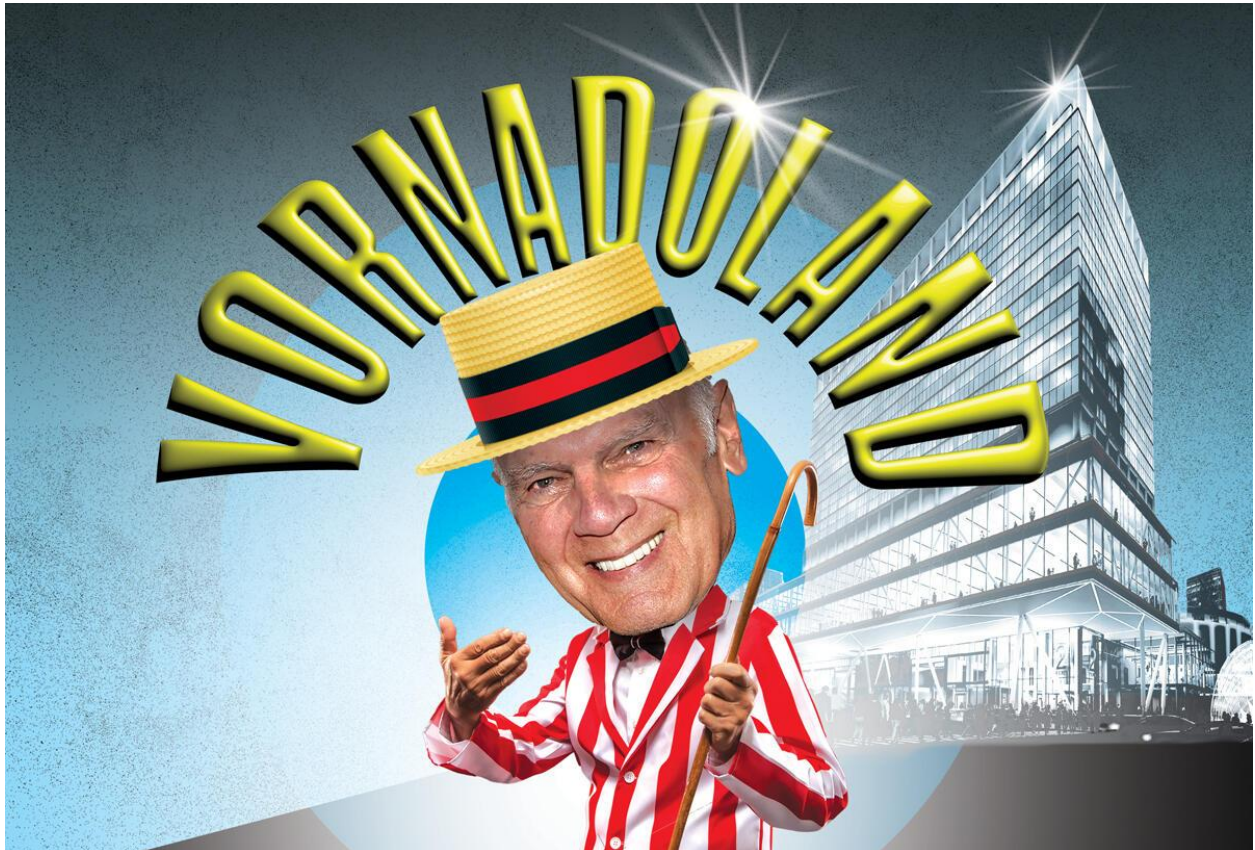


Vornado's Penn plan, decades in making, reaches inflection point

Its stock price down and CEO aging, the developer needs to win its Penn Station bet now

By [Kathryn Brenzel](#) and [Rich Bockmann](#)

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Vornado CEO Steven Roth and a rendering of PENN 2 (Getty Images, Vornado)

On the seventh floor of Vornado Realty Trust's office building Penn One is a 12,000-square-foot showroom dedicated to CEO **Steven Roth**'s dream: to create a **grand office campus** surrounding Penn Station.

Over the decades, Roth has given it pet names including “Vornadoland,” “the promised land” and “the big kahuna.” He has called it Vornado’s “moonshot,” its “bullseye.”

“All this will take time but will be enormously rewarding to the patient investor,” Roth **wrote** to shareholders in 2018.

For a man who turned 80 last year and heads a publicly traded real estate investment trust, Roth has shown a Herculean level of patience. His company has amassed more than 9 million square feet of property around Penn Station since the 1990s, eyeing a grand transformation that, like a desert oasis, slips away whenever Vornado gets close.

