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How Koch Scorched Lower Manhattan

After a year of cutting crime and the municipal payroll, Mayor Giuliani has identified his first development priority: the rejuvenation of lower Manhattan, the area below Chambers Street, that occupies less than 1 percent of the city's assessed value. The difficulties currently facing lower Manhattan did not emerge overnight, but are the result of decisions by both state and city government to encourage office development at new sites in Midtown, Battery Park City and the outer boroughs, and by the abandonment of two major transportation projects - the Second Avenue Subway and the federally funded Westway - that would have improved access to the area.

Lower Manhattan - once the hub of the legal and financial community - has suffered as brokerage firms have merged and investment banks have consolidated, and others, such as Drexel Bumham, have gone out of business altogether. Older and technologically obsolete downtown offices have been forsaken for new high-tech structures, often within walking distance of commuter rail stations at the World Trade Center or in Midtown. As computers made it possible to separate the front and back offices of banks and brokerage firms, routine office functions have moved to low-cost sites New Jersey, Delaware, Florida, even the Caribbean.

But apart from technological trends, municipal policy did the most damage to the lower Manhattan office market. The Koch administration, responding to pressure from outer-borough politicians seeking public investment dollars, encouraged office development in downtown Brooklyn, Jamaica, Queens and the Bronx. Financial service firms considering a move out of the city were offered subsidized spaces - but not in Manhattan. The policy worked, short-term; Goldman Sachs, Chase Manhattan, Morgan Stanley established facilities in Brooklyn with generous assistance from government. Despite the rhetoric about providing jobs for minority communities, most employees kept their jobs and simply adjusted their commuting patterns.

At the same time, city and state agencies were also induced to move from lower Manhattan, which further eroded the downtown office market. The city's Department of Environmental Protection moved to Lefrak City, and state offices were moved from the World Trade Center to the Bronx and Jamaica. These relocated agencies were part of the overall municipal policy to use office development as a spur to local economic development outside Manhattan. Public policies to develop office space outside Manhattan were so effective that lower Manhattan now has 20 million square feet of vacant office space, and its billable assessed value has declined by 28.6 percent from 1991 to 1994.

Compounding the migration of back offices to the outer boroughs was Olympia and York's rescue of Battery Park City, which created a new center of gravity in lower Manhattan for high-prestige corporations like American Express and Merrill Lynch, which moved from older downtown buildings to the spectacular World Financial Center.

Now the Giuliani administration, with the support of the new Alliance for Downtown New York, is trying to foster activity in lower Manhattan with tourism, the conversion of office buildings to housing, and incentives for new commercial tenants. The proposed policies are a long overdue antidote to the heavy-handed attempt to undermine Manhattan and, indirectly, the rest of the city's economy. Ironically, the plans for lower Manhattan ignore the most vibrant part of downtown, Chinatown, which has emerged as a major banking capital in its own right. In view of the fact that Asian investors are rescuing downtown office towers 60 Broad Street, 55 Exchange Place and 40 Wall Street it is striking that the new plans overlook the possibility of attracting Asian capital to generate a new magnet on the downtown waterfront.

If lower Manhattan is to be reborn, new sources of capital and initiative will be needed to compensate for the missed opportunities and flawed policies of the Koch years.
