



## **The Far West Side and the Region's Future Development Needs**

### **Summary**

New York City's plan to develop the Hudson Yards represents the latest in a succession of visions for the Far West Side of Midtown Manhattan. The plan has been praised for the scope of its vision, but has also raised questions and opposition from different quarters. Besides stadium opposition, the questioning revolves around three primary issues. Will there be sufficient office demand and likelihood of success to justify the public expenditures and rapid timetable? Will the density, land use and activity changes be harmful to existing West Side communities from Clinton to Chelsea? And will development of the Far West Side complement or compete with plans for other parts of the city, especially Lower Manhattan and ancillary business districts in the other boroughs?

While these issues have received considerable attention, the potential role of the Far West Side as an asset for the entire metropolitan area has been largely ignored to date. This paper attempts to broaden the discussion to include a regional perspective. To provide a framework to discuss specific proposals for the Far West Side, the paper begins with an overview of Manhattan Central Business District's contribution to the regional economy. It will then discuss how the goals for the Far West Side fit with the region's long-term needs for both office space and housing, and how the district might complement or compete with objectives for other parts of the region, particularly Lower Manhattan, New York City's other boroughs and the Hudson County waterfront.

### **The Importance of the Central Business District to the Region's Economy**

Despite a half century of job decentralization in the tri-state region, the Manhattan CBD remains the dominant source of wealth generation in the region. While New Jersey, Long Island, the Hudson Valley and Connecticut have large and dynamic economies, they benefit greatly from the income and demand for labor, goods and services that spill out from the core.

Postwar growth in the region has also coincided with growth of the CBD itself. This has involved not only the physical expansion of the Downtown and Midtown office districts – both within Manhattan and across the East and Hudson rivers – but also the intensification of activity within the CBD. Intensification of economic activity has taken a number of forms, including infill, conversion of older buildings, demolition and

reconstruction of older stock and reconfiguring space to add more workers without adding more rentable square feet.

The increasing salary level of CBD workers is also an indicator of businesses concentrating higher-value activities into increasingly valuable real estate. While the number of people working in Manhattan increased by 13% between 1980 and 2000, inflation-adjusted earnings increased by 76% from \$47,200 to \$83,200 per worker, a far higher rate than in other parts of the region. Remarkably, the island's share of the region's wages has increased to 36% even though its proportion of employment has dropped to 23%.

A look at cyclical trends over the last three decades indicates an interdependent economy in which jobs in the Manhattan CBD tend to rise and fall in tandem since the mid-1970s. The suburban areas generally grew at a faster rate, but it was clearly not a "zero sum game" where growth in Manhattan was primarily at the expense of jobs in the suburbs, or vice versa. Overall, the picture is one of a region with complementary growth patterns. These trends also point to a number of conclusions that are important for decisions related to developing the Far West Side:

- *Growth in the CBD is consistent with the concept of a "multi-centered" region with growth in other business centers throughout the region.*
- *Expansion of the CBD's job base is desirable, but retention and expansion of its income-generating capacity is critical.*
- *Job and wage patterns raise the question of whether New York City as well as older cities in northern New Jersey have benefited as fully from Manhattan's cluster of finance and professional services as they might have.*

### **Regional Needs: Current Demand, Future Projections**

The City's Hudson Yards proposal is an attempt to project and accommodate office and housing needs for a period that extends from 2010 to 2040. This requires not only the ability to anticipate changes in demand and competitive conditions over a 36 year period, beginning now, but also the need to build in the flexibility to adapt to inevitable and unanticipated changes in the economy and demographics of the region.

In spite of these uncertainties, an assessment of future needs still needs to be the basis for moving forward on the Far West Side. This assessment needs to consider not only the amount and mix of development that is needed, but also the pace at which this development is likely to take place and its affect on other districts.

### How Much Office Space is Available?

Of the 644 million square feet of office space in the region (16% of the nation's total), Manhattan's 404 million represents 63%. There is anywhere from 80-110 million square feet available in the region with about 45-60 million square feet of this total in Manhattan. In addition to currently available space, another 14 million square feet is under construction. Other projects not yet under construction, but well into the planning

stage and likely to be built over the next several years, are likely to add another 11.7 million square feet of available space over the next several years, including 8.6 million in Manhattan.

