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2009: 'One of the Most Challenging' for Office

By Paul Bubny

NEW YORK CITY-The year "2009 is shaping up to be one of the most challenging years that we've had in real estate over the past three decades," Robert Alexander, chairman of CB Richard Ellis' New York tri-state, region said on Wednesday. That in a nutshell was the assessment of CBRE in its year-end forecast report for the Manhattan office market--an assessment borne out by newly issued Q4 vacancy figures from CBRE and two other real estate service firms.

However, Alexander said Wednesday during a media presentation at CBRE's offices, "We have great faith in the New York market." In the long term, the financial services sector will be in growth mode again, even though the short term means more layoffs and up to 15 million square feet of space becoming available in '09.

Much of that space will come from large-scale tenants that no longer exist as separate corporate entities, notably Lehman Brothers. The silver lining to the consolidation among financial services giants, Alexander said, is that some of these institutions will become larger and more powerful as a result.

And the short term also presents opportunities, as boutique firms grow and therefore increase their space requirements, possibly snapping up re-priced space although perhaps not in the same proportions as the now-fallen financial services giants. Pointing out that there are now 16 blocks of 250,000 square feet or more available across Manhattan, with as many as eight more joining them this year, vice chairman Michael Geighegan predicted, "We could be flush with large-block opportunities like we haven't seen in years."

One of the 16 existing blocks cited by CBRE is the 1.1-million-square-foot 11 Times Square, the speculative office property SJP Properties is building on Eighth Avenue. Alexander said that property, along with Macklowe Properties' forthcoming 510 Madison Ave., will "absolutely lease up. They're brand-new product."

Whether or not these properties figure in the future space requirements for jumbo-sized office tenants remains to be seen, but Alexander emphasized that the current downsizing is not indicative of space needs down the road. In 2013 and 2014 CBRE predicts there will be rollovers on leases of 6.2 million square feet, or about 20% of the leased space the financial industry occupies. That means that planning for the future will start this year and next.

The investment sales market also experienced some downsizing in 2008, said William Shanahan, vice chairman of the investment properties institutional group. Forty-seven trades totaling \$12.1 billion were transacted in '08, with nearly 60% of the total coming from forced sales such as the Macklowe/Deutsche Bank properties. That compares with 128 sales totaling \$38.6 billion the year prior, and Q4 '08 was particularly quiet compared to the fourth quarter of previous years. However, Shanahan pointed out that the '08 total was still considerably larger than 2005's, "and '05 was considered a pretty successful year."

Nonetheless, the Q4 office numbers from CBRE and other firms chart a continuing decline.

Manhattan overall saw December leasing activity of 720,000 square feet, compared to 2.26 million square feet in December '07. The availability rate rose to 11.3% at year's end, up from 7.9% a year earlier, according to CBRE.

The Colliers report does find some bright spots. "If you are a stable tenant with an upcoming lease expiration, this is nirvana," according to Colliers. "And if you are looking to buy a building for a long-term hold and happen to be one of the few out there with cash or an actual credit line, then this is your moment. But for owners and ownership representatives, business has dropped off sharply."

With that said, Alexander observed that liquidity is "slowly seeping back into the market." Six to eight months from now, the industry will start to see a backlog of investment sales transactions as pent-up demand comes to the fore.

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