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The Evolution of Lower Manhattan

Abstract

Between 1995 and 2005, Lower Manhattan evolved from a single-use office centre into a mixed-use and vibrant residential community—how did this come about? This article attempts to answer this question, drawing on the principles from Evolutionary Economics. It uses post-9/11 Lower Manhattan in New York City as a case study to illustrate the applicability of Evolutionary Economics for understanding urban developments. It argues that land uses in cities evolve over time; the evolutionary path depends on the innovations in cities and competitions among agents. The author conducted five in-depth personal interviews with local developers and government officials and summarized the findings in the context of Evolutionary Economics. The results show that mixed land uses in Lower Manhattan post-9/11 has been an outcome of developers' creative reaction to the damage of 9/11 and opportunistic entrepreneurs' competition among themselves.

Keywords: evolution, urban development, planning

1. INTRODUCTION

Since 1900, the district of Lower Manhattan has been a hub of commercial activity, a centre of a single type of land use that is far from what researchers would consider as a functional area. Ideally, a functional area is not only an area where people work, but an area with a critical mass of residential population high enough to support lower-order services, such as stores and restaurants. It has only been in the recent decade that Lower Manhattan has changed: it has grown in a variety of land uses other than commercial. This growth has been a result of rapid conversion of land uses as well as residential conversions and developments. This change raises the questions *How did this come about? What are the mechanisms within a city that could have enabled Lower Manhattan to thrive in mixed land uses in the last decade?*

This paper attempts to address the above questions. Its objective is to use the principles from Evolutionary Economics to help explain land use changes and urban developments in cities. It focuses on Lower Manhattan from 1995 to 2005 and from pre-9/11 to post-9/11.

Lower Manhattan presents itself as an interesting case study for three reasons. First, Lower Manhattan is the financial centre of the World City of New York; its complexities merit research attention. Second, the events of 9/11 present a natural experiment for studying how agents in cities react, adapt and evolve from crisis situations. Third, previous studies on New York City often focus on its macroeconomic role as a world centre, a node of command where most global firms make their economic and financial decisions (Sassen, 1991). This study supplements the existing literature by examining the microeconomic mechanism within New York City. It analyzes the evolution of land uses and developments in Lower Manhattan - a process that underlies the macroeconomic role of New York City.

During the week of October 24th to 30th, 2006, the author conducted five interviews with six private developers and government officials in New York City and went to a

public meeting. The interviews were conducted based on close dialogues, with unstructured, open-ended questions (Clark, 1998). The method of close dialogues was chosen for two reasons. First, close dialogues provide rich qualitative information based on local knowledge that is otherwise unavailable. Second, the fieldwork was part of an undergraduate field course; the time and resources of the course limited data collection. The drawback of using close dialogues is the usual claim that these dialogues lack quantitative rigor. This study recognizes the drawback, but argues that it represents a first step in using Evolutionary Economics to provide a framework for understanding land use changes and urban developments. It provides a platform for future qualitative and quantitative analysis.

The rest of the paper is organized as follows: Section 2 provides a brief background of land uses in Lower Manhattan, Section 3 discusses the methodology of the study, Section 4 applies the principles of Evolutionary Economics in explaining changes in Lower Manhattan pre- and post-9/11, and Section 5 explores the future evolution of Lower Manhattan. The conclusions follow.

2. BACKGROUND ON LOWER MANHATTAN

New York City, officially the City of New York, is the largest municipality in the United States. Located in New York State, the city has a population of over 8.1 million within an area of 321 square miles (approximately 830 km²), making it the most densely populated city in North America (New York City, Department of City Planning, 2006). It is common to describe New York City as a “city of neighbourhoods” because of its density and ethnic diversity. These neighbourhoods, sometimes referred to as districts, are functional areas. A functional area is not only an area where people work, but an area with a residential population great enough to support lower-order services and functions, such as stores and restaurants. Cao and Cory (2005) suggest that a desirable mix of uses could be about 23 percent office, 33 percent commercial, and 44 percent residential development.

