

FIGURES | MIDTOWN SOUTH MANHATTAN | Q1 2023

Leasing activity stumbles to start 2023 as availability touches record high



Note: Arrows indicate change from previous quarter.

QUICK FACTS

- Leasing activity totaled 832,000 sq. ft. in Q1, 33% behind the five-year quarterly average of 1.24 million sq. ft.
- Year-to-date leasing activity was down 41% from the same time last year.
- Renewals totaled 421,000 sq. ft. in Q1, up 144% from the same time last year.
- The availability rate rose 120 bps from the previous quarter to 20.4% and was up 130 bps from a year ago.
- Net absorption was negative 1.36 million sq. ft. in Q1.
- At \$82.52 per sq. ft., the average asking rent was essentially flat quarter-over-quarter but up 3% year-over-year.
- The sublease availability rate was up 80 bps from the prior quarter at 5.3%, with the average asking rent down 2% from one year ago to \$63.00 per sq. ft.

Market Overview

Midtown South saw a soft start to the year, as key fundamentals largely underperformed in Q1 2023. Following a slowdown to end 2022 amid the uptick in broad economic uncertainty, new leasing activity subsided further in Q1, falling 22% from the prior quarter to 832,000 sq. ft. This coincided with resurgent renewal activity that more than tripled from Q4, reaching 421,000 sq. ft. Space additions weighed on the market throughout Q1 2023, as an increase in both direct and sublease space drove net absorption to negative 1.36 million sq. ft. As a result, the availability rate climbed to a record high of 20.4% to close the quarter. After seeing steady growth in each of the first three quarters of 2022, the average asking rent stagnated, remaining virtually unchanged the past two quarters, and finished Q1 2023 at \$82.52 per sq. ft.

Economic Overview

On a national level, downstream consequences of the Fed’s tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy – the consumer – as banks limit lending to increase their own liquidity. Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years causing firms to shelve expansion plans and limit business investment.

This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged – a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

In NYC, office-using employment (OUE) has proved resilient thus far despite the pressures facing the broader economy. OUE reached an all-time high of 1.84 million at year-end 2022, topping its pre-pandemic peak by 1%, a recovery boosted by the business and professional services, tech, and information industry sectors. In January OUE fell by 14,000, its sharpest month-over-month decline since early 2020, but quickly rebounded in February, adding 7,000 jobs and finishing the month at 1.83 million. Looking ahead, NYC’s OUE is poised to continue dealing with the headwinds resulting from recent announcements of impending layoffs by large local office occupiers.

As of February 2023, NYC’s overall unemployment rate stood at 5.4%, up from its pandemic era low point in of 4.6% in August 2022. At this level it remains down considerably from its 21.4% pandemic peak, but higher than the 3% range seen just prior to the pandemic. It also remains higher than the February 2023 national unemployment rate of 3.6%.

Leasing Activity

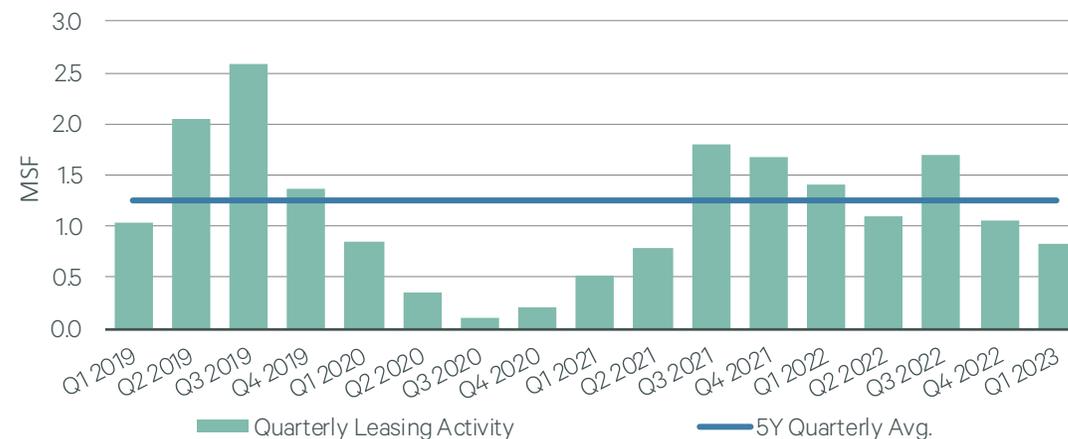
Midtown South’s leasing activity totaled 832,000 sq. ft. in Q1 2023 – down 22% from Q4 2022 and 33% below the five-year quarterly average of 1.24 million sq. ft. At this level, leasing activity was at

