

WEST SIDE vs. WORLD TRADE CENTER: Midtown Real Estate Mega-projects Have a Leg Up on Downtown

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If you build it, they will come — unless it's the World Trade Center.

The gleaming towers surrounding Lower Manhattan's hallowed ground are supposed to be a symbol of the area's Phoenix-like rise from the ashes — but instead the area is starting to lose the battle for tenants against exciting new projects on the far West Side of Manhattan.

The big-name tenants that ink deals for 100,000 or more square feet of space are repeatedly eschewing downtown for the West Side, where Stephen Ross' Related Companies is building a 16-skyscraper development, and Brookfield Properties is building Manhattan West, a 5.4 million-square-foot mixed-use project by office giant Brookfield Properties west of Penn Station.

"The 'wow' factor is just greater at Hudson Yards," said Leon Manoff, a vice chairman at the commercial brokerage firm Colliers International, referring to the Related Companies' 16-skyscraper West Side rail yard project. "There's just not the same mystique surrounding the downtown market."

The proof is in the numbers.

The developers of the World Trade Center haven't signed a significant lease so far this year, while Manhattan West has been scoring tenants.

Last quarter, law firm Skadden, Arps, Slate, Meagher & Flom signed for a whopping 545,009 square feet at 1 Manhattan West, a 67-story, 2 million-square-foot tower, and a new lease by financial services firm Markit and a renewal by the city totaled an additional 400,000 square feet.

Hudson Yards already boasts high-profile tenants such as L'Oreal, Time Warner and Coach and other household-name companies like Boston Consulting Group, Discovery Communications, Milbank Tweed and Major League Baseball are kicking the tires.

The Durst Organization, which is developing One World Trade Center, said the comparison is unfair.

"Is leasing quarter to quarter not as strong? Yes. But it can flip on a dime very quickly," said Tara Stacom of Cushman & Wakefield, who is leasing the space at the World Trade Center. "Quarters are a small blip in New York's timeline. When a large deal happens, it can really swing the stats one way or the other."

But the West Side momentum speaks to a larger dip downtown.

In the second quarter of 2015, there were just 803,056 square feet of leases signed downtown, less than half the 1.99 million square feet of deals that were done during the same period last year.



By comparison, leasing activity actually rose to 2.96 million square feet during the second quarter in Midtown South, where Hudson Yards and Manhattan West are located. That's compared to just 1.95 million square feet of leasing the same time last year.

The wave of interest in the West Side comes despite the inferior transportation options at Hudson Yards, which will boast a new 7 train stop but still has far fewer options than the World Trade Center for commuters, especially those coming from New Jersey.

It also comes in spite of a long history of financial incentives for tenants who agreed to move downtown. For instance, the state provided GroupM, a large media company that took space at the World Trade Center, \$15 million if it moved downtown, and Time Inc. will get \$10 million in taxpayer subsidies for relocating its office to Brookfield Place in Lower Manhattan later this year.

But overall, interest in the World Trade Center lags far behind the deal prospects on the West Side.

Just four years ago, downtown was riding high on the news that publishing giant Condé Nast would take a million square feet to anchor the One World Trade Center, the skyscraper formerly known as the Freedom Tower.

“What Condé Nast really does is certify downtown as a cool place to do business,” Carl Weisbrod, the now chairman of the city’s planning department, said at the time.

So what’s the problem?

“Both developments are first-class developments, but the old stigma of going downtown is still hanging on,” said Jeffrey Peck of commercial brokerage Savills Studley, who brokered Markit’s deal at Manhattan West. “It’s absolutely not the case anymore, but the myth is that downtown is stodgy.”

In large part, the rebirth of lower Manhattan has been a major success, with retail booming on lower Broadway and at Brookfield Place, the former World Financial Center. But some tenants just can’t see it, sources said. “People have been a bit disappointed that the Condé Nast transaction didn’t become a magnetic pull for a lot of other advertising, marketing and public relations firms,” said Colliers broker Robert Goodman.

The difficulties mirror the problems the Port Authority had with the former twin towers for years following the 1993 terrorist bombing.

The twin towers were 98% leased by 9/11, but it took nearly a decade to get there.

The project has also traditionally relied on leases by government agencies, including the Port Authority, the City of New York and the General Services Administration, which all lease space at the World Trade Center site. Hudson Yards has so far not signed any government tenants.

In a bid to gain traction, the World Trade Center developers have been aggressively cutting up space into smaller, more manageable chunks in the hopes of attracting smaller tenants.

The Durst Organization recently set aside 141,514 square feet on the 45th, 46th, and 47th floors to accommodate small-space tenants with prebuilt office spaces ranging from 2,000 to 20,000 square feet.

Small tenants have been biting. Financial communications firm Symphony recently signed on to take 8,590 square feet there, while e-commerce company Tinypass took 4,936 square feet.

And some say the World Trade Center may get back on track, following a preliminary agreement for media conglomerates News Corp. and 21st Century Fox to anchor 2 World Trade Center, which is being developed by Larry Silverstein.

“A few quarters does not a (down) market make,” said Savills Studley’s Howard Nottingham, who brokered Time Warner’s deal at Hudson Yards. “It’s a real battle and I can’t tell you definitively who will win at this point.”

Others are more bullish.

“There’s 100% certainty in my mind that Hudson Yards will be a success, Manhattan West will be a success and the World Trade Center will be a success,” said Mark Weiss of Newmark Grubb Knight Frank.