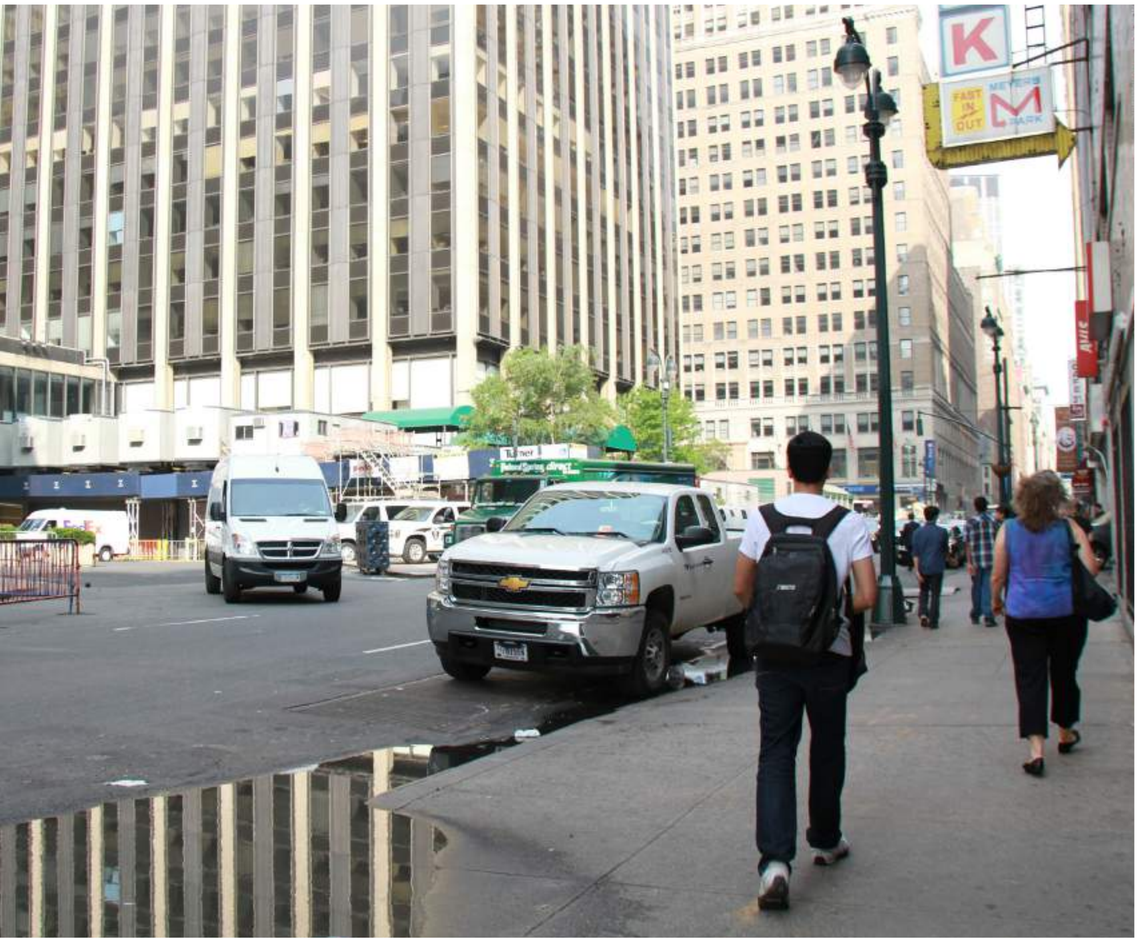

UNLOCKING PENN'S POTENTIAL

Establishing a Penn Station Redevelopment and Revenue Capture District

The Municipal Art Society of New York

MASNYC

July 2013


MOE'S

UNLOCKING PENN'S POTENTIAL

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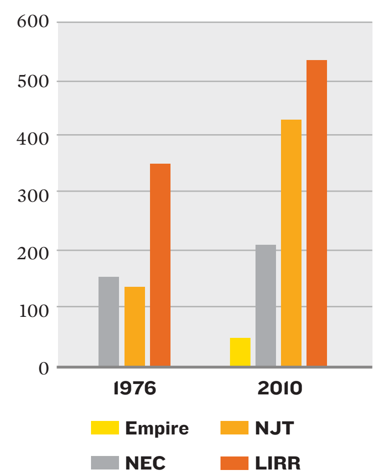
LIRR Customer Service
LIRR Amtrak NJ Transit
7th Av & Subway

