

# MIDTOWN SOUTH MANHATTAN OFFICE MARKET

THIRD QUARTER 2016

## Q3 2016 witnessed positive absorption of 80,255 SF

Rental rates continue to increase in Q3 2016

While the Midtown South market remained extremely tight due to supply constraints, we did witness a slowdown in activity. Many small tenants moved out of Midtown South to Midtown or Downtown in search for bigger or more affordable space options. As a result, the vacancy rate increased marginally to 7.10% in Q3 2016. Select properties in Gramercy Park, Greenwich Village and Hudson Square that had space listed for multiple quarters reduced the average asking rates, this led to a 2.7% decrease in overall asking rents in Midtown South.

### ECONOMY

#### Unemployment rates remain stable



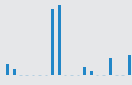


Real gross domestic product (GDP) increased 2.9% in the third quarter of 2016, according to the advance estimate released by the Bureau of Economic Analysis. The unemployment rate remained stable at 4.9% in Q3 2016. Gross job gains exceeded gross job losses in most industry sectors. Professional and business services and health care witnessed the highest increase in job growth.

Real gross city product (GCP) grew at an estimated annual rate of 2.6% in Q3 2016, a full percentage point above the 1.6% recorded in 2Q 2016, but slightly less than the national economic growth rate of 2.9%. However, other indicators signaled weakness in the economy. The city's quarterly unemployment rate was at 5.5% in Q3 2016, a marginal increase of 30 basis points as compared to previous quarter.

### VACANCY

#### Q3 2016 saw an increase in vacancy rate by ten basis points since Q3 2016

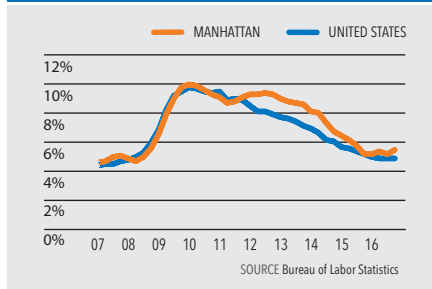
The vacancy rate in Q3 2016 was 7.1%, ten basis points higher than 7.0% in Q2 2016. SoHo, Chelsea, and Hudson Square experienced a rise in vacancy rates over the past quarter. SoHo witnessed the highest increase in vacancy rate triggered by the availability of new space options in properties such as 462 Broadway, 561 Broadway and 72 Spring Street. This increased vacancy is somewhat misleading as Midtown South continues to have extremely low vacancy rates.

| TRENDLINES  |   |
|---|---|
| 5-YEAR TREND  | CURRENT QUARTER   |
| <b>VACANCY</b><br>                     | <b>7.1%</b><br>Vacancy rates increased marginally       |
| <b>ABSORPTION</b><br>                | <b>80,255 SF</b><br>Q3 2016 saw positive net absorption |
| <b>AVERAGE RENTAL RATE</b><br>       | <b>\$67.47 PSF</b><br>Asking rents decreased marginally |
| <b>RBA DELIVERED</b><br>             | <b>120,413 SF</b><br>One new project delivered          |
| <b>AVERAGE OFFICE SALE PRICE</b><br> | <b>\$943 PSF</b><br>Marginal increase in sale value     |
| <b>CAP RATE</b><br>                  | <b>4.8%</b><br>Cap rates remain stable                  |

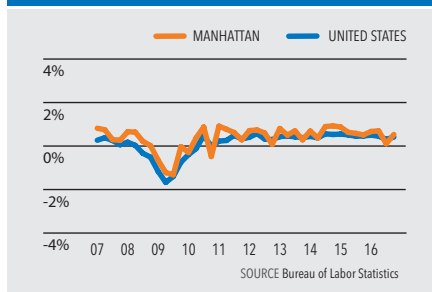
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THIRD QUARTER 2016

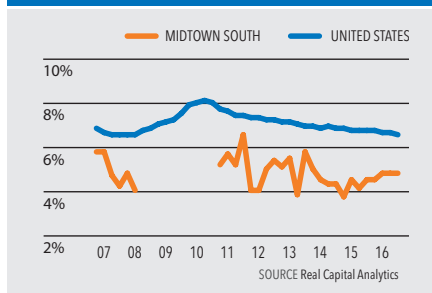
## UNEMPLOYMENT RATE



## PAYROLL JOB GROWTH



## CAP RATES



## ABSORPTION

### Positive net absorption witnessed in Q3 2016

Continuing with the trend in Q2 2016, Midtown South saw a positive net absorption of 80,255 SF in Q3 2016. Despite two continuous quarters of positive net absorption, Q3 2016 saw leasing volume decrease below the one million SF mark in the supply-constrained Midtown South. Gramercy Park had the highest share of positive net absorption in Midtown South. Many tenants like Facebook, Mark43 and Verve Wireless Inc that had signed their leases in earlier quarters moved into space during Q3 2016. Midtown South is witnessing a more diverse tenant mix since recent quarters; Q3 2016 saw tenants from Education, Finance and TAMI sectors. Lease transactions exceeding 100,000 SF did not occur in Q3 2016. The top three transactions in Q3 2016 are listed below:

### Notable Lease Transactions

| COMPANY             | ADDRESS               | SQUARE FEET | LEASE TYPE    |
|---------------------|-----------------------|-------------|---------------|
| New York University | 360 Park Avenue South | 67,500      |               |
| New York University | 740-10 Broadway       | 38,782      | Early Renewal |
| Deloitte Digital    | 330 Hudson Street     | 37,358      | New Lease     |

## RENTAL RATES

### Average asking rental rate decreased in Q3 2016

The average asking rental rate in Midtown South reached \$67.47 PSF in Q3 2016, down from \$69.36 PSF in Q2 2016, and its peak rate of \$70.97 PSF in Q3 2015. This decrease in rental rate was seen in both Class A and B properties. All submarkets except Chelsea and SoHo experienced a decrease in rental rates. Most submarkets witnessed a decline in the rental rate in the range of 1% to 7%. This reduction in rental rate was not across all properties but was true in certain properties which had high availability for multiple quarters.

## UNDER CONSTRUCTION/PROJECTS DELIVERED

### One new project was delivered Q3 2016

The third quarter of 2016 saw the delivery of only one new property into the market. 860 Washington Street located in Chelsea Submarket is 120,413 SF and is 48.4% leased. The current tenants in the property include Alibaba, Delos and Tesla Motors. ■

## CONTACT

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## 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, multi-tenant and owner-user Class A & B office properties 20,000 SF and larger.



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