



Regional ^{CT}^{NJ}^{NY} **Plan** Association

**THE FAR WEST SIDE &
THE REGION'S
FUTURE DEVELOPMENT NEEDS**

A Report by Regional Plan Association in preparation
for the 14th Annual Regional Assembly

{ February 2004 }

{ foreword }

This paper is the first in a series of reports that Regional Plan Association will prepare as background for its 14th annual Regional Assembly, to be held on April 16, 2004. The City of New York has put forward an ambitious and comprehensive plan for developing the Far West Side that recognizes the potential of this part of the city. With this in mind, we've named this year's Regional Assembly "Make No Small Plans" and dedicated it to a discussion of plans for the Far West Side and their impact on the Region's future. The Assembly will bring together leaders from the public, private and academic sectors for the first comprehensive forum on this vital issue.

To best inform the discussion in April, these reports will provide background research on areas critical to determining how development on the Far West Side can be most successful and beneficial from a regional perspective. This report kicks off the dialogue by looking at the current and future markets for office and residential development in the region. Future papers will tackle other vital components of the development plans, from transportation access to the role that urban design and amenities play in creating vibrant, 21st Century mixed-use districts.

We applaud the City of New York for its ambitious and visionary planning efforts both on the Far West Side and throughout the City, and look forward to a productive public debate that will culminate at the Regional Assembly in April.

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Regional Plan Association improves the quality of life and the economic competitiveness of the New York-New Jersey-Connecticut region through research, planning, and advocacy. For more than 80 years, RPA has been shaping transportation systems, protecting open spaces, and promoting better community design for the region's continued growth. We anticipate the challenges the region will face in the years to come, and we mobilize the region's civic, business, and government sectors to take action.

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I. Introduction

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. From RPA's first regional plan in 1929 to Senator Charles Schumer's Group of 35 report in 2000, this district has been viewed as Midtown Manhattan's "last frontier" for major commercial expansion. The City's plan is different, however. Its scope, level of detail and the priority attached to it by the Bloomberg administration make it far more likely to result in major new development over the next several decades. In addition, with recent commercial development in West Midtown and the increasing attractiveness of West Side residential neighborhoods, development of the Far West Side now requires a smaller leap of imagination. While the plan's inclusion of a new sports facility and expansion of the Javits Convention Center have drawn the lion's share of the attention, the proposed zoning changes and investments in infrastructure and public spaces are likely to have a much greater long-term impact on the city and the region.

The plan has been praised for the scope of its vision, but has also raised questions and opposition from different quarters. Besides the stadium, 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?

Most of this debate has taken place within the confines of New York City's political, business and civic communities. This paper will attempt to broaden this discussion by looking at the Far West Side in its regional context. The potential role of the Far West Side as an asset for the entire metropolitan area has been largely ignored to date. Indeed, one of the main justifications asserted for the district is that it will allow New York City to compete for office tenants that would otherwise go to New Jersey, most notably

the Hudson County waterfront. While development of the West Side may increase the city's share of regional economic activity, different outcomes are possible. If demand and regional competitiveness are sufficient, Far West Side development could lead to additional growth in New Jersey and other parts of the region as well as within New York City, but have little effect on the city's proportion of the metropolitan economy. If the right economic conditions do not materialize, it could increase the city's share of the region, but have no impact on jobs and income for the metropolitan area as a whole, and only modestly increase employment in the city.

To provide a framework to discuss specific proposals for the Far West Side, the paper begins with an overview of the 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.

II. The Importance of the Central Business District to the Region's Economy

Underlying debate over the future of the Far West Side is the larger question of the continuing role of the Manhattan Central Business District (CBD) in shaping the future economy of the tri-state region. As in the 1970s and early 1990s, questions are being raised about whether additional growth is likely or necessary in the Manhattan CBD. In the earlier periods, Manhattan's high cost of doing business, the location options afforded by new tech-

nologies and population flight to the suburbs were seen as leading to long-term decline in the region's core. All of these factors did in fact contribute to a long-term process of decentralization of cost-sensitive activities that has been underway since the 1950s, and previous recessions accelerated those trends temporarily. However, in both the 1970s and 1990s, the fear of permanent decline was misplaced. Manhattan was able to recover and played a dominant role in the expansions that followed. Although it has never exceeded the number of workers it had in 1969, it has benefited from even greater centralization of many high-value knowledge activities in a broad range of industries.

These same factors are also at play in the current debate, but two additional considerations have received greater attention, both of them centering on the future of the financial services industry that has largely driven the previous expansions. One is the prospect of slower national growth in finance due to productivity enhancements and overseas outsourcing of professional and technical services. The second is the post 9/11 imperative to disperse critical business functions to create enough redundancy to prevent the disruption of financial markets and business operations in the event of terrorism, natural disaster or other catastrophes. The extent and implications of these trends are far from clear, but how these dynamics play out is of importance to the West Side as well as the region's economy as a whole. Before turning to prospects of future growth, however, it is important to document the role of the CBD in the region's economy.

