NEW YORK POST

February 4, 2014

Another sign of E. Midtown exodus

Steve Cuozzo

REALTY CHECK

MASTERCARD International just clinched a deal to open a new, 60,000-square-foot technology lab at 114 Fifth Ave. The 10-year lease brings the century-old, 330,000-square-foot address to 60 percent occupancy since **David W. Levinson**-led L&L Holding Co. bought the near-vacant property's leasehold with private-equity firm Lubert-Adler last year, and created new infrastructure, lobby and "green" features.

The midsize lease is the latest illustration of a megatrend largely overlooked. Everyone knows companies are now willing to set up shop in locations once thought unsuited to a particular industry.

Less recognized is the extent to which marquee-name firms of all kinds are increasingly *unwilling* to go to, or remain in, East Midtown — the 73-block district that the city last year tried but failed to rezone to allow for modern new buildings to be constructed.

The drumroll is deafening to those willing to listen:

Citigroup plans to move its headquarters to Greenwich Street from its longtime home at 399 Park Ave.

The ongoing and recent exodus includes three law firms that all gave up or will soon quit their Park Avenue homes — Kaye Scholer, Reed Smith and Jones Day — as well as social-media firm Twitter.

Sony's leaving Madison Avenue for Madison Square Park.

Meanwhile, among those leaving other neighborhoods but passing up East Midtown are Time Inc., which intends to exit its own longtime home at 1271 Sixth Ave. for a 600,000-square-foot space it's searching for downtown.

Also staking out new

POST FOCUS ON COMMERCIAL REAL ESTATE

E. MIDTOWN LUSTER LOST

REALTY *from Page 29*

homes anywhere but in East Midtown are Microsoft, L'Oréal, Coach Inc., Facebook, Condé Nast, Group M and IBM's Watson Group — all taking between 150,000 and 1 million square feet each in Hudson Yards, the World Trade Center, Brookfield Place and Midtown South.

Cable news network Al-Jazeera is reportedly in advanced talks to launch its US base at Boston Properties' new 250 W. 55th St.

Within the past 10 years, Bank of America, Reuters, Ernst & Young, the New York Times Co., Grey Group and Tiffany & Co. all pitched tents in West Midtown, Times Square or Midtown South.

Hasn't East Midtown — with around 170 million square feet and unparalleled transit access and dining and shopping amenities — attracted *some* prime tenants of late? We found only one: French bank Société Générale, which left 1221 Sixth Ave. for 440,000 square feet at Brookfield's 245 Park Ave.

To be sure, East Midtown won't turn into a ghost town. It's still home to Fortune 500 companies. Jones Lang LaSalle reports that in the last quarter, availability was a reasonable 12.7 percent and 11.8 percent, respectively, in the Grand Central and Plaza districts, the submarkets mostly, but not precisely, comprised of East Midtown's rezoning territory.

But glamorous companies that define "Manhattan" in the world's eyes are shunning East Midtown en masse when leases are up there or when circumstances require them to move from somewhere else. The outward momentum carries profound long-term implications for the city's entire office market.

Certain companies want only state-of-the-art, brand-new buildings, and they'll chase them wherever they go up.

In a seeming paradox, other firms prefer buildings that are *much* older than East Midtown's, like 111 Eighth Ave., because their high ceilings and thick floor plates lend them to digital upgrading more easily than do East Midtown's "Mad Men"-era dinosaurs.

Firms choose new homes for many reasons, including lower rent, mass-transit access and proximity to the CEO's home.

But East Midtown's plummeting appeal has a lot to do with the fact that most of its buildings aren't suited to today's needs.

Zoning rules written in 1961 make it near-impossible to replace them with new ones even of the same size.

In an area where buildings are an average 73 years old, few will see the kind of $125 million modernization that SL Green and Vornado are bringing to 280 Park Ave., a 1968 tower with 1.28 million square feet.

New systems, emergency generators and a new lobby and plaza will make the tower more competitive — but it's an exception amidst scores of properties receiving cosmetic upgrades.

Rarer still is 425 Park Ave., where L&L is re-inventing the obsolescent tower into an entirely new one of about the same size designed by **Sir Norman Foster** — requiring years of legal needle-threading and infinite patience to conform to the fine print of archaic zoning rules.

Back when the Park Avenue corridor was companies' first choice, its physical stagnation didn't matter. But new priorities changed everything. CBRE regional CEO **Mary Ann Tighe** noted, "There are no boundaries any more. No longer must a specific industry be in a specific neighborhood."

Tighe said that unlike in the past, "There's a willingness to at least explore, and often times it leads to a commitment. When Harper Collins was leaving East 53rd Street, it originally had no intention of moving downtown [to 195 Broadway], but the act of exploration led to it."

Decisions about where to locate employees today is driven "by a profound change in the way people in every industry, even conservative ones, now want to be working," Tighe said.

"They desire to accommodate a more open, collaborative, tech-fueled environment."

Time Warner CEO **Jeff Bewkes** echoed that sentiment when he said of his company's planned move to Related Cos.' Hudson Yards, "A dynamic new complex will foster even more collaboration, creativity and efficiency across our businesses."

And until that "collaboration, creativity and efficiency" is established in East Midtown, its commercial energy will continue to ebb to other areas, from the Battery to the foot of Central Park.

scuozzo@nypost.com