midtown misses you

new york's business district is half-empty. every other big city has a similar problem. developer aby rosen is still planning a bright post-pandemic future

by devin leonard
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The 61st-floor terrace of the Chrysler Building, the Jazz Age wonder of the New York skyline, is studded with massive steel eagles. On a misty October night, Aby Rosen, the German-born investor who's redeveloping the building, leans against a railing beside one of the birds. It's beginning to drizzle, but Rosen, who has long white hair and alert blue eyes, is in an ebullient mood.

He points out the other landmarks near his own landmarked building, which his company, RFR Holding LLC, purchased last year with Signa Group, an Austrian real estate investor, for $151 million. There's the statue of Mercury in his winged helmet welcoming travelers to Grand Central Terminal, the Beaux Arts gateway to the city for commuters from the northern suburbs. Rosen gestures to the jagged summit of One Vanderbilt, the neighborhood's latest skyscraper, to be joined in a few years by JPMorgan Chase & Co.'s princely new headquarters, under construction nearby on Park Avenue.

To the west, Rosen can see the shimmering towers of Hudson Yards, New York's newest commercial district. Many tenants, including some of his, have been drawn there, but they can have it as far as he's concerned. "It's quite stunning," Rosen says. "It's like a city unto itself. But Midtown, for me, has always been the most exciting part."

He says there will be no better Midtown address than the Chrysler Building, once he and his partners complete a renovation that will cost at least $200 million. He steps through the window back into the 61st floor. It's been entirely gutted. Rosen is transforming the space into a cocktail bar and restaurant, taking its name from the Cloud Club, the celestial hangout that once operated in the building's spire, attracting the likes of John D. Rockefeller and Jack Dempsey.

Rosen is converting the 27th floor into what he refers to as a club where tenants can shoot pool, do yoga, meditate. In the lobby he'll be displaying futuristic cars developed by Fiat Chrysler Automobiles NV. On the ground floor, tourists will

▲ The Chrysler Building in 1930

CHRYSLER: SMITH ARCHIVE/ALAMY STOCK PHOTO

nosh on burgers at the Chrysler Deli and have their photos taken riding a replica of one of the building's birds of prey against a facsimile of the city's skyline.

Beneath the building, in the concourse leading to Grand Central, RFR and Signa bought out the usual unglamorous spots where office toilers got a shoeshine and had their glasses repaired, and plan to replace them with more upscale merchants. "We wanted to create something nice—food, wine, dry cleaning, shavers, hairdressers—so tenants have a reason to stay longer instead of running out," Rosen says, glancing around. "This neighborhood, as you know, is busy as hell."

Usually, but not now. The concourse is tomblike. The whole building is quiet. During an hourlong tour, Rosen encounters only one tenant, Peter Shaerf, a managing director at the merchant banking firm AMA Capital Partners, who sits alone at his desk on the 67th floor. "Someone's got to be here in the pandemic," he says.

Shaerf loves the Chrysler Building. But he tells Rosen that after 16 years, AMA is leaving. "You're charging us too much money," he says. "We can't afford to stay."

"Hey, if you leave, trust me, the line to take this space will be pretty long," Rosen parries.

"I hope so," Shaerf says.

"Don't leave," Rosen says, heading for the elevator. "Pay the high rent. Come on!"

Then he lowers his voice and says, "See what I have to deal with every day?"

A week later, Shaerf, who lives in Manhattan, says the company decided a while ago to decamp to the suburbs, where four of the senior executives reside, and that the rent had nothing to do with the decision. That was before the pandemic. Shaerf says his partners wouldn't come back now even if Rosen sliced their Chrysler Building rent in half. They don't want to get on a train and come into Midtown. It isn't just the threat of Covid-19. "There's nothing to draw them in right now," Shaerf says. "There's no nightlife. And there's no day life."

