quarters of 2023.
- The largest office trade in Q3 was Elad Group's purchase of 419 Park Avenue South in the Gramercy Park submarket. The former WeWork location sold for $72.2 million, translating to $378 per square foot, and is expected to be converted to 100 residential condo units.
- Lingering uncertainty in the current economic climate has left investors reluctant to take on more debt and more risk, citing limited liquidity and ongoing price discovery, though some are scooping up distressed assets at bargain prices. The recent interest rate cut will help attract more activity, but 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
RAMP	28-40 W 23rd St	Chelsea/Flatiron	Extension / Expansion	132,000
BRIDGEWATER ASSOCIATES	295 Fifth Ave	Gramercy Park	Direct	60,000
FIRMENICH	641 Ave of the Americas	Chelsea/Flatiron	Direct	56,900
E.L.F. BEAUTY	16 W 22nd St	Chelsea/Flatiron	Expansion	39,000
PHIPPS HOUSES	257 Park Ave S.	Gramercy Park	Direct	38,900

NOTABLE NEW AVAILABILITIES

ADDRESS	SUBMARKET	SF ADDED	SPACE TYPE
345 HUDSON ST	Hudson Square	309,550	Sublet
575 BROADWAY	Soho	91,600	Direct
601 W 26TH ST	Chelsea/Flatiron	68,450	Direct
51 ASTOR PL	Greenwich Village	65,200	Sublet
130 FIFTH AVE	Chelsea/Flatiron	53,200	Direct

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
419 PARK AVE S	Gramercy Park	$72,180,000	191,000	$378	Elad Group	Walter & Samuels

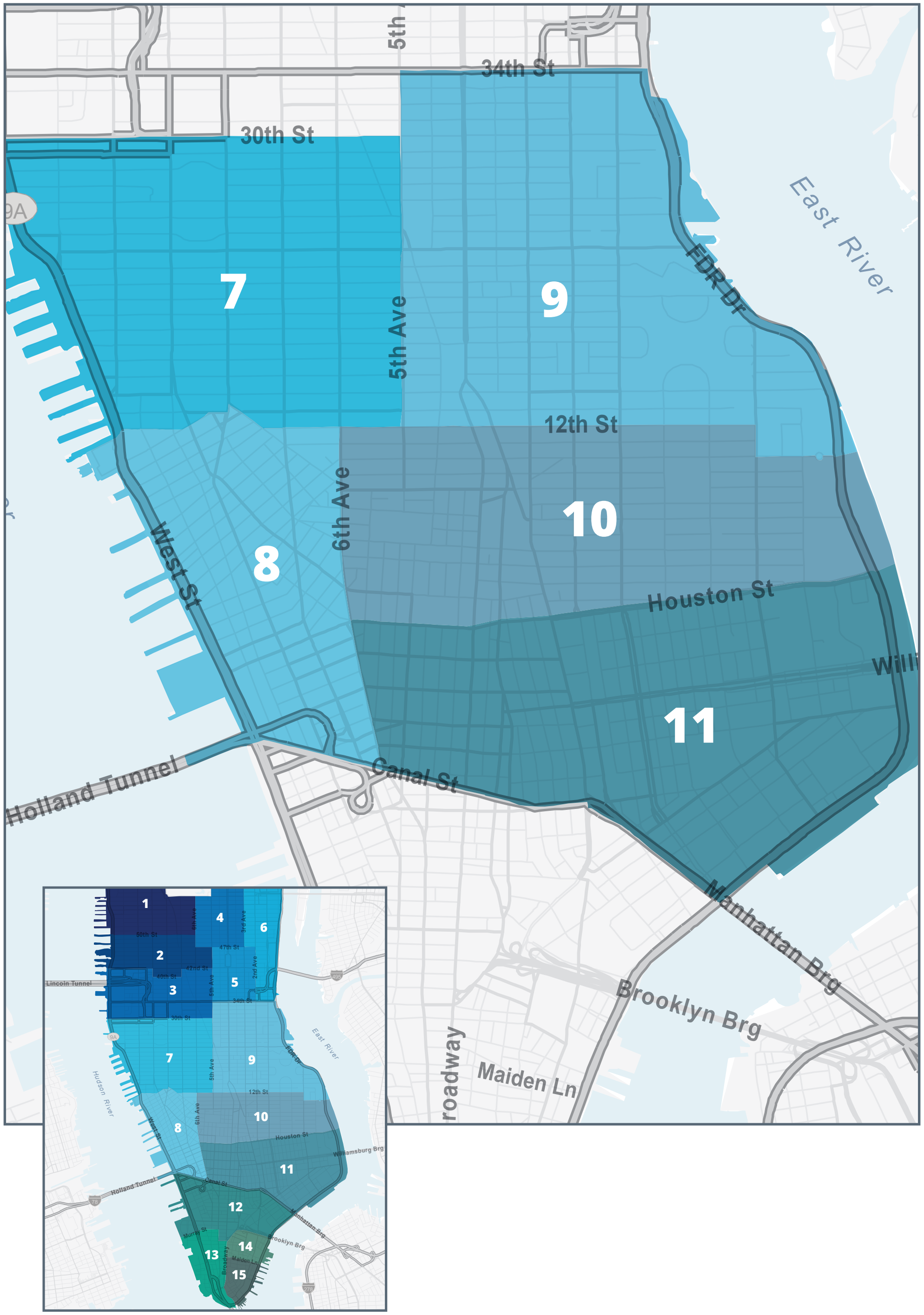
Source: CoStar, Real Capital Analytics, Transwestern

MARKET INDICATORS

All Classes of Space | Q3 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	27,925,330	398,905	-1,165,563	22.4%	19.5%	$122.23	$62.23	$89.66
GRAMERCY PARK	32,077,755	331,057	1,112,895	20.6%	21.1%	$102.76	$64.25	$81.94
GREENWICH VILLAGE	5,617,379	599,171	240,879	14.7%	21.3%	$70.38	$105.18	$94.30
HUDSON SQUARE	9,782,319	63,596	-195,172	27.0%	23.8%	$85.85	$80.22	$84.00
SOHO	6,087,020	-113,961	-121,606	22.0%	16.1%	$85.99	$76.35	$80.99
MIDTOWN SOUTH TOTAL	**81,489,803**	**1,278,768**	**-128,567**	**21.7%**	**20.5%**	**$105.46**	**$68.56**	**$85.79**

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

Corrie Slewett
Research Manager - New York
National Tenant Advisory Research Leader
Corrie.Slewett@transwestern.com
212.537.7690

ABOUT TRANSWESTERN

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