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Midtown's office market is having a moment

Buck Ennis

One Vanderbilt's proximity to Grand Central has been a major selling point.

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AMANDA GLODOWSKI

After years of playing second fiddle to massive new developments arriving elsewhere in the city, Midtown's office market is experiencing a renaissance.

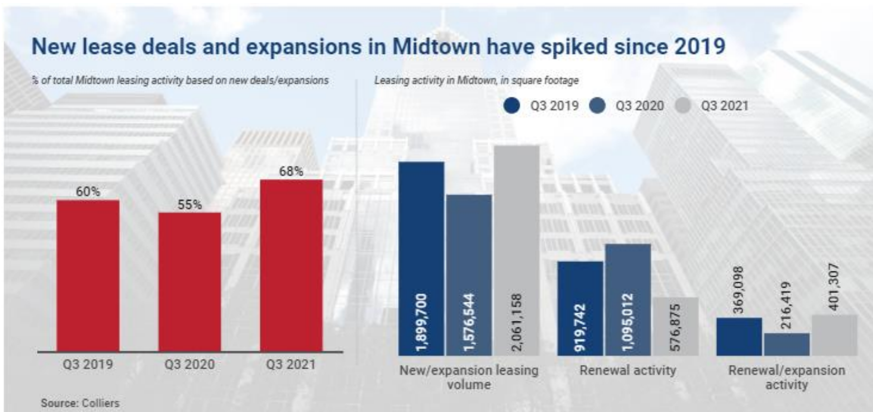
Driving the momentum are employers' desire to make the commute easier for employees hesitant to return following 19 months of remote work and the highest amount of new office space coming to the neighborhood since the redevelopment of Times Square in the 1980s.

Companies are flocking to the market to help some of their employees who live outside the city avoid a double commute, for which they must take a train into Manhattan and then get on the subway for another leg of their trip. The pockets of Midtown closest to major transportation hubs such as Grand Central Terminal and

Penn Station are thus seeing a particularly strong popularity boost, said Jeffrey Peck, vice chairman at real estate brokerage Savills.

"Most tenants today are in the market not only to be in Midtown, but to be proximate to Grand Central and Penn Station like never before," he said.

About 36% of Manhattan's 540 million-square-foot office market is within a 10-minute walk of such transit hubs, and easy access has become even more of a talent draw coming out of the pandemic.



Leasing activity was particularly strong in Midtown during the third quarter, when companies took about 3.3 million square feet of space in the neighborhood, compared with 1.8 million square feet in Midtown South and 775,000 square feet downtown, according to the latest office report from CBRE. This was even more activity for the neighborhood than during the third quarter of 2019—before the pandemic—when Midtown saw about 2.9 million square feet of leasing compared with about 2.6 million in Midtown South and 1.8 million downtown, CBRE found.

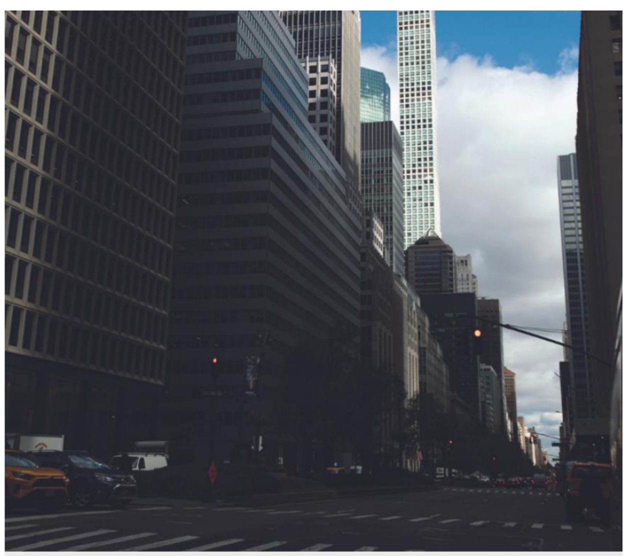
To be sure, the office market shows plenty of scars from the pandemic. The citywide vacancy rate stands at 18.3%, a level unseen in more than 30 years in New York. The full market value of office buildings fell by $28.6 billion across the city on the fiscal 2022 assessment roll, the first time office property markets declined since at least fiscal 2000, and more than $850 million in property taxes are estimated to be erased in the city's fiscal 2022, state Comptroller Thomas DiNapoli's office said. Midtown's vacancy rate during the third quarter was lower than Manhattan's overall, at 12.9%, but still much higher than two years ago, when it was 7.6%, according to CBRE's figures.

Buck Ennis

The Chrysler Building

A number of high-profile new office buildings in Midtown, such as SL Green's One Vanderbilt and L&L Holding Co.'s 390 Madison Ave., have added to the neighborhood's appeal and could be a bright spot for its future. With the Long Island Rail Road poised to reach Grand Central next year, Midtown will become an even more attractive option for the endpoint of a commute—and potentially take away one of the main draws of offices near the much-maligned Penn Station, even as officials work to extend the Metro-North Railroad to that station as well.

"Within our portfolio, clearly the buildings that surround Grand Central Terminal—whether Third Avenue, Lexington, Park—anything that's within a five- to 10-minute walk of Grand Central seems to be getting a lot more leasing velocity," said Steven Durels, SL Green's director of leasing. "With the LIRR coming to Grand Central, nobody's really going to need to sacrifice. The physical environment that surrounds Grand Central is a less chaotic assault on the senses than Penn Station."