FIGURE 1: Top Lease Transactions for Q1 2023

Size (Sq. Ft.)		Tenant	Address
265,217	(R)	Two Sigma Investments, LLC	100 Avenue of the Americas
50,000		Aritzia	675 Avenue of the Americas
46,076	(R)	ZocDoc, Inc.	568 Broadway
38,257		Esprit Holdings Limited	160 Varick Street
28,903		Palo Alto Networks	1 Madison Avenue

Source: CBRE Research, Q1 2023. Renewal (R), Expansion (E), Renewal and Expansion (RE).

FIGURE 2: Leasing Activity | Quarterly Historical



Source: CBRE Research, Q1 2023.

its lowest total since Q2 2021 and has now trailed the five-year quarterly average in three of the past four quarters. Midtown South saw no new leases larger than 50,000 sq. ft. to start the year and only three above 25,000 sq. ft. Most of the activity occurred within the 10,000 to 24,999 sq. ft. range, which captured a 47% share.

After a quiet Q4 2022, renewal activity in Midtown South grew by 204% in Q1 2023, reaching 421,000 sq. ft., 73% ahead of five-year quarterly average of 243,000 sq. ft. Renewal activity has now exceeded the five-year quarterly average in three of the past four quarters. Q1 2023's total was boosted by Two Sigma Investments, LLC's 265,000 sq. ft. recommitment at 100 Avenue of the Americas, the largest deal of the quarter, and ZocDoc, Inc.'s 46,000 sq. ft. renewal at 568 Broadway. This pushed renewals' share of total velocity (new leases, expansions, and renewals) for Q1 to 34%, up from 2022's 20% share.

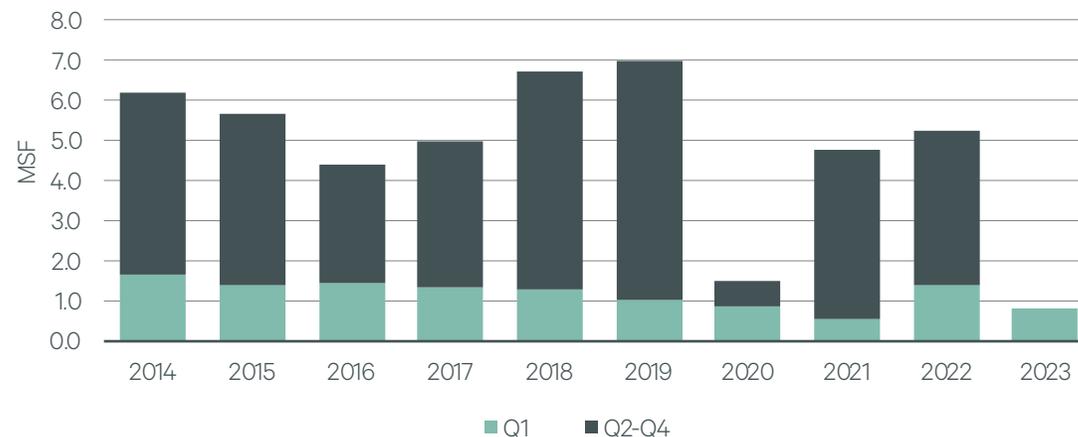
All told, Q1 2023's total leasing velocity of 1.25 million sq. ft. was a slight 4% higher than the previous quarter but trailed the five-year quarterly average by 16%.

The tech sector captured the largest share of leasing activity for the second consecutive quarter in Q1 2023 at 26%. This was led by Palo Alto Networks' 29,000 sq. ft. lease at 1 Madison Avenue, the fourth new lease at the building since being extensively redeveloped. Other notable tech leases of the quarter included Merge API's 18,000 sq. ft. lease at 902 Broadway and HUMAN's 14,000 sq. ft. lease at 841 Broadway.

