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## Gaining Momentum at Hudson Yards



Jay Cross

### Interviewee

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### Jay Cross

Jay Cross is President of Related Hudson Yards, leading the financing, planning, and construction efforts of the 11.3-hectare Hudson Yards development on the west side of Manhattan. Cross has over 30 years of diversified real estate and business experience and has conceptualized and executed on some of the most high profile and impactful development projects in the United States, United Kingdom, and Canada. Cross has expertise across all aspects of real estate development, having begun his career at both contracting and architectural firms and held senior executive positions at real-estate development and investment companies, public entities and sports franchises with large-scale, complex urban development challenges. Cross holds a Bachelor's degree in Nuclear Engineering from the University of Toronto and a Master's degree in Architectural Technology from Columbia University.

On the cover of this issue, and on the Technical Tour agenda of the 2015 New York Conference, Hudson Yards is the largest private real estate development ever undertaken in the United States (see case study, page 12 for more details). The site, built over a working rail yard, will eventually hold more than 1.57 million square meters of commercial and residential space, with five office towers, public space, retail, a school, and 5,000 residential units. CTBUH Journal Editor Daniel Safarik spoke to Jay Cross, President of Hudson Yards, a joint venture between the Related Companies and Oxford Properties, to get a better sense of the developers' perspective on this massive project.

### As the leader of the biggest real estate development in the United States, how are you feeling about progress right now?

I think we're generally thrilled with the progress. We have six buildings under construction in various stages. The infrastructure is well along, with the platform being built up above the railroad track. The leasing has been really outstanding. We think we have set a high water mark for leasing a big project in New York City. We haven't come to market yet with the residential offering, but we will be coming to market in the summer of 2016 with the first two residential towers. So I think everything is coming together as well as we could possibly have hoped. The concept of mixed use, which allows us to bring multiple buildings to market simultaneously that don't compete with each other, is really proving to be to be a great opportunity to all, while allowing us to complete as much as possible.

### How close is the Hudson Yards of today to what was originally planned?

We're developing the Eastern Rail Yards (ERY) pretty much 100% in conformance with the 2005 zoning that had been done to support the Olympic bid. While it took a long time, bear in mind we are talking about not just our swath of land, but 40.4 hectares of land and 3.7 million square meters of floor space. Post-Olympics, the MTA [Metropolitan Transportation Authority] realized that a lot of value had been created. So they extended the Number 7 subway line and began an RFP process, out of which we were selected in the spring of 2008.

## CTBUH 2015 New York Conference

**Hudson Yards, Related and Oxford Properties** are Diamond Sponsors of the conference and will be hosting the **Conference Closing Reception** at the Time Warner Center on Tuesday, Oct. 27 at 6:00 pm



Figure 1. Hudson Yards – view from 30th Street High Line, July 2015. © Jim Henderson



Figure 2. Hudson Yards viewed from its namesake river, September 2015. © Royce Douglas

From that moment, with a rudimentary master plan for half of the yards, we have made remarkable speed. Seven years later, to have roughly 650,320 square meters under construction, the deck over the yards 60% complete (see Figures 1 and 2), and to have more than 371,612 square meters of office space bought or leased – that’s moving very quickly. So now, we have got a lot of momentum. Opening the Number 7 subway will boost that momentum. So hopefully, we’ve got a tail wind at our back at this point.

**The two halves of the development have quite different characteristics. Under construction now, you have the largely commercial ERY with a public space in the middle, and the largely residential Western Rail Yards (WRY) (see site plan on page 15, Figure 6). How are the two envisioned to interact, and, upon opening ERY first, how will the continuing construction on the WRY be accounted for in managing occupant expectations?**

It’s very important to our master plan and development thesis that we develop the maximum amount of residential that the zoning will allow. But in order to get going, you want to do all your commercial development first. If you build 280,000 square meters of commercial, that’s one to three buildings that opens with three anchor tenants. If you build the same amount of residential, you have to feel confident you can bring 3,000 units to market at one time. That is very difficult.

The commercial calculus gives us density and gets the project off the ground. The next thing to deliver is the retail, because the commercial and residential tenants want to know they are moving into a full-amenity development. So, we focused initially on commercial, which by definition means the ERY. We then put the retail in the ERY as part of that commercial trust, to be able to demonstrate to both commercial and residential occupiers that they will have retail to support them. We signed Neiman Marcus about a year ago, and are now leasing out the balance of the retail center.

Next summer, we go to residential. On the ERY it’s two buildings and roughly 400 units coming to market first. That will not overwhelm the

residential market, but it will set the stage for the WRY. At the same time, it will complete a very important entourage of buildings on the ERY. So you’ve got three office buildings, the retail center, the Culture Shed, two residential buildings, and a hotel. So even within itself, you’ve got 650,000-plus square meters of development. Anyone who lives or works there won’t experience it as a construction site. The subway is on the north side, and the High Line is on the south. Everything is connected and done.

Eleventh Avenue separates the two halves. Keep in mind that it is a six-lane viaduct. We are going to beautify it with additional landscaping, but it is a wide street. So when we are building the WRY, we are pretty far away. In the context of New York, where there are construction cranes all over the place, cheek by jowl with existing buildings, I don’t think people are going to find the construction of the WRY to be particularly distracting.

It’s also worth pointing out that we plan to start the WRY as soon as 2017, so by the time ERY opens, a large amount of the infrastructure work on the WRY will have been done, and so it will be a question of building residential buildings one at a time, as quickly as the market will allow us to deliver them.

It would have been more of an issue to have everything still under construction on the Eastern half while tenants were moving in. As it is, the first tenants moving into 10 Hudson Yards (see Figure 3), the first building that will open, know that they are going to have, from late 2016, a good year and a half of construction around them. But in compensation for that they get a good “early bird” deal on the rent, and they are excited to be there.

