

The Price of Air - New York Ponders Fair Value for Right to Develop Taller Buildings

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In order to fund proposed transit improvements in the vicinity of Grand Central Terminal, New York City is considering an air-rights zoning change to allow construction of perhaps a dozen buildings, primarily office towers, that would stand taller than is currently permitted. Developers would be asked to pay the city about \$250 per square foot to acquire these new air rights, and the city would use the monies to carry out its proposed public improvements.

The pricing of new air rights under the proposal stands to pit the city against some New York property owners, who could see the value of their own air rights slashed as a result. A question with implications for commercial property owners is, how did the city determine the square-foot charge of \$250? An article by Laura Kusisto in the Aug. 13 edition of the Wall Street Journal explores the brewing controversy.

The Landauer Valuation & Advisory organization calculated an estimate of value for the city. Landauer is a division of Newmark Grubb Knight Frank, a well-known real estate advisory firm.

Landauer first determined the value of office land in the Grand Central area, then applied a 35 percent discount. According to Robert Von Ancken, its chairman, residential or hotel uses were not considered in valuing the proposed air rights. Landauer relied on current market data and a methodology used in the past by market participants.

Argent Ventures, which already has a dog in this argument because it owns the air rights above Grand Central, has termed \$400 a more accurate unit value. Argent's president has asserted that air rights should not be discounted off underlying land values and might even be worth more than land with the same development potential.

Argent bases this on work performed for it by Jerome Haims Realty Inc. and backed by another appraisal firm. However, as Kusisto notes in her Wall Street Journal article, "Argent has an interest in putting a higher price tag on the air rights because it will have to compete with the city to sell air rights to developers if the rezoning passes."

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This controversy obviously sets an existing stakeholder against a municipality that needs to encourage growth in a particular submarket. The value of Argent's Grand Central air rights will be sharply influenced by the city's offerings. The city probably cares as much about creating tax flows from the buildings that would float on the newly created air rights as it does about the selling price, although the Wall Street Journal article does not mention this point.

From a valuation perspective, it would be interesting to review the Landauer and Haims studies, if only to learn in detail how these firms valued the right to create what apparently will be millions of square feet of new office product. Issues such as absorption, the impact of the transportation improvements proposed by the city on market values and the data relied upon to support the appraisers' conclusions could offer a textbook study of a very complicated topic.

Ultimately, the New York City Council must vote on the creation and price of the new air rights.

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