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

-Part 2-

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4. Zoning and Incentives for Development

4.1 Overview of Zoning

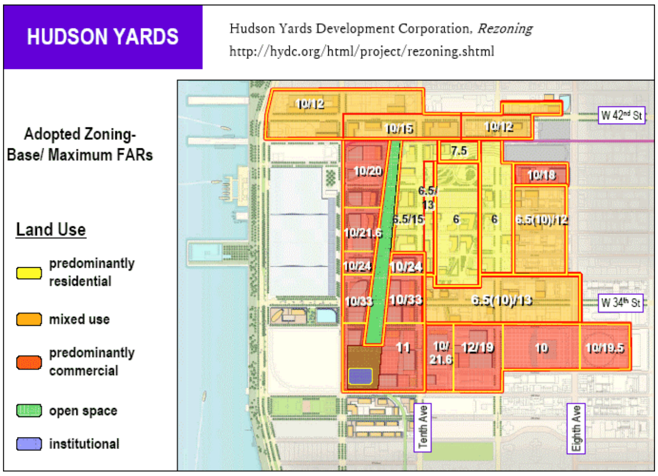


Figure 4- 2

Figure 4-1 shows the rezoning approved by the city council in 2005 for the Hudson Yards Project. The FARs (Floor Area Ratio) for each structure is represented with numbers in the figure, with the base FAR shown on the left of the forward slash and the max FAR on the right. Hudson Boulevard, a public open space shown in green, accomodates the entrance of a new subway station, located about one-fourth of the length of the space above its southern end. It is surrounded by the predominantly commercial area highlighted in red, which has a base FRA of 1000% and a max FRA of 3300%. The predominantly residential area, highlighted in yellow with a FAR of approx. 600%, is designated to the north and east of Hudson Boulevard, and circling it is a mixed-use area, highlighted in orange with a base FAR of 650% and max FAR of 1500%. 9)

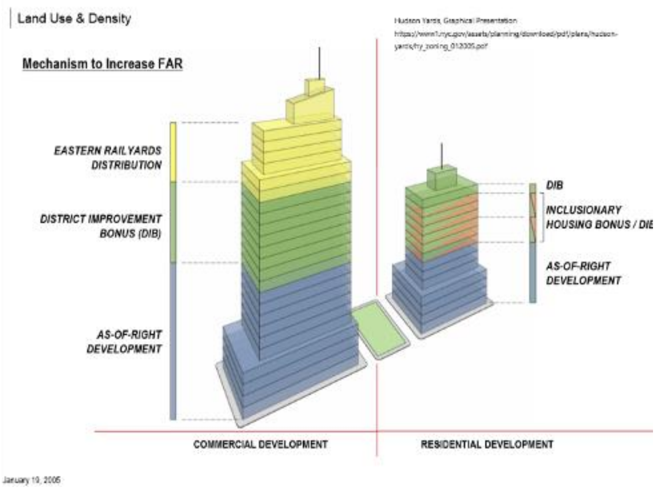


Figure 4- 1

4.2 System to Increase FAR

Figure 4-2 illustrates the mechanisms that would allow for the increase of FAR from base to max.

First, the developer has the right to build up the area up to the base FAR, called "As-of-Right-Development," which is marked in blue. Certain added FAR given to commercial blocks in the central area, marked in green and called "District Improvement Bonus" (DIB), can be purchased up to a FAR of 800%. In addition to this, the East Rail Yard Tranferrable Development Right (ERY TDR) marked in yellow can be purchased up to the max FAR in negotiations with the Hudson Yards Development Corporation (HYDC). ERY TDR is a development right (air right) over the East Rail Yard, which was owned by the MTA and tentatively purchased by the HYDC to resell. 9). While buildings above the East Rail Yard have to rent or purchase air rights from the MTA, HYDC can sell EDR TDR to other buildings outside the yard, thus giving them control of development. The EDR TDR purchased by HYDC was worth $ 200

million and includes over 4 million square feet (approx. 370,000 square meters). Consequently, HYDC will collect $ 200 million plus interest from developpers during resell, and if there is any surplus, then it will be paid to MTA. 15)
Regarding residential property, relaxation of FAR guidelines and use of DIB are permitted for "Inclusive Houseing, Affordable Housing," a New York State program that provides a certain number of low-income housing for the impoverished.

Use of ERY TDR is not authorized for residential use.
The price of DIB was initially set at $ 100 per square foot in January 2005. This price is determined by the consumer price index, which was $ 132.51 as of August 2018. 10) 11)
For ERY TDR, HYDC asks an appraiser to evaluate the value, and then sets it to 65% of the determined value, discounting the air rights to provide an incentive for development . This ratio is to be reviewed at least every 3 years. 12)
DIB and ERY TDR bring high-density redevelopment, and at the same time, produce a means to capture value from that growth, providing HYIC with a large amount of revenue, which will be described in more detail in a later.

