

April 15, 2009

# As Finance Offices Empty, Developers Rethink Ground Zero

By [CHARLES V. BAGLI](#)

[Merrill Lynch](#), an investment bank now owned by [Bank of America](#), has started moving the first of thousands of employees to Midtown from Lower Manhattan, a departure that will ultimately leave floor after floor of empty office space at the World Financial Center.

[Goldman Sachs](#) will leave vacant 1.3 million square feet in four aging buildings in the financial district after it begins moving to its new headquarters in Battery Park City late this year. [American International Group](#), the troubled insurance giant, is also a shrinking presence downtown, real estate brokers say, while Depository Trust is considering a move to New Jersey.

And just as companies are leaving downtown, more commercial space is being built there. Under current plans for the redevelopment of ground zero, the developer [Larry A. Silverstein](#) will add three massive skyscrapers with a total of 7.57 million square feet by 2013.

It adds up to hundreds of acres of vacant space in Lower Manhattan at a time of recession and restructuring of the financial industry.

For that reason, Mr. Silverstein and the owner of the 16-acre ground zero site, [the Port Authority of New York and New Jersey](#), are once again locked in negotiations over how and when the office towers get built. The talks are further complicated by the fact that the utilities and entryways for the nearby \$3.2 billion transit center and the Sept. 11 memorial are woven into the base and underground portions of Mr. Silverstein's three towers.

Given the restructuring of the financial services industry, there is a "need to reconsider the original plan for 10 million square feet of office space at ground zero," said Mitchell L. Moss, a professor of urban policy and planning at [New York University](#). The two sides are reluctant to discuss the details of negotiations because of confidentiality agreements. But executives who have spoken to both parties outlined their positions.

Mr. Silverstein, who has received more than \$150 million in development fees already, wants to push forward with at least two of the towers and reconfigure an agreement with the Port Authority. He has offered a characteristically optimistic view of New York's rebound, saying there will always be companies willing to pay top dollar for new, modern buildings.

Unable to finance the buildings himself, Mr. Silverstein wants the Port Authority to do it, a move that could cost \$3 billion and a sizable portion of its capital budget. At the same time, Mr. Silverstein has pressed the state and the city, which agreed in 2006 to occupy a portion of the first of his towers, to pay a premium rent for space that would otherwise be unoccupied.

Two weeks ago, according to executives on both sides, Port Authority officials offered a counterproposal: it would provide \$800 million in financing for only the first tower, a 64-story, 2.3 million-square-foot building on Church Street, between Cortlandt and Liberty Streets. In keeping with the original agreement, the Port Authority would move its headquarters there, but pay a substantially higher rent.

In return, Mr. Silverstein would have to invest his fees in the project, while providing the Port Authority with a financial stake in the building.

Rather than flooding the downtown market with what it believes would be unneeded office space, the Port Authority has proposed delaying construction of the second, even larger tower until 2022 and the third until 2030.

“We have to deal with the economic reality today,” said Christopher O. Ward, the authority’s executive director. “That starts with keeping the memorial and the other public infrastructure on the timeline and budget we’ve committed to.”

Still, the authority says it would build the underground portions and the first few floors of the other two towers, because they contain ventilation systems, entryways and emergency exits for the transit center and the memorial. Mr. Silverstein, however, has argued that the authority’s proposal would leave much of the site unfinished and perhaps unoccupied. He also contends that it would be impractical, if not impossible, to build the first few floors of the second two towers and complete them later.

“In 2006, all of the stakeholders — the city, the state, the Port and Silverstein — agreed that the best interests of both the city and downtown would be served by finishing the entire site simultaneously and as quickly as possible,” said Janno Lieber, who oversees the trade center project for Silverstein Properties. “One building surrounded by three half-finished blocks for the next 20 years does not make good on promises made to New Yorkers.”

The recession and the collapse of the credit markets have taken a toll on the commercial market, as some banks fold or consolidate. Brokers predict that the vacancy rate in downtown office buildings will climb to 16 percent, from 11.7 percent today. [JPMorgan Chase](#) has quietly abandoned its plan to build a new headquarters for its investment banking division near ground zero.

“The market doesn’t need seven million square feet of space and it’s not going to need it for a while,” said Barry Gosin, chief executive of Newmark Knight Frank, a real estate brokerage firm.

The Bloomberg administration has remained neutral so far as to whether Mr. Silverstein should build one or two towers in the next couple of years. Mr. Silverstein is not without leverage. He can insist on adhering to the current development agreement. So far, the Port Authority has paid nearly \$90 million in penalties for failing to turn over Mr. Silverstein's construction sites in a timely manner. If the impasse continues, it could jeopardize the authority's promise to open the memorial in 2011.

“What Larry did is take out all his equity at the beginning, so he really doesn't have a lot of skin in the game,” Mayor [Michael R. Bloomberg](#) said last month. “He has an enormous amount of upside potential, which doesn't leave the Port Authority with a lot of negotiating ability, because they're the ones who have to put up the money.”

Mr. Silverstein has about \$964 million left from an original \$4.5 billion pool of insurance proceeds, paid to cover his losses from the destruction of the two original World Trade Center towers.