The financial services sector followed, at a 19% share in Q1 2023, as alternative investment firms continued to be active in the market. The biggest deal for the sector was FirstMark Capital, LLC's 22,000 sq. ft. lease at 641 Avenue of the Americas. The quarter also saw Lerer Hippeau Ventures' 12,000 sq. ft. lease at 555 Greenwich, the first standalone deal at the newly constructed building that is interconnected with 345 Hudson Street. Other notable deals in Q1 included 777 Partner's 18,000 sq. ft. lease at 1 Madison Avenue and Kimmeridge Energy's 17,000 sq. ft. expansion at 15 Little West 12th Street.

Apparel/retail sales captured the third largest share, at 16%. The sector saw Midtown South's two largest new office leases of the quarter – Aritzia's 50,000 sq. ft. lease at 675 Avenue of the Americas and Esprit Holdings Limited's 38,000 sq. ft. lease at 160 Varick Street.

FIGURE 3: Leasing Activity | Annual Historical



Source: CBRE Research, Q1 2023.

FIGURE 4: Leasing Activity | By Submarket



Source: CBRE Research, Q1 2023.

Among the submarkets, only Flatiron’s leasing activity grew, up 40% from the prior quarter and exceeded its historical average by 11%. In addition to the Aritzia and FirstMark Capital, LLC deals, the submarket also saw MediaCo Holding Inc. lease 25,000 sq. ft. at 48 West 25th Street. While NoHo/SoHo/LES performed the worst in terms of new leasing activity, at 54,000 sq. ft., it did ink the aforementioned largest renewals of the quarter.

Net Absorption and Availability

Midtown South’s net absorption deteriorated in Q1 2023 to negative 1.36 million sq. ft., its poorest performance since Q2 2021 and third consecutive quarter of negative absorption. This was the result of a spate of space additions, both direct and sublet, that outpaced the below-average leasing activity for the quarter. This bout of negative absorption pushed Midtown South’s availability rate up 120 bps from year-end to an all-time high of 20.4%.

Underlying the rise in the overall availability rate in Q1 2023 was the largest quarter-over-quarter increase in sublease space since Q4 2020, growing 782,000 sq. ft. and bringing total available sublease space to 4.43 million sq. ft., representing a 25.9% share of all available space. While this share was up from 23.2% at Q4 2022, it remains down from year-end 2020’s 31.4% ratio. The increase in sublease space corresponded with an 80-bps increase in the sublease availability rate to 5.3% but remains below the pandemic era high point of 5.5%.

A pair of 100,000-sq.-ft.-plus sublease additions led the way in Q1 2023 – 193,000 sq. ft. of Havas Worldwide space at 200 Hudson Street and 191,000 sq. ft. of Twitter, Inc. space at 245-249 West 17th Street. Other notable additions included 76,000 sq. ft. of Compass space at 90 Fifth Avenue, 51,000 sq. ft. of Gemini Trust Company space at 315 Park Avenue South, and 48,000 sq. ft. of Equinox Fitness Club’s office space at 895 Broadway.

Direct space increased by 575,000 sq. ft. in Q1 2023 to 12.65 million sq. ft, the highest total on record. The increase in space pushed direct availability rate up 40 bps from the prior quarter to 15.1% – a pandemic-era peak but below the all-time high of 15.9% from the mid-1990s.