Introduction

New York City's Pennsylvania Station complex, commonly known as "Penn Station," serves Amtrak, the Long Island Rail Road, New Jersey Transit, as well as the A, C, E and 1, 2, 3 New York City subway lines. The station plays a critically important role in the vast economy that stretches along the nation's Eastern Seaboard, yet Penn Station has suffered decades of neglect. Current usage levels are well beyond the station's designed capacity, and major investments are needed to improve the experience and functionality of the station, address issues of public safety, and meet projected transit ridership growth over the next several decades. The Moynihan Station project, which will transform the Farley Post Office, located across 8th Avenue from Penn Station, into Amtrak's new home in Manhattan, is an important step toward relieving some of the congestion at Penn Station and improving the station's functionality. However, the Moynihan Station project alone isn't enough to fully address Penn Station's many challenges: it must be coupled with improvements made to the core of the station.

Major investments are needed to improve the experience and functionality of Penn Station.



Penn Station train traffic has increased dramatically, from 661 total weekday trains in 1976 to 1248 total weekday trains in 2010.

Sources: *Amtrak Gateway Project presentation, February 2011*

A Penn Station Redevelopment and Revenue Capture District

This report explores creating a Penn Station Redevelopment and Revenue Capture District (“District”) as a potential funding opportunity for incentivizing the relocation of Madison Square Garden, building a new Penn Station, and working to continue improvements at Moynihan Station. Such a district would be an important piece of a larger financing package that would likely include support from the Federal, State, and City levels; changes in ticket prices; and the potential creation of a special assessment district, among other sources.

A Penn Station Redevelopment and Revenue Capture District could add billions of dollars of additional revenue to the City of New York through real property tax and other payments. Additionally, bonds could be issued against such revenue streams to fund capital costs for needed improvements. Based on a number of given assumptions, this report concludes that the net present value of bonus payments alone from the proposed District alone would be an estimated $1.3 billion, at a 6.5% discount rate.

Why Now?

The core of Penn Station is located underneath the Madison Square Garden sports and entertainment arena (“MSG”). With MSG on top of Penn Station, it is structurally impossible to adequately address the station’s congestion, safety issues, and limited transit capacity. MSG’s numerous support columns punctuate the station’s platforms, limiting ingress, egress, and overall circulation.

The constraining effect of the location of MSG above Penn Station has been brought to the fore by the pending application to the City of New York for a renewal of the arena’s special permit. City Council Speaker Christine Quinn announced in June 2013 her support for a 10-year limit to MSG’s special permit to operate above Penn Station and called for a renewed effort to plan for the eventual relocation of MSG to a new site and for the construction of a new, improved Penn Station.

Madison Square Garden’s position on top of Penn Station limits the improvements that can be made to the station below.

Relocating MSG from its current location directly on top of Penn Station, building a new world-class Penn Station transit center at its current site, and, in tandem, rezoning the large geographic area proximate to Penn Station for new office, hotel, and residential development will unlock an extraordinary amount of economic and real estate value within the Penn Station Business District, benefiting both public and private interests well into the future.

Penn Station: Context

N
0 1000' 2000'

Proposed Penn Station Redevelopment and Revenue Capture District

Sources: *CUNY Mapping Service at the Center for Urban Research, NYC Department of City Planning, NYC Department of Information Technology & Telecommunications*

Penn Station and the surrounding area lacks appeal for pedestrians and needs substantial upgrades.

An Undervalued District

Despite being the busiest transportation hub in the Western Hemisphere and located within the nation's largest central business district, Penn Station has never served as a major hub for high quality office or other mixed-use development befitting its size and regional connectedness. This is unlike Grand Central Terminal on Manhattan's East Side or other great transportation centers around the world.

The district surrounding Penn Station is unappealing to pedestrians and requires substantial upgrades to its public realm. The district remains significantly underdeveloped with mostly outdated office, retail, and hotels, very little of which contribute to New York City's ability to retain its prominence and competitive position as a global business center.

