The City Builders

STUDIES IN GOVERNMENT AND PUBLIC POLICY

The City Builders

Property Development in New York and London, 1980–2000

Second Edition, Revised

Susan S. Fainstein

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Abbreviations

ACSP	Association of Collegiate Schools of Planning
AESOP	Association of European Schools of Planning
ALA	Association of London Authorities
AMC	American Multi-Cinemas
ATURA	Atlantic Terminal Urban Renewal Association
BID	business improvement district
BPCA	Battery Park City Authority
BR	British Rail
CBD	central business district
CDBG	community development block grant
CDC	community development corporation
CEO	chief executive officer
CSFB	Credit Suisse First Boston
DCC	Docklands Consultative Committee
DETR	Department of the Environment, Transport and the Regions
DJC	Docklands Joint Committee
DLMA	Downtown Lower Manhattan Association
DoE	Department of the Environment
EDC	Economic Development Corporation
ELP	East London Partnership
ESDC	Empire State Development Corporation
FAR	floor area ratio
FBS	financial and business services
FCB	Financial Control Board
FHA	Federal Housing Administration
GDP	gross domestic product
GLA	Greater London Authority

GLC	Greater London Council
GLE	Greater London Enterprise
GLEB	Greater London Enterprise Board
HDA	Housing and Development Administration
HDC	housing development corporation
HHC	Health and Hospitals Corporation
HPD	Housing Preservation and Development
HRB	Housing and Redevelopment Board
ICIB	Industrial and Commercial Incentives Board
ICIP	Industrial and Commercial Incentives Program
KXT	King's Cross Team
LDA	London Development Authority
LDDC	London Docklands Development Corporation
LEntA	London Enterprise Agency Ltd.
LISC	Local Initiatives Support Corporation
LPAC	London Planning Advisory Committee
LRC	London Regeneration Consortium
MAC	Municipal Assistance Corporation
O & Y	Olympia & York Developments Ltd.
OSDC	Office of the State Deputy Comptroller (for New York City)
PATH	Port Authority Trans-Hudson
PDC	Public Development Corporation
PILOT	payments in lieu of taxes
PLA	Port of London Authority
REBNY	Real Estate Board of New York
RFP	request for proposals
RLCDG	Railway Lands Community Development Group
RPA	Regional Plan Association
S&Ls	savings and loans
SCDG	Spitalfields Community Development Group
SDG	Spitalfields Development Group
SIAC	Securities Industry Automation Corporation
SRB	Single Regeneration Budget
UDAG	Urban Development Action Grant
UDC	Urban Development Corporation
ULURP	Uniform Land Use Review Process
WFC	World Financial Center

Preface

When I completed the first edition of this book, the property markets in London and New York had sunk deep into recession. With typical social-scientific foresight, I assumed that present conditions would prevail for a substantial amount of time. Even though I knew that real estate would follow its usual cyclical pattern and once again revive, I did not expect the upturn to come nearly as quickly as it did, nor that it would be so particularly powerful in New York and London. At that time, before the Internet revolution and the 1990s stock market boom fueled by high tech, the prospects for strong economic recovery within the two cities looked rather bleak. Now, in retrospect, I can see that these two cities, with their repositories of creative talent and their global centrality, were well-poised to exploit the trends of the century's final decade.

One consequence of the rapid turnaround in the property sectors of the two cities was the equally precipitous obsolescence of the first edition of *The City Builders*. Thus, the principal purpose of this new version is to update the case studies and argument in the light of ensuing events. In general, I have discovered that the character of the property market changed significantly, as it became much more driven by demand rather than by the availability of financial capital. I also found that the behavior of government and developers within the two cities, which had strongly converged during the '80s, began to differ again. Government in London became more committed to planning and more inclusive, while New York continued, and even intensified, its earlier reliance on subsidizing private developers while regulating them little. The property industry itself responded to earlier events and changed its way of doing business. Financial institutions and developers, traumatized by their losses during the recession of the early '90s, simply did not allow themselves the speculative fling on which they had embarked ten years before. Therefore, my analysis of strategies of development had to take this new cautiousness into account. As a con-

sequence, while the arguments I had made earlier did not change dramatically, they did need to be modified.

I conceived the first edition of this book at a time when the property industry was rapidly transforming the character of metropolitan areas in the United States and the United Kingdom. Not only were annual construction rates at their highest points since the boom years of the early 1970s, but new development was creating a strikingly different urban form from that of the preceding era. No longer were we seeing a thinning of the core and a simple decentralization of urban functions to suburbia. Rather, new construction was producing reconcentration in urban centers and intensifying development within clusters on the periphery. Although planners had long urged denser development, the scattered islands of intense use (surrounded by ever-increasing sprawl in the U.S. case) did not result from planners' conceptions of desirable spatial patterns. Even when the restructured metropolis incorporated planning principles in isolated developments, its overall fragmentation contravened them. Instead, it represented the confluence of an explosion of speculative building for profit and a surging demand for space within a context of local incentives to growth and national policy antagonistic to regulation.

Nowhere within the Western world had development proceeded at so strong a pace and produced such a visible effect on the environment as in the London and New York metropolitan areas in the 1980s. In these two cities not only was a proliferation of new large office buildings replacing smaller structures within the old cores, but enormous, highly visible mixed-use projects were springing up on vacant or derelict land. Two of these—Docklands in London and Battery Park City in New York—came to symbolize the economic and social transformation of the 1980s. Built for financial and advanced-services firms, they possessed an opulence that asserted the dominance those two industries and their employees had assumed over the metropolitan economy.

My purpose was to investigate the economic, political, technological, and cultural factors that caused developers to make the decisions that were shaping the physical form of these two cities. It was my belief that the contemporary urban built environment did not represent an uncomplicated response to demand but rather that developers both molded demand and responded to public-sector initiatives and regulations. While the locational choices of firms that ultimately occupied new structures had been much studied, the strategies of speculative developers were less well understood. Given the long lead time and resource mobilization involved in major construction efforts, developers could not respond immediately to an existing market. Instead, they based their calculations on the availability of financing, governmental incentives, community acquiescence, and anticipated demand. I was interested in discovering the criteria underlying their predictions.

During the course of my research, however, the developmental juggernaut that had begun rolling during the early 1980s on both sides of the Atlantic abruptly halted. It reasserted itself, but, as indicated above, more cautiously, in the middle

1990s. Moreover, even as I write, that upturn begins to appear fragile. It may be that property markets in the two cities are yet about to begin another plunge, although if they do, it will occur in a context of less overbuilding than previously. At any rate, the great volatility of the industry underlies my concern with the causes of its cyclical behavior and with its impact on urban economic stability. By 1987 it had become apparent that both London and New York would have surpluses of commercial and luxury residential space in the 1990s. Yet developers were continuing to propose and gain financing for projects seemingly doomed to stand empty upon completion, making inevitable the sharp downturn that did indeed mark the early '90s. *Why?* Then, how did they respond to later revival? These issues led me to question further the underlying logic of property development and to inquire into its similarities to, and differences from, other forms of commodity production.

Ultimately, the purpose of my inquiry—applicable in times of both expansion and contraction within property markets—became an understanding of the factors influencing the dynamic of real-estate development and, in turn, the influence of that dynamic on the prosperity and attractiveness of urban areas. I sought to explore this dynamic by investigating the reasoning and strategies adopted by key actors in property development, the struggles that occurred among them, the extent to which various participants got their way, and the impact that development had on urban life. In focusing on London and New York, I both examined property development in the places where the stakes were biggest and addressed subsidiary questions concerning the effect of world-city status on urban form and locational patterns.

The stimulus to this book came from numerous sources. Like most scholars, I selected topics based on personal predilections. I have always preferred the excitement of living in a city to pastoral meditation, and my lifelong commitment to studying central cities reflects this bias, as did my choice, fifteen years ago, to abandon suburban residence for a loft in the heart of Manhattan. Since my first trip to London nearly forty years ago, I have appreciated the civilized values and greater provision for working-class people incorporated in that metropolis. My desire to see those virtues adopted in American cities had led me many years earlier to embark on comparative research.

As noted above, this volume contains a thorough revision of the first edition. I have brought all the main case studies up to the present and have introduced material on projects begun during the '90s. I have incorporated recent literature into the theoretical discussion and have revised my argument concerning property cycles. Although I have not rewritten every sentence, many have been changed, and I have added considerable new material. The questions that I listed in the first chapter of the previous edition remain the same; the answers I give, however, are somewhat different.

I am grateful to the Lincoln Institute of Land Policy for supporting the additional research conducted during 1999–2000. I especially wish to express my

gratitude to Greg Clark and Deborah Newlands of Greater London Enterprise (GLE) for their assistance in providing volumes of information and introducing me to other helpful people. Other Londoners who provided me with advice and information include Bob Colenutt, Chris Hamnett, Michael Edwards, Michael Keith, Michael Hebbert, Sir Peter Hall, Roger Taylor, and Andy Thornley. In New York, thanks go to Bryna Sanger, who kindly facilitated my meeting with important people in the industry. Thanks as well to my editor at the University Press of Kansas, Fred Woodward, who encouraged me to carry out this revision and has been helpful in every way. Finally, I am appreciative of the fine research and editorial assistance provided by Deike Peters, David Gladstone, Louis Gladstone, and Gregory Godfrey.

Many people cheerfully submitted to interviews, a number for the second time, even when they suspected that my conclusions were likely to be critical of their point of view. I was extremely impressed by the graciousness, articulateness, and cogent analyses of many of the individuals within the real-estate industry and the public sector to whom I talked. I feel rather embarrassed at finding fault with them and hope they find it in their hearts to forgive me.

I have had the extraordinary benefit over the years of extended conversations with a circle of urbanists, whose ideas and idealism have affected me greatly and are woven into the arguments of this book. As well as some of the people already mentioned, these include Janet Abu-Lughod, Robert Beauregard, Manuel Castells, Lily Hoffman, Michael Harloe, Dennis Judd, John Logan, Enzo Mingione, John Mollenkopf, David Perry, Edmond Preteceille, Saskia Sassen, Richard Sennett, and Michael Peter Smith. Finally, I wish to express special appreciation to three people whose assistance to my original research endeavor was extraordinary. Sydney Sporle so greatly facilitated my work in London that I cannot imagine how I would have proceeded without his intellectual and logistical help. My editor at Blackwell, Simon Prosser, worked diligently on the manuscript in the tradition of editors of old, when book publishers were concerned with the content as well as the marketability of books. He was constantly interested in and sustaining of my endeavor. Norman Fainstein read and commented on each chapter in each of its iterations.

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them: "The Second New York Fiscal Crisis," *International Journal of Urban and Regional Regional Research* 16 (March 1992): 129–37; "Promoting Economic Development: Urban Planning in the United States and the United Kingdom," *Journal of the American Planning Association* 57 (Winter 1991): 22–33; "Rejoinder to: Questions of Abstraction in Studies in the New Urban Politics," *Journal of Urban Affairs* 13 (1991): 281–87; "Politics and State Policy in Economic Restructuring," in *Divided Cities: London and New York in the Contemporary World,* ed. Susan S. Fainstein, Ian Gordon, and Michael Harloe (Oxford, UK, and Cambridge, MA.: Blackwell, 1992), 203–35 (Ken Young, coauthor); "Economics, Politics, and Development Policy: The Convergence of New York and London," *International Journal of Urban and Regional Research* 14, no. 4 (December 1990): 553–75; "Economic Restructuring and the Politics of Land Use Planning in New York City," *Journal of the American Planning Association* 53 (Spring 1987): 237–48 (Norman I. Fainstein, coauthor); "The Politics of Criteria: Planning for the Redevelopment of Times Square," in *Confronting Values in Policy Analysis,* ed. Frank Fischer and John Forester (Newbury Park, CA: Sage Publications, 1987), 232–47; "The Redevelopment of Forty-Second Street," *City Almanac* 18 (Fall 1985): 2–12; and "Government Programs for Commercial Redevelopment in Poor Neighborhoods: The Cases of Spitalfields in East London and Downtown Brooklyn, New York," *Environment and Planning A* 26 (1994): 3–22.

1

Economic Restructuring and Redevelopment

Our image of a city consists not only of people but also of buildings—the homes, offices, and factories in which residents and workers live and produce. This built environment structures social relations, causing commonalities of gender, sexual orientation, race, ethnicity, and class to assume spatial identities. Social groups, in turn, imprint themselves physically on the urban structure through the formation of communities, competition for territory, and segregation—in other words, through clustering, erecting boundaries, and establishing distance. Urban physical form also constrains and stimulates economic activity. The built environment etches the division in time and distance between home and work and generates the milieu in which productive enterprises relate to each other. As a source of wealth through the real-estate industry, a cost of doing business, and an asset and expense for households, physical structures are a critical element in the urban economy.

The distinction between the use of real estate for human activity and its market role is often summarized as the difference between use and exchange values.[1] Frequent tension between the two functions has provoked the community resistance to redevelopment and highway programs and the endemic antagonism between neighborhood groups and development agencies which have marked urban politics in the United States and the United Kingdom in recent years. The immense stakes involved have meant that decisions of real-estate developers and the outcomes of struggles over the uses of urban land have become crucial factors in determining the future character of the urban economy.

For policy-makers, encouragement of real-estate development seems to offer a way of dealing with otherwise intractable economic and social problems. Governments have promoted physical change with the expectations that better-looking cities are also better cities, that excluding poor people from central locations will eliminate the causes of "blight" rather than moving it elsewhere, and

that property development equals economic development. The quandary for local political officials is that they must depend on the private sector to finance most economic growth, and they have only very limited tools for attracting expansion to their jurisdictions. Their heavy reliance on the property sector partly results from their greater ability to influence it than other industries. How much government programs for urban redevelopment actually do stimulate business is, however, an open issue.[2]

This inquiry is intended both to respond to theoretical questions concerning the building of cities and to address important policy issues for community groups and local governments. Within the academic literature, the economic and political forces that shape real-estate development and its social consequences are the subject of considerable debate. Does real-estate development simply respond to speculative gambles by individuals out to make fast profits, or is it an answer to genuine social needs? Does the type of development that occurred during the final decades of the twentieth century in London and New York inevitably generate "two cities"—one for the rich and one for the poor? Do the subsidies that governments direct toward the property sector represent a sellout by politicians and planners to capitalists or a method by which the public can, with a small investment, gain employment and public amenities as externalities of development schemes? Progrowth coalitions, consisting of business groups and public officials, have expressed confidence in the efficacy of public-private partnerships as engines of economic expansion. Neighborhood groups have frequently, although not always, opposed large-scale redevelopment, because they have feared its environmental effects and its tendency to displace low-income residents and small businesses. Other critics, tracing back to the economist Henry George, have asserted that the profits from development were created by the whole community and have been illegitimately appropriated by property owners. Generally, leftist scholars have supported the pessimistic view on the causes and results of development, while conservatives have celebrated its entrepreneurial base and transforming consequences.

A major aim of this study has been to discover the conditions under which the speculative property-development sector invests in a place and the role of the public sector in providing those conditions. Evaluation of the impacts of publicly supported physical development is more difficult, since there are many confounding variables, but it is a further goal.

PHYSICAL DEVELOPMENT AND THE CONTEST OVER URBAN SPACE

Since the mid-1970s American and British local governments in their policies toward property development have aimed more at stimulating economically productive activities than at enhancing the quality of life for residents. To achieve their objectives, they have promoted the construction of commercial space over

housing and public facilities. Even though many of the new skyscrapers, festive malls, and downtown atriums produced by commercial developers have arguably created more attractive cities, the provision of amenities has been only a secondary purpose of redevelopment efforts.

Economic development strategies have typically involved subsidies and regulatory relief to development firms, as well as to businesses that could be expected to engage in long-term productive activity.[3] Indeed, in both London and New York, stimulation of commercial property development was the most important growth strategy of the latter part of the century. Yet, for most of this period business expansion was not hampered by a shortage of office space. Public incentives for construction were not a response to a bottleneck that was stifling investment. Instead, the authorities hoped that, by loosening regulations, supplying land and infrastructure, and offering subsidies, they would cause developers to offer higher quality, cheaper space. They intended that the lowered costs would draw leading businesses to these dense central areas. Evidently, policy-makers believed that an increase in the supply of privately owned, competitively priced, first-class space would create its own demand. Moreover, despite their proclaimed belief in market principles, they seemingly did not consider that tax subsidies would be reflected in rising land costs, even though landowners could charge more for the same parcel if final costs were brought down by tax abatement.

Two reports written during the 1980s, *London: World City* and *New York Ascendant,* written at the behest of governments in London and New York, embody the strategic considerations that guided policy-makers in the ensuing decades.[4] The documents are typical of a number of such efforts in Britain and the United States, which attempted to chart a course that would capitalize on service-sector advantages in the face of a continuing decline of manufacturing. Like most of these plans, they were intended as guides to action and were not officially adopted as legally binding policies. Nevertheless, they represent a reasonable summary of the attitudes of public officials and private-sector leaders toward the likely prospects for economic growth.

The writers of the reports perceive the principal advantages of London and New York to be their world-city statuses. They defend the governmental policies of the '80s and justify what they regard as the only practical course for attaining economic prosperity within their high-cost environments. In explaining their emphasis on a few industries, they point out that despite out-migration of manufacturing and wholesaling enterprises, these two financial capitals had increased their prominence as centers for investment markets, banking, and business services. In their discussion of growth strategies, the reports' authors call for heightened targeting of these core-service businesses by lowering their operating costs. The London report stresses transport and expanding the central business district. As well as identifying these ways in which government can assist the sector, the report of the New York commission endorses offering loans and tax subsidies to attract business to less expensive locations within the city.

Analyses of the Development Industry

Although government agencies play an important role in affecting the physical environment, the main progenitor of changes in physical form within London and New York is the private real-estate development industry.[5] Examination of real-estate investment decisions reveals the ways in which urban redevelopment is channeled at the same time by broad political and economic imperatives and by the industry's own specific modus operandi. An analysis of its operations shows how economic and social forces create its opportunities and hazards and, in turn, how its strategies etch themselves into the set of possibilities that exist for economic and social interaction.

To a greater extent than I initially anticipated when starting this research, I found that not just economic and political pressures but personality and gender factors affect the development industry. Development continues to be a highly entrepreneurial industry, and particular enterprises strongly reflect the aspirations of the men who run them. Although women now constitute a significant proportion of real-estate brokers, men continue to dominate the major development firms. As I have studied the large projects that have changed the faces of London and New York, I have been struck by the extent to which they have been driven by individual male egos that find self-expression in building tall buildings and imprinting their personae on the landscape.

Despite its key economic role and political influence, the development industry has only recently become the focus of serious political-economic analysis. For almost a decade David Harvey was virtually alone in examining real-estate development from a broad theoretical perspective.[6] More recently, especially in the United Kingdom, social scientists have begun to subject the property industry to extensive empirical and theoretical investigation.[7] American interest in this subject has also picked up, and several works examining the history, dynamics, and impacts of real-estate investment have recently appeared.[8] The bulk of scholarship, however, remains within the domain of academic programs that train real-estate practitioners. As would be expected in such a context, the emphasis is on how to do it rather than causes and social impacts. Within the United States a considerable popular literature on real-estate development tends toward hagiography of developer-heroes rather than critical analysis. In a typical example, Douglas Frantz extols "the men who shaped and built Rincon Center [a project in San Francisco], the dreamers who seek riches and immortality by launching great buildings onto today's urban landscapes."[9]

Urban redevelopment has received far more scholarly attention than has the real-estate sector alone. Studies of redevelopment, however, have largely focused on governmental rather than private decision making. Although they have investigated the influence of private developers on public policy, they have taken the motives and responses of property investors as givens rather than inquiring into their sources. This book attempts to address that omission, while taking as its starting point the scenario that the redevelopment literature has fairly consistently chronicled and that is recounted below. For in most British cities during the Thatcher period and in most American cities throughout the history of urban redevelopment, there is a typical story.[10] The research reported in this book is directed at filling in the gaps in this story, not at contradicting it.

THE TYPICAL REDEVELOPMENT SCENARIO

The story goes as follows: In the past thirty years almost all of the major metropolitan areas of the developed world have been affected by changes in the national and international economic system, such that they have either attracted a surge of capital and well-to-do people or suffered from disinvestment and population withdrawal.[11] In both advancing and declining cities, growth has been a contested issue, and groups have mobilized to affect population and capital flows, to either limit or attract development. Within the United States, business groups, usually in concert with political leaders, have promoted growth and tried to impose their objectives within the context of elite coalitions, of which Pittsburgh's Allegheny Conference is the prototype.[12] Urban movements, driven by equity, preservationist, and environmental concerns, have opposed subsidized downtown redevelopment and unregulated profit-driven expansion. They have also, although less frequently, promoted alternative plans for neighborhood redevelopment. The outcomes of these contests have varied. Regardless, however, of whether the result has been growth or decline, or greater or less equity, deal making on a project-by-project basis rather than comprehensive planning has been the main vehicle for determining the uses of space.

Overall, business interests have dominated the negotiations among government, community, and the private sector on the content of redevelopment.[13] They have been supported by elite and middle-class consumers seeking downtown "improvements" and attractive, centrally located housing. Neighborhood and lower-income groups have received some gains in some places from redevelopment. Generally, however, the urban poor, ethnic communities, and small businesses have suffered increased economic and locational marginalization as a consequence. Central business district (CBD) expansion has increased property values in areas of low-income occupancy, forcing out residents, raising their living expenses, and breaking up communities. The emphasis on office-based employment within most large redevelopment schemes has reinforced the decline of manufacturing jobs and contributed to the employment difficulties of unskilled workers. More recent strategies toward creating entertainment districts have produced somewhat more ambiguous results in terms of employment. While businesses have received direct subsidies, taxpayers at large have borne the costs and received benefits only as they have trickled down.

U.S./U.K. Redevelopment Experiences

British and American experiences differed before the 1980s and, at the beginning of the new century, are diverging again. Until Margaret Thatcher's election in 1979, redevelopment in Britain conformed less closely to the logic of private capital than it did in the United States.[14] The intimate relationship between local elected officials and real-estate interests that is a hallmark of U.S. local government, wherein developers are the largest contributors to municipal political campaigns, did not (and still does not) exist in Britain. British local authorities restricted private development and built millions of units of council (i.e., public) housing. In contrast, "slum clearance" was a major component of the American urban renewal program, resulting in the demolition but not the replacement of tens of thousands of units of poor people's housing. Furthermore, land taking for highway building produced an even greater loss of units.

In Britain, social housing (i.e., publicly owned or subsidized housing at below-market prices) was placed throughout metropolitan areas, minimizing gross ethnic and income segregation. American public housing, while much more limited in scope, was available only to the poorest residents and was usually located in low-income areas.[15] Urban renewal efforts, often derisively labeled "Negro removal" programs by their opponents, targeted ghetto areas that were near to business centers or to more affluent residential districts. Their intent was either to extend the more prosperous area or to cordon it off from the threat of lower-class invasion. Their effect was to displace nonwhite residents into more isolated, homogeneously minority territories.

As in the United States, British local authorities raised revenues through taxation on business and residential property ("rates"). Unlike their American equivalents, however, British local governments that could not meet the service demands on them through internal sources received a compensating central-government grant. They therefore did not need to attract business and high-income residents to maintain themselves and could afford to be more attuned to the negative environmental and social impacts of growth.

During the periods when the Labour Party controlled the British central government, it enacted measures to limit the gain that private developers could achieve through enhanced property values resulting from attaining planning permission on a piece of land. Under the Community Land Act of 1975, adopted during the third postwar Labour government, local authorities were granted the power to acquire land needed for development at a price below market value.[16] Developers would then lease the land from the local authority at market rents. The difference in value would constitute a development tax on landowners of about 70 percent. The purpose was to ensure that the community as a whole would recoup most of the development value of land. Local authorities largely failed to implement the scheme, and the Conservatives dismantled it; nevertheless, while in existence it acted as a deterrent to speculative increases in land prices.[17]

Despite these differences, the British and American cases during the twenty years preceding the ascendance of Conservative government in the United Kingdom did not wholly diverge. Under the American urban renewal program, public authorities had tried to attract developers by putting roads, sewers, and amenities into land that municipalities had acquired for redevelopment. Similar efforts began early in London's outer boroughs. Thus, for example, in Croydon, where 6.5 million square feet of office space was constructed in the 1960s, the council made a major effort to reduce the costs of development through providing basic infrastructure.[18]

As in the United States, a major surge of speculative commercial construction occurred in the United Kingdom in the early 1970s. The British expansion began when the Conservative central government increased credit as a means to stimulate the economy. While its action was not specifically directed at the property sector, it set off an intense building boom.[19] Despite the government's commitment to decentralizing population and economic activity out of London, much of the new construction arose in the core, and the Cities of London and Westminster,[20] which made up the commercial center of the metropolis, increasingly took on the look of Manhattan.[21] Parallel to the experience in a number of U.S. cities, office growth in the center of London led to gentrification of adjacent areas, while government subsidies to owner occupancy hastened the transformation of private rental into owner-occupied units.[22] In spite of the greater control on development in Britain, its 1970s boom ended like its American counterpart's in a wave of defaults and bankruptcies.

In the latter part of the 1970s, as had been the case in the United States for a much longer time, commercial redevelopment became a specific tool of British urban policy. Thus, the Labour government, in its growing economic desperation, encouraged commercial expansion into low-income areas next to the City of London (i.e., the financial district) well before the Thatcher regime took office and contrary to its avowed commitment to preserving working-class jobs and expanding the supply of affordable housing.[23]

During the 1980s, development policies in the two countries converged.[24] The British Urban Development Corporations (UDCs), modeled after similar American ventures, insulated development projects from public input.[25] Governed by independent boards and reporting only to the central government, they acted as the planning authorities for redevelopment areas. The consequence was the removal of decision-making powers from the local councils. The UDCs were oriented toward stimulating the private market rather than comprehensive planning.[26] In another case of transatlantic cross-fertilization, the majority of American states, although not the federal government, adopted the British innovation of the enterprise zone. Put in place early in the Thatcher regime, enterprise zones were designated geographic areas where firms were rewarded for investments with a variety of tax incentives, regulatory relief, and access to financing.[27]

In general, the dominant objective in both countries was to use public powers to assist the private sector with a minimum of regulatory intervention. Earlier emphases in redevelopment programs on the provision of housing, public amenities, and targeted benefits to low-income people were downplayed, as aggregate economic growth—measured by the amount of private investment "leveraged"—became the criterion of program success.

The sponsors of the regeneration programs of the '80s claimed that they had achieved a remarkable reversal in the trajectory of inner-city decline. Numerous studies, however, have characterized this growth as extremely uneven in its impacts, primarily benefiting highly skilled professionals and managers and offering very little for workers displaced from manufacturing industries except low-paid service-sector jobs. Moreover, as economic restructuring and contraction of social benefits produced a broadening income gap, growing social inequality expressed itself spatially in the increasing residential segregation of rich and poor, black and white. Rapid development also produced undesirable environmental effects. While the gleaming new projects upgraded the seedy appearance of many old core areas and brought middle-class consumers back to previously abandoned centers, their bulk and density often overwhelmed their surroundings, stifled diversity, and, in the crowded centers of London and New York, overloaded transportation and pedestrian facilities.[28]

The economic downturn of the early '90s eased pressures on inner-city land and thus for a while stemmed the negative environmental impacts of the extravagant ventures of the previous years. It also caused at least a temporary halt to gentrification, but it did not produce a turnaround in either the widening gap between rich and poor or the governmental pursuit of private investment through subsidies to businesses. By the year 2000, economic recession was a dim memory, and demand for space surged once again, producing transformative influences on urban form, inflating real-estate prices, and sparking intense competition for well-located space. In New York, reactions to this renewed real-estate boom by the public sector did not involve the sponsorship of megaprojects, as had been the case in the '80s; instead, the city's development strategy relied almost wholly on subsidies to developers and the occupants of their buildings. In London the opposite strategy was adopted, as tax subsidies were phased out and huge projects were begun. So far neither city is showing evidence of the speculative overbuilding that characterized the 1980s. London, however, has now turned toward strategic planning, while New York, except for an effort to revise the zoning code, displays little interest in planning at all.

THEORETICAL CONTROVERSIES

Most analyses of urban redevelopment have been built around case studies of individual cities. The more ambitious of these works develop theories concerning the crucial determinants of urban change.[29] Understanding urban redevelopment, however, was not the central issue for the first case studies that dealt with this subject. Rather, it simply constituted an arena in which to study the question of urban power structures. Thus, Robert Dahl's *Who Governs?*[30] and a number of subsequent reanalyses of New Haven, Connecticut, examined decision making in that city's urban renewal program but did not scrutinize the outcomes of redevelopment.[31] Nevertheless, Dahl and his associates, Nelson Polsby and Raymond Wolfinger, generally assumed that redevelopment was a widely beneficial goal, as the title of Wolfinger's book *The Politics of Progress*[32] implies.[33] Critics of their work, however, attacked it for overlooking the costs of redevelopment programs to poor and minority groups.[34]

For the decade of the 1960s, the power-structure debate dominated American discourse on urban politics. Within this discourse the question of race was hardly mentioned. But by mid-decade racial issues, urban social movements, and antipoverty efforts turned the urban arena into a battlefield. As a result, the scope of discussion widened considerably beyond Dahl's initial formulation. Bachrach and Baratz, in their critique of the pluralists, argued that in order to understand power, one must ask who benefits as well as who governs.[35] As their thesis began to prevail, analyses of decision making shifted to examinations of the effects of public policy, and the benign assumptions concerning the progressive qualities of urban renewal were dropped.[36] Thus, doubtless to Dahl's surprise, *Who Governs?* stimulated a body of research that ultimately connected redevelopment policy with the social and economic roots and impacts of decision making and formed the basis for much of the later writing on urban political economy, as will be discussed below. Although these studies conflicted on whether redevelopment coalitions could actually claim credit for economic growth, they generally agreed on the regressive distributional consequences of almost all central-city redevelopment programs.[37]

Urban politics emerged more slowly as a field of study in the United Kingdom than it did in the United States. The much weaker position of British local government, as well as the lesser prominence of urban social movements there, had much to do with this relative obscurity. Studies of redevelopment were carried out for a variety of purposes rather than, as in the United States, to contribute to the evolving debate on community power. A number of works stressed planning, housing, and redevelopment for their own sake, reflecting the much stronger British planning tradition. Unlike the Americans, British investigators spent little time debating whether seeming consensus on redevelopment programs had been manipulated, since the conflicting programs of the Labour and Conservative Parties made dissension obvious. Rather, they concerned themselves more with the functions of planning for capital accumulation and legitimation. British authors were less inclined from the start to examine public decision making in isolation from its broader economic and social context, and they therefore scrutinized the relationship between economic transformation, class structure, and urban form earlier than did their American counterparts.[38]

EXPLANATIONS OF REDEVELOPMENT POLICY

Explanations for the redevelopment story as summarized above fit into liberal and structuralist frameworks, with an overlapping third category designated regime theory.[39] At the risk of injustice to the range of works within the types described, the next sections provide a brief overview of the principal arguments.

Liberal Theories

Liberal analyses stress the importance of choice in producing redevelopment scenarios. They can be divided according to their stress on economic or political factors in shaping redevelopment activities. Conventional economically oriented studies identify regularities in the urban growth process and generally trace the changing fortunes of cities to the effects of economic competition, suburbanization, and technological change on the attractiveness of places.[40] The response of city officials to urban decline, according to this depiction, results from the need to compensate for competitive disadvantage by offering incentives to industry. This viewpoint is not incompatible with structuralist analysis but rather, within that framework, represents a superficial explanation, since it does not account for the forces underlying the ceaseless competition among places, the contradictions that such competition creates, the necessary relationship between uneven development and profit, the dependence of the democratic state on capital, and the power exerted by business to bias the outcomes of the process. In other words, it accepts uncritically the workings of the global capitalist system.

Another, more political, strand of liberal thought separates economic and political power and stresses the role of political decisions. Dahl and Polsby, writing before the resurgence of Marxist thought in the 1970s, were more concerned with contesting the single-elite model than with confronting structuralism.[41] Implicit in their focus on local decision making, however, was a rejection of economic determinism. They regarded the local decision-making stratum as comprising multiple elites that specialized in different issue areas. Redevelopment was only one of these areas and was not of great salience to most people. The key decision-making role belonged to public officials, who were checked by popular sentiment as expressed through elections. Savitch provides an updated version of pluralist thought.[42] While incorporating state theory into his model and thus somewhat parting company with his predecessors, he explicitly repudiates neo-Marxist arguments, contending that the most power is held by elected officials, who "can pursue an autonomous path and exercise great discretion."[43] Similarly, Swanstrom, concerned that the political economy viewpoint excludes the hope of progressive political action, contests what he regards as its fatalism.[44] The numerous critiques of pluralism in the power structure debate focused on its failure to comprehend the systemic privileging of business and to examine the distribution of benefits.

The more radical writers within the liberal tradition consider redevelopment a more central issue than do the pluralists and regard politics as the confrontation between elite and community rather than the jockeying of constrained elites acting within the confines of popular consensus. This group differs from the structuralists, however, in identifying progrowth coalitions rather than ineluctable economic pressures as the reason why business elites are favored within the redevelopment process.[45] This argument allows for greater local variation and the overcoming of dominant coalitions by countermobilization through both protest movements and voting. It stresses voluntarism in the formation of political groupings rather than the economic logic that structuralists see as causing people to join urban social movements.

The Left liberals, however, fail to demonstrate that redevelopment programs ever favor nonelite groups over the long term. Such a finding would be necessary in order fully to contradict structuralist analyses. Their argument that business groups do not get their way automatically but must organize themselves and follow conscious political strategies indicates indeterminacy in the urban system. But they do not show that outcomes can routinely favor majorities of the population, that lower-income groups typically participate in dominant coalitions, or that the democratic capitalist system offers much potential for sustained incorporation of nonelite interests in urban decision making. They create a straw person by caricaturing the Marxist argument as depicting absolute domination by business and by the logic of capital rather than only claiming the privileged position of capital and the dependence of government and the working population on the investment decisions of capitalists.

Structuralist Theory

I use the term "structuralist" to refer to theories giving primacy to economic relations in determining social actions. Although such theories are rooted in Marxist thought, their more recent manifestations break with Marxist determinism and economic reductionism to such an extent as to make the label "Marxist" misleading.

Contemporary structuralist explanations refer to the logic of capital operating in an era of global economic restructuring and extreme social and spatial inequality. Within this tradition, however, analyses vary as to whether they stress production or collective consumption in their analysis of the built environment.

Functions of redevelopment. Many observers, liberal and structuralist alike, have noted the correlation between urbanization and economic growth. Employers need proximity to labor pools, and producers require access to suppliers and to markets. Economic actors therefore cluster around each other or near to transportation nodes and telecommunications facilities so as to overcome the friction of distance. The structuralist twist on this recognition of the advantages of agglomeration displays two aspects: first, that the form of agglomeration is in tune with

the interests of capitalists rather than the preferences of workers or consumers; and second, that any particular agglomeration is unstable because it embodies underlying contradictions. In the words of David Harvey:

> Capital flow presupposes tight temporal and spatial coordinations in the midst of increasing separation and fragmentation. It is impossible to imagine such a material process without the production of some kind of urbanization as a "rational landscape" within which the accumulation of capital can proceed. Capital accumulation and the production of urbanization go hand in hand.
>
> This perspective deserves modification on two counts. Profit depends upon realizing the surplus value created in production within a certain time. The turnover time of capital . . . is a very important magnitude. . . . Competition produces strong pressures to accelerate turnover time. The same pressure has a spatial manifestation. Since movement across space takes time and money, competition forces capitalism toward the elimination of spatial barriers and "the annihilation of space by time." Building a capacity for increased efficiency of coordination in space and time is one of the hallmarks of capitalist urbanization. Considerations derived from a study of the circulation of capital dictate, then, that the urban matrix and the "rational landscape" for accumulation be subject to continuous transformations. In this sense also, capital accumulation, technological innovation and capitalist urbanization have to go together.[46]

In this view, economic expansion requires the constant demolition of the fixed investment in buildings and infrastructure that supported the previous round of economic transactions. Government-sponsored redevelopment, according to the model set by Haussmann in nineteenth-century Paris and emulated by Robert Moses in twentieth-century New York, provides a vehicle for "continuous transformations." Since, however, the city remains the realm of collective consumption, capitalist efforts to reconstitute it are perennially contested by communities of residents and by those businesses that still benefit from the older spatial arrangements. Urban politics arises from this contested terrain.[47]

Castells, in his early work, traced urban social movements to the inequalities arising in the workplace and contended that urban political conflict represented a displacement of conflict from the realm of production into consumption.[48] His approach and that of others who examined the heightened importance of local state services[49] rooted the activities of the local state in various of the contradictions arising from the capitalist mode of production. Urban redevelopment efforts, as well as being required to improve production, were needed in order to reproduce the labor force through the provision of housing and other services. The functionalism underlying this argument contrasts sharply with the voluntarism embodied in liberal pluralist thought.

For the purposes of my discussion, there are four important points deriving from the structuralist position presented thus far:

1. The local state necessarily becomes involved in the capitalist demand for a more efficient urban landscape, since capitalists cannot carry out the task of redevelopment on their own.
2. Redevelopment policy is an arena for class- and community-based conflict in which resident groups confront capital indirectly through the local state.
3. State actors, in pursuing their own aims of maintaining revenues and power, depend on private capital investment to reproduce and expand the urban environment, resulting in a bias toward capital.[50]
4. The redevelopment process itself requires specialists in property development. They, however, have a collective interest in the profitability of the buildings they finance and construct rather than the operations that go on within them, and this interest can put them at odds with other capitalists. Moreover, the particular structure of their industry, as detailed in Chapters 2 and 3, leads them to take speculative risks that differentiate them from other producers and generate an added element of instability in the urban system.

Rent theory. A subset of structuralist studies concentrates on the Marxian theory of value and the theory of rent derived from it, in an effort to connect land use and development to production more generally.[51] While a theory of rent has also been developed within conventional economics, it does not play a central role in analyses of urban redevelopment.

Neo-Marxist arguments concerning rent bear directly on the character of the investment market in real estate and the strategies of the actors within it. The return that investors on property receive is divided between the earnings from (1) greater output or lower costs of production enabled by physical improvements on land; and (2) rent. Rent, in orthodox Marxist analysis, refers to the amount extracted from surplus value that is transferred to the owner of a property simply as a consequence of his or her holding a legal right of possession. As such, it involves a mere transfer rather than an addition to value or a lowering of production costs. The concept has a moralizing flavor since it refers to an income that neither derives from production, as does the return to capital investment in machinery, nor flows from labor.

The significance of rent to the question of urban redevelopment relates to the impact of public subsidies on economic growth and the benefits from it. If the subsidies simply become capitalized as returns to landowners—that is, as rent—rather than lowering the costs of production and offering an incentive to economic expansion, they constitute a transfer to a fraction of capital.[52] Furthermore, if rents increase as a consequence of the behavior of the collectivity—that is, if they result from factors external to the property—but are privately appropriated, then the landlord realizes an unearned increment, having contributed nothing him/herself. The identification of this unearned increment was the basis of the economics of Henry George, who argued for confiscatory taxation of this gain.

Regime Theory

Regime theory straddles the boundary between the liberal and structuralist formulations. The original liberal concern with decision making gave rise to this broader approach to the study of redevelopment, which takes into account dominant ideology, agenda setting, access networks, and latent power.[53] Clarence Stone delineates its applicability to Atlanta:

> [The business] elite controls resources of the kind and in the amount able to enhance the regime's capacity to govern. Minus these business-supplied resources, governing in Atlanta . . . would consist of little more than the provision of routine services. In Atlanta, then, the very capacity for strong governance is dependent on active business collaboration. . . . The position of Atlanta's business elite in the affairs of the community is *not* that of a passive partner in a courtship conducted by public officials. The elite has collective aims that it is mobilized to pursue.[54]

Regime theory, like neopluralist theory, accepts individual choice as the basis for political action: "The use of the selective incentives concepts as the core of the explanation of regime origins and reproduction means that, as an explanatory framework, regime theory is grounded in the methodology of rational choice theory. Within the regime perspective, the political process is understood . . . in terms of decision making in the face of patterns of costs and benefits in which means-end rationality is deployed to provide the greatest returns to self-interested individuals."[55] For Stone, public officials behave as they do because they are acting in their individual rational self-interest. He breaks with pluralism, however, in minimizing the importance of elections in affecting public policy and in questioning how preferences are formed. Whereas pluralists assume that public support for urban renewal programs reflects the interests of the populace, regime theorists point to the role of the governing regime in shaping those preferences.[56] As Stone puts it, "Those with more resources . . . have a superior opportunity to rally support to the cause they favor. . . . Resources need not be material. . . . However, material resources are especially useful."[57]

Regime theory, in its discussion of the social bases of conflict and cooperation in redevelopment, more easily accommodates racial differentiation and ideological forces than do most structuralist critiques. It detects structural biases within the political economic system of capitalism that channel the redevelopment process, but, more than the clearly Marxian analyses, it accepts the importance of political and ideological factors. Its weaknesses are that its formulation applies principally to the United States and that its focus on political analysis avoids explicit theoretical linkages with economic structures.[58] In other words, while regime theory recognizes the importance of economic structure, it does not incorporate the forces creating that structure into its argument.

INTERESTS AND THEIR INTERPRETATION

My own approach largely embraces the tenets of regime theory, but it also attempts to unravel the economic factors that lead to particular political-ideological construction of material interest by social groups. Balbus defines the Marxian concept of interest as follows: "Individuals whose life-chances are similarly *affected* by similar objective social conditions are said to have a *common interest* whether they perceive any such interest or not."[59] But even if, in the case of property developers, individuals perceive a common interest, ideology and uncertainty affect their view of how that interest can best be served. In turn, different interpretations of their interest by powerful groups make possible different social outcomes.

My formulation differs from arguments like that of Kevin Cox,[60] who takes a more fixed view of interest formation. In asserting that the class interest of locally dependent capitalists drives urban redevelopment, he assumes that local dependence is a wholly obvious characteristic. Yet, as the following illustration shows, its definition is malleable and varies according to the particular strategies that individual actors adopt. For example, the managers of a downtown department store may invest heavily in branches and disinvest or close the main store; they may participate in a downtown growth coalition, renovate their original store, move upmarket, and endow a foundation that supports affordable housing; or they may, as employees of a multilocational retail conglomerate, transfer to another subsidiary in a completely different part of the country and take no interest in the redevelopment program of their original location. In this instance, even though the alternatives are all premised on economic interest alone, they reflect different readings of a situation and indicate how the circumstance of local dependency results from perception and activity. Moreover, each choice can alter the "objective situation" in which the actors find themselves, as well as the fate of downtown redevelopment.

In other words, perceived interest is neither an automatic response to economic position nor a wholly voluntaristic option among possible stances. It rather represents a structured position derived from the interaction between economic, communal, and ideological forces at a particular historical moment.[61] The tools used in this book for detecting the economic factors driving interest formation come primarily from structuralist thought. I do not assume, however, that economic factors produce only one possible interpretation of interest or that economic situation (as opposed to community, race, and gender) is the only "objective social interest" to be maximized. Instead, the formation of interest is the subject of exploration, particularly as nongovernmental (business and community) redevelopment actors construct their viewpoints.

Because the definition of interest contains such an important interpretative element, factors that shape consciousness are of particular importance in affecting human action. Value traditions, ideology, and personality are therefore under-

lying causes of urban development. They cannot simply be reduced to the social relations of production, because their origins, even if economically based, may be traced back to earlier historical periods or be the products of social fragments rather than the totality of relations in a society.[62] Moreover, group identifications may be at odds with economic interests—and not simply as a result of manipulation by privileged elites.

What Matters?

The chief difference between the liberal and structuralist explanations of the urban redevelopment process is the insistence in the former on the importance of power and decision making and in the latter on economic logic and class domination in explaining the course of events.[63] For pluralist liberals, power is not a simple manifestation of economic ascendancy but requires choosing to expend resources. These resources extend beyond money to organization, political support, and conviction. Marxists trace all forms of power to the relations of production and regard the strategic choices of actors as the consequence of their economic position; more flexible structuralists identify large areas of relative autonomy in social institutions and identify race and gender as separable determinants. For the regime theorists, who represent something of a synthesis of the two outlooks, control of capital outweighs other sources of power, but the development process cannot be understood simply through examining a "logic" of capitalism, since that logic is itself fabricated through human activity, including resistance by other groups to capitalist aims.[64]

Can Local Officials Produce Growth with Equity?

In the study of urban redevelopment, the recognition that localities are embedded within a global economic system whose overall contours do not respond to local initiatives has caused a debate over the efficacy of local action. Urban redevelopment efforts have taken place within the larger framework of the hypermobility of capital and intensified national and international economic competition. These factors have seemingly and inexorably caused the decline of manufacturing and the flight of employment from older cities. Within this context, social scientists have questioned whether, regardless of who controls the local regime, local actors can affect their economies and carry out redistributional policies.[65]

The feverish attempts by governments around the world to attract business challenge the view of economic determinists that market forces will by themselves allocate economic functions to their optimum locations. Interestingly, this belief in the power of the market is held not just by conservative economists but also by progressive critics of government subsidies to business.[66] Both argue that businesses do not choose a location because governmental incentives are available but rather because of factors such as the price of labor or the presence of clients,

which immediately affect production costs or marketing effectiveness. Accordingly, businesses do not pick their locations because of governmentally proffered concessions but rather simply take advantage of them to enhance their profits at the expense of taxpayers.[67]

Paul Peterson, in his influential book, *City Limits,* considers that local governments can affect the economic situation of their jurisdictions even though they cannot directly improve the welfare of their poorer citizens.[68] He explicitly repudiates the possibility of redistributive actions by local governments, contending that they must pursue growth and cannot enact redistributional policies without sacrificing their competitive positions. For Peterson, if municipal officials attempt to assist poor people, thereby scaring away businesses through increasing their tax burden, they will have nothing to redistribute.

In response, Sanders and Stone[69] maintain that political conflict determines who wins and who loses from the redevelopment process; while they do not explicitly stipulate an alternative path to redevelopment, they imply that it can be achieved through community-based rather than downtown expansion. In other words, local politics matters in determining both the geographic targets of redevelopment programs and who benefits from them. According to this school of thought, urban policy-makers do not have to submit to the logic of capitalism; if they do so, it is because of political pressure rather than economic necessity.[70]

Is the Issue Resolvable?

There are several ways to address the issue of local autonomy. Differences between American and European cities and variation among cities that had similar economic bases thirty years ago imply that political factors influence the capability of cities to fit into new economic niches.[71] Within the United States, where local governments have a much greater say over levels of welfare spending than in the United Kingdom, economically comparable cities spend different amounts of money on poor people, indicating that the extent to which cities engage in redistribution is not simply determined by competition among localities. At the same time, the downward pressure on social welfare expenses that has characterized all of the advanced capitalist countries since the mid-1970s points to serious restrictions on local deviationism.[72]

Definitive conclusions based on observation are, however, impossible: For every example of local activity resulting in regeneration or redistribution, there is a counterexample of seemingly insurmountable external forces. My own position is that incentives to investors do make a difference and that growth can be combined with greater equity than has typically been the outcome of redevelopment programs. But perhaps the farthest one can go in addressing the issue is to identify areas of indeterminacy that can be seized locally within the overall capitalist economic structure—that is, to identify courses of action that can produce lesser or greater growth, more or less progressive social policies, without expecting either

an inevitable economic trajectory resulting from market position or socialism in one city deriving from effective political action. The research and policy problem then becomes to recognize those decisional points, rather than to inquire whether localities matter in general. The subject of investigation therefore switches to the strategies followed by local actors, the factors influencing their choices, and how and under what circumstances these strategies affect what happens. My intention is to raise these issues within London and New York in relation to the striking transformations that have occurred in their built environments in the last 25 years.

Space

A number of urban geographers have been assertive in contending that space matters.[73] For them, spatial relations are part of society's underlying structure. Regardless of whether economy or politics has primacy in affecting the location of social groups and economic enterprises, the configuring of space that contributes to and ensues from locational decisions remains crucial in affecting human relations.

Within this intellectual framework, part of the explanation for the marked acceleration of real-estate development in global cities during the 1980s and latter part of the 1990s hinges on the spatial causes and effects of the heightened role of financial capital and business services within the world economic system. As production sites and financial markets have become increasingly dispersed throughout the world, financial firms and investment advisers respond to the need for global coordination and trading.[74] In turn, core areas become crucial for the deal making in which the expanding financial industry engages.[75] By offering a venue for face-to-face encounters among the numerous parties to high-level negotiations, central areas that had lost their former value as manufacturing, rail, or port facilities find a renewed role based on the clustering of business services.[76] Space at different scales thus enters into the process at two points: The compact area of the urban core allows the structuring of deals; and the distant spaces of the world economy require integration through financial coordination so that raw materials, labor, and capital in various locations can be brought together in a production function.

It is actually difficult to find anyone who explicitly denies that spatial relationships are important, and thus the "debate" over space is somewhat one-sided. Rather, geographers accuse others of ignoring them,[77] resulting in what Edward Soja terms a "hidden history of spatialization."[78] Fundamental to the argument of Soja and other geographers is the contention that uneven spatial development is basic to the dynamics of capitalist investment.[79] As this thesis applies narrowly to urban redevelopment, it explains why redevelopment of core areas can be extremely profitable. The underlying reasoning is that central-city land occupied by low-income residents, marginal businesses, or derelict facilities sells for a value much lower than its potential price. If, however, the land is transformed through demolition or rehabilitation of existing structures and conversion of ownership and occupancy, it becomes suitable for highly remunerative development.[80] For gentrification of residential areas, buildings that were broken up into small flats are reconfigured into larger units and their initial occupants displaced; for commercial construction, small holdings are usually consolidated into large tracts allowing unified ownership and management. The huge gains available to investors derive from the previously undervalued nature of the property—without uneven development, such speculative advantages could not be achieved.

What Matters When?

In the controversies over what matters, there are two opposing tendencies: One is to overly polarize the issue so that only structure or only agency, only economics or only politics, only space or only history becomes the determinant of outcomes; the other is to say that everything matters. The intellectual framework used in this book privileges the economic and spatial structures in the sense that they, more than other structures, restrict choice in regard to strategies intended to further economic well-being. Everything may matter, but not equally. Nevertheless, uncertainty over the strategies adopted by other actors, the contradictions between individual and social rationality, the power of ideology in shaping human constructions of rational behavior, and the force of noneconomic motivation—all of these factors make the consequences of particular actions indeterminate. And, of course, the aggregate of individual actions constantly both reproduces and transforms the economic and spatial structure. The investigator's task becomes to figure out not what matters in general, but what matters when, for what results.

According to this approach, developers, politicians, and local activists are important within a restricted range of variation, and the character of the urban regime is a key element in determining the differences in redevelopment efforts among cities. Even if the primum mobile of service-led growth is the world economy, the unfolding of the process involves initiatives and responses within particular places.[81] The strategies and actions that produce urban redevelopment within the spaces of London and New York comprise my subject matter.

LONDON AND NEW YORK

Why study London and New York? First, London and New York—with Tokyo—are the preeminent global cities, performing a vital function of command and control within the contemporary world system.[82] The contributions of property developers to the situations of global cities have so far been little explored, apart from investigations of the financial industry.[83] Development firms, however, differ from purely financial institutions in their physicality and greater volatility. Their connection to globalization and overall economic stability, as well as their symbiotic relationship to the financial institutions that dominate the economies of global cities, require further inquiry.

Second, London and New York are ideal sites for the exploration of property-led redevelopment because the impact of the real-estate industry within them during the past two decades has been so uniquely large. Both cities were the locations of several mammoth projects as well as a range of lesser enterprises. Moreover, real-estate activity in the two cities generated some of the greatest fortunes made during a period of rampant money making and became symbolic of the spirit of the era.

The reversal of economic decline in London and New York in the 1980s was based in considerable part on a property boom. The erection of such flashy projects as Trump Tower in Manhattan and Broadgate in London symbolized the creation of new wealth and seemingly testified to growing general prosperity. And, indeed, the flurry of new construction coincided with a major expansion in employment, income, and tax revenues.[84] On both sides of the Atlantic, policies promoting physical redevelopment through public-private partnerships were heralded as the key to economic success.

The real-estate crash of the '90s, accompanied by sharp economic contraction, called this model into question. Not only did empty office buildings and apartment houses act as a direct drag on economic activity, but the heavy commitment made by financial institutions to the real-estate industry threatened the soundness of major banks. The real-estate slump affected cities throughout the United States and the United Kingdom but was particularly significant in New York and London, where the world's major developers were located and where financial institutions both financed and consumed large amounts of space. Once the recession ended, however, the availability of cheap, vacant space facilitated the surprisingly quick business expansion at the century's end and bolstered the competitive position of the two cities. This outcome raises an important question, discussed in Chapter 10, of the effect of property cycles on the urban economy.

LOCAL CONDITIONS AND NATIONAL CONTEXTS

London and New York also make a particularly useful comparison because their striking similarities simplify efforts at understanding the influence of national differences. The economic histories of the two metropolises have proceeded so synchronously as to highlight the roots of social, institutional, and policy dissimilarities in politics and culture. Both cities developed as great ports; both act as centers of international trade—and the requirements for financing that trade caused them both to become the locations of the world's most important financial markets. Each has been the financial capital of the dominant global economic power, and each faces increased competition from other world centers. Although the United Kingdom's international economic position has declined, London has retained its place as a financial capital. In both cities manufacturing employment diminished by about three-quarters between 1960 and the end of the century, while office employment increased (although far more dramatically in New York).[85]

Growth in employment stimulated an expansion of office space, including major government-sponsored development schemes, and pressure on conveniently located housing.[86] The two cities each have inner-city concentrations of poverty and are surrounded by affluent suburban rings. In both, manufacturing jobs have moved out of easy access for the inner-city poor.

The two cities, however, have strikingly different political institutions. New York is governed by a mayor and council; governmental departments report to the mayor's office. London is divided into 33 localities, each headed by a council larger than the one that governs all of New York. The borough councils are organized in a fashion similar to Parliament, with the leader of the majority party acting as the head of an executive committee, each of whose members has responsibility for a particular governmental function. New York's government has considerable autonomy from higher levels of government, although its charter and its revenue-raising measures must be approved by the government of the State of New York. London's local authorities are strictly subordinate to the central government, which can overrule any local action, and there is no regional authority comparable to an American state government to which they are responsible. Although Londoners elected their first mayor in May 2000, the powers of his office are quite limited compared with those of the mayor of New York—the national government continues to exercise strong control over local action, and the borough councils maintain jurisdiction over most services. The mayor's chief responsibility is strategic planning, but his powers in this respect are subject to review.

The systems of local government in the United Kingdom and the United States became less alike during the 1980s, when the Thatcher government eliminated general-purpose metropolitan authorities in Britain's largest conurbations. One could argue that the result simply reproduced the American situation, in which regions consist of numerous uncoordinated municipalities. Nowhere in the United States, however, do agglomerations exist on the scale and density of London's core area without an overarching general-purpose government. In addition, the move by the central government to exert ever-greater fiscal and policy control over local government restricted home rule to an extent unimaginable in the United States. Before the demise of the Greater London Council (GLC), which had jurisdiction over all of London within the surrounding Green Belt for purposes of planning, environmental controls, and transportation, London's government had considerable leeway. The GLC was able to pursue a course strikingly at variance with national policy, for example, by sharply reducing public transit fares and by engaging in economic planning. Afterwards, however, the possibility of significant deviation became totally blocked.

The advent of a new national Labour government in 1997, and its decision to institute an elected mayor and council for London, represented a reversal of the trend toward ever-greater centralization. It remains to be seen, however, what actual power these new entities will possess. Ken Livingstone, the former Labour leader of the GLC, won the first mayoral election in May 2000, confounding Prime

Minister Tony Blair, who did not regard "Red Ken" as representing "New Labour." Since most of the mayor's statutory authority depends on central government acquiescence, and since the individual boroughs will retain their roles as local governments, London's new political officials will not have anything like the influence of the mayor and city council of New York.[87] The London borough councils are much more powerful than New York's community boards, providing an important mechanism for the expression of community-based interests. London is organized by competing political parties with articulated programs. New York is virtually a one-party city, despite the election of a Republican mayor, Rudolph Giuliani, in 1993. The council is overwhelmingly Democratic, the city's charter limits the mayor to two four-year terms, and there is no likely Republican successor. The Democratic Party, however, has no machinery for enforcing a program and, in reality, has no program to impose; essentially, public officials act independently of party control.

Nationally, there are quite dissimilar policy frameworks, although these differences lessened considerably during the 1980s as Conservative governments in the United Kingdom dramatically reduced the state's role in planning and social welfare.[88] Throughout most of the twentieth century the British state took a much stronger role than the U.S. government did in promoting and regulating development. It constructed new towns, built council housing, and prohibited private investment in improvements on land unless the developer received specific planning permission. In the United States the government engaged in very little direct construction activity, preferring to offer incentives to the private sector; although it did build public housing, the total amount produced was minuscule compared with what was achieved in the United Kingdom.[89] The U.S. government also did much less than the British public sector to provide social service and recreational facilities. Victorious "New Labour" has committed itself to limiting the role of the state in the United Kingdom; thus, Labour's ascendance to power has not brought with it an enlargement of social welfare activity. It has, however, encouraged the resurrection of land-use and transportation planning, and it is in this area that differences between the two countries have sharpened once again.

The British party system also continues to diverge from the American one in being far more programmatic. Under Thatcher the Conservative Party had become even more centralized; the extent to which Blair's policies of devolution will change the character of the Labour Party is as yet unclear. Great Britain now has a three-party system (more, if the regional parties in Scotland, Wales, and Northern Ireland are counted); at the city level, there is not the single-party dominance that characterizes most big American municipalities and has shaped New York politics during the postwar years. The elimination of the metropolitan level of government meant that no one party had control throughout London; rather, party control varied among the 33 local councils. In 1991 Conservatives and Labour each held a majority in 16, with one council controlled by the Liberal Democrats. In 2000 there was a Labour mayor who had run as an independent, and the borough councils split 18 Labour, 4 Conservative, 3 Liberal, 1 Independent, and 7 with no overall control.[90]

Despite these important differences, London and New York increasingly share some political and social characteristics. Government agencies in each city have actively pursued private investment and have met strong opposition from neighborhood and preservationist forces. Borough councils in London and community boards in New York are comparable forums in which planning issues are first debated. In both cities ethnic divisions exacerbate conflict over turf. Both cities have systems of rent regulation, although London differs from New York in having a majority of owner occupants. During the last two decades of the century, each operated in a national context of conservative, market-oriented ideological ascendancy but had strong internal political forces demanding continued state intervention within a significant tradition of state-sponsored social service and housing provision. Indeed, New York has been the most "European" of American cities in the historical activism of its government.

The two cities have also both experienced important changes in the relations between men and women, which have expressed themselves in economic transformation, new family structures, and changed consciousness. These in turn have both affected and been affected by the uses of space, as women have sought access to work, better housing, and assistance in their parenting roles. The increased participation of women in the labor force and the strains they have felt as a consequence of the "double burden" of home and work have expanded their need for convenient job locations, better transportation systems, and day care. Their heightened political activism has intensified the community rebellion against systems of housing, land use, and transportation that do not take their needs into account.

During the 1980s and for much of the '90s the governing regimes of the two cities followed similar redevelopment strategies with similar results. Restructuring of the urban environment took place under comparable economic pressures and in the name of similar conservative ideologies. Economic factors did not determine these ideologies; the power of ideological formulations, however, reinforced the restructuring process within the cities' economic and spatial systems. The increasing integration of the world economy heightened the importance of these two global cities, as the worldwide investment opportunities of their dominant financial industries increased. At the same time, globalization threatened their status through the challenge of increased competition from other aspirants for their economic niche.

METHODOLOGY

I carried out the investigation for the first edition of this book sporadically over seven years, although mainly between 1989 and 1992. In 1999–2000 I revisited the sites of the original investigation and conducted a new, less extensive set of

interviews. Data are drawn from interviews; statistical material published by governmental, academic, and business sources; property company reports; publications of community groups; and academic studies. In the initial round, I conducted about 100 in-depth interviews with developers, officers of financial institutions, public and private-sector planners, chartered surveyors, politicians, community leaders, and knowledgeable observers in the two cities. In 1999–2000 I carried out 30 additional interviews, some with people I had spoken to before but most with individuals who had assumed the roles of my previous sample during the intervening years.[91] Respondents were selected by a reputational method, in which I relied on informants to supply me with the names of others who could be helpful to my endeavor. I chose respondents either because they were prominent actors in the redevelopment arena or because they were particularly well informed. Generalizations were made when the comments of several independent informants were in agreement. In many respects, my technique more closely resembled investigative journalism than standard social science. I have repeated the views of informants when they seemed to me insightful rather than because they represented a statistical average. Since I guaranteed anonymity to the people I interviewed, I do not usually quote them by name.

All comparative research runs into difficulties in the matching up of comparable units and data. Methods for record keeping and calculation are never uniform from country to country. The problem is exacerbated when the unit of analysis is a city, where jurisdictional lines do not coincide with physical or economic borders. Descriptive statistics for cities often derive from estimates using very small samples. Sometimes statistics do not exist at all for the comparable area and it is necessary to construct them from data on other territorial units. London and New York present especially perplexing situations, because London for much of the period between 1980 and 2000 did not have an official boundary, while New York City merely forms the core of an area that sprawls over three states. For reasons of practicality, the analysis in this book is largely restricted to London within the Green Belt (the territory of the terminated GLC and of the new mayoral administration) and New York City. For both places the labor market area extends much farther than the political jurisdiction; the cores under discussion here, however, comprise most of the spaces that have been subject to redevelopment, which is the focus of my study.

KEY ISSUES

The main objects of my inquiry are the local economic, political, social, and environmental contributions to and consequences of property-led redevelopment.[92] I ask the question: What is the logic of urban redevelopment, and what are its consequences? The assumption, however, is that this logic is not abstract but constructed, containing inductive as well as deductive elements.

I focus on the aims and effects of redevelopment policy and on the real-estate industry as an economic sector. Policy-makers and scholars seem to believe that property development is a simple response to economic opportunity—that there is an obvious determining capitalist logic to which it conforms. According to this reasoning, if there is a demand for office or residential space, then developers will come along and fill it, and if governmental programs let developers build more and larger projects, then they will make more money. My premise instead is that the development industry constructs and perceives opportunity through the beliefs and actions of its leaders operating under conditions of uncertainty. Real-estate developers participate in a dynamic process in which they sell themselves to governments, financial institutions, and renters; combat their opponents; and estimate their competitors' intentions. They do not merely react to an objective situation but operate within a subjective environment partly of their own creation. Often they build projects with little chance of success and press for governmental policies that may not be in the best long-term interests of their industry. Because personal rewards are not wholly tied to the ultimate profitability of projects, individuals within both government and the industry often succumb to wishful thinking in pushing for ever more, ever larger development.

One of my main purposes is to outline the broad characteristics of the real-estate industry and of real-estate markets within London and New York. I examine the relationships among politicians, community groups, and developers; I investigate, as well, interactions among advisers, financiers, and developers within the property industries of the two cities. Several key questions structure my inquiry:

1. What is the relationship between economic restructuring and the conditions of real-estate development? In what ways is redevelopment both a functional response to and a causal agent of restructuring?
2. What contradictions are incorporated in urban redevelopment policy? On what basis do real-estate developers select their projects? What are the causes and consequences of property cycles in capitalist development?
3. How is the real-estate industry affected by government programs? How does it influence political regimes? What explains the redevelopment policy of the local public sector? What are the roles of planners and the functions of urban planning?
4. What are the similarities and differences in redevelopment activities in London and New York, two cities with similar economic bases but quite different institutional traditions?
5. What are the special characteristics of real estate as an economic sector? Does it contribute to real urban economic growth or only to growth in fictitious capital, where fictitious capital refers to increases in the paper value of assets because of anticipated future gains? (Is fictitious capital a useful concept?)[93]
6. By what criteria should we evaluate the redevelopment process? Who wins and who loses in it and under what conditions?

7. How can redevelopment be incorporated into a realistic, progressive policy for economic growth?

The inquiry conforms to a "realist" methodology in which the point is not to delineate a general process that occurs at all times in all places. Rather, the objective is to understand the mix of general and specific factors that create the London and New York of this moment in time. Although a few cities displaying similar characteristics will share similar outcomes, other cities will be different precisely because of the existence of London and New York. To put this another way, we have to understand the processes creating London and New York in order to find out why other cities take on other functions. There is no single model of the late-twentieth-century metropolis, but rather there is a network of places, with some monopolizing particular, specialized niches. Because the financial capitals of the United Kingdom and the United States are in London and New York, other cities differ from them even though they are affected by them. New York and London are special cases, but their atypicality makes them worth studying, not because they present a model of all other cities but because they exemplify a certain, and especially influential, class of city.

2

The Development Industry and Urban Redevelopment

The development industry is in some ways the basic industry of New York City.

Linda Davidoff[1]

Some day a sociologist in the business faculty of one of the great universities will take it into his [sic] *head to study the development of the commercial property business in the 1980s. When he does, he's in for a shock.*

He will find that, over a 10 year period, everything changed.

The Hillier Parker Magazine[2]

The 1980s marked an extraordinary surge in property development in London and New York, followed by an equally precipitous drop at the end of the decade. A new boom gathered force in the mid-1990s and continued through 2000. The two property booms closely tracked spurts in the economies of the two cities, largely attributable to growth in finance and business service sectors throughout the twenty years, but also to expansion in media and tourism, especially in the latter part. Although in many respects the '90s represented a continuation of previous trends, that decade, as we shall see, had some elements that differentiated it from the earlier period.

As the '80s boom hit its peak, high-ranking public officials were celebrating an "urban renaissance," embodied in the grand new building complexes of London and New York. At the same time, writers, academics, and community-based critics were condemning the pretensions and social impacts of the recently constructed projects. In his widely read book, *Bonfire of the Vanities,* Tom Wolfe describes the scene on the trading floor of a New York City investment firm. His words capture both the physical setting of the great financial markets within these world cities and the social ambience they engendered:

> It was a vast space, perhaps sixty by eighty feet. . . . It was an oppressive space with a ferocious glare, writhing silhouettes, and the roar. The glare came from a wall of plate glass that faced south, looking out over New York Harbor, the Statue of Liberty, Staten Island, and the Brooklyn and New Jersey shores. The writhing silhouettes were the arms and torsos of young men, few of them older than forty. They had their suit jackets off. They were moving about in an agitated manner and sweating early in the morning and shouting, which created the roar. It was the sound of well-educated young white men baying for money.[3]

The real-estate investment market, while not quartered on a few trading floors like the stock and bond exchanges, formed a very significant part of the 1980s speculative milieu chronicled by Wolfe. It uniquely combined the visible, physical endeavor of constructing the environment in which that activity took place. Property development belonged to the '80s financial boom as cause, effect, and symbol. Profits on large projects, huge tax benefits from real-estate syndication in the United States,[4] and trading margins from mortgage securitization formed the basis for vast fortunes. As their wealth and visibility made them prominent actors in the cultural and social scene, the names of developers like Donald Trump, William Zeckendorf, Jr., and Mortimer Zuckerman in New York, or Stuart Lipton, Godfrey Bradman, and Trevor Osborne in London became widely publicized. Financial institutions that underwrote the property market likewise prospered. For example, the mortgage department of Salomon Brothers, headed by Lewis Ranieri, had made the bond-trading firm into the most profitable business on Wall Street.

> The wonderfully spontaneous mortgage department [of Salomon] was the place to be if your philosophy of life was: Ready, fire, aim. The payoff to the swashbuckling raiders, by the standards of the time, was shockingly large. In 1982 . . . Lewie Ranieri's mortgage department made $150 million. . . . Although there are no official numbers, it was widely accepted at Salomon that Ranieri's traders made $200 million in 1983, $175 million in 1984, and $275 million in 1985.[5]

The burgeoning space needs of the expanding financial institutions, the businesses that provided them with services, and their suddenly wealthy employees produced a great surge in demand that was in part refueled by the office requirements of the development industry itself, its financial backers, and its service providers. The steeply climbing curve of returns from real-estate investment prompted a stream of new development proposals, which justified their costs with prognoses of ever-increasing earnings. The shiny skyscrapers housing the boisterous trading floors of the fabulously profitable investment banks; the high-rise condominiums and converted lofts affording havens for the young urban professionals; the renovated mansions and penthouses sheltering their bosses; and the glamorous marble-clad shopping malls, festive marketplaces, deluxe hotels, and opulent restaurants catering to their consumption whims constituted the symbolic setting for the excesses of the period.

In a keynote address to an international conference of planners, David Harvey declared that the two forces destroying New York City were drugs and the real-estate development industry.[6] Although Harvey's wholly negative assessment of developers might provoke disagreement, few would dispute that speculative property investment did indeed transform the functions and appearance of New York and London during the '80s; nor would they disagree that while the public purse helped finance physical change, private entrepreneurs using borrowed money were in charge. Since developers saw little profit in building factories or working-class housing, they confined their activities to producing offices and luxury residential units. The consequence of their development strategies was an economic and spatial restructuring of London and New York that was dramatically uneven in its components.

Simultaneous investment and disinvestment created not just the juxtaposition of rich and poor, made obvious by the ubiquitous homeless within even the most affluent neighborhoods, but also sent whole communities on opposite trajectories.[7] The growing numbers of relatively and absolutely impoverished city residents, displaced from factory jobs as a consequence of economic restructuring, dislodged from their homes by gentrification and financial catastrophe, or deinstitutionalized and suffering from disabilities, provided the counterpoint to good fortune. The symbolism of these contrasts was interpreted by the left as revealing the mordant injustice of privately led economic development programs and by the right as a moral lesson demonstrating the differential in rewards to the deserving and undeserving, the entrepreneurs and the wastrels.

For most of the '80s the constant fanfare trumpeting new development projects and the army of building cranes punctuating the London and New York skylines did appear to herald progress, whatever its imperfections. The visibility and hopefulness of new construction tended to override the caveats of critics. Community representatives who railed against the overwhelming effects of large projects on their neighborhoods were derided for standing in the way of progress. Despite soaring office vacancy rates in other American cities as the '80s progressed, New York developers continued to propose ever-larger projects. And in London, memories of the property-market collapse of the mid-1970s faded, as banks ratcheted up their real-estate investments.

In 1980 it was by no means obvious that London and New York would witness such accelerated growth.[8] Employment and population had been declining in both cities; existing levels of development made land acquisition difficult and expensive; very high occupancy costs discouraged prospective commercial tenants; while planning restrictions combined with community opposition to create formidable obstacles to developers' ambitions. Then, abruptly, the economic trajectories of London and New York reversed, as increased world trade, global financial deals, and expanding national markets for their producers' services complexes caused economic transactions within them to multiply exponentially during the decade.

The 1987 stock market crash, however, heralded another turn in the fortunes of the two cities. In 1989 the property market, which had lagged the decline of equity markets, also collapsed and for a five-year period manifested soaring vacancy rates, plummeting prices, and developer bankruptcies. The enormous increase in office space resulting from the speculative investments of the '80s ran

into declining demand. But again, as the national economies of the two nations recovered from the steep but short recession that started the decade, the economies of the two cities revived also. The cheap, vacant space proved an advantage, as growing firms found that they could expand without hindrance. Moreover, developers and financial institutions proved more cautious than in the past, with the result that new development did not race ahead of demand. In fact, by the beginning of the new century the slack had been absorbed, rents were rising far faster than the overall rate of inflation, and firms were having trouble acquiring sufficient space for their needs. Much of the development that did occur involved the conversion of vacant or underutilized warehouse and industrial space into offices and condominiums rather than new construction. Consequently, the face of the two cities changed relatively little; rather, the physical transformation achieved during the 1980s solidified.

This chapter examines, first, the heightened importance of global cities within the world economy during the latter part of the twentieth century. Second, it describes changes in the production of, and demand for, space. Finally, it analyzes the effect of economic change and government policy on the physical development of London and New York. The following chapter investigates the causes and consequences of cyclicity in real-estate markets and the similarities and differences in the property development cycle that occurred in London and New York between 1980 and 2000.

THE INCREASED IMPORTANCE OF GLOBAL CITIES

New York and London, along with Tokyo, are the preeminent global cities, as defined by their influence on world financial markets. Recent work emphasizes that these cities are not unique in being heavily involved in global flows of capital, that international transactions do not comprise the largest share of their economic base, and that other cities have more rapidly growing financial and business services (FBS) sectors.[9] Nevertheless, in the sheer magnitude of their FBS sectors, the number of foreign firms doing business within them, and their cultural and social connections with the rest of the world, London and New York can claim to be in a different league from other cities. An investigation of the driving forces behind real-estate investment in recent decades uncovers the dominant role played by those economic sectors most closely tied to the global economy in stimulating development. Especially during the '80s the FBS sectors were key; in the '90s, although the two economies became somewhat more diverse, FBS—especially the securities industry—continued to play a major role.[10]

Initial analyses of the rising importance of global cities[11] generally offered three reasons for the phenomenon: (1) the greater size and velocity of world capital flows; (2) the increased need for centralized command-and-control posts in a decentralized world economy; and (3) the extensive technical infrastructure needed by the FBS industries. These arguments were based on observations of growth driven by FBS in the '80s. Later, renewed expansion of these cities was dependent also on the surprising rapid growth of media-related, informational, and cultural enterprises. In New York particularly, the '90s saw an eruption of Internet and telecommunications firms, which were nowhere evident when the first edition of this book was written.

World Capital Flows

Several factors produced the explosion in the FBS sectors that fueled the economies of both London and New York in the boom years at the end of the century and spurred their physical redevelopment. The internationalization of investment and the growth of international trade had greatly heightened the importance of the financial industry and financial markets. The restructuring of companies, the rapid expansion of mergers and acquisitions, and the restless search by corporations for low-cost production sites and marketing advantages accelerated the volatility of capital and thereby enlarged the role of firms that specialized in managing flows of capital. According to Sassen, transactions increasingly took place between firms located in financial centers rather than within the large American banks.[12] In other words, while the management of manufacturing and retail industries became more and more integrated *within* large corporations, ever-greater financial flows were increasingly controlled through joint ventures, deals, and trades involving numerous actors. During the '90s the soaring stock market, growth in venture capital and other niche investment firms, and expansion of the NASDAQ exchange in New York further enlarged the financial sector, more than compensating for contraction in the traditional banking sector resulting from downsizing and mergers.

The debt crisis that began in the 1970s had cut off third-world outlets for investment at the same time as financial institutions continued to acquire massive amounts of capital from pension and mutual funds. Moreover, this capital was increasingly either lent directly to borrowers by investors, who purchased interest-bearing bonds, or used to purchase equity in firms. Thus, instead of savings flowing into commercial banks and then being lent by these banks to firms seeking to grow, funds circumvented the traditional banking system (a process known as "disintermediation"). This shift greatly increased the activity level and profits of investment bankers, who were the underwriters and traders of these instruments, and investment banking firms accordingly added personnel and operational space.

A host of other financial "products" was invented, including "swaps"[13]—exchanges of debt holdings among institutions; junk bonds—high-yield notes that were rated below investment grade;[14] and index futures—agreements to purchase a group of stocks at a preestablished price at a later date. Globalization of investment and production increased the possibility of loss through currency devalua-

tion or sudden, unforeseen market shifts, stimulating the development of new financial instruments as hedges against risk. The securitization of debt (initially mortgages and third-world debt, then consumer debt, including student loans) meant that banking institutions could "bundle"—that is, aggregate—their loans to businesses and individuals, then convert them to attain liquidity through selling their loans for an amount based on the present value of their expected returns.

The development of markets for all of these novel financial products magnified the number of instruments traded within what had become an increasingly closed and volatile system of circulation of capital among the most developed countries. In the meantime, takeovers and leveraged buyouts fueled the volume of new debt issues. Once-conservative investment institutions, ranging from university endowments to major insurance companies, sought the high rates of return offered by speculative financial instruments and became far more dynamic players in the hyperactive financial world.[15]

Deregulation of the financial industry combined with the various product innovations and huge increases in capital flows to heighten the frenetic trading activity and deal making that characterized the financial world of the two cities. In the United States the Reagan and Bush administrations' distaste for enforcing antitrust laws allowed the mergers and acquisitions and leveraged buyouts to involve more and more companies and greater and greater sums of money, along with ever-larger phalanxes of legal and financial advisers. Despite wide publicity surrounding its prosecution of Microsoft for violating antitrust laws, the Clinton administration was no more zealous in blocking the giant buyouts and vast mergers that transpired during the '90s, especially in banking and media. The relaxation of the barriers that had existed between different types of financial institutions, such as investment, savings, and commercial banks,[16] further stimulated growth within the financial service industries.

Changes in the world financial system during the last quarter-century were direct causes of London's spatial restructuring, especially within the "square mile" constituting the City. Response to foreign competition led to the weakening of restrictions on London's financial firms, culminating in the "Big Bang" of 1986. At the same time as fixed commissions on all domestic securities transactions were eliminated (a move that had taken place in the United States a decade earlier), membership on the stock exchange was opened to foreign institutions for the first time. Not only did these changes directly result in greater business activity, but they attracted numerous foreign firms, which mainly sought space in the vicinity of the City of London. As described by Michael Pryke, "The City was to become the hub not of a culturally familiar, slow-paced, empire-oriented regime of trade finance but of a new fast-moving capitalism in which the City itself was to become equally international."[17] Many of the newcomers, however, ultimately found that the increase in financial activity did not meet their anticipations.

