NYC 9/11 Public Portal Document

New York Real-Estate Market Heats Up in Wake of Terror Attacks

"I just lost it. I couldn't believe it," said the real-estate broker.

Barry Gosin and his colleagues throughout New York's real-estate industry haven't had much time to be stunned. In a twist of fate, many New York-area landlords and brokers who had been sitting on a softening market are back in business as never before.

Two weeks ago, Mack-Cali Realty Corp.'s one-million-square-foot office tower in Jersey City, N.J., due to come on line early next year, was about one-third leased. But as of Friday, the company had several "handshake deals" for the remaining space in the tower and the company has dusted off plans for an additional tower nearby.

By Wall Street Journal staff reporters Peter Grant, Motoko Rich and Dean Starkman.

Not even at the height of the technology boom, when dot-coms were gobbling up space, did the industry see such activity in this area.

"We've never seen the velocity that we've seen in the last 10 days," said Bruce Mosler, president of U.S. operations at closely held New York real-estate services firm **Cushman & Wakefield**. "That's unprecedented."

For example, **Charles Schwab Corp.**, which previously wasn't sure whether it would be able to sublease 500,000 square feet of space in Jersey City, says it is reviewing several offers for the space. Analysts were nervous about **Boston Properties Inc.** filling its tower going up in Times Square. "I have seen an increase in interest in Times Square Tower," said Robert E. Selsam, senior vice president and director of Boston Properties' New York office.

Stocks of real estate companies operating in the area jumped the first day trading resumed last week, though they have fallen back slightly.

Since the terrorist attacks, displaced tenants have committed to taking at least 4.7 million square feet of office space in Manhattan and an additional 2.4 million square feet in Northern New Jersey, New York's Westchester County and Connecticut, according to Cushman & Wakefield.

To be sure, even if every tenant displaced by the World Trade Center attacks were to move elsewhere in Manhattan, New York is unlikely to have the kind of year it enjoyed in 2000, a record. And once the displaced tenants find space, most other businesses still face a likely recession and are worried about making new, long-term space commitments.

Scott N. Resnick, president of a closely held real-estate company that owns several Manhattan office buildings, said the effects of any windfall for the real-estate industry shouldn't be overstated. "The economy nationally and locally has suffered and will continue to suffer," hurting demand for office space, he said.

Still, unlike industries ranging from airlines to hotels to retail, New York real estate is probably going to perform pretty decently.

"The way I look at it, it's good for New York," said Stanley E. Kleger, a broker with Murray Hill Properties. "To tell you the truth, we were pretty slow during the spring and the summer and the fact is, an uptick is a plus. I can't tell you what is going to happen after the uptick because no one knows, but while you have the opportunity you might as well make the most of it."

Many brokers say they are foregoing commissions on short-term leases. On the other hand, most will make commissions on the long-term leases they sign. And the landlords are getting tenants they wouldn't have attracted otherwise and filling space that might well have stayed empty for months.

Not everyone is crowing about the turn of events. "I don't feel very good about doing some of this stuff," said John Cefaly, a vice chairman with Cushman & Wakefield and head of the firm's downtown office. "I'd quite frankly rather be making deals in normal times and not a catastrophe."

Gouging has become a concern because of the scramble for space. The day after the terrorist attack, the Real Estate Board of New York issued rules demanding that deals with refugee tenants must reflect market conditions the day before the tragedy. But those conditions are open to interpretation, given the complexity of office leasing and the slow leasing volume in New York's declining office market just before the disaster.

"There is no question it is complicated," said Steve Spinola, the Real Estate Board's president. "There is no question there is a little leeway."

For example, Trinity Real Estate received a call from the Real Estate Board last week following a complaint of possible gouging. Trinity, a unit of **Trinity Church**, which has owned real estate in Manhattan for more than 200 years, controls more than six million square feet of office space, most of it just north of the disaster zone.

Trinity officials, who vehemently deny any wrongdoing, say the complaint involved 137,000 square feet of ready-to-go space in 75 Varick St., a 1.1-million-square-foot building that was converted by Trinity last year from an industrial to an office property at a cost of about $60 million.

Before the tragedy, a tenant in the building, **StarMedia Network Inc.**, had been trying to sublease the space in question with lackluster results. People with knowledge of the building say StarMedia, an Internet company serving mostly Latin America, was hoping to get what it was paying for the space, about $35 a square foot.

Trinity officials said last week that they were talking to StarMedia about "recapturing" the space so Trinity could lease it directly to displaced tenants. Trinity officials said they already began talking to businesses about the space at rates of $43 to $48 a square foot.

That doesn't violate the Real Estate Board directive, the Trinity officials say, because the rent StarMedia was seeking didn't accurately reflect the market. "Trinity has the right to recapture the space if it thinks subleasing is harmful," said Joseph Palombi, the head of Trinity Real Estate. "To discount the space would be damaging to what we're trying to do as far as pricing for the building."

Real Estate Board officials declined to comment specifically on the Trinity case. But they said deals for space that had been on the sublease market can be difficult to analyze. In general, they said, landlords who recapture space are allowed to increase asking rents above what their tenants were charging on the sublease market.

The space situation in Manhattan has presented ethical nuances few landlords have ever encountered, said Douglas Durst, a New York developer with large holdings in midtown Manhattan. In one instance, he allowed a tenant that had been paying $50 per square foot, but no longer needed the space, out of a lease to make room for another tenant displaced by the attack. He said he hadn't decided if he should charge the new tenant the $50 he had been getting or $40 per square foot, his operating costs. Says Mr. Durst: "I don't have any answer."

—Ray A. Smith contributed to this article.

THE WALL STREET JOURNAL, MONDAY, SEPTEMBER 24, 2001

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