

# 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 5 - Final

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## 7. Assessment of the Hudson Yards Project's Status

### 7.2 The New School's Schwartz Center for Economic Policy Analysis

B. Fisher and F. Leite of the New School, a research university in New York City, took up looking into the Hudson Yards Project, as it is a good example of an enterprise described as "self-financed" following or based on TIF since it is 10 times bigger than similar undertakings, in order to examine the true risks and costs of this financing method used for many US urban redevelopment projects.<sup>1</sup> This study was published in November 2018 when construction of the major buildings for the Hudson Yards Project were almost completed.

The outline of the discussion by Fisher et al. is as follows.

COST TO THE CITY	AMOUNT (\$ Million)
INTEREST SUPPORT PAYMENTS	359
TAX BREAKS <sup>13</sup>	1,404
COST OVERRUNS and SPILLOVERS	400
<b>TOTAL</b>	<b>2,163</b>

Table 7 - The Actual Cost to the City of the Hudson Yards Project B.Fisher & Flavia Leit, 2018  
 Source: Authors' estimates  
[https://www.economicpolicyresearch.org/images/docs/research/political\\_economy/Cost\\_of\\_Hudson\\_Yards\\_WP\\_11.5.18.pdf](https://www.economicpolicyresearch.org/images/docs/research/political_economy/Cost_of_Hudson_Yards_WP_11.5.18.pdf)

Figure 7- 1

- 1 Other than the cost covered by HYIC's \$3.5 billion bond issuance, New York City is responsible in using its general revenue budget for the project, including: i. Interest payment support totaling \$359 million; ii. At least \$1404 million in tax

breaks from PILOT, etc; iii. As mentioned in 6.2, \$218 million in overrun costs from delays in construction; iv. At least \$182 million of spillover costs, due to the development of schools and cultural facilities in the area. In total the city had to bear \$2.2 billion.

- 2 From an economics perspective: i. \$3.5 billion was assigned exclusively to the Hudson Yards Project from the limited general revenue of the City, which is mainly attained from fixed property taxes (as stated in 1). It was also a large opportunity cost to have the unexpected burden of \$2.2 billion as described in 1, worth 2.3% of the City's budget for 2019. ii. The reason for the redevelopment of Hudson Yards was (as mentioned in 3.2, 4.3) to capture demand for new offices in the New York area and to recover the decreasing number of office tenants in Manhattan. However, 90% of office tenants moving into the Hudsons Yards relocated from Midtown. This "new versus old" problem, where new offices are preferred, can be seen not only in Manhattan but also broadly. The side of Hudson Yards with Midtown is beginning to fight against this movement away by rezoning and building new construction. In the long run, it could be said that Hudson Yards kept tenants in the area that would have left otherwise, and increased demand across Manhattan. However, early

<sup>1</sup> Since the ordinary TIF only uses the increased amount in property taxes as a financial resource for the project, the Hudson Yards Project, which directly receives the amount equivalent to the property tax from PILOT and residential property, is out of the definition of TIF. However, we believe it was assumed to be based on TIF, as the low-

density manufacturing industry was originally centered in this area, and a dramatic increase in tax revenue compared to the past was expected due to the development of residential assets and commerce with large asset values.

evidence suggests that these movements simply relocated economic activities into Hudson Yards rather than acquiring new demand.

- 3 In Summary, i. The Hudson Yards Project had the common financial risks prevalent to large projects. The way to deal with these risks was not clearly defined, and the City had to bear it in the end. ii. TIF-type projects were described as financially self-sustaining, as was Hudson Yard. However, in reality \$2.2 billion became the burden of taxpayers. iii. TIF proponents said that Hudson Yard could not be redeveloped without TIF-type infrastructure development. However, that argument (without public debate) cannot justify an unplanned \$2.2 billion cost. It is necessary to study the pros and cons of undertaking such a project, including taking into account the actual cost.
  - iv. TIF's false "independence" allows municipal politicians to commit to economic growth while pretending to follow fiscal discipline. However, in reality each project has a time lag from the initial investment to a realization of income, and as has been seen in the case of Hudson Yards, TIF cannot finance the common risks of various obstacles, such as construction costs running over budget, income shortages, costs of the ripple effect caused in consequence to other issues, and an economic recession.
  - v. In the case of Hudson Yards, New York City's budget and economic size allowed for the project to be completed, which would have been challenging for other municipalities to accomplish.
  - vi. This study documented the costs of the Hudson Yards Project so that relevant parties could make appropriate decisions about the benefits of the development. However, further studies with

greater transparency are desired.

