



MARKET HIGHLIGHT, DECEMBER 2007

NEW YORK CITY MARKET HIGHLIGHTS

New York City Office Market

In spite of instability in the credit market, a turbulent economy and volatile stock market, the Manhattan real estate market continues to steam ahead, proving that this global business hub is a truly world unto itself.

The office market led the charge as strong leasing and little space returned to the market caused the city's vacancy rate to fall 20 basis points in the past 3 months to 4.9 percent, the lowest rate in more than 25 years. At the same time, average asking rents rose \$2.15 per square foot from the second quarter to \$69.55 per square foot as landlords continued to express their confidence in the New York City market.

On the investment side, however, the credit crisis led to the adoption of a more cautious approach for New York City's developers and investors.

Only \$5 billion in transaction volume was completed in the third quarter 2007, a decline from the average in each of the two previous quarters. Still, with more than \$31 billion in total investment transactions thus far, the market is set on track to double last year's total of \$17 billion.

With the uncertainty surrounding the market, the question arises as to how much of the 33 million square feet that is the construction pipeline for Manhattan will actually be built between now and 2016.

Some projects will certainly move ahead, especially in the Downtown market, where redevelopment over the next 7 years will continue to make this market a destination location. In fact, with a very modern infrastructure, state-of-the-art transportation hub to be completed by 2009, and booming retail and residential markets, Downtown could rival Midtown as a New York's primary office market.

From 2010 through 2014, six new buildings (two owner-occupied) will add more than 12 million square feet of new office product to the inventory. With two of the world's largest financial firms investing in Downtown's future — Goldman Sachs at Site 26 and JP Morgan Chase at Tower 5 — expect to see more firms begin to commit to the World Trade Center development site in a flight to quality scenario.

Future hotbeds of development in New York City include the Hudson Yards, a location everyone is talking about, as well as the far west side of Manhattan, where Merrill Lynch is said to be interested in the Hotel Pennsylvania site on Seventh Avenue. Given the turmoil at that institution in late October, however, questions abound as to that plan's ongoing viability.

— *Richard Persichetti is the director of Research Services for Grubb & Ellis New York*

New York City Multifamily Market

New York City real estate remains in high demand with each new quarter bringing record average sales prices and median sales prices.

The biggest trend in New York City multifamily development has been the strong sales of larger apartments, in particular, the three- to four-bedroom

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condominiums with dens or family rooms. This is due to a number of factors: more and more people want to live closer to where they work, families are moving back into the city due to the proximity to jobs and the allure of cultural amenities, and people are moving up in size as their real estate needs grow and change.

In addition, the luxury market continues to set new records in New York City. Setting a new bar for luxury in Manhattan, 15 Central Park West recently began to close sales with a record price per square foot. High-end developments are throughout the city: 111 Central Park North has established Harlem as a new ultra luxury market, Northside Piers is the first of many of new developments rehabilitating and revitalizing the Williamsburg waterfront, and 505 West 47th and Chatham44 have established Hell's Kitchen as a destination for the first-time homebuyer looking for a deal in an up and coming neighborhood.

New developments are sprouting up all over New York City, partly driven by the looming deadline of the 421(a) tax abatement in June 2008. Developers have been filing building permits at record pace – with permits filed for 958 units in September alone. In particular, the Upper West Side of Manhattan is seeing a tremendous amount of new development. For the past 10 years, this area has had the lowest housing stock and, therefore, demand has far outpaced supply. With a tremendous need for inventory, developers are now scouting locations on the Upper West Side. People should definitely keep an eye out for neighborhoods including Queens, Flushing, Bushwick and Riverdale. A number of developments will most likely be planned in Queens and Flushing as the two areas are attractive from an affordability standpoint.

Developers are identifying a need for almost every size category – from the studios to the four-bedrooms. As rents continue to rise and employment remains strong, there is a tremendous need for entry-level condos. As noted earlier, the luxury larger apartments are in high demand so developers are also fulfilling those needs.

New York City continues to remain a strong, healthy market and we forecast that it will continue on this path as long as the local economy remains healthy.

– Stephen Kliegerman is the executive of director of Development Marketing at Halstead Property in New York City.

New York City Development ~ The High Line

Despite the recent perceived turmoil in the credit market, Manhattan, New York City, continues to sprout new buildings and development projects. A 1.45-mile long elevated and abandoned railroad runs through one of the City's most fertile fields, the High Line.

The soon-to-be public park and landscaped elevated space, which spans 22 blocks, from 34th Street to Gansevoort Street between 10th and Eleventh Avenues, was built in 1929 and abandoned years later. Spanning Hell's Kitchen/Hudson Yards, West Chelsea, and the Gansevoort Market Historic District, the trendy and architecturally significant redevelopment of the High Line have helped fuel what was an already hot development market. Indeed, several industry insiders predict that the High Line District of Manhattan will have more art gallery space per square foot than any other place in the world.

When the High Line was built in the 1930s, these neighborhoods were dominated by industrial and transportation uses. Now thanks to developers and groups like Friends of the High Line and local community and business leaders, many of the warehouses and factories have been converted to art galleries, design studios, retailers, restaurants, museums, and residences.

The frenzy to develop in the uber-trendy locale has prompted established and new developers to focus on the area. Armed with famed partner "starchitects" like Sellendorf and Jean Nouvel and lifestyle hoteliers like Balazs, these developers are gobbling up all remaining development sites.

With many projects already mid-construction and most of the financing already in place, the High Line is already a submarket to watch and will certainly prove to be a place people should focus on in the near future.

New High Line developments include:

- The Standard Hotel at 848 Washington Street is in mid-construction and will straddle the High Line
- Residential development is taking place at 537-545 West 27th Street
- A boutique hotel at 516-518 West 27th Street is set to close this winter
- 520 W. 27th St., a brand new commercial building for upscale tenants
- 511 West 21st Street between 10th and 11th sold for \$52 million and a high-end hotel is planned

- Architects Della Valle Bernheimer are building two new residential projects at 459 West 18th and one at 245 Tenth Avenue
- 200 Eleventh Avenue is a new planned residential masterpiece being designed by architect Annabelle Selldorf
- 100 Eleventh Avenue is a sleek, glass residential tower designed by architect Jean Nouvel with a ground-floor restaurant
- The Caledonia Residences at 33 West 19th Street will feature private entrances to the park

— *David Schechtman, Esq. is a director at Eastern Consolidated.*

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