

COMMERCIAL PROPERTY

Manhattan's Robust Office Growth

By KEIKO MORRIS

Manhattan's office-leasing market showed strength in 2014 with asking rents rising, vacancies dropping and the historically important financial sector adding jobs.

The borough's overall fourth-quarter vacancy rate dropped to 9.5%—a 1.6 percentage-point decline from the same period in 2013, according to real estate services firm JLL. The rate is the lowest since the third quarter of 2008, when it was at 8.7%.

Asking rents climbed 5.6% from the fourth quarter in 2013 to \$65.25 a square foot.

Rising rents are expected to continue into 2015, especially for high-end office space, said brokers and real-estate executives.

"The more discerning buyer is at a greater risk for price inflation in 2015," said Michael Shenot, managing director at JLL, referring to tenants looking for top floors at top-quality towers. "As the market gets tighter and there is less space available at the top and more at the bottom, the prices at the top go up quickly."

Manhattan's rising rents and falling vacancy rates already have pushed tenants to widen their searches beyond their traditional or preferred neighborhoods.

Tenants who are looking to expand amid the trendy streets of Midtown South—particularly those in the technology, media and advertising sectors—may find it difficult to accommodate their growth. In the fourth quarter, Midtown South's vacancy rate hit 6.9%, down from 8.4% at the end of 2013. Asking rents there crept up 5% to \$60.78 a square foot.

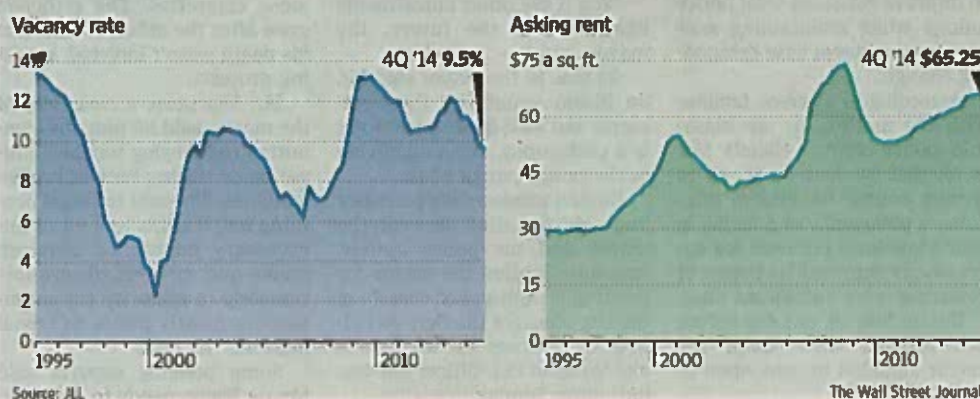
"As you become a mature tenant, there is not a lot of vacancy there to satisfy that need," said Brian Waterman, vice chairman at real estate services firm Newmark Grubb Knight Frank. "You have to make the decision to bifurcate or do a consolidation somewhere else."

For many, "somewhere else" has meant downtown. Of Manhattan's three large submarkets, lower Manhattan saw the largest jump in asking rents over the year, recording an increase of



Claudio Pappalardo for The Wall Street Journal

Healthy Demand | Manhattan's office market strengthens in 2014



8.4% and climbing to \$54.43 a square foot. The area has been lifted by the migration of giant media firms such as Condé Nast and soon Time Inc. as well as improvements to subway and

Path train stations. It is now seen as a destination and not just a lower-cost alternative, brokers said.

Rental prices in Midtown grew at a slower pace than the

other submarkets, increasing 3.9% since the end of 2013 to \$70.31 a square foot, while its vacancy rate fell from 11.1% to 9.7%.

The continued addition of financial-services jobs to the city

PBC USA Real Estate has invested \$45 million in upgrades at 452 Fifth Ave., above, since acquiring the office tower in 2010. The top three floors are renting for more than \$100 a square foot, the firm says.

in 2014 was another indicator that bodes well for the office market in the coming year, according to JLL's fourth-quarter report. The sector hasn't recovered all of the jobs it shed since the recession, but it "posted noticeable year-over-year employment gains throughout 2014," the report noted.

The sector added about 3,900 positions during the 12 months ending in November, a number that some cautioned was actually modest. The sector leases just over 24% of Manhattan's office space, occupying the largest portion of the market. The broad

category of professional services is No. 2, with 22%, according to Cassidy Turley, a commercial real estate services firm.

"In order to improve the overall economy and strengthen the real-estate market, that [the financial sector] needs to grow more robustly," said Peter Hennessey, president of the tri-state region for Cassidy Turley.

The sector's modest job growth has come as large banks and financial institutions in the city have consolidated and centralized their New York operations. Some of these bigger players are now ready to shop for new office space, though their approach to real estate spending is likely to remain conservative, said Matt VanBuren, president of CBRE Group Inc.'s New York tri-state region.

