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Office Deals, 19 Months Apart, Show Market's Move

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In real estate, as in life, timing is everything.

Two of New York's largest real estate brokerage firms, Cushman & Wakefield and CB Richard Ellis, have negotiated new leases for their Manhattan offices, and one seemed to get better terms than the other. The deals were struck 19 months apart, long enough to produce distinct changes in the market.

Cushman consolidated its three Midtown locations into a new building at 1290 Avenue of the Americas between 51st and 52nd Streets, and CBRE opted to remain where it was, in the MetLife Building, at 200 Park Avenue. Although both firms seem to have obtained favorable lease terms, CBRE, which signed its lease in December 2009, appears to have gotten a better deal than Cushman, which negotiated its lease in May 2008.

Cushman's new 175,000-square-foot offices, home of its world headquarters, represent both a consolidation and downsizing from its three previous Midtown locations. Before the move, it occupied 175,000 square feet at 51 West 52nd Street, 40,000 square feet at 1350 Avenue of the Americas, and 13,000 square feet at 712 Fifth Avenue.

An industry executive familiar with the terms of Cushman's new 15-year lease with Vornado Realty Trust, owner of 1290 Avenue of the Americas, said it included an average rent of about $88 a square foot, some nine months of free rent and a tenant improvement allowance of approximately $55 a square foot. When Cushman moved into the building — it occupies the entire seventh floor and parts of the eighth and ninth floors — it also became the building's exclusive leasing agent.

Cushman's ability to serve as the agent of its new building could be significant.

"The types of tenants at 1290 could be meaningful; they are generally big-space users," said Lawrence J. Longua, clinical associate professor at the Schack Institute of Real Estate at New York University. "When those leases roll, there's a lot of money to be made for the building agent," he said.

According to Cassidy Turley, a commercial real estate company, when Cushman signed its lease with Vornado in May 2008, the average asking rent for a Class A office building in the Rockefeller Center submarket was $108.14 a square foot, far more than Cushman paid. Last month this fell to a four-year low of $71.32.

A spokesman for Cushman declined to confirm terms of the lease, but said its "net effective rent, including landlord contributions toward construction and free rent, was better than market for comparable space at the time we completed the lease. Rent was only one of the many considerations we had."

CBRE's new 15-year lease in the MetLife Building, which is directly north of Grand Central Station and owned by Tishman Speyer Properties, will begin in June 2011. CBRE will occupy 125,771 square feet on the 19th, 20th, 21st and 22nd floors; it currently occupies approximately the same amount of space on floors 17 through 19.

Industry executives familiar with CBRE's new lease said it included an average rent of about $70 a square foot, approximately nine months of free rent and a tenant improvement allowance of about $55 a square foot. CBRE declined to comment on these terms.

In the Grand Central submarket, Cassidy Turley said the average asking rent for a Class A office building in December 2009, when CBRE signed its lease with Tishman Speyer, was $61.17 a square foot. This fell to $58.35 in April 2010, the lowest it had been since December 2005.

Joseph Harbert, chief operating officer of Cushman & Wakefield's New York metro region, said the company began considering its office space options in early 2007. Although Cushman had a clause in its lease at 51 West 52nd Street that would have allowed it to stay in the building for an additional five years at a fair market-value rent — then about $100 a square foot — he said the firm determined "that to stay where we were at a very high rent would not let us achieve our objectives."

"It was a tight market, and we narrowed our search down to three or four spaces that were reasonably close to what we wanted to achieve," he said.

Mr. Harbert said Cushman signed its lease "when the market was vibrant," with "high pricing and lack of availability. We signed in an up market. You sign when you have to sign."

Mitchell E. Rudin, chief executive of the New York tristate region of CBRE, which occupies the company's MetLife offices, said CBRE began its search in the summer of 2008. Although its preference was to remain in the MetLife Building, "the economy was such that we wouldn't have been able to stay here," he said. "But as we embarked on the process, the market started to deteriorate and it appeared as a more likely alternative."

Mr. Rudin said CBRE considered "quite a number of buildings," looked at three, and began lease negotiations with Tishman Speyer in the summer of 2009. “I believe we signed this at absolutely the optimum time,” he said.

Cushman's new open offices, designed by Mancini Duffy, contain clusters of work stations, glass-walled offices along the perimeter of the floor, and only two corner offices, for its global and Americas chief executives. The offices contain 47,500 square feet of conference rooms and meeting space and two landscaped terraces. Building out the new offices cost about $185 a square foot.

Still being designed by the architectural design firm Gensler, CBRE's new offices also will be more open than before, but the company will retain corner offices for some senior executives. The centerpiece of the new space will be the new 21st floor, with the main reception area, meeting rooms, a dining room and terrace. Mr. Rudin declined to disclose the company's build-out cost.