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Large Deals Dominate New York Office Market as Financial Firms Staff Up

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BlackRock last year signed a lease for about 850,000 square feet at the Hudson Yards development in New York. PHOTO: RICHARD B. LEVINE/ZUMA PRESS

Fast growth at technology advertising and media companies made tenants in those industries the darling of Manhattan's office market in recent years, but in 2017 the spotlight shifted back to tenants that traditionally have been the bread and butter of the city's office landlords.

Tenants in the financial-services, insurance and real-estate industries—a category known as FIRE among real-estate professionals—dominated the leasing scene with 13 relocation or expansion deals over 100,000 square feet in 2017, the most in a decade, according to real-estate services firm CBRE Group Inc. The sector notched a total of 3 million square feet of deals in excess of 100,000 square feet, almost three times the 1.1 million square feet recorded in 2016.

Companies had been reluctant in recent years to make the big investments required of large office relocations. That gave way last year as financial firms added jobs, stock market indexes hit record highs and new or like-new buildings offered large blocks of amenity-filled office space designed to accommodate more people in less space, brokers and real-estate executives said.

“For the first time in a really long time, there was a variety of choices, of buildings that were brand new or made to be like brand new,” said Mary Ann Tighe, chief executive of CBRE’s New York tri-state region. “We had people who had been reluctant to spend, but when they decided to spend they were going to put their money in a place that was going to support technology and their workforce.”

Money manager BlackRock Inc. boosted the leasing tally in the financial services, insurance and real-estate category last year when it signed a lease for about 850,000 square feet at 50 Hudson Yards, a tower expected to open in 2022 on the far West Side of Midtown.

Health insurer Aetna Inc. signed a lease to relocate its headquarters from Hartford, Conn., taking all of the office space of a new West Chelsea office building. Mastercard Inc. signed a lease for 150 Fifth Ave. in the Flatiron District with plans to almost triple the size of its current Manhattan technology hub now located at 114 Fifth Ave. and create more than 470 jobs by 2024.

While Manhattan’s new office construction was robust in the decades between 1950 and 1990, it is only in the past several years that Manhattan office development has ramped up again, said David Falk, president of the New York Tri-State region for real-estate services firm Newmark Knight Frank.

Between 2010 and 2020, more than 23 million square feet of office space is expected to be constructed, according to Newmark.

Now there is demand for new construction and the more efficient layout, design and infrastructure support that comes with it, Mr. Falk said. And companies are confident enough to spend the money to relocate, often a minimum of $200 a square foot, he said.

“They are not haphazardly spending it but investing to recruit, retain and keep expanding,” Mr. Falk said. He added: “A lot of times a company will use a relocation to reimagine themselves.”

While job growth among the city’s technology, advertising, media and information companies has outpaced the financial, insurance and real-estate tenants during this recovery period, analysts said, the healthy increase in positions particularly in the financial-services sector in 2017 has helped in its leasing resurgence.

In November, jobs in Manhattan's financial-services sector reached 476,700, a seasonally adjusted figure that is well below the sector's 1990 count of about 530,000, said Ken McCarthy, principal economist for real-estate services firm Cushman & Wakefield. Nevertheless, the sector had a strong showing in 2017, adding about 12,700 jobs through November. State and city figures for December are expected to be reported on Jan. 18.

Job creation in the FIRE category was evident in expansions and relocations for large and small companies, said Andrew Mathias, president of real-estate investment trust SL Green Realty Corp. In 2017, the company attracted a number of midsize office tenants in this sector to its properties, including the 1.7 million square foot tower One Vanderbilt, now under construction next to Grand Central Terminal and 280 Park Ave., where it has made significant investments in upgrades.

"For the most part, these businesses were doing well and expanded and therefore needed more space," Mr. Mathias said.