

Ariel Property Advisors | Released January 2020

# Midtown East

The Effects of the Rezoning



Investment Sales  
Capital Services  
Investment Research

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# Introduction

## Welcome to Midtown East

Midtown East is the epitome of what everyone around the world pictures when they think of New York City. It is home to iconic skyscrapers, world-renowned shopping and one of the most highly concentrated business districts in the world. Midtown East runs from 42nd Street to 59th Street (north and south) and is bound by the East River and Fifth Avenue (east and west).

Located centrally in Manhattan, Midtown East is home to many historical landmarks. The Chrysler Building, located on 42nd Street and Lexington Avenue, has soared over the New York City skyline since 1930. Across the street, Grand Central Terminal has been operating as one of the most historic transportation hubs for the public since 1913. A little further west, Rockefeller Center, home to 19 commercial buildings including Radio City Music Hall, has provided an immersive experience for tourists and natives alike with endless opportunities for dining and exploring.

Besides being home to the largest central business district and a top-ranking location for the most expensive pieces of real estate, Midtown East offers a variety of lifestyle amenities no matter the time of year. In order to remain a top-tier real estate destination, the City approved a rezoning in 2017. The Midtown East rezoning allowed developers to build larger projects, and in return, required them to make contributions to public improvements.

There are approximately 22.7 million square feet under development in Midtown East. It is expected that over 3,500 new residential units will come online in the coming years in addition to over 860,000 square feet of retail space. The effects of the Midtown East rezoning are only beginning to be realized with over 12.5 million square feet of new office space either under construction or planned for the area. Developers taking advantage of the Midtown East rezoning are currently in the planning or very early construction phases. In five to ten years, these buildings will change the overall landscape of Midtown Manhattan.





