

FIGURES | MIDTOWN SOUTH MANHATTAN | Q4 2022

Leasing activity softens to close out 2022 as elevated availability lingers



Note: Arrows indicate change from previous quarter.

QUICK FACTS

- Leasing activity totaled 1.06 million sq. ft. in Q4 2022, a 37% decrease from Q3 2022 and 16% behind the five-year quarterly average.
- Annual leasing activity totaled 5.27 million sq. ft., up 10% from 2021.
- Renewals totaled 139,000 sq. ft. in Q4 2022, bringing the full-year total to 1.35 million sq. ft.
- At 19.2%, the availability rate was flat from the previous quarter but was up 110 bps from a year earlier.
- Net absorption finished Q4 2022 at negative 30,000 sq. ft., bringing the annual total to negative 998,000 sq. ft.
- The average asking rent was virtually unchanged from the prior quarter at \$83.13 per sq. ft. but was up 6% year-over-year.
- The sublease availability rate was 4.5%, down 20 bps from Q3 2022. Subleases’ share of total available space was 23.2% as of Q4 2022 – down 120 bps from the prior quarter.
- The taking rent index decreased to 90.3% in Q4 2022 from 95.8% the previous quarter but was up from 120 bps from one year ago.

Market Overview

Midtown South saw uneven performance throughout 2022, as key fundamentals struggled to sustain consistent positive momentum. Although leasing activity for the entire year notched a solid 10% improvement from 2021, quarterly activity weakened to close the year, falling to 1.06 million sq. ft. in Q4 amid an absence of large deals. The economic uncertainty that mounted heading into Q4 caused some tenants who were actively pursuing Midtown South’s high-quality large blocks to reevaluate their space needs for the time being. Net absorption showed quarterly improvement as space additions slowed but Q4 still saw 30,000 sq. ft. of negative absorption. As a result, the availability rate stood flat from Q3 2022 at an elevated 19.2% but was down from the record high in October 2022. After seeing steady growth in each of the first three quarters of 2022, the average asking rent also stagnated in Q4, closing the year virtually unchanged at \$83.13 per sq. ft.

Economic Overview

On a national level, inflation remains the primary economic focus and the expectation is the economy will face a moderate recession in H1 2023. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates – but despite this good news inflation remains a headwind. Consequently, the Federal Reserve continues its aggressive tightening program, which has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023 means that firms are looking to cut costs and reduce headcount.

In NYC, office-using employment (OUE) continues to hold up despite the economic uncertainty. OUE reached 1.82 million as of November 2022 and is just shy of its 1.83 million all-time high reached in February 2020. The OUE recovery has been boosted by the business and professional services, advertising, media and telecom, and tech industry sectors. Looking ahead, NYC’s OUE faces potential contraction or slowed growth amid recent announcements of impending layoffs by large local office occupiers.

As of November 2022, NYC’s overall unemployment rate stood at 5.8%, up just 20 bps from its pandemic era low point in September 2022. At this level it remains down considerably from its 21.0% pandemic peak, but higher than the 3% range seen just prior to the pandemic. It also remains higher than the November 2022 national unemployment rate of 3.7%.

Leasing Activity

Midtown South’s leasing activity totaled 1.06 million sq. ft. in Q4 2022, down 37% from Q3 2022 and 16% below the five-year quarterly average of 1.26 million sq. ft. After three straight quarters of above-average performance, quarterly leasing activity has now trailed the five-year quarterly average in two of the past three quarters. For the year, Midtown South amassed 5.27 million sq. ft. of leasing activity, surpassing 2021’s total by 10%. Although it lags notably behind 2018 and 2019’s record setting yearly totals of 6.71 million sq. ft. and 7.01 million sq. ft., respectively, it remains higher than the annual average of 5.01 million sq. ft. seen from 2010 to 2017.

