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Ultra-Swank Offices Go Fast as Hedge Funds Splurge on Space

Flush with cash and eager to spend lavishly, hedge funds are putting their hefty commissions where their mouths are, shelling out for premium office accommodations in Midtown's ultra-exclusive "Country Club" office towers.

Multibillion-dollar funds are rapidly swallowing up Class A commercial space at the Rockefeller Plaza district, Madison Avenue's Golden Mile, and the Park Avenue corridor, sparing no expense to comfort their traders as they corner markets — allowing them to shoot pool, eat gourmet lunches prepared by three-star chefs, lift weights, engage in risk arbitrage, get massages, and take naps in the lap of luxury.

"They are trying to impress. The 'wow' kind of impression is critical," a Cushman & Wakefield director, Alex Cohen, said.

A blue-chip roster of top-tier hedge funds populates the Midtown locations collectively known as "The Country Club." This elite handful of buildings includes the GM Building, 9 W. 57th St., the Seagrams Building, and Lever House, whose plum locations, tasteful architecture, and overall cachet are coveted by discerning hedge fund managers.

"These are people whose first concern is not money," a CB Richard Ellis vice president, Benjamin Friedland, said. Office space in the top buildings in Midtown, however, is of the utmost importance.

"This is an incestuous community. Everyone knows each other and wants to see and be seen. The image they want to project is 'the best of the best,'" Mr. Friedland said.

Indeed, this small swatch of Midtown real estate, bounded by Central Park to the north and Rockefeller Plaza to the south, is home to the densest population of hedge funds anywhere in the world, according to brokers. Convenience of transportation, proximity of clients, banks, and rival alternative investment firms, as well as cut-throat competition for clients and recruits has led to a tightly concentrated cluster of firms willing to pay top dollar — or perhaps twice that — for trophy offices with views of the park.

As office vacancies plummet and rents spike across Manhattan, real estate firms managing lucrative properties in the Plaza district have successfully marketed luxury products to their well-heeled hedge fund clients, often leasing office space for more than three times the Class A average. Although the Connecticut havens Greenwich and Stamford have their charms and their fair share of hedge fund operations, brokerages such CBRE, Jones Lang Lasalle, Cushman & Wakefield do a brisk business with hedge funds hankering for Manhattan Country Club office space.

According to end of the year numbers from Colliers ABR, Class A office vacancy fell to 6% from 7.4% on the year, with a corresponding 33.4% increase in average price a square foot to $79.57. In the Rockefeller

Plaza District — a noted hotbed for alternative investment activity — that average Class A rent figure was $89.16.

In stark contrast to the citywide average of $41.99 at year's end, consider that new leases in the GM Building and 9 W. 57th St. have been inked for as much as $200 a square foot. The GM Building alone already houses such notable hedge funds as Icahn Partners, Thomas H. Lee Partners, York Capital, and Perry Capital; by virtue of their eagerness for close quarters, these top firms are driving their rents through the roof.

"Those top buildings are always going to trade 25% to 30% better than any other product within the Plaza district," a Cushman & Wakefield senior director, Alex Chudnoff, said. "For a hedge fund, $200, $300, $400 a foot doesn't matter. Rent is rent. Rent is not as important."

Some in the commercial properties business, such as Neal Sroka, a Corcoran Group senior vice president, have taken to referring to the area as the "AAA Plaza District," a title earned as much by the astronomical rents as for the sheer spectacle of the buildings and the glitz of their tenant roster.

Macklowe Properties owns a commanding array of Midtown buildings. including 540 Madison and the GM Building. Their advertising caters to the likes of hedge funds, touting their flagship properties with such descriptions as: "powerful city views, white glove service, prestigious tenant roster, world class architecture, and your own full floor prestige."

Already this year, such notable hedge funds as Steven Cohen's SAC Capital Partners, with $12 billion under management, and the D.E. Shaw Group, with $26 billion under management, have leased prime space in 540 Madison and Lever House, with leases at upwards of $150 a square foot. A mere 24 buildings commanded rents above $100 a square foot last year, a number that is expected to more than triple in 2007.

Even the lower, obstructed-view floors of the Seagrams Building, 9 W. 57th, and the GM Building have fetched upwards of $100 a square foot, a figure that would have been unthinkable a year ago, experts say.

Bryant Park and Times Square are beginning to entice hedge fund tenants, along with the $100-plus rents that follow these avid real estate consumers throughout Manhattan. Still a year from opening, the 54-story tower at 1 Bryant Park is nearing 100% occupancy and has already found several hedge fund tenants, including Marathon Asset Management, which is expected to pay $115 a square foot for 75,000 square feet of space. The two remaining floors will fetch more than $150 a square foot.

On the other side of Bryant Park, rents in 505 Fifth Ave. has also eclipsed the $100 a square foot mark on its new leases.

Despite the flattening residential real estate market and the relatively mediocre performance of hedge funds in 2006, the consistent appetite for premium office space has kept the office market buoyant. Even as hedge funds sagged behind the 15.8% advance of Standard & Poor's 500 index for 2006, their investors have been undeterred. As long as they still attract cash — some $140 billion in 2006, up 300% on the year — hedge funds will continue to occupy Manhattan's best corner offices.