



JLL 2014 Skyline Review reports New York trophy office rents are back; Spring 2014 report finds Manhattan's high-end product achieving rents not seen since 2008; Midtown rates remain 24.2% below 2007 peak

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Trophy rents have returned to Manhattan's premier office towers as demand from smaller financial services tenants continues to drive both activity and pricing, according to JLL's spring 2014 Skyline Review. While New York's flourishing media and tech industries have driven demand for some trophy office buildings, particularly in Midtown South and Downtown, weak employment growth in large financial and legal services firms continues to restrain overall absorption within the city's high-end product.

JLL found that pricing at the top of the market has reached its strongest level since 2008. In 2013, 81 transactions with rents starting at \$100 or greater were recorded, up from 51 in 2012. Year-to-date activity remained robust, with more than 20 properties now posting direct asking rents greater than \$100 per s/f, compared to just 14 in the spring of 2013. Within this category, an even smaller set of buildings with Central Park views commands rents ranging from \$150 to \$200 per s/f. While accounting for a minimal amount of the overall velocity — the median size of leases in this micro-market was less than 10,000 square feet in 2013 — these transactions drive industry chatter and are said to provide benchmarking for the rest of the trophy market.

"Pricing and velocity at the top of the market have reached their strongest levels since 2008," said Peter Riguardi, president of JLL's New York tri-state operations. "More than half of Manhattan's top-tier trophy properties posted a vacancy rate of less than 5.0 percent. Demand from smaller financial services tenants, including hedge funds and private equity firms, has increased parallel to recent Wall Street gains. Compounding this demand, sovereign wealth funds and other foreign-based financial tenants have emerged as new occupiers, leasing Manhattan locations that are equivalent in profile to their offices in London, Singapore or Hong Kong."

The city's top-end office buildings posted a rate hike of 5.1 percent to \$76.02 per s/f in spring 2014 from \$72.33 per s/f six months earlier. New York's trophy product saw rents increase 3.6 percent from \$73.35 per s/f one year earlier.

Vacancy rates trended higher for Downtown trophy office buildings as new product at the World Trade Center entered the market. The surge of new space has pushed vacancy rates for Lower Manhattan high-end buildings to a 22.4 percent, nearly a historic high. With current interest from a range of industries at Brookfield Place — which also accounts for much of the Downtown vacancy — the rate could fall by year-end. Pricing for Lower Manhattan trophy office buildings is approximately 33 percent lower than Midtown. New space at the World Trade Center offers trophy-quality space and world-class views at pricing comparable to low-end Class A space in Midtown.

Despite the high vacancy rates, JLL found that average asking rental rates for Lower Manhattan's trophy office product have reached levels not recorded since spring 2009. Downtown rates totaled \$61.24 per s/f in spring 2014, 2.8 percent above \$59.58 per s/f six months earlier and 5.7 percent higher than \$57.95 per s/f a year ago.

Approximately 5.5 million square feet of trophy office space is under construction in Midtown. While that may seem to be a great deal of space, it represents just 1.2 percent of Manhattan's existing inventory. Less than 10 percent of New York's inventory has been constructed since 2000, compared to more than 30 percent for Shanghai. Almost 70 percent of Manhattan's office inventory was constructed prior to 1980. By some standards, even Paris and London "two much older cities" have newer office product than New York with 20-30 percent of each city's stock constructed or renovated since 2000.

"Downtown continues to attract value-minded tenants with high-quality construction, improving amenities and some of the best views in Manhattan," said Riguardi. "Tepid growth in financial and legal services has resulted in large blocks of discounted sublease space on Avenue of the Americas and elsewhere. While value seekers have quickly leased this space, the low pricing has weighed down the average and undercut asking rents on direct space. In the first quarter of 2014, prices began to rise as sublease space started to diminish."

The spring 2014 Skyline Review reported that average asking rental rates for Midtown trophy product have risen consistently over the past year. The submarket saw trophy rents surpass \$90 per square feet for the first time since spring 2008. Midtown rates rose to \$90.49 per s/f in the spring 2014, increasing 5.0 percent from \$86.16 per s/f six months earlier. The submarket saw trophy rents expand 6.4 percent from \$85.08 per square feet one year earlier.

Jones Lang LaSalle's Skyline Review is a proprietary report that analyzes the premier buildings in Midtown and Downtown Manhattan "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.