Lower Manhattan, sometimes referred to as Downtown New York, is the southernmost part of the island of Manhattan - the center of businesses and government in New York City. For centuries, Lower Manhattan has served as the economic “growth engine” for the entire New York region and as the center of world business (New Incentives for Downtown New York, 2006). It hosts the United States Stock Exchange and the Federal Reserve, two of the key players in the nation’s financial sector; the two players have attracted a large amount of office developments in the area, generating spillover effects that Vance (1990) termed as Cumulative Causation. Spatially, Lower Manhattan consists of a number of distinct neighborhoods and business districts (Mollenkopf, 2005). By definition, Lower Manhattan encompasses the area south of Canal Street and includes the areas of Battery Park City, the World Financial Center, the Civic Center, and the Financial District. Within its boundaries is City Hall, the Municipal Building, the Financial District, and the site of the World Trade Center.

Currently, Lower Manhattan is the United State’s fourth largest Central Business District (CBD), after Midtown Manhattan, Chicago’s Loop, and Washington D.C. The district was previously the third largest CBD in the United States, but fell after the loss of 16 million square feet of office space due to the destruction of the World Trade Center Towers and surrounding areas on September 11, 2001. The New York Government and many developers have hoped that Lower Manhattan will regain its third place ranking after the reconstruction of the New World Trade Center, which is expected to yield a similar square footage of rentable commercial space (Mollenkopf, 2005).

3. METHODOLOGY

Information was gathered through in-depth, personal, close dialogue interviews with planners and developers in New York City. While some researchers might argue that a close dialogue is subjective by nature, others argue that close dialogues involve a level of intimacy that supplements quantitative techniques (Clark, 1998). A close dialogue can be indulgent and isolating as well as promising when it comes to unique insight into the closed world business. Close dialogues go beyond the claimed profound distinctions

between quantitative and qualitative research methods. Therefore, dialogue is an essential ingredient in the exchange of business information, an ingredient that is often ignored in academia.

The close dialogues took place during the week of October 24th to 30th, 2006, as part of an undergraduate field course.¹ Myself and two other students visited the New York Planning Office. We obtained a 30-minute personal interview with Grace Han (Planner I). Ms. Han talked to us specifically about past and present zoning issues in Lower Manhattan. We discussed how the current administration pushed residential conversions into Lower Manhattan and how this effort has come to a halt at present.

Ms. Han referred us to Downtown Alliance and the Lower Manhattan Development Corporation (LMDC). While the LMDC was impossible to get into because of heightened security, we gained access up to the 33rd floor of 120 Broadway Street to meet with members of the Downtown Alliance. There, Frank Addeo (Chief of Staff) and Jonathan Oakman (Director of Research) discussed with us at length (one hour) issues present in Lower Manhattan's new residential landscape. We gained information on what incentives the government has used to induce residential conversions and how the government's vision of a 24/7 community might affect land uses in the area. Furthermore, we talked about general market information such as falling vacancy rates, transportation, retail migration, and the current job boom.

A 45-minute interview was also conducted with Jonathan Gouveia (Project Manager). Mr. Gouveia talked to us about the land-use changes in Lower Manhattan pre- and post-9/11. We discussed what a new resident population means to the area and how new mixed-use zones will increase vacancy rates.

Myself and one other student attended a three-hour meeting that was organized by retailers and local officials. Present at the meeting were Jeanne Giordan (the former

¹ I traveled with eight fellow students and two Professors to New York City. While for the first four days we traversed as a group, the remaining two days were to be used to gather research for an independent research assignment.

director of Grand Central Station), Robin Abrams (the executive vice president of Lansco Corporation), John Evans (vice president of Sciame Development Incorporation), Michael Ewing (the president of Willam-Jackson-Ewing), Gary Guarducci (owner of St. Ambrose Café), and Victor Dadras (an architect of Irwin Cohen-Land developer). The meeting focused on the topic of New York's locally owned retail and how these retail activities were being pushed out of the city.

