FOCUS ON NYC OFFICE MARKETS

THE IMPACT OF THE SEPTEMBER 11TH TRAGEDY

by Insignia/ESG, Inc.

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September 11, 2001, will go down as one of the darkest days in our nation's history. The authors join the rest of our nation in mourning the horror of that day and the profound loss of so many lives.

As the terrible events of September 11 were unfolding, we were issuing our regular monthly reports on the status of Manhattan's Midtown, Midtown South, and Downtown office leasing markets. The destruction to Downtown has made the September reports meaningless.

Instead, this is a special report to assist in understanding the impact on the office markets—to measure not only the destruction that took place, but also the activity that has been unleashed. The healing process has begun. Companies realize that they must rebuild infrastructure so their employees can return to work and they can get back to the business of business.

In the days since the World Trade Center disaster, a team of Insignia/ESG brokers, consultants, and research professionals has conducted extensive research to determine what buildings have been affected; the extent of the damage; the tenants that have been displaced; the amount of replacement space they're seeking; and the space available to them.

This firm has honored the request issued on September 18 by the Real Estate Board of New York, calling on commercial landlords to make deals at the market conditions prevailing before September 11 and urging brokers to waive their usual commissions when helping tenants find temporary six- to 12-month leases.

We, like many other leading members of the New York real estate community, are proud to be part of the united response to this great tragedy. And we remain committed to doing our part to help heal and rebuild the Downtown Manhattan business community, and to restore the spirit of our great city and great nation.

KEY TOPICS

- The entire World Trade Center complex—13.4 million square feet—was destroyed. Devastating as it was, it constituted less than 4 percent of Manhattan's office inventory.
- Nearly 1,300 Downtown businesses were directly affected by the terrorist attack.
- Although 28.7 million sq. ft. of office space incurred at least some damage, 70 percent of Downtown survived intact.
- Thirty-one tenants occupying 100,000 sq. ft. or more were displaced by the disaster. Four of them occupied 1 million sq. ft. or more.
- The real estate community has rallied together in the sharing of available listings, and most landlords have been holding their rental rates at pre-disaster levels.

Market Conditions Before The Attack

On September 1, 2001—10 days before the terrorist attack on the World Trade Center—the New York City office markets were healthy, although experiencing a slowdown following the collapse of the dot.com phenomenon and the flattening of the national economy. Office leasing in the greater New York area had, for the most part, returned to the more "normal" levels of the late 1990s. Availability had been rising from its extreme lows of the previous year. The optimism of late 1999 and 2000 met the reality of the slowing economy. The result was seven million square feet of sublease space added to the market.

With a total office inventory of 353.7 million square feet, Manhattan's unrivaled size, importance and diversity is the envy of most U.S. markets.

Nearly three times the size of the second-largest U.S. central business district—and larger than downtown Chicago, Washington, Houston, Los Angeles and Boston combined—New York is a leading international capital of finance, trade, publishing, education, fashion, and entertainment. With more famous landmarks than any other city in the world, it is the destination of choice for visitors from every corner of the world.

At the beginning of September, despite indications that the office market was cooling, Manhattan's overall availability rate was just above 7 percent—a rate considered to be below an equilibrium level. Of the 25.8 million sq. ft. of available space, 16.3 million sq. ft. was direct space and 9.5 million sq. ft. was sublease space.

Midtown, Manhattan's largest office market with a total inventory of 184.9 million sq. ft., had available 8.7 million sq. ft. of direct space and 4.3 million sq. ft. of sublease space, for an availability rate of 7 percent. Midtown South, Manhattan's smallest market with a total inventory of 71.7 million sq. ft., had available 4.1 million sq. ft. of direct space and 2.7 million sq. ft. of sublease space, for an availability rate of 9.5 percent.

Downtown Manhattan—a market that had been all but written off in the early 1990s—had been staging a remarkable comeback in the past few years. With a total office inventory of 97.1 million sq. ft., its availability rate was just 6.2 percent. This is the first time in more than five years that the Downtown availability rate was lower than Midtown. Available supply included 3.5 million sq. ft. of direct space and 2.5 million sq. ft. of sublease space.

Large contiguous blocks of office space were in short supply throughout Manhattan. All told, there were a

MANHATTAN — As of 9/1/01

Submarket	Total Inventory	Availability Rate	Direct Space Available	Sublease Space Available	Total Space Available
Midtown	184.9 mil. sq. ft.	7.0%	8.7 mil. sq. ft.	4.3 mil. sq. ft.	13.0 mil. sq. ft.
Midtown South	71.7 mil. sq. ft.	9.5%	4.1 mil. sq. ft.	2.7 mil. sq. ft.	6.8 mil. sq. ft.
Downtown	97.1 mil. sq. ft.	6.2%	3.5 mil. sq. ft.	2.5 mil. sq. ft.	6.0 mil. sq. ft.

