

Financing Development of Public Transport-oriented Urban Growth and Subway Infrastructure at New York City's Hudson Yard through Profit Gained from the Development Itself

-Part 1-

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1. Introduction

In the United States, Transit Oriented Development (TOD) is prevalent, and so-called value capture systems are commonly used to build up public infrastructure such as transportation facilities. There are various methods of utilizing value capture, such as Tax-Increment Financing (TIF), Special Assessment Districts (SAD), air right sales, and joint developments.

The redevelopment of Hudson Yard in New York City is a typical TOD project, where extension of the subway to the area is an essential element, and zoning around the subway station has been created for ultra-dense commercial development. In addition, Hudson Yard is a particularly noteworthy case as it is described as "self-financed", in which the extension of subways and development of public infrastructure, such as public open spaces, are essentially fully covered by profits made from the development itself.

In this paper, we will describe the background, development incentives, financing mechanisms, status, and two research institutions' evaluations of the project, etc., as well as introduce a whole picture synopsis.

2. Hudson Yard Project Overview

The New York City's Hudson Yard Project, located in Manhattan Island's Midtown West's commercial district alongside the Hudson River railway depot, is said to be the largest redevelopment project in New York history costing \$25 billion¹. Encompassing 45 districts and 360 acres (about 146 ha), the redevelopment's borders include 28th Street on the south end, 7th and 8th Avenues on the east end, West 43rd Street on the north end, and the Hudson River on the west end. Figure 2-1, provided by Mitsui Fudosan Co., Ltd., shows a small part of the Hudson Yard project on the southwest side of the map. This railway depot is also the location of Phase II of the project, which will occur on the western side of the area encompassed by the dotted line. Two

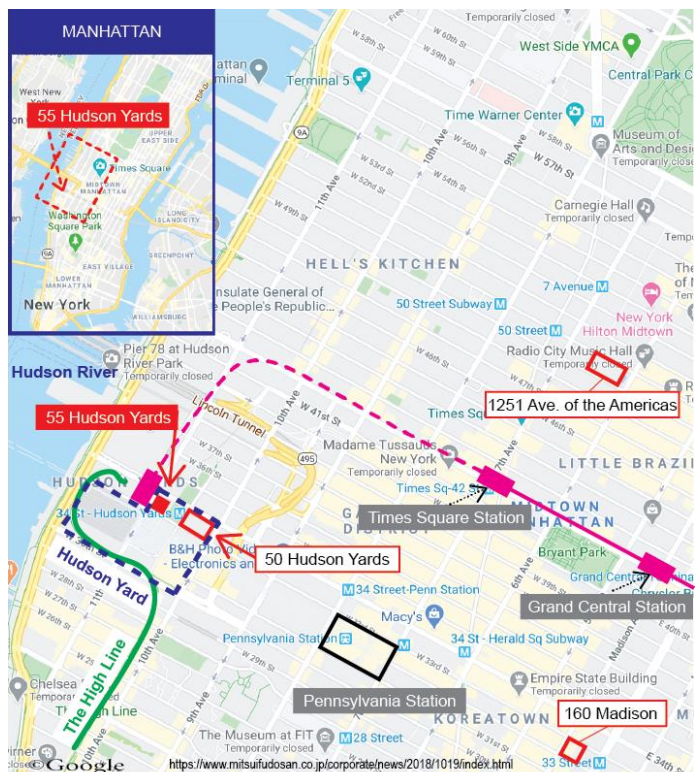


Figure 2-1 Map by Mitsui Fudosan Co., LTD
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streets north of Subway Line 7, at West 43rd street, is the northern-most border of the project, and 8th Avenue, which is one street over from Times Square, is the eastern-most.

The main elements of the project are as follows:

1. Rezoning

The area was rezoned from industrial to commercial and residential. As a result, 26 million square feet of offices (approx. 2.4 million square meters), 20,000 houses, including 5,000 low-income houses, 2 million square feet of retail businesses (approx. 200,000 square meters), and 3 million square feet of hotel spaces (280,000 square meters) have been created.

2. Extension of the Subway for Access to the

¹ It is a widely reported number, but the actual

figures are not certain.

Redevelopment Area

About 1.5 miles (about 2.4 kilometers) from Times Square and intersecting with additional lines allowing for easy accessibility to other areas, Subway Line 7 was extended to 34th Street and 11th Avenue in the Hudson Yard area, costing the project 240 million dollars to accomplish.

3. High-density Mixed Development in Areas Close to Subway Stations (see Figure 2-2)

An artificial grounds area built on the west side of the rail yard for the New York Metropolitan Transit Authority was created to be the center of new



ハドソン川側から見たハドソンヤード イメージパース 三井不動産 | <https://www.mitsui-fudosan.co.jp/corporate/news/2018/10/19/index.html>

Figure 2-2

developments. 12 million square feet (approx. 1.1 million square meters) of Class A² offices, housing, hotels, retail, cultural buildings, and parking; 12 acres (approx. 5 ha) of public open space; and a school for 750 students are being built.

