MANN REPORT
APRIL 2008

Time Is Right For Hudson Yards Development

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Over the past several years, commercial development in New York has proceeded at a remarkable pace. Since 2001, 10.9 million sq ft of office space has been developed in Manhattan, with about 4 million sq ft currently under construction. Though this is a seemingly large number, one must consider that approximately13 million sq ft of office space has been converted to residential, and 15 million sq ft was lost on September 11, 2001.

Despite recent economic turmoil, demand to conduct business in New York City continues to grow and there simply is not enough space to keep up. Vacancy rates are at nearly 0 percent. In addition, the city anticipates that by the year 2025, there will be the need to accommodate more than 440,000 new workers in over 100 million sq ft of new space. The trend toward an urban lifestyle is bringing more residents and workers back to New York.

Midtown and Lower Manhattan, the city's largest business districts, have finite amounts of available space in which to develop and that space seems to be near its peak. Some studies, as reported by the New York City Department of City Planning, have shown that Midtown will likely be able to handle 20 million additional sq ft – a far cry from the projected 100 million sq ft that will be needed. Downtown, at the World Trade Center, more than 10 million sq ft will be added over the next decade. Once completed, however, Lower Manhattan will have minimal capacity for further office development.

The far west side, or Hudson Yards, is the last great frontier for development in Manhattan. This 360-acre area stretches from West 42nd Street down to West 30th Street, and lies between Eighth Avenue and the Hudson River. A large portion of this area, approximately 26 acres, consists of below-grade railroad tracks that will be covered to allow for new construction and public parks. A 2005 rezoning here allows for the creation of approximately 24 million sq ft of office space, 12,600 housing units, 1 million sq ft of retail space, and 2 million sq ft of hotel space.

In a similar project in the early 1900s, the rail yards along Park Avenue leading to Grand Central Terminal, were covered and converted into the grand boulevard we know today. This stretch of Park Avenue, from 42nd Street to 56th Street, is a prime example of how investing in underutilized land can lead to one of the world's most desirable business centers.

The development of Hudson Yards has been a hot topic among city planning officials and real estate industry leaders for quite some time. But developing the large parcel of land still seems daunting to many. By this spring, the MTA, which oversees the development, expects to choose a winning bidder as the lead developer of the 26-acre site. Five bidders – Extell Development Corporation; a partnership between the Durst Organization and Vornado Realty Trust; the Related Companies; Tishman Speyer; and Brookfield Properties – first submitted bids in November. The MTA requested revised bids in February after deciding to lease, rather than sell, a 26-acre parcel.

While total bids will be a major influence on the MTA's decision in selecting a developer, many other factors will hold considerable clout. It was reported that the MTA is favoring developers that have already secured anchor tenants in advance. While extremely valuable to secure a primary tenant that will occupy more than half of the building, it is important for the MTA to consider that anchor tenants can be demanding and they do hold a great deal of decision-making power. Other factors having an impact on the MTA's decision include the development's ability to help fund the MTA's capital campaign, the development's feasibility, whether it continues or improves the rail yards current use for the Long Island Rail Road, and the development of public space.

Many are uncertain about how much of an effect the economy's recent downtown will have on plans for the site. Despite talk about a recession and an increase in unemployment figures, many commercial real estate experts say that we have to think more about the long-term effects of a project of this caliber. In addition, a large portion of New York's existing office buildings will be technologically outdated within the next few years. New York City is growing at leaps and bounds, and must continue to do so in order to keep up with its international counterparts in London, Tokyo, Shanghai, and Dubai. In order to compete as an international business leader, the time is truly right to head to Manhattan's western frontier.

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