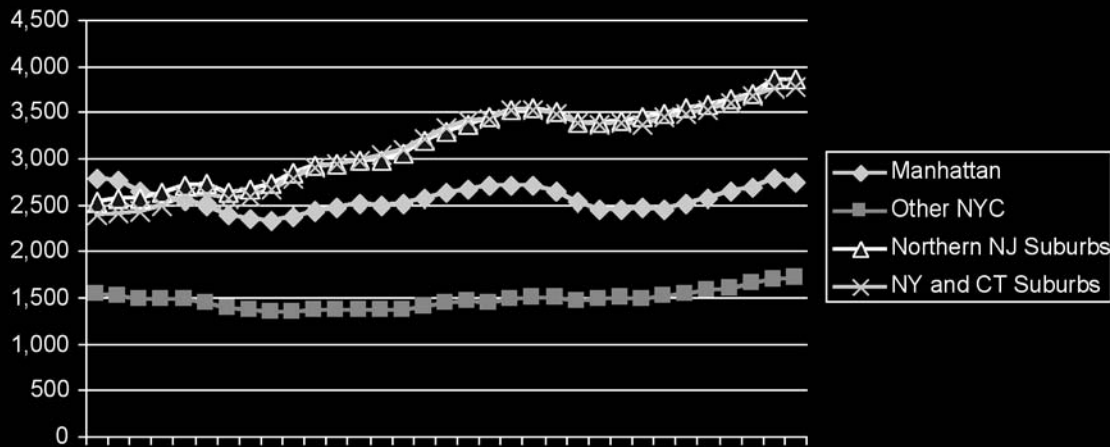
A half century of job decentralization in the tri-state region has obscured the importance of a dynamic central business district to the region's growth and prosperity. In fact, the Manhattan CBD remains the dominant source of wealth generation in the region. Only a handful

Table 1: New Office Construction, 1970-2003 (million sf)

	1970s	1980s	1990s	2000-2003
Downtown Manhattan	26.5	25.3	0.9	0.0
Midtown Manhattan	32.1	28.8	7.9	5.1

Source: Hugh Kelly, The New York Regional and Downtown Office Market: History and Prospects After 9/11, in Economic Development Working Reports by the Civic Alliance to Rebuild Downtown New York; updated with Cushman and Wakefield data

Chart 1
Employment in the Tri-State Region, 1969-2001



Source: U.S. Bureau of Economic Analysis

far higher rate than in other parts of the region.¹

This expansion of business activity, jobs and income in the CBD is a major contributor to economic growth in both city and suburbs. Half of New York City residents earn their living in Manhattan, and the borough accounts for about 80% of all the wages generated in the city. Over half a million commuters from beyond the five boroughs also earn approximately \$66 billion dollars in

of global cities even approach the concentration of finance, media, business services and other high-value activities that are found in the CBD, a concentration that has remained largely intact in spite of deep recessions and the rapid growth of office, retail and service jobs outside of New York City. While New Jersey, Long Island, the Hudson Valley and Connecticut have large and dynamic economies in their own right, these economies 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, but also the intensification of activity within the CBD. Until the mid-1980s, the physical expansion was contained largely within Manhattan as the boundaries of both the Downtown and Midtown office districts pushed outward, primarily into West Midtown, Midtown South, the World Trade Center and the World Financial Center.

However, the 1980s also witnessed the first tentative extensions of the CBD across the East and Hudson rivers with the construction of back office facilities at MetroTech in Downtown Brooklyn and the Citibank building in Long Island City, and the first new developments in Jersey City. However, it was not until the 1990s that the CBD really jumped a river with businesses, primarily Downtown financial firms, moving into what is now 18 million

square feet of new space along the Hudson County waterfront. It is no coincidence that this extension proceeded in tandem with an exceptionally strong economy in New York City, New Jersey and other areas of the region, and with a paucity of new construction in Manhattan. With an abundance of new construction at the tail end of the last expansion, it took most of the decade before even the strong employment growth of the late 1990s triggered new construction in Manhattan. Most of the construction that has occurred since 2000 is the result of projects that moved forward at the end of the 1990s boom.

Intensification of economic activity within the CBD is also a major part of the story and has taken a number of forms. Infill and the conversion of older buildings— industrial, commercial and residential—to denser, higher-value buildings is one dimension, as is the demolition and reconstruction of older stock. Reconfiguring space to add more workers without adding more rentable square feet is another. Whereas 300 square feet per worker was the rule of thumb a decade or two ago, 250 or even 200 square feet is a more common assumption for space needs today. 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

wages that are spent and redistributed in communities throughout the region.² Manhattan's offices, stores and restaurants are an enormous market for regional firms selling everything from printing to health insurance to consulting services. The island also acts as an incubator for firms that originate in the CBD but either relocate or expand to other parts of the region. Finally, Manhattan's business opportunities, cultural amenities and access to regional, national and international transportation systems are critical factors that allow the region to attract and maintain its most important asset—one of the most talented and diverse workforces in the world.

