

COMMERCIAL TENANT REAL ESTATE REPRESENTATION

THE CTRR RENTABLE AREA REPORT

MIDTOWN NEW YORK
1990 - 2012



Rentable Area Grows Significantly in One out of Two Randomly Selected Manhattan Buildings

From the street, Midtown Manhattan's office buildings appear solid and immovable. However, according to their landlords, many of these same buildings have grown substantially over the last two decades.

CTRR tracked 50 randomly chosen Midtown Class A and B office buildings and found that 34% of the properties have grown by more than 5% over the last decade.

Over the last two decades, building owners have reported more than half (58%) of these properties to be significantly larger in 2012 than they had been in 1990.

In some instances, the reported growth occurred in one great jump. At 1140 Avenue of the Americas, a 40% increase occurred in one leap, following the completion of a capital improvement project in 2010. 444 Madison Avenue

grew by 24% following the sale of the building in 2007 and subsequent renovations. At other buildings, owners reported incremental changes over the years.

The MetLife building has reportedly grown by about 275,000 square feet, or almost 10% over the past decade. At current reported rental rates in the building, this growth spurt likely increases building income by about \$24.3 million each year.

How re-measured buildings affect tenants

It is well known that the actual area a tenant occupies ("usable square feet") is usually less than the area upon which the rent is based ("rentable square feet"). The difference between rentable and usable area is called the "loss factor" and reflects, in part, a proportionate share of common areas such as hallways, lobbies and restrooms. It's also known that rentable area has no strict relation to either a tenant's usable area or a building's common areas, and that some building owners inflate rentable area based on their own standards.

A landlord's greatest tool for increasing rentable area is re-measurement. Re-measurement – the idea that a building can spontaneously increase its rentable area without increasing its actual size – is not logical. In fact, re-measurement has no purpose other than to increase landlords' profits. However, landlords are completely within their rights to re-measure their space, and to offer it at whatever rentable area they like. In this sense, "square foot" can be considered a term of art rather than a factual description.

Re-measurement is often prompted by a change in building ownership; however, long-time building owners will also periodically re-measure buildings in their portfolios. Re-measuring a building does not affect existing leases, but takes effect when existing leases

are renewed or renegotiated and when new leases are negotiated. Prospective tenants who are aware of this practice before they sign a lease – or, better, before they start looking for space – will be more able to gain a competitive lease terms.

When examining spaces, most prospective tenants evaluate the competitiveness of an offer by comparing the base rents. Re-measurement allows landlords to increase building revenue without quoting a higher base rent in lease negotiations and diminishing the apparent competitiveness of the space. When used in conjunction with a higher base rent or other charges that are billed on a dollar-per-square-foot basis, re-measurement essentially gives the landlord a double-dip on rent increases. These charges can include certain types of electricity billings and other escalation charges.

Re-measuring may affect different parts of a building differently. At one re-measured building, many floors grew an average of 6% to 7%. However, the penthouse grew in reported area by about 14%. This means that in addition to probably paying a premium rent for the top floor and its views, the tenant who agreed to lease this floor also paid a premium in terms of a larger loss factor. The tenant received a smaller usable area for a quoted rentable area.

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. Manhattan's Midtown/Midtown South marketplace includes about 409,000,000 square feet of office space. As reported by CoStar, an independent real estate information company, average asking rents in Midtown were approximately \$48.90 at the end of 2011. If 58% of these Midtown landlords re-measure their space to increase it by 5.44% (the weighted average rate of increase among those building owners reporting significant increases in building area during the last 20 years) and charge the prevailing average asking rent for this space, the additional annual base rent charges would be about \$630 million.

The Downtown market consists of about 120,000,000 square feet of space. If 58% of Downtown Manhattan property owners similarly re-measure their space to increase its size by 5.44% and charge the late-2011 average asking rent of \$38.28, the annual increase in base rent to Downtown building owners would be about \$145,000,000.

