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INNER KINGSTON DEVELOPMENT PROJECT

Final Report

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Chapter I

INTRODUCTION AND OVERVIEW

A. GOALS AND STRUCTURE OF THE PROGRAM

The Inner Kingston Development Project is a United States Agency for International Development (USAID)--assisted program aimed at revitalizing downtown Kingston, Jamaica. The downtown zone deteriorated markedly through the 1970s and early 1980s as economic and social conditions in the area declined. One consequence was social unrest and acute unemployment. However, it was felt by many Kingston business people and by AID that Downtown still offered important advantages in terms of location, infrastructure, and potential business demand. Moreover, the decay of the central area of the capital was adversely influencing both Jamaican and international perceptions of the country. A joint partnership between AID and the private and public sectors was proposed to stimulate economically viable investment and job creation by restoring Downtown as an active commercial and production center.

Project Background

During the decade leading up to the Project, Jamaica underwent profound changes, both economic and social. At the beginning of the 1980s, in an effort to lower its cost structure and enhance its international competitive position, the country severely devalued the Jamaican dollar, reduced government work forces, and transferred some functions from the public to private sector.

Private investors were expected to respond to these initiatives by increasing production, especially for export, and by creating jobs to absorb unemployed workers. The strategy in fact succeeded in boosting Jamaica's exports of manufactures and non-traditional agricultural products, but a precipitous decline in bauxite production--for reasons almost entirely beyond the government's control--more than offset these advances. Jamaica was left with an austerity policy that was frustratingly slow to produce an economic turnaround.

However, by 1985, there were signs of improvement in Jamaica's economy. The rate of inflation had fallen substantially. Interest rates were moving lower. Substantial aggregate manufacturing growth was projected for the first time in several years. And there was some improvement in the world bauxite market. The Government of Jamaica (GOJ) completed a tax reform that boosted take-home pay for many workers and increased incentives to production by lowering marginal tax rates. In short, the Jamaican economy and Jamaican government were at a critical juncture that would determine if the country could reap the benefits of its economic restructuring. The prospects for economic recovery made it an opportune time to address the pockets of most severe urban decay, since restoration of downtown Kingston's economic activity would both support, and be supported by, national economic growth.

The social strife which peaked at the time of the 1980 national election had had a particularly devastating effect on Downtown and neighboring areas. The zone surrounding the city center was the focal point of much disorder. In the two square kilometers west of Downtown, over 21,000 persons were deprived of shelter through fire, eviction, or violence; 4,000 buildings and residences were destroyed. Some 50 hectares, home to 6,600 persons and encompassing 27 streets, were totally razed. Of an initial population of 55,000, 23,000 persons left the area during the period 1970-1982--most as a direct consequence of the conflict.[1] Although political violence had begun to subside by the mid-1980s, no effort was underway to rebuild the areas through which the violence had passed.

Like the core areas of many other old urban centers, Inner Kingston's economic deterioration had begun much earlier. The buildings and infrastructure of Downtown--much of it built after the earthquake of 1907--had grown old. The suburbs and new business centers (like New Kingston and Halfway Tree) offered low-priced fresh land and residential property that could be converted to commercial use. They became the focus of metropolitan growth. Beginning in the 1960s, many of the largest downtown employers, the banks, insurance companies, and headquarters for business conglomerates, moved uptown. The shift was underlined by the general change in population during the period. Between 1970 and 1982, the population in residential areas within two miles of the Parade (St. William Grant Park) declined from 156,000 to

[1]Figures quoted in this section (except where noted) are from Eyre, 1984 and 1986.

123,000. In the meantime, the population of Kingston-St. Andrew as a whole grew from 391,500 to 463,900.[2]

The population loss from Inner Kingston was selective. Only the better off could afford to move. For the rest of the population, jobs deserted the area much faster than would-be workers. As a result, economic decline left the central area of Kingston with Jamaica's most serious concentration of urban unemployment. The destruction caused by the conflict greatly accelerated the loss of jobs. Eyre (1986) found that in 65 sample Census Enumeration Districts, "nine out of ten commercial and industrial enterprises employing five or more persons which were operating in 1970 were closed in 1985, and in most cases are in ruins." In an eight-block area around Pechon Street, West Street, and the Railway Terminal, more than 650 net jobs were lost in buildings that were destroyed or abandoned. In 1982, 36 percent of the labor force in the area within two miles of the Parade was out of work--a rate 50 percent higher than for all of Kingston-St. Andrew. In the poorest neighborhoods, unemployment rates were much higher.

Private investment in Downtown had also declined in the 1970s, following the trend of urban decay. It was matched by a slowdown in public investment after the completion of the first phase of the Urban Development Corporation's (UDC) waterfront development. UDC's development on the harbour failed to exploit linkages with the existing Downtown business community or surrounding residential areas. Rather, the development, in both design and use, turned its back on the traditional Downtown, leaving a strip of isolated high-rise buildings along the waterfront. This enclave was surrounded by vacant land acquired and condemned by UDC, but for which development was stalled. With the completion of the Conference Centre in 1981, Inner Kingston would receive virtually no further public investment until the West Kingston Markets project began.

Goals and Strategy

Against this background, the Inner Kingston Development Project was designed in early 1986 (USAID/Jamaica, 1986). It was intended to address two key constraints limiting Jamaica's capacity for economic recovery and growth: (1) the country's shortage of production space needed to accommodate business expansion and job creation; and (2) the economic and physical deterioration of Inner Kingston. The two constraints were to be attacked simultaneously by rehabilitating downtown buildings for productive use, within the context of an area redevelopment strategy.

Several studies carried out for USAID in the mid-1980s indicated that the lack of suitable work space (particularly factory space) was then a fundamental obstacle to business expansion. One segment of the need was already being addressed by the Government through factory construction in the Free Zone, mostly for large-scale foreign

[2]Census data from the Statistical Institute of Jamaica.

owned firms. The Project addressed a second segment of demand by focusing on the provision of space for indigenous small and medium scale enterprises.

The project has clustered its activities in or near Inner Kingston for three reasons. First, Jamaica's greatest concentration of urban unemployment is located around the Downtown area. The residents there are highly immobile--both in their lack of access to transportation and in their social isolation. If unemployment and accompanying social tensions were to be eased, it would have to be done by creating jobs close to where the unemployed workers lived.

Second, the physical and economic deterioration of Inner Kingston, and concomitant social discord, had become a discouragement to investment throughout Jamaica. If this area, which continued to house key government and financial institutions, could recover its economic vitality, it could help rekindle economic expectations nationwide. Signs of incipient market recovery were already becoming evident through private interest in rehabilitating commercial space. Major complementary investments, such as the IDB-financed West Kingston Markets project, were then being launched. It thus seemed possible to trigger self-sustaining recovery through strategically located factory investments, supported by infrastructure improvements and commercial redevelopment.

Third, the area offered significant opportunities for cost savings in development. While they needed upgrading, basic infrastructure networks were in place and had excess capacity. In contrast, New Kingston's infrastructure capacity already was pushed near its limits. The Downtown area also contained a large number of vacant buildings that were structurally sound and well configured for rehabilitation for light manufacturing and commercial use. A basic hypothesis of the Project was that these structures could be brought into production at much lower costs than new construction elsewhere. Reuse of Downtown would be economically as well as socially advantageous to the country.

Implementation

Two institutions have had primary responsibility for implementing the project: the Kingston Restoration Company (KRC), a private public-interest corporation formed by leading insurance companies, building societies, and businesses in the area; and the Urban Development Corporation (UDC), a parastatal with considerable experience in large project development. AID responsibility for the project has been held by the Regional Housing and Urban Development Office for the Caribbean (RHUDO/CAR). The Urban Institute, a Washington-based firm, was selected by AID to serve as the project's Management Support and Monitoring Contractor. It assisted the implementing agencies and AID in monitoring project performance, provided technical assistance, and undertook market and other analyses to guide project design and to assess the project's impact.

The Kingston Restoration Company has been responsible for implementing the following activities:

- Rehabilitation of buildings for manufacturing and light industrial use, and the marketing of finished space to private firms.
- Strengthening Downtown as a commercial and retail center, through strategic planning and investments to help realize the plans.
- Implementation of a community development program that makes local residents and community groups participants in the development process.
- Operation of a small grant program to facilitate business expansion by small entrepreneurs and individual property owners.

KRC's role in the project was an experiment in private sector implementation. KRC is itself a private entity. It seeks to earn a competitive return on its restoration investments, and to package these so that they can be financed through local private capital markets. Private entities are responsible for all construction work. KRC seeks to sell its redeveloped properties to private buyers as soon as market conditions permit. In its community programs, KRC works primarily with non-governmental community groups. It was hoped that this arrangement would secure the advantages of private-sector flexibility and efficiency in implementation, while maintaining public purpose objectives. However, there were also risks. A redevelopment organization sponsored by big business could steer policies and contracts toward the big-business sector, to the detriment of small and informal businesses or the low-income residential community. It might be frozen out by public authorities who refused to cede control to a private organization, or become as bureaucratic in its operations as public sector agencies. In short, the attempt to create a private-sector redevelopment authority was a venture into unchartered waters.

Cost recovery has also been another principle of project design. KRC received grant assistance from USAID to help cover its operating costs over the first three and a half years of the program's existence. Thereafter, KRC has had to rely on its own sources of operating income. It has tapped the rental streams generated by its investment properties, appreciation and sale of capital assets, and development fees on projects it packages for others.

The Urban Development Corporation (UDC) is a public enterprise owned by the Government of Jamaica. It has been responsible for implementing the following activities:

- Development of a new Transportation Terminal which centralizes bus terminal facilities for both intra-urban use and connections to outlying areas. The terminal development was to include a major commercial/retail center.

- Provision of supporting infrastructure, most importantly replacement of the Harbour Street trunk sewer line. UDC originally was also scheduled to upgrade feeder sewers, replace some water mains, install new traffic signals at key intersections, and resurface selected area streets.

- Convening and chairing an Annual Planning Process in which UDC and KRC were to jointly establish planning goals and coordinate their activities with community groups, governmental agencies, and private firms.

The total cost of the project was estimated at US$25 million. AID financing included a loan of US$5 million and a grant of US$10 million. The plan called for KRC to contribute a total of US$1.7 million from local resources which it would generate and to reinvest an additional US$3.9 million which it expected to earn in reflows from the first round of AID-funded investments. Much of this reinvestment was expected to occur outside the original project period. UDC was to finance from its own resources US$2.2 million of the construction cost of the new Transportation Terminal, contribute an additional US$2.1 million to cover staff costs and some supporting infrastructure and park improvements, and raise private sector funds for development of the commercial center.

As originally presented in the Project Paper, the Project was to last 39 months from July 1, 1986 to September 30, 1989. This proved to be an unrealistically short time horizon. The Project completion date first was extended by two years to September 30, 1991. Later, a Phase II was added with new AID funding.

B. APPROACH TO EVALUATION

This report is not a "project evaluation" in the formal meaning of the term within USAID. Nonetheless, it does seek to assess the Project's accomplishments in the light of project objectives and conditions in Kingston and Jamaica. It is helpful, therefore, to spell out the reference points against which progress under the Project has been measured as well as the methods that were employed to generate the information used in evaluation.

Five basic questions, or reference points for assessing accomplishments, have been addressed in this report. These are:

1. How did the Project perform relative to the output targets identified in the original Project Paper?

The Project Paper and Cooperative Agreements contain a number of specific targets for the different project components: square feet of building restoration by sector, number of jobs to be created, minimum cost recovery goals, etc. The specificity of these targets is unusual in AID projects, and makes possible an unambiguous comparison of initial objectives and subsequent achievements. Of course, it was recognized (and emphasized) from the beginning that the restoration activities of the Project had to be market driven. This would necessitate a reallocation of resources to give greater priority to some outputs and less priority to others, as the nature of market demand revealed itself. Nonetheless, the initial output targets are the appropriate starting point in any project assessment. The Project Paper also spelled out some indices of general downtown activity (occupancy rates at the Convention Centre and at the principal downtown hotel) that the project should monitor as indications of whether the downtown business environment was improving.

2. Was there a significant turnaround in downtown development trends?

The Project's development objectives went well beyond the physical output targets spelled out in the Project Paper. The Project was intended to trigger a turnaround in broad development trends. To determine whether this goal was achieved requires examining the entire project area, not just the buildings or activities where there was direct KRC investment. It also requires broader measures of development success, including overall Downtown employment trends, the number of new jobs filled by residents of poverty areas, the rate of private investment, the physical coherence of the downtown development pattern, and both the business community's and citizens' perception of whether significant progress was being registered in redevelopment.

Assessment of overall trends is greatly facilitated by the monitoring surveys that were conducted under the Project. A baseline survey was carried out covering every private firm operating in the project area. The results can be compared with a second survey of firms conducted three years later. Special surveys were also made of building and property conditions; of investors' retrospective views of the investments they had made in upgrading their properties; of pedestrians at different locations in the city at selected times of day; of employment practices among the firms operating in property restored under the project; of employment rates, housing conditions, and skill levels of residents in the project area; of land values and building prices; as well as of numerous special topics, such as the changes in the usage and rental rates of second-floor premises in key development corridors, or the shifting sectoral composition of downtown business activity.

This very extensive documentation was the result of the interaction of two fundamental features of the project design. Technical assistance funds were set aside

for monitoring, in recognition of the fact that the project's intended influence extended well beyond the specific activities on which Project dollars were spent, and that only careful monitoring would make possible an assessment of whether these broader goals were being achieved. At the same time, the information generated in the monitoring surveys was used by the implementing organizations, especially the Kingston Restoration Company, to probe the market by tracing occupancy rates in different corridors, movements in land and rental prices, private investor activity, etc. Based on this information, KRC continually adjusted its development strategy and priorities.

As a consequence, Downtown's overall development direction can be delineated as quantitatively and unambiguously as the outputs from specific Project investments. The significance of the data, of course, is still a matter of interpretation. In this report, we contrast trends in Downtown economic activity during the project period with trends in the same area before the Project began and with trends in the nation as a whole. These comparisons provide a basis for placing Downtown's development in perspective.

3. How much difference has the Project made to Downtown development?

Probably the most difficult question to answer in any evaluation of a development program is "How much of the observed activity would have occurred in any event?"

There is no fully satisfactory way to isolate the incremental effect of a particular development program. In the United States, evaluations of the Urban Development Action Grant program, for example, have been unable to fully resolve the question of how much of the investment supported by UDAG would have taken place in any event--even though the law required that funds be awarded to projects that could not go forward "but for" the availability of UDAG funds.

There is a tendency for those involved in public development projects to claim too much for them, ignoring the many other factors that contribute to development success, and sometimes losing sight of the magnitude of problems that remain. In this report we have relied heavily on investors', workers', and community leaders' judgments, as revealed in survey interviews, as to whether their own investments would have been undertaken without the availability of Project support, and whether the jobs created and filled by community residents represent *net* employment gains either for the individual or the community. Quantitative analysis of project impacts is used, as well.

4. Did Project experience confirm or reject specific hypotheses about development bottlenecks in Kingston and Jamaica?

Every action program represents a practical test of the analytical hypotheses that underlie its design. In the case of the Inner Kingston Development Project the links between program action and analytical hypotheses are unusually direct. The Project's experience therefore provides an opportunity to assess the validity of these hypotheses.

Illustrative of the project's underlying hypotheses are these:

- Abandoned and derelict buildings can be restored to productive use at substantially less cost per square foot than new construction.
- Older downtown infrastructure networks, though in poor repair and inadequate size, can be upgraded at significantly less cost than installing all new systems.
- A sectoral shift toward manufacturing and exports is economically feasible in downtown Kingston, and will create jobs that can be filled by low-skill workers.
- With screening and training, the downtown labor force can function competitively in the eyes of employers.
- There is a potential supply of start-up entrepreneurs in Jamaica, who can be effectively supported by the provision of less expensive industrial and commercial space. Some of these start-up operations will generate rapid employment growth.

The Program's overall success depends on many of these hypotheses being true, or at least largely true. However, there is valuable information to be gained, both for Jamaican development strategy and for broader application, from empirical testing of the hypotheses, whether or not they prove to be accurate.

5. Are the institutions and development process set in motion by the Project likely to be self-sustaining?

The sustainability of development efforts is always a key issue in program evaluation. It is especially crucial in this Project, where a great deal of effort was directed to creating and strengthening a private sector entity which could survive beyond the project period. A second, explicit goal of the Project was to move from a position where downtown investment required substantial subsidy to a position where it could generate competitive economic returns and attract unsubsidized private capital to sustain itself.

Chapter II

THE KRC PROGRAM

The most innovative elements of the Inner Kingston Project have been entrusted to the Kingston Restoration Company (KRC) for implementation. KRC is a public-purpose private corporation. Its performance as the key implementing agency is a test of both the substance of the development program and of the idea that a private company can serve public objectives while retaining the agility and focus on results of a profit-seeking corporation.

A. THE KRC DEVELOPMENT STRATEGY

The development strategy implemented by KRC was a deliberate break from the comprehensive planning approach of past practice. The Urban Development Corporation had attempted to rejuvenate Downtown in the early 1970s by redeveloping the waterfront. It acquired all of the waterfront and neighboring properties, drew up a master plan, razed existing structures, and built an initial strip of high rise buildings. It then ran out of money. Although private investors at various times were willing to develop the vacant parcels according to their own plans, they were not willing to build the projects (mostly office buildings for government use) that UDC favored. As a result, the waterfront development effort languished. UDC's vacant land holdings were left undeveloped for 20 years. UDC adhered inflexibly to the land use designations in its original master plan, but could not develop the sites by itself and could not raise financing from others. UDC's presence hampered private investment in the rest of downtown, as investors awaited some clue as to whether and how Government would develop the key parcels it held.

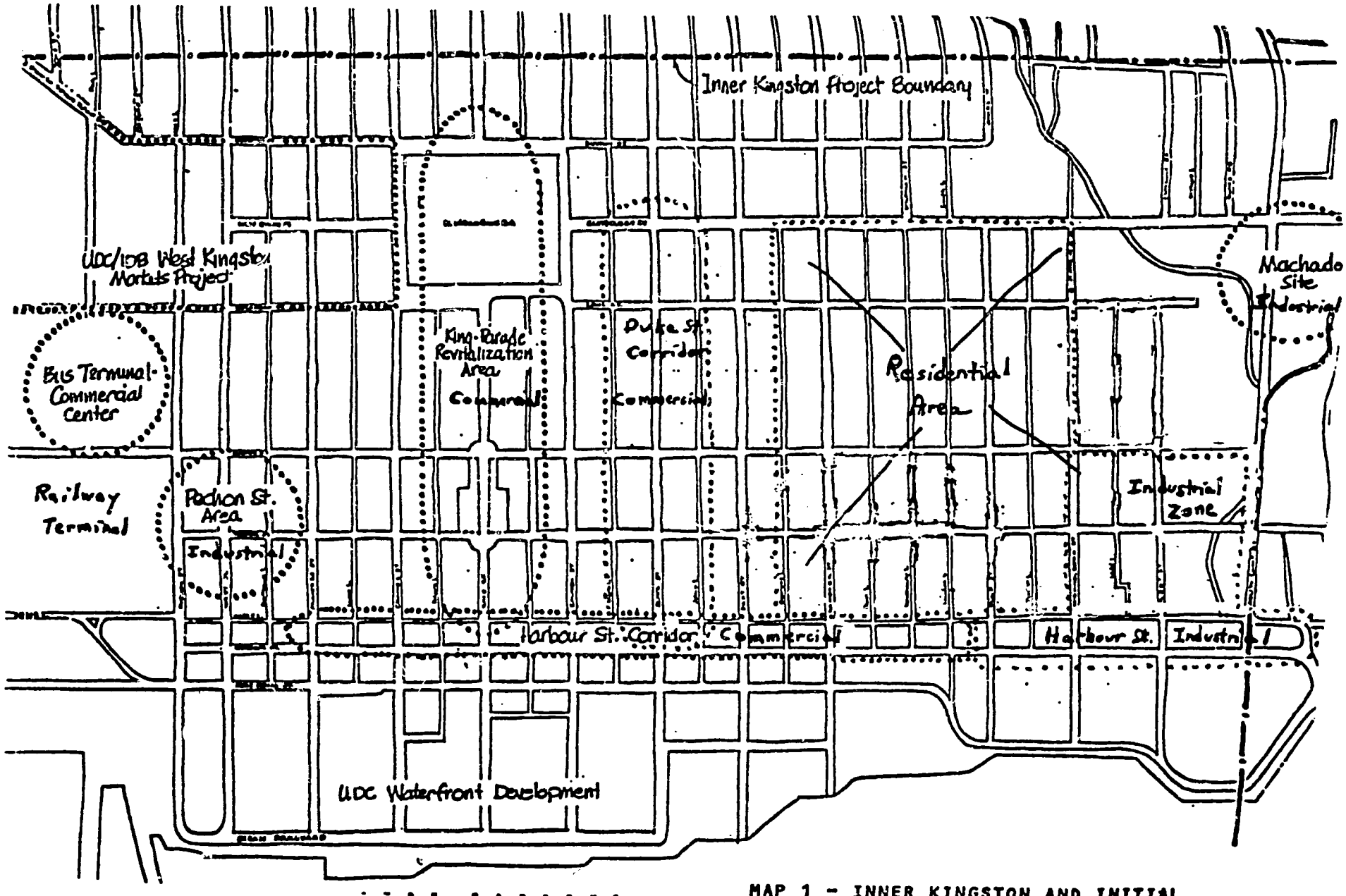
The development strategy for the Inner Kingston Development Project lay at the other end of planning theory. Several basic goals for downtown development were enunciated, and used to orient KRC programs. These are described below. However, no master plan for the area was drawn up. Instead, KRC launched a number of individual projects which were intended to give physical shape to its vision for downtown and to demonstrate to the private sector the economic feasibility of downtown investment. A more formal planning exercise was left to a second stage, once private investment showed signs of taking off.