4. Additional Improvements

In order to improve amenities in the districts, a public open space and park called Hudson Boulevard was developed. As a result, a network of open spaces spanning over 20 acres (approx. 8 ha) was created. 1) For the second phase of the project, plans have also been made for the development of one block to the west of the rail yard, between 11th and 12th Avenues along the Hudson River.

3. Background

3.1 Before the current project

Many of the areas in Hudson Yard were previously used for factories and transportation facilities due to the 1961 Zoning Resolution which designated that the land be used by the manufacturing industry at a 500% floor-area-ratio (see Figure 3-1). This underdeveloped area gained the interest of government officials and developers. In 1969, former

² The Building Owners and Managers Association (BOMA) in the US divides buildings into three classes, of which “A” is the highest class. https://en.wikipedia.org/wiki/Building_Owners_and_Managers_Association



New York City Projects & Proposal/Manhattan/Hudson Yards/The Area
<https://www1.nyc.gov/assets/planning/download/pdf/plans/hudson-yards/hyards.pdf>

Figure 3-1

New York Mayor John Lindsay sought to extend the commercial district of Manhattan to the Hudson River by redeveloping this district. A MTA survey in 1988 on potential development around the depot also touched on the area. In 1994, former New York Mayor Rudy Giuliani tried to attract the Yankees and the 2008 Olympic Games to the space. In the early 1990s, the area east of the Jacob K. Javits Convention Center, which overlaps with the central location of the current project, was redesigned for commercial use with a floor-area-ratio of 1,000%. However, the redevelopment plan was never actualized.

3.2 The Start of the Project under Mayor Michael Bloomberg

Under Bloomberg' leadership, redevelopment rights for the Hudson Yard area was acquired by the New York City government to maintain and even increase the City's share of commercial spaces in the regional market. According to a 2003 survey done by the Economic Research Associates (ERA) and Cushman & Wakefield³ (C&W), there was a decline in shares of occupied offices in midtown Manhattan that were owned by the City, despite increasing demand across the New York region. The survey found that the cause was a lack of sufficient space for office development.

³ C&W is a real estate services company with 51,000 employees at 400 locations in about 70 countries. Reported sales were \$ 8.2 billion in 2018 for the core services such as property management, facility management, project management, leasing, capital markets and appraisal. 41) Includes New Jersey, Long Island, Southern New York and Southern Connecticut.

In 2003, the New York City Department of City Planning announced "Preferred Direction," which was a master plan for the Hudson Yard District. It said that development of public infrastructure, such as subway extensions and public open spaces, are necessary, and finances required for the project could be covered through income gained from the development itself. ("self-financing"). 5)

Furthermore, the environmental impact to extend Subway Line 7 and make zoning changes was evaluated. These zoning changes were adopted by the City Council in January 2005, after which the project started. 6)

3.3 Establishing an Organization to Promote the Project and Finance Infrastructure Development

In 2005, the city established the Hudson Yards Development Corporation (HYDC), an NPO created for experts in urban planning, urban development, and construction to manage the promotion of the Hudson Yards Project.

The board members of HYDC consist of the Deputy Mayor for Operations, the Deputy Mayor for Economic Development and Rebuilding, the President of the Borough of Manhattan, and the head of each government department, such as City Planning, Budget Management, Housing, Economic Development, etc. They had to coordinate with relevant organizations on a wide range of tasks, including financing the project, extending the subway, redeveloping the rail yard, acquiring land, incentivizing development, improving infrastructure, providing low-income housing, and expanding convention centers. 7)

In addition, the Hudson Yards Infrastructure Corporation, (HYIC) was established to acquire properties related to the project and to raise funds for infrastructure development, such as the extension of Subway Line 7. The board members of HYIC make up of representatives from the City's Budget Management Department, accounting auditors, etc., and staff of HYIC consist of experts on budget management, finance, and legal affairs, etc. They issue bonds using the tax revenue acquired from development of Hudson Yard and redemption funds from the sale of development rights. In addition, they manage the financial resources for infrastructure development. 8)

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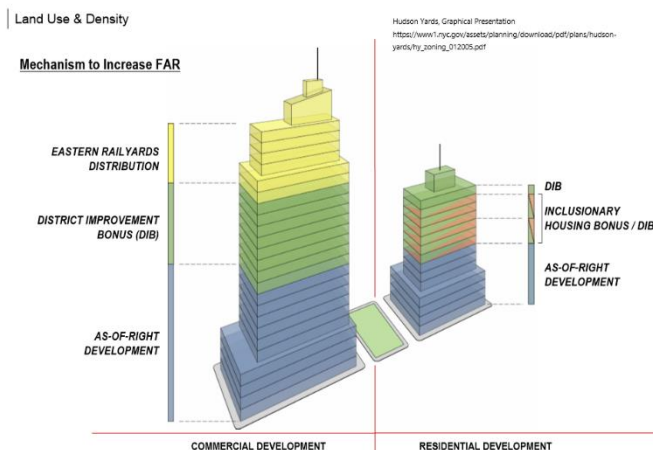
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