4.3 Tax Incentives for Development

The Hudson Yard Project set up tax incentives for commercial development in addition to infrastructure development, such as a subway extension and creation of a public open space.
It was decided that developers of commercial office buildings could confer funds via Payment in Lieu of Taxes (PILOT) agreements instead of through regular property taxes.
The amount paid in a PILOT agreement is set as follows: ① The farther away blocks are considered from midtown, the lower their rent and the greater their property tax discounts. (Specifically, the farther away from 8th Avenue, the more they will be discounted, up to 40%) ② Incentives to accelerate development were provided by reducing the discount rate each time the d[1] evelopment floor area reached 5 million square feet in order to give preferential treatment to early-bird developers. The amount due in a PILOT agreement increases 3% annually from the 5th to 15th year after the completion of construction, afterwhich discounts further reduce, and from the 20th year payment amounts matching regular property taxes will apply. 4) 13)
The payment period for PILOT agreements are based on concessions between the New York City Industrial Development Agency (IDA) and each developer, but 35 years is typically expected, and IDA is entitled to extend the payment period up to 64 years. 15)
In order to receive such a substantial tax exemption, the developer applies to IDA with data that would appeal to the agency, such as the number of job positions created by office development, etc. IDA approves after analyzing[2] the number of new job positions created in New York City, and whether future tax revenue will exceed tax exemptions. See 6.4.2 for an example. 36)

5. Development of Public Infrastructure, Such as Subway Extensions and Financing Mechanisms

5.1 Development of Public Infrastructure

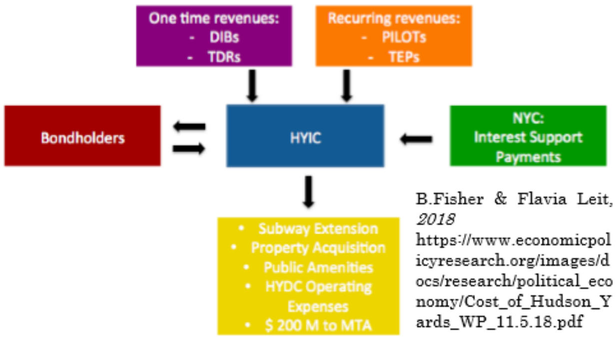
5.1.1 Extension of Subway Line 7

80% of costs to maintain the subway is usually covered by the MTA, 15% by New York State, and 5% by New York City. However, in the case of the Hudson Yards Project, MTA did not prioritize extending Subway Line 7 among its backlog of investment projects. As a result, the Bloomberg administration decided that the City would bear almost 100% of the cost for infrastructure development to generate growth, which was unusual. 10)
The cost of extending Subway Line 7 was estimated to total $2.1 billion, which consists of $2.0 billion for design and construction and $100 million for reserves to cover any additional construction costs. A Memorandum of Understanding (MOU) was signed by New York City, HYDC, HYIC, and MTA, and the parties agreed upon procedures to increase the budget. 13) 15)

5.1.2 Property Acquisition / Environmental Maintenance

The initial cost of property acquisition and environmental maintenance for Hudson Boulevard, etc. was estimated at 700 million dollars. 15) In addition, the City Council decided to issue $ 500 million in bonds as part of Hudson Boulevard's second phase of construction to extend the open space three blocks north, bringing the total cost to the area to $ 1.2 billion. 16)

5.2 Mechanism of Finance



B.Fisher & Flavia Leit, *2018*
https://www.economicpolicyresearch.org/images/docs/research/political_economy/Cost_of_Hudson_Yards_WP_11.5.18.pdf

Figure 5- 1

5.2.1 Overview

For public infrastructure financing, the Hudson Yards Financial District was specially set up in the project area. The Hudson Yards Infrastructure Corporation (HYIC) was tasked to manage the cash flow from ordinary income sources in the financial district, such as from PILOT agreements, and temporary income, such as from the sale of IDB, while also issuing bonds to finance development of infrastructure, as well as interest payments (see Figure 5-1). Since revenue is expected to be low at the start of projects, when few developers have purchased DIBs and constructed buildings, the HYIC has mitigated initial financial burdens by adopting measures such as ultra-long term maturation, deferring the redemption of principals until sufficient income is obtained, and securing New York City's promise to support interest payments of HYDC's bonds to assure investors.

[1] IDA calls this analysis Cost / Benefit Analysis. However, the reality is that it is financial analysis from the perspective of New York City, it compares future tax revenues, including tax reductions and ripple effects, to the discounted present value. 36)

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