The Spatial Strategy

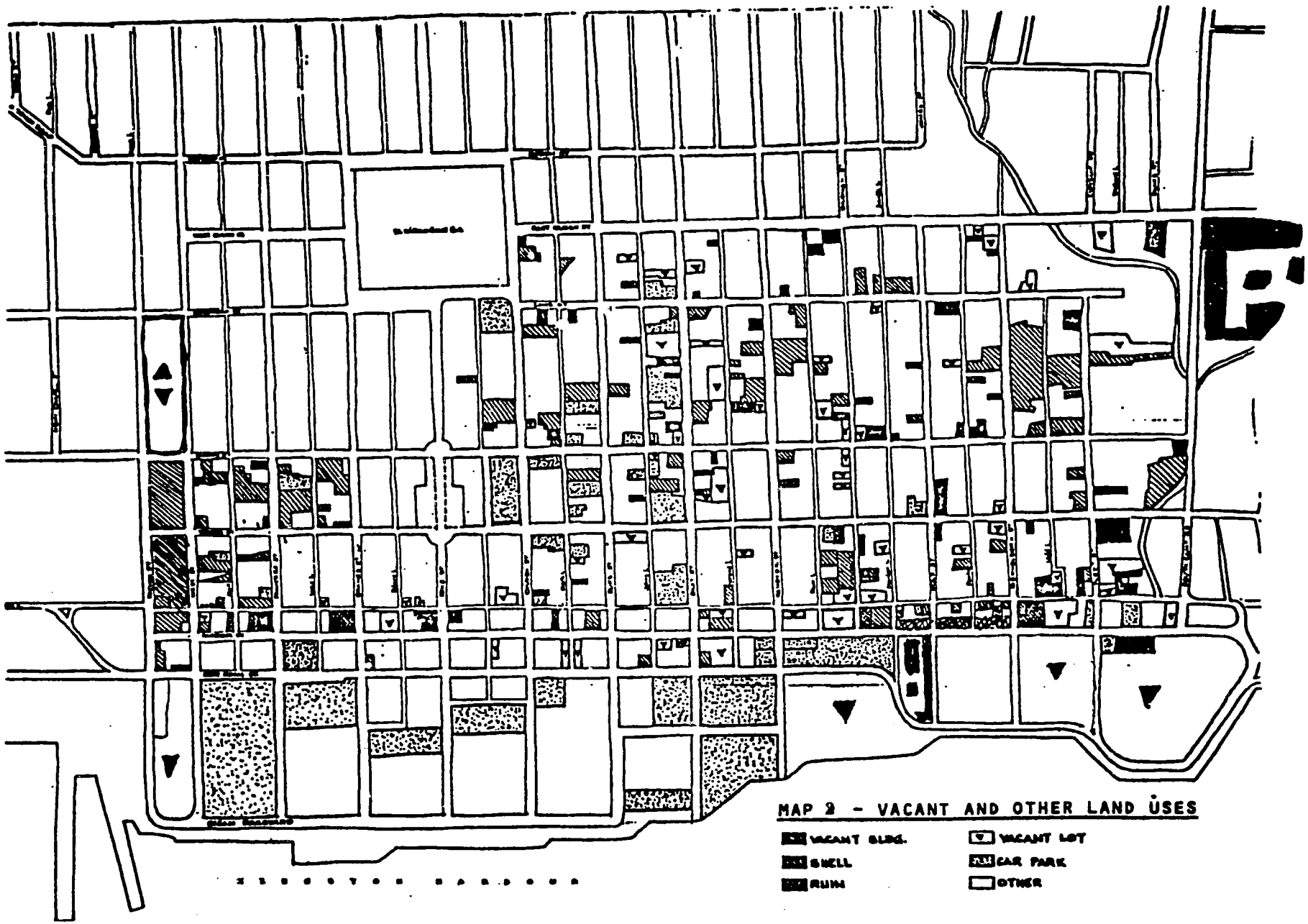
The project area encompasses approximately a 100-square block zone organized around the traditional central business district of Kingston (see Map 1). The area does not differ too greatly from the original city laid out by the city fathers in 1693 when they relocated after the earthquake that destroyed Port Royal. On the west, the project area extends two blocks beyond the original city boundary, West Street, to encompass the railway station, bus terminal and a number of abandoned factories. On the east, it extends a few blocks beyond the original boundary, East Street, to encompass a residential zone and reach the main north-south access road. Along the south, the project boundary follows the waterfront (Harbour Street was the city's original southern boundary, but it has been displaced by landfill that extends the city into the waterfront zone now controlled by UDC). To the north, the project area stops short of North Street, the original boundary of the old city, to retain a more compact focus--although for Phase II there has been discussion of extending the project area to North Street.

In 1985, more than a quarter of all the non-residential buildings in this Project area, containing almost 40 percent of the floor space, were classified as "ruins" or "abandoned"--i.e., structures that consisted of burned out shells or, where still standing, had been abandoned (Isaacs, 1985). Actually, building conditions were found to be somewhat better than they appeared from casual inspection. Many of the factory sites, in particular, had been constructed with massive concrete walls and floors, which were found to be structurally sound, despite the buildings' lack of windows or roofs, and the presence of mountains of rubble. More than half of the abandoned buildings were judged to be physically capable of restoration.

The physical plan that lay behind the Project was a simple one. The project boundaries on the east and west were selected in part because they held the largest concentrations of abandoned factory space (see Map 2). Factory rehabilitation in these zones would also connect with the few remaining active factories in downtown, and with the markets, transportation center, and principal road access routes. A program that invested heavily in factory restoration would necessarily be drawn to these zones. At the same time it would help define the project area. Investment along the boundary streets could give tangible definition to the project area within.



MAP 1 - INNER KINGSTON AND INITIAL PROJECT DEVELOPMENT AREAS



MAP 2 - VACANT AND OTHER LAND USES

Within the development district, three key corridors stood out. One was King Street. This was historically the principal retail street of Kingston and of Jamaica. Though it had drifted downscale in its clientele, it still did active business, catering to a lower middle class market and to Saturday shopping trips by rural residents. King Street also held the Supreme Court and a historic complex of public buildings which were now almost totally abandoned. A second key north-south corridor was Duke Street. It was home to the legal profession, the last of the professions to remain rooted in Downtown. For centuries, English law had required that legal offices be located within a mile of the courts. Although the law no longer existed, most of the legal offices remained. Their preservation was key to downtown, and the upgrading of Duke Street was key to their retention. The third critical corridor was Harbour Street. Originally home to an elegant mix of office and retail space, as well as Jamaica's most famous hotel, Harbour Street had fallen farther than the other two corridors. In 1985, more than 50 percent of the building space along the corridor was abandoned or in ruins. Goats grazed amid the building rubble.

While the industrial component of the Project aimed at restoring factory space along the eastern and western boundaries of the project area, the commercial component sought to stimulate retail investment on King Street, office investment on Duke Street, and mixed office/industrial/retail uses on Harbour Street. Within the Project zone also lay a residential community of about 6,000 extremely poor individuals. It exhibited all of the characteristics of extreme need: high rates of joblessness, intense political conflict and violence, acute housing insufficiency. Its presence as a "threat" to Downtown was repeatedly cited as a significant deterrent to private investment; the zone of residential decay immediately abutted the redevelopment corridors, generating violence, theft, and vandalism that deterred both business owners and customers. Any comprehensive development plan for Downtown would have to include a strategy for upgrading this area. The community, however, maintained a deep hostility toward Government and toward any development program that could result in displacement of residents. In Phase I the Project strategy was to work with community groups to strengthen community support services, create jobs, and provide job training. Housing programs were limited to a few model efforts at in-place upgrading.

Besides the pattern of land uses, the transportation system helped define the city's spatial organization. Rural and inter-city buses discharged and picked up passengers on the principal street corners, adding greatly to congestion and pollution along Harbour and King Streets. The Project contained an element, administered by UDC (see Chapter III), intended to rationalize public transportation patterns. An urban bus terminal and a rural bus terminal were to be constructed adjacent to the markets area and the railway terminal. This would relieve bus traffic in the central business district, and provide the impetus for a commercial complex near the bus terminal and market which could serve the large number of rural shoppers traveling to Kingston.

The below-ground infrastructure system, especially the sewer network, was the final important part of the area's geography and physical decay. In this case, the principal culprit was age. The trunk sewer line that ran along Harbour Street, and the collection system that fed it, were originally built in the 1890s. Since installation, they had been subjected to the Great Earthquake of 1907 and almost a century of blockages and deterioration, essentially without repairs. Most of the main sewer line lay below sea level, and much of it by now had minimal or even negative gradients (Joint Consultants, Limited, 1986). The pumping station serving the line was out of operation. As a result, the majority of sewage entering the system backed up through overflowing manholes or storm drains, accumulated on the streets, and then flowed into Kingston Bay. From a health standpoint, the sewer overflow posed severe dangers to the residents and businesses in the area, as well as to the Bay. From an economic development standpoint, business owners unanimously refused to consider new investment along Harbour Street until there was a solution to the problem of sewage backup. Installation of a new trunk sewer line along Harbour Street was UDC's second principal responsibility under the Project.

The Sectoral Development Strategy

In 1986, one of the most distinctive characteristics of Kingston as a central city was its lack of manufacturing or other industrial activity. The baseline survey of land uses found that only 33 of the 1,740 land parcels in private hands in the downtown area were devoted to manufacturing; with only a few exceptions, these consisted of very small businesses.

The lack of job opportunities in manufacturing contributed to the exceptionally high unemployment rate of area residents, estimated at 60 percent. Moreover, the Government of Jamaica, in its national economic restructuring policy, had placed top priority on development of the manufacturing sector, especially for export, and had established various incentives to increase the economic returns for exports. Consequently, one element of the development strategy was to build up Inner Kingston's manufacturing activity, with the objectives of diversifying the local economic base, creating manufacturing jobs for downtown residents, and creating opportunities for small and medium sized Jamaican entrepreneurs to participate in the export campaign. Most of the Government's standard export promotion was aimed either at foreign investors or the largest national business groups.

In the commercial and retail sectors, an assessment of Inner Kingston's comparative strengths and weaknesses helped define the initial strategy. Inner Kingston clearly had been displaced by New Kingston as a shopping district for the professional class. Downtown was frequented by less affluent shoppers, most of whom came into the city by bus or on foot. It was implausible to rejuvenate Inner Kingston as an up-scale shopping district--even though planners' sketches for Downtown tended to favor pedestrian malls filled with Caribbean yuppies and tourists. Rather, the immediate

challenge was to arrest downtown's disintegration as a retail focus for the middle and lower range of customers. Downtown stores of all kinds were virtually under siege from a proliferation of street hawkers, known in Jamaica as higglers. A report by the Inter-American Development Bank estimated that no less than 10,000 street vendors operated in Kingston, the great majority of them within the Project area. They spilled into the main squares and roadways, blocked sidewalks, and cut off access to stores. In one sense the vending activity was a tribute to the entrepreneurial and trading spirit of Jamaicans. However, the overflow of higglers made it impossible to attract retail investment in regular stores. The Project sought to consolidate vendors within designated market areas, while upgrading the public appearance of the principal shopping streets and strengthening their ability to serve the full range of potential clientele. King Street was targeted for "brand-name" retail stores; Princess and Orange Streets for combinations of production facilities and retail sales (e.g., a furniture factory and store; a bakery) and general trade aimed at lower income levels; Church Street for indoor collections of market vendors; and Harbour Street for a variety of shops, including some upper-scale outlets (a jeweler, an optician) that had been located there for decades. One retail activity that seemed under-served was restaurants for downtown's white collar workers. Since these could help generate street traffic and retail demand, they were encouraged in KRC's development plans.

In the commercial sector, the development priorities were to retain Downtown's law offices and supporting legal activities; and at the same time to retain and expand the few headquarter functions that Downtown possessed. These goals shaped several of KRC's projects. For example, KRC sought to find suitable space to redevelop as the headquarters of the Jamaica Bar Association and as offices that could consolidate diverse public legal functions. Not only would this development help anchor the legal profession to Downtown, but investment by the major law firms in the Project would give them a vested interest in broader restoration of the downtown area.

In the mid-1980s only two industrial firms maintained their headquarters offices Downtown: ICD and Grace-Kennedy. KRC tried to design projects that would meet the needs of both companies so as to discourage their movement out of Inner Kingston and, hopefully, encourage their expansion downtown.

Government, too, had played a major role in the exodus of professionals. Ministries and government-owned enterprises had joined the move to New Kingston, sometimes leaving behind large vacant buildings. A final element in the Inner Kingston development strategy was to hold onto Downtown's remaining government office functions and to attract back to Downtown some of the offices that had left. The demand generated by several hundred additional white collar employees would be important to retail development. From Government's perspective, there were large prospective costs savings, since the average per square foot rental rates in New Kingston, where most of the Government offices had relocated, were almost twice as high as would be required for full cost recovery from upgrading Downtown buildings to comparable standards.

The Financial Strategy

KRC's investment activity was designed to demonstrate to the private sector that building restoration downtown could be profitable. The ultimate test of this proposition would be KRC's ability to raise capital from the private sector on unsubsidized terms to finance development projects, or to stimulate private investors to carry out projects on their own. In the initial stages of the Project, however, this goal was clearly unachievable. The extremely low rate of private investment reflected the meager returns to downtown development.

KRC's initial investment projects accordingly were designed as demonstration projects. They were not, however, "demonstration projects" in the conventional sense of being intended to demonstrate that it already was possible to earn market returns from downtown building restoration. Rather, they were designed to clarify or reveal the market. Buildings would be restored by KRC as efficiently as possible, then leased at market rates. The market, as well as KRC, would be able to observe the actual returns to investment that were earned, and determine what further steps had to be taken to make downtown investment fully competitive with other opportunities.

The basic Project strategy was to *create* a market for downtown private investment, by making the area sufficiently attractive to support private investment. If the strategy was successful, KRC's rate of return on investment projects would rise significantly over the Project period. For Phase I projects as a whole, the Project Paper established the minimum goal of 70 percent cost recovery. That is, net rental income plus net realizations from sales should generate income which, after discounting to present value, represented at least 70 percent of the initial investment. By the end of the project period, investment returns should have improved. It was hoped that KRC by then could generate close to full cost recovery for its investments, while private unsubsidized investment would begin to accelerate.

B. KRC'S INDUSTRIAL AND COMMERCIAL PROGRAM

Central to KRC's strategy was its industrial and commercial development program.

The Project Paper and Cooperative Agreement established physical production targets, both for the initial round of investment and for total investment including the use of reflows from Phase I projects. Much of this latter reinvestment was expected to take place outside the original project period.

Table 2.1 compares the production targets with actual production levels as of September 30, 1991, the modified completion date for Phase I. The production totals refer to projects directly under KRC's control--i.e., projects that KRC constructed or that

were built on land owned by, or under long-term lease to, KRC, pursuant to development contracts entered into between KRC and private developers.

Table 2.1

KRC Industrial and Commercial Production (Square Feet of Usable Space)[a]

	Industrial	Commercial
Total Target	324,500	71,500[b]
Phase I Target (before use of reflows)	192,500	47,600[b]
Total Actually Completed or under Construction as of 9/30/91	166,000	111,000
Completed	166,000	15,500
Under Construction	0	95,500[c]

a. Excludes common space (entryways, parking, etc.)
b. KRC production only; excludes 104,000 sq. ft. target for UDC production of commercial space at Transportation Centre)
c. 21,000 sq. ft. of the "under construction" work was completed as of January, 1992.

The mix of actual industrial and commercial production in Table 1 shows some change from the mix originally contemplated. This reflects changes in the demand for both components. After the Project's initiation, the Government of Jamaica launched a crash factory building program which included 1 million square feet of factory space built on Marcus Garvey Drive not far from the Inner Kingston Project area. This factory space now has a 35 percent vacancy rate. Although KRC's own properties are fully occupied, the overhang of vacant space has both depressed market demand and reduced the urgency of building more factory space to overcome industrial bottlenecks. At the same time, the number of deteriorated buildings suitable for rehabilitation as factories within the Project area has declined steeply, reflecting both KRC's and the private market's restoration activity. It now is uncertain whether the original goal for restoration of factory space will be met. There are two principal opportunities for further expansion in the industrial sector, both of which require Government agreement. One involves the restoration as a warehousing center of the rum storage buildings now in Government

hands. The other involves new low-rise development on the Breezy Castle site. This site belongs to UDC and is targeted for high-rise office buildings in the UDC master plan.

Demand for restoration of commercial property, in contrast, has proved to be stronger than originally expected. This demand has come from both the private sector and from government agencies seeking to take advantage of the cost savings from downtown office locations.

Rates of Return and Cost Recovery from KRC Industrial and Commercial Projects

One important objective of the KRC industrial and commercial program has been to demonstrate that such investment can be profitable. Good financial returns are critical both to stimulating private investment and to generating reflows from which KRC can finance its operating expenses and future investment projects.

As noted, the Project Paper and Cooperative Agreement established targets of 70 percent cost recovery on first-round investment projects. It was hoped that financial returns would improve over the course of Phase I, so that by the end of the project period investment opportunities would be perceived by the market as almost fully competitive with those elsewhere.

Until property sales are actually consummated, rate-of-return projections on the properties that KRC owns must remain uncertain. It is customary in the Jamaica property market to capitalize commercial and industrial net rents at a multiplier of about 10, on the presumption that future rents and thus market prices will increase in line with inflation. Thus capital gains is the main element in real estate profitability. However, the customary capitalization factor applies to markets with relatively well-defined capital appreciation prospects. During the two decades leading up to the Inner Kingston Project property values in the downtown area had been in a largely uninterrupted decline. As a result, a great deal of uncertainty attaches to capital gains prospects, and thus to current market valuation of properties, which include the capitalized value of expected future price increases. Future sales values will depend to considerable degree on the overall success of downtown redevelopment.

KRC has commissioned professional appraisals of its properties from time to time. The most recent appraisals were conducted in January 1991, when each of the industrial properties was appraised by three different firms. The wide range in appraised values produced by these firms reflects the special uncertainty that exists in the Inner Kingston real estate market. Special factors contributing to this uncertainty are the small number of actual transactions, and the very limited number of potential buyers for rental industrial properties. If the average appraised values for KRC's properties are taken as fair reflections of their market value in 1991, the implied rates of cost recovery, in real terms, are: D&G Pechon Street, 88 percent; Machado, 97 percent; Knitting Mills,

103 percent. However, in view of KRC's experience in trying to sell the properties, it is likely that the appraised values are optimistically high.

In light of these conditions, it is most useful to discuss separately KRC's financial experience with rental operations and the outlook for capital gains on the properties. Table 2.2 does, however, show total rates-of-return and total cost recovery ratios for those properties which have actually been sold, either in whole or in part.

Just how successful KRC's overall investment experience will be remains to be seen. However, several things are clear from Table 2.2. First, the most recent projects have generated unambiguously competitive market returns. The total annual return for three of the last four projects exceeds the inflation rate--i.e., there has been a positive real return to the projects. The goal of 70 percent cost recovery has been vastly exceeded; actual cost recovery has been at 100 percent or greater. Unlike the first three projects, these latter projects do not involve KRC in rental operations. The Harbour Street land project consisted of the acquisition and consolidation of 34 separately owned land parcels, which subsequently were sold off in three pieces--for expansion of the ICD headquarters building, for establishment of the headquarters offices of West Indies Home Contractors, and for construction of the architectural offices of Pat Stanigar and Associates. The properties at 38a-40 Harbour Street were renovated on a turnkey basis for a group of private investors assembled by KRC. The property at 58 King Street was sold subject to the purchaser's agreement to invest a minimum of J$2 million in its restoration. The property at 78-80 Harbour Street was redeveloped in collaboration with a consortium of legal firms as the Bar Association Centre.

The three industrial projects owned and operated by KRC were recognized to be below-market investments when they were made. KRC's purpose was to have these serve as anchor developments that would stimulate other private investment. It was also hoped that rental rates and property values would rise as downtown recovered, so that over the lifetime of KRC ownership they would meet the threshold objective of 70 percent cost recovery. The one sale that has taken place in these buildings--a condominium sale of half the ground floor at D&G to the current occupant--more than meets these rate-of-return objectives. However, it still is not clear whether KRC's full property holdings can be sold on comparable terms. To date, there has been only one offer for the Machado complex. It falls short of the 70 percent cost recovery goal.

Rental Experience. The net rents generated by KRC's industrial projects have not been as high as originally projected. This is true, despite good occupancy experience. For most of the project period the buildings have operated at 100 percent occupancy.