22.7M

SQ. FT. UNDER  
DEVELOPMENT



3,500

NEW RESIDENTIAL  
UNITS



860,000

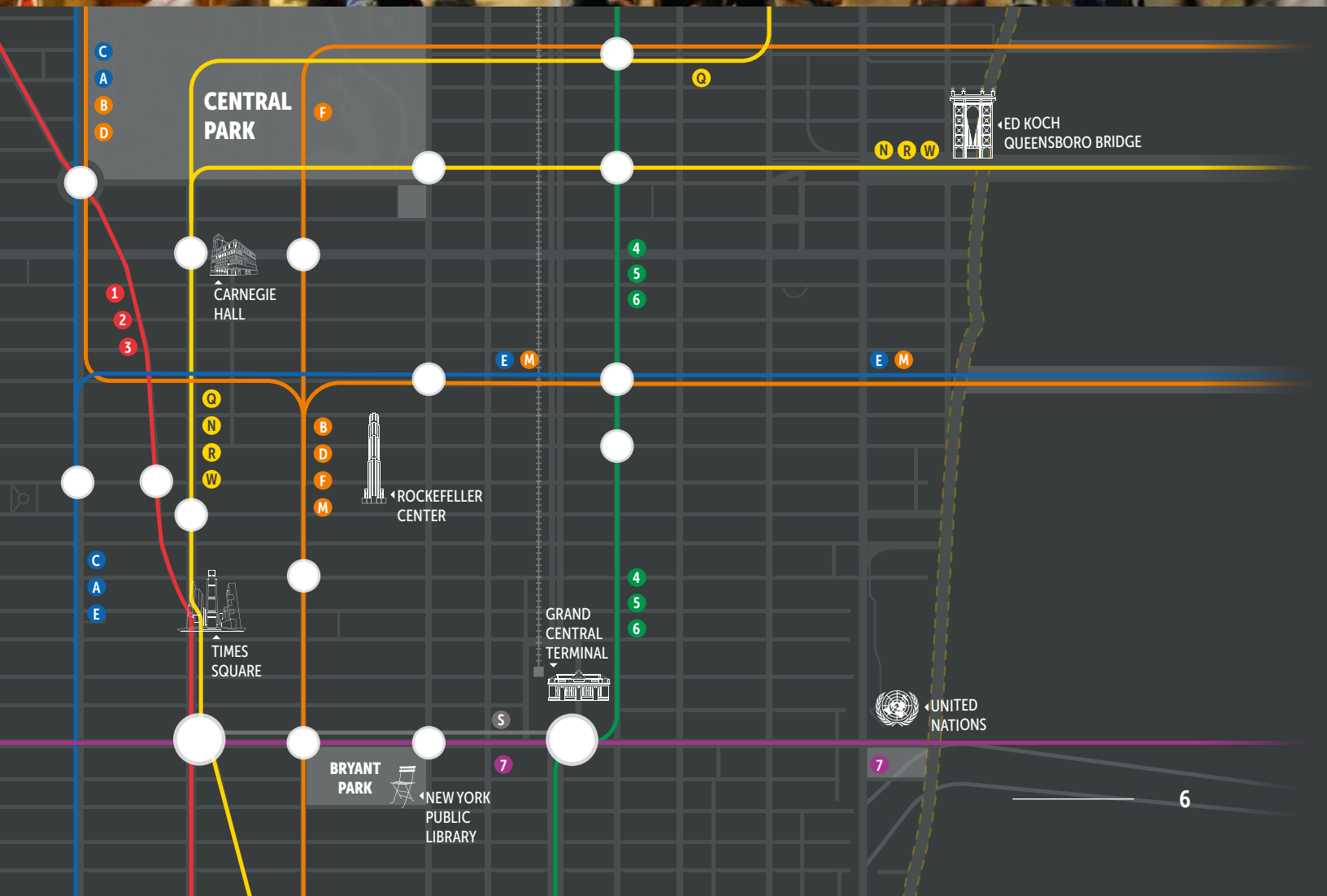
SQ. FT. OF  
RETAIL SPACE



12.5M

SQ. FT. OF  
NEW OFFICE SPACE









## Immense Accessibility via Multiple Transportation Methods

750,000  
PEOPLE PASS THROUGH GRAND  
CENTRAL STATION EVERY DAY



*Being centrally located in Manhattan, there are plenty of ways to reach Midtown East. The convenience of multiple transportation options has made Midtown East a popular destination for office, housing and retail as hundreds of people are brought in and out of the area every day.*

As Midtown East is home to Grand Central Terminal, commuters taking Metro North arrive and exit in and out of Manhattan on 42nd Street between Vanderbilt and Lexington Avenue. According to the Telegraph's travel section, it is estimated that more than 750,000 people pass through Grand Central Station every day, both commuters and subway passengers.

Metro North has stations all throughout Westchester and farther north, making it easy for those commuters to enter New York City. For Long Island and New Jersey commuters, traveling east to Midtown East is a little bit more difficult.

Currently, the city is working on making the trek easier for those who travel using the Long Island Railroad (LIRR) to Grand Central Terminal with the East Side Access Project. The project is not fully completed at this time but is slated to open in late 2022. When the development is finished, over 160,000 riders per day will have access to a direct service from the LIRR to Grand Central Station, according to the MTA. The new terminal is scheduled to have eight tracks and four platforms housed over 100 feet below Park Avenue. This project can reduce the commute for LIRR passengers by up to 40 minutes. As if it were not easy enough to access Midtown East, the East Side Access Project will drive demand further to the east side of Manhattan.

# The Need to Rezone

A rezoning of Midtown East was approved by City Council in 2017 but it was the hope of many that the neighborhood would be rezoned a long time ago. Back in 2010, Mary Ann Tighe, then the chairwoman of the Real Estate Board of New York, had a meeting with the head of City Planning, Amanda Burden. The topic for the meeting was to discuss the future of Midtown East, specifically Park Avenue, and how the area would have to continue adapting to remain competitive with other international business districts.

At the time of the meeting, the majority of office towers in Midtown East were losing prestige as most buildings were built over 75 years ago. These outdated buildings lacked luster and shine and businesses were not interested in leasing space in an old building when they could lease at a brand-new space elsewhere in NYC. The issue was, moreover, that the zoning laws made it difficult for those large, longstanding office buildings to be replaced. Most of the buildings in the area were built prior to the downzoning in 1961. The rule was that anything torn down could only be replaced by something smaller. So, naturally, no owners made any changes.

Mayor Michael Bloomberg was first to spearhead potential changes to Midtown East back in 2012. Similar to most rezoning initiatives, the Mayor received pushback. Unfortunately, his time as Mayor came to an end and he was not successful in changing the fate of Midtown East. After Bloomberg, however, came Mayor Bill de Blasio who restarted the campaign to rezone Midtown East. And finally, in 2017, the New York City Council voted in favor of rezoning 78 blocks of East Midtown Manhattan.







