
** Will print automatically! If it doesn't, click [here](#). **

Article can be found at <http://www.crainsnewyork.com/apps/pbcs.dll/article?AID=/20090106/FREE/901069984/INFORMATION>

crain's new york business.com

Recession rocks Manhattan office market

By [Theresa Agovino](#)

Published: January 6, 2009 - 1:36 pm

Leasing activity in Manhattan hit a seven-year low in 2008 and rents in the fourth quarter fell faster than they have in over two decades as the recession rocked the city's real estate market, according to a Cushman & Wakefield Inc. study released Tuesday.

While the average Manhattan rent hit \$79.81 in the fourth quarter—up from the year-ago period—the real story was the nearly \$5 a square foot or 6% drop in that figure from its third quarter peak, said Joseph Harbert, chief operating officer of Cushman & Wakefield's New York metro region.

Mr. Harbert said he couldn't recall such a large decline in his 25 years in the commercial real estate business.

"That is a very big drop," he said.

He added the company measures landlords' asking rents and estimated that towards that end of the year they were getting roughly 20% below what they were requesting. Earlier last year, landlords were getting 5% to 10% off their asking rents.

"Everyone who has space is being as aggressive as they possible can be to get tenants," he said.

That's because tenants are in short supply. Last year, leasing activity fell 19% to 19 million square feet from 2007 and was at its lowest level since 2001 when 18.9 million square feet was rented.

The sharp decline in activity pushed Manhattan's overall vacancy rate to 8%, its highest since the first quarter of 2006, and up from 5.7% at the end of 2007. Midtown Manhattan has the city's highest vacancy rate. It increased 2.3 percentage points from the end of 2007 to 8.5%, its highest level since the third quarter of 2005.

Midtown's struggle is largely tied to Wall Street's tumult. In recent years many financial firms moved from downtown to midtown and now those are the companies that are either disappearing or retrenching. Bear Stearns' collapse and Lehman Brothers' bankruptcy alone are expected to lead to a couple of million square of space being dumped on the market.

The bleak leasing picture is likely to further erode confidence in the already faltering investment sales market. Last year, building sales

plunged 60% to about \$19.2 billion, down from a record of \$47.8 billion of sales closed in 2007. Even worse, the bulk of the action was in the first half of the year.

Mr. Harbert said the federal government's focus on reviving the credit market should help bolster activity this year. In the mean time, Cushman & Wakefield estimates that building prices have already fallen by anywhere from 20% to 30% from their mid-2007 peaks.

Entire contents © 2009
