

The **RPG** Newsletter

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

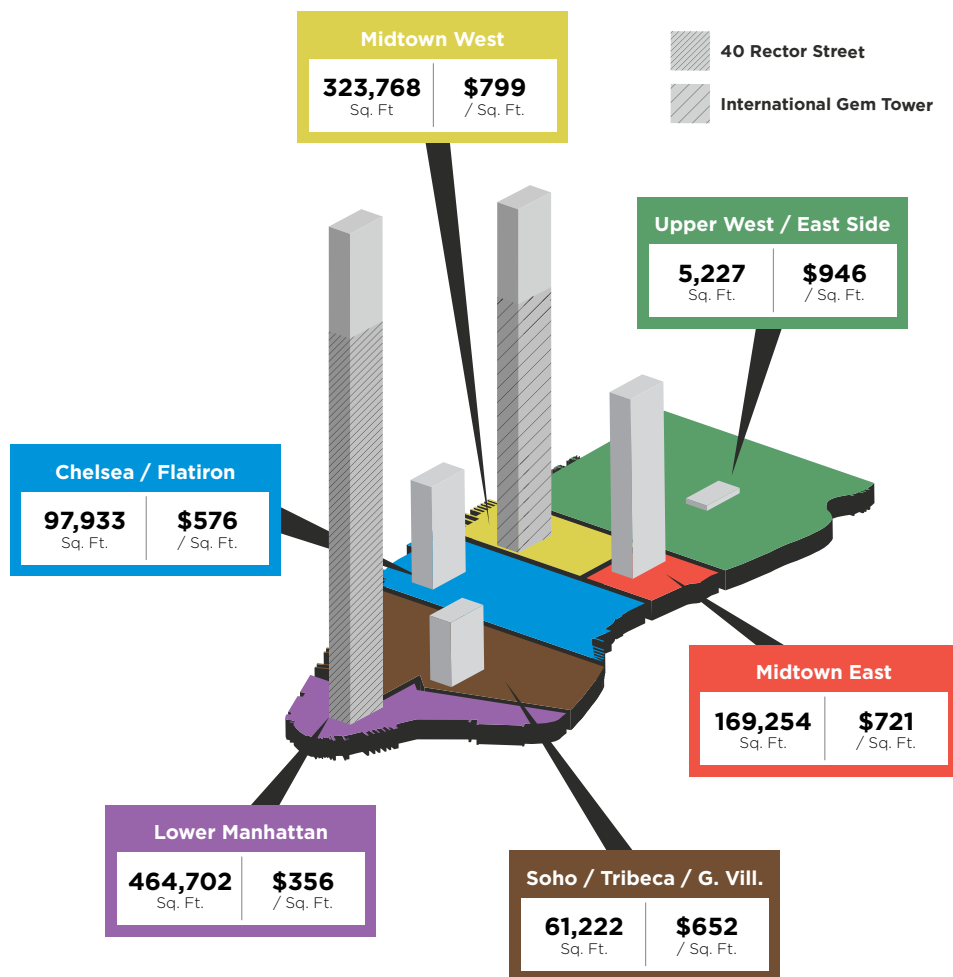
A Growing Demand

Office condominiums are a rarity in New York City as they currently comprise less than 2% the city's office market. With the benefits of office ownership becoming increasingly apparent, the demand for office condos is growing rapidly.

Here's why:

- Over a 10 year period, owning costs less than renting
- Owners benefit from the appreciation of the real estate
- There are cost-saving tax benefits, particularly for non-profits
- There is low cost financing available

In a market like New York City, leasing office space is a major cause of stress on businesses. Drastic rent spikes upon lease expiration, landlords consolidating space for larger users, office-to-residential conversions—whether a burgeoning small company or an established brand, an air of anxiety surrounding office leasing exists for many New York City businesses. With 2008's real estate crash still fresh in the rearview and the recovery still underway, companies are looking for a more stable and ultimately profitable solution. Purchasing an office condominium can solve these problems and allow businesses to have control of their future.



Office Condominium Availability and Asking Prices by Submarket

A Limited Supply

New York City's office condo market is made up of 9.3 million square feet, with a 12% availability rate. However, 40% of these availabilities exist in just two buildings: the International Gem Tower (IGT) and 40 Rector Street. If you exclude these two properties then the office condo availability rate is reduced to a meager 7%.