As corporate debt shifted from bank loans to direct borrowing, the major banks

lost their previous dominance of financial transactions. Nonetheless, from the early 1970s onward, branches of foreign banks increased in number within both London and New York and continued to expand throughout the rest of the century.[18] The growing volume of international trade, the greater presence of foreign subsidiaries in all economic sectors, the increasing numbers of executives from abroad in connection with this internationalized economic activity, and the end of fixed exchange rates all contributed to the demand for retail and commercial banking services. Growth in the real-estate industry itself stimulated bank expansion, since almost all construction loans emanated from the banking sector. Moreover, as large international banks like Barclay's and Citibank increasingly took on functions similar to those of investment banks by acting as financiers for corporate mergers and acquisitions, they too got caught up in the cycle of speculative growth within the corporate investment arena.[19]

Agglomeration Effects

Transactions in the various securities took place mainly on trading floors within individual firms rather than through the exchanges. Nevertheless, the major investment banks and the headquarters of commercial banks felt it necessary to cluster close to the old markets. Because there is a very high level of interaction both among financial firms and between the financial sector and the concerns that provide it with legal, public relations, management consulting, and other services, this group of enterprises is led to settle only in those locations where an agglomeration of financial and advanced-services firms already exist.[20] Accountants, lawyers, tax consultants, and other advisers to the deal-makers also highly valued proximity to the investment bankers, since their presence at meetings of the various parties to a deal was frequently required. Large suburban firms have continued to rely on Manhattan for most of their service needs despite some gradual decentralization.[21] Thus, even firms headquartered outside the London and New York central business districts (CBDs) apparently found it more convenient to obtain business services within the supermarket of their dense advanced-services agglomerations rather than closer to home.[22]

Proximity was crucially important for the participants in a major deal. For example, the account in *Barbarians at the Gate* of the marathon negotiations in the buyout of RJR Nabisco shows that numerous investors, as well as virtually every significant law firm and investment bank in the country, took part.[23] Although Nabisco's headquarters was in Atlanta, Georgia, and its subsidiaries were scattered around the world, the action, which involved hundreds of corporate officers, investment bankers, lawyers, and financial advisers, took place in New York. On numerous occasions discussions lasted until dawn, and the presence of principals would suddenly be required at extremely odd hours. One cannot imagine where else but in Manhattan it would have been possible to assemble all the par-

ticipants. Only the common location within a major financial center of the financial and legal firms involved permitted the necessary transactions.

As well as responding to the burgeoning demand for space to house the rapidly growing FBS sectors and their workforce, property development activity was fueled by the ready supply of funds flowing into the real-estate industry. Property investment became interchangeable with other kinds of debt and equity commitment. Previously, because of its low liquidity and unique characteristics, property investment had been the province of a limited group of financial institutions and knowledgeable individuals. Now, however, greater opportunities for real-estate investment syndication, in which limited partners did not take an active role but received an income stream and could sell their interests in a project fairly easily, eliminated any reason but rate of return to prefer one type of investment over another. The prospect of high speculative gains attracted many to the property market. Moreover, the favorable tax treatment that real estate received in both the United Kingdom and the United States, although especially the latter, often tipped the balance of investment decisions toward it, thereby increasing the flow of capital into the development industry.

Decentralization of Production

In her discussion of the causes of global city formation, Sassen emphasizes the effect of the dispersal of manufacturing and of such routine business-service functions as claims processing or monitoring of inventories.[24] Her argument is that spatial decentralization within the large corporation makes necessary the elaboration of sophisticated managerial functions to maintain control over the disparate parts. These managerial-control functions, she asserts, are physically concentrated: "The spatial dispersion of economic activity has brought about an expansion in central functions and in the growing stratum of specialized firms servicing such functions."[25] Only a few cities offer a pool of sophisticated personnel, technological capabilities, and consultant services sufficient to enable the direction of such complicated organizations. Thus, the concentration of economic control within a small number of corporations makes necessary the existence of geographic centers to manage a dispersed production and marketing system.

Sassen's analysis is partly correct: The specialized firms that provide services to the management of multinational corporations continued to be concentrated, as shown in the Schwartz studies cited above. Sassen does not, however, convincingly demonstrate that the "central functions" occur in global cities, and she in fact modifies her argument in later work. There she considers that only certain kinds of headquarters need to locate in major cities. These are of firms in highly competitive and innovative activities, firms with highly internationalized businesses, or firms that constitute part of the producers' services complex.[26] The outmigration of the corporate headquarters of manufacturing, transportation, and retail firms from New York indicates that no necessary connection exists between central management functions and geographic location.[27] The number of Fortune 500 manufacturing and mining enterprises headquartered in New York was more than halved between 1965 and 1976; it dropped by an additional 43 percent, from 84 to 48 firms, or to less than 10 percent of the 500 biggest industrial firms, in the next twelve years, even while the size and number of big financial firms headquartered in New York were expanding.[28] In 1999, 45 of the largest firms, including financial and media firms, had headquarters in New York City, and an additional 20 were located in its suburbs.[29]

In contrast with their U.S. counterparts, British industrial headquarters remained clustered in London, where in 1990 they still comprised more than half of such offices in the country.[30] The commanding status of London stemmed primarily from a combination of cultural factors and the political hegemony of the capital within a highly centralized state, rather than from purely economic causes.[31] In other words, other factors besides economic efficiency impelled British corporations to establish their headquarters in London. And even in the United Kingdom, London's importance for internal control of large manufacturing corporations was diminishing.

Large multinational corporations depend on networks of suppliers and distributors that are geographically dispersed, and their own offices, plants, and laboratories likewise span the globe. Thus, location of corporate headquarters in a global city does not bring them into proximity with the essential components of their operations. Moreover, these firms can easily purchase accounting, advertising, and legal services without being physically close to the providers. In short, while restructuring has increased the power of a small number of corporations over the worldwide production of goods and services, the headquarters of these firms have not flocked to the global cities. Intensification of work within the headquarters still there, however, probably did add to the number of jobs and transactions taking place within London and New York. Moreover, many firms located outside these cities retain an agent or office within them, thereby further adding to economic activity.[32]

Technological Factors

A number of contemporary theorists have stressed the importance of information, rather than natural resources or physical capital, to economic development. In the words of Manuel Castells,[33] contemporary capitalism is defined by the "informational mode of development." The impact of telecommunications and computer technology on the locational choices of firms cuts two ways. Even though new technologies foster decentralization by reducing the need for physical proximity among participants in a production process, they free those units that find advan-

tages in city-center locations to seek out core areas, rather than staying with the routine processing sections of the enterprise. Thus, headquarters can remain in London and New York after routine operations have departed, and firms headquartered elsewhere can maintain a presence within them.

Within the "space of flows," as Castells characterizes the new world economy, certain places stand out because they have the labor pools and technological structures to support the computer and telecommunications systems necessary for the management of the global economy. The enormous expansion in financial and advanced business services depended on the development of a technology adequate to handle the soaring volume of transactions. And, in a circular process, only relatively few centers had sufficient activity to support the necessary infrastructure.[34]

Nevertheless, according to a study by Coopers & Lybrand Deloitte, London and New York did not have an absolute advantage in these technologies.[35] At least six other office centers (New Jersey, Chicago, Los Angeles, Paris, Tokyo, and Singapore) all offered a sufficient technological base, and the number is rapidly increasing. The requirements for modern firms relying on information retrieval and processing include a heavily backed-up communications grid and a pool of technical personnel to operate and repair equipment. Modern office structures with building managers who continuously upgrade the information and telecommunications systems are also necessities.[36] In 1980 many old buildings were not sufficiently adaptable for renovation to accommodate the demand for large trading floors and adequate space for cables and outlets. Business leaders and public officials in many cities, however, were aware of these needs and increasingly invested in their provision. The rapid installation of fiber-optics systems linking most large office centers further reduced the edge of London and New York. By the end of the century, even all second-tier cities offered linkages to broadband fiber-optic cables. In addition, within the two global cities the high level of traffic congestion and histories of insufficient investment in transport (a non-high-tech but equally significant part of the infrastructure) meant that both failed to provide easy physical access to their business districts. Thus, while the technological infrastructure of London and New York has been a necessary underpinning of their global-city status, it does not guarantee their future dominance.

In summary, then, London and New York used their preeminence as the world's leading locations for securities and money markets to capture, in absolute terms, substantial growth in the financial and advanced-services industries during the last two decades of the twentieth century. At the same time, their relative position was declining in relation to competing cities (for New York, in the rest of the United States, and for London, in Europe). They already possessed the critical mass of resources needed to direct the financial flows that energized the world economy, but they also needed to provide appropriate space for expansion. The requirement was provision of offices that met the technological demands of the computer age and construction of luxury residential and high-end consumption facilities to cater to the needs of the leaders of the expanding industries. Although other cities competed vigorously to attract office-based industries, even the appeal of much lower operating costs elsewhere did not shake loose many of the firms anchored in London and New York. Their competitive edge, however, was threatened, and one of the factors driving policy was fear that rivals could offer superior, less expensive space.

THE 1980s BOOM

Comparisons with other cities manifest the preeminence of London and New York as office-based service centers (Table 2.1). Worldwide, only Tokyo and Paris were in the same league as measured by office space; within Britain and the United States their status was supreme.

In terms of capital value, central London in 1990 contained an estimated 60 percent of the United Kingdom's entire office stock.[37] While New York's share of the national total was considerably less, it still approximated a dominating 21 percent.[38] Los Angeles, even after a major expansion in the 1980s and despite its overall economic and demographic competitiveness, had less than one-third the office space of New York. Chicago, the nearest challenger, possessed less than half. The area closest to Manhattan in the size of its office stock is its own metropolitan periphery within New Jersey, southern Connecticut, and Westchester County; these adjacent locales contained 209 million square feet of space in 1990.[39] Although other European and American cities added larger amounts of space in percentage terms at the peak of the development boom in the late '80s, none equaled the increment to London and New York in absolute numbers (Table 2.1).[40]

Table 2.1. Office Market: Comparable Cities

City	Sq. ft. of office stock, 1990 (millions)*	Sq. ft. added, 1985–90 (millions)
New York	243.0	35.0
Tokyo	189.0	n.a.
Paris	171.7	6.3
London	154.7	26.0
Chicago	103.0	18.2
Frankfurt	82.8	8.6
Los Angeles	75.0	20.0

*Different sources disagree on the magnitude of these figures. Richard Ellis (1991) estimates the stock of Paris at 185 million square feet, of Frankfurt at 85.6 million square feet, and of Tokyo at 163.7 million square feet. A comparable set of figures is not available for 2000, but, given the relatively small amount of new office construction that occurred during the 1990s, this table gives a fairly good picture of the relative size of the office sector among the cities listed.

Source: Byrne and Shulman (1991).

Table 2.2 shows the magnitude of the office development surge during the '80s. In both cities, but particularly in London, most new investment was in commercial rather than residential property.[41] London added nearly 30 percent to its office supply and New York more than 20 percent, almost all in redeveloped areas rather than on green-field (i.e., undeveloped) sites. This redevelopment took place either within the already developed CBDs or within nearby areas occupied by residences and small businesses. Some of it required the demolition of occupied structures, but the largest projects were placed on vacant land generated by the abandonment of obsolete transportation, manufacturing, wholesale market, and port facilities or created by landfill.[42]

Residential redevelopment expanded as well during the 1980s and again during the '90s, although in neither city did it rival earlier peaks. When measured by the value of new orders obtained by contractors, annual private house-building activity within Greater London increased sixfold between 1980 and 1987, with a net gain of 110,000 dwelling units during the period.[43] Within inner London the great bulk of the additions to the housing stock was attributable either to conversions, primarily within the inner London boroughs of Camden, Kensington, and Westminster, or to new construction on derelict land in the Docklands.[44]

In New York City between 1981 and 1987 there was a net gain of about 50,000 housing units, the first time in a quarter of a century that the housing stock grew continuously for six consecutive years.[45] Another 155,000 units were added be-

Table 2.2. Office Stock and Net Additions, 1981–1990

	London[a]	New York[b]
(1) Office stock, 1990 (millions of sq. ft.)	154.7[c]	243.0
(2) Net addition, 1981–1990 (millions of sq. ft.)	44.7	53.0
(3) (2) as percentage of (1)	29	22
(4) (1) as percentage of metropolitan area stock	61	54

[a] Central London and Docklands only.
[b] Manhattan only.
[c] Richard Ellis gives the figure of 152 million square feet for central London, not including Docklands. As of July 1990 an additional 2.7 million square feet had been completed in Docklands with an additional 6.9 million square feet under construction (Meuwissen, Daniels, and Bobe, 1991).

Other sources give larger numbers for both central London and Manhattan.

Estimates of office stock vary according to whether they include government-owned and -occupied offices, how the measure of net as opposed to gross space is calculated, whether buildings that were converted from other uses or are mixed-use structures are included, and, in the case of London, where the boundaries of central London are drawn.

Sources: Byrne and Shulman (1991); Byrne and Kostin (1990); Real Estate Board of New York, unpublished data, 1991; Jones Lang Wootton Consulting and Research (1987); Richard Ellis (1991); Coopers & Lybrand Deloitte (1991).

tween 1987 and 1996,[46] many of these attributable to the reclamation of abandoned housing under the Mayor's Ten-Year Housing Program.[47] Between 1981 and 1987, 33,000 units were added to the city's housing stock as a consequence of either conversions from nonresidential to residential use or conversions within the residential sector;[48] there were 7,000 more conversions between 1993 and 1996.[49] Almost all of these conversions took place in the gentrifying neighborhoods of Manhattan and Brooklyn. Moreover, the great bulk of new residential construction occurred in Manhattan on previously utilized land.[50]

London

By the end of the '80s London was witnessing the largest office-building boom in its history. During the mid-1970s a rise in interest rates had meant that property companies were no longer able to meet their obligations based on current earnings; their shaky financial situation, following on a decade of speculative growth, had threatened many banks and required intervention by the Bank of England.[51] A decade afterward, however, surplus space had been absorbed, and the anticipated advent of the Big Bang and, later, of European integration provoked high expectations of exploding demand and the seeming assurance of ever-higher rates of return. The ensuing boom signaled the reentry of banks into large-scale property lending after the secondary bank crisis of the 1970s, although insurance companies and pension funds remained wary of risking their assets on the property market.[52] A small number of development companies was behind most of the new speculative enterprises,[53] and much of the financing came from Japanese banks.

The initiative for promoting redevelopment activity in London did not come from a local-growth coalition of business leaders and governmental officials, as had been the case in many American cities.[54] Rather, the urgings of the national government, which incorporated Margaret Thatcher's views that private investors operating in a free market would create local economic growth, opened up London's once highly regulated property development arena for speculative ventures. According to Harding, the shift in local government priorities from an emphasis on social welfare to economic boosterism "was forced through from the national level."[55]

After the Thatcher government took office in 1979, it introduced a series of measures intended to spur private economic activity and diminish local-authority activism. In 1982 the capital gains tax was indexed to the rate of inflation, greatly increasing the potential profitability of property ownership; reduction of corporation taxes further encouraged activity by property companies. The Bank of England relaxed its requirement that primary banks be located within the square mile around its building on Threadneedle Street, thereby opening up additional territory for office space to house banking operations.[56] The government's establishment of the London Docklands Development Corporation (LDDC) and of an

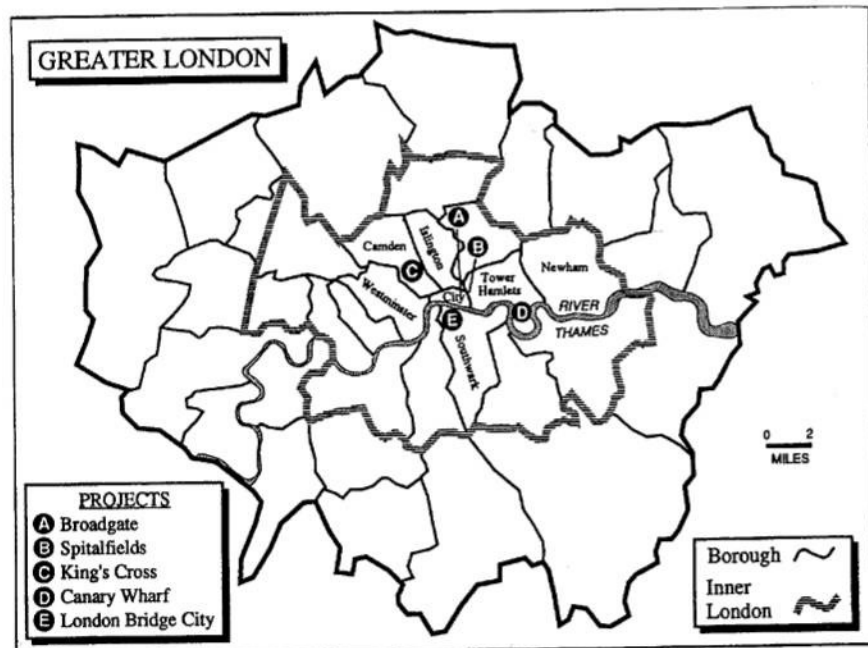

Figure 2.1. Greater London

enterprise zone in the Isle of Dogs portion of Docklands attracted a massive influx of capital to that partially abandoned area.[57] In addition, the central government put considerable pressure on local authorities to relax planning regulations, sell property, and enter into joint ventures with the private sector. Through a series of circulars, legislation, and decisions by the Secretary of State for the Environment, it pressed local authorities to grant planning permission more readily. It capped (i.e., put a ceiling on) local-authority expenditure, forcing localities to look to the private sector for benefits that had previously been publicly financed. Centrally imposed limits on their revenue-raising capacity caused local authorities to regard sales of publicly owned land to property developers as a potential revenue source; central-government interdictions on land banking also stimulated localities to put land in the hands of developers.

Each of the 33 local authorities that made up Greater London set its own development policy. Until the abolition of the Greater London Council (GLC) in 1986, London's boroughs nominally conformed to the Greater London Development Plan, which the GLC approved in 1969. This plan gave high priority to construction of council housing and stimulation of manufacturing employment. Lack of support for the plan by the Conservative central government, however, weakened its mandate well before its actual abrogation.[58] Once the GLC was abolished, its plan had no status, and the Secretary of State for the Environment had the task of providing "strategic planning guidance" to the local authorities, each of which was required to formulate a development plan that would "facilitate development while protecting the local environment."[59] During the '80s developers avoided building in jurisdictions whose councils made life difficult for them.[60] Even though the British tax system stopped rewarding local authorities that attracted business enterprises when Parliament established a national business tax, few authorities could afford to ignore the benefits of new investment in terms of increased employment and services.[61] Therefore, they became increasingly competitive with one another, and even the more recalcitrant borough councils eventually assumed a prodevelopment posture. By the end of the '90s all local authorities had become willing partners in development schemes. At the same time, the renewed importance of London-wide strategic planning and the termination of special status for the Docklands meant that competition among the boroughs had lessened (in contrast to the New York metropolitan region, where the battle between New York and New Jersey for office occupants had, if anything, intensified).

Much of the new office construction went up on land that had been in the possession of public bodies, which they released initially as a consequence of the Thatcher government's promptings. Local authorities had originally acquired large holdings in anticipation of building housing or other public facilities on them. Other governmental corporations—for example, British Rail and the Port of London Authority—found themselves owning tracts on which the previous uses had become obsolete. Such vacant or derelict property became the sites for major construction projects.

The freeing up of developable sites, especially around London's numerous railroad stations, along with demands from potential tenants for more modern buildings, spurred many schemes. Developers, accustomed to the formidable barriers to planning permission that had long restricted new construction within London, responded quickly to their new opportunities. As one of Britain's most prominent speculative developers declared when asked about his siting criteria: "Projects went wherever people would let them."[62] Another head of a very large company commented: "Planning had been archaic, disorganized, unpredictable, fraught with pitfalls. You spent your time bargaining like a lunatic. It could take 20 years to get permission." The unaccustomed compliance of local authorities loosed a flood. At the same time, changes in technology had made the low ceilings and small floor areas of most existing office buildings obsolete. Potential tenants had begun to indicate a preference for high-quality space over a central location, which until then had been the sine qua non of site selection.[63] This shift, combined with the early successes of fringe-area projects like Broadgate, which was located on the edge of the City of London, made feasible the development of property formerly considered unsuitable for offices.

THE PROPERTY BUST

The downfall of the property markets in London and New York trailed the October 1987 stock market crash by about two years. Once in motion, however, the loss in value of property was both swift and steep. The failure of most observers to predict the end of the boom magnified its abruptness. Experienced property-market analysts had shown a remarkable lack of prescience concerning the future of the market. In a book written earlier but whose publication coincided with the free fall in property values, members of a London property consultancy began their chapter on prospects for the property industry by commenting: "1987 and 1988 have marked a clear turning point for the property industry. In our view, these years represent the final emergence of property from the long backwash of two major recessions in the last fifteen years."[64] While noting some potential instability, they went on to say: "Property companies, indeed, might stand as a model of the Thatcherite economy: a freer market, a rash of new enterprises growing rapidly on the back of readily available loan and equity finance—and a crop of new property millionaires to provide an example to the rest of us."[65] Similarly, Jones Lang Wootton Consulting and Research, on the eve of the property recession, claimed that its 1987 study of office demand "has provided yet further evidence of the strength of the Central London Office Market."[66]

On the other side of the Atlantic, analysts expressed only slightly less optimism. In a report about the New York economy written the year after the stock market plummeted, the Port Authority's research arm showed some caution but nevertheless prophesied: "We would expect that some proposed projects will be postponed or canceled. This is a moderating picture: the Manhattan real estate market is not generally considered to be overbuilt and will remain one of the strongest ones in the U.S."[67]

The lagged effect of continued investor confidence in 1988 and 1989 meant that millions of square feet of new space were becoming available just when demand was dropping precipitously. Figures depicting average rents and vacancy rates indicate the steepness of the decline in real-estate values that ensued just after the boom peaked in 1989. Table 2.3 records the sudden downward movement of the office market;[68] steep as the drop shown is, however, rental figures are misleadingly high, as they show rents paid by primary tenants who may have sublet their space at a loss.[69] In many cases, the values of buildings fell considerably below the amount of principal outstanding on their mortgages.

The collapse in real-estate values quickly rippled through the entire financial sector; in turn, troubles in financial institutions holding large real-estate investments aggravated the property situation as their own needs for office accommodation shrank. According to the *Economist,* in the first five months of 1990 the shares of half of the property companies listed on the London stock market lost more than one-quarter of their market value;[70] for more than 25 percent of the 80

Table 2.3. Average Office Rents and Vacancy Rates

	London (in pounds per net buildable sq. ft.)					
	City—Average rent	Vacancy rate (%)	West End—Average rent	Vacancy rate (%)	Docklands—Average rent	Vacancy rate
1986	30	3.5	25	4.0	15	n.a.
1988	55	4.0	50	3.0	25	n.a.
1990	50	15.0	55	7.0	24	n.a.
1991	44	17.1	52	10.0	24	n.a.
1998	52	6.0	55	n.a.	n.a.	n.a.
1999	52	5.0	60		33*	2.5
	New York–Manhattan (in dollars per net buildable sq. ft.)					
	Average rent	Vacancy rate (%)	Average rent	Vacancy rate (%)	Downtown average rent	Vacancy rate (%)
	Midtown					
1980	22.9	2.1			13.3	5.1
1982	40.1	4.1			28.0	2.1
1984	39.6	5.4			31.3	6.4
1986	41.0	8.9			31.5	11.6
1988	41.2	10.7			35.3	12.6
1990	39.2	14.5			31.6	17.6
	Midtown North		*Midtown South*			
1996	37.0	10.5	23.0	14.0	25.2	21.0
1998	47.0	8.5	30.0	8.0	31.0	12.0
1999 (Dec.)	51.3	6.8	34.0	5.1	34.3	9.9
	Midtown					
2000 (Aug.)	61.0	4.9			42.0	5.0

Note: Figures are drawn from a variety of sources and are approximate. The sources are not wholly consistent with each other.

*Canary Wharf's rents are about £37 per square foot, while rents in other Docklands areas are about £28 per square foot.

Sources: Byrne and Kostin (1990); *Economist,* May 5, 1990; *Walls* (1991); *Financial Times,* April 30, 1992; information supplied by Real Estate Board of New York, 1992; GVA Grimley (2000); Insignia Richard Ellis (2000); GVA Grimley (1999); GVA Williams (1999); *New York Times,* September 19, 2000.

such firms listed, debt exceeded equity, and interest payments were more than twice their rent receipts.[71]

The weakness in the property market, resulting in nonperforming loans, undermined the asset base of major banks. In the years 1987–1990 banks had increased their property lending in Britain from £10 billion to £34 billion, or about 8 percent of total loans. However, since approximately 40 percent of these loans came from overseas banks, the British banking system suffered less than the American one from the consequences of falling property values. Moreover, foreign, especially Japanese, involvement was greater than that of British lenders in London's

more risky ventures, as British banks restricted their participation mainly to less speculative endeavors.[72]

In New York the real-estate exposure of two of its largest banks, Chemical and Manufacturers Hanover, led them to a merger in 1991, which itself resulted in a major contraction of their space requirements and a consequent further weakening of the market.[73] Chemical Bank vacated its 800,000 square foot headquarters building on Park Avenue and its 1.2 million square foot data-processing facility downtown; the two banks were also to give up an additional 750,000 square feet of office space elsewhere in the city, and 70 to 80 branches were to be closed.[74]

As the real-estate crisis worsened, major developers found themselves in increasing difficulty. In New York the icon of the '80s, Donald Trump, underwent a complicated workout of his monumental indebtedness, estimated at more than a billion dollars.[75] Although Trump did not formally declare bankruptcy, he essentially turned over control of his assets to his creditors.[76] Similarly, in London Godfrey Bradman of Rosehaugh PLC, another celebrity developer whose rise had also symbolized the seeming triumphs of the times, defaulted on his loans. Bradman was forced to give up his leadership of the firm, which had a net indebtedness of £310 million.[77] Most serious of all was the crumbling of the empire of Olympia & York Developments Ltd. (O & Y), the world's largest development firm. Creator of Battery Park City in New York and Canary Wharf in London,[78] it was New York City's biggest office property owner (controlling nearly 22 million square feet)[79] as well as a major force in central London.[80] O & Y owed more than $18 billion, exceeding the indebtedness of most third-world nations.[81] Its tangle of debts created a symbiosis between the markets of the two cities, as it used its older New York buildings as collateral to finance its equity contribution to London's Canary Wharf.

Like the other developers in trouble, O & Y could not refinance its loans, as investors cut off lending to the property sector. Since all construction loans are short-term and intended to be refinanced through long-term mortgages when construction is finished, withdrawal of mortgage money from the market destroyed the viability of developers whose buildings were approaching completion. Firms like O & Y, which had issued short-term bonds backed by occupied buildings as collateral so as to finance further growth, were in the especially unenviable situation of needing to either pay off or roll over the bonds on a quarterly or even monthly basis.

The real-estate slump was not restricted to commercial development; in fact, residential properties had felt the downturn in the market before offices had. Even though serious housing shortages at low and moderate price levels persisted in both London and New York, the shock of the 1987 stock market crash set off a crisis in the luxury market. Thousands of new units in Docklands, intended for the rising stars of the City of London, and multitudes of new dwellings in Manhattan, created in time to beat the elimination of the 421a tax subsidy, flooded a shrinking market.

In New York the problem for developers of co-ops and condominiums was exacerbated by the 1986 federal Tax Reform Act, which eliminated passive losses for individual real-estate investors, thereby converting paper losses into real ones. Because the size of the tax loss, which was derived from a depreciation formula, was based on the value of the property rather than the individual investor's actual contribution, over the years its worth in taxes forgone by the government greatly exceeded the investor's stake. Once the tax advantages were lost, investors could no longer sustain underutilized structures, and a theoretical oversupply became real.[82] Since thousands of apartments had been purchased for tax purposes,[83] the termination of these tax advantages dealt a heavy blow to the upper end of the market.

Continued demand for *affordable* housing, on the other hand, had not elicited increased production by the public sector in either London or New York, and activity by nonprofit entities only somewhat compensated for governmental withdrawal. In Greater London, local authorities' production of dwellings shrank from more than 16,000 units in 1980 to 1,260 in 1987, rising only slightly to 1,818 in 1990, while nonprofit housing associations produced approximately the same number of units as local authorities in 1990.[84] In New York by the early 1990s most housing construction involved publicly subsidized affordable housing built by community nonprofit housing development corporations. The cuts in the city's capital budget resulting from the newest fiscal crisis, however, translated into serious reductions in support for these groups.[85] Plans for 1992 involved ending all major housing production programs, including new housing for moderate- to middle-income households and major rehabilitation of vacant buildings, thus limiting activity to moderate rehabilitation of occupied buildings.[86]

At the same time, the general economic recession that marked the end of the decade in Britain and the United States dampened retail sales. Consequently, vacancies glutted the market for retail space, and in New York returns on store rentals plummeted. Developers, who had based their optimistic revenue forecasts for mixed-use, office-retail, and residential-retail buildings on the very high earnings projected for street-level stores, failed to realize their rosy predictions. In London retail rents moved down only slightly, despite the rising level of vacancies. In Manhattan, however, the last three years of the '80s saw rents in prime Upper East Side areas slipping from a range of $150–$300 per square foot to $90–$225 per square foot.[87] The silver lining on the retail side, which kept the vacancy level from reaching the same proportions as in offices, was the continuing demand for space at some price. Whereas office use was simply contracting, many prospective retailers, previously frozen out of the market, stood ready to take advantage of bargains. Consequently, after Manhattan retail vacancies shot up by about 75 percent between 1988 and 1990, they began to decline in 1991.[88] Although the return from many of these establishments was insufficient to cover the owners' carrying costs, it was in no one's interest to let the property remain vacant. Thus, in Manhattan the fall in retail rents stimulated a minor resurgence in marginal

service establishments, such as coffeehouses and bookstores, that had been driven out in the '80s; X-rated video outlets, odd-lot retailers, and suburban chain stores also moved in to fill the gap.

REVIVAL

Improvement of the U.K. national economy gradually stimulated recovery in London's property market. The city's economic output declined between mid-1989 and the start of 1991 to a negative 6 percent annual rate and did not reach positive growth until the end of 1992. By 1994, however, London's gross domestic product was rising at an estimated rate of nearly 6 percent, and it continued near this level for the next several years.[89] Total employment peaked in 1988 at 3.5 million, fell by almost half a million in the next five years, then slightly exceeded the 1988 level one decade later.[90] During most of the '90s office expansion involved the take-up of existing space; at the same time, much obsolete office and warehouse property was converted to residential and leisure uses.[91] New office construction sank in value by 1993 to slightly more than one-fifth of its 1989 peak and only increased slightly by the end of 1998 to about 40 percent of its 1989 level.[92] As a consequence of conversions and relatively little growth in supply, rent levels recovered strongly from their low point in the mid-1990s, achieving a growth rate of nearly 7 percent in 1999.[93] In contrast to office construction, building of new residential structures climbed sharply upward, surpassing the 1988 peak in 1997.[94]

Favorable economic conditions in the '90s did not produce the wild speculative ventures of the earlier period within real-estate markets. Whereas the '80s boom in office construction was driven by the availability of capital, growth of supply in the '90s proceeded in response to demand, as lenders scrutinized projects more carefully and demanded that tenant commitments be in place before a building could go up. Banks and insurance companies had become leery of committing funds to property ventures, requiring developers to put substantial amounts of their own funds into their projects and demanding equity stakes in the property for themselves. Both new construction and conversions incorporated the specifications of office occupants. By contrast, the residential market was more speculative. Very high earnings in the financial industry and the general professionalization of employment heightened the demand for luxury accommodation.[95] Despite substantial new construction and residential conversion, vacancy rates remained low.

In the '90s London's policy-makers changed their approach toward planning and regeneration. Government programs for decayed areas now required participants to form development partnerships involving participation by business, government, and community representatives. Initially, the City Challenge program, sponsored by the Conservative government, then its later and still-continuing offspring, the Single Regeneration Budget (SRB), required collaboration among different elements to put together proposals for the development of target areas. The concept of partnerships spread beyond collaboration on specific projects, and a number of ongoing coalitions involving multiple local authorities, business groups, and nongovernmental organizations sprang up. These partnerships conducted research, worked out strategies, and generally changed the character of the development process, making it less competitive and more likely to create positive externalities. The increased potential for community betterment through planning gain (i.e., developer-provided benefits in exchange for planning permission)[96] made communities that had previously opposed large-scale development more compliant. Although somewhat comparable to America's local-growth coalitions, these partnerships have been less dominated by narrowly construed business interests. Along with the input of the London Planning Advisory Committee (LPAC), a body made up of the 33 boroughs, and the Government Office for London, they also increased the amount of coordination among the boroughs.

Even though efforts toward a coordinated development policy gained momentum as the years passed, London's 33 local authorities still adopted different stances toward development during much of the two decades between the ascendance of the Thatcher government in Westminster and the election of a London mayor. It is, therefore, useful when chronicling the development history of that period to discuss some parts of the metropolis separately.

The City of London[97]

Nowhere did governmental efforts to instigate local development activity have a greater effect than in the City, where more than 16.5 million square feet of office space was constructed between 1985 and 1990.[98] Until 1983, concerns with historic preservation and the obduracy of the various guilds and titled families holding ancient freehold rights had blocked much potential development within the square mile.[99] Since the City did not harbor the antagonism to business evident in the Labour-dominated boroughs, however, once the economic benefits of restricting growth ended, attitudes toward physical change easily became more flexible, and the commitment to tradition weakened.

For a long period, financial firms that already possessed space adjacent to the Bank of England benefited from their monopoly position and had no motivation to favor expansionary policies. Financial deregulation and competition changed the stakes. Competitive office development in the nearby Docklands threatened the interests represented within the Corporation of the City of London.[100] If the City refused to accommodate expansion when deregulation was prompting accelerated financial-sector activity, firms already located there risked losing their locational advantage as the center of gravity shifted eastward. On the other hand, landowning interests within the Corporation, as well as the Corporation itself, which owned 20 percent of the land in its jurisdiction, stood to make considerable money through more intensive development of their holdings. More-

over, when the central government introduced a uniform national business tax, to be distributed to localities on a formula basis, it gave to the City of London alone the right to keep 15 percent of the business rate collected within its boundaries. Thus, increasing local commercial property values would greatly enhance the City's revenue position.

Once the Corporation decided to reverse the previous conservationist direction, the City's administrative officers embarked on an active promotional effort. The planning director solicited advice from firms concerning their space needs and encouraged developers to seek planning permission for buildings to accommodate them.[101] In addition, he identified new developable land, including space over highways and railroad tracks. In the process, the local development plan was modified to raise floor area ratios ("plot ratios") sufficiently to permit an average 25 percent expansion in the size of buildings. While the local authority relaxed regulations and made discreet contacts with developers and potential tenants, it did not engage in an elaborate sales effort on the LDDC model[102] nor deal making in the frenzied New York City mode. Only in the case of the European Bank for Reconstruction and Development, which had been contemplating a site in the Docklands, was there an outright effort at enticing it to take a City location. An influential member of the governing body claimed that "it would be beneath us" to set up such an operation. Rather, he said, that "we create an atmosphere." He did note that the Lord Mayor possessed a trust fund allowing him to entertain foreign visitors, adding that "we like to meet people and mix, but we do it in a private way."

Initially, either because of this subtle form of public relations or simply in response to availability of new, first-class space, tenants rushed to let the additions to the City's office stock. The new space that came on the market in the City between 1981 and mid-1987 boasted almost 100 percent occupancy by the time of the October stock-market crash, 57 percent of it by banking and finance enterprises.[103] By far the largest single project adding to the stock during the latter part of the decade was the Broadgate, a joint venture between the privately owned development firms of Stanhope and Rosehaugh and the publicly owned British Rail. Costing more than £2 billion by 1991, this still ongoing enterprise transformed derelict railroad yards adjacent to Liverpool Street Station into a mixed-use retail and office complex. Its siting in the City "fringe," adjacent to the low-income East London commercial and residential borough of Tower Hamlets, represented a distinctive break with tradition. As the development's first fourteen buildings reached completion, initial success in attracting stellar tenants, even after the 1987 jolt to financial markets, seemed to augur unlimited possibilities for those developers willing to invest in the most technologically advanced, luxuriously appointed projects.

The story changed radically by 1990, then reversed itself again later in the decade. As a result of sustained contraction in the financial industry and simultaneous continued large-scale speculative construction, the City considerably exceeded the rest of central London in the amount of commercial space left unoccupied during the recession. Like downtown Manhattan, however, it recovered rapidly by century's end. As the surplus space was absorbed, the vacancy rate plunged to 5 percent, while rents climbed to £52 per square foot on average (Table 2.3) and considerably above that for prime sites.

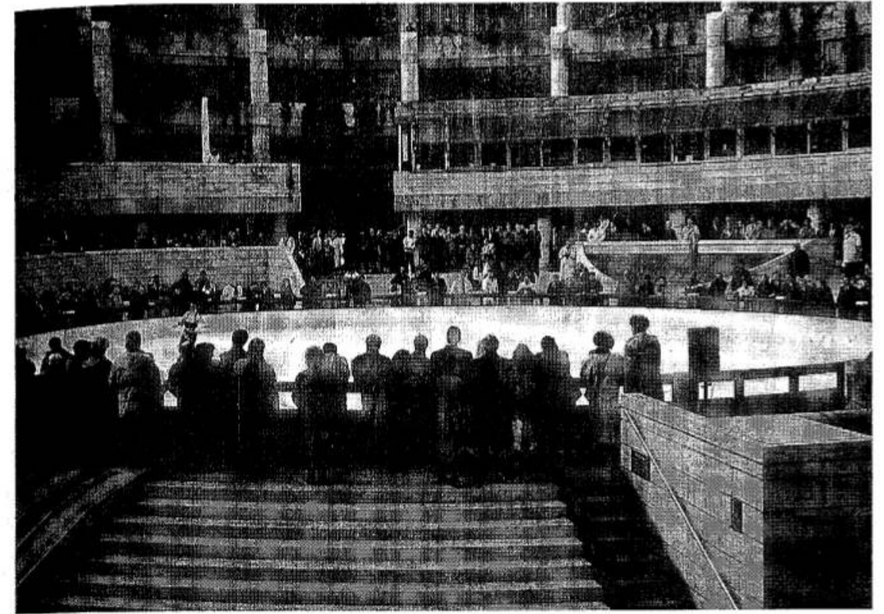

Figure 2.2. Broadgate center courtyard

New construction only began to pick up once more in 1996, when work commenced on more than two million square feet of office space; by 1998 construction was proceeding at the rate of more than five million square feet a year.[104] Initially, the developers of new space were continental companies building for their own use. After a period of hesitancy caused by the Asian financial crisis, the pace of activity picked up again by the end of 1999. According to the Corporation of London's chief planner, the character of redevelopment in the'90s differed substantially from the previous decade: "In the 1980s the big personalities were developers. From 1995 on you don't see big developers any more. The big personalities are in business, and property is responding to business. . . . This made for a more stable environment."[105] Companies preferred to have structures custom-built to their requirements rather than moving into existing space, even if this caused a delay in their move.

The Corporation of London, which earlier had worked on attracting companies, had become less concerned with competition from the Docklands and saw

its role as facilitator for businesses already committed to coming. In particular, its planners tried to assist firms in getting permission for buildings with large floor areas despite the constraints presented by the congestion and historic importance of the area. It also was working much more closely with neighboring boroughs. It was in part responding to pressure from the central government for partnership arrangements, but also it saw advantages to development in the fringe areas along its borders. The Corporation was keen to maintain itself as the primary central business district of London, and expansion could only occur through activity crossing into adjacent boroughs, with the City remaining as the heart of the district. Considerable conversion of office into residential space made the need for new territory even more exigent.[106]

Westminster

As home to the royal family, Parliament, government departments, and prestigious private firms, as well as London's most exclusive residences and hotels, Westminster has always constituted an extremely attractive location for office development. Unlike in the City, however, office uses had to compete with residential, hotel, and retail functions for space.[107] Resembling Manhattan's East Side in its array of different land uses,[108] Westminster likewise possessed residents who often found themselves at odds with developers and commercial occupants. A lengthy battle in the 1970s over the redevelopment of London's old wholesale food market in Covent Garden, located in the heart of Westminster by the theater district, mobilized numerous conservation groups and residents. The ultimate resolution of the original controversy was preservation of the old market buildings as a festive mall and the listing (i.e., protection as historic structures) of numerous surrounding buildings. The conflict left a legacy of mistrust, which was reactivated during the 1980s in a dispute over the intention of the Royal Opera House to erect an office building so as to finance renovation of its premises from the proceeds. The recession mooted this controversy, since the market for the office space had disappeared, and the opera house renovation eventually came to fruition in 1999, financed by proceeds from the National Lottery.

Covent Garden's renewal stimulated the subsequent transformation of the entire surrounding area to trendy retail and entertainment uses, featuring fashionable shops alongside cafés, restaurants, and bookstores. Changes within the market area came along with a general tendency toward the boutiquing of Westminster's commercial sector and an increased orientation toward tourism rather than services for residents. Like South Street Seaport, its counterpart project in New York, the rehabilitated Convent Garden satisfied those historic preservationists whose aims were limited to the conservation of architecture, demonstrated that property developers could prosper equally from renovation and new construction, and continued to provoke disdain from community organizations representing low-income groups and preservationists devoted to authenticity.

Whereas in the City of London the governing body relaxed its planning controls, Westminster's council, despite its Conservative majority and close ties to the Thatcher government, moved in the opposite direction. Intensified development threatened the substantial public amenities of the area,[109] and rising land prices squeezed out residents.[110] Increasingly, the council came to regard its mandate as protection of its residents rather than promoting business expansion,[111] especially once it became apparent that, under the uniform business tax, ratepayers would gain no advantage from commercial growth. The Westminster council refused to allow rezoning of residential property for commercial uses, and it insisted that the development of Paddington Basin, spurred by the construction of a rail link between Paddington Station and Heathrow Airport at the end of the '90s, be primarily residential. The Westminster council, unlike the Corporation of London, served only a residential constituency that had little economic interest in further development. Consequently, it subjected development proposals to ever-stricter examination, and its planning staff was committed to extracting as much planning gain as possible from development schemes. Between 1990 and 1999 the residential population of the borough increased by 25 percent, from 175,000 to 220,000.

The slower pace of office construction in Westminster than in the City left it with higher rents and a lower vacancy rate during the recession, and office owners enjoyed soaring property prices at the end of the '90s. Moreover, the character of commercial uses changed, as businesses seeking larger floor areas moved eastward, while entertainment and leisure functions took over vacated space. As well as boasting a notable number of tourism attractions, ranging from West End theaters to Westminster Abbey, the borough also contains most of London's major hotels. The council has sought to dampen hotel construction, but toward the end of the century it began to give permission for construction of small hotels.

Labour-Controlled Boroughs

Despite the preference of developers for operating within congenial Tory boroughs, several large projects and many smaller ones were planned or built during the 1980s in the inner-London Labour-controlled boroughs of Southwark, Camden, and Islington. The redevelopment of the Surrey Docks, south of the Thames in Southwark, was largely completed by 1989 and represented the first major crossing of the river by upscale development. The most important project there, London Bridge City, was owned by the Bank of Kuwait. Containing one million square feet of an office and retail complex on land adjacent to London Bridge Station, it is one tube stop away from the City and is the terminus of rail lines to the wealthy commuter areas surrounding the metropolitan area (the "home counties"). This complex succeeded in attracting the routine operations ("back offices") of many foreign and domestic banks, including Citicorp, the Banque Arabe et International, and Lloyds. Another million square feet was built nearby to accommodate the *Daily*

Mail, which had joined many of London's other newspapers in deserting Fleet Street in the City for the more spacious Docklands. Furthermore, by mid-1988, when the housing market had begun to crash, 5,000 units of housing, of which almost 90 percent was intended for owner occupation, were either completed or under construction in the Surrey Docks area.[112]

Intense community resistance within this working-class borough had little effect on these projects. The new developments were initially unrelated to their surroundings, the park and shops were not used by local people, and relatively few of the new jobs were taken by local residents. Since 80 percent of the housing was sold to outsiders, the population composition of the borough began to change. The council, which at the start of the decade consisted of traditional Labour politicians, was initially extremely unsympathetic to the community-based radicalism that fought the projects. As a result, it reflexively dismissed the proposals put forth by community organizations that were seeking alternative modes of development.[113] Interestingly, the old trade union–based Labour organization from which this council sprang did not feel threatened by the functional conversion that new development would bring. Rather, the councillors believed that office construction would revitalize the borough's economy and that the sons and daughters of working-class residents would find jobs in the white-collar enterprises quartered in the new structures.[114]

The expulsion of the old Labour leadership, however, did not change the course of development. At mid-decade, the previously excluded radicals gained control of the party machine, but planning powers over the area now belonged to the LDDC, and its strategy of market-driven property investment prevailed over council antagonism. Eventually, the council's new political leadership succumbed to the pressures emanating from the central government, and five years after its ascendance the borough was actively seeking planning deals with private developers, including the trading of land for concessions of housing, amenities, and job-training schemes.

A new planning and development director, hired during the'90s, became an adept proponent of commercial development. His reign coincided with the conversion of the previously seedy waterfront into an entertainment and leisure center.[115] The reconstruction of Shakespeare's Globe Theater and its adjacent exhibit space, previously opposed by the council, became a magnet for visitors. The Coin Street development, put together by an oppositional community coalition, as well as housing craft shops and low-income dwellings, contained one of London's most stylish restaurants. The renovated Butler's Wharf became a restaurant, gallery, and retail center. The new Tate Gallery of Modern Art occupied the structure of a huge old power station, opening with great fanfare in the spring of 2000. Various other museums, art galleries, and restored properties appeared, among them the Clink Prison Museum and the London Dungeon, which features "torture, execution, and the story of Jack the Ripper."[116] All of the various attractions were linked by an attractive landscaped walkway along the river. According to the

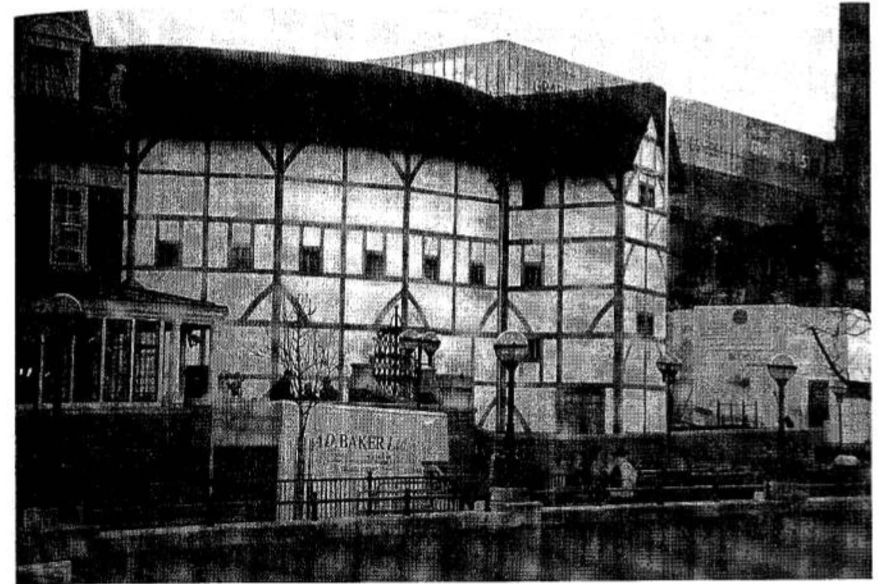

Figure 2.3. The reconstructed Globe Theater

development director, no one had formulated a master plan for Bankside; rather, the council acted opportunistically: "If we can use culture to attract the kind of development we want, we'll do it."[117]

Still, the Bankside only extended one block south of the river, and much of Southwark remained mired in poverty. The development director commented: "We aren't concerned over gentrification. We must overcome concentrated poverty. We want a balanced, mixed community." The Southwark Council intended to achieve this goal through increasing densities. Plans particularly centered on Elephant and Castle, a commercial and residential area, heavily populated by ethnic minorities, that the Government Office for London had identified as a strategic development node. In spring 2000, 21 development consortia were bidding to be designated as the developers of more than one million square feet of commercial space and 8,400 housing units. The strategy was to use market-rate units to subsidize the replacement of the existing 4,200 units of affordable housing. In addition, the national Single Regeneration Budget was providing £25 million for infrastructure and job placement programs. Since the council owned much of the land and had jurisdiction over giving planning permission for the rest, it could control the character of development.

In the borough of Camden, experienced community groups mounted strong resistance to the initiatives of developers during the '80s.[118] Nevertheless, British Rail saw another opportunity to exploit its landholdings proximate to a major sta-

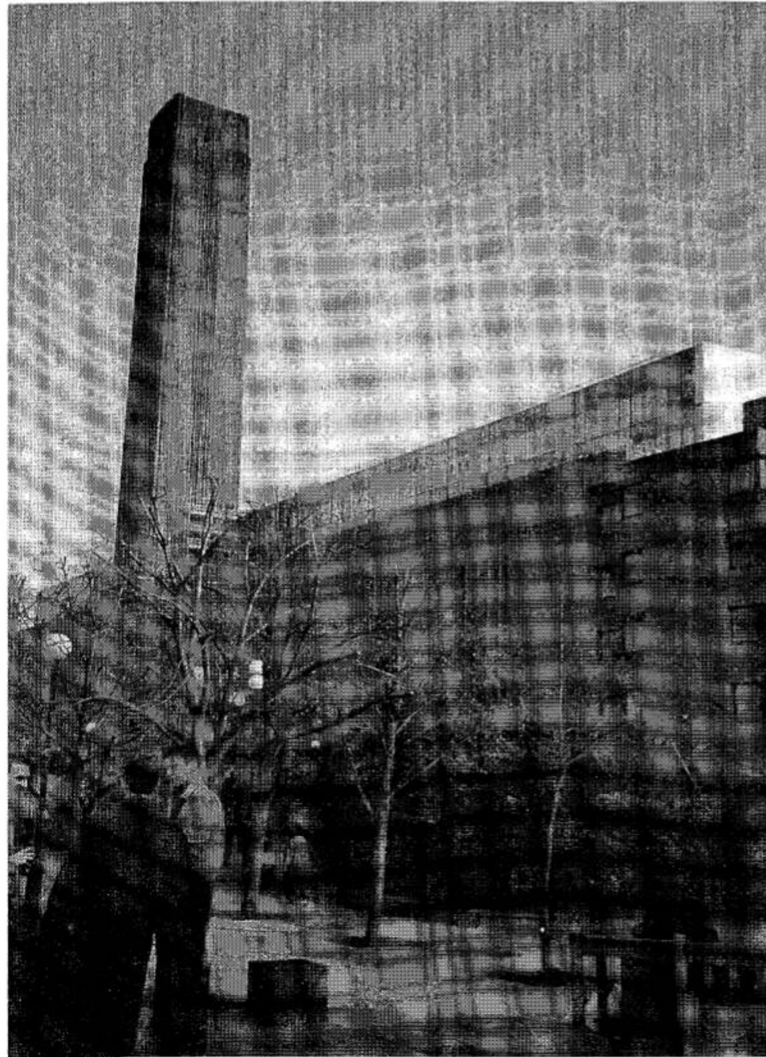

Figure 2.4. The Tate Gallery of Modern Art

tion at King's Cross, and developers immediately showed strong interest in the project.[119] Ultimately, the council, feeling that it had no alternative course, agreed to negotiate with the developers. Similarly, in Islington the Labour local authority became active in negotiations with developers, despite considerable community dissent. Although gentrification of this borough (the home of Prime Minister Tony Blair) had proceeded rapidly throughout the '80s, large-scale developer

interest only occurred toward the decade's end. In both Camden and Islington the real-estate slump of the '90s temporarily halted implementation of the proposed efforts. Thus, while the Labour-controlled boroughs did acquiesce in the strategy of property-led regeneration, by the time they did so, development opportunities had temporarily passed. As a consequence, except in the sections under LDDC control, these boroughs received relatively little property investment until the property market gained steam again in the latter part of the '90s. By then the borough councils, as in Southwark, had changed their views on development, seeing it as a chance to make a deal rather than a threat to their interests. Thus, three of the largest projects planned for the new century were in Southwark (Elephant and Castle), King's Cross, and Greenwich (Greenwich Peninsula).[120]

New York

The last quarter of the twentieth century saw New York riding an economic roller coaster. After the city suffered huge job losses and virtual governmental bankruptcy in the mid-1970s, an unexpected economic recovery began in 1977. The city's decline in the preceding years had been sharper than London's; likewise, its revival was more dramatic.[121] By 1981 office construction skyrocketed, rivaling, although never equaling, the pace of the early 1970s. During the 1990s recession, office construction halted altogether, and during the late '90s it revived only slowly, as lenders were reluctant to engage in the speculative financing of the earlier decade. Redevelopment in the '90s largely took the form of rehabilitation and conversion rather than new development. According to *Crain's New York Business,* upgrades of older office properties and conversions of industrial space added 15 million square feet of prime office space in two years (1998–1999), comprising an investment of $3 billion. This compared to an average annual rate of new construction of 6.9 million square feet during the peak years (1987–1989) of the '80s boom.[122] In particular, Manhattan's far West Side, south of 42nd Street, became a coveted location for telecommunications and Internet-related firms.[123] It profited from numerous fiberoptic cable linkages and proximity to the main cable, exceptionally large spaces, heavy weight–bearing floors, and huge elevators in old factory buildings. The area also became the home of scores of art galleries, driven out of SoHo by boutiques and rising prices and attracted by cheap, disused industrial space.

Downtown Manhattan prospered in the '90s as well. Having suffered from the highest vacancy rates in the city during the downturn, it became the focus of development policy. Business interests in the area formed the Downtown Alliance, a business improvement district (BID) and effective lobbying group. Because policy-makers were pessimistic that the surplus of office space, particularly Class B space, would soon, if ever, be absorbed, the city sponsored a program of tax incentives to promote the conversion of office buildings into residences in this previously all-commercial area. As described in *New York* magazine, "Preserva-

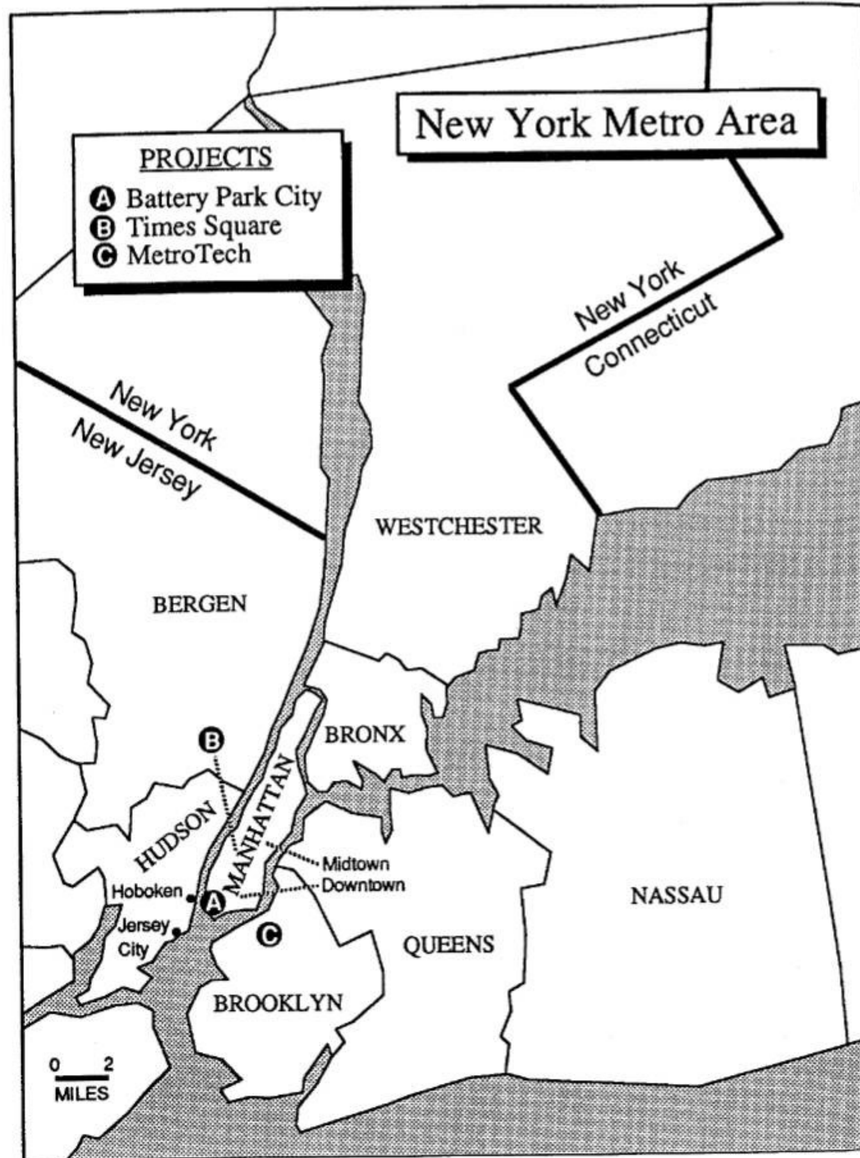

Figure 2.5. The New York Metro Area

tionists, good-government types, techies—and the free market—are working together to do nothing less than turn this skyscraper national park into a 24-hour urban 'village' that breaks down the geographic and psychic space between commerce, recreation, and daily life. The working model of Tomorrowland Wall Street is a hot-wired urban hive—dense, frenetic, whirring with synergies, a critical mass of art, industry, and communications."[124]

The city also offered incentives for upgrading the technical infrastructure of buildings to attract "new economy" firms in communications, media, and the Internet to the area. Primarily as a result of extraordinary growth in these sectors, downtown succeeded beyond anyone's imaginings in again becoming a desirable office location. In fact, the demand for offices became so great that developers shelved plans for residential conversions to pursue the more lucrative commercial office market. Thus, New York's "Silicon Alley" consists of Chelsea, once a factory district; Midtown South, formerly a secondary office area; and downtown, previously devoted wholly to the financial industry.

Even though the city's economy was in the midst of a period of extraordinary expansion, only one new major office project was under construction outside of Times Square. On the site of the old Coliseum, the city's former convention center, the Related Companies, headed by Stephen Ross, was building Columbus Centre, a very large, mixed-use complex. During the '80s, the Triborough Bridge and Tunnel Authority, which owned New York's Coliseum, insisted on accepting the highest bid for its land, which had resulted in a building plan that aroused fierce objections to its size. Delays in accepting the plan caused by community objections got the project caught in the real-estate slump. The original developer, Mortimer Zuckerman, was awarded the right to develop the site in 1985 but forfeited it in 1994. Finally, in 2000, two years after he had been awarded control of the site, Ross received a $1.3 billion construction loan from the General Motors Acceptance Corporation. The project, reduced to a still massive 2.1 million square feet, was to house the headquarters of AOL–Time Warner, an auditorium for Jazz at Lincoln Center, a five-star Mandarin Oriental hotel, 225 luxury condominiums, and several floors of upmarket retail space.[125] It incorporated two characteristic aspects of turn-of-the-century real-estate financing. First, rather than relying on traditional bank lending for his construction loan, the developer borrowed from a nonbank lender. Second, his struggle to obtain financing only succeeded once he had anchor tenants in place.

Business groups. The role of business interests in promoting downtown was unusual. Perhaps because of the global scope of their interests, New York's business leaders have not worked as vigorously as those in other American cities to frame an agenda for their metropolis.[126] Even the business press has noted the reluctance of corporate heads to become involved with city issues: "They view themselves as running worldwide enterprises that just happen to be located in New York. . . . It's almost provincial to be concerned and involved in what happens

here; that kind of local focus is for the quaint burghers out in Chicago and Atlanta."[127] New York's elite is philanthropically active, ornamenting the boards of the city's numerous cultural institutions and contributing generously to them. A number of upper-class good-government groups, some dating back to the start of the twentieth century, reliably testify at hearings concerning major land use proposals. Yet, New York, like London, has had no powerful business-led growth coalition to formulate a citywide planning strategy. The Real Estate Board of New York takes positions on particular issues of concern to the industry—e.g., property and rent taxes, revisions to the zoning code. The Regional Plan Association, a nonprofit good-government group, has proposed a development plan for the New York region with little effectiveness. The New York City Partnership, an alliance of chief executive officers, sponsors affordable housing and holds occasional forums but largely plays a low-key role.

During the 1975 fiscal crisis, New York's business elite strongly promoted its conservative response to the budgetary shortfall;[128] after that, while it has lobbied extensively against taxes and has supported public-sector redevelopment initiatives and transit improvements, it has not participated actively in redevelopment planning. Rather, particular elements of business—especially developers and securities firms—influenced politicians directly through heavy contributions to political campaigns.[129] The approach of these political influentials was not to press for comprehensive solutions to New York's problems but to seek specific benefits such as tax abatements and zoning variances.

Public programs. Spending on major capital projects had virtually halted during the years following the fiscal crisis and private-sector recession of the mid-1970s.[130] After 1981, however, increased local revenues arising from the city's economic revival combined with state and federal subsidies for economic development to launch a number of major development projects. Chief among these were South Street Seaport, Battery Park City, the Javits Convention Center, and the Times Square Marriott and Grand Hyatt hotels, all located in midtown or downtown Manhattan. The city paid for supporting infrastructure and granted tax subsidies; it also used federal Urban Development Action Grants (UDAGs) to subsidize the Seaport, developer Donald J. Trump's Grand Hyatt—his first major enterprise, which adjoined Grand Central Station—and the massive Marriott, located in the heart of Times Square. The Urban Development Corporation (UDC), later renamed the Empire State Development Corporation (ESDC), a semi-independent agency of the State of New York with the mission of promoting economic development, was revived from bankruptcy by the infusion of new state funds. It managed the construction of the convention center and the planning and infrastructure for Battery Park City. The corporation's legal powers, exercised through separately incorporated subsidiaries for each project (the Convention Center Development Corporation, the Battery Park City Authority, the Times Square Redevelopment

Corporation), freed it from oversight requirements that affected city-sponsored efforts: It did not need to go through the normal process of community consultation for project approval; it did not have to request a variance[131] if it did not conform to the zoning law; and the city's governing bodies had no authority over it.

Tax subsidies. Besides participating in those major projects where public authorities took the initiative, private developers took advantage of tax-subsidy programs for new construction. Since under New York law all local revenue measures must be enacted by the state government, these programs were products of state legislative action; nevertheless, they applied to local property levies rather than state tax liabilities. The Industrial and Commercial Incentives Board (ICIB), which administered a tax incentive program for businesses, participated in office-building, hotel, and retail projects, initially almost all in Manhattan. Although the initial purpose of the ICIB had been to revive New York's manufacturing base, it quickly turned into a real-estate development program, and the construction of new speculative office buildings became equated with economic growth in the views of the program's sponsors. Two tax-subsidy programs for residential development—421a for new construction and J-51 for rehabilitation[132]—were also heavily used to assist luxury housing in Manhattan. On the East Side, always New York's wealthiest district, publicly subsidized projects included Donald Trump's Grand Hyatt hotel and his famous Trump Tower luxury retail and condominium residence, as well as the AT&T (now Sony) Building, designed by Philip Johnson as a postmodern statement, and across from it, the IBM building. In 1981 and 1982 alone, twelve office buildings, comprising more than 7 million net square feet, were completed on Manhattan's already very densely developed midtown East Side. Although restrictions were eventually placed on the tax incentive programs to direct them to less affluent parts of the city, before these limits were imposed late in the '80s, almost every building intended for wealthy business or residential occupants made use of such subsidies. (They were later restored for downtown Manhattan.)

The strategy of targeting firms facing lease expirations or seeking new or additional space and offering them tax breaks has continued through the administrations of Edward Koch, David Dinkins, and Rudolph Giuliani. Tax deals have gone to very wealthy firms in the most desirable parts of Manhattan, based on the argument that high rents and operating costs would otherwise drive them out of the city. Thus, for example, the investment firm Bear Stearns got a $75 million exemption from sales taxes; part of the break was tied to the creation of new jobs.[133] The city also gave additional tax relief to firms that had already received large tax benefits either directly or as part of a package of incentives for the buildings they occupied.[134] Within five years the Giuliani administration had granted more than $2 billion in tax breaks and other subsidies to more than four dozen of the city's biggest corporations.[135] Unlike the planning gain deals in London, besides stipu-

lations for job retention and creation, the enforcement of which is dubious, there were no requirements for public benefits, and one clear detrimental effect was the shifting of the tax burden to small and medium-sized companies.

In the '90s downtown Manhattan received the benefit of the new subsidy programs discussed above as well as even greater subsidies for specific projects, justified as measures to keep businesses from fleeing the city. Currently pending is a deal that would cost the city and state about $1 billion to "retain" the New York Stock Exchange in lower Manhattan in response to its threat of moving to New Jersey. The Exchange claimed that it needed additional space for an enlarged trading floor, although recently, as the Exchange has contemplated moving to an entirely electronic trading system, the need for that floor has been questioned.[136] As of this writing, it is not clear whether the deal will actually be consummated, but it is illustrative of the kinds of special packages of benefits that the public sector has been putting together for particular firms.

Media responses. The New York press has largely acted as a reliable booster of real-estate investment. The failure of the mainstream media to offer a general assessment of the city's redevelopment priorities has meant that conflicts over particular schemes took the form of local skirmishes rather than contributing to a citywide debate over appropriate economic strategies. Although the architecture critics of the *Times* frequently found fault with particular buildings for their bulk and occasionally delivered broadsides against the city's failure to formulate coherent strategies for expansion,[137] the media largely did not question the basic equation of real-estate development with economic growth.[138] In particular, Donald Trump, New York's best-known (although by no means biggest) developer, adeptly used the media to promote his glamorous skyscrapers[139] and, by inference, the whole ambiance of Upper East Side luxury that surrounded them. Trump was not only man but metaphor. *New York* magazine,[140] in the preface to an excerpt from his autobiography, declared that "Donald Trump is one of the most remarkable figures of the roaring eighties—a true creature of the age. More than a New York real-estate developer and deal-maker, Trump has become the personification of hustle and chutzpa." *Newsweek,* which featured him on its cover, marveled:

> Donald John Trump—real estate developer, casino operator, corporate raider, and perhaps future politician—is a symbol of an era. He is the man with the Midas fist. For better or worse, in the 1980s it is OK to be fiercely ambitious, staggeringly rich and utterly at ease in bragging about it. . . . For the new rich, says a New York real-estate broker, the name [Trump on a building] is synonymous with "status."[141]

Although Trump faltered during the recession, he managed to avert bankruptcy and by 2000 was building both his long-delayed West Side apartment complex and, on the East Side, to the horror of its neighbors, the world's tallest residential building.

Intensity of development. New York, unlike London between 1986 and 2000, possessed a unified, centralized city government and a department of city planning; it nevertheless never produced a citywide development plan. Development proceeded project by project as developers assembled a site, raised financing, and exploited available subsidies. If they did not require zoning variances or seek zoning bonuses,[142] they did not need planning permission at all and could build as of right. The zoning code already offered a floor area ratio (FAR) of 12:1 (i.e., twelve square feet of floor space for every square foot of the total site) on most lots that were zoned for office use. It granted bonuses to developers who provided public amenities like plazas or subway station improvements; typically such awards raised the FAR to 15:1, three times the level of London. Developers could also purchase the air rights[143] from adjacent buildings, pyramiding these allowances on top of their bonuses, thus building even higher.[144]

The city government has largely refrained from developing plans that would specify its priorities as to kinds of structures, preferred locations, or desired amount of space. When influential civic groups, led by the Municipal Art Society, protested about overbuilding on the East Side, the City Planning Commission responded with a report recommending restrictions on East Side development and more permissive zoning on the Midtown West Side so as "to move development westward."[145] By the following year, however, when the proposal was implemented, hardly a buildable site remained on the East Side that was not already in process of development. Under the stimulation of this "new midtown zoning," which raised the allowable floor area ratio on the West Side from 15:1 to 18:1, many millions more square feet of office space were constructed even without the prospect of tax abatement. This was intended as a temporary inducement that would exist for only six years. Consequently, developers hastened to beat the deadline, constructing eight buildings, comprising 4.5 million square feet of space, in the last year of the program.[146]

New residential construction, almost all for the luxury market until 1987,[147] continued unabated wherever potential sites were not protected by historic-district status. Extremely strong demand for residential space in the heart of the city allowed developers to obtain extraordinarily high returns on their investments. Nevertheless, the city continued to provide tax benefits for luxury residential development under the 421a program until 1986. When the city government finally decided to end subsidies for buildings in central Manhattan, developers rushed to put foundations in the ground so as to take advantage of the tax benefits before they disappeared.[148]

The high level of development activity during the boom years of the '80s markedly changed the appearance of Manhattan.[149] The midtown and downtown office cores expanded and became much more dense. A number of large apartment buildings replaced low-rise structures on the Upper West Side and filled in the gaps remaining in the West Side Urban Renewal Program dating from the 1960s. Battery Park City, to the west of Wall Street, and Tribeca, an old industrial

area just north of the financial district, gained thousands of housing units, producing a residential community in a part of New York that had been devoted wholly to business for well over a century. Huge new residential structures lined the East Side between the East River and Third Avenue. Almost all of the new construction in Manhattan required the demolition of existing buildings. In contrast, the development spurt of the century's end, relying much more heavily on conversions and rehabilitation, had a less obvious effect on the city's appearance.

The spin-off effects of both Manhattan booms were mainly felt across the Hudson River in New Jersey, where by 1989 a number of new, large commercial and residential projects lined the waterfront. At the beginning of the new century, millions more square feet were on the drawing boards to house back offices of, among others, Goldman Sachs, Chase Bank, Paine Webber, American Express, and Merrill Lynch.[150] Although New York City's boroughs felt some residential pressure, their business districts remained mostly untouched by office construction. Only one major project, MetroTech in downtown Brooklyn, represented a serious attempt to decentralize office functions to New York City's boroughs.[151] Undertaken during the Koch administration, this precedent seemingly did not impress the Giuliani administration, which launched no major projects except for baseball stadiums outside Manhattan.

A proposal to build a large-scale development at Hunters Point in Queens (Queens West), directly across the East River from Midtown Manhattan, hung fire for a decade, because of lack of developer interest.[152] Eventually, a single residential building arose on the site, and three more were under construction in 2000. Hoped-for commercial projects, however, remained unfulfilled in 2000, because of either the reluctance of businesses to move to Queens or governmental unwillingness to provide a sufficient level of subsidy.[153] The city does have a number of incentive programs to induce businesses to move to the boroughs. Critics of the administration, however, believe that site clearance and infrastructure investment are necessary prerequisites to establishing locations in the boroughs as major office centers. According to the developer who has been most active in the boroughs, creation of commercial centers there requires the city to do land assembly, not simply provide incentives to firms.[154]

ECONOMIC AND REAL-ESTATE CYCLES

The business cycles of the last quarter of the twentieth century affected London and New York very strongly. Tied as they were to global financial markets, they had little to buffer them from either the manic investment climate of the boom periods or the depressive withdrawal of capital during the declines. Thus, during the '80s they reached an apogee of wealth creation, physically reflected in the erection of huge new structures. Then, suddenly, a few years after the cave-in of financial markets in October 1987, the construction boom foundered, and the

enthusiastic portrayal of a prosperous future for London and New York as global cities faded along with it. The newspaper business pages presented a staccato of defaults and bankruptcies where formerly they had published the press releases of the deal-makers. The cranes disappeared, and in their stead empty office buildings and vacant flats eerily recalled previous optimism. As the job gains of the decade vanished, little else remained to mark the flush times besides the millions of square feet of space that had been created. Both London and New York suffered disproportionately from the recessions affecting their countries. Worst of all, the very industries that during the '80s had been the object of their economic strategies, the source of their growth, and the symbol of their accomplishments lost the most employment. In London, jobs in the financial and business services sectors fell by 90,000 between 1990 and 1992, wiping out all of the FBS employment gains of the preceding five years.[155] During 1989–1991, New York sustained comparable losses, as FBS employment dropped by 91,000, returning the city's job level to the lowest figure since 1983.[156]

Revival came quickly in London, more slowly in New York, although neither regained all of the jobs it had lost until the end of the decade. During the '90s, for the most part, economic and construction activity followed trend lines established in the '80s: Core strengths continued to be in finance and business services; construction focused on office and luxury residential sectors. There were, however, some differences. Tourism and media contributed strongly to economic growth. Particularly in New York, the "new economy" businesses associated with information technology exploded, while motion picture production became the fastest-growing sector as measured by percentage increase.[157] In the words of one real estate adviser: "Nobody dreamed of them [the technology companies] in 1990. We never anticipated [entertainment and media] companies like Bertelsmann, Disney, Viacom. The nature of retailing has changed. Retail and entertainment are much more closely allied." Construction had become much less speculative. The amount of new office space added was relatively small compared to the '80s, although as noted earlier, conversion of industrial space or upgrading of existing offices meant that much more was added than would have been obvious to an observer looking at the skyline.

The next chapter examines the causes and consequences of real-estate boom and bust and probes the effect of governmental policy on these swings.

3

Markets, Decision-Makers, and the Real-Estate Cycle

Swings in property markets can be understood in various ways. Real estate has always conformed to highly cyclical trends, and a number of theoretical analyses seek to explain this trait.[1] My discussion attempts to identify the factors underlying the ups and downs of the market that occurred in London and New York in the 1978–2000 period.

In general, we can describe a typical property cycle. During periods of economic expansion the demand for space will shoot up, but since the supply of space is relatively inelastic in the short run, rents and property values will increase very rapidly. The result is that those people who anticipated the surge in demand will enjoy soaring profits. At this point, others notice the condition of insufficient supply and start a multitude of projects. Overproduction of space occurs when investors expect increases in the value of buildings to outpace the growth of other investments. Usually, however, supply quickly exceeds demand, and if, as happened in the late '80s, the overall economy contracts, causing the demand for space to shrink, a surplus quickly appears. Values then sink as rapidly as they rose. Owners seek desperately to attract or keep tenants through offering lower rents, rent-free months, custom fixturing, etc. Developers find themselves with vacant or half-filled buildings and either cannot count on a cash flow to service the debt on their construction loans or cannot refinance their loans with long-term mortgages on the completed building. Financial institutions are no longer willing to invest in property, and foreclosures depress the price of real estate even further, as lenders seek to dispose of the property they have acquired.

After such a contraction, new construction comes to a stop, meaning that if businesses begin to expand again or desire quarters that conform to different standards—for example, multiple access points to broadband fiber-optic cable—the previously generated surplus is absorbed. Because financial institutions are still reluctant to invest in property, developers do not have new buildings ready to go

up, and demand once more begins to outrun supply. Returns to property again escalate rapidly, and the cycle begins anew.

WHY DID IT HAPPEN?

In London and New York the property market has been particularly dependent on financial and business services (FBS) as principal users of office space and on employees in those sectors as purchasers of expensive residential accommodation. The highly cyclical nature of FBS industries has made real-estate markets in the two cities especially volatile. The boom of the '80s and collapse of the early '90s could be directly traced to the behavior of FBS and the close link between growth in finance and growth in business services dependent on the financial industry (e.g., accountants, law firms, management consultants). The situation in the later part of the '90s was more complex. Although the increases in property values of this period were certainly driven in part by the extraordinary rise in the stock market, employment in financial services did not grow nearly as rapidly as did earnings in the sector. Demand for space came from a variety of sources, including business services such as advertising and architecture that instead of being closely connected to finance were directed at other industries, especially telecommunications, information technology, entertainment, and leisure. Thus, the expansion of those industries and the sectors serving them accounted for most of the absorption of space during the end of the century. At the same time, banks and other financial institutions had become much more cautious about property investment, meaning that seven years into the boom the demand for space was outpacing supply by an increasing margin, resulting in skyrocketing commercial rents.[2] Whether or not this balance will continue, and whether the greater diversity of users will result in more stability, cannot be foretold. The remainder of this chapter looks more closely at the conditions of oversupply and shortage.

Oversupply

The standard explanation for overproduction of real estate is that projects take so long to come to fruition that investors cannot easily foresee the market at the time of completion. Just as farmers must plant their fields long before they can know the market for their crops, developers cannot easily adjust their inventory to current demand. In this respect, real-estate investment is by definition speculative.

The structure of the industry also contributes to its strong cyclical tendencies. Like the agricultural sector, and for many of the same reasons, the property industry tends to overproduce. While the real-estate industry is less competitive than agribusiness, no small group of firms dominates the market sufficiently to control overall supply;[3] thus, even when developers anticipate oversupply, they cannot put a cap on the total amount built. Developers have sought to reduce risk

by preleasing buildings prior to construction, and often financial institutions will not lend without an assurance of an anchor tenant.[4] During the '80s lenders were extraordinarily willing to lend for speculative buildings; in the '90s they refused to do so. In London, Olympia & York, as we shall see in Chapter 9, through buying into other development firms, was following a deliberate although ultimately unsuccessful policy of seeking to control the market.