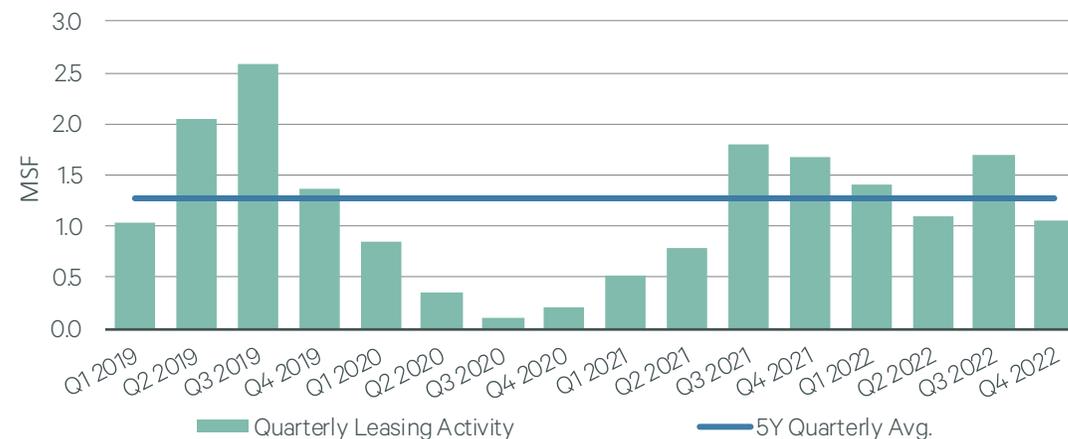
Midtown South saw no leases larger than 100,000 sq. ft in Q4 2022, though there was a 25% uptick

FIGURE 1: Top Lease Transactions for Q4 2022

Size (Sq. Ft.)		Tenant	Address
92,306		Braze	28 East 28th Street
85,000		Civic Hall	0 Irving
69,353	(R)	Rockstar Games	622 Broadway
62,339	(E)	Google Inc.	345 Hudson Street
30,448		BCE Nexxia	32 Avenue of the Americas

Source: CBRE Research, Q4 2022. Renewal (R), Expansion (E), Renewal and Expansion (RE).

FIGURE 2: Leasing Activity | Quarterly Historical



Source: CBRE Research, Q4 2022.

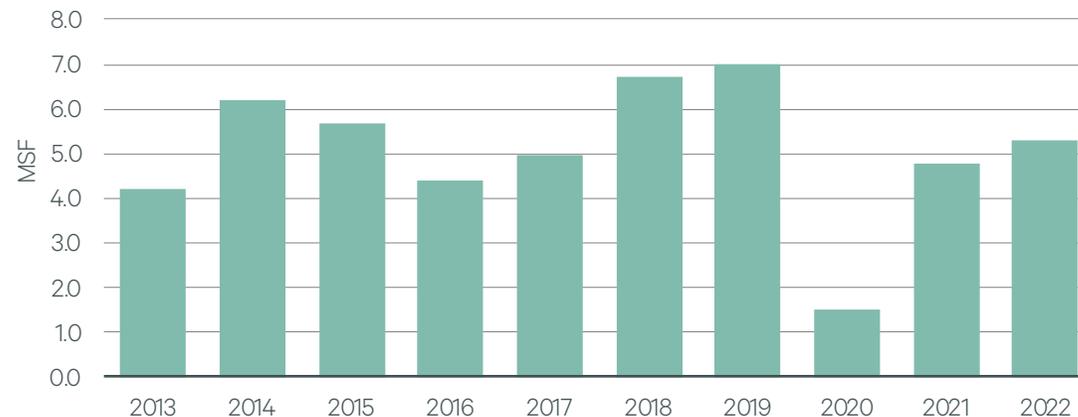
in leasing activity within the 50,000-99,999 sq. ft. range. The largest deal of the quarter was Braze’s 92,000-sq.-ft. sublease of the Freshly, Inc. space at 28 East 28th Street. Still, activity in Q4 2022 was driven mostly by small-sized deals, with leasing below 25,000 sq. ft. accounting for 65% of the quarterly total. Despite a few 100,000-sq.-ft. plus leases completed earlier in the year, 2022 had a similar story, with leasing activity below 25,000 sq. ft. capturing a 59% share. In this size range, 2022’s share of annual leasing was notably higher than the 40% average from 2018 and 2019.