Manhattan's role in the region's economy is demonstrated in Table 2, which shows just how much it has been able to maintain its share of jobs and wages in spite of the postwar decentralization of population and employment. Although Manhattan has never exceeded the total of 2.8 million jobs that it had in 1969, the total never slipped below 2.3 million and nearly attained the 1969 peak in 2000.³ Although its share of employment has been gradually declining for years, nearly one out of every four jobs in the region is still located in Manhattan. Remarkably, the island's share of wages has increased to 36% even though its proportion of employment has dropped to 23%. This is evidence both of the changing mix of jobs, particularly the decline of manufacturing and wholesale trade, and the tremendous run-up in

Table 2: Share of Jobs and Wages in the Tri-State Region, 1980-2001

	Jobs		Wages	
	1980	2001	1980	2001
Manhattan	25%	23%	32%	36%
Other New York City	14%	14%	12%	9%
Northern New Jersey	30%	32%	29%	29%
NY and CT Suburbs	30%	31%	26%	26%

Source: U.S. Bureau of Economic Analysis

compensation in securities and related industries during the bull markets of the 1980s and 1990s. It is also further evidence of both the decentralization of cost-sensitive activities and the centralization of high-value services.

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 with jobs in other parts of the region. 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. While it is possible that this similarity between CBD and suburbs was driven as much by national business cycles as regional interdependence, a study completed by the Center for Urban Policy Research in 1995, and updated in 2003, indicates that New York City strongly supports growth in other parts of the region even when the impacts of the national economy are considered. The study looked at the effects of changes in national and New York City finance, manufacturing and non-finance service sectors on growth in the surrounding counties of the region and concluded the following:

“The economies of the New York City suburbs rely on the well-being of the New York City economy. Since its manufacturing industry is on the decline, the City appears to wield much of its economic might on the suburbs through its finance industry. Nonetheless, a healthier manufacturing sector would likely rejuvenate that sector in the suburbs as well. The suburban effect of the City’s nonmanufacturing, nonfinance industries is somewhat less clear...”⁴

Given that the Manhattan CBD has accounted for the bulk of New York City’s job and earnings growth over the last 30 years, it is reasonable to conclude that this city-suburb relationship is driven by the concentration of finance, business services, media and other high-value services below 60th Street. 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. The expansion and intensification of high-value activities in Manhattan has proceeded in parallel with the development of office districts in places such as Jersey City and Stamford, Conn., and could provide the impetus for back office development and other functions in places such as Downtown Brooklyn, Long Island City, the Bronx or Newark.
- Expansion of the CBD’s job base is desirable, but retention and expansion of its income-generating capacity is critical. More than growth in employment, it has been the growth in earnings that contributed to regional economic growth. This implies giving priority to maintaining the CBD’s competitiveness with other global centers.
- 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. Job growth in the city’s other boroughs has been far more muted than suburban growth, and the city’s highly polar-

ized income distribution appears to have worsened over the last few decades. Part of the challenge is not only to support the region’s economic engine, but also to develop economic, infrastructure and development strategies that support more balanced growth and prosperity.

III. 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 adopt to inevitable and unanticipated changes in the economy and demographics of the region. The proposal calls for zoning and infrastructure changes to support 28 million square feet of office space and 12 million square feet of residential development, in addition to expansion of the Javits Center and a new sports facility. However, any projection of what will actually occur needs to be treated with caution for several reasons:

- The employment and population forecasts that drive office projections are likely to change substantially over the course of both the planning and implementation period. For evidence of how quickly things can change, one need only look at the differences between the bullishness at the peak of New York City’s expansion in early 2000 with the generally bleak assessments 18 months later, following the economic downturn and the September 11 attack.
- Office and residential supply and demand, and particularly market turning points, can be difficult to track with employment and population trends. Estimates of current supply and demand cover a wide range, and new construction often lags changes in vacancy rates by time periods that are not always easy to predict.⁵

- Several emerging trends may make past experience a less reliable guide to the future. Many economists are predicting much slower employment growth in the finance sector that has been the primary driver of the region's office market. Other industries could pick up the slack in job growth, but these could have very different space and location needs. Slower growth in office industries or a more diverse set of growth industries could reduce the need for traditional, large-plate office buildings and change the mix of office, residential, retail and flex space needed for a successful mixed-use district.

