



New York City attracts office asset investors

June 10, 2013 - Front Section

New York City appears to be on the cusp of entering a new price point in Manhattan trophy real estate, with multiple office assets now being traded at a sales price "greater than \$2,000 per s/f," according to Carlton Group chairman Howard Michaels.

The Carlton Group has assembled some empirical data that show why Manhattan trophy real estate is cheap by international standards, and international investors are attracted to Manhattan office assets over other major cities like London, Paris, Geneva, Singapore and Hong Kong.

Michaels cites some key factors which make investing in Manhattan office assets economically superior to its international peers:

- * Higher Cap Rates - Manhattan office properties are valued at an average 4.7% cap rate, almost 30% higher than the average global competing cities' prime office property cap rate of 3.7%.
- * Higher Rent Growth - Average rent growth at Manhattan office properties in 2012 was 6.6%, over four times greater than the top global CBD office average of 1.5%.
- * Lower Vacancy - Manhattan office properties have an average vacancy rate of 8.8%, 33% lower than the top global CBD office average vacancy rate of 13.2%.
- * Room to Push Rents - Manhattan office properties had an average gross rent of \$73 per square foot in 2012, almost 22% less than the top global CBD average gross rent of \$94.
- * Superior Transaction Volume, which Leads to Increased Liquidity - Out of every major city in the world, New York attracted the second highest direct investment in 2012, with \$22.5 billion of completed transactions, second only to London, and \$10 billion more than any other city in the United States.

The Carlton Group, which has transacted many recent high profile deals in Manhattan, knows first-hand " the highly liquid market" and the "international investors" whose money continues to pour into New York from Canada, Europe, the Middle East and China, and other major countries around the globe.

Michaels says that other key factors that attract international capital into Manhattan is a solid local economic and politically stable environment, high barriers-to-entry and the fact that New York continues to be the number one international city for tourists, retailers and financial services firms.

According to Michaels, the foregoing dynamic is being seen by recent trades at Olympic Tower at 641 5th Avenue, the Sony Building at 550 Madison Avenue and the reported minority interest sale at the General Motors Building at 767 5th Avenue, which is causing real estate values to trade between \$1,300 and \$2,000 per square foot.

Michaels further argues that this dynamic has continued since 2011, as the U.S. economy climbed out of the precipice created by the Lehman debacle and overall credit crunch. Notwithstanding, the Eurozone and certain parts of the Middle East, fueled by the Arab Spring, have continued to cause investors to worry, contributing to the appeal of prime New York real estate.

At a glimpse, here are some recent high-profile Manhattan transactions completed by The Carlton Group which has closed over 40 million square feet of prime Manhattan real estate, valued at over \$50 billion over the last 20 years:

* \$400 Million Investment Sale at 701 Seventh Avenue - Carlton arranged the investment sale of this prime 300,000sf development site in the heart of Times Square, which will be developed into a prime retail, signage and 500-key hotel project.

* \$400 Million First Mortgage Construction Closing at 432 Park Avenue - Carlton arranged this construction loan closing with one of its proprietary European balance sheet lender relationships. This transaction once again validates Carlton's unique ability to access international balance sheet capital providers to facilitate large, complicated transactions.

* Big Loan at Chatsworth Apartments Acquisition - Carlton represented prominent developer Ziel Feldman, head of HFZ Capital and their partner BSG Real Estate, to acquire the Chatsworth, a beaux-arts rental building at the corner of 72nd Street and Riverside Drive. Carlton worked quickly arranging a big acquisition and renovation financing at one of the most attractive rental properties in Manhattan.

* \$600 Million Debt and Equity Raise For the Acquisition, Development And Construction of 701 Seventh Avenue - Carlton arranged a \$475 million acquisition and construction loan, along with \$125 million of structured and common equity from a NYSE listed company and two high-net worth investors. Arguably, this is the premier development transaction of 2012 in Manhattan.

* Confidential Manhattan Residential Tower and Hotel - Carlton arranged a joint venture between two prominent developers for the acquisition and construction of a 25-story tower condominium and upscale 370 key hotel. In addition to arranging the partnership between the iconic duo, Carlton also arranged a high leveraged land loan to facilitate the acquisition and predevelopment of what is sure to be one of Manhattans most valuable residential and hospitality properties.

* 350,000 sq. ft. Multifamily Ground Up Development In Long Island City - Carlton arranged the acquisition debt and equity for this acquisition, as well as organizing a joint-venture amongst three highly successful investors and developers. The acquisition and predevelopment loan will facilitate the acquisition and predevelopment of this 350,000sf to be constructed multifamily rental tower in burgeoning Long Island City.