Following two consecutive quarters of renewal activity far above the historical average, renewals subsided to 139,000 sq. ft. in Q4 2022, 38% behind the five-year quarterly average. Nevertheless, the robust activity earlier in the year resulted in an annual total of 1.35 million sq. ft., its highest total for a single year since 2014. In 2022, there were five 100,000-sq.-ft. plus renewals, all of which were long-term in nature. This pushed renewals’ share of total velocity (new leases, expansions, and renewals) for the year to 20%, up from 2021’s 9% share, but still down from the 36% share seen in 2020.

The tech sector captured the largest share of leasing activity for the fourth consecutive year in 2022 at 28%. Aside from the aforementioned Braze lease and Google’s 62,000 sq. ft. expansion at 345 Hudson Street/555 Greenwich Street completed in Q4, tech leasing was boosted by a pair of high-profile deals earlier in the year. In Q1, International Business Machines (IBM) became the anchor tenant at 1 Madison Avenue, securing a 328,000 sq. ft. lease at the significantly repositioned building. In Q3, Monday.com signed a 110,000 sq. ft. lease at 225 Park Avenue South. Activity in the small-to-mid sized range also remained strong throughout the year. O Irving inked a 26,000 sq. ft. lease with GameChanger Media, Inc. and 14,000 sq. ft. lease with Alchemy in Q4 and two deals totaling 29,000 sq. ft. with Sigma Computing – a lease in Q1 and expansion in Q4 – as the new construction project is nearly fully leased. Another notable deal included Solana’s 22,000 sq. ft. lease at 141 East Houston Street in Q2, the first tenant at the newly constructed building in Noho/Soho/LES.

The financial services sector trailed slightly behind tech, at a 24% share, as the sector reached its highest total footage leased in Midtown South since 2001. While Franklin Templeton Companies, LLC’s 347,000-sq.-ft. mega-lease at 1 Madison Avenue in Q3 accounted for a sizable share of the sector’s 2022 leasing volume, small-to-mid sized leasing carried the sector in 2022, as alternative investment firms were drawn to Midtown South’s wide array of newly constructed

FIGURE 3: Leasing Activity | Annual Historical



Source: CBRE Research, Q4 2022

FIGURE 4: Leasing Activity | By Submarket



Source: CBRE Research, Q4 2022

and redeveloped boutique office buildings. Indeed, 0 Irving landed three such tenants with leases ranging between 13,000 and 22,000 sq. ft., including Alpine Investments, Laurel Road, and Sequoia Capital. 799 Broadway, the recently constructed project in Union Square, also continued to draw demand with a 71,000 sq. ft. lease to Wellington Management in Q2 and 9,300 sq. ft. lease to Lightspeed Venture Partners in Q3. Additionally, Hudson Square/Tribeca’s 60 Charlton Street signed Picus Capital for 7,000 sq. ft. in Q3 – its first new lease since being redeveloped.

The health care sector also claimed one of the larger portions of 2022’s leasing activity, at 9%, as the expansion of NYC’s life sciences sector contributed greatly. Although Q4 was a slow quarter for life sciences deals, Deerfield Management’s recently redeveloped life sciences campus at 345 Park Avenue South secured three new lab tenants throughout the year for a total of 83,000 sq. ft. The more established Alexandria Center for Life Science also saw solid activity in 2022, completing 66,000 sq. ft. worth of new leases and expansions.

