

March 18, 2013

## Tech In New York! (Real Estate Feels the Boost)

By Karsten Strauss

Silicon Valley is undoubtedly the capital of all things tech, in the Americas if not the world. But in the US, several other locations have emerged as hubs in their own rights. Austin and Dallas, Texas; Seattle Washington; Los Angeles, California have become attractive places to set up shop in tech and new media, but New York's excitement, culture, human capital and city investment in the space has made Silicon Alley a capital of its own.

That popularity has sent real estate costs through the roof, specifically in a submarket called Midtown South. The area has seen its office space rents increase over 70% in the past decade with large jumps recently. In 2011 and 2012, rents for B-grade office space rose from \$38 per square foot to almost \$60 per square foot. In fact, average B-class office space surpasses its Silicon Valley counterpart, which rents for under \$46 per square foot.

Ashkán Zandieh is director of Techstarters, the creative arm of New York real estate firm, ABS Partners. Zandieh compiled a report on just how and why tech and media firms are impacting real estate in Manhattan. According to Zandieh, the market has not peaked and he's aware of \$70 per square foot deals in the Midtown South area. "People that think (the boom) is not going to last are only fooling themselves."

Ashkán Zandieh, director of Techstarters, the creative arm of New York real estate firm, ABS Partners

One of the critical factors for price increases is lack of absorption—the amount of office space for new companies is decreasing faster than new space can come onto the market. Compare that to Silicon Valley, where more space is coming online and the real estate market has a positive absorption rate.

So why do tech and media firms insist on landing in Silicon Alley? Why not go somewhere with a lot more office space – like downtown Manhattan – or cheaper rents, like the out boroughs? The answer is culture.

Young companies in the tech space want to be near one another. They want to collaborate and brush shoulders with others like them. According to Zandieh's report, "with ability to communicate and share ideas, close proximity to other entrepreneurs and startups helps stimulate innovation. The ability to work across platforms, network and share ideas are important features for fledgling startups.



Midtown South: New York's Silicon Alley is the tightest office market in the country

For new tech cities like New York, elements of the sociological theory, symbolic interactions, can help explain the surge in tech activity in Midtown South.”

For young companies not seeking their own dedicated (and obviously expensive) space, coworking locations are key. Strangely enough, they’re also becoming destinations for profitable companies with their own offices, Zandieh explained, pointing to Zappos.com’s recent creation of a coworking community in Las Vegas, as well as AT&T’s placing some of its employees in coworking locations to gain insight from other entrepreneurs.



Ash Zandieh, director of TechStarter—the creative arm of New York Real Estate Firm ABS Partners.



200 Park Avenue South, 10<sup>th</sup> Fl, New York, NY 10003-1503  
T (212) 400-6060 • F (212) 400-9494  
[www.absre.com](http://www.absre.com)