

Midtown South Office Market

Midtown South Velocity Minimal, Despite Large Transactions

Leasing activity was buoyed by two large relocations in Flatiron/Union Square this quarter. Suntory Group signed a 99,566-square-foot lease at 11 Madison Avenue, and Freshly signed a 91,040-square-foot deal at 63 Madison Avenue. As a result of these two deals, activity improved by 39.7% quarter over quarter. Despite this improvement, velocity did not reach 1 million square feet for the fourth consecutive quarter, closing at 638,216 square feet. First-quarter activity was 70.3% below the long-term first-quarter average of 2.2 million square feet.

Midtown South asking rents decreased for the fourth straight quarter, closing at \$76.60/SF, the lowest average since the second quarter of 2019. Despite the quarter-over-quarter decline of \$1.73/SF, asking rents increased in two of the five submarkets this quarter: Chelsea and the East Village. However, the rent drops in the other three submarkets were relatively steep, falling by more than \$1.75/SF from the fourth quarter. The largest drop was in Hudson Square/Meatpacking, which dropped by \$3.47/SF to \$79.55/SF. In fact, Hudson Square/Meatpacking rents have decreased by more than any other Manhattan submarket since the start of the pandemic, falling by \$24.49/SF from this point last year. With availability continuing to increase and velocity also stagnant, absorption was recorded below negative 1 million square feet for the third consecutive quarter.

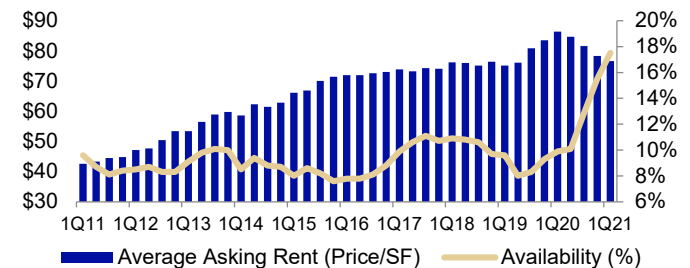
The availability rate increased to 17.5%, a jump of 200 basis points from the fourth quarter. This was the greatest increase of the three Manhattan markets. The availability rate increased in each of the five submarkets, with the largest jumps recorded in Flatiron/Union Square and NoHo/SoHo, at 2.6% and 2.1%, respectively. Each submarket now has an availability rate of at least 15.5%. This quarter's surge was driven by two large block additions at 85 Tenth Avenue and 130 Mercer Street. The 176,436-square-foot block at 85 Tenth Avenue was spread across three floors and formerly occupied by the FBI. The space at 130 Mercer Street in NoHo/SoHo spans 102,236 square feet and is owned by Scholastic. The bump in the availability rate was also driven by several blocks between 50,000 and 100,000 square feet in Flatiron/Union Square at 11 Madison Avenue, 111 Fifth Avenue, and 114 East 25th Street.

Current Conditions

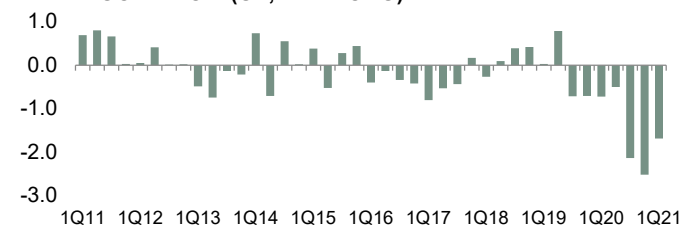
- Midtown South first-quarter activity was recorded at 638,216 square feet, 70.3% below the ten-year first quarter average.
- Asking rents continued to decline, and are now down \$9.75/SF, or 11.3%, year over year.
- The availability rate increased for the seventh straight quarter, to 17.5%, up 7.6 percentage points year-over-year. However, the pace of sublease additions began to slow, with just 299,227 square feet added this quarter.

