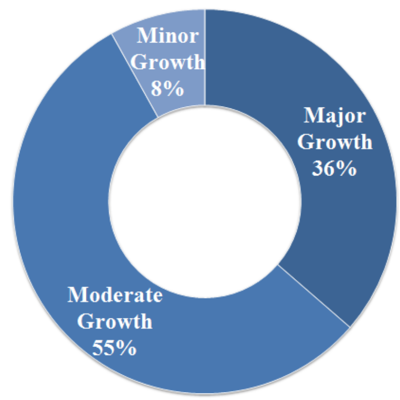
THE GOTHAM COMMERCIAL REAL ESTATE MONITOR

MARKS PANETH LLP

New York's Tech Sector Expected to Spark Commercial Leasing Boom; Traditional Tech Hotspots Are Likely to Get Hotter

- Commercial property executives suggest that the tech sector will spark a boom in commercial real estate – a vast majority (91%) said the tech sector will drive at least moderate commercial leasing growth over the next three years. Over a third (36%) said the growth will be "major."
- Both startups and bigger, established tech companies will drive growth. Most (70%) said the growth drivers will be "a mix of both."
- Tech companies will flock to neighborhoods already known for tech. Long Island City will be the next neighborhood to benefit, said 23%, with the Brooklyn Navy Yard and Midtown/Chelsea/Flatiron close behind (16% each).

Over the next three years, what level of growth in New York commercial leasing will come from the technology sector?*



* Totals may not equal 100% because of rounding or the acceptance of multiple responses.

Vacancy Rates: Most Professionals Think the Truth is Out There

- Despite questions about the accuracy of publicly available vacancy rate data, most New York real estate professionals trust current information. A substantial majority (79%) said they were either "very" or "somewhat" confident that current data on Manhattan commercial property vacancy rates is accurate.

"The Empty State Building" Redux? 1 WTC Will Fill Up – But It Will Take 3-5 Years

- Will the new World Trade Center fill up fast? Or will it follow the slow-growth pattern of the original World Trade Center and the Empire State Building (known throughout the 1930s as the "Empty State Building" for its low occupancy rates)? Executives aren't optimistic about 1 WTC filling all its office space right away. Four out of five executives are sure the building will be less than 80% occupied before it opens this year. A majority (58%) thought it would be three to five years or more before 1 WTC could lease 90% of its office space.

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Traditional Retail May Be Dying, But Retail Space Won't Give Way to Residential or Office

- Traditional retail may be dying under pressure from Amazon and other online sellers. But retail space in New York isn't going away. Executives are convinced that New York City street levels will still be used for stores and retail, and won't be repurposed for residential or office use.
- Nearly two-thirds – 62% – said it was "somewhat" or "very likely" that storefront spaces currently occupied by physical product retailers would give way to a wave of retailers that sell experiences – restaurants, bars and gymnasiums, for example.
- Interestingly, nearly three-quarters (73%) said that storefront retail rents are unlikely to drop.

Will South Street Seaport Turn Around? Pros Are Split on Impact of New Developments

- Will new developments revitalize the struggling South Street Seaport area? Executives are split. Many (42%) were certain the new projects are enough to revive the area as a sustainable retail hub, but many others (41%) hedged, saying "it's too soon to know." Only 15% were convinced the development won't be enough to bring the Seaport back.

Have Low Interest Rates Created a Commercial Real Estate Bubble? Yes, Say Executives, With Growing Confidence

Do you think current low interest rates have created an asset bubble?

	Spring	Summer
Yes	31%	**37%**
No	26	**28**
Maybe	34	**25**
Not sure	9	**10**

- Is an asset bubble forming in New York City's commercial real estate market? Yes, said executives, with increasing confidence. More than a third (37%) said they think low interest rates have created a bubble similar to the housing bubble of 2005-2007.

Nonetheless, Most Executives Say Commercial Valuations Aren't Out of Line

- Despite bubble concerns, most executives think that commercial property valuations aren't out of line – at least when compared to other major global cities. Most executives believe that Manhattan commercial values are just right, or nearly so: 32% said properties are "fairly" valued and 42% called them "moderately overvalued."
- In fact, 9% seemed to think that Manhattan prices are "moderately undervalued," up from 6% in the spring. Only a smaller number (17%) continued to believe that Manhattan commercial real estate is "highly overvalued."

Foreign Investment Drives Commercial Property Values

- One factor driving commercial prices higher: foreign capital. Over half (59%) of real estate pros said foreign investment has "a great deal of influence" on increasing property values in Manhattan.

Methodology

The *Gotham Commercial Real Estate Monitor* from Marks Paneth represents the findings of a survey of commercial real estate professionals in the New York City market. The 100 professionals participating in the research include owners and managers of commercial property, commercial real estate brokers and agencies, and attorneys and accountants specializing in the sector. 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 June 17 through July 11, 2014.

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