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## No tenant, no problem.

By *Eliot Brown*

Houston-based developer Hines has struck a deal with the asset-management division of J.P. Morgan ChaseJPM +2.46% & Co. to move forward with a new midtown Manhattan office tower without any preleasing, according to people involved in the deal.

The planned 470,000-square-foot building at 7 Bryant Park is a bet on the future of the nation's largest office market as the New York City economy gradually recovers from the recession. J.P. Morgan, which is investing the money on behalf of clients, is slated to put in more than \$200 million in equity, which would make up most of the project's cost, the people said.

Starting construction without tenants, called "speculative" construction, is uncommon, especially during tough times. A wave of such construction in the 1980s left numerous towers around the U.S. empty in the early 1990s, resulting in a more cautious approach since.

The project joins a handful of similar planned towers in cities such as Chicago and San Francisco, where developers and investors are putting faith in the recovery gaining steam and forging ahead with speculative office towers planned to open in two to three years.

The Hines and J.P. Morgan development is relatively small and in a desirable location overlooking Bryant Park. Moreover, newly built office space in the area is in short supply, said Mary Ann Tighe, chief executive of the New York region for CBRE Group Inc. who is handling the leasing on behalf of Hines.

"We think we're hitting the market at just the right time," Ms. Tighe said in an interview Tuesday, adding that she expects rents in the building to be more than \$100 a square foot. Newer buildings typically attract higher rents.

Rents in Manhattan over the past year have been relatively slow to increase. Rents for top Manhattan buildings stood at \$67 a square foot in May, up from \$64 at the start of the year, according to real-estate-services firm Cassidy Turley.

Meanwhile, Montreal-based real-estate investor Ivanhoe Cambridge last month committed to invest \$300 million to start a 900,000-square-foot speculative office tower in Chicago, for which Hines also is the developer. Construction is set to start later this year.

In San Francisco, where a booming technology sector has pushed up rents, Tishman Speyer Properties, also joining with J.P. Morgan, plans to move ahead with or without tenants on two office projects.

And in another New York project, a developer is constructing a speculative 400,000-square-foot office building south of Union Square at 51 Astor Place. The developer, Edward Minskoff, said he isn't worried about filling it, as there is little competition from other new office space and there are plenty of potential tenants within the larger 400-million-square-foot-plus New York office market.

"The inventory in New York is basically old and tired," he said.

To be sure, developers such as Mr. Minskoff and Hines with projects under way face risks. The city's financial-services sector has been contracting, and there is considerable uncertainty about European financial markets. Many tenants also are becoming more efficient, using less space for the same number of employees. The vacancy rate in midtown Manhattan was 10.9% in May, according to Cassidy Turley.

Hines announced plans for the 28-story tower on 40th Street and Sixth Avenue in August and tapped CBRE to market it to tenants. This year, it retained real-estate-services firm Eastdil Secured to help find an equity partner, and it reached its agreement with J.P. Morgan in recent weeks.

The deal is expected to be completed soon, although a groundbreaking is months off. Tenants would be able to move in starting in 2014, Ms. Tighe said.