

OCTOBER 21, 2014 - **HERALD SQUARE PROPERTIES** IN THE NEWS - In Print on Page A20, By Keiko Morris

Demand Increasing for Third Avenue Office Space

As New York City's Office Market Improves, More Companies Are Choosing Third Avenue Space



Third Avenue office buildings, like 780 Third Ave., shown, are drawing higher rents, but are still less costly than other Midtown markets.
CLAUDIO PAPAPIETRO FOR THE WALL STREET JOURNAL

The powerful effect of the city's improving office market is washing over Third Avenue, a corridor that only a few years ago had been largely viewed as a Midtown laggard.

The area's availability rate through September, which includes vacancies and space that will become available within 12 months, has dropped to 10.7% from 13.4% at the end of 2013, according to CBRE research.

The overall availability rate for Midtown was 11.1%.

And rents along Third Avenue also have been on the rise, increasing from \$57.45 to \$59.90 a square foot, during the same period.

In the Third Avenue corridor, "Other than a few challenging buildings, I don't think there are any more rents starting with four," said Giacomo Barbieri, head of real estate acquisitions in the Americas for TIAA-CREF, which owns buildings in the area. "The time of \$40 rents has gone."

Third Avenue properties are still largely viewed as the less expensive Midtown alternative. They are attracting law firms, insurance companies and tenants such as private-equity firms that may also be shopping for space in typically higher-rent areas such as Sixth, Madison and Park avenues, they said.

Herald Square Properties LLC, which manages the famous **Lipstick Building** at 885 Third Ave., has been repositioning the building over the last four years. It has been constructing and leasing high-end office spaces in the 3,500- to 5,500-square-foot-range ready for tenants to occupy. But now the firm said it is getting demand for a full 19,000-square-foot floor.

"Once you see larger tenants back in the market that's a direct reflection of the strength in that market," said **Gerard Nocera**, founding partner at Herald Square Properties.

At 780 Third Ave., a boutique office building, the vacancy rate is about 7%—a marked difference from where it was about 15 months ago at 14%, said Paul Amrich, vice chairman at CBRE Group Inc. who handles leasing for the building.

Rents have risen about 20% in the last two years, said TIAA-CREF, the building's owner. Prices on the top floors now reach about \$90 a square foot, according to a person familiar with leasing at the tower.

A broadening tenant mix also has helped Third Avenue. "Law firms, the accounting and advertising tenant base still exist but has been much more diversified, with more private financial firms such as hedge funds, private-equity and wealth-management firms, along with some creative and technology firms," Mr. Amrich said.

Landlords also have been investing with an eye on catching higher rents. At 685 Third Ave., TIAA-CREF gave the building a multimillion-dollar makeover after the company purchased it from Pfizer Inc. in 2010 for about \$190 million. In the last two years, the company said it had been able to lease a majority of the building with tenants such as Navigant Consulting Inc., which will take about 73,000 square feet.

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RFR Realty LLC invested \$10 million to revamp and reposition 757 Third Ave., after KPMG LLP vacated about 180,000 square feet in 2012. Today, the building is now about 99% leased, said Steve P. Morrows, executive vice president of RFR Realty LLC. Earlier this year, accounting and advisory firm Grant Thornton LLP signed a 130,357-square-foot lease at the building, which is several blocks north of the company's current Third Avenue home.

The company looked at more than a dozen properties on Sixth Avenue, Park Avenue and Third Avenue before making its decision, said Frank Kurre, Grant Thornton's Metro New York and New England managing partner.

In addition to options to take more space as it grows, another attraction that drew the company to the building was a space that allowed the firm to design modern offices with an outdoor patio overlooking the East River, Mr. Kurre said.

Despite the rise in rents and drop in vacancy on Third Avenue, many brokers noted that bargains can still be had. Six lease deals for more than 37,000 square feet signed since December included an average of 12 months of free rent and about \$70 a square foot for improvements to the tenant space paid by the landlord, said Richard Persichetti, vice president at Cassidy Turley. Typically, Midtown tenants receive incentives more along the lines of six months free rent and \$50 to \$60 a square foot for tenant space improvements.

"There's a reason why there's a drop in availability," Mr. Persichetti said, "because there are some great deals to be had on Third Avenue."