Net Absorption and Availability

Midtown South achieved only one quarter of positive net absorption during 2022. Net absorption was unable to generate momentum as leasing wavered throughout the year amid continued large-block space additions and a slowdown in sublease withdrawals. In Q4 2022, net absorption improved from the prior quarter as space additions finally tapered off, but remained at negative 30,000 sq. ft. Consequently, net absorption for the year finished at negative 998,000 sq. ft. This was, however, a significant improvement from 2021’s 2.31 million sq. ft. of negative absorption.

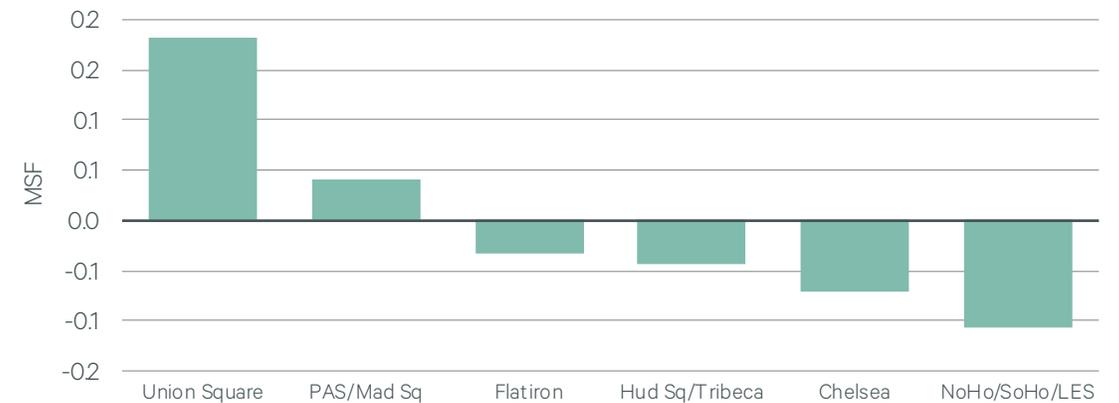
Subsequently, Midtown South’s availability rate remained above 19% through most of the year, rising to an all-time high of 19.9% in October before dipping to 19.2% to conclude the year. This marks the highest year-end level on record and far above the 9.8% rate that closed out 2019. Although leasing has improved each year since 2020, the availability rate remains elevated due to the gradual accumulation of available space in commodity buildings, as well as the steady addition of several new and renovated large blocks. While tenant activity was strong at these large quality blocks earlier in the year, the uptick in economic uncertainty has slowed the pace of leasing.

FIGURE 5: Net Absorption & Availability Rate | Quarterly Historical



Source: CBRE Research, Q4 2022.

FIGURE 6: Quarterly Net Absorption | By Submarket



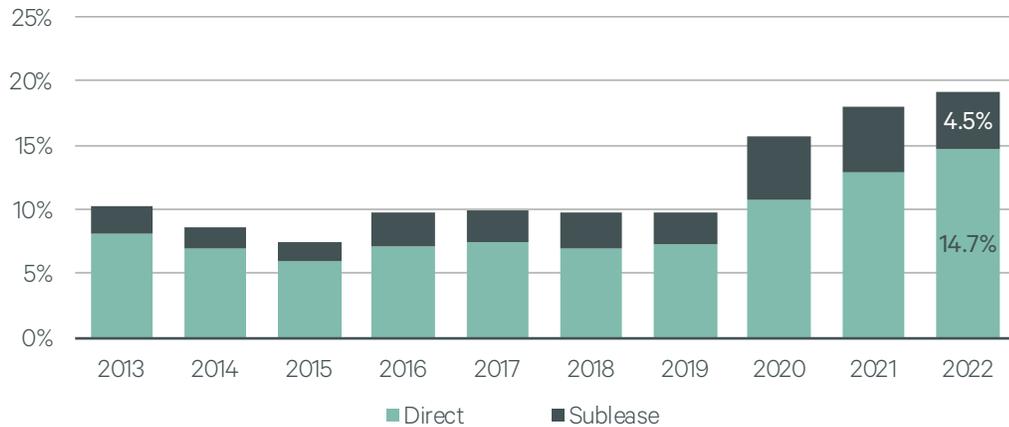
Source: CBRE Research, Q4 2022.

