ADDITIONAL INFORMATION THAT WILL HELP INFORM THE WORKING GROUP PROCESS

September 28, 2017 Meeting of Community Board 2 Pier 40 Task Force
(Text in red indicates questions previously provided by CB2)

To be able to weigh the extent to which a project will meet the income needs of the park against potential negative impacts, the WG needs the Trust's assessment of its income needs and the opportunities at Pier 40 to contribute to these needs:

- **What is the anticipated budget upon completion of the park?**

  - *The answer requires making assumptions about the timing of park completion, level of future park care and programing, availability of Pier 76 for development and park, and of course Pier 40.*

  - For Operations and Capital Maintenance, based on the assumptions below, <u>we estimate that, upon completion of the Park, the combined operating and capital maintenance budget will be approximately $48 -51 million with the following assumptions:</u>

    - We are assuming full Park build out in 10 years, 2028, though several park areas, aside from Pier 40, are incomplete (*see attached*), and we do not know when funding will be available. HRPT does <u>not</u> assume that rents from commercial uses in the Park would be used to fund new construction.

    - HRPT's current budget is approximately $28 million (*see attached)*, including both operating and $5.5 million in capital maintenance costs. It is supported by an equivalent amount of revenue.

    - While this budget shows $5.5 million in capital maintenance, our total capital maintenance expenditure this year is expected to be $26 million. The reason the additional $21.5 is not shown in the capital maintenance budget is that government sources from NYS and NYC will be paying for certain projects instead of being used to advance new park construction. Specifically, the $14 million Morton Street bulkhead repair is being funded through NYS, and most Pier 40 capital maintenance is now being funded from the $14 million allocation granted by the City at the time of the St. John's approval. In the past, many repairs, particularly for Pier 40, have been funded by the Trust's reserve, and we have seen our reserve fund run down as a result. Our reserve has proven to be essential, including for fronting emergency repairs as seen after Tropical Storms Irene and Sandy.

    - We know that future capital maintenance costs will be substantial as the Park ages. We don't know whether and to what extent future capital maintenance costs will receive government support. Of course capital maintenance that is unfunded can often be deferred, but this tends to increase repair costs later and, if unattended for long periods, could lead to problems, as is the case with Pier 40.

- We are assuming a level of park care and programming that is generally consistent with current operations – see attached 2017 budget breakdown by expense category for reference. Accordingly, the current operations budget is adjusted principally to account for a larger park (due to assumed park completion) and for inflation. Operating expenses could increase further if the public wants a higher level of cleaning, security, etc., provided there are sufficient revenue sources to support additional expenditures.

- Predicting capital maintenance needs is challenging. We have 4 miles of physical assets which require different levels of capital maintenance in any given year. Projects range from periodically replacing heavily used assets like fields and playgrounds, to routine state-of-good repair maintenance on piers and buildings, to major marine issues involving inherited infrastructure. Some of these physical assets, such as large sections of bulkhead, are over 100 years old. Since 2011 we have had two major bulkhead failures -- Pier 81 ($7 million) and Morton Street ($14 million) -- and a number of significant pile repair projects. Unfair as it may be, we cannot assume that government funds will be available in the future to address these needs.

  Our cost assumptions for major in-water capital maintenance projects may be optimistic, and assumes that government will support about 1/3 of total costs.

➢ <u>On the revenue side, we are projecting $42 million to $49 million with the following assumptions.</u>

- Currently, the Trust has stable, long-term income sources from 7 sources -- Chelsea Piers, Circle Line, Con Edison, Pier 57, Pier 26 restaurant, City payments for the Passenger Ship Terminal, and Friends of Hudson River Park contributions. These account for about 55% of the park's current revenue. Other revenue sources are short term, many month-to-month, and therefore are less reliable and predictable.

- To be successful, the Park needs relatively stable and predictable revenue from Pier 40 and, ultimately, Pier 76. While there is a great deal of unpredictability for both sites, Pier 76's future is even more uncertain because it is not currently part of the park, and the Act dictates no deadline for NYPD to vacate the tow pound.

- In this year's budget year we estimate that Pier 40 will net about $6 million for the Park (after parking taxes and parking operator fees), or about 24% of total revenue of $28 million. In fiscal year 2028 we are projecting Pier 40 revenue of $12 million under a redevelopment scenario, or again, about 25% of total revenue of $50 million. In other words, we are not projecting that Pier 40 would need to carry a greater burden than it does today.

- The other development project in the Park needed to "balance the books" against the assumed $50 million operating/capital maintenance budget is Pier 76, where we are projecting about $7.7 million in revenue in the 10th year. Pier 76 measures approximately 5.6 acres. Like Pier 40, the Act requires at least 50% of the Pier 76 footprint must be dedicated for passive and active public open space, with the balance eligible for permitted commercial uses.

- We are also assuming approximately $125 million of additional air rights sales, from which we will hold 20%, or $25 million, in reserve for capital maintenance.

- The Pier 40 and Pier 76 revenue numbers are estimates that could both be lower and could both be higher.

- If Pier 76 does not become available to the Trust within the next 10 years there would be more pressure to increase income from Pier 40.

- **Other than Pier 40, what increased income is anticipated?**

  - Other than Pier 40, the most significant potential additional revenue source is Pier 76. As noted, we cannot predict if or when this source will be available given the Act does not provide a deadline for relocating the tow pound.

  - In May of this year, Council Member Johnson secured a commitment from the City to pay the Trust not less than $500,000 annually from revenue collected from the Passenger Ship Terminal, and that in 2026 the Trust would receive 20% of the "top line" gross amount collected without deduction or credit. We estimate that would be at least $1.5 million annually.