- Intraregional dynamics could change substantially with evolving settlement patterns, new transportation investments, policy choices from three states and hundreds of localities, and changing firm relationships. Outside of the city, stronger immigration, an increasing shortage of developable land and more diversified economies could change where the Far West Side would draw its labor force from and how it might compete with or complement other office centers.

- Other factors, in particular the post-9/11 imperative to diversify business locations, could also affect the new district's relationship to other centers. While this would seem to indicate that pressures to decentralize will intensify, it could also increase the value of multiple locations within the region's

core that can draw on the same labor force.

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. The analysis below works through the following steps to determine the need for new office space on the Far West Side:

- First, the amount of available space and anticipated new construction is estimated;
- Next, the amount of time that is likely to be required to absorb this space is estimated using two forecasts of employment;
- Finally, long-term growth projections are compared with the potential for new development in several districts in and near the Central Business District.

HOW MUCH OFFICE SPACE IS AVAILABLE?

Since office is the predominant use envisioned, the starting point is how much office capacity is currently in the CBD and the region. Table 3 indicates how much available space currently exists using one source, Newmark Real Estate.

The table demonstrates both the sheer size of the region's office market and the continued dominance of Manhattan. The 644 million square feet of office space in the region represents about 16% of all the office space in the United States. ⁶ Even this understates the volume of space in the tri-state region since it does not include the outer boroughs of New York City, central New Jersey, New Haven or the mid-Hudson Valley. If these areas were included, it could add well over 100 million additional square feet to the total. Of the 644 million, Manhattan's 404 million represents 63% of the total. The large difference in rents also demonstrates the location premium that Manhattan offers over other parts of the region. Even this obscures the value placed on prime Midtown space, which can be as high as \$60 per square foot.

In 2003, with the regional economy seeming to bottom out after a three-year downturn, Newmark estimates nearly 100 million square feet of available space in the region. Manhattan's vacancy rate of 14.2% compares to a rate of less than 5% in 2000, even with the loss of 13 million square feet from the World Trade Center attack. It should be noted that other real estate research firms estimate somewhat lower amounts of available space. Table 4 shows comparable data from three sources (Cushman and Wakefield, Colliers and Newmark) for Manhattan, where data and market defi-

Table 3: Office Supply, Third Quarter 2003

Areas	Office Inventory	Occupied Space	Available Space	Availability Rate	Asking Rent
Manhattan	404,033,400	346,660,700	57,372,700	14.20%	\$38.36
Northern New Jersey	114,876,600	92,820,300	22,056,300	19.20%	\$23.82
Long Island	48,819,400	43,058,700	5,760,700	11.80%	\$22.62
Westchester/Fairfield	75,934,700	63,595,300	12,339,400	16.25%	\$25.36
Region	643,664,100	546,135,000	97,529,100	15.15%	

Source: Newmark Real Estate

Table 4: Comparative Office Supply Estimates for Manhattan

	Office Inventory	Occupied Space	Available Space	Availability Rate
Newmark	404,033,000	346,660,700	57,373,000	14.20%
Cushman & Wakefield	387,818,000	338,958,000	48,860,000	12.60%
Colliers ABR	433,797,000	379,572,000	54,225,000	12.50%

In square feet. Newmark and Cushman and Wakefield are for 3Q 2003, Colliers is for 12/03.

Table 5: Anticipated New Office Space

	Under Construction	Planned Projects	Total
Downtown Manhattan	1,700,000	2,600,000	4,300,000
Midtown Manhattan	7,406,000	5,865,000	13,271,000
Midtown South	0	110,000	110,000
Other NYC	2,176,400	na	2,176,400
Northern New Jersey	2,517,600	3,166,600	5,684,200
Long Island	28,800	na	28,800
Westchester/Fairfield	70,100	na	70,100
Region	13,898,900	11,741,600	25,640,500

New construction from Cushman & Wakefield, 3Q 2003 (7 WTC added). Planned projects for Manhattan from Real Estate Board of New York Summer 2003 Update (Freedom Tower added) and Jersey City Division of City Planning

approximation rather than precision. Using the available space estimates above, it is reasonable to conclude that there is anywhere from 80-110 million square feet available in the region and 45-60 million square feet in Manhattan.

In addition to currently available space, another 14 million square feet is under construction.⁷ As shown in Table 5, this includes 7.4 million in Midtown, the 1.7 million 7 World Trade Center building in Lower Manhattan, 2.2 million in the other boroughs and 2.5 million in Northern New Jersey (most of it in Jersey City). Other projects are not yet under construction, but are well into the planning stage and have a high likelihood of being built over the next several years. These include the Freedom Tower in Lower Manhattan, the new Bank of America building in Midtown and over 3 million square feet of approved development projects in Jersey City.⁸ These projects are likely to add another 11.7 million square feet of available space over the next several years, including 8.6 million in Manhattan. These projects are obviously less certain and some may not happen or be delayed. However, it is also possible that other projects not as far along could be accelerated.