The problems have arisen from the complexities of tenant and building management, and the nature of the lease agreements that KRC entered into. Some of KRC's initial tenants were steered to it by the Jamaica Industrial Development Corporation (JIDC, a public parastatal body) from applicants the JIDC was unable to

Table 2.2

Rate of Return Experience, KRC Projects
Inception to September 30, 1991
(Projects are listed in chronological order of start)

Measure	D&G Pechon St.	Machado	Knitting Mills	Harbour St. Land	58 King St.	38a-40 Harbour St.	78-80 Harbour St.
Average Annual Net Rental Return	4.6%	6.2%	6.4%	0	0	12.6%[a]	9.5%[b]
Annual Net Capital Appreciation	8.1%[d]	n/a	n/a	29%	more than 100%	38%	22%
Annual Total Return to KRC	12.7%	--	--	29%	more than 100%	38%	22%
Annual Inflation Rate over Same Period[e]	19%	--	--	22%	21%	23%	30%
Cost Recovery %[f]	80.5%	--	--	118%	in excess of 500%	112%	94%
1991 Net Rental Return[g]	9.0%	10.8%	11.1%	--	--	12.6%	9.5%

a. First year rental return to investor group (rental contracts have 15 percent per annum escalation).
b. Projected first-year rental return to investor group; 15 percent per annum escalation.
c. Calculated as return to KRC on KRC equity. Calculated only for properties where actual sales have been realized.
d. Based upon sale of all property at the same sq. ft. rate as the one unit that has been sold.
e. Price index as published by Statistical Institute; varies with hold period of property.
f. Present value of rental stream plus sale as percentage of initial investment.
g. As percent of initial investment.

accommodate because of lack of factory space. KRC adopted the JIDC lease structure. Among other things, this called for five-year rental agreements, with the first three years at one net rental rate and the final two years at a second, higher rate. KRC was advised by JIDC that the Jamaican courts had held that multi-year leases with annual escalating rents were legally equivalent to a series of one-year leases which the tenant could walk away from at the end of each year. The five-year lease structure adopted by KRC had the advantage of increasing tenant stability, but in the highly inflationary environment that materialized in 1990-91, it also resulted in KRC's rents falling below market levels.

Jamaican property leases consist of two parts: a "net" rent intended to be net to the owner, and an amount for maintenance and operations, meant to cover the costs of utilities, security, maintenance, etc. KRC has discovered that some of the expenses of property operation actually come out of the "net" portion. Building repairs are one example. In addition, operating costs are estimated before the beginning of each year, then adjusted after the end of the year, based on an audited statement of actual operating costs. At the outset, KRC underestimated its operating costs and did not recover the shortfall until more than a year later when the audited accounts had been completed and new bills had been prepared. As a result, management expenses have reduced the net rental return on a discounted, present-value basis.

The most difficult aspect of property management, however, has been delinquencies in rental payments. These reached a cumulative high of J$1.2 million, or about 40 percent of one year's rent roll, in the summer of 1991. The delinquent tenants fall into two categories. Small Jamaican firms, often under-capitalized, do not have the cash for lease payments when they suffer business reverses. Larger firms, almost always foreign owned, may try to take advantage of Jamaica's property laws and the perception of KRC as a quasi-public organization, by not paying rents on time.

KRC has dealt with delinquencies through a vigorous program of court action leading to eviction. Its evictions have been front-page news in the *Gleaner*. However, the court process is a very slow one, requiring as long as two years, even when pursued immediately at every step. In two cases, hostile tenants who were evicted did considerable damage to the premises before being locked out.

KRC has taken other practical steps to combat delinquency. These include in-depth business and credit checks on prospective tenants, greater escrow deposits, personal or banker guarantees, as well as personal visits to the buildings by KRC staff to collect rents. These steps have succeeded in cutting back greatly on delinquencies. By the end of 1991 rental arrears had been reduced to less than J$400,000, or by two-thirds of the peak amount. However, rental abuses by foreign firms, in particular, remain difficult to control, since most of the firms' and owners' assets are outside the jurisdiction of Jamaican courts.

The progress KRC has made in rental management can be seen in the rising rates of rental return on its properties. Despite failing to have achieved its target of an overall 7 percent net rental return, KRC in every year has earned a profit from its rental operations. By 1990-91, it had reached or exceeded the initial rental goal on all of its properties.

KRC has had generally good occupancy experience. Buildings have leased up faster than expected, and over the entire project period occupancy rates have exceeded 94 percent. One unanticipated marketing difficulty has arisen, however. The Knitting Mills property was divided into two large units, each of approximately 15,000 sq. ft. This was done in part to save on the costs of creating smaller units, and in part to try to attract medium-sized or larger firms to balance the small firms that populated other KRC properties. The second-floor unit (first floor in Jamaican usage) proved difficult to lease. Although KRC has housed firms which have grown to such size, there is limited demand in KRC locations for initial space of this magnitude. The space finally was leased at reduced rates to a U.S.-based firm which has had a poor record of rental payment. The tenant of the ground floor place--one of Jamaica's largest firms--declared bankruptcy in the summer of 1991. It has also proved difficult to replace this tenant without subdividing the space.

Capital Gains. KRC has also encountered some problems in selling the rental properties it operates. In part, this reflects the rental difficulties described above. Because net rental earnings have not been as high as originally projected, the market value of the properties also has failed to reach original projections.

In part, the sales problems reflect special characteristics of the Kingston real estate market. There are very few potential buyers of rental industrial property in Jamaica. In fact, there is only one private firm (Life of Jamaica) which currently has operations of this type. Essentially all other factory leasing is done by Government--often at rates which, though closer to market than formerly, are still significantly subsidized. The lack of potential buyers has complicated resale of KRC factory space.

KRC has responded with three strategic decisions. First, it has turned from construction, operation and subsequent sale of properties to pre-sale upon a turnkey basis. KRC has assembled private investor groups who agree to purchase properties before redevelopment is begun. The property is then transferred on a turnkey basis, usually with an agreement that KRC will also manage the property for a fee. Three of the last four projects shown in Table 2.2 were developed in this way, and generated essentially full percent cost recovery for KRC. Assembling an investor group beforehand allows KRC to greatly reduce its own risk. At the same time, individual investors can share their risks and not be required to become more than passive investors. This has increased to pool of potential participants to include building societies and insurance companies. In effect, KRC has taken advantage of the fact there is a considerably greater supply of capital financing available than there is of purchasers willing to operate rental

property downtown. KRC's ability to package projects of this type has depended upon the credibility it established in achieving positive and increasing rental returns from its initial developments. Second, KRC has moved to act as developing agent for individual investors who already own property suitable for restoration. In this arrangement, KRC selects properties that are critical to downtown's restoration, performs the restoration design, oversees construction work, and acts as property manager for the owner--all for a fee. In projects of this type, the owner either occupies the premises himself or is willing to act as owner of rental property. KRC does not have to invest its own capital.

Finally, KRC has sought to identify alternative ways to sell its existing rental properties. One alternative is to sell the properties on a condominium basis to individual tenants. There are some tax advantages to this strategy. Owner-occupants of industrial properties in Jamaica can write off a portion of their acquisition costs as an immediate tax deduction. Purchasers of long-term lease agreements can treat the costs for tax purposes as an upfront business cost. Purchase also provides tenants with long-run stability regarding their location and protection against the uncertainties of inflation in the rental market. In the first sale of this kind, the remaining 45-year lease on a ground floor unit at D&G was sold to the tenant for J$240 per sq. ft., considerably above what could have been realized by sale to an outside investor. Another alternative is to assemble a group of investors to purchase a building, similar to the groups that KRC has put together to finance new restoration projects.

Overall Experience. Despite the difficulties described above, it appears likely that KRC will meet and exceed its cost recovery targets. Certainly, the most recent projects have produced very encouraging rates of returns, both to outside investors and to KRC.

It does need to be emphasized, however, that KRC's financial returns continue to contain elements of "subsidy." In particular, the vacant buildings at 58 King Street and 78-80 Harbour Street were leased by government agencies to KRC for 49 years at nominal rates in order to encourage the restoration process. If Government had negotiated for higher lease rates, the returns to the developers (KRC and its partners) would have been reduced. On the other hand, all three buildings had been vacant and unutilized for several years. They were generating no rental income or taxes for Government, and were physically deteriorating. Thus the negotiated deals were advantageous for Government, as well. The Bar Association building as a similar history. It was leased by Government to KRC at a peppercorn rate on the understanding that the building would be restored and upgraded. The law firms investing in the project, like KRC, have accepted moderately below-market cash returns, in order to gain the benefits of an attractive headquarters site for the Bar Association, in a building which will also house key Government legal offices, and provide office space for out-of-town lawyers visiting Kingston on legal business.

C. STRATEGIC DEVELOPMENT OBJECTIVES

The industrial and commercial development program has fulfilled most of its strategic objectives. Table 2.3 shows that KRC's anchor projects have helped attract other investment to the industrial perimeter and to the key interior corridors of the redevelopment area. They thus have helped give definition to KRC's spatial plan. As detailed in a later section of this chapter, private investment on Duke, King, and Harbour Streets has been stimulated by KRC's street improvement and facade programs, as well as by its direct investments in building restoration.

Some noteworthy differences in external effects can be observed in Table 2.3. It is clear that the project has greater ability to leverage commercial investment than industrial investment. Table 2.3 shows that the largest private investments have taken place in the interior corridors. All of this investment has been for commercial or retail activity. KRC's Pechon Street projects have spawned several other industrial restoration projects in the area. However, a true surge in industrial and warehousing investment is unlikely to take place until UDC completes its planned Transportation Centre, which is now stalled because of lack of funds and political controversy. The Machado complex, which is isolated and self-contained, until recently has had little impact on neighboring investment. How, however, adjoining lots have been cleared for the purpose of building a downtown mall.

KRC's anchor investments have had a strong effect in differentiating development zones by land-use activity *All* of the private investment in the areas KRC has designated "industrial" has in fact been for industrial development. Conversely, more than 95 percent of all industrial investment in the downtown area since 1987 has occurred in KRC's "industrial zones." This spatial concentration has taken place despite the fact that KRC's plans have no legal authority and have not even been formalized in a land-use map.

Another key objective of industrial and commercial investment has been job creation. The Project Paper established employment targets for the combined KRC and UDC developments. Table 2 4 summarizes direct permanent employment in KRC's industrial and commercial projects, compared to these targets. As of September 1991, job generation had fallen somewhat short of the overall target. However, the target level included jobs to be created in UDC's 104,000 sq ft. commercial center, which has not been built, as well as jobs for KRC's full construction program, much of which is still in progress. For example, the government estimates that some 550 additional white-collar jobs will be located in Public Buildings West, once renovations there are completed. Measured by jobs per 1,000 sq. ft. of floor space, or jobs per US$1,000 invested in building renovation, employment creation is running ahead of the rate forecast in the Project Paper.

Table 2.3

KRC Anchor Investments and Other Private Investment by Development Corridor

Pechon Street Industrial Area	
KRC Investment (D&G and Knitting Mills)	$10.7 million
Other Private Investment (Pechon and West Streets)	$9.1 million
Machado Industrial Area	
KRC Investment (Machado)	$10.4 million
Other Private Investment (East Queen Street; two-block radius of Machado	$3.2 million
King Street Corridor	
KRC Investment (King Street Improvement)	$4.7 million
Other Private Investment (King Streeet only)	$8.9 million
Duke Street Corridor	
KRC Investment (Duke Street Improvement)	$0.7 million
Other Private Investment (Duke Street only)	$21.7 million
Harbour Street Corridor	
KRC Investment (Land purchase and assembly; 38a-40 Harbour Street; 78-80 Harbour Street)	$8.9 million
Other Private Investment	$16.3 million

Table 2.4

Job Creation in KRC Projects as of September 30, 1991

Permanent Job Creation Target,[a] KRC and UDC			2,500	
Actual Jobs, KRC				
D&G	334	(414)[b]	1,612	(1,692)[b]
Machado	602			
Knitting Mills	365			
38a-40 Harbour Street	271			
Other[c]	40			

Distribution of Jobs by Sector and Gender (1989 Survey)

Sector	Percent of All Jobs	Percent of Jobs Filled by Females
Garment Manufacturing	59%	95%
Electronics Assembly	22%	75%
Other Manufacturing (Furniture, Packaging, etc.)	15%	31%
Other Services	4%	100%

a. Project Paper.
b. One garment manufacturer has 98 jobs on premises plus another 80 regular jobs contracted with women in the community who work in their homes. The figures in parentheses include these "off-site" jobs.
c. Includes office jobs at WIHC; positions at KRC Health Clinic; full-time equivalent of community development jobs.

There is no single measure of how much of KRC's total employment represents "new" job creation. Table 2.5 shows that most of the jobs in KRC buildings are net additions to downtown employment, and thus represent new job creation for the area. A somewhat larger number of jobs (though still less than one-third) have been transferred from other locations in the metropolitan area. These jobs, though new to downtown, are not new to Jamaica or even to the Kingston region. However, in very case but one when an existing firm has moved into KRC space it has also expanded its work force. The great majority of jobs in KRC space, in fact, represent net labor force expansions by firms that either expanded their work force at the time they moved into new space, or have grown in their new locations. The project is thus serving one of its original goals: to make it easier for rapidly growing, small firms to expand.

Table 2.5

"Net" Job Creation in KRC Projects

Total Jobs in KRC Projects	1,692[a]
Transferred from Elsewhere in Metropolitan Area[b]	518
New Jobs	1,174
Transferred from Other Downtown Locations[b]	307
New to Downtown	1,385

[a]Includes "off-site" jobs
[b]Number of previously existing positions for firms that moved into KRC space. Individual workers may or may not have moved with the firm when it relocated.

Chapter IV places KRC's job creation effort in perspective. It shows that KRC was directly responsible for creating 33 percent of the net job gains in Downtown between 1987 and 1990. This is intervention on a large scale. Moreover, after decades of job loss, Downtown during this period not only reversed itself and registered strong gains in net employment, but gained jobs at almost twice the rate of the entire metropolitan area and twice the rate of the country as a whole. By almost any standard, this represents successful intervention in the job market.

According to follow-up surveys of KRC's tenants, approximately 30 percent of all industrial jobs in KRC factories went to members of the downtown work force. More than 50 percent went to the low-income central Kingston population, including those living within a two-mile ring of downtown. In this respect, the targeting of job creation was more successful than anticipated. Follow-up interviews with employers found that they regarded downtown workers as equally capable and reliable as the rest of their work force, despite the fact that employers had begun with the expectation that downtown workers would be of much lower quality. Two labor recruiting techniques stood out as most successful. One of the neighborhood NGOs supported by KRC operated a training program for community women. Those who were recommended from this program proved to have good records as workers. Regular attendance at training sessions and general willingness to work were as relevant to success as any specific skills that were acquired during training. Otherwise, good workers were asked by plant managers to recruit friends who had comparable skills and commitment.

A third strategic objective of the commercial-industrial program was to facilitate the growth of small- to medium-sized Jamaican firms and encourage their entry into exporting. The project has had some conspicuous successes in this regard. The firm, *La Moda*, more than doubled the size of its work force--to 307 employees--when it moved into KRC space. It has increased its export sales volume to over US$1 million per annum. Hong's Fashion World grew from a small firm occupying 3,000 sq. ft., with 30 workers, to a firm occupying 15,000 sq. ft. and employing 300 workers. It converted from domestic to 100 percent export production. More than half of all production in KRC space is now for export.

An initial survey performed by The Urban Institute found that prospective tenants of KRC buildings did not place much value on common services or the type of linkages that could be provided through a small-business "incubator" facility. Rather, tenants tended to express distrust of other tenants, fearing that they would steal their goods or raid their markets. As a result, KRC designed its buildings as separable, individual units, with only a canteen in common (as required by Jamaican law). Nonetheless, the fastest-growing firms in KRC properties have developed very helpful linkages on their own. One of the Jamaican textile assemblers, near bankruptcy, was connected by another tenant with a Korean supplier of semi-finished goods for re-export, then went on to a period of rapid growth. A Jamaican-owned textile firm and an American-owned textile firm occupying next-door premises in a KRC building joined to share each other's excess demand, so as to sustain production output and be able to handle peak demand without production delays. They also have sublet space to each other as demand conditions warranted.

Jamaican business owners and foreign owners hold different perspectives on the local obstacles that most impede expansion of production. Jamaican entrepreneurs tend to blame production problems on a labor force that is unskilled and undisciplined. American and Korean businessmen see the principal bottleneck as a lack of knowledgeable local managers, who are able to deal flexibly both with international

markets and the local labor force. Local firms were less willing to experiment along every dimension of labor relations. They were less open to hiring downtown residents, provided fewer benefits to workers (such as payments toward transportation or health costs), and were less flexible in seeking the combination of hourly wages and piece-work payments that would maximize output while satisfying workers.

D. RESTORATION GRANTS

One of the most innovative and successful elements of KRC activity has been the restoration grant program.

Restoration grants have been aimed at stimulating rapid renovation of a significant number of downtown buildings, while reaching individual small- and medium-sized owners. They are intended to complement KRC's own development projects, which it was feared might (in reality or perception) be skewed toward the larger business interests represented on KRC's Board of Directors.

The structure of the restoration grants was designed to introduce as little bureaucracy as possible into the grant-making process. Under the program, KRC paid 20 percent (for normal projects) or 25 percent (for projects of special strategic value) of the cost of upgrading for approved restoration activity. A ceiling of J$100,000 and J$200,000 (originally about (US$20,000 and US$40,000 respectively) was placed on the two types of grants to ensure that funds were shared among many projects. KRC appointed a panel of downtown leaders and architects to consider restoration proposals. Each proposal briefly described the physical work to be performed. A Quantity Surveyor hired by KRC then estimated the cost of carrying out the improvements. The grant amount was based on this cost estimate.

To provide an incentive for swift completion, no grant funds were paid until a project was certified as complete by the Quantity Surveyor. At that time, the appropriate percentage of estimated cost was paid to the owner, regardless of actual cost. This approach made it unnecessary for KRC to monitor actual expenditures. In fact, if an owner could carry out the full range of work described in the grant agreement at a cost lower than that originally estimated by the Quantity Surveyor, this was judged to be in everyone's interest. Many grant recipients were able to lower their costs by using their firms' own construction labor or entering into special, informal arrangements with contractors. Owners who encountered cost overruns had no claims of any kind on KRC for cost sharing above the original cost estimate.

As Table 2.6 demonstrates, the program's flexibility generated high payoffs. Overall production under the Restoration Grant program was double the originally targeted levels. As hoped, the program reached individual small owners, and attracted new investors into the area. A number of properties were purchased after preliminary

discussions with the KRC grant committee, indicating that upgrading proposals for them would be reviewed favorably. The program also was cost effective. Sixty percent of participants said they would not have invested in upgrading at all without the grant program. Another 20 percent said they expanded the size of their projects because of the availability of KRC grant funds. More than 90 percent of those who had finished their projects stated that they were happy with their decision to upgrade and thought it would prove to be a good business decision. In terms of overall spending, through September 1991, J$3.3 million of KRC grant funds had leveraged total investment of J$23.8 million.

Table 2.6

Restoration Grant Summary

Production		
Project Paper Target, Floor Space		100,000 sq. ft.
Actual[a] 9/30/91		
Completed	199,319	
In Progress	48,230	
		247,549 sq. ft.
Investment		
KRC Grant Commitment		$3.28 million
Total Investment		
Completed	14.54 million	
In Progress	9.28 million	
		$23.82 million
Projects		
Number of Projects[b]		46
Number of Different Owners		41

[a]Only for buildings receiving total renovation. Excludes facade improvements, roof repairs, etc.
[b]Harbour Street facade improvements counted as one project.

The incentives built into the Restoration Grant program also succeeded in accelerating project completion. The average time from signing of the grant agreement to certified project completion was 5.4 months (vs. a projected time in the grant applications of 4.3 months). Fifteen of the first 32 projects were completed on time, 14 were delayed beyond the original schedule, and two were completed a month or more ahead of schedule. Over the lifetime of the program only six projects have been canceled because the owners were unable to obtain financing or were unable to complete their work for other reasons. This record of timely completion compares very favorably with both private-sector and government construction experience.

As envisioned at the time of project preparation, the Restoration Grants have been used principally for commercial upgrading at the core of the business district. These were the locations "closest to market," in the sense that they needed the least subsidy to meet the test of market returns. Of the first 32 projects, 21 were located in the commercial corridors of King Street, Duke Street, Harbour Street, or Tower Street. However, several large investments were also made in production and warehouse facilities at the edge of the development district. The Restoration Grant program thus became an important vehicle for realizing KRC's spatial plan. It strengthened commercial redevelopment along the interior corridors, and factory and warehousing investments at the periphery.

In addition to the upgrading projects, KRC sponsored a special facade improvement component program for two blocks of Harbour Street. A special design and color coordination team recommended facade improvements to property owners (mostly removing of signage to restore original designs, paint-ups, and minor repairs). A downtown firm donated paint at cost. Because the benefits of facade investment were principally external, 50 percent of the total costs were borne by KRC. KRC contracted with a construction firm on behalf of the various property owners, so that all the work could be carried out at the same time. This experimental project, conducted under the Restoration Grant program, helped prepare the way for the corridor upgrading plans for King Street and Duke Street (see Section F).

