

The **RPG** Newsletter

News and Insight on New York City's Office Condominium Market

Tenants Want To Own Their Space

Many office tenants would like to own their space and have the resources to finance such a purchase. One of the principal impediments is simply that in an office market long dominated by leasing options, there is a scarcity of product for sale relative to the demand.

Owning office space holds several advantages over leasing and tenants are increasingly recognizing these benefits. As more buying opportunities become available in the city, office tenants who would otherwise rent their offices are migrating to this expanding market. Currently, a wide range of companies and organizations already hold a strong preference for owning their office space, and the demand is growing.



Non-Profit Groups

Non-profit organizations are a major category of office condominium buyers. One of the prime advantages is that when non-profits own their space they are not required to pay real estate taxes. When renting space they are forced to pay this costly charge because taxes are built into the rental rate of a lease, regardless of whether the tenant is exempt or not. Therefore, owning offers these organizations a clear cut savings as real estate taxes typically represent 30-40% of total operating expenses.

Doctors and Medical Practices

Office tenants in the health care field usually have to sink significant capital into office space to install necessary medical and diagnostic equipment. For these tenants, renting is risky because if they are unable to renew their lease they may

lose this investment or have the inconvenience of relocating their equipment. Therefore, landlords can take advantage of these medical tenants by extracting higher rents during lease renewal negotiations. By owning their own space, doctors and medical practices eliminate future rent escalations and secure their long term space needs.

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United Nations Governments

Another group which prefers to own office space is United Nations related missions and consulates. These missions and



consulates seek to buy within close proximity to the east side campus of the United Nations, an organization that is often central to their operations in the city. Even though these foreign agencies are typically regarded as high credit tenants because they have the financial backing of an entire country, landlords are often wary because of diplomatic immunity, which can prevent or complicate a building owner's efforts at rent collection in the event a mission slips

growing financial wherewithal, learning institutions are more frequently purchasing their space.

Foreign Companies

Many international corporations hail from countries where office ownership is more common and would prefer to buy their space in the city rather than rent. For instance in India and China, two booming economies with businesses that are quickly expanding globally, companies often own

companies are now equipped to purchase an office condo. SBA loans provide small businesses with the financing to purchase their office space, with leverage levels as high as 90 percent.

The attractiveness and accessibility of purchasing an office condo has never been greater. The possible impact of upcoming accounting changes in the United States will increase demand even more substantially. In the next few years, accounting practices in the U.S. may switch to the international FASB standard which requires that future financial commitments, including office leases, be treated as present liabilities on a company's balance sheet. This change means that a lease would have



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into arrears. Missions and consulates have abundant capital for real estate acquisitions and, unlike in a leasing arrangement, their diplomatic immunity poses no issue in the terms of a sales transaction. By acquiring their office space, missions and consulates can secure their long term real estate needs in the city while avoiding the often fickle leasing market.

Schools and Education Institutions

With the economy still recovering from a downturn, more people are going back to school. This trend has bolstered the education sector, yet landlords often avoid leasing to schools for fear that their high traffic will disrupt other tenants. Empowered by their

their offices. For these space users, buying an office condominium would be a familiar and preferable choice. Since many of these companies are striving to establish a presence in major international hubs of commerce like NYC, the condo market stands to become a major benefactor of their growth.

Small Businesses

Most tenants love the idea of owning their office space. Buying an office condo allows a business to protect itself against future rent increases, as well as being a tax deductible expense and a profitable investment. Because of the Federal Government's SBA loan program, many

the same financial impact on a company's borrowing capacity and fiscal position as a mortgage would, which companies can presently keep as off book liabilities. Given this change, condo ownership could become even more popular in the city.

There Is A Shortage Of Office Condo Space

Although there is ample demand for office condo space, some landlords and real estate buyers have been hesitant to convert existing buildings into saleable units or buy an office property with the intent to convert. In reality, turning a building into an

office condo is the quickest way to achieve the highest yield on an investment for a number of reasons:

1) Allows landlords to avoid the outlays necessary to lease a space, including the sizable contributions most have to provide towards the cost of outfitting a space with an office installation, which is a standard incentive in leasing transactions.

