

# THE GOTHAM COMMERCIAL REAL ESTATE MONITOR

MARKS PANETH LLP

## What do New York City Office Tenants Think About “Green” Certification of Office Buildings? “Meh,” is the Consensus

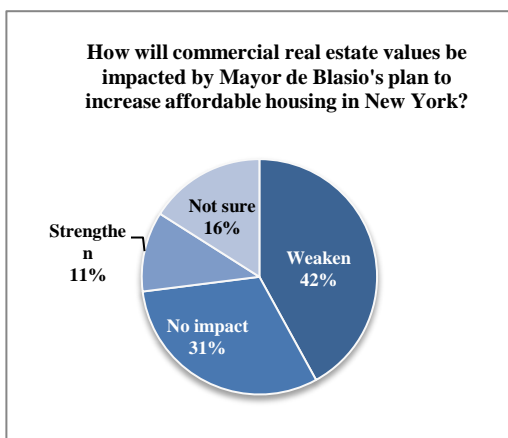
- Even as more New York office buildings are built and renovated to environmentally sustainable (“green”) standards, tenants and potential tenants don’t care all that much, according to our spring 2014 survey of New York City commercial real estate executives.
- Most executives (83%) said tenants regard green certification as either “not too important” (33%), only “somewhat important” (45%) or “not at all important” (5%). Only 15% believe tenants see environmental sustainability in a building as “very important.”
- Nonetheless, green certification will ultimately grow in importance for tenants, real estate professionals said. Most – 60% – said sustainability is a design element or amenity that companies will be looking for in the next three to five years. In terms of where sustainable design will be found, just over half of executives (51%) said it will occur in both new construction and the retrofitting of old office buildings.



## Moveable Walls and Open Office Plans Will be the Amenities in Greatest Demand

- Property professionals (64%) were most likely to say moveable walls and open office plans will be sought-after elements in the near future. Nearly half (48%) said office tenants will be looking for outdoor spaces, and 39% said they’ll want bike racks.

## Real Estate Executives Think Mayor de Blasio’s Plan to Increase Affordable Housing Will Hurt Commercial Property Values



- The New York City commercial real estate community’s lukewarm response to Mayor Bill de Blasio continues. When asked about the potential impact of the mayor’s plan to increase affordable housing, executives were most likely to say (42%) it will weaken commercial property values. Only 11% said the plan would strengthen values. Thirty-one percent said it would have no impact, and 16% said they were unsure of the impact.
- The big-picture view of the mayor: More than three quarters of property executives either said they’re “not at all confident” (38%) the mayor will support the interests of commercial property owners in New York or “not too confident” (38%) that he will.
- Only 17% are even “somewhat confident” the mayor will support the commercial property industry. By contrast, in an earlier survey, the vast majority of commercial real estate executives – 76% – gave former Mayor Michael Bloomberg high marks for supporting their interest.

## Office Vacancy Rates in New York City Will Keep Climbing

- Office building construction in Manhattan has been at a 12-year peak, and with it comes concerns about still-climbing office vacancy rates.
- Forty percent of executives said vacancies will continue to rise due to the ongoing emergence of new office buildings. Only 17% said vacancy rates will soon fall, and 30% said they'll stay the same.

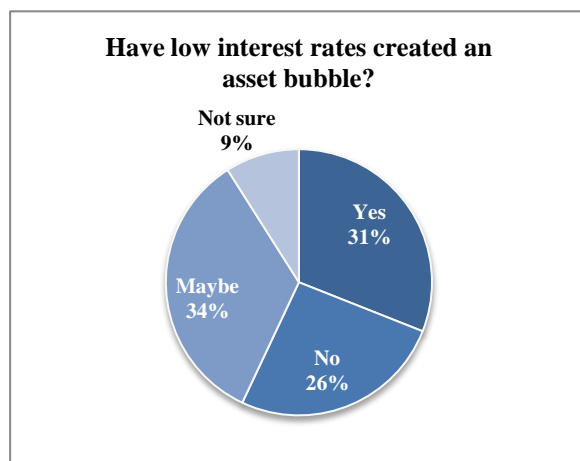


## But New York's Technology Boom May be a Mitigating Factor

- Commercial property executives do believe the growth of the tech industry in the city is real – and will have an impact. Virtually all executives – 98% – said the tech boom will influence the commercial property market, with 45% saying it will have a great deal of influence.

## Commercial Property in New York is Overvalued – and Many Believe Low Interest Rates Have Created an Asset Bubble

- Nearly half – 47% – of executives said they think commercial properties in New York are “moderately overvalued” compared with property in other major global cities. This represents a nine-point uptick in the sentiment compared with our June 2013 survey and a three-point uptick from January 2013.



- Relatedly, 31% said they believe low interest rates have created an asset bubble in the New York commercial market – similar to the housing bubble of 2005-2007. At the same time, more than a quarter of executives (26%) said they do not believe there's an asset bubble. The remainder said “maybe” or that they weren't sure.

## Despite Valuations and Potential Asset Bubbles, Executives See Relatively Little Risk in Investing in New York

- Executives continue to believe commercial real estate in the city is a sound investment. Most executives – 54% – said investing in commercial property in Manhattan is either definitively low risk (36%) or moderately low risk (18%). Only 4% said it's high risk.
- Interestingly, executives called Brooklyn commercial property lower risk than Manhattan commercial property. Fifty-eight percent put Brooklyn in the low-risk/moderately low-risk end of the spectrum.



## **Methodology**

The Gotham Commercial Real Estate Monitor from Marks Paneth represents the findings of a survey of nearly 100 commercial real estate professionals in the New York City market. Professionals participating in the research include owners and managers of commercial property, commercial real estate brokers and agents and attorneys and accountants specializing in the sector. The inaugural survey was completed in January 2013, the second in June 2013 and the third in December 2013. The research employed self-administered questionnaires completed online by respondents. The list of professionals surveyed was compiled by Marks Paneth LLP, the research sponsor, and by Michaels Opinion Research. Interviews were completed during the period of March 3rd to May 7th, 2014.