

COMMERCIAL TENANT REAL ESTATE REPRESENTATION

THE CTRR RENTABLE AREA REPORT

DOWNTOWN NEW YORK
2008



Sizing up downtown

Can the sizes of buildings change over time even though no new construction has taken place? Landlords of many buildings in Downtown Manhattan seem to think so, reporting growth spurts in building size ranging from less than a percent to more than 33 percent over the past 17 years.

To understand this phenomenon, CTRR tracked 50 randomly selected Class A and B office buildings in the Downtown

market from 1990 through 2007. As reported by landlords, 32 percent—or 16 out of 50—of these supposedly inanimate structures grew by more than 5 percent. This was true for buildings of all sizes and shapes. The seventh smallest building in the study, 5 Hanover Square with 320,000 square feet, ranked first in growth with a 33.82 percent increase in size since 1990. The largest property, 55 Water Street with 3.8 million square

feet, grew by 19.92 percent.

These findings are consistent with our 2006 Midtown study, in which 34 percent of buildings grew by more than 5 percent. All data on building size were taken from Office Buildings, published annually by Yale Robbins, Inc. and are based on information provided by building owners and managing agents.

How re-measuring buildings affects costs for tenants

Landlords are completely within their rights to re-measure their space, and to offer it at whatever rentable area they see fit. The difference between rentable area and usable area is known as the loss factor for tenants, and it changes—often increasing—every time a landlord re-measures space. The loss factor is an entirely market-driven phenomenon, and it is well-established that the re-measurement of office buildings is widespread among building owners. The results of CTRR's new analysis demonstrate just how arbitrary and idiosyncratic rentable area can be.

Re-measuring is usually a strategy to increase building revenue without quoting a higher base rent in lease negotiations. Re-measuring can also be used in conjunction with a higher quoted base rent, allowing a landlord to double dip on rent increases. The 16 buildings our survey reports to have grown by more than 5 percent without physical basis may generate increased base rent of between \$249,000 and \$28 million per year as a result.

Over the course of 10 years—a typical lease term—the potential revenue growth is much greater. For instance, 55 Water Street, with a gain of almost 20 percent, could generate more than an estimated \$284 million. This calculation is based on lease rates currently reported for the property by CoStar Property, an independent database for commercial real estate.

In addition to inflated base rents, landlords may collect more through other charges that are billed on a dollar-per-square-foot basis. These charges may include certain types of electricity billings and other escalation fees.

Because the practice of re-measuring is so widespread, extrapolating to illustrate the consequences market-wide gives a sense of what's at stake for building owners and for tenants. The Downtown marketplace includes about 90 million square feet of office space. As reported by Colliers ABR, average asking rents Downtown were approximately \$47.56 at the end of 2007. If 32 percent

of these Downtown owners re-measure their space to increase it by 8.52 percent (the weighted average rate of increase among those building owners reporting significant increases in building area during the last 17 years), and charge the prevailing average asking rent for this space, the additional annual base rent charges would be about \$117 million.

The Midtown/Midtown South market consists of about 352.2 million square feet of space. If 32 percent of Midtown property owners similarly re-measure their space to increase its size by 8.52 percent, and charge the average asking rent of \$63.67, the annual increase in base rent to Midtown/Midtown South building owners would be about \$611 million. Overall, Manhattan tenants would pay increased annual base rent of about \$728 million per year because of phantom building growth.



