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The $15-billion ambition to reshape Manhattan's skyline

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The High Line park comes to an abrupt end on the west side of Manhattan, as a chain link fence keeps anyone from stumbling into a massive train yard that handles much of the island's commuter rail traffic.

Within a few years, that fence will be gone and an entire city block will have been built atop the 26-acre rail yard. Literally on top – the trains will continue to run on the same tracks they are on today, but a $1.5-billion platform will keep them out of sight.

Five thousand apartments will sprout from the newly-built artificial land mass, along with a million square feet of retail space and six million square feet of office space– the same amount that can be found in all of Saskatchewan. That's three office towers, nine residential buildings and dozens of stores. There are also plans for a school, a cultural centre and 12 acres of open park space.

The $15-billion project is ambitious even by New York standards, and will result in an entirely new neighbourhood on what had been considered a fully built-out island. But in the meantime, much of the site is surrounded by wooden hoarding bearing the name of Canada's largest real estate developer– Oxford Properties.

The project is the company's bold step into the United States. And for the hundreds of thousands of pensioners and workers who rely on the company to generate solid returns to fund their retirement – Oxford is the real estate arm of the Ontario Municipal Employees Retirement System and owns and manages $17-billion of buildings – the stakes couldn't be any higher.

This sliver of Manhattan is about to become a proving ground for some of the biggest players in Canadian real estate. Just across the street, Brookfield Office Properties, which is controlled by Toronto's Brookfield Asset Management Inc., has its own project that will add millions more feet of office space.

That all of this is going ahead, despite the threat of another recession, illustrates the health of the Canadian property sector. Developers and landlords here came through the recession in far better shape than their American counterparts, due to tighter banking regulations and a healthier leasing market in Canada. They have the money, and are counting on better economic times in America's largest city to make their bets pay out.

But projects of this size are still gambles. The last downturn saw Wall Street shed tens of thousands of jobs, and companies scrambled to unload office space. The threat of high vacancies has kept most domestic builders on the sidelines, and American banks aren't keen to finance new projects. Indeed, Oxford came into the Manhattan project only after a number of big-name U.S. developers and financial players – including none other than Goldman Sachs – pulled out.

The last time the city saw such a transformation was more than 100 years ago, when Park Avenue and Grand Central Station were covered with the platform that is now crossed by millions of people a year without a second thought. If all goes according to plan, the hidden tracks below Hudson Yards will also be forgotten by the time the first residents move in.

"What we are doing here is building a new neighbourhood on the island of Manhattan," said Blake Hutcheson, the chief executive officer of Oxford Properties. "You don't do that every day."

With marketing now under way and construction scheduled to start next year, the Canadian developer is set on a course that will transform it from an unknown foreign investor to one of New York's most prominent landlords. It's doing it with the help of Related Companies, a large and ambitious New York developer that is keen to use Canadian money to further its U.S. aspirations.

But before that can happen, an awful lot needs to go right. There are competing towers already under way at the World Trade Center site that can offer space at roughly the same price and be ready sooner. Brookfield's new project calls for three new office towers – also on top of a railway trench.

Oxford scored an important victory in late October when it conscripted luxury goods maker Coach as a lead tenant, signing it up to occupy more than one-third of the first tower and ensuring work will proceed in the new year. Prices and terms were not disclosed.

It was a sweet victory: Oxford won Coach away from other projects. But for Hudson Yards to be a success, Mr. Hutcheson and his staff will have to do it over and over again in a tough market. For the past decade, companies have been content to stay put in the space they already occupy. New space is enticing, but if they are going to commit to a move into a prime new tower, they need to be confident that business will be good for years to come.

And as the European debt crisis plays out in slow motion and unemployment remains stubbornly high at home, that's by no means a sure thing.

Building for growth

It was early 2008 when developers first lined up to bid on the Hudson Yards project. Enticed by the opportunity to build new space in a city dominated by 50-year-old towers, they echoed Mayor Michael Bloomberg's claim that the site was a "once-in-a-generation opportunity."

Despite the vacancies created by a recession that hammered the job market, many companies are still having trouble finding Class-A space in Manhattan. That's particularly true for large companies such as Goldman Sachs, which often want to consolidate as many of their employees as possible in one location. That's why the investment bank decided to build its own tower, rather than try to find space to consolidate its employees in one location.

"What exists in this city is not appropriate for what the large companies want to do with their staff now," said Peter Kozel, chief economist and executive managing director of Colliers International New York. "There is an enormous premium possible for any new buildings."

The city's government estimates that New York will need to accommodate up to 500,000 new workers by 2025, in 100 million square feet of space. That requires major investment from private developers in new buildings to make up for a dearth of new projects. Since 1990, only 27.6 million square feet has been built.

"If you assume – and this is a big assumption – that everything goes well in the next few years, you're going to see the Hudson Yards project in high demand," Mr. Kozel said. "About half of that needed space will need to come from new construction."

