

THE REAL ESTATE BOARD OF NEW YORK

REBNY ANALYSIS OF GREATER EAST MIDTOWN TDR VALUE



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INTRODUCTION

The City's response (March 22, 2017) to the industry's analysis of the Landauer market study was appreciated. However, the Department of City Planning's (DCP) approach fails to capture the reality of the market for Transfers of Development Right (TDR) sales in three important ways: 1) the valuation relies on land sales to approximate TDR sales instead of studying actual TDR sales; 2) the Landauer report applied inflated growth rates despite market evidence to the contrary; and 3) half of the land sales that were used to determine the current floor price are systematically overvalued as a result of a failure to account for significant benefits offered to sites within Hudson Yards.

The goals of the Greater East Midtown rezoning were to revitalize an aging office stock, provide public realm improvements, and fund the continuing maintenance and operation of our treasured landmarks. In order for this vision to be realized, significant development must occur. The City's stated floor price of \$393 per square foot (psf) jeopardizes the goals of this rezoning.

The purpose of this memo is to determine a fair and accurate value for development rights in East Midtown so necessary development can occur. REBNY maintains that the market should determine the value of TDRs and the City should collect twenty percent of the proceeds to fund public realm improvements. However, REBNY does acknowledge the need to determine the contribution amount for overbuilt floor area, making an accurate valuation necessary.

TRANSFER OF DEVELOPMENT RIGHTS SALES

The City's response does not adequately address a fundamental objection raised by REBNY, namely the failure to rely on actual TDR sales to establish a floor price. TDR sales provide a far more appropriate and accurate view of the value of TDRs in Greater East Midtown. Using the TDR transactions for office and hotel use cited in the Landauer report, and applying the City's methodology of taking the lower quartile of the ten most recent sales, the value of TDRs is approximately \$179 psf. See Attachment 1.

MARKET GROWTH RATES

There is no market-based evidence for the upward price adjustments used to reflect the supposed market growth rate. In fact, while the Landauer study applied growth rates on land sales as high as 94% for some of the transactions, their study found that the value of TDRs over the eleven years reviewed is generally flat, if not declining (see Attachment 2). The divergent trend lines demonstrate that TDRs and land are different assets. Therefore, any upward price adjustments would be inappropriate to apply to TDR values.

HUDSON YARDS DEVELOPMENT RIGHTS

An analysis of land sales in Hudson Yards lends further support for establishing a lower contribution price for overbuilt floor area in East Midtown. The Hudson Yards sales used in the Landauer report were effectively overvalued and systematically misapplied, since they did not factor in the significant benefits offered in Hudson Yards. In these sites, developers were able to procure additional development rights, both by purchasing them from the Eastern Rail Yards and by contributing to the District Improvement Fund, for a far lower price per square foot than the cost of land. Additionally, the available tax benefits, estimated at roughly \$70 psf, should have been considered. When all of these relevant economic factors are taken into account, the true value of development rights for a Hudson Yards site drops to \$178 psf. See Attachment 3.

CONCLUSION

An analysis of past TDR sales, which mirrors the City's own methodology, supports a TDR value of approximately \$179 psf.

While \$393 psf may be an aspirational price for the value of TDRs in East Midtown, it does not represent market value, and certainly not the floor. If \$393 psf is intended to represent the floor of the market, it should be noted that the Landauer market study does not list a single sale of office TDRs that meets that price. The fact is that no willing buyer with a site in Greater East Midtown will pay \$393 for TDRs, and no willing seller will want to contribute nearly 45% of their sales price (\$78.60 divided into the true market value of \$179). Instead of guessing TDR value, the City should allow the market to determine the value.

REBNY welcomes and supports the efforts to revitalize our city's most important office district. This rezoning is needed to invigorate development in East Midtown, while also funding much needed public infrastructure. Unless the valuation used in East Midtown is fair and accurate, all the aspirations for commercial revitalization and an enhanced public realm will be for naught.