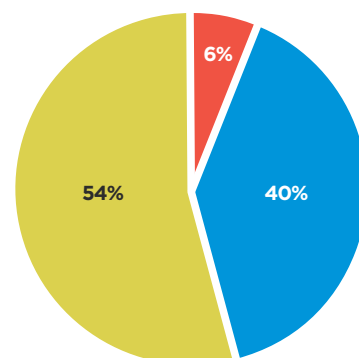
To be exact: Across 42 buildings, only 572,000 square feet of office condominium space is available, with an average unit size of 8,500 square feet.

There is a tremendous lack of office condominiums for sale under 5,000 square feet. This segment is where the greatest demand (and subsequent shortest supply) currently lies and companies will generally pay a premium to own these smaller units for the following reasons:

- The principal has the cash available and would rather invest it into an appreciating asset that will help stabilize their business, or
- The excellent financing available for owner-occupied office condos allows the buyer to put down little equity to purchase their space; the cost of owning is comparable, if not more favorable, than the cost of leasing their office space even when it is highly leveraged.

This demand presents a valuable opportunity for savvy real estate developers: Convert an office building into office condominiums and sell the units to small businesses at a premium. An office condo conversion will offer a developer the highest ROI in the shortest period of time.

Percent of Total Office Condominium Availability by Unit Size



- Up to 5,000 Sq. Ft.
- 5,000 - 20,000 Sq. Ft.
- Over 20,000 Sq. Ft.

The greatest demand for office condominiums comes from users who need 5,000 square feet or less, which is where office condominium availabilities are drastically lacking.

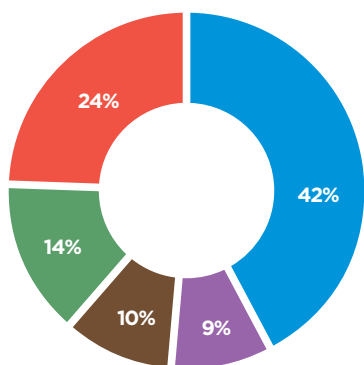
In the past 12 months, two-thirds of the office condominium units sold were less than 5,000 square feet.

No Better Market Than Manhattan

In the past 12 months there have been \$221 million in New York City office condo sales—a staggering 51% of those buyers have been companies whose principals are based abroad. Ownership, as opposed to leasing, is a cultural preference strongly valued by these international buyers. With the European debt crisis at large and financial pressures stretching globally, companies abroad perceive the New York City property investment with a sense of security, seeing it act as a potential inflation hedge.

There is a growing demand from foreign-born principals looking to purchase an office condo as opposed to leasing. They recognize that New York City real estate is a safe investment and that the market is improving post-recession. They also recognize that there is lack of supply and are jumping at the opportunity to purchase their space—and paying a premium to own.

Percent of Total Office Condominium Sales by Industry



- Business
- Non-Profit
- Medical
- Government
- Education

New York City is home to the many industries that are typical office condominium purchasers.

In addition to this more recent trend of foreign born buyers, New York City is also home to the many industries that are traditional office condominium purchasers:

- More than 99,000 non-profits currently have offices in New York
- There are 192 United Nations member states
- 130 colleges and universities
- A rapidly expanding medical and biotech industry
- A significant presence of unions
- Government agencies on the local, state and federal level

When you take into account these industries, as well as small and large businesses with principals born in other countries, the benefits of office condominium ownership generate a deep pool of prospective purchasers.

Recent Sales

Chelsea Commercial Co-op Sells to Non-Profit

127 West 24th Street, a 7,518 square foot ground floor and basement commercial co-op sold to Chakrasambara Kadampa Meditation Center, a non-profit organization which provides meditation classes, for \$3.2 million. Rudder Property Group represented the seller, TREC Rental Corp.

Building-Within-a-Building Office Condominium Sells in Midtown

211 East 46th Street, a three floor, 29,548 square foot office condominium sold to the Lebanese American University for \$11 million. The unit included floors three through five, which sits at the base of a 30-story residential building. Rudder Property Group represented the seller, Cammeby's International.



127 West 24th Street

Rudder Property Group

Rudder Property Group is a commercial real estate brokerage and advisory firm that represents purchasers, sellers, developers, owners and lenders in the acquisition and sale of office condominiums. Our team will orchestrate the entire conversion process on your behalf - from developing a conversion business plan to Attorney General approval to marketing and sales of the units. With over a decade of experience in this niche market, the principals of Rudder Property Group have sold over 500,000 square feet of office condominiums representing in excess of \$200 million. In the small, highly specialized field of commercial condominium sales, Rudder Property Group is the market leader.

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