

Manhattan Office Recovery Enters ‘Phase Two’ with Jump in Asking Rents

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New York, NY - The Manhattan office market has now entered Phase Two of its ongoing recovery after posting one of its largest quarterly increases in asking rents since 2007, according to new research issued today by Colliers International.

Phase One of the recovery—characterized by significant net absorption during the latter half of 2010—fueled a 12 percent annualized increase in asking rents during Q1 2011. These legacy gains in absorption set the stage for Manhattan office landlords to boost their average asking rents to \$50.18 per square foot, up from \$48.62 per square foot at the end of 2010.

And while the availability rate was essentially flat during the first quarter, Q1 2011 saw more than eight million square feet of completed leasing transactions—or 60 percent above the amount versus the same quarter in 2010.

Underpinning this rebound is a renewed sense of confidence among tenants who increasingly believe that New York City’s economic recovery remains on track. As their faith in the stability of this growth cycle has increased, many have felt emboldened to sign leases.

The New York City economy also is clearly rebounding at a much faster clip than the broader economy. Data for February from the Bureau of Labor Statistics, for example, shows that New York City had recovered 44.5 percent of all the jobs the city lost during the 2008/2009 recession. By comparison, only 14.5 percent of all jobs lost in the U.S. during that period had been regained by February 2011. Most economists expect the New York City economy to continue growing at a faster rate than the nation as a whole.

Provided that both economic and business fundamentals remain strong, the Manhattan office market will likely continue to tighten. Unlike Phase One of the recovery, this market up-cycle no longer relies solely on one outperforming sector, with average asking rents up across the three major submarkets. Even the embattled Downtown submarket, which had



sustained multiple quarters of rental declines in 2010, saw its average asking rents climb during Q1 2011.

Midtown North posted the highest average asking rent—at \$61.64 per square foot—of the three major submarkets. By comparison, however, average asking rent Downtown was just \$37.22 per square foot at the end of the first quarter.

Despite an improving leasing market, quarterly fundamentals were somewhat sluggish among Manhattan office investment sales, as well-capitalized buyers remain eager despite reluctant sellers. Only one office building was sold and three buildings were recapitalized during Q1 2011. However, at least seven properties were reportedly under contract for sale at the end of March, which suggests that investment sales activity may edge upwards.

“Large pools of capital are looking for product,” said Mark Jaccom, CEO of Colliers International Tri-State. “In recent months, though, these investors have been stymied by the lack of assets being offered to the market. We expect interest in investment sales to continue to increase over the next few months.”

As confidence in the current business recovery continues to build, fundamentals within both the leasing and investment sales markets stand to improve. Leasing terms and negotiations will likely remain highly competitive into 2011 as a rough balance between landlords and tenants will continue to exist.

Additional highlights from Colliers International’s first quarter analysis:

- The overall Manhattan availability rate stood at 11.7 percent at the end of the Q1 2011, down from 12.7 percent year-over-year.
- Manhattan saw an average of 2.1 million square feet of quarterly positive net absorption during the latter half of 2010.
- Class A Plaza District availability registered just 9.5 percent at the end of Q1; in the Times Square district, the rate was even lower at 9.1 percent
- Midtown South posted the lowest submarket vacancy at 5.2 percent

Employment in the city’s financial sector increased 2.5 percent on a year-over-year basis at the end of Q1 2011.