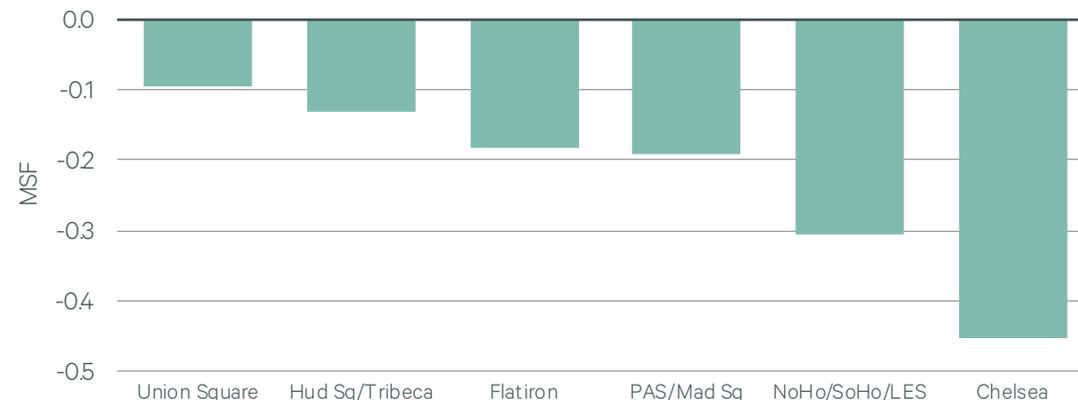
Direct additions included space from a blend of product types in Q1 2023. A total of 159,000 sq. ft. became available between the boutique new construction projects at 360 Bowery and 50

FIGURE 5: Net Absorption & Availability Rate | Quarterly Historical



Source: CBRE Research, Q1 2023.

FIGURE 6: Quarterly Net Absorption | By Submarket

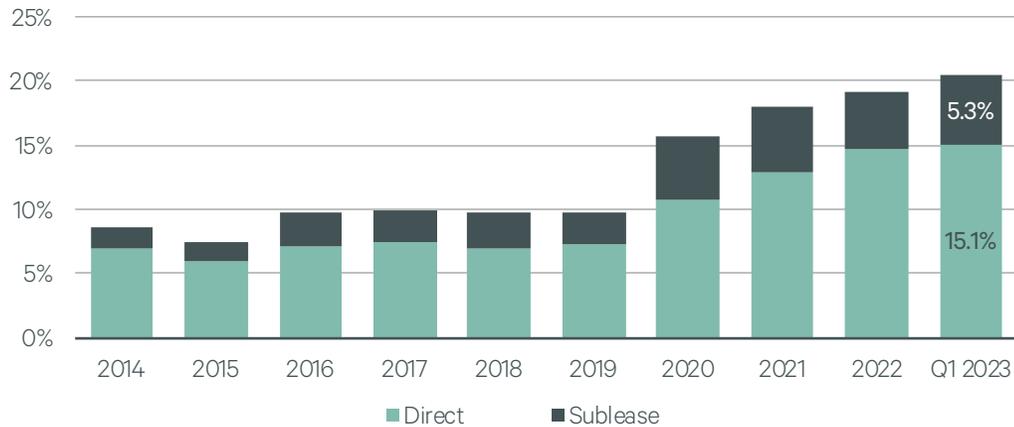


Source: CBRE Research, Q1 2023.

Ninth Avenue. Key redevelopments that added space were 5 West 13th Street and 548 West 22nd Street, for 147,000 sq. ft. and 45,000 sq. ft., respectively. In terms of existing product, a notable 144,000 sq. ft. block was added at 51 Astor Place.

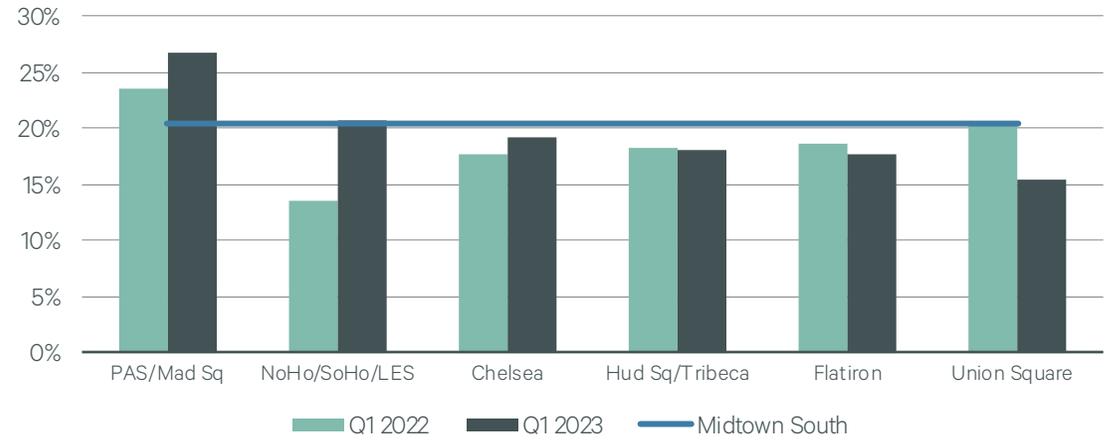
Net absorption was negative in all of Midtown South’s submarkets in Q1 2023. Chelsea fared the worst, at negative 453,000 sq. ft., as the submarket contended with the Twitter, Inc. addition and 110,000 sq. ft. of former WeWork space at 123 West 18th Street that came to market on a direct basis, pushing the availability rate up 200 bps quarter-over-quarter to 19.1%. Despite leasing activity well below average, Union Square’s negative absorption was the least acute, at 94,000 sq. ft., due to minimal space additions. While the submarket’s availability rate grew 140 bps from year-end to 15.4%, it maintains the lowest in Midtown South.