E. KRC'S COMMUNITY DEVELOPMENT PROGRAM

Introduction and Background

From the outset a primary purpose of the Inner Kingston Project has been to benefit the residents of the Kingston core area. The principal strategy, as noted, has been to stimulate economic activity downtown that would create more jobs--jobs that the inner-city work force could fill without a long and costly commute. In the initial concept, job creation was to be linked with only modest "ameliorative" programs (attempts to directly improve health, housing, or other aspects of living conditions in the short term).

In fact, the idea for the Project came out of a period of disillusionment with ameliorative programs. Many such program had been tried, but without permanent impact. They were seen as dealing with the symptoms of poverty rather than its causes. Since they did not address the underlying problems of inadequate household incomes, it was feared they would simply be a continuing drain on project resources.

Still, it was recognized that, KRC and its programs had to reach out to local residents. At a minimum, KRC needed the community's support for area redevelopment and job training. The needs of the community (for schooling, for health care, for environmental improvement) were obviously beyond the capacity of the Project to address comprehensively. Nonetheless, it was decided that KRC, at least on an experimental basis, should make some direct efforts to ameliorate living conditions in the area. Accordingly, US$100,000 was set aside in the project design for KRC to operate a community development program. The amount later was increased to US$225,000, based upon initial successes. At the outset, this expenditure was seen as much as an investment to defuse possible community opposition to redevelopment as an investment in community change.

This Section tells the story of the community development program under the guidance of Elizabeth Phillips, the Community Development Director of KRC. An important feature of KRC's planning was the decision to focus resources on the residential community within the project boundary (population of about 6,000--see Figure 3.1), rather than on the broader band of surrounding poverty areas. This community was not only physically closer to the Project's activities, but also one of the most troubled. Its relatively modest size opened possibilities for a more comprehensive approach to community development.

The Community

A sample survey conducted in 1989 revealed the following conditions in the residential area that was the focus of KRC's community development efforts.

- Just over half of the households in the area were headed by women, but those households accounted for 56 percent of the population. Children were dominant - 47 percent of the area's population was less than 20 years old.

- Only 20 percent of the residents (less than 40 percent of the working age population) were employed. Of those who worked, 10 percent ran their own small manufacturing businesses, 14 percent worked in factories owned by others, and another 30 percent worked in what were classed as skilled jobs for other types of firms. The rest worked in occasional, unskilled activities.

- The most typical residence was a yard type dwelling with communal water facilities--77 percent of the households in the sample occupied only one room.

Most households had some access to electricity (many via illegal connections to public systems) but there were only nine toilets for every 100 people in the area.

- Only 6 percent of the households said they owned their homes - 47 percent said they lived "rent free" (implying that the actual owners had abandoned efforts to collect rents on the properties).

- While no direct counts were made, it was clear that the homeless population in the area was substantial. A number of people lived among the building ruins.

On top of the problems of severe poverty, the area has been scarred by the civil unrest arising out of sharp political divisions. Eyre (1983) explains:

> The seeds of conflict had been germinating long before 1976 in the form of rivalry between the two major political parties, the People's Nationalist Party (PNP, self-styled "socialist") and the Jamaica Labour Party (JLP - populist and nationalist but dubbed "fascist" by the PNP) . . . For several reasons, including widespread patronage and the introduction of firearms on a massive scale, very strong local expressions of territory developed in the early and mid-1970s. Members of Parliament, city councillors, local strongmen and other functionaries of both parties established clearly demarcated, firmly ruled, and tenaciously held fiefs in their respective territories. Attempts to solidify support included use of graffiti as prominent markers and threat symbols, and mass expulsion of members of the minority party. Thus these geographically defined areas became increasingly polarized, although there were no other differences at all - racially, economically, or socially.

The Inner Kingston community was one of the battle-zones. The PNP generally held the territory north of Barry Street and west of Hanover Street, focused around the "Tel Aviv" neighborhood. The JLP occupied "Southside", the remaining part of the community to the southeast. Violence between the parties, nationally and in this community, grew through the late 1970s reaching a peak just before the October 1980 elections. While the shootings have since diminished, tensions have remained. When the Inner Kingston project began, its residential community was still polarized. PNP and JLP children never went to the same schools or movie houses or played on the same teams in local sports programs. Workers were reluctant to go to jobs or health clinics of they had to pass through opposition territory.

In the 1980s, Government had no special programs to address the many problems of the community. Even the regular government services like schools and health clinics were of poor quality; a number were in the process of being shut down. There were,

however, several private entities, mostly church based, which operated programs to improve conditions in the community.

One of the strongest was that managed by Sister Mary Benedict Chong. For 17 years, Sister Benedict had run the Holy Family Primary School in the northeast corner of the community, considered to be a model school by many observers. She also established the self-financing Laws Street Training Center adjacent to the School in 1984, to offer work opportunities and training to community residents. The Center operates a successful bakery whose products are sold throughout Kingston, and also offers training in home economics and garment and craft production.

Leaders of other active Community Based Organizations (CBOs) at the time the Project began included: Reverend Trevor Edwards of Hanover Street Baptist Church (skills training in leathercraft and garment making, pre-school program, some health care); Father Holong of Brothers of the Poor (shelters for homeless men, some training and crafts production); and Reverend Garnet Roper of The First Missionary Church (home for needy senior citizens). The Wesley Methodist Church was also starting training programs and both the Salvation Army and the Grace-Kennedy Foundation had been involved in various improvement efforts in the community.

Program Strategy

KRC's initial strategy was to work through the existing community organizations. This seemed the most efficient way to spend new, limited resources, but also the only strategy that could establish KRC as a non-partisan organization committed to results, not interested in institutional aggrandizement. The strategy had two basic substantive components: (1) limited community improvement activities that would respond to gaps in programs offered by government and others; and (2) efforts to link unemployed residents to the job opportunities being created by KRC.

There were no programmatic constraints on the types of community activities that might be undertaken. Limited social and cultural services and capital improvements were anticipated. The key was to find useful approaches that would address real needs without duplicating programs being provided by others. Activities supported have included sports programs, a health clinic, cultural activities, and park improvement.

Initial activities in the employment area included: assembling a "skills bank" data base with the names and characteristics of community residents looking for jobs (to be used in referrals); meeting with new and existing downtown employers to encourage and facilitate local hiring; disseminating information on job opportunities (and KRC's mission) to community residents; supporting local job training programs; and supporting job generation initiatives within the community.

KRC's initial strategy was defined as much by its procedural principles as it was by its substantive themes. Three are most important in understanding what KRC has tried to accomplish: (1) working primarily through existing community institutions; (2) leveraging KRC resources; and (3) operating with political balance to defuse political antagonism.

Working Through Existing Community Institutions. As described above, there were several institutions (mostly church-based) already operating innovative programs in the community when the project began. KRC assumed its own efforts would be more productive if it worked mainly through these institutions rather than setting up its own set of programs.

Leveraging Resources. Whenever it was reasonable to do so KRC disbursed its funds in the form of community development grants which the recipient CBO had to match from other sources. KRC did not seek to become a service supplier itself, but encouraged other organizations to initiate programs and invest in the community.

Political Balance. Given the nature of the community as described earlier, KRC might well not have survived had its actions favored one political party over another. More important than that, however, KRC staff clearly felt that diminishing the political volatility of the area was an essential (perhaps primary) objective of their program. Unless this could be achieved, the prospects for all other dimensions of community improvement would remain dim.

Program Activity

Community improvement activity was initiated rapidly after the work program was approved (June 1987) and has been sustained at a fairly high level since then. The major elements during Phase I were as follows:

Facilities Improvements. Grants have been made to a number of local institutions to build or improve facilities. These included: $80,000 to the Laws Street Training Centre (contribution to the completion of a $1.5 million community center with job-training facilities); $90,000 to the Hanover Street Baptist Church (contribution to a $216,000 multi-purpose center including space for a basic school, job training, and other uses); $53,000 to the First Missionary Church (contribution to completing $120,00 in renovations for a senior citizens center and to provide basic school equipment. An interesting feature of this project was that KRC was also able to secure the assistance of U.S. sailors to work on the construction while in port in Kingston); $30,000 to the Wesley Methodist Church (contribution to community centre renovation); $67,444 and $50,000 to the Brothers of the Poor (contributions to renovation of a structure--Jacobs Ladder-to serve as a homeless shelter and to restore a warehouse on Tower Street as a night shelter for street people); $150,000 to the Salvation Army (contribution to renovate a building to create a men's hostel with training facilities); $49,125 to Missionaries of Charity

(contribution to bathroom and kitchen facilities for a home for the indigent). In almost all cases, KRC's grants covered only a part of the full costs, so the awards did stimulate additional investment (although it is impossible to identify how much of the additional funding was a direct result of KRC's involvement).

Park Development. There is very little open, green space in the project area's residential community. To begin to respond to this deficiency, KRC provided $202,900 ($8,900 of its own funds and $194,000 in AID grant resources) to acquire a small vacant site at 60 East Street and develop it as a vest-pocket park. The park contains playground equipment and has been in extensive use since it was developed. KRC still owns the land, but the park is maintained by the First Missionary Church.

Youth and Community Recreation. The efforts to enhance sports and recreation opportunities for the area's youth have had a number of dimensions. First, there has been capital support for the building of net-ball courts and other recreational facilities ($30,000 to the Holy Family School, and $35,000 to the Hanover Street Baptist Church). More prominent, however, has been KRC's sponsorship of ongoing sports programs, including a highly successful football program, the "Harbour Street Mile and 10K" race, and more recently, a girl's netball program. In these efforts, program staff handled the arrangements (including securing the use of the field), secured the services of coaches (a local resident--Eitzman---proved to be a highly popular and effective coach for the football program), bought uniforms, and did much to promote local participation. A total of $59,800 of AID funds have been spent on these activities. Plans have also been made (and a fund raising drive is now underway) to develop the football field the program has been using (Breezy Castle) into a permanent sports complex for youngsters in the community. The KRC sports programs are among the first in which PNP and JLP youth have participated together in sports since the hostilities of the late 1970s.

Since 1989, the staff has also operated a special summer program for about 100 community youth (ages eight to fourteen) each year. The program features arts and crafts, sports, and weekly outings to other parts of the island. The latter activity has been regarded as particularly important as many of the young participants seldom have the opportunity to venture out of the community.

The Emergency Relief Program. By the time of the devastation of hurricane Gilbert in September 1988, KRC's Community Development Program had become established and respected in the Project area. It was seen by the GOJ and USAID as an ideal vehicle for managing the provision of relief to the community in Inner Kingston. A total of $2.0 million in AID funds (separate from regular Project grants) was channeled through KRC for this purpose. The largest component ($1.0 million) went for the provision of zinc sheets and nails for roof repairs. Ms. Phillips arranged for the distribution (through churches and other community organizations) and worked with KRC construction management staff to provide training and supervision of the installations. Additional funds went for food relief (KRC purchased food vouchers

redeemable at local markets and, after analysis, distributed them to the churches in reasonable proportions for distribution, in turn, to those who needed them), mattresses, and the health program described below.

Health Clinic. The lack of adequate medical facilities and health care in the community had been raised as concern for KRC early in the Project. The Emergency Relief Program created the opportunity for it to address the issue. Soon after the hurricane, ERP funds were used to establish a health clinic at the Hanover Street Baptist Church. The clinic was initially open for three hours, four days per week. Doctors served there at much less than their normal rates. After the emergency, the clinic was maintained with project support. More recently, KRC successfully sought outside funds to help continue its operation (from Prime Care--a local health organization--and from Canadian and American women organizations). Two community health workers are active in the community making presentations on health care and disease prevention. Those who take advantage of the clinic now pay a small fee, with rates varying according to ability to pay. Over 53,000 visits to the clinic were registered during its first two years of operation; about 30 percent of operating costs are recovered through fee charges.

Employment Linkage

Community-Employer Interface. The Community Development Program started work in this element as soon as KRC's job creation efforts began. The staff met early with the community based organizations to explain KRC's mission and attain their support. Through these contacts, the staff developed a "skills bank": a data base listing the names of community residents looking for work and identifying their skills and training experience. On the other side, the staff met with each of the new firms that occupied space renovated by KRC to encourage their hiring of local residents (using data from the skills bank as appropriate).

Job Training. The Program intended to provide general support to institutions already providing training (e.g., the grant to the Laws Street Training Centre noted above) rather than to provide training itself or to provide funding directly for new training programs. One grant--$58,400 to the Wesley Methodist Church--did provide funds to introduce a new training program into the church's community activities.

Support for Micro-Enterprise. As with job training, KRC never intended to establish its own program to directly support small business development in the community. It had hoped instead to provide help indirectly through some existing institution that was already equipped to handle this sort of activity. It made a number of efforts along these lines in its first three years but the right type of institution never emerged. Due to the lack of an alternative, the Program did provide financial support and technical assistance to some fledgling enterprises along the way, but this never became a major thrust of its work. More recently, an apparently effective approach by the Mennonite Enterprise Development Agency is being supported by the GOJ as a

national program and KRC now expects to facilitate the integration of this program in the Inner Kingston community.

Other Linkages. Community Development Program staff were active on two other fronts. First, in all of KRC's activities aside from basic factory renovations, they found ways to get community residents involved. In the street improvement programs, paint-up efforts, and special downtown events (like the visit of the QE2 to Kingston and a number of downtown celebrations--see discussion in Section F below) there were many short-term jobs to be had and community residents were steered toward them to the extent possible. Second, KRC staff made many presentations to city-wide organizations of business leaders (like the Rotary club) to overcome fears and encourage local businesses to reach out to employ community residents.

Assessment and New Themes

The listing of activities above does not do justice to the importance of the Community Development Program to the Project as a whole. The person-to-person style and vigor with which projects were implemented--the virtually constant interaction between KRC and community leaders and residents--became critical to KRC's work. KRC came to be known as a serious presence in the community--a friend, an agency that could be trusted. It is impossible to quantify the importance of this backdrop of confidence, but there is a broad consensus that it made a difference. For example, KRC initiatives did not face the heavy (sometimes violent) community resistance that other public and private initiatives in the area had encountered in the past. By its carefully balanced placement of investments in both PNP and JLP areas, the way it ran its recreation programs, and other actions, KRC became know as an organization seriously concerned with defusing political animosities. This has won KRC considerable praise throughout greater Kingston.

After two years of operation, however, the staff still felt considerable frustration. While KRC activities had been helpful, the problems and needs of the community remained enormous. Frustration about employment linkage was the greatest. Employers were able to find good workers in the community, but a number of neighborhood workers quit their jobs, unable to adjust to the demands of regular work schedules. Employers found adult women as employees rather than youth. More fundamental support for the area's youth was needed: the development of more basic attitudes and skills that would move them away from the growing crack epidemic and channels of criminal activity toward preparation that would make them ready for the job market and work commitments.

This perspective led to a major new initiative: the ***Youth and Educational Support System (YESS).*** This effort started with a modest drive to build scholarship funds for community youth. Today it is a substantial program involving 89 high school students. The students receive financial assistance for school fees, uniforms, and books. The

students are expected to maintain good conduct and steady scholastic progress (both are monitored), but an even more important goal of the program is leadership development. The students participate in various community development activities and are trained in leadership and community service. The program is building an endowment from donations. The endowment now stands at J$200,000 and the drive for funds will continue until the interest earnings can support around 125 students annually in the YESS program on a self sustaining basis.

Another initiative consistent with this theme (now at an earlier stage) is the development of a ***Teen Center*** at a building on High Holborn Street already made available to KRC for this purpose. The project has received initial funding from the U.S. Embassy (separate from the AID grant to KRC). The Center will be a drug free zone and the prevention of drug use will be an emphasis. Programs will feature peer group counseling and conflict resolution sessions along with opportunities for recreation and skills development (e.g., computer training).

Phase II Strategy

Initial plans for Community Development in Phase II build on this new pattern of emphasis. Major components are to include: (1) support for skills and leadership development through the YESS program; (2) continuation of the health services program with further stress on prevention and primary care; (3) continuation and expansion of youth and community recreation activities; along with (4) continued support for community based organizations.

All of these activities have proven track records and should represent a solid base for continuity. Program staff, however, continue to be concerned about finding more effective ways to link community residents to downtown economic development. Further research could be usefully applied. One question relates to understanding more completely the costs and benefits of small-scale entrepreneurship (to guide KRC as to how much emphasis it should give to facilitating the national program in this field). Participant interviews and other data collection could show the extent to which micro-enterprise leads to stable and satisfying income growth, provides other benefits to participants, and provides benefits to the community at large (or does it simply produce temporary and marginal income that leads nowhere?). Another question is how, and to what extent, does a strong educational program like YESS benefit the community. Do the youth who succeed simply leave the community or are more permanent benefits for the community itself attained? Again, interviews with those who have completed or are completing YESS participation would help pin down the program's accomplishments and help direct second phase priorities.

F. PUBLIC IMPROVEMENTS

While the main thrust of KRC's program--its emphasis on stimulating private investment and job creation--was broadly accepted, there were those who argued from the outset that KRC should also do more to comprehensively upgrade the physical appearance of Inner Kingston. Many of KRC's friends and advisors wanted to give more emphasis to architectural preservation and public improvements that would create a stronger visual focus for downtown activity. They recalled, with sentiment, childhood memories of the time when downtown was the true center of the metropolis. A particularly strong image was Christmas on King Street: busy shops and street-stalls, a festival atmosphere on the uniquely tiled sidewalks under the colonnades. This section reviews how KRC responded to these concerns.

Strategy

In mid-1987, just one year after the Project began, KRC started thinking about broader urban design improvements in earnest. Progress had been made on KRC's basic agenda, but projects to date had done little to change downtown's visual image. It was thought that a major change in the area's physical appearance would have considerable payoff in inspiring confidence that a true turnaround was underway. A strategy was developed to:

- Focus physical improvements on the key streets and public spaces that had the strongest impact on downtown's image (in particular, the King and Harbour Street corridors).

- Concentrate on street improvements: e.g., improved lighting (decorative standards, lights under the colonnades, spot lights on attractive facades); street landscaping in planters; special landscaping for notable public open spaces (e.g., the plaza in front of the Supreme Court); sidewalk repaving (extending the existing tile pattern where possible); removal or redesign of the hodge-podge of power and phone lines which many felt was the worst visual distraction.

- Encourage the use of Restoration Grants for facade improvements in conjunction with the program and, if necessary, undertake more complete renovations of important structures.

The major barrier at the time was that KRC had no money to carry out a program of this type. It addressed that problem in the 1987 annual budget planning process. UDC's component of the Project contained funds for selected street repaving and improvements to water and sewer lines on side streets throughout the project area. That work did not have high priority in UDC's agenda. Moreover, UDC had fallen well behind in implementing its other components. Accordingly, KRC asked USAID and UDC to

authorize transfer of some of those funds to support its ideas for improving King and Harbour Streets. UDC planners were themselves strong advocates of bolder urban design improvements for downtown, and agreed.[3] A total of US$660,000 was transferred from UDC to KRC to cover the costs of corridor improvement programs for King Street and Harbour Street.

Optimism about the approach was stimulated at the time by the successful completion of UDC's renovation of St. William Grant Park (Parade area at the north end of King Street). Immediately after construction, the design of the Park was criticized by some for the visual dominance of bleak masonry. By 1988, however, vines, trees, and other plant materials had grown, and softened the initial harshness. The test of public acceptance was passed--the people, in large numbers, began to congregate there and, with attractive and ample lighting, many stayed into the evening. This was just the result KRC planners hoped for the rest of King Street.

To begin the process, KRC gave small grants to several architectural firms to prepare design concepts. When they were received, KRC put them on display for public view and asked for comments from a variety of civic groups and government agencies. KRC then asked four of the firms that had submitted concepts (APEC, Marvin Goodman and Associates, Neil Richards, and Stanley Kennedy) to form what became the "Downtown Kingston Design Consortium" and prepare a unified plan. The plan was to be based on what KRC saw as the best ideas from the initial concepts.

The King Street Program

When the program was proposed, it was assumed that improvements on King Street should proceed first. At that time, it appeared that UDC work on the Harbour Street sewer line would be carried out over the next 18 months; the large-scale construction activity would damage any design improvements to Harbour Street. Emphasis was placed on rapid design and execution because of the impact that the Project would have on accelerating momentum for overall restoration. Although the schedule was recognized as tight, a target was to complete the King Street work in time for Christmas 1988--in hindsight, a naive ambition given the work that had to be done.

Cost Escalation and Program Design. It took until February 1988 for the contract with the Consortium to be executed. The design phase then proceeded with reasonable speed with plans and initial working drawings complete by May. The design concept did not change markedly in this process but there were major reductions in scope as the full cost implications were understood. Initial ideas about cleaning up power and phone lines had to be reconsidered. For King Street alone the cost of moving

[3]The idea of such improvements to major corridors was, in fact, not new. An "Island Beautification Committee" had suggested a similar scheme for a segment of Harbour Street in 1967, and UDC had supported an urban design study for King Street (Shankland and Cox Overseas, 1972).

these to the side streets worked out to be almost twice the full budget for the program. Putting the lines underground would have cost even more. It was decided to leave the lines on King Street but to improve and replace poles as needed and remove some of the redundant wiring.

