Jones Lang LaSalle Reports Slight Boost in Rents for Manhattan Trophy Buildings

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Jones Lang LaSalle reported that, overall, New York's trophy office market posted its fourth consecutive increase in average asking rental rates, although the growth was minimal, according to its fall 2012 Skyline Review. Midtown's trophy product recorded the first drop in rents since the spring 2010 report, while Lower Manhattan saw its fourth consecutive increase in rates during the same time period.

The firm's fall 2012 Skyline Review found that the city's top-end office buildings recorded a rate hike of 1.1%, rising to $78.80 per s/f in August 2012 from $77.97 per s/f six months earlier. Vacancy rates among Manhattan's high-end properties stayed level in the six months since the firm's spring 2012 study, rising slightly to 10.3 percent in August 2012 from 10.1 percent in February 2012.

Jones Lang LaSalle noted that while Hurricane Sandy had immediate â€” and perhaps longer term â€” logistical effects on Lower Manhattan, much of the submarket's trophy inventory was spared serious damage. The Midtown inventory was not impacted at all by the storm.

"For the remainder of 2012, New York's office market will see moderate demand and stable pricing," said Riguardi. "The lack of clarity â€" both in the world economy and on domestic policy â€" has stemmed some of the excitement the city enjoyed in early 2011. Still, activity continues at these more normal levels, both from smaller and larger Trophy tenants. We have seen increased showings in our agency business and a rise in new business in the pipeline for tenant representation. What is less certain is whether this activity will result in lower vacancy and higher pricing in the near-term."

The addition of brand-new, high-end space to Lower Manhattan's office inventory fueled a significant increase in the averages for asking rents for the submarket's trophy office buildings. The firm's fall 2012 Skyline Review showed that Downtown trophy product saw a 13.5 percent increase in rents, rising to $58.53 per s/f in August 2012 from $51.56 per s/f in February 2012. The boost marks the fourth consecutive increase in rates for Lower Manhattan's premiere commercial office space since the spring 2010 Skyline Review.

"Downtown trophy rents have surged 20 percent since January, largely as the result of new space at the World Trade Center," said Peter Riguardi, president of Jones Lang LaSalle's New York operations. "The increase in rates is not due to building owners raising rents but is primarily the result of the new inventory of high-end product boosting the averages for rents throughout the trophy set. We expect that the averages for rents will continue to increase for at least the next 12 months as new space is added at the World Trade Center and, later, at the World Financial Center."

Trophy office buildings Downtown saw vacancy rates begin to climb in the six months since the spring 2012 Skyline Review. Lower Manhattan's high-end buildings saw vacancy rates jump to 11.2 percent in August 2012 from 9.5% in February 2012.

The fall 2012 Skyline Review determined that average asking rental rates for Midtown trophy product fell slightly, marking the first drop in rates for the submarket's high-end buildings since the spring 2010 report. Midtown trophy rents fell by less than one percent compared with the 4.7% increase in rents posted in the spring 2012 report. Rates fell to $88.98 per s/f in August 2012 from $89.12 per s/f six months earlier.

Vacancy rates among Midtown's trophy properties have improved in the six months since the firm's spring 2012 report, falling to 9.9% in August 2012 from 10.4% in February 2012.

The trophy inventory led the Manhattan market early in the recovery, posting the first and largest gains in rents. Average asking rental rates for those properties have risen 17.0 percent since the bottom of the market in the second quarter of 2010, compared with 9.2 percent for Manhattan overall. Fueled by hedge fund and private equity activity, the gains have been concentrated in a few Midtown submarkets, which saw upward movement of 30 percent or higher. On a direct basis, Plaza District asking rents average $105.73 per s/f. Twelve buildings in Midtown now have asking rents of more than $100 per s/f, with the highest above $140 â€" more than twice the Manhattan average.

Jones Lang LaSalle's Skyline Review is a proprietary report that analyzes the premier buildings in Midtown and Downtown Manhattan â€" those buildings that truly move the market. The company's New York Skyline Review includes buildings that meet one or more of the following criteria: built or significant renovations since 1985, high-profile location, recognized tenant profile and/or architectural significance. Some buildings do not appear in the New York Skyline Review but are tracked for statistical purposes as part of the inventory of trophy buildings.

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