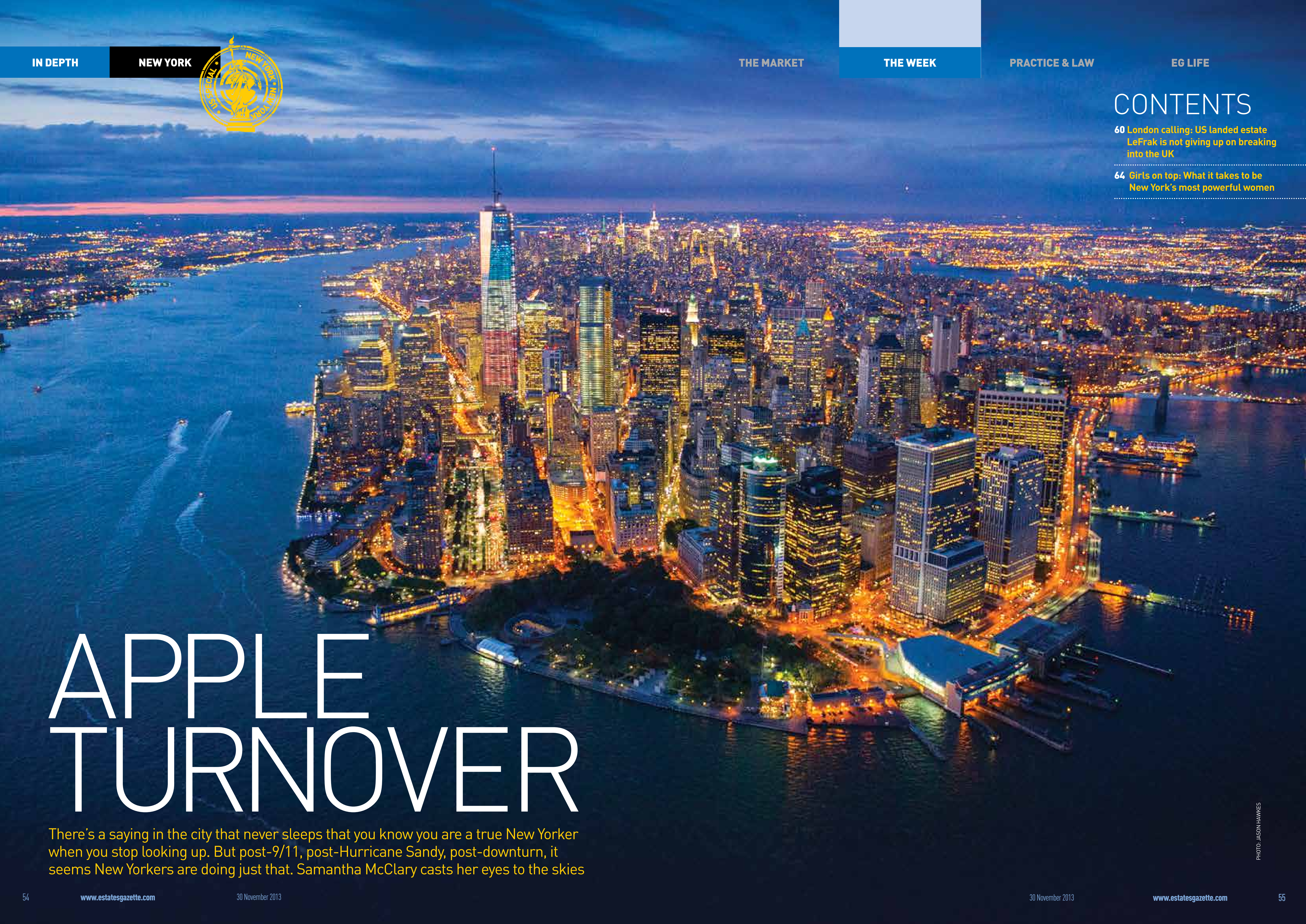

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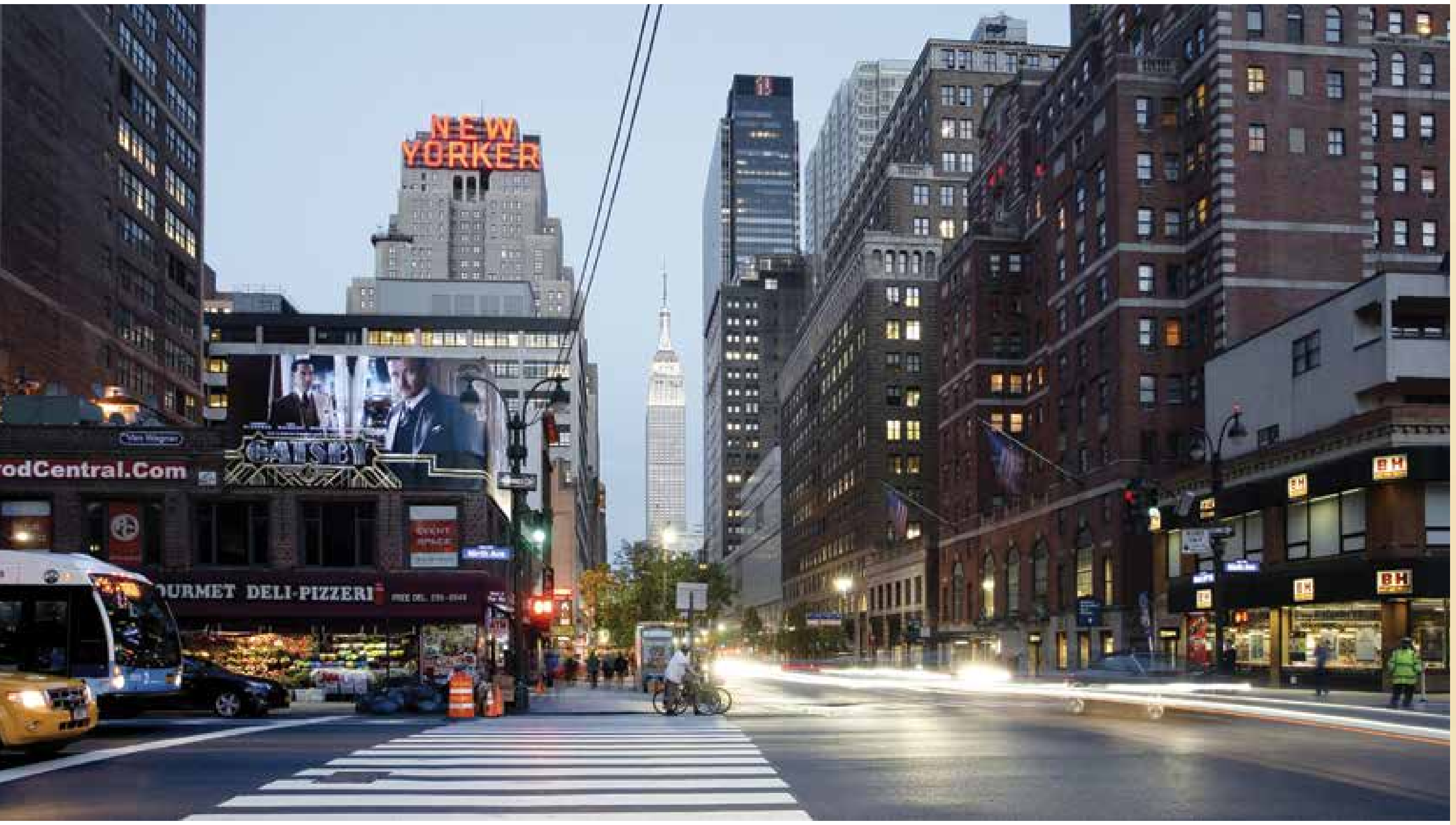
APPLE TURNOVER

There's a saying in the city that never sleeps that you know you are a true New Yorker when you stop looking up. But post-9/11, post-Hurricane Sandy, post-downturn, it seems New Yorkers are doing just that. Samantha McClary casts her eyes to the skies



The optimism is contagious. When you talk to agents, investors and developers in the city that never sleeps, there is no doubting the overarching mood. The investment market is well up on 2007 levels, the occupational market is moving in the right direction with rents rising, tourism is booming, hotels are packed, debt is available and equity is pouring in from all over the world.