Analysis of Growth in Randomly Selected Downtown Office Buildings

Square Footage Of Randomly Selected Downtown Office Buildings

Building	GBA ⁶ 1990	GBA ⁶ 1993	Change ⁷ (%)	GBA ⁶ 1996	Change ⁷ (%)	GBA ⁶ 1999	Change ⁷ (%)	GBA ⁶ 2002	Change ⁷ (%)	GBA ⁶ 2005	Change ⁷ (%)	GBA ⁶ 2007	Change ⁷ (%)	Annual Rent Increase ¹	10-Year Increase ²	
<i>Buildings With Significant Increases (greater than 5%)</i>																
1	5 Hanover Square	239,121	239,121	0.00%	303,200	26.80%	303,200	26.80%	303,200	26.80%	320,000	33.82%	320,000	33.82%	\$3,125,973	\$31,259,734
2	55 Water St	3,168,885	3,168,885	0.00%	3,600,000	13.60%	3,600,000	13.60%	3,600,000	13.60%	3,800,000	19.92%	3,800,000	19.92%	\$28,400,175	\$284,001,750
3	90 Broad Street	336,025	336,025	0.00%	315,000	-6.26%	331,000	-1.50%	341,000	1.48%	374,444	11.43%	400,000	19.04%	\$2,482,230	\$24,822,300
4	40 Wall Street	1,013,287	1,134,593	11.97%	1,200,000	18.43%	1,200,000	18.43%	1,200,000	18.43%	1,200,000	18.43%	1,200,000	18.43%	\$10,187,061	\$101,870,613
5	123 William Street	428,031	495,739	15.82%	495,739	15.82%	495,739	15.82%	495,739	15.82%	495,739	15.82%	495,739	15.82%	\$3,605,451	\$36,054,510
6	2 Broadway ³	1,388,023	1,388,023	0.00%	1,388,023	0.00%	1,388,023	0.00%	1,388,023	0.00%	1,595,000	14.91%	1,595,000	14.91%	\$6,066,496	\$60,664,959
7	100 Broadway	343,160	343,160	0.00%	367,542	7.11%	367,542	7.11%	393,335	14.62%	393,335	14.62%	393,335	14.62%	\$1,605,600	\$16,056,000
8	111 Broadway	432,093	432,093	0.00%	418,000	-3.26%	418,000	-3.26%	485,000	12.24%	485,000	12.24%	485,000	12.24%	\$2,380,815	\$23,808,150
9	75 Park Place ⁴	520,000	520,000	0.00%	520,000	0.00%	547,165	5.22%	564,145	8.49%	564,145	8.49%	564,145	8.49%	\$1,302,278	\$13,022,775
10	115 Broadway	396,670	396,670	0.00%	399,000	0.59%	399,000	0.59%	428,000	7.90%	428,000	7.90%	428,000	7.90%	\$1,409,850	\$14,098,500
11	One WFC ⁵	1,461,365	1,461,365	0.00%	1,461,365	0.00%	1,461,365	0.00%	1,569,841	7.42%	1,569,841	7.42%	1,569,841	7.42%	\$5,423,800	\$54,238,000
12	116 John Street	342,310	342,310	0.00%	342,310	0.00%	342,310	0.00%	342,310	0.00%	342,310	0.00%	367,492	7.36%	\$881,370	\$8,813,700
13	140 Broadway	1,141,266	1,141,266	0.00%	1,141,266	0.00%	1,200,000	5.15%	1,200,000	5.15%	1,200,000	5.15%	1,225,000	7.34%	\$3,343,499	\$33,434,986
