Brookfield Place in New York's Lower West Side as seen from the marina

Creating Places

An Interview with Dennis Friedrich,
Chief Executive Officer - Global Office Division, Brookfield Property Partners

Dennis Friedrich

EDITORS' NOTE *Dennis Friedrich was appointed to his current post in July 2012 following a year as President and Global Chief Investment Officer. Before this, he held the position of Chief Executive Officer of U.S. Commercial Operations since 2009. Previously, he was President of U.S. Commercial Operations, following two years as its Chief Operating Officer. Prior to joining Brookfield Office Properties, Friedrich was Co-Head of Jones Lang LaSalle's tenant advisory practice in New York. He holds a business degree in finance from Baruch College and currently serves as the Chair of Baruch's Real Estate Department Advisory Board.*

COMPANY BRIEF *Brookfield Property Partners (brookfieldpropertypartners.com) is a global commercial property company that owns, operates, and invests in best-in-class office, retail, industrial, multi-family, and hotel assets. The office division owns, develops, and manages premier office properties in the United States, Canada, Australia, and the United Kingdom. Its portfolio is comprised of interests in 113 properties totaling 88 million square feet in the downtown cores of New York, Washington, D.C., Houston, Los Angeles, San Francisco, Toronto, Calgary, Ottawa, London, Sydney, Melbourne, and Perth, making Brookfield the global leader in the ownership and management of office assets. Landmark properties include Brookfield Places in Manhattan, Toronto, and Perth.*

How strong is the real estate market and how sustainable is that strength?

It is stronger in some regards than even prerecession levels. A positive aspect of this recovery, which will also make it sustainable, is that we continue to diversify in terms of tenant-side demand across industries, more than we have ever seen.

The New York real estate market and many of our other core operating markets have historically been driven by financial services, but today it is also being driven by a more diversified group, which is comprised of tech and creative class businesses that have further opportunity to grow.

In the early stages of this cycle, the recovery has also been driven more by small- to midsize tenants, and as the larger tenants get back into growth mode, that will kick the market into a higher gear.

We operate across a significant geography in 15 major cities, and we're seeing continued urbanization. I consistently hear from business executives that they want to grow in New York because it's where the primary talent they're trying to recruit wants to live and play.

Is there a healthy vacancy percentage?

I can remember over the past 10-plus years that 8 percent was the tipping point – who actually determined that level, I don't know. We find that when vacancy drops below 10 percent, we tend to be in a very healthy environment, but it depends on where the vacancy resides and the quality of the vacant space in the market.

It's very encouraging on the supply side in New York today that the quality of the available space is at a very high level. It resides in new development at the World Trade Center and on the Far West Side of Manhattan. Brookfield Place in lower Manhattan represented a large portion of that. However, we have largely addressed that with successful new leasing totaling 2.7 million square feet.

Over the past 15 to 18 months, I was often asked if we were frightened by the prospect of vacancy exceeding 15 percent in lower Manhattan because that was where the market was headed. I consistently said no. We were very well-positioned in a value-oriented market, and tenants have been looking for a certain type of product.

So there is no magic percentage. You have to drill down below the overall vacancy figure and look at submarkets and what is representing that availability. Now we're finding more demand at the larger block level and it's being absorbed very quickly.

How great is the opportunity in lower Manhattan?

The opportunity has been seized by many tenants at this point.

A number of factors have converged at the same time for lower Manhattan. One is the value that people are seeing in the modern infrastructure that is coming online. It has taken a while for some of that to turn to reality, but it's now very tangible and easy for business leaders to grasp and see the value that the mass transit and modern infrastructure creates. It differentiates lower Manhattan from Midtown, which has a more dated infrastructure.

The second dynamic is that we have great connectivity to the high-growth residential neighborhoods. Our connectivity and proximity to the neighborhoods that are attractive to the Millennials is unquestionable. Employers based in lower Manhattan have great access to an impressive labor pool – residing in downtown Brooklyn, Jersey City, and Chelsea. When we interact with prospective tenants and see the results of their demographic studies and commuting patterns, Lower Manhattan continues to rise to the top of the list in making those decisions.

Another key factor is that it continues to be a value-oriented market. If you look at the sectors that have grown, they are sensitive to rental rates and the more attractive rental rates have been available in Lower Manhattan, which has enabled us to generate a lot of momentum. But the gap between Midtown and Downtown is closing faster from a rental rates standpoint, with all of the amenities and lifestyle factors that are converging. We have been able to capture that at Brookfield Place; these growing companies are targeting a new modern, urban work environment and Lower Manhattan is well-positioned to provide that. This is also partly due to a strong private/public partnership, with major private investment, be it Brookfield investing $250 million in Brookfield Place to improve the retail, amenities, and the public areas, or the Trade Center, which is doing much of the same. There is $20 billion-plus of public/private investment that has either been spent or is underway, and that has all come together at the right time as the leasing market has improved.

Is this what also excites you about Manhattan West?

Yes, it's much of the same with our proximity to Penn Station, the most heavily trafficked transportation hub in North America. At Brookfield, we are firm believers that there has been a migration from east-to-west in Manhattan, partly due to the infrastructure investments, the Hudson River Park, and the High Line, and the residential patterns that have also evolved.

What we think is even more unique about the West Side is the ability to create almost from scratch a new modern urban work environment and business district where companies can really program their headquarters experience. We are capturing that scarce land that doesn't exist in other centrally located hubs in Manhattan, yet is close to major transportation hubs. ●