Direct and sublease availabilities exhibited divergent trends in 2022. Due to the large direct additions in 2022 – which included a nearly 700,000 sq. ft. block of space at 345 Hudson Street/555 Greenwich Street, more than 600,000 sq. ft. between the base and tower blocks at 1 Madison Avenue, and 236,000 sq. ft. of space at 770 Broadway – the direct availability rate rose 180 bps year-over-year to 14.7% at the end of Q4 2022.

On the other hand, the sublease availability rate has dropped for three consecutive quarters to finish 2022 at 4.5%. At this point, it was down 100 bps from its early 2021 pandemic peak and at its lowest level since October 2020. Along with the subdued sublease space additions, Midtown South’s sublease availability benefitted from the high demand for quality sublease offerings in prime locations throughout the year, exemplified by Braze’s sublease at the recently redeveloped 28 East 28th Street. This helped contribute to a reduction of the total volume of sublease space to 3.65 million sq. ft., which represents 23.2% of all available space, its lowest level since Q1 2016.

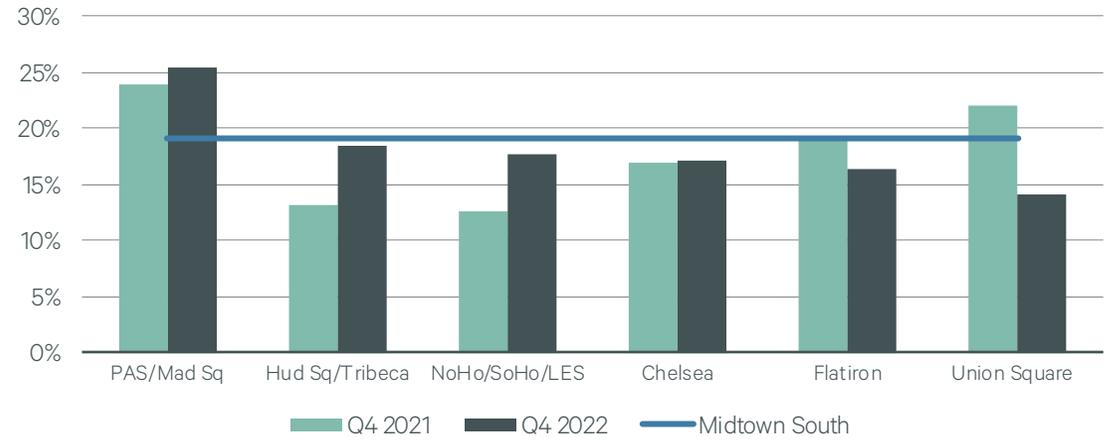
Net absorption was positive in only two of Midtown South’s six submarkets in Q4 2022. Union Square was the top performer, at 183,000 sq. ft., driven by the completion of five leases at

FIGURE 7: Sublease and Direct Availability Rate | Historical



Source: CBRE Research, Q4 2022.

FIGURE 8: Availability Rate | By Submarket



Source: CBRE Research, Q4 2022.

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



Source: CBRE Research, Q4 2022.

0 Irving for a total of 160,000 sq. ft. This pulled the submarket’s availability rate down 340 bps from the prior quarter to 14.0% – now the lowest in Midtown South – capping off an impressive decline from 22% at year-end 2021. Conversely, Noho/Soho/LES fared the worst, seeing 107,000 sq. ft. of negative absorption. The submarket contended with a below-average quarter of leasing activity and several mid-sized space additions, all of which contributed to the second highest year-over-year increase in availability (520 bps) to 17.7%

