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How Plan for a Tunnel Turned Goldman Against Downtown

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In many ways, of all the pieces of the developing World Trade Center site, none of them - not the Freedom Tower, the memorial or the other proposed buildings - are as important right now as the project that was supposed to go up across the street: a gleaming new \$2 billion headquarters for Goldman Sachs, one of downtown's largest and most prominent employers.

The 40-story tower, the first significant new investment by a financial firm anywhere near the site since Sept. 11, would have signaled to the world that not only had Lower Manhattan recovered from its psychic wounds but also that it remained an international symbol of capitalism, rebuilding officials, real estate executives and financial industry experts said.

But the investment bank pulled the plug on its plans last month, citing security concerns and general confusion over plans at the trade center site, and has begun a furious search for alternative sites, possibly in Midtown.

The final straw in Goldman's decision to pull out was a state plan to bury West Street-Route 9A in a tunnel that would have ended at its headquarters' front door. The state has since abandoned the plan. Now, the city and state are scrambling to lure the investment bank back downtown.

But with the future home of Goldman in doubt, downtown executives, real estate executives and some city officials say, so is Lower Manhattan's primacy as a vibrant financial and commercial center.

As the New York Stock Exchange moves toward an electronic trading system - reducing its role as the anchor financial tenant in Lower Manhattan - and after decisions by other firms to leave, Goldman's commitment was the most pronounced and important signal that the precinct was here to stay. That message, some fear, is now deeply in question.

"It would be devastating for Goldman to leave downtown," said Michael T. Cohen, chairman of the executive committee at GVA Williams, a real estate company based downtown. "The large employers who occupy millions of square feet downtown are almost impossible to replace. You can chip away at it with Bowne or HIP, but you would lose not only what's there, but also Goldman's prospective growth."

In interviews, more than a dozen people directly involved in the process made clear that a lack of coordination among agencies and governments as well as a failure to take Goldman's concerns seriously were the principal contributors to Goldman's decision to look elsewhere. Although those interviewed, including state, city and police officials, would not speak by name because of the delicacy of the talks surrounding ground zero, they all agreed on the core issues that they said led to the unraveling.

Some rebuilding officials said that the New York Police Department consistently raised security concerns about both the Goldman headquarters and the Freedom Tower but was ambiguous about how to solve them. City Hall,

whose involvement was often filtered through the Police Department, was not involved at the highest levels with the planning, according to several people involved in the talks, including a city official.

Others who were directly involved said the Lower Manhattan Development Corporation, the agency overseeing the rebuilding effort, thought that Goldman officials were bluffing when they threatened to pull out if their concerns about the tunnel were not resolved early enough.

But Henry M. Paulson, Goldman's chairman, who declined to be interviewed for this article, was quite serious. The firm, according to half a dozen people involved, simply wanted a coherent plan for addressing security concerns.

Since last August, many meetings were held to wrangle over the proposed tunnel, which would have emptied at Goldman's front door. The state, as well as the city's police officials, thought building the tunnel along the western edge of the site would help contain the damage to the Freedom Tower in the event of a car or truck bomb. Numerous discussions about moving the tunnel failed to result in an agreement.

The tunnel, though, was extremely important to Gov. George E. Pataki, according to city and police officials. He viewed the tunnel as a potential answer to the broader set of security issues facing the rebuilding project, most importantly those concerning the Freedom Tower. Mr. Pataki has long viewed the Freedom Tower as his key downtown legacy, and he was loath to have security concerns force a redesign of the building.

"Initially, Pataki honestly believed the additional cost of the tunnel was justified because it connected the World Financial Center with the World Trade Center site, and would help the traffic situation down there," said a person involved with the negotiations. "But over time, after Goldman Sachs came along, and as concerns about security were raised, the tunnel became a potential solution for those security issues."

A state official said that at one point last December they were willing to sign a tentative agreement with Goldman that included a resolution of the tunnel issue. But, the official said, the Police Department had yet to outline acceptable solutions to its security concerns.

In any event, the Pataki administration now says that it has provided all the certainty Goldman needs to make the proper decision, to stay downtown.

"The governor, the mayor and their staffs have been working with Goldman in order to answer any questions and provide all the certainties they need to move forward with Site 26," said Lynn Rasic, a spokeswoman for Governor Pataki, referring to the plot where Goldman intended to build. "We're confident at the end of the day, Goldman will find that this location in Lower Manhattan is the right place."

As the issue heated up, Goldman imposed an April 1 deadline for resolution; city and state officials begged the bank to refrain from going public, trying to buy time, two people involved in the talks said. But when that date came and went without an answer on the tunnel, Goldman announced it was pulling back from downtown.

The firm, which has 8,000 employees downtown and 2,000 more at its new tower in Jersey City, said it would spend the next few months evaluating prospects for building in Midtown, as well as its downtown options. It has disbanded its downtown team of architects, construction managers and engineers and has lost \$46 million in unfulfilled contracts.

One top real estate executive, who has been briefed by Goldman about its real estate needs, said he doubted that the bank would be able to find an acceptable site in Midtown where it could buy the land, rezone it and build a new two-million-square-foot tower by 2010, when the company's leases run out downtown.

But another executive who worked on Goldman's downtown team said that it was unlikely that the bank would return downtown.

"They don't cry wolf," said the executive, who requested anonymity for fear of annoying public officials or Goldman. "I think the governor really underestimated the seriousness of this thing."

The desire to keep Lower Manhattan commercially viable has become particularly acute since Sept. 11. Lehman Brothers and other companies have moved their headquarters and thousands of employees to Midtown. A handful of employers, like Bowne & Company, a financial printing house, have agreed to move downtown, and some banks are staying.

But the downtown real estate market remains sluggish, especially compared with Midtown. There are no tenants for Larry A. Silverstein's nearly completed 51-story tower at 7 World Trade Center tower, nor for the planned Freedom Tower.

Some real estate experts and politicians now say that if financial firms are not attracted to the Freedom Tower and 7 World Trade Center, efforts should be made to attract lawyers, advertising firms and other businesses back into the area's smaller office buildings.

"What is important is for downtown to remain as one of the leading commercial centers of the world," Senator Charles E. Schumer said.

But many industry experts say a tenant like Goldman is essential. Real estate brokers say talks with companies considering moves downtown shriveled after Goldman backed off.

"Goldman is an anchor tenant," said Frank Fernandez, chief economist for the Securities Industry Association, an industry lobbyist. "It would have a huge impact either way. Geographically, it nails that corner of the area physically, because it is almost symbolically one of the four corners of the Wall Street area."