



## **Real Estate New York**

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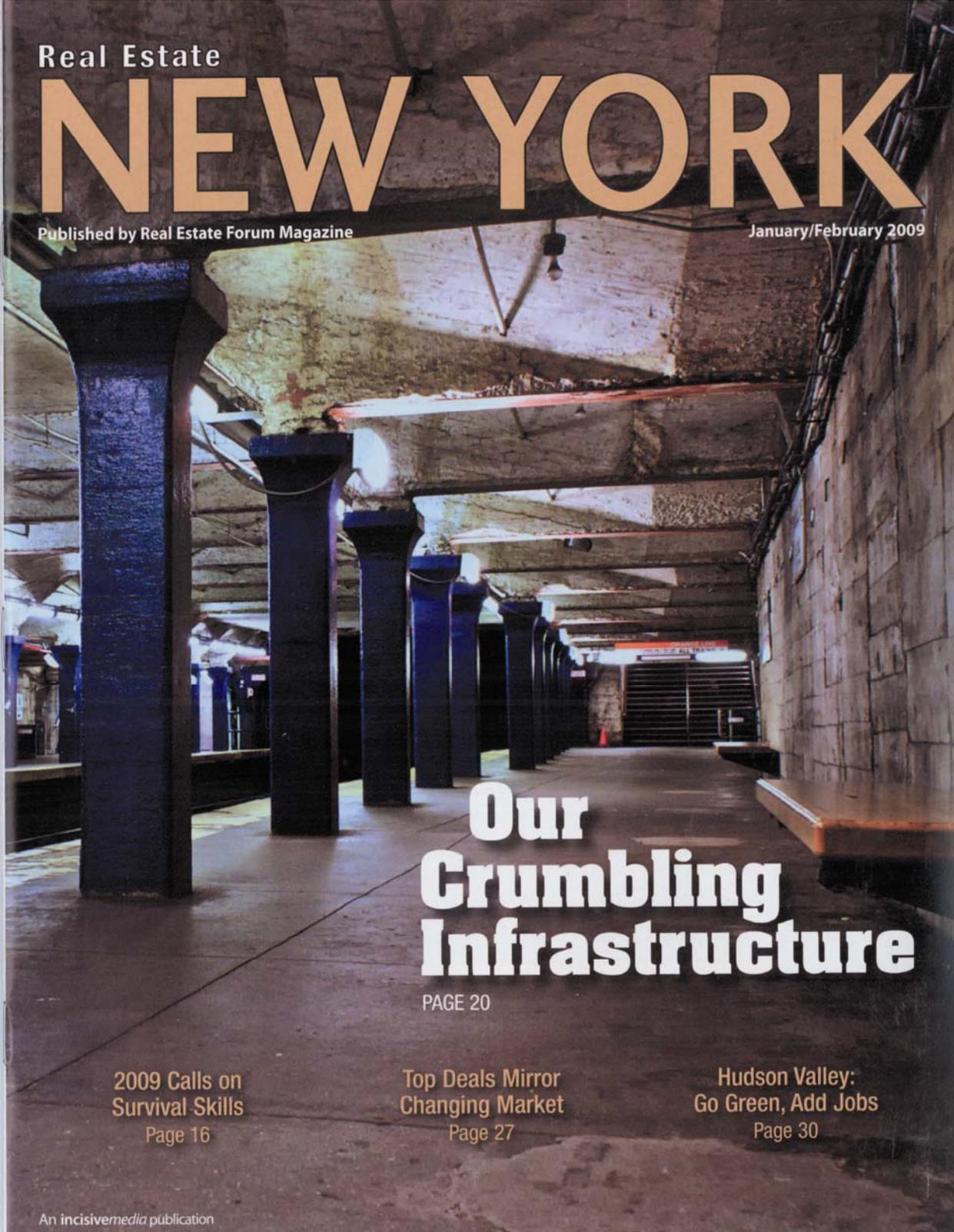
*Real Estate New York* is a regional real estate publication that provides Tri-State New York metropolitan area investors, owners, brokers, corporate executives, managers, and financial service companies, with information on real estate investment, development, brokerage and transaction, management and operations, and market trends, as well as profiles of major personalities.

