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# Wind at tenants' backs in NYC office market

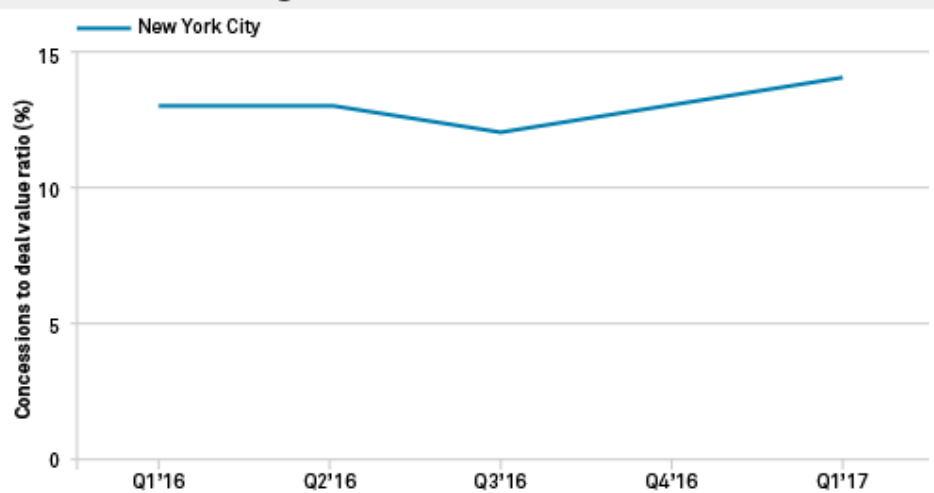
By [Karn Dhingra](#)

It's a good time to be in the market for prime New York City office space.

Landlords in Manhattan, N.Y., overall offered more concession packages, usually a combination of free rent and allowances to improve work spaces, in the first quarter than they did in either the fourth quarter of 2016 or the year-ago first quarter, according to CompStak, a firm that collects and analyzes data anonymously provided by brokers, lenders and landlords involved in office and commercial real estate deals.

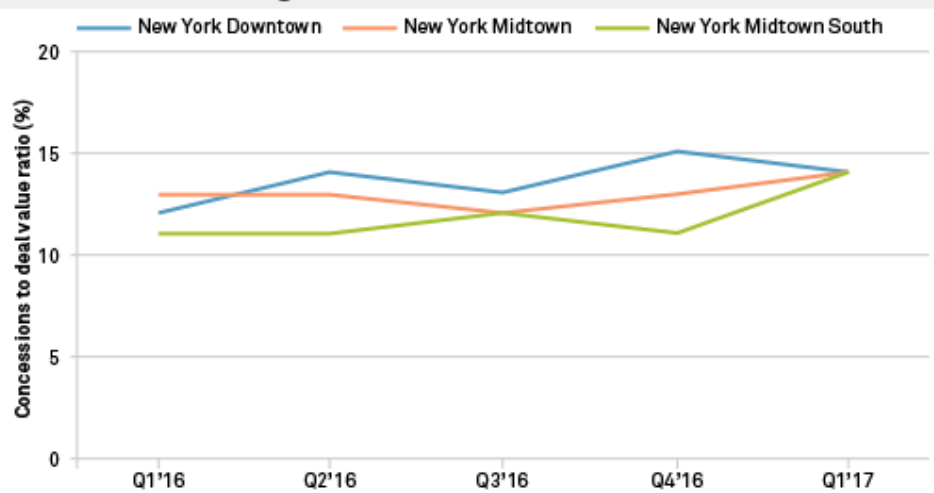
Calculated as a percentage of the total lease deal, concessions came to 14% in Manhattan's three prime business districts. Midtown and Midtown South each saw an uptick from the fourth quarter, one percentage point and three percentage points, respectively, while Downtown experienced a one-percentage-point decline from the fourth quarter.

**Concessions package trend (combined)**



Source: CompStak

**Concessions package trend**



Source: CompStak

With roots in the Great Recession, rich tenant concessions are nothing new. Generous packages have since become a standard part of lease negotiations, CBRE broker Paul Walker said.

"Landlords started being more generous with build-outs then, and as the economy started to improve, construction costs started rising because there were new residential and hotel developments in New York, you also had Madison Square Garden and Yankee Stadium, which created more competition for

construction workers and increased costs for building materials," Walker said. "Tenants became accustomed to the concessions, and it became the market standard."

With much of the space in Manhattan in need of updating to conform to more modern design and workspace preferences, the cost of fitting out a new office space can be prohibitive for tenants looking to make a move. Landlords with access to low-cost debt thanks to low interest rates can entice tenants by offering to finance those construction costs in exchange for higher rent.

Landlords such as private equity firms that want to sell in three to five years or refinance need to preserve face rents — the top-line rent before incentives or increases — because that is how the building is valued, Walker said. "To get tenants to pay that high rent, they need to offer high concessions."

While this trend has been in place for a number of years, concession growth has been steeper since October 2016, according to CBRE. Landlords appear eager to sign deals and lock in financing for tenant improvements before the Federal Reserve increases rates.

The high concession rate is expected to continue through 2018 because of competition from new supply coming to market, market participants said.

After a 15-year dry spell, new supply is finally coming online, with about 10 million square feet of space at the World Trade Center and Hudson Yards developments, said Ruth Colp-Haber of Wharton Property Advisers, a third-party firm that negotiates leases for tenants.

"I think we're starting to see a cycle that's beneficial for tenants. It's going to accelerate more," she said.

The Hudson Yards development on the far West Side of Manhattan has attracted [high-profile tenants](#) like law firm Skadden Arps Slate Meagher & Flom and BlackRock Inc. and will likely attract more big names in coming years.

"The really interesting part of this is what happens to their old spaces," Colp-Haber said. "A lot of them are vacating prime space in prime Midtown locations, and those spaces are what's going to drag the market down because those are older spaces that need a lot of work."

Richard Persichetti, regional director for tri-state & northeast research for [Cushman & Wakefield](#), said he expects landlords to continue offering generous concessions. He noted that the average age of a Manhattan office building is 83 years, and many properties need extensive updates to remain competitive.

Persichetti said that from 2011 to 2014, Manhattan office landlords signed 23 deals with tenants that had work allowances of \$100 per square foot or more.

"In 2015, there were 24 alone," Persichetti added. "In 2016, there were 43 leases. To put it in perspective, we're up to 34 leases with \$100-plus allowances this year."



**The Shed will be a center for artistic invention at Hudson Yards. Scheduled to open in spring 2019, it features a movable shell that slides back and forth over the structure on rails.**

*Source: Associated Press*