Companion Report

In March 2013, two of the region's most prominent civic groups - the Regional Plan Association (RPA) and Municipal Art Society - launched a public campaign to overhaul Penn Station: The Alliance for a New Penn Station.

To help imagine what a new station and arena might look like, MAS initiated a visioning and design challenge with firms Diller Scofidio + Renfro, H3 Hardy Collaboration Architecture, Skidmore, Owings & Merrill (SOM) and SHoP Architects. Designs were presented on May 29th, 2013 at the Times Center. This challenge was meant to inspire the imagination as we begin to grapple with the site's complex transportation, design and public realm issues. Each firm explored the potential of a relocated arena and a new station, elaborating on how this new arrangement will improve the regional transit network and the commuter experience, serve as place making anchors with improved public spaces, and better connect to the surrounding area.

In July 2013, MAS and the RPA will publish *It's About Time: Why This is the Right Time to Build a New Penn Station and the Next Madison Square Garden*, giving detail to what a new Penn Station means for New York City and laying out a roadmap for the next 10 years.

It's About Time outlines the policy arguments underpinning the design challenge and the RPA and MAS' position for creating a plan for a new Penn Station and the next MSG. The report additionally outlines the significance of Penn Station's current constraints while recognizing that MSG is an important economic and cultural asset.

When published, *It's About Time* will be available for download on the MAS website: **www.mas.org**


RVCA

Creating a Redevelopment and Revenue Capture District

The regional public sector must unite to create a plan to invest in safety, experiential, and capacity upgrades to Penn and Moynihan Station if the city and region are to continue to thrive. A major component of this plan would be the creation of a land use and real estate development strategy, aimed at spurring development around Penn Station and channeling a portion of the resulting revenue to pay for needed investments. Creating such a plan would be a substantial undertaking, involving close coordination among city, state, and federal governments to do transportation planning, land use, and zoning analysis, a thorough and deep real estate market analysis; and, potentially, a financing/debt issuance program.

The analysis in this report is not intended to be this plan. Instead, it is meant to give an indication of the magnitude of revenues potentially generated by it.

Creating a plan for Penn and Moynihan Stations and the surrounding district is a substantial but vital undertaking.

Submarket	Inventory	Overall Vacancy Rate	Year to Date Leasing Activity	Overall Weighted Average All Classes Gross Rental Rate	Overall Weighted Average All Classes Gross Rental Rate
Murray Hill	14,366,499	6.60%	97,705	$48.66	$48.66
Grand Central	43,970,528	12.40%	783,181	$58.00	$58.00
United Nations	2,669,648	1.40%	1,481	$54.41	$54.41
East Side	18,894,525	8.30%	175,534	$59.91	$59.91
Park Avenue	21,652,799	9.10%	225,161	$80.42	$80.42
Madison/Fifth	24,670,627	14.10%	339,596	$98.16	$98.16
6th Ave/ Rockefeller Center	40,227,482	10.20%	466,927	$71.57	$71.57
West Side	29,329,831	8.60%	299,399	$58.35	$58.35
Penn Station	**14,591,335**	**9.50%**	**252,967**	**$47.51**	**$47.51**
Times Square South	31,091,607	9.30%	392,636	$54.56	$54.56
All of Midtown		**10.10%**	**8.30%**	**$66.34**	**$66.34**

Midtown Office Rental Rates Comparison, 2013

Cushman & Wakefield defines the Penn Station office district as Sixth Avenue and west to the Hudson River and north 30th Street north to north 35th Street.

Sources: *Cushman & Wakefield 1Q 2013 MarketBeat report*

Challenges....

The Penn Station area is predominantly known as an office and retail district, but one with significant economic challenges. While there has recently been improvement in the quality of retail in the district, particularly along West 34th Street east of Penn Station, many of the buildings remain rundown. The Penn Station office district, according to the Cushman & Wakefield 1Q 2013 MarketBeat report, has the lowest overall rental rate of any of the Midtown submarkets. The district is dominated by aging office buildings from the 1960s, such as 1 and 2 Penn Plaza, as well as pre-World War II office buildings and former garment industry lofts. The entire office stock is more than 50 years old, and the area has had no significant, new Class A construction of the type that has occurred in the nearby Times Square submarket.

