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MARKET HIGHLIGHT, MARCH 2009

NEW YORK CITY MARKET HIGHLIGHTS

New York City Office Market

Clearly, the demand for office space has significantly diminished since the end of last year. Office leasing is directly related to jobs and the expectation of future employment and, therefore, over-reliant on Wall Street. However, it does lag behind the stock market somewhat. Having said that, it is important to look at the Manhattan office space market with a broader perspective. The unique advantages of New York City include the diversity of businesses residing here and the transportation infrastructure that makes it easy for people to get to work. Other cities such as London, Seattle and Silicon Valley, California, are far more reliant on specific industries and their market tends to suffer more dramatically when those industries are in decline. Although the financial services and banking industry represents a large portion of the overall inventory of office space in Manhattan, industries such as healthcare, legal (with strong bankruptcy and litigation departments) and accounting have shown resilience — and in some cases growth — of their businesses.

The subleasing of excess office space, although predominantly in the financial services sector, also includes retailers, law firms and pharmaceutical companies. Recent major leases include: Deutsche Bank, which renewed 150,000 square feet at 345 Park Avenue; West LB Bank, which took 129,000 square feet at 7 World Trade Center; Pryor Cashman, which signed on for 100,000 square feet at 7 Times Square; and Sonnenschein Nath & Rosenthal, which leased 135,000 square feet at 2 World Financial Center. In a Midtown Class A building, the vacancy rate as of January was 11.3 percent and the overall Midtown vacancy rate is 11.5 percent. In terms of rental rates, the best I can say is that the values are decreasing and there are not enough completed deals to determine baseline values at this time. Landlords are looking to capture whatever tenants are out there and negotiate the best terms possible. Of course, the tenants with strong financials are always more desirable and are likely to secure more favorable terms.

Office development has all but ceased in Manhattan with the exception of 11 Times Square, 510 Madison Avenue and the renovation of 545 Madison Avenue. There is talk of Extell Development moving ahead with the Diamond Center building on West 47th Street but nothing has begun to date. By far, the most opportunistic submarket in Manhattan is the sublease market. Tenants today are looking for value, as well as minimal capital expenditures. When markets have an oversupply of direct and sublease space, tenants are attracted to the most improved and desirable spaces first. Furnished subleases, pre-built space and space that is constructed by the landlord as a turn-key tend to lease first. To those tenants for whom it is not necessary to be in Manhattan, Downtown Brooklyn and Long Island City offer the most favorable rents, terms and incentives.

— Harry Krausman is managing director at Colliers ABR.

New York City - Financial District Multifamily Market

Marked by significant peaks and troughs in the market, 2008 was a memorable year for New York City and the broader tri-state area, and the Financial District was no exception. With an increased demand for multifamily buildings in Manhattan, many developers set their sights on the Financial District as a neighborhood with tremendous potential for investment. An influx in new development led to more than 1,200 additional units being brought onto the market.

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However, with the crash of the New York Stock Exchange and the significant loss of jobs caused by several large financial institutions folding, the market for multifamily rental buildings in the neighborhood began to weaken.
At the beginning of the fourth quarter, the economic climate's impact on the multifamily rental market was noticeable in every aspect — sales slowed and rents declined.

Even more noticeable was the offering of concessions by many of the area's predominant landlords as a strategic marketing tactic to fill vacancies, which increased from 1.8 percent in 2007 to 2.28 percent in 2008. Landlords began to offer anywhere from one to three month's rent for free on new leases, in addition to paying the broker's commission and, in some cases, waiving security deposits for those with good credit.

While the average rents in 2008 did increase across the board, the prevalence of these concessions enabled many renters to save approximately 2.5 month's worth of rent (split between a paid broker's commission and free month's rent).
By the close of 2008, rents regressed back to prices that hadn't been seen in the Financial District since 2006.

However, with more than 500 units slated for completion in the next 6 to 8 months and development still continuing in the area, the projected outlook for 2009 remains optimistic. More inventory is expected to come on the market, which should lead to a continued decline in rents and increase in concessions.

Come spring and the start of summer, rents should begin to stabilize and see a slight increase over the summer months.
Although there will not be as many new hires, the Financial District will likely continue to attract a large number of renters because of its great value on some of the most spacious apartments available in the city.

Coupled with easily accessible public transportation, renters will be attracted to the area's high standard of living as many of the newest rental developments, including 20 Exchange Place and 95 Wall Street, are offering amenities that would typically be found in condominiums — from fully equipped gyms to concierge services — making this one of the city's most viable neighborhoods.

— Daniel Hedaya is director of Leasing & Management for Platinum Properties.

FRANCE MEDIA, INC.
3500 Piedmont Road
Suite 415
Atlanta, Georgia 30305
TEL: 404-832-8262
FAX: 404-832-8260