We managed to schedule two other interviews with local retailers and residential developers. In the former case, a private interview with Robin Abrams lasted for 45 minutes. During the interview, we discussed why new retail stores sprung up in Lower Manhattan as a response to an increased population. In the latter case, we interviewed Mitchell Wasser, a representative from Metro Loft Management, who is a major player in Lower Manhattan's residential conversions. During the interview, we discussed what the conversion process would take and how government incentives fueled these redevelopments.

4. ANALYSIS: EVOLUTION OF LAND USES AND DEVELOPMENTS IN LOWER MANHATTAN

In this section, I will synthesize the information gathered from the key informants and analyze the changes that have led to residential developments in Lower Manhattan from 1995 to the 2005 by using the theory of Evolutionary Economics. In each of the sections, I will first state the general principles derived from Evolutionary Economics, followed by an explanation of how these principles can be applied to the changes that have occurred within Lower Manhattan.

A brief summary of Evolutionary Economics may be in order at this point. Evolutionary economics is a relatively new economic methodology that is modeled after biological evolution. It stresses economic change due to complex interdependencies, competition, growth, and resource constraints. Evolutionary Economics focuses on how an economic system evolves over time and what mechanisms underlie the evolutionary

process. It theorizes that the current state of an economy is the result of a process of self-transformation. This process is stimulated by either changes generated from within the system (endogenous) or unanticipated shocks received from outside the system (exogenous). Agents in the system react to these changes; their reactions create novelty, which refers to the moving away from the status quo, giving rise to changes. This in turn leads to “innovations” in the system. Innovations create further opportunities for agents to generate creative ideas, fueling a continual process of self-transformation (Witt, 2003).

The mechanisms that underlie the process of self-transformation are adaptation, variation, and selection. Adaptation refers to strategies agents use to cope with the ever-changing economic system. Variation is a key coping strategy of deviating or varying from the previous status quo. Selection refers to the fact that those agents who “survive” in the system are the ones who can best adapt to the changes—that is, agents “self-select” themselves for survival.

Evolutionary Economics has applications in explaining the long-run growth of an economy (Schumpeter, 1934). It has also been applied to understanding firms’ behavior and technological innovation (Nelson and Winter, 1982). Recent studies also apply the theory to understanding knowledge spillover and regional growth (Lambooy, 2002). The present study applies the theory to understanding land use developments.

4.1. Innovation

4.1.1. Principles. How do changes in the market occur? Evolutionary Economics postulates that changes occur as a result of innovation, which could be either exogenous or endogenous to the economy. Innovative activities, both exogenously or endogenously defined, drive agents in the economy to react to or compete for new challenges and opportunities; these reactions and competition, in turn, lead to changes.

4.1.2. Applications. Around 1995, two congruent movements began to reshape Lower Manhattan, both of which later presented themselves as endogenous innovations for

economic agents to react upon. First, the office sector started to decline, with businesses moving to Midtown Manhattan. The decline in the office sector was primarily due to the push factor of a cooling office market and the pull factor of a more attractive environment in Midtown Manhattan. Midtown Manhattan was particularly attractive because its transportation network has been well linked to New York's suburbs, a network that Lower Manhattan lacks.² Thus, workers from New York's suburbs have to travel to Midtown Manhattan and transfer to reach downtown. Furthermore, many older buildings in Lower Manhattan have now been deemed obsolete for office use. The obsolescence is mainly a result of Lower Manhattan's irregular street network, which creates inefficient building floor plans.

Second, driven by the profit motive, developers began to convert their office buildings into residential apartments. This endogenous movement was a natural way for developers to make money on otherwise vacant spaces. The New York City Administration, seeing these movements, decided to innovate by aiding developers in their conversions and to promote more vibrant, 24-hour, 7-days a week communities in Lower Manhattan.³ The Administration offered tax-free, low-cost financing to developers converting office buildings to residential apartments. Furthermore, they offered cash incentives of 15–30% of rent (up to \$12,000 per year maximum) for developers to convert their office buildings into residential apartments (Mollenkopf, 2005).

