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Taking the Office Market to School **Manhattan's Growing Education Sector**

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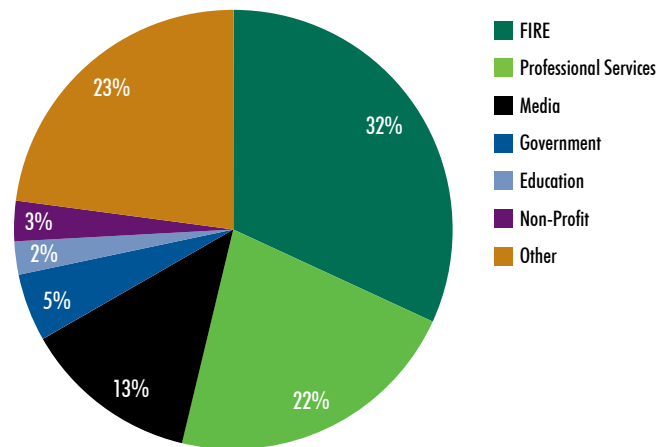
INTRODUCTION

Manhattan’s office market has traditionally been dominated by the FIRE, professional services and media sectors, which, combined, accounted for 67% of the borough’s occupied office inventory, as of November 2012. These industries accounted for 70% of Manhattan office leasing velocity in 2012. However, there has been a recent increase in leasing activity generated by other industries, including a notable surge in activity from the education sector.

The education sector has a noteworthy presence in New York City. The City of New York is the largest public school system in the United States, with nearly 1.1 million students in more than 1,700 schools.¹ Almost 150,000 students were enrolled in Manhattan public schools (not including charter schools) during the 2010-2011 school year.² In addition, there are 76 universities and colleges throughout New York City, more than any other city in the U.S.³ The City University of New York (CUNY) alone has more than 259,000 degree-credit students and 270,000 continuing and professional education students throughout the five boroughs.⁴

Over the past several years, education sector’s footprint in the Manhattan office market has increased by 47%, from 5.5 million sq. ft. in 2005 to 8.1 million sq. ft., as of November 2012, with leasing activity concentrated in Midtown South and Downtown. While many education tenants face multiple challenges when leasing office space, vacancies created in the wake of the 2008 economic recession have resulted in a greater availability of space suitable for occupancy by education tenants, more appealing pricing and an environment in which landlords are more amenable to their unique requirements.

Figure 1: Manhattan Office Market – 2012 Inventory by Industry



Source: CBRE Research, December 2012.

THE MARKET FOR EDUCATION

Recent education sector leasing activity in office buildings has focused on the Midtown South and Downtown markets, accounting for 58% and 23%, respectively, of education-related leasing velocity between 2009 and 2012. This is due, in part, to the lower asking rent for office space in these markets, especially when compared to Midtown. By comparison, Midtown South’s and Downtown’s average asking rents 19% and 31%, respectively, lower than the Midtown average, as of December 2012. As cost is a major factor for schools, the lower rents in these markets are especially attractive to educational institutions. When the cost of pre-war space is taken into account, there is an even greater discount available. In fact, of the five largest education industry office leases between 2009 and 2012, four have been in pre-war buildings.

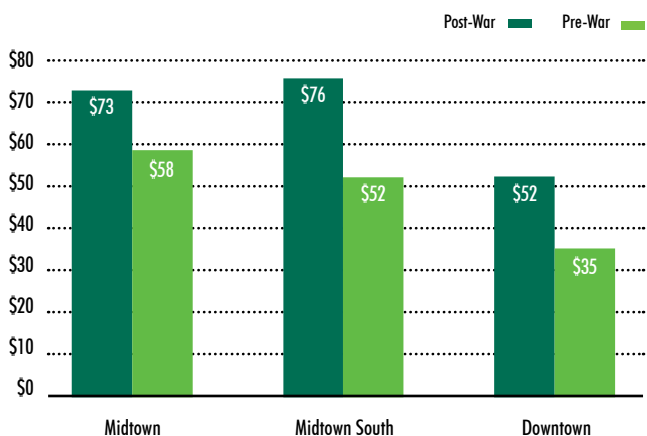
Housing development, transportation, and demographics are other factors. Downtown, in particular, has been successful in attracting education tenants, as the growing number of residential units in Lower Manhattan—which almost doubled between 2000 and 2010 to more than 27,800 units—and the population of children age 14 and under—which also doubled to more than 5,200 between 2000 and 2012—have increased demand for institutions that can provide a kindergarten through 12th grade education. In addition, Downtown’s 12 subway lines enable students to travel