Buck Ennis

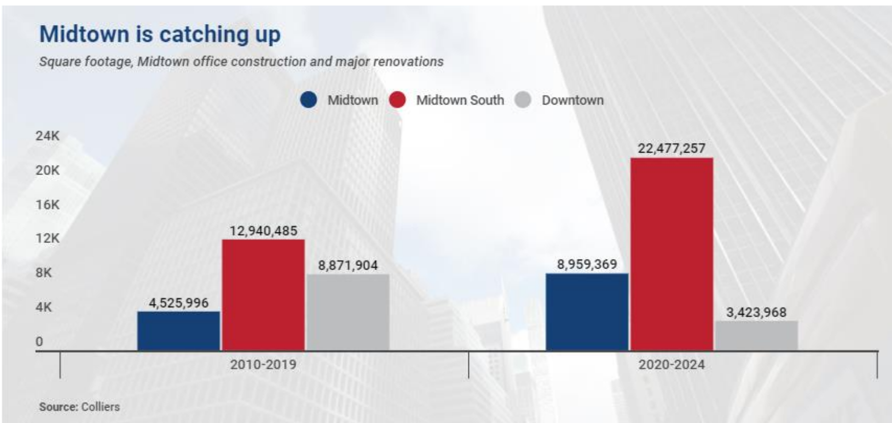
Park Avenue in Midtown

Overdue new product

One Vanderbilt is about as close to Grand Central as an office building can possibly get. SL Green opened the building to much fanfare in September 2020, and it is more than 91% leased, the company said, despite the rough state of the office market.

Its proximity to Grand Central comes up in almost every discussion the company has about the building with prospective tenants, Durels said. That it is a new building plays a role in its appeal as well and makes it more competitive with places such as Hudson Yards, he said.

"Midtown didn't have as much new product and/or very heavily renovated product, so tenants were sacrificing on location and going to Hudson Yards," Durels said. "But now that you've seen some big buildings go through major renovations and new structures like One Vanderbilt coming online, tenants don't have to sacrifice location, and they're willing to pay for better-quality product and better-located product."



The newer office buildings are at least as important to Midtown's popularity as its being home to Grand Central. Between 2011 and 2021, the area had a net loss of 11.7 million square feet worth of large office tenants, mostly because they were flocking to newer developments in other parts of Manhattan, real estate brokerage Colliers found. Now, however, the neighborhood is getting almost 9 million square feet of new office space by 2024, which surpasses downtown for the future outlook. (CBRE considers Hudson Yards to be part of the Midtown office market, whereas Colliers considers it part of Midtown South.)

Although new office space tends to go hand in hand with more expensive lease rates, many of the financial services firms that Midtown caters to have done fairly well since the pandemic began, making it easier for them to decide to upgrade their office space when their current leases expire, said Eric Cagner, a broker at Newmark who focuses on Midtown.

Renovating these spaces is still important for landlords to attract tenants, said Andrew Wiener, L&L's director of leasing. Although being right by Grand Central is a very attractive perk, the sheer amount of new office space hitting the market remains too high for landlords to rely solely on location.

"Owners who simply leave their product the same and are going to say, 'We're close to transportation. That's enough'—it's not enough," Wiener said. "In this market, there's still too much space."

660 Fifth Ave.
Buck Ennis

Although New Yorkers are never short on things to criticize about Penn Station, that area is poised for a major transformation, thanks in large part to Vornado Realty Trust's ambitious plans for the neighborhood. The company has already completed its redevelopment of 330 W. 34th St., and it is at work on transforming the Farley Building at 390 Ninth Ave. and two projects dubbed Penn 1 and Penn 2 into new office buildings.

Related Cos. spokesman Jon Weinstein cited Hudson Yards' proximity to Penn Station as a big reason why the developer has "zero concern" about its office buildings losing popularity coming out of the pandemic.

"Our Hudson Yards office space is 93% leased, with the highest rents in the city—reflective of the outsized demand," he said.


Buck Ennis
Jeffrey Peck, Daniel Altman and Jeffrey Goldman in Belkin Burden Goldman's new office at One Grand Central Place.

Employee leverage

Belkin Burden Goldman's office was already close to Grand Central when the law firm started to look for a new one in mid-2019. The company was not initially committed to staying in the neighborhood.

The firm explored space downtown, further east on Second Avenue and further west by Times Square, but it ultimately decided to move even closer to the transportation hub. The firm announced in January that it would trade 270 Madison Ave. for One Grand Central Place. The law firm just moved into its new space in mid-October.

"Grand Central is grand, and it's central, so it gave us the best of both worlds," said Jeffrey Goldman, a partner at the law firm. "Second Avenue or Third Avenue and Sixth Avenue, it still was a schlep to major transportation hubs for most of our employees."

The company's decision is indicative of the growing importance of making sure workers have a relatively easy commute as the city emerges from the Covid crisis. When the pandemic first hit, avoiding a subway ride on the way to the office was largely seen as a health and safety issue. But with the widespread availability of a vaccine, declining infection numbers and subway ridership levels hitting record highs for the pandemic, this has become a less-pressing factor.

What has emerged is a growing understanding that employees will have more leverage going forward over how often they return to the office, and having an office right next to a hub like Grand Central is a good way to make working in person a more tenable option.

"The C-level suite is saying, 'Let's make the commute and amount of time coming in as little as we possibly can so our people will not fight it as much and not be as reluctant to come in,'" Newmark's Cagner said.

CBRE Vice Chairman Paul Amrich echoed this point, adding that he did not see this trend going away soon, now that remote work has been in place for so long.

"Every employer is saying, 'OK, my employees have a bigger choice. I want them in the office because I want to keep and rebuild our culture and get everybody together, so whatever I can do to make their commute easier is going to be helpful,'" he said. "And, obviously, location to mass transportation is a huge part of that."