.... And Opportunities

However, the area can build on its extraordinary strengths, particularly that it has the best public transportation infrastructure in the country and is surrounded by thriving commercial districts. While limited, there are a few successful public

Funds from a Redevelopment and Revenue Capture District could be used to create new public spaces in and around Penn and Moynihan Stations.

spaces in the area, such as the front steps of Moynihan Station. Further, the growth of areas to the west of Penn Station, like the Hudson Yards mixed-use district, West Chelsea with its galleries, high-end residences and amenities like the High Line, and Clinton to the Northwest, will bolster Penn Station as a place to work, shop, live, and visit.

Background and Precedents

The Penn Station area now is zoned for a mix of uses at medium to high densities, with commercial zoning districts around the station and on the avenues, and with manufacturing and residential zones sprinkled throughout the district.

This pattern does not make sense given current market realities and trends. There are several examples of appropriate high-density development happening in coordination with transit improvements, such as the Hudson Yards and the 7 subway extension. The Penn Station area presents tremendous redevelopment opportunities, if further transit improvements are secured.

This analysis draws heavily on a proposed rezoning and redevelopment plan that was prepared by the New York City Department of City Planning (DCP) in 2007. That plan included a draft of a development scenario that identified approximately 30 medium and large-scale potential development sites. The concept was to allow transfer of surplus or unused development rights ("TDRs") from the Farley Building and MSG sites to receiving sites within a "core area" of approximately a two-block radius in all directions (from the west side of

A new Penn Station could provide new high-end retail and dining opportunities, much like Grand Central.

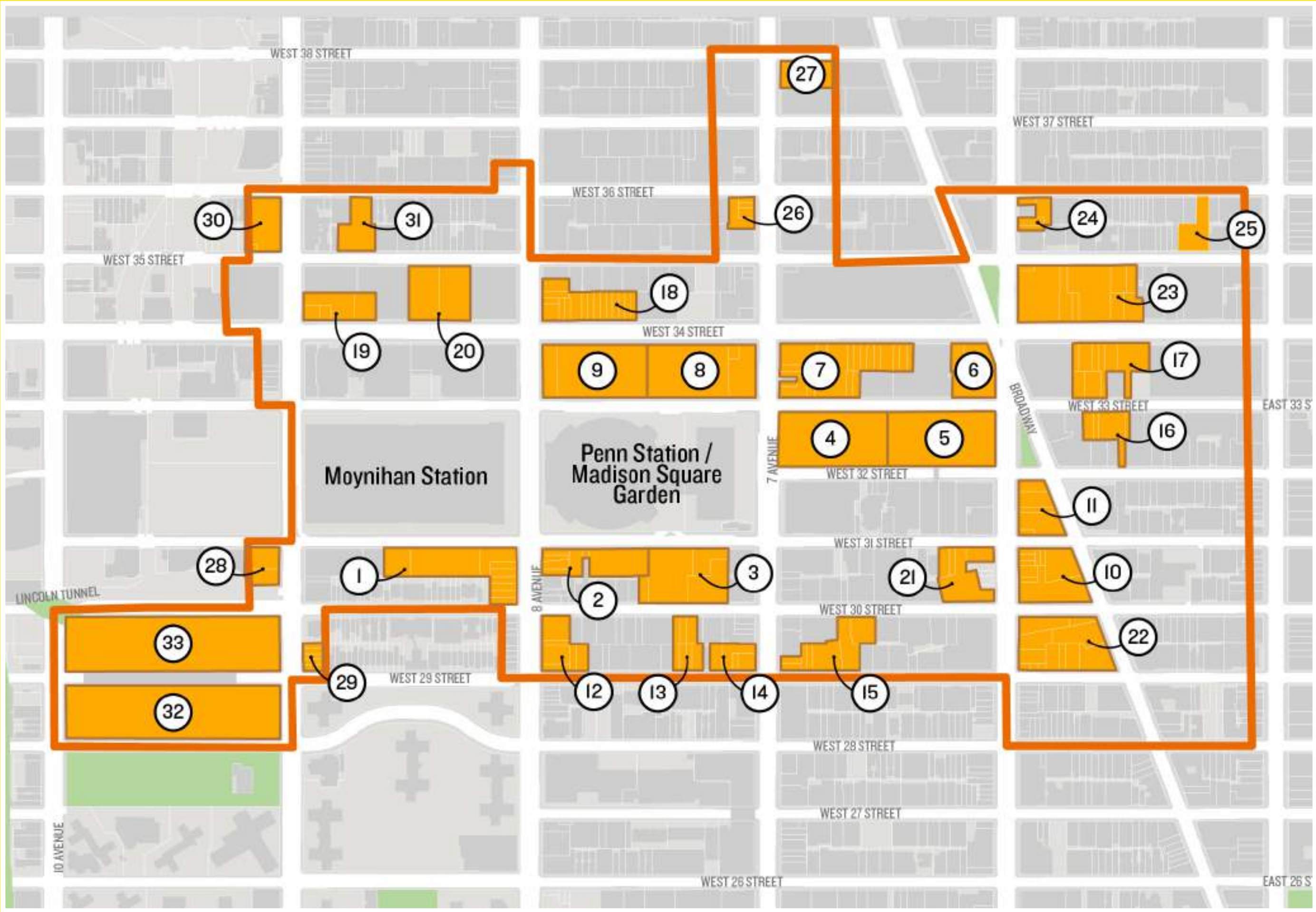
9th Avenue to within 100 feet of 5th Avenue). The "core area" would have allowed, through TDR receipts, up to 24 FAR of development, with certain sites called out for special treatment (maximum FAR of 30 on one block and lower FARs on others), and a "periphery area" extending another block or two and allowing generally lower maximum densities.

