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Finding cheaper office space in Hudson Square

Raw spaces, lower rents attract creative businesses during economic meltdown



Andrew Peretz of Cushman & Wakefield in front of 1 Hudson Square.

He is the leasing agent for Trinity Real Estate, the largest owner of commercial space in the area.

By Abby Luby

Building owners leasing commercial space in Hudson Square might be positioned better than landlords in other neighborhoods to weather the market downturn, brokers and owners said.

Many media businesses such as Viacom, New York Magazine, Clear Channel, Miramax, WNYC and CBS Radio have migrated from Midtown to this Downtown area just west of Soho. The attraction? Large industrial spaces that cost \$40 to \$50 per square foot, about half of what is charged in Midtown.

Despite the economic climate, "it's as if nothing has changed. Hudson Square rents are the highest they've ever been," said Andrew Peretz of Cushman & Wakefield, the leasing agent for Trinity Real Estate, which owns 7 million square feet in Hudson Square. Trinity is the largest owner of commercial space in the area, which runs north from Canal Street to Morton Street and west from the Avenue of the Americas to the Hudson River.

Peretz said they are not only seeing expansions by existing tenants but also new tenants coming in. "There are still inquiries and we are running tours. We just got a 250,000-square-foot tenant and a new proposal from a tenant wanting 70,000 square feet. Right now it hasn't dried up, and I think it's certainly a trailing indicator of the market even though I know we're headed for a downturn."

Last year the media giant Viacom leased 200,000 square feet at 345 Hudson Street, joining other media companies including WNYC Radio, which leased 71,000 feet at 10 Hudson Square. In May, Newsweek announced its move to 395 Hudson Street, joining other tenants such as Thomson Reuters and technology company Navisite.

Branding the neighborhood as a place for "creative businesses" will help commercial landlords withstand any financial crises, said Carl Weisbrod, president of Trinity Real Estate, a wholly-owned subsidiary of Trinity Church.

"We're very well situated because we've had several years of really great leasing — not just in terms of volume, but in the kind of tenants attracted to Hudson Square as a creative center," Weisbrod said. Those businesses include not only media and publishing but architecture firms, graphic design companies and nonprofits.

Jack Petrie, senior vice president of CRESA Partners, who has brokered space in Hudson Square, said tenants like Viacom and firms like Trinity Real Estate have validated the neighborhood for many prospective tenants.

"You can get good value in a rising neighborhood. If you sign a 10-year lease [in Hudson Square] in 10 years it will be a completely different, much improved, vital, 24-hour submarket."

Petrie said that Trinity is known to offer low rents on raw spaces of former industrial companies.

"The older spaces used by printing companies are demolished and the space is delivered raw and offered 'as-is' with concessions for construction to attract office tenants. In the run-up they went from mid- to high \$30s to \$40s [per square foot]. Now the high-end of the Trinity portfolio is starting with \$50 even."

Leasing agents see strength in long leases because some companies located in Hudson Square have rents that go up incrementally over the course of the lease, some of which run up to 20 years. "We've got leases that run to 2014 and 2018," said Jonathan Resnick,

president of Jack Resnick & Sons, which owns 250 Hudson Street and the fully leased 315 Hudson Street.

To date, four of the 15 floors at 250 Hudson Street are vacant.

Resnick said in light of the market crises, they will be flexible to get deals done.

"People have negotiated free rent and tenant improvement. It's always better to have a tenant in a space rather than a vacant floor. In this market we're doing what we can to get the deals and we're having success."

The vacancy rate for Class A buildings in Hudson Square is about 16.7 percent, according to Peretz. For buildings owned by Trinity, the vacancy rate is 11 percent. Both are higher than the Manhattan average — in October, Manhattan's vacancy rate was 6.6 percent, with a 7.3 percent vacancy rate Downtown.

Peretz said that Trinity's vacancy rate was due to a lot of turnover, especially in the past three years as tenants like the New York State Department of Labor, JP Morgan and PricewaterhouseCoopers moved out. He claimed the space wasn't being held intentionally for higher rents, "but for the real tenant that was right for the neighborhood."