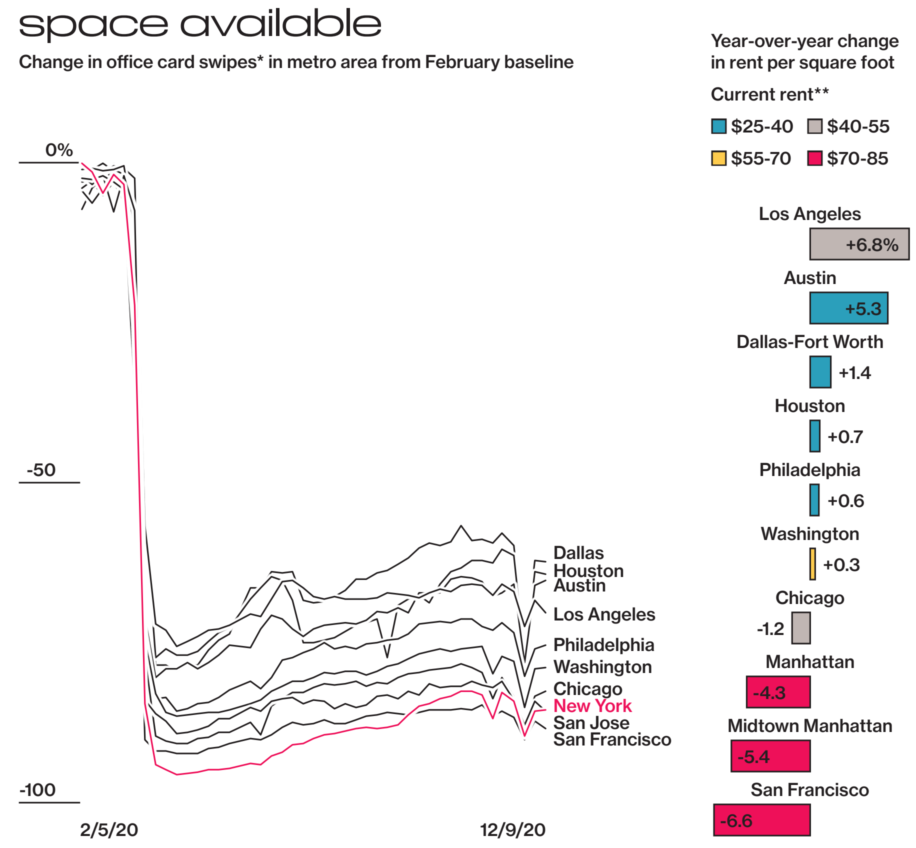
As the pandemic nears its anniversary, Midtown Manhattan has the feel of a *Twilight Zone* set. New York Mayor Bill de Blasio declared in early December that the city was officially in the throes of the second wave of the novel coronavirus. Its devastation had been evident months before in the central business district. Broadway was dark. There were no concerts, no live sporting events. Hotels were failing. Many stores permanently closed. "Look at what's happened to New York. It's a ghost town!" said Donald Trump in the Oct. 22 presidential debate. As usual, Trump indulged in hyperbole, but anyone touring Midtown around this time would have had to admit he wasn't entirely wrong.

What's most noticeable is what you don't see: office workers. When Trump made his pronouncement only 17% of the New York region's employees had returned to the office, according to an analysis of card swipes by Kastle Systems International LLC, a company that provides security for more than 2,600 commercial buildings in the U.S. The figure was the lowest for any of the 10 major metropolitan areas surveyed by Kastle and well below its national average of 27%. "New York was hit harder [by the virus] than anywhere else," says Mark Ein, Kastle's chairman. "There was shell shock and extreme government policies to try to get it under control. It just never came back from that." New York's return rate was less than half that of Dallas, where 38% of employees were back at their desks, the list's highest ratio.

This is making New York's most powerful landlords anxious. Some, such as Scott Rechler, chief executive officer of RXR Realty LLC, which owns some of the city's most prominent towers, have called tenants, urging them to summon their employees back to the office. Rechler argued in early fall that businesses should be stepping up during the pandemic the way they did after Sept. 11, when it was considered patriotic to continue working and shopping in Manhattan despite the shadow of terrorism. "It feels with this virus that many of the companies have surrendered," he said. Now, with the second wave of infection, he's stopped nudging tenants to return. His city buildings are only 10% full.

Marc Holliday, CEO of SL Green Realty Corp., whose holdings include One Vanderbilt, has also phoned tenants. "Many of the people I speak with over the course of the day are not even in the city," he says with obvious frustration. "They're just gone." Corporate executives, he says, tell him they fear an onslaught of litigation if they lure employees back and there's an outbreak. Holliday says that as long as they follow federal guidelines, their legal exposure is minimal. Even so, SL Green's buildings remain largely empty.

Not all developers across the country have been as bold with tenants. "I doubt that I could influence Google and Facebook to come back," says Michael Covarrubias, CEO of TMG Partners, a large Bay Area landlord. San Francisco, he notes, ordered the closing of "nonessential" offices in November. The area's return-to-work percentage in early December was 13%,



*INDIVIDUALS USING KEYCARD, FOB, OR SECURITY APP ACCESS. **AS OF Q3 '20. DATA: KASTLE SYSTEMS; SAVILLS

even lower than New York's.

Landlords are hopeful their buildings will refill when a sufficient number of people have been vaccinated against Covid-19, but even then it won't be business as usual. Companies were often willing to pay rising rates as long as they could squeeze more people into less space. In the Covid era, workers won't want to cram together, and businesses might be reluctant to insist on it. "That means every square foot is worth less," warns Nicole Gelinas, a senior fellow at the Manhattan Institute for Policy Research, a think tank in the city.

