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Manhattan development attracts key occupants

French cosmetics maker L'Oréal and German software company SAP are the latest companies to announce they will move their US headquarters to a new development on Manhattan's barren far West Side that is adding office space in New York for the first time in years.

Led by real estate groups Related Companies and Oxford Properties and set to cost \$15bn, Hudson Yards is the largest privately funded office development in the US since the economic downturn. Construction began on the 26-acre office, retail, residential and cultural space in December.

The two companies will join handbag retailer Coach, which has agreed to purchase more than half the space in the first 47-story tower, set for occupancy in 2015. Coach expects to spend \$750m on its new headquarters over the next three years. L'Oréal and SAP will lease, rather than purchase, their office space, taking the building's occupancy up to 80 per cent.

Jeff Blau, chief executive of Related Companies, said ahead of the announcement that corporations were hunting for newer, more efficient offices. However, he feared that without new development, New York could be eclipsed by other major world financial centres.

"If you look around New York, 75 per cent of the office property stock is over 60 years old," Mr Blau said. "New York City has not kept pace with London, Singapore . . . [cities] that have replaced old office stock with new towers."

New York's commercial property sector took a hit following the financial downturn. Companies, particularly the financial services groups that occupy a third of New York's office space, have sought efficiencies and downsized in order to trim costs.

“Companies are looking at buildings with green technology, healthier work environments, efficient floor plates with fewer private offices and much more open plan space,” Mr Blau said. “We are living and working differently now. Companies are using space more densely. They want to take 70 per cent of their existing square footage but maintain their existing headcount.”

Frédéric Rozé, chief executive of L’Oréal USA said: “Relocating our corporate headquarters is an exceptional opportunity to provide our employees with a workplace for tomorrow.”

Bill McDermott, SAP’s co-chief executive, echoed this statement and said the companies “only goal was to find the city’s most innovative development”. Michael Bloomberg, New York mayor, has sought to change some of the city’s strict zoning regulations in order to encourage new development and usher in a commercial boom.

In recent years, city planners have turned to the Hudson Yards district as well as the World Trade Center site, downtown Brooklyn and the eastern part of midtown. However, commercial construction has been slow due to a lack of bank financing. Developers have long complained about the overstock of dilapidated office buildings – where floors are crowded with columns and have low ceilings – particularly when trophy buildings have caught the attention of international investors.

Ken McCarthy, chief economist at Cushman Wakefield, the commercial property broker, said: “Hudson Yards has the potential to be the next Rockefeller Center. This and the World Trade Center site will be the key centres of commerce going forward in New York City.”

The Hudson Yards area, formerly a desolate expanse of warehouses, rail yards and parking spaces, was rezoned in 2005 to allow office towers. The city has said it intends to spend \$3bn on infrastructure in the area, including new parks and extended transit lines.