

Lower Manhattan and the Region's Office Market

Civic Alliance for Downtown New York

November 10, 2004

Issues for Lower Manhattan

- Strength of the office market recovery
- Competition with Midtown
- Far West Side's impact on Downtown
- Relationship to outer boroughs and northern New Jersey
- Space needs of growth industries
- What role will Downtown play in the 21st Century economy?

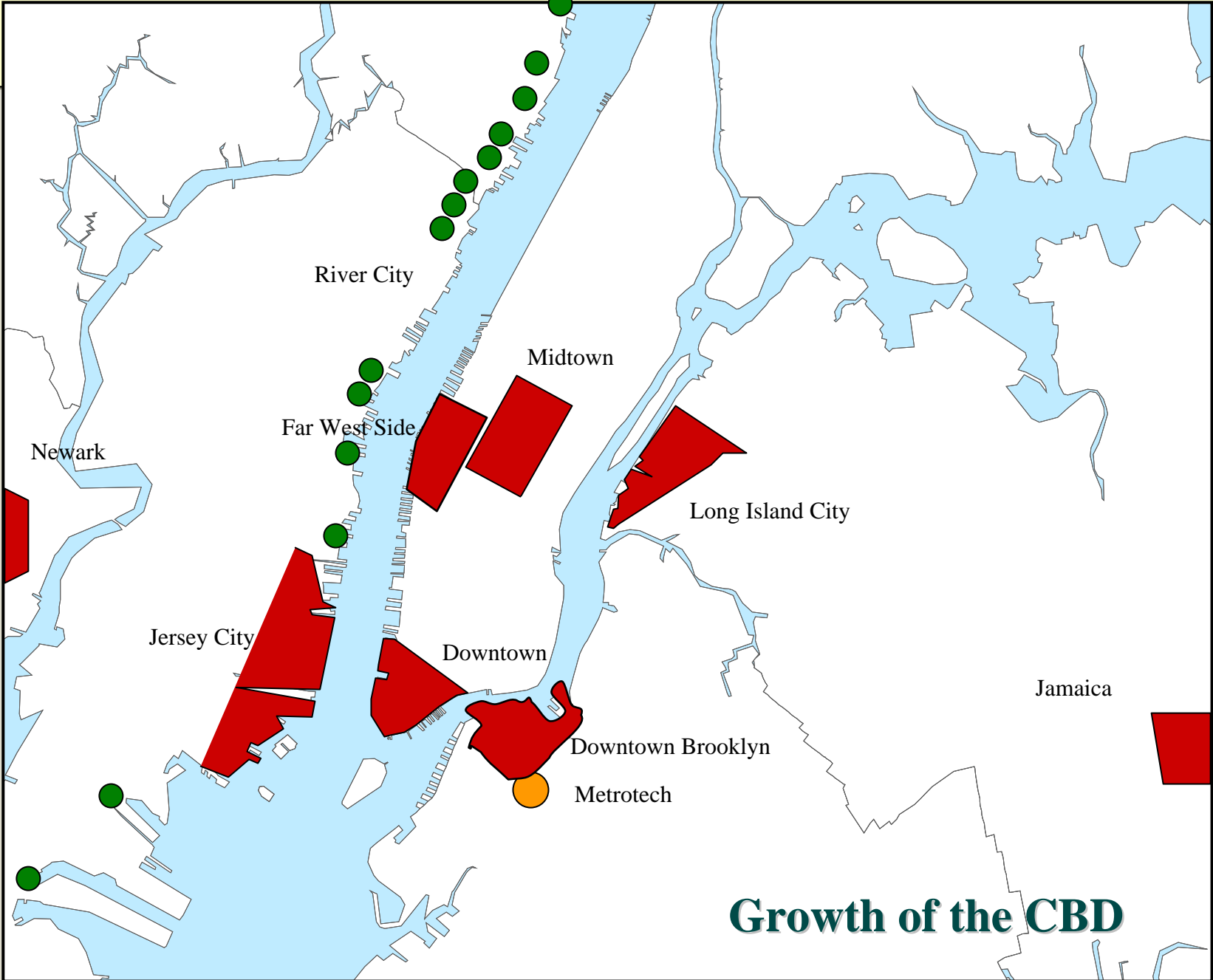
Challenges in Predicting Office Market Trends

- Office market is dependent on economic forecasts
- Inconsistent data for both office employment and office supply
- Relationship between employment and office use is elastic and changing
- Markets can change quickly and unexpectedly