Combined estimates of available space, new space under construction and likely new projects total 63-78 million square feet in Manhattan and another 40-55 million square feet in the rest of the region. Taking the midpoint of these estimates, there will be about 115 million feet of space available region-wide to absorb new office jobs over the next several years. About 70 million of this will be in Manhattan. Another 25 million will be available in Northern New Jersey and about 20 million in Long Island, Westchester and Fairfield. This does not account for existing office space that could be lost through conversions or demolitions. However, it also does not account for vacant space or planned projects in the other boroughs, or in the outer ring of central New Jersey, the Hudson Valley and central Connecticut.

#### How Long to Absorb Currently Available Space?

Looking ahead, while it is widely believed that the region's economy has bottomed out, there is no uniformity of opinion on how quickly it will recover. Many are decidedly pessimistic about both the short-term and long-term, particularly for New York City, expecting a hollowing out of corporations, particularly finance, as firms seek to outsource professional and technical staff to overseas locations and disperse operations both within and outside of the region. Some are more bullish, anticipating that productivity gains and a strengthening national economy will lead to a more rapid recovery of both employment and office markets.

Assuming that that vacancy rates would need to drop to 8% in Manhattan and 10% in the rest of the region before new supply is needed, the region needs to absorb an estimated 37 million square feet in Manhattan and 26 million square feet elsewhere. This requires approximately 250,000 additional office workers region-wide, and 150,000 in New York City. In the 1970s and 1990s downturns, it took the region 4 and 5 years, respectively, to gain 250,000 office jobs. It took New York City somewhat longer, 5 and 7 years, to generate 150,000 jobs. Forecasts vary, but two widely used forecasts indicate that it will take somewhat longer in this recovery. Economy.com indicates that it will take 8 years for both the city and the region to generate these numbers of office jobs. Another forecast, from NYMTC, indicates that it may take New York City as many as 14 years to generate 150,000 jobs in office sectors.

#### Anticipating Long-Term Office Needs and Supply

Longer term trends are, of course, even more difficult to predict. Both NYMTC and economy.com predict continued but somewhat slower growth in office sectors after 2010. If this proves accurate, there will be some conflict between relatively modest growth in office jobs and more aggressive plans to develop new office space around the region.

Long-term projections indicate nearly 100 million square feet of development potential in identified sites and public sector plans for redevelopment districts. Without the Far West Side, this estimate drops to 70 million. Redevelopment plans could well be overly optimistic. However, these projections do not factor in the ability of the developers to

locate and develop additional sites through site assemblage and the redevelopment of existing buildings. Forecasts of demand vary from 58 million to 93 million using different assumptions, and are also highly speculative. For this range of growth, there may be enough development capacity in existing Manhattan sites to accommodate forecasted growth for another 15-20 years. However, it is prudent to continue advancing plans for a range of development areas, both to be able to respond to a rapid acceleration of demand and to create the conditions for continued expansion.

#### Housing Needs and the Far West Side

While office is the predominant use promoted in the Hudson Yards plan, other activities are also central to the mixed-use proposal, particularly 12 million square feet in anticipated residential development. The housing component is considered essential to enhancing the 24/7 character of successful office districts and to helping relieve the City's continuing housing shortage. Building neighborhoods in the district is also important for integrating the district with existing communities from Chelsea to Clinton.

However, there is still a question as to whether the proposal provides for the best mix of residential and commercial development. In particular, should the plan provide for more residential development, and additional incentives for affordable housing, to address one of the region's leading competitive and social challenges? And if the office market proves slow to materialize, how much flexibility should be provided to permit residential development in areas zoned primarily for commercial development?

Unlike office, there is a strong demand for housing throughout the region. Over the past decade, New York City added 456,000 more people to its population, but produced only 85,000 more units of housing. The tight housing market results in more than one quarter of New York households paying more than half their income on housing costs, with these concentrated heavily among the poorest New Yorkers.

Demand for housing would very likely increase on the West Side if jobs and transit options were added to a new district. Additional housing could be developed immediately, and undoubtedly will where permitted. In the long run, however, jobs and housing demand have to be in sync. Since the Far West Side is one of the few locations in the urban core where office demand can be accommodated, the residential component of the Far West Side should be driven less by how much it can contribute to regional housing needs and more by the goal of making the Far West Side a successful mixed-use district that will enhance the existing residential neighborhoods. There is clearly a trade-off between preserving developable space for office, stadium, convention expansion and other uses and permitting both market-rate and subsidized housing that are needed immediately.

#### Potential Functions of the Far West Side and Other Office Districts

Beyond the amount of office space, we must look at the type of function that a new district is likely to serve if successful. Given its location adjacent to Midtown, there are several possibilities. It could evolve as a westward extension of Midtown's high rent office market, or, if it is perceived as separated from Midtown by non-office uses, it could emerge as a high-end back office district like Jersey City. It could also evolve

from residential and entertainment uses into a “creative district”, as in the emergence of Silicon Alley in the 1990s as a home for design, research or technology-oriented industries. A hybrid, such as what Lower Manhattan is becoming, is also possible.

