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Manhattan Megaproject Set to Rise

By ELIOT BROWN



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A rendering portrays the Hudson Yards project slated for the far West Side of Manhattan.

NEW YORK—Construction is set to begin on the first stage of a \$15 billion city-within-a-city that aims to reshape Manhattan's desolate far West Side, kicking off the largest privately funded office development in the U.S. since the economic downturn.

New York developer Related Cos. has assembled a new group of financial backers and said it plans to break ground in November on the initial 46-story office tower of the 26-acre Hudson Yards project, a sign that the dormant market for U.S. commercial development is showing early signs of life.

"This will be the Rockefeller Center—the heart of the city—for the 21st century," said Stephen Ross, Related's chairman. "We are going to build a truly world-class site."



Commercial construction has been slowed by a lack of financing but that market gradually is returning. McGraw-Hill Construction, which analyzes construction data, estimates that building will commence on 272 million square feet of office, retail, hotel and warehouse space in the U.S. this year, more than in any year since 2008. Still, new construction remains slow by historic standards and tends to be limited to a few major cities.

Lenders including [Bank of America Corp.](#) [BAC - 2.25%](#) have tentatively committed to finance a construction loan of roughly \$400 million for the initial 1.7-million-square-foot tower at the Hudson Yards site, according to real-estate executives briefed on the plans.

In addition, a Middle Eastern sovereign-wealth fund agreed to invest with Related and its Canadian pension plan-backed partner, Oxford Properties Group, on the \$1.2 billion building, the executives said.

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Hudson Yards, which has been on the boards of planners since at least the 1980s, would create a business and residential district a mile from Midtown Manhattan, on the city's far West Side. The area now is home to rail yards for commuter trains serving Long Island. After the initial office tower, the Hudson Yards plan calls for constructing two giant platforms over the yards, each at a cost of roughly \$800 million,, on top of which the buildings would be erected, because space in Manhattan is at such a premium.

Related won the rights to develop on the rail yards from the state-run Metropolitan Transportation Authority in 2008, only to be stalled by the economic downturn.

The project became a signature initiative of New York Mayor Michael Bloomberg, who once envisioned the site as the center of New York's bid for the 2012 Olympics. Progress has been spurred in part by the extension of a subway to the area at a cost of more than \$2 billion, set to open to riders in mid-2014.

Related is trying to finalize deals with its partners by year-end. The talks are far enough advanced, according to Related and others involved in the project, that the company feels comfortable starting on the first building, which it hopes to finish by 2015.

For future phases, the costs grow and the schedule may again be thrown off by the economy. Related needs to build an \$800 million platform over half the rail yards for the second phase, and another platform for the third phase. Related would start the second phase if it secures a large tenant. Mr. Ross said the company is "far along" in talks with such companies. Last year, the developer struck a deal with handbag maker [Coach Inc. COH +8.38%](#) to take office space in more than one-third of the first tower. Still, it was unclear at the time whether Related would be able to start work as planned, given that since the downturn, construction lending has been slow for all building except rental apartments.

Since then, Related and its advisers at [CBRE Group Inc. CBG -3.81%](#) have attracted more tenants. This month, the chairman of cosmetics company L'Oréal SA gave his blessing to a plan to move the company's Manhattan offices to the tower, said executives familiar with the decision. L'Oréal is negotiating with Related for a lease for more than 400,000 square feet. German software giant [SAP AG SAP.XE -0.62%](#) is in talks to take more than 100,000 square feet, those executives said. Representatives of both companies declined to comment.

