

# COMMERCIAL OBSERVER

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## Midtown's Biggest Office Leases of 2018 (So Far)

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The Midtown office market is being outshined by its flashier, more trendy neighbor, Midtown South, but the neighborhood is still poised to lease a record amount of office space this quarter.

Landlords in Midtown leased 7.1 million square feet of office space in the third quarter of 2018, according to Cushman & Wakefield, hitting the highest level ever since the brokerage began tracking leasing data.

“We’re on pace to end the year in Midtown with the highest [leasing activity] on record for any given year,” said Richard Persichetti, the head of tri-state research at C&W. “That speaks volumes for the Midtown market, where rents for the most part have been flat or declining.”

Office tenants have inked 17.2 million square feet of leases so far this year, up 15.9 percent from third-quarter 2017. The banner quarter in office leasing has been driven by five new leases greater than 100,000 square feet, including Pfizer’s leaseback of its 1.2-million-square-foot headquarters at 219 and 235 East 42nd Street.

And asking rents have slid 2 percent year-over-year across the board in Midtown, as lower-priced space hit the market. Average asking rents dropped \$1.32 a square foot to \$76.12, with six of the area’s nine submarkets recording declines in rents, per C&W. Roughly 264,000 square feet of lower-priced sublease space came up for grabs at 437 Madison Avenue, driving an asking rent drop of \$6.78 a square foot to \$91.90 along Madison and Fifth Avenues.

“We’ve seen better quality Class-A space leased up this year,” Persichetti said. “Rents drop as better space gets taken out of the market.” As Class-A vacancies have decreased, unfilled space in Class- B and C properties has ballooned, often because tenants who want cheaper offices are moving to newly renovated space Downtown.

Declining rents have driven Midtown landlords to offer record-high numbers of concession packages—like free rent and cash for build-outs—as they look to attract and keep tenants, Persichetti noted. The neighborhood is also set to get 19 million square feet of new office space by 2023, creating a fiercely competitive environment for landlords and an extremely favorable one for tenants. One Vanderbilt Avenue, Hudson Yards, Manhattan West, 66 Hudson Boulevard and 425 Park Avenue are among the projects set to deliver a hefty amount of new construction, Class-A office square footage over the next several years. (C&W defines Midtown as including areas between 34th and 42nd Streets, like Hudson Yards and Penn Plaza.)

Midtown South, meanwhile, has seen 291,000 square feet of new, high-priced space come up for lease at 512 West 22nd Street and 61 Ninth Avenue in the third quarter. Asking rents in the area have shot up to \$76.42 per square foot, surpassing Midtown for the first time ever.

So, Midtown continues to thrive despite aging office stock and declining rents. In recognition of its banner-leasing year, here’s a roundup of the five largest leases signed to date in 2018, using data from C&W.

## **J.P. Morgan Chase**

The financial giant nailed down a 436,905-square-foot lease for 16 floors and two retail spaces at L&L Holding Company's 390 Madison Avenue in March. The week before, J.P. Morgan Chase announced that it would demolish its existing home at 270 Park Avenue and construct a new, 70-story headquarters building in its place. 390 Madison is only a block east of 270 Park Avenue, making it easy for the bank to relocate thousands of workers.