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Square Feet

Jersey City Landlords Prosper in New York's Shadow

By J. ALEX TARQUINIO

Although a few companies in other industries have begun moving in, office real estate in Jersey City is still very much an annex of Wall Street. Since modern towers started springing up along its waterfront in the 1990s, its fortunes have usually risen and fallen with the ebbs and flows in the financial markets.

In the last year, rents there have risen smartly, although not nearly as much as the rise in Lower Manhattan. Landlords are asking \$36.85 a square foot on average for Class A office space in Jersey City now, up almost 14 percent from a year ago. During that time, average asking rents in Lower Manhattan rose more than 25 percent, to \$50.59, according to Cushman & Wakefield, a real estate services company.

Brokers say the Jersey City office market is tight right now, especially along the waterfront, where most of the Class A towers have been built within the last 20 years. The waterfront has 24 office towers holding 14 million square feet of space. That is significantly more than the 14 top-quality office buildings holding 8 million square feet in Downtown Brooklyn, another business district within easy reach of Wall Street.

There are no development projects in sight in Jersey City, and the best-known buildings have had a flurry of lease signings recently, putting their occupancy rates above 90 percent.

For example, several companies recently took space at 10 Exchange Place, a 30-story, 700,000-square-foot office building. This includes a lease for 36,000 square feet that Opera Solutions, a global business consulting firm, signed in April, and a lease for 73,000 square feet that Rabobank International, a large Dutch bank, signed in May.

The building now has an occupancy rate of 92 percent, and is asking rents around \$40 a square foot annually, said James J. Gillen, who is responsible for real estate in the New York metropolitan area for Invesco, a global asset manager based in London. Invesco manages 10 Exchange Place for a German institutional investment fund.

"Our building has all of the things you would want in a modern New York City building,"

Mr. Gillen said, "and it is right at the foot of the stairs of the PATH train," the commuter line running between Northern New Jersey and Manhattan.

Some global financial giants are carving out a bigger presence in Jersey City, but most of them are supplementing operations in Lower Manhattan.

Beginning last year, **Deutsche Bank**, a large diversified German company, signed a series of leases totaling almost 400,000 square feet at Harborside Financial Center, a Jersey City office complex with more than 3.6 million square feet in six office buildings. Some 300,000 square feet of that was new space, while 90,000 square feet was a renewal.



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Mitchell Hersh is chief executive of Mack-Cali Realty, which owns 101 Hudson Street.

Lehman Brothers Holdings, the New York investment bank, recently signed a lease for more than 71,000 square feet at 101 Hudson Street, a 42-story, 1.25-million-square-foot office tower along the waterfront. This brings the total space Lehman leases in this building to more than 270,000 square feet.

And **BNP Paribas**, a financial company based in Paris, signed a lease this year for more than 110,000 square feet in Newport Tower, at 525 Washington Boulevard. This was the largest single lease signed in Jersey City this year, according to Cushman & Wakefield, whose brokers worked on both sides of the deal.

This week, BNP Paribas began moving in

the first of 600 workers it plans to relocate from Manhattan. The company, which has about 2,400 employees in New York, plans to increase its local staff to around 3,000 employees by 2012. Larry Sobin, the chief operating officer of BNP Paribas North America, said 1,000 would be in Jersey City and the rest in the regional headquarters at 787 Seventh Avenue in Manhattan.

Mr. Sobin said most employees moving to Jersey City had jobs in departments like accounting, technology and human resources that support the capital markets and investment banking groups, which will remain in Manhattan. "We plan to take advantage of new technologies, like videoconferencing," to make the arrangement work smoothly, he said.

Although lower costs are undoubtedly the major draw in Jersey City, many executives also want to decentralize their operations across the metropolitan region for security reasons, according to Patrick Murphy, who heads the suburban business for the **CB Richard Ellis Group**, a commercial real estate brokerage company.

A number of regional disruptions, both large and small, have occurred since the terrorist attacks in September 2001. A power grid failure caused a blackout in 2003. In July, a steam pipe exploded near Grand Central Terminal in Midtown. Also this summer, a tornado struck Brooklyn and a fatal fire broke out in the vacant Deutsche Bank Building, which is being dismantled near ground zero.

Mr. Sobin said the difficulty of getting people off the island of Manhattan during a crisis was one factor in BNP Paribas's decision to put part of its operations in Jersey City. "In the event there's a crisis, we want to make sure that the bank continues operating," Mr. Sobin said. "We already have a data center in a different location in New Jersey and a backup data center in a suburb of Philadelphia."

Brokers say the rise in rents in Jersey City is largely an indirect effect of the soaring rents in Lower Manhattan. But they expect the tight space and the lack of new construction to add to the pricing pressure.

But if developers decide to construct buildings in New Jersey, they have one big advantage over their counterparts in New York City, said Bob Alexander, regional chairman of CB

Richard Ellis. They can build much more quickly. "If it's built to suit, Jersey's going to be able to put it up quicker than in New York," which is notoriously slow in granting permits, he said.

He estimated that an office tower could be completed 12 to 18 months faster than in New York City. So, he said, developers did not feel the same pressure to build "on spec" — without a major tenant already signed up — in a strong real estate market. They prefer to sign an anchor tenant first and design a building to suit its specifications.

There is certainly room to grow. For example, enough land exists for three new buildings, totaling 3.5 million square feet, at Harborside Financial Center, said Mitchell Hersh, the president and chief executive of the **Mack-Cali Realty Corporation**, a real estate investment trust based in Edison, N.J. Mack-Cali owns most of Harborside Financial Center and 101 Hudson Street, among other buildings in Jersey City.

Mr. Hersh said that initially he would like to build a million-square-foot building at Harborside, in Plaza 4, at Exchange Place and Christopher Columbus Drive. He said he was in preliminary talks with a few potential tenants that have offices in Midtown Manhattan and are "examining very carefully the options of moving significant parts of their work force, for obvious reasons of cost savings."

But Mr. Hersh said he had no plans to build anything that size until he was able to pre-lease about 350,000 square feet. "I have been reluctant to build on spec," he said.



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Newport Tower, 525 Washington Boulevard.

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