By 1987 it was becoming fairly obvious that already planned projects in London and New York could meet all likely demand. Moreover, prospective investors in these two cities could look to numerous other locations, especially in the U.S. Sun Belt, for examples of vastly overbuilt office markets. As early as 1986, *Fortune* magazine had called the period "the worst times for real estate," noting that more than a fifth of U.S. office space was empty despite the generally expanding economy.[5] In places like Denver, Miami, and Dallas, the vacancy rate throughout the '80s had hovered at above 18 percent, bearing witness to the enthusiasm of builders who had responded to earlier service-industry expansion by constructing millions of square feet of space in excess of demand.[6] A little prudence would have identified the same factors at work in London and New York as well. Nevertheless, developers continued to dream up ever-bigger projects; banks increased their lending; property analysts persisted in advising their clients to continue investing in real estate; and governmental authorities kept on turning to property-led development as the remedy for fiscal and employment shortfalls.

The Pressure to Build

When I asked leading developers, officers of lending institutions, property consultants, and public officials why project commitments had continued in the face of mounting evidence of their fragility, they responded fairly unanimously that there had been a herd instinct at work. ("They're all like sheep, these fund managers," snapped one company director.) The CEO of one of Britain's largest firms, who claimed to have started selling off property steadily since 1986 and thus to be relatively undamaged by the slump, declared: "It came from stupidity. Most people in the business have a pretty impoverished level of intellectual capacity. Most lenders are uneducated, not well trained." In virtually the same words a partner in a famous investment firm remarked: "Banks have a herd mentality. They didn't learn the lessons of 1974. They are not run by the very intelligent." Another London CEO proclaimed: "The market is not driven by experience or technology but by emotion."

Americans in the industry came to similar conclusions. In the words of one observer who had held a number of high-level public- and private-sector positions, "Financial institutions had a lot of money. They never learn." A consultant stated: "Real estate was where everyone wanted to be. There was a tremendous bias toward real estate. In the seventies a momentum began to be built up. In the eighties it exploded. The projections were all rosy. People were unwilling to see when saturation would occur. And there was optimism that 'my project was best' along with an explosion of available cash." Many observers echoed the explanation that individual developers managed to persuade themselves—and investors—that their project would work even if others would not. Another popular interpretation of rash commitments was the "greater fool" theory; under this hypothesis it was always possible to rid oneself of a poorly performing property.[7]

Knowledgeable analysts agreed that the availability of financing drove the market, that developers would build as long as someone was willing to provide the necessary funds.[8] In the words of one developer: "There is a belief that bankers finance what builders build. In fact, the opposite is true. Money is the sine qua non. If you have money, you will build." Because developers during the '80s needed to put so little of their own equity into a project, they had little motivation for caution. As another developer commented, "Every property man loves to build. They forget the risk. They're not using their own money. It's lovely building with other people's money." Even if developers foresaw problems, they could avoid personal jeopardy—most development firms received nonrecourse financing, in which the loan's collateral was the building and the builder was not further liable in case of default.[9] Developers were also encouraged by political leaders who expected new development to generate employment and tax revenue.

Moreover, without a stream of new projects, developers could not keep their organizations going and their own salaries paid. One developer compared his operation to a movie production, wherein he was the impresario who brought together the cast of architects, contractors, lawyers, accountants, financial consultants, investors, construction workers, and others who created and financed a building project. Although the core staff employed by the development firm itself was small, any reduction of its size made future productions difficult and undermined the personal relations that undergirded this type of entrepreneurial organization.

Bankers seemingly had stronger incentives than did developers to scrutinize risks. But as another CEO remarked: "Banks competed to get deals rather than doing an overall assessment." One investment banker saw himself in virtually the same position as a developer: "Investment bankers are just intermediaries. They will underwrite if there are buyers [of the bonds]." Commercial banks appeared to be in a different position from investment institutions, since they bore direct responsibility for the loan and therefore presumably had reason to be more careful (although even they could pass off some of their risk through syndication and, eventually, through securitization).[10] They, however, lacked other outlets for loans and, in addition, received payments for services connected with the granting of funds. The vice-president of a leading American pension fund that invested heavily in property mused: "Commercial banks have been the largest source of money for property. They are driven by the desire for fees. They saw very high returns at the time relative to other lines of business."

The director of a very big, quite conservative property investment company in the United Kingdom reflected on the pressures that had operated on him in the '80s: "I'm on a public company treadmill. All these analysts are sniping at you all the time." Because his company's assets were not fully leveraged, his firm was a tempting takeover target, and he had been forced to devote considerable energy to defeating such a maneuver. Although in 1991 he could pride himself on the stability of his firm, he remained defensive about the obloquy he had sustained during expansionary years: "They accused us of being too dozy." In the hyperactive, deal-making world of 1980s finance, an accusation of sleepiness seemed the most embarrassing insult of all.

In fact, the pressure to make deals did not simply arise out of faddism or the spirit of a go-go age. While the long-term interests of firms might depend on wise investing practices, the immediate rewards for individuals seeking bonuses, promotions, and rising equity depended on increasing the firm's business. For publicly held enterprises, stock prices depended on growth. Within the banks and other investment institutions, which for much of the '80s were paying out high interest rates to investors and depositors, there was a desperate search for highly remunerative outlets.[11] Past successful experience with using real estate as a hedge against inflation further bolstered the view among investors that property represented a wise investment choice.

Undersupply

In both the 1980s and the 1990s sharp increases in property prices came when particular industrial sectors suddenly began a period of unanticipated growth. In the '80s these were finance and associated business services; in the '90s they were various sectors of the "new economy" based on information technology, along with tourism and leisure. In neither case, if one read the prognostications of economic analysts at the beginning of these two decades, could one find any indication that this growth was expected. In 1980 there had been continued concern over decentralization of jobs to the urban periphery or abroad. No one foresaw that increasing globalization would heighten the importance of the business districts of cities that were financial centers. At the beginning of the '90s information technology was expected to enable further decentralization, and no one prophesied the Internet revolution. If they had, they certainly would not have imagined that it would call on the talents of graphic artists, advertising agencies, and media figures, already located within the centers of London and New York, to provide it with content. Unexpected also was the renewed strength of cultural industries, including the New York and London theaters, as well as the movement of themed entertainment out of exurban parks into the hearts of these two cities. These new or renewed clusters of activity became the forces for heightened economic dynamism and consequent need for new kinds of buildings and transformation of land uses. The fact of these failures of foresight perhaps explains why property interests are often averse to relying on research and analysis as the basis for their decision making.

Advice and Research

Real-estate developers and property investors need two types of information when contemplating an enterprise: First, what the likely overall market situation is when the development is completed; and second, what type of project on which site is most likely to produce the greatest return. In my investigation of the industry I sought to discover the sources of such information and its effect on investment decisions.

As in any other large industry, property-investment and development firms use both in-house staff and outside consultants for advice and research. The training of people who fill these roles differs between London and New York. Within the United Kingdom the profession of chartered surveyor encompasses a group of individuals who, through a combination of formal education and apprenticeship, study all aspects of property, from construction techniques to financing methods to valuation. A number of the officers of major development firms have such training, as do many planning officers of local authorities; in addition, firms of chartered surveyors offer consulting services to both the public and private sectors.[12] In the United States no comparable professional category exists, and its functions are divided among planners, lawyers, real-estate brokers, and business-school graduates. Consequently, in the United States strategic analyses tend to be more fragmented and impressionistic. Although the similar conditions of the London and New York property markets during the '90s recession apparently belied the advantages of the expertise provided by chartered surveyors, the fact that large speculative risks were taken by only a small number of bankers and developers in London might support the hypothesis that adequate analysis was available to those who sought it.

Few development firms in either city boasted in-house research units; those that did primarily investigated consumer satisfaction with their earlier developments and sought to identify amenities that would help sell future projects. Heads of development firms on both sides of the Atlantic indicated that they had little faith in the utility of formal research endeavors. The CEO of a very large London firm commented: "We've got various marketing research advisers. They do research. But they get it [the market] wrong." The chairman of a major firm that was teetering on the edge of bankruptcy in 1991 asserted during earlier, better times: "We don't do a lot of research. We know the market. A feel for the market is the most important thing." The head of a huge British property corporation declared: "We don't have a real research department. The research is in my head. I talk to people in the [financial] markets every day. . . . We have a sort of circle." A leading New York developer similarly declared: "Most developers sense intuitively where there is an opportunity. They don't rely on economic studies. . . .

As a practical matter you are guessing ahead—so the past does not tell you what you need to know." Another New York CEO likewise dismissed the usefulness of research results: "It's today's wisdom extrapolated into the future." One of the few women in the development business observed: "You smell things, touch them."

By the end of the '90s, opinions on the usefulness of research diverged somewhat between the two cities. One London developer commented: "There are good people in research now. In the 1980s the statistics were no good. Now the quality of information is okay." A principal in one of the leading property consultancies remarked: "Nearly everything we're doing now [i.e., that is happening in London] is planning led and research led." A director of English Partnerships, the government-backed, semi-independent regeneration agency for London, stated: "Previously too much of the speculative boom was based on unrealistic figures and projections. Now we interrogate figures very carefully." A major developer said that he used consultants for research, which focused on the particular site in which he was interested. The managing director of the Canary Wharf Company declared: "I do a lot of research all the time. Canary Wharf has been researched to death. Research is about understanding the broad marketplace. We need to understand our clients' needs. The concentration here is such that you can afford to do it. We try to analyze sectors in broad terms to respond to clients' needs."

Recent views on the use and value of research varied in New York. One developer claimed: "The real-estate business is the last great domain of the entrepreneur. Each site is sui generis. Research won't help. It's serendipity." A consultant thought that research was used more and that it "had made the industry more conservative"—not necessarily for the better. His firm provided advice to developers on how to identify technology tenants and what physical improvements and financial measures were needed to attract them. A leading planner asserted that "real-estate guys don't have any analytic capacity."

Despite at least some greater reliance on research and analysis, intuition and connections remain fundamental to the way the industry operates. Several developers indicated that they relied on tips and chance encounters when identifying a site on which to build. According to one New York developer: "I picked one site by seeing a sign on a building. I knew the area was good, so I followed it up. I get calls from brokers all the time—some of them pay off. Lawyers make significant introductions." A real-estate lawyer upheld this commentary: "If you're in this business you get phone calls—from brokers, friends, clients, others who are just knowledgeable, hoping for a brokerage fee. They will call me [i.e., a lawyer] instead of a client because they know that this way a number of clients are potential buyers. At this stage you're not an attorney, you're just a facilitator."

Even in financial institutions, personal relationships underlie judgments concerning developments that officers are willing to back. A director of the pension fund with the largest real-estate holdings in the United States, who managed its New York City portfolio, indicated that her investment decisions depended fundamentally on who the developer was: "We build up great familiarity with the major players. Our investments are almost always with developers with whom we have experience. We must trust the developer, share his philosophy. We do not work with a large staff, and therefore we must depend on the developer's decision making." A managing partner in a British investment firm stated that "we would get involved in a real-estate deal because we believe in the man first, the market second, and the location third." The vice-president for real-estate finance of a major bank asserted: "We only do deals with people we know and trust."

Developers mainly seek advice when they have very specific questions. They turn to trade organizations like the British Property Federation and the Real Estate Board of New York (REBNY) for information on tax law, landlord-tenant legislation, and building regulations. They consult planners and attorneys for assistance on planning permission and zoning matters once they have identified a site that they wish to develop. Their research is primarily directed at the likely prospects for the individual property that they are developing; the assumption is that present overall trends will continue, and the forces shaping the broad contours of the market are not usually the subject of investigation. Only retail developers do much market research, but their focus is mainly on demographic projections rather than on the likely actions of their competitors—that is, they predict changes in demand, not supply.

Institutional investors usually rely much more on market data when making their decisions than do developers.[13] Various financial advisory firms provide regular market updates to their clients. According to the managing director of such a firm: "Within London, financial institutions that looked carefully at the market used the [1980s] boom to unload properties. The people who built the buildings were speculators, not users of research, not long-term thinkers. Most of the money came from nontraditional sources, especially Japanese banks." In New York it is more difficult to make such a clear-cut distinction between the types of institutions that relied on research to guide them to withdraw from the market before it peaked and those that were willing to finance speculative real-estate development. Many major U.S. domestic banks and insurance companies made substantial real-estate commitments just before the 1989 crash; greater caution was a function of individual management rather than being associated with general categories of firms.

Even if developers and investors had relied less on their intuition and more on professional advice, they probably would not have acted much differently during the '80s. As one chartered surveyor admitted wryly: "It was not to the advantage of consultants to tell everyone to pull back when the future was beginning to worsen." Among the lawyers, chartered surveyors, brokers, and other advisers to the property industry, there were virtually no disadvantages to promoting further construction projects. Large consultancy fees depended on a commitment being made; the only penalty for bad advice was loss of reputation—and since everyone was encouraging property investment, it was unlikely that any firm would be singled out for culpability.

Interestingly, however, attitudes were quite different during the more recent boom. Everyone interviewed in both London and New York agreed that lenders were examining deals very closely, requiring a much greater equity commitment (in the neighborhood of 25 percent) from developers, and demanding a share in the equity for themselves. Banks and insurance companies had reduced their real-estate portfolios, while a number of nontraditional lenders, including investment banks and lending subsidiaries of financial holding companies, had taken up the slack. In general, less was being lent, and the risk was more widely spread than previously. Memories of the last downturn had not faded, and investors in real estate, as compared to those seeking to make their fortunes through buying initial public offerings on the stock market, seemed downright conservative.

The Role of Government

During the '80s, not only did governing bodies in both London and New York forgo their earlier predilection to regulate growth, but they instead devoted themselves to reinforcing expansionary tendencies (see Chapter 4). The various specific benefits given to developers, including the provision of infrastructure, low-priced land, grants, loans, and regulatory and local tax relief, further induced activity. Combined with encouragement of private-market strategies for economic growth at the level of the national government and biases in favor of real-estate investment in the tax codes of both countries, these local efforts had the effect of loosening the remaining constraints on supply.

In Britain, where the Treasury resists the use of tax incentives, governmental encouragement of real-estate development during the '80s mostly arose from the relaxation of restraints. At the end of that decade the government had identified a limited number of sites for development, and it was using infrastructure construction and site aggregation to leverage private investment. Some British developers came to lament the lack of an overall planning authority for London, as reflected in their support for the establishment of the Greater London Authority. They felt that the industry would have benefited from more coordinated and limited development during the preceding decade. The chairman of a firm that was then among the most active in London remarked: "It is socially and economically harmful to be overbuilt. . . . I am [now] urging for restraint through planning. It has been too easy to get permission. All you have to do is buy them [the local authorities] with planning gain. Market-led development has turned out not to be as great as we expected. Without tension between restraint and entrepreneurship, there is no balance."

In contrast, no New York real-estate leader whom I interviewed wished to see governmental constraint. When the head of one firm, who had formerly directed a city agency, was asked whether the city would have been better off if it had restricted development, he responded typically: "Why should government worry about oversupply? Government shouldn't protect the market." Nevertheless, New York developers, somewhat surreptitiously, attempted to restrict the amount of development by funding environmental groups that were opposing projects of other developers. Thus, community opponents of 42nd Street redevelopment had substantial sums at their disposal, provided by unidentified sources, and the developer Seymour Durst, a property owner in the Times Square area, openly supported attempts at blocking the development of four large office towers there (eventually his firm, by then with his son as head, became one of the designated developers). Donald Trump, in an effort to prevent construction of a competing building across Fifth Avenue from Trump Tower, paid the $50,000 legal fee of an attorney representing the Municipal Art Society, a civic group fighting the project.[14]

During the 1980s government officials in both London and New York rejected the view that it was their role to guide the market. One London borough council leader commented: "I always find it extraordinary that developers, who are proponents of the free market system, should want planning. No one forces developers to overbuild." A councillor in the City of London remarked: "There had not been overbuilding. More availability is good from the tenant's point of view. The choice of whether to build is one of the owner, not the planner—planning permission does not mandate construction. Planners should not predict the marketplace; they are not qualified to make the judgment."

A New York development agency head, interviewed in 1991, asked: "Did we overbuild or did we just lose an awful lot of jobs? Today's surplus is the result of decisions made four or five years ago." He argued that "government could not have accurately predicted the current situation." Interestingly, in San Francisco, public officials and business interests fiercely resisted a citizens' ballot initiative to restrict office development to under a million square feet a year. Restrictions, however, were adopted, and vacancy rates, as a consequence of the controls on new construction, dropped from 18 percent in 1986 to 12 percent in 1991 depite the recession.[15] Evidently, governmental controls have the potential to stabilize the industry despite itself.

LONDON AND NEW YORK COMPARED

London and New York followed similar trajectories during the last quarter of the twentieth century in respect to the amount and type of property investment. During the 1980s and the first part of the 1990s they also resembled each other in the character of both public and private decision making. By the end of the '90s, however, they began to diverge, as governmental intervention to guide the development process became increasingly significant in London but not in New York. Although the changed emphasis of government decision making was more evident once a Labour government took power, the tendencies toward greater directiveness had begun earlier.

Some reasons for differences in attitudes among developers in the two cities come from the types of firms they lead. London's property firms are mainly publicly held, and heads of firms usually proceed up through the ranks as in other business organizations. In New York, on the other hand, many major firms are not only privately held but are run by groups of relatives: The Lefraks, the Roses, the Rudins, the Tishmans, the Dursts, and the Trumps are among New York's leading real-estate families with firms bearing their names. In a number of cases, the present CEO is the son or grandson of the founder. The culture of New York's firms tends to be more personalistic than that of their London counterparts, and relations with governmental officials are closer.

In the New York property world, the clubbiness of the City of London, where relationships are often based on implicit understandings rather than formal rules, is replaced by an equally informal but more explicit quid pro quo. Favoritism is not a product of club memberships and old school ties. Instead, developers contribute heavily to political compaigns and expect consideration in return.[16] Construction unions and contractors are notoriously crooked and politically influential; developers routinely pay the costs associated with inflated labor charges and kickbacks. In the words of one insider:

> The political system in . . . [New York] City and State is thoroughly corrupt and psychologically geared to a time when corporations had to be in the city. The system was devised to divide up action that was assumed to be there. In the '80s the money was there again for a little while. But the political system increases the costs of doing business, and businesses no longer have to stay. There is a significant massive indirect tax levied by a corrupt political system.

In contrast, even the most virulent critics of London's property firms do not believe that personal payoffs significantly warp the dealings between government and development interests. The CEO of a British firm with assets of £2 billion commented that his firm would no longer work in New York because of the level of corruption there. He did not believe that maintaining close contact with politicians would be useful in London and claimed that he did not contribute to political campaigns.

During the '80s London firms borrowed to cover virtually all development costs and usually built without commitments from tenants. Although on the face of it their operations appeared more speculative than those of their New York counterparts, office developers in London in fact have operated within a more predictable market. Although the system eventually broke down because of weak demand, office tenants typically held 25-year leases, which were subject to five-year, upward-only rent reviews performed by firms of chartered surveyors. The owner and the tenant each had a surveyor who represented their interests; if they could not reach agreement, an arbitrator made the final decision. Since relatively few leases expired in a single year, this system assured that during downturns in the market most tenants could not easily search out bargains; for those whose leases still had many years to run, buying out their leases was a very expensive proposition. In New York the plunge in the market allowed many large tenants to assiduously pursue deals with their landlords, effectively pushing the average price down much more quickly than in London (see Table 2.3).

During the '90s, as the market heated up and several years passed without substantial additions to the supply of space, landlords in both cities ceased offering deals to new tenants, and rents ultimately reached and surpassed their previous levels. Formerly undesirable areas became attractive to business, either because they were cheaper or because they presented space well adapted to their needs. This was especially true in New York, where "new economy" firms could find prestige in industrial structures, implying that they were on the leading edge, rather than a stodgy midtown address.

London's tenants have fewer alternatives than New York's, as no other city within the United Kingdom seriously competes with London for financial and advanced-services firms. Whereas in the United States a central-city location does not carry particular prestige, within the United Kingdom considerable prejudice remains against locations outside central London.[17] While this situation is changing as the southeast of England becomes increasingly polynodal, for the medium term traditional preferences remain a significant factor in maintaining London's strength as against the rest of Great Britain. In contrast, New York's preeminence is threatened not only by other major U.S. financial centers, like Los Angeles and Chicago, but also by its own periphery. Within its suburbs a number of locations like Princeton, New Jersey, and Stamford, Connecticut, carry as much cachet as Manhattan, if not more. Moreover, Jersey City, directly across the Hudson River from downtown Manhattan, has developed a dense, high-rise central business district that, while located in another state, is essentially an extension of New York City that offers lower operating costs. In the future, competition from continental Europe may challenge London's preeminence, but Paris, Frankfurt, and Brussels are unlikely either to dislodge London from its dominant position in financial markets or to overcome the advantages of English-speaking service firms within the world market more generally.

Relative to all other cities except Tokyo, London has exceptionally high occupancy costs.[18] These result from several factors, including the leasing arrangements described above, its long history of strict planning controls, and the monopolistic position of landowners. While this situation protects owners of occupied buildings and lenders to them, it injures London's competitive position within the world and generally inflates prices within the metropolis. In simple terms, it benefits the property industry relative to all other British industries.

THE CONSEQUENCES OF THE PROPERTY CYCLE

Despite market differences, developers in both London and New York made similar types of calculations during the real-estate booms. The large office or multiuse

structure was the principal investment object of the '80s; conversions of existing structures to residential or office uses accounted for a considerable amount of space provided in the '90s. In both cities during the '80s property analysts stressed the need of financial firms for large trading floors that could not be accommodated in older buildings. The total number of firms requiring such facilities, however, was quite small, and the downturn in securities markets caused them to reduce their staffs and contract their demand for space. Moreover, even within firms with large staffs of traders, the technological necessity for keeping them within shouting distance of each other has never been wholly clear and is diminishing with the development of advanced computer networks.[19] Although securities firms and investment banks expanded again during the bull market of the '90s, other financial industry sectors, including banking and insurance, consolidated operations, moved back offices to peripheral locations, and became absorbed through mergers and acquisitions. The growth of online trading means that brokerage firms will reduce their space needs. Thus, reliance on the financial industry to absorb large amounts of space may diminish in both New York and London.

Whereas residential market structures used to be very different in London and New York, they have become more alike during the last 25 years. Public-sector housing production in Britain has dwindled to a near halt, although housing associations continued to build a limited amount of subsidized housing. In a striking turnaround, New York's commitment to publicly subsidized affordable housing considerably exceeded London's for a part of this period, as a result of the Koch administration's ten-year housing plan. Under Giuliani, however, the commitment to production of housing for low-income people diminished substantially. Private developers in both cities built almost exclusively for the luxury market in condominium or cooperative forms of ownership. Demand for their product fluctuated with the general economy; during the recession it was almost nonexistent, but in the prosperous parts of the '80s and '90s prices spiraled upward far ahead of the overall rate of inflation, reaching dizzying levels by century's end.

During the '80s in both cities the main governmental strategy for urban regeneration was encouragement of property development. In London this was achieved primarily through relaxation of planning regulation but also, within the jurisdiction of the London Docklands Development Corporation, through investment in infrastructure, land sales at low prices, and tax abatement. In New York during this period tax concessions were the principal means for stimulating development, but, as is described in the case studies in this book, other methods were employed as well. In the '90s the United Kingdom terminated its urban development corporations and enterprise zones, thereby ending many of the special advantages given to property developers. At the same time, the various agencies entrusted with planning for London began to develop more strategic forms of guidance. They sought to limit large-scale development to certain locations, to restrict peripheral shopping malls, to ensure that developers provided community benefits in exchange for the mandate to build, and to provide employment and other social programs alongside new development. In the year 2000 many of these projects were still in gestation, but they clearly represented a change in approach. London businesses, which participated in the numerous partnerships established to promote development, did not seem to regard the tying of property development to social aims as inimical to their interests. In contrast, in New York during the '90s development continued to be opportunistic, heavily reliant on tax subsidies, unrelated to social programs—except in the federal Harlem/South Bronx Empowerment Zone—and restricted primarily to Manhattan.

The property-led strategy for economic development has meant that public resources that might have been used elsewhere became embedded in real estate. Governmental stimulation of large-scale commercial development incurs major public cost: It involves heavy public staffing expenses; it often relies on the sale of publicly owned land at below-market prices; it requires considerable expenditure on infrastructure; it crowds out alternative uses of land and contributes to gentrification; it causes a focus on the central business district at the expense of neighborhood development; and its impact on the quality of the urban environment has been at best mixed. If the true purpose of this investment was to attract firms, and therefore employment, through lowering occupancy costs, then the alternatives to subsidizing construction would have been to invest directly in those enterprises—by providing training for their labor forces, by offering loans and grants for equipment and start-up costs, or by taking an equity interest. In reality, public subsidy represented a taxpayer investment in a leading industry—the property industry itself; ironically, the failure of the public sector to moderate expansion during the '80s destabilized the property sector. In the boom of the late 1990s, the problem of oversupply did not become evident, primarily because of the caution shown by investors, lenders, and developers.

Defenders of expansionary policies argue that empty office buildings do no harm, that the new buildings will eventually be filled while the old ones deserve abandonment, and that by bringing down prices, vacancies will encourage economic growth. The performance of the London and New York property sectors, and economies more generally, after the early '90s crash seems to have justified this position. The existence of large amounts of relatively inexpensive space permitted companies to start up or expand without encountering bottlenecks. It allowed businesses associated with new media and the information economy to grow up in these big, dense metropolises rather than being driven to suburban fringes. This was not, however, an inevitable result of the property overhang. If a new wave of innovation had not come along exactly at the propitious moment, much of this space would have remained empty. And, especially in New York, overreliance on a single industry—finance—was replaced by heavy dependence on fragile "dot.com" firms, many of which were to have only short life spans.

Initially, public intervention was intended to prevent inflation in land prices from making property unaffordable to businesses and residents. Rather than moderating price increases, however, it first inflamed speculation that produced leaps

in land values greatly exceeding the average rise in living costs; eventually, it contributed to the oversupply that caused rapid and damaging devaluation and a corresponding reduction in the value of the public's investment.[20] Even if the price of property in 2000 were the same as would have prevailed if, instead of alternating boom and bust, there had been moderate yearly price increases, the social consequences were quite different. Moderately profitable businesses of all sorts lost their premises, causing the breakup of established patterns of patronage; business and residential communities dissolved and could not be reconstituted. The bargains made available eventually contributed to the viability of diverse business districts and mixed residential neighborhoods, as lower-cost uses moved into formerly unaffordable venues. Such gains, though, came at the cost of great disruption in the lives and fortunes of lenders and developers, who had bet on ever-rising prices and found that their assets had lost most of their value. Then, on the upswings the costs were borne by those who were driven out by soaring prices and displacement. These consequences of creative destruction, according to Schumpeter, are the inevitable price of capitalist growth; the question remains whether moderation of the cycle would necessarily diminish creativity. If not, there is a strong argument for restraining destruction.

In the first edition of this book, I stated that we did not know yet whether London and New York were in the process of continuing the descent that preceded the '80s or were simply in a routine cyclical trough from which renewed demand would lift them. With the advantage of hindsight, I can now declare that the availability of low-priced space contributed to 1990s growth, although it was not the prime cause. Nevertheless, for lenders and developers who had bet on ever-rising prices, certain lessons are apparent from the experiĕnce of the '90s: Promoting real-estate development is not identical with fostering stable economic growth, and the opposition by the industry to regulation is not even in its own long-term interest.

4

Policy and Politics

London and New York have quite different political structures, resulting in important dissimilarities in local autonomy, political expression, and planning. London is the national capital; it is directly subordinate to the central government; a programmatic, nationally controlled, multiparty system structures its mode of political representation. Between 1986 and 2000 its municipal government was wholly decentralized to 33 local authorities, and even after the introduction of the Greater London Authority, most municipal functions remain vested in the borough governments. In contrast, New York is neither its nation's capital nor even that of its own state; it has powers of home rule; its politics is dominated by a single, locally based party; and it possesses a centralized, general-purpose government.

Despite these differences, the policy histories of London and New York passed through a similar, although not precisely synchronous, set of stages in the postwar years. During the 1950s and 1960s, reconstruction of war-damaged property and large-scale housing programs transformed the appearance of London. The public sector bore direct responsibility for building many of the new housing estates itself. It also played a strongly interventionist role in shaping private development, both in limiting developable sites and in specifying desirable types of projects. Simultaneously, New York—under the leadership of Robert Moses,[1] an appointed official who during his 44-year career controlled its parks, urban renewal, public housing, and highway programs—underwent major physical changes, as expressways and massive low- and middle-income housing projects remade the city. In London nothing was built to compare with the enormous highway system that Moses imposed on New York; on the other hand, invest-

Parts of this chapter are drawn from a work that I coauthored with Ken Young (Fainstein and Young, 1992). I wish to acknowledge his contribution to some sections of the writing.

ment in public transit continued there, with both the modernization and extension of Underground and commuter rail lines.

For much of the postwar period New York City government invested heavily in infrastructure, housing, and welfare institutions, including public hospitals, social service centers, and recreational facilities. As well as using federal subventions, it had access to substantial funding from the State of New York for its construction programs. A series of liberal mayors, strongly supported by trade-union organizations, led the city until the late 1970s.[2] John Lindsay, elected first as a Republican then as an Independent, held office for eight years during the politically turbulent period starting in the late 1960s. His regime's policies, which shifted emphasis from the concerns of the white working class to those of the black and Hispanic poor, stimulated a realignment of political forces and set the stage for the divisions that defined New York during the following decades. Although the Lindsay administration's economic strategies encouraged continued investment in the Manhattan central business district, it used federal funds to target the poorest areas of the city for housing and community development programs. Lindsay did not take the strong ideological positions of London's Labour leadership, but he did incorporate minorities into his regime and raise the level of social spending. Lindsay's administration was supplanted by the caretaker government of Abraham Beame, whose lackluster response to the 1975 fiscal crisis quickly brought his mayoralty into disrepute. In 1978 Edward I. Koch replaced Beame as mayor and committed himself to restoring economic prosperity.

During the 1970s the British Labour government mounted an inner-city strategy modeled on the War on Poverty and Model Cities programs that had begun and ended earlier in New York.[3] Under the leadership of Ken Livingstone, the Greater London Council (GLC) of the 1980s sought to fuse an industry-based economic development strategy with political radicalism.[4] Although comparable to the Lindsay regime of the previous decade in New York, the GLC went much further in seeking to combine elaborate social-service programs with community participation and economic revitalization strategies built on a "bottom-up" rather than a "trickle-down" approach. To this end, it established the Greater London Enterprise Board (GLEB) as its principal instrument.[5] In the Docklands it sought to foster manufacturing, in contrast to the later emphasis of the London Docklands Development Corporation (LDDC) on office construction.[6] Labour-dominated borough councils similarly stressed small-scale development and continued provision of social housing. GLC activism, however, stimulated the wrath of the Thatcher government, which brought about the GLC's abolition in 1986, thereby bringing both its own directly administered programs and its support for Labour boroughs to a halt.

After the sharp economic downturns that both cities experienced in the mid-1970s, their governing regimes actively promoted growth in economic activity and employment. Their dedication to social amelioration and community participation over the same time span was less certain. During the 1980s New York's

mayoral administration and the British ministry with responsibility for London displayed strikingly similar social philosophies.[7] As well as defining governmental planning and regulation as inimical to economic vitality, these regimes used real-estate development (in contrast to job training or infrastructure investment) as their primary strategy for stimulating expansion. They identified global-city status as the hallmark of their economic advantage and fostered those forms of development—especially first-class office space and luxury housing—which responded to the needs of the upper echelons of the financial and advanced-services industries participating in world economic coordination.

The two regimes also resembled each other in confronting conflicting political agendas at subordinate levels of government and in operating within a region fragmented by numerous uncoordinated governing bodies. New York, however, in addition to lacking London's dominating position within the national economy and governmental system, faced serious challenges even within its own region. Its economic primacy extended only to finance and advanced services, and its political influence within both the state and national governments was weak. Adjacent municipalities on the New Jersey waterfront and in suburban Westchester (New York) and Fairfield (Connecticut) Counties competed to capture the generators of growth and to exclude those populations and facilities that imposed financial, social, or environmental costs without commensurate benefits.[8]

INSTITUTIONAL STRUCTURES

Differences in the governance of London and New York stem fundamentally from national differences between the United States and the United Kingdom. In the United States a federalist, presidential system creates checks and balances that prevent any branch of government from dominating the others. Cabinet government in the United Kingdom can produce much more sudden reversals in policy than occur in the United States, where divided government provides a considerable flywheel effect. The abrupt change that Margaret Thatcher's electoral triumph produced in British policy, making it much more market-driven, reflects this institutional difference. After Thatcher's 1990 ouster from office, the government's policies became more moderate under the stewardship of her Tory successor, John Major. They shifted again after the 1997 Labour victory, but not nearly to the extent that occurred during the earlier Conservative takeover.

In the United States, home rule (i.e., the devolution of authority to municipalities by state governments) has traditionally strengthened local representation and made it easier than in the United Kingdom for urban regimes to adopt policies opposed by the national party in power.[9] The nonprogrammatic nature of political parties and territorial divisions within metropolitan areas, however, prevent the adoption of broadly redistributive strategies at the local level. In contrast, centralized parliamentary government has consistently limited the autonomy

of local government within the United Kingdom.[10] The principles of cabinet rule and party control make national-party programs dominant both through the mechanism of parliamentary supremacy and, for the national opposition parties, through the party machinery. Final responsibility for local planning rests with the cabinet minister who heads the Department of the Environment, Transport and the Regions (DETR), which, with added functions, replaced the Department of the Environment (DoE). The power of the central government to curtail the level of local taxation and expenditure further constrains local authorities.

Local Governance

London. The fourteen-year absence of a municipal administration to govern the urban core area put London sharply at variance with New York. Even when the Greater London Council (GLC), established in 1965 as a metropolitan government, reigned over both central London[11] and the outer boroughs, it did not possess as much authority as the government of New York City had, and its successor, the Great London Authority (GLA), has even less. The central government could always overrule the GLC's decisions, and the borough authorities retained control of most housing provision, land-use planning, and housekeeping functions like street cleaning and fire fighting. The leader of the GLC did not have the dominant position in framing the city's agenda possessed by the mayor of New York; the new mayor of London, the same Ken Livingstone who headed the GLC, has only limited powers. During the interregnum period, overall executive authority shifted to the DoE (and ultimately the Prime Minister), but the DoE's London office never devised a policy for the city comparable in scope or detail to the program of a New York mayor. Nor, of course, was it specifically responsible to London's electorate. Under the Government Office for London during the final years of the twentieth century, there was a move toward greater agenda setting, but a strong citywide program still awaited formulation in the year 2000.

Responsibility for day-to-day government in London rests with 33 elected local authorities.[12] Although relatively weak compared with local governing bodies in the rest of the United Kingdom, they have far more power than New York's subsidiary jurisdictions (boroughs and community planning districts) have. Organized like the national Parliament, local councils are run by the majority party with an executive group consisting of a leader and chairs of the various functional areas for which the council is responsible (e.g., education, housing, social services, finance, planning, and transportation). Councillors are elected by ward; the number of councillors for each borough varies but in all cases exceeds the 51 that constitute the membership of New York's newly enlarged city council, which has jurisdiction over the entire city. Under London's governmental system, not only does a representative body operate at a level far closer to the neighborhood than in New York, but the location of administrative offices in every borough allows its citizens to conduct their transactions with government much closer to home than their New York counterparts can do. As well as dispensing a full range of municipal services, local authorities were until recently the principal suppliers of shelter for low- and moderate-income households.

Local authorities raise substantial funds themselves. For most of London's history, rates (i.e., property taxes on households and businesses) along with miscellaneous fees, rents, and property sales were their principal sources of revenue. In 1990 rates were supplanted by the community charge or "poll tax," which required each adult householder within a locality to contribute the same amount, regardless of income or property holdings. In 1993 a new form of local taxation called the "council tax" reintroduced a levy based on values of residential property. In addition, a grant from the central government supplements local-government revenues, with the amount received by each local authority varying according to its resources and level of need.[13] The partial equalization resulting from the central-government grant means that local authorities do not need to engage in the intense competition for tax base that afflicts American municipalities. The termination of the locally paid business rate in 1990 and its replacement by a uniform national business tax that is redistributed to local authorities removed all incentives to attract business simply for its revenue-enhancing potential.

New York. New York City, like most other large American metropolises, has its governing powers divided between a mayor, who possesses executive authority, and a council with legislative powers.[14] The council is elected by district, and the mayor is chosen at large. Until 1990, however, New York also possessed a unique body called the Board of Estimate. With final authority over all land use and contract matters, it wielded extraordinary influence over the city's affairs and caused the council to play a relatively minor role.[15] After the elimination of the Board of Estimate, the council assumed its powers. Although the 1990 City Charter revision improved its staffing, the council continued to lack a sufficiently unified organizational structure to enable it to wield coherent authority.

The borough presidents, who formerly exercised legislative power when sitting on the Board of Estimate, also hold some executive power within their own boroughs; there is not, however, a corresponding borough legislative body. The establishment in 1977 of 59 community boards allows for some decentralization within the city government, but far less than is the case for the London boroughs.[16] Community board members, who are appointed by the borough presidents and the city council members from their districts, exercise advisory power over land use and capital budget matters but have no executive authority.

New York, like all American cities, must depend primarily on tax revenues generated within its own boundaries; federal aid to New York City has comprised only about 10 to 12 percent of its total revenue for the last decade.[17] The tristate division of the New York region, moreover, allows the creation of tax differentials much greater than those that typify other U.S. metropolitan areas.[18] The city government, which cannot share in the tax base of its suburban ring, must forever

strive to keep revenue-generating people and industries within its borders in order to stay fiscally solvent. Even if, from a regional standpoint, economic rationality justifies moving manufacturing, back-office, and warehouse facilities outside the city limits, New York's fiscal situation forces its government to oppose such moves.

Planning

London. Patrick Abercrombie's plan for postwar London, updated by the Greater London Development Plan of 1968, set forth the principles of green-belt preservation, peripheral manufacturing, and population deconcentration, thereby providing a framework for development that had no New York counterpart.[19] Planning officials emphasized clustered development around town centers and a sharp demarcation between city and country; regulation was much stricter than in New York; and the preservation of the green belt around London constituted a cardinal principle. Preservationist concerns played a much greater role in limiting and directing development in London than in the New York region throughout the 1980s.[20] London still has many more restrictions on the right to build than New York has, and each local authority within the region produces development plans to guide growth within its jurisdiction.[21]

Until the 1970s British public policy aimed at decentralizing population and economic activity out of London.[22] The policy of deconcentration, however, was eventually reversed, as London began to lose industry along with population at an unanticipated rate, causing a weakening of the city's economy. With the encouragement of the Labour government of the mid-1970s, central London's planners began seeking to retain population and industry in the city, and throughout the '80s planners in London increasingly shared the same economic goals as their New York counterparts.

During the Thatcher years, the Prime Minister's emphasis on using the market to allocate investment resulted in a notable relaxation of planning controls, although Great Britain still continued to regulate development far more than the United States.[23] The end of the GLC meant the elimination of any authoritative planning body for the London region as a whole and the fulfillment of the Thatcher government's planning philosophy, which was expressed as follows: "London's future depends on the initiative and energy of the private sector and individual citizens and effective co-operation between the public and private sectors, not on the imposition of a master plan. The role of the land use planning process is to facilitate development while protecting the local environment."[24]

In the absence of a planning authority for the metropolis, the London Planning Advisory Committee (LPAC) was installed to give planning advice concerning London to the central government. Consisting of a small staff that reported to a joint committee of 33 members drawn from all London's boroughs, LPAC had to achieve a consensus among Conservative and Labour constituencies for its recommendations.[25] LPAC's *Strategic Planning Advice* reflected a surprising

degree of agreement,[26] and its recommendations went sufficiently beyond total nonintervention to irritate the DoE's London office during the Thatcher period. At that time, the combination of central-government antagonism and local-authority resistance meant that it could achieve little. When asked about the effect of central-government control of strategic planning for London, a local-authority planning director responded: "LPAC is toothless. They don't even know what's going on any more. DoE studies are crap. They propose a recipe for disaster in land use planning and transport. The borough associations [of which there are two, one of Conservative and one of Labour authorities] can be unified—they are now on traffic and transport. But central government doesn't listen to local government."[27]

Although the DoE was responsible for planning the metropolitan region, it did not interpret its mission as the aggressive coordination of local initiatives or the preparation of a detailed comprehensive plan. It acted primarily as an appeals body, frequently overturning lower-level decisions that had denied planning permission to developers. Borough councils became more and more inhibited from blocking development proposals for fear of having to defend their decisions on appeal to the Secretary of State for the Environment and, if they lost, being required to pay the developer's costs as well as their own. In addition, the Secretary of State had the power to "call in" a proposal if he so chose, thereby removing it from the jurisdiction of the local authority even without an appeal. Thus, while avoiding a formative role for itself in shaping the region, the central government also limited planning by local authorities.

After Margaret Thatcher left office, the various bodies entrusted with planning functions increasingly engaged in formulating development strategies, and support for planning grew. LPAC became more effective in influencing policy-makers as the tide turned. Nonetheless, its advice remained just that—and neither the boroughs nor the central government needed to heed it unless they so desired. With the establishment of the GLA, LPAC was dissolved as a joint committee of the boroughs and became its strategic-planning arm. The hope was that economic and spatial planning would be integrated under the new system and that policy planning documents would be implemented more easily.

Planning proposals for the regeneration of areas in decline become meaningful when capital begins to flow into new construction. It was only at the end of the property recession in the late '90s that the desire of policy-makers to see revitalization began to achieve fruition. Three major infrastructure initiatives, however, were implemented during the '90s, and they proved instrumental in fostering private investment once developers were again looking for opportunities. These were an express train linking Heathrow Airport to London's Paddington Station, the extension of the Jubilee tube line into East London, and the construction of the Channel Tunnel. The Heathrow rail link stimulated planning for a major multi-use development around Paddington Basin, of which the first stage was under way at the turn of the twenty-first century. The second allowed the resumption of development in Docklands and sparked new initiatives in the borough of Southwark.

The third was responsible for new development in Stratford and would eventually stimulate investment around King's Cross, as these were the intended terminuses of a new high-speed link between London and the English Channel. Although King's Cross was officially designated as the train's ultimate destination, financing was only committed in 2001. Altercation over the site consumed years and produced great uncertainty for all of the enterprises that would be affected by the decision. So far the government has not committed itself to an overall strategic transportation plan for the region; this effort, which aims to integrate transportation, land use, and economic development planning for the area, will be the most important responsibility given to the new London Development Authority (LDA), which was established in 2000.

New York. The New York City Planning Commission and the Economic Development Corporation (EDC), often in conjunction with the New York State Empire State Development Corporation, are the city's main planning organs. Outside the five boroughs, few institutional mechanisms provide a framework for regional planning or the resolution of territorial inequities. The Metropolitan Transportation Authority plans and operates public transit in suburban New York State as well as the city, but its purview does not extend to either Connecticut or New Jersey.

The Port Authority of New York and New Jersey has responsibilities on both sides of the Hudson. Although its mandate is limited to transportation and some development activities, it does have the financial resources to implement its plans itself. It operates autonomously, however, and gives first priority to maintaining the fiscal soundness of its investments. The principal democratic check on its operations is the requirement that the minutes of its board meetings (and therefore any decisions it might take) be approved by the governors of New York and New Jersey. This provision resulted in a nearly two-year stalemate between 1998 and 2000, as the two governors feuded and refused to approve any actions by the authority.[28] Its capabilities have been further thwarted by the antagonism of New York's Mayor Giuliani, who has accused it of favoring New Jersey and has called for removing LaGuardia and Kennedy airports from its jurisdiction. Its own increasingly ossified bureaucracy and weak leadership have also hampered its assuming a more significant role in recent times. Its reluctance to participate in construction of transit links to the airports resulted in New York's lagging far behind other major cities in this respect. Only after considerable pressure and the levy of a surcharge on plane tickets did it finally agree to construct these connections, which are scheduled to open during the first five years of the new century.

Despite their proximity,[29] New Jersey and New York City not only do not coordinate their activities but engage in active competition with each other. A 1991 pledge by the governments of New York City and State and New Jersey not to raid each other for business investment quickly broke down. In retaliation for New Jersey's subsidies to firms leaving New York City for New Jersey locations, Vincent Tese, New York State's director of economic development, vowed: "We will be targeting New Jersey firms that for whatever reason are looking to change locations. . . . Then New Jersey will wind up spending money keeping firms they've got, and it's not going to be a pleasant situation for them."[30]

Overall, peripheral expansion has continued unchecked. The most egregious example is rapid commercial growth along the Jersey side of the Hudson River—the principal recipient of overspill development from the Manhattan business district during the boom periods of the '80s and '90s. Each of the numerous municipalities that line the Jersey waterfront has virtually total responsibility for construction within its borders.[31] Millions of square feet of offices sprang up in the narrow band between the river and the Palisades behind it; altogether northern New Jersey offers nearly 120 million square feet of space, almost all of it comprising modern structures capable of meeting the needs of computer-reliant firms. During 2000, Chase Manhattan Bank, Goldman Sachs, and John Wiley Publishers all announced plans for construction of major facilities on the Jersey side of the Hudson, amounting to millions of additional square feet of space in Hoboken and Jersey City. Despite serious problems of transportation access from the suburban hinterland on the New Jersey side, each riverfront locality continues to accept further development, in part to increase tax revenues, but also because of the pervasive influence of real-estate interests within municipal governing bodies. The proximity to Manhattan and lower costs offered by New Jersey comprise the principal justification for the generous assistance offered by New York City's government to firms threatening to leave its jurisdiction. And, indeed, the absolute absence of any regional policy for targeting office development leaves the city constantly vulnerable to raids on its economic base by its neighbors.

POLITICS AND IDEOLOGY

Although New York in the 1970s surpassed other U.S. cities in its commitment to social welfare policies, London still presented a model of greater state intervention. By the mid-1980s, however, there was a remarkable convergence between the two cities in both the content of public policy and its justification. In an article written at that time, Norman Fainstein and I attributed the government's more interventionist and redistributional role in London than in New York to three factors within the British sociopolitical system: (1) the political capacity of the state to establish a sphere of autonomy for itself; (2) the influence of business leaders who construed their interests collectively and held a paternalistic vision of their role in society; and (3) the political capacity of subordinate groups to influence state policy in their own interests.[32] The two cities continued to differ on the first of these three dimensions throughout the '80s. But the state autonomy that formerly allowed British bureaucratic personnel to take the initiative in augmenting universalistic welfare programs permitted the Thatcher regime to reverse direction more abruptly than could a government under greater constraint.

Differences along the latter two dimensions narrowed during the Thatcher period.[33] Under pressure from competition abroad, responding to ideological transformation at home, and changing in composition because of displacement within their ranks, British business leaders increasingly emulated the individualistic, entrepreneurial style of their American counterparts. In both countries conservative national regimes reinforced the position of those business groups that supported their electoral successes; in turn, business managers as a group responded to the ideological currents emanating from the governing regimes and moved in a more conservative direction. At the same time, the working class became increasingly stressed and fragmented by the consequences of economic and spatial restructuring, amid increasing income inequality, massive commercial development, and gentrification.[34] The increased assertiveness of management in the workplace and the lack of sympathy of the national government to community-based demands for housing and social-service programs contributed to the accelerating weakness of subordinate classes. Neither the major opposition parties nor community-based movements were able to develop an effective counterprogram that impressed electoral majorities as containing a strategy for economic growth as well as social equity.[35] During the '90s the ascendance of a Democratic administration in Washington, the ouster of Prime Minister Thatcher in Britain, and the eventual election of a Labour government in 1997 weakened but did not destroy the earlier pressures toward reliance on the market to guide development.

Indeed, the Blair government continued the Conservative program of privatization of public services and reliance on the private sector to finance regeneration schemes: "Blair made it very clear that the Labour Party would continue to support the business community and that the imperatives of the market would be paramount in the new government's thinking. The need to compete internationally was seen as an important influence on government. . . . In this respect, there appears to be strong continuity with the ideology of Thatcherism."[36] An important difference, however, was greater government involvement in the process of deciding the location and nature of investments. This was achieved through the identification of sites for extensive regeneration projects and the use of a competitive-bidding process for selection of developers for them. Criteria for judging bids were to include environmental sustainability and social benefit as well as purely economic contributions.

Nevertheless, while national currents thus fundamentally affected politics in the two cities, local conflicts and events also played a role, to which I now turn.

London

Despite the influence of the central government on London, local interests continued to affect its fate during the Thatcher-Major era. Labour control of about half the boroughs meant that opponents of Conservative policies could shape local-authority agendas and use them as bases of resistance to the initiatives of

developers. Whereas white male trade-union leaders had previously dominated the Labour councils, by the time the Thatcher government came into power their composition had changed considerably. Throughout the 1970s intense political struggles went on within the Labour Party between liberal-left, largely home-owning university graduates and still-dominant right-wing manual workers. At the start of the '80s the former group had largely triumphed, although the closed regimes of the eastern London boroughs continued to distribute patronage to their supporters and to exclude middle-class constituents for half a decade longer. Based on tiny ward organizations and self-selection for office, these local political machines were finally forced to yield power when the challengers took over the ward parties and expelled sitting councillors from their candidacies.[37] The new activists focused on different kinds of issues from their predecessors and were, on the whole, less favorable to development proposals.

Ethnicity and gender. Blacks and feminists also successfully challenged the white male dominance of Labour strongholds in east and south London. However, even though Asians and Afro-Caribbeans increasingly achieved representation on councils in boroughs with large minority populations, and women also gained additional council seats, class still defined the major fissures in London society and politics. Whites remained the majority group in every borough; although immigration into London continued, its scale was dwarfed by the influx of immigrants to New York.[38] Hence, the racial-ethnic competition for jobs and living space that underlies New York's politics displays itself only weakly in London. Moreover, there is no history within London of urban redevelopment programs' having been widely used as a method of racial relocation (as happened in the 1950s and '60s in New York, where they left a significant residue of mistrust). While the Bengali community regards expansion of office uses on the eastern fringe of the City of London as a threat to its continued residence there, development politics is not usually construed in racial-ethnic terms, as often occurs in New York.

Fiscal issues. London, like New York, has suffered from fiscal stress in the last two decades, although less as a result of local conditions. Even Labour, when it controlled the central government in the 1970s, sought to deal with national budget deficits by reducing grants to local governments; under Margaret Thatcher this necessity became a principle;[39] and the present Labour government continues to practice fiscal stringency.[40] Consequently, the London local authorities—like most other municipal governments throughout the United Kingdom—have confronted social deterioration with diminished revenues and reduced staffs.

British tax policy has not permitted local governments to offer tax breaks to firms threatening to depart from their environs.[41] Thus, London has mainly avoided New York's controversies over tax giveaways to the rich. The one exception to this policy lay in the tax incentives provided within the Isle of Dogs enterprise zone in the Docklands, where all entering firms received a five-year tax holiday.

This system, however, differed from New York's in that every investor received the same deal, preventing the development authority from entering into bidding wars. Docklands developers also benefited from cheap land sales offered by the LDDC. Political opponents of Docklands development seized on these advantages given to business interests while investment was simultaneously withdrawn from social housing, contending that these policies demonstrated class bias. The London enterprise zone no longer exists, while New York City continues to offer ever-larger tax benefits to property developers and business firms.

Ideological constraints. The conflict over the abolition of the GLC had importance beyond its immediate implications for planning and administration. Under Ken Livingstone the GLC had become a significant political force in opposition to Thatcherism; its commitment to low transit fares, manufacturing investment, social housing, and "fringe" cultural institutions brought upon it the wrath of the Conservative central government. During the six-year period from 1978 to 1984 its expenditures increased in real terms by 65 percent.[42] Its abolition took place in 1986 under the rubric of administrative efficiency, despite a referendum showing support for its continuation by an overwhelming majority of Londoners. Its elimination was widely and correctly interpreted as an attack on municipal radicalism and local autonomy.[43]

Conservative success in terminating the GLC subdued opponents of the central government's free-market ideology, undermining the institutional and ideological support that had previously legitimated redistributional policies.[44] With GLC support gone, local authorities opposing the central government's market-led policies lost access to resources that had assisted them in steering a more independent course. A further consequence was to produce a kind of local political paralysis: The ease with which the Conservatives simply wiped out a whole level of government inhibited local-government activism, as it seemed to show that deviation from central-government policy would have little chance of success.

By the end of the 1980s local-authority politicians and officers who had once opposed central-government policies had largely given up. Although they lacked enthusiasm for market-led development, they acquiesced in its inevitability. One planning director of a Labour-controlled borough formerly viewed as "difficult" by developers described the situation succinctly: "We have embraced the new realism. I have no enthusiasm but little choice." Bob Colenutt, a Docklands activist and longtime critic of "the property machine," observed to me that the Tories were divided between those who favored more planning and community service and those who would "let the market do its business and get the public sector out of the whole thing." But, he went on, "All are ideologically pleased that they have smashed Labour, destroyed local authorities, and [in their terms] regenerated the inner city. Many senior Labour politicians would admit they have no real alternatives. They are critical but they have no other agenda."

After Labour regained power, local authorities did not return to their earlier oppositional stances. According to the development director of Southwark, "The [Labour-dominated] council was totally committed to [commercial] development. Previously it had been totally opposed. . . . If nothing happens, there is no money for housing improvement." Bob Colenutt, now a local-authority official, observed in 2000 that "the action groups of the '70s and '80s demanding affordable housing, etc., are much quieter. . . . There is controversy over environmental issues but not equity. . . . Has anything really changed? Regeneration is [still] primarily property led. There is no public-sector alternative program to private-sector leadership. . . . Social goals depend on the success of private market initiatives." The Labour leader of the Tower Hamlets council considered that opposition to development schemes collapsed when lobbyists obtained an affordable-housing requirement connected to private, market-rate residential investment:[45] "The left position is now contingent on obtaining development. They need to do deals." A somewhat cynical scholar and activist commented: "It's hard to say what Labour is doing. They make all these same speeches about public-private partnerships—same as the Tories. Identical."

Partnerships among local authorities (including with each other), communities, and business are, in fact, the principal vehicles for large development schemes. Originating in the City Challenge program, they provide the required framework for bids to obtain Single Regeneration Budget (SRB) funds (see Chapter 5). The basic concept is that public money should leverage a substantially greater sum of private investment. Ironically, the roots of this concept lie in the American Urban Development Action Grant (UDAG) program, begun by President Carter and terminated during the Reagan presidency. In contrast, New York's main access to federal funds for redevelopment is through the formula-based community development block grant (CDBG).[46] London's local authorities in the meantime are constantly competing for central-government funds, and the requirement for collaboration with business and communities in the writing of proposals has given birth to the various ongoing partnership arrangements. The ultimate result has been the movement toward a much more consensual development politics, arguably more productive than before but also involving the cooptation of working-class leadership.

A recent manifestation of the impulse toward partnership is the amalgamation of the former Greater London Enterprise Board (GLEB), later renamed Greater London Enterprise (GLE), with the London Enterprise Agency Ltd. (LEntA), an agency supported by eleven of the country's largest firms[47] and the Corporation of London to form New LEntA. The purpose of this entity, which would be a subsidiary of GLE, was to "fight poverty, unemployment and dereliction in London by promoting enterprise, investment, and regeneration."[48] GLEB began as a socialist project sponsored by the GLC to create publicly owned industry. After the Tories killed off its parent body, it continued as an enterprise wholly owned by the London boroughs. As such, it managed the assets it possessed and rein-

vested them, seeking to support small- and medium-sized businesses in deprived areas. It engaged in direct lending and also acted as an intermediary between financial institutions and borrowers; in addition, it directly owned and operated property so as to provide affordable small-business accommodation;[49] and it made various services (e.g., design, financial consulting, etc.) available to organizations seeking to promote economic development and affordable housing.

New York

The Democratic Party has dominated postwar electoral politics within New York City.[50] It is, however, divided into "reform" and "regular" wings, with the regulars devoting themselves almost entirely to the allocation of nominations and patronage. Whereas in the 1960s the Reform Democrats had strong, liberal policy positions, their influence and ideology have waned during the ensuing decades. In general, the party system exists primarily for the purpose of contesting elections rather than for exercising programmatic control, and it has therefore largely failed as a vehicle for representing neighborhood or minority interests.[51] It is not possible to describe a party program on economic development for the simple reason that there is none. Hence, in contrasting New York and London, one cannot compare Democrats with Labourites or Republicans with Conservatives on either this dimension or the evolution of ideologically based internal party divisions.

During the real-estate booms, district-based representatives, including both state legislators and city councillors, frequently played ombudsman roles in city affairs and lobbied for neighborhood concerns. Lacking formal responsibility for land-use decisions, however, the most such officials could do in this crucial arena was to put pressure on elected officials with executive power.[52] These policymakers usually responded to more highly organized and wealthier constituencies and almost uniformly supported large development projects. The dominant role played by the Board of Estimate in the governance of a city of over 7 million people made it extremely difficult for community-based representatives to build their reputations and attain sufficient financing to seek higher office.

Ethnic divisions. Mobilization by low-income minority groups in the late '60s strained the alliance between New York's working-class communities, labor organizations, and progressive, elite civic associations that had previously sustained governmental activism. As the city's population became increasingly nonwhite, its extensive array of social services failed to adapt sufficiently to the demands of their new clients and began to suffer crises of financing and legitimacy. In part because its urban-renewal program had eliminated pockets of black population scattered throughout Manhattan, and also because "white flight" had emptied many formerly middle-class neighborhoods in the boroughs, the city became increasingly segregated. Demands by racial and ethnic minorities for school desegregation, the ending of job discrimination, and improved services met resistance from the predominantly white city bureaucracy. The various subsidized housing programs foundered over the racial issue, as white voters refused to support programs that they saw as primarily benefiting minorities.

By 1968 minority groups had switched from demanding the desegregation of housing and schools to pressing for community power in areas where population composition was homogeneously black and Hispanic. During the crisis over community control of schools, which pitted black parents against white principals and teachers and resulted in that year's three-month-long teachers' strike, lines were drawn that were never subsequently erased.[53] In particular, the public service unions, which had formerly joined forces with their clientele to press for the enlargement of social programs, now regarded their vociferous clients as hostile and vice versa. The unions continued to make demands for salary and pension improvements, but the ostensible beneficiaries of their activities no longer saw themselves as gaining from budget increases for salaried city workers.

Fiscal distress. New York's fiscal crisis of 1975 marked the demise of a governing regime incorporating labor and minority interests. As with the abrogation of the GLC, the resolution of the fiscal crisis proved a traumatic event in the political history of New York. The immediate cause of the city's 1975 revenue shortfall was the refusal of banks to refinance New York's short-term debt once the city lost its approval by the principal investment bond-rating firms. Unlike the nation, New York still had not recovered from the recession at the beginning of the '70s; as a consequence, its revenues were falling, but its financial commitments went on rising. The city government increasingly borrowed to fund current expenditures, backing its bonds with mythical or previously committed anticipated revenues. Once the banks refused to continue lending, New York City had no alternative source of financing by which to meet its obligations.

Essentially, the fiscal crisis resulted from the effort to sustain a strongly interventionist public sector within a situation of economic contraction without greater support from the national and state governments. Interventionism comprised both large subsidies to capital, in the form of infrastructure investment to support new development, and major guarantees of social welfare. The costs of government were further expanded by relatively high total compensation for municipal employees.[54] With no new revenues and inexorable pressures to spend, the crisis could not be averted.

The two years after the 1975 crisis marked an interregnum in New York's political life. Negotiations to provide new capital and keep the city from formally declaring bankruptcy caused the New York State government to create a number of business-dominated bodies to oversee future spending. Control of public policy shifted from the office of Mayor Abraham Beame to these new agencies—the Municipal Assistance Corporation (MAC), the Financial Control Board (FCB), and the Office of the State Deputy Comptroller (OSDC) for New York City.[55] The semi-autonomous MAC had been guaranteed a revenue stream against which to

borrow and was entrusted with the job of restoring the city's credit. The FCB, which was an agency of New York State, oversaw and had veto power over the city's financial plan, while the deputy comptroller acted as its staff, auditor, and research component. Businessmen chaired the MAC board and the FCB, which consisted of public officials and business and civic leaders; the MAC board had one African-American member, while the FCB included no members of minority groups.

The criterion these boards used for evaluating city policies was their effect on the balance sheet. Even after the 1977 election of Mayor Edward I. Koch and the subsequent return to a more assertive city government, these agencies strongly influenced the city's budgetary priorities in a fiscally conservative direction. Under their direction, the city cut thousands of municipal jobs, drastically curtailed services, halted all major capital programs ranging from school to subway building, froze civil-service salaries and public-assistance levels, introduced tuition fees in the City University, and deferred routine infrastructure maintenance. The municipal unions, whose strikes and strike threats had enabled them to wring billions of dollars of concessions from the Wagner and Lindsay administrations, grudgingly agreed to purchase the MAC bonds that no one else showed much interest in buying. Their leadership began to meet regularly with bank executives to work out mutually acceptable strategies for city expenditures.

During the bleak years following New York's near bankruptcy, almost the only investment activity that took place within the city involved the renovation and conversion of existing residential and factory buildings into middle- and upper-income homes. These projects took advantage of tax-subsidy programs that substantially reduced costs to new occupants and resulted in the gentrification of parts of Manhattan and Brooklyn where working-class people had inhabited architecturally appealing buildings.[56] The single major effort to provide low-income housing consisted of the in rem program, which used federal CDBG funds for maintenance and rehabilitation of buildings seized for tax delinquency. At the same time, large numbers of units dropped out of the housing stock as a consequence of landlord abandonment, condemnation, and fire.

Ideological transformation. Koch's electoral victory signaled the empowerment of a regime with little practical or symbolic commitment to low-income minorities and which, once prosperity returned in the mid-1980s, continued to emphasize economic development rather than social welfare activities.[57] The mayor summed up his attitude as follows: "I speak out for the middle class. You know why? Because they pay taxes; they provide jobs for the poor people."[58]

The period 1975–1980 was one in which New York City appeared hostage to financial institutions and economic forces well beyond its control.[59] It was also a time in which, contrary to many predictions, retrenchment led low-income groups to moderate their claims rather than threaten the legitimacy of the government. Even before the conservative tide swept over the U.S. national government after the Reagan election of 1980, New York City's regime expressed its determination to control governmental extravagance, which was interpreted as providing for the poor rather than offering incentives for investors and services for the middle class. Whereas in the late 1960s and early 1970s groups rooted in New York's poor neighborhoods mobilized strongly in favor of programs to improve their communities and brought protesters out into the streets when they opposed a program, the post–fiscal crisis policy switch met with acquiescence.

After the economy began to turn around in the early 1980s, the resolution of the fiscal crisis through the creation of new institutions to ensure solvency on terms set by business provided the context for the development politics of the next two decades. Ideologically, these new institutions—combined with widespread popular belief attributing fiscal demise to the squandering of resources on the undeserving (and predominantly black and Hispanic) poor—undermined the city government's traditional role in assuaging the frictions between classes and ethnic groups through patronage and welfare provision.[60] The achievement of economic growth and fiscal solvency was substituted for service provision as the test of governmental legitimacy.

The establishment of a group of institutions to guide New York City's fiscal policy constituted a parallel event to the elimination of the GLC and the parceling out of its functions to higher and lower levels of government. They were rooted in different causes and took on contrasting institutional forms. Their effects, however, were similar: They weakened the power of local elected officials; they delegitimized redistributional local policies; and they strengthened the ideological onslaught in favor of market-led economic development programs. The variance that had previously existed in both cities between national and local policy directions, wherein the municipal regime followed a more radical course, was consequently substantially reduced.

Whereas the ideological currents in London shifted before the 1997 change in national governments, the commitment to economic development with no special focus on low-income people continued in New York. The four-year mayoralty of David Dinkins, an African American elected in 1989, marked a brief interruption in which the interests of minority populations gained greater attention. Since, however, the context of the entire Dinkins administration was economic recession and consequent contraction of the city budget, intentions of enhancing social programs could not bear fruit. Moreover, the Dinkins administration did not break with the precedents of offering tax benefits to firms threatening to leave New York.

Rudolph Giuliani, a Republican, won the mayoral election in 1993 and proceeded to play to his electoral base of white middle- and working-class constituents. Except for Staten Island,[61] where he owed substantial political debts, he largely ignored the situation of the other boroughs, focusing on Manhattan, which already housed the greatest concentration of wealth in the country. His principal emphasis was on lowering the crime rate and the perception that New York was

too dangerous a place in which to do business. Whether as a consequence of his policing policies or not, the crime rate did fall dramatically during his administration, and the perception of a cleaner, safer city did contribute to economic stability and the expansion of tourism. He did not concern himself particularly with affordable housing, and the city's earlier commitment to increasing the housing supply for low-income people dwindled substantially. The administration, however, was attempting to rid itself of the in rem housing stock it had acquired through tax foreclosure, often by selling it to the highest bidder and thereby removing it from the low-income stock. At the same time, the economic boom that coincided with his mayoralty caused enormous pressure on the housing market, as gentrification, which had halted during the early '90s, came back with a vengeance.[62] Although community development corporations (CDCs) continued to construct and rehabilitate housing for poor people, rising land prices in all parts of the city seriously inhibited their activities. The combination of economic expansion, stratospheric rewards to upper-echelon workers in the securities and legal services industries, and the spawning of Internet millionaires made the rich richer than ever.[63] At the same time, absolute incomes of the bottom two deciles of the population fell by 19 percent between 1989 and 1997, and the income of the middle quintile declined by 8 percent.[64]

In contrast to London, which during the late '90s entered a period of consensus building, in New York resentments against the administration among minority citizens festered. The kinds of partnerships and increased community participation in planning that were becoming institutionalized in Britain were largely absent in New York. Nevertheless, by 2000, when because of terms limits the end of the Giuliani administration was in sight, opposition to the mayor was muted.[65] Community groups were mainly trying to stall until they found an administration more to their liking. Business interests were doing too well to find fault with the mayor and, unlike their London counterparts, showed little interest in strategic planning for the city. Despite a substantial budget surplus, little effort was going into improving the city's increasingly challenged transportation system, and even though businesses were inconvenienced by it, they put little pressure on the government.

Thus, whereas the policy-making contexts of New York and London converged during the '80s, they moved farther apart in the next decade. These differences point to the importance of ideology and governing regime (at the national as much as the local level) in affecting urban programs. Whether or not the ultimate outcomes—as measured by quality-of-life and equity indicators—would turn out to be vastly different remains to be seen. London's projects were mainly still in the planning stage, the American stock markets had plunged, and New York was on the brink of new elections at the time of this writing. If economic expansion continued, London's various flagship projects would move toward completion. In New York at this moment, a number of redevelopment projects were being proposed, but except for minor-league sports stadiums and some redevelopment

on Staten Island, few had obtained commitments despite a large budget surplus. Both cities suffered from extraordinarily inflated housing prices and lacked major, publicly sponsored programs to build affordable housing. Requirements that market-rate builders provide low-income housing in London and incentives rewarding them for doing so in New York were unlikely to make a substantial difference in supply. Consequently, the extent to which the bottom quartile of the population in either city would benefit greatly from their prosperity was far less than certain.

5

Economic Development Planning Strategies

For much of this century, urban planning in both London and New York concentrated on controlling and improving the physical environment. Planners engaged primarily in determining land uses and proposing public investments in infrastructure, amenities, and housing. To be sure, infrastructure planners have always sought to improve economic function, and inner-city redevelopment planning has throughout the postwar period aimed at eliciting private investment. The premise of these types of planning, however, was essentially physically determinist—planners assumed that changes in the physical environment would yield an economic response. Holding a supply-oriented view of urban space, planners expected that private investors would avail themselves of adequately serviced, centrally located land without further incentives.

Until the 1970s, urban planning's justification lay in comprehensiveness, an orientation to the long term, protection of the environment, and attention to the needs of all social groups. Numerous critics have argued that these goals were never achieved, that planning always primarily benefited business interests, and that economic advantage has perennially constituted the real objective of city planning.[1] Nevertheless, even if the unspoken goal of planning has always been private economic gain, both the rhetoric surrounding its attainment and the modus operandi of planners have changed. Moreover, the earlier construction of urban problems as defined by poverty and inner-city decline has been reconstituted in terms of competitiveness and fiscal solvency.

The Discourse of Planning

The discourse in which planners in London and New York interpret the world and communicate their intentions shifted during the 1980s from long-term concerns with environmental quality to an emphasis on short-term accomplishments.

Much of planning theory during the 1960s and 1970s had focused on the specification of the rational model, by which planners generated a possible range of actions to reach previously designated goals.[2] Only shortly after this effort to portray a universal approach to planning had triumphed in the theoretical literature, however, a quite different but broadly generalizable planning mode was emerging in practice. Modeled on the methods of the corporation rather than the laboratory, this planning strategy deviated considerably from the formulaic norm of the rational model. Rather than framing and testing an exhaustive and abstractly constructed set of alternatives, planners concerned with maintaining neighborhoods or bringing new investment into the central business district aimed at discerning targets of opportunity. Instead of picturing an end state and elaborating means to arrive at it, they established narrow goals and grabbed for that mixture of devices that would permit at least some forward progress.[3]

Even planners who worked for government or nonprofit groups and did focus on distributional effects became absorbed into the discourse of business negotiations and a single-minded concentration on the deal at hand.[4] Their goals, which centered on employment for unskilled or displaced workers, low-cost housing, and neighborhood economic development, likewise were met piecemeal through the funding of individual projects. Without national government support for comprehensive neighborhood programs, which were briefly attempted under the Model Cities program in the United States and the Community Development Project in the United Kingdom, community-based planners had few choices but to seek support in whatever quarter they could find it.

Whereas the vocabularies of architecture and the law once permeated their discussions, planners now spoke in the same language as investment bankers, property brokers, and budget analysts.[5] The old arguments for planning had been comprehensiveness and reducing negative externalities—that is, preventing development from harming the environment around it.[6] The new claims were competitiveness and efficiency. The debate over the utility of the rational model became meaningless when planners spent their time negotiating with private investors rather than devising plans. Whereas planning was previously seen by both its supporters and its right-wing critics as antithetical to markets, it was now directed at achieving marketability of its product: urban space.[7] (By this term I mean not just territory but the set of development rights and financial capabilities associated with a piece of land.)

Many planners continued to work at traditional planning functions like zoning or transportation. The new discourse of planning affected them relatively little. For an increasing number of planners, however, the focus changed dramatically, regardless of the particular scheme to which they devoted their time. Projects on which planners worked varied from the grand scale of megadevelopments like Battery Park City and Canary Wharf to the small scope of shopping-strip revitalization or Neighborhood Housing Services. The *style* of local economic development planning behavior, however, varied less than the types of projects. At different

scales, regardless of whether the project was an office development, a high-tech manufacturing center, or a low-income housing cooperative, planners performed a mediating function, bringing together private investors and public sponsors, interceding between utility companies and energy-using businesses, dealing with outraged members of the public, and cajoling developers for exactions or planning gain. Negotiation rather than plan making has become the planner's most important activity. The director of planning of London's City of Westminster remarked to me that nothing in his training as a planner fortified him for his role as a deal negotiator: "Education won't prepare you for the experience of having a megamillion-pound individual sitting across from you who will break your legs!"

The resulting landscape reflected the piecemeal, accomodationist mode in which planning was carried out during the '80s in both cities and throughout the '90s in New York. Most office projects and upper-income condominiums, which once would have formed part of a larger development program, were single-site efforts uncoordinated with their surroundings, contributing to the postmodern vista of checkerboard development, unmatching architecture, uncontrolled congestion, and sharp juxtaposition of rich and poor. Low-income housing, unlike the large public-housing complexes of yesteryear, was now almost always placed opportunistically, wherever a site could be found or a private developer enticed. In both London and New York, planners depended on private developers to build mixed-income projects in which market-rate units subsidized the much smaller percentage of low-income ones. In New York, planning was interstitial rather than comprehensive throughout the final quarter of the twentieth century. Within London the comprehensive model, absent during the '80s, began to reassert itself during the '90s, although its realization awaited the institutionalization of the London Development Authority.

In an important critique, David Harvey depicts planning as the coordination of the interests of business.[8] He accurately portrays the activities of most economic development planners in London and New York. Nevertheless, his analysis fails to explain why the scope of planners was limited to facilitating specific projects rather than extended comprehensively to the relationships of projects to each other and to the housing and transit systems. While certain business groups, especially property developers, used local government to advance their positions, business elites largely did not attempt to deploy governmental power more broadly to plan for their long-term interests in an efficient urban system.[9]

The independent deal making associated with each project and the efforts by individual developers and separate communities to gain the most advantage for themselves reinforced the fragmentation already created by the local governmental system. Within Harvey's terminology, the particular interests of individual capitalists triumphed over their combined interest in strategic management. This outcome resulted not just from democratic and institutional factors. To understand the constraints on comprehensive planning, one must examine the role played by

community groups and politicians and understand the location of planning agencies within the governmental structure.

The democratic contradiction. While under the influence of business interests, planning is also subject to what Foglesong calls the democratic contradiction: Governments depend on capital for their resources, but they remain accountable to electorates.[10] Institutional devices for popular representation and legal challenge are insufficient to give voters a determinative role in development planning, but they do offer them channels sufficient for considerable veto power.

Citizens in London and New York have few avenues for taking planning initiatives, but a variety of requirements for public hearings—and, in New York, considerable opportunity for litigation—allow them to delay and sometimes block projects completely. In London, local authorities demanded project modifications and community benefits. Likewise, the New York community boards provided a forum for critics and a location for trading concessions between developers and neighborhood groups. While New York State legislators had no official role in development approvals, they too provided a route for opposing projects or negotiating changes. Most major development proposals therefore involved a good deal of bargaining among the parties.

In New York, landmarks and environmental legislation present the grounds for lawsuits, even though the basis on which they are brought often has little to do with the real objections to a project. Thus, for example, plans for Westway, a federally funded expressway along the Hudson River in Manhattan, foundered when a judge ruled that the road would threaten the spawning grounds for striped bass. The contest over the highway actually revolved around the desire of public officials and developers to create acres of developable property on landfill above and next to the road and the intense opposition by West Siders to increased density, traffic, and the effects of ten years of construction. These broader considerations, however, did not constitute a basis in law for blocking the road, while endangering a species did. When the development is entirely a private-sector project, builders can proceed as of right if their scheme fits within the zoning code, and efforts to block it must find a basis in environmental law rather than simply unsuitability. Thus, for example, opponents of a privately owned waste-transfer station in the Bronx brought suit demanding preparation of a formal environmental impact statement.[11] Their purpose was to delay implementation until a time when a more sympathetic city administration might be in power.[12] In another case, residents seeking to stop a large development scheme on Manhattan's Upper East Side, where Consolidated Edison was closing a generating plant, sued to prevent the utility from enlarging a different facility that was to replace the power produced by the decommissioned plant.[13]

The role of politicians. The orientation of local elected officials in both London and New York has shifted away from a focus on government-sponsored programs

to concern with benefits generated by the private sector. In both cities the influence of local politicians increased in relation to department and agency heads who previously had an expanding flow of funds coming from the national government at their disposal. In London during the 1980s a number of Conservative councillors switched their emphasis from environmental quality and service delivery to attracting business enterprises. In particular, the chairs of planning in the Cities of London and Westminster took the lead in overcoming opposition to large commercial projects within their jurisdictions. Thus, Michael Cassidy, the City of London planning chair during the '80s, declared to me that his purpose was to preserve the City as a financial center when its dominance was threatened by Docklands development. He considered that the corporation previously had maintained a "curious attitude" in which councillors did not concern themselves with attracting desirable businesses. He took pride in having been instrumental in changing the City's stance toward development and streamlining its process for applications for planning permission. Similarly, David Weeks, the planning chair of Westminster, while somewhat worried about the possibility of overdevelopment, described to me his efforts to overcome community opposition to projects he thought desirable. He recounted his assistance to the Royal Opera House, which needed planning permission to build an office building adjacent to its Covent Garden site so as to fund expansion: "I had to push it through. It required being rough and aggressive."[14]

By the end of the '90s the Tory-led Westminster council, which even during the earlier boom had reservations about further commercial growth, had become less interested in office development. Councillors, under pressure from their constituents, would not allow rezoning from residential to commercial and had become restrictive on the construction of hotels. In Paddington Basin, despite proposals involving hotels and offices, initial construction was residential. The council was asking for a £50 million contribution from the developers to be used for local infrastructure. According to the developer, his firm was committed to community payments and to building affordable housing. He commented: "The change in the [national] government has had an effect. The Government Office for London has created a different agenda—the emphasis is not just on the environment but on the social needs of the local community." He noted that he had worked with the community in securing a £13.5 million grant from the Single Regeneration Budget, to be used for job training.[15]

On the other side of the political fence, Labour councillors interested themselves in improving retail districts and—without much success—attracting light manufacturing to their areas. Eventually, they saw financial deals with developers as the only path to community improvement. One Labour council leader, who had previously held a high position in the GLC and who called himself a "participatory socialist," indicated that he tried to hire "entrepreneurial" officers to head departments. He described with pride one deal by which a developer built a park over an old gravel pit in return for the right to develop an office, and another under which the council collected a percentage of the rents from a shopping mall built on the site of the old town hall. He differed from the Conservative councillors to whom I spoke, however, in being highly committed to community participation in formulating development schemes.