Overall, Manhattan tenants would pay increased annual base rent of about \$775 million per year because of phantom building growth.



Analysis of Reported Growth in Rentable Area for Randomly Selected Midtown Buildings

Square Footage Of Randomly Selected Midtown Office Buildings

Building	GBA ¹ 1990	GBA 1993	Change ² (%)	GBA 1996	Change (%)	GBA 1999	Change (%)	GBA 2002	Change (%)	GBA 2005	Change (%)	GBA 2011	Change (%)	Change over 20 years (%)	Annual Rent Increase ³	
Buildings With Significant Increases (greater than 5%)																
1	1140 Ave. of Americas	179,513	179,513	0.00%	179,513	0.00%	181,000	0.83%	181,000	0.00%	181,000	0.00%	253,418	40.01%	41.17%	\$3,672,339
2	666 Third Avenue ⁴	589,660	589,660	0.00%	589,660	0.00%	713,812	21.05%	745,591	4.45%	745,691	0.01%	769,503	3.19%	30.50%	\$11,150,266
3	444 Madison Avenue	401,686	401,686	0.00%	401,686	0.00%	401,686	0.00%	401,686	0.00%	401,686	0.00%	496,324	23.56%	23.56%	\$8,132,243
4	800 Third Avenue	526,124	637,423	21.15%	637,423	0.00%	637,423	0.00%	637,423	0.00%	637,423	0.00%	637,423	0.00%	21.15%	\$8,013,528
5	666 Fifth Avenue	1,243,780	1,243,780	0.00%	1,300,000	4.52%	1,500,000	15.38%	1,500,000	0.00%	1,500,000	0.00%	1,500,000	0.00%	20.60%	\$19,216,500
6	830 Third Avenue	135,000	135,000	0.00%	143,647	6.41%	143,647	0.00%	143,647	0.00%	143,647	0.00%	161,991	12.77%	19.99%	\$1,889,370
7	545 Madison Avenue	116,882	116,882	0.00%	116,882	0.00%	116,882	0.00%	116,882	0.00%	116,882	0.00%	140,000	19.78%	19.78%	\$809,130
8	11 West 42nd Street	803,064	803,064	0.00%	840,049	4.61%	840,049	0.00%	840,049	0.00%	931,000	10.83%	961,837	3.31%	19.77%	\$9,024,657
9	605 Third Avenue	898,732	898,732	0.00%	898,732	0.00%	898,732	0.00%	898,732	0.00%	898,732	0.00%	1,042,961	16.05%	16.05%	\$10,817,175
10	1 Penn Plaza	2,072,136	2,400,375	15.84%	2,400,375	0.00%	2,400,375	0.00%	2,400,375	0.00%	2,400,375	0.00%	2,400,375	0.00%	15.84%	\$18,381,384
11	230 Park Avenue	1,212,570	1,212,570	0.00%	1,212,570	0.00%	1,200,000	-1.04%	1,140,628	-4.95%	1,365,000	19.67%	1,401,304	2.66%	15.56%	\$16,042,390
12	625 Madison Avenue	496,424	550,015	10.80%	550,015	0.00%	550,015	0.00%	588,113	6.93%	588,113	0.00%	567,517	-3.50%	14.32%	\$5,331,975
13	600 Madison Avenue	327,960	327,960	0.00%	327,960	0.00%	327,960	0.00%	327,960	0.00%	327,960	0.00%	374,926	14.32%	14.32%	\$4,461,770
14	535 Madison Avenue	440,000	440,000	0.00%	440,000	0.00%	472,500	7.39%	472,500	0.00%	472,500	0.00%	502,676	6.39%	14.24%	\$7,207,740