The City's 2005 Hudson Yards rezoning and development plan informs the thinking behind this analysis. In Hudson Yards the zoning bonus "district improvement fund" and transfer of development rights on a very large scale as part of a financing program was pioneered in New York City.

Proposed District Concept and Assumptions

Like the 2007 DCP proposal, this analysis assumes that the District should be upzoned to allow a greater overall density and wider mix of uses. We have made the assumption that the entirety of the District could support development at the 24 FAR level. Most of the potential development sites are on avenues, many with corner lots or full block-fronts, and the entirety of the area is well served by public transportation. By way of comparison, in the core commercial area of Hudson Yards, maximum FARs range from 20 FAR to 33 FAR.

We reviewed the development sites identified in the DCP 2007 study, removing a few that have since been built on or that have advanced development plans. We have evaluated a slightly larger geographic area, and certain additional sites were added that have potential for substantial future development which contain smaller buildings built to less than 50% of proposed density, and with few or no residences. The assumption is that if the area is rezoned, a time horizon for full build-out of 30 years would be appropriate and sufficient.



Preliminary Potential Development Sites

0 500' 1000'

Proposed Penn Station Redevelopment and Revenue Capture District

Potential Development Sites

Note: these potential development sites are conceptual. A full study, including a historic resources survey, would have to accompany the creation of any potential Penn Station Redevelopment and Revenue Capture District.

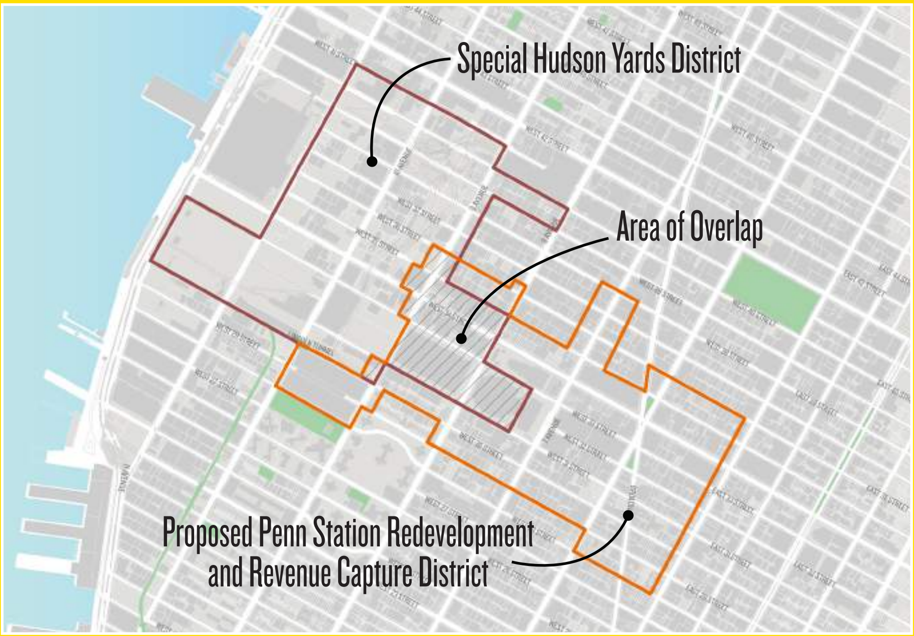
Sources: *CUNY Mapping Service at the Center for Urban Research, NYC Department of City Planning, NYC Department of Information Technology & Telecommunications*