It is the city's second shot at building on the Hudson Yards site, after abandoning an unpopular plan in the early 2000s to have the New York Jets football team build a stadium atop the tracks. The Metropolitan Transit Authority didn't want to give up on developing the site, however, because it is counting on up to $1-billion in funding from the project to buttress its budget.

Soon after the failure of the stadium plan, it shifted its focus away from sporting venues to office towers, and put together a plan that would see the busy yard transformed to a bustling multi-use neighbourhood.

The renewed plan was greeted with enthusiasm from five bidders – including Canada's Brookfield Properties Corp., which is one of the largest landlords in Manhattan. But Brookfield began to worry about the state of the economy early in 2008, and wasn't sure it wanted to be part of a project that would need an initial investment upwards of $2-billion. It pulled out.

"The upside was obviously huge, but the downside is you go out and build a bunch of buildings on spec [that is, without signed tenants] and you call it wrong," said Richard Clark, the New York-based CEO of Brookfield Properties.

Tishman Speyer, the owner of the Chrysler Building and Rockefeller Center, won the bidding. Within months, however, Tishman withdrew because it couldn't come to terms with the transit authority and city.

Related Cos. – perhaps best known for building the Time Warner Center next to Central Park – seized the second chance. It lined up two key partners, Goldman Sachs and Canadian-born sports mogul Jay Cross, to run the project. Mr. Cross was president of the New York Jets when it was considering building on the site, so he was familiar with the challenges. He had also been involved in developing other stadiums, including Toronto's Air Canada Centre. (Prior to that, he represented Canada in sailing at the 1976 Montreal Olympics.)

Then Goldman pulled out, too, saying it was too risky. Ultimately, it was Mr. Cross's Canadian connections that salvaged the project. He knew that Canadian pension funds had considered investing in the project in its early days.

He turned to one of his oldest friends – Oxford's Mr. Hutcheson. The two have known each other since Mr. Hutcheson graduated university, and had kept in touch over the years.

In a remarkable bit of timing, Mr. Hutcheson had just returned from a stint in New York to take up the top job at the Canadian developer. His priorities at Oxford have been to expand the company's international presence with high-profile projects in London and a desire to break into the U.S. market in a meaningful way – particularly New York.

All of the developers eyeing the west-end neighbourhood said building new space will cost them approximately as much as buying a new building. And having shiny new space should make it easier to attract large tenants, some of whom are finally expressing an interest in moving into better offices after more than a decade of automatically renewing where they are.

"At some point they have to stop kicking the can and look at the quality of the space they are in," said Mr. Cross, who is running the project for Oxford's partner Related. "When markets tighten, rent goes up whether the building is new or old. We believe it will be better to be in the new space."

While typical rents for midtown Manhattan office space plunged from $150 a square foot to as little as $50 through the recession, they are already back above $100. And that's for old space – by the time any of these buildings open, the price could hit those highs once again.

"We certainly think there are tenants who are in the market now who are going to look at the numbers and realize they could be paying about the same thing or even a little bit less to be in one of our new towers," Mr. Hutcheson said. "That's what we're counting on."

While the cost of building a New York flagship may be daunting, the company won't be shelling out $15-billion in cash. Mr. Hutcheson estimated the two partners may need to invest up to $1.5-billion to get things going, but once work begins on the condos, the site will actually start generating cash.

While the broader U.S. housing market is weak, Manhattan has been insulated from the worst of the carnage. And even though the neighbourhood is considered out of the way, a new subway line will connect Hudson Yards to Grand Central station by 2013 – two years before any of the residential towers are built.

"This isn't a case of building a new area and hoping the transit catches up," said Dean Shapiro, who is running the project for Oxford in New York. "The trains come first. That certainly helps people understand that this project is for real."

But for all of that, plenty of risk remains. The developers are trying to sell prospective tenants on a site that is largely unimaginable. Even the best models and 3-D displays can't properly capture the neighbourhood's sheer size, and before companies commit to relocating, they'll want to know the project will proceed as planned.

And as the U.S. economy continues to tilt dangerously toward stagnation, if not recession, many corporate executives could be lacking the confidence needed to sign a lease and make a move. That goes double for financial firms – the anchor tenants in many Manhattan towers – that are leery of possible financial losses stemming from the European crisis and cautious about new spending.

Despite all of that, the developers believe future generations will walk over the site everyday without even realizing it was once an inaccessible, industrial staging ground, built amid huge economic uncertainty.

If not, it will be a tale of heartbreak worthy of a Broadway production. The cost to Oxford, and to the fund that pays the pensions of hundreds of thousands of Canadians, will be significant.

"If we're lucky – and that plays a big part – then we are going to the get the timing right," Mr. Cross said. "We all know about 'location, location, location.' That was true for a long time, but everyone has kind of figured that out. Now it's all about timing, and I sincerely hope we've managed to get that right."

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