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Jeff Blau rejects 'office is dead' claims by betting billions on new towers

Hudson Yards developer sees strong demand for 'lifestyle offices' despite record commercial vacancies

Jeff Blau: 'I don't care what industry they're in — every CEO wants their employees back in the office five days a week' © Sara Hylton/FT

JOSHUA CHAFFIN— NEW YORK

The view from the observatory atop Manhattan's Hudson Yards was clouded on a recent afternoon by smoke from distant wildfires in Canada. But that has not dimmed Jeff Blau's outlook for the sprawling development or the high-end offices that are its speciality.

At a time when offices are dragging the commercial real estate sector into crisis, Blau, the chief executive of Related, one of the largest US developers, is planning to build 10 new towers in cities across the US and in London, an investment that will total an estimated $6.5bn.

The idea is not an easy sell to investors just now, Blau acknowledged. The trend of remote working that was accelerated by the Covid pandemic has slashed office attendance and pushed up vacancies. A record 70.3mn square feet of available space sat on the Manhattan office market at the end of the second quarter, according to Savills. Investors and lenders have become desperate to reduce their office exposure.

Still, Blau believes there is a shortage of the most modern and lavishly equipped offices — buildings he now refers to as "double-A" or "lifestyle offices". That conviction has arisen from the performance of Hudson Yards on the west side of Manhattan.

"We've had some of our best leasing over the last 12 months in the middle of all this period of time when everyone says the 'office is dead' — except it's not," Blau said, noting that Related was securing rents on the upper floors of its newest tower, 50 Hudson Yards, in excess of $200 per sq ft. That is more than double the $95.53 average asking rent for a class A building in Midtown, according to Savills.

For its forthcoming towers, Related is targeting Austin, Miami, West Palm Beach, Santa Clara, Boston, Chicago, Detroit and Brent Cross in London. Those projects are in various stages of development. The most advanced, in West Palm Beach, is already under construction and boasts signed leases.

Its confidence in offices is such that Related is also planning to eventually build a 2mn sq ft office tower on the as-yet-undeveloped west side of Hudson Yards. That site will also host a casino if a joint-bid with Wynn Resorts is selected for one of three forthcoming New York licences.

"Every landlord thinks they have an A building, right? But some of these A buildings are 50 years old. And even if they have been well taken care of over the term, they are not the same as the new buildings," Blau said. "These buildings truly are differentiated in every which way."

Those at Hudson Yards boast advanced air filtration and energy efficiency, and vast floor plates that can accommodate an entire firm on a single floor. Their ever-increasing amenities range from private cafeterias overseen by celebrity chefs to concierge medical clinics and, most recently, helicopter shuttle service to local airports.

The combined effect, according to Blau, is an environment that pulls employees back into the office — something for which certain companies will pay dearly.

"I don't care what industry they're in — every CEO wants their employees back in the office five days a week. He may not be saying that because he's afraid that his employees will quit or he won't be able to attract employees. But if you asked them, is that a better way to run his business — is it more productive, is it more innovative? They will say 'yes,'" he argued. "Once it becomes about employee talent attraction and retention, then the rent becomes irrelevant."

According to Related, occupancy among Hudson Yards' tenants now averages more than 80 per cent from Monday through Thursday. ("Friday," said Blau, "has turned into a national holiday.")That compares to less than 50 per cent for the rest of the city.

It is not clear whether employees are responding to the carrot of Hudson Yards' plush offices or the stick of bosses like BlackRock's chief executive, Larry Fink, who recently ordered his workers back to their desks four days a week.

Either way, Related received further validation recently when Brad Lander, the New York City comptroller and a one-time Hudson Yards sceptic, noted the development was now delivering $200mn more in annual tax revenue than forecast — and growing. "So this is one place I gotta say I got it wrong," Lander told Errol Louis on the Inside City Hall programme. (As for its architecture — slammed by many critics as soulless — there were still "some questions," Lander noted).

Other developers are also betting on super offices. SL Green has reaped similar success at One Vanderbilt, near Grand Central Station, with some rents topping $300 per sq ft. Hines, its partner on that venture, is also convinced there is a shortage of top-quality office space. RXR, meanwhile, is soon to join the fray with 175 Park Avenue.

"Each market can probably only support one or two of these," Blau said. "But that's our business. That's what we focus on."

Blau, 55, was handpicked by Related's founder, Steven Ross, while still a student at their alma mater, the University of Michigan. He joined the firm in the midst of the early 1990s commercial real estate crisis. This time, he observed, many properties were performing well — they were simply overleveraged at a time of rising interest rates.

"Anyone who has too much debt is struggling right now. That's one of the lessons — don't put too much debt on your buildings," Blau said. "Almost all of this is driven by interest rates, across the board. And then we do have this segment of older office [buildings] that [are] struggling at the property levels." It helps that Related is privately held, and so, unlike some publicly traded competitors, it is not under pressure to mark its buildings to market.

Blau was one of Ross' top lieutenants on the Time Warner Center — now the Deutsche Bank Center — at Columbus Circle. It confirmed Related's evolution from an affordable housing specialist to a developer of mixed-use projects that blend retail with luxury condominiums and offices.

Hudson Yards, the largest development in North America, features those same elements on a far grander scale. It was also a daunting engineering challenge because of its location above a working rail yard. Related was selected from a group of bidders in 2008 after the financial crisis prompted another developer to pull out.

The original plan was for Hudson Yards' office towers to play a supporting role by attracting the affluent to its retail space and condominium towers. In the event, they have been its star performers. Three towers — 10, 30 and 55 Hudson Yards — are now 100 per cent leased. Some early tenants, such as Tapestry and BlackRock, were lured from Midtown with favourable deals, according to leasing experts. A fourth tower, 50 Hudson Yards, is nearly 90 per cent leased.

By contrast, the anchor tenant for the shopping mall, Neiman Marcus, was pushed into bankruptcy in 2020 by the Covid pandemic, leaving three abandoned floors. "The demand for office is so strong we're converting that space — instead of retail — back to office," said Blau.

Another thing that has not gone quite to plan: the Vessel spiral staircase sculpture at the centre of Hudson Yards. Ross viewed it as an iconic piece of public art. Instead, it has featured in several suicides and been closed to visitors for nearly two years as Related tests safety netting.

As Related focuses on new construction, other developers are plotting different paths through the office crisis. Some are spending heavily to upgrade dated buildings. Others are trying to convert them to residential use. Blau sees possibilities in both but is not a great fan of either approach.

He praised Vornado's refurbishment of PENN 1, a 1970s tower at Pennsylvania Station, for example, but foresaw a limited ceiling for its rents. As for conversions, office towers were simply not designed for residential use, he noted, making it expensive to repurpose them. Adding to the cost is the need to first empty them.

"They often don't go to zero per cent occupancy. They go like 70, 60, 30 — and then the 30 never want to leave. And then you have to spend so much money to convert that it's basically the cost of essentially building a new building," Blau said. "And if that's true, you should tear the building down and build a proper building."