The cost of producing hand-made sidewalk tiles to match those in place also turned out to be prohibitive. An *in situ* colored cement for sidewalk repairs was chosen instead. Palm trees (similar to those on King Street earlier in the century) were chosen as the dominant plant materials. The plan contained a major redesign of the plaza between the Supreme Court and Public Buildings West (now called "Justice Square"), and retained the initial proposals for street and colonnade lighting as well as the installation of concrete planters at appropriate intervals and demarking, in color, of the parking spaces between them. Revised cost estimates in mid-1988, based on working drawings, indicated that even with some design revisions to reduce outlays, KRC would have to spend virtually the entire budget set aside for King and Harbour Streets just to improve King Street.

Securing Government Approvals. The situation was unique: a private agency (KRC) attempting to implement improvements in the public streets--activities that, if they were done at all, were clearly the legal responsibility of government agencies. KRC had to secure government approvals for every action before it could proceed and in many cases the approval of several agencies per action. KRC staff and the Consortium recognized this need and started early, well before the final designs were complete. UDC staff was a strong supporter of the program and provided considerable assistance to KRC in its interfaces with the agencies involved. Numerous meetings were held with the Chamber of Commerce, community groups, and all agencies that had any responsibility for elements of the program, to explain the concept and obtain feedback. Since the program was unprecedented, no one could decide whether the Town and Country Planning Authority had jurisdiction, but KRC and the Consortium made a series of presentations to the Authority anyway and secured their endorsement. Probably the most important approval was that of the Ministry of Construction (Works) which has final authority for any change made to public roads and had to review and sign-off at the level of working drawings. All in all, this process appears to have been well managed, under the circumstances, and all needed approvals were secured with reasonable deliberation. But it did take time.

Negotiations with Property Owners and Procurement of Contractors. King Street property owners were generally favorable to the program, but were rightly concerned about the disruptive effect the development process might have on their businesses. For this reason, KRC took considerable time to negotiate with them on the detailed staging of the improvements. More serious delays occurred, however, in the process of procuring the contractors to perform the work. The process was bound by AID procurement regulations (which require competitive bidding, detailed documentation, and formal reviews and approvals by AID staff at several points along the way). KRC also had to be concerned about political balance in contractor selection. These efforts were also

extremely time consuming. It was not possible to begin actual construction until January 1990, more than one and one half years after the detailed designs were complete.

The Development Process. The process was planned in a staged manner, construction proceeding one block at a time. However, King Street is an important traffic artery and notable disruptions occurred when the parking lanes on any block were being torn up. Even with all the prior consultation, a number of King Street merchants complained about the effects (more significant and of a longer duration than they had expected) as the work proceeded. Nonetheless, the construction period itself was not unreasonably long for a process of this type: the basic improvements and plantings were in place by early December, 1990--two years after the initial target.

Events and Celebrations. Shortly after the King Street concept was devised, KRC had thought of publicizing it in a variety of ways, and using that publicity to build awareness of downtown revitalization in general. The idea of programming special Christmas events became the central theme in early 1989. Even after it became apparent that the street improvements would not be started by Christmas, KRC decided to proceed with the program in that year anyway. The result was a month-long "Restoration Celebration" with a series of activities including a "Life on the Harbour" program (boat races and related activities), steel bands, puppet shows, caroling on King Street and a "Jazz on the Harbour" evening at the Oceana Hotel featuring local artists as well as groups from the United States. Events appeared to be popular and were well attended.

A year later, when it was possible to commemorate the completion of the King Street improvements, KRC staged a somewhat less ambitious, but still very well publicized program. The theme was "bringing Santa back downtown". Events included the commemorative lighting of a Christmas tree in Justice Square, awards programs, musical events, and a major parade with bands and floats. The lights on King Street were illuminated for the first time, causing the *Gleaner* to run a banner headline across the full front page heralding the restoration of downtown.

Restoration Grants and Indirect Effects. The initial plans called for the Consortium to propose improvements to the facades of each building along the street (initial studies indicated that some would need repainting only, but others would need more complete renovation), which owners would then carry out at their own expense. These ideas still have not been fully implemented. Comparatively little facade improvement was undertaken in conjunction with the King Street's upgrading. KRC is now in the process, however, of renegotiating facade improvements with owners along the King Street corridor. Follow-up interviews with merchants found that they were extremely pleased with the results of the upgrading program, though of the opinion that these could have been achieved faster and at less cost. The most time-consuming and disruptive of the construction activities--the replacement of the existing street surface with pastel-colored fringe for parking--was also the one least valued by merchants.

Duke Street

With all of the problems it produced, the King Street improvements did show that it was possible to notably alter the visual image of an area without major reconstruction. Demand rose for similar improvements elsewhere, most notably on Duke Street (running parallel to King Street, two blocks to the east, narrower, and lined with professional offices instead of shops). KRC staff wanted to respond to this interest but, given what they had just been through, they felt a substantial revision in methods was called for. They decided on a much simpler approach:

- Replace sidewalk paving as needed (much of it was broken or badly deteriorated). Readily available standard blocks were used for this purpose rather than the more expensive colored cement process used on King Street.

- Plant trees (black olives) at frequent intervals at the edge of the sidewalk (rather than in the street as had been done on King Street), and plant them at sidewalk level (rather than in raised planter boxes like those on King Street, which by then were sometimes being used as if they were refuse containers).

- Clean up power and phone lines and poles (as had been done on King Street).

The Duke Street improvements were managed directly by KRC rather than the architectural consortium. Contractors were required to clean up their work sites at the end of every day. The street surface itself was not touched. The process thus almost wholly avoided the disruption that had plagued the King Street program. Also, it was completed much more rapidly (in four months from September 1990 through January 1991). Finally, it was much less expensive. The full cost of the Duke Street improvements was J$700,000 (about 15 percent of the final J$4.7 million cost of the King Street program for roughly the same length of street).

Another contrast is that, whereas the King Street work was funded solely out of AID grants, the Duke Street project was funded on a matching basis. Property owners on the street agreed to pay half of the cost (as of this writing, 85 percent of their $350,000 share has been collected).

In both the cases of the King Street and Duke Street upgradings, the corridor improvement projects have helped stimulate private investment in building restoration along the corridor. The magnitude of complementary private investment was shown in Table 2.3. Neither project to date, however, has succeeded in triggering the universal facade improvements along the corridors that were originally envisioned.

Conclusions and Future Strategy

It is clear that KRC's work in corridor upgrading has made a difference in perceptions of downtown. Interviews were conducted in late 1990 with 23 government and private sector leaders in greater Kingston about changes downtown (Dubinsky, 1990). In most cases, the King and Duke Street improvements were the first things that came to the mind of respondents. Comments were uniformly positive and in several cases constituted rave reviews. The projects were designed to attract visual attention, and have done so.

KRC's performance is also instructive. While the King Street program was far from smooth, the task of coalition building was formidable. The project took much longer to complete than KRC had hoped, but the time required was not unusually long for projects of this type. More important perhaps is the evidence of KRC's ability to make substantial mid-course corrections--to learn from past problems and devise different solutions for the future, as evidenced in the Duke Street approach. Given traditional governmental processes in Jamaica, it is difficult to imagine that the same drive and flexibility would have emerged from a wholly public sector development process.

As to the future, KRC should certainly consider applying the Duke Street approach to other key arteries downtown. It appears to offer a notable upgrading for a quite low cost. It can be quickly implemented. It has been demonstrated that a cost sharing approach (which gives the property owners more stake in the process) can be made to work. The next logical corridor for upgrading is Harbour Street, once installation of the new sewer line has been completed.

G. IS THE RESTORATION PROCESS SELF-SUSTAINING?

The underlying goal of the Inner Kingston Development Project has been to set in motion a redevelopment process that would be self-sustaining. In this section, we assess how much progress was made toward this objective during Phase I.

For KRC's share of the project, "self-sustaining development" can be broken into three separate elements:

- Institutional sustainability of KRC as an organization. KRC, at least as a functioning organization, is a creation of the USAID program. A fundamental goal of the project has been to establish KRC as an organization which could continue to function effectively on its own. This requires that KRC be self-sustaining budgetarily, and that it have on its staff or on call through professional consultants the skills needed to perform its leadership role.

- A sustainable mission for KRC that fits the needs of downtown redevelopment. As redevelopment takes off, and as USAID funding diminishes as a share of total program resources, KRC's role is being redefined from primarily management of a USAID project to overall leadership of the redevelopment process, combining private-sector, Government of Jamaica, and USAID resources. The conception of downtown redevelopment likewise has broadened to include goals not included in the Phase I project. This requires a parallel redefinition of KRC's mission, if KRC is to continue its leadership.

- Self-sustaining investment and planning for downtown development. The final payoff to the Project lies in triggering renovation, upgrading, and expansion activity that can continue on its own, while fitting into a coherent plan for downtown's future.

At various points in the Project's history there has been some ambivalence as to just what "self-sustaining" should mean in a financial sense. The one constant goal has been to leave KRC as an organization capable of sustaining itself without USAID funding, and to leave downtown redevelopment so that it can continue (and, hopefully, accelerate) without USAID support. From time to time, USAID has also expressed the much stronger view that both KRC as an organization and downtown development as an activity should be sustainable purely on market terms. That is, downtown investment should be sustainable without public subsidy or public intervention of any kind, while KRC should be able to sustain itself through the commercial marketing of its development services and physical assets, also without public subsidy or public support.

This is an unrealistic, and ultimately undesirable, standard of self-sufficiency. As was emphasized in the mid-term evaluation of the Project (Abt Associates, 1989) every successful downtown redevelopment effort in the United States and Europe has involved some type of partnership between the public and private sectors. To expect that downtown Kingston could be redeveloped without government's playing a role and bearing some of the costs, or that KRC could carry out its community development and planning functions on a strictly market basis, by charging the full cost of all of its services, is to mistake and exaggerate the role of the private sector in urban redevelopment. Government's role cannot be totally usurped by business. At the same time, it is fully reasonable to try to minimize the costs to government of downtown redevelopment, and to limit public subsidies to activities that have a direct and substantial public interest.

KRC's Sustainability

One of the most remarkable achievements of the Project has been the establishment of KRC as the acknowledged leader of downtown redevelopment as well as a leader in many associated policy issues, such as historic preservation, modernization of planning practices, and provision of low-income housing. KRC's growth in responsibility has been accompanied by an institutional transformation. At the beginning of 1986, KRC had no offices, no staff, and no budget. Five years later, it employed 15 professionals and had

a J$30 million budget. On the third anniversary of the Inner Kingston Development Project, the business community sponsored a 32-page supplement in the *Gleaner* as a tribute to the leadership role of the organization.

The professional competence of KRC, as well as its evolution from an organization heavily dependent upon international technical assistance to one that is professionally self-sufficient, can best be judged by functional responsibilities within the organization.

Executive Director. From the inception of the Inner Kingston Development Project, KRC has been closely identified with its Executive Director, Morin Seymour. Seymour was selected jointly by USAID and the KRC Board of Directors.

The Executive Director undoubtedly has been the principal factor in establishing KRC's leadership and setting its style of operation. Critical to KRC's initial acceptance was its credibility as an organization that operated non-politically and fulfilled its commitments, whether to business partners or the community. KRC has managed to establish an enviable reputation in both respects. As a result of its non-partisan identity, KRC has been able to expand its redevelopment role through both JLP and PNP national administrations, and to build projects in neighborhoods dominated by each political party. In interviews, both business leaders and community leaders volunteered that the characteristic that most set KRC apart was the fact that it delivered scrupulously and apolitically on its commitments.

Four other characteristics of KRC's style deserve emphasis. First, although KRC has been an active partner with government on many projects, it has consistently sought to distance itself from Government. It has not sought or received budget support from Government agencies. It has never acted as an agent of Government in policy debate. Second, KRC has given priority to meeting the market test for its projects. It has a better record for completing projects within budget and close to schedule than most private sector companies. It has had positive operating earnings from its projects in every year of operation. When necessary, it has been a tough landlord, using the courts to evict non-paying tenants. These traits have been essential to attracting private capital for further investment. Third, the Executive Director is a leader in many other aspects of community life, adding to KRC's profile. He is President of the Georgian Society, a leader of Kingston's religious community, and a leader of the Masons. Finally, under Seymour's leadership, KRC has established the reputation that it is not available for "side deals," "preferential treatment," or "payoffs." In a society where private side arrangements often are the norm, the fact and reputation of not being for sale are invaluable. Seymour has skillfully used USAID's sponsorship of the project to help ward off claims for special favoritism.

The very identification of KRC with Morin Seymour raises the question of whether the organization will be able to survive his eventual resignation. At this point, there is no doubt that a resignation would slow KRC's progress. Many of the partnerships forged

have been based on his contacts and trust in his performance. For this reason, it is imperative that a long lead time precede a resignation, so that the Board of Directors and USAID can groom a successor.

Professional Positions

For its regular operations, KRC has now achieved highly competent and stable staffing.

The mid-term evaluation of the Project stressed that KRC at that time remained dependent upon The Urban Institute for most of its budgeting, financial analysis, and project appraisal. These functions have now been transferred to KRC staff. A Deputy Director, Maisie Plummer, formerly permanent deputy undersecretary of the Ministry of Finance, was hired to provide financial leadership and internal management. The most recent KRC annual budget was prepared without external assistance. All financial monitoring is now performed in-house.

The position of Projects Manager, providing oversight of construction work, architectural design, and contract management, has been transferred from an expatriate, who carried out this role for the first two and one-half years, to a Jamaican engineer. The key positions of Community Development Director, Planning Director, Property Management Director, Accountant, and Financial Analyst, are all being filled by Jamaican professionals. The recognition accorded KRC's staff is reflected in the numerous offers that the staff has received to work at Life of Jamaica, Urban Development Corporation, and other financial and development institutions. The three Jamaican professionals who have left KRC's staff for such positions have received more than 60 percent salary increases in their new positions.

Despite higher salaries available elsewhere, KRC has had remarkably low staff turnover. In five years, it has had four changes among the top eight professional positions. Although a higher turnover rate would create some short-term difficulties for KRC, one of the organization's achievements has been to train a cadre of real estate and community development professionals who eventually will fill other jobs. To date, KRC has been able to replace all departed staff with professionals of at least comparable quality. The organization has a good deal of professional appeal, since staff have a high policy profile, can work for public objectives, yet retain the flexibility of a small, private firm.

At this point KRC has both an internal structure and a staff that is well-suited to its mission.

KRC's Financial Sustainability

KRC's future as a self-sustaining organization depends as much upon its ability to finance its operations as upon its professional competence.

KRC has made significant strides in financing its cost of operations from its own activities. In 1990, USAID support for operations, which had been the main source of funding, was eliminated. In the most recent year, 40 percent of KRC's operating costs were covered by development fees it charged to others. An additional 35 percent of operating costs were covered by net income from KRC's rental properties. The remaining 25 percent of costs were covered from net interest that KRC earned on its cash holdings--principally, interest earned on the proceeds of the sale of 38a-40 Harbour Street, and the interest spread that KRC was able to earn from below-market funds loaned to the organization by building societies and downtown businesses.

Despite KRC's progress toward self-financing, there is a mixed message for the future. KRC is in effect drawing down some of its assets to pay for operations. Once its cash holdings are reinvested in new projects, the cash flow that is generated will not replace the interest earnings foregone and will be insufficient to pay for all remaining operating costs. Consequently, KRC will have to sell or mortgage properties in order to obtain cash to pay for operations. This situation, of course, is unsustainable over the very long run.

It is instructive to contrast KRC's financial reality with the initial projections which showed that by the end of Phase I KRC would be financially self-sufficient. Development fees in 1990-91 performed almost exactly as projected several years earlier. (Note, however, that new fee-generating projects must be negotiated continually, if development fees are to continue to cover this proportion of the total budget.)

Rental income has lagged behind projections for the reasons discussed earlier. The need to cover its operating costs adds another reason for KRC to sell its properties as promptly as possible. On a cash flow basis, KRC can earn substantially more by investing building sale proceeds in financial instruments than by operating the buildings as rental properties.

A third source of operating income that KRC originally projected was charitable donations from the business community. These were forecast to cover 15 percent of operating costs. During the first two years of the project, KRC did receive donations of almost this magnitude from the firms represented on the Board of Directors and others. However, as KRC grew in size and financial strength, firms became reluctant to continue contributions, especially since KRC was not a charitable organization which qualified for tax write-offs of contributions. A decision was made to concentrate on obtaining capital financing from the business community, rather than operating donations. As shown in the next section, more than J$3 million in financing has been raised from the private

sector. Part of the capital financing has been at significantly below-market rates (for example, a $400,000 community bond was sold at 10 percent interest at a time when market rates of interest approximated 30 percent). Most of the other capital financing has generated a profit for KRC, as well, by being associated with projects that yielded development fees. Thus, the loss of charitable donations has been at least partially offset by other gains.

In confronting its financial dilemma, KRC already has taken a number of important steps and has prepared the way for others:

- KRC petitioned Cabinet and ultimately received Government approval for tax-exempt status. This has had an important bearing on its cash position. Not only does it eliminate income tax liability on KRC's earnings, but the approval exempts KRC from tax withholding on the interest it earns. As part of the agreement, KRC was refunded more than J$650,000 that had been withheld from interest earnings in earlier years. The granting of tax-exempt status has been Government's largest financial contribution to the success of KRC.

- In recognition of the importance of interest earnings to its financial picture, KRC has greatly improved its cash flow management. It regularly sweeps its various accounts to put cash to work in short-term certificates of deposit or other instruments. Given the very high interest rates that have prevailed in Jamaica in recent years, better cash flow management has significantly enhanced earnings.

- KRC has tightened its property management and collection procedures. Cumulative rental arrears were reduced from more than 40 percent of a single year's rent roll to less than 10 percent, between the summer of 1991 and January 1, 1992. Rental contracts have been revised to require banker and personal guarantees, as well as to allow for annual escalation in rent levels.

Looking to the future, two additional steps will be critical to achieve financial sustainability.

- USAID project funds for Phase II will have to be invested to generate economic and cash returns for KRC. At one point in the development of Phase II, it was hoped that AID project funds could be invested in "public" uses, which would not have to generate cash returns for KRC (e.g., street or park improvements). However, it is now clear that KRC will need the income from these projects. Consequently, the economic payoff to KRC must be one criterion that is kept in mind in project prioritization.

- KRC also must shape its overall activities in part to take advantage of opportunities for funding from the business sector. Fortunately, a number of opportunities exist where the business sector's willingness to finance KRC coincide with KRC's own development priorities. One such opportunity involves housing development

in the downtown area. The construction of moderate and middle income housing is vital to downtown's future. At the same time the business community assigns housing redevelopment great priority. In part this reflects a desire to place some protective distance between the main business corridors and the areas of greatest residential decay and violence. In part it reflects the view of financial institutions that middle-class redevelopment of downtown is an important element in future expansion of the housing market. Financial organizations already have contributed J$200,000 so that KRC can begin planning for housing redevelopment, and have indicated their willingness to provide support on a much larger scale.

Given the steps already taken, KRC is in good position to finance itself for at least the next decade. The organization and USAID, however, still are likely to be called upon to make a policy decision about KRC's future. On its present course, KRC will gradually draw down its asset base. Eventually, this will require the organization to shrink its budget and development role. It is possible that KRC can restructure its work program to further increase its financial self-sufficiency. It is more probable, however, that KRC will continue to need to use part of its asset base to cover operating costs. KRC then will face some basic choices. Among its options are:

- Spinning off as a separate institution or foundation those activities that cannot in principle generate full cost recovery--especially, community development activities. At present, these receive the bulk of their funding from USAID. Organizing them as a separate, charitable foundation would make it easier to receive charitable contributions from Jamaican sources, and would relieve KRC of the future burden of trying to generate income to finance a program for which only modest cost recovery is possible. Although this reorganization will not need to be finalized for three years or more, planning for it should begin immediately.

- Rather than gradually shrink its activities as its resources decline, KRC and the business community may prefer to set a future date to terminate KRC's redevelopment role. One possibility would be to plan to continue 10 years after the termination of Phase II. This would give KRC a total life of 20 years (not counting the start-up years before USAID involvement). This is a reasonable time period for a private downtown development organization to accomplish its mission. Establishing a termination date would allow KRC to liquidate its assets in an orderly manner, and continue its activity until the end at a consistent level. Without such a decision, KRC always will face a tension over the extent to which it is appropriate to use its "endowment" to finance current activities.

Is KRC's Mission Sustainable?

As pointed out in the introduction to this chapter, KRC's philosophy during Phase I was to generate redevelopment activity consistent with a strategy for downtown renovation, but not to try to put together a traditional master plan. Master planning by

the public sector has been the bane of Kingston's past development efforts. The public sector has been working for more than a quarter of a century on a new Development Order for the Kingston metropolitan area. The quest for a fully comprehensive plan has kept the public authorities lagging far behind actual development, while diverting official attention from the preparation of guidelines or indicative plans that could help shape development. The exclusion of the private sector from master planning has left Kingston with land-use maps at odds with what investors are willing to finance. In the downtown area, the master plan for waterfront development is now badly outdated. It serves only as the basis for rejecting private sector proposals inconsistent with it. For the last 15 years, it has generated no interest in the private or public sectors to finance its implementation.

KRC established its credibility in Phase I by throwing itself into action rather than planning. As KRC has recognized, however, its very success in generating investment now makes a downtown planning effort imperative. To sustain its leadership role, KRC must now help put together a practical downtown plan.