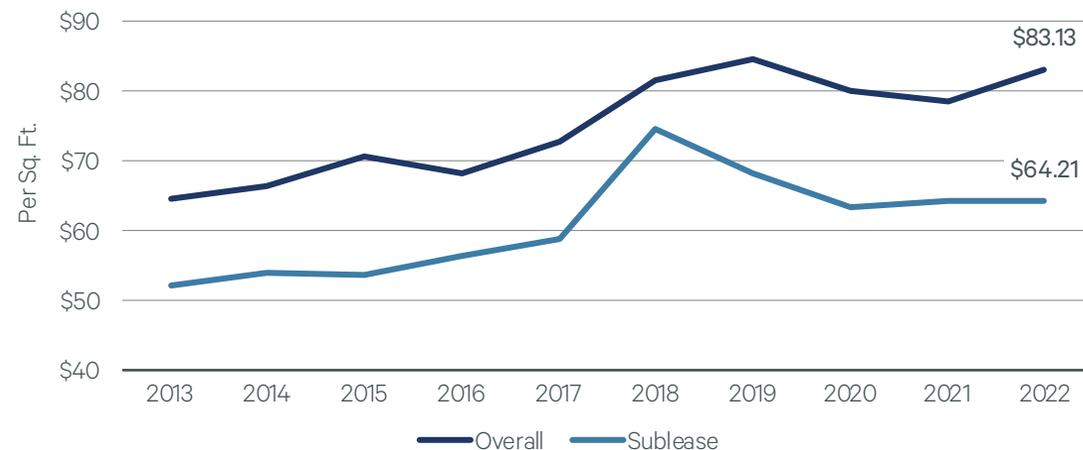
Average Asking Rent

Midtown South’s average asking rent saw steady growth in each of the first three quarters of 2022 driven by premium large-block additions, before finishing the year flat from the prior quarter at \$83.13 per sq. ft. While spaces asking well above average were also added in Q4 2022 – most notably a 150,000-sq.-ft. tower block at 1 Madison Avenue asking nearly \$200 per sq. ft. – these were negated by many mid-sized premium spaces getting removed from the market.

Annually, the average asking rent was up a solid 6% from year-end 2021, a notable improvement from 2021’s 2% year-over-year decline. However, the average asking rent remains down 4% from the record high of \$86.63 set in May 2020. Although sizeable high priced space additions pushed the average asking rent in 2022, growth was moderated by a substantial amount of leases occurring at premium product, an indication that demand for quality space in Midtown South remains strong.

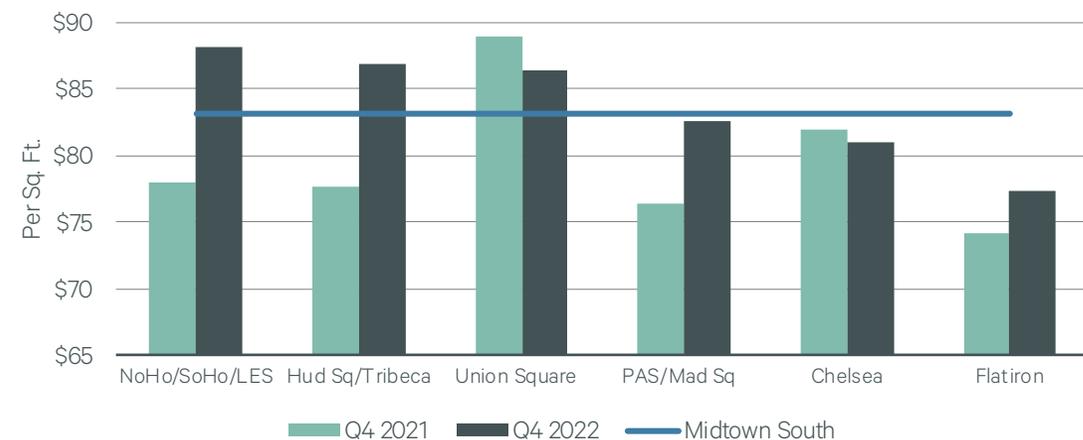
All but two of Midtown South’s submarkets saw year-over-year average asking rent growth. Noho/Soho/LES experienced the strongest growth, up 13% from year-end 2021 to \$88.17 per sq. ft., now the highest rent in Midtown South. This was propelled by the large-block addition at 770 Broadway, but was also boosted by a 49,000 sq. ft. addition at 536 Broadway asking \$120 per sq. ft. Hudson Square/Tribeca saw the second highest increase, climbing 12% from one year ago to \$86.82 per sq. ft., due almost exclusively to the massive addition of premium space at 345 Hudson Street/555 Greenwich Street. On the other hand, Union Square’s average asking rent fell the most since year-end 2021, by 3%. This was driven by the removal of premium spaces via the numerous leases completed at both 0 Irving and 799 Broadway throughout the year.