Market Analysis

ASKING RENT AND AVAILABILITY



NET ABSORPTION (SF, MILLIONS)



Market Summary

	Current Quarter	Prior Quarter	Prior Year	12-Month Forecast
Total Inventory	77.2 MSF	76.6 MSF	76.6 MSF	↑
Availability Rate	17.5%	15.5%	9.9%	↑
Quarterly Net Absorption	-1,686,660	-2,520,604	-726,252	↓
Avg. Ask Rent	\$76.60	\$78.33	\$86.35	↓
Under Const.	3.4 MSF	3.4 MSF	2.9 MSF	↑
Deliveries	0 SF	0 SF	0.5 SF	↑

Pace of Sublease Additions Begins to Slow

Available sublease space in Midtown South closed the first quarter at 4.3 million square feet, accounting for 31.9% of all available space in the market. However, the pace of new additions to the market began to slow. After increasing by 880,024 square feet from the third to fourth quarter, just 299,227 square feet was added this quarter. While there were nine Midtown South buildings with subleases of at least 50,000 square feet added last quarter, there were none this quarter. The largest sublease additions were 47,398 square feet at 899 Broadway from Equinox, 35,215 square feet at 75 Varick Street from Oscar, 34,552 square feet at 245 Fifth Avenue from Enigma Technologies, and 33,503 square feet at 60 Madison Avenue from Atlantic Media. An additional 260,000 square feet is still expected to come to market in the coming months.

Class A Product Outperforms Rest Amid Flight to Quality

Of the 18.7 million square feet of Class A inventory in Midtown South, approximately 3.2 million square feet, or 17.1%, is currently available. The availability rate did not change from the fourth quarter and closed 40 basis points below the overall Midtown South rate. There was also 246,000 square feet of relocations into Class A properties, nearly 18% more than into Class B product. In addition, Class A absorption was recorded at negative 138,532 square feet, while absorption for Class B and Class C properties totaled negative 1,548,128 square feet this quarter.

Rents Fall in Hudson Square/Meatpacking and Flatiron/Union Square

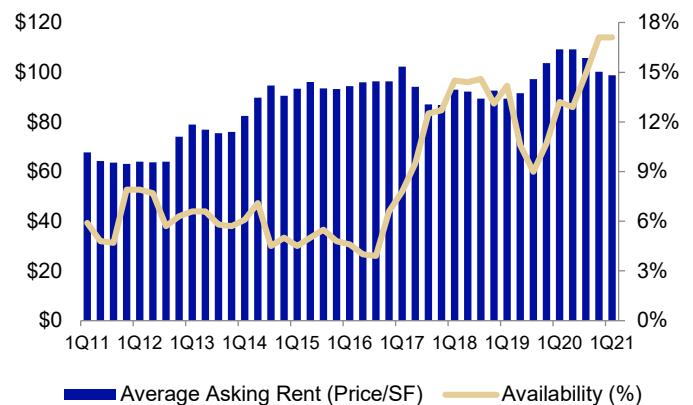
Asking rents in Hudson Square/Meatpacking and Flatiron/Union Square fell by \$3.47/SF and \$2.89/SF, respectively. The drop in Hudson Square/Meatpacking rents to \$79.55/SF was a result of repricing of a sublease at 155 Avenue of the Americas and space additions at 1 Hudson Square, 200 Hudson Street, and 395 Hudson Street. The decline in Flatiron/Union Square rents was a combination of trophy space coming off the market at 63 Madison Avenue following the Freshly lease, as well as sublease additions at 899 Broadway and along Park Avenue South. Chelsea rents remain the most affordable in Midtown South at \$69.80/SF.

Co-working Closures Ramp Up

Over the past year, there have been 132 closures across each Midtown South submarket, totaling 2.6 million square feet. This space was previously occupied by nine different co-working and flex providers. Nearly half of that space was taken off the market in the first quarter. Approximately 3.0 million square feet of active co-working remains in Midtown South, with 2/3 of that total in Flatiron/Union Square and Chelsea.