2) Buying a building and selling the units within the building typically only takes a matter of months rather than years, saving the significant expense of servicing a long term mortgage as an owner is required to do if they want to lease space.

3) The sale of small office spaces are relatively scarce in the city, therefore sellers typically receive a 30 to 60 percent premium per square foot for an office condo over the price they could net by placing their entire building on the auction block.

4) For landlords who are struggling with over-leverage, a condo conversion can provide a welcomed relief. These owners can pay down their debt or bring it to a more manageable level by selling portions of their building.

5) The time it takes to convert a building into office condominiums has been greatly reduced. Many owners recognize the profitability of office condo space but are concerned with the logistics and regulatory clearances necessary to proceed with a conversion. As with residential condos, the New York State Attorney General's office must review a commercial condo plan in order for it to proceed, which is a process that some owners associate with delays

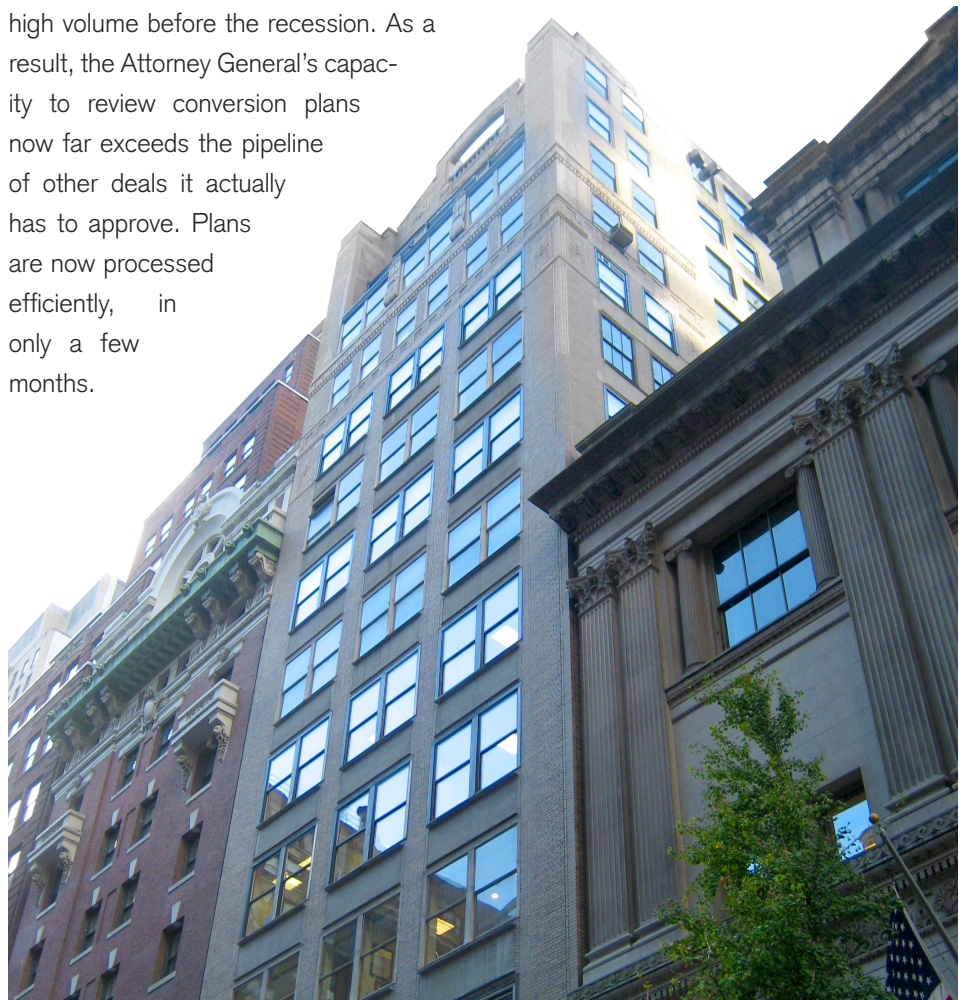
and bureaucracy. While that may have been true during the development boom before the recession, this is no longer the case. The economic downturn has decreased the flow of new residential condo projects,

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unburdening an office still flush with personnel that had been added to cope with the high volume before the recession. As a result, the Attorney General's capacity to review conversion plans now far exceeds the pipeline of other deals it actually has to approve. Plans are now processed efficiently, in only a few months.

