

SQUARE FEET

Once Shunned, Now Highly Desirable

Office Rents Around Bryant Park Outperform Rest of Midtown

By ALISON GREGOR

For decades, Bryant Park was known as an enclave of unsavory characters and menacing panhandlers, making the park an obstacle to the development of Midtown Manhattan's office district. But in the 1990s, the park was transformed into an urban oasis where office workers lunch and city dwellers gather to watch outdoor films. Since then, attitudes toward the park have decidedly changed, and rising office rents in buildings around the park have resulted in the area outperforming the rest of Midtown.

A study of 13 buildings surrounding Bryant Park conducted by the commercial real estate brokerage Jones Lang LaSalle found a vacancy rate that stood at 3.8 percent in the second quarter of 2012, while Midtown's vacancy rate hovered around 11.5 percent. For that same period, office rents in those buildings around the park were \$78.29 a square foot, while Midtown rents in general were \$63.40 a square foot.

Jones Lang LaSalle's data showed that Bryant Park's office rents first diverged from the rest of Midtown and started taking off around 2003, shortly before construction began on One Bryant Park, a 51-story, 2.1 million-square-foot office tower on the northwest corner of the park, anchored by the Bank of America.

Since then, a handful of other high-rises around the park have undergone extensive renovations to upgrade them to top-tier office space. Still to come is another overhaul of an existing high-rise, 475 Fifth Avenue on the east side of the park, as well as construction of a new 28-story office tower on the southwest corner of the park, to be called 7 Bryant Park. The new buildings and the substantial upgrades for existing buildings all serve to help solidify the area's status in the commercial real estate market.

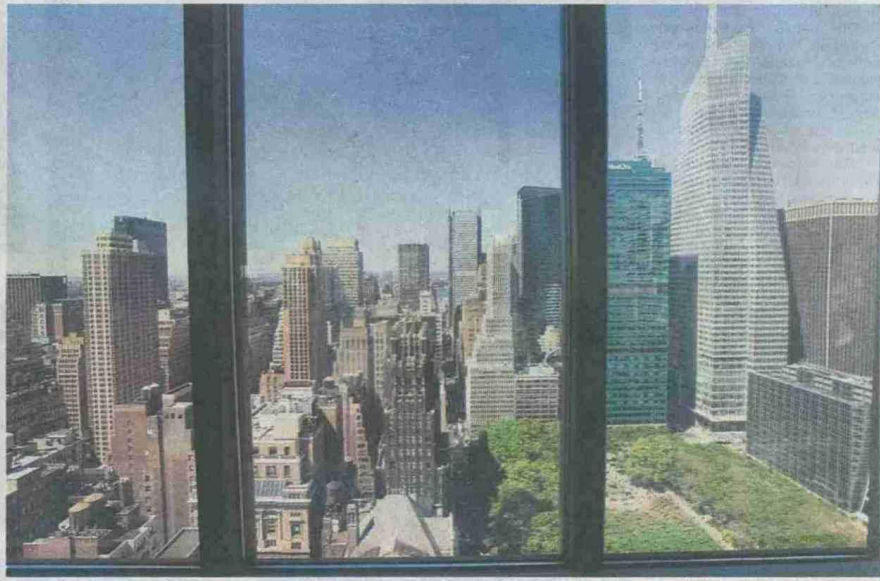
"Bryant Park is now established as a hub of top-priced office space, and the park itself is the nucleus of this submarket," said Mary Ann Tighe, a chief executive of the New York tristate region at the CBRE Group, a commercial brokerage firm.

Viewing the Bryant Park area as a submarket may sound logical, but it actually required a drastic shift in thinking for New York's commercial real estate world. Midtown Manhattan's office district is scored by 42nd Street, a line that for decades separated the premium office buildings to the north from those to the south that were considered less desirable, Ms. Tighe said.

"It's pretty funny, but in New York, you can be a block south of a dividing line, and people immediately apply a discount factor," she said.

Since the northern side of Bryant Park is bordered by 42nd Street, that discount factor traditionally applied to most of the office buildings around the park — until recently. Ms. Tighe said that some canny commercial real estate investors, recognizing that perceptions of Bryant Park were changing, had bought buildings on the park for south-of-42nd-Street prices in the hopes of renovating and capturing north-of-42nd-Street rents.

