If You Build It…: The Impact of Street Improvements on Commercial Office Space
Location, location, location is the real estate mantra. So what makes a great location, particularly for a commercial office property in New York City? Access to transit is a primary factor, but clearly not the only one. This paper purports that there are three other key elements: access to parks or open space, calmed traffic and pedestrian-friendly streets. Given the choice and economic means, people in the New York metropolitan area will opt to work in locations where transit is easily accessible, the air is relatively clean, the streets are quiet and safe and they can enjoy sunshine and open space. This paper will substantiate this theory by showing that if all of these elements come together, it creates a “perfect storm” and, if any of these elements are missing and added to a district, values in that district improve at a measurably faster rate than in other areas where no improvements have been made.

Right now, the highest office rents in New York City are in the Plaza District (generally defined as the area running from 50th Street to 65th from Park Avenue to 6th Avenue). Plaza District asking rents average about $80 per square foot. This area has superior access to commuter and suburban rail transit and is bordered by the best open space in Manhattan, Central Park. Park Avenue from 50th Street to 65th Street, the most expensive stretch of this district, could be seen as the forerunner of “complete streets” policies in Manhattan. It has green pedestrian islands, wide sidewalks, sunlight, few trucks and buses and asking rents averaging $80 per square foot.

The Plaza District, and particularly Park Avenue (figure 1), boasts the most expensive office rents and may for a while due to the quality of its building stock, the areas physical attributes and convenience for decision makers who live nearby or commute into Grand Central Station. However, this district has not seen the most improvement in office leasing since the recession. The two areas that have seen the most improvement are the Meatpacking District (figure 2), the area roughly west of 9th Avenue to the Hudson River and running from West 12th to 15th Streets, and, in particular, the area running from Union Square to Herald Square, around Broadway.

In the Meatpacking District, where the City of New York recently installed several street improvements, including Gansevoort Pedestrian Plaza in 2008 and bicycle lanes on 9th Avenue and the long awaited Highline opened in 2010, the availability rate is roughly 3%, the lowest in the city. Whereas the Plaza District availability rate peaked at 16% in '09 and is down to about 12%, a 25% improvement, Meatpacking peaked at 9% in '09 and has dropped to 3%, a 75% improvement. In Meatpacking, office rents currently average $70.00 per square foot, just 8% below their pre-recession peak of $75. Although the Plaza District is still more expensive at $80 per square foot average, that’s 26% less than the pre-recession peak of $110 psf. Looked at another way, current Meatpacking asking rents only average 8.75% less than the Plaza
District vs. 30% three years ago. Just this spring, an office deal was completed at $92.00 per square foot in the Meatpacking district. Clearly, the rents are closing in.

Figure 1  Park Avenue, Facing South from 54th Street

Figure 2  The Meatpacking District

Admittedly, the Meatpacking District is very small and has a next highest ratio of open space to buildings after the Plaza District plus it’s within one avenue of the A, C, E and L, which connects all the other subway lines. Given the idiosyncratic nature of this district, the area running from Union Square to Herald Square along Broadway may be the more significant example of the effect of street improvements on office values. The locality is larger, caters to a broader array of business and the street changes cover a broader swath. While this area has always had good transit, until recently, it had disorderly streets and a dearth of open space. Since the New York City Department of Transportation (DOT) re-engineered the streets, calmed the traffic, made the area friendlier to pedestrian and bike riders and added plazas at Union
Square, Madison Square and Herald Square, office vacancy rates and rents have improved at the next fastest rate in the city, after the Meatpacking District.

For the paper, as well as this stretch along Broadway, the “study area” will include Park Avenue South from 14th to 27th Street and Fifth Avenue from 14th to 23rd Streets. Park Avenue South and Fifth Avenue are short distances to Madison Avenue and Union Square West, respectively. This proximity makes the improved parks and plazas are an amenity for these stretches. Also, Fifth Avenue is the third leg of the triangle between Union Square and Madison Square Park and has a bike lane, which has calmed traffic. Finally, because 23rd Street is essentially a linear transit hub, it’s significant that a pedestrian can walk easily from Sixth Avenue to Park along 23rd street now without dodging cars at Broadway and Fifth Avenue. Thus Park Avenue South is further integrated into the neighborhood. As a commercial broker who regularly disembarks at 23rd and Sixth Avenue to get to Park Avenue South says, “I can cross the street now. I go from the train, across the plaza and to my office without encountering traffic”.

In this area (figure 3), since the depth of the recession, office availability rates have fallen from 13% to 9% and rents are easily catching up with midtown. John Cinosky, a Managing Director at Atco Brokerage Services, leases space at 381 Park Avenue South at 27th Street and at 555 Fifth Avenue at 46th Street. At the peak of the market in 2008, his company was asking $54 per square foot on Park Avenue South and $70 per square foot on 5th. Now, the asking rent is $45 per square foot on Park Avenue South and $57 per square foot at 52nd and 5th. Shortly, he expects the rents to be the same.