Some office condo conversions can be accomplished with limited state clearances. At a recent seminar hosted in February by the law firm Herrick, Feinstein LLP, Douglas Heller, a partner at the firm, explained that filing a simple document known as a "no action letter" with the Attorney General permits an owner to divide a building into as many as four condo units without having to file a full condo plan.

Owners who decide to convert will capitalize on the lack of supply in the market and benefit from having product that is ready to sell as prices continue to increase.

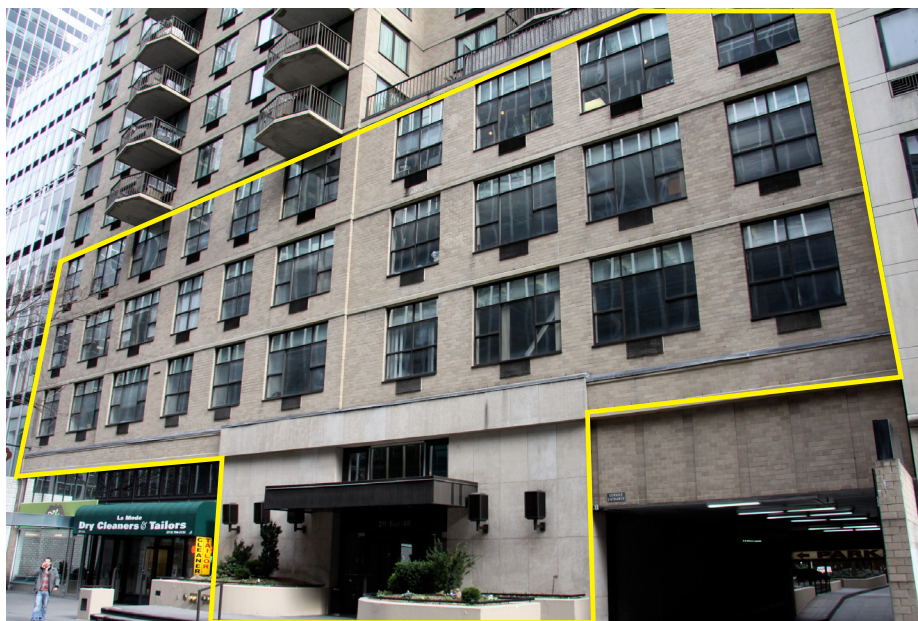


36 West 44th Street

New Office Condominium for Sale:

211 East 46th Street

Rudder Property Group is pleased to offer a three-floor, 9,822 RSF to 30,000 RSF office condo for sale at 211 East 46th Street between Second and Third Avenues. Located at the base of a 30-story residential condo, the office portion has a private entrance, a private lobby, and two dedicated elevators. The property is within close proximity to the United Nations Headquarters and Grand Central Station. All three floors have great light, views and have highly efficient layouts.



211 East 46th Street

Recent Sale

Rudder Property Group recently completed a \$2,750,000 sale of a half floor office condo at 110 East 40th Street for Iluna USA, a designer and manufacturer of women's intimate apparel.

Iluna USA, whose parent company is based in Milan, was founded in 1975 and now has over 360 employees in 17 offices worldwide.

Iluna owns many offices worldwide and has benefited from the control and the capital appreciation that comes with office condominium ownership. 110 East 40th Street offered Iluna a tremendous long-term opportunity to own their office space at a great price.

Rudder Property Group Info

Rudder Property Group is a commercial real estate brokerage and advisory firm that represents purchasers, sellers, lenders, developers, and property owners in the conversion and sale of office condominiums. With over a decade of experience in office condominiums, the principals of Rudder Property Group have sold over 500,000 square feet of Manhattan office condominiums with a dollar value in excess of \$200 million. In the specialized field of office condominium sales, Rudder Property Group is the market leader.

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