This is an important question for the urban design and public amenity components of the Hudson Yards plan. The Far West Side’s greatest public amenity is its waterfront, and it is here that the most difficult decisions will need to be made. In particular, is a sports stadium the best use of waterfront property to support the goals of the district? They have a poor track record of compatibility with office districts. Whether the district, and the type of facility being proposed, will lead to a different outcome is a critical question.

The emerging functions of the Far West Side will also determine how it relates to other business districts. If it emerges as a high rent extension of Midtown, then it would be likely to hasten Lower Manhattan’s evolution to a more diversified mixed-use district that retains only a small share of financial services. However, it could also stimulate additional back office and support services in the other boroughs, Hudson County and other regional office districts. Should it become more of a back office district itself, it could compete with these other districts and have limited growth potential. As a creative or hybrid district, it could serve multiple functions in response to economic demand.

In this context, then, the Far West Side can be seen not as an undifferentiated addition to the region’s office and housing stock, but as one of many specialized districts that contribute to a competitive region. Transportation links can allow for both greater specialization and for enhanced opportunities to support firm networks and capture some of the functions that might otherwise be outsourced to different regions.

## **Conclusions**

- *Over the long run, the Far West Side represents the region’s best opportunity to provide a new district that will accommodate growth in high-value office activities.* Eventually, the Central Business District will find it increasingly difficult to expand its employment base without new areas for office development. Since it is contiguous to Midtown, the Far West Side has location advantages over districts outside of Manhattan. Allowing Midtown to expand westward will provide an opportunity to expand globally-competitive, high-value services that support economic growth throughout the region.
- *The need for office space on the West Side may not develop for well over a decade, and the timing and extent of its build-out is very difficult to predict.* With substantial amounts of available space and development capacity remaining in Midtown, Downtown and other locations in the region, it would require a period of rapid job growth to create a need for West Side office development in less than a decade. While this is not out of the question, forecasts indicate that it is likely to take longer to materialize. When it does, the district will still be competing with other areas for office tenants. Beyond the next 10 years, it becomes increasingly

hard to forecast how changes in the economy will affect both the demand for office space and the location advantages of different areas within the region.

- *It makes sense to plan simultaneously for the development of the Far West Side, revitalization of Lower Manhattan, and expanded office and residential development in the other boroughs and Northern New Jersey.* Each of these areas is likely to develop on a different timetable and support different functions and industries. Planning for these districts requires developing complementary strategies and connecting infrastructure in the context of an extended CBD. It also requires attention to the contribution of industrial and distribution activities that need to be located in the urban core, and the needs of existing residents and businesses. Enhanced mobility between these districts and improved access to the region's labor force are critical if they are to reach their full potential. As these districts reach a critical mass, they will allow firms to disperse operations and create a more competitive business environment for global services.
- *Building flexibility into the Far West Side strategy is critical, both to respond to unanticipated changes in market demand and to insure that economic development objectives for Lower Manhattan and the other boroughs are also achieved.* Demand could materialize more or less rapidly than anticipated, and future conditions could indicate the need for a different mix of housing, office, retail and recreational space. Since it requires long lead times to develop new infrastructure, actions need to be taken well in advance of demand. However, a slow recovery combined with aggressive investments in both Lower Manhattan and the Far West Side could delay redevelopment and return on public investment in both places. Given the economic outlook, it may be prudent to reconsider the development timetable for the West Side.
- *More study is needed to determine the impact of the stadium on the district's development potential.* Historically, football stadiums have a poor record of promoting office development. The inclusion of convention uses makes this case somewhat different, but further analysis is required to determine whether the facility's impact will be positive or negative, especially considering recent programming changes.
- *Expanding the region's office supply is an important economic goal, but an even higher priority is the development of infrastructure and quality of life improvements that enhance the competitiveness of New York City and the region.* Replenishment and expansion of office stock is a necessary ingredient for economic expansion, but more fundamental competitive issues, particularly improved transportation, affordable housing and education, require more immediate attention. The need to modernize and expand transit capacity is a basic requirement for supporting new commercial and residential development throughout New York City and the metropolitan region. To remain competitive in both weak and strong economic periods, the region needs to address quality of life problems—high housing costs, school quality and congestion—that affect its ability to retain and attract the talented labor force that drives the economy.