FIGURE 10: Average Asking Rent | Historical



Source: CBRE Research, Q4 2022

FIGURE 11: Average Asking Rent | By Submarket



Source: CBRE Research, Q4 2022

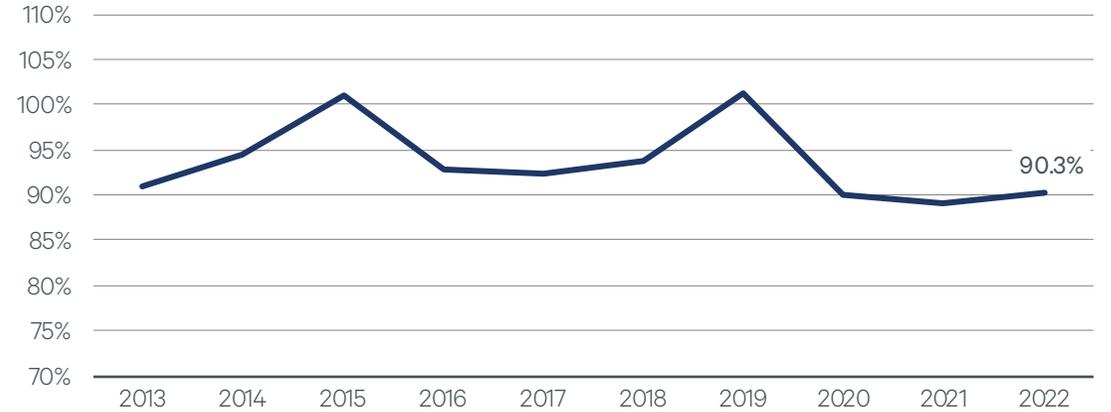
Taking Rent Index

Following four consecutive quarters of growth, Midtown South’s taking rent index fell for the second straight quarter in Q4 2022 to 90.3%, though remains above the 89.1% level seen at year-end 2021. The weighted average of tenant improvement allowance for new leases of raw space completed in 2022 was \$142.43 per sq. ft., up 39% 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

Midtown South saw two notable new construction projects deliver in 2022 – 0 Irving, the 256,000-sq.-ft. tech-focused development in Union Square, and 76 Eighth Avenue, the 32,000-sq.-ft. boutique development in Chelsea. In 2023, two large-scale Hudson Square/Tribeca projects are set to deliver: 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 55,000-sq.-ft. boutique new construction building at 50 Ninth Avenue is expected to be completed in Chelsea. Further out in the pipeline are the 102,000-sq.-ft. 360 Bowery, the 185,000-sq.-ft. 220 Eleventh Avenue, and the 1.20 million-sq.-ft. 4 Hudson Square – 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, Q4 2022

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).

Source: CBRE Research, Q4 2022

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	18.8	72
2	Flatiron	12.4	72
3	Park Avenue S./Madison Sq	20.1	59
4	Union Sq.	5.4	34
5	NoHo/SoHo/Lower East Side	8.5	61
6	Hudson Sq./Tribeca	16.9	36
TOTAL INVENTORY		82.0	334

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