Different Sources, Different Numbers

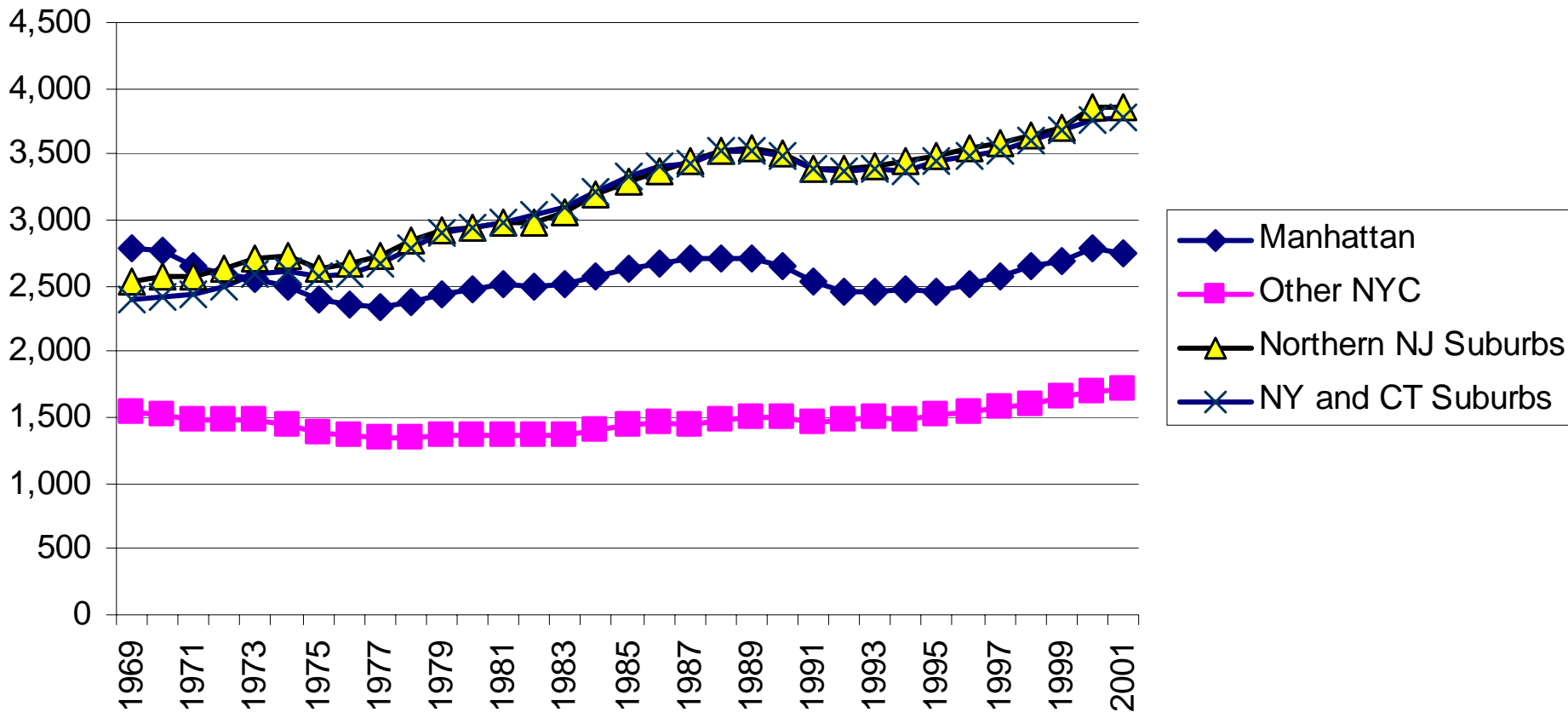
Downtown Vacancy Rate 3rd Quarter 2004

Cushman & Wakefield	12.7%
Grubb & Ellis	12.9%
Collier's	13.3%
Newmark	14.9%



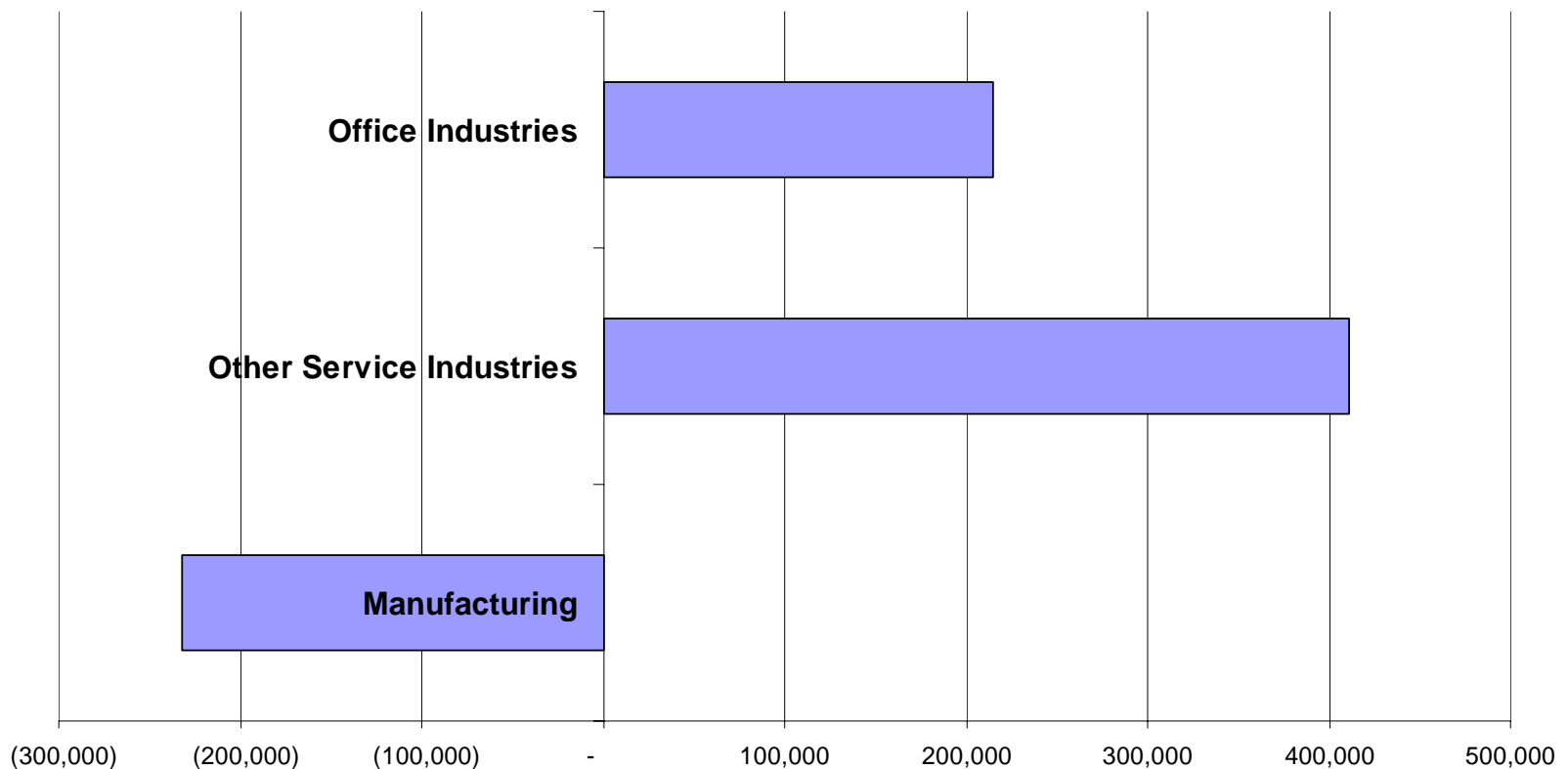