Summary of Space Availability:

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. In particular, several million square feet of office space in Lower Manhattan has either recently been converted to housing or is likely to undergo conversion in the next few years.⁹ 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.

Table 6: Estimate of Needed Absorption

	Manhattan	Rest of Region	Region
Current Inventory	400,000,000	264,000,000	664,000,000
Construction	17,700,000	8,000,000	25,700,000
New Inventory	417,700,000	272,000,000	689,700,000
Equilibrium Vacancy Rate	8%	10%	9%
New Vacant Inventory	33,416,000	27,200,000	60,616,000
Current Vacant Inventory New and Anticipated	53,000,000	45,000,000	98,000,000
Construction	17,700,000	8,000,000	25,700,000
Current Vacant Inventory + New Construction	70,700,000	53,000,000	123,700,000
Current Vacant Inventory + New Construction	70,700,000	53,000,000	123,700,000
(New Vacant Inventory)	(33,416,000)	(27,200,000)	(60,616,000)
New Inventory to be Filled to Reach Equilibrium Vacancy	37,284,000	25,800,000	63,084,000

nitions are most consistent. Inventory estimates range from 388 to 433 million square feet, and vacancy rates from 12.5% to 14.2%. Estimates for available space range from 49 to 57 million square feet. Cushman and Wakefield also has lower vacancy estimates than Newmark for most other office markets in the

region. However, none of these estimates include so-called "shadow space," which is available for sublet but not being advertised, or any available space in the outer boroughs.

Therefore, determining how much space the region needs to absorb is one of

HOW LONG TO ABSORB CURRENTLY AVAILABLE SPACE?

With this amount of space available, when will additional construction be needed beyond projects currently in the pipeline? This depends not only on assumptions of job growth but at what point rents, and developers' expectations, rise sufficiently to trigger new investment.¹⁰ There is no hard and fast rule to apply, but real estate analysts often assume that vacancy rates need to drop to the range of 7-9% in Manhattan, and somewhat higher in the suburbs, before market distortions require an increase in supply. By comparison, the Manhattan vacancy rate was as high as 17% at the trough of the last recession in 1992 and below 5% at the 2000 peak.

To reach equilibrium vacancy rates (assuming 8% in Manhattan and 10% elsewhere), the region would need to absorb an estimated 63 million square feet of office space. Table 6 shows how this calculation was made using estimates from the previous tables. It estimates the need to fill 37 million square feet in Manhattan and 26 million square feet elsewhere. Although the estimate could change by altering any of its assumptions, it provides an order-of-magnitude absorption number to trigger the need for additional construction.

Assuming a requirement of 250 square feet per worker, the region would need to generate 250,000 additional office workers before additional construction, beyond what is already in the pipeline, would be needed. Of this, New York City would need to add 150,000 workers to absorb its vacant space and anticipated construction. (By contrast, a requirement of 200 square feet would require 315,000 additional workers in the region and 185,000 in New York City.)¹¹

While there is much debate over how quickly the region will recover from its recent recession, the pace of growth following the recessions of both the 1970s and the 1990s can be instructive. In those periods, it took the region 4-5 years, and the city somewhat longer, to regain that many jobs in office industries. The region hit bottom in 1976 following two national recessions and the City's fiscal crisis. By 1980, the region had gained 268,000 office jobs. It took New York City an additional year to pass the threshold of 150,000 new office workers. Following the 1989-1992 downturn, it

took the region until 1997 to add 250,000 jobs, and the city until 1999 to gain 167,000 jobs.

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.

Two widely used forecasts indicate that it will take somewhat longer to absorb excess office capacity in this business cycle. Economy.com, a private consulting firm used by a variety of public and private clients, projects that both New York City and the region will generate enough office employment to trigger a need for new construction by 2011 (150,000 additional office jobs in New York City and 250,000 in the region).¹² By contrast, the forecast developed by Urbanomics for the New York Metropolitan Transportation Council (NYMTC) forecasts that it will take the city until 2017 to add 150,000 jobs in office sectors. Information for a region comparable to the one used for the economy.com and office projections is not available.¹³

Summary of Projected Office Absorption:

