

THE COMMERCIAL OBSERVER NOW

THE LAST WORD - WHY ASKING RENTS ARE ON THE WAY UP

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Colliers International yesterday released its first-quarter market report for Manhattan office space, revealing that average asking rents in the city sharply increased from \$48.62 per square foot in the fourth quarter of 2010 to \$50.18 this past quarter. Dr. Peter Kozel, chief economist of Colliers International Tri-State, spoke to The Commercial Observer about what the newest data means for New York.

The Commercial Observer: Tell me about your findings, Peter.

Mr. Kozel: It's another quarter of firming in the market, but more in terms of rent than in terms of occupancy.

What had we seen before with regards to occupancy?

Well, we saw major net absorption of space over the last quarters of 2010. We absorbed about 7 million square feet.

And now we're starting to see the asking rents increase. Is this the first quarter we've seen this kind of improvement?

No, we had seen moderate, small increases in rent during previous quarters. And from the beginning of 2010 to the end of 2010 it was up an average of about 6 percent—not bad.

But, in the first quarter of 2011, especially in some districts of the city, we saw much more rapid growth. In the Plaza district, for example, we saw an annualized rate of almost a 20 percent increase in Class A space; so, like a 5 percent increase quarter-to-quarter.

Do these two indicators—absorption and asking rents—work in tandem?

The critical point here is that it's not a steady curve. In sciences, they have a concept in which water is a liquid up until 32.1 degrees Fahrenheit, at which point it turns into a solid. In other words it doesn't gradually become a solid—it happens very suddenly. The same is said about boiling water—it doesn't boil before 212 degrees.

In terms of the markets, it's not quite that dramatic, but there are similar types of behavior. When you get the availability rates starting to drop below 10 percent, you begin to get significant upward movement. And so, in some of these markets, like Class A properties in the Plaza district, the overall availability rates went below 10 percent so you begin to get significant upward movement in the asking rents. – *Jotham Sederstrom*