Figure 2: Largest Education Sector Office Leases 2009-2012

Tenant	Sq. Ft.	Location	Transaction Type	Year Signed
Avenues: The World School	240,000	259 Tenth Avenue*	New Lease	2010
Léman Manhattan Preparatory School	204,000	25 Broadway*	New Lease	2009
City University of New York	198,000	555 West 57th Street	Renewal	2009
Technical Career Institute	138,000	320 West 31st Street*	Renewal	2012
City University of New York	137,000	395 Hudson Street*	New Lease	2010

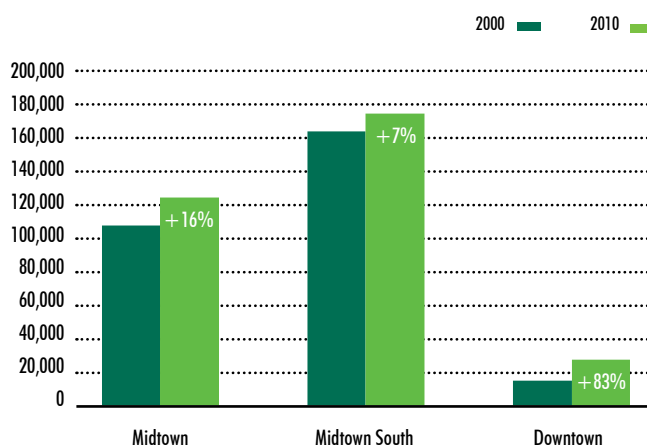
*Pre-War building
Source: CBRE Research.

Figure 3: Average Asking Rents: Pre-War vs. Post-War



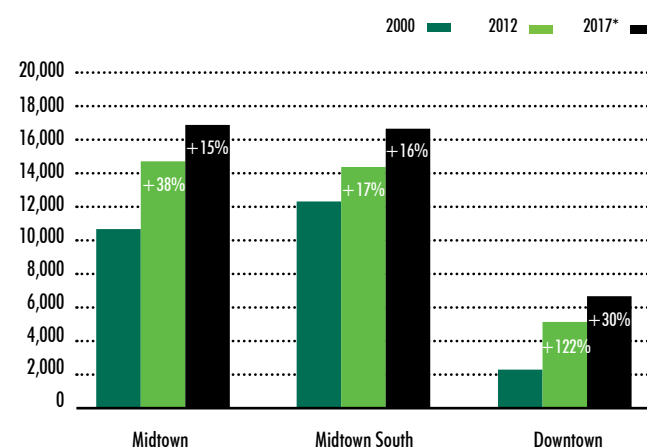
Source: CBRE Research, December 2012.

Figure 4: Residential Unit Growth from 2000 – 2010



Source: CBRE Econometric Advisors.

Figure 5: Population Growth by Market (<14 years old)



* Forecast
Source: CBRE Research & Claritas.

between school and home. Correspondingly, the education industry in Lower Manhattan has grown from 800,000 sq. ft., or 1%, of the Downtown office inventory in 2005, to nearly 1.8 million sq. ft., or 2%, by November 2012. More than 8,000 students were enrolled in primary and secondary schools in Lower Manhattan during the 2011-2012 school year.⁵

Additionally, operating a school in Midtown South or Downtown allows for integration with well-established institutions of higher learning such as New York University, Baruch College, Pace University and Borough of Manhattan Community College. For example, Grace Church School's new high school at 46 Cooper Square as well as Millennium High School's 75 Broad Street location provide students with the opportunity to take classes at nearby universities.⁶

Schools also seek proximity to means of transportation in order to be accessible to students living outside of the immediate neighborhoods. For instance, Avenues: The World School, chose 259 Tenth Avenue, in part, because of its accessibility to students living in neighborhoods ranging from the Upper West Side to Battery Park.