In addition to the two endogenous changes cited above, land-use changes in Lower Manhattan were also a result of an exogenous shock caused by September 11, 2001. The destruction created by the attack induced economic agents to react to the shock by avoiding economic losses, which also forced the administration to increase their incentives for a mixed-use community. The attacks destroyed the 13.4 million square feet World Trade Center Towers and 8 million square feet of office space in the area. This destruction displaced 110 firms, representing 140,000 workers—about one third of Lower

² Pennsylvania Station at 34th Street brings workers from Long Island and New Jersey directly into midtown and Grand Central Terminal provides service to and from Westchester County in New York as well as suburban towns in southwestern Connecticut.

Manhattan's workforce. This displacement spiraled into a huge decline in New York City's economic base, flat-lining demand for any land use in the area (Mollenkopf, 2005). A year later, 80 percent of these jobs returned to Manhattan, but only 53,500 (38 percent) of these jobs returned to Lower Manhattan specifically (Mollenkopf, 2005).

In sum, the declining office market in Lower Manhattan and the destruction caused by 9/11 were innovations to the existing land use market. The former case was a continuous outcome of the limitations inherent to the existing infrastructures of the local economy; the latter case was an unanticipated destruction to the local economy. In both cases, these shocks created opportunities for entrepreneurial agents to react upon, thereby giving rise to changes in land use in Lower Manhattan.

4.2. Agents' Reactions

4.2.1. Principles. Agents react to innovations; these reactions are driven by human creativity and the search for new possibilities for survival. The outcome of these reactions is what is called novelty.

4.2.2. Application. What could have fueled novelty? One factor might be the sense of insecurity or uncertainty. The exogenous event of 9/11 heightened the level of insecurity in Lower Manhattan and spurred the migration of office users out of the area. In light of the difficulty in retaining office users in Lower Manhattan, the New York administration set up the LMDC as a reaction to the hollowing out of the office sector. LMDC was mandated to be responsible for the post-9/11 development of Lower Manhattan with respect to residential developments, parks, restaurants, and retail.

Meanwhile, New York City's new mayor, Michael Bloomberg (elected in November, 2001), brought with him a bold new vision of Lower Manhattan, including a vibrant residential community. His new vision represented a new, creative solution to revitalizing Lower Manhattan. His agenda included new housing projects in the Lower Manhattan region, and, in collaboration with LMDC, created an innovative plan to induce

residential conversions and developments in the area. Mayor Bloomberg's vision included converting the New York Stock Exchange site into a residential structure (Mollenkopf, 2005), increasing transportation and public access to the waterfront, and fostering major office developments. The plan involved creating a mixed-use, 24/7 residential and business area with housing for 300 people.

To achieve this vision, the City provided financial support for residential developers through tax incentives and low-cost financing. Tax benefits were given to developers who worked with the government to develop residential buildings on pre-defined sites; this caused a huge boom in the residential market. Demand for residential apartments skyrocketed, causing residential building developments and conversions to occur at rapid rates. Many large residential buildings were developed south of the site of the former World Trade Center. The mayor's innovative residential incentive package, in turn, encouraged commercial and retail developments in Lower Manhattan (New Incentives for Downtown New York, 2006). Furthermore, each year, up until 2005, New York City offered increasing incentives in the form of cost savings to businesses seeking to remain in, and to relocate to, Lower Manhattan.

In sum, the local government in New York City took a bold initiative to creatively redesign Lower Manhattan as reactions to both the hollowing out of the office sector and the destruction caused by 9/11. These reactions to the exogenous and endogenous innovations came in the form of government incentives; the goal of these measures was to create an environment conducive to mixed-use urban developments.

4.3. Adaptation

4.3.1. Principles. Why do some actions succeed but others fail? Evolutionary Economics attempt to answer this question in light of Charles Darwin's general theory of evolution; the key element that underlies the theory is the notion of adaptation. The theory of evolution posits that random variations create a process of self-transformation within a system—that is, random variations are cumulative over time; the cumulated variations

result in new agents adapting to these variations by using different actions and reactions. This process of self-transformation of a system, over time, fuels evolution. Put differently, evolution theorizes that a random variant of a species is proven better at surviving than its predecessors because the variant is more adapted to the current environment.