Many Labour councillors and officers that I interviewed regarded the situation at the start of the new century as an improvement. As one put it, "The leaders are more inclusive. It is practice, not just rhetoric." At the same time, they expressed ambivalence: "But has anything really changed? Regeneration is still primarily property led. There is no [public-sector] alternative to private-sector leadership. . . . The market is no longer seen as the enemy. Social goals depend on the success of private-market initiatives." The leader of Tower Hamlets council, a scholar familiar with the urban politics literature, mused: "The growth machine literature is now more applicable to the U.K. because of the enlarged role of private business [in public decision making]. At the same time the terms are changing. . . . [Developers] are involved with social programs—it's a sort of corporatist local government."[16]

In New York, where the previous generation of politicians prided themselves on the size of the grants they could obtain from Washington, the current group expended its energy on making the city attractive to business. Like the Labour councillors in London, New York's more progressive politicians emphasized assistance to manufacturing, nonprofit organizations, and small businesses rather than large corporations, but they also affirmed the system of providing private-sector incentives. Thus, for example, Ruth Messinger, former borough president of Manhattan and losing Democratic candidate for mayor in 1997, supported the granting of subsidies to the commodities exchanges for construction of a building in downtown Manhattan and sponsored a study to recommend assistance intended to keep the diamond industry in Manhattan. In an interview, she indicated to me that "there are ways out of oversubsidizing developers, but we must give subsidies. We have to assume that the New Jersey threat [to New York] is real."

The situation of planning agencies. The present operating style of planning agencies reflects both the expectations of politicians that they will act as negotiating agents and the institutional framework that inhibits comprehensiveness. Because the development process did not take place under the aegis of a powerful metropolitan planning body in either city, the very structure of government caused both geographical and functional fragmentation. The division of London into boroughs, and of New York into much larger boroughs and somewhat smaller community planning districts, meant that each development proposal followed a different path to approval and had to be framed in relation to localized situations. How much this will change in London once the London Development Authority (LDA) becomes established is not yet clear.

In each city the allocation of primary responsibility for infrastructure and facilities planning to a variety of agencies (roads, public transit, ports, parks, edu-

cation, etc.) with distinct lines of authority means that Herculean efforts are required to coordinate their intentions. Since, in addition, these agencies report to different levels of government or are semi-autonomous, the problem is exacerbated. In the United Kingdom the Secretary of State for the Environment formerly and of the Environment, Tranport and the Regions now theoretically has the power to impose unity on the various levels. During the Thatcher period he was ideologically opposed to exercising it; more recently, with the establishment of the Government Office for London, the department has achieved greater coordination. In particular, it has identified a number of sites on the periphery of inner London as priority locations for major development. The office's most recent *Strategic Planning Guidance* for London was fairly detailed compared to earlier versions. Nevertheless, an overall development plan that charts the future of transport and its impact on land use awaits the LDA.

In New York no elected official has authority over all the agencies that plan the city, much less the region. New York did once have a much more unified planning and development apparatus than most American cities; both the creation and the breakdown of this apparatus incorporated specifically local factors. For decades planning and development in New York City had proceeded in accordance with Robert Moses's set of priorities. When Moses's hegemony finally crumbled in the early1960s, the reaction was to give primary responsibility for both commercial and residential planning to agencies under mayoral control. Although Moses's transportation functions were devolved to a regional agency, the city's Housing and Redevelopment Board (HRB) and Department of City Planning took charge of development planning. Later Mayor John Lindsay merged the HRB with other housing agencies to form a single "superagency," the Housing and Development Administration (HDA), with the object of creating a coherent program that would integrate preservation and redevelopment efforts. Mayoral policy insisted that priority for neighborhood and housing improvement be given to those areas that were the neediest. In its (last) 1969 master plan, the City Planning Commission presented a general strategy of promoting incentives for office development in Manhattan and residential improvements in the boroughs. By the late 1970s, however, the Department of Housing Preservation and Development (HPD—the remodeled HDA) had few federal funds at its disposal and, because of the fiscal crisis, no city capital budget; it exercised its reduced authority mainly in the realm of housing rehabilitation and no longer played an important role in guiding development. The Department of City Planning virtually gave up any pretense of overall land-use planning and devoted itself mainly to studies of specific zoning changes and project impacts. In the meantime, the economic development agencies became the lead players in devising redevelopment strategies.

In 2000 the City Planning Department did produce a new draft zoning ordinance that would impose new height limits, restrict transfer of development rights, establish a design review panel, and simplify zoning formulas. This quite moderate proposal, which nowhere approximated a master plan but simply aimed at improving the quality of the built environment, provoked the wrath of the building industry as well as the opposition of nonprofit organizations that could no longer benefit as much from selling their development rights. At the same time, many neighborhood groups felt that it did not go nearly far enough. As of June 2000 the future of the proposal remained in doubt.[17] Press commentary pointed to the power of the developer lobby with the city's politicians as key to the ordinance's future: "The real estate industry is a major source of contributions to political campaigns, and political observers believe that neither Mayor Rudy Giuliani nor the City Council would back a zoning revision strongly opposed by the industry."[18] This situation contrasts strikingly with London, where such blatant political intervention by property interests does not happen.

PUBLIC-PRIVATE PARTNERSHIPS

The common interest of both government and developers in maximizing the potential of a site enables public-private partnerships to flourish. Most of these arrangements involve joint public-private participation in major commercial projects. Partnerships do exist as well, however, to assist low-income individuals and neighborhood businesses. Within London the partnership structures now all include neighborhood representatives. In New York, in the Harlem/South Bronx Empowerment Zone, the partnership arrangement resembles the British model. In the rest of the city, however, resident interests have little input into development decision making, and, except for housing developers who must make 20 percent of their units available to low-income people if they receive a city subsidy, few deals incorporate benefits for low-income people.

The revised relationship between the public and private sectors that began to characterize planning during the mid-1970s had its roots in those changes in global relations that transformed urban economies and increased interurban competition. As investment, financial management, communications, and information-providing activities burgeoned and manufacturing shrank, pressures for reconfiguration of the existing built environment grew and became the basis on which the governing regimes of London and New York built their growth strategies. Within an extraordinarily fluid space economy, land development offered private investors opportunities for enormous profit; facilitating such development gave planners leverage over the private sector at the same time as nationally provided resources that formerly supported regeneration programs were withdrawn. Governmental agencies had largely abdicated their earlier direct role in urban regeneration, whereby they acquired and serviced land and built public facilities.[19] But government could use its tax and borrowing authority to lower development costs and thereby make projects more attractive to the investors on which the development industry depended without incurring the high front-end expenditures entailed by the previous approach. Moreover, the large scale of the most profit-

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able projects meant that almost none qualified for governmental approval without the relaxation of regulations, nor could they be developed without the provision of infrastructure. This need for governmental intervention created the opening for bargaining, in which public officials traded governmental approval or capital spending for private contributions to housing or public facilities.

The trading of public and private benefits, implemented through planning gain and exactions, together with the melding of public and private powers into development corporations, constituted the principal vehicles by which the urban redevelopment process proceeded in London and New York during the 1980s. These arrangements took a variety of forms, including, among others, the trading of planning permission in return for the construction of affordable housing; the collaboration of public agencies with community organizations in low-income neighborhoods to form local development corporations; and the granting of tax holidays to private investors within enterprise zones in the hope of employment expansion. During the '90s, the United Kingdom closed down its urban development corporations and enterprise zones, while New York continued along the previous path of using public corporations exempted from normal zoning and oversight requirements and of granting tax and regulatory relief. Its newest redevelopment projects—for example, the Coliseum at Columbus Circle—involved few requirements that the developer provide public benefits.[20]

PLANNING GAIN AND EXACTIONS

Public officials in London and New York have expanded the concept of exactions beyond its original meaning. Initially, developers were called upon to satisfy infrastructure needs created by their undertakings (e.g., streets and sewers) or to provide compensation (impact fees) for the negative effects of a project.[21] More recently, however, planners have made developers contribute to off-site improvements, including affordable housing and day care centers, as a condition for approval of their proposals. Developers anxious to get their projects moving will frequently offer a range of concessions in order to elicit cooperation from planners; planners who can no longer look to higher levels of government for substantial capital assistance see negotiations with developers as their principal opportunity for obtaining community benefits.[22] The package of public permissions and developer obligations becomes incorporated into a development agreement.

Because British local authorities have great discretion in the granting of planning permission, London local-authority planners occupy a potentially dominating position in the quest for planning gain. One planning director described a typical deal in which, in return for being allowed to build offices on a two-acre publicly owned site, a developer agreed to build 50 industrial units and a hostel for the homeless, as well as contributing to improvements in the local tube station. Within the Spitalfields Market development area the development consortium donated twelve acres to a community land trust so as to elicit cooperation from neighborhood groups (see Chapter 7). The Thatcher government sought to prevent local authorities from negotiating with developers to obtain community benefits not directly related to project impacts.[23] However, whereas the Conservatives regarded such bargaining as extortion, the present Labour government encourages it.

In New York, even though developers do not need to seek planning permission if their project conforms to existing zoning, most are willing to engage in bargaining that permits them to build a bigger project than would be permissible under the zoning statute. Other deals are made in order to gain public subsidies. For example, developer William Zeckendorf, Jr., built hundreds of units of affordable housing in return for permission to construct two large developments over neighborhood objections. In an unusual bargaining arrangement that occurred before the project entered the public approval process,[24] Donald Trump negotiated with West Side community groups concerning the configuration and contents of his huge proposed project on old railroad yards. The developer agreed to donate land to the city for a rerouted West Side Highway, to build a park, and to construct affordable housing; in return, the civic organizations acceded to the scale and density of the plan for this long-contested site.[25]

In addition to negotiated exchanges, developers in New York can tap into a set of regularized rewards to which they are entitled if they undertake certain actions viewed as providing community benefits. Thus, they receive tax benefits for working outside Manhattan under the Industrial and Commercial Incentives Program (ICIP); they can obtain the right to build additional space if they construct specified public amenities under the zoning bonus system; and, under the "80-20" housing program, residential developers receive various subsidies and regulatory relief if 20 percent of their units are affordable housing.

URBAN DEVELOPMENT CORPORATIONS AND OTHER PUBLIC-PRIVATE ORGANIZATIONS

While development agreements represent ad hoc relationships between the public and private sectors, the urban development corporation (UDC) is a formal vehicle through which government entices private developers to participate in fulfilling its economic development objectives. UDCs retain many of the governmental powers of their participating public agencies while not being subject to the normal requirements on the public sector, such as holding open public meetings, filing extensive reports of their activities, providing avenues for community participation, and conforming to civil-service rules. While ultimately responsible to public elected officials, UDCs operate much like private firms, employing the entrepreneurial styles and professional image-building techniques more customary in the corporate than in the governmental world.[26]

British Approaches

The beginnings of a new approach to redevelopment in Great Britain appeared in the Labour government's Inner Urban Areas Act of 1978, which gave urban partnerships (comprising central government, certain local authorities, private business, and local voluntary organizations) powers to encourage industrial and commercial development.[27] Under this program, as well as providing site improvements and supporting infrastructure, local authorities could offer loans and grants to private firms. After the Conservative triumph of 1979 made Margaret Thatcher Prime Minister, stimulation of private-sector investment became much more important than previously, and UDCs became the centerpiece of urban policy. The central government designated and financed UDCs, which were directly accountable to it but not to the local planning authorities in the areas in which they operated.[28] Although British UDCs resembled New York's development corporations in many respects, they differed in that the American entities had considerable autonomy from all levels of government and no connection at all with the national government. The British UDCs were given limited life spans, and all have now completed their terms.

The London Docklands Development Corporation. The London Docklands Development Corporation (LDDC) was established by Parliament in 1981 as the planning and development agency for 8.5 miles of territory in East London and was the most prominent partnership agency in London throughout the 1980s (a more detailed analysis of it appears in Chapter 9). It encompassed within its jurisdiction parts of the boroughs of Tower Hamlets, Newham, and Southwark, superseding their planning authority in the area along the Thames. Throughout the 1970s these three local authorities (along with the adjacent borough of Greenwich) had sought to implement an overall planning strategy for Docklands that emphasized industrial and social-housing uses. When the Conservative government took power in 1979, however, although progress had been made in infrastructure preparation and the demolition of derelict structures, little new investment had been attracted.[29]

The LDDC obtained title to much of the vacant land in the redevelopment area and sold it cheaply to private developers. Public contributions consisted of an enormous infrastructure program, overall planning and management, tax breaks within the enterprise zone that had been established on the Isle of Dogs, and a sales and public-relations effort. Except for infrastructure planning, most of the energy of LDDC personnel went into selling the location to potential investors, and they mounted an extremely sophisticated and elaborate public-relations and sales effort to do so.

The intended scope of Docklands redevelopment was vast and included within it a variety of separate projects. Proposals for the area included offices, housing, schools, retailing, recreational space, a sports arena, an exhibition hall, and some

manufacturing and warehousing.[30] The largest office complex, Canary Wharf, located within the Isle of Dogs Enterprise Zone, was to be developed by Olympia & York (O & Y) on an order of magnitude even greater than O & Y's World Financial Center within New York's Battery Park City; ultimately, the venture was to encompass 12.5 million square feet of commercial space (see Chapters 8 and 9).

During the peak of London's property development boom, the LDDC was wildly successful in attracting private investment; in the first eight months of 1988 alone, £4.4 billion ($7.5 billion) of private money had been committed.[31] Only shortly thereafter, however, the future of O & Y's Canary Wharf investment had become doubtful, and many other Docklands projects were in serious trouble or even bankruptcy.

The LDDC was heavily attacked for its emphasis on roads at the expense of transit, its encouragement of development in such an inaccessible area, its causing a bias in the entire transportation investment program of the United Kingdom toward the Docklands, and its neglect of the area's original residents.[32] Its focus on office development meant that few new jobs would match the skills of existing residents, although it should be noted that while the service industries moving into the office complexes offered little employment for displaced dockers, they did provide clerical and retail jobs for local women. Its residential strategy of selling land to for-profit housing developers meant that most local residents could not afford the new units. Furthermore, the UDC mechanism, under the control of a board appointed by the central government, excluded residents from the planning process.[33] Bob Colenutt, director of the Docklands Consultative Committee (DCC), commented to me: "Power in Docklands lies outside the people we represent. It's with the big developers, the LDDC. The local authorities have very little power, and where they do, they don't use it."

During the late '80s, however, the LDDC did begin to emphasize job training and social programs to benefit longtime occupants, and by 1997 the LDDC had spent £110 million on social and community development, about half of which was for education and training.[34] During the 1990s property slump, when land values fell, nonprofit developers took over a number of the housing ventures;[35] in addition, the LDDC contributed to improving the quality of 8,000 existing social housing units.[36] By the time of its termination, the LDDC had been responsible for a net increase of 23,000 jobs and substantial additions to the public transport and road systems.[37] Responding to the rhetoric of partnership, the LDDC in its later years became more open to community consultation. Whereas a poll conducted in 1988 showed that 61 percent of Docklands residents thought that the LDDC did not take account of local voices, the number expressing that sentiment dropped to 34 percent in 1996.[38]

City Challenge and the Single Regeneration Budget. The City Challenge program marked the first large-scale institutionalization of the partnership concept, in which government funds would leverage private monies within a deprived area.

Places would bid to be named recipients of City Challenge funds in a national competition; the bids would be put together collaboratively by all sectors of the community and would lay out the regeneration strategy. Later, the same principle underlay the Single Regeneration Budget (SRB), which consolidated a variety of central government–sponsored regeneration efforts into a single program.[39] Like the American Community Development Block Grant (CDBG) program, the SRB was intended to give communities considerable leeway in designing their approach to regeneration. But, whereas CDBG money is distributed on a formula basis to all localities, local authorities had to compete for City Challenge and SRB funds. The need to demonstrate cooperation among the parties to the bid undercut the hostility that formerly existed between impoverished community residents and business leaders. It also caused business elites, who had formerly held aloof from local politics, to become involved in their localities.

City Challenge was the stimulus for a major regeneration effort adjacent to the City of London. In response to a request for proposals, the Tower Hamlets council applied for a City Challenge grant for Bethnal Green, one of its neighborhoods. It received the grant in 1992 for a community-oriented effort at achieving redevelopment under the auspices of a public-private partnership (see Chapter 7). Here, while large developers were still regarded as the main source of development capital, greater provision was made for community participation in planning for the area; program goals included housing construction and the provision of business premises for the original occupants; and the East London Partnership, which acted as the coordinating agency, did not have the special powers of the LDDC.

City Challenge, while much more responsive to local communities than the UDC approach, still broke with traditional local decision making that occurred within the regular governmental structure. The government contribution was intended to leverage private-sector commitments, and community organizations were supposed to assist small-scale entrepreneurship. Thus, the grant program was aimed at encouraging activity by the kinds of elite corporate entities and community development groups long active in American inner cities but not yet very visible within the United Kingdom. Because, historically, local authorities had both taken the initiative and provided the funding for community-based economic and housing activity, these kinds of intermediate organizations had been rare in London, although community advocacy associations were plentiful. Eight years later, further stimulated by the successor SRB program, partnerships had multiplied and had become part of every regeneration effort.

Housing associations. Housing associations are the closest British equivalent to American housing development corporations. They have a long history in London, stretching back to the philanthropic and church-based organizations that sponsored improved housing for slum-dwellers in the nineteenth century. While a subset of these associations are neighborhood-based cooperatives, the great majority are run by boards drawn from outside the communities in which they

operate. Although they typically function as charities rather than community organizations, they have transcended their religious roots, having become large, professionally run associations. Most are simply landlords, but many of them also develop housing, and under the Conservative government they displaced local councils as the builders of social housing. Beginning in the mid-1990s local authorities began transferring the housing estates under their control to housing associations; as a consequence, some of the housing associations now manage massive numbers of units.[40] The Blair government continued the policy of relying on these extragovernmental institutions for implementation of its housing programs.

The central government's Housing Corporation is the principal financial underwriter of housing-association construction and has become the main conduit of central-government funds into low-income housing construction. British tax law does not provide special incentives for corporations to invest in low-income housing, and therefore there is no comparable source of funding to that provided by the Low Income Housing Tax Credit in the United States (see below). Housing associations increasingly also raise money in the private credit market, but with some difficulty. Britain has no equivalent to the American Community Reinvestment Act, which requires banks to invest in their service areas, and the government usually does not offer loan guarantees to defray risks to private lenders. Although many housing associations specialize in building housing for special populations (e.g., the handicapped or single people), others have been active with particular communities, especially within the East End, or have addressed the problems of immigrant populations and the homeless. Throughout the '80s they produced an average of about 1,500 housing units per year in Greater London, equaling or exceeding public production in 1985–1989.[41]

As resources available to local authorities for council-housing production evaporated, they have come increasingly to rely on the housing associations to take up the slack. Although many housing associations are highly professional, experienced, and flexible, the limited funds at their disposal keep them from greatly enlarging the pool of housing available to low- and moderate-income households. They stepped up their production considerably in the mid-'90s to nearly 8,000 units per year, but then curtailed their production by more than 60 percent as the decade drew to a close.[42] Meanwhile, the sale of council housing to tenants under the Conservative "Right to Buy" program had resulted in a large reduction in the number of units affordable by low-income households. Thus, construction of affordable housing increasingly became the responsibility of private developers building large mixed-occupancy schemes, who were required to apportion a fraction of their units to low-income households.

U.S. Approaches

Public-private cooperation has always formed the touchstone for U.S. urban redevelopment policy. Local government never played the major role of British local

authorities in housing provision and industrial development. Elite, business-dominated groups like Pittsburgh's Allegheny Conference, Boston's "Vault," and San Francisco's SPUR had long acted as quasi-official planning agencies for their municipalities. A series of federal housing and development programs, beginning with the Housing and Urban Renewal Act of 1949, have relied primarily on private developers to rebuild blighted areas by using public subsidies to stimulate private investment. During the 1970s, however, a discernible shift took place in the character of U.S. programs, as the federal government reduced its financial support and withdrew from its oversight role.

The contraction in federal subsidies forced localities to turn to the private sector for start-up funds for major projects. In 1974 Congress terminated the Urban Renewal and Model Cities programs and substituted CDBG, which, as well as reducing the amount of subsidy received by big cities, switched the emphasis from large-scale redevelopment efforts requiring comprehensive planning to individual projects and housing rehabilitation.[43] Urban Development Action Grants (UDAGs), introduced in 1977, made federal support for a project contingent on the leveraging of private funds, with local governments acting as intermediaries. Although the Reagan administration eventually terminated this program, it set a precedent for future activities under local auspices (and was imitated by the British government, which uses this model for its SRB grants). Local governments became increasingly entrepreneurial in attempting to stimulate private investment, actively promoting their available sites and hawking a range of subsidies, training programs, and expedited procedures designed to facilitate business operations.[44] The break with the past lay not in the priority given to private-sector desires but in the heightened level of local-government initiative in enticing private-sector involvement and the requirement that the private sector commit to a project before it is launched.

The Economic Development Corporation. In New York an array of development corporations provided the structure through which the city worked with private firms to foster physical development. The Public Development Corporation (PDC), renamed the Economic Development Corporation (EDC) in 1991, acted as the lead agency in collaboration with the private sector.[45] Established as a quasi-independent local development corporation with a board of prominent business people, the PDC played an entrepreneurial role in spurring construction during the '80s. Unlike the LDDC, it did not have a limited geographical jurisdiction; rather, its boundaries were coextensive with the city's. When New York real-estate investment was at its peak, the PDC was active in every borough; during 1987 it was involved with 200 projects, worth $13 billion.[46] As reconstituted, the EDC's responsibilities included the development, marketing, selling, and managing of city-owned land; funding of commercial, industrial, and waterfront projects, including markets and some transport facilities; working to retain private businesses in the city; and obtaining loans and financial assistance for developers. The EDC, like its predecessor agency, acted primarily as a financial intermediary, putting together packages of land improvements, tax abatements, and funding for specific development sites.[47] In 2000 it began a program to promote the location of new-technology firms in the boroughs and Harlem, and it has been involved in stimulating biomedical-related enterprises. It has not, however, sought to tie jobs to neighborhood development. The Department of City Planning, which technically has responsibility for land-use planning, largely deferred to the PDC/EDC's definition of the city's development strategy.[48]

For its larger projects, the PDC/EDC worked together with New York State's Urban Development Corporation (UDC), now the Empire State Development Corporation. The two agencies spun off separate development corporations to operate particular projects, including the construction and operation of the Javits Convention Center and the 42nd Street Redevelopment Project (see Chapter 6). In addition, the Battery Park City Authority (BPCA), which planned and developed a large mixed-used project on landfill adjacent to Wall Street, was a semi-autonomous UDC subsidiary (see Chapter 8). Originally established to develop housing for low- and moderate-income groups, the UDC shed its housing mandate and was reborn as an economic development agency. Within New York City it retained its original power to override local zoning and citizen participation requirements.[49] Its involvement in development projects, therefore, permitted a streamlined process of regulatory approvals.

Community development corporations. Nonprofit community (housing and commercial) and industrial development corporations have become increasingly important nongovernmental actors outside the Manhattan business district.[50] Once incorporated, Community Development Corporations (CDCs) are free to seek financing from public and private lenders and grantors. Sources of funding are quite varied, including state and local governments, religious organizations, private philanthropists, and constituent businesses and housing groups. Two national groups—the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation—funnel money to CDCs, primarily in support of housing construction and rehabilitation, but also for business development in low-income neighborhoods. Most of these funds come from monies provided under the Low Income Housing Tax Credit program, whereby corporations receive tax credits in return for their investments.[51] Between 1987 and 2000 LISC invested $840 million in around 50 CDCs in New York, resulting in about 9,000 units of low-income housing.[52] Furthermore, a number of banks have set up autonomous development corporations that lend money in low-income neighborhoods. These corporations, which are expected to make a profit, generally participate only in projects in which some part of the costs is subsidized.

Except for renovation work on some of its own properties, the city has relied on nonprofit development corporations to implement its affordable housing program. Housing development corporations (HDCs) have built or rehabilitated many

thousands of units of housing throughout New York; typically an HDC will mix grants, loans, and revenues from several sources in any single project. The Brooklyn Ecumenical Council, for example, consisting of 25 churches throughout Brooklyn, sponsors an HDC. This organization in 1990 had 1,800 units of in rem housing[53] committed to it by the city, which it was rehabilitating using funding from LISC, the Roman Catholic Archdiocese, and the city. By renting some of the units at market rates, it was able to use proceeds from the more expensive dwellings to cross-subsidize those for low-income households. Although HDCs resemble British housing associations in their nonprofit status and freedom to choose their projects, they differ in their funding sources, their community base, and their more entrepreneurial organization.

Housing programs. During the 1970s a tide of housing abandonment and neglect swept over New York City. In the '80s, economic recovery stimulated waves of gentrification. Both processes exacerbated the always difficult housing situation of low-income households. New York historically had been a national leader in using government funds and tax credits to subsidize housing construction. These programs, however, largely lapsed by the beginning of the '80s, as federal money for public housing dried up and the state's Mitchell-Lama program for moderate-income housing ended.

For most of his time in office Mayor Koch had no program to address the city's low-income housing crisis. During the 1980s the shortage of all but luxury housing in New York City became increasingly acute.[54] Indicators of the crisis were rapidly growing homelessness, a vacancy rate below 2.5 percent overall and below 1 percent in low-income housing in 1987, and soaring housing costs.[55] Despite the salience of the problem and rising political pressure from middle-class constituents as well as advocates for the poor, the Koch administration directed most of its attention to attracting private commercial development. Only in 1988 did the mayor specify the housing program he had announced in 1986. He proposed to use city funds directly to finance construction and rehabilitation of low-income units on city-owned property, as well as to assist private developers willing to construct additional affordable units for low- and middle-income households.

The published "plan" made few specific promises and was not really a plan. It did not indicate the city's exact intentions in regard to, for example, the rehabilitation of residential neighborhoods in the South Bronx or the housing of Manhattan's homeless. In sharp distinction to typical redevelopment plans, it contained no maps and named no projects. Rather, as stated in its introduction: "The Plan does not designate specific projects or allocate funds to specific neighborhoods. However, it does provide a general outline as to the kinds of programs which will operate over the next ten years and the proportion of the total funding which will be devoted to these programs."[56] It did, however, commit the city to building and rehabilitating a great deal of housing. Essentially, it freed the hands of the implementing agencies to pursue individual projects as they saw fit, to whatever extent community support would allow.

Mayor Koch tilted the implementation of the program toward assistance to moderate- and middle-income projects; under his successor, David Dinkins, it shifted more toward housing low-income and homeless people but still retained a middle-class component. The initial commitment to new construction for middle-income households generated considerable controversy. Between 1981 and 1991, the nonprofit Housing Partnership received public subsidy for the construction of more than 5,000 units for owner occupants.[57] Many community advocates castigated the Partnership for its top-down planning style and its targeting of the relatively affluent. Its suburban-looking, one- and two-family detached homes combined a 20 percent city and state contribution with market-level loans from commercial banks. Defenders contended that the program retained a middle-class population in the inner city that would otherwise have moved to the suburbs; that 85 percent of the buyers were minorities; and that three-quarters either lived or worked in the neighborhoods where they invested.[58] Ultimately, the city responded to political pressure, and as of 1998, low-income households, including the formerly homeless, accounted for two-thirds of the units committed for renovation or construction.[59]

The fiscal crisis, resulting from the recession of the early 1990s, caused major cutbacks in the entire New York City housing program. In 1989 (an election year) construction or rehabilitation of more than 26,000 dwellings was begun with city assistance, representing a public expenditure of $738 million.[60] Expenditures dropped and then picked up again during the Dinkins administration but declined steadily under the Giuliani mayoralty despite the city's improved fiscal situation. The number of units receiving assistance from the city's budget declined to an annual rate of about 6,000, or about a quarter of the peak level. The drop is attributable both to administration policies and to the exhaustion of the in rem housing supply, which had formed the bulk of the units rehabilitated.[61]

In the decade 1989–1999 New York spent more on its housing programs than all other major U.S. cities combined, almost all from its own revenue sources. Within the South Bronx, for many years internationally famous for its bombed-out appearance and stratospheric crime rate, the program could take credit for the area's resurrection.[62] Once the favorite spot for politicians and foreign visitors to observe the forces of decay, the Bronx became the symbol of redemption. Schwartz's analysis of the effectiveness of the program, however, concludes on an ambiguous note:

> New York City's housing policy is at a critical juncture. In the 13 years since its inception, the plan has produced and rehabilitated more than 150,000 units of housing and in so doing has helped transform and stabilize many communities. Yet housing problems remain severe. In 1996, nearly one-quarter of

> the city's households confronted a severe housing affordability problem (spent at least 50 percent of their income on rent) or lived in physically deficient housing. However, the city is unlikely to continue down the path [of supplying housing] it has followed since 1986.[63]

CONVERGENCE AND DIVERGENCE

During periods of both growth and recession, the governing regimes of London and New York similarly relied on private-market actors to expand their economies and provide public facilities. Although the systems of local government in the United Kingdom and the United States had become less alike during the 1980s, the actions of public officials determining local initiatives increasingly resembled each other. Using the tools of development agreements, development corporations, regulatory relief, tax subsidies, advertising, public relations, and financial packaging, officials stressed the economic development function of government to the detriment of social welfare and planning.

During the '90s the two approaches gradually began to diverge again. To understand the reasons for this evolution, we must look not to institutional correspondences but to economic forces as they were filtered through ideologically and politically driven interpretations of appropriate response. Prime Minister Margaret Thatcher, in the name of freeing up the market and stimulating an enterprise culture, reduced redistributive governmental programs and forced the borough councils to make land available for private developers. Her Conservative successor, John Major, moderated the ideological edge of his party's program and sponsored partnership programs that encompassed social as well as economic considerations. The Blair government, with its attempt to find a "Third Way" and its desire to dampen the conflictual character of British politics, has striven for consensus by involving businesses and communities in its programs and has fostered regeneration schemes with a more strongly redistributive character. At the same time, it has not reverted to the heavy government involvement of the pre-Thatcher era.

In New York, Mayor Edward Koch, without precisely emulating the laissez-faire mentality of the Republican national government in power at that time, cozened developers in the name of the increasingly embattled middle class. His successor, David Dinkins, despite a more inclusionary rhetoric, had little leeway to redirect policy at a time of severe economic distress. At the national level, those proposing greater state intervention in the economy and higher levels of redistribution failed to persuade the voting public that they had a formula for economic expansion. The consequence was a significant reduction in federal aid to cities. The electoral success of a more sympathetic national administration in 1992 had little effect on funding for urban programs. Cities did not attract much attention from the "New Democrats" of the Clinton administration, and a conservative

Congress, with a Republican majority for most of Clinton's two terms of office, gave him few opportunities to provide urban assistance. In striking contrast to Britain, whatever American cities were going to accomplish in terms of redevelopment they were going to do on their own. The 1991 triumph in New York of a conservative mayor, who regarded public safety as his most important economic development program, precluded any significant effort toward economic improvement of poor neighborhoods beyond what trickled down from overall growth. Mayor Giuliani's fierce defense of aggressive police tactics, his exclusion of people of color from significant positions in his administration, and his refusal to develop ties with political leaders of low-income groups resulted in serious antagonism between the government and many of New York's citizens. Whereas London's politics was becoming increasingly harmonious, the opposite was occurring in New York.

In both London and New York during the '80s and '90s, the national failures of the left kept local advocates for the poor to relatively narrow issues and a primarily negative stance. They had few alternatives but to work within the confines of the deal-based system of public-private negotiation. Despite changes of government, programs continued to rely on private-sector initiatives. The election of a Democratic administration in Washington and a Labour government in Britain moderated but did not fundamentally change the ideological climate. Only the growth of a strong ideological counterforce would be likely to cause a shift in direction in either place.

6

Public-Private Partnerships in Action: King's Cross and Times Square

The negotiated quality of urban redevelopment schemes means that the dynamics of each one is different. The next three chapters examine four major redevelopment programs in London and New York to reveal the complex interplay of forces that operate in particular situations. My aims are (1) to trace the source of each initiative; (2) to find out what resources the different participants had at their disposal; (3) to identify their objectives; (4) to assess their costs and benefits; and (5) to understand the values involved in reactions to them. All six of the projects discussed here are ongoing more than 20 years after their inception, and only two—downtown Brooklyn and Battery Park City—are almost complete. In the first edition of this book I stated that evaluations of their likely outcomes were necessarily tentative. As it turned out, my expectations concerning two of the cases—Times Square and London Docklands—were far off the mark. Now it is possible to speak with more assurance about them. Two London development schemes—King's Cross and Spitalfields—have progressed little in the last eight years, and their ultimate resolution remains unknown.

The six cases selected for closer scrutiny constitute three sets of similar pairs. This chapter focuses on two proposals for massive land-use changes on centrally located tracts still in active commercial use when attempts at their redevelopment had begun: King's Cross in London and Times Square in New York.[1] Planning for both commenced at the beginning of the 1980s real-estate boom; they each became bogged down in controversy and financial difficulties. By the end of the '90s, Times Square had become the epicenter of New York's late-century burst of development, while King's Cross still languished. The developments, as originally proposed, exemplified the type of massive office project that has mobilized community resistance in a number of cities.[2] In later plans they changed character substantially. Even so, the two undertakings, in both earlier and later manifestations, had several common characteristics: They involved the reuse

of commercial areas by different types of enterprises that would cater to new kinds of customers; they required a major restructuring of land uses and the relocation or closure of existing business premises; and they were likely to cause changes in the composition of the working and residential populations in the project areas and their surroundings. The environmental effects of these huge projects, as well as fears by residents of adjacent neighborhoods that rising property values would lead to their displacement, fueled antagonism to the schemes. The real-estate bust of the early '90s forced reconsideration of both projects, resulting in endeavors more appropriate for their contexts. Times Square, while an overwhelming success in relationship to its economic development objectives, is massive in its impacts and highly controversial as regards its effect on the quality of the urban environment. King's Cross now appears as if it will be an incremental effort rather than a wholesale transformation.

KING'S CROSS

The original attempt to redevelop the railroad lands surrounding the King's Cross and Saint Pancras stations began in the mid-1970s. The local authority of Camden wished to stimulate economic activity on the 134-acre site,[3] which contained derelict railroad sidings, loading depots, and storage facilities, as well as a number of "listed" (landmarked) structures, including the two railroad stations and several gas-storage tanks. Located in north-central London, adjacent to a busy shopping area, the large tract lay close to the location of the new national library and was surrounded by residential areas housing people of moderate means.

During the mid-1980s the Camden council produced a strategy document calling for a comprehensive approach to the whole site rather than piecemeal improvements. It expressly limited further office development, calling instead for a mixed development including manufacturing, retail, housing, and recreational uses at relatively low densities. At the time of the first major development proposal in 1987, a number of small businesses with short-term leases were operating on the site. While some were prosperous, all required inexpensive premises to maintain their profitability.

Two major landowners, the still publicly owned British Rail (BR) and the privatized National Freight Consortium, controlled most of the land. British Rail, which until the 1980s showed little interest in developing its landholdings, had become suddenly alert to the capital-producing potential of its property in the vicinity of London's stations. Pressures from the government on the remaining publicly owned firms in Britain to become self-financing had much to do with this heightened awareness. BR had especially great financial needs at King's Cross, because it confronted the expected expense of building a new concourse for the terminus of the Channel Tunnel train and decking over its tracks.[4]

BR operated within the confines of the Thatcherite interpretation of the appropriate role of a government agency within an enterprise culture. In the words of Michael Edwards, a scholar who had assisted the King's Cross opponents:

> British Rail . . . is an instance of an essentially 80s phenomenon: a state agency increasingly deprived of state funding but still prohibited from raising money on the private markets, under increasingly strong imperatives to make profits from each and every one of its assets. Such agencies . . . tended to adopt private sector accountancy practices, basing their investment and operating decisions on short-run financial criteria.[5]

Although BR had the capacity to act as a strategic planning body for London through its control of so much centrally located land, its public ownership did not inhibit it from behaving exactly like a speculative private landowner, gambling on an ever-increasing market for its properties.[6]

BR held a competition to select the developer for King's Cross. By requiring that the winning proposal achieve the highest possible financial return on its land, it ensured that the developer would opt for intensive commercial use. Nevertheless, bidders had to guess what types of development would be acceptable, as the request for proposals (tender offer) and the borough's planning brief were vague. BR awarded the development contract to the London Regeneration Consortium (LRC), a partnership between National Freight and Rosehaugh Stanhope Developments, the developer of the successful Broadgate project at London's Liverpool Street Station.[7] The LRC's proposal was accepted by British Rail without any input from the community. When the development consortium later fleshed out its concept and presented its master plan to the Camden council, that body faced a fait accompli, since the consortium could not significantly change the plan and meet its obligations to BR.[8]

The Camden council nonetheless demanded community consultation before it would review the application for planning permission, and its planning office prepared a community planning brief stipulating its criteria for plan approval. While not specifying the scale and nature of the commercial component, the brief did lay out in general terms the council's requirements for housing, employment, shopping, recreation, design, environmental protection, transport, and traffic.[9] The council had concluded that its only hope of obtaining much-needed housing was by tapping into private-sector funds as part of a development agreement and was willing to make concessions on office construction in return. The council further felt compelled to show flexibility toward the developers, since if it failed to negotiate an agreement, the Secretary of State for the Environment would probably overrule it on either a call-in or appeal. Councillors also thought that they had averted the creation of a rumored urban development corporation (UDC) for the area only by persuading the central government that they would be "reasonable." A UDC would have removed all control from the local authority.

The Proposal

The initial LRC planning application called for 6.9 million square feet of office space; subsequently, this was reduced first to 6.5 million, then to 5.9 million, and finally to 5.25 million square feet.[10] The Camden planning director remarked that in the past "office construction on this scale was unthinkable." Now the best outcome he could envision was a modest reduction in size and the achievement of planning gain, by which the consortium would promise public benefits in return for planning permission. His aim was to get LRC to commit itself to 1,800 units of low-cost housing, a worker training scheme, a variety of community facilities, and a trust arrangement for their upkeep.

An umbrella organization for local community groups, the Railway Lands Community Development Group (RLCDG), formed to express opinions on the plan and received some funding from the borough council. It strongly opposed the size of the office component. A number of community groups testified in public hearings against the proposed "office city"; BR, however, refused to attend the hearing on the grounds that "it was legally inadvisable given that they were simultaneously presenting evidence on the Channel Tunnel Terminal to the House of Commons Select Committee."[11] Camden officials professed bewilderment at this reasoning; the council's report on the hearing indicated that the absence of BR "was widely deplored."[12]

A technical advisory group based at the Bartlett School of University College London worked with the RLCDG on a critique of the LRC proposal and the preparation of an alternative plan.[13] Its funding came initially from the councils of Camden and Islington and the London Strategic Policy Committee, a short-lived successor body of the Greater London Council (GLC), and later from a local developer/businessman, Martin Clarke, who sought to rebuild the area according to a different strategy.[14] The advisory group disputed the amount of office space necessary to produce an acceptable rate of return to the developer.

The Bartlett group also examined the employment impact of the scheme.[15] They pointed out that the site housed at least 87 firms, with 1,500 employees, not all of whom were actually working on the site. Warehousing, retailing, and wholesaling accounted for the majority of businesses.[16] Although very few of these firms planned to move unless forced to do so, practically none would be able to afford premises on the redeveloped site. The majority anticipated losses in the event that they had to leave their present location, especially if they could not remain in the vicinity. Existing employment was overwhelmingly of white males, working predominantly for small firms in nonunionized, low-wage jobs. The proposed development, while increasing the workforce in the area, would reduce its proportion of local residents and replace low-skilled with high-skilled jobs.

The Bartlett group's discussion of employment concluded by raising some crucial issues, which apply also to the Times Square case discussed below:

> Is it correct to perceive sites like the King's Cross Railway Lands, as the developers do, as derelict and degraded property which unquestionably needs "renewal"? Or do such locations in fact play an essential part in the inner city economy by providing cheap premises for activities ranging from theatre scenery storage to cheap hostels, on which the inner city economy and society depend?
>
> To what extent should a local authority be seeking to protect businesses displaced by redevelopment such as those on the Railway Lands? . . . Much of the employment provided by these firms is of a character and quality which makes only limited contribution to certain important local government policy objectives. As well as [raising] . . . issues about gender and ethnic distribution and workplace relations and conditions . . . few of the firms . . . contributed to any formal training provision. On the other hand we know that, in inner London generally, underprivileged groups have had lower chances of getting jobs in newly-generated firms than of retaining employment in established firms which survive.[17]

The RLCDG devised four alternative plans to the one presented by LRC.[18] The consultants worked out the first of these plans (the King's Cross Team [KXT] plan) in meetings with community groups; the other three resulted from an outreach effort to involve disadvantaged elements of the community that had not participated in the meetings. All four greatly reduced the scale and density of the project as well as changing the proportions to be devoted to different uses.

Later Developments

Although the original timetable released by the borough of Camden scheduled a final council decision for March 1990, only in August 1992 did it agree to a revised proposal when the LRC agreed to further reduce the size of the office scheme.[19] By that time, however, the development consortium behind the project had begun to fall apart. Godfrey Bradman, the principal developer, had been forced out of the chairmanship of Rosehaugh; the company was in serious financial straits and eventually collapsed.[20] Its partnership with Stanhope, which had worked well in the creation of Broadgate, had undergone strains, and talks aimed at merger between the two firms had foundered. Stanhope, in the meanwhile, was entangled in the financial problems of Olympia & York.[21] Even were these firms in better condition, the state of the 1992 property market in London prevented any starts on large-scale office construction.

The Camden council also lacked motivation to expedite the development, since the softness of the office market undermined hopes that planning gain could provide a reliable source of funding for public amenities. Since planning gain depended on a sufficient difference between debt service and rent roll to allow the developer a profit and the locality its payoff, fulfillment of the promises to Camden would have required BR to lower its profit expectations. Despite its public-sector ownership, BR refused to do so, thereby forcing the proportions of the project to exceed a size acceptable to the community and making any start on the project impossible until the market could again absorb a large amount of office space.[22]

Only in 1996 did Parliament finally decide the route by which the high-speed railroad from the Channel would reach Saint Pancras Station via East London.[23] Construction, however, involved miles of very expensive tunneling, and it took five years to obtain the necessary financial commitments from Railtrack, the now privatized British Rail, the goverment, and private investors. The consequence was that even with the revival of London's property market, investment in the part of the King's Cross area affected by the railroad was stymied by uncertainty over whether it would actually arrive. Small-scale private investment, however, was flowing into the rest of the district for upgraded retailing, luxury housing, rehabilitation of listed buildings, and small hotel development. The new activity was sufficiently incremental that it was not resulting in serious displacement of existing small businesses.[24] As currently envisioned, rather than hosting a large office complex, the quarter will specialize in arts and entertainment and small-scale office uses.[25]

The King's Cross Partnership, an organization encompassing business, community, government, and housing association representatives, was receiving Single Regeneration Budget (SRB) funds to develop housing, environmental improvements, job training, and social service programs. The partnership's executive director commented that the earlier model of regeneration had been overly physical, while the present model emphasized people.[26] Her organization and its vision of the future King's Cross represented the current trend in London's regeneration schemes: involvement by multiple interests in planning; mixed-use development; the combining of social and physical programming; and reliance on private-sector finance. Previous animosities had ebbed away. The question remained, however, whether all this good feeling would present tangible results.

TIMES SQUARE

Times Square is one of the world's most famous locales. Centrally located in Midtown Manhattan, illuminated at night by kinetic megasigns, locus of the nation's most televised New Year's Eve celebration, it offers 24-hour-a-day activity. Stretching five blocks north from the intersections of 42nd Street with Broadway and Seventh Avenue, it is the center of New York's theater industry, including associated enterprises like restaurants, set designers, theatrical booking agents, ticket agencies, dance studios, and costume rental establishments. Alongside this array of socially acceptable entertainment activities until recently stood an extensive agglomeration of sex-related industries that gave Times Square

its unsavory reputation. Pornography shops and X-rated cinemas acted as magnets for loiterers, drug dealers, street hustlers, and prostitutes, causing the area, despite its crowds of theater-goers, tourists, and commuters, to display an intimidating aspect and register a high crime rate.

A low-rise, low-rent district, Times Square in the '80s had a number of virtues despite its blatant problems. Before the construction flurry at the decade's end, its scale made it one of the few areas in Manhattan where afternoon sunlight reached both sides of the street simultaneously. Many of the theater support services, as well as other respectable but marginally profitable businesses, relied for their continued operation on the inexpensive rents available on upper floors of nondescript structures scattered throughout the district. Obsolete construction and marginal uses, however, brought down real-estate valuations. As a result, the city received only a tiny proportion of the tax revenues potentially available from a location served by almost all major subway lines and close to the Port Authority bus terminal, the hub for commuter traffic from New Jersey.

Just to the west of Times Square lies the Clinton neighborhood, once known as Hell's Kitchen. It is the last low-income area in central Manhattan. The five-story tenements that line its streets have felt the pressure of gentrification, as landlords have forced out their tenants, often brutally, and converted their buildings into condominiums. Formerly the home of generations of longshoremen working on the nearby, now-defunct Hudson River docks, it houses people from a dazzling variety of ethnic backgrounds. Many of its residents work as laborers within the theater industry or as maids, porters, waiters, and kitchen help in the hotels and restaurants clustered around Times Square. The community contains several active Roman Catholic parishes and a parochial school; the churches, which once responded to the spiritual needs of largely Irish and Italian congregations, currently provide places of worship for Filipinos, Latin Americans, Dominicans, and other Caribbean islanders.

The original impetus for the redevelopment of Times Square came from Clinton residents, theater and restaurant owners, and community leaders, especially clergy, who were dismayed by the sleaziness of the district. During the 1970s the western portion of 42nd Street had been upgraded through the construction of two large residential towers[27] and the rehabilitation of a strip of storefronts, together with a former airline terminal building, into off-Broadway theaters, performance studios, and restaurants.[28] The replacement of prostitution and marginal business uses on these blocks by a lively, upscale entertainment scene seemed to show that physical improvements could also produce social transformation.

At the same time, a group of upper-class civic organizations, led by the Municipal Art Society, was becoming increasingly concerned with the impact of new office development on Manhattan's East Side. Home to New York's wealthiest residential community and most exclusive stores, the East Side had many leaders with easy access to decision-makers. The logical reaction was to "move development westward."[29] The City Planning Commission responded by producing the "new midtown zoning," which limited further development on the East Side and encouraged construction to the west by raising the allowable building size there. While much publicity proclaimed the harm that additional buildings could inflict on the East Side, neither the civic organizations nor the City Planning Commission paid great attention to the impact of higher densities on the West Side, which was simply assumed to be vastly underutilized. Moreover, the West Side was now seen as a potential magnet for those firms that were threatening to flee to New Jersey or beyond. Times Square's seedy character was believed to discourage development for blocks around its central location. But if it were massively redeveloped, it could make the entire west midtown area more desirable as an office location. Within the planners' mental maps, Times Square was shifting from being the entertainment core of Manhattan to becoming primarily an office and wholesaling district.

The Proposal

Throughout the years various developers and design groups had presented proposals for redevelopment of the 42nd Street heart of the Times Square area. None attracted serious backing, however.[30] In 1981 the city government distributed a request for development proposals that conformed to the new office-center vision and called on developers to follow a set of architectural guidelines. Devised by the firm of Cooper-Eckstut, which had created the much-praised design for Battery Park City, the specifications for Times Square emphasized a lively streetscape, to be achieved through building setbacks, glass street walls, and large neon signs. Even though the guidelines allowed for building heights up to 56 stories, at first they did not stimulate any protest.

The city government, in conjunction with the New York State Urban Development Corporation (UDC), selected a group of developers for the project, each with responsibility for a different component. Park Tower Realty, headed by George Klein, won the competition to develop the office section, the largest portion of the enterprise. The most immediately striking characteristic of the proposed development was its massive scale. The existing structures on the four corners straddling Times Square at 42nd Street would be replaced by four huge edifices, designed by Philip Johnson and John Burgee, totaling more than 4 million square feet of space. The heights of the buildings were to be 29, 37, 49, and 56 stories. Their appearance was somber compared to the existing architecture of the area, and they did not conform to the design criteria set forth in the Cooper-Eckstut guidelines. Generally, the aesthetics of the buildings signified the seriousness of the business activity planned for their extensive interior spaces rather than the frenetic entertainment industry that had historically dominated the area. In addition, the UDC's plan included a 2.4 million square foot wholesale market on a corner of Eighth Avenue opposite the Port Authority Bus Terminal and a 550-

room hotel facing it. It called for renovation of nine theaters on 42nd Street between Seventh and Eighth Avenues and elaborate rehabilitation of the busy Times Square subway station. Untouched, however, would be New York's largest "adult entertainment" emporium, which lay directly across the street from the site.[31]

The size of the office buildings and wholesale market greatly exceeded what was allowable under the city's zoning regulation. As at King's Cross, supporters justified the project's bulk on the grounds that only very large buildings would produce enough revenue to pay for land acquisition and the funding of community benefits. In both cases, the public body choosing among the competing bidders used financial return rather than design as its criterion. Also similar to King's Cross, the Times Square developers believed that they could obtain financing only if they were able to promise rent levels well below those in more prestigious locations; therefore, more space had to be provided to produce overall revenues comparable to other areas.[32]

Responsibility for coordinating the scheme rested with a public-private partnership, the 42nd Street Redevelopment Corporation, comprising two public agencies and the private developers. On the governmental side, both the UDC and the city's Public Development Corporation (PDC, later to become the Economic Development Corporation, EDC) carried out planning, staffing, and implementation functions, using the UDC's powers of eminent domain (compulsory purchase) and authority to override local zoning. On the private side, the participating developers, in addition to bearing the construction costs of their buildings, would contribute to theater and subway improvements[33] and would pay for the UDC's land acquisition costs up to a specified level. The city's Board of Estimate approved the project in October 1984. In the ensuing years a series of lawsuits and other setbacks delayed its implementation, and over the course of time all of the original private-sector participants except the office developer and theater owners dropped out. In 1992, when the UDC began to vacate the site, the office buildings did not have any tenant commitments, while the theaters lacked adequate funding for renovations and operations.

In the meanwhile, the Department of City Planning began to respond to concerns that transformation of the area was destroying the elements that nurtured the entertainment industry. Stimulated by the permissive new midtown zoning, thirteen buildings were either under construction or planned around Times Square by 1988. All overshadowed what had been the area's tallest structure by at least seven stories; seven of them exceeded forty stories.[34] Hoping to overcome the deadening effect of these new towers as well as of the large buildings proposed for the 42nd Street project, the city planners drafted a sign ordinance for the entire vicinity. This required all structures to provide for huge exterior signs, on the model of Piccadilly Circus in London or the Shinjuku district in Tokyo.[35] Initially resisted by developers and building owners. this requirement turned out to be

immensely profitable, contributing an estimated $100 to $125 million a year to the city's economy.[36]

In another, less superficial, effort to maintain the character of the area as an entertainment district, the Department of City Planning also obtained city council approval for a change in the zoning, so that all buildings in the Times Square district had to devote 5 percent of their floor space to entertainment-related functions.[37] Office developers generally resented being forced to cater to entertainment uses at all and pressed for the most inclusive definition possible. In response to developers' concerns, permissible uses, which included rehearsal halls, wigmakers' premises, and lighting designers' studios, were extended to include record stores and movie theaters. Because the latter type of high-volume establishment generates greater rent-paying capability, it drives out the more modest activities upon which the theater industry depends and will inevitably dominate the designated "entertainment-related" spaces. Many in the industry remained skeptical that the space reserved for theater support services would, in fact, keep them in Manhattan.

In 1989, responding to attacks on the appearance of the office towers,[38] the firm of John Burgee[39] redesigned them so that they reflected "the neon and honky-tonk atmosphere" of the existing district.[40] The new design incorporated setbacks, cutouts, asymmetrical grids, angled roofs, reflective surfaces in blue and green glass, and built-in multicolored neon signs.[41] The changes, however, did little to assuage the alarm of the critics:

> The good news is that these buildings try to be entertaining; they represent a serious attempt to evolve a viable new esthetic out of Times Square's tradition of lights and signs. . . . The bad news is that this is all cosmetics. For the problem with the original design was never just the way it looked, bad as that was; it was the fact that the towers were too big and too bulky, and threatened to put what little is left of Times Square and the theater district into shadow.[42]

Despite the assertions of the project's planners that the only alternative to massive redevelopment was no development at all, the stretch of 42nd Street west of the project site indicated the potential for a more moderate procedure. Here the modest effort, described earlier, which produced a row of theaters and restaurants along with a low-income residential project, had greatly ameliorated the environment without a drastic reconfiguration of uses. A similar strategy addressed to the project blocks would combine rehabilitation and new construction. Under such an approach, eminent domain, by forcing out the most undesirable uses, could allow the rehabilitation of existing structures if their owners resisted upgrading. Mainly, the city could have bettered the area simply through working with the property holders from whom they seized the site. It could have used tax abatement to assist the owners of the movie theaters, who claimed that they were willing to fix up their properties using their own capital without the contributions of

office developers. Spot demolition would have created the opportunity for some new construction. The block closest to the existing subsidized apartment complex could have been used for a mixed residential-commercial structure, containing both market-rate and subsidized housing units. But, although such an approach could produce redevelopment without enormous disruption, it would not create the kinds of huge public and private revenues promised—although not immediately delivered—by the chosen approach.

Financing

The bank that was the original financial backer of the office component, Manufacturers Hanover Trust, withdrew from its commitment. The Prudential Insurance Company, which became an equity partner and ultimately the owner of the office sites, then agreed to provide the financing, obtaining a $150 million letter of credit from Morgan Guaranty Trust.[43] Initially Klein's firm, Park Tower, reached a preleasing agreement with a large law firm; when it withdrew, Chemical Bank[44] signed on as an anchor tenant but then also backed out. Trammell Crow, who had been selected as the developer of the wholesale market, also quit the project, as did the developer of the hotel.

While acquisition of the land and existing structures depended on the use of the UDC's power of eminent domain, purchase costs up to $150 million were to be borne by the developers. Of this amount, Park Tower was originally responsible for $88 million; its commitment was increased further in subsequent negotiations and eventually assumed by Prudential.[45] The remaining land purchases were covered by the city out of funds borrowed from Prudential at an interest rate above the prime rate and returned to it through forgiveness of later payments in lieu of taxes (PILOT) that it would otherwise owe the city once the buildings were occupied. Thus, the city was assuming land costs above a set amount and moreover would be paying the developer above-market-rate interest on its initial outlay.[46]

The public sector therefore incurred few of the front-end costs of the project. It did, however, provide an ongoing subsidy to the developers through a tax abatement. The size of this abatement was estimated at about $650 million over 15 years.[47] Property tax revenues in the project area in 1982 were just $5.1 million. If the land costs did not greatly exceed the developer's contribution and if the buildings produced anything close to the predicted rate of return, the city through the PILOT would still receive considerably more revenue from the area, even under the abatement, than had previously been the case. Further financial benefits to the city included participation in rent collections from the tenants of the various structures. Title to the land and structures, which were to be leased for 99 years, would remain with the UDC. After 15 years, however, the lessees could purchase the properties; for the office buildings, the buyout price was specified at only 45 percent of the average annual net rent roll.

Responses to the Plan

The New York City Board of Estimate, before approving the proposals, sponsored hearings on the draft environmental impact statement and then on the final plans. Many who testified complained of the haste with which the scheme was being pressed—and certainly the subsequent eight years of delay in starting the project retrospectively raise serious questions concerning the justification for hurry. Even its supporters objected to the incomplete information on which judgments had to be based and to the size of the office towers. A group of eleven design-oriented civic groups, which had formed an association called the President's Council, expressed concerns over bulk, density, and vitality. Its membership ultimately split over whether to accept the large buildings as the price of progress. Residents of the Clinton neighborhood, located directly to the west of Times Square, mobilized against the project, contending that it would force up property values and accelerate the gentrification of their neighborhood. Community Board 4, whose constituency included Clinton, opposed the plan; Board 5, which represented the Times Square area itself and contained a number of members drawn from the business and real-estate industries, issued a catalogue of objections but did not take a firm stand. Some Clinton groups, including the Ninth Avenue Business Association and the pastor of a major Roman Catholic church, endorsed the proposal. Representatives of the clothing industry, located to the south of the project site, expressed fears that rents in the garment district would be forced up as office uses encroached on its territory. Although theater owners and managers supported the plan, others in the industry opposed it, fearing that entertainment uses would lose their critical mass in the area.

Politicians split on the issue, with those at higher levels, including Gov. Mario Cuomo, Sen. Daniel Patrick Moynihan, Mayor Edward Koch, and former mayors Abraham Beame and Robert Wagner, strongly praising the scheme. These notables even turned up to testify at the hearings, making frequent reference to the bright lights, dancing feet, and glamour that once characterized Times Square and arguing that only a tremendous redevelopment effort could restore its former glory. They did not address the problematic relationship of an office complex to this nostalgic vision. In contrast, the city council members and state assembly representatives from the area resisted the project.

The planning agencies sponsoring the venture asserted that they had consulted extensively with community groups during the years preceding Board of Estimate approval. Their communications, however, were predominantly one-way, and only the urgency of obtaining final political approval created any flexibility. Just before the decisive Board of Estimate vote, state and city negotiators began to engage in frenzied discussions with Clinton neighborhood representatives. The key intermediaries in translating outside pressure into concessions were the elected officials rather than the planners, who until this point had remained obdurately committed to the plan. The principal concession granted was the allocation of

$25 million from the regular state and city budgets to the Clinton neighborhood, to be used over the next five years for low-income housing and community development purposes. Clinton representatives failed to achieve their objective of obtaining the money from the private developers rather than public revenues. They had wanted to set a linkage precedent whereby developers would be obligated to compensate communities for project impacts. This failure proved fortunate for Clinton, since ultimately the developers managed to obtain relief from even the minimal obligation for subway refurbishment that they had assumed.

Unlike the King's Cross community, residents and businesses in the Times Square area did not receive public funding for support of a project area committee to advise on the plan (as was once required in the United States under federal urban renewal legislation).[48] State Senator Franz Leichter remained the project's fiercest opponent, persistently lobbying against it and publicizing what he regarded as its misguided intentions.[49] A group of developers with investments in surrounding areas bankrolled sporadic efforts at devising an alternative plan and exposing the negative financial impacts of this one.[50] The construction of numerous buildings in the vicinity without comparable subsidies led opponents to argue that financial assistance for the 42nd Street project was unnecessary and caused it to compete unfairly with the new structures.[51] Project sponsors responded that it was only the promise of their undertaking that created the vision of the area as an office center; without it, the other structures would not have been built.

Outcomes

Each year after the project's approval, the sponsoring agencies declared with much fanfare that work was about to begin. Lawsuits, however, kept the UDC from acquiring the site until 1990, and then negotiations with existing tenants caused further postponements. In 1992 the UDC finally evicted the occupants, but by then the enthusiasm of Prudential and Park Tower for proceeding with the project had lapsed. The empty office buildings and theaters on 42nd Street gave a ghost-town aspect to the area. Having passed into government ownership, the sites ceased to generate any real-estate taxes.[52] Relocation of 240 businesses resulted in hardships for many of the companies involved, especially the smaller firms.[53] One of the 42nd Street buildings housed the studios of 21 artists: "Many of the [evicted] artists . . . see a paradox in being evicted by public officials who claim to support the arts and have used better-known artists to sanitize Times Square. . . . The artists in the building said they watched [the erection of art exhibits in the area] with a sense of dread as the art improved the street. They knew they were seeing a harbinger of their own evictions."[54] Action movie fans lamented the absence of their favorite theaters: " 'They're looking to move in a new class of people here,' said Wayne Williams, a hospital worker from . . . Brooklyn. 'They want to get rid of the poor folks. Who's going to pay $22 to see Shakespeare? I want to pay $5 to see two karate movies.' "[55]

Despite its considerable investment in land taking and relocation of occupants, adding up eventually to more than $400 million, the Prudential Insurance Company decided in the summer of 1992 that it would not proceed with the office project. The UDC sought to hold it to its word but finally acquiesced to a compromise in which Prudential and Park Tower agreed to reserve their right to build offices on the site.[56] Until they considered the time ripe for new construction, they would invest about $20 million in refurbishment of the existing buildings for retail, restaurant, and entertainment uses. They were exempted from the earlier requirement that they contribute to subway station improvements, and half their required contribution to theater renovation would be reimbursed to them. Tax benefits were increased, although the city and the UDC would continue to participate in rental profits. The benefits from abatement of real-estate taxes could go up to as much as $1.5 billion over the 20-year abatement period if the real-estate market took off.[57]

By default, the moderate renovation of the area, in which no one was initially interested, became the interim development plan for Times Square. It permitted a market-driven process to determine what kinds of companies would choose to locate in Times Square. Despite the weakness of the city's economy at that time and the insecurity of the leases, which permitted the developers to exercise eviction rights when they chose, initial response to the new scheme was very strong. Numerous retail, restaurant, and entertainment tenants immediately sought space on 42nd Street.[58] The process was aided by the formation of the Times Square Business Improvement District (BID). Funded by a self-imposed tax on local businesses, the BID took charge of street cleaning, marketing, and public safety. Its high-powered leadership took an active role in promoting the area and attracting businesses that would add to its vitality. It was instrumental in changing the image of Times Square.

In the meantime, a harbinger of Times Square's future direction came when Bertelsmann AG, the giant German media conglomerate, purchased a one-million-square-foot tower on Broadway a few blocks to the north of 42nd Street. This building was one of several empty structures built under the liberalized zoning code that prompted a wave of construction at the end of the '80s. Bertelsmann bought the building for less than half of its construction cost from a consortium of Japanese and American banks that had financed the building and received it when the developer failed. On the ground-floor level it rented space to what purports to be the world's largest music store, which has created a carnival ambiance reminiscent of a theme park pavilion. Along with its bargain price, Bertelsmann gained a variety of tax subsidies from the city and in return agreed to finance street improvements and provide below-market-rate space for foreign firms moving to New York.[59] In the ensuing years a number of other media companies, including Reuters, MTV, Viacom, and ABC, followed Bertelsmann into Times Square.

Still, despite the gradual move of various enterprises into the area north of 42nd Street, that street, which had been the focus of the redevelopment effort and

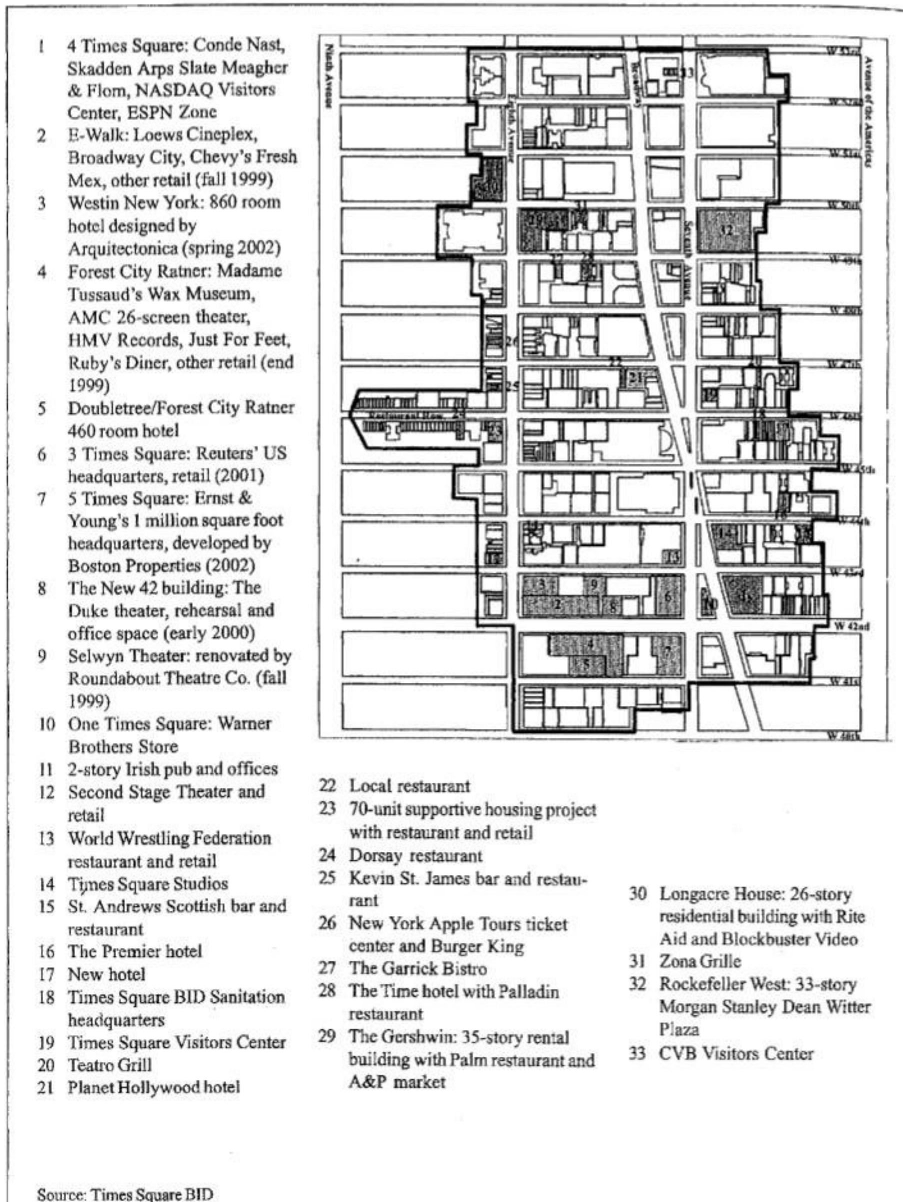

Figure 6.1. Times Square recent and expected additions, 2000

the recipient of half a billion dollars of investment, remained only partially occupied. All prospects changed, however, when the Disney organization, having achieved great financial success with its Broadway production of *Beauty and the Beast,* indicated interest in the landmark New Amsterdam Theater. The theater, which the city acquired in 1982 and which at that time was in good repair, had been allowed to deteriorate and, because of a leaky roof, would cost at least $50 million to restore.[60] Disney's attention spurred the notice of others, including Madame Tussaud's; American Multi-Cinemas (AMC), which built a 25-screen multiplex; and MTV, which developed a production facility.[61] Renovation of the theater was eventually undertaken by the Disney Corporation with considerable help from the city. 42nd Street once again became a center for mass entertainment.

Disney was a reluctant suitor, demanding many enticements from the city before it was willing to anchor the development. Besides asking for major financial concessions, Disney declared it would not commit itself to the street unless two other major entertainment firms did likewise. At the eleventh hour, just before the company's deadline, the city did come up with two other bids, and the long-awaited rejuvenation of 42nd Street began. In addition to the costly restoration of the street's most ornate theater, which became the home of the immensely successful *Lion King,* Disney constructed an adjacent megastore; Warner Brothers built a similar enterprise across the street; several more theaters underwent renovation; another movie complex went up; and two big new hotels anchored the western end of the block between Seventh and Eighth Avenues.

With the New York economy finally revived, Prudential, which had become the sole owner of the office sites, decided to sell them rather than developing them itself. As of 2000, one was in operation, a second nearing completion, and the other two just begun. The scale of the buildings remained as in the original plan, although the architecture was much more playful, and the buildings no longer formed a uniform ensemble. The Condé Nast Publishing Company committed itself as the anchor tenant for one of the buildings, reinforcing the image of Times Square as a media center.[62] It shares the building, which opened in 1999, with Skadden Arps Slate Meagher & Flom, the city's largest law firm. Reuters, the British news service, took the office site across the street. It forged an equity partnership with the developer, William Rudin, and designed the building for use both as headquarters of its American news operations and as the location of the trading floor for its online stock venture. Reflecting both the time it took for the Times Square scheme to come to fruition and the character of New York's real-estate companies, Rudin commented: "My father was involved in [the] effort to redevelop Times Square 25 years ago."[63]

The new Times Square is perhaps unique in its diversity of commercial uses. The original plans for the office buildings envisioned them as single-use structures of sufficient sobriety to overcome Times Square's raffish image. No one imagined that a prestigious law firm would willingly share a building with the ESPN Zone, a themed sports bar and restaurant that occupied the ground floor of

the Condé Nast Building, or that the publisher of the *New Yorker* would countenance a megasign on its building.[64] Surprisingly, Times Square attracted not only media and publishing headquarters but also major financial firms. Thus, Morgan Stanley/Dean Witter occupied two buildings, one of which was adorned with "zipper" signs flashing the latest stock market figures. An industry breakdown of Times Square commercial leaseholders found that finance and law had the largest shares, closely followed by fashion, entertainment, and banking. In terms of employment, business services headed the list, followed by retail trade, banking and finance, and entertainment services. In addition, 28 hotels, containing one-fifth of the city's hotel rooms, were in the area in 1999, and several more were scheduled to open the following year.[65]

The synergy created by the relationship between the production and the consumption of entertainment has heightened the district's attraction to tourists and suburbanites, who constitute more than two-thirds of the pedestrians in the area.[66] Thus,

> the production and marketing needs of the entertainment industry result in a remaking of the global city as a tourist mecca on a previously undreamed-of scale. Whereas the production sites of other industries are rarely magnets for visitors (except when retrofitted as historic or tourist sites), the actual fabrication of the entertainment product—and the themed stores and restaurants that give the visitor a vicarious feeling of participation in the creative process—become major attractions in themselves. Further, urban culture becomes an exotic object of tourism increasingly mediated through the entertainment industry. This outcome undercuts old distinctions between sites of production and sites of consumption.[67]

A visitor to Times Square encounters vast crowds and sensory overload. If economic expansion, visual excitement, and popularity are the criteria for successful redevelopment, then Times Square is a winner. Yet many have attacked the redone Times Square for its fakery, for sanitizing or Disneyfying an area that was formerly genuinely diverse and that now only provides a simulacrum of diversity, a safe adventure. In the words of one thoughtful critic:

> In the final analysis, it is possible to criticize the redevelopment of Forty-second Street with regard to its implications for a democratic public space. In an effort to create a place marketable to mainstream tourists and corporate tenants, a coalition of public and private elites imposed a Disney model of controlled, themed public space on an area of remarkable, if unsettling, diversity. In so doing, they sacrificed the provocative, raw energy produced by the friction of different social groups in close interaction for the stultifying hum of a smoothly functioning machine for commercial consumption. In this way, public and private elites arguably destroyed the essence of Times Square as a contested public space.[68]

Without a doubt, Times Square is both safer[69] and more expensive than it was 20 years ago. As noted above, its economic composition is much more diverse than previously. In addition, more people visit it than ever, and the proportion that is poor and minority has almost certainly diminished in relative terms, but it is not clear that it has declined absolutely in number. A survey of daytime pedestrians on a summer day in 1998 identified 58 percent as white, 21 percent as African American, and 11 percent as Hispanic; 31 percent had incomes below $30,000. These figures indicate that the area has certainly not become completely gentrified, even though the study reported that the average pedestrian was young, single, middle class, and college educated.[70] Should we say that a place is less diverse or less democratic because it now attracts the middle mass where previously poor people of color were perceived to dominate? Are visitors better off with real risk than with ersatz adventure? Marshall Berman, a somewhat ambivalent observer of the new Times Square, queries:

> So should we worry? . . . The scale, incandescence, and symbolic power of Times Square make everything here more urgent and intense. Long-standing rage against Disney is part of the deal. This is based partly on an accurate view . . . but also on prejudices of our own: prejudices of many intellectuals against mass culture, prejudices of seltzer against orange juice, of ethnic easterners against middle America, of New York against the world. I'm not exactly saying these prejudices are wrong: I'll fight for most of them, but they could stand some critical scrutiny.[71]

Times Square is a product of big capital in alliance with government. A different development scheme might have proved more sympathetic to the aspirations of nearby residents and less transformative of the city's fabric. In the first edition of this book, written at a time when the project appeared to have failed, I wrote that less ambitious development and the use of regular capital budget funds for public improvements, while not as immediately lucrative, would in the long run be cheaper and contribute more to the quality of life of those who lived and worked in the area. The choice to proceed with the office-center strategy resulted from acceptance of the growth criterion untinctured by a commitment to equity and human scale in design and also unconstrained by caution over the likely demand for space. As it turned out, the less ambitious strategy, constituted in the interim plan, acted as the launching pad for the four enormous office buildings. Given Times Square's central location and the demand for space at the turn of the new century, its redevelopment acquired a certain inevitability.

My critique of the city's policy does not rest on the destruction of public space, which seems to me not nearly as serious as the detractors allege. Times Square remains a place of mass entertainment, and even though the cheap movies may have departed, one can stand on the street and watch television shows being made, visit the Virgin music megastore without buying anything, purchase half-price theater tickets, and play video games in immense arcades. That the great majority

of people on the streets are tourists and suburbanites should not in itself be construed negatively.[72] Rather, I fault city policy for the enormous tax giveaways involved, its failure to get much in return from the developers, and its relaxed interpretation of the zoning ordinance to allow the construction of oversized structures in an already extraordinarily congested area.[73]

LESSONS

Initiation of both projects began within the public sector. Pressures from the public side (BR in the King's Cross case and the City of New York for Times Square) forced the developers to design a complex that would produce the maximum return. With manufacturing regarded as a vestige of the past, public officials and developers insisted that only offices for financial and advanced-services firms could nurture economic expansion; they were extremely unwilling to entertain other possibilities. The King's Cross consortium, even when confronting a market that would not support its planned development for many years, still refused to examine the alternative plans presented by the Railroad Lands Community Development Group. The Camden council, caught in the middle, acquiesced to the developers' viewpoint so that it could have access to the resources offered by planning gain. In the Times Square area, the development partnership initially ignored the obvious strategy of an improved entertainment and retail district. Despite its reluctance, however, it eventually yielded to market pressures and endorsed the concept of its opponents.

In both cases, the ironic outcome of the early '90s recession was to force acceptance of a more varied and appropriate concept for development. Although little has come to fruition in King's Cross so far, when redevelopment does finally occur, its scale will be more modest than originally conceived, and its orientation will be toward tourism, entertainment, and small business. In Times Square, promotion of an entertainment district ended up making the area safe for the kinds of financial and service firms that the planners had sought at the start. The outcome resembles that in Soho earlier, where popular opposition to demolition for a highway allowed the unplanned growth of an arts-oriented district that ultimately succumbed to the infusion of capital in the form of high-end retailing and upper-income habitation. It turns out that the popularity of spontaneously generated spaces makes them quite as receptive to investment by major capitalist enterprises as planned megadevelopments are.

Although members of the affected communities never were able to shape the planning process to their will, they did succeed in delaying the projects until the market had collapsed. In King's Cross, where the failure to achieve early planning permission meant that existing occupants were not evicted, no drastic, disruptive change in the status quo occurred. Businesses located there, however, had to operate under great uncertainty, which continued after the slump as a result of the government's vacillation over a financial commitment to the Channel Tunnel railroad station. In Times Square many small businesses and ancillary enterprises to the theater industry were driven out, and 42nd Street itself, as well as several of the new office buildings to the north of it, was vacant for a number of years.[74]

Both the King's Cross and Times Square schemes point to the strongly speculative element in wholesale redevelopment. By forcing the development teams to propose very large projects, the public sector increased the risk element. The opportunity costs of this strategy are quite high—its all-or-nothing approach can, with a downturn in the market, produce nothing. In both cases, the obduracy of the original development consortia in adhering to their aspirations for a megacomplex of offices doomed their projects, not because of direct community antagonism but because their business assumptions were faulty. Times Square's rebound eventually more than fulfilled the city's aspirations, but, except for the theater owners, none of the original developers profited from it.

Initial planning for the projects did not take into account the particular character of the surrounding neighborhoods. The types of jobs anticipated were not appropriate for existing workers, and the kinds of businesses were not outgrowths of commercial enterprises already there. Although large, centrally located tracts like these should be planned to serve the city as a whole, such planning need not be blind to existing strengths nor wholly ignore the particularities of locale. The early '90s slump in the office market seemingly saved King's Cross and Times Square from disaster as it provided the breathing space to allow for more gradual development.

7

Creating New Centers: Spitalfields and Downtown Brooklyn

Spitalfields and downtown Brooklyn were areas considered peripheral to their cities' central business districts, although on the basis more of psychological than of physical distance. Each contained underused old commercial sites surrounded by very poor neighborhoods with predominantly minority populations. Plans for their redevelopment involved an array of government subsidies; in both locations private developers committed sums for the betterment of the area. Although the developments proposed for these two locations involved land use changes that threatened existing residents and businesses, they also promised employment and other economic benefits in parts of the city otherwise offering scant opportunity. Consequently, governmentally sponsored redevelopment initiatives found greater favor with the local community than was the case at King's Cross and Times Square. Many community activists saw the potential for gaining commitments to their enterprises from the project's public and private sponsors.

