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Question of the Month: What is the solution to New York City's antiquated office inventory? Build, baby, build

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As New Yorkers, we have long believed our city is the center of the universe. Despite economic downturns, power failures, blizzards, horrific tragedies, and everything short of locusts, our citizens rise to the occasion to get us back on our feet: our streets bustling, our businesses open. It is precisely because of our businessesâ€”and indomitable spirit and confidenceâ€”that New York City is the center of the universe. Despite the ascendency of other cities in the U.S. and the world, New York still rules.

But because of our aged infrastructure, made painfully clear by Hurricane Sandy, New York City's reputation as the center of the business universe is under threat. Unless the leaders of our business, real estate, and government communities come together to formulate a long-term plan to address our crumbling infrastructure, including the dated office building inventory that supports our businesses, our position as the world's business and financial leader will erode on par with our architecture.

New York City currently has 440 million s/f of office space. Our office inventory is, collectively, the oldest of all other major metropolitan cities in the nation. Nearly 90% of New York City office buildings are 40 years old or older; many are heralds of the building booms of the twenties, thirties, and early seventies, icons that define our skyline. Even though the city has undergone a building boomlet in the past few years, beginning with the Time Warner Center in 2006, rebuilding at the World Trade Center site, and Hudson Yards, only 10 million s/f of office space is presently under construction. And that comprises only 2.3% of New York City's total office inventory.

23 buildings are scheduled for completion before 2017. But only about five of them are office towers; most are residential or hotel towers. Another 17.5 million s/f of office space is on the boards, with proposed completion dates by 2017. But which projects make it from planning to construction is anybody's guess. Our current construction activity hardly compares to New York City's biggest building boom, from 1968 through 1973, when over 74 million s/f of new office space was added over a six-year period. Less than 20 million s/f of new office space was added to our inventory between 2002 and 2011. Even more problematic for the center of the center of the universeâ€”Midtown Manhattanâ€”is that almost all new construction projected for completion over the next several years is not even in Manhattan but in secondary and tertiary office markets.

Besides the need for sheer square footage, the kinds of space companies need to compete and thrive in a global economy are far more technologically sophisticated than architects, engineers, and city planners could have conceived when the parents of today's techno-innovators and financial wizards were younger than their offspring are now. As global competition from Hong Kong, Singapore, London, Tokyo, Beijing, and Toronto eats away at our stronghold as the world's financial and business capital, New York City must replace its antiquated office icons with new architecture that will support the businesses of todayâ€”and as far as we can imagine them into the future. If we do notâ€”and do not start soonâ€”New York City surely will lose its standing as the center of the universe in all aspects but in the minds of die-hard New Yorkers.

Most of the reasons New York City has failed to keep up with the need for new office construction are factual. Land costs are high because land is scarce. New York City has the highest cost of labor in the country. Current zoning regulations limit the size of new buildings making it nearly impossible to construct an office tower that makes economic sense. Construction loans for office buildings are difficult to obtain. And, finally, the time it takes to secure construction approvals and permits and assemble the land to build on is daunting, if not defeating. Even to a New Yorker.

But there is another reason the city lags in meeting demand for new office space that is approaching the fictional. It speaks to the idea of doing business in the center of the universe, despite our increasingly tenuous hold on that status. Companies have settled for space in functionally obsolete office buildings because it is, after all, New York. The need-and image and access to the best of everything else-to be in New York City apparently trumps quality-and functionality and efficiency-when it comes to office space.

Our real estate bubble will burst if we do not replace our obsolete office space soon. No matter the allure of the city, rapid advances in computer and building technologies and the way business must be conducted to succeed will soon dictate where businesses must operate to accommodate their needs.

It is time to act. The Bloomberg administration has taken a significant first step with its up-zoning proposal, a rezoning plan for Midtown Manhattan that allows larger buildings to be built. But it is only a first step and up-zoning alone cannot solve our lack of office space problem or resolve the cost of construction or reduce the tax burden of operations. Government must work with real estate industry and business leaders to create an economic environment that encourages new construction, without creating a new kind of bubble that undermines the real estate market.

Necessity is the mother of invention

Five real estate initiatives to preserve Manhattan as the global business leader:

* Expedite passage of the Up-zoning Proposal.

Now.

* Provide real estate tax relief for newly constructed buildings.

Real estate taxes comprise close to 30% of a building's gross rent. Property owners and developers cannot charge sufficient rent on new buildings to make building them worthwhile. Real estate tax relief is a necessary incentive for new construction.

* Implement a construction-lending program to encourage new construction of office buildings.

Loan guarantees or similar programs that reduce financing costs and increase the availability of financing are a boon to new construction.

* Expedite permitting and approvals.

The Department of Buildings and the City Planning Commission must work together to establish procedures that expedite approvals and permits to build new buildings. Setting up a two-tier system where developers can pay a premium to obtain expedited reviews could make such a system self-sustaining.

* Reduce labor costs.

At the height of the recent economic downturn, New York City construction trades worked with developers to reduce construction costs to stimulate and facilitate new construction.

Retaining New York City's status as center of the universe comes down to a single word: build. It bears repeating and an endearment: Build, baby, build.

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