# Rezoning of Midtown East

- Approved August 2017
- Rezoned 78 blocks (from 57th Street to the north, 39th Street to the south, Third Avenue to the east and Madison Avenue to the west) in the Midtown East district of Manhattan
- Voted unanimously by the City Council in favor of the rezoning, 42-0
- Allowed for the addition of over 6.5 million square feet of new office space in the neighborhood
- Required developers building 30,000+ square feet to create pedestrian plazas and park space
- Granted permission for landmark buildings to sell their unused development air rights anywhere in the district (rather than to neighboring properties in the immediate vicinity)
- Sanctioned that the City collects the higher of \$61.49 per square foot or 20% of the total cost of an air rights sale
- Permitted the demolition of aged, existing structures to be replaced by new, grander towers as the maximum floor area ratio increased for the area







# Midtown East Rezoning Projects

## Development Projects in the Area







image source: <https://nypost.com/2018/01/25/law-firm-inks-massive-lease-for-one-vanderbilt/>

## One Vanderbilt

Address: **1 Vanderbilt Avenue**

Location: **Vanderbilt Avenue between East 42nd Street and East 43rd Street**

Current Status: **Under Construction**

Developers: **Hines, SL Green**

Proposed Development: **1.3 million square feet total, 1.2 million square feet of office, 60,900 square feet of retail, 1,401 feet tall**

Expected Completion: **Fall 2020**

One Vanderbilt is one of the tallest office towers in Midtown, topping out at 1,401 feet and costing approximately \$3.1 billion to develop. The base of the building is at the entrance to Grand Central Terminal, making it an extremely attractive office location for commuters. Developer SL Green began an interesting precedent with its commitment to the environment, city infrastructure and the local community by pledging more than \$220 million towards helping the City. Upgrades include a pedestrian plaza on Vanderbilt Avenue, improved subway entrances, corridors and stairwells, and design techniques that will increase natural light and elevate passenger experience. One Vanderbilt will also hold the highest level of LEED and WELL certifications.



image source: [https://cdn.vox-cdn.com/thumbor/Krt3xAaOno0\\_lpEXSNVGteG\\_qQc=/0x0:3000x-1891/1200x800/filters:focal\(1260x706:1740x1186\)/cdn.vox-cdn.com/uploads/chorus\\_image/image/58770911/shutterstock\\_694962832.0.jpg](https://cdn.vox-cdn.com/thumbor/Krt3xAaOno0_lpEXSNVGteG_qQc=/0x0:3000x-1891/1200x800/filters:focal(1260x706:1740x1186)/cdn.vox-cdn.com/uploads/chorus_image/image/58770911/shutterstock_694962832.0.jpg)

## J.P. Morgan Chase Headquarters

Address: 270 Park Avenue

Location: Park Avenue between East 47th Street and East 48th Street

Current Status: Planned

Developers: J.P. Morgan Chase, Tishman Speyer

Proposed Development: 2.4 million square feet total, 2.3 million square feet of office, 6,480 square feet of retail, 1,400 feet tall

Expected Completion: 2024

J.P. Morgan Chase's headquarters, located at 270 Park Avenue, is the first site to take advantage of the Midtown East rezoning of 2017. Prior to construction, the financial company must demolish its current office structure, a 52-story building built in the 1950s, marking the largest planned demolition in history. It is the hope that the new development will have enough space to accommodate over 14,000 employees from different office locations already under J.P. Morgan's control. Demolition has already begun, and construction of the new tower is set for 2021. In order to build the planned tower, J.P. Morgan purchased 667,000 square feet of air rights from Grand Central Terminal. The company also contributed \$42 million to help the city with public improvements, including 10,000 square feet of open public space and over 53,000 square feet of sidewalk improvements.





image source: <https://www.cvent.com/venues/new-york/hotel/grand-hyatt-new-york/venue-9553ead9-89d1-4e82-9149-c2957fa29b55>

## Grand Hyatt New York Redevelopment

Address: **109 East 42nd Street**

Location: **42nd Street between Lexington Avenue and Park Avenue**

Current Status: **Planned**

Developers: **MSD Partners, RXR Realty, TF Cornerstone**

Proposed Development: **2 million square feet total, 500 hotel rooms**

Expected Completion: **N/A**

A development team consisting of TF Cornerstone and MSD Partners, who has relations to Dell Technologies' founder Michael Dell, plans to demolish the current Grand Hyatt structure, built in 1919, and replace it with a 2 million square foot tower. This new building will contain a mix of office, retail and a smaller hotel portion, consisting of 500 rooms versus the current 1,298 rooms. In order to proceed, the developers will need to transfer the lease from Hyatt, in addition to needing approval from the city and state. One roadblock, however, is the lease expires in 2077. The development companies plan on using purchased air rights from Grand Central Terminal and will also contribute to enhancing the terminal and subway station. The Grand Hyatt will remain open until 2020.



