

# Insight: Trends & Conditions

Commercial Real Estate - August 2013



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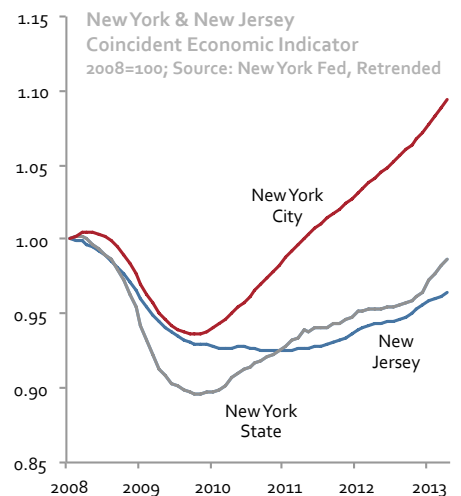
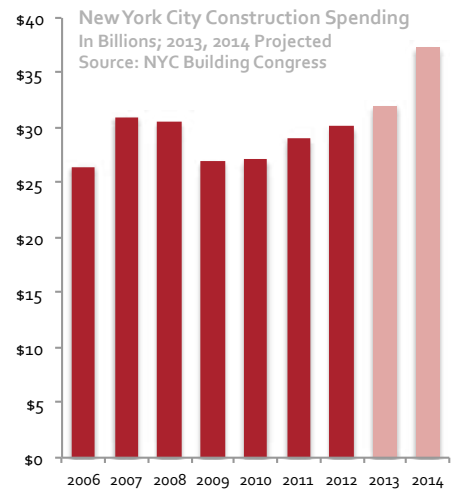
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## Overview: Construction Boom

A rapidly improving outlook for New York City's commercial real estate sector is fueling a boom in construction. Projects in planning and already underway dot the Boroughs. The New York City Building Congress projects nominal construction spending by private developers and government will reach \$32 billion in 2013. While skyscraping condo properties are capturing the attention of the press, the Building Congress sees non-residential spending rising by almost 40 percent in 2013. Overall spending will breach the last cycle's peak in 2014, with outlays projected to rise to \$37.3 billion.

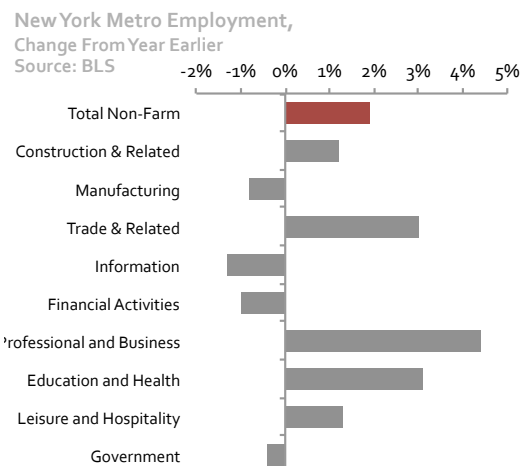
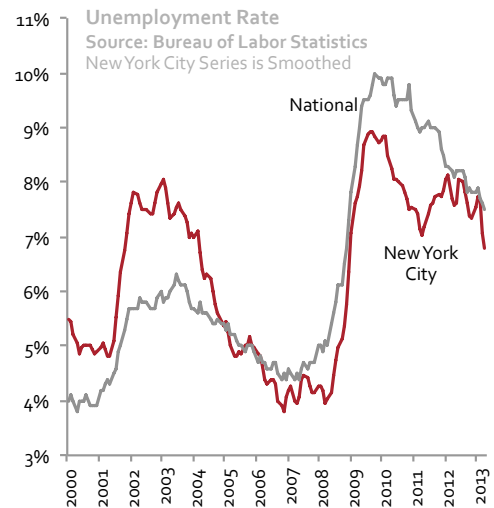
For all the challenges facing the local and national economies, enthusiasm regarding the outlook for New York City is not baseless. The City's economy has grown past its pre-recession peak, diverging from statewide trends for both New York State and New Jersey. The New York Fed's coincident economic indicators illustrate the strong rebound. While the broader region struggles to recover, the City itself is charting the course forward.





## Jobs & The Economy

New York City's jobs recovery illustrates how the local economy and real estate market conditions are changing. As compared to a year ago, employment in the metro area is up nearly 2 percent. But those jobs are not in the traditional bedrocks of finance and supporting service. Employment in financial activities is down on the order of 1 percent over the last year. The gains have come in trade, professional and business services, education, healthcare, and hospitality. The conventional measures mask the outsized importance of New York City's tech and new media's sectors as engines of growth. Trends in the office market, described on Page 5, are being defined by the increasing importance of both startups and well-established technology firms for space absorption. That has nudged Manhattan's center of gravity a little closer to Midtown South, where prospective tenants are faced with a shortage of available space.