SPITALFIELDS

From an upper-floor window of the Broadgate office complex, home to many of the world's leading financial and advanced-services firms, one can survey the sprawling structure that once held the Spitalfields produce market. For more than 300 years its merchants purveyed fruits and vegetables to the greengrocers and restaurants of central London.[1] In the year 2000 the market was the temporary location of a hodgepodge of vendors, restaurants, and athletic facilities, while it awaited transmutation into a multiuse office-retail-residential complex. Additional sites along Brick Lane, further to the east, were also targets for redevelopment. As in King's Cross, the character of the expected redevelopment had changed over the preceding fifteen years, with the goal of building yet another giant office com-

plex receding. Instead, as in King's Cross, change was coming incrementally and on a lesser scale. The Spitalfields area constitutes a ward within the "neighborhood" of Bethnal Green, which itself is part of the borough of Tower Hamlets. The boundary between the City of London and Bethnal Green runs through the market site. Yet, while only a block separated the financial traders in Broadgate from the produce traders of the market, they existed in separate worlds, marked by vast divergences in both land uses and population. Even today clothing manufacturing ("the rag trade") and leather-working remain the principal industries of the Spitalfields area. Commercial outlets located on Brick Lane are mostly down-market "Indian" (actually Bengali) restaurants and groceries, sari shops, and workingmen's pubs. Buildings are low-rise, and many of the shops have domiciles above them. Unlike the City of London, where few people live, the area is densely populated, and the dominant form of tenancy is council housing and private-rental tenements.[2]

In the centuries since the inception of textile manufacturing by Huguenot silk weavers, this part of East London has been the first stop for waves of immigrants entering England. After the Huguenots, Irish and Jewish groups settled the area; Bangladeshis now make up a majority of the population, with the remainder con-

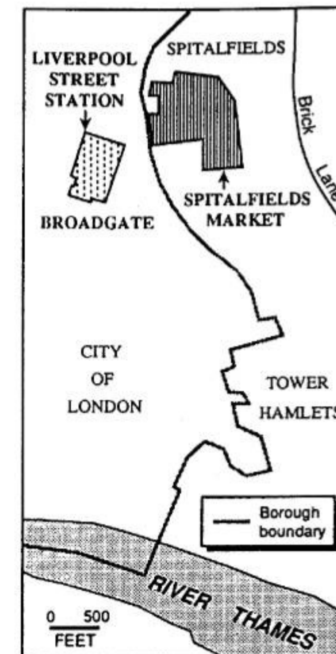

Figure 7.1. Spitalfields

sisting of a diversity of nationalities.[3] The newcomers have lived under squalid conditions in extreme poverty:

> Despite the repeated pattern of successive migrations of peoples from rural areas to the same bad housing and the same jobs, the different groups of migrants share little else. They have found themselves in Spitalfields for many reasons, and have expected a multitude of different things from their stay. The Jews were fleeing pogroms, their previous existence was unstable, they had nowhere to return to. They came in desperation. Bangladeshis came from settled rural communities whose basic patterns were unbroken even by the British empire. They came in hope; they never expected to settle here.[4]

The plight of Spitalfields' inhabitants did not improve despite their proximity to the economic frenzy a stone's throw away in the City. In a 1986 ranking of London wards derived from four indicators of deprivation, Spitalfields ranked the most deprived; only one ward exceeded it in unemployment, and none even approached it in levels of overcrowding.[5] The growth of financial services employment in adjacent areas, however, had produced demographic change in other parts of its borough of Tower Hamlets. High-end residential development, spurred by the London Docklands Development Corporation, filled the Thameside wards with newcomers who worked as professionals, managers, or white-collar support personnel in the City. At the same time, the children of the old, white working class increasingly moved out to more suburban locales. Nevertheless, even with this boost to the upper end of the Tower Hamlets population, a 1998 ranking placed it as the sixth most deprived local authority in the United Kingdom. Current ward-level data are not available, but this fact indicates that the poorer sections of the borough remained extremely disadvantaged. And, although "ethnic color" and landmark buildings did attract a fair number of visitors, the area largely remained insulated from the cosmopolitan metropolis around it.

The majority of the borough council saw large-scale development as a chance for planning gain and local economic improvement. According to a councillor who opposed the various development initiatives:

> In a community like this, people don't know where to go. People are out of school, they don't have any sign of employment. This is an underclass community. It is easily manipulated by the wealthy. The developers came and gave them hope, they used the leaders to manipulate the local community. The larger community will lose from development in Spitalfields. But the leaders were bought out, and the community is divided.

Community and Business Groups

A long history of community activism had produced a number of Bengali advocacy groups in Bethnal Green.[6] They were rooted in two main struggles: the effort to obtain decent living accommodations for Bengali families and the need to protect the Bengali community from racialist attacks, particularly prevalent in the late 1970s. These groups had succeeded in establishing a housing cooperative, attracting several housing associations into the area, and making the neighborhood fairly secure.

At the start of the '80s, community organizations feared a repetition of the wholesale conversion and exclusion of local viewpoints that they perceived as taking place in the Docklands.[7] In 1981 the London Docklands Development Corporation (LDDC) had taken over planning authority for the portion of Tower Hamlets alongside the Thames. The proposed restructuring of the western portion of Spitalfields for office uses threatened to reproduce the Docklands scenario there. The developers in the meantime, anticipating fierce opposition and lacking the protection of the LDDC, attempted to assuage local antagonisms through an expressed willingness to negotiate and through contributions to local betterment.

Business firms had become unusually active in sponsoring local programs within East London. Typically, British business leaders had not involved themselves in community activities; as developers' interest in this area grew, however, they began working through an association called the East London Partnership (ELP). The ELP was originally chaired by Sir Alan Shepherd, head of the Grand Metropolitan conglomerate, which owned the Truman's Brewery within Spitalfields—one of the proposed development sites. An offspring of the national organization Business in the Community,[8] the ELP counted in its membership the head officers of 45 large and medium-sized companies operating within the three East London boroughs of Hackney, Tower Hamlets, and Newham. As well as acting as a lobby on transit issues,[9] it provided small grants and technical assistance to community groups, including Bengali women's organizations, within East London.

The Market Site

As the City fringe began to fill up with office buildings and smart service establishments, the vegetable hawkers and the motor traffic that they attracted became more and more at odds with their surroundings. At the same time, some of the historic structures surrounding the market were gaining appeal as residential locations. The psychological barrier that had separated the City of London from Tower Hamlets became breachable. The Corporation of the City of London, which owned the Spitalfields market, issued a tender document for the 11-acre site in 1987; the winning bidder would commit itself to relocating the market traders in return for a long-term lease that would permit it to develop the site for office and retail uses.

A consortium consisting of three major property developers, calling itself the Spitalfields Development Group (SDG),[10] successfully proposed a multiuse, predominantly office scheme for the market buildings and their vicinity. As a first step, it spent £40 million to move the market to Hackney. This required an act of

Figure 7.2. Spitalfields Market, with a view of Hawksmoor's Christ Church

Parliament to revoke the royal charter that had established the market in the 1600s; in the more than two years that it took to achieve parliamentary assent, antagonism to the proposal built up and a "Save Spitalfields" campaign germinated. Criticism came from two sources: middle- and upper-class conservationists concerned with the project's impact on the historically significant environment, and community advocates who feared the socially and economically destabilizing effect of office and modern retail establishments on the Bengali community.

The SDG was close to receiving planning permission from the Tower Hamlets council in 1990 when the plan was called in by the Secretary of State for the Environment for examination of its influence on the historic setting. The Secretary of State, who had the power to remove development decisions from the jurisdiction of the local authority, was responding to pressure from the conservationists within English Heritage and the Royal Fine Arts Commission rather than from the resident community.

By the time the market relocation actually took place in 1991, the effect of the Big Bang on the office market turned out to be less than anticipated, and the SDG indicated its willingness to reduce the floor areas first proposed. After discussions with the Department of the Environment (DoE), the developers agreed to redesign their project and hired a U.S. architect, Ben Thompson, with a British firm acting as local agent. Thompson had become famous for his design of Faneuil

Hall Marketplace in Boston—the first major festive retail mall developed on a historic market site. His modifications to the plan overcame conservationists' objections, but Labour politicians continued to fault the scheme for its alleged insensitivity to local residents.

Planning permission was still in abeyance at the time of the market relocation in 1991. Outline consent was finally granted in 1992 by the Tower Hamlets local authority and the Corporation of London, but as of March 1993 the DoE was still considering the proposal. The plan, as approved by Tower Hamlets, called for 1.1 million square feet of offices (including a 16-story modern glass tower, designed by Sir Norman Foster, the principal architect of the King's Cross plan, "to be a gateway into the Spitalfields site"),[11] together with 68,000 square feet of shops and 165 flats.[12] Governmental participation in the various Spitalfields projects did not involve the kinds of financial subventions New York City provided for developers. Public-sector incentives were of two kinds: (1) The City of London offered the developers a large, central site at a low initial cost and tied future payments to returns on the property; and (2) Tower Hamlets relaxed density standards to increase the developer's profit potential.

The SDG negotiated its planning gain package with the Tower Hamlets council. The Spitalfields Community Development Group (SCDG, described below) did not participate in these discussions; to the extent that local residents were represented, it was through the affected neighborhood councils.[13] In addition to assuming the costs of market relocation, the SDG committed itself to a development agreement whereby the 127 houses on the market site would be deeded to local housing associations. It also assented to the payment of a £5 million contribution to a charitable trust (the Spitalfields Development Trust) and to a pledge of £150,000 per year for job training.

Labour politicians in Tower Hamlets nevertheless continued to oppose the development on the grounds that it would result in secondary residential displacement and would drive out unskilled jobs. The developers—in a familiar refrain—contended that only a massive development could provide enough return to support debt service, the land rent, and the planning gain package. Whereas community representatives felt that the council had succumbed to a Faustian bargain, an officer of the SDG commented to me in 1991: "If we were asked to sign up today, we wouldn't." He expressed gratitude for the delays that had held up final planning permission, given the absence of financing and the glut of office space that prevailed at that time.

In the years since then, various initiatives have occurred within the market and its immediate vicinity. A housing developer put up a number of residences across from the market buildings that included both upmarket, owner-occupied units and affordable housing. The Spitalfields Development Group sold part of the site to the London Futures Market, but it failed to realize its expectations and was bought out by the City of London Corporation. The SDG's loss totaled about £150 million in 2000, although it still retained the right to develop part of the site.

In the meantime, in an extremely unusual precedent, the SDG brought in an entrepreneur, Eric Reynolds, to develop the venue for interim uses. He filled the market hall with stalls for craftspersons to vend their wares; courts for handball and other sports; ethnic food stands; bars; and hip restaurants. Decor was minimal, and, once the space was vacated, as was expected during the year 2000, the tenants were invited to move their premises to the Bishopsgate Goods Yard (see below).[14] Despite the rather minimal investment and informality that characterized the interim market uses, the enterprise created about 1,000 jobs, almost two-thirds of which went to local residents.[15]

The SDG only received final, detailed planning permission for its scheme for the part of the market it still owned in mid-July 2000. Likely occupiers would be legal and financial firms. The other part of the market, now owned by another developer, was still in limbo, but the intention was to refurbish it for retail and restaurant use.

Brick Lane

Brick Lane constitutes the heart of the Spitalfields community. For much of the twentieth century, the establishments of kosher butchers and Jewish tailors lined the street. With the arrival of the Bengalis, the ownership of the local clothing manufacturers changed, and the cuisine purveyed along the street became that of the Indian subcontinent. When the SDG's initial plans for a redeveloped market, only three blocks to the east of Brick Lane, were announced, the Bengali community saw a threat to its meager economic base. Two large parcels of land comprising 27 acres on Brick Lane—the Truman's Brewery and the above-mentioned Bishopsgate Goods Yard—became identified as development sites. The Truman's Brewery, like the market, was a centuries-old institution; its owner, Grand Metropolitan, a large conglomerate with interests in land development as well as food and leisure activities, shut down brewing operations as it prepared a development plan for the area. The vacant Bishopsgate railroad yard had earlier also been envisioned as the location for a large office development. British Rail saw the disused goods yard as yet another opportunity to transform its property holdings into negotiable assets.

Community groups that had unsuccessfully contested the government's plans for Docklands and had opposed redevelopment of the market turned their attention to Brick Lane. In response to the perceived threats and opportunities of large-scale commercial development there, most of these groups came together under the umbrella of the Spitalfields Community Development Group (SCDG). The SCDG, rather than simply opposing development, argued that the two Brick Lane sites should be addressed within an integrated plan for the whole area. In return for community acceptance of office uses on the two sites, it asked that part of the land should be placed in trust for the community's own uses. The SCDG envisioned a "Banglatown" shopping center, which would both serve the community and draw a broader market of consumers seeking ethnic food and crafts. It also called for a training strategy and for social housing to be built before office construction.

In 1989, using funds provided by the central government's Spitalfields Task Force and by Business in the Community, the SCDG published a detailed community plan.[16] The following year, with the backing of the Bethnal Green Neighborhood Council, it achieved an agreement with Grand Metropolitan in which twelve acres would be donated to a community trust. The SCDG had three principal concerns: (1) The projects should generate retail opportunities for Bengalis; (2) garment manufacturers, especially leather-goods makers, who were regarded as the only local manufacturers with much market potential, would have access to capital; and (3) project sponsors would make a serious effort at implementing employment training schemes. To ensure that the agreement would be implemented, the SCDG demanded ongoing participation in the planning and execution of Brick Lane development, not simply a one-time planning gain agreement.

When the regeneration projects for the brewery and the goods yards were stymied by the property slump of the early '90s, the hopes of the SCDG also foundered, tied as they were to contributions from the developers that had not materialized. During the later part of the decade, however, pressure on land increased, as office buildings immediately adjacent to the Broadgate—including a huge structure built for the Dutch bank ABN AMRO—began to encroach on land that had formerly been considered part of the East End. Increased demand for housing by upper-income individuals wishing to live near their jobs in the City also pushed up prices within Spitalfields. Because few of the local small businesses owned their own premises, rising property values were likely to drive them out.[17]

In the absence of major development initiatives, small-scale enterprises began to transform the area. The Truman's Brewery became a thriving center for cultural industries, housing about 200 businesses involved in the arts, fashion, music, and design industries. In fact, the area had suddenly become chic:

> [Brick Lane] is part of a larger area of which, it is often said . . . that there are more artists per acre than anywhere else in Europe. . . . Yet there is room for more, and more have arrived, particularly around the huge Truman Brewery, now a nest of workshops, studios and shops. Last September the brewery celebrated its new identity with an event called Designers' Block, and 8,000 came in a day. . . . The eclectic style of the neighbourhood . . . knowingly combines the cool and the designed with the uncool and the undesigned. It is contrived, without wishing to seem too controlled.[18]

The owners, though, had never determined the long-term fate of the venue and had merely settled on these occupants as an interim measure. The lively atmosphere created by this concentration of cultural industries made the area more attractive to large property users, and it was still possible that the brewery would eventually be used for back offices of financial firms. Similarly, the Bishopsgate

Goods Yard, which had lain empty throughout the '90s and was now receiving the sports facilities that had left the Spitalfields Market, was attracting new attention. Owned by Railtrack, the privatized successor to British Rail, its nine acres had the potential to accommodate some very large structures. Its attractiveness was further enhanced by the likely announcement of a new tube line to run across the northern section of the site.[19]

Thus, in Spitalfields, as in Times Square, interim uses oriented toward leisure, entertainment, and cultural production changed the image of the area. It became one more in the list of places that were made safe for capital by uses proposed by opponents of large-scale developments. The precedents of Coin Street in London, Soho and Times Square in New York, and numerous other locales show that moderate investment and changed perceptions can provide a context that ensures the viability of later, more intense investment. The result is doubly ironic. On the one hand, the development coalitions that thought they had to bulldoze communities in order to transform them have been proved wrong; on the other, the defenders of community and diversity, while getting their way in the short run, seem only to produce a situation where they lose their dominance in the longer term.

City Challenge

Although the new wave of property investment might eventually produce some of the hoped-for planning gain that was committed in the original development plans, so far funding of the area's social programs has depended on government assistance. In July 1991, the Bethnal Green district, of which Spitalfields formed a part, was awarded a City Challenge grant for a program of social and physical regeneration (see Chapter 5). City Challenge was an effort spearheaded by Michael Heseltine upon his reappointment as Secretary of State for the Environment.[20] It removed money from various local aid programs in a process known as "top-slicing" and targeted it to needy places, where it would be used for coordinated programs operated by public-private partnerships. According to the Tower Hamlets CEO, the winning of the grant (11 were chosen out of 21 bidders) had largely resulted from a visit by Heseltine to Tower Hamlets. He urged the council to bid for the grant because he was intrigued by its abortive experiment, under Liberal Democratic dominance, with governmental decentralization.

The City Challenge grant provided £7.5 million per year for five years. Responsibility for running the program rested with a nonprofit community organization comparable to an American community development corporation.[21] Its board contained representatives from all the governmental and nongovernmental groups with interests in the area, including the property developers, the council, the ELP, the SCDG, and the housing associations. The emphasis of the program was on job training for construction, office, and child care jobs; English language study; support for local small-business development through grants and technical assistance; and council housing renovation and new construction sponsored by housing associations. It was hoped that the relatively small government grant would act as a catalyst for private contributions. But obtaining private funding depended on implementation of the schemes for the development sites. The bankruptcy of Olympia and York (O & Y) in the summer of 1992 squelched these expectations (see Chapter 9). O & Y had been the major investor within East London; it was an active force within the East London Partnership; the financial positions of other developers were entangled with its affairs; and its vast Canary Wharf complex had been envisioned as the anchor for development to the east of the City. Without resource commitments from developers, City Challenge became one more underfunded inner-city program.

The government replaced support from City Challenge with funding from the Single Regeneration Budget (SRB) for a program called Cityside. Launched in 1997, it involved a grant of £11.4 million over five years. Cityside's main aims were to link local workers and businesses with corporations in the City of London; to contribute to the development and diversification of the local economy; and to make the area more attractive to visitors. Another SRB program, which applied to several other boroughs as well as Tower Hamlets, focused on skill development for the unemployed, environmental improvements, and cultural development. Funding from it, however, was small.

In contrast to earlier regeneration schemes, planning for Spitalfields did not limit itself to physical redevelopment—the City Challenge and SRB grants required the integration of physical and social planning, as well as participation by both business and community representatives. The framers of the City Challenge proposal explicitly dealt with programs to improve residents' language skills, job qualifications, and housing. Cityside focused on local small business and job placement. But, as in Times Square and King's Cross, if the neighborhood were to receive large sums as spin-offs from property development, the projects had to be sufficiently remunerative—and therefore sufficiently large—to create a financial surplus. Projects of this scope, however, would inevitably end up changing the character of the area.

The juxtaposition of the poorest ward in London, populated predominantly by people of color, with the City of London financial district in a period when finance was growing in power and employment presented a perhaps insoluble dilemma. The possibility of even moderate redistribution of the wealth generated in the City to its downtrodden neighbors gave them access to resources lacking by low-income communities on the urban periphery. But any upgrading of a neighborhood so conveniently located was bound to encourage gentrification. Only strong government intervention could really stop this process. But the dependence on the private sector for project funding precluded this level of interference with the market.

DOWNTOWN BROOKLYN

Brooklyn's downtown stood as the business center of an independent municipality until New York's consolidation in 1898. From the start, however, the "city of homes and churches," as Brooklyn was labeled, lived in the shadow of Manhattan; the nearness of "the city," originally accessible by ferry and then by auto and subway, reduced downtown Brooklyn to the status of a secondary service node.[22] Once middle-class customers left the borough for the suburbs, all that remained to sustain the downtown core were government offices, one last major department store, a large but struggling group of small retailers, and the Brooklyn Academy of Music.[23] Earlier urban renewal efforts had caused the demolition of a number of buildings, but no replacements ever reached the construction stage.[24] In the mid-1980s several single-room-occupancy hotels housed the homeless; destitute men hung out in the refuse-strewn vacant lots; prostitution and the drug trade flourished. The only skyscraper was the 34-story Williamsburgh Savings Bank building constructed in 1929, the year before the Great Depression signaled the end of commercial real-estate development in central Brooklyn for the next sixty years.

While depopulation and disinvestment shaped the circumstances of downtown Brooklyn throughout the forty years after World War II, nearby neighborhoods fared better. Brooklyn Heights, directly facing the Manhattan skyline across the East River and isolated from the rest of Brooklyn by topographic boundaries, had maintained itself as an elite white residential area throughout the period. The adjacent Cadman Plaza urban renewal scheme, which produced a shopping center and a complex of high-rise, modernist middle-income residential buildings, further insulated the Heights. Other districts (Park Slope, Cobble Hill, Fort Greene), in which an exodus of the original affluent inhabitants had left a large stock of handsome brownstone houses, became the targets of gentrification. The black population of Bedford-Stuyvesant and Fort Greene expanded, and their large public housing projects sheltered an increasingly impoverished population; nevertheless, parts of these neighborhoods were upgraded by middle-income, mainly black, homeowners, and the hub of African-American culture moved from Harlem to central Brooklyn.[25] Brooklyn also became the destination for a highly diverse flow of Caribbean immigrants—estimated between 1983 and 1986 alone to include 16,000 Jamaicans, 15,000 Haitians, 12,000 Guyanese, 2,500 Granadans, 3,000 Barbadians, and 4,000 Trinidadians.[26] They provided a willing low-wage labor force, and their economic ambitions stimulated the growth of small business within the borough.

A number of factors came together by the end of the 1980s to stimulate the various initiatives aimed at reconstructing downtown Brooklyn. Primary was the felt need by the New York City government to compete with New Jersey in attracting the back offices of major companies. Only in the boroughs was land sufficiently cheap to allow competitively low rental prices. Shifting development interest to Brooklyn would both create a less expensive business core that could

vie with out-of-state locations and deflect criticism that the mayor's office cared only about Manhattan.[27] Moreover, it would respond to the urgings of the Regional Plan Association (RPA), an influential private body, which had envisioned downtown Brooklyn's elaborate transit infrastructure as creating the potential for a "third node of the Manhattan business district."

In tandem with the government's desire to see office development in the borough, private developers had begun searching more broadly for developable locations as Manhattan's construction boom absorbed the remaining parcels within its central business district. Two large Brooklyn sites presented themselves. One, adjacent to Polytechnic University, a private engineering school located on the edge of downtown, was being promoted by that institution as an ideal site, offering a potential synergy between the university's technical capacity and the needs of high-tech industry. Called MetroTech, this project opened for occupancy in 1990. The second, Atlantic Terminal, appeared the best prospect for commercial growth, as it was located above the largest confluence of subway and train lines in New York.[28] It opened in 1996.

MetroTech

In 1984 Polytechnic University announced expansion plans and issued a request for proposals (RFP) to develop its surrounding area; the university's board envisioned the construction of a high-tech center, a sort of Silicon Valley East. Al-

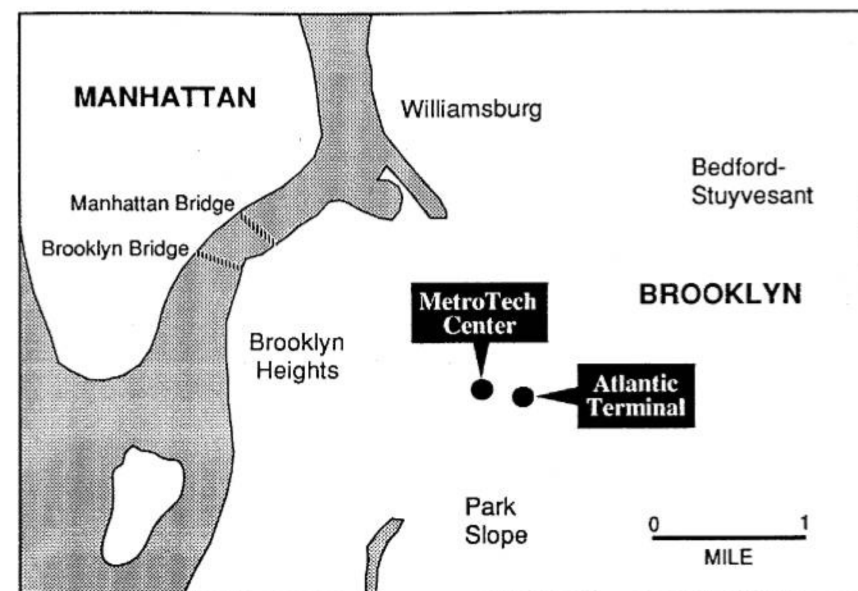

Figure 7.3. MetroTech Center

though the sixteen-acre site had years earlier been designated as an urban renewal area, it still housed about 100 families, 60 small businesses, and five governmental agencies. Bruce Ratner, a former New York City commissioner of consumer affairs, felt that the location had potential. He had recently entered into a joint venture arrangement with Forest City Enterprises,[29] a Cleveland, Ohio, development firm[30] run by members of his family, and he persuaded his partner to join with him in responding to Polytechnic's RFP.

Forest City Enterprises is a publicly held firm that originally specialized in secondary markets. Its officers described it as an institutional rather than a speculative developer—that is, it projected future earnings on the basis of present market conditions rather than assuming that increases in returns on its investments would exceed the rate of inflation. Although its shares dropped nearly two-thirds in value between 1989 and 1992, it remained solvent by avoiding heavy leveraging; according to its founder, it had "almost no cross-collateralized mortgages or corporate guarantees . . . no second mortgages or recourse on our mortgages."[31] Forest City tried to identify areas where it would not face competition, and it did not seek construction financing until the building was at least half preleased. While superficially the sorts of places it selected appeared to offer weak prospects, they presented cost advantages, and public subsidies were available to further reduce risk.[32] During the '90s it continued its practice of investing in peripheral locations, but it also increasingly participated in large, centrally located projects that attracted other developers, especially if they involved governmental subsidy.

Polytechnic's RFP corresponded exactly with Forest City Enterprises' strategic criteria of the time: No other developer was sufficiently interested in the area even to make a bid, and substantial governmental assistance could be obtained. According to one of the development company's officers, "Forest City Ratner realized that financial services were the high-tech firms of New York. They were big computer users. They could be advantaged by proximity to Polytechnic." The original vision of research laboratories and software outfits became transformed into yet another corporate office scheme, although somewhat disguised by the rubric of "high-tech." The development firm formulated a concept for a 4.2 million square foot office project in which it would pursue the computer processing operations of the financial industry.

Many of Forest City Ratner's staff members had worked in city government, and they knew how to use public benefits to bring total occupancy costs for tenants down to New Jersey levels. As a Forest City executive described the process: "Unless you worked in the public sector, understanding it is not easy. We were able to structure subsidies by setting up a 'pro forma' showing costs in Brooklyn versus New Jersey and then identifying the gap and filling it in rather than just throwing money away."

The Public Development Corporation (PDC) (later to become the Economic Development Corporation) acted as the lead city agency on the project. At the behest of Polytechnic University and the development firm, it condemned the land,

demolished the existing structures, and relocated the residents and businesses. In return, the city government was to receive a ground rent. Forest City Ratner put in about 10 percent of the private equity investment itself and obtained the rest of its financing from Japanese banks. Even though it adhered to its policy of not building until there were committed tenants, it still had considerable difficulty gaining a long-term mortgage, as financial institutions continued to regard Brooklyn as a risky proposition.

Under the city's Industrial and Commercial Incentives Program (ICIP) all firms moving into MetroTech benefited from a pass-through of property tax reductions for 22 years; a twelve-year exemption from the commercial occupancy

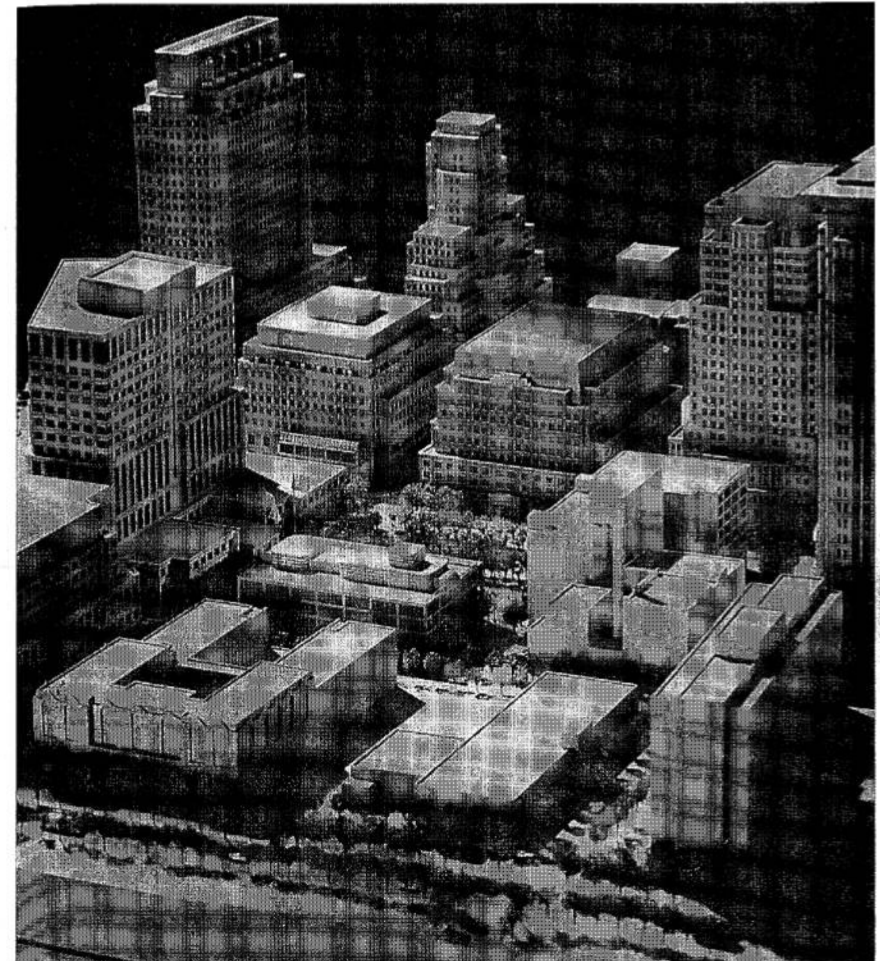

Figure 7.4. A scale model of MetroTech Center

tax; and a $500 per employee credit on the city's business profits tax for twelve years. Brooklyn Union Gas, a private utility, took advantage of the incentives and committed itself to vacating its old headquarters and moving to the nearby site; an $8 million federal Urban Development Action Grant (UDAG) supplemented the developer's investment in its building. The Securities Industry Automation Corporation (SIAC), a nonprofit provider of computer services to the stock exchanges, became the first tenant of the new MetroTech complex to move from Manhattan. In addition to the standard ICIP incentives, it received a $6 million federal UDAG, a $10 million equity investment from the city's Municipal Assistance Corporation (MAC), and a $5.5 million construction grant from the city's capital budget. Because New York's extremely high utility charges penalized heavy computer users, it was necessary to provide cheap electrical power. The company therefore received a substantial discount from the privately owned Consolidated Edison electrical utility, which in turn got a city tax subsidy for its largesse.[33]

The next enterprise that left Manhattan for Brooklyn did even better. The Chase Manhattan Bank in 1988 indicated that it was seriously interested in moving its data processing operations with their 5,000-person workforce to Jersey City. In exchange for reconsidering and committing itself to MetroTech, it obtained more than $100 million above the as-of-right incentives. Altogether the value of tax relief, site improvements, and electricity discounts amounted to $235 million,[34] and part of the tax abatement was granted to Chase's headquarters in Manhattan. In defending the arrangement against criticism of its munificence, Gov. Mario Cuomo rationalized: "Nobody held us up. This is a tremendous deal." The vice-president of the Regional Plan Association (RPA) commended the city: "It is appropriate and a very practical approach to give away the store to get the first firms in."[35] Chase bought a full-page advertisement in the *New York Times,* in which to express its gratitude for the efforts of Governor Cuomo and Mayor Koch in making Brooklyn attractive to it;[36] according to the ad, however, "what tipped the scale in favor of New York was the simple fact that for nearly 200 years New York has been our home."[37]

The financial concern Bear Stearns, the next company to win a special package of benefits for coming to MetroTech, did not justify its move in such sentimental terms:

> "The only way we could go to Brooklyn—because we figured that Brooklyn and Jersey City were roughly equal—was if the city would do more," Mr. Lang [its managing director] said. . . . As Mr. Lang told it, his message was: "We need relief at 245 Park [its headquarters in midtown Manhattan] or the MetroTech deal won't work. You're killing us with the real-estate taxes."[38]

The estimated value of the discretionary benefits given Bear Stearns on top of the ICIP package was $17 million, including the provision of lower-cost New York Power Authority electricity to the Manhattan building. Other reasons presented for its choice of Brooklyn were the speed with which the Dinkins administration

put together the subsidy program; the fact that space in the Brooklyn Union Gas building was immediately available; and the knowledge that 57 percent of its 1,500 employees lived in Brooklyn, Queens, and Staten Island and would have difficulty commuting to New Jersey.[39]

Both the Chase and Bear Stearns deals involved tax benefits to structures in the Manhattan CBD occupied by other sections of the target firms. Therefore, although ICIP subsidies had been deliberately removed from Manhattan some years earlier, the outcome of directing discretionary benefits to Brooklyn was, in effect, to provide assistance in Manhattan. This breaching of the intent of the ICIP restrictions began under Mayor Koch and continued under Mayor Dinkins.

The subsidy program had succeeded in bringing enterprises to Brooklyn that otherwise would have avoided it. MetroTech, which included a three-acre outdoor commons, added a clear amenity to the decayed downtown. The complex, constructed according to a master plan created by the New York firm of Haines Lundberg Waehler, opened out onto the regular street grid, and it did not present the walled-off visage that characterizes most new development in areas perceived as dangerous. Different architects designed each building, with Skidmore, Owings & Merrill, the best-known of the participating firms, responsible for the largest amount of space. Although the architecture of the various buildings was undistinguished, it was not overbearing, and local people seemed to use and enjoy the greenery and special events provided in the commons. Intensive policing by both the New York Police Department and a private security force combined with a greatly increased amount of foot traffic to cause the felony crime rate to drop by 23 percent between 1989 and 1991.[40]

MetroTech unquestionably revitalized the area. The development strategy produced a project more than 95 percent occupied, and surrounding retail and service businesses began to feel multiplier effects,[41] but they also were confronted by sharply rising rents, and local owners saw the arrival of competition from well-capitalized chains.[42] Forest City Ratner purchased the Albee Mall, a faltering nearby shopping center, with the aim of improving its appearance and merchandise. The MetroTech business improvement district (BID), funded by the businesses within the project and its vicinity, provided sanitation and security; programmed special events; and worked with community groups, merchants, and local high schools on public events and beautification projects. Receipts from the sales tax on construction purchases were set aside to fund an employment training council, and part of an office building was established as a business incubator, wherein fledgling businesses would pay low rents and receive technical and administrative services. Thus, the economic benefits of the project were spread to some degree around the surrounding area.

In the spring of 1992 black groups formed the African-American Coalition for Economic Development over the issue of jobs at MetroTech. It contended that the heavily subsidized office complex did not create employment for Brooklyn's black population. Officials at Forest City disputed this claim, arguing that 10 per-

cent yearly turnover in clerical jobs within the complex assured hiring of neighborhood people. Hard data are not currently available on the employment effects of the project.

Atlantic Terminal

Spurred on by its success at MetroTech, Forest City Ratner apparently decided that with contributions from government, it could transform all of downtown Brooklyn. Except for one hotel and office complex across the street from MetroTech,[43] the firm assumed the responsibility for developing every potential commercial location in the area. Most significantly, it entered into a partnership with Rose Associates to develop the city-owned Atlantic Terminal urban renewal area, a site that had been awaiting construction activity since 1968. In 1985 Mayor Koch, with the usual publicity barrage, had announced a $255 million project to include 600,000 square feet of office space, a movie theater, 400 middle-income condominium housing units, a 45,000 square foot regional supermarket, and a shopping center.[44] The city had pledged $18.3 million of its own money toward construction as well as the usual tax benefits. The mayor also promised that the city's Health and Hospitals Corporation (HHC) would become the anchor tenant for the office component.

The city invested $16.2 million in demolition and site improvements. However, Rose Associates, the designated developer, with long experience in the New York market as a major builder of both office and residential structures, had always followed a conservative investment strategy. After the HHC, under cost pressures and heavily criticized for extravagance, withdrew from the project, Rose apparently lost interest in moving forward. Despite Atlantic Terminal's excellent transit access, Rose found the Brooklyn location too risky. Forest City Ratner's experience, however, raised confidence in the area, and in 1991 the two firms announced their joint venture.[45] With little hope of finding office tenants, the partnership made the shopping center and the very large supermarket, now planned at more than 50,000 square feet, its first priority.[46]

A coalition of local groups, the Atlantic Terminal Urban Renewal Association (ATURA), had formed at the time of the original 1986 project announcement to oppose the development plan. Members were particularly concerned over the possibility of secondary displacement (i.e., that development would cause surrounding areas to become unaffordable to present occupants, forcing them out) and were disturbed that on-site housing would be for middle-income owners only.[47] They recalled that years earlier, when housing on the partially vacant site had been torn down, residents had been promised replacement units. ATURA proposed a mix of affordable housing units, a much smaller supermarket to serve only the local community, and small-scale retail and office development; it lacked the resources, however, to formulate a full-blown alternative plan. With the assistance of pro bono public-interest law firms, it brought three lawsuits related to the

project's physical and social impacts and won one, resulting in the judge's ordering a study of its impacts on racial groups.

ATURA considered that the regional supermarket concept would bring unendurable car and truck traffic into the already heavily congested and polluted area and would negatively affect tenants of an adjacent low-income housing complex. Its stance on the supermarket and housing, however, was not shared by all elements within the neighborhood. The community board saw a need for the supermarket as well as economic opportunities in the shopping center that it would anchor, and it thought that middle-income condo owners would help stabilize the neighborhood. It therefore enthusiastically supported the project. ATURA accused the board of being a rubber stamp and faulted it for not even demanding anything in return for its approval.

As in Spitalfields, the community split according to whether or not factions saw potential advantages to themselves if the development proceeded. The housing issue was particularly divisive, since even low-income residents feared that provision of permanent housing for the homeless would worsen the social environment. Although the main criticisms of the development were based on concerns of residents for their living conditions, the African-American Coalition for Economic Development expressed its intention of monitoring Atlantic Terminal's employment outcomes. Like ATURA, its interests kept it from favoring office uses, but it was not clear that it and ATURA would be in agreement on issues of scale. As at Times Square, the demise of requirements for regular citizen participation by project-area residents produced a situation where solicitation of community opinion depended on informal arrangements and on the willingness of elected representatives to act as advocates.

In 1992 the borough president's office set up an Atlantic Terminal advisory committee incorporating a variety of city officials and community representatives but heavily weighted toward project supporters. There were indications that city funds would be used to change the income mix of the housing, reflecting the greater concern of the Dinkins administration than its predecessor for assisting low-income people. Modifications to the parking plan lessened adverse neighborhood effects. The office component vanished from the discussion. The development team feared that plan modifications, which had been introduced in response to the changed real-estate market, might force it to undergo the land use review process again. It therefore showed responsiveness to community concerns in the hope that its spirit of cooperation would dissuade neighborhood groups from pressing the issue of formal reconsideration.

The real-estate slump of the '90s had a less dampening effect on the Brooklyn projects than on Manhattan development for two principal reasons. First, the city offered extremely high levels of subsidy to the area, including the commitment of some of its own agencies as tenants and assumption of site-acquisition costs. Although its tax subsidies at Times Square were commensurately great, it could not justify filling that site with city offices. Rental costs would have been

unacceptably high; the location was quite distant from the civic center clustered around City Hall; and the justification for building office towers on 42nd Street would have been wholly undercut.

Second, Forest City Ratner—the dominant private-sector actor in downtown Brooklyn—proved exceptionally canny in exploiting the attributes of its location. Companies like Brooklyn Union Gas had to stay in Brooklyn, and no one else was bidding for them. MetroTech's placement in Brooklyn's governmental core attracted further governmental activity to the area. Bruce Ratner's experience in city government taught him how to use the public sector to his great benefit, through both personal connections and program understanding. He took advantage of New Jersey's attraction to New York financial firms by getting the city to heap ever more subsidy on his development, and he had the backing of Brooklyn politicians who had long complained about favoritism to Manhattan.

Like Mayor Koch before him, Mayor Dinkins felt compelled to respond to every notice by a major firm that it was considering a move to New Jersey with a counteroffer. And indeed, if Manhattan was not a viable alternative for the firms that settled in Brooklyn, and if their move to New Jersey would result in heavy, long-term job loss for Queens and Brooklyn residents, encouragement of a critical mass of new construction in the latter might have been necessary for continued economic viability. If MetroTech and Atlantic Terminal sustain a local multiplier effect, and if pressures for employment of minority community residents prevail, the city's massive involvement in promoting Brooklyn will have important benefits for its citizens. Additionally, an environmental argument can be made for developing a business center with excellent public transit connections outside Manhattan's congested core. Unfortunately, though, Brooklyn's roadway situation and the backups within it caused by difficulties of automotive access to the island of Manhattan mean that growth there has serious negative environmental consequences of its own.

Whether or not New York City should incur heavy costs to entice businesses out of Manhattan to the boroughs remains controversial. A widely publicized study by New York University's Urban Research Center argued that the city should play to its strengths and continue to emphasize its Manhattan core.[48] By mid-1992, however, in addition to taxes foregone, the city had spent $166 million in capital improvements in downtown Brooklyn; in that year its Brooklyn expenditures amounted to nearly three-quarters of its capital budget for economic development.[49] Forest City Ratner, for its part, had invested just $300 million, only somewhat more than twice as much as the city, yet the city had no equity participation in the project.[50] Certainly, it is hard to rationalize this extraordinary amount of public subsidy at the same time that the government was sustaining a budget crisis.

Brooklyn had indeed been established as the third node of the city's business district, but not without considerable cost. When, in the early '90s, recession was causing the citywide tax base to contract, the government was giving away more tax breaks, forcing small businesses to shoulder an increased proportion of the

tax burden. Meanwhile, larger concerns took advantage of the various tax subsidy programs, and every firm could see the logic of indicating its interest in New Jersey. MetroTech contributed to density and congestion in an area already subject to very high levels of motor vehicle traffic and consequent air pollution; Atlantic Terminal promised to add to these problems. The extent to which the economic development incorporated in MetroTech benefited the citizens of Brooklyn remained problematic. Even though the companies within MetroTech had pledged commitments to job training and the placement of Brooklyn residents within their workforces, "the residents' biggest concern . . . is that downtown Brooklyn will become an isolated bubble, shut off from the rest of the borough."[51]

By the end of the century, downtown Brooklyn had stabilized. Forest City Ratner was planning on constructing the final building in its complex, which it was seeking to have rezoned to accommodate a one million square foot building, twice the size originally planned. Employment in the area stood at about 90,000, and all of downtown Brooklyn's six million square feet of quality commercial space had been leased.[52] The owner of the Renaissance Plaza hotel-office center was considering expanding his property. But Brooklyn leaders had expressed concern that "the borough has not been able to capitalize on MetroTech's success to turn its downtown into a magnet for other businesses."[53]

THE DYNAMICS OF DEVELOPMENT

Initiatives for the four redevelopment efforts described in this and the preceding chapter were fashioned by a variety of sources including private developers, community groups, and nonprofit organizations as well as government. Except in Brick Lane, developers' interest was provoked by a governmental request for proposals. All four enterprises aimed at the creation of new commercial nodes in unfashionable locations, and all required considerable public investment. Despite their differing origins, each bore a striking resemblance to the others in incorporating plans for very large office complexes that were subsequently rethought during the real-estate slump of the '90s.

The developments all threatened to overwhelm surrounding communities and provoked resistance over their physical environmental impacts and potential displacement effects on businesses and households. The various projects involved the retention of prestigious internationally known architectural firms. Except in Brooklyn, they designed complexes at odds with their surroundings, determined to make a statement and demonstrate that the redeveloped areas had a radically different character from what preceded them. Moreover, designation of the areas as renewal sites, and land clearance preliminary to redevelopment, had the immediate effect of dampening economic activity as the long delays and uncertainty inhibited current occupants and potential investors from improving the properties. Both Times Square and Spitalfields, however, presented exceptional remedies

to this common problem. The decision to develop interim uses invigorated the areas and created a context propitious for more intense development.

All four cases involved conflicts of values as between local and citywide objectives, public-good and market criteria, and equity versus growth. Redevelopment of established areas necessarily has differential impacts on present occupants, with only a minority able to capitalize on the transformed uses. The commercial development embodied in the projects was touted as containing growth potential for these two world cities. With manufacturing regarded as a vestige of the past, public officials and developers contended that only offices for financial and advanced-services firms could nurture expanding enterprises. Even if their predictions were correct concerning the type of industry that would flourish in the future, however, the nature of office-centered growth seriously limited the extent to which the poor and working-class populations of inner London and New York would benefit from business expansion. While the jobs created or retained would provide few career opportunities for poorly educated citizens, the public investment involved in their creation increased the tax burden on these same citizens and on small businesses.

Planning agreements required compensation of residents for the costs to them—housing and employment programs in King's Cross, Spitalfields, and Brooklyn; a community development fund for the Clinton neighborhood next to Times Square; construction of public amenities in all four places. Some community opponents were assuaged by these side payments, while others considered them to be inadequate but their only realistic option. In both Spitalfields and Times Square not all of them materialized, as they were dependent on the development going forward as originally planned. In Spitalfields and King's Cross the size of future development and associated community benefits remains unclear; in Times Square the developers were freed of their obligation to contribute to the rebuilding of the subway station and had their already small contribution to theater reconstruction reduced.

Besides the uncertainty involved in such reliance on the private sector, bargaining between the community and private investors fails to offer the potential advantages of comprehensive planning in creating a satisfactory overall environment. It does, however, fit well within a liberal-economics paradigm of trade-offs. At the end of the century, London—although still heavily reliant on the vehicle of planning gain—had moved away from the narrow project focus that prevailed during the Thatcher years. There was a return to planning and an effort to use the SRB as a vehicle to integrate social with physical planning in deprived areas. In contrast, New York City's government under Mayor Rudolph Giuliani had, except in Staten Island, largely withdrawn from promoting new large-scale development in peripheral locations and thus engaged neither in planning nor in the trading of benefits. The only exception was within the Harlem/South Bronx Empowerment Zone, which resembled the various London projects in its provision of social funding and partnership arrangements.

In both London and New York the projects had governmental sponsors, but the willingness of government to offer direct subsidy to the developer was far greater in New York. Neither of the two British projects was to receive any tax relief. Except in enterprise zones, British law did not allow tax subsidies, although the Labour goverment is currently proposing to change that stance. In Spitalfields, the use of City Challenge and SRB funds to encourage private-sector activity was indirect—public capital expenditure did not directly support the private components of the developments. Thus, although all the projects as originally planned tilted toward growth over equity in their value orientation, governmental expenditures in London were used for public purposes.

In three of the four locations, the effect of the property recession of the '90s was to cause a rethinking of the projects. In King's Cross and Spitalfields the result was a scaling down of ambition and a greater emphasis on community participation and neighborhood benefits. In Times Square it was a revived recognition of the importance of the area as an entertainment district, with the surprising result that entertainment uses attracted the very kind of office development that had originally been desired. All three areas ended up with a greater diversity of land uses than the initial office schemes had embodied. Of the four, only MetroTech ended up fulfilling the original plan. This was the consequence of much greater direct investment by the public sector in the enterprise, allowing it to weather the recession despite coming on the market at a very unpropitious time. It also stemmed from the caution of the development company, which by not borrowing so heavily and by preleasing its properties, avoided the risks incurred in the other cases.

8

Creating a New Address I: Battery Park City

In the spring of 1992 observers of the real-estate market were beginning to detect signs that the slump had bottomed out. Then a new tremor shook the market as the vast empire of Olympia & York (O & Y) began to founder. O & Y owned more New York commercial property than any other landlord; its Canary Wharf project was the largest development in Europe; it possessed substantial interests in other property firms; and a number of major banks held big stakes in its debt. Its inability to refinance its short-term notes and meet its interest obligations threatened the stability of the entire property market. Moreover, O & Y was not just a huge developer; it also represented the cream of the industry. Its previous enormous profitability, the scope of its projects, its responsiveness in working with government, its innovative building techniques, and the commitment of its owners, the Reichmann family, to high-quality construction and public amenities supposedly demonstrated the synergistic potential of public-private partnerships to rebuild cities.

O & Y had transformed a landfill next to New York's financial center into the most prestigious corporate address in Manhattan. Although retrospectively the World Financial Center in Battery Park City appeared to have numerous competitive advantages, the project had been on the brink of failure before the Reichmanns made their investment. Their achievement in New York made them seem invincible. When they stepped in to create an even more mammoth complex on London's Isle of Dogs, the British government, which had seen an earlier investor group withdraw, thought it had found salvation. But whereas the World Financial Center had hit the crest of the property wave, Canary Wharf was destined to plumb the trough. The overall state of the market conjoined with specific attributes of the Docklands situation to produce a failure with all the inevitability of Greek tragedy. The very qualities of the Reichmann family that had produced their previous triumphs seemed inexorably to beget their devastation.

Then, in yet another reversal of fate, the economic boom that began in both countries in the mid-1990s resulted in the gradual absorption of the vacant office space in London and New York. Although the firm Olympia & York no longer existed, Paul Reichmann, who had led the earlier enterprise, reentered the scene as a principal in the reconstituted Canary Wharf Company. Canary Wharf, which only a few years earlier seemed doomed to become a mere secondary office location, filled up with major companies, and its management embarked on expansion.

This chapter tells the story of the rise of Olympia & York and examines the broader development scheme of Battery Park City in New York, of which O & Y's project formed the most important part. The following chapter recounts the history of development in London's Docklands, the role played there by Olympia & York, and the rise, fall, and resurrection of Canary Wharf. As in earlier chapters, my aim is to capture the dynamics of the development process, including the interplay between individual personality, economic opportunity, and governmental intervention. In the instance of the Reichmanns' developments, personality played an especially significant role. The impact of O & Y in New York and London was, for a while, so immense that it shaped general expectations concerning the future and character of the property market. Its daring and triumph in "creating a new address," as Paul Reichmann termed its achievement, made the strategy of property-led regeneration appear brilliant. Its demise raised important questions concerning governmental policies for fostering development. The ultimate outcome showed the unpredictability of property markets.

THE RISE OF OLYMPIA & YORK

Paul, Albert, and Ralph Reichmann, the heads of O & Y, were among the six children of Samuel and Renée Reichmann.[1] The parents spent their youth in Hungary; they then settled in Vienna, where Samuel Reichmann established a highly successful egg wholesaling business. As the Nazis moved into Austria, they fled with their young children first to Paris, then to Madrid, and finally to Tangier. Samuel Reichmann managed to escape with some capital, and in Tangier he set up a small banking operation, specializing in currency exchange. The Reichmanns, and Renée in particular, devoted themselves to assisting Jews escape from occupied Europe. Renée Reichmann was personally responsible for saving hundreds, perhaps thousands, of lives; she even made an extraordinarily daring rescue mission to Hungary in 1942.[2] She established relations with the major relief organizations and devised an elaborate system for sending food and clothing to concentration camp inmates; ingeniously, she worked at getting them large quantities of chocolate, apparently so that they could use the candy as currency.

After the war, the Reichmanns remained in Tangier, where Samuel Reichmann's business prospered. Their home was a center for displaced persons, and their reputation for piety and charity grew as they assisted camp survivors in starting new

lives. Eventually, the family decided to leave Tangier, and the sons, now grown, searched for an appropriate new location. As extremely Orthodox Jews, the Reichmanns could reside only in a community that would support their way of life. Ultimately, they picked Canada, reportedly rejecting the United States because they were repelled by McCarthyism. They moved there in 1955, with some family members settling in Montreal and others in Toronto.

The brothers, educated in yeshivas and constrained by their Orthodox Judaism from pursuing a professional or technical education, started a building supply company, Olympia Tile and Wall, in the late 1950s. The company benefited from a rapidly increasing demand for lavish bathrooms. It entered the development business when it acted as its own general contractor to build a new warehouse.

The shift to property development began in earnest in 1965, when Albert and Paul Reichmann, who had formed a firm called York Developments, purchased land next to Toronto's Don Valley Parkway for $25 million from failing New York developer William Zeckendorf. They subdivided it and paid for the entire parcel by selling off the lots that they did not develop. In 1969 the family incorporated as Olympia & York Developments Ltd. and, while continuing to operate the tile company, rapidly expanded their development enterprises within this privately held company.

Paul Reichmann, who was the chief real-estate strategist for the family concern, foresaw the potential profits in government-sponsored central-city redevelopment. He became involved in the planning process for downtown Toronto's enormous retail and office complexes, and O & Y began work on the enormous First Canadian Place in 1974. At the time it was built, the 3.5 million square foot size of the development was unprecedented in Canada, and skeptics doubted that it could ever be filled. The project proved immensely profitable, however, and it acted as the basis for financing later ventures. In fact, in 1988 O & Y managed to sell $400 million in bonds secured by the leases on the building without even pledging any part of the complex as collateral.

In building First Canadian Place, the brothers experimented successfully with financing and construction techniques that they later used in their other projects. Thus, they assumed the risk of borrowing short-term at variable rates, enabling them to take advantage of falling long-term rates when they became available. They also pioneered in the use of new construction methods and office design. Among their innovations was a computerized system of winches, turntables, and elevators, including one that could accommodate loaded trucks, to carry materials to preassigned floors and thus reduce construction time. They increased their market appeal by building structures with jagged corners that allowed them to double the number of corner offices and thereby command higher rents.[3]

In 1990, before the rapid devaluation of its assets that ensued shortly thereafter, the estimated value of O & Y's real-estate holdings was $24 billion.[4] The meteoric rise in the Reichmann family's fortunes resulted from strategic low-priced

acquisitions and ingenious use of financial instruments. At the depth of the New York City fiscal crisis and economic recession in 1977, it had entered the New York market, buying the properties of Uris Brothers, another bankrupt New York firm; it paid $50 million in cash and took over mortgages worth $288 million on the eight buildings.[5] A decade after their purchase, the buildings were valued at ten times the original price, and the Reichmanns had become billionaires.

The astute use of new financial instruments was another source of the family's increase in wealth. O & Y was the first real-estate firm to use commercial paper, issuing its own short-term notes; its reputation for success made it one of the few development companies able to raise financing on this basis. The firm also increased its operating capital through employing elaborate currency hedges and debt swaps, a practice that considerably increased its flexibility but also made its financial situation extraordinarily complex.

O & Y functioned with a lean organization and was staffed by officers widely known for their breadth and capability. A number of its high-ranking employees came out of public-sector jobs, where they had gained extensive experience in negotiating agreements with developers, learning in the process what kinds of deals could be had from government. Michael Dennis, Toronto's former housing commissioner, led the Canary Wharf enterprise from the position of executive vice-president. In 1990 the family hired John Zuccotti, former chair of the New York City Planning Commission and later deputy mayor, as president of its U.S. subsidiary. An extremely well connected "fixer" within New York's governmental system, he was the first outsider to act as CEO of one of the family's wholly owned companies. Meyer Frucher, previously the president of the Battery Park City Authority, took on the job of executive vice-president of the U.S. company.

The Reichmann brothers represented an unusual combination of conservatism and recklessness. Despite their great wealth, they continued to live modestly in the upper-middle-class Toronto suburb of North York, within walking distance of their synagogue. Although famous for their philanthropic spending, especially but not exclusively on Jewish charities, their personal consumption habits were abstemious. They strictly observed *kashruth,* following the detailed set of rules governing Orthodox Jewish life, and totally closed down all business within the firm on Jewish holidays and the Sabbath. Unlike many of the flamboyant developer-heroes of the 1980s, they were extremely secretive, refusing to grant interviews or expose their family lives to public view. One journalist described them as "so colorless that they are colorful."[6] Their reputation for trustworthiness in a business not known for its ethics allowed them to consummate deals with a handshake and to obtain noncollateralized loans from usually wary bankers.

At the same time, they were avid speculators. Paul Reichmann's credo was that "the right time to go into any field is when the market's perception is that the time is wrong."[7] For more than two decades his contrarian tactics worked, giving O & Y the assets, the confidence, and the reputation to embark on ever-greater gambles. The firm's mettle was in its willingness to risk its own funds on its ven-

tures and in its modus operandi of buying out the unexpired leases of prestigious tenants to entice them to move into its properties.

The riskiest gambit of all, however, was taking on projects of prodigious size in places off the beaten track. In the words of an admiring *Business Week* article:

> Perhaps the most distinctive Reichmann trademark is the brothers' willingness to take huge gambles that only pay off way down the line. That's what endears them to governments. In massive public-private partnerships like the World Financial Center, they put up the financing, the government provides cheap land, and together they create whole new urban centers.[8]

O & Y's greatest triumph, the World Financial Center in New York's Battery Park City, and its fatal failure, Canary Wharf in London's Docklands, embody the methods that brought the family first to its heights and then to a precarious position. We turn now to the story of the World Financial Center. This project demonstrated the firm's capacity to hedge its bets through using its enormous resources to assure tenantry of its buildings. It did so by constructing a project large and luxurious enough to constitute a whole new business center and by offering sufficient incentives to attract tenants with time remaining on their existing leases.

BATTERY PARK CITY

At the southern tip of Manhattan lies a small green space now called Battery Park, created on landfill in the early nineteenth century.[9] It gained its name from a gun emplacement, the West Battery, which was situated there, overlooking New York Harbor, to guard the city against naval attack. Once its military function ended, the fortification served as an entertainment arena named Castle Clinton and became a reception center for immigrants, later the location of the municipal aquarium, and, finally, a picturesque ruin. At midcentury Robert Moses, New York's highway construction czar, sought to run a ramp to his proposed Brooklyn-Battery Bridge through the park; after his plans were defeated, he still tried to destroy the historic structure. Blocked by conservationists from completely demolishing it, he left only its wall. In the postwar years Battery Park and its surroundings provided the only public waterfront access in downtown Manhattan. Directly to the north lay the towers of Wall Street; rotting piers and unused marine facilities lined the adjacent waterfront to the northwest.

During the 1960s David Rockefeller, head of Chase Manhattan Bank, led a drive by the Downtown Lower Manhattan Association (DLMA) to retain the Wall Street area as a financial center in a period when business was increasingly moving to midtown. Part of the DLMA's strategy was to have the Port Authority construct a world trade center on a site facing the Hudson River, a few blocks north of Battery Park. Rockefeller's ambitions for the area were supported by his brother

Nelson, the governor of New York State, who shepherded a bill through the state legislature allowing the Port Authority of New York and New Jersey to embark on this venture.[10] Excavation for the giant complex, harbinger of later mega-developments, produced a great amount of debris, which could be cheaply removed if dumped in the Hudson River directly off-site. The action would create a large stretch of vacant city-owned territory in one of the world's most densely built areas. The city's Department of Marine and Aviation, which had already proposed filling in the space around its obsolete docking facilities in the vicinity, welcomed the landfill proposal.[11]

The Plan

There was considerable debate among officials of the city, the state, the Port Authority, and the DLMA as to what should be built on the new land, with many advocating the use of part of the site for subsidized housing. In 1968 state legislation set up the Battery Park City Authority (BPCA) with responsibility for financing and construction on the 92-acre site. The 1969 joint state-city "master development plan" for the tract envisioned a modernist new town, composed of superblocks constructed on platforms elevating it above its surroundings. A consortium of architects had worked on the plan, but the dominant force was Gov. Nelson Rockefeller's favorite firm, Harrison & Abramovitz, progenitors of Lincoln Center for the Performing Arts and the Albany State Mall.[12] The following year the BPCA entered into a master lease with the city, which stipulated a housing mix in which each building would contain an equal number of low-, middle-, and upper-income units. The housing agreement was later discarded. Only one development was ever constructed according to the original physical plan: Gateway Plaza, a 1,712-unit middle-income rental building, was begun in 1980, its ground breaking delayed for years by problems in obtaining Federal Housing Administration mortgage insurance. The *New Yorker* architectural critic Brendan Gill characterizes the slab-style, high-rise complex as having "a grim, gray penitentiary look."[13]

To finance the demolition of the old piers, complete the landfill, and build infrastructure, the BPCA issued $200 million in "moral obligation" revenue bonds in 1972. Under this now-abandoned form of financing, the state recognized an obligation to back the bonds but was not legally required to do so, thereby exempting them from the normal procedure of voter approval by referendum.[14] The landfill was not completed until 1976, by which time the city was in the throes of fiscal crisis, the office market was glutted with unused space, and federal and state housing subsidy programs had largely vanished. New Yorkers began to use the vacant tract as an informal recreation area, and it became the location for exhibits of giant environmental sculptures. City officials started to fear a "people's park" where protesters would demand that the landfill be permanently maintained as public open space.

Hugh Carey, who had become governor of New York State in 1975, sought to restart the stalled project. Not until 1979, however, did he gain control of its three-member board of directors. In that year the board named Richard Kahan,[15] then the head of the state's Urban Development Corporation (UDC), to lead the BPCA. Under a memorandum of understanding with the city, the UDC condemned the site and took possession of it for a dollar. Through this act the BPCA essentially became a subsidiary of the UDC and therefore exempt from the city's planning regulations and public review procedures.[16] In exchange for giving up its ownership rights, New York City was to receive all future profits and tax equivalents.

When Kahan took over, the BPCA needed immediate approval from the state legislature to refinance its bonds, or the project would have gone into semipermanent suspension. Kahan, who disliked the master plan he had inherited and moreover thought that its all-or-nothing approach to construction inhibited developer interest, commissioned the firm of Alexander Cooper and Stanton Eckstut to design a new plan in time to forestall legislative termination. "According to the [architects'] report, among the internal reasons for the project's failure were the master plan's 'excessively rigid large-scale development format,' which had prevented gradual development of the site; and unduly complicated controls over every detail of the project."[17] The commitment to a residential income mix vanished from the prospectus.

The new plan, which provided for staged residential development spreading out from the project's nexus with the World Trade Center, attracted highly favorable comment. It freed designers from the detailed review processes of the earlier scheme, established a street-level grid, and called for architectural styles in harmony with New York's traditional commercial and residential neighborhoods:

> The physical character of the Cooper/Eckstut site plan was as much a rediscovery of New York's history of incremental private development of small land parcels as it was a romantic invocation of its most livable neighborhoods. . . . The reasons for [the] . . . enthusiastic response [to the plan] are not hard to understand. The Cooper/Eckstut plan draws on familiar New York neighborhood images and assembles them in a street and block pattern which extend (as view corridors) the Lower Manhattan streets to the waterfront.[18]

What Was Built

In July 1980 the BPCA invited development proposals for the commercial area, where financial pressures made rapid construction extremely desirable. It selected O & Y from among eleven serious bidders as the developer of a billion-dollar, 6.3 million square foot group of structures to be called the World Financial Center (WFC). As well as promising to complete the work in five years—much more quickly than any of its competitors offered—the Reichmanns undertook to put up

Figure 8.1. The World Financial Center

$50 million of Olympia & York's money to guarantee the BPCA's bond payments for 25 years.[19]

O & Y held a design competition and chose the firm of Cesar Pelli & Associates, which created a cluster of four 34- to 51-story towers featuring 40,000 square foot floors. The office complex, which opened in 1985 and was completed in 1988, attracted Merrill Lynch, American Express, Dow Jones, and Oppenheimer & Company as its anchor tenants. To bring in these prestigious firms and "create an address," O & Y took over a number of their existing tenures, thereby becoming New York City's largest landlord. Much of the space it acquired in this way needed considerable investment if it was to retain first-class office uses.

While the WFC buildings, which flanked a 3.5-acre public waterfront plaza, were in a mainly modernist style, their setbacks and masonry bases evoked Manhattan's classic skyscrapers: "Pelli devised an artful transition from a heavy masonry base with small windows, through a series of setbacks that became progressively lighter and glassier, culminating in top stories of sheer glass crowned by illuminated spires in geometric shape."[20] Everything visible was built to the highest luxury standard, while the office facilities incorporated the latest technological advances.

In the midst of the office buildings, O & Y installed a Winter Garden, a 120-foot-high vaulted atrium sheltering sixteen tall palm trees and entered by a grand marble staircase from the skyway that connects the complex to the World Trade

Figure 8.2. The Winter Garden at the World Financial Center

Center.[21] The Winter Garden forms the gateway to a shopping mall with expensive stores specializing in leather goods, stylish men's and women's clothing, designer chocolates, art books, and handmade Italian paper. O & Y was at first reluctant to develop much retail space in the project, feeling that downtown does not draw shoppers. When it finally did agree to do so, it restricted rentals to the most luxurious of establishments. The firm's first instincts appear to have been correct. Although data are not available on the success of the stores, casual observation of the quietude of the shopping area indicates that they are not doing well, although as the area's population increases, business will likely improve. Most of the restaurants around the Winter Garden and adjacent indoor courtyard, which operate as open-air cafés on the outdoor plaza in the summer, do, however, seem to be flourishing, and the public events produced in the Winter Garden are considerable draws.

A waterfront walkway runs the 1.2-mile length of Battery Park City. Its midsection, lined with benches and decorative lampposts, reminds the stroller of the Brooklyn Heights esplanade. The parks on its south section are exceptional examples of landscape architecture. The first, with its wild rushes and tumbling rocks, suggests the eighteenth-century shoreline; another features an elaborate flower garden. In a rare effort to solicit citizen participation, the BPCA invited residents of the new apartments and of the adjoining Tribeca neighborhood to advise on the design of the northern park. Their input caused a greater emphasis on active recreation, and the park offers basketball courts and a vast, extremely elaborate, and imaginative playground. Residents and passersby can enjoy stunning views of the harbor, Ellis Island, the Statue of Liberty, and the New Jersey shore. Battery Park City has made the waterfront accessible as never before and has given New Yorkers a uniquely spectacular open space.[22]

The residential section of the project is expected eventually to include up to 14,000 housing units, all at market rate. A main street forms an interior spine for the apartment groupings; service stores line its edges. In 1992 about a third of the housing units had been finished; the great majority were luxury condominiums, and the rest were expensive rentals.[23] Commissioned by the multiplicity of developers offered sites, different architects designed the mostly high-rise apartment buildings. In employing a variety of building materials and heights, they followed the Cooper-Eckstut design guidelines, which aimed at reproducing the feel of New York's old residential sections. None of the apartment buildings makes a major architectural statement, but they do produce pleasant neighborhood settings. Unfortunately for the developers, the effort to imitate traditional styles with facades along the street line produced one of the typical drawbacks of standard building design—many units lacked views and consequently were initially difficult to sell.

During the 1990s real estate slump, construction at Battery Park City went into a hiatus except for public facilities. Construction of a new Stuyvesant High School was completed in 1992 at a cost of nearly $200 million. One of the city's five competitive-entrance academic secondary schools, its students battle fiercely

to gain admission. Its presence is unlikely to present any of the social problems that often afflict the environs of other New York City educational institutions. In 1994 work began on the Museum of Jewish Heritage and two of the parks. The BPCA itself decided to act as developer for a mixed-income building consisting of larger units for families. In addition to apartments to rent for up to $6,000 a month (the 1999 market rate), almost a quarter of the units were reserved for middle-income families.

The end of the slump, in 1995, marked the beginning of further private market activity. The New York Mercantile Exchange, another Forest City Ratner project, began construction with substantial city subsidy. By 1999 ten of the remaining undeveloped parcels were either in the active planning stage or involved in new construction. These included a high-end assisted-living building for the elderly and four "80-20" buildings, where 20 percent of the units would be made available to those earning 50 percent or less of the New York City median income. A family of four with income between $19,000 and $25,000 would qualify for a two-bedroom apartment at $525 a month, in contrast to the market rate of over $4,000. A hotel and entertainment complex, developed by the ubiquitous Forest City Ratner Companies, opened in 2000 with 463 rooms and a 4,000-seat multiplex cinema. Another hotel, scheduled to open in 2001, was to form the base of an apartment tower, which would also house the Skyscraper Museum, an independent nonprofit institution that had previously lacked a permanent home.[24]

Financial Arrangements

The public role in Battery Park City consisted of the $200 million landfill investment from the original bond issue; additional infrastructure investment;[25] installations, upkeep, and services for the public spaces; provision of the BPCA staff; and a set of tax incentives to the developers. The World Financial Center received 150 percent of the normal tax subsidies granted under the Industrial and Commercial Incentives Program (ICIP) in determining its payment in lieu of taxes (PILOT). The residential portion was given a ten-year tax abatement under the 421a program for everything that was built before 1992. Later market-rate residential development did not receive abatements, but the buildings constructed under the 80-20 program obtain both abatements and below-market-rate finance.

The BPCA continues to own the land and rents it to the developers on a lease that runs without a purchase option until 2069. It receives ground lease payments, the PILOT, and a civic facilities payment to cover upkeep expenditures on the common spaces. These revenues are aggregated to pay the debt on the various bond issues, maintenance of public spaces, the BPCA's rent for its headquarters within the World Financial Center, and staff salaries. In 1991 the authority had 62 people on its payroll, up from 55 during the peak building period of the mid-1980s; according to the *New York Observer,* a number of these new hires were "well-connected political operatives."[26] The staff then stabilized at about this level.

After its expenditures are netted out, the authority passes along the remainder to the city. By 1991 the BPCA had contributed close to $90 million to the general fund; in that year, however, payments dropped to roughly $18 million from about $28 million in the preceding two years. In 1999 the Authority estimated that it would turn over $44 million to the city, after operating expenses of $21 million and debt service of $65 million.[27] In addition, its projected revenues supported the issuance of $400 million in bonds to pay for affordable housing elsewhere in the city (see below). Once the debt on the project is retired, all profits, originally estimated at $10 billion, will go to New York City.[28]

Assessment

The physical aspects of Battery Park City have mostly won rave reviews from professional critics and the public. The *Times* architectural critic termed it "close to a miracle" when the first buildings opened.[29] Later he commented: "There has been nothing like Battery Park City in New York or anywhere else in our time—a 92-acre complex of housing and office buildings in which parks, waterfront promenades, streets and public art rank as important as the buildings themselves. . . . The result is a place, not a project."[30]

Dissenters, however, dispute the mainstream consensus on the total aesthetic and social success of Battery Park City. Detractors of its physical manifestation cite its Disneyesque quality. It is too flawless, too luxurious, too unreal. Its very splendor makes it vulnerable to Michael Sorkin's general attack on recent planned urban developments:

> This new realm is a city of simulations, television city, the city as theme park. This is nowhere more visible than in its architecture, in buildings that rely for their authority on images drawn from history, from a spuriously appropriated past that substitutes for a more exigent and examined present. . . . Today, the profession of urban design is almost wholly preoccupied with reproduction, with the creation of urbane disguises. . . . [T]his elaborate apparatus is at pains to assert its ties to the kind of city life it is in the process of obliterating.
>
> Here is urban renewal with a sinister twist, an architecture of deception which, in its happy-face familiarity, constantly distances itself from the most fundamental realities. The architecture of this city is almost purely semiotic, playing the game of grafted signification, theme-park building. Whether it represents generic historicity or generic modernity, such design is based in the same calculus as advertising, the idea of pure imageability, oblivious to the real needs and traditions of those who inhabit it.[31]

Battery Park City is the antithesis of the naturally developing, heterogeneous urban district prescribed by Jane Jacobs, but it incorporates many of her lessons nevertheless.[32] It is dense and has multiple uses, short blocks, buildings along the

street line, and small accessible parks. Its single management permits the creation of an artificial diversity, with carefully selected tenants and idealized versions of the city of memory.[33] It lacks the spontaneous contrasts of the real early-twentieth-century metropolis, and social commentators fault its exclusionism, contending that even its gorgeous open spaces inhibit public access:

> How public *is* public space, when it has been embedded in a context that raises such formidable social barriers that the masses of ordinary working people (not to mention those out of work) would feel uncomfortable entering it? How many poor families may be expected to cross the raised bridge into that citadel of wealth, the World Financial Center, and wander through the privileged enclaves of South End Avenue and Rector Place before reaching their permitted perch along the waterfront?[34]

Wall Street's white-collar proletariat uses the parks during weekdays, and on weekends an ethnically diverse group uses the playgrounds and basketball courts. Still, Battery Park City otherwise remains mainly a recreation zone for the relatively well-to-do.[35] The interiors of the World Financial Center are in the standard style of corporate opulence, and entry to the upper floors is restricted to those with reasons to be there. Despite the vaunted efforts of the planners to attach the site to the city's street grid, the bulky structures of the World Trade Center and an eight-lane highway separate Battery Park City from the rest of the financial district. Employees can easily enter their workplace from the PATH train, subway, or parking garage without ever setting foot on the ground, although the attractiveness of the outdoor area may tempt them out.

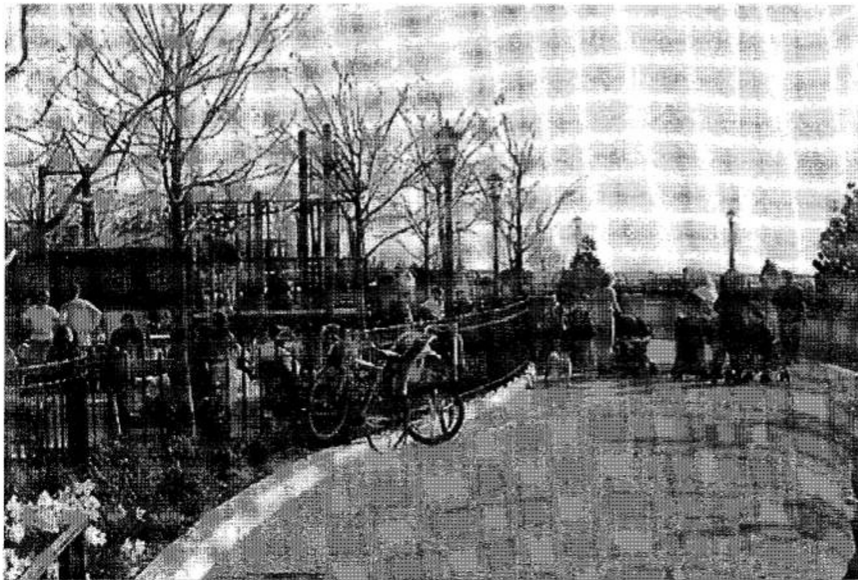

Figure 8.3. Gov. Nelson A. Rockefeller Park at Battery Park City

Yet the ambition of the Battery Park City planners to make it part of New York does not wholly fall short. Brendan Gill did not speak only for himself when he expressed "a tentative, infinitesimal tremor of hope . . . [that] Battery Park City might have succeeded in weaving itself into the fabric of the city . . . [as] a symbol of the enduring vitality of the city."[36] Large numbers of people do visit the area, and it is an oversimplification to dismiss the enjoyment it affords them as a sham or to decide that they are only the undeserving privileged classes.[37] The luxuriousness of Battery Park City's edifices symbolizes the reality that it shelters—the World Financial Center *is* the capital of capital, not a mere simulacrum. The parks and promenades do have genuine roots in New York's natural environment, and they are hospitable to a variety of uses and users once the psychological barrier to entering them is crossed.[38] Leftist urban critics like to put down sanitized environments, but gritty is not necessarily preferable to pretty. There are few New Yorkers of any social stratum who do not welcome the occasional opportunity to visit a park open to the sea and unsullied by detritus; Battery Park City satisfies a genuine human need. It hints at being a cliché, at evidencing a sameness with other large developments even as it seeks distinction. Simultaneously, however, its unique natural setting and the genuine creativity of its design team cause it to rise above easy criticisms of its genesis and function. As a physical space it has power and gives pleasure.

Sponsors justified the initial exclusion of low-income people from the project's residences and the granting of large subsidies for luxury apartments and opulent office towers by the project's support of affordable housing elsewhere in the city.[39] Under 1986 state legislation, the BPCA issued $400 million of revenue bonds for low-income housing, and it committed itself to contribute another $600 million toward the city's housing program by the year 2000.[40] By 1992, however, it had placed further bond issues on hold, and so far, despite additional profitable construction in the late '90s, it has not raised additional money for housing.[41] The postponement was originally explained as a response to the turbulent state of the real-estate market and the fear that O & Y's difficulties would deter investors from buying the bonds. At that time, a Battery Park City official indicated to me that the halt was only temporary. The choice to continue to use the growing revenue surplus entirely to contribute to the city's general fund rather than as backing for housing bonds reflects the much lower priority given to housing programs by the Giuliani administration than was true of its predecessors.

When it did use its revenues for housing production elsewhere, the authority essentially acted as a device whereby the city did off-budget borrowing for housing construction. The effect would be the same if the city rather than the BPCA issued the housing bonds, and the BPCA, which accordingly would not have had to meet debt service on those bonds, turned over the resulting augmented revenues

as part of its payment to the city. Borrowing through the authority, however, shrank the apparent size of the city's budget, ensured that the funds were allocated to housing, isolated the revenue stream that supported it, and provided a more advantageous interest rate than the city would get using general obligation bonds.

Battery Park City, then, is a carefully coordinated total environment, with substantial financial benefits disseminated to the general population. Its principal private developer went beyond meeting its contractual obligations and provided the public with significant amenities. The authority also used its funds to make the city more appealing. Nevertheless, except in some of its park planning, it has involved no public participation whatsoever.[42] Its commercial and residential structures are reserved for the wealthiest corporations and families in the United States, although any well-behaved individual can use its public facilities on a daily basis.