Two buildings whose owners have done that successfully are 1095 Avenue of the Americas, on the park's west side,



RUBY WASHINGTON/THE NEW YORK TIMES

Bryant Park, once a haven for muggers and panhandlers, but now an urban oasis, is seen from 452 Fifth Avenue.

and 452 Fifth Avenue, on the southeast corner of the park, Ms. Tighe said.

"Not a single one of the tenants moving in there now say, 'Oh my goodness, we're two blocks south of 42nd Street,'" she said. "In fact, what they say is 'Wow, we're on Bryant Park in a great building.'"

At the 30-story 452 Fifth Avenue, the last phase of about \$32 million in capital improvements and renovations is being completed, said Ehud Elizur, the president of PBC USA Real Estate, a subsidiary of the Public and Building Corporation, an Israeli public company, which is in turn the real estate arm of IDB Group. The company purchased the building for \$353 million in 2010. From May through December 2011, PBC was able to lease 14 of 18 available floors to financial and law firms, which will begin moving in at the end of this year. While Mr. Elizur did not reveal those rents, the small amount of space currently

available in the building has asking prices of \$90 to \$100 a square foot.

In the fourth quarter of 2012, PBC will also begin marketing the top three floors of 452 Fifth Avenue, where asking prices will be at least \$100 a foot. Asking rent for unrenovated space in the area would probably be closer to \$50 a square foot.

The pension fund giant TIAA-CREF hopes to pull off a similar transformation at 475 Fifth Avenue, a 24-story, 280,000-square-foot tower it purchased in 2011 for a reported \$144 million. TIAA-CREF plans to do a major overhaul to turn the 86-year-old office building into a "jewel box" of a tower, said Frank Doyle, a vice chairman at Jones Lang LaSalle, though he would not reveal what asking rents would be charged when the building is completed at the end of 2013.

"They believe in this submarket so much," he said. "Bryant Park really has become its own little submarket, just because of the transformation of these iconic buildings."

On a site at the southeast corner of the park that is owned by the investment company Pacolet Milliken Enterprises, construction will begin in November on a 28-story tower to be called 7 Bryant Park. The investment company selected Hines, an international real estate firm, to assist in the tower's development, and the tower should be completed by late 2014.

CBRE is handling leasing for 7 Bryant Park. Ms. Tighe said that the tower was designed by the architect Henry N. Cobb of Pei Cobb Freed & Partners, with a nod to Bryant Park as the lifeblood of the neighborhood.

"Henry made the decision right off that the building needs to gesture to Bryant Park," she said. "It needs to pay respect to the great park that sits there, and you see how the building cants toward the park."

Tommy Craig, a senior managing director of Hines's tristate operations, said the company had been watching Midtown's office district creep south and west for three decades. Getting involved in the 7 Bryant Park project seemed like a beneficial move as Bryant Park became more central to Midtown.

With no other opportunities for large-scale development of office space around the park, Mr. Craig said that "in an interesting way, our project will complete the square around Bryant Park."

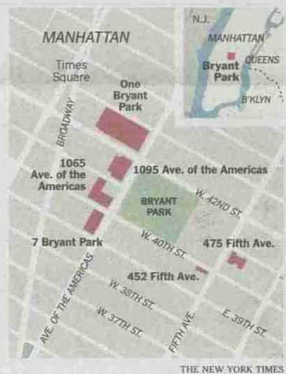
One way in which the park neighborhood could still improve is in its selection of retail stores, brokers said. To

A site that stretches the high-rent district a couple of blocks south.

that end, the real estate firm Blackstone Properties of New York has begun an upgrade of retail space in two buildings it owns on the park, 1095 and 1065 Avenue of the Americas.

"There's not a lot of places to shop, so if I needed to run out and get a tie or buy a gift for a friend or my wife, there's not a huge choice of options," said Josh Glick, a vice president of Equity Office Properties, a subsidiary of Blackstone.

Mr. Glick said that 40,000 square feet of space was available at 1095 Avenue of the Americas and most likely some time next year another 40,000 square feet of space would be marketed at 1065 Avenue of the Americas. Asking rents are "at a sizable discount to Times Square rents certainly, and Fifth Avenue rents," he said, and "major global brands" have been showing interest.



High-rises near the park have been upgraded to top-tier office space.