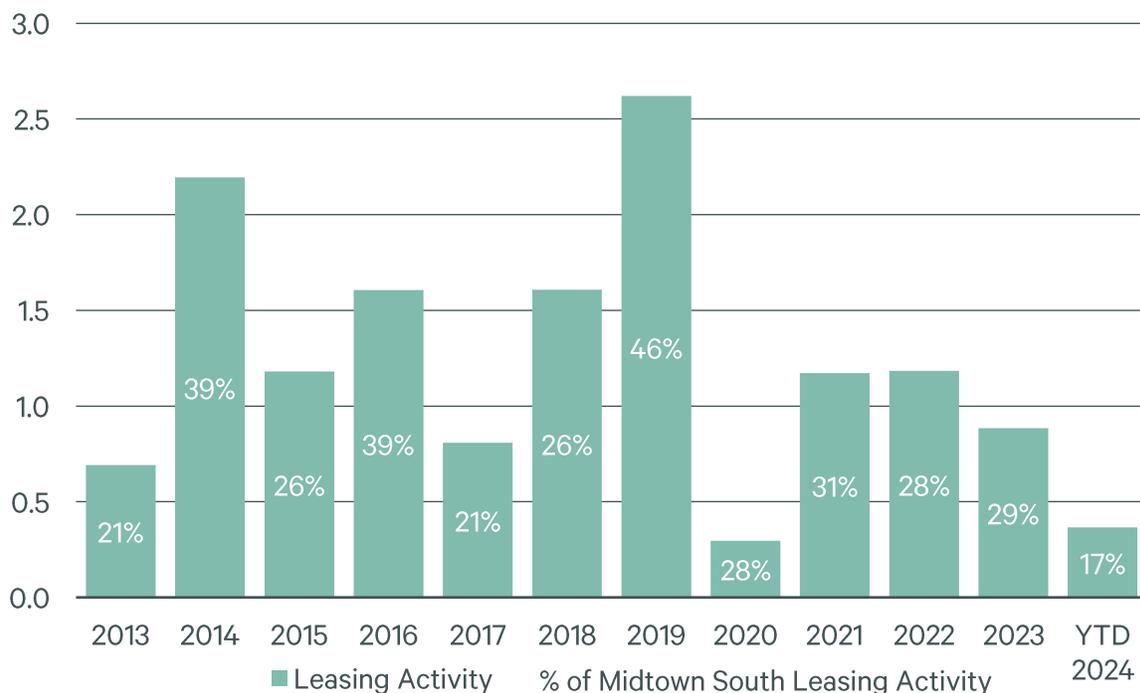


Midtown South’s Renovated Space Poised to Capture Diverse Office Demand

By Michael Slattery, Jared Koeck

After a decade of establishing itself a premier tech market, Midtown South has evolved into a more balanced leasing market amid the tech industry’s pullback. The diverse industries seeking new space in Midtown South is a return to what was typical before tech’s ascent in 2014 – 2019. Upgrades to supply—originally aimed to capture tech demand—will now benefit a broader tenant mix. As availability tightens in quality assets throughout the Midtown market and Manhattan’s new construction pipeline is limited, Midtown South is poised to capture the spillover of demand.