14	65 Broadway	330,184	330,184	0.00%	345,721	4.71%	351,000	6.30%	351,000	6.30%	351,000	6.30%	351,000	6.30%	\$784,347	\$7,843,469
15	7 Hanover Square	800,000	800,000	0.00%	800,000	0.00%	846,000	5.75%	846,000	5.75%	846,000	5.75%	846,000	5.75%	\$2,110,940	\$21,109,400
16	1 Broadway	180,016	180,016	0.00%	189,978	5.53%	189,978	5.53%	189,978	5.53%	189,978	5.53%	189,978	5.53%	\$249,050	\$2,490,500
<i>Buildings Not Showing Significant Increases</i>																
17	80 Broad Street	381,000	361,990	-4.99%	358,869	-5.81%	358,869	-5.81%	395,000	3.67%	400,000	4.99%	400,000	4.99%		
18	1 Liberty Plaza	2,121,437	2,121,437	0.00%	2,121,437	0.00%	2,121,437	0.00%	2,225,217	4.89%	2,225,217	4.89%	2,225,217	4.89%		
19	125 Broad Street	1,274,213	1,274,213	0.00%	1,274,213	0.00%	1,274,213	0.00%	1,274,213	0.00%	1,274,213	0.00%	1,336,523	4.89%		
20	17 Battery Place North	407,453	375,707	-7.79%	422,424	3.67%	422,424	3.67%	422,424	3.67%	422,424	3.67%	422,424	3.67%		
21	35 Maiden Lane	550,000	550,000	0.00%	570,000	3.64%	570,000	3.64%	570,000	3.64%	570,000	3.64%	570,000	3.64%		
22	45 Broadway	394,792	394,792	0.00%	368,315	-6.71%	368,315	-6.71%	400,000	1.32%	400,000	1.32%	400,000	1.32%		
23	180 Maiden Lane	1,081,659	1,091,570	0.92%	1,091,570	0.92%	1,091,570	0.92%	1,092,000	0.96%	1,092,000	0.96%	1,092,000	0.96%		
24	40 Broad Street	282,372	282,372	0.00%	259,802	-7.99%	259,802	-7.99%	284,582	0.78%	284,582	0.78%	284,582	0.78%		
25	60 Broad Street	1,014,042	1,014,042	0.00%	1,014,042	0.00%	1,014,042	0.00%	1,014,042	0.00%	986,120	-2.75%	1,020,734	0.66%		
26	25 Broadway	852,527	780,000	-8.51%	780,000	-8.51%	780,000	-8.51%	780,000	-8.51%	900,000	5.57%	858,000	0.64%		
27	100 Church Street	1,032,000	1,032,000	0.00%	1,030,000	-0.19%	1,030,000	-0.19%	1,030,000	-0.19%	1,030,000	-0.19%	1,032,539	0.05%		
28	225 Broadway	480,831	480,831	0.00%	480,831	0.00%	480,831	0.00%	480,831	0.00%	480,831	0.00%	480,831	0.00%		
29	222 Broadway	756,138	756,138	0.00%	756,138	0.00%	756,138	0.00%	756,138	0.00%	756,138	0.00%	756,138	0.00%		
30	195 Broadway	1,052,861	1,052,861	0.00%	1,052,861	0.00%	1,052,861	0.00%	1,052,861	0.00%	1,052,861	0.00%	1,052,861	0.00%		
31	1 Wall Street	1,165,659	1,165,659	0.00%	1,165,659	0.00%	1,165,659	0.00%	1,165,659	0.00%	1,165,659	0.00%	1,165,659	0.00%		
