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Midtown South's Office Market Ascends to New Heights Pricing for top-caliber office space has eclipsed Midtown asking rents



L&L Holding several years ago redeveloped 200 Fifth Ave., which houses Eataly's collection of markets and restaurants and Tiffany & Co.'s offices. PHOTO: ALAN SCHINDLER

By **KEIKO MORRIS**

The late developer Samuel Rudin built a 42-story office tower in the Flatiron District in the 1970s. He envisioned a less-expensive alternative to Midtown Manhattan's traditional office corridors.

Today, 41 Madison Ave., owned by Rudin Management Co., sits in the heart of a market where pricing for top-caliber office space has eclipsed Midtown asking rents.

"He would have a big smile on his face," said [Bill Rudin](#), chief executive of Rudin Management and Samuel Rudin's grandson. "He was very ahead of his time."

Average asking rents for so-called Class A office buildings in the [hip neighborhoods of Midtown South](#) surpassed asking rents for comparable properties in Midtown Manhattan for two consecutive quarters, according to real-estate-services firm JLL.



Rudin Management is investing about \$15 million in renovations to 41 Madison Ave.

PHOTO: RUDIN MANAGEMENT CO.

Top-tier asking rent in Midtown South was \$83.19 a square foot in the third quarter and \$81.67 in the second quarter. Midtown notched \$81.91 in the third quarter and \$81.19 in the second quarter.

Although this has happened in the past—in two quarters of 2013—Midtown South’s pricing dominance was skewed then because of a large amount of available space in one new office building, said Tristan Ashby, JLL director of New York research. A few times Midtown South’s asking rent for top-quality space also has ticked higher than Midtown pricing for a single quarter.

But now it is different.

Since 2013, the neighborhoods south of 30th Street and north of Canal Street have added almost 14 million square feet of high-quality office space, mostly through renovations, growing about 90% to 28.8 million square feet, according to JLL research. The firm describes Midtown South’s Class A office market as the “most expensive major market in the nation” with office inventory that is larger than that of downtown Los Angeles.

“In the last few years there has been a lot of renovation and new construction,” Mr. Ashby said. He added, “While the expansion of Manhattan’s tech industry is responsible for much of the gain, newer and updated product has also driven rents higher.”

Midtown’s office market likely will remain dominant—it has almost 193 million square feet of high-quality office space. Still, the ascent of Midtown South neighborhoods such as Chelsea, the Flatiron District and SoHo reflects New York City’s diversifying economy as well as a shift toward working in places that are a mix of shops, restaurants, bars and apartments, real-estate executives said.

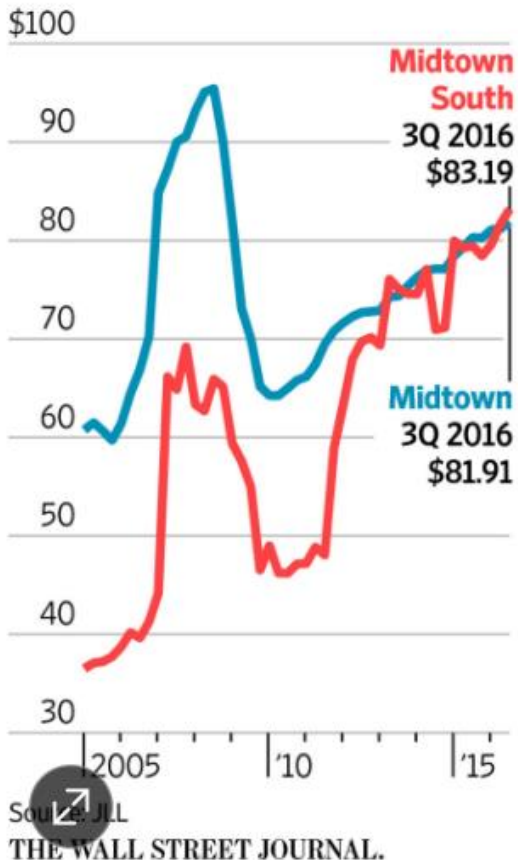
“The reason why it is still the hottest market is because it is a lifestyle issue,” said Mitchell Konsker, JLL vice chairman. He added, “We’re also seeing the financial tenants come down there.”

While Midtown South’s top-tier office space has grown, it has very few large blocks of contiguous space available, a factor that has helped boost asking rents, real-estate executives said.

Two neighborhoods in Midtown South with about 6.5 million square feet of Class A office space were at the top of the pricing list: Greenwich Village, recording an average asking rent of \$104.60 a square foot; and Hudson Square, at \$91.89 a square foot. Asking rent for comparable space in Midtown’s Plaza District, which has about 86 million square feet of space, averaged \$88.23 a square foot.

Edging Out Midtown

Quarterly average asking rent for Class A office space, per square foot:



In Midtown South, developers and landlords have invested millions to update the older buildings from the early 20th century. They have improved cooling, heating, security and telecommunications systems.

L&L Holding Co. was on the forefront of this trend several years ago, redeveloping 200 Fifth Ave., which houses Eataly's collection of markets and restaurants and [Tiffany & Co.](#)'s offices. L&L did the same with 114 Fifth Ave. and now is in the midst of redeveloping Midtown sites at 425 Park Ave. and 390 Madison Ave.

Midtown "is losing its competitive advantage at this moment in time," said David Levinson, chief executive of L&L. But Midtown's traditional office corridor will remain dominant in the long-term with its strong transportation network, cultural institutions and other amenities, he said. "This is just a moment in time."

Rudin Management is investing about \$15 million in renovations to 41 Madison Ave. Two Trees Management Co. has invested about \$25 million to reposition 50 W. 23rd St., which has attracted tenants such as Dropbox Inc.

Other developers are constructing new boutique office buildings. In SoHo, Related Cos. and Larga Vista Cos. are moving ahead with a \$200 million terra-cotta and limestone building. [Vornado Realty Trust](#) and Aurora Capital Associates are developing a 170,000 square-foot office building at 61 Ninth Ave., where [Starbucks](#) Corp. has leased 20,000 square feet for a megastore.

"The tenant base is changing," Mr. Rudin said. "You need these different types of locational alternatives for these companies to have choice."