

# Manhattan's Tech District Is Attracting Banks Wanting Closer Ties

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By David M Levitt  
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A part of Manhattan dominated by technology companies -- Google, Facebook, Twitter -- is now drawing a more traditional New York industry: banking.

Office leasing by financial firms in Midtown South -- the stretch between 30th and Canal streets with one of the lowest office vacancies in the country -- surged in the third quarter to 23.1 percent of all deals from 10.3 percent in the previous three months, according to brokerage Cushman & Wakefield. So far this year, banks and related firms have taken 255,000 square feet (23,700 square meters) in the area, compared with 170,750 square feet in all of 2015.

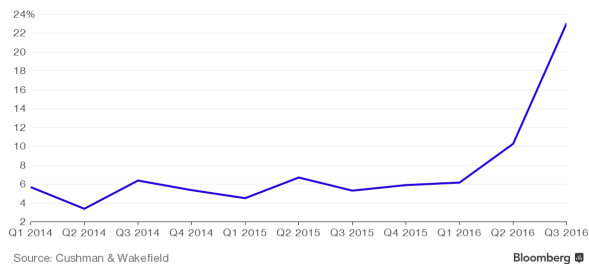
Financial firms including Silicon Valley Bank are taking space because they want to be close to clients and business partners who already have offices in the area, home to such trendy neighborhoods as Soho, Chelsea and the Flatiron and Meatpacking districts. Between the skyscrapers of Midtown and lower Manhattan, the relatively low-rise neighborhoods of Midtown South, with their pre-war lofts and former factories, warehouses and print shops, have been a magnet for tech and media companies.

“There are synergies, both from being near clients and it’s a cool neighborhood,” said Jake Elghanayan, senior vice president of TF Cornerstone Inc., Silicon Valley Bank’s new landlord.

## Bank Leasing in Midtown South Soars

More financial firms are moving close to the technology companies they do business with

■ Share of newly leased space by financial companies



Silicon Valley Bank is planning to leave a glass tower on Fifth Avenue and move to 387 Park Avenue South, a more than hundred-year-old building north of Madison Square Park, where it where it signed a lease for 20,000 square feet in July. Before deciding to move to Midtown South, the Santa, Clara,

California-based bank, which specializes in serving technology companies, created a heat map showing where its New York clients' offices are.

"We're happy with our space in Midtown -- it's on the corner of 42nd and Fifth, it overlooks the library and Bryant Park -- but our location is not providing our business with any particular advantages," said Melissa Stepanis, New York market manager for Silicon Valley Bank. "We work with a vibrant group of entrepreneurs and investors involved in the technology space, and there's just an energy that these types of clients bring, and they're clustered in the Flatiron, Madison Square Park area."

## Tech Tenants

Before the recent increase, financial-industry leasing in Midtown South accounted for no more than 6.7 percent of space taken in any quarter for more than two years. It rose as a portion partly because leasing by technology, advertising, media and information companies dropped slightly in the quarter, said Richard Persichetti, U.S. Northeast research director for Cushman. Even with the leasing surge, financial firms represent just 18 percent of the market, compared with tech and media's 43.5 percent, he said.

Other financial companies that recently leased Midtown South space include London-based quantitative firm Winton Capital Management Ltd., which took 35,000 square feet at 315 Park Avenue South and is moving from the Seagram Building in Midtown's Plaza District, and Two Sigma Investments LP, which already was on Avenue of the Americas in Soho and is taking additional space in the area.

## Quant Firms

Like Silicon Valley Bank, both Two Sigma and Winton have business partners and employees who feel at home in Midtown South, said Joseph Sollazzo, a real estate economist at CoStar Group Inc., a research firm that tracks office leasing. Two Sigma is led by quant pioneer David Siegel, who used artificial intelligence to build his company into a \$37 billion hedge fund. Winton, which has more than \$30 billion of assets under management, is a hedge fund that employs statistical analysis and mathematical modeling of historical data.

Each firm is "as much a tech company as a finance firm, as the line between tech and other sectors continues to blur," Sollazzo said.

Kelly Howard, a Two Sigma spokesman, and James Gilbert of Winton declined to comment on their companies' leases.

Even before the recent leasing surge, financial firms weren't exactly strangers to Midtown South, said Kevin Draper, a historian and co-founder of New York Historical Tours. Credit Suisse Group AG has been in the Flatiron District's 11 Madison Ave., a 30-story stone tower built in the early 1930s, for 20 years, and the Swiss investment bank was once the dominant tenant at 315 Park Avenue South. MasterCard Inc. and Capital One Financial Corp. are among the financial firms that have taken space in Midtown South more recently to be close to the tech industry.

## Tech Invasion

Large parts of the area, such as Chelsea, were industrial well into the latter half of the 20th century, with storage for cargo from ships that used nearby docks, and print shops that handled Wall Street's needs. That started to change in the mid-1980s, when the advertising firm Saatchi & Saatchi moved into the Hudson Square neighborhood.

The current tech invasion began in earnest with Google Inc.'s 2010 acquisition of 111 Eighth Ave., a vast warehouse in West Chelsea. Tech firms were drawn to Midtown South because they like the buildings' open floors, the ability to lure and retain employees who live nearby, and the sense of community found at local bars and restaurants.

At 315 Park Avenue South, interest in about 160,000 square feet that's becoming available next year is running neck and neck between tech and media firms and financial companies, said Andrew Weiner, leasing director for L&L Holding Co., which oversees the building for Columbia Property Trust. Winton is taking the building's top two floors, which were renovated with the aim of luring a premium tenant, he said.

"What makes their relocation so unique is that certainly they're coming from an iconic building on Park Avenue," Weiner said.

## Low Vacancies

Rising demand has pushed Midtown South's vacancy rate down to 6.5 percent, making it one of the tightest office markets in the U.S. Rents for Class B and C offices -- those that lack the latest in finishes and luxury -- were higher than Class A space in lower Manhattan. Midtown South landlords were seeking \$67.90 a square foot for Class B space and \$64.41 for Class C, while top-tier space downtown had an average asking rent of \$62.44.

Class A space in Midtown South -- there's only 18 million square feet of it, out of a total market of 68 million square feet, according to Cushman -- was going for \$85.06 a square foot, compared with \$84.92 in midtown Manhattan to the north.

The leasing surge by financial firms isn't about to change Midtown South from a hot spot for young coders, engineers and designers to an area dominated by bankers and brokers. And the Plaza District isn't going to cease being the capital of investment capital.

"What you're seeing is just a more diversified market," said Mike Mathias, a leasing broker with Savills Studley Inc. "The future of the world is everything is going to have a tech component. There's a premium people are willing to pay to be there."