4.3.2. Application. The residential sector in Lower Manhattan thrives because it has adapted to become the most profitable land use possible. In 2006, there were 20,617 residential units south of Chamber Street, all of which were characterized by low vacancies (State of Lower Manhattan: 2005). In fact, the entire south end of Wall Street is adapting by converting from offices to apartments, with a total of over 1,500 units. In its entirety, Lower Manhattan is expected to be a fully functional living area with 376 rental apartment buildings, providing homes to over 10,000 people. Meanwhile, as of 2006, there is a population of more than 300,000 workers, 37,000 residents and 8,000,000 visitors per year, creating one billion dollars in retail demand. By the year 2010, 10 billion dollars in real estate investment and 20,000 new or converted housing units are scheduled to be released in Lower Manhattan (Mollenkopf, 2005).

In sum, entrepreneurs in the land use market adapted to the new policy and the planning environment. The local government created incentives for residential and mixed uses in Lower Manhattan by providing tax and financing incentives. Opportunistic developers adapted by rapidly converting sunk capital (in the form of office premises) into apartment units. Those developers and office owners who failed to make use of the new environment would lose their sunken capital due to the hollowing out of the office sector.

4.4. Selection and Survival

4.4.1. Principles. The fear of being driven out of the market leads to competition; competition selects the successful agents to “survive” in the market. As firms or economic agents compete, those rivals who fail to capture market share would go

bankrupt and be forced to exit the market. To survive, firms often imitate routines of other successful firms. For this reason, agents would adopt the best strategies that could maximize their chances of survival.

4.4.2. Application. The influx of residents in Lower Manhattan transformed it into a functional, 24-hour business and residential character (New Incentives for Downtown New York, 2005). A host of new shops and restaurants are opening in the area to service the new demand (State of Lower Manhattan: 2005). In fact, competition and selection have allowed for high-end retail and big-box stores to open in areas that used to be considered as inappropriate and unprofitable in the former single-use commercial centre of Lower Manhattan. Although the number of jobs in the “transformed” Lower Manhattan has significantly decreased, compared to the state pre-9/11, the new World Trade Center (the Freedom Tower) is projected to yield a similar square footage of office space as the original towers, hopefully allowing for jobs to return to Lower Manhattan. To support new job creation, the city also designed a new, innovative subway station and track layout to provide efficient transportation in order to ease mobility within New York City.

The influx of population has brought about a new food market in Lower Manhattan. For example, Whole Foods started to thrive in the new residential neighborhoods in Lower Manhattan. When Whole Foods first started its business in Lower Manhattan, the New York administration acted as a facilitator between Whole Foods and the market by providing Whole Foods with subsidies in the form of cost savings. Furthermore, most new residential developments support an innovative program called “Fresh Direct.” In this program, large walk-in fridges and freezers are installed on the ground floors of residential buildings. Tenants in such a building will simply call in their order before their day shift and the order will be ready for pick up in their apartment’s walk-in fridges and freezers when they get home.

5. THE FUTURE

Aggregate decision-making reduces the variety of economic behavior. Evolutionary Economics also argues that co-operation is a behavior aimed towards survival. Individuals often do not make independent decisions; instead, individual decisions are contingent on what choices are available to others and what decisions others might have made.⁴

Shortly after the booming demand for residential units in Lower Manhattan, the demand for office spaces has started to rise; the increasing demand for offices has created competition for land uses in Lower Manhattan. The residential market has cooled down primarily because the city has halted most of the incentives that were initially granted to developers in the years immediately after 9/11. In contrast, the city is now giving incentives to commercial developers to halt any further residential conversions. The implication of this phenomenon is that not all the offices in Lower Manhattan will end up being converted to residential uses. In fact, activities in the office market have begun to resume at a level comparable to pre-9/11. Commercial tenants are moving back into Lower Manhattan at rates higher than what was experienced in the last ten years. Lower Manhattan is finally poised to retake its position as the third largest CBD in the United States. Lower Manhattan's private sector jobs have been rising by around 12,000 jobs in May and June of 2006.