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An incisivemedia publication

# Our Crumbling Infrastructure

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Associate Editor



On Jan. 28, the American Society of Civil Engineers released its latest report card on the nation's infrastructure, assigning a cumulative grade of D. Saying that under-funding threatens the nation's economy, ASCE called for a five-year, \$2.2-trillion investment from all levels of government and the private sector. That's up from \$1.6 trillion in a similar report it did in 2005.

Reinforcing this imperative is a 2008 report prepared by the Urban Land Institute and Ernst & Young, in which GlobeSt.com blogger Jonathan Miller wrote that no matter how hard they may try, governments can't escape a basic fact: Infrastructure is absolutely necessary and very expensive.

Even before taking office as the nation's economy slid deeper into crisis, President-elect Barack Obama began to enlist political leaders in supporting an \$850-billion American Recovery and Reinvestment economic stimulus plan intended to spur job growth and markets. While earlier versions of the package would have directed around one-third of that money to infrastructure projects, the final tally in the \$819-billion package passed by the House was considerably smaller. It allocates \$30 billion for highway construction and \$12 billion for mass transit, about 5% of the total, with another \$119 billion for alternative energy investments.

As if to underscore the disparity between what's needed and what's being spent, economist Harry S. Dent noted at a Jan. 23 luncheon that almost all of China's \$566-billion stimulus program was targeted toward infrastructure, primarily transportation and more specifically rail—a vastly different set of priorities than that being considered in Washington, DC. Responding to a question from Real Estate New York at the luncheon, which was sponsored by CoreNet Global's New York chapter; Dent said if you are going to attempt stimulating the economy with debt, at least have something to show for it.

Of New York City, he said, "If you are going to make this the most attractive mega-city in North America, you have to invest more in your infrastructure. This is the most attractive thing New York has going for it."

Some say the present economic and political climate provides the perfect opportunity to act. "Let's just look to the national election this past year—for the first time since I can remember, we had a candidate actually talking about infrastructure," says Gregory A. Kelly, national director; transportation at Parsons Brinckerhoff.

***Without a functioning infrastructure system where people can travel safely, you cannot get the maximum value***

**BARRY LEPATNER  
LEPATNER & ASSOCIATES LLP**

"This is the moment," says ULI fellow William H. Hudnutt III, a former four-term mayor of Indianapolis who recently wrote *Changing Metropolitan America: Planning for a Sustainable Future*.

"Without a functioning infrastructure system where people can travel safely without concern, you cannot get the maximum value for any real estate business," says construction attorney Barry LePatner, author of *Broken Buildings, Busted Budgets*.

But there is a long running assumption that public concern over the condition of the nation's infrastructure is only heightened after high-profile disasters like the levee failures in Katrina-damaged New Orleans and the 2007 bridge collapse in Minnesota. "Ordinary people don't think about infrastructure, as long as they can drive decently, or if the bridge they cross doesn't collapse or as long as they can flush and it goes away," says Hudnutt.

Regardless of public sentiment, the ASCE report concludes that decades of under-funding and inattention have jeopardized the ability of the nation's infrastructure to support our current economy, facilitate our way of life and provide necessary support for future domestic expansion and growth. And, as the

levee and bridge failures indicate, neglecting infrastructure also poses risks to public safety.

“The picture outside New York City is crummy to dismal and in some cases, hazardous to the traveling public,” says LePatner. For example, a 1990 inspection of the I-35W Minnesota bridge that collapsed into the Mississippi River in 2007 found it to be structurally deficient. According to LePatner, inspectors had deemed the Minnesota span deficient for 17 years running.

As of 2007, around 75,000 bridges nationwide were classified in that same category. “The public is not aware of this,” LePatner says. “If there’s a cracked tank on an airplane, it’s grounded immediately, but when the Minneapolis bridge fell, there was a ‘recommendation’ for states to inspect these bridges, not close them.”

Still, Nancy Singer, a US Department of Transportation spokesperson, says the nation’s infrastructure “would be better described as aging and requiring attention.”

