Forty Wall: An Economic Tragedy

By RUSSELL THOMPSON

As an area becomes the center of business activity, its ground space becomes increasingly more expensive. In an effort to avoid this, construction in New York City has tended to push into the air, giving us the American phenomenon, the skyscraper.

The mammoth structure rearing skyward for one-sixth of a mile, known as Forty Wall Street, is typical of industry's effort to get the most out of the least possible land. Forty Wall is a modern seventy-story office building containing approximately 817,000 square feet of rentable space, the area of eighteen football gridirons!

Prompted by the rapidly expanding business of the banking and brokerage houses during the boom of '21-29, there arose a premium on office space in the immediate vicinity of the New York Stock Exchange. From this demand grew the steel and stone miracle of Forty Wall.

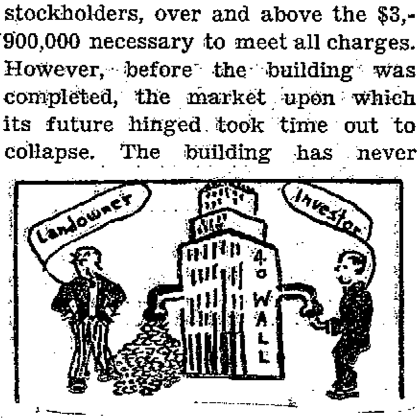
Appreciating the demand for office space in this area, the Starrett Corporation in 1929 conceived the idea of erecting a large building on Wall Street on the site adjoining the United States Sub-Treasury Building. The ground was then occupied by six buildings nineteen stories or less in height. To carry out the project, the Starrett Corporation formed a subsidiary, called "The Forty Wall Street Corporation."

Three-quarters of the site of the proposed building was owned by two interests—the Bank of Manhattan, which had been there since 1799, and A. Iselin & Company. These two companies gave the Forty Wall Street Corporation a long term ground lease at a combined annual rental of $700,000. Four and three-quarter million dollars was the price for the remaining parcels. Capitalized at 6%, this meant an additional $300,000 ground rent, or a total annual ground rental of $1,000,000. Construction of the skyscraper was begun in 1929.

At first Forty Wall Street was planned as a thirty story building. However, ground rent and taxes prohibited a meagre thirty stories. The promoters soon decided that nothing less than fifty stories would be a good investment. But plans were changed time and again, from fifty to fifty-six stories, then to sixty-seven, and finally, seventy stories. Because of the high land value and heavy carrying charges, speedy construction was imperative; and by pursuing a bold method of sinking preliminary foundations before the wrecking of the old structure was started, the builders completed their job in 363 days. In April 1930 the huge structure, towering 927 feet, was completed.

To finance this venture, the Starrett Corporation, who were the builders, sold to the public $12,180,000 in bonds secured by a first mortgage on the building and owned land. A second mortgage issue of $6,500,000, plus a preferred and common stock issue with a par value of $3,333,333, was retained by the Starrett Corporation—a total capitalization of twenty-two million dollars. In addition, as of December 31, 1938, the balance sheet of the Forty Wall Street Corporation showed another $1,630,000 due the Starrett Corporation, apparently advances made by Starrett in an endeavor to stave off the financial collapse of the venture.

At the inception of the venture the promoters dreamed of realizing six dollars per square foot on the rentable space in the building. This would have netted $700,000 for the stockholders, over and above the $3,900,000 necessary to meet all charges. However, before the building was completed, the market upon which its future hinged took time out to collapse. The building has never been able to collect the $3,900,000 necessary to break even, although occupancy has averaged over 80%. Cause:—the average rental was a little over half the six dollars per square foot originally planned.



A survey of the income statement for the calendar year 1938, which is typical of the results for the past several years, reveals that the total income for the year was $2,800,000. Of this amount $650,000, or nearly 25%, was paid in taxes. Seven hundred thousand dollars, or another 25%, was paid out in ground rent to the Bank of Manhattan and A. Iselin & Company. The cost of operating and maintaining the building, plus depreciation, approximated another million dollars. This left $450,000, against which stood commitments of $689,000 interest on the first mortgage bonds and $323,000 interest on the seconds held by Starrett.

Since May 1935 no interest or amortization has been paid on the second mortgage. Default on the first mortgage sinking fund requirements occurred in 1936. No interest has been paid on the first mortgage bonds since November 1938. They are valued in the market at the present time at about twenty cents on the dollar.

The facts revealed seem to indicate that the burdensome ground rent of $1,000,000 per year is the primary cause of the failure of this venture. In an endeavor to lighten this burden, the promoters sought to utilize the ground more intensively by building a higher building. Here the law of diminishing returns began to come into play. As each story was added the building not only became more costly to operate and maintain, but the additional height also increased its taxable value.

Study of this enterprise indicates that the building alone actually cost approximately $13,000,000. The Chrysler Building, of similar size and area, constructed at the same time, has been appraised independently at about this figure.

The income from the building would support easily a capitalization of $13,000,000 at 6%. Actually, the building carries a burden of charges equivalent to a capitalization of about forty million dollars. This is computed by capitalizing the taxes, ground rent and interest charges at 6%. Thus, a $700,000 rent charge is the equivalent of $11,200,000; $650,000 in taxes is the equivalent of $10,400,000. The remainder is represented by the $16,876,000 of 6% bonds. The income from the tenants of Forty Wall Street has proved insufficient to carry this burden.

Obviously, the industry of bondholders who furnished the funds with which to finance this venture did no more than present the land owners and the City of New York with a modern, fully equipped office building!

This conclusion is inescapable, as the two above-mentioned interests, the land owners and the City of New York, are the recipients of the proceeds of the enterprise at the present time, and seem likely to continue to be, under an economic system that sanctions the private collection of rent and the accompanying inducements for speculation in land.