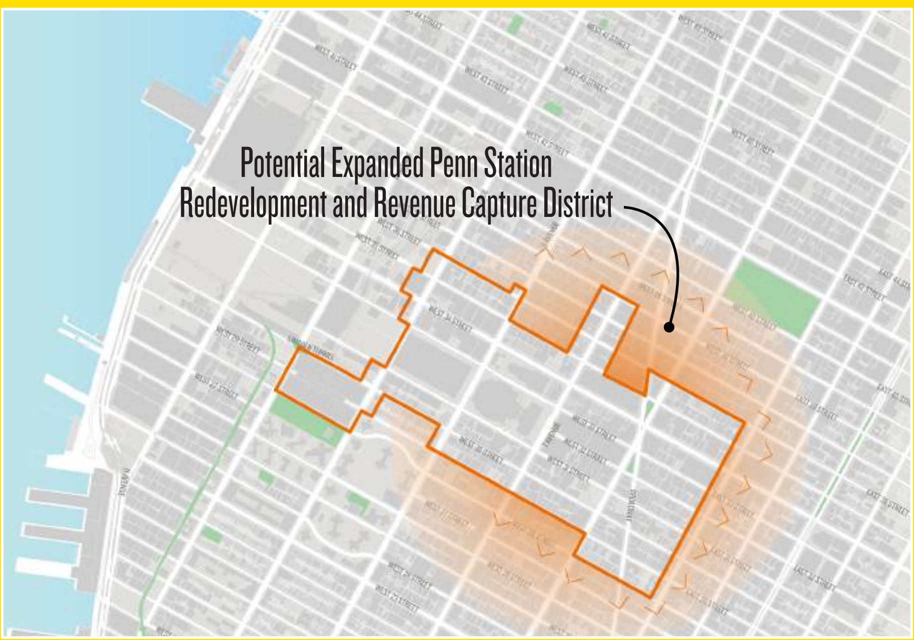
Preliminary Potential Development Sites

Site	Block	Lot(s)	Address
1	754	36,37,38,39,40,41,44,51,63	403 8th Ave
2	780	60,70,71,73,74,75,76	232 West 31st Street
3	780	17,19,26,45	239 West 30th Street
4	808	7501	139 West 32nd Street
5	808	40	1275 Broadway
6	809	45, 49	1311 Broadway
7	809	1,3,5,8,16,,17,18,59,60,61,62, 64-	421 7th Ave
8	783	p/o 70,34,48	420 7th Avenue
9	783	1, p/o 70	460 8th Avenue
10	832	1,5,6,17,76,77,78,79,80	856 6th Ave
11	833	1,6,10,75,78	876 6th Ave
12	779	1,2,5,7,8,75,	400 8th Ave
13	779	25,26,27,28,53,55,56	225 West 29th Street
14	779	31,35,36,39	342 7th Avenue
15	805	1,2,5,6,7,82,87	341 7th Ave
16	834	21,66,69,72,73	37 West 32nd Street
17	835	9,11,56,61,63,64,65,67	49 West 33rd Street
18	784	1,4,5,6,7,8,10-18,80	480 8th Ave
19	758	1,5,7,14	432 9th Ave
20	758	16,25,28	333 West 34th Street
21	807	34,43,48,50	109 West 31st Street
22	831	1,2,4,5,6,7,9,10,14,64,68,78	836 6th Ave
23	836	1,7,9,10,15,16,18,65,83	1302 Broadway
24	837	4,5,14,84,87	72 West 36th Street
25	837	30	9 West 35th Street
26	785	41,43,45,46	470 7th Ave
27	813	64	515 7th Ave
28	728	7501,34	365 9th Ave
29	753	1,2,3,4,5	332 9th Ave
30	733	30,31	451 9th Ave
31	759	8	357 West 35th Street
32	726	1	Morgan Postal Facility
33	727	1	Morgan Postal Facility

