

MIDTOWN SOUTH MANHATTAN OFFICE MARKET

THIRD QUARTER 2017

Leasing activity cools to 2013 levels

Minimal changes to supply & demand during Q3 2017

Midtown South has been relatively quiet this year as compared to Midtown and Downtown and has slowed to pre-2013 levels. The sub-par leasing is a result of the dearth of large quality space available, which is evident to many large users deciding to relocate south. The average deal size in Q3 2017 was 25,000 SF, with most transactions occurring in the 10,000 SF-25,000 SF size range. Through the first three quarters of 2017, there has been only one lease over 100,000 SF, Aetna's 145,000 SF lease at 61 Ninth Avenue last quarter. Further, there has been only five direct new leases over 50,000 SF recorded through Q3 2017.

Midtown South's Q3 2017 absorption took a slight downturn, posting negative 71,513 SF of net absorption. Both the availability rate and average asking rents remained stable quarter-over-quarter, with no fundamental changes to the demand or supply.

ECONOMY

Unemployment rate ticks up to 4.9%, remains stable

Despite an uptick in New York City's unemployment rate, levels remain stable. Private sector jobs increased 2.4% year-over-year adding 89,000 jobs. The greatest gains were in education and health services, professional and business services, and financial activities; all growing sectors. Further, the year-over-year private sector growth was 1.7% above the national average.

AVAILABILITY

Remained stable quarter-over-quarter

Q3 2017's availability rate ended at 9.7%, virtually unchanged from last quarter. Large direct blocks added this quarter include 95,000 SF at 287 Park Avenue South and 71,000 SF at 16 East 34th Street in Gramercy Park whose availability rate ended at 8.1%. Large sublet blocks added this quarter include 83,000 SF at 345 Hudson Street in Hudson Square and 58,000 SF at 200 Fifth Avenue in Chelsea.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

AVAILABILITY



9.7%

Availability rate remains stable

ABSORPTION



-71,513 SF

Negative net absorption observed

RENTAL RATE



\$72.89 PSF

Asking rents remained stable

CAP RATE



4.5%

Cap rate remains stable

AVERAGE OFFICE SALE PRICE



\$881 PSF

Sale value increased

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THIRD QUARTER 2017

ABSORPTION

Midtown South witnessed 71,516 SF of negative net absorption

All areas in Midtown South witnessed negative net absorption with the lone exception of SoHo, which registered 62,401 SF of positive absorption. SoHo recorded the largest transaction of the quarter with Group Nine Media renewing and expanding at 568 Broadway. Although, the renewal component didn't impact statistics, the expansion component of 59,000 SF and other smaller leases in SoHo attributed to the positive net absorption. While Chelsea witnessed 40,463 SF negative absorption, it also recorded one of the largest transactions of the quarter - Justworks taking 59,140 SF of the Tommy Hilfiger sublet space at 601 West 26th Street.

Notable Lease Transactions

COMPANY	ADDRESS	SQUARE FEET	LEASE TYPE
Group Nine Media	568 Broadway	100,000	Renewal/Expansion
Justworks	601 West 26th Street	59,140	Sublease
Square Space	225 Varick Street	49,705	New Lease

AVERAGE ASKING RENT

Flat quarter-over-quarter

Midtown South's average asking rent ended the quarter at \$72.89 PSF, virtually unchanged from last quarter, up 5% year-over-year. Major additions of new construction this year in the Chelsea/Flatiron submarket, such as 512 West 22nd Street and 412 West 15th street, where asking rents are north of \$120 PSF, pushing the average asking rent to an all-time high.

Office Market Indicators by Submarket

SUBMARKET	INVENTORY	NET ABSORPTION	VACANCY RATE	DIRECT AVAILABILITY RATE	AVAILABILITY RATE	CLASS A AVERAGE RENT PSF	CLASS B AVERAGE RENT PSF	OVERALL AVERAGE RENT PSF
Chelsea/Flatiron	24,283,286	(40,463)	7.0%	6.6%	9.5%	\$127.97	\$56.14	\$73.13
Gramercy Park	29,636,955	(35,237)	7.0%	6.2%	8.1%	\$75.24	\$63.37	\$68.90
Greenwich Village	4,812,906	(52,746)	2.3%	5.1%	6.8%	-	\$67.56	\$67.56
Hudson Square	10,216,915	(5,468)	8.5%	8.6%	12.6%	\$84.41	\$54.32	\$82.73
SoHo	4,847,231	62,401	10.8%	14.7%	17.4%	\$69.85	\$67.03	\$68.19
Midtown South Total	73,797,293	(71,513)	7.2%	7.1%	9.7%	\$88.06	\$60.04	\$72.89

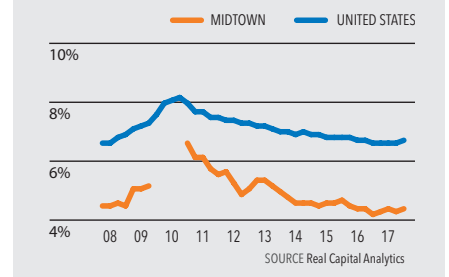
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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in Midtown South Manhattan. This report includes single-tenant and multi-tenant Class A and B office properties with at least 50,000 SF.

CAP RATES



OUTLOOK

Development pipeline remains mute

The lack of substantial, quality space including large floor plates and blocks of space in Midtown South along with the mismatch of pricing for current older stock will continue to be detrimental to the market's leasing performance. There is no development in the pipeline for the remainder of 2017, however, current new development is quickly being absorbed and Midtown South may revert back to being one of the most supply-constrained markets in the country. ■