## 350 Park Avenue

Address: **350 Park Avenue**

Location: **Park Avenue between East 51st Street and East 52nd Street**

Current Status: **Planned**

Developers: **Rudin Management, Vornado**

Proposed Development: **1.7 million square feet total, 1,500 feet tall**

Expected Completion: **N/A**

In order to complete this planned supertall, Vornado and Rudin will need to demolish two current structures: Vornado's building on Park Avenue and the 23-story tower next door owned by Rudin Management. Plans for this property include the development of approximately 1.7 million square feet of office space, with more than 50,000 square feet of amenity space for the tenants. Some interesting amenities include outdoor terraces, a fitness center, a fine dining area and a high-altitude sky bar.





## Tower Fifth

**Address:** Specific address not determined yet but will span 5-9 East 51st Street and 12-20 East 52nd Street

**Location:** Fifth Avenue between East 51st Street and East 52nd Street (complete location not announced)

**Current Status:** Planned

**Developers:** Macklowe Properties

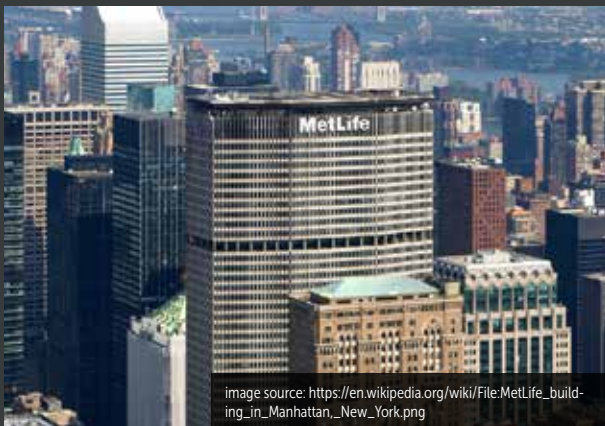
**Proposed Development:** 960,000 square feet of office space, 1,556 feet tall, 96 floors

**Expected Completion:** N/A

Harry Macklowe of Macklowe Properties is looking to build the second-tallest building in the Western Hemisphere at Tower Fifth, rising 96 stories. In addition to the extravagant 85-foot-high lobby, the building will contain a plethora of other attractions including shops, a food hall, and a glass wall featuring the famous landmarked building, St. Patrick's Cathedral. Tower Fifth will also be home to the City's highest observation deck, consisting of multiple floors and will have a 60-foot glass-bottomed recreational slide. Being in close proximity to multiple historical landmarks, the project requires approval by the Landmarks Preservation Commission.

# Capital Improvements on Existing, Aged Structures

*In order to remain competitive with the new buildings sprouting in Midtown East, existing office towers are going to need to renovate.*



## Metlife Building

The iconic MetLife Building located at 200 Park Avenue will undergo major renovations of the ground lobby floor area. Developer Tishman Speyer, the current owner of the building since 2005, has partnered with architect firm MdeAs Architect to upgrade the interior aesthetic. The two-level, 50,000 square foot lobby renovation will include new columns, terrazzo flooring and wood finishes. In addition, the direct connection between Grand Central Terminal and the lobby of the MetLife Building will reopen after being closed since 1980. It is the hope that "this reinvestment will ensure that this building continues to be one of the most sought-after office locations in Manhattan well into the future," said Rob Speyer, President and CEO of Tishman Speyer.







## 10 Grand Central

Originally called 155 East 44th Street, developer Marx Realty has put \$45 million into renovating the property and rebranding the 35-story building as 10 Grand Central. The project encompasses a redesign and reposition of the original lobby for more immediate access to Grand Central Station. Along with the renovations to the lobby, Marx Realty modernized 10 office suites in the building, ranging in size from 2,500 to 8,000 square feet. The firm also renovated a 22,000 square foot full-floor space that will be tailored to the tenants' conditions. CEO and president of Marx Realty says, "We have translated this repositioning strategy into a wildly successful hotel-meets-office package that sets a new standard and creates a space that embraces hospitality in a meaningful way." Such attention to detail is dominant in this upgrade including a signature scent, customizable mood music and video art installations throughout the building.

# Commitment to Public Space

Developers currently taking advantage of the Midtown East rezoning have pledged to create thousands of square feet dedicated to public space. The City, as well as Grand Central Partnership, is working on improving the quality of life for residents and business even further. Since its founding 30 years ago, Grand Central Partnership's focus has been the creation of new public space around the Terminal. Its vision started with the permanent pedestrianization of Pershing Square West. Further, Grand Central Partnership partnered with the Department of Transportation and adjacent property owners to create an original, shared street concept on 43rd Street between Lexington and Third Avenue, the second project like this in New York City.







