

# Twenty years on: inside 9/11's impact on real estate markets

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React News explores the impact of 9/11 on both sides of the Atlantic and how the threat of terrorism continues to affect property



In the immediate aftermath of the terrorist attacks on the Twin Towers in New York, there were some who questioned whether tall buildings had a future.

The last 20 years have shown that far from marking the death knell of skyscrapers, the tragedy did little to stop their rise.

ever, the events of 9/11 left their mark on property

markets, and the evolving threat of terrorism continues to impact everything from building design and management, through to planning and insurance.

## How the terror attacks changed New York

As early as 19 September 2001, our sister publication [Real Estate Alert](#) was reporting on businesses whose offices had been destroyed or damaged in the attacks rushing to find new space. Some like Fuji Securities remained in Manhattan, moving to offices in Midtown, while others such as Lehman Brothers subleased space in New Jersey. Subsequent studies estimate that downtown Manhattan and Midtown captured around 80% of the displaced tenants, allaying initial fears that there would be a mass exodus to the suburbs.

But the terror attacks had a seismic impact, nonetheless. Swathes of downtown Manhattan had to be rebuilt and the character of the area changed markedly as a result. The number of people living there has quadrupled as blocks of flats replaced offices and the commercial tenant mix diversified away from finance, with tech and media companies moving in, such as Spotify, which now occupies the entirety of 4 World Trade Center, one of the new buildings developed on the site of the Twin Towers.

Ric Clark, former CEO and chairman of Brookfield Property Partners, argues that the rebuilding of downtown Manhattan has transformed it into a 24/7 district.

“Pre-9/11, there was a lot of talk about lower Manhattan being a 24/7 community, but honestly, it just wasn't. It was all marketing hype,” [says Clark](#).

“But with this conversion of older office buildings into residential apartments, people actually ended up being in this precinct around the clock. With that came retail and restaurants and all the services that the 50,000 people or so

that were now living downtown needed support them. So it became 24/7 in the aftermath of 9/11."

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DOUG HARMON, CUSHMAN & WAKEFIELD

As for investment and letting markets, it took years for buyers and tenants in New York to fully regain confidence.

"September 11 stopped people in their tracks, not just because of the devastation but because we had thought we were safe due to our geography," recalls Doug Harmon, chairman of capital markets at Cushman & Wakefield.

"Everything just slowed right down in 2001, 2002 and 2003. People were looking at buildings and they didn't want to be at the top and would stay away from landmarks. Years afterwards there was still concern around investing in taller buildings, but every six months that went by without an incident it became further in the rear-view mirror and confidence began to rebuild."

## **Developers press on**

Alongside the nervousness around tall buildings in the years following 9/11, there was also a determination among New Yorkers not to back down in the face of terrorism. This spirit was embodied by developer Larry Silverstein who rebuilt the World Trade Campus on the site of the Twin Towers.

A similar determination to press on with the development of buildings was evident this side of the Atlantic.



Swiss Re executives said they were “1,000% committed” to the development of the Gherkin after the attacks

CO-RE director Bradley Baker, then an agent at Knight Frank, had been working on the deal with Swiss Re to build 30 St Mary Axe – aka the Gherkin – just before 9/11. Swiss Re had already committed to building the tower and were about to start steel construction and ground breaking.

Baker says: “It’s one thing to sign a deal, it’s another to commit the millions and millions of pounds to construct the whole building and commit to the entire programme. I can always remember that the executives flew over from Switzerland and basically said ‘We are 1,000% behind this scheme, we’re not going to let this this terrorist act get in the way of our constructing, our future.’ So they broke ground literally within a fortnight of 9/11. That was the first indication I had that a lot of people were determined not to be swayed by this sort of event.”

### **Impact in the UK was less pronounced**

In the UK, there was not the same degree of nervousness and tall buildings as there was in the US. Terrorism was only mentioned in a planning inquiry for the Heron Tower

shortly after the attacks and some of the most notable letting deals in the months that followed were for tower space. Allen & Overy and Skadden both signed deals to occupy the upper floors at 40 Bank Street in Canary Wharf, for example.

That is not to say that the attacks did not have an impact. They accelerated the end of the cycle as economic activity and business confidence took a hit.

“It was the dot.com boom and bust as well. There was a downturn anyway and it is very often an event like 9/11 that’s a trigger to make it worse,” says Helical chief executive Gerald Kaye. “The only building we were letting in the City at the time was 1 Plough Place, which we let in July 2001. I was pleased we had let it because everything stopped after 9/11 as it took time for travel to get back on its feet and confidence did take a bit of knock.”

The terror attacks happened in New York, not London, so it is natural that the reaction should be different over here but the differing response was also due to London having already lived through the IRA bombings in the 1990s. This was significant for more than just psychological reasons.

## **Insurance headaches**

Harmon says that for a relatively short time property and terrorism insurance in the US became “a huge problem that crimped sales as much as fear”.

Having incurred huge losses as a result of 9/11, insurers hiked premiums or withdrew cover altogether.