In terms of the indicators of private-sector funds leveraged and jobs kept in the city, Battery Park City was an economic success. The question is always raised whether the funds and jobs would have been there regardless; given the centrifugal forces that constantly operate on New York, the answer is probably no. Moreover, thanks to its location on landfill next to the financial district, it did not displace anyone either economically or spatially. The city did receive something meaningful in exchange for its largesse. If the project is to be faulted, it must be on the grounds of opportunity costs. The public sector could hypothetically have borrowed the funds it put into capital expenditures for Battery Park City for some other, more socially beneficial purpose. The taxes foregone might have been directed toward another, more productive endeavor that would have produced more jobs for the neediest and less spatial segregation. Within the constraints of New York's political and economic situation, however, it is hard to imagine an alternative strategy for the site that would have resulted in a more desirable outcome or that in the absence of any development there, commensurate resources would have been mobilized for a more socially beneficial cause.

9

Creating a New Address II: Docklands

The name "Docklands" applies to that part of East London which borders the Thames. The East End has always been home to London's poorest inhabitants. Until the 1960s it also offered jobs to its residents—on the docks, in port-related activities, and in manufacturing. With the advent of containerization, however, the docks became obsolete. At the same time, the area's industrial structure was becoming increasingly antiquated, and its resident population was shrinking. Poor motor-transport connections led industries to either move or close up rather than reinvest in the area; the trend of industrial disinvestment was hastened when the docks finally closed between 1967 and 1981.[1] This chapter chronicles the transformation of Docklands from a port and manufacturing area to a smart location for offices and luxury flats.

REDEVELOPMENT STRATEGIES

In the decades following World War II, public authorities constructed large social-housing estates, mainly in the inner areas, with the number of units growing from 30,000 to 125,000. This redevelopment, however, did not relieve the physical congestion of those sections that remained populated, nor did it reverse decay where industry and trading activities had once flourished. Instead, population became concentrated in bleak, institutional enclaves, while the extensive tracts of abandoned industrial and docking facilities appeared increasingly gloomy and forbidding.[2] Peter Marris[3] has succinctly captured the situation at the beginning of the 1980s:

> From the outset, London's docks had been haphazardly laid out, quickly outdated, and mutually frustrating in their competition. They kept in busi-

ness partly because the Port of London, however inefficient, was the capital of an empire; but even more because whenever their commercial survival was threatened, they relentlessly drove down the price of labour. The merging of the dock companies into a public authority at the beginning of this century did not fundamentally change this balance of militancy and vulnerability. When the dockers at last gained security after the Second World War, their way of life and the communities they had made, with all their pride of craft, and practical radicalism, grimness and history, were already facing drastic transformation. The old docks, trapped by the congested city which had grown up around them were not adaptable to the intensive mechanization which would keep them profitable.

The Port of London Authority (PLA), which had built a modern container port downriver at Tilbury in the 1960s, was severely criticized by Docklands community leaders and the Greater London Council (GLC) for its failure to maintain the London docks as a going concern. In a 1985 report the GLC contended that the upstream docks in the East End, while unsuitable for long-distance containerized cargo, retained usefulness for intra-European trade and should be reopened.[4] Even with investment for that purpose, however, their economic value would have remained limited. The end of London's central role within world trading patterns, combined with technological change, meant that at best their employment potential was very small.

At any rate, the PLA, like the Port Authority of New York and New Jersey, began to see its inner-area facilities as more valuable for real-estate development than for transport and began exploiting its property holdings as financial resources to fuel its port modernization enterprises elsewhere. The GLC had already set a precedent when, during the early 1970s, St. Katharine's Docks, a short walk from the Tower of London, became the location of a mixed-use project of flats, offices, a hotel, and a marina, indicating the possibilities for adaptive reuse. Although architecturally conventional, the complex afforded attractive views of the water, and the area around the yacht basin allowed office workers and hotel guests to take their leisure in surroundings isolated from, but close to, the bustle of the City. On the south side of the Thames in Southwark, the closing of Hays Wharf and the zoning of the surrounding area for office construction generated a rapid rise in property values, reinforcing the cost pressures that were pushing manufacturing firms out of the area.[5] While the mid-1970s property slump caused a hiatus in the implementation of the plans for the south side, the area's trajectory from industrial to office use was not reversed. Other than the maritime industries, the main employers in the river wards had been printing, food and drink processing, engineering, and metals fabrication, mostly operating in relatively small establishments. They lacked sufficient capital and potential profitability to upgrade their premises. At the same time, mechanization and rationalization reduced the maritime labor force from 23,000 in 1969 to only 12,000 four years later and to 7,000 in 1979.[6]

With the closing of the docks, ancillary warehouse and transport facilities, and industrial plants, increasing amounts of land lay unused. During the 1970s the Conservative central government established a study team to assess the area's development potential. Its presentation of planning alternatives mainly stressed the commercial potential of the riverfront acres, the largest available area of inner-city land in western Europe, and was received with hostility by local community leaders.[7] When a national Labour government gained power in 1974, it threw out the report and set up a strategic-planning authority for the area, the Docklands Joint Committee (DJC). The DJC included representatives from the central government, the GLC, and the local authorities, as well as the Port of London Authority and the trade unions; the associated Docklands Forum solicited citizens' opinions. The DJC produced a comprehensive plan that stressed preservation of manufacturing, council housing production, and social programs for current residents.

The plan, however, lacked powerful backing, and the difficulty in funding it doomed it to oblivion. The election in 1977 of a Tory GLC that was antagonistic to the East London local authorities had an immediate blocking effect on implementation of the plan. Beyond that, the very large expenditures required to make the Docklands usable, the fiscal weakness of all levels of government, and the unattractiveness to private capital of the DJC plan meant that Docklands regeneration would require a major change of strategy. A substantial regeneration program required either much larger amounts of government investment than could be imagined within the political and economic context of the time or a plan that offered far greater incentives to the private sector.

The London Docklands Development Corporation

After the Conservatives returned to power nationally in 1979, they sought a new approach to reviving the area, and in 1981 they established the London Docklands Development Corporation (LDDC).[8] The administrative jurisdiction of the LDDC, which covered 8.5 square miles (5,500 acres), encompassed the riverside portions of three boroughs—Tower Hamlets, Newham, and Southwark[9]—where it became the official planning authority. It worked closely with the London office of the Department of the Environment (DoE) and involved cabinet members in decision making on its bigger deals. It diverged from its New York counterpart, the Battery Park City Authority, by giving developers much more latitude in project selection and design. Its style was entrepreneurial, and its staff, which peaked at 470 in 1990, focused on implementation rather than planning.[10] As one of its executives declared to me, "There was never any grand master plan. Reg Ward [the first CEO] just wanted to make things happen."

The LDDC's principal aim was to promote growth in Greater London; improvement of the lives of those residing in the riverside localities was at best a subsidiary goal. Its consultation with local authorities was perfunctory, and it

established no formal mechanisms for citizen participation. Instead of viewing the territory under its planning control as embedded within the Docklands boroughs, the LDDC pictured the riverbank as a new vibrant core for the whole metropolis. Its ambition was to attract the immense sums of private investment capable of transforming this vision into reality. Since its main asset was land rather than financial capital, it focused on turning over that asset to property developers rather than on an alternative development approach that would target operating firms. In other words, it was capable only of being a land development agency, not a development bank.

The LDDC took possession of most of the land within its jurisdiction owned by either the boroughs or the GLC; in addition, it purchased Port Authority holdings within the development area and acquired additional, privately owned parcels through compulsory purchase.[11] It was responsible for preparing the land it owned for development, then disposing of it to a suitable developer. Site preparation was often a costly process, since it involved clearing structures, cleaning up environmental hazards, and filling areas under water. At first the LDDC barely broke even on its land sales; on the Isle of Dogs its initial offerings sold for about £80,000 per acre. But by 1986 the price had shot up to £250,000 per acre, and some parcels even sold for £3 million per acre at the height of the speculative boom.[12] In 1988 the LDDC was receiving £165 million from a central-government grant and £63 million from property sales; by 1991 income from property sales had shrunk to £27 million, while the grant had leaped to £315 million, constituting more than a third of the government's total expenditures on urban development in the country.[13]

The poor transport connections of the area, where formerly workers had walked to their jobs and cargo was waterborne, meant that development for office uses required a massive transportation building program. The LDDC's initial transit investment consisted of the construction of a light railway subject to frequent breakdowns; as a result of efforts to curtail expenses, it opened with a terminus not directly accessible from the main underground system and with quite limited carrying capacity.[14] Rebuilding it to a higher standard cost about £500 million, and, because of the problems posed by working on an operating system, it proved far more difficult than if the work had been done originally. Even with the improvements, the railway did not have sufficient capacity to meet anticipated demand. Consequently, London Transport planned to extend the Jubilee tube line to the east. In addition, both the LDDC and the Department of Transport undertook a group of very expensive road-building projects, while a private company opened an airport by the Thames in 1987 and intended to enlarge it. Although the LDDC identified the airport as an important catalyst for development and a generator of jobs, the GLC had opposed it on the grounds that the employment claims would not materialize and that it would contribute to air and noise pollution.[15] At first the GLC's claim appeared valid, as for quite some time the airport was little used; by the end of the century, however, it had become an important terminal for intra-European travel and begun to show a profit.

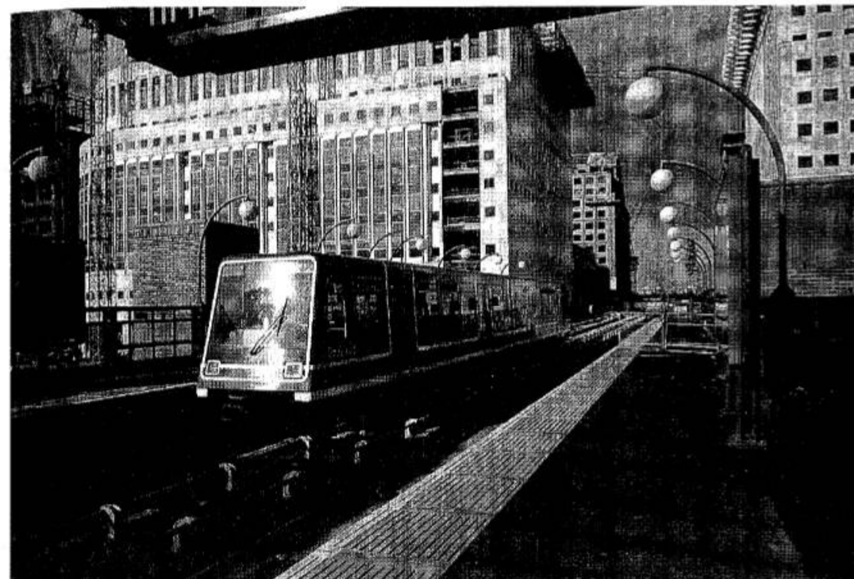

Figure 9.1. Docklands Light Rail

Residential Development

Between 1981 and 1998, about 24,000 housing units were completed within the Docklands development area. Approximately three-quarters of them were for owner occupation at market rates, causing the percentage of owner occupants within the development area to increase from about 5 to nearly 40 percent. About 6,400 units were newly constructed social housing; in addition, LDDC funding supported renovation of nearly 8,000 existing units owned by either local authorities or housing associations.[16] By 1998 the area's population had jumped from 39,000 to 84,000, with a predicted end state of 115,000.[17] Although some of the new units were in rehabilitated warehouses, the great majority occupied newly constructed buildings. Except for the nautical themes of their names, the residential complexes made little architectural reference to the communities they colonized—nor, for that matter, to central London. Thus, for example, the Brunswick Quay, Surrey Quays, and Blyth's Wharf developments resembled suburban blocks of low-rise flats elsewhere in the southeast, although at higher levels of density.

The residential strategy meant that ultimately the population would be dominated by inhabitants with sharply different values, political affiliations, and incomes from the former occupants.[18] Nevertheless, the Docklands retained close to 40,000 of its original inhabitants, many displaced from their industrial and port employment, mostly living in more than 13,000 council and housing association units.[19] As a consequence, even with its infusion of new owner-occupied hous-

ing, the area remained economically mixed, with sharp juxtapositions of well-to-do and poor.[20] Because the area had previously been so homogeneously working class, the contrast between old and new residents was especially noticeable.[21] Janet Foster quotes one of the new residents of the Isle of Dogs, who comments on the impact of middle-class newcomers:

> Normally even in places like Clapham or Hackney or wherever there's always been a cross section of people and here it was all working class, all dockers, all that sort of thing, there wasn't, you know, the middle class. . . . They were all the same . . . that's why there's the problem. Not because people have come in but because they were all the same before.[22]

After the stock market's Black Monday of October 1987, financial industry expansion triggered by the Big Bang reversed itself, and the housing market in Docklands stagnated; by 1989 the entire London private residential sector had collapsed, and a number of developers ran into severe financial trouble. Virtually all plans for additional market-rate construction were shelved the next year; several developments were halted while only partially complete; and the number of new housing units finished fell far below the LDDC's predictions.[23] Moreover, steeply rising interest rates meant that developers had to offer substantial inducements, including mortgage subsidies, to attract any buyers. By 1992 residential construction activity in the Docklands was limited to housing-association projects

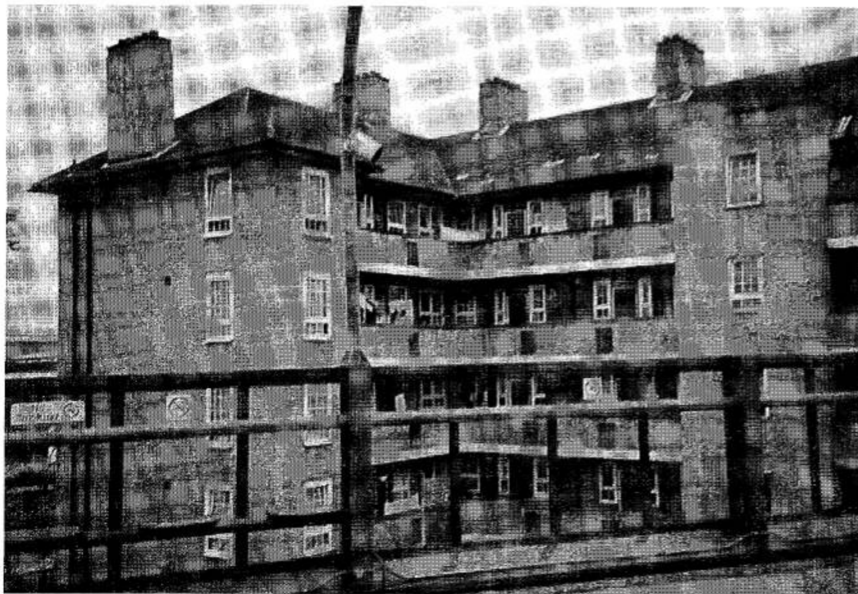

Figure 9.2. Docklands old council housing

and council-estate renovation, and LDDC land sales to for-profit housing developers had ended. As in most of the case studies described in this book, the property bust had a silver lining, both because it prompted the dedication of more housing to the affordable housing pool[24] and because it dampened housing turnover: "Ironically, the long recession following the collapse of house prices actually generated a degree of stability and forced newcomers who had not initially planned to be on the Island [i.e., the Isle of Dogs] for any length of time to stay. Some, much to their surprise . . . found they liked the area and wanted to remain."[25]

The market in Docklands recovered along with the rest of the London housing market. The completion of road connections, extension and upgrading of the Docklands Light Railway, and the 1999 completion of the Jubilee tube line into Docklands greatly increased accessibility, integrating the area with the rest of Greater London. By 2000, vacant residential buildings were a dim memory, and new structures were rising to accommodate growing demand. Reflecting the changed composition of the population, but perhaps also showing some change of heart among earlier residents, polls showed that the rating of the LDDC's performance by local people had improved substantially. In 1988 only 32 percent thought that the LDDC took account of the views of local people, while 61 percent thought they did not; by 1996, 49 percent said they did, while 34 percent thought they did not.[26] By 1997, 68 percent of local residents thought the LDDC had done a good job.[27]

CANARY WHARF

After its great success in developing the World Financial Center (WFC) in New York, Olympia & York (O&Y) enjoyed a reputation as the world's largest and best-managed property development firm. Its owners, the Reichmann brothers, had become immensely wealthy and had begun to extend their economic power far beyond their base in property. While still in the process of constructing and tenanting the WFC, they started seeking other outlets for their fortune besides high-stakes real-estate activities, to diversify their holdings. They invested especially heavily in natural-resources firms, reportedly on the expectation that the balance sheets of such enterprises would run counter to the real-estate cycle. The seemingly cautious strategy of diversification, however, was undercut by the specialization in natural resources—another notoriously speculative area—which in the late 1980s proved to move in tandem with the real-estate market. And, although O & Y had previously avoided excessive indebtedness by self-financing much of its real-estate operation, it borrowed heavily for its new acquisitions.

Other investments also proved destabilizing. A takeover bid for the distiller Hiram Walker resulted in a publicly ignominious defeat. A large investment in Robert Campeau's real-estate and retailing company came to naught as well.[28] A further effort at hedging likewise produced the opposite result. To protect its

real-estate projects, O & Y bought substantial interests in competing property-development firms in Canada, the United States, and England. The effect of these investments, along with accepting real estate as collateral for a loan granted to Campeau, was to increase the firm's vulnerability to the 1990s downturn in the property market.[29]

The chief cause of the Reichmanns' downfall, however, lay at the core of their principal business in property development. Overconfident from their triumph in creating a prestigious new office center on a Manhattan landfill, they tried to repeat their earlier feat in London's Docklands. In England, however, they had the misfortune to bring their property onto the market when it was tumbling into the bottom of a cycle. Moreover, they had as their partner a government that turned its back on them when they were unable to cover their obligations; a site further from the existing financial center than the one in New York; and a local market of office users that was less willing to discard its traditional locational preferences. As a consequence, O & Y's endeavor to build an office complex more than twice as big as the World Financial Center at Canary Wharf on the Isle of Dogs brought down its British and Canadian branches and temporarily produced the world's largest ghost town on the bank of the Thames.

As part of its effort to stimulate private investment, the Conservative government had designated 482 acres of the Isle of Dogs as an enterprise zone. Originally a peninsula formed by a curve in the Thames about 2.5 miles east of the City of London, it was cut off from the adjacent land mass by a canal in the nineteenth century. In 1802 it had become the site of the West India Docks. As the docks expanded, a warehouse was built on the land between the canal and the main dock. Called Canary Wharf, it was used to store cargoes of bananas and sugar cane from the West Indies and fruits from the Canary Islands—ultimately, it gave its name to the vast twentieth-century complex built on its site. By 1900, it was handling most of London's fruit and vegetable imports from South Africa and New Zealand. As late as the mid-1960s, about 20,000 men still worked at the West India Docks; by 1981, however, the docks were closed.[30]

The enterprise zone classification freed firms within the zone's boundaries from conforming to most planning regulations and from paying business rates (i.e., property taxes), as well as allowing them to deduct 100 percent of their capital expenditure on industrial and commercial construction from their corporate income taxes.[31] Qualification for benefits under the enterprise zone ended in 1992, ten years after its inception, and this provision meant that developers hastened to begin construction before the tax subsidies lapsed. The enterprise zone deadline had the same effect as the scheduled termination of New York's special midtown zoning: Developers rushed to construct buildings in the absence of any obvious demand for space, to obtain the benefits before they disappeared. Although endeavors begun in the enterprise zone after 1992 did not qualify for tax advantages, allowances under it could be taken until 2002 for projects begun before the deadline. It was estimated that as a result of low land prices and enterprise zone incentives, net costs of development in the zone would be half as much as in central London, and occupancy costs just 59 percent.[32]

Initially, the LDDC expected that relatively small office and industrial firms would take advantage of the enterprise zone benefits. But as the boom of the '80s heated up, office developers began to bid on space wherever they could find it. In 1985 a consortium headed by an American developer, G. Ware Travelstead of First Boston Real Estate, proposed to build an 8.8 million square foot office development for financial and advanced-services firms at Canary Wharf.[33] In return for its commitment to the development and its willingness to underwrite a proportion of the costs of upgrading the Docklands Light Railway, the consortium received a promise from the LDDC that it would continue the Docklands Light Railway westward, connecting it directly with the Bank Underground station. The Travelstead agreement also required the LDDC to provide infrastructure, primarily roads, initially estimated to cost £250 million; the key to the roads plan was the Limehouse Link, which would traverse the Isle of Dogs, making the project area accessible at both its east and west ends. The road required extensive tunneling and the relocation of 558 families.[34] The resulting costs made it the most expensive road per mile ever built in the United Kingdom, and eventually the LDDC's road investment vastly exceeded the originally estimated amounts.[35]

In mid-1987 the Travelstead consortium withdrew from the negotiations, and, to the great relief of the government, Olympia & York stepped in. It committed itself to develop at least 4.6 million square feet of floor space by 1992 and an additional 7 million square feet thereafter, pay £8.2 million for the LDDC land, and contribute £150 million toward the extension and upgrading of the Docklands Light Railway.[36] To entice the Texaco Corporation into the complex, it advanced plans for construction of an additional 925,000 square foot building, resulting in the production of more than 5 million square feet in 1991–1992. Later, in its effort to persuade the government to route the proposed extension of the Jubilee tube line through Canary Wharf and to expedite its authorization, O & Y pledged £400 million to that project. Although the DoE, which participated directly in the negotiations, raised the question of receiving a share in the profits from the development, along the Battery Park City model, "both the Department and the LDDC considered that to do so might jeopardize the whole development."[37]

Design

Imitating the design precepts that guided Battery Park City, Paul Reichmann called for a plan that would give the illusion of natural growth. A number of architects, including Cesar Pelli, I. M. Pei, and Skidmore, Owings & Merrill, designed individual structures, thereby simulating the diversity of an evolving city. As in Battery Park City, their walls feature setbacks and varieties of facing material. The edifices surrounding Westferry Circus, the roundabout terminating the complex at the western end, mime the great squares of central London. Only the central

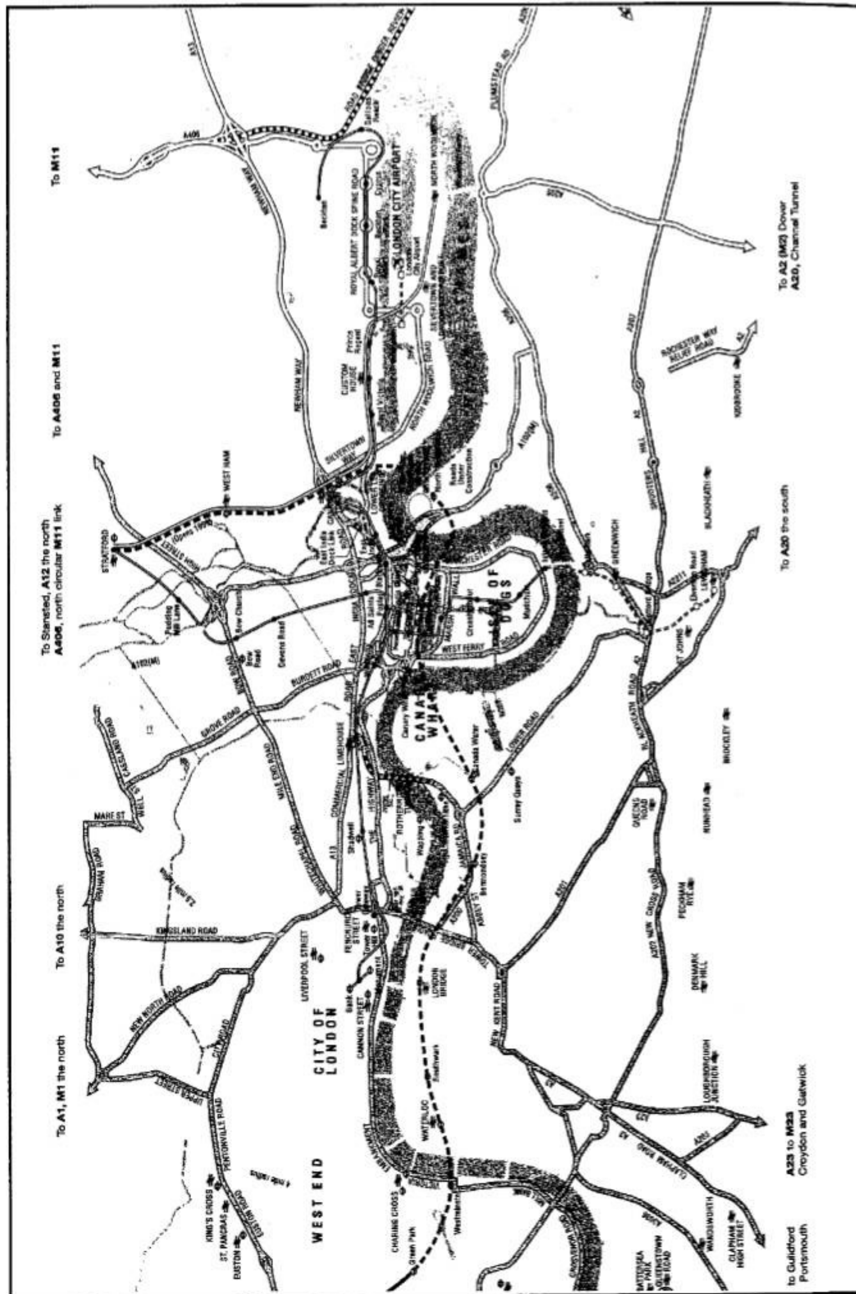

Figure 9.3. Docklands Transport (dotted line shows route of Jubilee extension)

tower, at 48 stories the tallest building in Britain, makes a deliberate break with the rest of London. In order to have buildings open directly onto the street, deep excavations were dug to accommodate underground parking garages. Canary Wharf also resembles Battery Park City in having much of its land (more than one-third) dedicated to open space, visible fixtures of the highest quality, and buildings equipped with advanced communications technologies.

Community Benefits

O & Y committed itself to hire 500 local construction workers as part of its agreement with the LDDC. It also financed the running of a construction training college, established a £2 million trust fund for local schools and colleges,[38] and contributed £70 million to the extension of the Docklands Light Railway. When the riverbus, which offered boat service between the Docklands and Charing Cross Pier in central London, ran into financial difficulty, O & Y took it over and made up the shortfall. As in Battery Park City, the Reichmanns spared no expense in providing a high level of public amenity, manifested here in an elaborate plaza centered on a monumental fountain and full-grown trees imported from Germany.

Inducements

O & Y used a variety of extremely expensive devices to lure companies out of central London. It repeated its New York practice of attracting tenants by buying out their existing leases. Costly as this practice had been in New York, it was even more so in London, where leases were much longer and rents much higher. To get the *Daily Telegraph,* already located on the Isle of Dogs, to move into Canary Wharf, the Reichmanns purchased the newspaper's South Quay building at £20 million above book value.[39] O & Y also offered fitting-out subsidies aggregating to £200 million and rent concessions rumored to include rent-free periods up to five years.[40]

THE DOWNFALL OF OLYMPIA & YORK

The first real evidence that Olympia & York was in difficulty came in September 1990, when the Reichmann family attempted but failed to sell a 20 percent share in its U.S. property holdings.[41] Although the move marked the first time that the company had sought outside investors in its real-estate portfolio, its officers denied that the offering and a subsequent refinancing of Canary Wharf obligations indicated a liquidity problem. Many observers, however, wondered whether the Reichmanns' assets were sufficient to withstand the real-estate troubles afflicting the urban centers in which the firm operated.[42] Between 1990 and 1992 the family desperately strove to shore up its empire by investing $500 million of its own

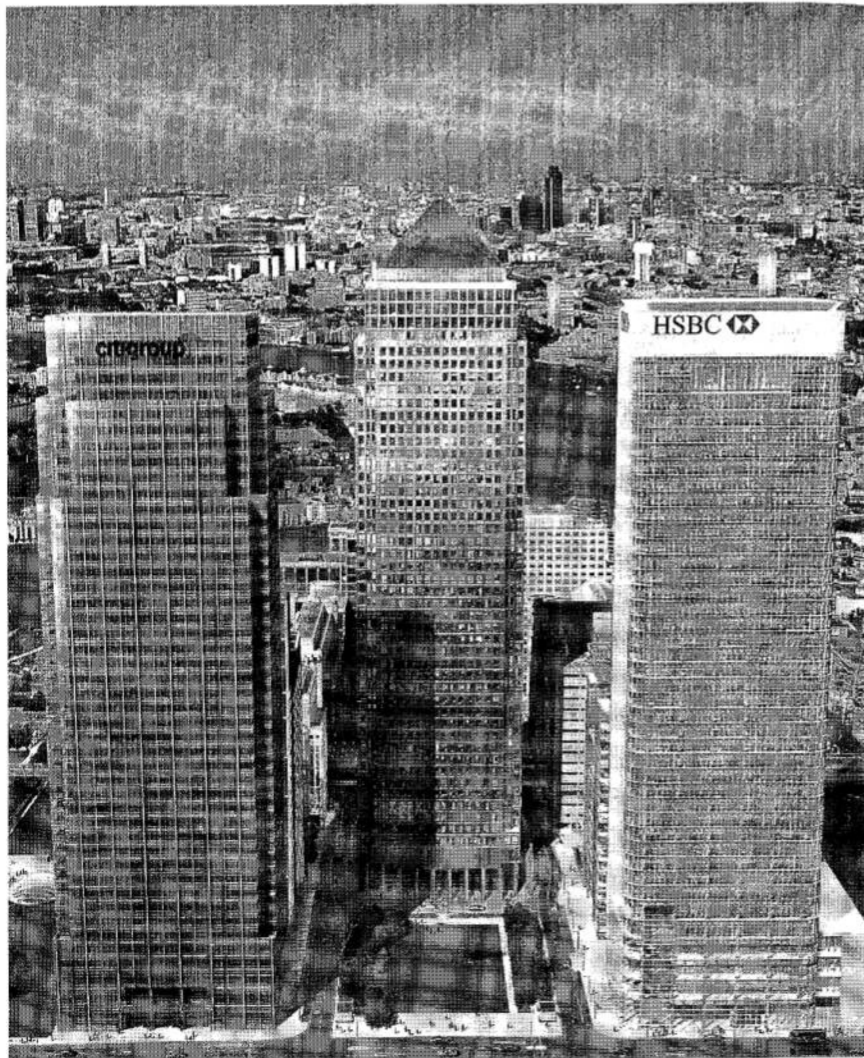

Figure 9.4. Canary Wharf Towers, including computer-generated images of Citigroup and HSBC towers, under construction in 2000.

money, putting individual assets up for sale in order to achieve liquidity.[43] It sold some of its nonproperty holdings at prices well below its original investment, but by 1990 the transatlantic real-estate market was dead, and it could not find purchasers willing to pay an amount exceeding the debt on any piece of property.

Even as oversupply was causing the values of its properties around the world to plummet, O & Y was continuing to invest billions in Canary Wharf, the future

of which looked less and less assured. In a 1990 advertisement in the *Sunday Times*, Paul Reichmann had asserted that Canary Wharf represented less of a risk than the World Financial Center did, claiming: "Doing one building there would be risky; doing nearly a dozen is not. On a scale of one to 10, if you say the risk with Battery Park was nine, here it would be one."[44]

Despite the optimistic predictions and all the various incentives to occupants, 53 percent of the office space nearing completion remained unlet in the summer of 1992.[45] Little of the retail space had been rented either, and without a critical mass of office workers, there was small likelihood that it would be. The *Telegraph* turned out to be the only major British tenant O & Y succeeded in attracting. The other large committed tenants, in addition to Credit Suisse First Boston (CSFB), were all American firms—Morgan Stanley, Bear Stearns, and Texaco.[46] The absence of a prestigious British financial or service firm meant that the Reichmanns had failed in creating an address. One developer quoted in the *Independent* argued that it was O & Y's inability to understand the mystique of the City of London for British companies that was at the root of its miscalculation: "What did Paul Reichmann do wrong? North Americans have no sense of place, or of history. He didn't realize that British people and businesses are tied by invisible threads to places: to the Bank of England or just to a set of streets, some shops, a restaurant."[47] Although these threads eventually loosened, they initially placed O & Y at a serious disadvantage in its competition with property owners within the City of London, especially once the office glut there eroded the previous cost differential between the City and the Docklands.

The Final Months

A concatenation of events began in February 1992, which led irresistibly to the collapse of Olympia & York. The first of these was a downgrading of the company's commercial paper by a Canadian bond-rating service, which estimated that the value of O & Y's listed investments (i.e., investments in publicly held companies) had fallen by more than 40 percent, from C$6.6 billion to C$3.9 billion, in the preceding two years.[48] The firm had typically borrowed on notes that matured every thirty to ninety days and would roll them over when they came due. Now it could no longer refinance its short-term debt through selling directly to investors, nor could it find bankers willing to take up the slack. After the downgrade by the rating agency, the company began buying up about $400 million of its own commercial paper.[49] On March 22, 1992, O & Y admitted that it was sustaining a "liquidity crisis" and called a meeting of its creditors to restructure about $12 billion of its debt. The next week the firm failed to make the first installment on its £400 million contribution toward the Jubilee Line extension.[50]

In the following months O & Y missed a series of bond and mortgage payments on instruments secured by a tower in the World Financial Center, the Aetna Center in Toronto, and First Canadian Place. In response to its increasingly fran-

tic effort to stave off bankruptcy and to prepare Canary Wharf for tenants scheduled to arrive during the summer, it obtained two short-term bank loans adding up to $58 million. On May 14 the Canadian parent company and some of its subsidiaries filed for bankruptcy protection in Canada, and some of the subsidiaries filed for Chapter 11 protection in the United States as well. The Canadian bankruptcy court restricted the firm's ability to shift money from its Canadian properties to other projects, including Canary Wharf. By the end of the year, lenders had begun to take possession of the firm's Canadian holdings.

The U.K. government indicated that it was considering moving the headquarters of the DoE to Canary Wharf. When the government continued to procrastinate, however, the banks decided that they could wait no longer to take action.[51] Eventually, the headquarters of the London Underground did move to Canary Wharf, but it was too late for O & Y.[52] On May 27 the effort to save Canary Wharf from bankruptcy failed, as eleven banks with about £550 million in loans to the project refused to provide new funds to fund the Jubilee Line obligation and to keep construction going beyond the end of the month. At that time O & Y had put £1.4 billion in the project and the banks another £1.2 billion; it was estimated that an additional £600 million was required to finish construction of the first phase.[53]

The banks all had to absorb very substantial losses, but, in *Business Week*'s words, "the sheer number of its [O & Y's] banks . . . has spared any single lender from a life threatening exposure."[54] Many banks had already written off parts of their loans to the company and had put the rest in the nonperforming category. Thus, their situation was not changed by the bankruptcy declarations. In 1993 American banks were divesting themselves of the property they had taken over through default, resulting in a substantial loss in the value of their assets but much greater liquidity. They were saved by a dramatic fall in interest rates, which made their performing loans much more profitable, and by the general revival of the U.S. economy. British banks had avoided the heavy property exposure of their U.S. and Japanese counterparts; the latter were suffering the most from the events in London, along with the repercussions of the puncturing of the Japanese "bubble economy."

Canary Wharf was placed under the administration of three partners in the accounting firm Ernst & Young by a U.K. bankruptcy court. Under British law, administrators run a bankrupt company and present the court with a plan determining the company's ultimate fate. In contrast to Chapter 11 bankruptcy in the United States, where the firm's management remains in control of the organization and presents a restructuring plan that avoids liquidation of the firm, British bankruptcy procedures favor creditors.[55]

In the meantime, the transport and infrastructure requirements of converting the Isle of Dogs into an office center consumed more and more of the LDDC's resources. Despite a great increase in the size of its government grant, the LDDC ran into growing financial difficulties. In 1990 its chief executive, Michael Honey, abruptly resigned from his post.[56] By mid-1991 the new CEO, Eric Sorensen, a DoE civil servant, announced plans to cut its 456-member staff by 40 percent over the next two years.[57]

Why Did It Happen?

The causes of the world's largest real-estate failure range from the specific to the general. They include the financial situation of O & Y; personal characteristics of the Reichmanns; and the state of the international commercial property market.

Financial obstacles to salvaging O & Y. The Reichmanns' hopes that they could get agreement from their creditors on a restructuring plan that would pump necessary additional funds into their projects were unrealizable for several reasons. First, the loss in value of their properties caused by the real-estate slump meant that their liabilities exceeded their assets.[58] Consequently, they no longer had unencumbered property to use as collateral against additional loans. Bankers would only be willing to acquire equity in the properties if they believed that the shares were going to increase in value, but expectations for market recovery were low. Second, there were significant differences in the status of the various lender banks in their claims on O & Y's assets and revenues. Banks that had lent £500 million for Canary Wharf in the 1990 refinancing had their loans secured by O & Y's assets; later lenders took shares in Canary Wharf companies as security, causing them to rank behind the former group in their claims on the parent company. Additional loans would only worsen the situation of the latter group. Third, the Reichmanns had been seeking to redeem their short-term paper, amounting to C$800 million, thus putting all the banks, which numbered about 100, behind the commercial paper holders.[59]

Personal characteristics and international property markets. The basis of the Reichmanns' wealth was a very high tolerance of risk. In staking their fortune on Canary Wharf, they apparently felt that they had a sufficient cushion to endure a market downturn. Indeed, in 1988 they were reported to have net assets of C$11 billion and borrowings of less than C$2 billion.[60] But the internationalization of real-estate investment meant that contrary to their expectations, markets in different cities tended to move together, so that their multiple investments did not counterbalance one another. The downturn was both longer and deeper than they predicted, and it occurred when their non-real-estate investments were going sour as well.

Many commentators have wondered why the Reichmanns took so many chances when their taste for consumption was quite limited and their fortune established. Speculations recounted by John Lichfield provide some insight into the interaction between personal characteristics and public events.[61] He quotes a Reichmann business associate as believing that "their heads were turned" by

Margaret Thatcher's personally urging them to seize the opportunity to demonstrate the vigor of capitalism in the once socialist-dominated Docklands. Lichfield repeats an explanation from a Toronto Jewish scholar:

> After the war years, many Jewish families wanted to build a safe, secure base from which they would never have to run again. The Reichmanns appear to me driven to go beyond that, to create a base so wealthy that they could practise their own interpretation of the law without the kind of compromises—such as social contact with gentiles and non-orthodox Jews—which were forced on them in exile. And beyond that to raise the funds to begin to recreate, in scholarship at least, the shattered, enclosed world of their orthodox communities in Europe.[62]

Finally, Lichfield recapitulates the observations of Peter Forster, the author of a book on the Reichmanns:

> The key to everything is the psychology of Paul Reichmann. He is a deal junkie. Deal-making is what he lives and breathes for, the obsessive need to go on making bigger and better deals. And the need to encompass it all in his head, with no proper management structure. With most businessmen, money is not the driving force. . . . His motivation is really the game itself, to do things bigger and better, to work out ever more intricate and imaginative deals.[63]

The Recovery of Canary Wharf

Only three years later, the tide had turned along the Thames, and Canary Wharf once again appeared to be an attractive investment. Paul Reichmann led a group of investors bidding to buy Canary Wharf back from the banks at a fraction of its cost of construction. According to the *Economist,* the losses he and his family incurred on all their holdings added up to $10 billion.[64] Nevertheless, he was able to leverage their remaining $100 million sufficiently to acquire an estimated 10 percent interest in the new company.[65] The Canary Wharf Group, as the new firm was called, obtained loans sufficient to allow it to honor its commitment toward building the tube line and subsequently became a publicly listed company on the London Stock Exchange. The *New York Times* opined that "a rebound in the British economy and the London property market from the deeply depressed levels of a few years ago seems to be proving that his [Reichmann's] original strategy in building the complex was not so far off, except in its timing."[66] A lavish marketing campaign had succeeded in producing a positive image for the area, and it attracted several new, prestigious occupants, including the investment arm of Barclay's Bank. This move marked the acceptability of the address to British firms.

The attractions of Canary Wharf were its lower rents (in 1995 about 60 percent of those in the City), the existence of planning permissions that allowed immediate construction tailored to the needs of the occupying firms, the capacity to build very large floor areas, and the high quality and technological sophistication of the structures. The hiatus in new construction within London had meant that vacant space was being absorbed, while conversions of office to residential and hotel accommodation had caused a substantial number of buildings to be removed from the office market. Thus, by the mid-1990s, Canary Wharf was competing in a situation of growing demand and diminished supply. As the project filled up, it began to lose the forbidding, abandoned quality that had characterized it at the time of bankruptcy and instead acquired a certain amount of glamour. It achieved nearly 80 percent occupancy in 1995, and planning had begun for additional buildings.

By the beginning of the new century, Canary Wharf was once again the scene of major construction activity. Now, however, unlike at the time of the project's launch, most buildings were purpose-built for committed tenants, and the infrastructure connecting the Wharf with the rest of London was in place. In particular, the extension of the Jubilee tube line and the construction of the Limehouse Link, Britain's most expensive road, had turned the area into an easy commute for most Londoners. Occupancy was at 98 percent of the existing 4.5 million square feet of office and retail space. More than 3.5 million square feet of additional space was under construction, including two 44-story towers, one designed by Norman Foster and the other by Cesar Pelli, for the major banking companies HSBC and Citigroup. A complex developed by another firm, in which the Canary Wharf Group held an interest, opened in 1999 with a Four Seasons hotel and 322 residential units.[67] According to a consultant's report, by 2006 the company would have added 8.9 million square feet. At that time they expected the rents at Canary Wharf to be about 15 percent lower than rents for space in the City, as compared to 31 percent lower in January 2000.[68]

Thus, as was the story at Times Square, the economic boom of the late '90s and its impact on property markets caused a seemingly doomed project to revive and prosper. The banks that had lent money to O & Y lost billions of dollars, as did the Reichmann family, when much of the asset value of O & Y's property holdings simply vanished during the recession.[69] Otherwise, however, the bankruptcy of the world's largest real-estate firm had only a short-term impact. In the long run, London has a third business district and has improved its competitive position in the European system of cities.[70] Within the terms of the LDDC's mandate,[71] Canary Wharf can now be seen as a total success in relation to the goal of reviving the economy of the Isle of Dogs, even if the path toward its triumph was less direct and more time-consuming than had been foreseen. The more debatable aspects of the complex, and of the larger Docklands scheme more generally, are whether more planning would have improved the development process, whether there should have been more citizen and local-authority involvement in policy making, and whether local residents benefited appropriately from the revival of East London.

IMPACTS OF DOCKLANDS REDEVELOPMENT

When the Thatcher government set up the LDDC, it intended to give as much leeway to the market as possible. Thus, even though the subsidies incorporated in the enterprise zone and the operations of the LDDC amounted to major governmental intervention, private investors determined the types of structures to be built and their location.[72] The government also wished to see the private sector contribute substantial financial support to the construction of necessary infrastructure. This precluded the government's putting the infrastructure in place before developers began their work.

The Docklands development scheme aimed at achieving the outcome of earlier British new-town investment—the creation of a whole new urban center. The use of a development corporation as the government's instrument replicated the new-town organizational structure.[73] But instead of using public money for the bulk of up-front capital expenditures, the Conservatives relied on the private sector to put in most of the financing and to provide major public benefits besides. It did so out of a pragmatic desire to avoid large expenditures and an ideological commitment to private enterprise. The predictable consequence was that Docklands replicated the fate of the U.S. new-town experience, wherein developers foundered because they could not meet their loan obligations before their projects had attained a positive revenue flow.[74] Given the size of initial investment, the length of time from project inception to conclusion, the cyclical nature of the property market, and the inability of private developers to refinance their debt when lending institutions lose confidence in the market, only under the most fortuitous circumstances could any developer carry out such a project. Olympia & York was the world's richest development firm; its failure indicates the limits on turning to the private sector for achieving public ends.

The Conservative government did eventually invest heavily in infrastructure for Docklands, and O & Y's successor company did finally contribute to financing the tube line. It would, however, have been more realistic for the government to have begun and paid for the construction at the start of development and received the project's contribution after occupancy. The absence of adequate transportation infrastructure initially limited the project's appeal to both investors and tenants. Many comments have been made about Londoners' aversion to moving outside the core and the significance of the much greater distance between Canary Wharf and the City than between Wall Street and the World Financial Center in Battery Park City. With good road and rail connections, however, the friction of distance would have been outweighed by the attractions of the new surroundings, as later proved the case.

The other strategy that the government could have adopted at the outset would have emulated Paris's La Défense in its policy mechanisms as well as its physical form. This project, which is comparable to the commercial core of Docklands, represented a very different, far more regulated approach to eliciting private-

sector investment. A public corporation quickly put in the necessary infrastructure, including rail transport, at the start. As the 19 million square feet of office space within the complex went up, the government first restricted then almost halted permissions to construct commercial buildings within central Paris.[75] When financial crisis hit during the mid-1970s, the cabinet pumped in additional public revenues as well as giving tax advantages to firms settling in La Défense.[76] Thus, while the French used private-sector resources to create a whole new section of Paris, they did not rely on the market to regulate the flow of those resources.

In contrast, the British government remained obdurate in its endorsement of market mechanisms. It refused to restrain the Corporation of the City of London in its competition with Docklands, thereby ensuring the oversupply of London office space that made it impossible for Docklands developers to fill their buildings. It would not release O & Y from its transport commitments, and it was willing to move civil servants into Canary Wharf only if rentals did not exceed the lowest going rate for comparable space.[77]

Prime Minister John Major declared that the government would not bail out Canary Wharf: "The future of the development must be a matter for the administrator and for the banks, and not necessarily for the Government."[78] Yet the LDDC and the whole Docklands approach was a creation of the U.K. central government; its latter-day puritanism about letting the market do its work contradicted the project's state-based origin. If the government initially had been content simply to await private initiatives, at most there would have been a gradual development of Docklands, moving slowly outward from the boundary with the City.

In the end, one could argue that the results were the same as if the government had been more consistently supportive. The roads and transit connections got built, and the commercial sites prospered. The private sector took the losses commensurate with its risks; whether the public gained or lost as a result is a difficult issue to resolve. On the one hand, the wave of bankruptcies that swept the property sector reinforced the overall recession affecting the London economy. On the other, total public expenditure of £3.9 billion induced £8.7 billion of private investment by March 1998, with another several billion pounds expected to materialize within the next decade.[79]

The structure of the LDDC insulated decisions over location and type of facility constructed from the political arena. Although Docklands development evoked considerable protest and hostility in general, specific investment decisions remained outside public scrutiny, which would not have been the case if developers had had to seek planning permission from local authorities. A more democratic process would probably have produced a different type of commercial development, one less single-mindedly devoted to financial and business services. Such a trajectory would have been more responsive to the specific needs of the host boroughs but less contributory to the economic development of Greater London.

More planning, if it had aimed at tying physical to social programs, would have connected education and training efforts within the Docklands boroughs more

closely to the projects going up. In the LDDC's first years, its focus was exclusively physical. Later, in response to widespread criticism, the LDDC did begin to emphasize social regeneration as a significant part of its mission.[80] Both politicians and business leaders began to recognize that special efforts were required if the physical improvement of an area was to benefit its residents. Contemporary British urban policy under the Single Regeneration Budget explicitly requires such program integration. The official evaluation of the LDDC notes that the corporation had spent £110 million on social and community development, representing about 7 percent of net expenditure. It concludes that "most of the population will have benefited from this activity," but it makes no effort to explicate these benefits.[81] In an analysis of the labor-market effects of Docklands development, Church and Frost indicate that there are insufficient data to allow an estimate of the access to jobs of original Docklands residents.[82] The in-migration of many middle-class residents to the new, owner-occupied housing estates, combined with the move of earlier residents out of social housing complexes into owner occupation, means that future censuses of the area will be unable to determine the employment impacts on original residents.

According to LDDC figures, unemployment in the development area basically tracked the rate for Greater London as a whole.[83] In 1998 the number of jobs in the development area had increased from about 27,000 to 80,000, but only 23,000 of the gain represented net additions to total employment rather than transferred positions.[84] There was little to indicate that the low-income, unemployed residents of the Docklands boroughs realized direct employment and income benefits from the huge investments placed in their vicinity. Possibly the most important effect was the link to employment in the rest of London provided by the tube extension, which, even if it was intended primarily to bring workers out to Docklands, also transported Docklands residents to the rest of the metropolis.

In relation to housing development, rather surprisingly given the LDDC's initial aversion to social housing, the local community has obtained measurable gains from LDDC investment. Social housing in the urban development area was estimated to be 40 percent higher than would have been the case in the absence of the LDDC.[85] At the same time, the number of houses available for owner occupation increased by nearly 16,000 units, resulting in a tenure mix of 37.6 percent owner-occupied in 1997 (compared to 5.3 percent in 1981) and 49.1 percent social housing (compared to 82.8 percent in 1981). In Mark Kleinman's words, Docklands "has become more like a 'normal' housing market, more in line with the rest of London, in terms of housing tenure and housing mix."[86] The final mix was the consequence of developer initiatives, deals in which affordable housing was created along with market-rate units, and the substitution of social for market-rate housing during the property recession. At the start of the development period, the local authorities showed no interest in developing housing for owner occupation, and most of the housing developed exceeded the means of existing

residents. Nevertheless, those of their children who were upwardly mobile were able to stay in their old neighborhoods as a consequence of the LDDC's housing program.

Democracy

From the outset, the two sides of the Docklands debate were clearly differentiated. The position of the Conservative government and its supporters was that Docklands could be an engine of growth, propelling London into a dominant position in twenty-first-century Europe. They frequently mentioned the French success in creating a business center on the Parisian periphery at La Défense and cited central London's restrictions on growth, congestion, and obsolescent office stock as reasons to plan a new development designed from the start to fulfill contemporary needs. The past failures of Labour governments in promoting alternative, smaller-scale strategies of growth were taken to indicate that only private capital, leveraged by strategic public-sector contributions, could succeed in moving Docklands from wasteland to viability. Opponents of converting the Docklands into a financial and advanced-services headquarters maintained that current residents would receive few housing and employment benefits; that these would only be incidental to the main goal of stimulating private property investment; and that the amount of public financing required to make the project feasible represented a perverse tax on the rest of British society, which would be deprived of adequate governmental support for other community development efforts.

Bob Colenutt, the former director of the Docklands Consultative Committee, was the leading spokesman for those promoting an alternative development path. He rejected the Tory conception of Docklands as a new business and residential center for London. Colenutt suggested instead a gradualist strategy toward regeneration that would give priority to assuaging inner-city deprivation.[87] He proposed, among other things, (1) emphasizing job training and technical assistance to business rather than property development; (2) developing comprehensive strategic plans rather than stimulating "flagship" developments to act as magnets for growth; and (3) increasing local accountability and democracy. His approach was less flashy and, ironically, much more conservative than the Conservatives' tactics. It would not have attracted large sums of capital, and, despite his call for a stronger regional planning approach, it would probably have sacrificed the potential of Docklands as a strategic resource for Greater London as a whole. Colenutt did not espouse a parochialism that would limit the benefits of Docklands development simply to its low-income residents, as did the earlier DJC plan. But neither did he indicate what would attract business to the area. The great merit of his approach lay in its direct confrontation of the sources of social and economic inequality; its deficiency was in the weakness of its stimulus to growth.

Present strategies of London continue to rely heavily on "flagship projects." The UDC format, however, is a thing of the past. Both planning and public par-

ticipation are requirements in the new developments; local authorities constitute the institutional arbiter for investment; and social programs are built in from the start. Reflecting the Blair government's "Third Way," these projects attempt both growth and redistribution. The sharp disagreements over planning objectives characteristic of the early '80s have disappeared. Instead, a strategy of consensus-building consonant with the prescriptions of planning theory for communicative or collaborative planning prevails.[88] Whether underlying conflicts of interest in a city with growing inequality can, in fact, be resolved in this fashion remains to be seen.

10

Real-Estate Development: Why Is It Special and What Is Its Impact?

Urban redevelopment has attracted the scrutiny of scholars and community activists since the inception of large government programs to rebuild cities after the Second World War. Initial interest centered on the governmental decision-making process, the role of the state, and community conflict. Although many studies identified the influence of business leaders on decisions and outcomes, there was little investigation of the factors affecting the actions of speculative developers. Their great prominence during the real-estate boom of the 1980s, their contribution to economic retreat at the beginning of the '90s, and their diminished role at the end of that decade have formed the central theme of this book. The conclusion of Chapter 1 lists six questions that make up the framework of my inquiry. The first four—the relationship between economic restructuring and real-estate development, the contradictions within the process of development that produce oversupply, the relationship between governmental activity and property development, and the similarities and differences between London and New York—have already been considered in earlier chapters. This chapter addresses the fifth and sixth questions: the special characteristics of real estate as an economic sector, and the impacts of redevelopment.

THE NATURE OF THE REAL-ESTATE SECTOR

Real-estate development shares characteristics with many other sectors of production in both its impacts and its operations; its uniqueness lies in the way it combines attributes usually belonging to quite dissimilar industries. Like manufacturers, property developers produce a tangible product. At the same time, the development industry resembles the entertainment business more than heavy manufacturing in having a profound cultural influence, in the singularity of each

item produced, and in the process by which the elements of a project are combined. As in entertainment, production away from the firm's headquarters is ad hoc; unlike most other multinational corporations, big development companies do not set up permanent facilities around the world, but, rather, like film-production companies, they use temporary field offices for specific projects. Yet, despite resemblances to film or television production, the industry is also similar to agriculture in its cyclical structure, its susceptibility to market glut, and its close relation with government. Although government does not directly control levels of production as in agriculture, the development industry depends heavily on public-sector decisions concerning investment in infrastructure, tax policy, and regulation of construction.

Organization of Production

Major development firms typically differ from big industrial corporations in not producing on a mass scale. The fluctuating nature of the property market and the fact that most purchases of space are from secondhand stock have meant that the industry, except for large housing subdivision builders, could never count on a market sufficient to justify mass production. In the United States and the United Kingdom, development firms also have not adopted the same organizational structures as major industrial producers have—they have not integrated most phases of the production process within their enterprises,[1] and they usually do not operate on a global or even a national scale.[2]

Developers usually contract for most services with third parties rather than relying on internal provision. This strategy allows them simply to withdraw from activity during slumps, as they have little overhead to maintain.[3] By providing development firms with other sources of income, like brokerage, management, and architectural fees, vertical integration could reduce their costs during peak periods and offer them protection against cash-flow problems during downturns in the development cycle. Few firms, however, have tried to adopt this model.[4] Olympia & York did move toward vertical integration during the 1980s real-estate boom by issuing its own notes and retaining property for its own management operation. It also operated in a number of countries. As it turned out, both self-financing and working in unfamiliar locales contributed heavily to its undoing.

Ironically, construction used to be contrasted with integrated, mass-produced, capital-goods and consumer-durables manufacturing to demonstrate its backwardness. Now, however, the "hollow corporation" that relies on subcontractors, "just-in-time" methods, and temporary staff has been touted as the leading edge of the restructured global economy. In the era of flexible organization of enterprises and short production runs, the development industry begins to look as if all along it had occupied the vanguard rather than the rear.

Property Markets

The property development industry has a paradoxical situation with regard to market position:[5] It is simultaneously monopolistic and highly competitive. Although any structure monopolizes its site, and property owners can achieve monopoly pricing within districts, no developer or small group of developers can control overall supply in a metropolitan area.[6] Ease of entry into the market and the potential of previously undeveloped districts to compete with developed areas destabilizes market domination. Unlike farmers, whom the government compensates for accepting constraints on production, developers do not receive benefits when they are not developing; consequently, they have strongly resisted governmentally imposed restrictions on supply, even though without such restrictions it becomes impossible to maintain high prices. The situation whereby a small group of owners can monopolize a niche but not a whole market contributes to the cyclical behavior of property markets. A competing node must reach a critical mass before it threatens an established area, but once it does, it affects the entire price structure. Thus, suburban office complexes only began to threaten the dominance of urban central business districts (CBDs) once they reached a critical mass and took on the characteristics of edge cities. At that point, however, they became competitive and forced property owners in the CBD to either lower their prices or offer superior quality.

The 1980s witnessed a move toward dominance of the London and New York inner-city new-construction markets by a small number of big firms. Subsequent hard times, however, either drove them into default or caused them to withdraw from active production of space until the market's revival in the late 1990s. In New York, commercial landlords on the midtown East Side commanded very high rents as a result of limitations on the supply of space in a uniquely prestigious area. Renovation of older buildings in adjacent areas by small-scale developers and massive new development in other parts of Manhattan and in New Jersey, however, created "new addresses," leading office-renters to vacate large amounts of space on the East Side as they took advantage of lower prices elsewhere. The pressure on building owners burdened with so much empty space meant that they could not sustain the old rent level even after developers had stopped adding newly constructed space to the area. Thus, the value of their initial monopoly position dropped substantially. In the case of Canary Wharf, its supply of cheaper, high-quality space caused the City of London to respond by encouraging new production, thereby pushing down the price of office rentals within the City. Once the vacant space was finally absorbed by the end of the '90s, rents returned to and eventually even exceeded their previous peak. The price differential between the old and new centers, however, diminished.

The most anomalous aspect of the pricing of real estate derives from the dual role of a building in functioning within both factor and consumption markets. In other industries, ownership of the product is distinct from ownership of the com-

pany or rights to future increases in the value of its production. A building, however, is both part of capital stock and a commodity. It is as if the cost of cars to the consumer fluctuated with the shares of General Motors, or as if purchases of bread reflected the price of grain futures. (The price of these goods does, of course, to some degree reflect anticipation of future scarcity and resale possibilities, but the connection is far less strong than in real-estate markets since the amount of product available can be much more easily controlled.) The dual character of property as commodity and vehicle for capital accumulation explains why investors will risk funds on a property where production costs exceed capitalized revenues calculated on the basis of present value.

The general rule that a firm should produce until marginal cost equals marginal revenue is difficult to apply in the property industry since expectations about marginal revenue are extremely subjective. Although calculating marginal revenue in all industries requires an estimate of a future price, in no other industry is such a prediction so uncertain, so subject to the externalities of the actions of others, and carried out over such a long time span. The price of a commercial property in ten years depends on the amount of space that others build; desirability of the area in which it is located (which is itself very subjective and can be perturbed by unanticipated events); the changeable technical needs of the occupant (e.g., for "smart buildings," large trading floors, or private offices with windows); governmental decisions concerning infrastructure, taxation, interest rates, and regulation; and expansion and contraction of the industry for which the building is designed.

During the 1980s financial institutions were willing to lend money to developers using optimistic estimates of the future value of the building rather than a simple ratio of the immediately anticipated rent roll to capital inputs. Consequently, far more space was built than could be justified, based on immediate returns. As shown in Chapter 3, it was this flow of capital into the property industry rather than demand that stimulated the huge amount of new construction at the end of the decade. After the crash of the early '90s, lenders virtually ceased to support speculative development. Thus, by the end of the decade, despite demand that reduced vacancy rates to extraordinarily low levels, little new supply of office stock was coming onto the market.

The Contribution of Property to Value

Two much-discussed arguments of David Harvey bear on the issue of the consequences of property investment;[7] both signify that gains from property are particularly ill gotten. First, in his theory of switched investment, Harvey argues that investment moves into the secondary circuit of capital, to which the built environment belongs, when there is overaccumulation in the primary circuit.[8] Harvey's implication is that such switching dampens productive investment, and his use of the term "circuit" indicates that once capital moves into this realm it will stay there.

Yet, as syndication and securitization make property debt increasingly negotiable, the distinction between circuits fades. There is, moreover, little evidence that the behavior of property counters movements in other parts of the economy, as would be the case if the switching argument were valid.[9] When times are generally tough, property suffers likewise. The lag in the property cycle as compared to the goods-production cycle largely results from the long lead time involved in real-estate development projects.[10]

During the 1970s in the United States there was a major shift of funds into property. This phenomenon is more convincingly regarded as the result of using property as a hedge against inflation and of tax advantages allocated to this sector than as a consequence of overaccumulation in the primary circuit. In addition, the tendency of banks, particularly those of Japan and the oil-producing countries, to overinvest in property grew partly out of the move by industrial companies toward disintermediation; the refusal of companies with large capital needs to turn to banks meant that the banks lacked outlets for their funds. The absence of investment opportunities for banks in the primary sector did not necessarily reflect overaccumulation in that sector.

Harvey develops his second argument concerning the effects of investment in property in his discussion of "fictitious capital" (defined as debt instruments).[11] He uses the term "insanity" to describe "a society in which investment in appropriation (rents, government debts, etc.) appears just as important as investment in production."[12] According to both these arguments, the property sector absorbs rather than generates value—value is only created through "real" production (including the actual building of a structure but not some of the other costs associated with it, such as sales taxes and interest).[13]

The classical (Ricardian) definition of land rent, which assumes a completely inelastic supply of land, likewise implies that the property sector is essentially parasitic. According to this reasoning, property attains its value from the way it is used by its occupant rather than from any activity of the owner.[14] Speculative transactions appear to support this point. Thus, the spiraling price of an undeveloped piece of land that keeps changing hands on the expectation of future use illustrates the unearned quality of real-estate gains, as does a huge increase in the rent for an unchanged storefront at the expiration of a lease.

Despite such instances of wholly unproductive investment in property, real-estate development can create value beyond the cost of its production. If agglomeration and access do transform territory into location; if restructured space increases business efficiency; if subdivision of land or reuse of empty warehouses creates a residential neighborhood where none previously existed; if the regulations that limit construction in a given district do actually produce a more attractive environment—then increases in land value resulting from development are genuine. The value of a tennis racket is dependent on a court, of a bedroom on a bed, of a steel mill on raw materials (and vice versa)—virtually all values exist in combinations and are increased or lowered, based on the context in which they

are used. Physicality does not make a process real, nor does the intangibility of factors like agglomeration make them unreal. It is the concatenation of externalities from development that creates place, which as a whole may have a value greater than a simple summation of the costs of producing it.[15] The claim that such gains are socially created does not overturn this assertion—the question of who deserves to receive the gain is analytically separable from the issue of whether it exists. Value anticipated from development is not fictitious.

Factors Causing Government Involvement

The inherently social nature of the production of place has underlain the historically high level of government involvement in the property sector. First, because ownership of property is a set of rights rather than physical possession, government has always regulated "private" property. How property rights are defined, bought, and sold is defined by law and adjudicated through courts. Second, property development has an immediate neighborhood effect, and the aggregate of development projects has important impacts on the economic future and quality of life of an entire settlement. The use and disposal of property almost necessarily involves more parties than simply the nominal buyer and seller. Third, the obligation of government to provide public goods means that even in the most market-driven societies, governments themselves have major landholdings and do some land banking. Governments act as property developers when carrying out public functions ranging from assuring the water supply to constructing parks to building infrastructure. How they perform these functions significantly affects growth and the distribution of benefits within their jurisdictions.

Together public and private property development contributes significantly to the creation of place. Place has within it the elements of territory, of location, and of community.[16] Place is a critical component of human welfare for several reasons: (1) It provides a basis for human affiliation; (2) it is the setting for economic development and consumption; (3) it is the locus of political representation; and (4) it is the arena in which public policy acts on people. Given the crucial functions of place, it is not surprising that its constitution is among the most contested of policy issues.

HOW SHOULD WE EVALUATE THE PLACES THAT THE CITY BUILDERS HAVE MADE?

Practitioners of both city planning and urban sociology long held as a basic tenet that urban form shapes social life. Throughout much of this century, planners, whose roots lay in the design professions, believed that well-ordered cities would make people lead better lives. During the same period urban sociologists, claiming a scientific basis for their hypotheses, were arguing that environmental factors explained human behavior—Lewis Wirth, in his famous essay on urbanism that epitomized this approach, identified the size, density, and heterogeneity of a settlement as the determining elements of social relations within it.[17]

Subsequently, however, leftist scholars disputed that place had independent effects, claiming that planners and sociologists had mistakenly confounded the results of a class-divided industrial society with the consequences of urban form and spatial clustering.[18] These later theorists argued instead that urbanism was a mediating factor based on the socioeconomic relations of modern industrial capitalism. In its Marxist version, this analysis regarded space as shaped by the dominant class using spatial divisions to its advantage and by subordinate classes, which on occasion were able to mobilize from a territorial base to contest their situation.[19] More conservative thinkers did not share the Marxists' starting point in the economic structure. Nevertheless, they also increasingly saw physical form as an outcome instead of a cause of human activity, differing from the Marxists in tracing the qualities of places to popular preferences and technological imperatives rather than to the logic of capitalism.[20]

Most recently, urbanists, usually from a left perspective, have placed a renewed emphasis on urban design and spatial configuration, although without explicitly reviving the design or environmental reductionism of their planning and sociological forebears.[21] In line with contemporary poststructuralist thought, they have largely avoided identifying the form of the city as a direct cause of social behavior; rather, they have read from the physical contours of cities the meaning of urban life. Their analyses stress the symbolic importance of design; chart the way in which it expresses relations of domination and subordination, oppression and resistance; and examine the interaction between environmental factors and human consciousness.[22] In particular, recent writings on the city have explored the inclusionary and exclusionary aspects of urban spatial formations, as part of a broad concern by their authors with the politics of diversity and a normative commitment to the acceptance of difference.[23] Whereas their Marxist predecessors had evaluated the material costs and benefits flowing from the creation and use of urban space, today's cultural critics have scrutinized the late capitalist city with "the conscience of the eye."[24]

The evolving literature on the meaning of spatial configurations provides one set of concerns through which we can assess the development history of London and New York between 1978 and 2000. It also allows us to describe the culture of urban development and to understand how different social groups shape and respond to the new urban form. Nevertheless, I find serious problems in the arguments of this contemporary group of urbanists, which stem from their simultaneous embrace of the related but also contradictory values of diversity, authenticity, and democracy. In the remainder of this chapter, in which I present my evaluation of redevelopment in London and New York, I distill the main elements of this recent critique of contemporary redevelopment practice drawn from a number of recent works, either generally on the making of the contemporary city or more

specifically on London and New York. For simplicity's sake, I label this body of analysis "poststructuralist." My presentation of the poststructuralist analysis attempts to offer a fair summary of the main arguments, but the reader should keep in mind that I am not fully in agreement with them. Afterward, I specify what I see as the weaknesses of the approach and set forth some correctives that assist in overcoming these difficulties. Finally, I discuss additional ways of understanding and evaluating urban redevelopment, based on a more materialist analysis.

The Poststructuralist Critique

The "public-private partnerships" that have controlled the planning and implementation of redevelopment in American and British cities express themselves in the lineaments of the cities that they build. Within these partnerships the private sector usually dominates the relationship through its command over investment choices; moreover, despite their hybrid status, the partnerships typically adhere to a market-led, closed-to-the-public style that is a hallmark of a private business. Whether the recent British partnerships, which involve more prominent roles for government officials and affected communities, result in substantially lessened private dominance remains to be seen as projects move toward implementation. In the past, in pursuing their aims of economic expansion, public-private partnerships imprinted the built environment with their attributes of privatism, competition, and commodification of relationships.[25] According to poststructuralist analysis, the resulting environment is hostile to authentic human expression and represses subordinate groups.

To ensure the safe pursuit of profit within the reconstructed city, designers intentionally set projects off from their surroundings so as to create defensible space: "Faced with the fact of social hostility in the city, the planner's impulse in the real world is to seal off conflicting or dissonant sides, to build internal walls rather than permeable borders."[26] A number of measures ensure that only certain people can gain access to the new constructions that define the urban landscape: isolation of projects behind highways, raised plazas, or actual walls; direct connections to parking garages and transit, obviating the need to use city streets; segregation of uses; extensive deployment of security measures; private ownership of outdoor parks and indoor courtyards, allowing the banning of unsavory individuals and political speech; high prices for renting attractive quarters and for buying goods sold within the new stores; and stylistic markers that make lower-class people feel out of place. The unrelatedness of one project to the next further diminishes the public realm. In the words of the architect Moshe Safdie:

> The legibility of the city depends on the public domain as the connective framework between individual buildings. This is exemplified in the agora and the markets of the past, but it does not exist today. We are unable to connect buildings as part of the urban experience. The Galeria in Houston, the grand space of Philip Johnson's IDS building in Minneapolis, the great spaces created by Portman are an attempt to respond to our desire for public places worthy of the kind of urban life that we want. But, by definition, built as individual pieces, they are introverted and, hence, they are private and not connectable.[27]

The resulting urban form is paradoxically neither coherent nor diverse. Physical incoherence, instead of fostering pluralism, produces segmentation[28]—separation rather than juxtaposition. The adjectives typically used to depict the contemporary city are "divided," "fragmented," and "fractured." Although the residences of the rich and poor were rarely in close proximity throughout the history of the industrial city, the commercial core previously retained a social heterogeneity, springing from its use by all strata of the population. The construction of fortified spaces within the city, however, allows the commuting businessperson and the resident gentry to experience urbanity without confronting "the other." In Richard Sennett's words: "Battery Park City . . . is planned according to current enlightened wisdom about mixed uses and the virtues of diversity. Within this model of community, however, one has the sense . . . 'of an illustration of life' rather than life itself."[29]

Even projects like Covent Garden and South Street Seaport, which were modeled on the busy marketplaces of earlier times, produce only a simulacrum of urbanism—an "analogous city."[30] In commenting ironically on the influence of Jane Jacobs, whose *Death and Life of Great American Cities* had espoused diversity as the prime urban value, Trevor Boddy contends:

> Sadly, the cornerstones of Jacobsian urbanism—picturesque ethnic shops piled high with imported goods, mustachioed hot-dog vendors in front of improvised streetcorner fountains, urban life considered as one enormous national-day festival—are cruelly mimicked in every Rouse market [i.e., urban shopping districts developed by the Rouse Corporation, which specializes in festive marketplaces] and historic district on the [American] continent. Contemporary developers have found it eminently easy to furnish such obvious symbols of urbanism, while at the same time eliminating the racial, ethnic, and class diversity that interested Jacobs in the first place.[31]

To the poststructuralist critics the glory of cities lies in their capacity to bring together strangers, allowing people to move beyond the "familiar enclaves" of families and social networks "to the more open public of politics, commerce, and festival, where strangers meet and interact."[32] The diminution of this capacity reinforces the hegemony of the white males who designed the modern city and whose economic and political power it incorporates.[33] In turn, the city symbolizes gendered power; popular response to its message reaffirms acquiescence to hierarchy and repressive norms of appropriate behavior. According to Elizabeth Wilson, the modern city and its postmodern successor signify the triumph of the

"masculine approach" of "intervention and mastery" over feminine "appreciation and immersion."[34] In his discussion of the City of London, Michael Pryke comments that the value system of the English public school combined with a style of British masculinity to create there a gendered territory of "upper class patriarchy."[35] He argues that the introduction of information technology into these gendered confines produced "a spatial demonstration of predominantly male corporate power structures," as men staked out their positions on the trading floors of the financial firms while women assumed the jobs deskilled by computerization.[36]

The claim that diversity is excluded while its illusion is created underlies the further accusation that unlike the streets and markets of old, these new development projects lack authenticity:

> Places like Battery Park City, Times Square, and South Street Seaport are sustained . . . by the expansion of historical tourism, the desire to "just look" at the replicated and revalued artifacts and architecture of another time. Yet to historicize is to estrange, to make different, so that a gap continually widens between then and now, *between an authentic and simulated experience*.[37]

Even the Prince of Wales joined the attack on the failure of the modern cityscape to conform to an authentic historical tradition, and his intervention helped to block several of the megaprojects that would have rent the fabric of central London.[38] As on Main Street in Disney World—the apogee of simulated historicism—the purpose of presenting the past in the architectural references of the postmodern office structures and festive marketplaces is to induce consumption.[39] The granite-clad facades, classical pediments, and restored warehouses persuade corporate officers to pay high rents for symbols of prestige or lead tourists to buy the unneeded commodities so fetchingly displayed. Rather than situating the visitor in historical continuity with a real past, these imitative projects project him or her into a fantasy world wherein an ostensibly meaningful existence can be purchased off the rack.

In New York's Battery Park City, a residential community designed to evoke traditional neighborhoods springs up on a site that was only recently under water. In London's Canary Wharf, streets lined with august buildings seemingly built long ago suddenly appear on land formerly covered with warehouses and shipping cranes. In Covent Garden and the Fulton Street Fishmarket, T-shirt vendors and fashionable cafés take over the same structures occupied by the wholesale purveyors and raucous taverns of yesteryear. Whether the projects contain new structures built to resemble old ones or genuinely old buildings with new functions, their sameness, their artificiality, and their omnipresent security forces all seem to validate the poststructuralist perspective. The impulse for the critique derives from laudable commitments to democracy and egalitarianism and a vision of a city to which all people have an equal right and where everyone has freedom of expression. The perspective, however, even though it is rooted in a political

and social analysis of space, suffers from weaknesses of political and social perception. It is to these weaknesses that this discussion now turns.

Inadequacies of Poststructuralist Analysis

Certain of the flaws in poststructuralist urban analysis are not fundamental to its critique. Its crucial theses are its attack on exclusionism and its identification of the urban core as expressing the dominance of a ruling group or power bloc. Many of its proponents, however, base their argument on two assumptions, which they fail to justify: (1) that the city once nurtured diversity more than it does now, and (2) that a desirable city would be more authentic than the one currently being created. These two assumptions are not, however, essential, and a modified version of the main contentions about exclusionism and power can be retained without believing in a golden past and the virtue of authenticity. My discussion first explains the problems with the two assumptions, continues by examining the deficiencies of the exclusionism and domination arguments, and then attempts to salvage them.

A golden age of greater diversity? Many of the poststructuralists quoted above assume that a golden age—or at least a better time—once existed, when cities did harbor the daily interaction of diverse people and urban form expressed an authentic relationship with the forces of production and reproduction. Two obvious facts, however, undermine the nostalgic recollection of a past when urban space fostered greater tolerance of difference.[40] First, in both London and New York people deemed unacceptable by the larger society were kept out of those parts of the city where the upper classes congregated. The enforcement of vagrancy laws and the general lack of restraint on police discretion meant that the least attractive elements of society were simply contained in particular parts of town. The Bowery in New York and Limehouse in London were not necessarily the preferred location of their down-and-out denizens. These individuals did not, however, dare to intrude into upper-class areas for fear of physical assault or incarceration at the hands of the law. In addition, the confinement of the mentally ill removed them from the city streets. It was the ubiquitous presence of the homeless, substance abusers, and the mentally ill in even the best parts of Manhattan and central London that stimulated the reactive construction of secure spaces.[41] Whether in sum the variety of people in central places is greater or less now than formerly is unclear. The inward-turning characteristics of the atrium hotels like New York's Marriott Marquis, the glitzy atmosphere of Covent Garden and South Street Seaport, and the isolation of megaprojects like Battery Park and London Bridge Cities do separate the users of these facilities from the rest of the population. Nonetheless, at least superficially, the range of types to be seen within the festive markets seems to exceed the spectrum of those who patronized the down-

town department stores of my youth.[42] And even with the existence of "glass ceilings" for women and minorities, the corporations that populate the new office buildings are considerably more heterogeneous now than earlier in the century.

Second, in New York the exclusion of people of color from commercial spaces and housing was a fact of life and not illegal until midcentury. Even though patches of African-American habitation existed throughout Manhattan until their extirpation by urban renewal after World War II, the existence of these islands did not mean that their occupants mixed with other social groups. Moreover, until the Second World War the great majority of the African-American population did not abide in northern cities but lived in the South, where it was subject to extreme legal segregation. Thus, the mechanisms that currently keep most of the now much larger populations of people of color out of certain spaces in central New York, however outrageous they may be, still are not as exclusionary as previous modes.[43]

A more authentic form? The dismissal of contemporary redevelopment projects as inauthentic implies that authenticity once reigned. While putting off momentarily a discussion of the broader meaning of the term, we can temporarily accept a limited definition of authenticity in design as either historical accuracy or lack of artifice (form following function). As part of the discussion of whether there was once a golden age of the city, we can then consider if current design is less meticulous in representing the past or a less natural outcome of the economy and daily lives of the population than the constructions of earlier generations.

With this question in mind, the censure of Battery Park City, Canary Wharf, South Street Seaport, and Covent Garden for their artificiality and historical inaccuracies seems on the face of it odd. The Western urban tradition since the Renaissance has always sustained the false front and the faulty imitation of times past. Those most urbane and praised of seventeenth-century urban squares—Madrid's Plaza Mayor and Paris's Place de Vosges—achieve their uniformity from the placement of identical facades on a hodgepodge of buildings. London's beloved Nash terraces, built in the early nineteenth century, employ columns and porticoes in imaginative imitation of Athenian architecture. New York's Metropolitan Museum of Art is basically hackneyed Roman Revival. If one can identify any characteristic style of major structures in the Western city since the Renaissance, it is bastardized historical re-creation.

