

Park Avenue Is About to Get Something It Hasn't Seen in 40 Years

BY DAVID M. LEVITT | JANUARY 30, 2015 | BLOOMBERG

After decades in deep freeze, New York's sacred avenue is about to get a new skyscraper.

Sometime next week, a metal frame will go up around the blocky brick tower at Manhattan's 425 Park Ave., designed to protect pedestrians from falling objects. It's a prelude to the building's demise.

In about three years, if all goes according to plan, the site will have a new Norman Foster-designed skyscraper more than twice the height of the existing one. The replacement would be the first new office building in almost four decades on what the developer, David Levinson, called New York's "grand boulevard of commerce."

The 893-foot (272-meter) tower will rise amid Manhattan's biggest rush of skyscraper construction since the 1980s, with millions of square feet of offices in such projects as Hudson Yards on the far west side and

the World Trade Center downtown. Levinson is building "on spec," meaning without any tenants signed up. It's a gamble on the staying power of today's accelerating demand for space, and a practice that's had a checkered history in the city, said Lawrence Longua, a retired real estate professor at New York University.

"Obviously, when you begin one of these large New York office buildings, the market is there when you begin it," said Longua, now an adjunct at Baruch College's Newman Real Estate Center. "But the market may not be there when you complete it."

The new Park Avenue skyscraper, between East 55th and 56th streets, will be narrower than the existing 1950s-era building, and have about the same 670,000 square feet (62,000 square meters) of floor space. The developers are touting it as a 21st century answer to the neighboring Seagram Building, which was hailed as an architectural masterwork upon its 1958 completion.

Glass Tower

Plans call for the existing 425 Park, a commonplace stack of white-brick boxes, to be replaced by a 47-story glass tower with three distinct sections. Slanted glass will mark the transitions between the base and the middle, and middle and top sections. The bottom floors will extend over the 45-foot-high lobby, creating offices that will seem to float over Park Avenue.

"Our view in terms of mitigating the risk of building a building on spec is to build the best building we can," said Levinson, chief executive officer of developer L&L Holding Co. "If the market is weak, if you have the best building, you'll still get a premium."

Skyscrapers at 1633 Broadway, near Times Square, and 1166 Avenue of the Americas, north of Bryant Park, failed as substantially spec projects in the 1970s, when the office market suffered as the city flirted with default, according to Longua.

More recently, 11 Times Square, in development when the credit crisis hit in 2008, didn't get its first tenant until the building was one month from completion. The following year, developer Harry Macklowe lost control of 510 Madison Ave., a speculative building designed with boutique financial

firms in mind.

Market's Resurgence

In a sign of the market's resurgence, 7 Bryant Park, a 471,000-square-foot tower rising on Avenue of the Americas at 40th Street, is under contract to be sold for \$600 million to Bank of China, which intends to occupy the property. Houston-based Hines and a unit of JPMorgan Chase & Co. are the developers and sellers.

Asking rents in Midtown top-quality skyscrapers climbed to \$99.58 a square foot at the end of last year, the highest since 2008, according to a report by brokerage Jones Lang LaSalle Inc. The vacancy rate for such buildings was 8 percent, down from the peak of 12.1 percent in late 2012.

"Tenants may want to prepare for similar growth in 2015, particularly on preferred floors in the best buildings," Cynthia Wasserberger, a managing director at Jones Lang, said in the report.

Lease Gains

Manhattanwide, 97 leases were signed for more than \$100 a square foot last year, exceeding a previous high of 91 in 2008, the brokerage said. The Seagram Building led the market with 14 such deals.

Levinson said he's looking to fill 425 Park Ave. with hedge funds, money-management firms and family offices. He plans to seek more than \$200 a square foot for the uppermost floors, or 10 percent to 15 percent

more than the highest current asking rents in the Plaza District. Towers in the submarket, Midtown's priciest and named for its proximity to the Plaza Hotel, are prized for their views of Central Park.

"This is a very rare occurrence," Levinson said. "You have a mid-century office building being torn down in Midtown. There's not going to be another new building on Park Avenue in my lifetime."

L&L is in the process of recapitalizing the \$1 billion project. The company anticipates borrowing half the cost, with equity covering the rest, Levinson said.

City Rules

The lack of construction is partly tied to an ordinance governing the area since 1961 that requires developers to build a smaller property if they want to completely replace the current one. L&L is getting around that by making it a redevelopment rather than a new building from scratch. It intends to strip the existing tower down to its steel skeleton and use about 25 percent of the frame for the new skyscraper.

The project was scaled back after the City Council in 2013 scrapped an effort led by then-Mayor Michael Bloomberg to allow building of taller towers in east Midtown, where the average office property is 70 years old. The former mayor is the founder and majority owner of Bloomberg News parent Bloomberg LP.

Mayor Bill de Blasio is expected to consider new east Midtown zoning recommendations, which probably will come in the next several months from a task force led by Manhattan Borough President Gail Brewer and City Councilman Daniel Garodnick, said Rachaele Raynoff, spokeswoman for the Department of City Planning. A separate proposal to rezone Vanderbilt Avenue, a side street just west of Grand Central Terminal, would allow construction of a 1,500-foot proposed by SL Green Realty Corp.

'Sacred Area'

Levinson said he shaved 90,000 square feet from the design for 425 Park to comply with current rules.

Also dropped was an early design calling for open space in front of the tower to display public art, similar to the Seagram Building, because required city easements weren't available, according to Foster.

First New Park Ave. Office Tower in 38 Years

The architect, who designed of London's "Gherkin" skyscraper and the Hearst Tower on Manhattan's Eighth Avenue, won the commission over such fellow Pritzker Prize winners as Zaha Hadid and Rem Koolhaas. In a telephone interview, he called Park Avenue "a kind of sacred area" that must be approached with respect.

"It's mobbed by extraordinary monuments of the modern movement," such as the Seagram Building, designed by Ludwig Mies van der Rohe, and Gordon Bunshaft's Lever House, he said. Even the avenue's less showy buildings have an understated elegance, according to Foster.

No Protest

Supporters of the initial east Midtown rezoning plan clashed with people who wanted certain older buildings near Grand Central and along Park Avenue spared. No one has stepped up to save the tower now standing at 425 Park, said Simeon Bankoff, director of New York's Historic Districts Council, a preservationist group.

While it was designed by a noted architect, Ely Jacques Kahn—whose credits include the Squibb Building near Central Park and the arch-roofed Municipal Asphalt Plant on the Upper East Side—it's not one of his important works, Bankoff said.

"I know some Ely Jacques Kahn partisans, and they've never mentioned this building to me," said Bankoff. "The council had identified a number of buildings of concern in the east Midtown area, and 425 Park Ave. was never one of them, even on the most advanced lists."

The site is catty-corner from the condominium tower nearing completion at 432 Park Ave., where a penthouse is under contract for \$95 million. That building has become a symbol of the rising dominance of the global elite, about the audience Levinson is trying to lure to his project, Bankoff said.

"So you can just zip-line from your condo to your office," Bankoff joked. "Maybe have a gondola."