POTENTIAL OBSTACLES FOR EDUCATION TENANTS IN OFFICE BUILDINGS

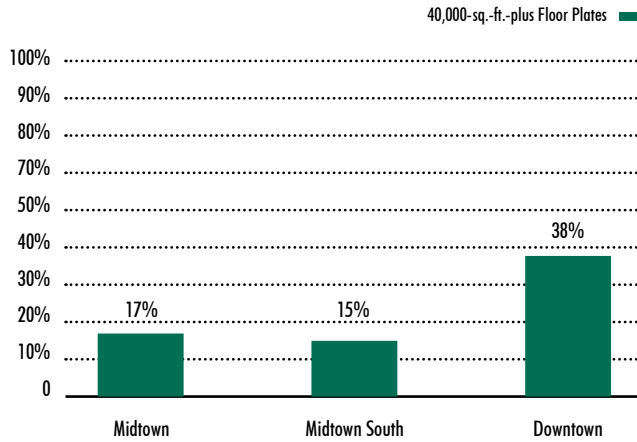
There are numerous considerations that education-related tenants face when leasing office space in Manhattan, as building size, layout, zoning laws, building codes and landlord resistance can limit choices.

Many education tenants require large floor plates to accommodate necessities such as classrooms, auditoriums, lunch rooms or administrative offices. They often prefer as few floors as possible to allow students to travel between classes without depending on elevators or external staircases. For instance, Léman Manhattan Preparatory School leased more than 200,000 sq. ft. of space at 25 Broadway in 2009, due, in part, to the building's floor plates—measuring more than 43,000 sq. ft. on some floors—that could accommodate classrooms, a gym, a theater, computer and science labs, music and practice rooms, a two-story library and a swimming pool. The Borough of Manhattan Community College also leased more than 40,000 sq. ft. of space at 25 Broadway in 2008 to house its Center for Continuing Education & Workforce Development.⁷

In addition, zoning laws and city regulations can inhibit a school's ability to operate in certain areas. Trade schools, for instance, are not allowed in districts zoned for residential use. Schools must also make sure that the student population doesn't exceed building occupancy laws. Schools are additionally restricted by zoning laws forbidding them from operating near businesses that are considered adult establishments or contain hazardous materials.

Another challenge can be finding landlords willing to permit schools in properties where students may disturb existing office tenants. In certain cases, such as Millennium High School at 75 Broad Street, landlords will consider a separate entrance for the school.⁸ Another option is for the school to occupy the entire building. Léman Manhattan Preparatory School, at 41 Broad Street; Avenues: The World School, at

Figure 6: Percentage of Education Tenants Located in Large Floor Plate Buildings



Source: CBRE Research, December 2012.

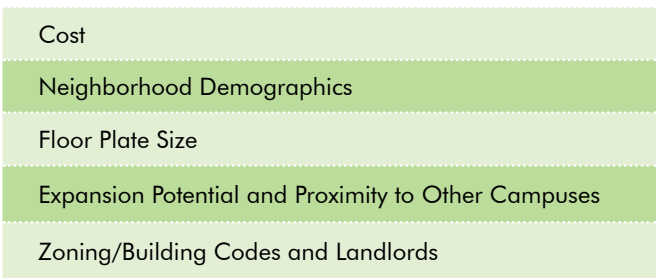
259 Tenth Avenue; The New Community College, at 50 West 40th Street, and Pace University, at 140 William Street, each occupy an entire building.⁹

Education tenants must also plan for growth. Proximity to existing campuses is important as it enables students and faculty to easily travel between locations. For instance, Pace University's lease for its performing arts department at 140 William Street is near the University's main campus at 1 Pace Plaza,¹⁰ while Léman Manhattan Preparatory School leased a second location at 25 Broadway in 2009 due, in part, to its proximity to the school's 41 Broad Street location.¹¹

EDUCATION SECTOR GROWTH

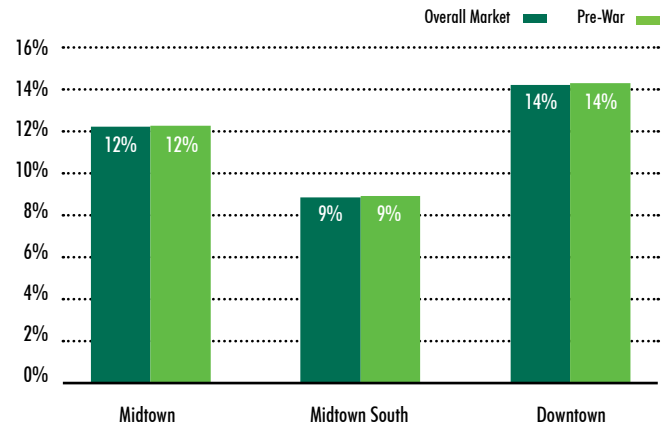
The 2008 economic recession resulted in many Manhattan tenants decreasing their real estate footprint. Manhattan's overall availability rate increased as a result, forcing some landlords to lower rents, increase concessions and, most importantly, be more accommodating to the requests of tenants seeking space. For educational institutions, this initially led to an increase in available space that met their criteria and provided opportunities for expansion.