SUBURBAN MARKETS — As of 9/1/01

Submarket	Total Inventory	Availability Rate	Direct Space Available	Sublease Space Available	Total Space Available
No./Central NJ	154.1 mil. sq. ft.	14.7%	18.8 mil. sq. ft.	3.4 mil. sq. ft.	22.2 mil. sq. ft.
Westchester	33.2 mil. sq. ft.	14.2%	3.9 mil. sq. ft.	871,600 sq. ft.	4.7 mil. sq. ft.
Fairfield County	44.1 mil. sq. ft.	12.7%	4.1 mil. sq. ft.	1.47 mil. sq. ft.	5.6 mil. sq. ft.
Long Island	36.0 mil.sq. ft.	11.0%	3.2 mil. sq. ft.	732,000 sq. ft.	4.0 mil. sq. ft.

BUILDINGS IMPACTED BY THE WORLD TRADE CENTER ATTACK

Address	Square Footage	Year Built	Anticipated Time Until Occupancy
DESTROYED BUILDINGS			
1 World Trade Center	4,761,416 sq. ft.	1970	N/A
2 World Trade Center	4,761,416 sq. ft.	1972	N/A
4 World Trade Center	583,684 sq. ft.	1977	N/A
5 World Trade Center	783,520 sq. ft.	1972	N/A
6 World Trade Center	537,694 sq. ft.	1975	N/A
7 World Trade Center	2,000,000 sq. ft.	1987	N/A
Subtotal	13,427,730 sq. ft.		
SEVERELY DAMAGED -- LIKELY DEMOLITION			
90 West Street	335,000 sq. ft.	1905	N/A
Subtotal	335,000 sq. ft.		
STRUCTURALLY DAMAGED -- TO BE REPAIRED			
3 World Financial Center	2,300,000 sq. ft.	1984	6 months
140 West Street	1,171,540 sq. ft.	1927	6 months
130 Liberty Plaza (Bankers Trust Plaza)	1,415,086 sq. ft.	1974	9 months
Subtotal	4,886,626 sq. ft.		
WINDOW & FACADE DAMAGE -- TO BE REPAIRED			
1 Liberty Plaza	2,124,447 sq. ft.	1973	2 months
2 World Financial Center	2,591,244 sq. ft.	1987	2 months
1 World Financial Center	1,461,365 sq. ft.	1986	2 months
101 Barclay (BONY)	1,226,000 sq. ft.	1984	3 months
90 Church Street	950,000 sq. ft.	1935	2 months
100 Church Street	1,032,539 sq. ft.	1958	2 months
22 Cortlandt Street	668,110 sq. ft.	1971	2 months
Subtotal	10,053,705 sq. ft.		
TOTAL	**28,703,061 sq. ft.**		

Major Tenants in World Trade Center Complex

Permanently Displaced Tenant	Affected Building	Total Square Footage
Salomon Smith Barney	7 World Trade Center	1,420,780 sq. ft.
Morgan Stanley Dean Witter & Company	2 World Trade Center 5 World Trade Center	1,334,051 sq. ft.
Port Authority of New York & New Jersey	1 World Trade Center	775,577 sq. ft.
Marsh & McLennan Companies, Inc./ Guy Carpenter & Company, Inc. (Marsh)	1 World Trade Center 2 World Trade Center	601,043 sq. ft.
U.S. Customs	6 World Trade Center	537,694 sq. ft.
Empire Blue Cross Blue Shield	1 World Trade Center	450,820 sq. ft.
AON Risk Services Companies, Inc.	2 World Trade Center	391,645 sq. ft.
Deutsche Bank	4 World Trade Center	260,991 sq. ft.
Commodities Exchange Center	4 World Trade Center	250,120 sq. ft.
Brown & Wood/Sidley & Austin	1 World Trade Center	220,000 sq. ft.
Cantor Fitzgerald Securities Corporation	1 World Trade Center	215,278 sq. ft.
Fiduciary Trust Company International	2 World Trade Center	207,146 sq. ft.
Insurance Services Office, Inc.	7 World Trade Center	207,029 sq. ft.
Credit Suisse First Boston	5 World Trade Center	202,134 sq. ft.
Verizon Communications	2 World Trade Center	200,000 sq. ft.
Lehman Brothers Holdings Inc.	1 World Trade Center	183,738 sq. ft.

Major Tenants in Structurally Damaged Buildings

Temporarily Displaced Tenant	Affected Building	Total Square Footage
Verizon	140 West Street	1,171,000 sq. ft.
American Express Company	3 World Financial Center	1,120,500 sq. ft.
Lehman Brothers Holdings Inc.	3 World Financial Center	1,030,860 sq. ft.
Deutsche Bank	130 Liberty Street	910,000 sq. ft.
Morgan Stanley Dean Witter & Company	130 Liberty Street	67,000 sq. ft.

