



Letter of Intent - Creative Office Demand

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The tech boom in New York is clearly visible, and has created quite a buzz amongst the city's largest commercial landlords, hoping to attract these companies with seemingly endless dollars from their respective backers, most of whom want large, airy, light spaces to conduct their business. These high paying tenants, although it may not seem so at first glance, are extremely demanding, and their occupancy doesn't come cheap.

Alteration and renovation values for the office market had a 66% increase to \$2.1 billion from 2012 to 2013. The numbers for the first half of this year are already \$1.4 billion, poised to overtake last year's record amounts. While some of the work in the sector represents modernization and upgrades to systems, the recent increases in investment are also a direct result of changing office user demands and increased competition from recently constructed office buildings.

The new trend among tenants in sectors such as technology, media, design, and the internet world, are to have creative spaces with efficient and flexible layouts. Although these spaces are usually substantial in size, the office space dedicated per worker is considerably smaller, allowing landlords to take a deep look at the utilization of their space and create a compelling argument to renovate their existing space into the "creative/shared workspace" environment; a different business model, but one that investors should be tremendously enthusiastic about. There are a handful of very successful groups out there succeeding in this venture, and more riding the wave enjoying the journey to the top. In speaking with a landlord recently, they command \$42 per s/f for their traditional midtown office loft space, but \$85 per s/f when utilized as a creative/shared space.

Real estate investors now need to create and underwrite an entirely new business model, and those who have been able to execute have profited tremendously.

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