Tim Woodhouse, managing director – terrorism, at Dual Group, says: “There was a great fear factor that there would be many more bombs and attacks and so rates were initially very high. Even farms or inconsequential industrial units far from major  
n centres would be charged a lot of money.”

In the UK, this was less of an issue because the government had already introduced Pool Re following the IRA bombings to enable the insurance market to continue offering cost-effective terrorism cover for commercial properties. The system was not perfect. It took time for the government to expand the remit of Pool Re beyond fire and explosions to cover a wider range of risks including impact by aircraft, but it did keep a lid on the cost of insurance.

In the US, a comparable government backstop was introduced just over a year after 9/11 and was later extended, but it is still not as generous as the UK system. Woodhouse says premiums today for property and terrorism cover can be similar for high-value properties in New York, whereas in the UK terrorism cover would always cost significantly less.

## **Street defences**

Another factor contributing to the differing reaction to 9/11 was that terrorism was already on the radar of UK property owners and planners. In the City of London, the so-called Ring of Steel – comprising of road barriers, checkpoints and hundreds of CCTV cameras – was introduced in 1993 following the Baltic Exchange and Bishopsgate IRA attacks. Developers and landlords had also responded by introducing tighter security and physical barriers to reduce the risk of bombings.





The City of London's former chief planning officer Peter Reese says that in London much had already been done to combat terrorism before 9/11

Peter Reese, who was chief planning officer for the City of London from 1985 to 2014, quips that the "main result of the 1990s bombings was bollards – a lot of them not very useful or sensitively placed."

He adds: "By the time 9/11 came along, it was realised that there was not much more that could be done."

It was a different story in New York.

"Not long after 9/11 I was invited to talk to a group of people looking at security in downtown New York to explain what we had done after the IRA bombings, describing the Ring of Steel," says Reese. "I remember the head of security in New York more or less stormed out, saying it would never work in New York."

The grid-like streets of New York with their multi-lane highways made it nigh on impossible to recreate the Ring of Steel, but more robust security measures were subsequently introduced, which Cushman & Wakefield's Harmon says played an important role in rebuilding confidence.

## How 9/11 changed engineering and construction

The way the World Trade Center buildings fell, known as progressive collapse, was pored over by engineers and preventing it happening again in new developments became a priority. Former [Brookfield executive Ric Clark](#) says that the firm ensured that its post-9/11 developments had “proper set-off distance and fortification of structure so that there couldn't be progressive collapse.”

Brookfield set about making improvements almost immediately. The investment giant was about to begin development of 300 Madison Avenue, a 1.2m sq ft office building, when the attacks happened. In the weeks that followed a number of late changes were made to the design including fitting windows with blast-resistant glass and reinforcing steel columns to make the building more secure.

The improvements that developers put in place helped win back the confidence of tenants. WSP managing director Kamran Moazami's first job after 9/11 was Barclays' headquarters in Canary Wharf. Barclays had reservations about moving into a tower so soon after the attacks and Moazami helped convince the bank by explaining his analysis and structural improvements, “including a lot of fire engineering aspects: how to get people out the building, how long it would take to bring everybody out, how to make sure the stairs can accommodate [them],” he says.

## Security response changes as terror threat shifts

The 11 September attacks ushered in a new era of terrorism that would expose flaws in the UK's defences. Whereas CCTV cameras were an effective response to the threat posed by the  whose terrorists sought to evade detection, they were of

little value in the fight against Islamic terrorists who were happy to die in the attacks they perpetrated. Attacks that have followed in the past 20 years have also been increasingly crude, relying less on complex networks and financial support.

In response, the security response has shifted. Physical barriers remain important – whether that be blast-rated glazing, bollards, reinforced flower planters or even a moat, as seen around the new US Embassy in Vauxhall. However, in recent years, there has been an increasing focus on operations and building management. This includes training for security staff to help them spot suspicious behaviour and so they know how to respond if there is an incident.

Darren Wood, who works with a number of leading developers and property owners as director of security consultancy at Cundall, says. “It is a direct response to the realisation that this could happen anywhere, anytime. It isn’t something that could happen once in a lifetime.”

The changing nature of the terror threat could soon result in tighter legislation. Under a government consultation launched earlier this year called Protect Duty, or Martyn’s Law in memory of Martyn Hett, one of the young people who was killed in the Manchester Arena attack in 2017, greater onus will be put on private owners and operators of crowded spaces to help prevent terror attacks.

## **How 9/11 compares with Covid**

Twenty years on from 9/11, the world is grappling with another quite different tragedy. Covid-19 has provoked fear and uncertainty, and people are questioning whether life will return to normal, just as they did following the terror attacks.

The comparison extends further. After 9/11 many big companies moved to set up “off site” disaster recovery and back-up facility  ions to make sure that if a future terror attack happened would not be at a total loss.

Cushman & Wakefield's Harmon says that with the pandemic "the equivalent corporate manoeuvre has been to let its workers for the time being have a choice of where to work".

He argues: "This will wax and wane, and to some extent survive more than it would have pre-pandemic. But like the dislocation issues after 9/11, as health and safety and confidence returns, so will business and office occupancy. The big cities hold far too much allure to reverse a hundred-year trend of more and more people living in urban areas."