Growth in Manhattan Benefits the Region

Employment in the Tri-State Region, 1969-2001

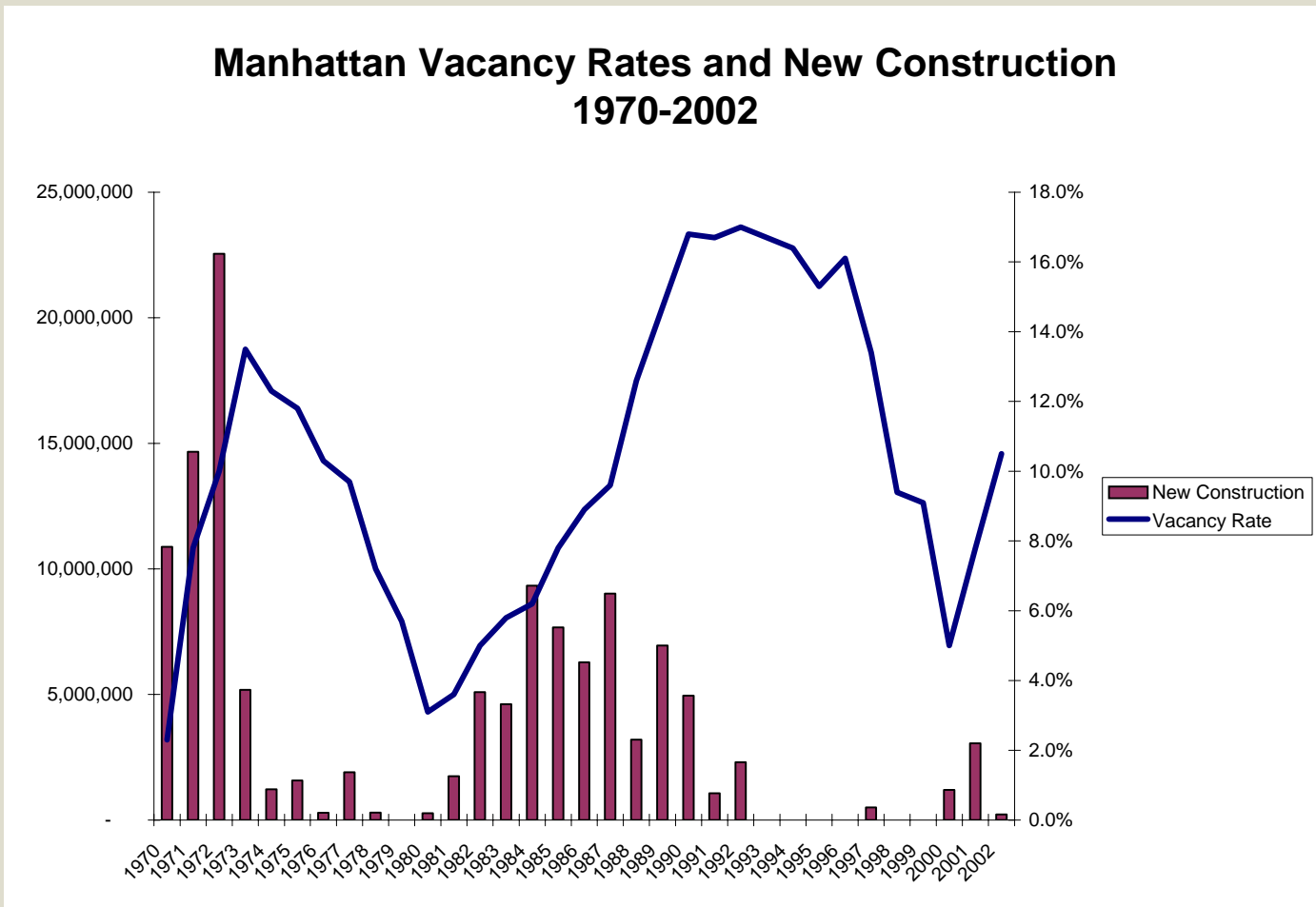


Office and Non-Office Jobs

NYC Employment Change, 1980-2000



Cycles in the Manhattan Office Market



Recent Trends

- Building prices held up during recession
- Strong leasing activity in 2004
- Recovery led by professional services
- Financial services starting to lease up, especially in Midtown
- Downtown is lagging