## 8. Consideration

- 1 In the Hudson Yards Project, zoning was implemented so that high-density development could be established around a subway station. Also, by establishing a dedicated organization, infrastructure and urban development was carried out under the cooperation and coordination of the parties concerned. In addition, various methods for collecting development profit (taxes or levies replacing taxes, and sales of development rights) and accessing financing mechanisms (40-year super-long terms, deferral of principal payments until sufficient income was obtained<sup>2</sup>) were taken. There are many points that can be used as a reference in establishing a method using TOD, and cultivating a profit for infrastructure development. Furthermore, with the fact that states and cities under the federal system have autonomy for planning and taxation, these local governments are considered to have the capability to create new and flexible systems.
- 2 According to a study by The New School, de facto tax cuts by PILOT account for two-thirds of New York City's financial burden outside of projects. The tax reduction by PILOT was substantive<sup>3</sup> compared to the total project costs of each building, and it was not hard to imagine that it became an incentive for developers to make investment decisions. On the other hand, the justification for a tax cut for offices, that rents would decrease as the area was located further away from the midtown business area, turned out to be gratuitous. It became clear that the Hudson Yards were sufficiently competitive, with the same level of rent as Midtown. It would be interesting to see if the

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<sup>2</sup> For example, compared to Japan's railway maintenance system, in Japan, the deferment period of the paying principal is set specifically. If it is necessary to extend the period of deferment, it is required to renegotiate with the concerned parties. In the case of the Hudson Yard, they have a built-in mechanism that does not require

readjustment of the term until income stabilizes.

<sup>3</sup> For the 55 Hudson Yards, the discounted cash flow of the tax reduction was about 6% compared to the total planned construction cost applied.

demand for development would not have been as strong without the tax cuts by PILOT, or without such a range of tax cuts. However, the Project opened for businesses 13 years after forecasts were made in 2006. This shows the difficulty of accurately forecasting future real estate markets, and designing a financial system in response.

- 3 The Hudson Yards Project's financing methods had limitations when addressing common risks prevalent in large-scale projects, including construction costs that went over budget, income shortages, added costs as a consequence of other disruptions to the project, and economic fluctuation.

Ultimately, the credit rating of the HYIC bond benefitted by having New York City's good finances in the background. The project was not financially fully independent, as it received support for initial interest payments from the City. Furthermore, it enabled New York City to clearly incorporate interest payment support into the financing system for its bonds from the beginning.<sup>4</sup> In general terms, it shows that the involvement of a government with large finances and a taxation authority is necessary to take risks for large projects.

- 4 The Hudson Yards Project was undertaken in the United States, which is a mature and advanced country. In the case of Asian countries that are undergoing rapid economic growth, it would be interesting to see if a project that relies on this kind of development profit would be financially self-sustaining, and what its limits would be. Japan's high-growth period may be helpful as an example.
- 5 Transit-oriented development is generally expected to

have the effect of increased public transport ridership and the stabilization of public transport management. However, discussion on the impact of subway operations at the Hudson Yards Project did not seem to happen. This is because of the fact that public transportation in the United States, including New York City, cannot cover operating expenses with fare revenue alone,<sup>5</sup> and is subsidized by states and cities. Thus, discussions on independently extending individual lines were not considered necessary.

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<sup>4</sup>Independent administrative Institutions in Japan are also given a credit rating similar to that of Japanese government bonds, taking into account the "possibility that the government will provide the necessary support", etc., making it possible to issue bonds with low interest rates. 39)

<sup>5</sup>New York City Transit Authority, one of the five MTA entities that operate the New York City subway, generated \$3,661 million in operating revenues in the first 9 months

of the 2018 fiscal year. It covered only 45% of operating expenses of 8,068 million. 37) The weekday average passenger numbers of the 34th Street / Hudson Yard Station on Line 7 which opened in 2015 in Hudson Yard were 2,064, 8,507 and 10,082 in 2015, 2016 and 2017, respectively. It is necessary to keep an eye on because these numbers are from the time when numbers of openings of buildings were still low. 38)

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