FIGURE 7: Sublease and Direct Availability Rate | Historical



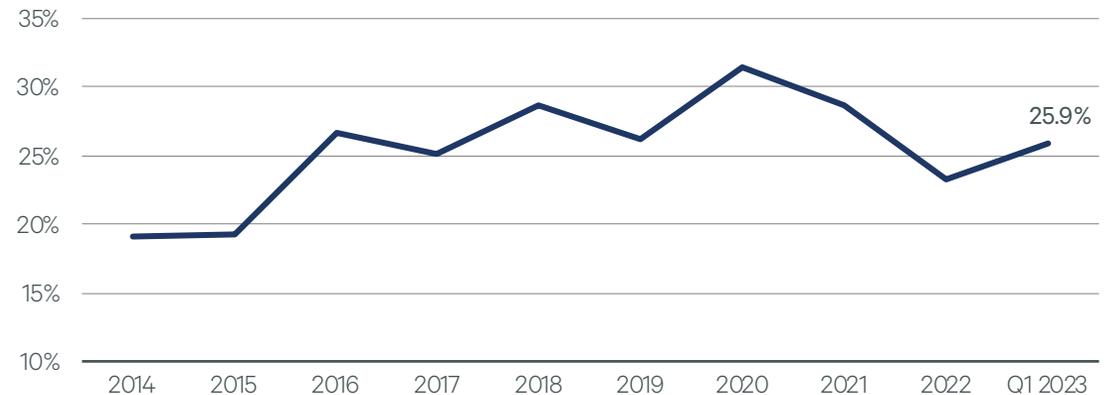
Source: CBRE Research, Q1 2023.

FIGURE 8: Availability Rate | By Submarket



Source: CBRE Research, Q1 2023.

FIGURE 9: Sublease Space as a % of Available Space | Historical



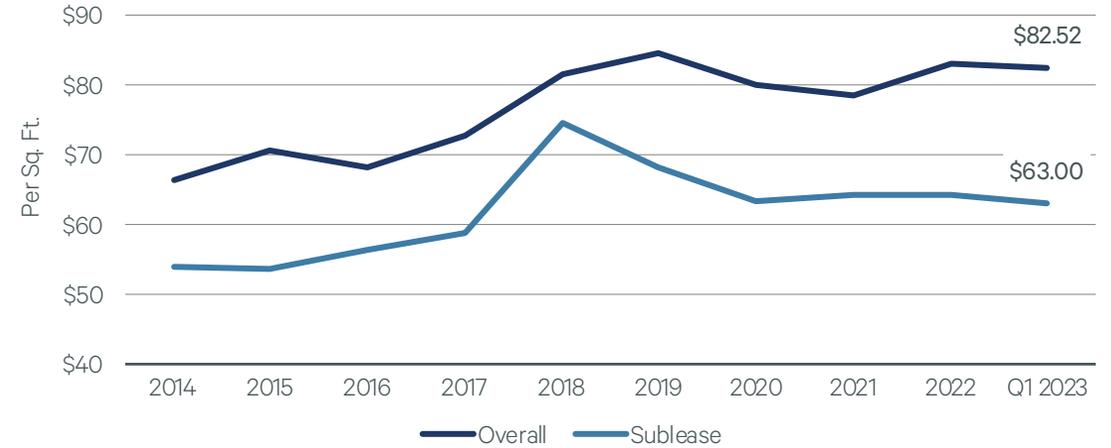
Source: CBRE Research, Q1 2023.