With employees eager to continue social distancing, companies will surely allow greater numbers to work from home, creating further downward pressure on rent. Many are already ditching their expensive spaces. According to the real estate company Savills Plc, New York tenants dumped more than 2.5 million square feet of sublease space on the market in the year's third quarter, a number unseen since the Great Recession.

Then there are the larger issues hovering over New York City. An unemployment rate of 13% in October. Looming evictions. Rising crime. Forecasts of widespread small-business failures. A projected $9 billion revenue shortfall. "It's going to be a tough couple of years," says Kathryn Wylde, president of the Partnership for New York City, a nonprofit association of the city's business leaders.

Such a climate is obviously a challenge for Rosen at the Chrysler Building, but his turnaround plan was complicated even before the pandemic. RFR and the Signa Group were able to acquire the building for a mere $151 million because its previous controlling owner, the Abu Dhabi Investment Council, had paid an overly generous $800 million for 90% of it in 2008 and was eager to get out. "They lost their shirts," Rosen says.

Now he and his partners have to be careful they don't wind up shirtless, too. He concedes that the Chrysler Building is operating in the red. The reason: Although RFR and Signa control the building, they have to pay ▶

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◀ $32 million a year in rent to the owner of the ground beneath it. That's the Cooper Union for the Advancement of Science & Art, a downtown school created in 1859 to provide free college education to the working class. The ground rent leaps to $41 million in 2028. Rosen says he's hoping to persuade the school to restructure the arrangement. A spokeswoman for Cooper Union, however, says it's counting on the money to fund a plan to bring back full-tuition scholarships for undergraduates. The school hasn't offered them to most new students since 2014.

"Aby is one of the most creative people I've met," says his friend and fellow property mogul Tony Malkin, CEO of Empire State Realty Trust. He says the ground rent is Rosen's biggest obstacle. Malkin knows something about older skyscrapers: His company owns the Empire State Building.

He says Empire State Realty Trust spent more than $400 million overhauling the Empire State Building so the company could raise rents and increase profitability. But it owns the land beneath the building. What's Malkin's advice for Rosen? "I have no comment," he says.

Rosen was back at work in a new office in RFR's Seagram Building, another landmark, as soon as New York Governor Andrew Cuomo allowed the city to begin reopening in June. He's there in September, reclining in a chair in a conference room decorated with the late Garry Winogrand's black-and-white photos of Norman Mailer, Nelson Rockefeller, Andy Warhol, and other New York characters. "Good old New York," Rosen says, gazing at them. "Or America. Or what's left of it."

Rosen tried to make it easy for his 110 employees in the city to return to the office with him. Car service was provided, lunch served. Suburban residents could crash at RFR's luxe Gramercy Park Hotel, which was closed to the public for the pandemic. "I told everybody, 'Guys, you want to stay Tuesday night or Wednesday? Be my guest,'" Rosen says. "'Breakfast is at 9. Then show up at the office when you feel like it.'"

RFR's entire workforce returned, but it hasn't had much company. Rosen says only about 12% of his buildings' occupants are back. In his view, companies have been too "nice-nice" with their employees. He says de Blasio's shifting positions on school reopenings haven't helped. Nor, Rosen says, did the unrest accompanying the summer's Black Lives Matter protests. "Police disappeared from the street," he says, peering out the window at Park Avenue. "I'm not a law-and-order guy, but I would like to see police somewhere."

In September, more than 150 New York business leaders wrote an open letter to de Blasio urging him to do something about the city's deteriorating quality of life. Rosen didn't sign it. He's friendly with de Blasio and gets to tell the mayor directly what he thinks of him. "He's got an earful from me," he says. Not that it did much good. Rosen says de Blasio, who's nearing the end of his second term and prohibited by law from seeking a third, is wallowing in self-pity. "He's done," Rosen says. "He's just checked out." A de Blasio spokesman defended the mayor's record on school reopening and disputed the charge that de Blasio is no longer fully engaged in his job.

Rosen says the city's future will improve next year when New Yorkers replace de Blasio. He's a fan of Ray McGuire, the former vice chairman of Citigroup Inc. who resigned in October to run for mayor. Rosen is also hopeful that President-elect Joe Biden will push through a stimulus package that will include billions for the city. If the U.S. Senate remains in Republican control, however, Biden may be constrained in his ability to be a savior.

In the meantime, Rosen is trying to navigate his way through the pandemic. It isn't easy. He says RFR's three New York hotels and six restaurants will be closed until sometime next year. "I don't know if we'll get a spring season," he laments. He estimates his company has been collecting about 50% of the rent from its retail tenants. Rosen instructs his leasing agents to treat them gently. The last thing he wants is vacant storefronts at his properties.

