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Office Construction In New York City Reaches 25-Year High

New Construction and Renovations to Existing Buildings on the Rise

Buoyed by increasing employment, low interest rates, and a large supply of shovel-ready development sites at Hudson Yards and the World Trade Center, office construction in New York City is at its highest level since 1990, according to a New York Building Congress analysis of multiple data sources.

In 2015 and 2016, a total of 9.7 million square feet of new office space will be constructed in 19 separate buildings across Manhattan, including 7.4 million square feet combined in Midtown West and the World Trade Center. This newly-constructed space will gradually come on line as these 19 buildings are completed. The biggest wave of openings will occur in 2018, when six different towers are projected to be fully or substantially complete.

The Building Congress forecasts construction of 4.3 million square feet of new office space this year, up from 2.4 million in 2014. The Building Congress further estimates 5.4 million square feet of new office space will be built in 2016, followed by 4.9 million square feet in 2017 and 4.0 million in 2018.

For the 10 years between 2010 and 2019, the Building Congress forecasts a total of 29.5 million square feet of new office space will be built. In the period between 2000 and 2009, New York City added 22.3 million square feet of newly-built office space, which was offset by the loss of more than 10 million square feet in the terrorist attacks on 9/11.

While the pace of new office construction is at its greatest level in a quarter of a century, the numbers still pale in comparison to the period between 1968 and 1973, when 72 million square feet of new office space was delivered; or the 51 million square feet that were added in the nine-years between 1956 and 1965, and again between 1982 and 1990.

“After years of planning and upfront investment, the vision of a new World Trade Center and Hudson Yards are coming to fruition and in a big way. Even beyond those two mega-projects, it is obvious that the development community is bullish on New York City’s commercial future,” said New York Building Congress President Richard T. Anderson. “At the same time, we are not

seeing the sort of irrational exuberance that led to a wave of speculative projects and gluts in the office market during periods of the 20th century.”

A&R Spending Also Rises

In addition to new construction, owners and office tenants are increasingly investing in alterations and renovations (A&R) to their existing office space. According to a Building Congress analysis of Dodge data, A&R projects of \$2.7 billion in total value were initiated in office buildings citywide in 2014, up from \$2.2 billion in 2013 and \$1.3 billion in 2012.

That trend has accelerated even further in the current year. In the first half of 2015, \$1.7 billion worth of A&R projects were initiated, up from \$1.2 billion in the first six months of 2014 and \$833 million in the first half of 2013.

“It appears that owners of existing office properties are upping their games in anticipation of the new wave of modern offices that are coming on line over the next five years,” added Mr. Anderson. “In order to remain competitive, they recognize the need to modernize their existing spaces to make them more efficient, technologically-advanced, and appealing to both traditional and new economy tenants.”

Office Fundamentals

Employment

Since reaching a post-recession low point in January 2010, New York City office employment has been rising steadily, gaining roughly 25,000 new jobs per year by mid-year 2013 before rising to 50,000 by mid-year 2014. By June 2015, the expansion had slowed to some 40,000 new office jobs. Nonetheless, office employment is at its highest point in the City’s history, exceeding the two prior peaks in 2000 and 2007 by more than 100,000 jobs.

Leasing

New York’s major brokerage firms estimate current availability in Manhattan – or space being actively marketed for occupancy within 12 months, including sublet space – at 11 percent. That said, the vacancy rate on space for immediate lease is nearer to the market norm at 7 percent. Some 27 million square feet of office space is expected to be leased in 2015. Since 2006, the amount of square feet leased annually has ranged from 16.5 million to 30 million square feet.

Inventory

According to the Department of City Planning, New York City currently has an inventory of 463 million square feet of office space. Approximately, 84 percent (or 390 million square feet) is located in the borough of Manhattan, with 81 percent of the City’s total inventory located south of 60th Street.

“Despite efforts in recent years to spur office construction in business districts outside Manhattan’s commercial core, Manhattan remains the only truly viable option for most companies,” said Mr. Anderson. “It will be interesting to see if neighborhoods such as Downtown Brooklyn, DUMBO, and Long Island City are able to take advantage of their

growing popularity among residents and the trend toward creative workers wanting to work near where they live.”