New York may be about to lose a mayor who has put business and development at the top of city politics for 12 years – more on that later – but the property industry needs to focus on the environment Michael Bloomberg has helped facilitate, not worry about future what-ifs.

At least, not for now. Latest figures from the federal labour department show a 2.5% increase in private sector jobs since October 2012, a pace that puts the city ahead of both New York state and the country – which were up by 1.5% and 2.1%, respectively.

CBRE's Mary Ann Tighe, chief executive of the tri-state area and the woman credited with being involved in most, if not all, of New York's game-changing deals over the past two decades (see p64), says this uptick in employment has seen a direct correlation with a pick-up in the office sector. Indeed, figures from CBRE show that 20.7m sq ft of space has been leased in the year to date, more than 1m sq ft up on the equivalent period in 2012.

So what's next for the Big Apple – the city where there is simply no longer a place for pessimism? *Estates Gazette* went stateside to find out.

Midtown marches on

When a company looks for space in New York, it now tends to search from the top of Battery Park to 60th/61st Street from east to west, says Tighe. And that is very different from traditional patterns. Once upon a time, occupiers tended to be much more sector-specific, but the days of blinkered searches of the garment district, Wall Street, Madison Avenue and other industry ghettos are long gone. The search now is simpler, harder, more focused – it's about finding the right buildings at the right prices.

Alongside this improvement in occupier activity, the city is also seeing a healthy increase in rental growth. Average rents for Manhattan at the end of the third quarter were $62.27 per sq ft, up by almost 8% on the $57.32 per sq ft achieved in the equivalent period last year.

The uplift has been largely steady in the traditional office markets of Midtown and Downtown – up by 7.3% and 3.7%, respectively, in Q3 – while upcoming Midtown South recorded an 18.2% rise in rents over the period.

> The days of blinkered searches of the industry ghettos are long gone. The search now is simpler – it's about finding the right buildings at the right prices

Tighe says Midtown South was traditionally the part of town occupiers went to if they couldn't afford Midtown or Downtown. Now rents there are significantly higher than Downtown – close to $20 per sq ft more – and within about 15% of the prime Midtown market. As in cities across the globe, this is down to the famous Google effect.

Since Google acquired the 3m sq ft 111 Eighth Avenue in December 2010 for $1.8bn, there has been a wave of activity from technology firms in the area. Amazon, IBM, eBay and Facebook – which is understood to have agreed a 10-year deal for as much as 160,000 sq ft at 770 Broadway at a rent in the mid-$70s per sq ft – have all expanded into the area. Google is also said to be growing in the area, with discussions under way with developer Related Companies to take space at its building on 10th Avenue.

According to data from Cushman & Wakefield, all this activity has seen vacancy rates in Midtown South tumble to 7.6% in the third quarter of

HUDSON YARDS

This will be the biggest real estate project in US history – a $20bn, 18m sq ft, mixed-use scheme in the heart of New York. Hudson Yards will transform an industrial area of the city into a place where the biggest names in fashion and media will congregate; a place to shop, to live, to be seen. The 26-acre rail yard site that encompasses an entire block between 30th and 33rd Streets and 10th and 12th Avenues was eventually bought by Related Companies in 2008 for $1bn. Related had bid for the project before the crash, but lost out to Tishman Speyer when its anchor tenant, News Corp, got cold feet. Tishman pulled out of the project later and Related stepped back up, pulling together a deal that would mean it would not have to close on the giant investment until the market returned to health.

The site is now starting to take shape. Designed by architect Kohn Pederson Fox, the development, which will be delivered in two phases, is well into construction, with the first of two giant office towers on the site being built. A 1.7m sq ft, 52-storey tower, which will create a new home for luxury retailer Coach, beauty company L'Oréal and enterprise software firm SAP, will be delivered in 2015. It is fully financed with equity from Related and its 50:50 joint venture partner Oxford Properties, Related shareholder Kuwait Investment Fund and JP Morgan. Debt has come from Starwood Capital. A second tower, 30 Hudson Yards, will begin in 2014. Media giant Time Warner – the main occupant of Related's first major project in New York, the 2.8m sq ft Time Warner Center at Columbus Circle – is widely tipped to anchor the 2.3m sq ft tower. Financing for that will be sought once more tenants are locked in.

