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REAL ESTATE

Midtown rent cuts spur new battle of bargains

Excess space going for \$20s per square foot; threat to downtown market

BY LORE CROGHAN

WHEN VIVENDI Universal put its office at 800 Third Ave. on the sublet market just over a year ago, the media and entertainment conglomerate expected to get rents of \$50 per square foot. Now, it's working on deals for about half that price.

"We are being aggressive," Marcus Rayner, a principal at real estate firm Cresa Partners and Vivendi's broker, says of his client's new willingness to slash prices.

Though he won't confirm the specific rates being discussed, brokers who work along Third Avenue say the Vivendi space can be had for rents in the \$20s per square foot. And this isn't an isolated case on this mainstream corporate corridor. At nearby 685 Third Ave., insurer Aon has a deal

pending to sublet some 200,000 square feet to Pfizer for \$25 per square foot.

A sudden rash of rent cuts is breaking out throughout midtown and midtown south. In recent weeks, scores of companies have decided to slash rates to the \$20s per square foot for excess space they are trying to unload. For many, this is a discount of 30% from the prices of just six months ago. In areas such as Third Avenue, this is a 50% reduction.

"You've got to price to entice," says Howard Kessler, a managing director at brokerage Newmark & Co. Real Estate Inc.

Double whammy

The latest round of rent cuts poses a new threat to the downtown office market, which has been struggling to draw tenants since the Sept. 11 terrorist attack. Until now, significantly cheaper rents were one of downtown's key selling points, in tandem with govern-

ment-funded grants and tax breaks. This competitive advantage is evaporating.

No quick fix

"When face rents are the same in midtown and downtown, even though incentives are meaningful, downtown suffers," observes M. Myers Mermel, chief executive of brokerage Tenant-Wise.com Inc.

The markets farther uptown won't see immediate improvement from these cuts, dramatic as they are. Leasing velocity is extremely slow, and tenants are scarce. The impact of price reductions will be limited.

"In years past, cutting the rent guaranteed you would make a deal," says broker Howard Dolch, an executive vice president at The Lansco Corp. "Now, it's only a guarantee that people will look at the space."

For months, cheap sublets have been available from marginal companies in fringe neighbor-

Broker Ruth Colp-Haber finds something new every day to show tenants. "My mission is to find the good deals," says Ms. Colp-Haber, a partner at brokerage Wharton Property Advisors Inc.

She adds the most promising spaces to her personal-favorites list of best bargains below \$30 per square foot. The lineup includes a number of beautifully built spaces for Internet firms, such as 24/7 Media's 1250 Broadway office in the Penn Station area.

hoods. Now, numerous bargains priced below \$30 per square foot are being offered by major corporations, such as publisher Reed Elsevier, which is trying to sublet an entire building at 245 W. 17th St. The big discounts can be found at important addresses, including 2 Penn Plaza, and CitySpire on

West 56th Street.

Such prime spaces are available for bargain rates because companies that have had spaces on the market for a year or more now feel compelled to cut prices.

Initially, they refused to do so. They didn't want to take write-offs

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