15	875 Third Avenue	631,175	675,000	6.94%	685,000	1.48%	685,000	0.00%	685,000	0.00%	720,000	5.11%	720,000	0.00%	14.07%	\$3,997,125
16	500 Fifth Avenue	606,813	606,813	0.00%	606,813	0.00%	612,000	0.85%	650,000	6.21%	687,565	5.78%	686,353	-0.18%	13.11%	\$4,348,452
17	520 Madison Avenue	927,261	966,564	4.24%	966,564	0.00%	966,564	0.00%	1,019,499	5.48%	1,027,781	0.81%	1,047,931	1.96%	13.01%	\$14,480,400
18	60 East 42nd Street	1,150,560	1,116,680	-2.94%	1,116,680	0.00%	1,116,680	0.00%	1,116,680	0.00%	1,239,958	11.04%	1,291,533	4.16%	12.25%	\$6,907,677
19	399 Park Avenue	1,561,097	1,561,097	0.00%	1,561,097	0.00%	1,561,097	0.00%	1,676,725	7.41%	1,676,725	0.00%	1,750,000	4.37%	12.10%	\$17,945,785
20	685 Third Avenue	559,755	601,035	7.37%	615,000	2.32%	650,999	5.85%	650,999	0.00%	650,999	0.00%	626,074	-3.83%	11.85%	\$4,348,537
21	825 Third Avenue	486,326	486,326	0.00%	486,326	0.00%	486,326	0.00%	486,326	0.00%	486,326	0.00%	539,000	10.83%	10.83%	\$2,647,922
22	767 Fifth Avenue	1,804,904	1,804,904	0.00%	1,804,904	0.00%	1,833,435	1.58%	1,833,435	0.00%	1,900,000	3.63%	2,000,000	5.26%	10.81%	\$19,016,007
23	1345 Ave. of Americas	1,828,700	1,828,700	0.00%	1,828,700	0.00%	1,828,700	0.00%	1,828,700	0.00%	1,828,700	0.00%	1,995,891	9.14%	9.14%	\$9,267,397
24	300 East 42nd Street	207,887	207,887	0.00%	206,551	-0.64%	218,052	5.57%	218,052	0.00%	218,052	0.00%	226,191	3.73%	8.80%	\$1,006,720
25	880 Third Avenue	140,400	140,400	0.00%	140,400	0.00%	152,133	8.36%	152,133	0.00%	152,133	0.00%	152,133	0.00%	8.36%	\$527,985
26	499 Park Avenue	270,000	270,000	0.00%	280,000	3.70%	265,638	-5.13%	265,638	0.00%	265,638	0.00%	291,515	9.74%	7.97%	\$1,398,475
27	200 Park Avenue	2,867,204	2,254,000	-21.39%	2,829,763	25.54%	2,785,485	-1.56%	2,804,686	0.69%	2,809,605	0.18%	3,078,742	9.58%	7.38%	\$24,326,870
28	405 Lexington Avenue	1,194,037	1,194,037	0.00%	1,194,037	0.00%	1,196,972	0.25%	1,210,504	1.13%	1,210,474	0.00%	1,261,546	4.22%	5.65%	\$7,002,033
29	747 Third Avenue	358,926	358,926	0.00%	360,965	0.57%	378,815	4.95%	378,815	0.00%	378,815	0.00%	378,815	0.00%	5.54%	\$1,168,877
Buildings Not Showing Significant Increases																
30	888 Seventh Avenue	866,357	866,357	0.00%	866,357	0.00%	902,531	4.18%	902,531	0.00%	902,531	0.00%	902,531	0.00%		
31	919 Third Avenue	1,400,000	1,400,000	0.00%	1,400,000	0.00%	1,400,000	0.00%	1,400,000	0.00%	1,400,000	0.00%	1,456,925	4.07%		