Here in New York City, according to a manual count of spans listed at the USDOT website, 60 bridges and/or stretches of elevated highway within the city’s 13 Congressional districts are considered structurally deficient. Further, ASCE says 35% of New York’s roads are in poor to mediocre condition, costing motorists around \$285 each in repairs and costs. The state is home to 54 deficient dams. Its drinking water infrastructure needs \$13.5 billion over the next 20 years and its wastewater system calls for \$20.4 billion, while 76% of its schools have at least one inadequate building feature.

“Unlike the other mega-regions in the country, the Northeast has some of the greatest infrastructural needs, because its infrastructure is very old,” says Kelly. In New York State, some 20-year estimates for future infrastructure repair and maintenance have approached \$300 billion.

But Kelly notes that noticeable “improvements in the subways over the last 20 years have been remarkable.” Twenty years ago, the subway system was subject to endless delays, track fires, slow-moving and dirty trains and decrepit stations.

Currently, the Metropolitan Transportation Authority faces a \$1-billion-plus deficit that has led MTA leaders to propose steep fare increases and service cutbacks. Kelly also warns, “What took 20 years to accomplish could quickly unwind if we don’t continue to invest and keep them in a state of good repair.” LePatner agrees, saying the key to preventing crisis and even greater expense is basic maintenance and fixing a structure before it falls apart. In New York City, LePatner credits Sam Schwartz with alerting local governments and citizens to the dangers of neglecting infrastructure.

Schwartz, founder of Sam Schwartz Engineering and former deputy commissioner of the New York City Department of Transportation, saw those dangers first hand. When it opened in 1903, the Williamsburg Bridge was the first steel-towered suspension bridge in the world. “That period from the 1890s to the 1930s was a huge period for building infrastructure in New York City,” says Schwartz.

Today, the Leffert L. Buck-designed, 7,300-foot-long East River crossing that some Brooklyn natives call the “Willy-B” carries over 140,000 automobiles and 92,000 subway passengers daily. And that’s not to mention the thousands of cyclists who take in panoramic views from its refurbished bike path, a feather in the hats of those advocating for greater green infrastructural investment. But today’s Willy-B is a far cry from the bridge of 1988, when extensive evaluation and inspection determined that the span was in serious danger. “Ultimately, the columns had split in two; there was the danger of a column failing and that meant the bridge could collapse,” Schwartz says.

According to Schwartz, budget shortfalls and other public priorities led to years of neglect evidenced by breaking cables, rusted parts designed to contract and expand. Within the steel, a plethora of cracks and abutments—all symptoms that, when measured together, led Schwartz to conclude that the bridge was on its last legs.

Over the next few years, NYCDOT had to spend around \$600 million to bring the structure up to a safer standard. As of now, costs for similar work approach \$1 billion.

These days, Schwartz says New Yorkers should be very concerned about their water and sewer systems, which are also approaching the century mark. “The time is up and I’d be very concerned about the ability of the water mains and sewer lines to keep pace with the city’s growth,” he says.

For their part, New York Sen. Charles E. Schumer and Rep. Jerrold Nadler hope to secure around \$20 billion of the new stimulus package for local needs, primarily transit. They say it could be used to kick-start long-delayed subway and bus projects that are in danger of being shelved. “New York will quickly consume that money just from three or four large transit projects,” Schwartz says.

For example, New York State officials announced plans last September to replace the structurally deficient Tappan Zee Bridge with a new span that includes commuter rail tracks. The estimated cost is about \$15 billion.

Further, the nation is in the depths of economic crisis and is looking to stimulate growth, and create jobs. As Richard T. Anderson, president of the New York Building Congress, points out, “This \$800-plus billion has an across-the-board range of programs, unfortunately not as much infrastructure spending as some of us would like. The point of the stimulus is job creation.” Ed Rendell, Pennsylvania governor and Building America’s Future co-chair, has said for every \$1 billion invested in infrastructure, 42,000 new jobs will be created.

But some argue a culture of impatience impedes long-term infrastructure investment. They argue Americans are immersed in adrenalin-fueled prospects of quick returns. Kenneth Patton, associate dean of New York University’s Schack Institute of Real Estate, calls it “a short-term mentality, fed by quarterly financial reporting and the daily stock market crash. We are obsessed by immediate measurement and return, without thinking about long-term pay-outs,” and worries that the stimulus may be seen

as “faith healing.” He adds, “Public works are a balance-sheet investment.”