New York state has over the past three decades proposed and abandoned several plans for the district, unable to undo a Gordian knot of politics, finances, engineering and bureaucracy.

But now Vornado’s vision of a massive, modern office campus is on the cusp of becoming a reality.

Transit improvements to feed the development now have a federal partner in the Biden administration, and Gov. Kathy Hochul has stuck with the plan since succeeding its biggest champion, Andrew Cuomo, in August. She did **reduce** its commercial component from 20 million square feet of new towers to a little more than 18 million, but that would still eclipse nearby Hudson Yards.

To shelve the proposal, as Hochul did with Cuomo’s LaGuardia AirTrain, would have alienated two of its beneficiaries: construction unions, which support Hochul politically, and Vornado, which backs her financially. The developer was one of

Cuomo's biggest contributors and has continued that pattern with Hochul. Roth and trustees David Mandelbaum and Russell Wight Jr. have each given her campaign the legal maximum of \$69,700.

Vornado is expected to be the developer on five of the eight Penn District sites slated for 10 towers, and could reap lucrative tax benefits in the process. With much of its \$18 billion portfolio served by the transit hub, the developer has considerable influence over its future.

The Penn portfolio has the most growth potential among Vornado's assets, but also the most uncertainty. Piper Sandler analyst Alexander Goldfarb said the company has been talking about redeveloping the area since it bought a portfolio of properties there from Bernard Mendik in the late 1990s.

"When you look at Vornado, Penn has constantly been their focal point," said Goldfarb. "No one's had a development site this long in the making. That's different from basically every other REIT out there."

Pressure to perform

Real estate investment trusts are tasked with producing steady and robust income for shareholders, which can make it hard to play the long game. Vornado, though, says it has invested "aggressively" in Chelsea and the area surrounding Penn Station in the belief that the city is "tilting west and south." Today, half of Vornado's office space is in the area.

The assets do generate revenue, but the firm is focused on their "development" and "long-term" outlook, characteristics that Roth has acknowledged are "two of the dirtiest words in REIT-land."

Vornado's successes, such as 220 Central Park South, the world's **most profitable** condominium project, have given it some breathing room on Penn. But its stock price has fallen by half in the past five years, and Goldfarb said the REIT faces declining values in its urban retail portfolio. Roth acknowledged on a February earnings call that Vornado's prime retail rents **will not return** to their peaks of seven years ago.

"If you look at the street retail needs for Vornado, they're facing pressures," Goldfarb said. (Vornado did take some of those chips off the table in 2019 by **selling 45 percent** of its prime Manhattan retail portfolio to Crown Acquisitions and others.)

Because its assets sit on top of Penn Station, the developer has leverage in the state's gradual overhaul of the transit hub. And Vornado has shown, on numerous occasions, that it can be a valuable neighbor.

For the rebuilding of the Long Island Rail Road concourse, Vornado agreed to close every one of its stores in the basement of One Penn Plaza and to move the retail 30 feet back. It is also paying for the Norman Foster-designed canopy above the revamped Penn Station entrance on Seventh Avenue. Half of the new West 33rd Street entrance is on land owned by Vornado, which the developer gave to the Metropolitan Transportation Authority for free.



Penn Station

Having to deal with only two property owners — Vornado and Madison Square Garden — for Penn Station renovations helps streamline the process, said Dan Biederman, president of the 34th Street Partnership, the local business improvement district.

“And we want these plans to move forward as quickly as possible,” he said.

The Hochul administration rejects the notion that Vornado is dictating terms of the general project plan, the blueprint that will enable the redevelopment. “It hasn’t been as if they have handed us plans and said, ‘This is what we’re doing,’” said Holly Leicht, executive vice president of real estate development and planning

for Empire State Development. “There has been a lot of back-and-forth.”

She said the plan allows the expansion and renovation of Penn Station and the development around it to be planned in a comprehensive way.

“I think it was really important for us to do this as a holistic [plan] as opposed to Vornado continuing to get approvals building by building,” she said.

Vornado has a lot to gain from the state’s plan, which requires approval from the governor, Assembly speaker and Senate majority leader through an obscure body called the Public Authorities Control Board. It would allow office towers larger than permitted by city zoning. And if separate plans to overhaul Penn Station are realized, Vornado’s nearby buildings would be more attractive to commercial tenants.

All told, the state expects the expansion of Penn, its renovation and the planned Gateway tunnels under the Hudson River to cost between \$30 billion and \$40 billion, with New York paying 25 percent. The state has committed roughly half of its share and expects to cover the rest through the development revenue, bonds and other sources that have not yet been determined.

