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David Greene - An overview of the current state of the manhattan office building sales market

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Ordinarily one would say, "As the office leasing market goes, so goes the office building sales market." Yet here we are (in the office building sales market) already on our way back up to the dizzying heights of just a few short years ago. DÃ©jÃ vu? I know we've been here before. Don't get me wrong, the office leasing market is warm and getting warmer. With not much new speculative building in the recent past, there is little inventory coming online in the near future and vacancy rates are going down. Landlords are a bellwether for optimism and landlord concessions have receded significantly. At Murray Hill Properties, we own, lease and manage more than six million s/f of commercial office space. Only 24 months ago, a tenant could get a year free on a ten year leasing transaction. Twelve months ago, a tenant might see a month free for every year of the lease. Now, a tenant might get 40%-50% of that figure. I have seen plenty of five year deals with two months free rent and many transactions where a tenant received less than six months free on a 10-year deal. In addition, landlords are now frequently capping their tenant build-out expenses so that any cost over and above the cap falls on the tenant. Are we far from landlords just giving tenants cash contributions and letting them build space on their own? It might not be prevalent before the year is out, but it is coming. So why is it that the Manhattan market is getting stronger, but it hasn't spread across the country?

Manhattan is a market unto itself. While many markets and pundits across the country are concerned about another slowdown, Manhattan is zooming along towards recovering quite nicely, thank you very much. Tourists are everywhere and most major national and international firms want/need to have an office here in Manhattan, the center of the world. Crime in the city is negligible and people feel safe here. But perhaps the real reason for the office markets surging towards former highs is a complete lack of new inventory. The new World Trade Center complex is not due to be completed for several years, and if we take a look at the Midtown area of 3rd Ave. to 8th Ave., 42nd St. to 59th St., and if we ask ourselves how many major new buildings are about to come online and deliver fresh vacancy? Anyone? That's right, none. So here we have a perfect storm. Manhattan is an island, everyone wants to be here and there's not enough space. As a wise friend of mine likes to say, "A lease is a financing document." So, with vacancy falling, rents rising, landlord concessions declining, you would think that the office building sales market would be booming. Well, you would be correct except for one major issue: there is so little product available that buyers are chasing only a handful of available buildings and that is driving pricing towards previous highs seen in the 2006-2007 era.

Sales in the immediate past include:

* 1633 Broadway located between 50th and 51st Sts. A 49.9% partial interest in the building was

sold. The building is approximately 2.4 million rentable s/f and sold for $833 per s/f valuing the building at approximately $2 billion.

* 1450 Broadway located at 41st St. The building is approximately 400,000 rentable s/f. It was sold for $204 million or approximately $510 per s/f.

* 750 Seventh Ave. located between 49th and 50th Sts. The building is approximately 591,000 rentable s/f. It was sold for $485 million or approximately $820 per s/f.

1330 Avenue of the Americas located between 53rd and 54th Sts. The building is approximately 534,000 rentable s/f. It was sold for $400 million or approximately $749 per s/f.

So who has the best opportunity to succeed in this marketplace? Foreign money seeking to buy buildings at a discount due to the exchange rate; REITs who have cash readily available; sovereign wealth funds and other large equity firms who have a mandate to spend the money and, of course, boutique real estate firms like ours who can source deals on their own without going through the multi-bid process.

Where do we go from here? We at Murray Hill Properties believe that the office market will continue to get stronger, office rents will continue their climb ever higher, perhaps another 10% over the next year, and office building sale prices will reach previous pricing peaks. And pssst: if you know of a building that can be bought off market, give me a call.

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