

# Playing to Hedge Funds, a Trophy Rises in Midtown

By ALISON GREGOR FEB. 1, 2011

When the developer Harry Macklowe contemplated building a boutique office tower with unparalleled amenities at 510 Madison Avenue in the late 2000s, he expected it would be filled with hedge funds and other financial sector tenants who would pay rents well above \$100 per square foot.

But the economy slumped in late 2008, and Mr. Macklowe found himself fighting to maintain ownership of 510 Madison, at 53rd Street, where just one company had signed a lease.

He lost that ownership battle to Boston Properties last September. Now, a series of leases signed at 510 Madison late last year for well north of \$100 a square foot signifies a turnaround for the building — and may presage a recovery of Manhattan's overall high-end office market, brokers said.

“Boston Properties had the vision to buy the building at a time in the market five months ago when even then people were very cautious about \$100 rents,” said Paul Amrich, an executive vice president of the commercial brokerage CB Richard Ellis, which is representing 510 Madison. “But they knew the trophy status of the building and the location of the building would prove that we would get to those rents again.”

While there were a total of 91 office leasing deals signed in dozens of Midtown buildings for \$100 or more per square foot at the height of the office market in 2008, that number plummeted to just 18 deals in 2009, according to data from the

commercial brokerage Jones Lang LaSalle.

The tally for 2010 is about the same, with a total of 19 deals signed in eight buildings, including three at 510 Madison.

But many of those deals took place late in the year, reducing the inventory of available space by 23 percent in buildings that Jones Lang LaSalle considers “trophy” properties — and potentially capable of capturing rents of \$100 or more per square foot. Those 52 Midtown buildings tend to be located around the Plaza Hotel on Fifth Avenue, in what is known as the Plaza district, and many have views of Central Park.

They may seem more like country clubs than workaday office buildings, with grand lobbies and elevators, tight security and amenities like upscale restaurants to attract financial companies for whom image and high profit margins go hand in hand.

Those 52 buildings had a vacancy rate of 10.1 percent, compared with 13 percent in 2009, and are poised to outperform the office market in general this year, said Cynthia Wasserberger, a managing director of Jones Lang LaSalle.

Much of that has to do with the recovery of the financial sector and its endless race to trade up into more prestigious office space, she said. With office rents still well below their 2008 peak, landlords are still offering concessions to offset the cost of moving. That may encourage financial tenants looking to upgrade, Ms. Wasserberger said.

“It sounds kind of funny to say tenants would be taking advantage of a \$100 rent,” she said, “But a lot of tenants with leases up for expiration may find it justifiable to say, ‘I’d rather lock in today at \$100 a foot, knowing this building was leasing at \$150 or \$180 a foot in 2008, so it’s a relative bargain.’ ”

Several towers were developed or rehabilitated in the market frenzy to achieve steep rents, but 510 Madison is the only new office building in the Plaza district.

“It’s an extremely central and rare location to be able to build a brand-new building,” Mr. Amrich said. “That alone sets us apart.”

While 510 Madison's Central Park views are limited to the top floors on the northwest side, the tower, which was designed by Mr. Macklowe, SLCE Architects and Moed de Armas & Shannon Architects, has column-free interior space, which allows financial companies to create trading floors, as well as 10-foot ceilings with floor-to-ceiling windows in a glass facade.

Newer buildings can be built with amenities that draw financial companies. For instance, 510 Madison will have a top-notch fitness club with a 50-foot pool, a large landscaped and furnished terrace, a private dining area for tenants and their clients and a generator that can provide power in a blackout.

Boston Properties paid \$287 million for the 350,000-square-foot office tower and acquired a junior loan on the property for \$22.5 million. Besides the three leases signed in 2010 with Senator Investment Group, Chieftain Capital Management and Valinor Capital Partners, Boston Properties also managed to retain the Jay Goldman & Company hedge fund, which Mr. Macklowe signed in 2007 at \$135 a foot, at the same rent but on a higher floor. Floors 25 through 28 have been leased, with the exception of 6,000 square feet still available on the 27th floor, Mr. Amrich said.

The hedge funds, private equity groups and wealth management firms that typically seek expensive space tend to be smaller companies, requiring perhaps 5,000 to 25,000 square feet as opposed to 100,000 square feet or more, Ms. Wasserberger said. For that reason, if 510 Madison continues to lease as anticipated, it may account for many more leasing deals of \$100 or more per square foot in 2011.

"If the numbers were 19 deals in 2010, I bet we see closer to 40 in 2011," she said. "The reason is 510 Madison is now open for business. It's a 30-story building, and those are going to be some partial- and single- and double-floor tenants, so that could account for a sizable number of deals."

Of course, the higher the floor the higher the rent, brokers said.

"There's always that premium for the tower view," said Alan Desino, an executive managing director of the commercial brokerage Colliers International. "Is there a building right now anywhere in Manhattan that on the base floor you're going to pay \$100 a foot? Probably not."

A large part of 510 Madison's allure is its location in the Plaza district. Another banner office tower developed speculatively, 11 Times Square, was also hoping for \$100-per-foot rents, but its location on Eighth Avenue near the Port Authority of New York and New Jersey has been a detractor, Mr. Desino said. So far, the law firm Proskauer Rose is the building's lone large tenant.

Still, the right kind of building — for example One Bryant Park on Avenue of the Americas, known as the Bank of America tower — delivered at the right time can create a desirable submarket around it, even driving up rents in neighboring buildings, he said.

“One Bryant Park is a phenomenal building,” Mr. Desino said. “Just due to the efficiency and space you have floor-to-ceiling and, let's face it, the views are phenomenal. It's been able to achieve \$100 rents in an area that, three years ago, I would have said, not a chance.”

One Bryant Park also happens to be certified by the United States Green Building Council, as does 11 Times Square, and 510 Madison is pursuing that certification. A recent study by the CoStar Group, a real estate information company in Washington, showed landlords could achieve an average premium on rents of 5 to 10 percent nationally if a building was certified as environmentally friendly.

Even if it does not guarantee higher rents, that certification carries a certain cachet, said Christopher Macke, a senior real estate strategist at the CoStar Group. “Maybe you don't get the premium rent, but you get the tenant, and the other guy doesn't,” he said. “Put another way, in a green building, you have a higher absorption rate than one that's not green.”

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