Figure 7: Summary of Key Office Space Criteria



Source: CBRE Research.

Figure 9: Availability Rate: Pre-War Vs. Overall Market



Source: CBRE Research, December 2012.

Availability rates have since dropped from the recessionary peak, with Midtown South particularly tight. Leasing by educational institutions has contributed to the trend. New York University's sublease at 105 East 17th Street removed 125,000 sq. ft. of space from the market. Office leasing activity in pre-war buildings, such as the City University of New York's lease at 205 Hudson Street, also contributed to the decreasing availability rate. Furthermore, tenants in other industries have had less to choose from due to full-building leases to education tenants, including Pace University, at 140

Figure 8: Midtown, Midtown South and Downtown Pre-Recession Low and Peak Recession Availability Rate

Market	Date	Pre-Recession Low Availability Rate	Date	Peak Recession Availability Rate
Midtown (Overall)	August 2007	7.2%	June 2009	15.4%
Midtown (Pre-War)	June 2008	10.8%	March 2010	16.2%
Midtown South (Overall)	September 2006	8.2%	January 2010	15.4%
Midtown South (Pre-War)	August 2008	11.0%	January 2010	16.0%
Downtown (Overall)	January 2008	7.1%	June 2010	15.0%
Downtown (Pre-War)	September 2008	14.0%	June 2010	20.0%

Source: CBRE Research.

William Street, and Avenues, at 259 Tenth Avenue, which have exceeded 500,000 sq. ft. since 2009. Full-building conversions in education-related transactions also played a role. The conversion of 180 Broadway to a dorm for Pace University and 65 Fifth Avenue's conversion into a 375,000-sq.-ft. University Center for the New School resulted in the removal of more than 250,000 sq. ft. of office space from the market.

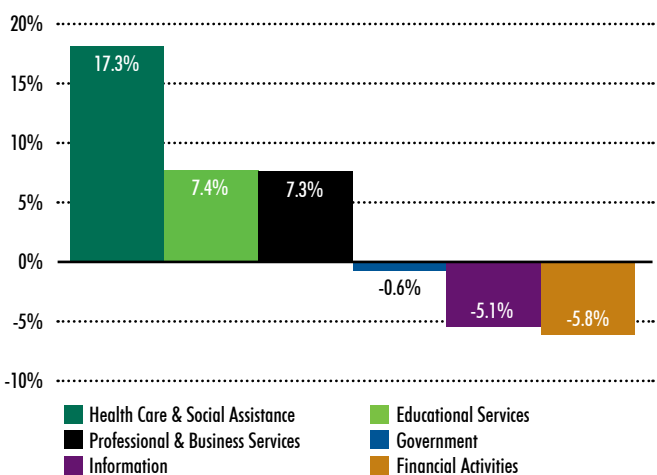
Recent data suggests that the education sector will continue to grow. The National Center for Education Statistics expects the total national enrollment in degree-granting institutions to rise 13% to 23 million students between 2009 and 2020.¹² The New York State Department of Labor has projected an additional 28,000 educational employees will be added to

the New York City labor market between 2008 and 2018.¹³ The number of children—between the ages of 5 and 17—in Manhattan is also expected to grow by over 20% to more than 197,000 by 2017.

EDUCATION'S BROADER IMPACT ON MANHATTAN

The presence of educational institutions has enhanced the development of the human capital needed to support industries such as financial services, technology, law and biomedical research. The 2010 U.S. Census Data reported that, for the first time, more than 50% of people 25 years and older in Manhattan have at least a bachelor's degree.¹⁴ The large share of college graduates living and working in New York City has a direct benefit on the talent pool available to companies located in Manhattan.

Figure 10: New York City Region Employment Growth by Industry Projections: 2008-2018



Data as of September 1, 2012.
Source: New York State Department of Labor.