FIGURE 1: Midtown South Tech Sector Leasing Activity | 2013 – YTD 2024

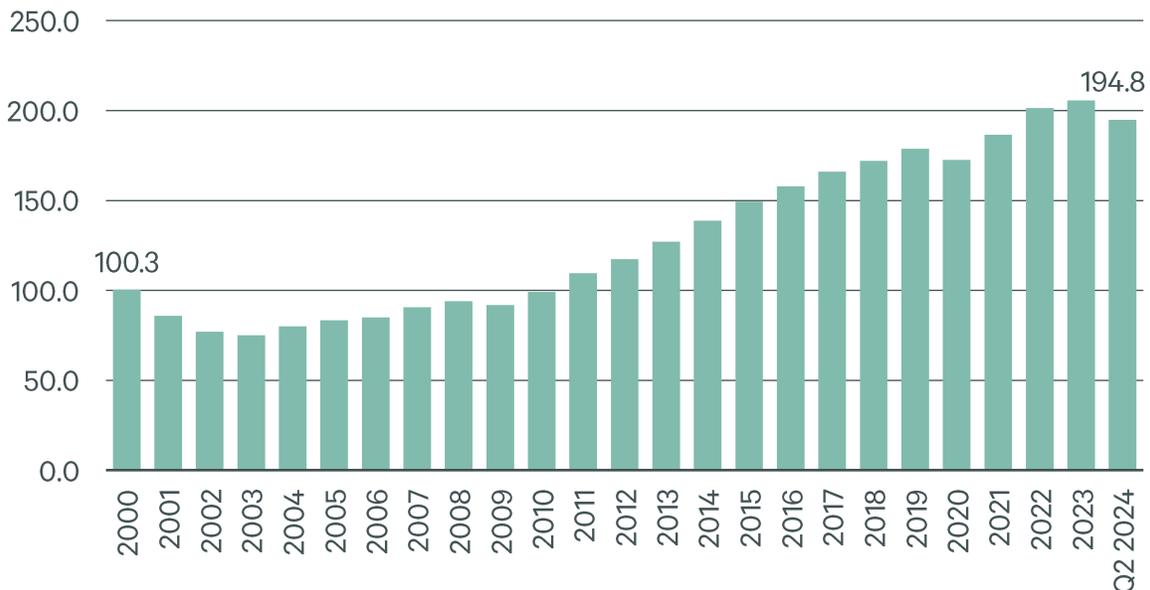


Source: CBRE Research. Data as of August 1, 2024.

During the last cycle, the technology sector became the driving force behind activity in Midtown South. Tech accounted for the most leasing activity (new leases and expansions) in Midtown South in all but one year from 2013 – 2023. The tech sector also provided many of the largest office transactions from 2014-2019 as Midtown South became tech’s primary destination, accounting for 45% of Manhattan’s total tech occupancy.

Midtown South’s office product appealed to tech's aesthetic preferences: older, non-glass and steel buildings, with unique characteristics like exposed ceilings, polished concrete or natural wood floors, and exposed brick (see figures 3 and 4 for examples). Tech tenants largely avoided the corporate vibe. The price points in Midtown South also appealed to smaller and mid-size firms who were growing and trying to save their VC funds for product development and headcount growth. The flood of activity resulted in substantial changes to Midtown South’s office inventory, initiating a host of new construction and renovations to capitalize on the surge in demand. The market saw 5.8 million sq. ft. of new construction added since 2013, and another 13.3 million sq. ft. of renovations—collectively accounting for 23% of Midtown South’s inventory. Renovations became commonplace, especially in buildings with larger-than-average floorplates, as landlords sought to attract occupiers who preferred expansive, open floor plans, outdoor space, and collaborative workplaces. Owners also began to implement a wide array of amenities, acknowledging the need of technology firms to have highly-amenitized workspaces to attract talent. After the limited amount of large floor plates were leased, boutique product increased in desirability as large blocks were still in high demand and firms could lease the entire vertical of boutique buildings as an alternative.

FIGURE 2: NYC Tech Employment, NSA (000s Jobs) | 2000 – Q2 2024



Source: CBRE Research. Data as of July 1, 2024.