There are over 100 publicly owned spaces for pedestrians in Midtown East. For example, 600 Third Avenue just revamped its public plaza. Additional pedestrian space is planned for Midtown East, with a variety of pedestrian plazas planned along Park and Lexington Avenues. Once One Vanderbilt is completed, a new plaza at 42nd Street and Vanderbilt Avenue will connect the building with Grand Central Terminal and will be open for public use.

## Conclusion: The Rezoning Will Transform Manhattan's Skyline

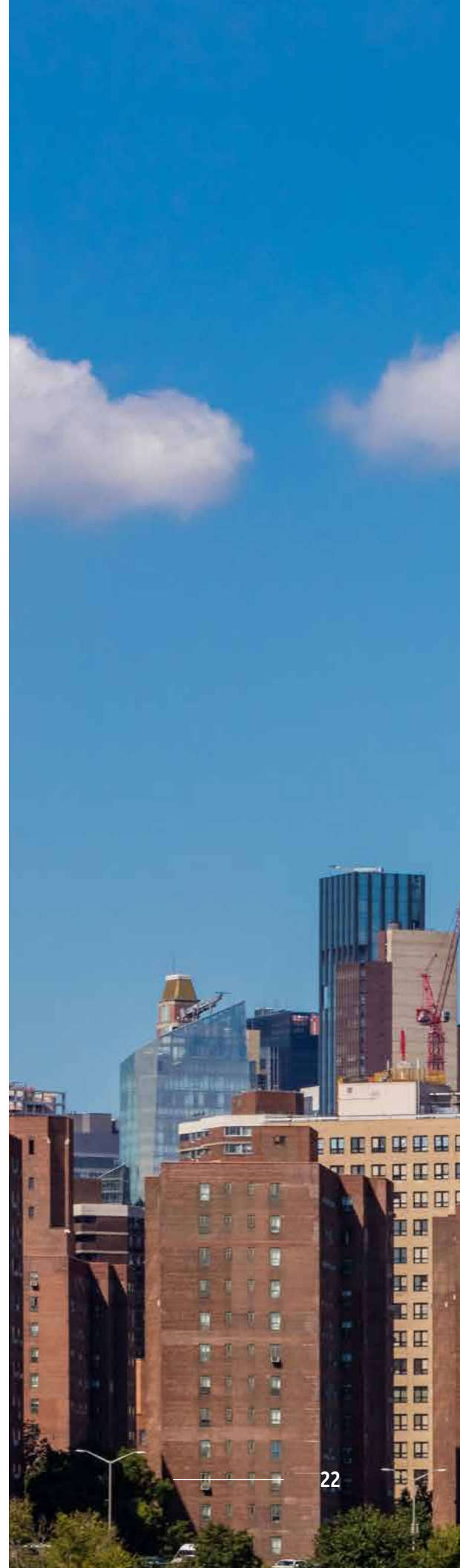
Midtown East has been the epicenter of Manhattan for a long time. The area is rich in history and captures the perfect live-work environment. Midtown East is one of the busiest business districts in the world, housing major iconic buildings and remaining one of the most accessible neighborhoods in Manhattan. The area has a strong allure for real estate investors and draws some of the priciest real estate developments and transactions.

In order to continue on this prestigious path, Midtown East is going to need to adjust to meet the changing demand of New Yorkers. "It's a plan that will re-establish East Midtown as the crown jewel of our business districts, as an economic engine for our city, and will strengthen its future for many more years to come," Councilman Daniel Garodnick said. "For too long this area has been stuck in outdated zoning rules that have kept growth from happening."

It is assumed that many developers are going to take advantage of the Midtown East rezoning. The rezoning has paved way for 6.5 million square feet of new office space in addition to allowing landmarks to sell their unused development air rights. The district has about 3.6 million square feet of landmark air rights, including 1.2 million attached to Grand Central Station and another 1.1 million controlled by New York's Catholic Archdiocese tied to St. Patrick's Cathedral.

The rezoning of Midtown East is a prime example of New York City's commitment to constant evolution. There are fifteen supertalls, meaning structures rising above 984 feet, in New York City either completed, under construction or in the proposal stage. Seven of the fifteen supertalls are located in Midtown East, and four out of the seven are already built.

It is going to take some time for these supertalls to construct and develop in the area. Because the Midtown East rezoning is still so new, we have only begun to see its impact. With the ability to build large, high-profile developments, Midtown East's skyline, and even further Manhattan's skyline, will revolutionize the skyline as we currently know it in five to ten years.







## ARIEL PROPERTY ADVISORS LLC

Ariel Property Advisors' offices are located in the landmark Chanin Building standing at the corner of Lexington Avenue and East 42<sup>nd</sup> Street. The office enjoys direct access to Grand Central Station and a host of public transportation options.

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