Authenticity defined and evaluated. The second unsubstantiated assumption of the poststructuralist interpretation is the exaltation of the value of authenticity itself and the implied definition of it that underlies the attacks on new projects as inauthentic. Although the critical literature is replete with accusations of fakery, the nature of authentic late-twentieth-century design is rarely specified. For example, Michael Sorkin, the former architecture critic for the *Village Voice,* New York's leading alternative newspaper, excoriates Disneyland for its unreality: "The simulation's referent is ever elsewhere; the 'authenticity' of the substitution always depends on the knowledge, however faded, of some absent genuine."[44] But what is the "absent genuine" in a nation whose main industries produce intangibles and whose economic stability depends on stimulating ever-higher levels of consumption? Sorkin goes on to assert that the "Disney-zone" is a meretricious fake:

> Disney invokes an urbanism without producing a city. Rather, it produces a kind of aura-stripped hypercity, a city with billions of citizens (all who would consume) but no residents. Physicalized yet conceptual, it's the utopia of transience, a place where everyone is just passing through. This is its message for the city, to be a place everywhere and nowhere, assembled only through constant motion.[45]

Sorkin's prose interestingly echoes Manuel Castells's description of the effect of information technology on society more generally: We are seeing "the emergence of a *space of flows* which dominates the historically constructed space of places, as the logic of dominant organizations detaches itself from the social constraints of cultural identities and local societies through the powerful medium of information technologies."[46] If Castells is right, then Disney World is an *authentic* reflection of underlying economic and social processes, however little we may like them. It *is* the genuine, while the absent Main Streets and Hollywood studios have, in fact, disappeared, as their economic functions have withered or are performed through other means.

Much of the poststructuralist literature rests on an unformulated premise that what is genuine comprises either the production and transportation of goods (e.g., craft workshops, steel mills, and working ports) or the housing of production workers (e.g., cottages and tenements). Spectacles and pageants are authentic if they are produced by their participants rather than fabricated to manipulate them. The subtext, based on Marxist concepts of alienation and commodity fetishism, is that virtue lies in material production and that producing for one's own consumption is better than purchasing mass-produced goods and services—activity is always preferable to passivity (in this code of ethics, buying and using finished goods is not an active pastime).[47] Such a moral stance is increasingly at odds with the reality of an economy organized around corporate power, information flows, the manufacture of financial products, mass tourism, and the consumption of services. If we are going to criticize the new urban landscape for its significations, authenticity is not the appropriate value to apply, since deconstruction of the urban environment reveals a reasonably accurate portrayal of the social forces underlying it. Indeed, form is following function.

A deeper critique must instead show that this landscape fails to satisfy important human needs. But to do so puts the critic on the thorny ground of explicating what activities afford genuine as opposed to false satisfaction.[48] The effort to show that theme parks and shopping malls do not afford real pleasure is a reprise of old Marxist claims concerning false consciousness, and it founders on

the same shoals of circular argumentation—only acceptance of identical premises concerning values and evidence can lead to the same evaluation of phenomena as genuine or false.[49] Indeed, the popularity of some of the new shopping areas, mixed-use projects, and cultural centers seems to drive the cultural critics into paroxysms of annoyance as they attempt to show that people *ought* to be continually exposed to the realities of life at the lower depths.[50] Thus, a commentator on the Olympia & York projects in London and New York declares: "Both Canary Wharf [in Docklands] and WFC [the World Financial Center at Battery Park City] are spectacular diversions that draw a veil over the realities of deepening social polarization, ghettoization, informalization and burgeoning homelessness which characterize London and New York."[51]

Such analyses place too much blame for social evil on middle-class escapism, in the limited sense of people's preference for looking at a pleasing environment.[52] A negative evaluation of Canary Wharf and Battery Park City depends on whether a feasible better option exists.[53] The alternative for Docklands development proposed by Labour in the 1970s remained unfulfilled because it rested on an obsolete vision of a manufacturing-based economy. Canary Wharf achieved its present success because it provided the type of space needed by expanding firms. Battery Park City was built on a vacant tract of land adjacent to extremely expensive, very intensively used real estate, making it logical to extend the same use pattern. Unlike the predecessor plan for the site, it managed to attract investors' interest, and it represents a far higher quality of development than the earlier plan. Although some of the undertakings I have described—especially the initial schemes for King's Cross and Times Square—were located in places where better practical alternatives were possible, Covent Garden and Battery Park City have arguably made good use of their sites and need not be condemned just because they are pretty or because they cater to the middle class. The cultural critics are frequently in the same uncomfortable position as their modernist predecessors. They justify their ideas in the name of democracy but speak for an intellectual elite, which seems to be as unanimous in its distaste for the new projects as the popular media are concerted in their praise.

The evaluation of authenticity depends heavily on the taste of the observer, and references to a previous golden age when urban life conformed more closely to the model of tolerant diversity are unconvincing. The aspects of the poststructuralist critique based on the assumptions of contemporary inauthenticity and recollections of a better past fail to persuade. Nevertheless, the core of the poststructuralist argument still remains an important starting point from which to assess the impacts of real-estate development in London and New York. The most important concern of poststructuralists is with the relationship between spatial configuration, social diversity, and power in a context where social groups are differentiated by class and culture. This facet of their argument, however, also raises problems, which stem from the tension between majoritarian democracy and respect for difference, especially when identity is defined through membership in an ascriptive group.

Democracy, Diversity, and Cultural Identity

The value that poststructuralists place on diversity arises from a vision of democracy in a multicultural, stratified society. Their attack on architectural repetition and spatial segregation asserts that these modes of spatial development neither respond to democratic preferences nor offer subordinate groups a place in which they can both express themselves and interact peacefully with each other. The weakness of their argument is that if democracy is defined as majoritarianism,[54] most people do not seem to desire diversity. Thus, even though support for recognition of difference arises from a democratic impulse which maintains that people are different but equal and therefore entitled to equal privileges and respect, institutionalized democracy tends to suppress difference. Numerous theoretical and practical attempts have been made to devise a method of combining democracy with difference in the face of majorities demanding conformity, but the underlying contradiction between commitment to majority rule and recognition of the rights and dissonant interests of others remains.[55]

In a comment on my discussion contained in the first edition of this book, Alexander Reichl argues: "We should not drop our concerns about democracy and authenticity in urban life. It is still possible to defend these ideas as valid (and interrelated) principles for judging urban development. . . . Nor would we hesitate to challenge majority opinion on this issue as something sacred and immutable. . . . Public attitudes about segregation are learned responses shaped by biased public policies."[56] He goes on to describe "the ideal authentic public space [as] . . . one where the physical environment supports a diversity of uses and users, thus creating an area for genuine, or relatively unrestricted, social interaction. . . . Where a dictatorial planning power spends seemingly unlimited amounts of money to reshape an area, healthy diversity is precluded. A necessary, if not sufficient condition for authentic places, then, is the absence of overriding control imposed from above on the physical form and its contents."[57]

Although I would not dispute that "an area for genuine, or relatively unrestricted, social interaction" does represent an ideal public space, I am less convinced that it is "authentic." Nor am I persuaded that "the absence of overriding control" would ensure its realization. Like Jane Jacobs, to whom he refers with admiration, Reichl implies that spontaneously produced places will produce a vitality lacking in planned areas. Yet, in the absence of top-down planning the only alternative possibilities are either the market or grassroots participation. The former, if wholly unregulated by zoning, does tend to produce mixed uses, but it rarely if ever produces socially diverse populations. Nor will grassroots participation typically create such a result unless the participants are already a diverse group. Even then, within community organizations single-interest groups, especially homeowners, frequently take over the process. The ideal that Reichl presents is certainly one to be pursued, but it is an elusive one, most easily achieved when the affected groups are heterogeneous but not extremely divided. The best

available example in modern Western countries is Amsterdam, where tolerance for diversity is a hallmark, based on a tradition of reconciling differences within a context of cosmopolitanism and considerable economic equality.[58] In other words, a fairly egalitarian social structure underlies spatial heterogeneity. In places with more hierarchical societies, use of space will reflect rather than transform social structure.

An article by David Harvey presents the conflict over access to Tompkins Square Park in New York as paradigmatic of contests over the control of space.[59] Parties to the dispute were the homeless who squatted in the park; motorcycle gangs who raucously convened there; gentrifiers who lived in adjacent buildings; land speculators whose property would appreciate in value if the gentrifiers succeeded in routing the squatters and motorcyclists; anarchist supporters of the homeless who campaigned vociferously and unpleasantly against gentrification; working-class neighborhood residents, many of them immigrants, who disliked the noise, drugs, hostility, and threats to personal safety emanating from the park but also opposed gentrification; and the city government, which eventually used the police to force the occupants out of the park.

The issues raised are classic ones in political theory bearing on the rights of minorities. Opponents of the city's eviction action contend that the government was acting on behalf of real-estate interests, not of the neighborhood (in this interpretation gentrifiers are not considered part of the neighborhood). While that may be the case, it is also true that most residents of the area, including working-class people and longtime occupants, preferred to have the park available for peaceful recreation rather than as a sanctuary for social outcasts. Harvey, to his credit, does not romanticize either the self-proclaimed revolutionaries in the drama or the benefits of the park as a site for cultural mixing.[60] Instead, he remarks: "To hold all the divergent politics of need and desire together within some coherent frame may be a laudable aim, but in practice far too many of the interests are mutually exclusive to allow their mutual accommodation."[61] At this point in the unfolding of his argument, Harvey arrives at the same juncture that he reaches midway in his book *The Culture of Post-Modernity*[62] after he has identified the set of conflicting social interests based on culture and gender that make up the condition of postmodernity. As in the book, he escapes the implications of his thesis regarding mutually exclusive interests by reducing the production of invidious difference to capitalism. Thus, while he does not confuse all social antagonism with class conflict, he dissolves intractable divisions—differences that pit one group irreconcilably against another—by tracing them back to "the material basis for the production of difference"—that is, the capitalist mode of production.[63]

Harvey's logic leads to the old Marxist dream of a society in which group oppression would disappear along with private ownership of the means of production.[64] Harvey's apparent adherence to this vision seems surprising, given the extent to which it has been discredited by attacks from theorists of racial and gender oppression. Since, however, he does not expect imminent socialist

revolution, the point is moot. Rather than discussing system transformation, he endorses planning and public policy under the present economic system that would empower "the oppressed" and give them "the ability to engage in self-expression."[65] The implication is that we always know who is the oppressor and who the oppressed, that the claims of the oppressed should always prevail even if they injure other groups, and that it is possible to attain these ends through democratic procedures.

Harvey's aim of restoring materialist analysis to the discussion of urban form is praiseworthy. Materialist analysis, however, should not simply mean rooting all social phenomena in the organization of production. Material interests also rest in rights to real property, not just instruments of production.[66] Privileged positions in relation to both property and consumption (status positions, in Weberian terms) are far more broadly distributed throughout the population than is ownership of the means of production. Furthermore, as Sharon Zukin correctly points out, the organization of consumption is as important as production in determining relations in space.[67] Consequently, a materialist analysis must recognize that a large proportion of the population chooses to exclude others, based on rational calculation and genuine preference. The ineluctable conclusion is that many public policy choices will pit those groups that Harvey designates as oppressed against popular majorities acting on their real interests. And even if the widespread home ownership that underpins middle-class exclusionism is a product of capitalist efforts at legitimation, the interests deriving from it remain real.

There is no easy resolution of the issue of exclusion.[68] The desire of people to live with others sharing similar outlooks and modes of behavior is understandable. Indeed, the poststructuralists are generally willing to grant that right to subordinate groups if they choose to separate themselves, but not to ruling groups.[69] This is not an illogical stance, since subordinate groups are not usually denying others a material benefit (e.g., better schools, access to jobs) in making this choice. Nevertheless, the exclusionism practiced by nonelite groups complicates the problem by undercutting the principle of social integration. In addition, the wish to live in personal safety is obviously legitimate, as Harvey acknowledges,[70] and is most easily obtained through the creation of boundaries. Giving up exclusivity may require real sacrifice of important communal and material values by ordinary people.

In an insightful essay, the political scientist Alan Wolfe contends that the erection of boundaries may be a defensible endeavor necessary for the maintenance of community, even while it is also discriminatory and harmful to those excluded.[71] He concludes by maintaining that there can be no universal moral principle on the subject, that judgments must be issued case by case. With Wolfe's caution in mind, along with the recognition that we must honor democratic process as well as democratic outcomes, we can examine the overall redevelopment strategy followed in London and New York, as well as the particular projects that were erected and their efforts.

WHAT KIND OF PLACE HAVE THE CITY BUILDERS MADE?

London and New York remained the leading centers for financial transactions and associated services during the last quarter of the twentieth century, a fact that was expressed symbolically and materially in their landscapes. The speculative nature of the development process in the 1980s led to the inevitable crash, as too much investment went into expensive real estate for which there was a limited market. At the same time, not all the strategies were wrong-headed, nor were all the projects ill-conceived, and the economic revival of the last part of the '90s made good use of the vacant space left over from the previous expansion. Growing office employment, new technical requirements for information-based industries, and shrinking manufacturing sectors had dictated revision of land uses. Competition among places for growth industries and the prior specializations of London and New York in finance and business services meant that a strategy catering to those industries made sense. Nevertheless, expansion of commercial space and a high-end service strategy did not necessitate the neglect of manufacturing industry, the failure to address the housing needs of low-income people, and government's abdicating to financial institutions and developers the responsibility for decision making concerning developmental priorities.

Redevelopment took the form of islands of glittering structures in the midst of decayed public facilities and deterioration in living conditions for the poor. The symbolic statements made by the new, completed projects were irritating—not because their internal environments were obnoxious in themselves but because of the contrast between them and the remainder of the city, especially in New York. The lead public institutions in implementing the development projects of the '80s—the London Docklands Development Corporation, the London office of the U.K. Department of the Environment, the Battery Park City Authority, the New York City Public Development Corporation—operated in insulation from democratic inputs. By focusing on the construction of first-class office space, luxury housing, and tourist attractions and shortchanging the affordable housing, small-business, and community-based industry sectors, they encouraged developers to engrave onto the landscape the image of two cities—one for the rich and one for the poor. Private financial institutions were an equally important stimulant to the enterprises undertaken by property developers, and they encouraged the same types of developments as did the public agencies. Developers, because these sorts of projects had the greatest potential for profit, obviously wanted to build them and sold them to the government and financiers. While in London the tilt toward the growth coalition abated during the '90s, it has continued in New York.

Two types of developers operated during the 1980s boom: conservative builders, who predicted their returns based on rent rolls and did not build without tenant commitments; and speculators, who not only optimistically forecast fully rented buildings even without preleasing, but based their financial projections on expectations of major appreciation in the value of the structures. The speculative developers both played the most active role in lobbying government to rely on property as the basis for economic growth and caused the overbuilding that produced the crash at the end of the decade. The main difference between the '80s and the late '90s was that all commercial developers became conservative, partly because of their earlier experiences but mainly because financial institutions would no longer lend for speculative office projects. Forest City Ratner, developer of MetroTech in Brooklyn, represented something of an anomaly during the '80s. Although, like developers in the first category, it worked only when tenants already had signed up—and it reinforced the security of its investments by requiring substantial governmental subsidy—it ventured into untried areas where other developers would not go. Ironically, it had much more difficulty obtaining financing than did the highly speculative developers who operated in the most prestigious and already most expensive parts of the city. Its most recent major projects have been in locations that are no longer deemed risky (Times Square and Battery Park City), but it still seeks locations belonging to government-sponsored schemes.

In the aftermath of the 1980s boom, it became clear to both investors and governmental bodies that long-term profitability and growth were injured by the failure to rein in the speculators. Even though economic development was the justification for the pattern of investment that had occurred, no one was responsible for calculating aggregate growth targets. Public officials frequently assert that such projections are outside their realm of responsibility and that it is up to private business to foresee demand and shape supply accordingly. Since public funds and deregulation underpinned redevelopment activity, however, the refusal of government to play such a role presented an irresponsible squandering of public resources. The unwillingness to plan comprehensively meant that too much space for the same kind of use was built on too large a scale, while there was insufficient production of needed housing, public services, and, during the '80s, infrastructure (especially, in New York, efficient transit to the airports, and, in London, access to Docklands). Making financial and business services the centerpiece of each city's development strategy was not in itself a mistake; the error lay in emphasizing these sectors virtually to the exclusion of all else and relying too much on real estate as the method of encouraging them. Highly uneven outcomes were foreordained by an economic development strategy that did not stress job training and placement and did not involve aggressive efforts to identify industries with the potential to generate employment.

Developing Docklands as an office center was not wrong. The availability of a huge tract of mainly vacant land in the heart of the London metropolitan area represented an enormous asset, and one that rightfully should have been developed for the benefit of all Londoners, not just the small number of nearby residents. It was the government's initial refusal to bolster the enterprise with major social and educational programs, to limit competitive commercial development

elsewhere, and to construct infrastructure in advance of development that created the debacle of Olympia and York's bankruptcy. The area's later success, once the necessary infrastructure was in place and the London economy had recovered, demonstrated that the type of space constructed filled a need. The favorable opinion of Docklands development given by the majority of Docklands residents to the Cambridge Research Associates evaluation also supports a positive view of the ultimate outcome, if not of the process by which it arrived.

Some of the other projects whose histories I have chronicled were better conceived. Plans for Spitalfields, developed under City Challenge and extended through the Single Regeneration Budget, combined economic and social programming, thereby representing a more sensible approach to area redevelopment than initially occurred in Docklands. The amount of funds committed by the government, however, has been small and may well prove inadequate to support the goals of the plan. Downtown Brooklyn embodies a successful strategy to create a new business district, although the level of public subsidy—through supplying infrastructure, providing tax benefits, and renting space—justifies a greater public share of the profits than was obtained. Battery Park City, despite its luxurious appearance, offers broad benefits. Ongoing governmental ownership of the land has produced significant public revenues for general purposes, for low-income housing, and for the creation of desperately needed green space on the site, which is legally as open to the public as Central Park.

The major schemes, except for New York's 42nd Street Redevelopment Project, can be justified by the same rationale as new towns were. If development nodes are to be established in out-of-the-way locations, substantial front-end investment is necessary to create a critical mass. The periphery of the City of London (site of the Broadgate development), Docklands, the King's Cross railyards, the Battery Park landfill, and downtown Brooklyn all offered prime, vacant, or underutilized territory for large-scale development. The size of structures and types of uses to be placed on them were controversial public policy issues, but there is no prima facie argument against investing substantially in their comprehensive development. The original justification for urban renewal programs—that only through coordinated development of large tracts can central cities maintain their primacy as business sections—holds true. Evaluation of their outcomes requires an examination of who benefits from them and what their environmental effects are. If, in their newness, they have a sanitized quality that contravenes cultural urbanity, we can hope that over time they will become more interesting.

The goal of urban diversity does not need to be met by developing each site for mixed-use, mixed-income, multicultural purposes. The provision of buffers between groups with, in Harvey's words, "interests [that] are mutually exclusive" makes some sense. When he was mayor, David Dinkins liked to refer to the fabric of New York as a "gorgeous mosaic"; in a mosaic, there is proximity but also separation. Creating spaces that many people enjoy, even if they do not faithfully reproduce the past, and even if they make some people feel like outcasts, is not in itself so terrible. If we wish to prevent the upper class from invading working-class neighborhoods or wholly isolating itself in suburban enclaves, then we ought not to forbid the creation of housing and offices for the elite in central places, if this can be accomplished without causing displacement.

London and New York have not channeled pedestrians into skyways and tunnels, as have Minneapolis and Toronto.[72] Their streets continue to teem with people of seemingly infinite variety, and their neighborhoods mainly abut one another rather than being separated by highways or tracts of wasteland. Successful popular opposition to highway construction and mobilization against some of the most egregious attempts to homogenize the environment have been important in maintaining overall diversity. Community participation, however, has not been sufficiently institutionalized to allow the public to influence the citywide allocation of investment or to formulate plans for neighborhood improvements.

The lack of "strong democracy" and heavy reliance on market determinations has meant that political elites and property development interests have mapped the extant city.[73] Christine Boyer describes the situation well:

> Public expenditures are written off in the rhetoric of economic vitality as market incentives that have helped private enterprise to reinvest in the city. This privatization of public discourse parallels the privatization of public space. Both bypass, by denial and suppressed linkages, the source of social inequality and conflict. The politics of spatial restructuring are antipolitical in the sense that there is no overall public agenda or city plan and no forum for debate by those affected. Instead of constructing restructuring as a public issue, the spectacle of global capitalism and the power of multinational corporations capture our imaginations, even as they condition our everyday lives and bypass political accountability.[74]

Within the realm of policy making, exclusion has indeed happened. Nevertheless, greater inclusion of the public in developmental decision making would probably not produce the kind of urban environment the poststructuralists seek. Although more resources would find their way outside the central business districts, residents with a vested interest in upgrading the character of their area—including tenants of council housing and rent-regulated structures, as well as both resident and absentee property owners—would try to restrict nonconforming uses and screen out needy persons who threatened their security or lifestyles. Moreover, more democratic decision making would almost certainly favor the interests of moderate- and middle-income people in the allocation of housing funds, rather than giving priority to the homeless.[75]

An overall evaluation of the redevelopment process in London and New York and the role of developers within it yields similar broad generalizations to those made about other cities:[76] Public-private partnerships were unequal; the process resulted

in the construction of spectacular projects that changed the appearance and functioning of the cities but left other areas untouched or deteriorated; and overreliance on property development as an economic growth strategy left unpursued other strategies that would develop worker skills and directly spur job creation and placement. My final chapter proposes a more effective mode of incorporating property redevelopment into a general policy for economic improvement.

11

Development Policy for the Inner City

Four intertwined aspects of inner-city real-estate development define the crux of the policy debate: (1) government's use of land development as an instrument for stimulating economic growth; (2) the exclusion of the public from decisions about property; (3) the impact of public and private development activity on the environment; and (4) the influence of public and private development activity on social equity. The fourth issue has two facets: the direct impacts of projects on different social groupings, and the extent to which the public receives the benefits of socially created gain in the value of property.

ECONOMIC GROWTH

One of the themes of this book has been the overreliance of government on the property industry as the vehicle for growth policy. In the short run, during the peaks of the real-estate cycle, the economic effects of property-led development were mixed. Deregulation and assistance to developers did not guarantee that benefits would be translated into increased employment. Moreover, while demand was robust, nothing forced developers to reduce prices to occupants, even when development costs had been lowered by governmental action. It appears that when prices were very high during the 1980s, government subsidy and regulatory relief had an inflationary effect, much of it being capitalized into land values rather than bringing down the cost of doing business. By the end of the 1990s rent levels were exceeding earlier peaks. In London tax relief no longer existed, except in the Isle of Dogs for sites that had obtained exemptions when the enterprise zone was still operative. In New York, however, higher rents were used as justification for ever-larger tax subsidies at a time when the vacancy rate had dropped to virtually nonexistent. Given the paucity of new supply of

space, the principal effect of the subsidies was to push land values even higher.

We would like to know if firms were attracted to inner London and New York City because of the various public incentives to development. Unfortunately, there is no clear-cut answer to this question. New York and, to a lesser extent, London did face competitive incentive programs from other cities and their own suburban peripheries which compelled them to offer similar advantages. Part of the attraction of London and New York, however, is an amorphous quality that indicated that they were the right places to be. Perhaps governmental programs contributed to that perception, although it is likely more a result of cultural stimuli than public policy. Moreover, many firms in finance and related industries had to have offices in these global centers, regardless of comparative cost, and developers would have responded to this demand even without publicly provided incentives.

What makes the question genuinely imponderable is the agglomerative nature of urban development. Other attractions outweigh cost disadvantages in locational decision making when a critical mass of skilled workers, market opportunities, supportive alliances, and prestige exists in a place.[1] Would London and New York have had such a critical mass without government prompting? At the beginning of the '80s both cities were viewed as being in serious decline. They overcame this judgment, but to disentangle the role of policy in achieving this result is nearly impossible. Certainly, some credit should go to governmental efforts. The policy issue is how such efforts can be improved.

Economic Planning

Public redevelopment programs and assistance to the private sector can form part of a sensible program for long-term economic growth. They need, however, to be within the context of economic planning. A good economic plan for a city would set levels of desired space for each market sector and each part of the city, with subsidies and regulatory relief geared to these objectives. The aim of policy should not simply be to create more space but rather to ensure that there is enough space to support industry without glutting the market. Such a strategy, in addition to contributing to stable economic growth, would, by maintaining price levels in a sector, make more funds available to government by increasing the property tax base. If government could also participate in development profit in return for its assistance, it would have a further source of revenue.

Economic planning has always been largely anathema in the United States. In the United Kingdom, the Tory government was similarly hostile, but the present Labour government is more sympathetic to at least moderate efforts at economic forecasting and plan formulation.[2] Without unduly interfering with the market, government can identify sectors it will assist and only provide that assistance if businesses within the sector conform to the government's strategy. Such planning would only represent intelligent supervision of governmental expenditure without precluding the private sector from taking risks if it was willing to forgo government help.[3] Whatever errors of forecasting might be made, they could not be worse than offering subsidies and exemptions from planning regulations indiscriminately. The assistance provided developers in London by the London Docklands Development Corporation (LDDC) and the Docklands enterprise zone and in New York by a plethora of incentive programs already constituted market intervention. What they lacked were controls to ensure that the public would gain from these efforts.

Strategies

The governments of both London and New York, in the period under consideration, not only did relatively little to encourage growth in economic sectors unimportant to large property developers but allowed important industries to be injured as a result of high rents. Rather than seeking ways to encourage economic diversity within the central areas, they let speculative office buildings drive out all other uses. Thus, for example, even though many studies have identified the arts as extremely significant components of the economies of New York and London,[4] arts groups were forced out of centrally located space because they could not afford it. Such was also the fate of numerous small businesses and nonprofit organizations. While the New York City government was actively bringing down the occupancy costs of Chase Manhattan Bank and Morgan Stanley, it ignored the situation of drama groups, bookstores, artists' workshops, galleries, acting studios, coffeehouses, and rehearsal halls, which were going bankrupt or losing their leases. In London, within the West End and the City, developers were encouraged to redevelop the peripheral areas that housed "marginal" businesses. It was somehow assumed that such businesses did not have an economic future rather than regarding them as essential components of the complex fabric of the city and the possible progenitors of future expansion.

In the speculative frenzy of the 1980s, developers projected future returns on a linear extrapolation of escalating rents and were therefore willing to pay extremely high prices for land acquisition. They thereby incurred indebtedness which could only be covered through gargantuan buildings and a wholly unrealistic rental structure that was destined to destroy their market as occupancy costs forced tenants out of business. The tragedy for the city as a whole was the destruction of industries ranging from light manufacturing to theater production, which could not easily be restored once cheap space again became available after the boom. During the less speculative upturn at the end of the century, displacement still proceeded at a rapid pace. Shortages of Class A office space encouraged expanding firms to take over buildings previously used by less profitable ventures. In New York the printing and garment industries were particularly affected. In London, in addition to conversions of warehouse and manufacturing space to offices, expensive residences displaced both industrial and office space.

In the conventional theory of land markets, no harm results from constant competition for space and awarding it to the highest bidder. The phenomenon of high rents chasing high profits, however, produces great instability, particularly among retailers, entertainment purveyors, and restaurateurs, as eventually they must raise their prices beyond the reach of their customers in order to pay their rent. The doctrine of "highest and best use" justifies planning that pushes low-return businesses to the periphery and reserves the center for the most remunerative. Theoretically, new nodes of experimental theater can be produced in outlying areas like Lambeth or Brooklyn; craft workshops can move to peripheral locations like Hounslow or Queens. Unfortunately, communities of specialists are not usually portable, and a critical mass may never be reassembled, or at least not within the same metropolitan area. Furthermore, for those industries that require proximity to high-income consumers, the distance between Mayfair and Hounslow, the Upper East Side and Queens, is insurmountable.[5]

Good economic policy would aim to stabilize those sectors that harbor innovation or give the city a unique competitive advantage. London and New York have traditionally been magnets for talented people. In addition, they afford markets for highly specialized businesses that cannot survive elsewhere. Although the gross revenues of such enterprises may not allow them to bid for expensive locations, they create a milieu that gives these cities their special attraction. Policies to encourage economic diversity would reinforce the functions of creativity and specialized activity. Inexpensive refurbishment of older buildings to serve as incubators for a variety of for-profit and nonprofit businesses can assist in fostering originality and maintaining complexity. Very moderate commercial rent control, limiting rent increases to, say, 40 percent upon renewal of a lease and less thereafter, can keep the short-term greed of landlords from driving potentially long-term tenants out of business through rent rises in multiples of the original amount.

Greater emphasis on assisting the nonprofit sector presents another strategy for ensuring stable growth. Within both London and New York an enormous array of nonprofit organizations, ranging from charitable trusts to hospitals to trade groups, provide large numbers of jobs and are much more insulated from global economic competition than multinational corporations. Public-sector investment in appropriate space for such entities can contribute considerably more to steady overall economic growth than high public expenditure to attract front-office facilities of corporations subject to mergers. Outside the central areas, greater financial and technical support for local enterprises would diminish the need to seek ways of attracting outside investors. In New York, community economic development corporations (CDCs) offer a framework for such assistance, which would be much larger if reliable funding sources existed. Secure financing for CDCs would release their staffs from devoting the greater part of their time to raising money rather than operating programs. In London, where the CDC vehicle does not exist, cooperatives offer a similar opportunity.

I part company with many of my progressive colleagues by endorsing large-scale planned development of business centers on vacant or underutilized peripheral sites. The old central business districts of London and New York are overcrowded and distant from populations living in outer areas. Intensifying uses within them is environmentally and socially destructive. Consequently, I think that Canary Wharf and MetroTech, located on largely vacant land in working-class districts close enough to the old centers to attract business, justified government promotion. MetroTech, albeit expensive, succeeded in stimulating the economic development of Brooklyn; its deficiencies lie in the failure of government to ensure that it be connected with job training and placement programs and that the public sector receive more financial return from its sizable input. Canary Wharf, despite its problematic beginning, became a substantial success and allowed firms that otherwise could not have found a place to locate within London to find a home. According to one London financial analyst: "It's the only place in London that you can build premium office space on big sites. There is nowhere in the City that you can build more than a million square feet and have it delivered in three years."[6] More consistent governmental support for the project from its outset might have spared it the trauma of bankruptcy and nearly a decade of losses. In return for pledging this kind of support, the government could have retained rights to the site and obtained ground rent of the sort that the Battery Park City Authority receives in New York.

Improved Public-Private Partnerships

There are four conceivable sources of risk capital for economic regeneration: the private, for-profit sector; the state; employee savings and benefit funds; and the nonprofit sector. Each has advantages and disadvantages. To attract private capital to territories not regarded as inherently profitable by capitalist managers, state officials feel compelled to offer incentives, with all of the likely negative consequences discussed in this book. Direct state participation in quasi-governmental corporations can save failing industries and permits greater public control of the outcomes than state subsidy of purely private entities does. (The effect of Amtrak, the U.S. passenger railroad corporation that connects a number of old U.S. central cities and whose revival has spun off an important employment and retailing multiplier, is a good example of revitalization through the use of this kind of instrument.) Such corporations, though, when they are profitable and capitalized on a large scale, tend to behave little differently from private firms and will also seek least-cost locations.[7] In contrast, firms run directly by the state will be less profit-oriented and, theoretically at least, susceptible to democratic control. They tend, however, to avoid risks, invest insufficiently, and avoid cost-reduction measures.

Critics of business-dominated arrangements who recognize the necessity of tapping into private capital need to devise innovative versions of the public-private partnership. This requires a recognition of the importance of management and

entrepreneurship and coming to terms with the multinational corporation. The reality that giant multinational, service-producing corporations dominate economic transactions means that progressive policy-makers must find ways of tapping into their economic power rather than dismissing them on moral grounds. Public-private partnerships under these conditions are inevitable; what needs to be done is to ensure that the public component is more controlling and shares more in the proceeds.[8]

Public-private partnerships can involve the participation of small firms. Public assistance to consulting, computer, high-tech, restaurant franchise, nursing home, home health care, and similar enterprises, as well as small-scale manufacturing, could generate a stable small-business sector to occupy inner-city sites. Such arrangements, however, will raise equity problems. If small businesses are to thrive, they will involve internal hierarchies with returns to managers sufficient to induce competent, experienced individuals to assume those roles. Managers will require discretion in rewarding workers' performance. Under such an approach, social equalization, if it is to occur, would come through redistribution within the tax and welfare system rather than the firm. In other words, even a progressive policy toward inner-city redevelopment will generate serious inequalities in the rewards to labor if it is to stimulate growth.

Eisinger especially emphasizes the expanding public role in identifying product niches for local industry, promoting product development, training workers for firms in expanding areas, and marketing local outputs.[9] The typical version of these endeavors, as in the public-private partnership and the venture capital funds, allows public assumption of the risk and private appropriation of the profit. A better model would be the hotel and convention bureaus of many municipalities, where a tax on receipts supports their marketing efforts. Eisinger notes that some states participate in royalties from inventions resulting from state participation in product innovation. As a general rule, the more public bodies receive a revenue stream keyed to the profits derived from public investment, the better the community can protect itself from the continual undercutting of the public fisc caused by antitax pressures.

Under the Single Regeneration Budget (SRB) the U.K. government has attempted to foster more inclusive partnership arrangements than typically operate in the United States. Every bid for SRB money involves partnerships between business, government, and affected communities. A national, government-sponsored body, English Partnerships, reports to the Department of the Environment, Transport and the Regions (DETR); it implements various SRB expenditures on behalf of the government by investing in areas targeted for regeneration. It thus purchases and oversees the development of land, mediates among stakeholders, and encourages the formation of local partnerships. According to one of its senior executives, "In the '80s there was much more ad hoc development. Now it is much more strategic. . . . Successful developers have to come up with partnership schemes. Earlier developments failed because they didn't have enough participation. . . . The present planning process takes account of local authorities, local communities." He noted that the partnership approach led to different kinds of projects than had prevailed during the '80s: "Historically property-led schemes did not affect the bottom strata. We now encourage the use of local labor. This is a condition on every planning application—builders must present a policy. And SRB money is linked to training schemes in all the new developments." Unlike Greater London Enterprise, which is unconnected with the government and must be self-financing, English Partnerships does not have to worry about making money on its schemes. Nevertheless, when it gives a grant, it does maintain an equity stake in the project and has clawback provisions to insure a return on any eventual profit.

Numerous local institutions have sprung up in response to these government initiatives and continue on a permanent basis. For example, the King's Cross Partnership was founded in 1995 and consists of representatives of business, the community, government, and housing associations. As well as having put together an SRB bid, it continues to market the area to businesses and potential residents. In combination with other organizations, it runs programs for housing, the environment, job training, community development, and health. Similar coalitions exist throughout London. The rhetoric of these partnerships is inclusive, and bids they put together do combine physical and social programs. Whether the level of social investment is adequate remains an issue.

In New York there is much less public participation in large-scale redevelopment schemes. At the neighborhood level, where such activities are sponsored by community development corporations (CDCs), local small business has representation on CDC boards, and residents may also be involved. There are, however, no requirements connected with the city's redevelopment programs to seek wide input, and federal involvement is minimal. By far the largest city expenditures to promote redevelopment are the various tax forgiveness schemes; no community input is solicited for these, and they simply constitute deals between the city and the business involved.

Recently New York has instituted a "plug and go" scheme whereby it provides marketing money to information technology firms that agree to locate within the outer boroughs or in Harlem. The program shows signs of being successful in attaining its aim of spreading employment to areas outside Manhattan. Like the tax abatement programs, however, it does not involve local participation in decision making. Even without this program, the pressure on land in Manhattan would have forced firms to look further for space. There is considerable concern in the areas zoned for industrial and commercial use within the outer boroughs that these new high-tech firms will inflate rents beyond the means of existing businesses and will not employ local workers. There is no institutionalized forum in which these problems can be addressed.

PRIVATE DECISION-MAKING AND PUBLIC OVERSIGHT

Developers who work within central business districts are generally inclined to think that they are dangerously overregulated—although London's property entrepreneurs, having experienced the effect of deregulation, had second thoughts and have become much more accepting of planning. To the extent that regulation does exist, it is usually tied to environmental rather than economic effects. Government scrutiny of the financial viability of development enterprises is restricted to evaluating bids for particular sites in response to a government's request for proposals. The high externalities of developmental decisions, however, mean that the consequences of developers' decisions are widely felt. Therefore, as discussed above, economic planning measures are needed.

Greater direct governmental intervention, however, would exacerbate tensions that already exist over questions of representation in planning decisions. The rise of urban development corporations in both London and New York responded to the purported inefficiencies of elected governmental bodies in determining priorities and implementing economic development strategies. These corporations excluded direct community input in their deliberations; in addition, some—like the LDDC and the New York State Empire State Development Corporation (formerly the Urban Development Corporation)—could make land-use decisions without seeking approval from the elected bodies of the territories where they worked. The staff members and boards of these organizations believe that they do their best to represent the interests of the public. They view protesting community groups as narrowly favoring their own interests and unable to conceptualize or sacrifice for programs that would benefit the whole city. The community groups, on the other hand, justifiably feel that they bear the costs of improvements while others realize the gain, that wealthy citizens are rarely asked to give up their privileges for the common good, and that their intimate knowledge of their neighborhoods is disregarded.

I remember attending a meeting between the staff of New York's 42nd Street Development Corporation and the "Midtown Citizens Committee," a community group consisting predominantly of major business executives and other notables in the area.[10] The event took place in the penthouse boardroom of the New York Telephone Company. The concerns of the Clinton neighborhood, which was vehemently opposing the development corporation's plans, seemed as remote to the assembled persons as the pedestrians 42 stories below. To them the working-class populace of Clinton appeared only obstructionist, and their own desire to turn Times Square into a high-rise office district seemed forward-looking and public-spirited. Many of those attending the meeting did not stand to gain personally from the project. None of them, however, was capable of the act of empathy required to put themselves in the place of the vociferous neighborhood residents, who, unlike these suave, well-dressed "citizens," tended to be rude, scruffy, and suspicious of newcomers to the area.

It is an extremely difficult task to devise an appropriate system for land use and economic development planning that takes metropolitan area–wide considerations into account, operates efficiently and effectively, involves citizens in reviewing development proposals without succumbing to the "not-in-my-backyard" syndrome ("NIMBYism"), and responds to initiatives emanating from urban neighborhoods. Because planning must cope with genuine conflicts of interest, trade-offs between long- and short-term considerations, and considerable uncertainty over the results of any project, no process will produce a fully satisfactory result. Nevertheless, the creation of a strategic planning framework, as is currently undergoing formulation in London, can allow inputs at various levels.

The past failures of planners, as evidenced in highway programs, urban renewal, and modernist council estates, make recommendations for more planning suspect. Mine are made on the optimistic assumption that planners can learn from their mistakes, that in fact they were learning at the time the urban renewal program was terminated in the United States and council house-building virtually ended in Britain. Planners had learned to recognize the costs of destroying social communities and developing out-of-scale projects; they had increasingly incorporated citizen participation, housing rehabilitation, and the coordination of housing and social services into these programs in the years before their surcease. There is, therefore, reason to hope that a revival of planning could produce a more sensitive process. Most important, without such an effort urban populations will remain hostage to "private" decisions shielded from democratic scrutiny despite their public significance.

Environmental Decisions

Environmental protection and improvement have been the traditional concerns of public planning. During the 1980s, restrictions on building heights, bulk, and transit impacts were jettisoned in order to encourage development. In New York, planners discovered that they could use zoning bonuses to gain concessions from developers without pecuniary costs to the city. The Corporation of the City of London, threatened by competition from Docklands, threw out environmental restrictions so that developers would continue to build there. Even though systematic extension of the central business district into derelict riverfront sites, with simultaneous restrictions on development elsewhere, represents a superior land-use strategy to intensification of development in already overbuilt areas, the London governing powers abjured such a strategy. This approach would have denied autonomy to the City of London local authority—in conflict with the goal of devolving planning from the metropolitan level—and it would have contravened the avowed intention of the government to overcome obstacles to development. In the actual case, Britain got centralized decision making for Docklands and local jurisdiction for the City of London; this inconsistency produced the worst of all possible worlds, with simultaneous massive development in both places. Although

the surplus space was absorbed by the century's end, the roller-coaster ride of boom and bust produced many losers in the interim. Besides financial institutions and property developers themselves, these included the small retail businesses that had hopefully transplanted themselves to the new developments and languished for lack of trade. They also encompassed the employees of all of the businesses dependent on the property sector that laid off workers in response to falling revenues.

Social Equity

Social equity demands a balanced redevelopment policy that addresses the distributional effects of economic development and provides for consumption as well as investment needs. As most studies of redevelopment show, policy aimed at growth had little regard for social impacts. Better policy requires the coordination of economic and social programs, including the integration of employment and redevelopment programs; linking of housing and office construction; much higher and more consistent levels of subsidy for affordable housing; opportunities for small business in publicly assisted commercial developments; measures to ensure that any corporation that received public-sector benefits be prevented from cashing in and then decamping; and clawback provisions requiring that public investment receive a return from profitable enterprises that it stimulated.

The flaw of the usual progressive critique of redevelopment, with which I am otherwise generally sympathetic, is that it focuses on provisions for consumption (housing, parks, day care centers, etc.) and does not offer a formula for growth. So far the left has not discovered an effective method for stimulating substantial investment in declining areas that differs significantly from the business subsidy approach of the Right, except that it would direct more assistance toward manufacturing. The task is to formulate a strategy that is as activist as and less destructive than the modus operandi of typical urban growth coalitions. Social democrats need to do what is necessary to foster incentives and reward entrepreneurship. Without a program for growth, progressives have little chance of achieving or retaining political power. Criticisms of the depredations caused by unregulated capital or prescriptions for cooperative industry are insufficient. Most people will accept growing inequality in preference to stagnation or absolute decline in the standard of living. English Partnerships and GLE are moves in the right direction. Such organizations, however, are always susceptible to business domination if the private sector is providing the bulk of the funding and if market success is the determining criterion of survival.

Advocates for the poor need to be mindful of the political opposition to extremely redistributional programs. In New York, supporters of the homeless insist that their clients should receive absolute preference for subsidized housing. Consequently, they sacrifice the political backing of the middle class and working poor. Moreover, by totally dissociating any criterion of worthiness from eligibility for

public benefits, they contravene the deeply held beliefs of most people. Distinctions between the deserving and undeserving poor are indeed invidious. But refusal to recognize that low-wage workers may have as strong a claim to housing assistance as do jobless substance abusers is not clearly the morally superior position. If equality is the only value one seeks to maximize, and if one sees all bad behavior as socially caused, then a purely redistributional policy is consistent. Acceptance of democratic norms that require yielding to majority views, however, as well as a desire to reward individual effort, leads to a more balanced policy that reserves a substantial portion of aid for people who are in want but are not the poorest. To say that everyone who needs it should receive assistance evades the issue of how to set priorities when resources are insufficient to fulfill that goal.

To speak of the tasks for progressive local forces without noting their national context is to dodge a central issue. Cities are limited in their autonomy not only by general economic forces but also by the national political system of which they form a part. Ideological, institutional, and fiscal factors constrain their ability to operate in political isolation from the rest of the nation. Within the United States in the Reagan-Bush years and in the United Kingdom during the Thatcher-Major period, progressive local regimes had to swim against the ideological current. They had difficulty maintaining a broad base of support when the national propaganda attack pictured them as "loony" or unrealistic. More recently, liberal national regimes in the United States and the United Kingdom were more supportive of local advocates for the poor. Blair's "Third Way" purported to locate a path between market and dependence on government—the partnership approach is its embodiment. Similarly, Clinton administration programs aimed at developing community capacity, and the federal empowerment zones directed federal funds to areas outside the central business district. Both national regimes, however, sought to produce inner-city betterment without a substantial increase in government funding.

In contrast, planning and social welfare expenditures still retain much greater legitimacy in the northern European states, and national regimes are less inclined to glorify the free market. In those countries localities have greater capabilities for managing development. Thus, for example, the Dutch state supports 90 percent of local government expenditures, promulgates a national structure plan within which localities do their own planning, and pays sufficiently high levels of income and housing support that no one is extremely poor and the rich are not as rich as elsewhere. The result is that the Amsterdam municipal government constantly presses, with considerable success, for class integration within neighborhoods, prevents encroachment on residential properties by offices, and ensures an active and varied cultural scene.[11]

London and New York, having emerged from the recession of the '90s, remain the dominant economic centers of the world. Good redevelopment policy means nurturing the special attributes of these diverse places so that creativity is not overwhelmed by overspecialization in finance and business services and cultural commodification. It requires recognizing the potential contribution for growth

of other sectors in the economy. It further means that first priority be given to the welfare of the mass of citizens and that policy be assessed in terms of its direct effects on the comfort and employment prospects of popular majorities, with particular attention given to its impact on those most directly affected. There is no simple formula for providing growth with equity or efficient yet participatory planning. These, nevertheless, must be the overriding ambitions for policy-makers and the guiding propositions for their efforts at urban redevelopment.

Appendix: Population and Economy of London and New York

Table A.1. Greater London Population, 1931–1998 (in thousands)

		Percentage born in New Commonwealth* & Pakistan	Percentage non-white
1931	8,110		
1951	8,197		
1961	7,992		
1971	7,452	13	
1981	6,696	18	
1991	6,680		20
1998	6,989		25

*Includes the Caribbean, India, Pakistan, Bangladesh, Cyprus, Gibraltar, Malta, and the Far East.
Sources: Great Britain, *Annual Abstract of Statistics* (London: HMSO, 1987), table 2.8; UK, *1991 Census of Population*, Great Britain, *Labour Force Survey* (London: ONS, 1998).

Table A.2. New York City Population, 1940–2000 (in thousands)

	1940	1950	1960	1970	1980	1990	2000
New York City	7,455	7,892	7,782	7,895	7,072	7,323	8,008
Percentage white[a]	94	90	85	n.a.	61	52	45
Manhattan	1,890	1,960	1,698	1,539	1,428	1,456	1,537
Percentage white	83	79	74	n.a.	59	59	54
Brooklyn	2,698	2,738	2,627	2,602	2,231	2,301	2,465
Percentage white	95	92	85	n.a.	56	47	41
Bronx	1,395	1,451	1,425	1,472	1,169	1,173	1,333
Percentage white	98	93	88	n.a.	47	36	30
Queens	1,298	1,551	1,810	1,986	1,891	1,911	2,229
Percentage white	97	96	91	n.a.	71	58	44
Staten Island	174	192	222	295	352	371	444
Percentage white	98	96	95	n.a.	89	85	78

[a] Individuals of Hispanic origin are included in both white and non-white categories depending on how they identified themselves. The city contained 21 percent of Hispanic origin in 1980, 24 percent in 1990, and 27 percent in 2000. Percentage white is not supplied for the year 1970 because the treatment of those of Hispanic origin in that year differed from the rest of the series. Groups not included in the "white population" are blacks, native Americans, Asian/Pacific Islanders, and "others."
Sources: L. C. Rosenwaike, *Population History of New York City* (Syracuse: Syracuse University Press, 1972); pp. 121, 133, 136, 141, 197; U.S. Bureau of the Census, State and Metropolitan Area Data Book 1986, p. 202, table A; Port Authority of New York and New Jersey, *Demographic Trends in the NY-NJ Metropolitan Region;* U.S. Bureau of the Census, Census 2000, www.census.gov.

Table A.3. London Employment by Industry, 1961–1997 (in thousands)

	1961	1981	1991	% of total 1991 employment	1997	% of total 1997 employment
Manufacturing, mining, energy, and agriculture	1,468	690	399	12	292	8
Construction	281	165	118	4	110	3
Transportation, utilities, wholesale distribution	740	663	954	29	280	8
Retail trade	506	300	n.a.		547	16
Finance and business services	462	593			1,066	31
FIRE			283	9		
Business services			451	14		
Other services	384	265	1,049[a]	32	433	13
Government (health, education, welfare, public administration)	606	890	n.a.		730	17
Total Employment	4,447	3,566	3,354[b]		3,458	

[a] Includes figures for retail trade and government for 1991.
[b] It is estimated that employment in London fell by 251,000 between its December 1988 peak and June 1991 (LPAC, Errata for LPAC 1991 annual review).
Sources: Derived from Nick Buck, Ian Gordon, and Ken Young, *The London Employment Problem* (Oxford: Clarendon Press, 1986), tables 4.1, 4.2; LPAC, *Strategic Trends & Policy, 1991 Annual Review* (London: LPAC, 1991); Amer K. Hirmis, "Labour market and industry structure: Greater London," (London: LPAC, 1991); Great Britain, Annual Employment Survey (London: 1997).

Table A.4. New York City Employment by Industry, 1960–1998 (in thousands)

	1960	1970	1980	1990	% of total 1990 employment	1998	% of total 1998 employment
Manufacturing	949	768	497	346	9.6	262	7.4
Construction	125	110	77	110	3.1	101	2.9
Transportation and utilities	318	323	257	222	6.2	207	5.9
Wholesale and retail trade	745	736	613	614	17.1	588	16.7
Finance, insurance, and real estate	386	460	448	512	14.1	484	13.7
Services[a]	607	785	894	1184	32.9	1,326	37.6
Government	408	563	516	607	16.9	556	15.8
Total Employment	3,538	3,745	3,302	3,595		3,524	

[a] 1998 figures are for "Services & misc."
Sources: Temporary Commission on City Finances, *The Effect of Taxation on Manufacturing in New York City,* December 1976, table 1; Real Estate Board of New York, Fact book 1983, October 1982, table 56; U.S. Bureau of Labor Statistics, *Employment and Earnings,* 37 (December 1990); The Port Authority of New York and New Jersey, *Regional Economy: Review and Outlook for the New York–New Jersey Metropolitan Region,* August 1999.

Notes

1. ECONOMIC RESTRUCTURING AND REDEVELOPMENT

1. Logan and Molotch (1987).

2. Turok (1992).

3. While other industries have received subsidies through loans, grants, tax relief, and job training, the sums involved overall have been considerably less than those directed at real-estate development.

4. London Planning Advisory Committee (1991); Commission on the Year 2000 (1987). LPAC was composed of members of the 33 borough councils; at the time this report was written, it was mandated to give advice to the Government Office for London, located in what was—before its reorganization into the Department of Environment, Transport and the Regions—the U.K. Department of the Environment. See Simmie (1994) for a discussion of the LPAC report. The Commission on the Year 2000 was a specially appointed group of notables brought together by Mayor Edward I. Koch.

5. I use the terms real estate and property development interchangeably, although the former term is exclusively an American usage.

6. See Harvey (1973). See also Lamarche (1976) and Massey and Catalano (1978). An important contribution to the discussion in the early 1980s was contained in a number of pieces in Dear and Scott (1981), especially those by Shoukry Roweis and Allen Scott, Chris Pickvance, and Martin Boddy.

7. See especially Balchin et al. (1988); Healey et al. (1992); Healey and Nabarro (1990); Healey and Barrett (1990); Ball et al. (1985); Hamnett and Randolph (1988); Corbridge et al. (1994); Simmie (1994); and Hall (1996, 1998).

Much of the reason for greater activity in Britain than in the United States is the existence of chartered surveying as an academic and professional field in the United Kingdom and its absence in the United States. Training of chartered surveyors involves study of all aspects of the property industry, including public policy; in its inclusiveness and more academic orientation it differs substantially from the training of real-estate professionals in the United States.

Serious work on property development is also under way in Australia and New Zealand. See Berry and Huxley (1992); Low and Moser (1990); Searle and Bounds (1999); and Moricz and Murphy (1997). In Finland, Anne Haila (inter alia, 1988, 1991, 1999) has also written extensively on the subject. On Japan, see Dehesh and Pugh (1999).

8. See, inter alia, Downs (1985); Feagin and Parker (1990); Frieden and Sagalyn (1990); Weiss (1989); Logan (1992); and Smith and DeFilippis (1999).

9. Frantz (1991), p. 3. Shachtman (1991) comments that "these men and their peers [New York City's developers] . . . shared a love of soaring buildings that was more than an appreciation of their worth as pieces of property" (p. 7).

10. Exceptions are the "progressive" cities, where political leadership elected by leftist or antideveloper constituencies has sought to channel development away from typical trickle-down programs oriented toward central business districts into neighborhood endeavors and to extract large public benefits from for-profit developers. See Clavel (1986) for a study of five such progressive cities; Krumholz and Forester (1990) for an examination of the Cleveland experience; Squires et al. (1987) on Chicago under Mayor Harold Washington; Conroy (1990) on Burlington, Vermont; Lawless (1990) on the changing tactics of Labour authorities in Sheffield; Goss (1988), who chronicles the experience of the London Labour borough of Southwark; and Brindley, Rydin, and Stoker (1996), who examine "popular planning" within a London borough and "public-investment planning" in Glasgow. Of the various progressive cities described in the literature, only a minority have managed to maintain a consistent posture over the course of several elected administrations.

11. Among the many works on urban redevelopment that support this story are Fainstein et al. (1986); Stone (1976, 1989); Imbroscio (1997); Saunders (1979); and Brindley, Rydin, and Stoker (1996).

12. Organized in 1943 under the leadership of Richard King Mellon, head of Pittsburgh's leading bank, the Allegheny Conference drew up the plans for the transformation of Pittsburgh from a manufacturing to a service city. The public sector's role was primarily the reactive one of implementing the Allegheny Conference's strategies. The partnership between private and public sectors was institutionalized within the city's Urban Redevelopment Authority. See Sbragia (1990).

13. Jonas and Wilson (1999); Molotch (1980); Mollenkopf (1978).

14. Rydin (1998); Fainstein and Fainstein (1978).

15. Harloe et al. (1992); Harloe (1995).

16. The first two postwar Labour governments sought to nationalize all undeveloped land.

17. See Balchin et al. (1988), chapter 9.

18. See Saunders (1979).

19. Ambrose (1986), pp. 98–103.

20. Greater London contains 33 local authorities (i.e., municipal governments). Thirty-one of them are called boroughs; two (Westminster and London, which compose the central business district) are called cities. The City of London contains the financial district and frequently is referred to simply as "the City."

21. Pickvance (1981).

22. Hamnett and Randolph (1988); Badcock (1984), pp. 162–68.

23. Forman (1989).

24. A number of studies are explicitly comparative and reach something of a consensus concerning the similarities in the impact of global economic restructuring on U.K. and U.S. cities and on the direction of urban policy in the two countries during the 1980s. See Parkinson et al. (1988); Barnekov, Boyle, and Rich (1989); Savitch (1988); A. King (1990); Sassen (1991); S. Fainstein et al. (1992); and Zukin (1992).

25. Rydin (1998).

26. See Imrie and Thomas (1999).

27. Green (1991).

28. Among the many studies that reach the conclusions summarized in this paragraph, see Parkinson and Judd (1988); Squires (1989); and Logan and Swanstrom (1990b) on growth strategies and their economic and social impacts; see Ambrose (1986); Sennett (1990); and Sorkin (1992b) on impacts on diversity and the environment.

29. See Cox (1991), who doubts the theoretical coherence of the empirical literature.

30. Dahl (1961).

31. See Wolfinger (1974); Domhoff (1978); Polsby (1963); Bachrach and Baratz (1962); and Yates (1973, 1977) for discussions of New Haven in relation to the power-structure debate.

32. Wolfinger (1974).

33. Paul Peterson's (1981) controversial argument that economic development programs enjoy consensual support goes over Dahl's and Wolfinger's New Haven findings once again, ignoring all of the subsequent studies that undermine that conclusion.

34. See Fainstein and Fainstein (1986a).

35. Bachrach and Baratz (1962).

36. See, for example, Stone (1976).

37. The literature on American urban redevelopment is enormous. See especially Altshuler (1965); Beauregard (1989); Caro (1974); Cummings (1988); S. Fainstein et al. (1986); Friedland (1983); Judd and Parkinson (1990); Logan and Swanstrom (1990b); Mollenkopf (1983); Parkinson et al. (1988); Rosenthal (1980); M. Smith and Feagin (1987); Squires (1989); Stone (1976, 1989); Stone and Sanders (1987); Swanstrom (1985); and Wilson (1966).

38. Early important works on British planning, housing, and development activities include Foley (1972); Pahl (1975); Young and Willmott (1957); and Marriott (1967).

Peter Hall's (1963, 1973, 1989) immensely influential works on urban growth and change were more directed to influencing policy-makers and thus less critical of observed trends than were those within the structuralist tradition. But even he criticizes "conservationist planning" for protecting the upper-class way of life while crowding the working class into "a more sanitary version of the labourer's cottage of a century ago" (Hall et al., 1973, p. 628). These, however, are not, according to Hall, the "true victims" of the planning system; the biggest losers are the poor, occupying private rental housing in the central city, who cannot gain entry into either the suburban owner-occupier market or the public housing sector.

Additional British studies of redevelopment include Simmie (1974, 1981); Saunders (1979); Marris (1987); Brindley, Rydin, and Stoker (1989); and Goss (1988).

39. See Judge, Stoker, and Wolman (1995).

40. See, for example, Sternlieb and Hughes (1975); and P. Peterson (1981).

41. Dahl (1961); Polsby (1963).

42. Savitch (1988).

43. Ibid., p. 7.

44. Swanstrom (1993).

45. Mollenkopf (1978); Molotch (1980); M. Smith (1988); and Harding (1995).

46. Harvey (1985a), p. 190.

47. The attacks on Harvey's formulation that pepper the literature (see, e.g., Saunders, 1986, chapter 7; and M. Smith, 1988) accuse him of regarding the results of urban political controversies as predetermined to favor capital rather than subject to contingency and the intervention of human agency. In fact, while Harvey lapses into mechanistic language in his more abstract theorizing, he more than anyone has looked historically at the agency through which redevelopment has occurred (see the long chapter on Paris in Harvey, 1985b).

48. Castells (1977).

49. See Preteceille (1981).

50. David Imbroscio (1997) traces current (American) regime formation to "the 'external economic dependence' and 'internal resource dependence' of city public officials. The first refers to the need for city officials to attract and retain mobile economic investment; the second, the need for those officials to garner extrastate resources from the local community in order to govern their cities effectively" (p. xv).

51. See Haila (1991) for a summary of the various theories and for a discussion of the economic functions of land markets and the return to investment in land and property.

52. Harvey (1985c) is more generally concerned with the functions of rent in allocating land uses and coordinating the flow of capital into the built environment. These functions and the impacts of different types of rent need not concern us here.

53. Elkin (1987), discussing the meaning of a business-dominated regime, comments: "The heart of the entrepreneurial political economy was the business elite's ability to create and maintain a political system in which those who held elected and appointed office did not have to be told what to do" (p. 68). Norman Fainstein and I (1986b) use the term "directive" to describe those urban regimes that planned large-scale redevelopment with little opposition and consequently made few concessions to nonelite interests.

54. Stone (1989), p. 234. Italics in original.

55. Painter (1997), p. 133.

56. See Stoker (1995).

57. Stone (1993), p. 11.

58. Lauria (1997); Harding (1994).

59. Balbus (1971), p. 167. Italics in original.

60. See Cox (1991); and my response, S. Fainstein (1991a).

61. In later work Cox comes closer to this position. See Cox (1997).

62. See Beauregard and Haila (2000).

63. There is, of course, a marked difference in vocabulary: "economic development" versus "capital accumulation"; "businesspeople" versus "capital"; "rate of return," "profit," or "earnings" versus "surplus value"; "recession" versus "crisis of accumulation."

64. Stone (1993) states that regime theory "recognizes the enormous political importance of privately controlled investment, but does so without going so far as to embrace a position of economic determinism. . . . Regime analysts explore the middle ground between, on the one side, pluralists, with their assumption that the economy is just one of several discrete spheres of activity, and, on the other side, structuralists, who see the mode of production as pervading and dominating all other spheres of activity, including politics" (p. 2).

65. See Cooke (1989); Harloe, Pickvance, and Urry (1990); N. Smith (1987); M. P. Smith (1988); and S. Fainstein (1990a).

66. See Swanstrom (1988).

67. Fisher and Peters (1998); *New England Economic Review* (1999). Nestor Rodriguez and Joe Feagin (1986), whose thesis is rooted in a left critique of governmental action, come to a contrary conclusion regarding the efficacy of local action. They investigated the factors historically causing cities to occupy specialized positions in the world economic system. They deny that the capture of a niche results from the logic of the invisible hand—that is, it is not simply a product of automatic response to market forces. They argue instead that the existence of specialized economic centers is rooted in the political actions of business leaders, who force their ambitions on local government, which acts as an agent of their interests both in directly providing them with assistance and in lobbying higher levels of government. Thus, which one of a limited group of competitors for a particular slot—e.g., financial center, oil service industry capital—prevails depends on the activities of local business and governmental elites.

68. P. Peterson (1981).

69. Sanders and Stone (1987).

70. Logan and Swanstrom (1990a).

71. See M. P. Smith (1988), chapter 1.

72. Gourevitch (1986).

73. Not surprisingly, political scientists affirm the salience of politics, while geographers insist on the importance of space.

74. Castells (1989) also strongly emphasizes the coordinating function of financial capital in overcoming the friction of distance in his discussion of New York City.

75. Sassen (1991, 1994).

76. The concept of agglomeration advantages, originally developed in the nineteenth century by Alfred Marshall, has taken on renewed importance in recent research by economic geographers and economic development strategists. In particular, the work of Michael Porter has been central, and his article on the competitive advantage of inner cities has been extremely influential (Porter, 1995). The specialization of the central business districts of London and New York in financial and business services, as Amin and Thrift (1992) argue, can be analyzed as a case of industrial clustering. Likewise, the enhanced importance of areas within central cities as entertainment districts results from similar processes.

77. The ambiguity of the antecedent to "them" here is deliberate. One suspects that the concern is not just over omissions in regard to spatial determinants but also to the isolation of the discipline from other social sciences.

78. Soja (1989), p. 47.

79. See N. Smith (1984).

80. N. Smith (1979) coined the term "rent gap" to describe this potential as it applies to the gentrification of housing.

81. Massey (1995).

82. See Friedmann and Wolff (1982) and Friedmann (1986) for presentation of the "global city hypothesis." For research on global cities, see Savitch (1988); A. King (1990);

Sassen (1991, 1994); Fujita (1991); Mollenkopf and Castells (1991); S. Fainstein, Gordon, and Harloe (1992); Sudjic (1992b); and Knox and Taylor (1995).

83. Saskia Sassen (1991) is the most searching in her inquiry into the root causes of global city status, but she fails to differentiate the behavior of the real-estate industry from that of financial and business services.

84. See Appendix for employment data on the two cities.

85. See Appendix.

86. S. Fainstein (1990b).

87. As of this writing, elections for the council had not been held.

88. Thornley (1999); S. Fainstein and Young (1992).

89. Buck and N. Fainstein (1992).

90. Information supplied by Andy Thornley.

91. I carried out almost all of the interviews personally, but a small number of the New York ones were conducted by a research assistant.

92. Patsy Healey and Susan Barrett (1990) support a similar approach: "The critical task for the analyst seeking to understand the processes of production of the built environment is an examination of how such *external pressures are reflected in and affected by the way individual agents determine their strategies and conduct their relationships as they deal with specific projects and issues, and as they consider their future stream of activities*" (p. 90). Italics in original.

93. Harvey (1982) provides an extensive discussion of "fictitious capital." While real property is a significant component of fictitious capital, the term includes all values based on anticipated revenues and thus is not specifically spatial. Its management requires evaluation of investment opportunities, structuring of deals, and allocation of capital.

2. THE DEVELOPMENT INDUSTRY AND URBAN REDEVELOPMENT

1. Linda Davidoff was executive director of the Parks Council, a civic group active in New York City. The quotation appears in "Senator Ohrenstein Reports to Manhattan," a 1992 newsletter to his constituents from state senator Manfred Ohrenstein.

2. No date (1990?), p. 17. This glossy, expensively produced magazine is published by one of Britain's largest and most internationalized firms of charted surveyors.

3. T. Wolfe (1987), p. 57.

4. The 1981 Tax Act shortened the period for computing depreciation on real-estate investments to 15 years from a range between 22 and 40 years, thereby stimulating an explosion in real-estate syndication operations. Passive investors in a real-estate project could deduct huge paper losses from their taxes on the basis of a relatively small investment in the project; therefore, they invested in real estate (i.e., became part of a syndicate developing or owning a property) not because of its potential profits but because of its effect on their tax return. The syndicators received large fees, the investors gained major tax benefits, and the developers did not have to promise a positive rate of return in order to attract funds (Downs, 1985, chapter 6).

5. The spectacular profits achieved by Ranieri did not involve direct investment in new construction but rather the provision of a facility by which the deregulated savings and loan industry could acquire liquid capital through unloading disastrous real-estate loans and simultaneously purchase mortgage bonds underwritten by Salomon, representing the nonperforming loans of other thrift institutions. Since the federal government guaranteed the mortgages and also insured depositors, it bore the final cost of the wave of real-estate and banking defaults that eventually swept over the country at the end of the 1980s. (See Lewis, 1989, chapter 6.) The sums listed seem less grandiose by the standards of the late '90s, when speculation in Internet firms created even greater fortunes. For their time, however, they were extraordinary.

6. Keynote address to the joint conference of the American Collegiate Schools of Planning (ACSP) and the Association of European Schools of Planning (AESOP), Oxford, U.K., July 1991.

7. Mollenkopf and Castells (1991).

8. See Buck and N. Fainstein (1992).

9. Logan (2000); A. Markusen and Gwiasda (1994).

10. Bram and Orr (1999); McCall (1998).

11. See Sassen (1991); Leyshon, Thrift, and Daniels (1987); Thrift, Leyshon, and Daniels (1987); Thrift and Leyshon (1990); Pryke (1991); Castells (1989, chapter 6); Beauregard (1991); and Healey, 1990.

12. Sassen (1991), p. 19. Castells (1989), like Sassen, devotes most of his discussion of the New York economy to an analysis of capital markets. See also Buck, Drennan, and Newton (1992).

13. Leyshon, Thrift, and Daniels (1987) define a swap as "the exchange of debt obligations between two counter-parties which is designed to take advantage of differing interest rates or currency opportunities that each can obtain" (p. 19). Thrift, Leyshon, and Daniels (1987) characterize the swap market as the most important new market and credit it with bringing about an increasingly integrated world financial system.

14. While there had always been high-yield bonds, it was Michael Milken, of the investment banking firm Drexel Burnham Lambert, who gave them the sobriquet "junk" and transformed what had been a minuscule sector of the financial markets into what became their largest and most profitable sector during the height of the boom. See Bruck (1989). Ultimately, Milken was convicted of securities fraud.

15. In the United States, for commercial banks and savings and loans (S&Ls) that were paying interest rates to depositors higher than the returns they were receiving from mortgages, and for insurance companies that were forced to lend money against life insurance policies at rates lower than the price of new funds to them, solvency depended on finding highly profitable investments. Mortgage securitization allowed banks to liquefy their old loans at a discount to their face value and invest the funds released in potentially more remunerative offerings. S&Ls, which had been freed from restrictions limiting their investments to home mortgages, were most affected by mortgage securitization and used their sudden liquidity to become most involved with high-risk instruments. They were particularly impelled to do so because of the asset loss resulting from the write-downs on their mortgage loans, although the pain of this loss was partially compensated for by a tax break allowing them to offset their losses against any taxes paid over the previous ten years (Lewis, 1989, pp. 103–4). The subsequent collapse of the junk-bond and real-estate markets produced the ensuing wave of bank and S&L failures.

16. In the United Kingdom, building societies are roughly equivalent to U.S. savings banks (also called thrift institutions), and the major commercial banks are referred to as clearing banks.

17. Pryke (1991), p. 210.

18. Between 1977 and 1986 the number of employees of foreign banks and security houses in London more than doubled, from 24,294 to 53,833 (Thrift, Leyshon, and Daniels, 1987, table 5); in New York City foreign bank employment alone (excluding securities houses) grew by 25 percent, from 125,000 to 149,000 between 1979 and 1988, expanding from 15 to 24 percent of all bank employment (Byrne and Shulman, 1991, figure 4). In 1990 there were 450 foreign banks in London and 479 in 2000 (GLE, 2000, p. 26); in 1990 there were 392 in New York; the number had grown to 450 by 1993 (PANYNJ, 1991, figure 20; 1994, p. 4).

19. Sassen (1991), p. 78–83.

20. See Amin and Thrift (1992).

21. Schwartz (1992, 1994).

22. The study found that of the suburban-based Fortune 1,000 industrial companies for which data were available, all use Manhattan-based investment bankers, 89 percent use Manhattan-based law firms and commercial banks, 59 percent use Manhattan-based auditors, and 43 percent use Manhattan-based actuarial consultants (Schwartz, 1992, p. 15).

23. Burrough and Helyar (1990).

24. Sassen (1991).

25. Ibid., p. 19. Castells (1989, p. 343), who acknowledges the influence of Sassen's work on his own, likewise attributes spatial concentration to the functional need for control over dispersed production networks: "What explains this striking paradox of the increasing concentration of global flows of information, controlling global flows of capital, in a few congested blocks of one particular city? Several elements seem to be at work. The first is the concentration there of high-level directional corporate activity in the U.S. economy."

26. Sassen (1994), p. 67.

27. See Schwartz (1992).

28. Buck, Drennan, and Newton (1992), p. 99.

29. My own calculation.

30. Buck, Drennan, and Newton (1992), p. 99.

31. See Pryke (1991); Harloe and S. Fainstein (1992).

32. Bruck (1989) tells the story of the move of the headquarters of Triangle Industries, an industrial firm in New Brunswick, New Jersey, into Manhattan. Although seemingly contradictory to my argument, it actually illustrates it. The move was not occasioned by the needs of the firm's tiny wire manufacturing operation but by the personal desires of its owner, who, using junk bonds arranged by Drexel Burnham, transformed it into a shell for the purposes of taking over the National Can Corporation. National Can itself remained in Chicago, and Triangle's wire-manufacturing enterprise ultimately folded. Thus, while Triangle Industries was nominally a manufacturing firm when it moved into Manhattan, in fact it was really a financial holding company.

33. Castells (1989), p. 10.

34. Castells (1985); Moss (1986); and Sassen (1991).

35. Coopers & Lybrand Deloitte (1991a).

36. Daniels and Bobe (1990).

37. Walls (1991), p. 1.

38. Byrne and Shulman (1991), p.13.

39. Ibid. Other things being equal, real-estate investors prefer to put their resources into already large markets because of the greater possiblity they offer for selling assets and thus for providing liquidity (Dijkstra, 1991). Between 1985 and 2000 Jersey City added 10 million square feet of office space, and an equal amount was being planned for the next five years. Rents in Class A space in New Jersey in 2000 were $32–35 per square foot, as compared to Manhattan's $40–$60 per square foot (Traster, 2000, p. 61).

40. Figures available for Tokyo are so extremely discrepant that I have not shown any estimate.

41. U.K. DoE (1991); PANYNJ (1991). While most investment was in office space, there was considerable hotel construction, especially in Manhattan, where the number of rooms in major hotels increased by 32 percent, from 45,000 in 1980 to 57,301 in 1990 (REBNY, 1987, p. 10). In both London and New York much of the office development was for mixed use, involving retailing on the ground floor.

42. The construction of Battery Park City in New York on landfill adjacent to Wall Street technically constitutes new development rather than redevelopment. Its absolutely central location, however, implies that even though there had been no preexisting use, it involved a restructuring of the core.

43. See U.K. DoE (1991), tables 1.3 and 9.1. In terms of contribution to the value of new housing construction, the public sector constituted about one-third over the 1980–87 period. While public exceeded private investment in 1980, the private share steadily increased and was 3.7 times the public's in 1987 (ibid., table 1.3).

44. Hamnett and Randolph (1988); Harloe, Marcuse, and Smith (1992).

45. Stegman (1988), pp.199–200. London's net gain in units exceeded New York's because of a much lower rate of demolition and abandonment, not because of greater new construction.

46. Lee (1999), table 4.1.

47. See Chapter 5.

48. Stegman (1988), table 9.1.

49. Lee (1999), table 4.2. Data on conversions are not available for the period 1987–1992.

50. REBNY (1985, 1990).

51. Smyth (1985), chapter 7; Ambrose and Colenutt (1975).

52. Morley et al. (1989), chapter 1.

53. In an interview, Rupert Nabarro, managing director of the Investment Property Databank, estimated that 50 percent of the property developed in the 1980s boom years had been produced by five development companies: Olympia & York, Speyhawk, Stanhope, Greycoat, and Rosehaugh.

54. Mollenkopf (1983).

55. Harding (1994), p. 374.

56. Pryke (1991).

57. See Chapter 9.

58. Thornley (1991); Ambrose (1986).

59. U.K. DoE (1989), p. 5.

60. The developers I interviewed indicated that they bypassed boroughs (usually Labour-led but also Tory environmentalist) which they regarded as uncooperative.

61. Before the introduction of the uniform business rate in 1990, local authorities lacking business ratepayers received a compensating central government grant. Once

the uniform rate was in place, no locality could increase its revenues through attracting business.

62. Where published sources are not cited, material is drawn from interviews I conducted.

63. Daniels and Bobe (1990).

64. Key, Espinet, and Wright (1990), p. 17.

65. Ibid. (1990), p. 40.

66. Jones Lang Wootton (1987), p. 3.

67. PANYNJ (1988), p. 6.

68. In New York, assessed values declined by 8.6 percent in fiscal year 1992 from the previous year (New York State OSDC, 1991, p. 12).

69. AT&T sublet its Upper East Side world headquarters to Sony at a reported price of $20 per square foot, barely more than half the ostensible average rent for the area (*Barron's,* 1991, p. 10). It was also reported that the Bank of Nova Scotia sublet some of its downtown space to a financial firm for $12 a square foot after a one-year rent-free period (*Crain's New York Business,* 1992). Rental figures also fail to reflect the deals—for example, free provision of fixtures, buyouts of current leases, etc.—that most developers had to offer to attract tenants.

70. During the 1974 U.K. property crash, when prices dropped by 40 percent, the vacancy rate was only 11 percent (*Economist,* 1990, p. 82).

71. Comparable statistical information is not available for New York, where development firms are privately held and thus not subject to the disclosure requirements of public corporations.

72. Byrne and Kostin (1990).

73. S. Fainstein (1992). In 1991 these two banks together held $4.1 billion in outstanding real-estate loans, $1 billion in foreclosed property, and $6.7 billion in foreclosed and problem loans. In even more serious trouble was Citicorp, New York's largest bank, which held $7 billion in outstanding loans, $2 billion in foreclosed property, and $14 billion in foreclosed and problem loans (*Barron's,* 1991). These loans, of course, were not restricted to New York City.

74. *Crain's New York Business* (1991a). In addition to its direct effects on jobs and the use of space within the restructured banking organization, the merger caused the downsizing of a number of firms that provided services to its two predecessors, since now only one supplier would be required.

75. Barrett (1992).

76. More than 60 banks, many of them foreign, had participated in syndicates underwriting the Trump properties. Peter Kalikow, another of New York's best-known speculative developers, sought bankruptcy protection in mid-1991. His more than $1 billion in debts was owed primarily to New York banks. He also owed the city more than $1 million in real-estate taxes (*New York Times,* 1991).

77. *Financial Times* (1991).

78. See Chapter 9.

79. To induce tenants to move into its two large new developments, O & Y bought out their existing leases. Consequently, in addition to owning a number of older buildings in the two cities, it held the leasehold of many more blocs of space.

80. Complicating depiction of its London holdings was its participation in the equity of other large development firms, including Stanhope, of which it owned 20 percent.

81. Of 66 third-world debtors, at the peak of the third-world debt crisis in 1987, the bank debt of only four (Argentina, Brazil, Mexico, and Venezuela) exceeded $18 billion (U.S. Bureau of the Census, 1991, table 1486).

82. Feagin and Parker (1990), p. 84.

83. The tax benefits were such that investors could rent out apartments at a price less than their carrying charges yet make a profit as a consequence of their tax situation. They achieved this because they could claim the rapid depreciation of the entire cost of the unit as a deduction on their personal income tax, even while they had borrowed most of this cost.

84. U.K. DoE (1991), table 6.4. Housing associations receive a subsidy from the central government's Housing Corporation, but they operate autonomously and are responsible to private boards.

85. The city had initially planned to spend $1.34 billion between 1992 and 1996 on subsidies for affordable housing; a reduction of nearly 38 percent ($510 million) was proposed (*New York Times,* 1992f).

86. *New York Times* (1992a).

87. REBNY (1987, 1990).

88. *Crain's New York Business* (1991b). In the office sector, despite continuing contraction, lower rents did succeed in forestalling moves to the suburbs that had previously been contemplated by Manhattan firms (*Crain's New York Business,* 1992).

89. GVA Grimley (1998), p. 1.

90. GLE (2000a), table 3.

91. Between 1993 and 1998 an estimated 9.2 million square feet of office space was converted to residential or hotel use, and a further 5.1 million square feet was planned (London Property Research, 1999, p. 23).

92. GVA Grimley (1999), p. 1.

93. GVA Grimley (2000), p. 2.

94. GVA Grimley (1999), p. 1.

95. Hamnett (1994).

96. The stipulations concerning developer contributions are known as Section 106 agreements. The equivalent term for planning gain in the United States is exactions.

97. Because of the differing policies of the various local authorities, the discussion of London that follows includes separate depictions of parts of central London as well as an analysis of the whole.

98. Byrne and Kostin (1990).

99. In 1981, 22 conservation areas, affecting 28 percent of the land area in the City, were designated.

100. The City is governed by a Corporation, consisting of 159 common councilmen and 26 aldermen. Unlike the borough councils, whose members are selected only by residents, members of the Corporation of the City of London are chosen by business firms as well as the small resident population. Approximately 14,000 voters, the majority of whom are not residents, elected the members of the Corporation. Changes in the electoral system have recently been instituted, but not only has the principle of allowing businesses to vote been maintained, but businesses formerly excluded have now received suffrage rights.