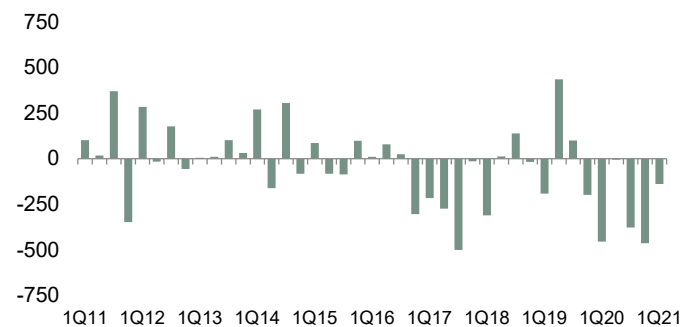
Class A

AVERAGE ASKING RENT (\$/SF) AND AVAILABILITY



Class A

NET ABSORPTION (SQUARE FEET, THOUSANDS)



Midtown South Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Suntory Group	Flatiron/Union Square	11 Madison Avenue	Direct New	99,566
Freshly	Flatiron/Union Square	63 Madison Avenue	Direct New	91,040
Diller Scofidio + Renfro	Chelsea	601 West 26th Street	Direct Renewal	21,716
Town & Country	Flatiron/Union Square	261 Fifth Avenue	Direct Expansion	16,000
RTW Investments	Hudson Square/Meatpacking	40 Tenth Avenue	Direct Expansion	13,815

Submarket Statistics

Market	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Midtown	290,337,587	10,586,328	17.5%	(5,866,004)	(5,866,004)	\$82.66	\$60.18	\$77.48
Eastside	24,840,019	0	21.5%	(493,773)	(493,773)	\$77.75	\$54.07	\$74.75
Far West Side	12,128,159	9,662,418	9.7%	(26,144)	(26,144)	\$118.38	\$80.71	\$110.83
Grand Central	48,897,768	0	17.3%	(1,225,271)	(1,225,271)	\$80.71	\$58.74	\$75.61
Murray Hill	7,901,296	0	18.3%	(263,513)	(263,513)	\$61.91	\$50.14	\$58.58
Park Avenue	25,951,299	0	16.1%	(262,186)	(262,186)	\$112.18	\$73.00	\$101.46
Penn District	22,418,031	923,910	14.5%	(587,861)	(587,861)	\$71.20	\$60.09	\$65.71
Plaza District	26,151,433	0	19.2%	(119,178)	(119,178)	\$104.45	\$83.99	\$102.29
Sixth Ave/Rock Center	45,329,301	0	13.2%	(759,925)	(759,925)	\$85.38	\$57.50	\$78.91
Times Square	14,834,999	0	28.0%	(1,284,750)	(1,284,750)	\$78.80	\$68.63	\$77.40
Times Square South	35,904,109	0	18.5%	(669,520)	(669,520)	\$55.51	\$46.14	\$53.16
Westside	25,981,173	0	19.7%	(173,883)	(173,883)	\$79.03	\$61.65	\$74.22
Midtown South	77,184,942	3,351,397	17.5%	(1,686,660)	(1,686,660)	\$82.43	\$63.55	\$76.60
Chelsea	30,045,281	685,110	17.0%	(881,895)	(881,895)	\$73.70	\$61.81	\$69.80
East Village	1,712,321	480,199	30.4%	(1,924)	(1,924)	\$85.43	\$59.00	\$85.25
Flatiron/Union Square	23,431,805	1,015,035	18.5%	(434,775)	(434,775)	\$86.76	\$61.48	\$80.26
Hudson Sq./Meatpacking	11,591,091	988,866	15.5%	(94,219)	(94,219)	\$95.11	\$66.85	\$79.55
NoHo/SoHo	10,404,444	182,187	16.8%	(273,847)	(273,847)	\$85.18	\$68.82	\$81.70
Downtown	95,425,530	100,172	16.6%	(2,125,017)	(2,125,017)	\$64.17	\$54.86	\$61.27
Downtown East	50,039,137	80,000	15.9%	(1,158,055)	(1,158,055)	\$57.97	\$49.80	\$55.72
Downtown West	36,676,367	0	18.2%	(652,087)	(652,087)	\$68.95	\$59.44	\$65.41
Tribeca/City Hall	8,710,026	20,172	13.3%	(314,875)	(314,875)	\$81.20	\$53.60	\$75.70
Manhattan	462,948,059	14,037,897	17.3%	(9,677,681)	(9,677,681)	\$79.15	\$59.57	\$74.06

RESEARCH Q1 2021

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