FIGURE 3: Newly Renovated Amenity Space at 295 Fifth Avenue

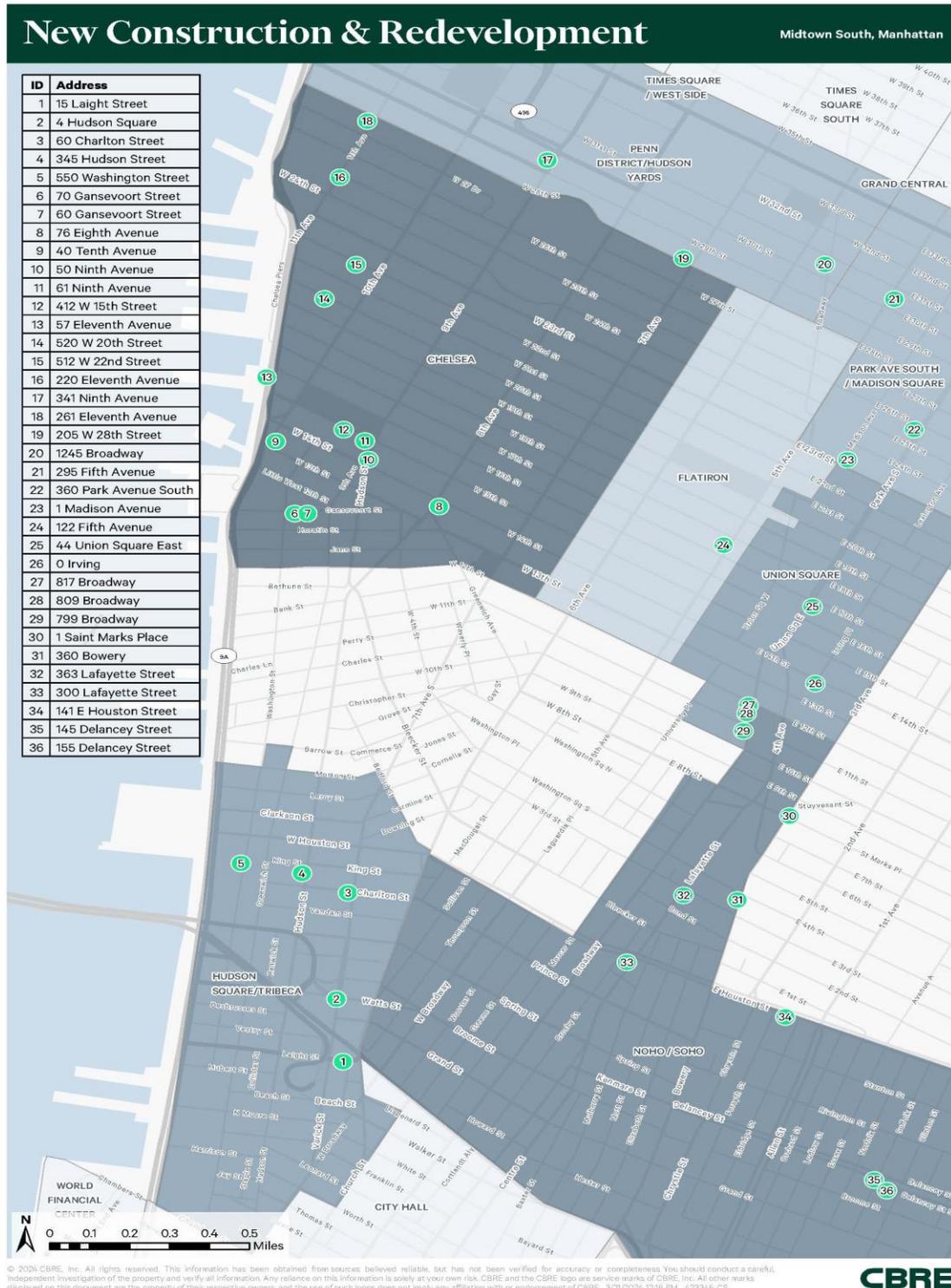


FIGURE 4: Newly Renovated Lobby at 295 Fifth Avenue



Source: CBRE Research. Data as of August 1, 2024.

FIGURE 5: New Construction & Redeveloped Product in Midtown South. Displays new construction and renovated product throughout Midtown South – the density of redevelopments is indicated by darker submarket shading throughout the map.



Source: CBRE Research. Data as of August 1, 2024.

The improvements to supply that tech ushered in now benefit a more equitable industry mix that is exploring the market for office space. New construction and renovated product's share of tech leasing dropped from a peak of 68% in 2019 to 27% in 2023. Financial services has risen from 5% to 27% over the same time period. The Meatpacking district, a subsection of the Chelsea submarket, with a concentrated pocket of updated and new construction boutique office space, has become a high-end financial services and alternative investment enclave. The Meatpacking district's inventory consists of 79% "better buildings" – high quality, well-located, and amenitized buildings – and boasts an availability rate well below equilibrium at 4.0%. Highly-amenitized buildings are becoming a common criteria of all industries. Renovated assets have attracted a mix of legal and financial services tenants, such as Quinn Emanuel Urquhart & Sullivan, LLP's 153,000 sq. ft. relocation to 295 Fifth Avenue, Iconiq Capital's 69,000 sq. ft. relocation to 360 Park Avenue South, and two relocations to One Madison Avenue: Franklin Templeton Companies, LLC (347,000 sq. ft.) and Coinbase, Inc. (67,000 sq. ft.)

Demand has revived in Manhattan in 2024, particularly at high-quality buildings in Midtown's most desirable submarkets. Subsequently, there are few quality options within these areas remaining. The clearest example has been Park Avenue, where availability rate has fallen to 7.9%—its lowest level since September 2015. More tenants will need to widen their geographic boundaries to find the same quality product they are focused on. Midtown South's recently renovated, newly-amenitized buildings are well-positioned to capture part of this demand.

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