Site	Lot Area	Existing Building Area	New Base FA	Max FAR	Max Floor Area	Bonus Floor Area
1	46,893	235,000	468,930	24.0	1,125,432	656,502
2	15,525	218,000	155,250	24.0	372,600	154,600
3	43,726	320,000	437,260	24.0	1,049,424	612,164
4	79,000	1,200,000		NA	2,100,000	-
5	79,002	1,100,000	790,020	24.0	1,896,048	796,048
6	29,059	311,000	290,590	24.0	697,416	386,416
7	90,098	498,000	900,980	24.0	2,162,352	1,261,372
8	30,000	20,000	-	24.0	720,000	700,000
9	40,000	15,000	-	24.0	960,000	945,000
10	45,360	245,000	453,600	24.0	1,088,640	635,040
11	25,785	215,000	257,850	24.0	618,840	360,990
12	27,210	93,000	272,100	24.0	653,040	380,940
13	20,768	25,000	207,680	24.0	498,432	290,752
14	16,209	159,000	162,090	24.0	389,016	226,926
15	31,123	115,000	311,230	24.0	746,952	435,722
16	19,992	80,000	199,920	24.0	479,808	279,888
17	44,180	182,000	441,800	24.0	1,060,320	618,520
18	40,018	126,000	400,180	24.0	960,432	560,252
19	19,110	23,000	191,100	24.0	458,640	267,540
20	77,143	560,000	771,430	24.0	1,851,432	1,080,002
21	30,332	174,000	303,320	24.0	727,968	424,648
22	64,713	298,000	647,130	24.0	1,553,112	905,982
23	85,817	780,000	858,170	24.0	2,059,608	1,201,438
24	14,822	36,783	148,220	24.0	355,728	207,508
25	16,700	69,000	167,000	24.0	400,800	233,800
26	10,977	104,111	109,770	24.0	263,448	153,678
27	19,750	102,835	197,500	24.0	474,000	276,500
28	16,061	46,000	160,610	24.0	385,464	224,854
39	6,974	15,999	69,740	24.0	167,376	97,636
30	24,811	-	248,110	24.0	595,464	347,354
31	21,396	40,107	213,960	24.0	513,504	299,544
32	158,000	NA	790,000	11.0	1,738,000	948,000
33	158,000	NA	790,000	11.0	1,738,000	948,000
TOTAL	**1,448,554**	**7,406,835**			**30,861,296**	**16,917,616**

Additional Considerations





Hudson Yards

Any proposal for a new Penn Station Redevelopment and Revenue Capture District must take into account current development already occurring in the area. Based largely on the 2007 DCP proposal, the conceptual border shown in this report overlaps with the existing Hudson Yards Redevelopment District. This overlap spans from 31st to 35th Street and as far east as Madison Square Garden.

If capturing revenue from these properties in the overlap is not possible, the Penn Station District could possibly be expanded to the north and east.

Moynihan Station

Similarly, any proposed Penn Station Redevelopment and Revenue Capture District must prioritize any unsold air rights from Moynihan Station, a critical piece of funding for the project.

In the calculation of development potential we assumed that one-third of all development sites would not be built on during the study period, recognizing that all assemblages will not be feasible even over 30 years (and as a partial corrective to the gross assumption that all sites could support 24 FAR). We further assumed that any rezoning would allow for a mix of uses, including office, retail, hotel, and residences. Again while recognizing that a full study of the appropriate mix of uses would need to be performed, for purposes of sizing the potential development, we assumed that the new-build would be approximately 50% office, and 25% each for hotel/ retail, and residential.

