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Buying Time For NYC's Commercial REITs

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Last year, the skyscrapers of New York City grew uncharacteristically quiet. The financial crisis that roiled major New York industries left behind a trail of vacancies throughout Manhattan, unnerving its commercial real estate market.

Luckily, New York's economy is on the mend, with a strong stock market and employment improving. I deal in commercial real estate in New York and I can see that the mood is clearly changing. The stocks of New York-centric commercial REITs have been big winners. In the last 12 months, **Vornado Realty Trust** (VNO) has jumped by 60%; **Boston Properties** (BXP) gained around 60%; And **SL Green** (SLG) climbed by 180%.

Despite the gains, I think New York REITs have plenty of more room to grow. In fact, with underlying dynamics poised to push asking rents higher, a rare window of opportunity has emerged in which investors can obtain New York City commercial REITs (Real Estate Investment Trusts) at a generous discount.

Beginning in mid-2011, asking rent for prime commercial property space in New York City--which can buoy or sink a REIT's value--should rebound, marking the beginning of a steady rally, according to Real Estate Econometrics, an analytics firm tracking commercial real estate. By 2014, asking rents are expected to climb by more than 20% reaching $84.10 per square foot. Even at this point, prices will not have hit their upper echelons--a peak of more than $91 per square foot in mid-2008.

To be sure, commercial real estate is not booming quite yet. At the moment, property managers still rely on lower rents and concession packages to attract nervous tenants. By 2011, however, I think tenants with pending lease expirations will race to renew in hopes of securing favorable rates--particularly those who want more space. With a healthy dose of demand back in the market, concession packages should fade away by mid-2011. REITs will again be in a position to make deals that create revenue and add to profitability.

Meanwhile in Downtown Manhattan, One World Trade Center (formerly known as the Freedom Tower) is slated to open its doors in 2013, adding 2.6 million in new office space to the mix. Combined with a handful of other large lots of space expected to become available, vacancy rates in the Financial District are expected to spike higher. While this usually spells trouble for landlords, Real Estate Econometrics expects overall asking rents in NYC to climb. That's because the incoming space is better quality to what's currently available, and will command higher rents.

To reap the benefits of such trends, investors need REITs with the purest exposure to the city. While many REITs have holdings in New York, the three with the highest concentration remain, **Boston Properties**, **SL Green** and **Vornado Realty Trust**.

Another advantage, NYC REITs serve as a useful litmus test for the health of major industries, such as banking, media and retail. After all, when these securities are soaring so are the skyscrapers of Manhattan.