Complementing recent leasing activity are several large-scale education-related development projects within and outside the traditional Manhattan office market. For example, New York University is planning further expansion within New York City to accommodate its growing student body, while Columbia University is undergoing a \$6.3 billion satellite campus construction project in Manhattanville.¹⁵ On the West Side of Manhattan, Fordham University is in the midst of expanding its campus facilities, and the Hudson Yards development projects includes 120,000 sq. ft. of space set aside for school use.¹⁶

Three of the most significant educational expansion commitments in New York City are the recent applied science initiatives on Roosevelt Island, in Downtown Brooklyn, and in Morningside Heights and Washington Heights.¹⁷ The City's goal in these three projects is to create an environment which fosters the incubation of technology firms within New York City. The New York City Economic Development Corporation predicts that the three projects will produce more than \$33 billion in economic activity along with creating 48,000 permanent and construction jobs and nearly 950 spin-off companies over the course of the next three decades.¹⁸

Figure 11: City of New York Applied Science Initiatives

Project/University	Plan	Sq. Ft. to be Added
Roosevelt Island Applied Science and Engineering Campus	Cornell University and Technion Israel Institute of Technology are partnering to construct a new campus on Roosevelt Island. New York City is providing \$100 million in infrastructure upgrades. ¹⁹	2 million-sq.-ft. campus will be constructed to accommodate more than 2,000 graduate students. First phase of construction expected to be completed by 2017.
Center for Urban Science and Progress (CUSP)	New York University, NYU-Polytechnic, City University of New York, Carnegie Mellon University and other universities, along with IBM, Cisco and other companies, will transform the 460,000-sq.-ft. building at 370 Jay Street in Downtown Brooklyn into an applied sciences graduate center. ²⁰	150,000 sq. ft. will be designed for classrooms, offices, and lab space. 40,000 sq. ft. will be incubator space for spin-off companies. Complete renovation of the building expected by 2017.
Columbia University	Institute for Data Sciences and Engineering in Morningside Heights and Washington Heights campuses. ²¹	Institute for Data Sciences and Engineering will use 44,000-54,000 sq. ft. in existing buildings. First phase to be completed by 2016.

Source: CBRE Research.

SUMMARY

The education sector's footprint in the Manhattan office market has increased by 47% between 2005 and November 2012. This growth has been fueled by a growing residential population and increased enrollment at institutions of higher learning. This expansion has been aided by increases in

post-recession availability rates and decreases in asking rents in parts of Midtown South and Downtown. The conversion of office buildings to educational use and the planned development and expansion of educational institutions are expected to continue to increase the education sector's footprint within Manhattan for the foreseeable future.

Figure 12: Current Planned Growth

Project/University	Plan	Sq. Ft. to be Added
New York University	Looking to expand in Manhattan, Brooklyn and Governors Island. Recently won approval from City Council to expand in Greenwich Village. ²²	Plan to occupy an additional 6 million sq. ft. for housing, classrooms, offices, and other needs by 2031.
Columbia University	\$6.3 billion satellite campus construction project in Manhattanville. ²³	Planning to construct 6.8 million sq. ft. of space in Manhattanville by 2030. First phase to be completed by 2015.
Pace University	\$75 million plan for a 24-story dorm facility at 180 Broadway, and \$112 million plan for a 30-story dorm at 33 Beekman Street. ²⁴	220,000-sq.-ft. building at 180 Broadway to be completed by Q1 2013. 33 Beekman dorm facility scheduled for completion by 2015.
The New School	\$353 million plan for a new 16-story university center on Fifth Avenue between 13th and 14th Streets to house classrooms, design studios, a student residence and an auditorium. ²⁵	375,000-sq.-ft. building scheduled to open by fall 2013.
Fordham University	\$250 million project at the Lincoln Center campus to construct a 22-story building containing a mix of classrooms, lecture halls, conference rooms and student dorms. ²⁶	468,000-sq.-ft. building scheduled to open in the fall of 2014. Project is part of University's overall \$1.6 billion campus development plan to be completed by 2033.
Hudson Yards Project	K-8th grade public school space to accommodate 750 students. ²⁷	120,000 sq. ft. of school space will be constructed.
City University of New York	CUNY will construct a complex for the Advanced Science Research Center in Harlem. ²⁸	The first phase is currently under construction. The 200,000-sq.-ft. center is scheduled to open in 2014.

Source: CBRE Research.

FOOTNOTES

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