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Citadel to pay priciest rent in city history, if not the world

By Daniel Geiger

At \$300 a square foot, the deal marks the new vanguard of the office elite.



Photo: Buck Ennis

AT 767 Fifth Ave. rents are at least \$200 per square foot.

A new king has been crowned at the top of Manhattan's office market.

The developer of 425 Park Ave., a 900-foot-tall luxury office tower under construction between East 55th and 56th streets, has signed a deal with the hedge fund Citadel to take over 200,000 square feet at the property for a record-breaking sum. The lease includes the building's penthouse, which Citadel has agreed to pay \$300 per square foot to rent. That's about 50% more than previous peak rents in the city, which had topped out at about \$200 per square foot.

By comparison, rent in a Class A midtown office building averages about \$80 per square foot.

"This is the highest standard of building in the 21st century on the grand boulevard of America," said David Levinson, chairman and CEO of L&L Holding Co., the developer of 425 Park Ave. "It's blue on the Monopoly board. No one has created something like this."

But others are hoping to at least come close. A growing pack of landlords are chasing the elusive \$200 barrier—a threshold that, before 425 Park Ave., had only ever been crossed by three other properties: 9 W. 57th St., the General Motors Building and 667 Madison Ave.

Six other properties could triple that list. They include the Time Warner Center, Park Avenue Tower, 1 Vanderbilt and an office cube being built at the foot of the luxury condo super-tower at 432 Park Ave.

Even landlords of buildings outside midtown, the city's priciest office neighborhood, believe they too can command \$200 per square foot. One of them is 860 Washington St., a boutique property under construction next to the High Line in the meatpacking district.

In order to get there, these owners are promising a combination of state-of-the-art space, country-club-like exclusivity and lavish amenities. They're also hoping that by moving the needle on top-line rents, 425 Park Ave. will open the door for more buildings to follow—if not to the vaunted \$300 mark, then at least past \$200.

"It makes logical sense that if the bar for the top of the market has been raised, more buildings can achieve rents at the previous high point," said Stuart Romanoff, whose family firm, Romanoff Equities, is building 860 Washington St. in partnership with Property Group Partners. "We're building a first-class building with first-class amenities but with a downtown feel and location at a time when more firms prefer that."

Luxurious amenities

But for now, 425 Park Ave. is in a class all by itself. To reach the pinnacle of the office market, Mr. Levinson created what he said are unparalleled luxuries.

In June, he struck a deal to bring in what he claimed will be the city's most exclusive restaurant when the property opens in 2018: a 14,000-square-foot, two-level space to be run by Daniel Humm and Will Guidara, the pair behind the triple-Michelin-star eatery Eleven Madison Park.

Other features will include a two-level lobby with 45-foot ceilings, ventilation that filters 95% of the outside air, floor-to-ceiling windows that let in 60% more light than conventional panes and a community space on the 26th floor with giant triangleshaped windows where tenants can mingle, drink fresh-pressed juice and meditate in private rooms.

Even the chauffeurs who shuttle the masters of the financial universe will be taken care of: They will have access to a private parking garage and their own lounge.

The focus on wellness is a clever theme aimed at drawing the fabulously rich, brokers say.

"Boutique financial firms are in constant competition for top talent. Office space and amenities can be a differentiator," said Ben Friedland, a leasing broker at CBRE who specializes in representing hedge funds and private-equity firms. "Gyms and wellness-type facilities have become increasingly important."

In order to create its own exclusive vibe, the Blackstone Group, which owns the 36-story Park Avenue Tower at 65 E. 55th St., plans to spend more than \$10 million renovating the 1986 property's lobby and exterior courtyards to give it the lounge-like feel of a high-end hotel.

The overhaul is rumored to include a private room where tenants can face off in friendly games of high-stakes poker.

At 432 Park Ave., Harry Macklowe, the developer of the office cube, designed the building's entrance to be a unique angled slit in its otherwise clean glass exterior and said the lobby will be "museum-like," with high-priced art on display and high-end retail space. Though the building doesn't have the height to offer soaring vistas, Mr. Macklowe said, he is using huge panes of glass that will eliminate unsightly window seams.

Mr. Macklowe's attempt to hit \$200 per square foot shows how some owners are trying to rewrite the unspoken rule that top-tier spaces must feature stunning views of Central Park.

SL Green, which is developing the 1,300-foot office tower at 1 Vanderbilt, is hoping that tenants will pay \$200-plus for its top floors, based on its close proximity to Grand Central Terminal and its expansive views, which feature the park only in the distance. And the developers of 860 Washington St. are banking that there's a set of boutique investment firms that will pay a hefty premium for being close to the High Line.

Bolstering the effort for \$200 rents is a rebound of the city's financial sector and a growing willingness among hedge funds and private-equity firms to pay up. The financial industry has added 23,000 jobs since 2013—compared with 46,500 jobs it bled during the recession, according to Ken McCarthy, an economist at Cushman & Wakefield.

That hiring has led to an uptick in leasing activity in midtown, which has seen 13.3 million square feet rented out so far this year, a 6% increase over the same period in 2014. The average asking rents for the city's most exclusive office neighborhood, the Plaza district, are \$102.97 per square foot, a 4.2% gain from last year.

'Willing to pay'

"The financial sector has become much more active again leasing space, and there is a growing group of tenants within it who are willing to pay very high numbers to be in the very prestigious buildings," Mr. McCarthy said.

Though the larger office sector can create a helpful tailwind for exorbitantly priced deals, the \$200-per-square-foot leasing market can be driven by factors outside the normal calculus used to measure value.

In an example of how the good times for the financial sector's elite have increasingly translated into ostentatious leasing decisions, look no further than hedge-fund billionaire Bill Ackman.

He recently decided to buy the office building at 787 Eleventh Ave. with a partner for \$255.5 million. Mr. Ackman wants to build two levels of new office space atop the property and add a private rooftop pool and tennis court for himself and his employees.

Buildings aiming to get \$200 per square foot or more