The region needs to absorb an estimated 37 million square feet in Manhattan and 26 million square feet in the rest of the region before it needs additional construction beyond what is already in the pipeline. 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 for recovery from the recent downturn vary, but economy.com indicates that it will take 8 years for the city and the region to generate equivalent 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. In Lower Manhattan, the other towers of the World Trade Center site, Goldman Sachs' recently announced intention to build a new Downtown tower, the potential for building over a new Fulton Transit Center, and a few other sites are candidates for development. In Midtown, a range of possibilities includes continued development at Times Square, development of the Con Edison site on First Avenue, 4 million square feet of office in Riverside South and a number of other sites in both East and West Midtown. Midtown South includes a number of potential developments at Hudson Square and elsewhere. Outside of Manhattan, the long-range master plan for Hudson County calls for 39.4 million square feet of commercial space in both waterfront and inland locations. Subtracting out retail and what's already under construction and approved could still leave close to 30 million square feet. While this projection may be difficult to achieve, it represents the county's assessment of development capacity. Also in New Jersey, about 2 million square feet of office space is projected for the Meadowlands, which overlaps somewhat with the Hudson County projections. In New York City, the rezoning of Long Island City anticipated 5.5-7 million square feet of new development and the recent plan for Downtown Brooklyn projects 4.5 million square feet, not including the 2.2 million included in the Brooklyn Atlantic Yards proposal.

Table 7 shows office development potential for districts within an extended CBD that includes Hudson County, Downtown Brooklyn and Long Island City. It is based on projects that have been associated with identified sites in Manhattan and district plans for areas outside of Manhattan. Including the Far West Side, this indicates a potential for nearly 100 million square feet: 27 million square feet from sites that have been identified for potential projects in Manhattan and 72 million from long-term plans devel-

oped by public agencies.

These numbers must be taken with several caveats in mind. Potential projects may not materialize. District plans are subject to substantial change in response to market conditions, funding and political pri-

orities. It represents a constricted picture of location possibilities, even within the urban core. Harlem, Jamaica, the Bronx and Newark, for example, represent an additional tier of existing and potential districts. It also does not account for other nearby office centers, such as White Plains and Stamford.

2010 to require new construction, each of these demand projections is less than the total amount of new supply that could come on line. Without the 28 million square feet on the Far West Side, however, the potential supply indicated in Table 7 would roughly equal the average of these three projections. Given the high rate of error that is likely on both potential supply and demand projections, Tables 7 and 8 are actually reasonably close. This does not mean that all or most of the supply additions will be needed. However, it does indicate that none of the district projections are unreasonable as long-term plans so long as they can evolve with changes in the market and public needs.

However, if employment growth proves to be as modest as the economy.com and NYMTC forecasts indicate, then there may very well be enough development potential within the existing CBD to accommodate growth for some time before any of the development forecast in the district plans, including the ambitious plans for both the Far West Side and Hudson County, are needed. Two potential scenarios could lead to this outcome:

- The potential projects shown for identified sites in Table 7 could support close to 120,000 new office jobs, enough to accommodate an additional 7-8 years of growth in the economy.com forecast.
- The totals in Table 7 do not account for the constant process of reassessing development prospects, conversions and demolitions. Old stock is taken off the market and new development sites

Still, it is interesting to note how these supply projections correspond to different projections of demand. Table 8 uses three different sets of assumptions for the urban core of the region where these districts are located, all with their own set of limitations. The first two are based on economy.com's forecast of office industries. Trends past 2033, the last year of the forecast, were extrapolated to 2040. The first projection assumes 250 square feet per worker and projects a need of 72.5 million square feet. The second assumes 200 feet per worker and comes up with a smaller projection of 58 million. The last scenario simply projects the average office absorption rate for Manhattan and Hudson County for 1980-2000 to 2040, and comes up with a need for 93 million square feet.

Even assuming that the market has absorbed enough available space by

Table 7: Potential Office Development in the Urban Core

	Square Feet
<u>Identified Sites</u>	
Lower Manhattan	13,300,000
Midtown (inc. Midtown South)	13,800,000
Brooklyn	2,200,000
<u>District Plans</u>	
Downtown Brooklyn	4,500,000
Long Island City	7,000,000
Hudson County	30,000,000
Far West Side	28,000,000
Total	98,800,000
Unidentified sites	???
Net conversions/demolitions	???