101. Until the 1980s the City did not have a planning officer but only an architect, who concerned himself with design approvals.

102. See Chapter 9.

103. Jones Lang Wootton (1987), figures 14 and 17.

104. Corporation of the City of London (1999).

105. Interview, January 11, 2000.

106. Between 1993 and 1998 more than half a million net square feet of office space had been converted into hotels and residences within the City, and an additional 735,000 square feet was planned (London Property Research, 1999).

107. In 1985–1989 Westminster added somewhat over 4 million square feet of office space, or about 25 percent of the City's total (Byrne and Kostin, 1990).

108. Although the East Side cannot lay claim to residents as illustrious as the Queen and the Prime Minister or buildings as exalted as Westminster Abbey and Buckingham Palace, it does contain the United Nations and its associated embassies, as well as the city's most desirable residential addresses.

109. In 1990 Westminster contained 12,000 listed (i.e., protected) buildings.

110. In addition to commercial pressures on the housing stock, demand for short-term leases by business visitors inflated prices beyond the reach of prospective permanent residents.

111. Westminster (1988).

112. Information supplied by LDDC, January 1989.

113. Goss (1988), p. 92.

114. Ibid., p. 101.

115. P. Newman and Smith (2000).

116. Southwark Council (n.d.).

117. Interview, January 6, 2000.

118. Edwards (1992). Peter Hall chronicles the controversy over the siting of Britain's new National Library within Camden. He comments on the original plan, which involved extensive demolition within the Bloomsbury section of the borough: "Few decisions can ever have excited such instant obloquy from the British establishment" (Hall, 1980, p. 177). Somewhat similar to New York's West Side in social composition, home to several colleges of the University of London and numerous cultural institutions, Camden housed many highly articulate citizens who, as on the West Side, made common cause with working-class neighbors on development issues.

119. See the detailed discussion of the King's Cross project in Chapter 6.

120. Greenwich Peninsula was the site, in 2000, of the Millennium Dome, intended to be London's showpiece for that year's celebrations. Instead, it turned out to be a planning disaster, failing to even come close to its predicted number of visitors and being a widespread object of derision in the media. See Thornley (2000).

121. Buck, Drennan, and Newton (1992).

122. Aron (2000), p. 50.

123. Holusha (1999); Rothstein (1998).

124. Williams (1996), p. 35.

125. Croghan (2000a), p. 3; Dunlap (1998).

126. Nicholas Lemann has observed that, even in cities formerly characterized by strong business leadership, the effect of large corporate ownership has been to cut the ties between local capitalists and their cities throughout the United States: "One associates the toppling of [local] establishments with busts, as in the case of the Great Depression. . . . But today it is the boom that is toppling them, by buying and trading the institutions they formerly controlled" (Lemann, 2000, p. 44).

127. *Crain's New York Business* (1992), p. 11.

128. In the second fiscal crisis that began in 1989, business leaders, with the exception of Felix Rohaytn, partner in Lazard Frères and head of the Municipal Assistance Corporation, largely withdrew from a prominent role. It was alleged that the reason for their previous assiduousness and more recent passivity is that whereas in the mid-1970s New York banks had invested heavily in New York's bonds, this time they had ensured that they would not be seriously at risk. See Fainstein (1992).

129. See Sleeper (1987); Newfield and DuBrul (1981); and Barrett (1992).

130. See Fainstein and Fainstein (1988).

131. A zoning variance refers to permission exempting a developer from a regulation contained in the zoning code. The zoning code specifies the type of use (e.g., office, manufacturing, etc.) to which a parcel of land may be put; the height, bulk, and density of the structure; its relationship to the street; the presence of curb cuts, etc.

132. The numbers refer to sections of the governing statute.

133. Bagli (1997a).

134. Bagli (1997b, 1999a).

135. Bagli (1999b).

136. Bagli (2000c); Sandler and Ip (2000); Kolbert (2000).

137. The *Times* itself was pursuing a tax deal for its proposed new home on Eighth Avenue.

138. A lengthy piece by Jason Epstein (1992) in the influential *New York Review of Books* made the city's failure to support manufacturing and its heavy support of real-estate growth the cornerstone of its argument concerning the reason for the perceived deterioration of New York. Written in 1992, however, within the context of a completely dead real-estate market, it represented a rather belated response.

139. Barrett (1992) characterizes a Sunday *New York Times Magazine* profile of Trump as "fawning" (p. 311).

140. *New York* (1987), p. 50.

141. *Newsweek* (1987), p. 52.

142. A zoning bonus refers to permission to exceed the space limits contained in the zoning law.

143. Air rights existed when a building did not take full advantage of the "envelope" allowed it in the zoning ordinance. Essentially, a building owner who did not use up the entire envelope could sell the unused portion to the developer of an adjacent site in the form of rights to that amount of space.

144. A study of a sample of buildings that received bonus floor area in exchange for the provision of amenities estimated that the market value of the benefits received by the developers was $108 million, while the cost of the amenities they provided was about $5 million (New York State OSDC, 1988, p. MS-3).

145. NYCPC (1981).

146. Information supplied by the Real Estate Board of New York.

147. In 1986 Mayor Koch introduced the Ten-Year Housing Plan, aimed at producing, preserving, and rehabilitating 252,000 affordable housing units between 1987 and 1996. See Chapter 5.

148. More than 12,000 units of expensive housing, more than twice the previous year's amount, were started in 1985, the last year of the program. REBNY (1990).

149. Between 1985 and 1990, 5.4 million square feet went up on the midtown East Side, 7.8 million on the midtown West Side, and 17.7 million downtown. Information supplied by the Real Estate Board of New York.

150. Lentz (2000a).

151. See Chapter 7. Even people who live in the Bronx, Brooklyn, Queens, and Staten Island refer to Manhattan as "the city" and their own location as "the boroughs." In London the usual distinction is between central London, comprising the area formerly within the jurisdiction of the London County Council, and "the outer boroughs." Most of the outer boroughs more closely resemble New York's suburban area rather than its boroughs. The area beyond the London Green Belt is called "the outer metropolitan area"; it roughly corresponds with New York's peripheral suburban area.

152. Fainstein and Fainstein (1987).

153. Trager (2000).

154. Ratner (2000).

155. SERPLAN (1992), p. 3.

156. PANYNJ (1992), pp. 6–8.

157. Jobs in motion pictures jumped by more than 24,000 between 1992 and 1998, representing a compound annual growth rate of 13.2 percent. Next largest, in percentage terms, was business services, which grew by 75,200 jobs, or a compounded rate of 5.1 percent from a much bigger base. PANYNJ (1999), Exhibit 13.

3. MARKETS, DECISION-MAKERS, AND THE REAL-ESTATE CYCLE

1. See, for example, Lichtenberger (1991), who presents an institutionalist analysis; Mills (1980), J. R. Markusen and Scheffman (1978), and Sweeney (1977), who examine market determinants using econometric modeling techniques; and Weiss (1991), who looks into the political influence and objectives of the industry at various points in the cycle.

2. Bagli (2000b).

3. The real-estate literature emphasizes the ease of entry into the industry and pictures it as a highly competitive arena. While this depiction is partly accurate, it really does not apply to large-scale projects for which access to major amounts of credit is essential. Only a handful of firms are capable of raising hundreds of millions of dollars for a project.

4. As the case of 7 World Trade Center in New York indicates, such assurances do not necessarily hold. This nearly 2 million square foot building had been intended to house Drexel Burnham Lambert; that firm, however, had declared bankruptcy by the time the building was completed and did not occupy it. It finally became the home of Salomon Smith Barney.

5. Taylor (1986), p. 29.

6. In 1986, Manhattan had the lowest vacancy rate of any major U.S. office market, being one of only three cities with rates below 10 percent. Fourteen of the 21 major office markets had vacancy rates exceeding 14 percent; Denver, with the highest, had a rate of 26 percent (REBNY, 1987, p. 8).

7. Barrett (1992) notes that Donald Trump always assumed he could unload his holdings on a greater fool.

8. Leitner (1994) also argues that property booms are a consequence of the supply of finance.

9. Many of Donald Trump's troubles arose because he pledged his personal credit on a number of his projects.

10. The establishment of a secondary market in home mortgages by Fannie Mae in the 1930s preceded by more than 60 years the use of tradable securities for office buildings. See Hu and Pennington-Cross (2000) on the importance of securitization.

11. Downs (1985), chapter 10.

12. See Leyshon, Thrift, and Daniels (1990).

13. See McNamara (1990).

14. Barrett (1992), p. 320.

15. REBNY (1987); Colliers International Property Consultants (1991).

16. See Newfield and Barrett (1988).

17. Pryke (1991); Meuwissen, Daniels, and Bobe (1991).

18. I have not displayed the different rates by city as I did in the first edition, since the sources I have consulted are extremely inconsistent. Recent currency fluctuations, particularly the rise in value of the dollar and the pound and the decline of the Euro, mean that translating rents into dollar equivalents is highly distorted and estimates vary considerably depending on the exchange rate chosen.

19. The fashion in office buildings has proved changeable. For a while demand switched to slimmer structures that offered many private offices with windows. Then, with the '90s stock market boom, the drive for large trading floors resurfaced. The rise of media and Internet firms led to yet different kinds of space needs, with industrial-style loft spaces favored.

20. I owe thanks to Patsy Healey for her clarification of this point to me.

4. POLICY AND POLITICS

1. Robert Moses held public office from 1924 to 1968. During that time he possessed a number of titles, none of which gives a full indication of his power. The most important was as head of the Triborough Bridge and Tunnel Authority. Lewis Mumford contended that "in the twentieth century, the influence of Robert Moses on the cities of America was greater than that of any other person" (quoted in Caro, 1974, p. 12).

2. See Buck and N. Fainstein (1992).

3. Lawless (1989).

4. Mackintosh and Wainwright (1987).

5. The evolution of this organization is discussed later in this chapter.

6. Marris (1987).

7. Barnekov, Boyle, and Rich (1989).

8. Danielson and Doig (1982).

9. A prime example of this capacity is New York City's system of rent regulation. Anathema to the national Republican administration, it nevertheless endured despite, under the Reagan presidency, efforts to cut off federal aid to cities that controlled private-sector

rents. These efforts never got very far, primarily because they would have constituted federal intervention in a local matter and thus strongly contravened federalist principles whereby cities are creatures of state rather than national government.

While federalism has enhanced the capacity of local regimes to enact policies different from those of the national government, it has typically protected private enclaves of power from national regulation and limited the development of the national welfare state (Robertson and Judd, 1989).

10. Loughlin, Gelfand, and Young (1985); Hambleton (1989).

11. This area was governed by the London County Council until the formation of the GLC.

12. Whereas in the United States the term "authority" refers to a nonelected body with the power to issue revenue bonds, in the United Kingdom it is used to denote both elected and nonelected bodies with governing powers.

13. Travers (1986).

14. New York City has a "strong mayor" system, meaning that the mayor has the power to hire and fire the heads of city departments. Although the city council is nominally coequal to the mayor, in reality it is a much weaker entity.

15. The Board of Estimate consisted of the mayor, with three votes; the city council president and controller, with two each; and the borough presidents, with one vote apiece. It was declared an unconstitutional violation of the principle of one person, one vote by the U.S. Supreme Court in 1989. The equal voting power possessed by the borough presidents had given the same representation to Brooklyn, with its 770,000 registered voters, as to Staten Island, with 170,000.

16. Marcuse (1987).

17. Citizens Budget Commission (various years).

18. Until 1990, New Jersey's income tax was considerably lower than New York State's, while Connecticut had no income tax at all. New York City has its own income tax, on top of the state's; residents of suburban municipalities typically pay no local income tax, although they must pay state income taxes. There is wide variation in property tax rates, licenses and users' fees, and nuisance and sales taxes among municipalities and among the states. In 1991 Connecticut introduced an income tax. Even so, residents and businesses in New York City still pay a higher proportion of their income and revenues in taxes than do similar groups outside the city.

19. Clawson and Hall (1973); Foley (1972).

20. The United States and New York State and City do have more elaborate regulations concerning the environmental impacts of all kinds of projects than does the United Kingdom, and unlike London, New York requires mitigation of negative environmental effects.

21. Each London local authority is required to produce a "unitary development plan." In contrast, New York's community boards have been empowered to develop local plans only since the 1990 Charter revision. The formulation of such plans is, however, optional, and only some boards actually do so.

22. Buck, Gordon, and Young (1986), chapter 2.

23. See Rydin (1998).

24. U.K. DoE (1989), p. 5.

25. During the late 1980s borough control was equally divided between the two parties, with the single Liberal Democratic borough of Tower Hamlets holding the balance.

26. LPAC (1988, 1994, 1996).

27. Unless otherwise indicated, quotations are drawn from my interviews. This interview took place in 1989.

28. Smothers (2000).

29. To reach Hoboken or Jersey City, two of the municipalities on the Hudson waterfront, requires only a four-minute ride from the World Trade Center in downtown Manhattan via the Port Authority–owned PATH train.

30. Prokesch (1992a).

31. New Jersey has two important state planning endeavors that guide new development: the Meadowlands Authority and the state land-use plan. The Meadowlands Authority wields planning powers over a swampy area a few miles west of Manhattan, which had remained partially undeveloped for much of the century; the area under its control includes parts of a number of communities. It has succeeded in promoting large-scale commercial and residential development as well as a major sports complex, despite friction with subordinate municipalities. Governmental units within its boundaries share the tax revenues from new development.

The state land-use plan seeks to channel growth within certain municipalities while restricting development elsewhere. While protecting rural parts of the state, it does not limit development within the already dense cities that lie between the Palisades, a rocky ridge to the east of the Meadowlands, and Manhattan.

32. Fainstein and Fainstein (1978), pp. 139–42.

33. Jenkins (1988).

34. Rees and Lambert (1985); Buck, Gordon, and Young. (1986); Townsend (1987).

35. Krieger (1986).

36. Thornley (1999), p. 187.

37. Goss (1988).

38. In 1981 approximately 18 percent of the population of Greater London was born in the New Commonwealth and Pakistan; the proportion of people of color in the population did not increase considerably in the following decade, as a result of the United Kingdom's strict immigration laws. In contrast, 39 percent of New York City's population was classified as nonwhite in 1980, the proportion increased to 48 percent in 1990, and to 55 percent in 2000. Groups not included by the census in the "white" population are blacks, Native Americans, Asian/Pacific Islanders, and "others" (see Appendix).

39. Glassberg (1981); Parkinson (1987), pp. 2–7; Pickvance (1988).

40. HM Treasury (2000); *Economist* (2000).

41. At the time the community charge was established as the principal form of local taxation, the Conservative government exempted businesses from local taxation and instead set up a national business tax, effective in 1991, that would go directly to the national treasury, then be dispersed to local authorities on a formula basis. Local authorities that had previously benefited from the presence of industry within their boundaries were held harmless by this policy—that is, the amount they received under the previous system could not be diminished—and thus the policy did not sacrifice the future revenue streams of the affected boroughs. The tax had the effect of reducing incentives among jurisdictions to compete for industry.

42. Smallwood (1984), p. 4.

43. Mackintosh and Wainwright (1987); O'Leary (1987).

44. D. King (1989).

45. Under Section 106, any new residential development exceeding 20 units must contain provision for social housing.

46. The Harlem/South Bronx Empowerment Zone is the result of a similar contest to those called for by the SRB; empowerment zones, however, are a limited program, and so far, no city has more than one of them.

47. Core members were Marks & Spencer, HSBC, BT, United Biscuits, Sainsbury's, John Laing, Cadbury, Schweppes, Corporation of London, Diageo, Lloyds TSB, Unilever, the Post Office, and Whitbread. LEntA's aim was to "exemplify how the coporate sector can take a lead in tackling social and economic exclusion" (GLE, 2000b).

48. GLE (2000b).

49. Its director, Greg Clark, claims that GLE in 2000 was the single largest landlord for small businesses in London, owning 2 percent of the market.

50. John Lindsay's victory as a liberal Republican in 1969 marked the last time a Republican won the mayoralty until the election of Rudolph Giuliani in 1993. The city council is overwhelmingly Democratic.

51. Mollenkopf (1988).

52. Until the elimination of the Board of Estimate, its members were the final arbiters of all development decisions. A study by State Senator Franz Leichter's office showed that campaign contributions to Board of Estimate members in 1984 and 1985 came predominantly from real-estate interests and financial institutions. Of the total $8.5 million raised, 16 large contributors were responsible for half; of that amount, real-estate interests accounted for $3 million, while $1.2 million came from financial institutions. Much of this money was donated while the contributors had major items before the Board of Estimate (Mollenkopf, 1992, p. 95). The transfer of decision-making authority from the Board of Estimate to the city council has not cut into the ability of developers to obtain approval for their plans in the face of community opposition. Thus, in 1993 the council voted to approve Donald Trump's application for his huge Riverside South development on Manhattan's Upper West Side and also assented to a plan to build a garbage-burning incinerator in Brooklyn (Dunlap, 1993).

53. Fainstein and Fainstein (1974).

54. McCormick, O'Cleireacain, and Dickson (1980), after comparing twelve large cities, concluded that New York City paid neither the most nor the least, although in examining seven job categories they found New York's employees predominantly within the upper half.

55. Shefter (1985); Morris (1980).

56. Sternlieb, Roistacher, and Hughes (1976); Zukin (1982); Tobier (1979); and Hudson (1987).

57. Mollenkopf (1992).

58. Koch (1984), p. 221.

59. Tabb (1982); Alcaly and Mermelstein (1976).

60. Interpretations of the1975 fiscal crisis have been heavily contested. Radical critics blamed the city's plight on overspending for capital accumulation and the rapacity of banks and political insiders. They argued that the crisis was deliberately provoked so as to discipline the city's government (see Tabb, 1982; Marcuse, 1981).

Liberal defenders pointed to obligations like higher education, public hospitals, and welfare borne by the city government for which higher levels of government took responsibility elsewhere. They contended that the crisis would not have happened if New York State had shouldered its appropriate burden (Morris, 1980). Within the electoral arena, however, the interpretation of excessive attention to the poor at the expense of the middle class prevailed with the election and successive reelections of Edward Koch.

61. Staten Island had been the home of Fresh Kills, the city's last remaining landfill. The mayor promised to close it in 2001 despite the absence of a viable alternative. He also invested $71 million in a minor league baseball stadium and associated development. In return for a modest rent, the team would pay no money for construction and receive the majority of revenues for any events booked into the stadium when the team was not playing (Bagli, 2000a).

62. Lambert (2000).

63. Income of the top quintile grew by 29 percent between 1989 and 1997 (Fiscal Policy Institute, 1999), and the number of households showing more than a million dollars a year in income nearly doubled between 1994 and 1997 (*New York Times,* 2000).

64. Fiscal Policy Institute (1999), table 1.2.

65. His term was to end in December 2001.

5. ECONOMIC DEVELOPMENT PLANNING STRATEGIES

1. The many criticisms along this line include, inter alia, the arguments of Altshuler (1965) that the planner's limited knowledge makes special insight into the public interest and comprehensiveness impossible; of Gans (1968) that planning expressed the interests of the upper classes; and of Harvey (1978) and Foglesong (1986) that it is primarily oriented toward capital accumulation and, on the occasions when it is concerned with equity, toward legitimation.

2. See Dror (1968); Faludi (1986, 1987).

3. The depiction here refers to those planners participating in what Beauregard (1990) calls the city-building process.

4. Teitz (1989).

5. Boyer (1983).

6. Klosterman (1985).

7. Levy (1990).

8. Harvey (1978).

9. Fainstein and Fainstein (1985).

10. Foglesong (1986).

11. Stewart (2000).

12. Although the transfer station was to be a private facility, it had been proposed in response to Mayor Giuliani's promise to close the Fresh Kills landfill and his intention of relying on shipping residential waste out of the city. The Organization of Waterfront Neighborhoods, which opposed the siting of transfer stations exclusively in low-income neighborhoods already heavily affected by waste-transfer stations for commercial refuse, were demanding an alternative plan (Bautista, 2000). Because newly instituted term limits meant that the mayor's tenure in office had to end in 2001, delaying tactics would ensure consideration by a new administration. In fact, Giuliani capitulated to the opposition and eventually backed off from his original plan.

13. Kahan (2000).

14. Eventually this plan was defeated.

15. Interviews with Nick Roberts of Chelsfield (January 11, 2000) and Harvey Marshall of the Westminister council (January 10, 2000).

16. Interview with Michael Keith, January 13, 2000.

17. Dunlap (2000).

18. Lentz (2000b), p. 4; see also Dunlap (2000).

19. Canary Wharf and Battery Park City are unusual among recent projects in the extent of the government role in supplying land, infrastructure, and facilities. The additional advantages that government gave developers through tax forgiveness meant that these projects exceeded earlier renewal/regeneration programs in the amount of governmental largesse. They have also, however, required a larger private contribution for public purposes than had characterized earlier projects.

20. Columbus Centre is the largest development project begun in the new century (see Chapter 2). The one proviso imposed by the city was that it include theater space to accommodate Jazz at Lincoln Center (Dunlap, 1998).

21. Alterman and Kayden (1988).

22. In a theoretical discussion of the incidence of exactions, Dick Netzer (1988) concludes that they "are far from perfect substitutes for the ideal ways of privatizing the financing of the private goods aspects of urban public services that cannot be entirely removed from the public sector: Explicit marginal cost-based user charges would be better. But exactions, when properly structured, can be a reasonably good second-best solution" (p. 49).

23. Rosslyn Research Limited (1990).

24. New York's Uniform Land Use Review Process (ULURP) sets forth a series of hurdles through which a project must pass before ultimately receiving city council approval.

25. Bagli (1991). As initially proposed in the mid-'80s, Trump's plans for what was then called Trump City included a regional mall, a 150-story tower, and a line of 60-story buildings blocking views of the riverfront; together these structures would encompass 14 million square feet. The new proposal reduced the project size to 8.3 million square feet as well as providing the various contributions called for by the community groups. Although a number of community organizations agreed to the project, others remained opposed and viewed the acquiescences as sellouts.

26. See Lassar (1990); Squires (1989).

27. Rees and Lambert (1985).

28. Parkinson and Evans (1990).

29. Marris (1987); Brindley, Rydin, and Stoker (1989).

30. LDDC (1988a).

31. *Guardian* (1988).

32. See ALA and DCC (1991); and DCC (1988). The ALA was the association of borough councils under Labour leadership, and the DCC was an advisory body to the Docklands boroughs; it was funded by the affected local authorities and no longer exists.

33. Lawless (1987); Church (1988a, b).

34. U.K. DETR (1998a), p. 7.

35. Sampson (1998), p. 149.

36. U.K. DETR (1998a), p. 7.

37. Rhodes and Tyler (1998).

38. Brownill, Razzaque, and Kochan (1998), pp. 58–59.

39. The SRB was introduced in April 1994. It combined 20 previously separate programs (U.K. DETR, 1998b, p. 2).

40. The Peabody Trust, for example, in 2000 managed 17,000 units, and some managed more than 40,000 (interview with Dickson Robinson, director, Peabody Trust, January 12, 2000).

41. U.K. DoE (1991), table 6.5.

42. In 1987, 2,578 units of social housing were constructed by housing associations and local authorities in about equal number. By 1992 almost no more council housing was being built, but housing associations were responsible for the building of nearly 4,000 units. In the peak year of 1994, housing associations constructed 7,779 units, and local authorities put up 488. By 1999, however, total social housing constructed amounted to only 2,885 units, all of it built by housing associations (information supplied by U.K. DETR, July 1, 2000).

43. S. Fainstein et al. (1986), chapter 1. New York used most of its CDBG for rehabilitation of city-owned, tax-foreclosed housing. In contrast, it had used urban renewal money for massive rebuilding of large areas of the city, mainly in Manhattan.

44. Eisinger (1988).

45. Fainstein, Fainstein, and Schwartz (1989).

46. *New York Observer* (1988).

47. Lin (1991). The change from PDC to EDC mainly involved consolidation of the city's old Department of Ports and Trade into the new agency.

48. In 1992 the City Planning Commission released a comprehensive plan for waterfront development (Dunlap, 1992a). A product of a new commission under the directorship of a Dinkins appointee drawn from academe, the document represented the first serious attempt by the agency to chart the course of development in two decades. It had no binding power, however, and development of the waterfront has proceeded only slowly and piecemeal.

49. It lost these powers in the rest of New York State, where its initial efforts to build housing for low-income people in suburban areas stimulated massive, politically potent resistance.

50. Any community group may incorporate itself simply by filing a form with the U.S. Internal Revenue Service and paying a small fee. It then becomes a "501(C) (3)" organization, so named after the section of the Internal Revenue Code designating its tax status. For housing development corporations, such filing usually occurs at the initiative of a community group that wants to develop housing or qualify for a public program; for business development organizations, it often occurs when the city government or a foundation is seeking an entity to manage services in a neighborhood and sets up a geographically based corporate structure with a local board to receive funds. There is not a precisely equivalent category within the United Kingdom. Community enterprises and cooperatives carry out similar functions, but there are far fewer of them than CDCs in the United States, and they do not possess a special status under the tax code.

51. LISC and the Enterprise Foundation rely partly on philanthropic contributions for their financing, but most of their funds are drawn from the tax credit program. LISC

was founded in 1979 by the Ford Foundation. It provides funds in the form of loans, grants, recoverable grants, guarantees, lines of credit, and equity investments (information supplied by P. Jefferson Armistead, vice-president, LISC, May 4, 1992).

52. Information supplied by P. Jefferson Armistead, February 20, 2000.

53. In rem housing is acquired by the city government through tax foreclosure.

54. Fainstein and Fainstein (1987).

55. Stegman (1988), pp. 45, 47.

56. New York City DHPD (1989), p. 1.

57. Typically these houses contain a rental unit, which assists the owner in meeting his or her mortgage obligation.

58. Mittlebach (1991).

59. Schwartz (1999), p. 845.

60. Lambert (1991).

61. Schwartz (1999).

62. Van Ryzin and Genn (1999), pp. 800–802.

63. Schwartz (1999), p. 865.

6. KING'S CROSS AND TIMES SQUARE

1. Unless otherwise indicated, information on the cases and quotations come from interviews I conducted between 1989 and 1992 and in 1999–2000.

2. See Squires (1989) for discussions of American cases and Brindley, Rydin, and Stoker (1996) for British examples.

3. Different documents describe the site as anywhere from 125 to 150 acres, depending on whether or not they include railroad uses.

4. The government eventually decided on terminals at Stratford and King's Cross. At the time that planning for King's Cross began, the government had not yet made its final routing decision on the connecting line to the tunnel.

5. Edwards (1992).

6. Although not all of its plans came to fruition, BR proposed developments around all the major stations. At the same time as it was working on its King's Cross enterprise, it was also participating in a large-scale proposal for the Paddington Station area in Westminster. As discussed in Chapter 2, Broadgate adjacent to Liverpool Street Station already represented the largest redevelopment project in London outside of Docklands, and London Bridge Station formed the core of another large redevelopment area.

7. Rosehaugh Stanhope was itself a partnership of two firms. Rosehaugh was headed by Godfrey Bradman, characterized by the *Financial Times* (1991) as "once the highest flying property developer on the stock market"; Stanhope's chair was Stuart Lipton, one of the most respected developers in Britain. Thirty-three percent of the ownership of Stanhope and 8 percent of Rosehaugh were in the portfolio of Olympia & York (*Observer*, 1992).

8. Edwards (1992).

9. Camden (1988).

10. Camden (1989a, b); *Camden Citizen* (1990); *Financial Times* (1992).

11. Camden (1989c).

12. Ibid.

13. The critique is contained in King's Cross RLCDG (1989); see UCL Bartlett School (1990) for the alternative plan.

14. Communication from Michael Edwards, June 1, 1992.

15. UCL Bartlett School (1990), chapter 3.

16. Some of the firms classified as manufacturing actually had different functions as their principal activity. Important groups of firms included construction and construction supplies; haulage and distribution; vehicle repair and hire; theater suppliers; hotels and cafés; and nonprofit organizations.

17. UCL Bartlett School (1990), p. 37.

18. Parkes, Mouawad, and Scott (1991).

19. *Financial Times* (1992).

20. Bradman is currently one of the principals in the development of Paddington Basin.

21. See Chapter 9.

22. In New York the insistence by the Triborough Bridge and Tunnel Authority, which owned New York's old convention center, the Coliseum, on accepting the highest bid for its land also resulted in a building plan that aroused fierce objections to its size (see Chapter 2).

23. Saint Pancras and King's Cross Stations sit side by side.

24. Interview with Michael Edwards, January 10, 2000.

25. English Partnerships (1999).

26. Interview with Joan Toovey, January 12, 2000.

27. The two towers had received public subsidies and had been intended for middle-income owner occupancy. The location, however, deterred middle-class purchasers, and the city was desperate to fill the building. It ultimately received Section 8, low-income housing commitments from the federal government to subsidize rentals. Because, however, the structures were envisioned as a vehicle to raise the social class of the neighborhood, the city did not wish them to be occupied by the typical impoverished recipients of public subsidies. It, therefore, restricted occupancy of most of the units to households with members in the performing arts, thereby ensuring a tenant body that had a middle-class lifestyle if not a middle-class income. From the city's point of view, the ploy worked extremely well as the buildings filled up rapidly and sustain a long waiting list. Since they were originally built to high standards, the carrying costs of the structures are substantial and the subsidy per apartment extremely large; the subsidy, however, is borne by the federal government, not New York City.

28. This strip is being upgraded once again, as the original buildings are being slated for demolition and replacement. The uses, however, will remain the same (see below).

29. See Chapter 2.

30. These proposals all featured entertainment uses. Among the failed ideas were a 15-story Ferris wheel to provide the centerpiece of an indoor amusement park and a "car-o-rama" featuring automobiles rotating on a moving belt behind a high glass facade.

31. Show World, as this multilevel enterprise is called, contains a large store selling pornography and sex equipment and theaters devoted to X-rated films and live sex acts. Although reduced in size, it was still in business in 2000.

32. When, finally, two of the office buildings went up at the turn of the new century, they were able to command premium rents, reflecting the new stylishness of Times Square. The subsidies, however, were not reduced and thus seemingly represented a grant to the landlord.

33. The contribution to the subway station was to be $90 million; $14 million, with an inflation adjustment, was to go toward renovation of the nine theaters.

34. Dunlap (1988).

35. Interestingly, while the playfulness of the new signs seems to arise from a postmodernist architectural orientation, the effect of fitting the signs on the buildings was to force them into a modernist mold: "It's much easier to graft exterior lighting and commercial signs onto a modern form than a classically inspired one. Can you do classical pediments and column capitals in neon?" (Goldberger, 1990).

36. Times Square BID (1999).

37. Stasio (1989).

38. The *New York Times,* whose editorial offices are located in the Times Square area, has generally supported the project, which promised to enhance the value of its real estate and the atmosphere of its surroundings. Its architectural critic, however, although normally a fan of Philip Johnson's work, joined in the vitriolic assessment of the project's architectural merits: "The project's design, never any great shakes to start with, has come to seem a truly depressing prospect as the years have gone on, making this surely one of the only major works of architecture to look utterly out of date before it was even started" (Goldberger, 1989a).

39. Philip Johnson had by then retired, but he continued to act as a consultant to Burgee.

40. The stress on honky-tonk contrasts with the traditional modern architect's commitment to purity of design. If one evaluates this impulse charitably, one sees in it a reflection of the insights of Robert Venturi, Denise Scott-Brown, and Steven Izenour's *Learning from Las Vegas,* which famously declared that "BILLBOARDS ARE ALMOST ALL RIGHT" (1977, p. 6). One can also regard it as just the latest faddism on the design front. Comments by the architects could uphold both interpretations: "Asked why the original plans . . . had not reflected the character of Times Square, Mr. Burgee and Mr. Johnson said trends in architecture as well as public opinion have changed. . . . 'A big revolution in architecture happened in those six years,' Mr. Johnson said. 'We wanted to make a unified impression; we were going to make a great new Times Square, like Rockefeller Center. Now, besides the popular reaction—let's have more lights and people—inside the architecture profession we changed from classicism, like the A.T.&T. Building and copying the 1920's, to something we call the new modern'" (Goldberger, 1989b).

41. Chira (1989).

42. Goldberger (1989b).

43. Prudential, which either wholly owns or participates in a number of large projects throughout the United States, differs from most insurance companies in pursuing an active role as a developer (P. Grant, 1989). Among its holdings were the Embarcadero Center in San Francisco, Century Plaza Towers in Los Angeles, Town Center outside Detroit, and the Prudential Center in Boston.

44. Manufacturers Hanover and Chemical Bank later merged; then both were acquired by Chase.

45. New York City PDC (n.d.); Stuckey (1988).

46. Hoff (1989).

47. Mollenkopf (1985).

48. In Manhattan's West Side Urban Renewal Area, to the north of Clinton, the project area committee had played an important role in monitoring and changing the renewal plan throughout the 1960s and into the 1970s.

The termination of the federal urban renewal program in 1974 abrogated its citizen participation requirements, which had been built up over the years in response to protests over its neighborhood impacts. The CDBG program, which replaced urban renewal in the 1974 act, had only a vague mandate for citizen input. Under Republican administrations the federal government withdrew from oversight of local CDBG expenditures. The program, at any rate, has shrunk in size to inconsequentiality. Because CDBG funds are so limited, central business district redevelopment is rarely conducted using federal subsidies and thus need not comply with federal regulations.

49. Project supporters accused Leichter of fronting for competing developers who had contributed to his campaigns. He responded that the politicians favoring the project had accepted far larger contributions from George Klein, the designated 42nd Street developer at that time.

50. Including potential interest costs that the city would have to pay if it was forced to borrow from the developer to meet land costs, Leichter calculated that the total public subsidy could equal $1.5 billion. While this might be an overestimate, the city will incur substantial interest payments on its borrowing to support land acquisition, causing its overall subsidy to include considerably more than simply foregone taxes and infrastructure investment.

51. These buildings did receive the benefits of the more permissive zoning regulations under the special midtown zoning and of a standard ICIB tax abatement for new commercial construction.

52. Douglas Durst, the eventual developer of the Condé Nast building, who for years opposed the Times Square project, was quoted as saying: "They've turned 42nd Street into a desolate area, decreased the value of surrounding property and eliminated about $3 million in tax revenues. They've managed to completely louse things up" (*Crain's New York Business,* 1992).

53. P. Grant (1990).

54. McKinley (1994).

55. The 42nd Street theaters catered to specialized tastes. A *New York Times* reporter interviewed former viewers after the auditoriums were shuttered: Fans "wish they could still watch a one-armed kung fu master. They are angry at the demise of the world's finest concentration of movie theaters devoted to zombies, nymphomaniacs, aliens, chainsaws, surfers, martial artists, cannibals and, of course, women in prison. . . . The government redevelopers insist they will put cheap entertainment—perhaps even action movies—back in some theaters, but the promises have not appeased serious students of The Deuce's [i.e., 42nd Street's] movies. These are the kind of film critics who classify works into such subgenres as beasts-on-the-loose, stalk-and-slash, sword-and-sandal, and bimbos-behind-bars" (Tierney, 1991).

56. Dunlap (1992b).

57. Municipal Art Society (1994).

58. Martin (1993).

59. Bagli (1992).

60. Neuwirth (1990).

61. Pulley (1995).

62. The developer of the building was Douglas Durst, who, along with his father, Seymour, had lobbied vigorously against the renewal plan. Prudential reached a settlement with George Klein, the developer originally designated (Croghan, 2000b). He sub-

sequently returned to the scene as part of a consortium headed by Boston Properties' Mortimer Zuckerman that successfully bid for the two remaining office sites on the south side of the street. (Zuckerman had been the original developer of the Coliseum site but gave up control in 1994 (see Chapter 2). The consortium paid $330 million for the land (Leonard, 1998).

63. Holusha (1998).

64. The architectural critics of the *New York Times* have praised the requirement that buildings have large signs and allocate part of their structures to entertainment uses. For example, Herbert Muschamp (1998) commented: "It [Times Square] is well on its way to becoming the media center of the world. . . . With the retail and entertainment center also taking shape here, the area should become the globe's liveliest meeting ground for the producers and consumers of popular culture. And the new buildings, bedecked with signs, will express that social mix in visual form." Yet the *Times,* which is itself planning a new building on the site originally designated as a wholesale mart (Eighth Avenue across from the Port Authority Bus Station), has indicated that it would prefer not to meet the requirements for signs and entertainment uses (Bagli, 1999c). Reportedly, the *Times,* which has frowned on tax giveaways, is asking the city for a substantial tax break and other incentives (Bagli, 1999c). Interestingly, the *Times* reporter who covered this story was unable to get any confirmation from the newspaper itself and relied on leads from government officials.

65. Times Square BID (1999).

66. Ibid., p. 18.

67. Sassen and Roost (1999), pp. 153–54.

68. Reichl (1999), p. 179.

69. Overall crime dropped 57 percent between 1993 and 1999, and robberies fell by 78 percent (Times Square BID, 1999, p. 28).

70. Ibid., p. 18.

71. Berman (1997), p. 82.

72. See Martinotti (1999).

73. Brendan Sexton, at that time president of the Municipal Art Society, remarked: "The office towers only became possible after entertainment pulled Times Square out of the muck. We'll now get two big, blunt office towers on two scrawny sites [on the south side of 42nd Street]. Given the level of public subsidies, New Yorkers should get some fabulous buildings, not just two towers like any others in Manhattan" (quoted in Bagli, 1998). Sexton later became head of the Times Square BID.

74. A project on the far western part of 42nd Street, where a group of off- and off-off-Broadway theaters occupied renovated tenement buildings, will replace the theaters with new homes and supply an additional, larger theater within a new apartment building. It will also replace some of the rehearsal spaces forced out of Times Square. The earlier renovation during the mid-1970s had marked the beginning of the reclamation of 42nd Street (Feiden, 1999).

7. SPITALFIELDS AND DOWNTOWN BROOKLYN

1. The actual market structures were of much more recent construction, with the main building having been erected in the 1880s and the western part in the 1920s. Nevertheless, the frontage buildings of the older section are listed.

2. The area's population dropped for many years, but the effects of World War II bombing and the demolition of slum dwellings meant that there were still very high levels of crowding within the remaining housing units.

3. Population estimates for Spitalfields ward were 6,654 in 1981, of which 37 percent were born in Bangladesh, and 8,821 in 1989, with 80 percent from Bangladesh (Community Development Group, 1989, p.18). The larger Spitalfields area has a population of approximately 20,000, of which the Bangladeshi community forms about half (Bramidge, 1998, p. 4).

4. Forman (1989), p. 6.

5. Townsend (1987), appendix 4. The other two indicators that composed the index were home ownership and car ownership.

6. Forman (1989).

7. See Church (1988a).

8. Similar to the New York City Partnership, Business in the Community consists of managing directors and CEOs of large firms. The Prince of Wales was its president.

9. Its primary effort was to press for the routing of the channel tunnel train to Stratford in the east.

10. The SDG consisted of (1) Balfour Beatty Limited, a construction and development firm that was a wholly owned subsidiary of BICC PLC, a large holding company; (2) County and District Properties Limited, a wholly owned subsidiary of Costain Group, an international natural resources, construction, and property development company; and (3) London and Edinburgh Trust PLC, one of the United Kingdom's largest property developers, which subsequent to the original bid was taken over by a Swedish insurance company. Until the 1980s Swedish firms could not invest in property outside their country. Once able to do so, they sought control of established firms with knowledge of local conditions.

11. The rendering of the Foster tower shows a building wholly out of character with the market and also in sharp contrast to Broadgate's more traditional masonry facade.

12. Houlder (1992).

13. In 1986, in an experiment in governmental decentralization, the Tower Hamlets borough council, which had recently passed from Labour to Liberal Democratic control, divided the borough into seven districts, each with a partisan, elected council responsible for service delivery within its boundaries. The council had been dominated by a traditional, male, blue-collar Labour leadership that had been unresponsive to community input both from leftists among the incoming professionals and from the immigrant community: "By the mid-1970s a group largely made up of elderly white men, with a record in organized labour, was representing a borough where one person in four was from an ethnic minority, one in five was unemployed and most of the industry had gone elsewhere or closed down" (Forman, 1989, p. 39). Once Labour, now taken over by a coalition of younger, more progressive members, won the next local election, it disbanded the neighborhood councils.

14. Interview with Eric Reynolds, April 1, 1999.

15. Segal Quince Wicksteed Ltd. (1996). The development of the market for interim uses received assistance from Bethnal Green City Challenge, discussed later in the chapter.

16. Community Development Group (1989).

17. Bramidge (1998).

18. Moore (1999). This quotation comes from an article that appeared in the entertainment, food, and fashion magazine of the daily newspaper, the *Evening Standard.*

19. Information supplied by Andrew Bramidge, July 18, 2000.

20. Michael Heseltine was Margaret Thatcher's original Secretary of State for the Environment. He briefly returned to the position after Thatcher was defeated.

21. Parliamentary legislation was required to establish this form of community corporation.

22. Glueck and Gardner (1991).

23. BAM, as this venerable institution is familiarly known, houses a major opera house and two theaters. It specializes in avant-garde works and has a devoted following. Despite some exceptional successes, however, it typically has difficulty in attracting audiences from Manhattan, who tend to regard Brooklyn as the end of the earth.

24. Willensky (1986).

25. Arguably, Harlem regained its ascendancy at the end of the next decade.

26. Stollman (1989), p. 12.

27. This consideration prevailed during the Koch mayoralty. It did not cause the Giuliani administration to attempt similar office-oriented redevelopment projects in the boroughs.

28. All of the subway lines passing through Brooklyn and the Long Island Railroad have stops here.

29. Forest City Ratner is an affiliate of Cleveland-based Forest City Enterprises, the largest publicly traded development corporation in the United States. In 2000 it was worth more than $3.6 billion and owned, developed, and managed property throughout the United States. Its holdings included 41 retail centers, 114 apartment complexes, 24 office buildings, and 9 hotels (Forest City Enterprises, 2000).

30. The joint venture had just constructed the first high-rise office building to go up in Brooklyn in nearly 40 years, a purpose-built structure for the investment firm of Morgan Stanley, outside downtown on the edge of Brooklyn Heights. Brooklyn Heights inhabitants had vehemently opposed the building, which required a zoning change, contending that it intruded undesirable commercial uses into their quiet residential neighborhood. The city had endowed the structure with a generous package of subsidies.

31. Rudnitsky (1992), p. 48.

32. An indicator of Forest City's unusual niche is that it was the largest single recipient of federal UDAGs within the United States.

33. Forest City Ratner (1992); Dunlap (1991).

34. Lueck (1988).

35. Ibid.

36. *New York Times* (1988).

37. In 2000, however, Chase announced that it was moving 1,900 workers to a new building in Jersey City (Lentz, 2000a).

38. Dunlap (1991).

39. Ibid.

40. Myers (1992).

41. Retkwa (1992).

42. Vizard (1992).

43. This long-stalled project, called Renaissance Plaza, was rescued by the Dinkins administration when it signed a 20-year lease to move the Brooklyn district attorney's office out of six locations into its untenanted office tower (Mitchell, 1992). The complex included a Marriott hotel, the first hotel to be built in Brooklyn in 50 years. The city took 360,000 square feet at an initial rent of $19 a square foot. The rent level was typical for Class A office space in peripheral areas at that time, but the city did not receive the rent bonuses and free fixturing that characterized virtually all private-sector rental deals in the early '90s. The complex also benefited from ICIP tax incentives, and, of course, the public-sector occupants would be permanently exempt from sales and commercial occupancy taxes. Until the city's commitment, the developer, Muss Development Company, a Queens-based firm, had not been able to get financing.

44. Two plans had preceded this one. In 1969 Mayor John Lindsay had presented a $500 million plan to build office buildings, department stores, and apartment houses there. Then in 1975 a large portion of the site had been designated as a new campus for Baruch College, a unit of the City University. Both plans, however, were abandoned.

45. Breznick (1991).

46. Initially, the developers had proposed a publicly funded sports arena. Impassioned community opposition, as well as doubts about utilization, caused this enterprise to join the list of abandoned proposals for the spot.

47. The houses would each have rental units attached, thereby assisting the owner in covering his or her carrying costs. The rental suites would be at market rate.

48. O'Neill and Moss (1991).

49. Myers (1992).

50. Rudnitsky (1992).

51. Myers (1992).

52. Croghan (2000c), p. 13.

53. Lentz (2000c), p. 36.

8. BATTERY PARK CITY

1. The history of the Reichmann family presented here is drawn from *U.S. News & World Report* (1988); *Maclean's* (1988a, b); Lever (1988a, b); *Business Week* (1990); Hylton (1990a); and a long article by Elaine Dewar (1987) in *Toronto Life* magazine. The latter essay chronicled the family's flight from Austria to Tangier to escape the Nazis and the subsequent building of their fortune. While it specifically recounted only positive—in fact, sometimes heroic—deeds by the parents, it nevertheless nastily implied, without any supporting evidence, that still unrevealed secrets sullied the family's extraordinary reputation for probity.

The Reichmanns brought a libel suit against the author, the magazine, and the *Globe and Mail,* Toronto's leading newspaper, which had editorialized against the suit. The article's factual narrative appeared generally correct; it was its innuendoes that made it potentially libelous. Ultimately, the case was settled out of court, when the family agreed to accept a contribution to charity and an apology by the author.

2. Dewar (1987) quotes an interview she conducted with Edward Reichmann, one of the brothers: "Late in 1941 and in 1942 there were all kinds of rumors from Europe about a crackdown in Czechoslovakia and the situation of Jews there. . . .By then the war was in full swing. Mother decided to travel to Hungary. . . . She went to France, Italy, then Yugoslavia and into Hungary. Neither my father nor her friends could dissuade her. From Tangier, it was not clear that she could help in Europe. But it turned out she saved thousands. . . . She had a letter saying that she was a representative of the Spanish Red Cross" (p. 132).

3. Lichfield (1992).

4. Hylton (1990b). In 1992 the company's North American property portfolio consisted of almost 40 million square feet of mainly office space: 54 percent in New York City, 17 percent in Toronto, 10 percent in Calgary, 5 percent in Ottawa, and the balance scattered among smaller cities (Hylton, 1992a).

5. Shachtman (1991), p. 290. When O & Y purchased the buildings, they were in the possession of National Kinney, a former parking-lot corporation that the late Stephen Ross renamed Warner Communications and used as his base ultimately to gain control of Time Warner Communications, one of the largest corporate buyouts in history. At the time the Reichmanns bought them, the properties were losing money. Among them was 55 Water Street, the world's largest commercial office building. During the mid-1980s this building became a very stylish address for some of New York's most active investment banking firms, including Lehman Brothers, Bear Stearns, and L. F. Rothschild. In 1986 the building had a 99 percent occupancy rate, and O & Y raised a $548 million Eurobond loan on it (Dizard, 1992).

6. *Maclean's* (1988a), p. 48.

7. *U.S. News and World Report* (1988), p. 38.

8. *Business Week* (1990), p. 33.

9. Principal sources for the discussion of Battery Park City are Ponte (1982); Lopate (1989); Gill (1990); Sclar and Schuman (1991); Battery Park City Authority (1992); Dunlap (1999); the Battery Park City Web site, www.batteryparkcity.org/index.htm; and interviews with BPCA officials.

10. The State of New Jersey, whose agreement also had to be obtained for the Port Authority to proceed with the project, acceded to this investment in exchange for the Port Authority's assumption of the Hudson and Manhattan tubes, a bankrupt rail system connecting New Jersey with Manhattan.

11. The city owned all the land under water between the riverbank and the pier heads.

12. Harrison & Abramovitz specialized in high modernism with an overlay of glitz. Their post-Corbusian large structures, isolated from each other on superblocks, embodied the style that was a particular butt of Jane Jacobs's criticism of urban renewal programs. Jacobs (1961) characterized these programs as producing "luxury housing projects that mitigate their inanity, or try to, with a vapid vulgarity. Cultural centers that are unable to support a good bookstore. Civic centers that are avoided by everyone but bums, who have fewer choices of loitering place than others. . . . Promenades that go from no place to nowhere and have no promenaders. . . . This is not the rebuilding of cities. This is the sacking of cities" (p. 4).

13. Gill (1990), p. 103. The developer was the Lefrak Organization, and the architects were Harrison & Abramovitz.

14. Moral obligation bonds were invented by John Mitchell, when he was a New York bond attorney. He later gained notoriety as Richard Nixon's attorney general during the Watergate scandal.

15. Richard Kahan's career was intertwined with many of the major public-private partnerships in New York City, on both sides of the public-private divide. Just out of Columbia Law School, he joined the UDC staff and then served as vice-president of the Lefrak Organization, one of the nation's largest development firms. He then returned to the UDC and while still in his early thirties served simultaneously as head of the UDC, the BPCA, and the Convention Center Development Corporation, which was then constructing the Javits Center. After leaving his public-sector posts, he joined another large development firm, Tishman Speyer, as a partner. Then he, along with sociologist Richard Sennett, became head of the Urban Assembly, a group aimed at improving third-world cities; at the same time, he served as director of Riverside South, a consortium of community groups working with Donald Trump on a plan for his West Side Rail Yards. In 2000 he was heading a group seeking to get athletic facilities built for New York City schools, many of which lacked any playing fields.

16. Battery Park City, the 42nd Street Redevelopment Corporation, and the Convention Center Development Corporation all took advantage of the UDC's special powers.

17. Gill (1990), p. 102.

18. Sclar and Schuman (1991), p. 17.

19. Shachtman (1991), pp. 317–18.

20. Ponte (1982), p. 14.

21. While the plaza and the Winter Garden were both open to the public, they were built and held by O & Y.

22. The 1979 master plan allocated 30 percent of the land to public open space, not including streets.

23. In 1986 apartments generally sold for about $350 a square foot or rented for $25 a square foot a year (*New York Times,* 1986). After the real-estate slump, prices fell, and developers had difficulty in disposing of new units. Two builders auctioned off units in 1991, averaging $267 per square foot. In 2000 apartments were selling for as much as $756 per square foot, or $660,000 for a small two-bedroom apartment with good views and in the $400s for one-bedroom units. Rentals for spacious two-bedroom units with two baths were advertised at more than $7,000 per month, while a one-bedroom apartment was going for $3,288. Most of the original apartments were studios or one-bedrooms. Later buildings contained more family-sized units, and a number of occupants of the smaller units bought adjacent apartments to combine them.

24. Dunlap (1999); BPCA (2000).

25. By and large, the authority has received nothing but praise for the lavishness of its investments in public art and landscape architecture. In one instance of unfavorable publicity, however, David Emil, who succeeded Meyer Frucher as president of the authority, was criticized for ordering design changes in the third footbridge connecting Battery Park City to the rest of Manhattan. This bridge, which is attached to Stuyvesant High School, was originally to have cost $4 million. The redesigned structure cost twice as much. In defending his decision, Emil remarked: "This will be an enchanting, beautiful bridge. . . . Bridges have inherent in them a sort of magical imagery, and for whatever reasons the bridges to the south don't capture that. This bridge will" (Golway, 1991).

26. Ibid.

27. Dunlap (1999).

28. I. Peterson (1988).

29. Goldberger (1986).

30. Goldberger (1988).

31. Sorkin (1992a), pp. xii–xiii.

32. Jacobs (1961).

33. See Boyer (1983).

34. Lopate (1989), p. 24; italics in original.

35. The absence of the homeless, who inhabit Battery Park and the nearby Staten Island Ferry Terminal in large and visible number, from Battery Park City raises questions of how genuinely open to the public it is. BPCA officials, however, claim that the outdoor spaces are not treated differently from the rest of New York. While there is a small unarmed security patrol in addition to normal New York City Police Department coverage, it does not devote itself to keeping out unwanted sojourners. And, in my own frequent visits to the site, while I have rarely seen anyone who looked particularly disreputable, neither have I seen anyone harassed. The opinion of those I have interviewed on the subject is that physical and psychological barriers keep out such people.

36. Gill (1990), p. 105. Brendan Gill was the *New Yorker* magazine's architectural critic and had been chairman of both the Landmarks Conservancy and the Municipal Art Society, civic groups concerned with protecting and improving New York's architectural heritage.

37. I know of no survey of users of Battery Park City's public areas. Casual observation reveals them as predominantly white middle class but, depending on the time of day and week, with a considerable admixture of working-class people of varying ethnicity. On summer weekends, the strollers and café patrons are New Yorkers who pursue the sun in a city park rather than retiring to their home "in the country."

38. Gordon (1997).

39. Gill (1990) quotes Meyer Frucher, Richard Kahan's successor as president of the BPCA: "When Governor Cuomo asked me to become president of Battery Park City Authority he said to me, 'Give it a soul. Without a soul the beauty will be superficial.' This was a difficult challenge, but one that I think we have met in essentially two ways: through the Housing New York Program and by making Battery Park City a destination for all New Yorkers" (p. 103).

40. Schmalz (1987).

41. From the initial issue, $150 million supported construction of 1,850 substantially rehabilitated apartments in Harlem and the South Bronx, to be provided to a mix of families, with homeless constituting 30 percent; low income, 45 percent; and moderate income, 25 percent (Oser, 1987).

42. Given the population that resides within Battery Park City, the lack of participation may well produce a more egalitarian result than would occur if residents could direct the authority's policies. The recent decisions to have mixed-income housing and to connect the parks at the southern and northern ends of the complex to the rest of the city, thereby reducing isolation, met with opposition from residents. Some residents have objected to paying fees added on to their rents that support parks maintenance, on the grounds that the parks are used so heavily by the general public.

9. DOCKLANDS

1. Between 1951 and 1981 manufacturing jobs in inner southeast London dropped by 68 percent, from 148,000 to 47,000 (Buck, Gordon, and Young, 1986, pp. 6–7).

2. Ibid., p. 7.

3. Marris (1987), pp. 60–61.

4. GLC (1985).

5. The name of Hays Wharf lives on as the Hays Galleria within the London Bridge City complex, which opened in 1988 (see Chapter 2) (Ambrose and Colenutt, 1975, chapter 4).

6. There had been 52,000 registered dockers in 1920 (Marris 1987, p. 61; Brindley, Rydin, and Stoker, 1989, p. 98).

7. Church (1988a); Brindley, Rydin, and Stoker (1989).

8. See Chapter 5. The original legislation did not fix the life span of the new agency, but in 1991 the government indicated its intention to terminate the country's ten urban development corporations by 1996.

9. The DJC also included parts of Greenwich and Lewisham in its planning.

10. Cambridge Policy Consultants (1998), p. 10; Brindley, Rydin, and Stoker (1989).

11. In its first ten years of operation the corporation acquired 2,109 acres of land and water through vesting and purchase. After allowing for 401 acres of water and 483 acres for roads, railway, or environmental purposes, 1,225 acres remained for development. Land disposals to March 31, 1991, amounted to 661 acres, leaving 564 acres awaiting reclamation, being reclaimed, or awaiting development (LDDC, 1991, p. 171).

12. Buchan (1990).

13. LDDC (1991); Fazey (1991).

14. Pessimism over the size of future demand inhibited the government from investing in heavy transport.

15. GLC (1985).

16. Cambridge Policy Consultants (1998), pp. 19–20; Kleinman (1999).

17. Rhodes and Tyler (1998), table 1.

18. A. Smith (1989).

19. LDDC (1988a, 1992).

20. Brownill (1991). The *New York Times* described the extreme contrasts involved: "The wall, a brick sentinel that shields one world from another, stands as a symbol of sweeping change and resultant bitter divisions in London's once-derelict dock area. On one side of the wall, affluent newcomers occupy a stylish private housing development. On the other, a bleak public housing complex, with laundry hanging from balconies with peeling ceilings, is home to the working class and poor. 'The developers built that wall so those people wouldn't have to look at this,' Steve Amor, chairman of the local tenants' association, said as he climbed the stairs to his cramped apartment" (Rule, 1988).

21. Recent data on the number of initial residents who purchased new private housing are not available. The Cambridge Research Associates study (1998, p. 21) indicates that as of March 1988, 45 percent of the new homes constructed on LDDC-owned land were sold to residents already living in one of the three Docklands boroughs.

22. Foster (1999), p. 176. Foster's excellent, detailed ethnographic study of the effect of redevelopment on the inhabitants of the Isle of Dogs captures the complex relationships and ambivalent feelings among the old residents and new arrivals.

23. The LDDC expected the number of units to double between 1988 and 1990, from 12,000 to 24,000, but only slightly more than 15,000 were actually completed by then (LDDC, 1988b, 1992).

24. Sampson (1998), p. 149. According to Kleinman (1999), "To some extent, LDDC's financial involvement with social housing, both new build and refurbishment, came about as a result of the collapse in the property market. LDDC were supporting several mixed tenure development ideas in which planning gain would lever in subsidy

from private developers to allow some social housing on neighbouring sites. However, when the rent fell, LDDC were left with no private sector partner, and so agreed to provide direct grant" (pp. 16–17).

25. Foster (1999), p. 308.

26. Brownill, Razzaque, and Kochan (1998), p. 59.

27. D. Stevenson (1998), p. 31.

28. Robert Campeau, a Canadian entrepreneur specializing in leveraged buyouts, spent exorbitantly on the acquisition of the Allied and Federated department store chains in the United States. Only a few years after his lionization as the king of retailing, his entire debt edifice crashed when the revenues from the stores, diminished by weakened consumption after the 1987 stock market collapse, fell far below the amount necessary to service his huge debt. Olympia & York initially rushed to his assistance with an emergency $250 million loan, then refused to bail him out further. In 1990 Campeau was forced to seek Chapter 11 bankruptcy protection in the United States, devaluing the Reichmanns' equity share.

29. The *New York Times* (Hylton, 1990a) showed the company's holdings in 1990 as follows: Olympia & York Developments Ltd. wholly owned three subsidiaries—the U.S. and London real-estate companies and Olympia & York Enterprises. The last of these was the holding company for its other equity interests. According to the *Times* (which is not entirely in agreement with other sources on percentages), O & Y Enterprises owned the following percentages in publicly owned companies: 82 percent of Abitibi-Price; 74 percent of Gulf Canada Resources Ltd.; 36 percent of Trizec; 33 percent of Stanhope Properties, the British developer; 25 percent of Landmark Land Co.; 19 percent of Santa Fe Pacific; 14 percent of Trilon Financial Corp.; 10.5 percent of Campeau; and 8.2 percent of Rosehaugh PLC, another British development concern. In addition, it owned 89 percent of GW Utilities, another holding company that in turn owned 82 percent of Consumers' Gas Co., 41 percent of Interhome Energy, an oil and pipeline company, and 10 percent of Allied Lyons, the parent company of Hiram Walker.

30. Fathers (1992).

31. Morley et al. (1989), p. 133.

32. Buchan (1990).

33. The consortium also comprised two U.S.-based merchant banks, Credit Suisse First Boston (CSFB, parent company of First Boston Real Estate) and Morgan Stanley. The origin of the consortium's interest in Canary Wharf lay in the inability of the two financial firms to locate suitable office space in central London during the mid-1990s (Daniels and Bobe, 1991).

34. LDDC (1991), p. 12.

35. Road investment by the LDDC totaled £248 million in FY 1990–91 and was projected to total more than £650 million for the subsequent three-year period (LDDC, 1991). Highways to be built by the U.K. Department of Transport, which would connect Docklands to the national road system, were estimated in 1987 to cost another £348 million (National Audit Office, 1988, p. 14).

36. Ibid., p. 19.

37. Ibid.

38. Buchan (1990).

39. Ibid.

40. Rodgers and Nisse (1992); *Economist* (1991a). After the project went into bankruptcy administration, the administrators feared that the liabilities incurred in the inducements to tenants surpassed the benefits of occupancy and calculated that the enterprise's balance sheet would improve if the committed tenants were persuaded not to come. Nevertheless, O & Y and CSFB, which owned one of the Canary Wharf buildings, opposed American Express's application to withdraw from its lease. In July 1992 the question of whether American Express could withdraw was under judicial consideration. The firm had argued that O & Y had defaulted on its lease obligations when it ceased paying contractors to complete work on the structure (Simon, 1992a), and ultimately it did not move. Committed tenants feared that bankruptcy would free the project's sponsors from the obligation to assume their old leases, leaving them with empty, possibly unlettable space on their hands on which they would have to continue paying high rents.

41. Hylton (1990b; 1992b).

42. Prokesch (1990).

43. Hylton (1992a).

44. Quoted in Sullivan et al. (1992).

45. Some companies had already moved in during the preceding year; in May 1992 the buildings were 11 percent occupied. The larger committed tenants were scheduled to arrive during the summer.

46. CSFB and Morgan Stanley were part of the original Canary Wharf consortium and remained as backers of the project, each agreeing to take an equity position in its own building. Morgan Stanley's agreement with O & Y, however, required the developer to purchase its building upon completion if it so demanded. O & Y resisted the exercise of this option and lost in court.

47. Buchan (1990), p. 5.

48. Simon (1992b).

49. Hylton (1992c).

50. From March through June 1992 the tribulations of O & Y received virtually daily coverage in the business press and weeklies in both the United States and the United Kingdom. For a chronology of the events recapitulated here, see the *New York Times* (1992b).

51. Peston (1992).

52. At the time they moved in, they received a bargain rent of £12 per square foot. When their rent review was to occur in 2000, it was expected that the amount would more than double (Mortished, 1999).

53. Sullivan, Parker-Jervis, and Shamoon (1992).

54. *Business Week* (1992).

55. Prokesch (1992b).

56. *Economist* (1990), p. 71.

57. Houlder (1991a).

58. The value of O & Y's assets at the time of filing was the subject of considerable discussion. An estimate published in *Barron's* put the shortfall at between $6 billion and $10 billion (Isaac, 1992).

59. Peston and Simon (1992a). Different sources gave different figures for the number of banks involved, ranging from 91 to more than 100. Major lenders, as listed in the *New York Times*, included large Japanese banks—Tokai Bank Ltd. ($250 million), Fuji ($100 million), Dai-Ichi Kangyo ($180 million), and other Japanese institutions (at least

$250 million). Other bank lenders were the Hong Kong and Shanghai Banking Corporation (750 million); Canadian Imperial Bank of Commerce ($713 million); Royal Bank of Canada ($647 million); Commerzbank International of Frankfurt ($287.5 million); Credit Lyonnais ($262 million); Citibank ($480 million); Barclay's ($315 million); and Lloyds ($100 million) (*New York Times*, 1992c; Parker-Jervis, 1992). *Barron's* (1992) gives much larger figures for some of these banks. For example, it shows Credit Lyonnais as being owed $1.25 billion and Citibank more than $1 billion; these numbers seem much too high. The *Observer* (Sullivan, 1992) showed Citibank as holding $380 million in loans to O & Y. In addition to the bank loans, it was estimated that O & Y had about fifteen outstanding bond issues backed by mortgages on specific buildings, although some were also backed by shares in its energy and forestry companies (Hylton, 1992d).

60. Peston and Simon (1992b). This indebtedness figure seems too low in view of their earlier acquisitions of natural-resource companies.

61. Lichfield (1992).

62. Quoted in Lichfield (1992).

63. Ibid.

64. *Economist* (1997), p. 67.

65. The *Economist* (ibid.) placed Paul Reichmann's share at 5 percent; however, other sources, including an officer of the Canary Wharf Company, have given the 10 percent figure.

66. Stevenson (1995).

67. Canary Wharf (1999?).

68. Morgan Stanley Dean Witter (1999).

69. In 1999, the property was appraised at approximately £2 million.

70. In particular, Frankfurt, which unlike London operates inside the Euro zone, was seen as a major threat to London's preeminence as the home of finance. "Frankfurt 2000" was a ten-year plan to construct more than 60 million square feet of office space in that metropolis (Browne, 1999). The Corporation of the City of London, which had earlier regarded Docklands as a serious rival, increasingly began to see it as an ally in its battle against continental European cities.

71. The LDDC ceased operations in March 1998. Like all of the British UDCs, it was set up with a time limit for its activities. There are now neither enterprise zones nor UDCs remaining in the United Kingdom.

72. Imrie and Thomas (1999).

73. Potter (1988).

74. At the same time that Britain was building government-sponsored new towns, the United States was offering shallow subsidies to private developers, who were supposed to install the basic infrastructure themselves and construct a critical mass of structures. Almost all of the U.S. ventures failed entirely or required financial restructuring.

75. In 1995, 24.3 million square feet of commercial and industrial space had been constructed within the Docklands (LDDC, 1995, p. 3).

76. Savitch (1988), chapter 5.

77. The government's behavior in relation to the financial problems of the Channel Tunnel was similar.

78. Quoted in Nisse (1992).

79. Rhodes and Tyler (1998), p. 32. The meaning of the private-sector amount is somewhat clouded by the fact that it was substantially devalued during the recession, and the appraised value of property has not yet reached the amount that was invested in it.

80. Brownill, Razzaque, and Kochan (1998).

81. Cambridge Policy Consultants, p. 29.

82. Church and Frost (1998), pp. 84–85.

83. LDDC (1995), p. 6.

84. Rhodes and Tyler (1998), pp. 32–33.

85. Cambridge Policy Consultants (1998), p. 21.

86. Kleinman (1999), p. 24.

87. Colenutt (1990).

88. See S. Fainstein (2000); and Healey (1997).

10. REAL-ESTATE DEVELOPMENT

1. Bacow (1990) indicates that the integrated firm is more common on the European continent.

2. See Logan (1992) for a discussion of the trend toward global firms in the 1980s and its breakdown in the subsequent slump.

3. Bacow (1990), p. 5.

4. Ibid.

5. Balchin, Kieve, and Bull (1988, p. 15) list a number of factors that make the property market inefficient and always in disequilibrium. These include the uniqueness of each site and building, illiquidity, the legal rights of property interests, the influence of conservationists, and the slowness of response to changes in demand.

6. See Harvey (1985c). At times firms have managed to obtain monopoly prices because of the scarcity resulting from governmental restrictions on construction; these restrictions, however, were ostensibly aimed at environmental protection, not price support.

7. Harvey (1981). See the discussion in Haila (1991).

8. Harvey (1981).

9. Beauregard (1991).

10. Leitner (1994).

11. Harvey (1982), pp. 266–70.

12. Ibid., p. 269.

13. Harvey (1982) comments: "Indeed, since money capitalists absorb rather than generate surplus value, we may well wonder why capitalism tolerates such seeming parasites" (p. 261).

14. Ball (1983, p. 146) distinguishes between rent and development profit, the latter being a consequence of development activity rather than land price. The distinction, however, is impossible to apply when urban land is in question, since land price does not exist independently of the value generated by agglomeration.

15. My argument, as should be obvious, does not rely on the labor theory of value. Rather, I see value as arising more generally out of social relationships and accept the classical economist's view of the intersection of supply and demand as denoting the value of a commodity at a given time. This acceptance, however, does not imply that I regard the shape of the supply-and-demand curves as a legitimate outcome of a fair distribution of income or of choices freely made. Nor does it mean that total value equals the aggre-

gate of the individual values of commodities produced. The value of a pair of shoes versus the sum of the value of two left shoes is a mundane example of why simple aggregates fail to indicate the value of an ensemble.

Marxism has two separate concepts of value, neither one of which is satisfactory. In the first, the labor theory of value purports to explain exchange values. The observed discrepancies between the aggregated cost of average labor time in a product and the price of the product, however, force believers in the labor theory of value into endless contortions of epicyclic dimensions to retain its applicability (the distinction between productive and unproductive labor further muddles the issue). In the second, exchange values are contrasted to use values, but there is no theorized relationship between use value and labor value, except that in a communist society they would be identical.

16. See Agnew (1987), p. 28.

17. Wirth (1938).

18. See Gans (1968) for analyses of the class biases of planners and their assumptions concerning the impact of physical form; see Castells (1977, chapter 5) for a critique of Wirth and the ecological approach to urban sociology.

19. See Saunders (1986) for a summary and critique of the Marxist arguments.

20. See, e.g., Bish (1971).

21. Much of this work traces back to Henri Lefebvre's (1991; original French edition, 1974) arguments, which, while rooting space in the mode of production, imbued it also with transcendent power: "'Change life!' 'Change society!' These precepts mean nothing without the production of an appropriate space. . . . new social relationships call for a new space, and vice versa" (p. 59). Lefebvre divides his analysis of space into three parts: (1) spatial practice, referring to the way in which space is used; (2) representations of space, alluding to the design of spatial forms; and (3) representational spaces, embodying the symbolic meaning of space (p. 33).

22. An article by R. J. King (1988) contends that "urban design is . . . concerned with *the purposive production of urban meaning* (the 'urban symbolic'), to be seen as a subset of the broader *production and reproduction (both purposive and otherwise) of urban meaning*" (p. 445). Italics in original.

23. See, inter alia, Sennett (1990); Gottdiener (1985); Sorkin (1992b); I. M. Young (1990); Harvey (1992); Soja (1989, 1996, 2000); M. Davis (1990); Zukin (1991, 1995); Judd (1995); Boyer (1995); and Lash and Urry (1994).

24. Sennett (1990).

25. Many observers have commented on the private character of the American city throughout its history (see Warner, 1968, for the best-known such analysis). Thus, the recent crescendo of opprobrium is only a matter of degree.

26. Sennett (1990), p. 201.

27. Safdie (1987), p. 153.

28. Interestingly this analysis recapitulates Dahl's depiction of pluralism in *Who Governs?,* where his picture of multiple elites depended on each operating in their own sphere. Dahl viewed the resulting dispersion as a cause of celebration, as it provided multiple spheres of power. The poststructuralists are less willing to regard those issue arenas shunned by economic dominants as domains of power.

29. Sennett (1990), p. 193.

30. Boddy (1992).

31. Ibid., p. 126n.

32. I. M. Young (1990), p. 237.

33. Marcuse and van Kempen (2000) argue that while "cities have always shown fucntional, cultural and status divisions, . . . the differentiation between areas has grown and lines between the areas have hardened, sometimes literally in the form of walls that function to protect the rich from the poor. . . . Walls, literal or symbolic, prevent people from seeing, meeting and hearing each other; at the extremes they insulate and they exclude" (p. 250).

34. Wilson (1991), p. 25.

35. Pryke (1991), p. 202.

36. Ibid., p. 212.

37. Boyer (1992), p. 199; italics added.

38. Few of the poststructualists, of course, would accept the Prince's image of a mythologized traditional England as appropriate, either.

39. R. Robertson (1990, p. 54) distinguishes between contemporary nostalgia, which he sees as intimately bound up in consumerism, and the "willful synthetic" nostalgia of the late nineteenth and early twentieth centuries, which was intended to stimulate nationalist loyalties.

40. The poststructuralist rejection of nostalgia embodied in architectural reference does not preclude the critics' own nostalgia for a time when architecture was not used for manipulative purposes.

41. Oscar Newman's (1972) pioneering work on defensible space initially appeared to be a more humane method of offering protection than the cruder devices of forcible removal or legalized violence. Present interpretations see defensible space as only a subtler form of cruelty.

42. I know of no survey research that indicates the mix of people using the new retail centers, nor, if such exists, are there data that would allow us to compare it with earlier counterparts.

43. Suburban exclusion is much more extreme than what exists in the central areas. To the extent that suburbanization has meant a great increase in the absolute physical distance between different population groups and decreased the likelihood that they will ever cross paths at all, the argument that greater diversity once existed deserves credence. For people who actually enter the urban core, however, their likelihood of contact with someone very different from themselves has not clearly decreased.

44. Sorkin (1992c), p. 216.

45. Ibid., p. 231.

46. Castells (1989), p. 6; italics in original.

47. Marx's concept of unproductive labor and David Harvey's use of the term "fictitious capital" are similar negations of activities that do not produce sweat.

48. Dennis Judd, who criticizes the exclusionary aspects of shopping malls and mixed-use megaprojects but does not go so far as to issue a blanket condemnation of all their aspects (see Judd, 1995), commented to me that the writings on festive marketplaces and Disneyland display an unfortunate tendency to sneer at people for having fun.

49. Conventional economists avoid such arguments altogether by asserting that interpersonal comparisons of utility are impossible.

50. Gans (1988, p. x), without wholly endorsing the tastes and prejudices of middle America, reacts strongly against the cultural elite that would dismiss the middle strata as

"right-wing racists, greedy materialists, or uncultured 'Joe Sixpacks.'" Many of the cultural critics seem to reject anyone who actually likes the targets of their opprobrium as manipulated or narrow-minded.

51. Crilley (1993), p. 143.

52. Within the United States, and to some extent the United Kingdom, the ability of middle-class people to escape the tax burden of supporting service-dependent populations by fleeing to the suburbs does, however, contribute substantially to the problems mentioned.

53. Paul Knox (1993, p. 258 and note 1), who edited the book in which the quotation from Crilley concerning "spectacular diversions" appears and who is otherwise generally sympathetic to poststructuralist insights, remarks in exasperation concerning David Harvey's negative assessment of Baltimore's Inner Harbor development: "Harvey does not say what alternative uses for a decaying industrial landscape he might propose." Knox notes that he was led to his observation concerning the Inner Harbor by the enthusiasm of a black Baltimore cab driver over the business that the development had generated for him.

54. According to Tocqueville (1957), "The very essence of democratic government consists in the absolute sovereignty of the majority" (p. 264).

55. The classic theoretical treatment is Rousseau's distinction between the general will and the will of all, wherein the general will represents the social good. The general will desires what everyone would want if each person understood his or her long-term interests, while the will of all embodies the self-serving, narrow interests of individuals. The practical solution incorporated in the United States Constitution and other similar founding documents invests rights in minorities that cannot be contravened by majorities.

56. Reichl (1999), p. 176.

57. Ibid., p. 177.

58. S. Fainstein (1997, 1999).

59. Harvey (1992).

60. Harvey's description of the situation builds on the work of Neil Smith (1992), which, more than Harvey's analysis, identifies the squatters as the good guys and the neighborhood residents who long for peace and quiet as the bad guys.

61. Harvey (1992), p. 591. A socialist academic of my acquaintance, who lives near the park, admitted to me that while he strongly opposed the police action, he had found life pleasanter since its occurrence.

62. Harvey (1989).

63. Harvey (1992), p. 596.

64. Political theorists are much more inclined than other social philosophers to regard conflicting interests as inherent in social life and to seek ways of managing conflict. Marxists and other social constructionists view conflicting interests as created by elites protecting their privileges; their aim is to dissipate hierarchy and thereby extirpate conflict.

65. Harvey (1992), pp. 599–600.

66. See J. E. Davis (1991, chapter 5), who sees neighborhoods as divided into four property interest groups: property capitalists, owner occupants, tenants, and the homeless.

67. Zukin (1991).

68. Contemplation of this issue caused me to list my own inclusions and exclusions and recognize their inconsistencies. I endorse women's colleges but not men's clubs. I think that public funds should subsidize highbrow public radio even though its listeners are a small elite group. I support racial integration in schools but not necessarily class mixing, at least in practice—I moved my family from a white lower-middle-class school district, where my children got regularly beaten up, to a racially integrated, but much more homogeneously upper-middle-class district. I attended an elite private university (as did many of the critics of Battery Park City), and while I have many ambivalences about that institution, I do not regret going there. I live in an extremely crowded, mixed-use section of Manhattan, but my favorite vacation resorts are far less diversely populated than Disney World, although mainly a consequence of taste and inaccessibility rather than control by their owners. Although I am identifiably Jewish, I intensely dislike the particularism of American Jewish groups and strongly reject their "chosen people" outlook. I favor a multicultural curriculum but feel that such an approach should criticize subordinate as well as dominant groups.

69. See, e.g., Marcuse and van Kempen (2000), who distinguish between enclaves and ghettos. The analysis, however, fails to examine whether or not individuals who belong to ascriptive groups necessarily wish to identify themselves fully with their group. Thus, for example, Iris Marion Young (1990) falls into the trap of subsuming the individual in the group and assuming that the standpoint politics of group leaders represents the genuine desire of members.

70. Harvey (1992), p. 600.

71. A. Wolfe (1992).

72. Boddy (1992).

73. Barber (1984).

74. Boyer (1995), p. 107.

75. See Bennett (1998).

76. See Chapter 1, note 11.

11. DEVELOPMENT POLICY FOR THE INNER CITY

1. Amin and Thrift (1995).

2. It is inconceivable that any private business would make capital expenditures without specifying output targets and calculating in advance the impacts of increasing production.

3. The Labour-sponsored GLEB did do economic planning and provides something of a model. As reconstituted in the present GLE, it focuses on developing London's entrepreneurial, small-business sector.

4. See, for example, O'Neill and Moss (1991); and Coopers & Lybrand Deloitte (1991b).

5. For a discussion of the importance of place and the effects of disaggregation, see S. Fainstein and Markusen (1993).

6. Bloomberg.com.uk, September 20, 2000 (www.bloomberg.com/uk/bus_news3).

7. Rueschemeyer and Evans (1985), pp. 57–59.

8. Robert Beauregard (1989) discusses the importance of the state playing a role in requiring preferential hiring agreements for residents when it participates in development.

His analysis is restricted to construction hiring, but the principle can be extended to operating firms.

9. Eisinger (1988).

10. Its members included the president of the Shubert Organization, New York's largest theater owner; Celeste Holm, the actress; and Vincent Sardi, the owner of the famous restaurant bearing his name.

11. S. Fainstein (1997).

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