32	22 Cortlandt Street	668,110	668,110	0.00%	668,110	0.00%	668,110	0.00%	668,110	0.00%	668,110	0.00%	668,110	0.00%		
33	40 Exchange Place	237,000	237,000	0.00%	237,000	0.00%	237,000	0.00%	237,000	0.00%	237,000	0.00%	237,000	0.00%		
34	39 Broadway	447,452	447,452	0.00%	447,452	0.00%	447,452	0.00%	447,452	0.00%	447,452	0.00%	447,452	0.00%		
35	233 Broadway	988,000	988,000	0.00%	988,000	0.00%	988,000	0.00%	988,000	0.00%	988,000	0.00%	988,000	0.00%		
36	99 Church Street	336,000	336,000	0.00%	336,000	0.00%	336,000	0.00%	336,000	0.00%	336,000	0.00%	336,000	0.00%		
37	75 Maiden Lane	188,000	188,000	0.00%	188,000	0.00%	188,000	0.00%	188,000	0.00%	188,000	0.00%	188,000	0.00%		
38	1 Water Street	2,542,563	2,542,563	0.00%	2,542,563	0.00%	2,542,563	0.00%	2,542,563	0.00%	2,542,563	0.00%	2,542,563	0.00%		
39	Two WFC	2,591,244	2,591,244	0.00%	2,591,244	0.00%	2,591,244	0.00%	2,591,244	0.00%	2,591,244	0.00%	2,591,244	0.00%		
40	Four WFC	2,083,555	2,083,555	0.00%	2,083,555	0.00%	2,083,555	0.00%	2,083,555	0.00%	2,083,555	0.00%	2,083,555	0.00%		
41	50 Broad Street	205,940	205,940	0.00%	205,940	0.00%	205,940	0.00%	205,940	0.00%	205,940	0.00%	205,940	0.00%		
42	11 Broadway	490,709	490,709	0.00%	490,709	0.00%	490,709	0.00%	490,709	0.00%	490,709	0.00%	490,709	0.00%		
43	40 Fulton Street	250,000	226,428	-9.43%	226,428	-9.43%	226,428	-9.43%	233,153	-6.74%	233,153	-6.74%	249,985	-0.01%		
44	61 Broadway	650,740	644,526	-0.95%	650,154	-0.09%	650,154	-0.09%	660,918	1.56%	650,000	-0.11%	650,000	-0.11%		
45	120 Broadway	1,736,513	1,736,513	0.00%	1,729,295	-0.42%	1,729,295	-0.42%	1,729,295	-0.42%	1,729,295	-0.42%	1,729,295	-0.42%		
46	60 Hudson Street	943,626	943,626	0.00%	929,000	-1.55%	929,000	-1.55%	929,000	-1.55%	929,000	-1.55%	929,000	-1.55%		
47	20 Exchange Place	723,455	723,455	0.00%	723,455	0.00%	723,455	0.00%	723,455	0.00%	723,455	0.00%	712,000	-1.58%		
48	59 Maiden Lane	1,073,077	1,073,077	0.00%	1,073,077	0.00%	1,043,670	-2.74%	1,043,670	-2.74%	1,043,670	-2.74%	1,043,670	-2.74%		
49	55 Broad Street	410,295	410,295	0.00%	410,295	0.00%	398,537	-2.87%	398,537	-2.87%	398,537	-2.87%	398,537	-2.87%		
50	20 Broad Street	492,000	492,000	0.00%	461,111	-6.28%	461,111	-6.28%	461,111	-6.28%	465,000	-5.49%	465,000	-5.49%		