Regional Snapshot

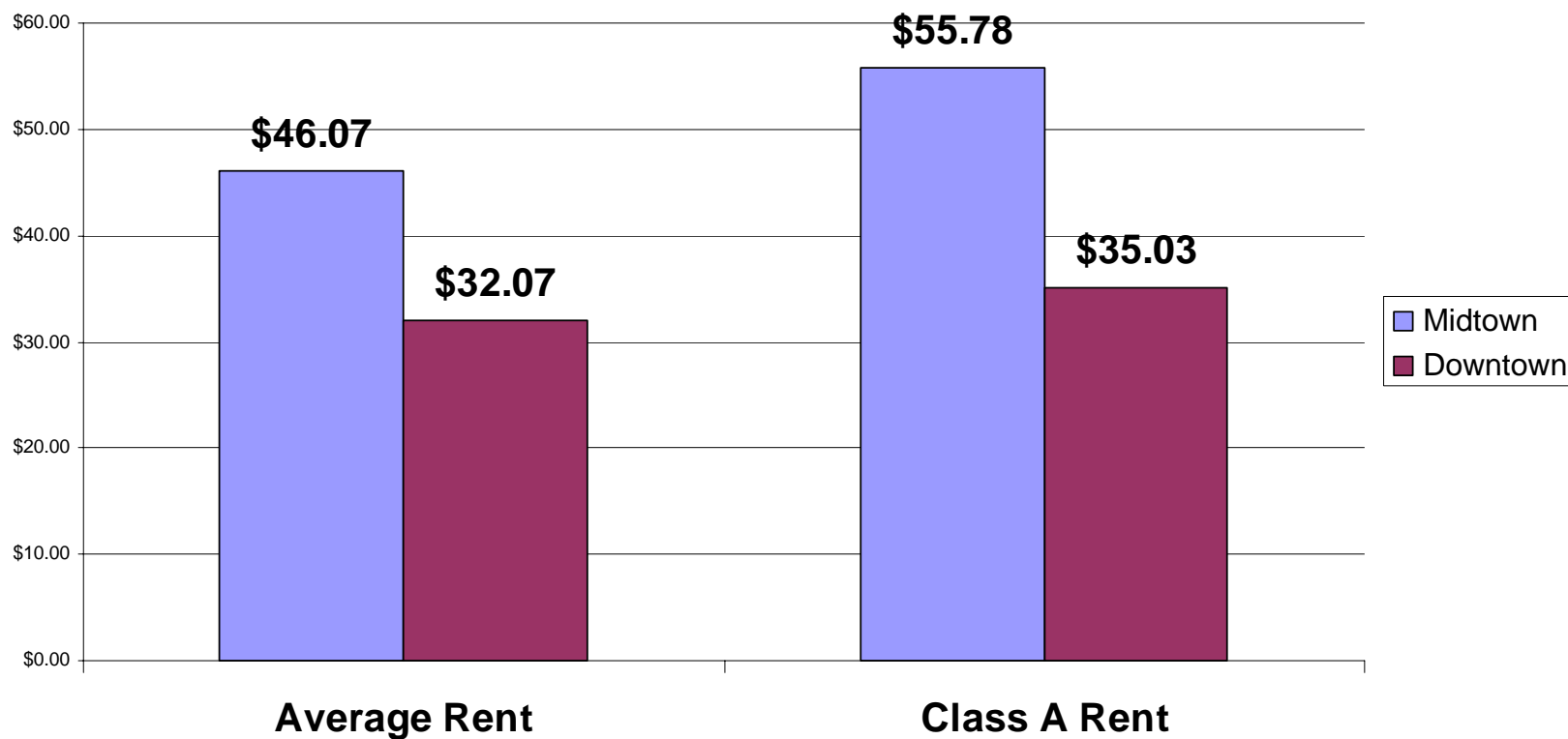
3Q 2004

Areas	Office Inventory	Available Space	Availability Rate	Asking Rent
Manhattan	404,549,185	49,850,232	12.3%	\$39.82
Northern New Jersey	114,876,600	22,056,300	19.2%	\$23.82
Long Island	48,819,400	5,760,700	11.8%	\$22.62
Westchester/Fairfield	75,934,700	12,339,400	16.3%	\$25.36
Region	644,179,885	90,006,632	14.0%	

Source: Newmark Real Estate

Downtown vs Midtown

Downtown vs Midtown Rents, 3Q 2004



Jobs Needed to Fill Manhattan's Vacant Space

Vacant Office Space, 3Q 2004	47,500,000
Under Construction	9,900,000
Planned (not inc. WTC bldgs 2-5)	4,800,000
Total	62,200,000
Office employment needed to reach 8% vacancy	135,000

How Long Will It Take to Generate 135,000 Manhattan Office Jobs?

- **2009**, if 1990's are repeated
- **2014**, per Economy.com forecast
- Approximately **2011**, per NYMTC forecast

Potential New Supply Past 2010

	Square Feet
<u>Identified Sites</u>	
Lower Manhattan	11,300,000
Midtown	13,800,000
Downtown Brooklyn	6,700,000
Long Island City	7,000,000
Hudson County	30,000,000
Far West Side	28,000,000
Total	96,800,000
Unidentified sites	???
Net conversions/demolitions	???

Long-term Employment Trends

- Less Growth from Financial Services
- Strong Growth From Professional Services and Creative Industries
- Both Decentralization and Recentralization Trends
- Growth May Not be Sufficient to Fill All Projected Office Development

Conclusions

- New city office development unlikely to be needed until between 2010-2015
- Far West Side could delay Lower Manhattan's recovery in 2010-2020
- Downtown will continue to renting at a substantial discount from Midtown
- Downtown should be able to support some additional Class A space, but timing is uncertain
- More attention is needed for how to best utilize Downtown's Class B space