Today, Lower Manhattan is one of New York City's safest and cleanest neighborhoods, with a 53% decrease in crime since 1998 (State of Lower Manhattan: 2005). Over 9,000 students are attending primary and secondary schools in Lower Manhattan and five new open-space areas or redesigned open spaces were created in Lower Manhattan over the past four years. In the next five years, 10 billion dollars of rebuilding will occur in Lower Manhattan, including the new World Trade Center—the world's most watched urban development project (Mollenkopf, 2005). By 2010, the New York City Economic Development Corporation projects a 40 percent increase in

⁴ This interdependency is often modeled in a game theoretic setting.

residential population, reaching a total of 29,500 people, with an occupancy rate of 95 percent. (State of Lower Manhattan: 2005).

6. CONCLUSIONS

Being the largest city in the world, New York City faces many issues on a daily basis. The ever-changing landscape of land use and development is just one in a handful of issues the administration deals with; thus, the administration has set up special task forces to watch over Lower Manhattan exclusively. One of the main pushes is to convert Lower Manhattan into a functional, 24/7 mixed use residential and commercial area. With this objective, Lower Manhattan hopes to regain its place as the largest CBD in the United States.

Changes in the land use market in Lower Manhattan post-9/11 were not only the results of the unanticipated destruction from 9/11, but also of the reaction to ongoing market situations pre-9/11. Pre-9/11, the office market in Lower Manhattan was already facing a gradual outward migration of office users due to high land rents and inadequate infrastructure to support dense commercial activities. The outward migration reached its height when the events of 9/11 destroyed 13.4 million square feet of office space. The hollowing out of the office sector in Lower Manhattan, in turn, created an opportunity for agents to convert the sunken capital in the office towers into residential apartments. In light of the government's incentives, the City rapidly attracted people to live and work in Lower Manhattan. Overall, these changes reflected what Evolutionary Economics would term as the "innovations" and "adaptations" within the system of land uses in Lower Manhattan.

Meanwhile, the influx of a residential population in Lower Manhattan has allowed new retail activities to thrive in the area. For the first time, Lower Manhattan has become a vibrant residential community with a population that is large enough to support high-end shops and restaurants until late into the night. The success of the new retail market is

due to the creative “survival strategies” of the retailers; branding and providing creative solutions to the new residential lifestyle of the working population. In sum, these retailers “self-select” themselves to survive in the economy because of their adaptive strategies.

To date, Lower Manhattan has regained its position as an attractive and competitive central business district; whether it will continue to evolve and remain as the world’s largest financial centre depends on its agents’ ability to adapt in a highly uncertain and insecure environment. In the last six years, economic agents in Lower Manhattan proved themselves as highly adaptive agents, reacting to challenges with creative strategies. To support the continual growth in Lower Manhattan, over 10 billion dollars in public and private investment has been injected into downtown infrastructural properties; state-of-the-art office space is being built at World Trade Center 7; and high profile projects, such as the innovative PATH station, will enhance Lower Manhattan’s transportation network. Meanwhile, over one million square feet of additional office space is being developed (Mollenkopf, 2005). With the residential market cooling down and the office market heating up, Lower Manhattan allows for the construction of the new World Trade Center. Indeed, Lower Manhattan has survived 9/11 as a vibrant commercial district, a thriving residential community, and an exciting cultural hub. It is, however, yet to be seen if Lower Manhattan can continue its path to evolve as one of the world’s leading financial centers. Its success depends greatly on how agents adapt, particularly to the uncertainty related to national security.

About the Author.

David Stubbs is an undergraduate student at the University of Western Ontario pursuing an Honors degree in Urban Development, an interdisciplinary program within the Department of Geography. David's current research interests include economic geography, urban morphology, housing economics, and the use of GIS and quantitative methods in community planning.

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