Notes:

- Estimated increase in annual base rent is based on rental rates reported by CoStar Property.
Other revenues linked to rentable area, such as electricity and certain escalation charges, may also increase because of the deemed increase in rentable area.
- Estimated increase in base rent over a 10-year lease, based on rental rates reported by CoStar Property.
Other amounts billed to tenants based on rentable area, such as certain electricity and escalation charges may also increase because of the deemed increase in rentable area.
- Annual increase in base rent attributed to re-measured area is based on the reported rent figure in 1998, when MTA signed a 49 year lease.
- Annual increase in base rent attributed to re-measured area is based on 2003 rent, the most recent direct rent figure available from CoStar.
- Annual increase in base rent attributed to re-measured area is based on 2000 rent, the most recent direct rent figure available from CoStar.
- Gross Building Area data is from Yale Robbins, Office Buildings 1990 - Office Buildings 2007. Gross Building area is defined as the approximate total area of a building in square feet.
For purposes of this analysis, Gross Building Area does not include non-rentable, non-tenantable areas such as garages.
- Percent change from square footage reported in 1990.

Measures tenants can take to limit their costs

Tenants can gird themselves when they go into the real estate market by knowing that rentable area is a purely relative term, linked more to economics than to a building's physical characteristics.

A well-advised tenant will compare rentable areas as they are offered by competing, alternative buildings, to help ensure that the tenant is positioned to negotiate the best available terms. A tenant may ask a landlord to report rentable area in terms of recognized standards—such as the Building Owners

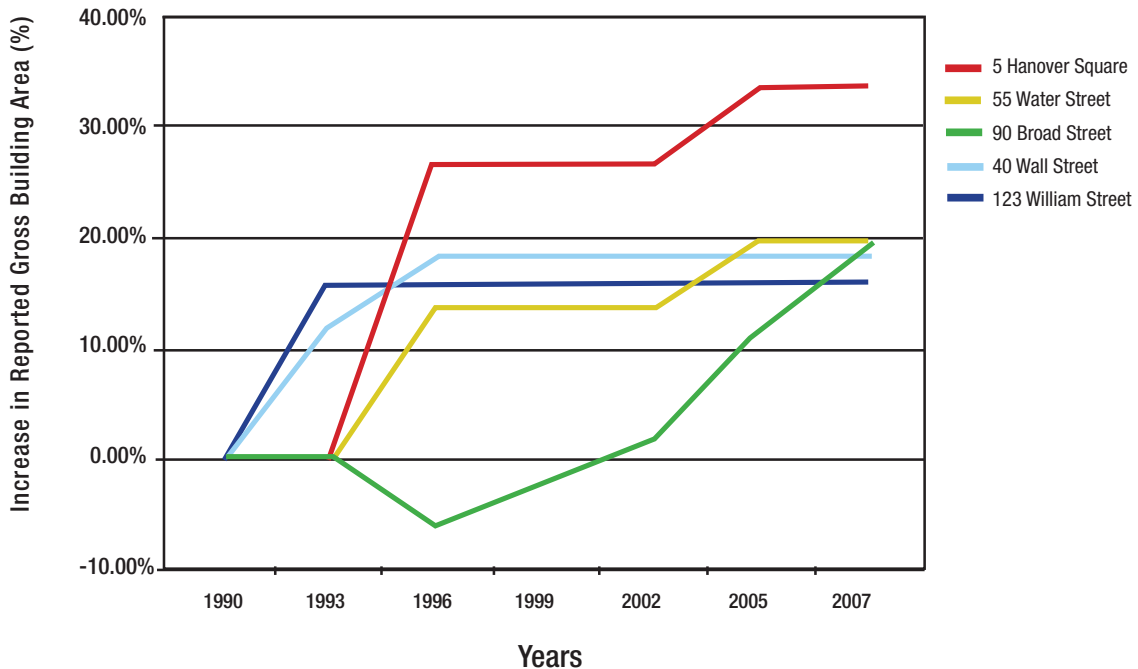
and Managers Association (BOMA) or American National Standards Institute (ANSI) standards—for determining rentable area. To determine a reasonable value for rentable area, a tenant may also have an architect or other advisor make its own measurement of space in which the tenant is interested.

Keep in mind, however, that from a building owner's point of view, "rentable area" may be a non-negotiable factor in the rent equation. Making your own determination of rentable area may not sway the building owner, but

it is a necessary factor in developing an informed assessment about the space you choose to lease.

More important even than understanding rentable area may be focusing on usable area. When comparing competing alternatives for a new lease or a lease renewal, a tenant will be well insulated from all the vagaries of rentable area measurements by focusing on the usable area at competing buildings—regardless of quoted rentable area—and how much it will pay for the usable space at each location.

Biggest Gainers in Reported Building Area



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Serving corporate tenants exclusively, Commercial Tenant Real Estate Representation (CTRR) has handled transactions involving over 10 million square feet of space and \$1.5 billion of obligations. It has also handled over \$3 billion of consulting assignments. CTRR has cut occupancy costs and protected the long-term interests of AT&T, IBM, Turner Broadcasting, Reuters, United Parcel Service, Canadian Imperial Bank of Commerce, Nomura Securities, Mutual of America, Oppenheimer, RJR/Nabisco, Cox Broadcasting, the State of New York, and three of America's biggest law firms, among others. CTRR has helped clients reduce occupancy costs by over \$120 million.