Average Asking Rent

At \$82.52 per sq. ft, Midtown South’s average asking rent was flat for the second consecutive quarter in Q1 2023, a level 5% lower than its May 2020 record high. Despite several premium-priced spaces over \$100 per sq. ft. added throughout the quarter, the leasing of high-end space coupled with the collection of sublease additions precluded any rent growth. Still, the average asking rent remained up 3% year-over-year due to steady rent growth seen during the first three quarters of 2022.

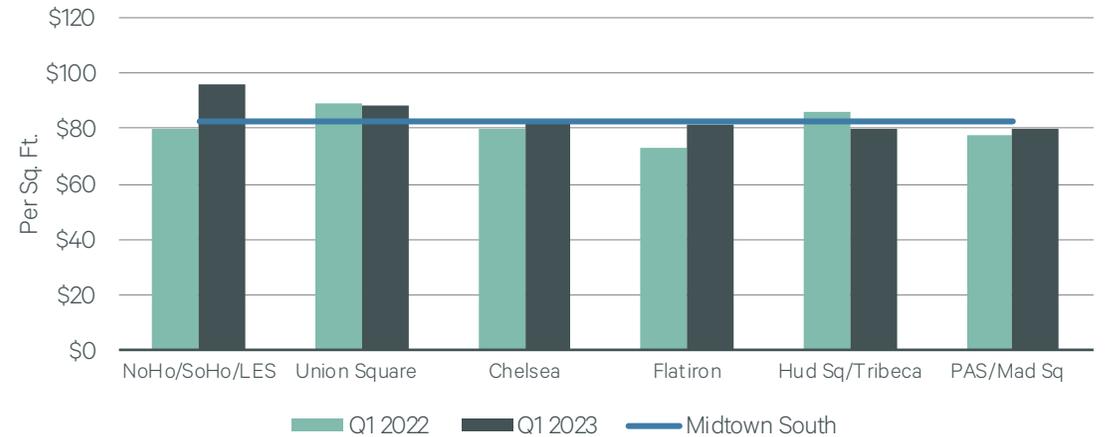
On the submarket level, asking rent trends were more divergent. Noho/Soho/LES saw the strongest growth, up 9% from a quarter ago to \$95.67 per sq. ft., the highest in Midtown South. This was driven primarily by the addition at 51 Astor Place asking \$160 per sq. ft. and 360 Bowery asking between \$115 and \$160 per sq. ft. Flatiron’s asking rent grew 5% quarter-over-quarter to \$81.32 per sq. ft., with the addition at 5 West 13th Street fetching \$120 per sq. ft. and below-average sublease spaces getting leased or withdrawn. Conversely, Hudson Square/Tribeca’s asking rent fell by 8% in Q1 2023. The submarket saw the removal of the entire 120,000 sq. ft. newly-renovated building asking \$200 per sq. ft. at 15 Laight Street due to the sale to the Hyundai Motor Company, which will occupy the building. Additionally, the Havas Worldwide sublet addition is asking well below average, pulling the market average down.

FIGURE 10: Average Asking Rent | Historical



Source: CBRE Research, Q1 2023.

FIGURE 11: Average Asking Rent | By Submarket



Source: CBRE Research, Q1 2023.