Unlike the DCP 2007 proposal we have not focused on a TDR scheme. Under the present analysis we assumed that in the case of each identified development site the property owner could redevelop as-of-right to the greater of the existing built floor area or 10 FAR. Owners wishing to maximize the development potential of their site to 24 FAR would be required to make a bonus payment for floor area above the base FAR allowed.


Skidmore, Owings & Merrill LLP (SOM)

Integration of high-speed rail and a new Penn.

Establishing a Revenue-Capture Entity

In order to fund a portion of the capital costs for improvements to Penn and Moynihan Stations, the City could establish an entity that would receive bonus payments, and potentially other revenue streams such as payments in lieu of real property taxes ("PILOTs"), payments in lieu of mortgage recording taxes ("PILOMRTs"), and payments in lieu of sales taxes ("PILOSTs"). This is the model that was utilized in Hudson Yards, where the Hudson Yards Infrastructure Corporation ("HYIC") was established and issued $2 billion in 2006 and $1 billion in 2011 of bonds backed by pledged future revenues to fund the No. 7 subway extension and certain park construction. The entity could fund improvements on a pay-as-you-go basis, or more likely, issue bonds for capital projects backed by its dedicated revenues. It should be noted that one issue that would have to be worked out in any such arrangement is that the capture area of HYIC already includes a portion of the Penn Station area.

A reimagined Penn Station concourse.

Special Consideration Sites

The two-block site of the Morgan Postal Facility on 9th to 10th Avenues is a special consideration, as it is being considered as a potential location for a relocated MSG. The site is large enough to accommodate a new MSG as well as significant new residential development, including affordable housing. The assumption was made that it would be redeveloped at a maximum density of 13 FAR (allowing for a base or as-of-right development of 9 FAR housing, 1 FAR commercial or community facility space, and a 2 FAR Inclusionary Housing Bonus).

Two additional sites require special attention. The block bounded by 7th and 8th Avenues and West 33rd and West 34th Streets, currently containing the One Penn Plaza office building, is a special case. As in the 2007 DCP proposal, we assumed that all new development on the block would be accomplished through a bonus payment. In 2010 the City rezoned the site of the Hotel Pennsylvania to allow it to be redeveloped as a 2.1 MSF office building, which was to be called 15 Penn Plaza. Because of that rezoning that site would not require bonus floor area in a likely development scenario.

Conclusion

Under these assumptions the following potential development program and revenue magnitude emerges:

- 33 identified potential development sites or zones, currently containing approximately 7.4 MSF of space;
- The aggregate development potential at 24 FAR of these 33 sites would be approximately 30.9 MSF;
- Assuming that 1/3 of the sites are not redeveloped, or that a more tailored ultimate zoning program results in lower effective densities, a build program of 20.7 MSF results, requiring bonus payments on 11.0 MSF;
- Assuming the 50/25/25% split among major uses this results in approximately 10.4 MSF of new office space, 5.2 MSF of new hotel/retail space, and 5.2 MSF of new residential space, amounts of space that should be able to be readily absorbed in this enormous market within a 30 year period;
- A payment per bonus square foot of $200, escalating at 2.5% per year, is reasonable given current land values in Midtown. Assuming annual absorption of the potential new space evenly over 30 years and a proportional bonus payment, the net present value of the bonus payments alone would be $1.3 billion, at a 6.5% discount rate;
- Real property tax payments, and other payments like PILOMRT and PILOST, even assuming the need for some incentives for office development, would add billions of dollars of additional revenues to the City of New York;
- Bonds could be issued against such revenue streams to fund capital costs of improvements to the Penn Station complex.

The proposal for a Penn Station Redevelopment and Revenue Capture District is an attempt towards creating a viable funding plan for incentivizing the relocation of Madison Square Garden, creating a new Penn Station, and providing for additional improvements at Moynihan Station and the surrounding area. This piece would be part of a larger package of funding options that would likely include funding from the Federal, State and City levels; changes in ticket prices; and possibly the creation of a special assessment district, among other sources.

All of these funding sources together are necessary for taking on the challenging — but essential — task of creating a new Penn Station.


Exit

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Primary Author
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William H. Wright, II
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MAS Staff
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