32	717 Fifth Avenue	451,516	451,516	0.00%	438,350	-2.92%	435,350	-0.68%	450,570	3.50%	450,570	0.00%	465,173	3.24%		
33	245 Park Avenue	1,586,860	1,586,860	0.00%	1,617,000	1.90%	1,617,000	0.00%	1,617,000	0.00%	1,617,000	0.00%	1,617,000	0.00%		
34	1285 Ave. of Americas	1,749,150	1,749,150	0.00%	1,749,150	0.00%	1,749,150	0.00%	1,753,691	0.26%	1,753,691	0.00%	1,780,699	1.54%		
35	335 Madison Avenue	1,046,000	1,046,000	0.00%	1,044,000	-0.19%	1,059,497	1.48%	1,059,497	0.00%	1,059,497	0.00%	1,059,497	0.00%		
36	1515 Broadway	1,932,000	1,932,000	0.00%	1,932,000	0.00%	1,932,000	0.00%	1,939,257	0.38%	1,939,257	0.00%	1,939,257	0.00%		
37	575 Fifth Avenue	540,000	540,000	0.00%	540,000	0.00%	540,000	0.00%	540,000	0.00%	540,000	0.00%	542,000	0.37%		
38	90 Park Avenue	895,325	895,325	0.00%	895,325	0.00%	897,949	0.29%	897,949	0.00%	897,949	0.00%	897,949	0.00%		
39	9 West 57th Street	1,393,000	1,292,200	-7.24%	1,393,200	7.82%	1,393,200	0.00%	1,393,200	0.00%	1,393,200	0.00%	1,393,200	0.00%		
40	100 Park Avenue	825,815	825,815	0.00%	825,815	0.00%	825,815	0.00%	825,815	0.00%	825,815	0.00%	825,815	0.00%		
41	590 Madison Avenue	1,030,000	1,030,000	0.00%	1,030,000	0.00%	1,030,000	0.00%	1,030,000	0.00%	1,030,000	0.00%	1,030,000	0.00%		
42	101 Park Avenue	1,285,055	1,285,055	0.00%	1,285,055	0.00%	1,285,055	0.00%	1,285,055	0.00%	1,285,055	0.00%	1,285,055	0.00%		
43	2 Penn Plaza	1,560,600	1,560,600	0.00%	1,560,600	0.00%	1,560,600	0.00%	1,560,600	0.00%	1,560,600	0.00%	1,560,600	0.00%		
44	12 East 49th Street	600,000	632,000	5.33%	632,000	0.00%	600,000	-5.06%	600,000	0.00%	600,000	0.00%	600,000	0.00%		
45	650 Madison Avenue	600,000	600,000	0.00%	600,000	0.00%	600,000	0.00%	600,000	0.00%	600,000	0.00%	600,000	0.00%		
46	11 Penn Plaza	1,103,070	1,103,000	-0.01%	1,103,000	0.00%	1,103,000	0.00%	1,103,000	0.00%	1,103,000	0.00%	1,103,000	0.00%		
47	220 East 42nd Street	1,096,310	1,096,067	-0.02%	1,096,067	-0.02%	1,096,067	0.00%	1,096,067	0.00%	1,096,067	0.00%	1,096,067	0.00%		
48	122 East 42nd Street	748,471	735,000	-1.80%	735,000	0.00%	735,000	0.00%	735,000	0.00%	735,000	0.00%	735,000	0.00%		
49	635 Madison Avenue	149,881	155,000	3.42%	155,000	0.00%	155,000	0.00%	155,000	0.00%	143,825	-7.21%	143,825	0.00%		
50	1120 Ave. of Americas	484,658	484,658	0.00%	484,658	0.00%	484,658	0.00%	484,658	0.00%	484,658	0.00%	415,000	-14.37%		