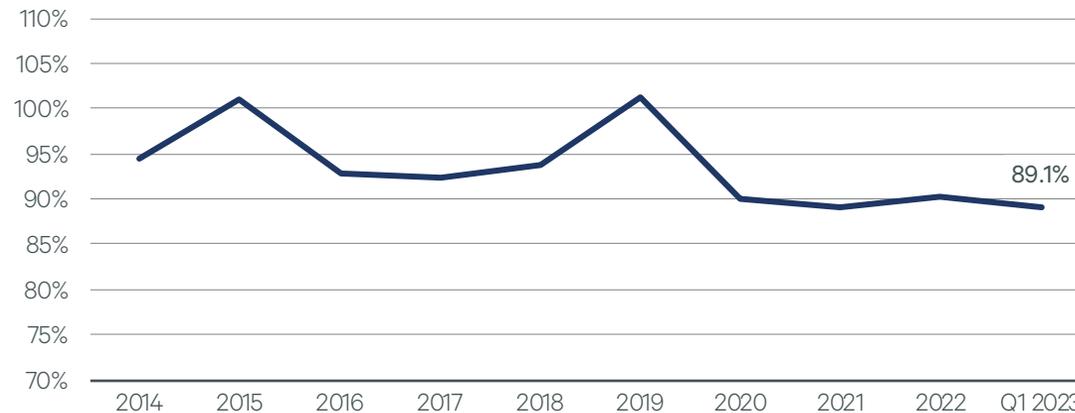
Taking Rent Index

Midtown South’s taking rent index fell for the third straight quarter in Q1 2023 to 89.1%, on par with its year-end 2021 level, but higher than its May 2021 pandemic-era low point of 85.0%. The weighted average of tenant improvement allowance for new leases of raw space completed over the last 15 months was \$142.79 per sq. ft., up 40% from the close of 2019 but down 3% from year-end 2021. The free rent period averaged 17 months, up from 12 at year-end 2019 and 16 at year-end 2021.

Development Pipeline

No new construction projects were delivered in Midtown South in Q1 2023; however, two large-scale Hudson Square/Tribeca projects are set to be completed this year: the 247,000-sq.-ft. 555 Greenwich Street, which will be interconnected with 345 Hudson Street upon completion, and the 1.30 million-sq.-ft. 550 Washington Street. Also in 2023, the 57,000-sq.-ft. boutique new construction building at 50 Ninth Avenue is expected to be finished in Chelsea. Further out in the pipeline are the 102,000-sq.-ft. 360 Bowery, the 1.11 million-sq.-ft. 4 Hudson Square, and the 199,000-sq.-ft. 220 Eleventh Avenue – which are expected to deliver in 2024/2025. Both 550 Washington Street and 4 Hudson Square will be fully occupied when construction is completed.

FIGURE 12: Taking Rent Index | Historical



Source: CBRE Research, Q1 2023.

FIGURE 13: Concession Values | Historical



*This study examines all direct new leases larger than 25,000 sq. ft. with a term length greater than 10 years (omits renewals and expansions). 2023 figures are a blended average of 2022 – YTD 2023.

Source: CBRE Research, Q1 2023.

Market Area Overview

Definitions

Availability: Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction.

Asking Rent: Weighted average asking rent.

Concession Values: The combination of rent abatement and T.I. allowance. The graph is for new leases for raw space of 25,000 sq. ft. or greater consummated year-to-date, this excludes expansion and renewal deals.

Leasing Activity: Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing, but excluding renewals.

Leasing Velocity: Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing and renewals.

Net Absorption: The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

Rent Abatement: The time between lease commencement and rent commencement.

Taking Rent: Actual, initial base rent in a lease agreement.

Taking Rent Index: Initial taking rents as a percentage of asking rents.

Definitions

T.I.: Tenant improvements.

Vacancy: Unoccupied space available for lease.

Percentage of Leasing by Industry: The percentage of sq. ft. leased by an industry based on transactions where a tenant and industry have been confirmed.

Survey Criteria

CBRE's market report analyzes fully modernized office buildings that total 50,000+ sq. ft. in Midtown South, including owner-occupied buildings (except those owned and occupied by a government or government agency). New construction must be available for tenant build-out within 12 months. CBRE assembles all information through telephone canvassing and listings received from owners, tenants and members of the commercial real estate brokerage community.

Market Area Overview



Submarket		Total Size (MSF)	No. of Buildings
1	Chelsea	19.1	76
2	Flatiron	12.5	73
3	Park Avenue S./Madison Sq.	19.9	59
4	Union Sq.	5.5	35
5	NoHo/SoHo/Lower East Side	8.7	63
6	Hudson Sq./Tribeca	18.0	37
TOTAL INVENTORY		83.7	343

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