Although the plan, and the planning process that produces it, can take several different forms, some basic principles should guide KRC's efforts:

- The downtown plan must be a collaborative effort between the private and public sectors. This is more than a matter of which institutions participate. Private sector demand must be respected by planning for land uses which investors are willing to finance. That is, the downtown plan cannot merely serve as a negative document--providing the basis for rejecting development proposals that do not conform to it--but must be a positive document, showing potential investors how downtown *will* be developed and facilitating the key initial projects that will make the plan a reality. Public institutions, in turn, must adopt the plan to give it legal authority and to protect the public interest in the development pattern.

- The plan must be comprehensive in geographical scope but need only be indicative and flexible with respect to individual parcel uses. Up to now, Kingston's downtown redevelopment plans have erred by being just the reverse. They have been narrowly partial in their geographic scope, but rigidly prescriptive with respect to the land use authorized for each parcel. The waterfront redevelopment plan, for example, covers only the waterfront properties condemned by UDC. It gives no clue as to how the adjoining downtown should be developed, or what measures will be taken to stimulate this development. For the waterfront parcels it covers, however, the master plan prescribes a building development for each lot. Despite the fact that development has been stalled for 15 years, UDC has refused to deviate from this land-use plan. A similar fate has befallen the markets and transportation center redevelopment areas. UDC acquired, condemned, and razed properties according to its master plan, then ran out of money. It has refused to release the properties for alternative use, instead holding them as vacant lots until the "planned" land developments can be built.

- A new downtown plan must embrace at least five sectors: the small (informal) business community, big business, the residential community, the religious and charitable sector, and the government sector. Downtown as a functioning unit has deteriorated in large part because of the conflict between these groups. Planning for each has been conducted in a vacuum, as an attempt to usurp downtown's role for that sector, rather than negotiated to accommodate the different sectors' needs. Formal sector business, for example, would prefer to treat the downtown residential area as a slum problem, whose solution lies in clearing and redeveloping the residential area. We know from downtown redevelopment projects in the United States and Great Britain, however, that such action will only displace the poor, intensifying their housing problems and intensifying, too, their assistance to downtown redevelopment.

Is Downtown Investment Self-Sustaining?

The final issue of sustainability covers the investment process itself. One measure of sustainability is the ability to raise counterpart funds from the local private sector. The Substantial Involvement Understandings contained in the Project Paper set a target for KRC of raising J$9.0 million in local private financing for the project. Moreover, at some point, the pump priming efforts of KRC, Government, and USAID should reach the point where redevelopment investment can continue entirely on its own, without further subsidy.

After some initial difficulties, KRC ended up greatly exceeding the goal for counterpart funding. Table 2.7 summarizes the private-sector counterpart funds that KRC has generated, mostly for investment.

Downtown has *not* reached the point, however, where external encouragement of the redevelopment process is no longer needed. At least until 1990, the majority of downtown investment was in fact subsidized in one form or another--often by KRC restoration grants. The reliance on specific project subsidies is now diminishing, but the dependence on the *climate* of restoration that KRC has fostered is, if anything, greater. If KRC and Government were to withdraw from the redevelopment process today, Downtown would not have the momentum to continue forward.

By the end of Phase II, the investment process should be essentially self-sustaining. Even then, however, downtown redevelopment will require continued Government policy attention, as well as private sector leadership from KRC or a similar organization. "Self-sustaining" development will mean development that has its own policy and economic momentum and does not need USAID subsidy. It will not mean that the market alone can sustain the redevelopment process without from Government.

Table 2.7

Private Sector Counterpart Funding
Raised by KRC
1987-September 30, 1991

Direct KRC Capital Projects	$14,122,926
Machado Mortgage Bonds	4,800,000
38a-40 Harbour Street Investors, Equity	5,100,000
Investors in Jamaican Bar Association Center, Equity	2,000,000
Community Bond for Gold Street Police Station	575,000
Sale of Harbour Street Land	1,647,926
Other Capital Projects	7,500,000
Wesley Methodist Church (Private Contributions to Church Restoration, Managed by KRC)	2,000,000
West Indies Home Contractors (Pursuant to KRC Contract Terms)	3,000,000
58 King Street (Pursuant to KRC Contract Term)	2,500,000
Street Improvement Program	
Duke Street Improvement, Owners' Contributions	268,500
Community Development	299,883
YESS Donations	164,562
Clinic Fees	68,221
Other	67,100
Other Programs	558,000
Christmas Celebration, Business Contributions	158,000
Housing Studies, Business Contributions	400,000
Restoration Grants	
Private Sector Match	20,540,000
General	662,402
Board Contributions to KRCq	357,400
Shareholder Equity Investment in KRC	225,002
KRC Debentures (6%)	80,000
TOTAL	**$43,941,711**

Chapter III

THE UDC COMPONENT

A. PROJECT ELEMENTS

As noted in Chapter I, the Inner Kingston Development Project was designed to revitalize Downtown Kingston through two types of interventions: (1) providing work space through the rehabilitation and construction of buildings suitable for light manufacturing and mixed commercial uses; and (2) infrastructure improvements to support investments in properties made through the project and by the private sector.

The Urban Development Corporation (UDC), a Government of Jamaica (GOJ) parastatal, was made responsible for carrying out the infrastructure program as well as some ancillary commercial development. At the time of project design, UDC was the most capable GOJ implementing agency. It had considerable experience in large project development for the public sector and had established a solid record of completing projects in a timely and cost-effective manner; its projects include: the Jamaica Conference Center and other Kingston Waterfront developments; social and commercial facilities in Portmore; tourism and recreation facilities in Ocho Rios and Montego Bay; and a variety of housing schemes throughout the island. Other potential implementing agencies, such as the National Water Commission (NWC), Ministry of Construction (Works) (MOC(W)), and Metropolitan Parks and Markets (MPM), lacked the necessary capacity and wide-ranging expertise needed to manage the diverse portfolio of activities planned under the Inner Kingston project. In addition, UDC was already managing a

large redevelopment of Kingston's markets (financed by the Inter-American Development Bank—IDB) on the western edge of Downtown.

The infrastructure program consisted of the following elements:

- A new transportation terminal with bus facilities for both inter- and intra-urban routes as well as an associated commercial center;
- Replacement of the Harbour Street trunk sewer from South Camp Road to the Darling Street Pumping Station and upgrading of secondary water and sewer lines;
- Resurfacing of major Downtown thoroughfares and installation of traffic signals at key intersections on Harbour and Port Royal Streets.

Table 3.1 shows the planned cost and funding of these elements as proposed in the Project Paper.

Transportation Terminal

The transportation terminal was intended to complement the development activities being undertaken in the IDB West Kingston Markets Project.[1] In 1986, bus routes terminated in the streets surrounding St. William Grant Park (see Figure 3.1) and caused traffic congestion in the city center. The redevelopment of West Kingston envisaged relocation of bus traffic to a more suitable location although no funds were made available for such a terminal in the IDB project.

In addition to reducing the conflict of bus transport with other traffic flows, the development of the transportation terminal west of Pechon Street also offered a number of additional positive benefits for Downtown: the location allowed bus traffic to link with railway service at the adjacent station; pedestrian traffic would be concentrated near the new market facilities, making them more attractive to Downtown street vendors whose sidewalk location was a source of conflict with established merchants; improved access and traffic would make western Downtown more attractive as a location for light manufacturing and commercial activity.

The project plan proposed by UDC called for the construction of the transportation terminal (which would be comprised of two bus stations—one for inter-city buses mainly bring passengers from rural areas and one serving local buses serving the Kingston

[1]The West Kingston Project aims to revitalize the areas immediately west of Downtown through upgrading of three existing agricultural markets and building a fourth new market. The markets projects intend to relocate vendors now currently found around St. William Grant Park and provide an improved commercial environment to make Downtown and the markets area more attractive to consumers.

Table 3.1
Planned UDC Project Elements (from Project Paper)
(US$ '000s)

	Total	USAID Grant	USAID Loan	GOJ
Transportation Terminal	5,574	—	2,574	3,000
Water and Sewer Upgrading	3,780	1,436	2,344	—
Roads and Traffic Signals	1,354	989	82	283
Other Project Elements	1,407	225	—	1,182
TOTAL	12,115	2,650	5,000	4,465

metropolitan area) and to cover all operating costs from terminal revenues. In addition, to take advantage of the opportunities described above, UDC also proposed the development of 100,000 square feet of commercial space (using private sector financing or as a joint venture with a private partner) for lease on the terminal site. UDC had preliminary planning for the terminal underway in mid-1986 and was to complete construction drawings for the project in the following six months.

Water/Sewer Infrastructure

Although the basic water and sewer networks in Inner Kingston were in place and had excess capacity in many locations, other parts of the networks were inadequate or seriously deteriorated. Improvements planned were of two types: (1) major improvements which were necessary for the revitalization of Inner Kingston as a whole; and (2) localized improvements in support of other project activities (such as industrial and commercial development).

The key area-wide improvement planned was the replacement of the existing Harbour Street trunk sewer with a new pipe layout and pumping station. The old sewer was prone to overflows caused by blockages in the pipe and infiltration of surface water during heavy rains. These overflows not only represented substantial health threats to the low-income households in the Downtown residential community, but also were a significant impediment to potential investors in properties along Harbour Street.

In addition to the Harbour Street sewer, the project also called for UDC to make localized improvements to water and sewer mains and laterals as required throughout Downtown to support rehabilitation and construction work undertaken as part of the

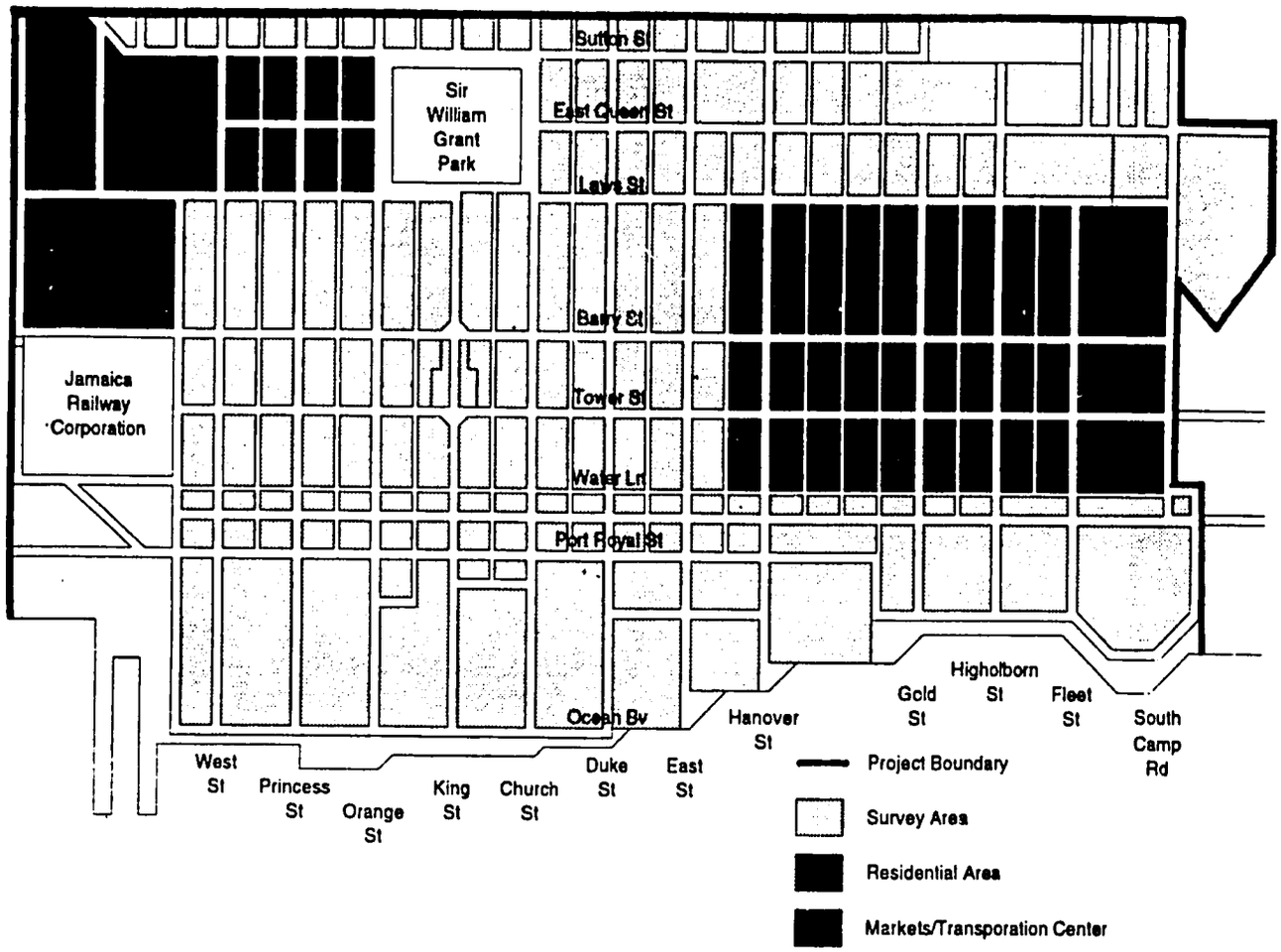


Figure 3.1
Project Area

Inner Kingston project. A total of 10,000 lineal feet of sewers and 36,000 lineal feet of water mains were to be upgraded or replaced. The improvements would bring service levels up to standards found in other commercial centers of the city.

A feasibility study and preliminary design work were completed by Joint Consultants Ltd. for the National Water Commission in 1986. During project planning, UDC described project preparation as practically complete—an "off-the-shelf" project that only required some updating to be made ready to start. Only a few months would be required to prepare final designs and tendering documents. This would allow contracts to be awarded for the Harbour Street trunk sewer by the end of 1986. Secondary water and sewer contracts would be let on a rolling basis over the following year.

Roads and Traffic Signals

The final set of UDC's project elements included road resurfacing, sidewalk repairs, and the installation of traffic signals. Like the water and sewer works, these improvements were to be carried out to both improve the transport system through out Downtown (in the case of the traffic signals) as well as to support other development efforts of the project (by improving pedestrian and vehicular access to properties in development areas). A total of 46,000 lineal feet of road and sidewalk repairs were planned. This work was to be carried out in conjunction with the water and sewer improvements described above.

Overall, UDC was to take the lead role as the coordinator for public sector activities (both those funded by the Inner Kingston project and other GOJ initiatives) in the project area. As coordinator, UDC would ensure that public sector investments formed a consistent package and were supportive of private sector investments in the project area (including those of KRC).

B. PROJECT IMPLEMENTATION

Unlike the private sector side of the Inner Kingston project, the public sector program has been dogged by delays, cost escalations, and scaling back of project outputs since the beginning of the project. As a result, the roster of work scheduled to be completed in the project as designed has been cut back by about half while total costs have remained virtually constant (see Table 3.2).

Project Elements

Outlines of the progress of each project element since the beginning of the project are given below. (More detailed discussion of the causes of delays follow these sketches.)

Rural bus station. The construction contract for the rural bus station was signed in April 1988, about a year behind the schedule laid out in the project paper. Construction, which was expected to take 18 months, stretched out over 30 months. The terminal was turned over to MPM (which is to manage and operate the terminal) in November 1990 and was to begin operations by the end of 1990. However, through September 1991, the station had not yet been opened for use. Final costs are expected to be US$1.17 million, 30 percent higher than estimated in the FY87 budget.

Urban bus station. Preparation of the contract documents (i.e., construction drawings and the construction contract) for the urban bus station were subject to numerous delays, both within UDC and with external quantity surveyors and other consultants. Contract documents were completed at the end of 1989 and tenders received in April 1989, more than two years behind the original schedule. The bids

Table 3.2
UDC Project Element Status (as of September 1991)
(US$ '000s)

	FY87 Budget	FY91 Budget	Status
Transportation Terminal			
Rural Bus Station	818	1,167	Completed 2 years late; not not operational as of September 1991
Urban Bus Station	3,428	—	Dropped from project; most recent cost estimate: US$5.1 million
Area-Wide Water/Sewer			
Design	354	354	2 years behind schedule; work scaled back
Harbour St. Sewer	1,545	6,045	3 years behind schedule
Pumping Station	298	450	3 years behind schedule
Pipes/Materials Supply	892	483	Completed 1 year late
Secondary Water/Sewer	539	—	Dropped from project
Pipe Repair	—	465*	Start January 1991
Development Area Improvements			
Road Improvements	629	—	Dropped from project
Traffic Signals	195	100	Awaiting MOC(W) action; likely to be dropped from project
TOTAL	8,698	9,064	
USAID	6,734	6,566	
UDC	1,964	2,498	

* Required to repair defects on stockpiled pipe sections provided by NWC.

received were in excess of US$6 million, more than three times the available funding from USAID and GOJ sources (which was based on original project estimates). In the face of this budget constraint, UDC proposed to redesign the bus station (using a scaled-down version of the original design which could later be fully developed if more funding were made available). The redesign was held up pending a review of the project by the new government which came to power in February 1989. However, faced with large cost escalations in other UDC project elements and tight GOJ budgets, UDC decided to use the USAID funds elsewhere and to drop the urban bus station from the project. Plans as of September 1990 were to work with MPM to make minor improvements to the site and use existing structures on the site—the old rural bus shed and the Victoria warehouse—as a terminal for buses from Portmore and a vendor arcade, respectively.

(In 1991, the GOJ requested J$2.0 million in ESF funds for the urban bus terminal; this has been approved by USAID.)

Harbour Street sewer. The work required for JCL to complete the contract documents for the Harbour Street sewer took much longer than was anticipated in the project paper. The documents were completed in July 1988 (about 18 months behind schedule). The contract for civil works, signed in April 1989 with Solid Engineering Ltd. (SEL), provided for a total cost of US$4.2 million, 169 percent higher than the original engineering estimate prepared in 1987.

Progress by SEL was initially slow due to technical difficulties and problems with pipe supplied by NWC. During the first three months of work, SEL lacked adequate pumping equipment to keep dry the trench excavated for the sewer. This caused the trench to be prone to collapse and created poor conditions for installing the pipe. In addition, tests on the first 500 feet of installed pipe indicated significant leakage, which was later traced to problems with the joint material in pipe stock provided by the NWC. As this pipe was to be used in the western end of the sewer, work at that end was suspended until a solution to the problem was developed.

In late 1989, after completing approximately 10 percent of the project, disputes between UDC and SEL over the delays in payments led SEL to terminate the contract. UDC rebid the contract in four parts and signed new contracts in September 1990. The new contracts total US$5.4 million (plus an additional US$465,000 to repair the NWC pipe stock and US$700,000 already expended under the original SEL contract).

Other contracts, to supply required pipes and materials and for pumping station equipment in support of the Harbour Street civil works, had also been in progress. The pipes and materials contract was completed in July 1989 at a cost of US$483,000, 45 percent below budget. The pumping station contract was signed in September 1990; total cost was US$450,000, 51 percent higher than in the original budget.

The escalation of costs plus the failure of the GOJ to provide sufficient resources to fully fund the contract required that USAID funds be diverted from other project elements (i.e., the urban bus station, secondary water/sewer upgrading, and traffic improvements). Even so, remaining USAID funds were inadequate to cover all costs and the GOJ has pledged to provide the required balance in the 1991/92 financial year. USAID has worked to assist the contractors hired in September 1990 to obtain the equipment necessary to carry out the Harbour Street project. By May 1991, most of this equipment had arrived and construction resumed in June 1991, approximately 18 months after the SEL contract was terminated. Completion is projected for the end of 1994, approximately seven years behind the original schedule.

Secondary water/sewer and traffic improvements. Given the delays and funding problems associated with the other major elements of the program, little progress

was made on the secondary items. The FY87 budget reduced the scope and budget of this component in order to make project funds available to KRC to carry out improvements to King Street. A total of US$682,000 in grant funds was transferred to KRC and 19,300 feet of paving and 4,300 feet of water line improvement removed from UDC's program. As of September 1990, cost increases in other project components forced all remaining secondary improvements (with the exception of traffic signals) to be dropped. The installation of traffic signals along Harbour and Port Royal Streets is still planned. The start date for this work depends on MOC(W) completing the design for the signal system and progress on the Harbour Street sewer.

While some of the implementation problems are traceable to external factors that were outside the control of UDC and USAID, most of the difficulties encountered are a result of action (or inaction) by the agencies involved.

"External" Problems

Implementation difficulties that were outside the control of the project participants included:

- Hurricane Gilbert in September 1988;
- Suspension of major project decisions following the change of government in February 1989;
- Defects in stockpiled pipe provided by the NWC for use in the Harbour Street trunk sewer;
- Long time periods required for the preparation of construction contract documents because of the scarcity of building professionals during a boom in the construction sector.

Hurricane Gilbert. Hurricane Gilbert struck Jamaica in September 1988, causing widespread destruction and disruption of public services. Although the Inner Kingston project area escaped severe damage, the attention of the GOJ, UDC, and other public service agencies were understandably drawn away from project implementation to deal with the more pressing issues of reconstruction and service restoration. It was not until the spring of 1989 that most services were completely restored and reconstruction efforts were reduced to a scale which allowed UDC and other government agencies to return to their normal functions. This hiatus effectively suspended all project progress for approximately six months.