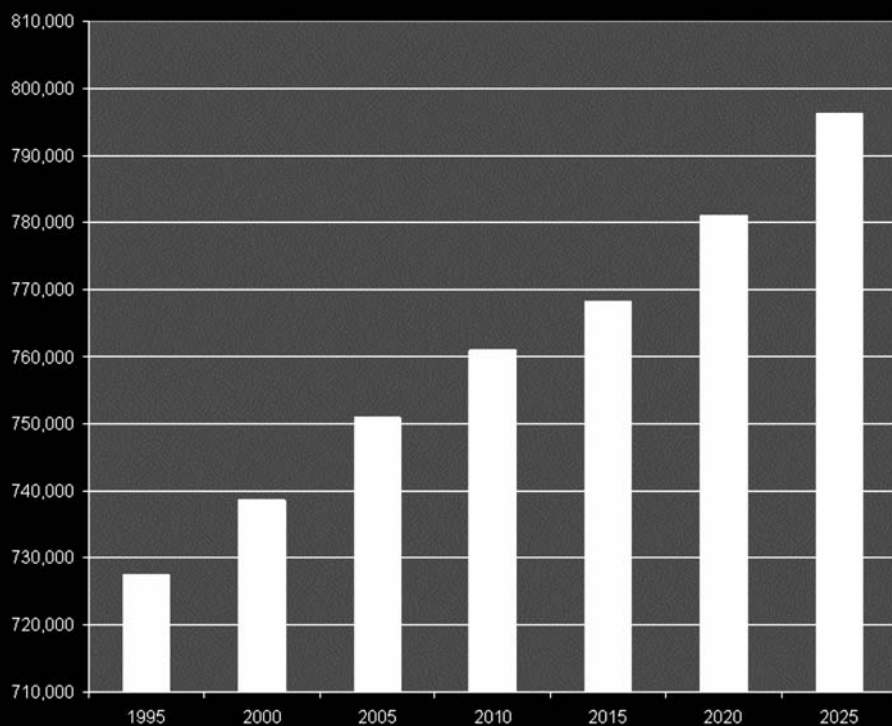
Potential Manhattan projects from REBNY Update Summer 2003 and World Trade Center site master plan. Downtown Brooklyn, Long Island City and Far West Side from NYC Department of City Planning. Hudson County is an approximation from 2002 Hudson County Master Plan.

Table 8: Alternative Projections of New Office Space Needs, 2010-2040, for NYC and Hudson County

	Employment Growth	Sq ft/worker	Square feet needed
Office Industries, economy.com (250 sq ft/job)	290,000	250	72,500,000
Office Industries, economy.com (200 sq ft/job)	290,000	200	58,000,000
1980-2000 rate of growth in occupied space (3.1 million per year)	na	na	93,000,000

* All employment forecasts for NYC and Hudson County. Economy.com extrapolated from 2033 to 2040

Chart 2
Manhattan Households



Source: Urbanomics/NYMTC

are located. This can be close to a zero sum game, but it could also result in intensified development in areas where real estate values are appreciating. Site assemblage, redevelopment of existing buildings, the transformation of mixed-use districts, new infrastructure projects and new proposals for existing development parcels could result in potential that substantially exceeds what is projected for existing parcels. In particular, major changes in accessibility, such as those that a project like the Second Avenue Subway could create, could hasten this process.

Summary of Long-Term Projections:

Long-term projections of supply indicate the potential for nearly 100 million square feet of development in identified sites and public sector plans for redevelopment districts. Without the Far West Side, however, potential supply drops to 70 million. Forecasts of demand vary from 58 million to 93 million using different assumptions. Both supply and demand projections are highly speculative. Depending on the pace of demand, there may be enough development capac-

ity in existing Manhattan sites to accommodate 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-hour, 7-day character of successful office districts and to helping relieve the City's current and anticipated housing shortage. Building neighborhoods in the district is also important for integrating the district with existing communities from Chelsea to Clinton. In fact, additional housing was added to the plan partly in response to discussions with local communities and public officials.

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?

There is a strong demand for housing throughout the region. In New York City, this is manifested by increasing prices and a recent acceleration of permitting, both in Manhattan and in the other boroughs. Persistently low residential vacancy rates, strong population growth, and rising prices indicate increasing demand and constrained supply. Over the past decade, New York City added 456,000 more people to its population, but produced only 85,000 more units of housing during the same time.¹⁴ And in 2002, the vacancy rate for New York City was only 2.94%.¹⁵ 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.

These same indicators are particularly strong in the Far West Side and surrounding neighborhoods. The median rent in the Chelsea/Clinton neighborhood is \$400 above that for the rest of the City. In the Midtown West/Clinton area average sales prices rose 250% for co-ops and 74% for condos, a higher rate than for all of Manhattan south of 96th Street. These trends continued into 2003.¹⁶ Demand for housing on the Far West Side would very likely increase even further if jobs were added and transit options improved.

Although the residential market also undergoes cycles where demand and prices can fall as well as rise, there is less doubt about both immediate and long-term residential markets than there is for office space. Developers cite tremendous capacity for residential real estate absorption throughout Manhattan. Given the constraints on supply in Manhattan and urban areas on both sides of the Hudson, there is likely to be underlying pent-up demand over the long-term that the Far West Side can help to relieve. In addition any future residential

development in New York provides an opportunity to build more affordable housing. Currently there are over 250,000 New Yorkers on waiting lists for subsidized housing.¹⁷ Including an affordable housing component in Far West Side development – whether on site or off site – could help fill part of this need as well as fulfill part of Mayor Bloomberg’s “New Housing Marketplace” plan.

In the long run, 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 West Side’s existing residential neighborhoods.

However, 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. In addition to the public investment costs of developing the Far West Side, the opportunity costs of limiting residential development need to be considered.

