

Industries | Real Estate

Wall Street Drives Office Revival on Manhattan's Ritziest Street

- Financial services companies are finding Park Ave. appealing
- Office REIT SL Green boasts nearly 60% year-to-date gains



In New York, demand is quickly rising near Grand Central as financial services firms push workers to return to the office. *Photographer: Roy Rochlin/Getty Images*

By Norah Mulinda

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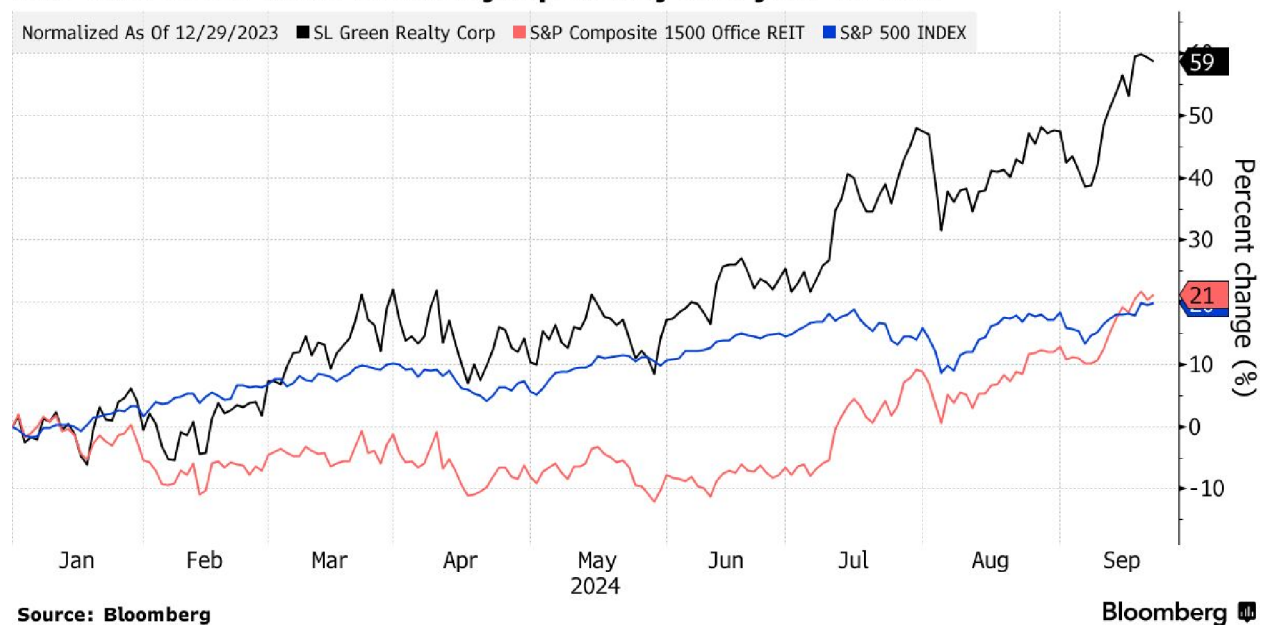
Financial services companies are office hunting on one of New York City's fanciest addresses, Park Avenue, and the biggest beneficiary may be a once-beleaguered real estate investment trust that happens to find itself in the right place at the right time.

SL Green Realty Corp., the only REIT solely focused on office space in Midtown Manhattan around Park Avenue and Grand Central Terminal, has soared 145% since hitting a bottom in late October, compared with a 66% gain in the S&P 1500 Composite Office REIT Index, as financial sector employment returns to its highest level since the 1990s. The company,

which calls itself New York's biggest landlord, is the main driver of the frenzy now happening in the Park Avenue corridor, according to Piper Sandler analyst Alexander Goldfarb.

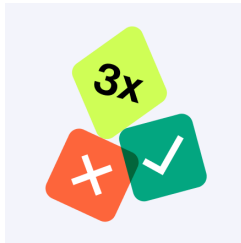
"Some of the best real estate investing is actually in office, specifically Park Avenue and Century City in Los Angeles," Goldfarb said in an interview Monday. "Both are benefiting in similar fashions from traditional industries, namely finance, that want traditional business districts that are convenient for commuters."

SL Green Towers Over Peers, S&P 500 New York-based office landlord jumps nearly 60% year-to-date



In New York, demand is quickly rising near Grand Central, an area that got hammered during the Covid pandemic and its aftermath, as financial services firms push workers to return to the office. The industry accounts for roughly 40% of leasing in New York City, according to Piper Sandler's calculations. JP Morgan Chase & Co.'s new headquarters at 270 Park Ave. and SL Green's One Vanderbilt skyscraper have helped reestablish that part of Midtown as a key office market, the analyst said.

Indeed, there's a pretty wide gap between Park Avenue offices and the rest of the city. Direct vacancies on Park Avenue are now less than 10%, but for Manhattan overall the figure is 24%, up from 10% before Covid kicked in.

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Office real estate stocks have been punished in recent years, with an index down more than 30% over the past five years, as investors reduced their exposure to the interest-rate-sensitive group. Just last September, SL Green was the most-shorted office REIT in the US. Goldfarb, one of three analysts with a buy-rating on the stock, urged investors not to miss the bigger picture. This year it's the best performer in the office REIT index. Still, the shares have 14 hold recommendations and three sells, in addition to the three buys.

[Read: SL Green Draws Big Short Bets Despite Sector-Beating Rally \(1\)](#)

For SL Green, its new tenant lease with Vornado Realty Trust for a financial services company at 280 Park Ave. has been a strong tailwind. Since the two closed on refinancing  for a \$1.1 billion securitized mortgage on the property in April, the office landlords have gained 48% and 54%, respectively.

“People tend to underestimate the SL Green management team, but every time they get up to bat, they’re batting north of 80%,” Goldfarb said. “They outperformed dramatically on One Vanderbilt when no one thought they’d be successful. They keep over-delivering, yet people continue to doubt.”

Looking at the industry more broadly, corporations are still prioritizing high-quality buildings. Asking rates for the highest-quality buildings are relatively unchanged over the past year, but you can see the differences in rent and availability when comparing new construction to regular high-end buildings, according to Goldfarb. And lower-class buildings have decreased their asking rents by 10% to 15% to lure tenants.

“People just want a building where the landlord has invested money,” Goldfarb said. “It’s no different than a beach house. You don’t want to buy

the beach house that hasn't been invested in. You want the house that people have spent money on. That could be new construction or an older building that's well-located, but the landlord has spent a lot of money. That's what's winning.”

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