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Stock Exchange Project: City Board To Vote On Financing

Next Tuesday, November 13th, the board members of the city's Industrial Development Agency (IDA) will vote on a proposal to issue $920 million in bonds to finance the $1.1 billion New York Stock Exchange (NYSE) project. It is the largest bond issue ever proposed for IDA, which was created in 1974 to help keep manufacturing jobs in the city by providing tax-exempt financing.

The stock exchange project would bring together the city, state and private investors to create a new trading floor. The city would be responsible for $705 million of the bonds, and the state $215 million. Together they would pay the principal and interest on the bonds issued by the IDA—roughly $52 million per year in debt service costs for the city. IBO estimates that the total cost to the city over 20 years would be approximately $1 billion (in current dollars).

Under other terms of the agreement, the city will hold transferable development rights for a 1.3-million square foot, 50-story office tower above the trading floor. It is expected that construction of the new trading floor and office tower will take four years to complete. A public hearing on the project took place on October 26th in preparation for IDA's board vote. The board is comprised of 11 members appointed by the Mayor, including five on the recommendation of the Borough Presidents.

City and State to fund land and construction. Although all the details of the stock exchange project are not publicly available, the following is known:

- The city has agreed to buy the land for the new facility—the city block bounded by Wall Street, Broad Street, William Street, and Exchange Place—at a cost of $450 million.
- The city and state will provide $480 million in outright grants to build the new 650,000 square-foot trading complex—$255 million from the city and $225 million from the state.
- In return, the stock exchange will pay no more than $10 million per year (increased by 15 percent every 10 years) as a payment in lieu of taxes—including property and sales taxes—and invest $400 million in new equipment and technology.

The buildings that currently occupy the block the city will purchase provide 1.3 million square feet of Class B office space and 493,197 square feet of residential space. In 2001 the owners of these buildings paid $5.6 million in property taxes to the city. One building will

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be seized through condemnation by the state initiating eminent domain.

One of the buildings on the block was converted to residential use in 1997 and receives an annual property tax exemption—worth $2.4 million in 2001. The building converted under the terms of the Lower Manhattan Revitalization Program, which the city developed to encourage conversions and make the financial district a 24-hour community. Each of the tenants in this building will be paid up to $15,000 for relocation expenses.

Ten million dollars of the state's commitment to the exchange project was appropriated in the state's fiscal year 2000 budget, reducing the amount that the state is bonding to $215 million. Included in the $480 million in grants is $6 million to be used for expenses associated with NYSE's relocation to the new trading floor. The city and state also will grant energy discounts.

The lease for the new exchange would be for a 50-year initial term. NYSE would have the option of extending the lease for up to a total of 99 years. Approximately 3,000 traders, brokers, specialists, and support staff work on the existing trading floor.

Project could go forward without office tower. Under the terms of the agreement, the city must start construction on the project by 2004—with or without a developer or a major tenant for the proposed office tower. Under the current design, the office tower would provide 1.3 million square feet of Class A office space. The city hopes to sell the development rights for the office tower, thus saving the $500 million estimated cost of construction. But no developer has yet signed on to the project. The belief is that without an anchor tenant in place the project is too financially risky. Developers usually will not break ground in Manhattan without at least 50 percent of a project pre-leased. The city does have the option of not proceeding with the proposed office tower if no developer comes forward.

The lack of a major anchor tenant is of special concern in today's real estate market because the demand for office space is decreasing and commercial market rents are dropping throughout Manhattan. The city or developer would need to rent the office space for about $65 a square foot in order to break even, $15 to $20 more than the going rate for downtown office space. If the city is not successful in finding a developer and construction of the trading floor goes forward, NYSE has the right to preclude future development of a tower once it occupies the trading floor.

Impact of the World Trade Center attack. In preliminary discussions on the future uses of the World Trade Center site, it has been suggested that a new stock exchange trading floor could be part of the rebuilding plan. Although such a move could be seen as a sign of strength in the face of the terrorist attacks, there are several issues that make it unlikely. These include uncertainty about when rebuilding at the World Trade Center site will begin, and severing the exchange's historical association with Wall Street.

Groundbreaking on the NYSE project could be delayed for up to 18 months. One of the buildings that was set to be torn down for the new construction has been leased to the Bank of New York as replacement space lost in the World Trade Center attacks. It is expected that the bank will lease the space for six to 18 months.

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