We’ve been preparing tenants for what they will experience. It is part of every presentation and written into the leases themselves. Everybody is depending on everybody else. So from our point of view, we are keeping all the balls in the air, and they are all going to land simultaneously.

**You have a new investment partner in Mitsui Fudosan of Japan, which has taken a stake in 55 Hudson Yards. Was it always part of the plan to have partners other than Related and Oxford, or did something change?**

It’s very consistent with our plan. Initially, before the financial crisis, the plan was to raise all of the equity in one US\$2 billion fund. Then we would have our equity to build the infrastructure, and from the equity in each building, move forward.

Then the recession hit, and to get the first building going, we went to some more unorthodox financing schemes. We went to certain kinds of investors and lenders for the first building, and we got what we thought was a very effective combination of long-term investors, short-term investors and short-term lenders. We realized then that, that’s the way to do it. For each building there is kind of a unique grouping of investors and lenders that does not necessarily apply to any other building.

Our game plan has always been that Oxford and Related would fund the basic infrastructure on our own with no partners, and then, each building would be financed by the most optimal combination of financing available at the time. Every building has been financed differently and separately, and we don’t have



Figure 3. 10 Hudson Yards nearly tops out. Photo taken on September 18, 2015. © Royce Douglas

“Everybody is depending on everybody else. So from our point of view, we are keeping all the balls in the air, and they are all going to land simultaneously.”

any one investor that is common to more than one building. Mitsui Fudosan was definitely part of our game plan. We have J. P. Morgan Asset Management Group and a sovereign wealth fund in 10 Hudson Yards. In the first residential building we have that same wealth fund, but without any other partners. At 30 Hudson Yards, we are doing it as large commercial condominium, so each tenant is paying for their own space. The retail is being done with Related and Oxford, and we have yet to put together the financing package for 35 Hudson Yards, but we are talking with a different set of players yet again.

**Clearly, Hudson Yards has strong marketing, it will be quite visible on the skyline, and it's at the intersection of the High Line and a new subway line. But with the generally poor condition and visual legibility of Penn Station, which is likely to be the biggest source of traffic, how will Hudson Yards draw people to an area that is off the psychological map of New York most people hold in their minds today?**

Value is usually created where others don't see value. It takes a lot of vision in the early years. Only people with vision are going to come along with you for the ride all the way from the beginning. As it becomes clearer, more people come along. It takes a little imagination to see the vision of what we're creating today, but then it becomes a question of credibility. If you say this is what you want to build, and you show great

renderings, architecture, planning, and you have a proven track record that you will deliver, then people will conclude that you can deliver. Some will say, "I don't want to be late. I need to be there now."

I think we are helped – and this is not something we can take credit for – by what's happened in Chelsea to the south, exemplified but not solely represented by the High Line. Chelsea's on fire right now, with its galleries and new residential. It adjoins the Meatpacking District, which is also successful. The fact that the Whitney Museum decamped from the Upper East Side to go to the bottom of the High Line – all of that is completely independent of Hudson Yards.

So, there is momentum in the area. With commercial tenants, there has been a 20-year-long push south and west, first to Times Square, to the Flatiron District for the creative industries, and now to Hudson Yards. All of that is the result of economic growth going where it needs to be. That is coming to us whether we do anything or nothing. Then we have the public sector, which is doing what needs to be done in terms of transportation and infrastructure. So we have a lot of factors pointing in our direction. The question is, how can we harness them in a timely manner?

Penn Station, for all its challenges, still has three times the volume of Grand Central Terminal. It would be fantastic if it were as glorious as Grand Central. But there is momentum there too, to build the new Moynihan Station, to redo Penn. The fact it has been done with Grand Central proves it can be done, and we will do it with Penn.

You have to take the time – which obviously our commercial tenants do – to study and understand all the factors at work before moving your place of business. Once you do that, and you know the players behind the factors, then you get a lot of enthusiasm. And so, it becomes a question of, "How quickly can you get it done? How quickly can you transform the neighborhood, and how quickly can you make it obvious to everyone?" I think that is our challenge.

To the credit of our marketing department, we have tried to insert ourselves into the everyday discourse of what happens in New York. It's to the point where you overhear people at Art Basel talking about Hudson Yards, and in restaurants on the Upper East Side saying, "Well, of course you have to move out to Hudson Yards – Neiman Marcus is going there." These conversations demonstrate that we have already been able to make an impact.

**Many observation decks on tall buildings around the world are incorporating thrill-ride-type augmentations to keep visitors coming. Do you anticipate doing something like this at 30 Hudson Yards?**

We spent a lot of time analyzing the observation-deck business. It's not like the theme-park business, where you point to established operators who know all about it and have done it for decades. What we have found is that every observation deck around the world tends to be a one-off. We concluded we should do it ourselves, and do it consistently with how we benchmark Hudson Yards in general. And so, everything we do at Hudson Yards, from public space to retail and office, is to build best-in-class. We are taking that approach to the observation deck as well.

We understand the thrill feature, and we contemplate having one, but I can't tell you today that we have it totally designed and we know what it's going to be. And we are not adamant that we have a thrill feature at all. We want to have an outstanding observation deck experience; we will be the highest outdoor deck in New York. We will have a lot of storytelling and narrative technology built into it. What we hope will be a real distinguishing feature is an event space/sky bar/lounge, which we like to say would be a 21<sup>st</sup>-century version of the Rainbow Room. We know expectations in New York will be quite high. We know what our competition is. We have three other observation decks in the city to compete with. We think the market is big enough for all four of us. We want to be different, and if we work hard and are true to our Hudson Yards philosophy, we will be very successful. ■