Luckily for RFR, its office tenants have continued to pay their rent, even with their employees working at home. It remains to be seen, though, whether Rosen can continue to sign leases in the Seagram Building for upwards of $185 a square foot, more than twice the average asking price in Midtown of $84, according to real estate company CBRE Group Inc. Long before the pandemic, Wells Fargo & Co., which occupied more than a quarter of the building, said it was moving to Hudson Yards. To lure new tenants, Rosen has embarked on a $30 million plan to turn the building's underground parking garage into what he calls the Playground, an oasis with a rock climbing wall, an indoor track, a basketball court, a boxing ring, and a town hall able to accommodate as many as 140 people.

Once the Playground is completed, Rosen says, tenants will never want to leave the Seagram Building, particularly younger ones. But even after Covid-19 subsides, how many will want to sweat and breathe heavily beside their co-workers in an underground garage, no matter how much RFR spends beautifying it?

Rosen likes to say it's his European sensibility that sets him apart from other New York property owners. His father, a former developer in Frankfurt, had the second of two heart attacks in his early 50s and turned his company over to 18-year-old Aby, who was then in law school. "He said, 'Here's the buildings,'" Rosen recalls. "'Have a nice time. Give half to your sister. And don't f--- it up.'"

He didn't. Rosen moved to New York and founded RFR in 1991 with Michael Fuchs, a nursery school chum and another real estate family scion. They mortgaged their families' German properties and bought office buildings in New York. The city was in the midst of a recession. Some of the buildings were empty. The economy rebounded, and the buildings filled up. Investors took note. "People were running after us to give us money," Rosen says. "They realized that if we knew what we were doing in bad times, we would definitely know what we were doing in good times."

RFR has since purchased property in cities such as Las Vegas, Miami, Seattle, and Stamford, Conn., while also amassing an extensive German portfolio. But it's best known for rejuvenating architecturally significant New York buildings, including Lever House, architect Gordon Bunshaft's glass-and-stainless-steel tower on Park Avenue, which RFR picked up in 1998. Two years later the company bagged the Seagram Building, a minimalist masterpiece by Mies van der Rohe. Rosen turned both into showcases for his contemporary art collection, heavy on Warhol and Damien Hirst. The art dealer Larry Gagosian says Rosen's dealings in the art world opened doors for him with hedge fund guys and other money managers who became his tenants. "He plays the game very well," Gagosian says.

Rosen also became known for his feuds. He butted heads with his neighbors on Long Island when he parked *The Virgin Mother*, a 30-foot-tall Hirst statue of a pregnant woman with a cutaway view of her muscles, bones, and unborn baby, on his front lawn. It's still on the property; Rosen relocated it and planted some trees so it can't be seen as easily. Preservationists sued RFR in 2014 when he tried to remove a work by Pablo Picasso from the entrance to the Seagram Building's landmarked Four Seasons restaurant. The furor subsided when Rosen spent $350,000 to have the work restored and transferred to the New York Historical Society.

▲ *What Party*, by American designer Kaws, on the Seagram Building plaza

Two years later he paid $7 million in a settlement with New York state, which accused him of failing to pay sales taxes on $80 million worth of contemporary art that he'd stockpiled. Rosen argues his tax strategy was legal and notes with satisfaction that then-Attorney General Eric Schneiderman, who came after him in a very public way, later resigned in disgrace after four women accused him of roughing them up during sex. Rosen calls this karma. "You do bad things, they come back to you," he says.

Rosen's real estate deals went more smoothly. Until the coronavirus materialized, at which point some of the ones he'd been working on unraveled. In May he reluctantly gave up control of his beloved Lever House. RFR had leased the building from the Korein family, which owned the ground beneath, and the parties had reached an impasse over the value of their agreement. RFR retains a minority stake in the building. "We own a piece of the back end," he says. "You can't fight wars on every front." An attorney for the family declined to comment.

He may no longer have Lever House to showcase art, but Rosen still has the Seagram Building's plaza. One morning in October he shows off the latest work there. It's a 20-foot bronze sculpture titled *What Party* by Brian Donnelly, better known as Kaws. The artist is known for his whimsical pieces featuring a Michelin Man-like character with elephantine ears and an "X" for each eye.

This particular Kaws guy looks melancholic. His head is lowered as if he's in mourning. Rosen says he's perfect for the pandemic-stricken city. "It's humorous," he says. "He looks deflated, but I think he can rise up again. Someone needs to pump some more air into him."

Rosen says people love the Kaws. Pedestrians on Park Avenue. Construction workers who eat lunch on the plaza. What about the Seagram Building's tenants? They're enamored with *What Party*, too, Rosen says. The ones who are there. Ⓑ