

Big Midtown Rezoning Eyed

Skyline Could Change Under Plan Being Mulled to Spur Investment Around Grand Central Terminal

BY ELIOT BROWN | JANUARY 14, 2012 | THE WALL STREET JOURNAL

New York City officials are weighing an ambitious plan aimed at remaking a large swath of the Midtown skyline by encouraging building owners to demolish aging structures and replace them with new office towers, according to people familiar with the matter.

The plan, still being hashed out internally, would likely involve a major rezoning of arteries such as Park and Madison avenues, the people said. The new regulations would allow owners to erect larger, modern towers in what officials hope would be an incentive to knock down buildings that no longer draw A-list tenants.

Mayor Michael Bloomberg hinted at the plan in his State of the City address on Thursday, calling for “a package of regulatory changes” to spur investment in the area around Grand Central Terminal.

A spokeswoman for the Department of City Planning, Rachaele Raynoff, said no final decisions have been made. The agency is in the process of studying eastern Midtown, she said, to “understand whether government action is necessary to promote reinvestment in this vital area and make sure it continues to meet the needs of today and tomorrow.”

Privately, city officials have said they expect to complete a study of eastern Midtown—running between about East 40th and 57th streets and Fifth and Third avenues—by the spring, according to people briefed on the plan. Should the city go ahead with the concept, officials intend to bring it before the City Council for approval before the end of Mr. Bloomberg’s term next year.

The effort, being directed by Deputy Mayor Robert Steel, comes as the Bloomberg administration is concerned about the city’s aging stock of office buildings. Rising costs and a scarcity of development sites have limited construction since the 1980s.

According to real estate brokerage CBRE Group Inc., 71% of large office buildings in Manhattan are more than 50 years old.

And developers claim that’s made it hard to attract companies that want modern touches such as higher ceilings, more natural light and more efficient energy use.

City officials and real estate executives have worried for years that other major urban centers—including London and Singapore—could vault ahead in their office offerings.

The concept was born out of a pitch made to the city in mid-2011 by the Real Estate Board of New York, which argued for a more limited rezoning plan that wouldn’t have added additional office space.

City officials came back showing interest in a more elaborate version that could build up the area, people familiar with the matter said.

Since then, the real-estate board, which represents developers and other real estate executives, has pushed the plan behind the scenes, pointing out that the area north of Grand Central is particularly concentrated with older buildings.

Steven Roth, chairman of developer Vornado Realty Trust, has called for the city to dramatically increase the size of buildings allowed on Park Avenue.

“The problem is that our building stock is so damn old, and the oldest of it is right in the sweet spot of our transportation hub,” said Mary Ann Tighe, REBNY chairwoman and chief executive of the New York office of CBRE.

Still, if the plan goes ahead, it would mark the third modern office district the city is fostering at the same time. The city already has directed billions of dollars of investment in building up two other parts of Manhattan—the area around the World Trade Center site and the far West Side of Manhattan—which could potentially compete for the same tenants.

Real-estate executives respond by saying that a rezoned Midtown would likely develop gradually, and wouldn’t be a significant competitor to those other districts.

It’s also unclear how many more air rights the city would need to offer in order to spur owners to tear down their existing buildings. Existing tenants provide guaranteed income, while betting on emptying a building and constructing a new tower is risky.

“If it’s an old building, and its functioning, and it’s tenantable, people just lease it,” said Vishaan Chakrabarti, director of the Center for Urban Real Estate at Columbia University and a former city planning official.

Adding new air rights would help push those owners to rebuild, he said: “We’re never going to get rid of that obsolete space otherwise.”