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The story of Hudson Yards is now the story of New York

As a neighborhood takes shape, the city's future seems unlimited

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The headlines about Hudson Yards, the massive West Side development, have all been about the escalating battle between construction unions and The Related Cos. over who builds phase two of the complex.

The bigger story is the way Hudson Yards has—faster than anyone expected—fulfilled the two goals of the government officials who set it in motion: create capacity for the New York economy to expand and revive a moribund waterfront section of Manhattan. Its success can be attributed to more than $600 million in direct public investment and a very lucrative tax break.

The first phase of Hudson Yards, built with more than $18 billion in equity and debt over a storage and maintenance yard for Long Island Rail Road trains, will open to the public March 14, Related says. The numbers couldn't be more impressive. The developer has leased or sold 7 million square feet of office space to tenants ranging from luxury accessories specialist Tapestry to ad agency

BCG to media giant Time Warner to BlackRock, the largest money manager in the world. Some 55,000 thousand people will work there every day.

A new condo tower is already 50% sold, mostly to New Yorkers. Its retail space is nearly filled. It will boast an Equinox health club and that brand's first hotel, a big public space, a 15-story structure dubbed Vessel, and an arts center, the Shed, with a retractable roof.

None of this was preordained.

Some history

The Far West Side had intrigued planners since its manufacturing industries disappeared long ago and it was occupied by warehouses, transportation holding areas and a few hundred residents. In the last years of the Giuliani administration, Planning Commissioner Joseph Rose came up with a plan centered on moving Madison Square Garden there, but the idea never gained traction.

The area then became the centerpiece of the Bloomberg administration's push, led by Deputy Mayor Daniel Doctoroff, to bring the Olympics to New York. Doctoroff's rationale was at its heart economic. The city's employment had peaked in 1969 at 3.9 million. Three times the city had climbed within reach of that number only to fall back, in part because rising costs pushed too many jobs out of the city. If New York was going to grow, it needed more capacity for both office and residential space, and the best place to get that was on waterfront land underused since the demise of manufacturing. The Olympic stadium would be the spark to unleash development.

The arena and then the entire Olympics dream died, but Doctoroff recast the West Side plan as a new mixed-use neighborhood. The city orchestrated a development competition for Hudson Yards that Tishman Speyer won in early 2008. But worried about the recession and its investment at Stuyvesant Town–Peter Cooper Village, Tishman Speyer quit the project a few months later.

Related had placed second in the competition, and company founder Stephen Ross quickly stepped in. Related considered its proposal for a diverse site superior to Tishman Speyer's, which was almost all office space. During the nail-biting recession, Related improved its plan by cutting the cost of the platform it had to build over the tracks. Coach Inc., which became Tapestry, signed on.

But Coach's offices had already been in the area. As Related recruited others, it hit a roadblock. While it could convince real estate executives and CFOs that its site would provide the modern space they wanted at a discount compared to Midtown, it couldn't close deals.

"The CEOs' eyes just glazed over," Related CEO Jeff Blau recalled. "You could see them thinking, Why would I move my company there??"

Then Blau figured out that what worried CEOs was their ability to attract talent, and he changed his pitch to portray Hudson Yards—with its mix of residential, restaurants, retail and open space—as just the sort of place young professionals wanted to work. When KKR, the most famous name in private equity, bought in, it was clear many others would follow. The area, and nearby buildings owned by other firms, will soon become one of the most important centers for financial services.

Related did not do this alone. Hudson Yards is viable because the city paid to extend the 7 line to the area. While the $3 billion in bonds will someday be repaid by tax revenue generated by Hudson Yards, the city has to cover interest that has totaled $359 million and could grow, the Independent Budget Office said. The city has invested an additional $267 million for capital improvements, the IBO reported, adding that the incentive granted by the city reduces property taxes by about 40%. The state threw in $25 million worth of incentives for BlackRock.

Blau said he now gets higher rents than Midtown does. BlackRock's rises from $60 a square foot to $74, an SEC filing showed, but it pays its own taxes and operating expenses, so an equivalent rent would be $90 to $105. The asking rent for space in the last tower is as high as $140, The Real Deal reported.

The second phase of the project, to be built over the western rail yards, is 80% residential. Given the weakness in the market for very expensive condos, questions not unlike those in 2008 will be raised about its prospects.

Yet Blau seems unfazed.

The bottom line: The city, approaching 4.5 million jobs, has blown past its employment record. Competition from Hudson Yards forced the rezoning of Midtown East to allow the kind of office space construction that companies want. With the World Trade Center redevelopment adding even more capacity, New York faces no limits to growth.

Sometimes a good idea backed with public resources pays off for the entire city.

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