The development revenue will likely come from payments in lieu of property taxes, or PILOTs, which channel properties’ tax payments into local improvements but often include discounts. The state has proposed such discounts on city and state sales taxes and mortgage recording taxes, though specific figures have not been released.

Hudson Yards was showered with more than \$1 billion in tax breaks. PILOTs were discounted depending on the risk that projects shouldered: The farther from public transit, the bigger the tax break. The city's rationale in the late 2000s was that developers needed incentives to build on the undeveloped Far West Side, which did not even get a subway station until 2015. Critics say developers got the best of the deal.

“Hudson Yards’ developers receive tax breaks and command some of the highest rents in the city,” said Bridget Fisher, a researcher at the New School’s Schwartz Center for Economic Policy Analysis who has researched the subsidies.

The proposed Pennsylvania Station Area Civic and Land Use Improvement Project is closer to Manhattan’s core than Hudson Yards and anchored by the nation’s busiest transportation hub, where subways, the Long Island Rail Road, New Jersey Transit and Amtrak converge. Metro-North trains will start arriving from Harlem, the Bronx and the northern suburbs as soon as 2025.

“Thirty-fourth Street between Seventh and Ninth is hardly what you would call an undeveloped transportation desert,” Fisher said. “It will be interesting to see how the argument [for tax breaks] changes here.”

Any discounts would reduce the revenue that will pay back the bonds the state issues to fund the public portion of the project, she noted. Critics of this approach, called value capture, say it often comes up short, leaving taxpayers to pick up the tab. Case in point: Hudson Yards.

*Eight projects in the greater Hudson Yards area — including the Related Companies' four office towers, Brookfield's Manhattan West office towers and projects by Tishman Speyer and Moinian — have received \$1.1 billion worth of tax breaks, according to a **study** by the New School.*

*Their payments in lieu of taxes are being funneled into a **Hudson Yards fund** over 35 years to fund bonds that paid for the \$2 billion extension of the No. 7 train, local parks and other infrastructure. In 2007, the city was expecting to pay just \$7.4 million through 2015 to cover the bond payments. It ended up paying \$359 million.*

*In part because of the Great Recession, only one Hudson Yards revenue stream has **matched projections**. A 2006 Cushman & Wakefield study projected that the payments would generate \$1.9 billion in revenues by 2018, but they came in at only \$1.3 billion. And that was before the pandemic, although city officials say the numbers have started to turn around.*

Empire State Development plans to use value capture to upgrade Penn Station and expand it southward across West 31st Street. That means the state must make a deal with the Adams administration for each of the development sites, because diverting property taxes deprives the city of revenue.



Moynihan Train Hall

The state is considering allowing the city to collect the current level of tax revenue on these properties, and only diverting the increase in taxes resulting from the new development. The Adams administration has expressed support for the project in spirit but is seeking clarity on how it will be financed. Funding could also come from ground lease payments and the sale of development rights and land.

“I think a lot of people interpret value capture as a magic bullet, but it’s actually very risky,” Fisher said. “Hudson Yards is a good example. They’ve only done the first phase and it’s already hit two recessions, showing how risks can materialize and change the bottom line.”

Underground railroad

The day that Cuomo unveiled the state's intention to expand Penn Station to the south, officials called the 50-plus owners of the properties in the way. The governor's vision, they said, would require demolition of their buildings, which have 9,000 employees.

Opposition from community members and elected officials surfaced immediately. Property owners and residents said they were being **steamrolled**.

"This is a state takeover of some of the most valuable real estate in Manhattan," state Sen. Brad Hoylman told TRD last year. "This is a precedent that I think needs to be played extremely carefully."

Within three months of succeeding Cuomo, Hochul shifted the focus from expansion to redevelopment of Penn Station. She has not abandoned plans for the south side of West 31st Street, however. The Gateway project will require more track capacity at Penn, and if federal officials see West 31st Street as the best option, that project will move forward.

The governor's shift essentially acknowledged that the federal approval process and the acquisition of properties south of the station will take years. In the meantime, she aims to overhaul the station and surrounding district. Hochul also shaved 1.4 million square feet from the plan's commercial development and added residential space.

Supporters of the expansion did not object. "I understand the desire to go slower on the very dramatic changes to 31st Street," Biederman said. "The neighborhood has its problems, but it is not blighted."

But others were disappointed that Hochul largely kept Cuomo's vision intact. Watchdog group Reinvent Albany criticized the lack of transparency around how much revenue will be generated by the commercial projects surrounding Penn and what kinds of incentives will be offered to developers. Its focus on office space seems to ignore that work-from-home has clouded that sector's future, skeptics say.