Change in government. The change in government following the February 1989 election led to an overall review of all on-going GOJ investment projects. UDC's operations in Downtown and West Kingston—which were identified with areas supporting the previous government—were subject to close scrutiny. This reassessment particularly delayed progress on the urban bus station and may be responsible for the delay in opening the rural bus station. The high cost of bids received for the original design and

unlikelihood of additional GOJ funding forced UDC to propose a revised, scaled-back design. However, UDC was forced to wait approximately six months for a decision in principle from the UDC Board and Ministerial endorsement of the decision to go ahead with the project.

Defects in NWC-supplied pipe. The largest diameter pipe required for the Harbour Street sewer was supplied to UDC by NWC from its existing stock. When the westernmost 500 feet of pipe was laid and tested, substantial leakage was found. The cause of the leakage was determined to be a deterioration of the sealing material on the pipe during storage which caused poor connections between pipe lengths. Because of this problem, work on the western end of the sewer was suspended until a solution to the problem could be determined. After approximately six months (required to track down the pipe manufacturer and evaluate alternative solutions to the problem), UDC, USAID, and Joint Consultants Ltd. (JCL), the consulting engineers, decided that the best course of action would be to seal the pipe already installed using a plastic liner and to replace the seal material on the pipes not yet used. This work, carried out in early 1991, was completed at a cost of US$166,000.

Time required for preparation of contract documents by outside consultants. The project has been carried out during a period of high activity in the construction sector in Jamaica. This has caused professional resources in the sector to be stretched rather thin. (This was particularly the case in the months following Hurricane Gilbert.)

For example, the contract documents for both the rural bus station and the urban bus station were delayed for several weeks while UDC awaited the final Bill of Quantities (BQs) from the Quantity Surveyor (QS) of the project. In both cases, the QSs attributed the delay to the press of other work. However, it is also apparently the case that the QS clients have little recourse when faced with such delays for a couple of reasons: (1) the number of QSs in Jamaica is limited and with no domestic training facility adding to supply, there is no effective competition in the field; (2) once a QS has started on a project, it is often more costly and time-consuming to bring in a new QS (who would basically have to start from scratch) to take over than to put up with the delay.

Similarly, high levels of activity in the construction sector and lack of competition allowed JCL to resist all attempts to speed up the pace of contract document preparation for the Harbour Street sewer. Bidding documents for the Harbour Street sewer were not completed until July 1988, about 18 months after their initially scheduled delivery date. The delays were attributed to the volume of activity that JCL was dealing with and the difficulty of keeping junior staff (such as draftsmen and engineers) when so many other job offers were available elsewhere. Other requests for information—many of which were required to receive USAID clearance on a contracting action—were treated without urgency. JCL had little incentive to respond since they had received a sole-source contract based on their reputation as one of the most capable engineering firms in Jamaica for water and sewer civil works and their role as consulting engineers in the

initial project design; UDC was unlikely to find another comparable firm to take over the project.

"Internal" Problems

Although the "external" difficulties imposed on the project were significant, perhaps the majority of implementation problems—and the resulting slippage in the project schedule and escalation in project costs—can be attributed to factors within the control of the project participants. These "internal" problems included:

- Conflict between USAID and UDC on contracting procedures;
- Lack of tight management control by UDC over project element design and preparation of contract documents in a timely fashion;
- Inability of UDC and USAID to ensure a smooth flow of funds to UDC and of UDC to make timely payments to contractors;
- UDC's assumption of a "soft" budget constraint led to a constant shortfall in funds available for the project.

Contracting conflicts. In the initial two years of the project, there was considerable time lost in discussions over the form and substance of provisions required by USAID to be included in any construction contract documents issued under the project. While this was only a minor delay in the case of the rural bus station (where UDC simply incorporated the relevant USAID requirements in a separate section of the contract), the completion and approval of the contracts for the Harbour Street sewer was delayed for more than a year.

First, work by JCL was held up for six months following the beginning of the project because of conflicts between USAID and UDC over the terms of the JCL contract. However, the experience of resolving the terms of the JCL contract did not smooth the way for future contracts prepared by UDC and JCL for USAID approval. Despite being provided with the draft clauses required for the civil works contracts to be eligible for USAID funding in August 1987 and despite several sets of discussions through the end of 1987, the draft contract submitted in early 1988 was still unacceptable to USAID: some requirements were not included (as UDC and JCL felt they conflicted with other clauses in the contract); some requirements were specified outside the contract (in the instructions to bidders, for example); other requirements were modified by JCL in a manner unacceptable to USAID. Another six months of discussion between USAID, UDC, and JCL were required before an acceptable contract was provided.

In addition, USAID found that, although the construction drawings were generally of good quality, some key drawings often were too general and not sufficiently specific in providing information to the bidders, leaving room for future disagreement over the requirements implied by the drawings. UDC, in return, argued that the drawings were prepared to the normal standard of Jamaican practice and did not require further

elaboration. Revision of these drawings also slowed the progress of the project since the construction professionals were typically slow in responding to such requests (as noted above).

Lack of aggressive UDC management. While it was noted above that pressures in the construction sector made outside construction professionals less responsive than they might have been in a more competitive environment, it is also true that UDC was not aggressive in attempting to maintain a rapid pace of project progress, both with respect to its own internal management and in its dealings with outside consultants. This was particularly true in the case of preparation of the construction drawings for the urban bus station.

The design of the urban bus station was allowed to stretch on and become more elaborate without consideration of the cost effects of such time delays or added complexity. As a result, the bulk of the architectural drawings (executed by UDC's in-house architects) were not completed until the end of 1987 (about a year late). Then, with almost all the architectural drawings complete, the remaining few were left incomplete until mid-1988. A similar story can be told for the engineering drawings. The structural drawings were completed by the end of 1987, but when the civil engineer assigned to prepare the civil works and site drainage plan left UDC in 1987, no action was taken. Eventually, the work was contracted out and the drawings completed in August 1988.

In the cases outlined above in the section on "external" problems where consultants were slow or delinquent in meeting project schedules, UDC showed little interest in attempting to motivate the consultants into responding. While it may be true that UDC had little room to manoeuvre (given conditions in the construction sector) to make its consultants more responsive, UDC acted as though it had no alternative but to accept what the consultants delivered when they chose to deliver it. In one instance, UDC signed a new contract with a QS while the same QS was several weeks behind on work related to the urban bus station.

Failure to provide a smooth flow of funds from USAID to UDC. Another problem which has persisted throughout the implementation of the project has been the inability of the project participants to ensure the timely flow of funds from USAID to UDC. Neither the project managers nor the controller's office at UDC evidenced much concern over this issue. The task of completing vouchers requesting advances and reimbursements from USAID was entrusted to junior accounting staff with little or no oversight by senior managers. In almost every case, the vouchers were not completed correctly or failed to provide clear information to support the request for funds. USAID did meet with UDC accounting staff on several occasions to explain how the vouchers were to be filled out and submitted, but with little effect. In general, USAID did not view the repeated failure of UDC to submit correctly completed vouchers as a serious

problem—no remedial actions were taken nor was the issue raised beyond the project manager level in discussions between UDC and USAID.

Although UDC was requested by USAID to submit vouchers on a regular basis (because of the inability of USAID to process vouchers on a priority basis), these instructions were not followed. Instead, vouchers were sent to USAID only when funds were urgently required. Problems with the vouchers often led to the situation whereby the voucher would be held for several days at USAID, only to be returned to UDC for modification. When a voucher was finally approved, a further six to eight weeks was required for the funds to be posted to UDC bank account.

These problems significantly delayed both the rural bus station and the Harbour Street sewer. In the first case, the pace of construction in 1989 was slowed (and even stopped on occasion) because UDC's failure to draw down USAID funds. With little available cash, UDC was slow in making payments to the contractor, who responded by reducing the number of workers on the site or stopping work. In the case of the Harbour Street sewer, the contractor terminated the contract because of UDC's inability to make payments due to the contractor in a timely fashion. As a result of this termination, work on the sewer had to be stopped and the contracts re-tendered. This delayed the project for nine months and raised the contract price of completing the sewer by US$2.3 million.

"Soft" budget constraint assumed by UDC. Another source of implementation problems was UDC's continual assumption of a "soft" budget constraint (i.e., that no matter how much projected costs exceeded the current budget, the government would increase future budget allocations to make up the difference). Thus, in the case of both the urban bus station and the Harbour Street sewer, the reaction of UDC project managers to delays and increasing costs was to assume that additional funds would be provided in the coming financial year (or the year after next), rather than acting to reduce the cost of the project (in the case of the urban bus station) or speed up implementation to reduce the escalation of costs (in the case of the Harbour Street sewer). This approach only served to postpone facing the budget constraint.

In each succeeding year, GOJ budget allocations were less than requested (often by wide margins). When the contracts were awarded and work was to begin, UDC found itself grossly short of funding. The USAID funds, which were originally adequate to meet almost all costs, were outstripped by the cost escalations associated with the lengthy delays in project implementation. The GOJ has so far been unable, given its own budget squeeze, to allocate sufficient resources to fully fund the projects. As a result, the urban bus station has been dropped from the USAID program and construction is to begin on the Harbour Street sewer with approximately US$2 million in GOJ funding still to be allocated to UDC.

C. ISSUES ARISING FROM UDC PROJECT EXPERIENCE

The experience outlined above in the Inner Kingston Project underlines some important issues about the use of a public sector institution like UDC in the economic redevelopment process. While it may be true that many of the problems outlined above are similar to those found in other donor programs—delays, cost escalation, insufficiently tight management—there are some underlying aspects of UDC's approach to the project which exacerbated these typical problems. There are three features of UDC which merit a closer look:

- UDC's role as prime implementing agency for the GOJ;
- Lack of market/demand analysis as an input into UDC development decisions;
- Development objectives adopted without adequate regard to costs or budget constraints.

UDC as Key GOJ Implementing Agency

As stated in the beginning of this chapter, one of the reasons UDC was selected to implement the public sector elements of the project was its reputation as an effective government agency. However, in the outturn this characteristic also worked against carrying out the Inner Kingston project in a timely fashion.

For the same reasons that USAID selected UDC, so was it the agency that the GOJ turned to when "priority" projects had to be carried out. In retrospect, UDC's effectiveness in 1986 was probably overstated and relied on its previous successes. Since 1981, UDC has been assigned several tasks by the GOJ which diverted its attention from its on-going portfolio of projects. While UDC was able to manage these assignments in the early 1980s, the additional tasks were handed to UDC at an accelerating pace since 1986 as other GOJ agencies were deemed incapable of responding:

- UDC, rather than any of the export promotion agencies or the construction ministries, was assigned to build a million square feet of factory space in Kingston to meet demand for export-oriented manufacturing;

- Resolving the problems in Negril caused by the lack of a central sewerage system (which were starting to have a negative effect on tourism as growth in the area overwhelmed existing local systems) was assigned to UDC rather than NWC;

- UDC played a leading role in handling the aftermath of Hurricane Gilbert in 1988 after the Office of Disaster Preparedness did not perform well during the hurricane.

In many of these cases, UDC managers who were responsible for Inner Kingston projects were assigned these additional tasks or had key personnel reassigned and were left short-staffed. In simple terms, lack of implementation capacity in other public agencies or lack of confidence by the GOJ in those agencies to meet deadlines led the GOJ to strain the resources of UDC past the point where it could effectively manage all of its projects.

Despite its higher quality staff, relative independence as a parastatal rather than a government ministry, and superior track record for project implementation, UDC ended up with its resources stretched too thin over too many priorities. Although UDC is nominally independent and is supposed to develop its project using private capital in a self-financing fashion, many of UDC's projects (including Inner Kingston) rely on funding from the GOJ. Also, the Chairman of UDC is a political appointment made by the Prime Minister. For these reasons, UDC does not, in fact, feel free to refuse additional commitments to the GOJ when its resources are overtaxed. Without encouragement from the GOJ to give Inner Kingston priority relative to the other special tasks assigned to UDC by the government and without pressure from the top levels of USAID on either UDC or the GOJ to assign Inner Kingston a higher priority, UDC tended to concentrate on its other tasks first, although many of these, also, encountered substantial delays.

Lack of Market/Demand Input

A second characteristic of UDC that caused difficulties was the lack of analysis or responsiveness by UDC to demand or market factors. UDC's approach to the development process at times appeared to simply ignore demand factors that were key to the successful completion of the project. As a result, the project has so far failed to achieve its objectives for commercial development and cost recovery in the transportation terminal and appears highly unlikely to do so in the future.

In the original project design for the transportation terminal, UDC was to build 100,000 square feet of commercial rental space to be used by the private sector, government offices, and parastatals, plus space for small vendors. However, plans for new construction were soon postponed when it became clear that prevailing commercial rents were too low to support construction costs—UDC's design for the commercial space had been carried out with little reference to market rental rates or the need for cost recovery. The 1986 financial plan for the terminal's commercial space had projected only 44,000 square feet, of which UDC would develop only 13,000 square feet. The plan estimated potential rents of J$10.50 per square foot and construction costs of J$115 per square foot, yielding a gross return of 9.1 percent (well-below 1986 average bank deposit rates of 15.4 percent). In the outturn, construction costs for the commercial space as designed were estimated at J$250-J$300 per square foot, reducing the gross return to only 4.2-3.5 percent, making the project extremely unattractive to potential private partners. UDC attempts at developing alternative commercial space (based on using the Queens Warehouse as a supermarket) reflected the same lack of market orientation.

UDC persisted with this plan even after potential private sector development partners told UDC the building was unsuitable as a retail store.

In the case of cost recovery, a satisfactory operating plan for the terminal, as required in the project agreement, was never produced. (Only a marginal revision of the original capacity study was submitted to USAID.) Again, UDC preferred to operate without input from the demand side. Preliminary discussions were held with MPM over the fees required to cover the operating costs of the station; these proposals were never made to the transport associations that would use the station and pay the fees. UDC appeared to be unconcerned about how the station user fee would impact on the bus operators' cost structure or whether the operators would even be willing to pay such a fee for use of the station. (Indeed, UDC never consulted the bus operators on whether the station itself would be desirable to the operators or explained to them why it was necessary to resolve Downtown's traffic problems.) Given the practical power of the transport groups, fierce opposition to any mandatory fee structure could have been anticipated.

This lack of responsiveness by UDC to market demand or to users of facilities is perhaps a result of three features of its typical development pattern. First, most of UDC's experience has been in projects (such as tourism development on the north coast of Jamaica) where it has acted basically as a "green field" developer and has not had to respond to an existing market or context. In cases where its developments have been linked with existing markets or development, it has been less successful. (The case of the Kingston waterfront shows a seemingly deliberate attempt not to relate to an existing context.) Second, with the financial backing of the government for many of its projects and distorted land and development markets that limit the supply of new development, UDC has not been required to meet a true market test for its developments. Its projects have been "successful" only through subsidized support from the GOJ and excess demand resulting from restrained supply. Third, many of the project planners and managers in UDC have training and backgrounds as physical planners and engineers. The lack of economists or real estate market specialists has meant that projects are developed almost solely in response to physical requirements without reference to the issues of market demand or cost recovery. As a result, projects are developed using conventional solutions that are infeasible or overly costly in the face of budget and market realities.

Disregard of Costs and Budget Constraints in Setting Objectives

Finally, UDC has not faced up to the costs associated with its consistent pattern of undertaking projects with objectives which are excessive and unrealistic in light of market and financial realities. The experience with the transportation terminal exemplifies the problems with UDC's approach to development based solely on plans created in isolation from market realities—heavy spending by UDC to acquire and clear

land for development produces no returns and imposes real costs when the land is left undeveloped and useless.

In the case of the transportation terminal, UDC acted to acquire and clear the site even before plans and budgets for the project were finalized. An interview with the former owner of one of the acquired sites revealed that four operating businesses—a gas station, a welding shop, a shop and bar, and a corporate office— were forced to relocate when UDC acquired their properties. An additional three buildings being used as storage and warehouse facilities were also lost when the site was cleared. When delays and overambitious designs pushed the cost of the urban bus station beyond the level of available funds, the project was postponed and the remaining funds reallocated to other UDC projects in Inner Kingston. Although UDC now plans to make minor improvements to a small part of the site to accommodate busses from Portmore, the majority of the land acquired has been left open as a dumping ground. The warehouse building that was to be used as commercial space has been substantially demolished by scavengers and is now only a shell that requires substantial rebuilding before it can be used again (if reuse is possible at all).

However, unlike a private developer, UDC does not consider any of the costs of having acquired the land and left it undeveloped. Since the land was acquired using GOJ funds, UDC does not face any interest or debt service charges on the land. Neither does UDC value the opportunity cost of tying up capital in an asset without earning any return; it has no shareholders to whom it is responsible. Finally, nor does UDC value the social cost to society of taking and holding land, a valuable asset, out of production, or the external costs created by holding undeveloped land used a dumping sites. The costs are particularly high in the Jamaican context, where developable land is scarce and demand for it is high.

The same issues apply to the Kingston waterfront, where UDC has plans for over a million square feet of vacant land that it owns (and has owned since the 1960s) but lacks the financial resources to develop. As long as UDC continues to act as though the time spent waiting to carry out its plans is costless, the costs to society in terms of land held out of productive use and capital tied up in non-performing assets will continue to mount.

Chapter IV

IMPACTS OF THE PROGRAM ON INNER KINGSTON

Having reviewed the direct effects of the Inner Kingston Project, we now move on to the indirect. This chapter examines recent changes in the downtown Kingston economy and real estate market and the role the Project has played in those outcomes.

Section A offers an orientation to the project area, describing the spatial structure of activity within its boundaries. Section B examines changes in the downtown economy during Phase I, while Section C focuses on overall investment, Section D on changes in the real estate market, and Section E on other relevant indicators of downtown activity. While the earlier sections rely primarily on physical and financial measures, Section F offers evidence on the perceptions of downtown workers and residents (including business leaders) on how downtown has changed since the Project began. Finally, Section G presents a brief summary of the chapter's findings and our conclusions.

A. INNER KINGSTON: AN ORIENTATION

The "Project Area" adopted for the Inner Kingston Development Project is shown again in Figure 4.1, this time in terms of establishment densities. The land indicated as the "survey area" on the map is the heart of downtown, incorporating most of its privately owned business activity and government office functions. As indicated, however, the Project Area also includes a high-density (generally low-income) residential community

(in the east-central portion, as described in connection with KRC's Community Development Program in Chapter II), and the UDC operated West Kingston Markets project and transportation center (in the northwest corner, as discussed in Chapter III).

Land Use

Table 4.1 shows that, excluding streets, the total survey area contains 6.86 million square feet of land (157 acres). This land is divided into 1,019 separate ownership parcels, with an average size of 6,732 square feet.

Of the total land area, 70.4 percent contained occupied structures in 1990, up from 67.5 percent in 1987. Of the 1990 total, 55.7 percent was occupied by businesses and another 14.7 percent was occupied by other uses. Commercial activities dominated business land use.

The 29.6 percent without occupied buildings was made up of: 5.0 percent containing vacant buildings that could be used (although many would require rehabilitation); 4.4 containing building ruins (so dilapidated that clearance and new construction would be required for reuse); and 20.2 percent without buildings (many of these parcels were actually in use for parking, recreational purposes, etc.).

The Spatial Pattern of Business Activity

Downtown is a concentration of many different activities without exclusive boundaries separating them; a broad variety of business activities are conducted in the area. However, through the tumult, an underlying locational structure for these activities can be discerned. Our data suggest it is useful to think of downtown business activity in terms of four rough spatial zones:

1. *Commercial Activity.* Commercial activity in the downtown area centers around the corridor running south from St. William Grant Park along King Street (see Figure 4.1): to the west are the central markets (focal point for hagglers trading in both foodstuffs and consumer goods) and to the south the traditional commercial center of Downtown runs to the waterfront between Orange Street and Church Street. This zone is dominated by the retail trade; Orange, King, and Church Streets contain 33 percent of the retail establishments in the downtown area. The traditional commercial center is also the home of many prominent government centers (for example, the Supreme Court and Bank of Jamaica).

2. *High Skill Services.* To the east of King Street, legal offices, other high-skill services, and financial operations are the major activities. Church, Duke and East Streets hold 50 percent of the high-skill services (mainly professionals). Duke Street is the focus for these enterprises, holding 30 percent of the high-skill service operations, as well as 50 percent of Downtown's financial concerns.