While this area has improved nicely since 2009, with the availability rates improving 30%, the Grand Central Area (figure 4), which runs from 42nd to 47th Streets from 5th Avenue to Third Avenue, is treading water. In the Grand Central Area, availability rates hit 14.5% in late ‘08 and are holding steady at about 14% (figure 5). Asking rents in the Grand Central Area peaked at about $75 per square foot in late ‘08, dropped to the low 50’s in ’09 and now average in the mid ‘50’s. In the Study Area, in the same time periods, asking rents averaged low 50’s per square foot, dropped to high $30’s and have recovered to the mid 40’s. Where Grand Central is still 26% off its peak rent, this area is only 17% below its peak and asking rents are only about 16% below the Grand Central Area versus 30% three years ago. (figure 6)
Figure 3  23rd Street Facing South Down Broadway

Figure 4  42nd Street, Facing North Up Third Avenue
Figure 5: Since the peak of the recession, office availability rates are improving steadily in the Study Area and stagnant around Grand Central.

Figure 6: The asking rent in the Study Area are approaching asking rents in Grand Central.

Likewise, between Sixth Avenue and Seventh Avenues from 14th to 23rd Streets, where no changes have been made to the streets (figure 7), availability rates are at about 10%, close to their peak of 12%. More significantly, at the height of the market in '08, the asking rents in this stretch were about $10 higher per square foot higher than the Study Area. They now average $10.00 per square foot less. (figure 8) This spring, several large deals have closed along 6th Avenue because, as a broker involved with these deals said “There’s nothing left anywhere else”. It’s a domino effect.
Pedestrians tend to resist crossing wide streets. Narrowing 17th Street and reclaiming street space around Union Square Park was a particularly important ingredient to the success of the area. Any wide street that is difficult to cross defines an area and often traps commercial value. Madison Avenue retail rents are a one of the clearest examples of this phenomenon. Retail rents from 57th Street to 72nd Street are priced roughly at $900 per square foot; rents from 72nd Street to 79th Street immediately fall off to $400-$600 per square foot and rents from 79th
Street to 86th drop again to roughly $250-$300 per square foot. Likewise, Soho office and retail rents are higher than NoHo and anything south of Canal.

When pedestrians flow, value flows with it. By narrowing 17th street and then creating an easy, attractive way to cross 23rd Street and 26th Street all the way up to 37th, and creating park like experiences along the way, the City of New York DOT created an alluring way for pedestrians to flow naturally up and down the Broadway and one contiguous district. Office values were originally highest around the parks but now values are spreading.

Before these improvements were made, Broadway from 26th to 34th Street (figure 9) was a particularly weak stretch for commercial real estate and particularly hard hit by the recession. In this area, 12 West 27th Street at Broadway is clear indicator of what’s happening in the neighborhood. In ’09, the building was 25% vacant; it is now 90% leased. Likewise, at 1140 Broadway at 26th Street, the vacancy rate has dropped to 1% from a peak of 24% in ’09.

![Figure 4 Broadway at 28th Street](image)

It is too soon to register the complete changes from 17th to 23rd Streets and 26th to 32nd Streets along Broadway. Leases need to expire and new tenants need to move in. Building ownership needs to catch up with the demand and renovate the properties. Building will be bought and sold and ownership will change. In time, the area will only get stronger.

Other factors have also contributed to the renaissance of these districts, including the post-recession boom of technology and media industries. These companies have different priorities, require different kinds of space and have employees and CEO’s with different
commuting patterns and methods (including bicycling). Still, the consensus amongst building owners, managers and agents is that the improved streets, bike lanes and plazas are a major contributor to the boom in these areas. The manager of a building on Broadway in the high 20’s crowed: “it’s the greatest thing to happen to New York City since the subway. Outside of NYC, it’s all about cars. Here, it’s about people. The plazas attract people. Anything that attracts people is good for the area and good for business.” An owner of a commercial building Broadway in the lower 20’s echoed this sentiment “of course, it’s good. It’s a different kind of traffic. Instead of cars, the plaza attracts bikers and people; it’s great”. A commercial leasing agent with over twenty years of experience in the business who currently handles buildings on Broadway in the low 20’s and Union Square North attributes 20% of the increase in office rents directly to the street improvements.

This paper suggests two lessons: First, to stay competitive in the office market, Mid-town needs to its streets more appealing to pedestrians and cyclists and become a more attractive place to work. Secondly, street improvements spur economic development, drawing people to work, as well as shop. If the city identifies areas with good transit and improves the surrounding streets to make them friendlier to pedestrians and cyclists, demand for commercial space will rise and those areas will develop on their own.

Atlantic Avenue in Brooklyn is an interesting area to consider. The city already identified this area for large-scale re-development and a stadium, but what would have happened if the city had simply cleaned up the traffic around the terminal? It’s a significant transit hub but mayhem on the street. Had the city re-routed the streets, calmed the traffic, added bike lanes and a good pedestrian plaza, based on the evidence in this paper, the area may have attracted development on its own. If private developers in this city will not actually pay for the transit and street improvements, they certainly do not need to be paid to take advantage of them. Broadway between 26th and 32nd Street used to be one of the least desirable stretches in the city. It now boasts three new hotels, flowers beds and is a pleasure to walk and bike along. It’s the “field of dreams”. Calm the streets, add open space, make an area pedestrian and bicycle friendly, rents will increase and development will come.

Notes:

We used Co-Star Realty Services for the data and cross referenced their information with the Newmark Realty Services First Quarter Manhattan Office Reports. The availability and vacancy rates may be more accurate than the rental rates. The percentages are accurate to within a point or two and sufficient for comparison purposes.