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SQUARE FEET; A Relative Bargain in a Corner of the Village

By STACEY STOWE

In New York City's sizzling commercial real estate sector, one of the rare submarkets where the statistics appear relatively weak is Hudson Square. In this wedge of the West Village, the office vacancy rate was 18.2 percent in the fourth quarter of 2006, compared with a rate of 6.7 percent for Manhattan as a whole, according to figures compiled by Cushman & Wakefield.

And yet real estate professionals say Hudson Square is much healthier than its vacancy rate would suggest. Rents are 25 percent higher than they were a year earlier, but they are still a relative bargain compared with Midtown. This has helped to attract a new class of tenant to the neighborhood.

Hudson Square was given its name in the early '80s by Trinity Real Estate, a big commercial landlord there, which resurrected the name of a turn-of-the-20th-century park, which was situated where the Holland Tunnel now stands. The area is bounded by Morton Street on the north, Avenue of the Americas on the east, Canal Street on the south and the Hudson River on the west.

It once housed mostly printing businesses in huge buildings with vast floor plates. In the late '90s, during the dot-com boom and collapse, technology companies arrived and subsequently departed.

"When I first moved in nine years ago, buildings were shuttered and defunct," said Sefton Stallard, the chef at Blue Ribbon Bakery, a casual bistro on Downing Street. "The area wasn't kept up."

Now, Mr. Stallard said, "life seems better." There are very few buildings that are vacant now, and the neighborhood is alive both day and night.

Many properties are humming with what the author Richard Florida has deemed the "creative class": graphic artists, photographers and architects. They are drawn by buildings whose high ceilings and large floor plans lured their industrial predecessors. The new tenants include the architect Rafael Viñoly, the advertising agency Saatchi & Saatchi, and L'Oréal, the French cosmetics giant.

Brokers say a number of properties have drawn tenants from media sectors. Workman Publishing, for example, has leased 59,000 square feet at 225 Varick Street, and the public radio station WNYC has leased 90,000 square feet at 10 Hudson Square.

The filmmaking Weinstein brothers have leased space in 345 Hudson, where other tenants include the Guggenheim Foundation and CBS Radio, according to Carl Weisbrod, the president of Trinity Real Estate, a division of Trinity Church, which owns 15 buildings in Hudson Square, including 345 Hudson. Trinity began renovating its buildings about 25 years ago and has completed comprehensive renovations on seven of its 15 properties.

Other new tenants are starting to come from the financial sector. Lava Trading, a technology company that develops trading approaches for the financial services industry, was one of the first finance-oriented businesses to move in, leasing 80,000 square feet on Morton Street in 2002.

For companies that require large installations of computers and other high-tech equipment, the solid structure of the old buildings can be ideal. Alexander M. Chudnoff, executive director of Cushman & Wakefield, the leasing agent for many Hudson Square buildings, said the buildings' high floor loads -- that is, the weight that can be supported on a square-foot basis -- are also useful for companies that have heavy generators for backup power.

The primary attraction, however, is the relatively low rents. While leases signed in Midtown in the last nine months have frequently called for annual rents of more than \$100 a square foot, rents in Hudson Square typically are less than half that. According to Cushman & Wakefield, the average rent in Hudson Square at the end of 2006 was \$43.75, up 25 percent from a year earlier, when the average was \$34.81.

Although the rising rents suggest a strong demand, the vacancy rate for office space in Hudson Square remains about the same as last year. But Andrew M. Peretz, executive director of Cushman & Wakefield, said that number was deceptive. "We have so many deals and so many leases out, we are going to see that drop in 30 days," he said.

This influx of tenants suggests this submarket has finally erased a stigma. "We've heard for years that a lot of prospective tenants would be nervous that their credibility would be hurt if they don't do business in Midtown," Mr. Chudnoff said.

Some businesses that have moved to Hudson Square to save money keep a small conference space in Midtown, to maintain an image that is attractive to clients, said Matthew E. Kasindorf, a real estate lawyer who teaches at New York University. Others do not bother with even a token presence, assuming that a 15-minute commute from Midtown is worth enduring to save more than \$20 a square foot, he said.

"I just got a call from a 30-man law firm, decent-sized, that can't afford \$60 and above" and is now receptive to looking in other parts of town, Mr. Kasindorf said. "If the disparity stays where it is, it's going to drive people downtown."

The Hudson Square neighborhood is relatively quiet and visually charming, with glimpses of the Hudson, clusters of diminutive 19th-century town houses, and cobblestone streets and herringbone brick intersections. New apartments, like the Philip Johnson-designed Urban Glass House at 330 Spring Street, are on the fringes of Hudson Square; its penthouse sold for \$10.5 million. Hushed candle-lighted restaurants like Chanterelle and Bouley and clubs like the Knitting Factory on Leonard Street, throbbing at 2 a.m., are a convenient walk for Hudson Square's tenants, who tend not to work 9 to 5.

"People in these buildings work long, flexible hours," said Hugh F. Kelly, an associate clinical professor of real estate at New York University. "They're in cutting-edge and high-level businesses. You get some hot-shot banker doing mergers and acquisitions deals that go past midnight, he wants to be able to walk home and find a club or restaurant open."