"We strongly suspect the math doesn't add up for this project and it will be a huge giveaway to Vornado under which the city government loses either existing or potential tax revenues, and state taxpayers have to bail out borrowing for the new Penn Station," the group said in December.

Some transit advocates have long advocated that Penn's overlords make it a through-running station rather than dig a giant cavern under West 31st Street so more trains can turn around.

"We think displacing all these buildings is overkill," said Samuel Turvey, chair of ReThink Penn Station NYC. "There's a better way to do this."

Some elected officials have continued to rail against the state's process, which sidesteps local zoning rules. Public Advocate Jumaane Williams, who is challenging Hochul in the Democratic primary for governor, wants the proposal to go through the city's land use review procedure. He has also called for guaranteed affordable housing.

Hochul announced that the plan will include up to 1,800 residential units, of which 540 would be affordable. But as it stands, the plan only requires 542 apartments, including 162 affordable units, on

one site. The rest probably hinge on developers using the 421a property tax break, which expires in June, or a comparable incentive.

During a January hearing, Williams also complained that the state's plans for commercial development are moving faster than the MTA's master plan for the station. "The land development plans should not be finalized until we understand what the footprint of Penn Station is going to be," he said.

Still, Williams acknowledged the importance of the project to union construction workers. Gary LaBarbera, president of the state and city chapters of the Building and Construction Trades Council, said Hochul has made clear to his members that she does as well. In January, his group endorsed Hochul, citing her commitment to "transformative projects that will create countless middle-class careers with benefits for tradesmen and tradeswomen across the state."

Sweeter deal for Vornado

For decades, real estate's two Steves have wanted to get their hands on Madison Square Garden's air rights. Steve Roth and Related Companies' Steve Ross came tantalizingly close between 2005 and 2008, when they tried to persuade the Dolan family to **sell the arena** so that it could be relocated to the Farley Post Office. That would have paved the way for a comprehensive renovation of Penn Station, which is directly under the Garden. But the Dolans backed out.

In 2013, the city tried once again to move the arena. The City Planning Commission wanted to renew Madison Square Garden's

special permit, which allows the arena to operate its current space, for just 15 years, but the City Council extended it by only 10 years. That was enough time to find a new home for the Garden, lawmakers reasoned, and would give Penn Station's railroads and the state leverage in negotiations with the arena's owner to renovate the station.

That threat, however, has rung hollow. With the Garden's special permit up for renewal next year, the state has made no apparent effort to relocate it, which would cost billions and accomplish little besides giving Penn Station a "giant skylight," one insider said.

*The latest iteration of Penn is, in some ways, a sweeter deal for Vornado than what was **contemplated** a decade ago. At the time, the developer was eyeing the Garden's 5.4 million square feet of air rights to develop new towers in tandem with a major overhaul of Penn. The current plan will result in 18 million square feet of new development, most of which is expected to be built by Vornado — without needing the Garden's air rights.*

The earlier version would have moved Madison Square Garden to the Farley Post Office. Instead, Vornado and Related teamed up to turn the post office into the Moynihan Train Hall and office space, where Facebook leased 730,000 square feet.

*In 2010, the REIT won **approval** to replace the Hotel Pennsylvania at Seventh Avenue and West 33rd Street with a 67-story office building, where Merrill Lynch planned to put its headquarters. In exchange, the company agreed to a series of public improvements. The Great Recession killed the bank's move, and the tower approval has since expired, but the improvements — including an*

underground path connecting Penn and Herald Square — will likely be part of the redevelopment, and may still be completed by Vornado. The hotel closed in 2020, and the company is in the process of **demolishing it**.

“For more than two decades, Vornado has been an active participant in the redevelopment of Penn Station and the surrounding neighborhood,” a spokesperson for the company said in a statement. “We will continue to look for opportunities to improve the neighborhood that we call home.”

The state’s general project plan would upzone the area around Penn Station and extinguish remaining development rights over Moynihan. It does not, however, touch the Garden’s air rights, nor preclude their use by a developer should the arena eventually relocate.

That may require some patience. Though the arena’s special permit expires next year, state officials have estimated that moving Madison Square Garden would cost more than \$8 billion. In an interview last year, MTA Chair Janno Lieber said that just using the arena’s Hulu Theater to expand Penn would cost \$1 billion.

“We’re not ruling out moving Madison Square Garden,” Lieber said. “It is a process that has been under discussion for generations.”

He added, “We’re not against it, but we can’t wait for that to unfold.”

Neither can Vornado. For all the waiting Roth has done, the stars for Penn have never been more aligned, and the need to realize the

portfolio's potential has never been greater. The time to build, it seems, has finally come.