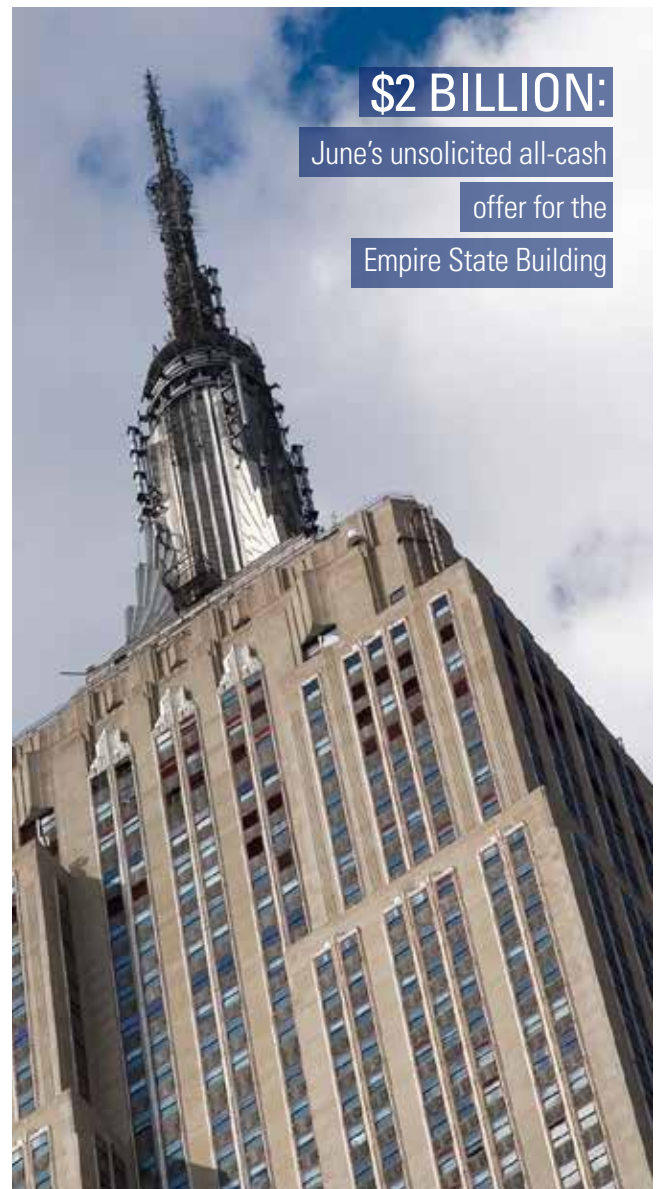
## Office

At signature properties in the Plaza District, leases above the \$100 psf threshold are becoming less of a rarity. But growth in financial services has prevented a broader upswing. Instead, the City's rapid emergence as a center of innovation has seen tech startups play an increasingly important role in the office sector. Midtown South's newfound position as one of the City's most desirable office submarkets has pushed vacancy rates lower than anywhere else in Manhattan.

Vacant or occupied, the Midtown South inventory of Class A office space is dwarfed by both Midtown proper and Downtown. A paucity of available space and rapidly increasing rents have seen tech firms expand their sights to other neighborhoods in the first half of 2013. In parts of Midtown, they are finding a wider selection of available spaces at lower rents.

Yelp was able to triple its footprint in Midtown South in June, but few firms are in such an enviable position. Among the tech firm leases in areas traditionally dominated by financial and professional services, Pandora Media signed on in June for more than 50,000 square feet on Park Avenue between 41st and 42nd Streets. WeLocalize, a provider of translation services, also signed June in the Garment District.

Leapfrogging the pace of citywide improvements in property cash flow, investors in the office sector have pushed prices well above their 2007 peaks. The recent partial-interest trade of the GM Building, the most valuable office building in the country, put the value at roughly \$3.4 billion.



**\$2 BILLION:**

June's unsolicited all-cash

offer for the

Empire State Building



## Retail

As a draw for domestic and foreign tourism, the Big Apple has seen its fortunes rise dramatically over the last several years. Reports of record tourism have become fixtures, with spending by visitors to the city growing at an even faster pace. In spite of Hurricane Sandy, the City welcomed 52 million visitors in 2012, a new all-time high. Roughly one in three visitors to the United States makes a stop in New York City.

