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## Further Slide Seen in Commercial Real Estate

By CHRISTINE HAUGHNEY

There are 920 football fields of available office space in Manhattan. More than 180 major buildings totaling \$12.5 billion in value — from Columbus Tower at 1775 Broadway to the office tower 400 Madison Avenue — are in trouble, meaning in many cases they face foreclosure or bankruptcy, or have had problems making mortgage payments. Rents for commercial office space fell faster over the past two years than in any such period in the last half century.

“I have been in the business for 12 years. I have never seen it this bad,” Peter Von Der Ahe, vice president of investments for the brokerage Marcus & Millichap, said of New York City’s commercial real estate market. According to more veteran colleagues, he said, things have not been so dire since at least the early 1990s.

And that is not the most sobering assessment.

“It hasn’t hit bottom,” Mr. Von Der Ahe added.

He is not alone. More than half a dozen experts on commercial real estate in New York City said that despite some flickering signs of economic recovery here and elsewhere in the country, the universe of big buildings and giant apartment complexes has further to tumble.

Rents, they say, will go lower. Vacancy rates are likely to rise, too. Owners of troubled properties will face a final day of reckoning and in some cases lose their properties.

“We’re projecting the biggest value losses in the nation,” said Aaron Jodka, a senior real estate economist at Property and Portfolio Research, a Boston-based independent real estate research and advisory firm. He predicts that by 2011, the value of New York metropolitan area office buildings will decline by 58 percent from its late 2007 peak. It is already down 40 percent.

Some experts point to the bright sides of a down market — for example, the opportunity to

snap up some great bargains. They say that investors who already have been shopping in London for skyscraper deals may set their sights on Manhattan later this year to find deals, and that may fuel some growth in overall sales. Some New Yorkers, especially businesses who have found the market too costly, also may find some deals.

“A correction might give opportunities,” said Jonathan Bowles, director of the Center for an Urban Future, an independent research group. “I think it’s healthy for the city’s real estate market to have a down cycle.”

But most members of the real estate industry are lockstep in



PHOTOGRAPHS BY CHESTER HUGGINS JR./THE NEW YORK TIMES  
400 Madison Avenue; some experts say that Manhattan’s commercial real estate hasn’t been in such dire shape since the 1990s.



their pessimism, and the reasons are multiple: Jobs must recover first to fill offices with workers, and job growth in New York City has been all but invisible. Many buildings are also tied up in complex financial arrangements that could take years to unravel.

Robert Bach, chief economist at the real estate brokerage Grubb & Ellis, compares recovery of the commercial market — which includes everything from office towers to rental apartment buildings to retail space — to turning a big ship around.

Taxes on commercial buildings also make up a sizable share of the revenue base for the city. Residential and commercial development generated \$307.7 million in tax revenues, not including property taxes, from 2000 to 2007, according to the Real Estate Board of New York. In fact, the industry had a \$12.4 billion effect — including construction costs like salaries and purchases made by workers — on the local economy during that period.

“The tax base is enormous,” said Michael Slattery, the board’s senior vice president of research. “It helps fund many of the basic services that make our city operate.”

Richard Persichetti, director of New York research for Grubb & Ellis, said that when the economy started to slide, office rents fell faster than in any period recorded in at least 50 years. The city has become stuck with more available office space than any other central business district in the nation except Chicago, Washington and Boston. Mr. Persichetti predicts it will take until 2014 to make a major turnaround.

“Rents probably won’t start to recover until job growth is created and some of that available space is absorbed,” he said.

Some foreign investors may swoop in this year and buy up some of the city’s most desirable and stable skyscrapers, said Robert White, president of the research company Real Capital Analytics which tracks the city’s troubled properties. Then the city will be left with properties in financial difficulties that are half empty and in less coveted locations. Recovery for those buildings, Mr. White said, “is going to take a little bit longer. It’s not going to be in a rush.”

No prospective deals on these buildings are apt to be helped by the fact that they are tied up in complicated mortgage structures that grew popular in the boom years. Joseph Harbert, chief op-



1775 Broadway; the value of New York metropolitan area office buildings is down 40 percent from its peak in late 2007.

erating officer for the New York City region of the commercial brokerage Cushman & Wakefield, says that working out ownership disputes for these buildings will take much longer than in past real estate meltdowns.

“In the ‘90s, when you had the real estate workouts, you had a lot of single-lender properties. There are more parties and interests in every deal,” said Mr. Harbert.

Regardless of these complica-

tions, Mr. Harbert, who remains generally optimistic that parts of the real estate economy could recover this spring, says that lenders, skyscraper buyers and renters will not feel comfortable moving forward until they really see that jobs are being created.

“They’re kind of waiting for positive signs in the economy,” he said. “When jobs are going to recover, that’s the signal of when people are going to lease and buy.”