Hudson Yards and New York’s love-hate relationship with Mayor Bloomberg

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(Updates with background on Fiscal Policy Institute, details on city bonds)

New York City’s Hudson Yards project – a $12 billion transformative development slated for Manhattan’s West Side – embodies several aspects of the Bloomberg administration’s strategies that infuriate critics while delighting boosters.

At a public hearing on Thursday, the developers will ask a city agency to approve $106 million of property tax breaks for the first office tower planned for the site. The new 46-floor, $1.27 billion building, which is expected to house luxury retailer Coach Inc, should start going up in October, and be finished in July 2015, according to the filing for the tax relief.

Critics say the developers – The Related Companies and Oxford Properties Group Inc – should not be tapping taxpayers’ wallets, but should instead be relying on their own deep pockets.

Argues James Parrott, chief economist for the Fiscal Policy Institute, a nonpartisan think tank whose funding comes primarily from foundations but which also gets some support from unions:

> This represents the culmination in the evolution over the past 30 years of city business subsidies, first to manufacturing, then commercial in the outer boroughs, then Lower Manhattan commercial, then to ‘smart buildings,’ and now to prime mid-town commercial properties in already heavily subsidized areas … This is the first of what could be several mega-subsidy deals in the Hudson Yards area in the years to come. A testament to the ever-growing influence of the real estate sector.

The Related Companies calls itself “the most prominent privately-owned real estate firm in the United States,” in the filing. Oxford says it has “approximately $16 billion of real estate assets that it manages for itself and on behalf of co-owners and investment partners.” OMERS, one of Canada’s largest pension funds, owns Oxford.

However, supporters of the project note that the incentives being offered to all developers in the Hudson Yards area – a 40 percent reduction in property taxes phased out over 19 years – are much less generous than the 100 percent property tax breaks, plus exemptions for sales and mortgage recording taxes – that are available in other parts of the city.

Said a spokesman for the New York City Economic Development Corporation:

> The transformation of Hudson Yards is critical to the city’s future growth, and will support the much-needed expansion of the midtown business district, create thousands of

> new jobs, and provide housing for thousands of additional New York City residents.

The tax breaks Related and Oxford receive are expected to allow them to attract new tenants by lowering how much it costs to lease the new buildings. The same kind of program was used to build Lower Manhattan's Battery Park City, the World Trade Center and to revitalize 42nd Street, a Related spokeswoman said in a statement.

> Related and its partners, designated to develop the 26-acre site in 2008, are making a $12 billion private investment in the Hudson Yards development that will result in nearly 23,000 man years of construction employment, tens of thousands of permanent jobs, significant tax revenue to the City of New York, and critical funds to the Metropolitan Transportation Authority.

Instead of persuading the Metropolitan Transportation Authority – the state agency that runs the city's buses, subways, commuter rail roads and some major bridges and tunnels – to build a new subway link, Bloomberg had the city pay for it. The No. 7 subway line will be extended west from Times Square to west to 11th Avenue and south to 34th Street.

Mayor Michael Bloomberg's insistence on getting the new subway link, slated to open in 2014, will open up one of the last underdeveloped and somewhat desolate areas in the city to new development. The site is bounded by West 42nd and 43rd Streets between 7th and 8th Avenues and West 28th and 30th Streets and Hudson River Park.

The latest version of the Hudson Yards project sprang from one of Bloomberg's most punishing defeats: the state's refusal to approve the financing for a new football stadium for the Jets, which also was supposed to help the city win the 2012 Olympics.

Both the doomed football stadium, along with parks and office towers, with some kind of cultural center, were to be built on top of rail yards in west midtown. That is also the location of the new Hudson Yards project, which will require the developers to build a $750 million roof on top of the rail yards. The first building will go up near that location.

The Hudson Yards project stalled during the recession, and Related stepped in after another developer gave up the project.

Related's plans call for 14 acres of open space, a "cultural shed" for events, 5,000 residences in nine buildings, 6 million square feet of offices, 1 million square feet of shops, a school and a hotel.

New York City borrowed $3 billion of debt to pay for the subway extension. Instead of selling general obligation bonds, the Bloomberg administration created a special debt-selling entity – the Hudson Yards Infrastructure Corporation. The bonds will be repaid with so-called payments in lieu of taxes that developers will make once their buildings have gone up.

But the city is paying higher interest rates than it would have if it had sold general obligation bonds, said Parrott of the Fiscal Policy Institute. There is a risk that the payments in lieu of taxes will not be enough to repay bondholders – and the city has agreed to appropriate the money if there is a shortfall, he said.

New York City paid $107 million of interest on the No. 7 subway bonds in fiscal 2012, Parrott said, adding that number will likely be lowered when interest earnings are taken into account when the financial statements are updated.

New York City is only responsible for the interest payments on the bonds when the project's revenues are insufficient to cover the cost – not the principal.