Alongside the 6.7m sq ft of offices that will be delivered, the scheme will include more than 5m sq ft of residential – the moneyspinner in the development. Residential should fetch upwards of $3,000 per sq ft, more than double the offices. It will include more than 1m sq ft of shops in the city's largest mall, a hotel, school and an innovative culture shed that has recently been named as the home of New York Fashion Week.

In the middle of the Yards there will also be a five-acre park, which Related says will feature a new icon for New York – a sculpture that will have the year-round draw of the Rockefeller Christmas tree. It will be designed by Thomas Heatherwick, the architect behind the Olympic Cauldron at last year's London Games.

Hudson Yards is the biggest project that Related has undertaken, but it is confident of success. The hugely popular High Line wraps itself around the scheme, the New York government has invested $4bn in surrounding infrastructure, including a new subway line and station opposite the Yards, and rents in the area are already skyrocketing.

Jay Cross, president of Hudson Yards, says: "The development of Hudson Yards, coupled with significant public investments being made on the West Side, provides an incredible opportunity for New York City to improve its ageing office stock, create new green spaces and integrate smart technology and sustainable living into a new, modern, 21st century neighbourhood."

this year, the lowest level of any US business district.

A maturing market

What the area needs next is a hit of institutional investment. When the institutions start to snap up real estate in this part of the city, the market will feel more comfortable that the Google effect is not a bubble, but a symptom of a maturing tech market.

And the signs are that the market is maturing, with even New York's top educational facilities investing heavily in the sector. Cornell Technion, a partnership between NYC's Cornell University and the Israel Institute of Technology, is developing a 12-acre tech campus on Roosevelt Island in NYC's East River, and Carnegie Mellon University has also announced plans for a tech campus in the city.

Not that New York City in general is suffering from a lack of investment. According to the city's biggest dealmakers, power duo Darcy Stacom and Bill Shanahan of CBRE, investment levels have now surpassed boom-time highs, with land prices sometimes double what they were back in 2007. These two alone have probably traded more than $5bn of property in the past year. Not bad for an industry just recovering from one of the world's worst-ever downturns.

Cash is pouring into the city. Any New York broker will tell you they have been to meetings with rooms full of billionaires from across the globe – the Far East in particular – desperate for a bite of the Big Apple.

After years of eyeing the market, Norwegian sovereign wealth fund Norges Bank finally made its first big play in the US this year. In February, it spent $1.3bn on a portfolio of five properties from TIAA-CREFF. Then, in September, it bought a 45% stake in Boston Properties' 1.2m sq ft Times Square Tower for $684m.

But Norges Bank's big splash in the city has been surpassed by the Chinese, who are fast becoming the most active in the region. It began in the summer when Soho China, part of a consortium that includes Brazilian banking magnate Moise Safra, bought a 40% stake in the 2m sq ft General Motors building on Fifth Avenue for $1.4bn.

Then, in October, Greenland Group took a 70% stake in the $4bn Atlantic Yards mixed-use project in Brooklyn, which will see more than 6,400 homes plus offices, shops and the Barclays Center arena delivered; and Summit Glory Holdings, a subsidiary of Shanghai-based Fosun, made the largest individual real estate acquisition by a Chinese buyer in the city, with its $725m purchase of the 2.2m sq ft One Chase Manhattan.

And there is no sign of that investment slowing. The Chinese insurance funds have tens of billions of dollars to spend on overseas real estate. The Wanda Group wants to spend as much as $5bn a year on overseas investment and is due to announce plans soon for a $1bn hotel and residential project in New York.

CBRE's Shanahan says brokers in New York look to London to see who the next big international buyer of real estate will be. "Whoever buys in London, buys here," he says. Shanahan and business partner Stacom say London is much friendlier tax-wise, so international buyers feel safer testing the waters there first.

The challenges

There is a lot of good news to report from the Big Apple, but it is certainly not all plain sailing for New York real estate.

Supply is a major issue. The city has an ageing stock of buildings that are becoming unfit for purpose. The average age of a New York building is 60, and even with the mega projects of the World Trade Center buildings and Hudson Yards (see boxes) coming out of the ground, there is a feeling that there is just not enough of the right space available.