"They are now saying we can reduce the expense of overall occupancy" with contemporary interior layouts that allocate less space per employee, he said. They also are looking to achieve cost savings through energy efficiency. "So that means newer buildings."

Some of the sector's growth has stemmed from the expansion of boutique firms rather than large banks.

StormHarbour Partners LP, a boutique investment banking and advisory firm, signed a 24,000-square-foot lease at 452 Fifth Ave., taking the 29th floor and a portion of the 30th floor. The new penthouse space will be much larger than the firm's current 16,000-square-foot office at 140 E. 45th St.

PBC USA Real Estate LLC, the U.S. arm of the Israel-based Property & Building Corp., purchased the building in 2010 from HSBC for about \$330 million. Since then, it has invested \$45 million in upgrades and has nearly filled the building. The top three floors are renting for more than \$100 a square foot, said Eli Elefant, chief executive of PBC USA.

"We are open to all sectors and would have bent over backward to create a diversified tenant roll, but we ended up seeing a lot more strength from the financial tenants in terms of paying the market rents we believed we could achieve here."

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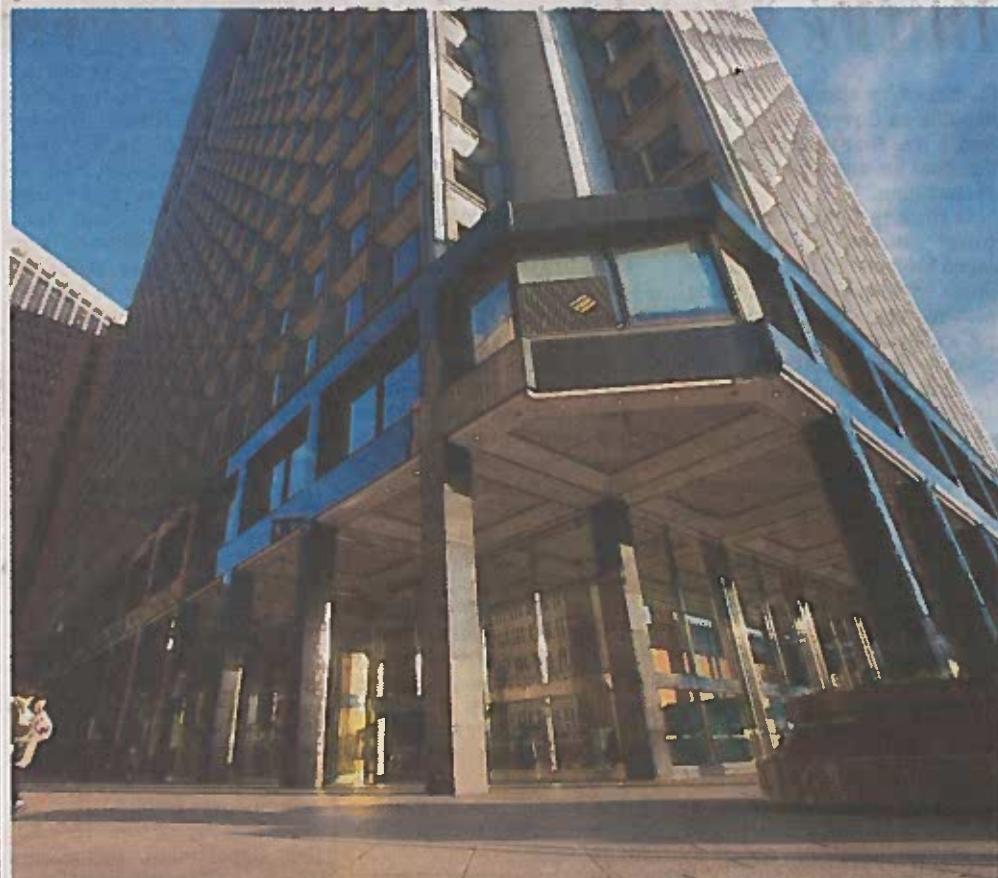
FROM THOUSANDS OF YEARS AGO, THE PROPHET ISAIAH IS QUOTED, "PREPARE YE THE WAY OF THE LORD, MAKE STRAIGHT IN THE DESERT A HIGHWAY FOR OUR GOD."

That clarion call is as appropriate today as in the days of Isaiah.

The human race of this 21ST century has yet to make straight, a highway for the creator in its desert of transgressions and iniquities still being expressed by earth's populations everywhere.

And what is blocking this straight highway? Just persons' refusals to surrender their personal thoughts and to accept the thoughts of the creator in the words of a natural law identified by Richard Wetherill decades ago. He called it the Law of Right Action, requiring people to be rational, honest, and morally right to get right results.

However, newscasts increasingly warn of terrorist attacks coming here partly caused by radicalized citizens and unprotected borders



Claudio Pappalardo for The Wall Street Journal

OSP Group is moving its headquarters from Midtown to downtown's One New York Plaza.

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