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Hudson Yards bids show advantages, difficulties of securing anchor tenants



The New York Times Building, left, and One Bryant Park.

By Amanda Baltazar

Five proposals for Hudson Yards are in. Two of the bids – from the Extell Development Company and Brookfield Properties – have been looked upon favorably by the public and/or architectural critics.

Yet it is the other three that are reportedly the favorites. And all three have something in common: High-profile tenants lined up.

In mid-December, the business magazine Crain's reported that the Metropolitan Transportation Authority, which owns the Hudson Yards site, had already narrowed down the field to three bids from the Related Companies, Tishman

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Speyer and Durst/Vornado, and that the authority may even try to merge them.

A spokesman for the MTA declined to comment. But, the MTA's reported leanings highlight a real estate phenomenon that is becoming increasingly important in New York: finding an anchor tenant before the shovels are in the ground.

Often, securing an anchor tenant for a building before construction begins can be the linchpin that secures the entire project and the financing.

In the case of the Hudson Yards bidders, the Related Companies has Rupert Murdoch's News Corporation, Tishman Speyer has Morgan Stanley, and the Durst/Vornado tag team has Condé Nast.

Other notable examples elsewhere include Forest City Ratner securing the New York Times as a development partner and anchor tenant in a tower it just completed at 620 Eighth Avenue, and Douglas Durst landing Bank of America as the anchor tenant for One Bryant Park in Midtown.

There is no question that having the commitment of an anchor tenant will give bidders for the Hudson Yards a leg up, said Josh Kuriloff, vice chairman of Cushman & Wakefield, which conducted an economic analysis of the Hudson Yards area for Manhattan in 2004. Kuriloff said the projects are perceived as more credible when they have a retailer or major company that is willing to invest.

Those who have anchor tenants like to stress that it gives the area an automatic population of occupants, creates instantaneous activity and helps lure in other tenants.

Stephen Ross, chairman and CEO of the Related Companies, told *The Real Deal* that an anchor tenant adds a measure of certainty to a development and said it reduces risk.

Gary Barnett, president of Extell Development Corp., which does not have an anchor tenant, was recently quoted saying that his company's bid is "superior just on its merits." He said the financing, the design and the ability to execute should put Extell in the lead.

Responding to questions about anchor tenants in general, not at the Hudson Yards site, he said if the numbers work, having one can ensure the financial success of a project because the tenant typically occupies 50 to 75 percent of the building.

"You want to make sure you're getting financial security, and the 50 percent threshold mark, sometimes 75 percent, is the lowest at which you can secure that," Barnett said. But he added, "At some point, the demands of some anchor tenants mean it doesn't make sense to pursue them."

Along with space minimums, there are also usually time minimums for anchor tenants.

Most are signed into at least 15- to 20-year leases to give long-term security to the developer. Brokers said that anchor tenant deals can lead to the collaboration of the best talent between the developer and the tenant.

However, anchor tenants can often be very demanding. The tenant may have very detailed specifications, a result of leasing while the building is being constructed. A tenant may, for example, want a platinum LEED certification to show that the building is environmentally efficient, while the developer would rather go for gold or silver certification a notch or two below.

"The main difficulty in an anchor tenant deal is you have to be able to explain, project, describe and comment on what you're going to give to them," said Barnett, whose company has recently worked with Intercontinental Hotels as an anchor tenant at a Boston project. And anchor tenants don't only control the part of the building they'll occupy, but they often have a say over which co-tenants are allowed in, how the lobby is used, and other details. The result of this customization is that it's much more expensive to construct an anchor tenant's building than it is to build a speculative building, said Kuriloff.

Anchor tenants can also try to take over a project, and may even try to back out at the end because small print in their contract hasn't been met.

On the other hand, a company takes on a lot of risk by committing to be the primary tenant occupying a building.

There are a wide range of considerations, most notably the flexibility of the building to be reconfigured over time, said David Goldstein, an executive vice president at Studley, a commercial real estate brokerage.

Anchor tenants, Goldstein said, must always be thinking about how suitable their building is going to be for their future.

Despite the demands of these tenants, the payoffs are significant, and the deals offer a unique chance to shape the identity of a site.

"This is the most exciting work that someone in our profession can embrace, because the stakes are the highest, and coming up with a solution is very rewarding," said Goldstein. "It's more than the money; it's the satisfaction of seeing a project through that will stand the test of time."

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