POTENTIAL FUNCTIONS OF THE FAR WEST SIDE AND OTHER OFFICE DISTRICTS

Perhaps a more interesting question for planning the Far West Side is not the amount of office space it should accommodate but the type of function that it is likely to serve if successful. Given its location adjacent to Midtown, there are several possibilities. If transportation and amenities are sufficiently attractive to businesses and workers, then it could evolve as a westward extension of Midtown’s high rent office market. However, if it is perceived as a district that is separated from Midtown by non-office uses, then it could emerge as a high-end back office district similar to Jersey City. It could also evolve from residential and entertainment uses into a “creative district”, similar to the emergence of Silicon Alley in Midtown South in the 1990s as a home for design, research or technology-oriented industries. Some 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. In addition to location and infrastructure, the character of the district and the types of services and public spaces available will determine who it is likely to attract. The Far West Side’s greatest public amenity is its waterfront access, 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 historic track record of compatibility with office districts. Whether the West Side, and the type of facility being proposed, will lead to a substantially different outcome is a critical question.

This evolution will be determined not only by the success of public investments, but also by changes in the structural shape of the economy. 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 only retains the shrinking and specialized trading functions 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. This concept can be seen in the specialization of districts serving the finance sector, with Midtown largely serving executive functions, Downtown specializing in trading, and the Hudson County Waterfront and Downtown Brooklyn filling back office needs.¹⁸ One of the primary keys to enhancing the region’s competitive position, as well as the success of the individual districts, is to insure connectivity between these districts. 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.

IV. 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 that districts outside of Manhattan do not. 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 and Downtown, as well as in other locations within the region, it would require a period of rapid job growth to create a need for Far 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 for this demand 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 not only to the need for new housing and office space but also 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. In particular, 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 inclu-

sion 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.

{ references }

1. U.S. Bureau of Economic Analysis. Includes all workers and earnings, including self-employed.
2. RPA estimate based on 1990 and 2000 U.S. Census and 2000 Wage & Salary Disbursements from the U.S. Bureau of Economic Analysis.
3. Job totals cited for Manhattan can vary depending on the source and on how wage and salary workers, the self-employed and unpaid workers are treated. This Bureau of Economic Analysis uses a count that includes self-employed as well as wage and salary workers.
4. Lahr, Michael L., *Is New York Still Propelling Growth in its Suburbs? A Study of Economic Spillover Effects Through Spatial Contiguity*, Center for Urban Policy Research, Rutgers, The State University of New Jersey, April 2003, p. 15.
5. For a discussion of why real estate data contains so many discrepancies, see "Office Data: Many Players, Fuzzy Numbers," by John Holusha, New York Times, April 20, 2003.
6. Based on approximately 4 billion square feet nationwide from Comparative Statistics of Industrial and Office Real Estate Markets, Society of Industrial and Office Realtors.
7. This includes the recently opened Time Warner Center at Columbus Circle, with nearly 2 million square feet, which was not included in the current inventory estimates.
8. The remaining buildings in the World Trade Center Master Plan are not scheduled for completion before 2010 and face considerably more uncertainty for both funding and demand.
9. *Residential Boom Transforming Downtown*, report by Colliers ABR, 2003.
10. See Hugh Kelly's discussion of the relationship between vacancy rates, rents and construction in "The New York Regional and Downtown Office Markets: History and Prospects after 9/11" in Economic Development Working Group Reports of the Civic Alliance to Rebuild Downtown New York.
11. 250 square feet per worker is probably a better benchmark in part because it tracks well with industries that can be used as a surrogate for office jobs—Finance, Business and Professional Services, and Information Services. Tracking job growth in these industries to the growth in occupied office space from 1980-2000 yields a ratio of 245 square feet in additional space for each new worker.
12. This analysis uses a 17-county region, rather than RPA's 31 counties, to conform to the office space data used in the analysis. This includes New York City, Long Island, Westchester, Fairfield and 8 counties in northern New Jersey.
13. The NYMTC forecast was completed in August 2002 and is the most recent projection approved by the Council. The economy.com forecast was updated in December 2003. Part of the difference may be attributable to the different points in time in which the forecasts were made. Also, estimates of office jobs from the NYMTC forecasts combined FIRE, Business Services and Other Office Services using SIC definitions. The economy.com estimates combined Finance, Information and Professional and Business Services using NAICS definitions.
14. Housing First!
15. New York City Housing Vacancy Survey.
16. Douglas Elliman Manhattan Market Report 1993-2002; Manhattan Market Overview 3Q 03.
17. Includes applicants for Section 8 and Public Housing without double counting. New York City Housing Authority, December 2003.
18. For a full discussion of this concept, see David Berman, Financial Organizations and Urban Development in Lower Manhattan: The Co-Evolution of Commerce and Community, prepared for the Eastern Sociological Association.

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