Notes:

- Gross Building Area data is from Yale Robbins, Office Buildings 1990 - Office Buildings 2011. 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.
- Estimated increase in annual base rent is based on current rental rates as reported by CoStar. Other revenues linked to rentable area, such as electricity and certain escalation charges may also increase because of the deemed increase in rentable area.
- Tishman Speyer, owners of 666 Third Avenue, physically increased the size of the building by approximately 150,000 sq. ft. by using development rights from an adjacent property. The square footage is included in this data.

Tenant Tips: How to Limit the Costs of Phantom Office Space

A tenant may seek to lower the landlord's cited rentable area by asking the 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. Alternatively, a tenant may have an architect or other advisor make their own measurement of the space in which the tenant is interested.

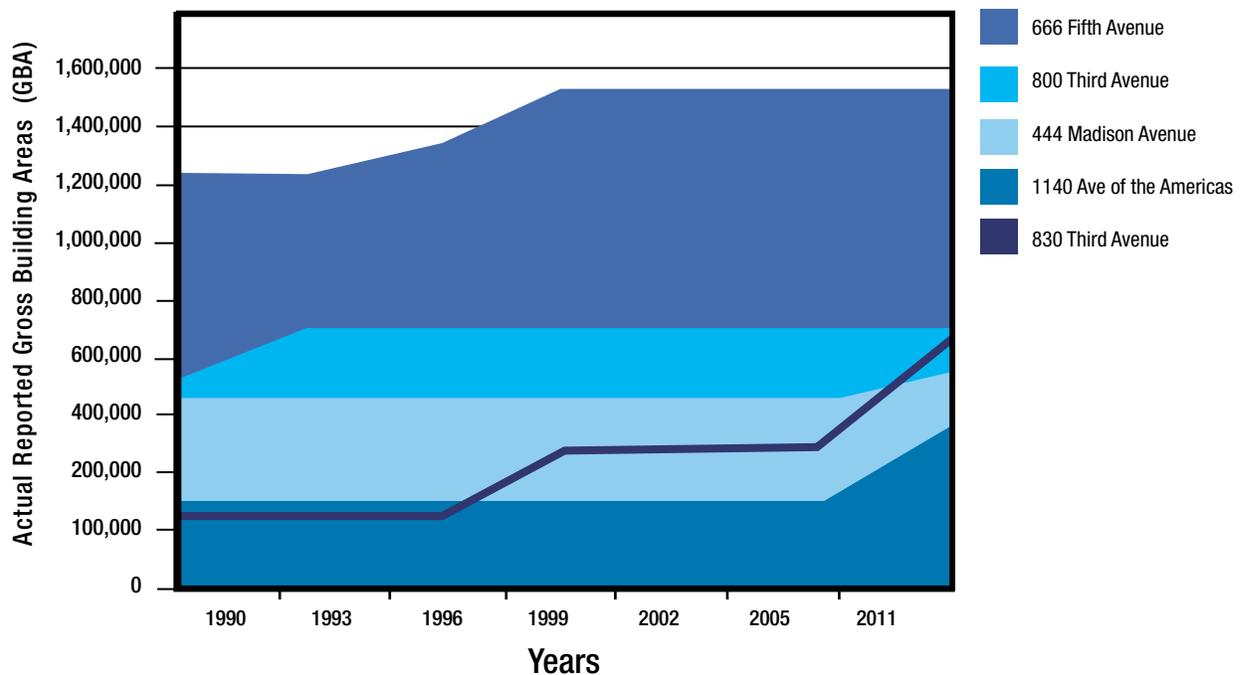
Keep in mind, however, that from a building owner's point of view, rentable

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 can insulate itself from the vagaries of rentable area measurements by focus-

ing 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.

A well-advised tenant will compare rentable areas, usable areas, and loss factors, as well as other relevant terms negotiated at competing, alternative buildings. Having multiple options is always the best way to assure that a tenant is positioned to negotiate the best available terms.

Biggest Gainers in Reported Building Area



© 2012 Commercial Tenant Real Estate Representation, Ltd. All worldwide rights reserved

CTRR COMMERCIAL TENANT
REAL ESTATE
REPRESENTATION, LTD.

Commercial Tenant Real Estate Representation, Ltd. (CTRR)
295 Madison Avenue, New York, NY 10017
Tel: 212-684-4400 • www.ctr.net

For more information or print or electronic copies of this report please visit ctr.net. Email report author Marisa Manley at mmanley@ctr.net with questions or comments.

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.