Deals Consummated -- Tenants with 100,000+ Requirement

Tenant	Square Footage	Location
American Express Company	311,000 sq. ft.	5 Woodhollow Road (Lucent), Parsippany, NJ
American Express Company	195,000 sq. ft.	101 JFK Parkway, Shorthills, NJ
American Express Company	175,000 sq. ft.	400 Atlantic Street, Stamford, CT
Lehman Brothers Holdings Inc.	175,000 sq. ft.	70 Hudson (Datek), Jersey City, NJ
Bank of New York	150,000 sq. ft.	330 West 34th Street, New York
Hartford Fire Insurance Co.	145,000 sq. ft.	2 Park Avenue, New York, NJ
U.S. Customs	118,000 sq. ft.	1 Penn Plaza, New York, NY
Thacher, Profitt & Wood	100,000 sq. ft.	11 West 42nd Street, New York, NY
Zurich-American Insurance Group	95,000 sq. ft.	601 West 26th Street, New York, NY
Bank of New York	79,000 sq. ft.	111 Eighth Avenue, New York

total of 28 available units (units which could be delivered to tenants within one year) with 100,000 to 250,000 sq. ft. of space, and only four available units in excess of 250,000 sq. ft. Downtown had three available units between 100,000 and 250,000 sq. ft. and only one larger than 250,000 sq. ft.

In New York's suburban markets, an additional 36.5 million sq. ft. was available—30 million sq. ft. of direct space and 6.5 million sq. ft. of sublease space. The large majority, 22.2 million sq. ft. or 61 percent of available suburban space, was in Northern and Central New Jersey. Fairfield County, CT, had 5.6 million sq. ft. available, followed by 4.7 million sq. ft. in Westchester County and 4.0 million sq. ft. in Long Island. Availability rates in the suburban markets ranged from 11 percent in Long Island to 15 percent in Northern and Central New Jersey. Fairfield County had an availability rate of 12.7 percent and Westchester County an availability rate of 14.2 percent.

Market Conditions After The Attack

As of Friday, September 21, it had been determined that only 4 percent (13.4 million sq. ft.) of the Manhattan inventory was destroyed. All of the rest of the Downtown buildings affected have some damage and can be repaired.

Three buildings comprising 4.8 million sq. ft. have suffered structural damage, but can be repaired. These buildings are 3 World Financial Center, 140 West Street, and 130 Liberty Plaza (Bankers Trust Plaza). Repair time has been estimated at nine months. An additional seven buildings comprising 10.1 million sq. ft. have some damage, and it is estimated that it will take two to three months before they are habitable. These include 1 and 2 World Financial Center; 1 Liberty Plaza; 101 Barclay Street; 90 and 100 Church Street; and 22 Cortlandt Street. Another building, 4 World Financial Center, is habitable but inaccessible at present because of debris and the collapse of the north pedestrian bridge.

Almost 1,300 businesses in the area were affected by the attack. Thirty-one tenants occupying 100,000 sq. ft. or more were displaced to varying degrees by the disaster. The largest displacements included American Express (1.2 million sq. ft.); Merrill Lynch (3.1 million sq. ft.); Morgan Stanley Dean Witter (1.4 million sq. ft.); Salomon Smith Barney (1.4 million sq. ft.); and Bank of New York (800,000 sq. ft.).

While only a portion of Manhattan's 25.8 million sq. ft. of available space was built out, and much was not scheduled to come on line until later in the year, displaced tenants have still been able to find space to meet their immediate needs. Only a handful have gone outside of Manhattan, with the Jersey City/Hoboken waterfront, Northern and Central New Jersey, and Stamford, CT, garnering the most interest. Large blocks of built-out space are also available in markets as far afield as Poughkeepsie and Albany, NY, and Wilmington, DE, however few tenants are expected to take space this far from Manhattan.

As of the end of September, 10 World Trade Center area tenants have consummated leases totaling in excess of 1.5 million sq. ft. Our sources indicate an additional 3.5 million sq. ft. of leases are pending. Most of the major landlords and property agents in New York have held their rental rates at levels that were quoted prior to September 11.

Looking Ahead

Images of the attack on the World Trade Center have been seared indelibly into the mind of every New Yorker as well as into the minds of people worldwide watching the devastation on television. Truly, a major void has been created in the world's most recognizable skyline. The healing and re-building process, however, can be expected to move forward with dispatch. Before January 1, 2002, we believe that dispossessed tenants will have returned to the buildings that sustained window and facade damage, and significant progress will have been made in repairing the three most severely damaged buildings—3 World Financial Center, 140 West Street, and 130 Liberty Plaza. Downtown Manhattan will be a smaller office district, albeit one of the largest in the country, with aggregate office space in excess of 80 million sq. ft., at least 75 million of which will be occupied by long-term tenants.

Downtown Manhattan will continue to hold strong appeal as a place to do business, particularly for companies that want proximity to such bedrock's of the nation's financial system as the New York Stock Exchange and the Federal Reserve Bank. What's more, the lower Manhattan corridor will continue to be a low-cost alternative for tenants from a wide range of industries that are seeking relief from the pricey rents in Midtown. The market's performance in 2002, however, will hinge on a restoration of investor confidence in U.S. equity markets as well as a resumption of material growth in the national economy.[REI]

For more information regarding this report, contact Elyse Listick, managing director Insignia/ESG, Inc.
[redacted]

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