When President Franklin D. Roosevelt took office in 1933, “he faced issues similar to what Obama will face,” says LePatner, partner at LePatner and Associates. “Back then, the nation was suffering with 25% unemployment, so a \$3.3-billion public works program was put in place to put Americans back to work and jump-start the economy, which it did.”

The problem was that after a few years, Congress put pressure on Roosevelt to halt these types of programs and slow down government spending. Roosevelt did and as LePatner notes, “In 1937, there was another recession.”

He says the Obama administration is mindful of this history. The new administration accepts that this effort is not just about pumping money into infrastructure work. He adds the nation’s infrastructure is in such bad shape, a short-run stimulus will not make much of a difference. “The Obama administration has to be very careful, not only to start the engine with infrastructure, which is certainly needed, but also to keep it running by having a game plan for fixing the massive amount of existing infrastructure problems, which is vital to our nation.”

A recent survey by BAF disputes long-running assumptions about public indifference over infrastructure, saying that 94% of Americans are concerned about infrastructure and 81% are willing to pay 1% more in taxes to rebuild the systems involved.

“They know this plan is not a quick fix; they know the problems didn’t happen overnight; they want the investment because we’re all in this for the long haul,” says Polly Trottenberg, executive director at BAF. The group was founded in 2008 by Rendell, Mayor Michael Bloomberg and California Gov. Arnold Schwarzenegger to “bring about a new era” of US investment in infrastructure.

But BAF’s survey also said that accountability was the public’s greatest concern. Trottenberg says the stimulus bill satisfies many of those transparency concerns. “Details will be posted online, governors will have to certify and that in itself will make a wonderful change in this process.”

Undoubtedly, there will be heated competition over who gets the limited funds. “We’re just in the beginning throes of it, and lots of people are pushing for their own particular interests,” says Anne Canby, president of the Surface Transportation Policy Institute.

Calls for transformative infrastructure have increased as well. Kelly defines these projects as those that create new capacity and facilitate economic development. They include foundations of what some call the inspiring visions of the future: cities connected by networks of high-speed rail, more efficient mass transit within those cities, a landscape dotted by solar or windmill farms, a nation where technological advances provide easy access to high-speed internet connectivity regardless of location.

“What would a brilliant, forward-looking vision for America’s infrastructure be, and how can we show those visions to the public and get them excited about them?” Canby asks. For

example, “What if we had a national rail system, where would it go, what cities, what would the routes look like? If we were to build light rail systems in every metropolitan area with over one million residents, what would that look like? This sort of visionary thinking is incredibly important and we don’t do enough of it.”

Why are transformative infrastructure projects important? “Two examples: we don’t have one inch of high-speed rail in this country and we’ve only built two new airports since 1975,” Hudnutt says, adding that parts of Asia and Europe have left us in the dust. The United States trails other developed nations in necessary mechanisms for healthy global trade. Some say it’s essential for gateway cities like New York City to have high-speed rail access to the interiors of the country for trade purposes as well as the choice of rail over congested skies. And there’s renewable energy and green architecture: what some see as a path to energy independence and perhaps an energy revolution providing thousands of jobs.

“Some people will gripe and grouse that a commitment to green raises the costs,” says Hudnutt. “But I’ll tell you, if people aren’t building green office buildings, soon they aren’t going to have class A rental space.”

Recently, New Jersey Transit and the Port Authority of New York and New Jersey have been preparing to build a new \$8.7-billion trans-Hudson tunnel into Penn Station.

“From congestion relief on the trains to greater access on Manhattan’s West Side, look at how this will change the face of the region,” says Kelly. “What’s remarkable is that you’ve got two states, New York and New Jersey, that support this project. It’s unique and politically bold, a regional effort,” he says. (Parsons Brinckerhoff is a design contractor on the project.)

Kelly points to projects that will transform life for New Yorkers, like the East Side Access project, which would divert Long Island Rail Road passengers through a tunnel offering an option from Queens to Grand Central Terminal; and the Second Avenue Subway line, among others. “When you make these kinds of investments, a city becomes an even more attractive place to live and work.



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