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Midtown Seeks to Remain Competitive in Evolving Market

As tenants seek out modern buildings with long lists of amenities, Midtown strives to keep pace

Michael S. Zetlin, Co-Founder and Partner at Zetlin & De Chiara LLP, led a spirited discussion on Midtown's development at *Commercial Observer's* Annual Midtown Forum on Thursday, June 28, 2018 in Manhattan.

Joining him on the panel, "The State of Midtown: Renovations, Relocations and Rebuilding" were **David A. Falk**, President, New York Tri-State Region, Newmark Knight Frank; **Kenneth Fisher**, Partner, Fisher Brothers; and **Robert T. Lapidus**, President and Chief Investment Officer, L&L Holding Company, LLC.

The panelists agreed that Midtown – once the uncontested center of business in New York City – faces competition from new hubs such as Hudson Yards and Downtown, and that its aging buildings and infrastructure have created a challenging tenant market. Zetlin facilitated a conversation on what owners and developers are doing to remain competitive and make Midtown properties more appealing to tenants.

Kenneth Fisher kicked off the discussion with what Fisher Brothers is doing to keep Midtown competitive. He noted that the company is taking a hard look at its buildings – comparing them to newer ones in competing neighborhoods and taking steps to improve their portfolio. The company is looking for ways to innovate, including updating aesthetics and infrastructure and getting their buildings LEED-certified. Fisher noted that while Manhattan real estate is old, it is possible to improve aging building stock without tearing it down. Fisher is still seeing a successful deal flow.

Another key way Midtown owners are remaining competitive is by offering new amenities. Fisher noted that many owners are now "depthifying" tenants, putting more tenants into less space in exchange for adding amenities such as fitness areas and grab & go food options. He has noticed that tenants are no longer interested in having multiple – and often unused – conference rooms. Instead, amenities floors may often include state of the art conference rooms that can be booked, saving tenants space in their actual offices.

Addressing the current state of the Midtown market, Robert Lapidus commented that "new is in." Tenants are sacrificing location for modern office spaces. He elaborated, saying, "Midtown is not dead, commodity products are," telling owners that if they are in the business of taking outside capital and meeting demand, they will remain successful.

Lapidus also argued that rents are not suffering, offering up Citadel as an example. The hedge fund has leased 200,000 square feet at 425 Park Avenue at what is reportedly the priciest rent in the city. He added that a beautiful building with great views will never suffer. To recruit the best talent, tenants will seek the right combination of location and amenities.

David Falk addressed a query from Michael Zetlin on what is driving Midtown design. He opined that Manhattan has really become one market, rather than a combination of delineated neighborhoods. Tenants are looking for spaces that inspire them and represent their brand. Currently, tenants find Midtown spaces uninspiring and antiquated, driving them downtown to "cooler," more modern spaces.

Falk also noted that amenities stick in potential tenants' minds and help them differentiate between the various properties they are viewing. Lapidus added that one barrier to Midtown properties is that introducing amenities can be a hard sell to investors. They may look at an amenities floor and question the lack of rent for that space, but owners counter that it means higher rents for the rest of the building.

Falk believes there is "no question Midtown could attract all sectors, from media and tech to finance, as long as the design is there. Invest the money in design and demand will follow." He also noted that Midtown has no problem catering to the 24/7 lifestyle many tenants are seeking, with places such as The Lobster Club still attracting the after-work crowd in droves.

There was consensus that the Midtown East rezoning will have an interesting effect on the neighborhood. JP Morgan's intention to demolish and rebuild its Park Avenue office was a focal point of discussion. Fisher noted that watching the demolition and construction process over the next couple of years will be enlightening. He is interested to see if other owners will also take advantage of the Midtown East rezoning or if they will find that updates suffice.

Falk noted that L&L Holding Company was lucky to come across some ground leases that were expiring, but he too finds that updating old buildings is likely to be the way most owners will go. He did, however, encourage owners and developers who do decide to build anew to choose inspiring designs. Going a step further, he called for government leaders in New York to clear the way for this possibility. If you look at Paris, London and Dubai, for example, form is held to a higher standard. He worries that, while New York is the financial capital of the world, it is no longer necessary for companies to keep their offices here. "Rational minds need to prevail so there can be new product in Manhattan that keeps the city competitive."

The morning wrapped up with observations on infrastructure. Falk referred to the need for an updated infrastructure as critical and cautioned against relying on the government to provide everything needed. Fisher added that if "we don't start radically investing in our infrastructure, we will start losing tenants to other cities."

According to Zetlin, it is clear that amenities are part of the answer to maintaining and attracting tenants, but upgrading infrastructure is essential to the neighborhood's viability as a commercial center.

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