



Investor demand in New York City remains strong despite modest vacancy uptick

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Vacancy is expected to remain low, and rents are projected to grow at a healthy pace this year in Manhattan, although evidence will continue to mount that demand-side momentum is not as robust as it was a few quarters ago. Leasing volume in 2007 was approximately 25% less than one year before, thereby weakening the prospects for further reductions in the vacancy rate. Firms in the financial activities sector specifically were trimming space needs or postponing searches at the end of last year, a trend that will continue as staffing requirements are re-evaluated due to ongoing troubles in the capital markets. Despite near-term issues surrounding space demand, Manhattan has recorded some of the nation's strongest revenue growth during the past three years, and investors' interest in local properties had hardly diminished as 2008 began. Cap rates for top assets are in the high-4% to high-5% range.

In the outer boroughs, vacancy typically runs somewhat higher than in Manhattan, and 2008 will continue this long-term trend. Slower citywide job growth will cause a rise in vacancy in Brooklyn and a 20 basis point upward bump in Queens to 6.7%. Building owners will monitor events in the financial activities sector, as potential staff reductions will likely affect requirements for back-office space in the boroughs. Additionally, a slowing local economy may compel city agencies, which are large users of space in the boroughs, to reassess space requirements. On the investment front, rising values in Manhattan have also lifted prices in the boroughs, and owners may increasingly seek to monetize the built-up value in their properties in the quarters ahead. Assets in prime areas, such as downtown Brooklyn and Long Island City, will continue to intrigue investors looking to establish portfolios in the greater metro area.

By the numbers, employers are forecast to create 16,000 jobs in 2008, a 0.4% gain but a decrease from 34,300 new hires last year. In office-using sectors, 3,000 new positions are expected, down from 13,600 jobs in 2007. More than 3.4 million s/f of office space was added in the entire city last year, but production will fall to 3 million s/f in 2008. Most of the space is attributable to the 2.1 million s/f One Bryant Park in Manhattan. A reduction in office-using job growth will lead to a 30 basis point rise in the citywide vacancy rate to 5.7% in 2008. A 30 basis point uptick to 5.4% will also be posted in Manhattan, while vacancy in Brooklyn will increase 20 basis points to 8.6%. In 2008, citywide asking rents are forecast to advance 8% to \$57.51 per s/f; last year, asking rents climbed 16.5%. Effective rents will gain 8.4 percent to \$51.24 per s/f.

Foreign buyers and cash-laden institutions will continue to make headlines with big purchases this year. Sales velocity in lower-tiered assets, though, will slow due to stringent underwriting standards and prospects for slightly softer near-term fundamentals.

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