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THE WALL STREET JOURNAL, WEDNESDAY, OCTOBER 24, 2001

Cities Must Change to Survive

By JOEL KOTKIN

The catastrophe that befell lower Manhattan last month, and the continuing concerns over security in Gotham, could foreshadow a broader reversal of fortune for America's first-tier cities. After nearly a decade of remarkable resurgence, New York and other major urban centers face a new era of uncertainty and intensified competition from smaller cities and towns.

It would be dense for business leaders in New York and other key cities to believe that the assault on the World Trade Center, and the heightened security around all high-profile locations, will not profoundly impact the future of major urban areas. What is needed now is a new vision of urbanity that responds, and overcomes, our altered reality. The giddy period of urban resurgence—nurtured by mayors like Rudolph Giuliani, plummeting crime rates and the stock boom of the late 1990s—has come to an end. A new organizing principle for cities needs to be developed, and fast. It should rely not on handouts and tax breaks to developers and companies, as has been the case in the past, but on an unleashing of the entrepreneurial instincts and assets of our urban population.

Unfortunately, to date, much of the brave rhetoric coming from Mayor Giuliani and Gov. George Pataki has been oriented more toward restoring the old order. Their proposals for a multi-billion dollar bailout—including plans to replace the twin towers with similarly gargantuan office complexes—are out of whack not only with post-Sept. 11 realities, but with patterns of business dispersal that have been emerging for decades.

Indeed, after Sept. 11, many firms are already signing long-term leases for new locations in the suburban hinterland. With the loss of 15% of downtown Manhattan's office space, according to a recent report from Reis.Com, it is inevitable that at least some of these firms will find homes outside New York City. And once employees acclimate to the relative ease of suburban locations, particularly given the long-term security concerns, they are unlikely to return to Manhattan without massive subsidies and tax breaks that the city can ill afford.

Let us remember that since the mid-1960s, most major cities have either lost population or stagnated, while mid-sized, horizontal cities—better adapted to the automobile and better able to offer a suburban-style quality of life—have grown rapidly. Indeed, even in the midst of the recent economic expansion, little in the way of high-rise office space was built anywhere in the U.S. With the possible exception of Charlotte, N.C., virtually no major American city added significantly to its skyline in the '90s.

New York is not the only city that has to rethink its development strategy. Even before the terror attacks, many of the great comeback cities of the late '90s, such as Boston, San Francisco and Seattle, had begun to suffer precipitous drops in occupancies and rents. With their own share of high-profile targets, these cities have all heightened their security as a response to terrorism.

Yet it would be inaccurate to blame the current crisis facing America's first-tier cities on Osama bin Laden. Over the past year or two, as the Nasdaq fell and the dot-coms imploded, the glow of inevitable prosperity had already started wearing thin. Lower Manhattan, the Garment District, and other parts of New York were already hemorrhaging tenants before Sept. 11.

In a new, more austere environment, some entrepreneurs, who may have flocked at places like New York's Silicon Alley or West Los Angeles, are now tempted by locations in less glamorous locales. "When money was easy, and you didn't have to make profits, why not locate in Santa Monica?" suggests Houston-based real estate investor Andrew Segal. "When you have to look at the bottom line, other places begin to look more attractive."

Even before Sept. 11, lots of people were fleeing major urban areas. Big subsidies won't end the outflow. Instead cities must foster an entrepreneurial climate.

Among the markets that Mr. Segal has seen business gravitate to are low-profile cities such as Tulsa, Kansas City and Hartford, which have been less affected by the recession than the bigger cities. These cities also have far lower rents and housing costs than the still-inflated markets of New York, San Francisco, Seattle or West Los Angeles, and arguably make far less inviting targets for terrorists. And new telecommunications technologies today could hasten this new hegira from the great cities.

So, what is the future of our great cities, and urban real estate? Under current conditions, the corporate functions most likely to stay in cities like New York will be those that require face-to-face contact—high-end deal making, collaborative creative processes and global connections. Clerical, administrative and other mid-level tasks can be as effectively done from the suburbs, or from less costly regions of the country.

The other critical element for cities will be to direct their efforts to appealing to those who, even with the increased fear

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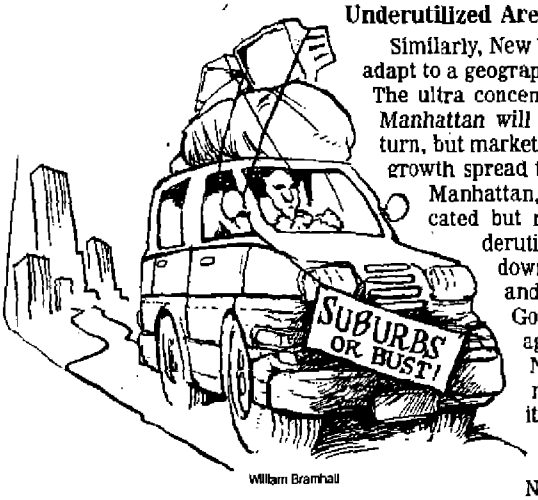
factors, still will want to live or work in the urban core. These include those who have been flocking to places like New York over the past decade—creative people, the young, single, childless couples, lovers of the arts, and immigrants. The key to the next urban renaissance lies here: luring the often talented and highly motivated minority that craves the edginess and personal contact that only great agglomerations can provide. To do so, and to fend off challenges from second-tier cities, major urban centers like New York must give priority to those issues that matter most to this demographic: cultural amenities, lower taxes, greater public safety, and clean streets.

In the process, New York will change, as all great cities always change. After the early '90s' riots and natural disasters in LA, the city was forced to abandon the long-time, heavily subsidized dream of turning downtown into "Manhattan West." The economy rebounded, but the corporate focus shifted to the West Side, the San Fernando Valley and other centers closer to where knowledge workers lived. Over time, downtown reinvented itself, largely as a thriving center for immigrant business.

Underutilized Areas



William Bramhall

Similarly, New York will have to adapt to a geographic redefinition. The ultra concentration of lower Manhattan will likely never return, but market forces could see growth spread to other parts of Manhattan, and to well-located but now grossly underutilized areas like downtown Brooklyn and Harlem. Like Gotham a century ago, a renewed New York can now use more of its physical endowment.

Rebuilding New York on this new vision would be the best answer to the terrorists. A city, New York or any other, is more than a collection of steel and glass connected by fiber optic cables. It is a living, breathing organism whose various parts function together with reasonable efficiency. It also possesses a kind of soul, with a sense of itself, that leads its citizens to adapt to challenges both as individuals and as part of a greater urban enterprise. In the digital age, ultimately, the most important characteristics are those—sense of place, excitement, willpower and commitment—that have withstood barbaric assault from the days of antiquity, and can do so again.

Mr. Kotkin is a senior fellow at the Davenport Institute for Public Policy at Pepperdine University and at the Milken Institute. He is author of "The New Geography: How the Digital Revolution is Reshaping the American Landscape" (Random House, 2001).

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