  - In about 1 ½ years Pier 57 will start generating more rent, which will continue to escalate. For example, upon completion of construction and occupancy by Google, the Trust will be paid $7 million as a lump sum. Other commercial leases and permits have standard escalations intended to keep pace with inflation.

  - HRPT is constantly looking to maximize revenue from existing assets. We recently renegotiated the rent clause of the heliport permit and increased our annual revenue from $1 million to $2 million annually. When the lease turned over at Pier 84 we issued an RFP and secured a new tenant, Black Tap, that will pay at least $150,000 more than the prior occupant.

  - If NYC can develop Piers 92 and 94, that would be an additional source of income. We also continue to work with Friends to develop new philanthropic and grant sources. If legal issues associated with excursion vessel ticketing can be resolved, the Trust may be able to garner new revenue from the Hornblower, Circle Line and other operators.

- **Has the Trust assessed the viability of office use based on proximity to retail and food and public transportation?**

  - Yes, we have discussed this with Brookfield, Taconic and RxR. All have confirmed that, in the current real estate climate, Pier 40 would be desirable for office use. The recent announcement that Oxford intends to build office and retail space at the St. John's site solidifies this assessment, as does Google's commitment to Pier 57.

- **Has the Trust done an assessment to determine the practical level of income from park/commercial use generally and from new development at Pier 40 specifically?**

  - We have discussed potential tenant rent levels at Pier 40 with Brookfield, Taconic and RxR. In today's market, office rents of $80 - $85 psf and retail rents of $95 - $100 psf range appear achievable.

- **Will long term car parking will continue to be viable?**

  - It certainly seems there is a trend towards reduced reliance on private cars, particularly in urban areas, and for environmental and planning reasons, this seems likely to continue. On the other hand, even shared cars will need to be stored somewhere. For collective discussion is whether the waterfront should be the prime location for vehicle parking as part of the long-term plan. Still, decades of experience suggest that long term parking could be part of a new Pier 40, for financial and community benefit purposes. Accessory parking is always desired by office and retail tenants but may be limited.

- **Has the Trust assessed the viability of park enhancing commercial uses such as commercial recreation and fitness uses?**

  - Yes, many times. In the past we have reviewed both solicited and unsolicited proposals for indoor tennis, paddleball, paint ball, soccer, basketball, table tennis, gyms and sports clubs. The Trust believes such uses could be viable and part of any long-term solution for Pier 40. While commercial recreation pays only about half the rent of commercial office tenants, , it is a desirable use, a probable pre-requisite for commercial office redevelopment, and – in the case of a use like the Trapeze School, an important part of the Pier 40 and Hudson River Park brand and culture.

- **Can the Trust provide any studies or reports describing likely development scenarios based on the change?**

- No, because we are unable to say what is “likely” … What is the length of lease? How much is a developer willing to spend on the building given potential revenue and economic return requirements? How much can be financed under a ground lease? What are the minimum Park and community amenities? Would a developer seek to reuse the building adaptively or is entirely new construction feasible? You get the idea.

- If the Hudson River Park Act can be amended, the Trust anticipates drafting an RFP that would include either a “vision” statement provided by Community Board or some other narrative description of community priorities, as was done for Pier 57. Because virtually any project to redevelop the pier will require ULURP, we believe developers will be incentivized to consider development programs that can achieve community support.

- **Based on an assessment of a viable commercial office project at the pier:**

  How much commercial office floor area would be needed or anticipated? How many people would work at the pier?

  - The amount of office space needed or anticipated is best tested in the marketplace through a competitive RFP that also includes other requirements, controls and priorities for concerns like vehicle circulation, open space and other public amenities. We have been advised that large scale tenants are currently looking for blocks in excess of 600,000 square feet, and that a site like Pier 40 could be desirable for such tenants, but we can’t predict market conditions when the site is ready to be RFP’ed.

  - We estimate roughly 1 worker per 200 - 250 square feet of zoning floor area of office; we have been advised that in the current climate, corporations include large amounts of communal space for amenity/social/breakout areas. As an example, this translates to approximately 2,800 – 3,500 employees if there were 700,000 square feet of office space and 3,200 to 4,000 for an 800,000 square foot office development. Depending on the pier and building design, those workers could have different entrance and exit locations than the public park users, and would have different travel times than most park users.

- **How much restaurant and other retail would be needed to support the office use?**
  - In discussions with developers, the amount of retail/food necessary to support office use on-site was said to be relatively small in this age of website delivery services and high volume grab-and-go food establishments. About 5% may be adequate.

  - 5% of 700,000 square feet of office is 35,000 square feet; 5% of 850,000 square feet is about 42,000 square feet.

  - For comparison purpose, when Starret Lehigh was first redeveloped it had a very limited amount of food/retail, substantially less than 5%. Starrett Lehigh contains about 2.2 million square feet of office space.

- **Is the current pier structure viable for this use?**

  - Potentially. However, even if the existing structure were reused, introducing almost any use would require a gut rehabilitation given the current state of utilities etc.

- **What would be the development cost?**

  - This is not something the Trust can predict without knowing the design and uses.

  - On a per square foot basis, average development hard costs in NYC are assumed to range from $475 to $600 per square foot with an additional 25%-30% for soft costs.   At Pier 57, the total development cost for the so-call vanilla white box is about $650 per square foot for combined hard and soft costs.

- **Could development proceed without disrupting current recreational uses?**

  - We have consulted with various developers and construction managers to consider this question, and they have confirmed their beliefs that there are ways to keep ballfields in use during redevelopment. However, we cannot promise that there would be no disruption or reduction of the field space during the period of construction.

  - Around the world, construction is done in situations where adjacent uses need to remain open. This even occurs in sensitive locations, like hospitals. However, the measures required to allow such construction to proceed will likely increase costs significantly.