> "For 12 years the city had a mayor who understood its DNA. A change in leadership is a threat. We have to make sure it doesn't interfere with business"

Couple that with a growing propensity for office space to be lost to the residential sector and it paints a potentially worrying picture. In recent years, 17m sq ft of office space has gone over to residential and, with multi-housing rents at record levels and expected to grow by an average of 3.2% a year for the next five years, that figure is only likely to increase.

But the biggest threat, and one that cannot be ignored, is the unknown. In January, the city will get its first new mayor in more than a decade, 52-year-old Democrat Bill de Blasio. CBRE's Matt Van Buren, president of the New York tri-state region, says: "For 12 years, the city has had a mayor who was a successful businessman, who understood the city's DNA. He steered it towards a place that is friendly to business and favourable for development. A change in leadership is a threat. We have to make sure it doesn't interfere with, or inhibit, business."

De Blasio's policies could cause concern for the real estate sector. The East Midtown rezoning plan, which would have allowed larger new offices to be built in the Grand Central/Park Avenue district, has been tabled, so it will come under De Blasio's remit. He is known to want to link any new development requiring city subsidies or zoning variance to affordable housing provision, in his bid to provide 200,000 new units in the city, and is keen to end low tax rates on vacant residential land. All of this could hurt the development sector.

But Bloomberg has left De Blasio with a balanced budget and a growing population – a city in very good health.

Tighe says: "We just have to hope he follows the doctor's oath of 'I will do no harm'." She adds that, whatever the future holds, there is no room for pessimism in New York now that the global recession seems to be receding. The time for action, positivity and pushing ahead is now, as Tighe simply poses the question: "What alternative do we have?"

MORE ON NEW YORK REAL ESTATE OVERLEAF

WORLD TRADE CENTER

While Hudson Yards may be the biggest development to be undertaken on US soil, the redevelopment of the World Trade Center has to be the most sensitive. The 16-acre Downtown site, devastated by the terrorist attack that changed the world forever on 11 September 2001, had to be rebuilt to send a message of survival to those intent on disturbing the peace, but also had to be sensitive to the thousands of lives lost on that fateful day.

The complex that made up the World Trade Center was famously bought by veteran New York developer Larry Silverstein for $3.2bn just six weeks before 9/11. Silverstein then, even more famously, skipped his usual breakfast meeting in the Twin Towers on the morning of the attack so as not to upset his wife of more than 50 years. "If you've been married 50 years and your wife gets upset," says Silverstein, "you know you've got yourself a major problem. I quickly shifted my plans. I realised there was no way I was going Downtown. I said don't get upset, don't get angry. I apologised. The words were: whatever you want me to do, I'll do."

Not long after that conversation, Mrs Silverstein received a call from the captain of the couple's boat, moored on the Hudson River, asking where Mr Silverstein was and telling her to turn on the television.

Since that time, Silverstein has gone into battle with his insurers, which had sought not to pay out on the disaster. He refused to give up, arguing that there was no alternative but to rebuild. More than a decade on, he has completed two of the towers that will make up the new World Trade Center – 7 World Trade Center, a 741ft, 1.7m sq ft building completed in 2006 that is home to ratings agency Moody's and Silverstein Properties, and 4 World Trade Center, a 977ft, 2.3m sq ft building to be occupied in part by the Port Authority of New York and the city government's human resources department. It was completed earlier this month.

One World Trade Center – formerly known as the Freedom Tower, developed by Silverstein but owned by the Port Authority – is prelet to publishing giant Condé Nast and is the focal point of the redevelopment at 1,776 ft and 2.6m sq ft. It is due for completion early next year.

Silverstein shows no fear of the scale of the project he is undertaking at the ripe old age of 82. The fact that 4 World Trade Center is 40% vacant on opening causes him no concern. The veteran developer is used to building on spec and, despite protestations from peers that he must be crazy, Silverstein is very much of the opinion that if you build it, they will come.

"When you build a first-class building in a wonderful location, it's not a question of if the building will occupy, it's a question of when," he says.

"One of the things I learned very early on in life is never to bet against New York. The city has a way of coming back bigger, better and stronger."