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Midtown East rezoning sparks flurry of building sales, revamps

New zoning is leading to changes for (from left to right) under-construction 425, 417, tiny 407 and 405 Park.

Neoscape; Brian Zak/NY Post

By Lois Weiss

While recent larger leasing and sales transactions have been focused on Manhattan's West Side, last summer's Midtown East rezoning has energized owners and tenants.

"Midtown East is finally being recognized as the center of business," says David Fowler of CBRE. "The rezoning is a catalyst."

The announcement that JPMorgan Chase is demolishing its headquarters at 270 Park between 47th and 48th streets — to rebuild it larger and higher as allowed under the new zoning rules — gave a big boost to Park Avenue.

Brokers say Vornado Realty Trust and Tishman Speyer are calculating their prospects of rebuilding 350 and 300 Park, respectively, while 250 Park, a building erected in 1924, could also be a makeover candidate.

“You will see a number of [new buildings],” predicts Leslie Himmel of Himmel + Meringoff Properties. “Midtown will look really different, but it will take five, or more likely 10, years to see that.”

Leslie HimmelHimmel + Meringoff Properties

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After all, a zoning redo isn’t easy, isn’t cheap and can be complicated without an anchor tenant committed to the plan.

“If you have an office building, even if it’s worth $800 or $1,000 per foot, you will need at least $175 a foot for rent if you build a new building,” says Jimmy Kuhn of Newmark Knight Frank. “When you tear down a perfectly good office building, you are paying a lot for land. The [owners] will try to get a tenant first.”

For example, SL Green Realty Corp. inked TD Bank as an office anchor before it committed to demolishing the full block at Madison and 42nd Street, opposite Grand Central, to build the now-underway One Vanderbilt.

At 425 Park, with Citadel as an anchor tenant, L&L Holding moved ahead with a complete renovation prior to the new rezoning. The building will begin tenant fit-outs in March 2019, says David Berkey of L&L. New leases in the base have an asking rent of $185 per foot and go upwards from there.

“When 425 Park is done, it will change the whole tenor of the area,” says Robert Burton of Cushman & Wakefield, who reps the retail space for sale or lease at 417 Park.

Meanwhile, co-op residents of that 16-story building were offered millions to move by Kushner Cos. The board has now hired CBRE to field offers to sell and redevelop the building.

The Italian owners of the small adjacent Stefano Ricci retail building at 407 Park Ave. are also being courted to sell. Already, the owners of 405 Park — MRP Realty and Deutsche Wealth & Asset Management — are buying air rights to add a mere four floors.

“Many buildings on Park Avenue are doing it,” says John Maher of CBRE. “There is a lot of uninspiring real estate and an opportunity to create great architecture and modern buildings for the 21st-century tenant without disrupting the character of Park Avenue.”

In the interim, some owners are adding termination agreements, which may prompt tenants to go elsewhere or ask for reduced rents.

After it couldn’t get the asking price it wanted, 237 Park Ave. (left) refinanced last year. Meanwhile, 590 Madison (right) is expected to fetch $1.4 billion.

Brian Zak/NY Post

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“There are a few buildings with termination rights, but it is super costly. And, evidenced by 425 Park, you have to take down the building and earn no income for three to five years until you can construct something great,” says Evan Margolin of Savills Studley.

Owners with half-block buildings may join with neighbors to tear down both and rebuild bigger and better. Tod Waterman’s Waterman Interests and Brookfield have teamed up to eventually take over the ground lease at 390 Park Ave.'s Lever House. (Though it could be years before RFR walks away.)

The Waterman/Brookfield relationship with the landowners, the Korein family's Omnispective, may also provide a path to the landmarked Lever House's air rights, which Waterman could deploy at his 400 Park across the street. Waterman and the Koreins did not return requests for comment.

"People are saying they are able to buy cheap air rights and there are opportunities to redevelop," says Josh Zegen of Madison Realty Capital, which both buys and lends to others. "There is very old stock . . . and the JP Morgan announcement is driving others to make decisions."

425 Lexington is being sold to the Vanbarton Group for $700 million.Kevin Chu/KCJP

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Despite the energy surrounding rezoning opportunities, very few Midtown towers have traded this year.

In May, 5 Bryant Park was purchased by Savanna for $640 million through HFF. JPMorgan transferred 425 Lexington within its own clients for $681 million in August and will soon sell to Richard Coles and Gary Tischler's Vanbarton Group for around $700 million.

The IBM Building, a k a 590 Madison Ave., is being marketed through Douglas Harmon at Cushman & Wakefield. Bids, expected to be in the $1.4 billion range, are due at the end of the month. None of those towers are targets for a teardown.

But right now, there's a disparity between buyers and sellers, says Savills Studley's Woody Heller of several other sales offerings that are lingering: "If [the sellers] don't like the offers, they refinance and wait for another day."

For example, in 2017, rather than selling at the desired price, 237 Park secured a large hospital tenant and refinanced through Cushman & Wakefield. JPMorgan also took space there.

During a buying spree in 2016, the Chinese conglomerate HNA paid $2.21 billion for 245 Park in a deal marketed by Darcy Stacom at CBRE. Mezzanine loan owner SL Green is now buying a stake in the 1.8 million-square-foot building to provide capital and resources. The building is currently weighing offers for the 39,797 square feet of retail space, being handled by Kim Mogull of Mogull Realty, to provide both amenities and value to the tower.

Maher of CBRE says he would have been much less optimistic about Park Avenue a year ago — but the JPMorgan announcement changed that.

Adds Maher, “It’s also showed me that the movement to this really great product on the West Side in Hudson Yards, in Manhattan West and downtown has not been at the expense of Midtown but an addition to Midtown.”

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