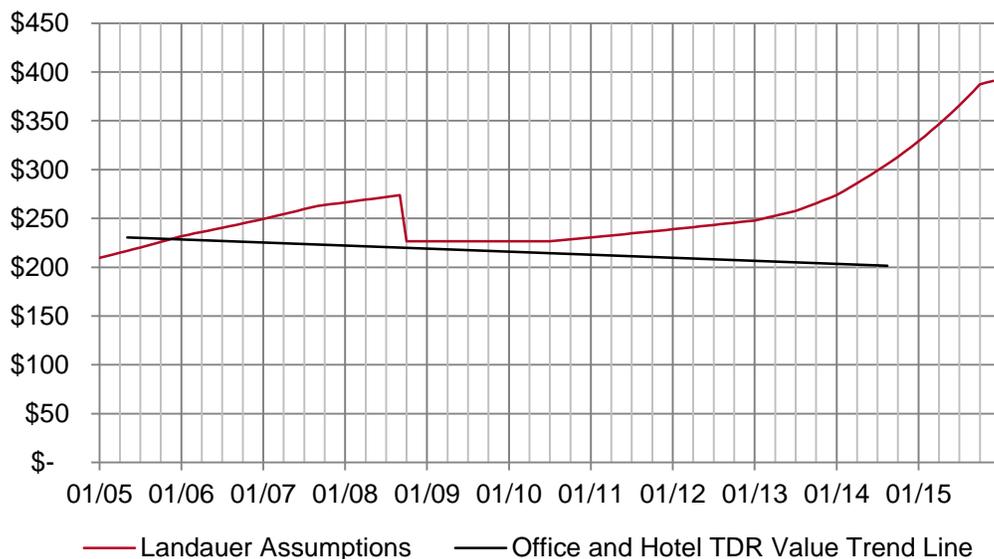
ATTACHMENT 1: TEN MOST RECENT OFFICE & HOTEL TDR SALES

Granting Site	Sales Price
20 West 44th Street	\$211.31
143 East 49th Street	\$276.96
1409 6th Ave	\$180.29
1409 6th Ave	\$225.01
145 W 45th St	\$400.00
222 W 45th St (Booth Theater)	\$225.00
235 W 44th St (Broadhurst Theater)	\$295.05
29 W 46th St	\$162.64
59 West 46th St	\$175.02
246 W 44th St (St. James Theater)	\$231.23
Lower Quartile	\$178.98

ATTACHMENT 2: LANDAUER ASSUMPTIONS FOR MARKET GROWTH RATES

REBNY had trouble reproducing many of the adjusted prices listed in the Landauer report, implying some flaws in the application of their growth rates. One notable mistake is found in the growth rates for the period spanning January 2006 to August 2007. Landauer listed the period as having a growth rate of 1% for 32 consecutive months. Since January 2006 to August 2007 is only a 20 month period, Landauer mistakenly inflates the amount of time by 12 months. This has serious repercussions for the adjusted values of sales occurring both during and before this period, overvaluing them by an additional 12 percentage points.

Despite Landauer’s core assumption that the end of 2015 represents the peak of the real estate market between 2005 and 2015, it is clear that office and hotel TDR sales are trending downward over that same period of time. In fact, two of the most recent sales were among the lowest over the entire period that Landauer recorded.



ATTACHMENT 3: HUDSON YARDS DEVELOPMENT RIGHTS

Below is an analysis of recent Hudson Yards land sales that acquired additional square footage from the District Improvement Bonus (DIB) and the Eastern Rail Yards (ERY). It illustrates the fact that the City's use of land sales without consideration for the economics that make those sales possible misrepresents the true market for TDRs. In order to arrive at a fair and reasonable valuation for TDR sales, it is imperative that the City take these factors into account, especially when half of the land sales that the City used in their analysis are within Hudson Yards.

These sales have an average price per square foot of \$564 and represent approximately a third of the development square footage. Using the 65% conversion factor from land to TDRs, this number comes down to \$367 psf.

The remaining two-thirds of development rights for these sites cost \$125 and \$233 psf, from the DIB and the ERY respectively.

Blending the three costs of these development sites in Hudson Yard, the average development cost for these two sites is \$248 psf.

In addition, there are tax benefits — real property and mortgage recording — available for new development in Hudson Yards. According to one estimate, these benefits lower effective land costs by as much as \$70 psf. This brings the true cost of a Hudson Yards development site down to \$178 psf.

	Sales Price	Conversion from Land to TDR Value (65%)	TDR or Equivalent Price Per SqFt	Percentage of Development Area	Effective Price Per SqFt
Land Values	\$606,000,000	\$393,900,000	\$366.53	32.1%	\$117.79
District Improvement Fund Bonus (TDR*)	\$107,582,164	N/A	\$125.13	25.7%	\$32.17
Eastern Rail Yards (TDR)	\$328,338,931	N/A	\$232.90	42.2%	\$98.18
				Blended Average	\$248.14
				Tax Benefits	- \$70.00
				Market Value	\$178.14

*The District Improvement Fund Bonus is not technically a TDR, but does act similarly. A developer would pay a flat fee of roughly \$125 psf to the City, in a fashion very similar to the 2013 East Midtown proposal.