Manhattan's top retail corridors have seen rents and property prices surge as pedestrian traffic has increased and purse strings have loosened. Of the nation's top five retailers by sales per square foot, four have a significant presence on 5th Avenue or Madison Avenue. The draw of 5th Avenue below Central Park fueled a new record in May, when a national luxury retailer signed a lease for more than \$2,600 per square foot.

Retail gains are hardly limited to a small stretch of Midtown, or even just to Manhattan. Rising rents and occupancy rates are

the norm in SoHo, Downtown Brooklyn, and elsewhere. The first-ever four-figure lease south of Midtown was signed in SoHo in April. While the overall pace of rent growth for New York City retail is modest – rents have declined in some areas recently – primary corridors such as Times Square have seen year-over-year increases exceeding 50 percent.

Top National Retailer Rankings  
Sales Per Square Foot, 2012

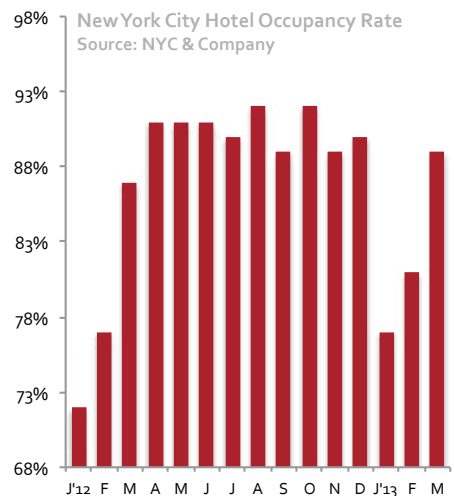
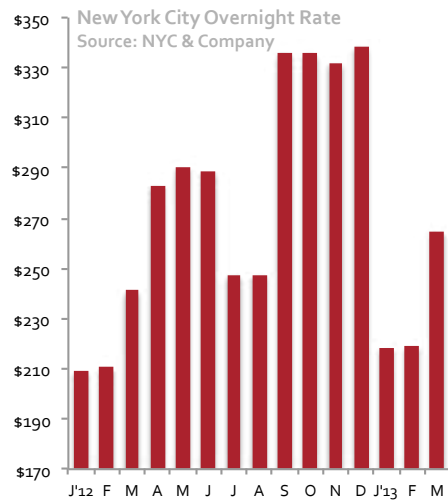
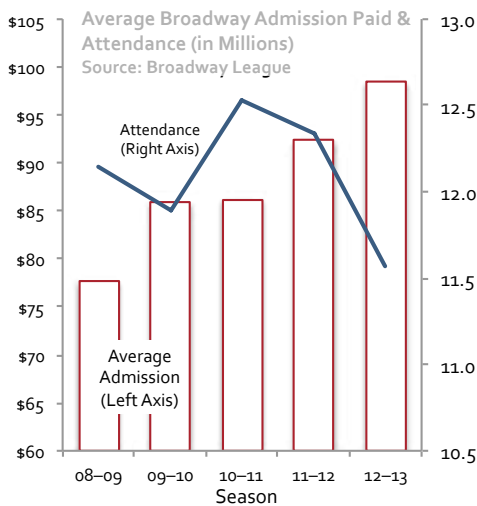
Brand	Sales Per Square Foot	Key Manhattan Locations
Apple	\$6,050	5th Avenue, Grand Central, SoHo, Meatpacking
Tiffany & Co	\$3,020	5th Avenue, SoHo, Wall Street
lululemon athletica	\$1,940	SoHo, Meatpacking, Union Square, Upper East, Upper West
Coach	\$1,870	Madison Avenue, SoHo
Michael Kors	\$1,430	Madison Avenue, SoHo, Flatiron

Source: Retail Sails



## Hospitality

Tourism is the key ingredient in New York City's hotel boom. Following a seasonal drop in January and February, visitors returned to the city, both for business and leisure. In spite of the addition of more than three-dozen new properties in just two years, hotel occupancy rates and overnight rates have returned to healthy levels. Building projects cover a wide swath of the City's neighborhoods, including significant projects in the Boroughs. Construction kicked off in June on a new hotel in Brooklyn Bridge Park, led by Starwood and Toll Brothers.





## Investment

Investment activity in New York City spiked in the second quarter. In the office sector, in particular, transaction volume jumped to more than \$5 billion. The largest trades of the quarter included a partial interest sale of the GM Building and the sale of two properties by Houston-based Hines. Sales of development sites also surged, including several plots in Brooklyn.

Strong demand from foreign and domestic investors has kept pressure on prices in spite of rising interest rates. Treasury yields and borrowing costs increased in May and June, but cap rates on apartment and office property sales inched lower. Although yields are expected to trend higher in the second half the year, the improving economic and property performance outlook will act as offsets and supports for valuations.



The GM Building





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