John Maher, a senior vice president at CB Richard Ellis, the firm that handled the Viacom deal last year for Trinity, said the neighborhood is changing.

"It has become a 24/7 professional environment with more restaurants and even more residential buildings. It's more viable, safer and just a better place to be than it was five years ago."

Residential developers are realizing that Hudson Square is a niche market to fill, one that could appeal to people who want to walk to work.

As nearby residential buildings such as the Urban Glass House on Spring Street and 505 Greenwich, just off Spring Street, become successful, the neighborhood is drawing developers like Harry Jeremias of PHH Realty Group, who is building the Renwick, a new, \$70 million 12-floor glassed-in condo designed by Ismael Leyva Architects on Renwick Street.

Jeremias set out to offer a boutique, white-glove building with amenities that aren't offered in nearby condos.

Those amenities will include a basement-level indoor lap pool, a gym space with a boxing ring (complete with kickboxing lessons), an art library stocked by publisher Taschen Books and 21 private parking spots for about \$250,000 each.

Groundwork for the parking lot and basic foundation work has started for the Renwick. The 44 units are selling from \$980,000 for a one-bedroom to \$2.25 million for a two-

bedroom home/office combo and \$8 million for the penthouse.

About 40 percent of the preconstructed building is already sold, according to Frances Katzen of Prudential Douglas Elliman.

"And no one has pulled out — there have been zero cancellations," Jeremias noted. "The last three or four months, it hasn't been the best market we've seen, but we just signed two more units in the last two weeks."

Jeremias said market conditions were not a concern "because we have 14 months to finish and we're almost 50 percent sold."

New hotels are also cropping up in Hudson Square. In September, the Sheraton Four Points opened on Charlton Street with 150 guest rooms and two penthouse suites, with a competitive nightly rate of about \$399. Trump Soho, a 43-story condo-hotel on Spring and Varick streets, is scheduled to open in six months. At 330 Hudson Street, a warehouse is being converted into what will be the Viceroy Hotel by Tribeca Associates, which has a long-term lease with Trinity. (Tribeca Associates also developed Soho's 60 Thompson hotel.)

The influx of new guests and residents generates income for local restaurants, said Phil Mouquinho, owner of P.J. Charlton restaurant at Charlton and Greenwich streets. Mouquinho, 58, was born and raised in Hudson Square.

"I was born here, I went to school here and I live and work here," he said. He said he's seen the neighborhood evolve. "I go back to days of the printer and paper merchants. Gradually I've seen that go, then the dot-coms come in, then Saatchi & Saatchi."

In 1985, Saatchi & Saatchi was the first major ad agency to move to Hudson Square from Midtown, leasing over 400,000 square feet at \$20 a square foot at Tishman Speyer's 375 Hudson Street. The ad agency, which has increased its space to 819,000 square feet, recently signed a new lease.

"These kind of businesses have lunch at my restaurant, and that alone pays my bills," said Mouquinho.

In August, celebrity chef David Bouley signed a lease at the Trinity-owned 10 Hudson Square for a 10,000-square-foot casual restaurant scheduled to open in January 2009. Bouley owns a French restaurant at 120 West Broadway, an open-kitchen dining room, bakery and market at 130 West Broadway, and Danube, an Austrian restaurant, at 30 Hudson Street.

Restaurants that line Spring Street and have become popular for lunch and dinner crowds include EAR, Kana Tapas Bar and Restaurant, Lomito, the relatively new 508 Restaurant and Bar, and Giorgione, the Italian restaurant owned by Giorgio DeLuca (of Dean and DeLuca.)

Trinity Real Estate is sponsoring an application to create a Hudson Square Business Improvement District, which is expected to be finalized within a year. "We've been very supportive of the BID," said Weisbrod. "The main purpose is to strengthen the area and help improve the street environment to attract more retail to the neighborhood."

Hudson Square used to be off the beaten path, said Peretz. "Now with all the different types of industries, that path has been totally beaten," he said.