Table 4.1
Downtown Kingston Land Use 1987-1990

	1987			1990		
	Parcels	Sq. Feet	Percent	Parcels	Sq. Feet	Percent
OCCUPIED PROPERTIES						
Business Use						
Commercial	349	1,558,673	22.7	329	1,417,138	20.7
Commercial/Office	60	322,882	4.7	54	423,276	6.2
Commercial/Residential	56	185,023	2.7	44	129,395	1.9
Office	91	535,265	7.8	81	493,873	7.2
Office/Manufacturing	11	241,462	3.5	8	264,344	3.9
Manufacturing	26	87,411	1.3	31	293,009	4.3
Commercial/Mixed	58	529,247	7.7	83	657,163	9.6
Other Mixed	14	140,759	2.1	20	142,410	2.1
TOTAL	665	3,600,722	52.5	650	3,820,609	55.7
Other Uses						
Residential	48	107,478	1.6	46	107,658	1.6
Government	12	456,327	6.7	12	435,412	6.3
Education	3	31,946	0.5	3	31,946	0.5
Religious	6	159,827	2.3	7	161,508	2.4
Other	5	274,022	4.0	5	274,022	4.0
TOTAL	74	1,029,600	15.0	73	1,010,546	14.7
TOTAL OCCUPIED	739	4,630,322	67.5	723	4,831,155	70.4
VACANT PROPERTIES						
Vacant (with building)						
Commercial	50	297,357	4.3	61	189,901	2.8
Office	4	60,105	0.9	2	5,743	0.1
Manufacturing	11	211,037	3.1	5	11,031	0.2
Residential	3	13,198	0.2	2	7,150	0.1
Government	0	0	0.0	0	0	0.0
Other/Use Not Known	16	43,084	0.6	31	128,048	1.9
TOTAL	84	624,780	9.1	101	341,873	5.0
Vacant (building ruins)						
TOTAL	80	281,191	4.1	77	302,157	4.4
Vacant (no building)						
Park/Sports Ground	4	167,528	2.4	4	167,528	2.4
Parking	49	509,041	7.4	48	566,491	8.3
Other	63	647,112	9.4	66	650,769	9.5
TOTAL	116	1,323,681	19.3	118	1,384,788	20.2
TOTAL VACANT	280	2,229,652	32.5	296	2,028,819	29.6
TOTAL	1,019	6,859,974	100.0	1,019	6,859,974	100.0

3. *Wholesaling and Manufacturing.* West of Orange Street, though retail and service concerns can still be found, there are concentrations of wholesale and manufacturing. The area bounded by Orange and Pechon Streets above Water Lane contains about half of the manufacturing operations in Downtown. (There is also a small cluster of manufacturing operations along East Queen Street and the KRC Machado Complex at the northeast corner of the project area). Wholesalers of foodstuffs and dry goods (many of whom also conduct retail operations at the same location) are even more tightly grouped: 60 percent of downtown wholesale establishments are located in the three blocks of Orange and Princess Streets between Water Lane and Beckford Street.

4. *Harbour Front.* The southern band of the survey area (running generally between Port Royal Street and the harbour from the western to the eastern boundaries) was totally cleared for redevelopment by UDC in the late 1960s. Its present character differs significantly from that of central downtown to the north. At present it contains a mix of: (1) large multi-story structures built since the clearance; and (2) sizeable vacant tracts that still await rebuilding. Much of the floor space in the new buildings is occupied by government agencies, but these buildings house a large number of private firms as well. Notable activity centers include the mall complex (between princess and King Streets), the Conference Centre (between Church and Duke Streets), and the Bank of Jamaica and Bank of Nova Scotia buildings (between Duke and East Streets).

Business Densities

Overall, the 6.86 million square feet of land (exclusive of streets) in the survey area were occupied by 1,239 private business establishments in 1990 with a total of 18,137 employees. This implies, on average, 0.18 establishments and 2.6 employees per thousand square feet of land area (or 7.9 establishments and 116 employees per acre).

Figure 4.1 shows establishment densities in 1987 (the pattern has not changed that much since then). The highest densities (above 0.3 per 1,000 square feet) centered around the key commercial corridor (King Street) and the foremost professional service corridor (Duke Street).

B. TRENDS IN THE DOWNTOWN ECONOMY

This section describes the composition of activity in downtown Kingston and how the magnitude and structure of this activity changed from 1987 to 1990. Table 4.2 shows basic characteristics of the data base. The surveys permitted the identification of all establishments in the area in both years. In 1987, we were able to obtain full data for 679 establishments (60 percent of the 1,145 total). In 1990 the response rate improved to 990 establishments (80 percent of the 1,239 total). Actually response rates in both years are quite high for surveys of this type. In the remainder of this Chapter we report

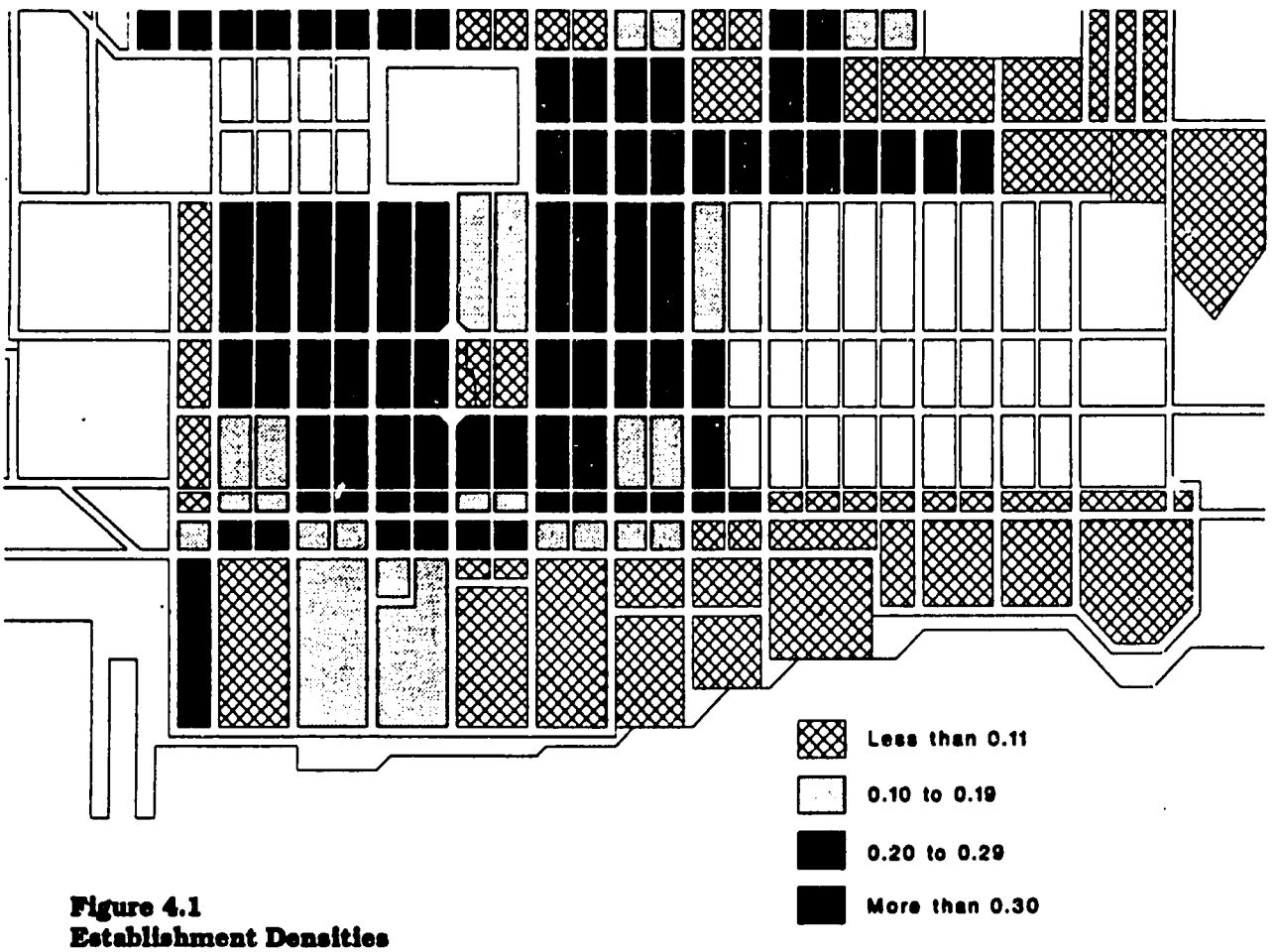


Figure 4.1
Establishment Densities
(Establishments per 1,000 square feet of land)

estimates of total employment and other characteristics based on extrapolation from the survey samples.

Sectoral Composition

There were a total of 1,239 establishments operating in the survey area in 1990; 1,184 of these (94 percent) were private businesses (Table 4.2). We have divided these businesses into three groups: (1) office activities; (2) commercial activities; and (3) manufacturing.

Office Activities include financial services (banks and insurance companies), professional services (such as legal and medical offices), business services (corporate

Table 4.2
Structure of Establishments and Employment 1987-1990

	1987				1990			
		Estimated				Estimated		
	Survey Responses	Estbs.	Workers	Workers/ Estb.	Survey Responses	Estbs.	Workers	Workers/ Estb.
Office Activities								
Financial services	37	63	3,305	52.5	45	58	3,529	60.9
Professional services	60	170	1,247	7.3	128	168	1,500	8.9
Business services	56	87	687	7.9	87	105	1,058	10.1
Other services	18	30	193	6.4	29	29	253	8.7
TOTAL	171	350	5,432	15.5	289	360	6,339	17.6
Commercial Activities								
Wholesale trade	77	104	931	9.0	103	126	1,024	8.1
Retail trade	185	285	2,729	9.6	277	313	2,507	8.0
Restaurants/bars	108	144	669	4.6	124	142	616	4.3
Other activities	87	141	644	4.6	134	151	658	4.4
TOTAL	457	674	4,973	7.4	638	732	4,804	6.6
Manufacturing								
TOTAL	55	72	1,365	19.0	68	92	2,785	30.3
TOTAL BUSINESS	683	1,096	11,771	10.7	995	1,184	13,928	11.8
Cultural & religious								
TOTAL	1	10	142	14.2	11	13	157	12.1
Public Sector								
Central government	2	21	1,815	86.4	10	24	2,047	85.3
State-owned enterprise	3	14	1,341	95.8	11	15	1,459	97.3
Local government	1	4	834	208.5	2	3	546	182.0
TOTAL	6	39	3,990	102.3	23	42	4,052	96.5
TOTAL OTHER	7	49	4,132	84.3	34	55	4,209	76.5
TOTAL	690	1,145	15,903	13.9	1,029	1,239	18,137	14.6

headquarters, customs brokers, accounting and stenographic services), and other services (such as real estate companies). In 1990, these activities accounted for 34 percent of downtown's employment but only 29 percent of its establishments. Within this group 55 percent of the employment was in financial services which had by far the largest average number of employees per establishment (61).

Commercial Activities have been regarded as the traditional mainstay of the downtown economy. They include wholesale traders, retail shops, restaurants, bars, and commercial services such as repair shops and hairdressers. They accounted for 26 percent of the area's 1990 employment (59 percent of its establishments). Establishments in this group (with an average 7 employees) are typically much smaller than those in the office category.

Manufacturing firms accounted for smaller shares of the totals (15 percent of the employment and 7 percent of the establishments).

Non-business activities included 10 cultural/religious institutions and 39 government offices (23 percent of all downtown employment, 4 percent of all establishments).

Size and Age of Firms

Table 4.3 shows that downtown activity is dominated by small firms: 78 percent of the 1990 establishments had fewer than eleven employees. 57 percent had less than six. Small firms are even more predominant in the commercial sector. Establishment size in manufacturing is somewhat above the average and only in the financial services (e.g. banks) and central government office categories are there a significant number of establishments with more than 100 employees.

The age distribution of 1990 establishments (reported in Table 4.4) defies the conventional image of downtown Kingston as a deteriorating business community: over half (53 percent) of all establishments had started activity downtown over the preceding five years; i.e., since 1985. Only 30 percent had been operating in the area for more than ten years. Financial services is the only category in which the majority of the establishments have been active in the area for more than a decade. Government offices rank second on this scale. All other business categories exhibit considerable turnover and dynamism.

The Dynamics of Economic Change, 1987-1990

Table 4.5 shows our estimates of the change in establishments and employment that took place downtown over the three years from 1987 to 1990. Even though complete data were available for most categories, estimates are based on assumptions about average conditions in some cases (see notes on the table). Principal findings are:

A significant increase in economic activity. The data shown for detailed categories in Table 4.5 are summarized in the text table below. In 1987, there had been 1,145 establishments in downtown Kingston (1,096 businesses and 49 government offices and cultural/religious institutions) employing a total workforce of 15,900. Over the subsequent three years, one quarter of the establishments went out of business (actually, not a surprising rate, even for more developed economies). But 375 new establishments were formed (one third of the 1987 total). Employment change in firms that existed in both 1987 and 1990 was negligible. Total employment had increased to 18,100--an average annual growth of 4.5 percent. KRC projects[4] contributed 7 percent of the new establishments and 33 percent of the new employment. Thus a substantial amount of non-project related growth did occur.

A shift in composition toward manufacturing. Along with this overall growth, significant compositional changes also occurred in the downtown economy. In 1987, 34 percent of all downtown employees worked in office activities (banks, business services, etc.), 31 percent worked in commercial (mostly small retail) and personal service establishments, 26 percent worked for government and cultural/religious institutions, and only 9 percent worked in manufacturing. Manufacturing, however, dominated 1987-1990 employment growth, accounting for 64 percent of the 2,160 net increase. The number of jobs in commerce actually declined slightly while the change in employment of government, cultural, and religious establishments was negligible. The increase in manufacturing (from 1,365 employees to 2,785) is largely, but clearly not totally, a result of the efforts of KRC.

This shift in the structure of downtown employment is fully consistent with Project goals. The *Project Paper* set as one of its principal targets an increase in manufacturing activity and manufacturing employment. Much of the small retail and personal service activity in Inner Kingston has been residual activity--that is, when people are unable to find regular work, they go into small business on their own. Many of these businesses are duplicative and contribute little value to the downtown economy, (the number of small eating establishments, bars, small tailor shops, etc. has been much larger than needed to serve the market) though the incomes they generate may be critical to peoples' lives. Thus some losses in establishments of these types is not inconsistent with a strengthening of the economy.

[4]This term refers to KRC's direct investment. It excludes private projects assisted under the Restoration Grants Program. Data are derived from Chapter II.

Table 4.3
Business Establishments by Size 1990

			Number of employees per establishment				
PERCENT OF ESTABLISHMENTS	Count	Total	< 6	6-10	11-25	26-100	> 100
Office Activities							
Financial services	43	100.0	20.9	9.3	16.3	39.5	14.0
Professional services	127	100.0	68.5	18.1	8.7	3.9	0.0
Business services	86	100.0	44.2	30.2	17.4	8.1	0.0
Other services	27	100.0	66.7	14.8	7.4	11.1	0.0
TOTAL	283	100.0	53.7	20.1	12.4	11.3	2.5
Commercial Activities							
Wholesale trade	102	100.0	39.2	37.3	21.6	2.0	0.0
Retail trade	263	100.0	55.9	20.9	17.5	5.7	0.0
Restaurants/bars	117	100.0	70.1	20.5	9.4	0.0	0.0
Other activities	129	106.0	85.3	10.1	3.1	1.6	0.0
TOTAL	611	100.0	62.0	21.3	13.6	3.1	0.0
Manufacturing							
TOTAL	65	100.0	41.5	20.0	12.3	20.0	6.2
TOTAL BUSINESS	959	100.0	58.2	20.9	13.1	6.7	1.1
Cultural & religious							
TOTAL	11	100.0	36.4	36.4	18.2	9.1	0.0
Public Sector							
Central government	9	100.0	0.0	11.1	22.2	22.2	44.4
State-owned enterprises	10	100.0	0.0	30.0	10.0	50.0	10.0
Local government	1	100.0	0.0	0.0	100.0	0.0	0.0
TOTAL	20	100.0	0.0	20.0	20.0	35.0	25.0
TOTAL OTHER	31	100.0	12.9	25.8	19.4	25.8	16.1
TOTAL	990	100.0	56.8	21.0	13.3	7.3	1.6

Table 4.4
Business Establishments by Time at Location 1990

			Time at Present Location (years)				
PERCENT OF ESTABLISHMENTS	Count	Total	< 1	1-3	3-5	6-10	> 10
Office Activities							
Financial services	43	100.0	7.0	7.0	18.6	16.3	51.2
Professional services	127	100.0	11.8	22.0	24.4	26.8	14.2
Business services	86	100.0	15.1	18.6	18.6	17.4	30.2
Other services	27	100.0	0.0	18.5	37.0	25.9	18.5
TOTAL	283	100.0	11.0	18.7	23.0	22.3	25.1
Commercial Activities							
Wholesale trade	102	100.0	13.7	21.6	16.7	13.7	34.3
Retail trade	263	100.0	9.1	16.0	25.1	14.4	35.4
Restaurants/bars	117	100.0	7.7	14.5	24.8	19.7	33.3
Other activities	129	100.0	11.6	23.3	30.2	12.4	22.5
TOTAL	611	100.0	10.1	18.2	24.7	14.9	32.1
Manufacturing							
TOTAL	65	100.0	6.2	27.7	29.2	15.4	21.5
TOTAL BUSINESS	959	100.0	10.1	19.0	24.5	17.1	29.3
Cultural & religious							
TOTAL	11	100.0	9.1	9.1	36.4	9.1	36.4
Public Sector							
Central government	9	100.0	11.1	22.2	22.2	0.0	44.4
State-owned enterprises	10	100.0	10.0	0.0	40.0	20.0	30.0
Local government	1	100.0	0.0	0.0	100.0	0.0	0.0
TOTAL	20	100.0	10.0	10.0	35.0	10.0	35.0
TOTAL OTHER	31	100.0	9.7	9.7	35.5	9.7	35.5
TOTAL	990	100.0	10.1	18.7	24.0	16.9	29.5

Table 4.5
Components of Change in Employment (Estimated) 1987-1990

	1987 Total		Employment losses (estbs. closed)		Employment gains (estbs. opened)		Changes in existing estbs.		1990 Total		Net	Annual Percent
	Estbs.	Workers	Estbs.	Workers	Estbs.	Workers	Estbs.	Workers	Estbs.	Workers	Change	Change
Office Activities												
Financial service	63	3,305	12	222	7	67	51	379	58	3,529	224	2.2
Professional serv	170	1,247	50	212	56	346	112	119	168	1,500	253	6.3
Business services	87	607	22	187	40	375	65	182	105	1,058	370	15.4
Other services	30	193	7	23	6	11	23	71	29	253	60	9.4
TOTAL	350	5,432	99	644	109	799	251	751	360	6,339	907	5.3
Commercial Activities												
Wholesale trade	104	931	19	106	41	250	84	(51)	126	1,024	93	3.2
Retail trade	285	2,729	64	225	92	440	221	(437)	313	2,507	(222)	(2.8)
Restaurants/bars	144	669	35	119	33	122	109	(56)	142	616	(53)	(2.7)
Other activities	141	644	34	74	44	106	107	(19)	151	658	13	0.7
TOTAL	674	4,973	152	524	210	918	521	(563)	732	4,804	(169)	(1.1)
Manufacturing												
TOTAL	72	1,365	28	448	48	1,854	42	14	92	2,785	1,420	26.8
TOTAL BUSINESS	1,096	11,771	279	1,616	367	3,571	814	202	1,184	13,928	2,158	5.8
Cultural & religious												
TOTAL	18	142	0	0	3	16	10	(1)	13	157	15	3.3
Public Sector												
Central governmen	21	1,815	1	8	4	257	22	(17)	24	2,047	232	4.1
State-owned enter	14	1,341	0	0	1	10	14	108	15	1,459	118	2.9
Local government	4	834	1	50	0	0	3	(230)	3	546	(288)	(13.2)
TOTAL	39	3,990	2	58	5	267	39	(147)	42	4,052	62	0.5
TOTAL OTHER	49	4,132	2	58	8	283	49	(148)	55	4,209	77	0.6
TOTAL	1,145	15,903	281	1,674	375	3,854	863	53	1,239	18,137	2,234	4.5

Note on Estimation Methodology:

Estimates for establishments which were present but not surveyed in both 1987 and 1990 were calculated based on the median size of firms reporting employment in both 1987 and 1990, classified by sub-sector. A similar procedure was used for firms which closed after 1987 or which opened since 1987 and were not surveyed; estimates are based on the median size of similar, reporting establishments. Establishments which were present in both 1987 and 1990, but which only reported their employment in one year, had their employment for the other year estimated by adjusting the reported figure by the average employment growth rate for similar firms during the period 1987-1990.

Growth of the Downtown Economy, 1987-1990

Total Change	Establishments	Employment
Total 9/87	1,145	15,900
Losses	-281	-1,700
Gains		
Existing Estab.	0	100
New Estab.	375	3,900
Total	375	3,900
Net Change	94	2,200
Total 9/90	1,239	18,100
Annual % Growth	2.7%	4.5%
Total Gains		
KRC Projects	26	1,300
Other	349	2,600
Total	375	3,900

Downtown growth in context. From 1982 to 1985, employment in Jamaica had grown by only 0.9 percent per year. By early 1986, however, there were signs that the nation was coming out of the recession. Those signs--including evidence that the formation of small-scale manufacturing was being held back by lack of sufficient factory space--were important in the decision that the timing was right to initiate the Inner Kingston Project. What happened to the national and local economy over the next few years? Data below show average annual employment growth rates from October 1986 to October 1989 (from Labour Force reports of the Statistical Institute of Jamaica).

(Annual Growth Rates)	Reference Location	Project Area
Metropolitan Kingston	2.5	4.5
Jamaica		
Agriculture/Mining	-4.3	N/A
Manufacturing	5.7	26.8
Other	5.4	1.8
Total	2.4	4.5

The 4.5 percent growth rate experienced downtown during the project period thus compares quite favorably to the national (2.4 percent) and metropolitan (2.5 percent) growth rates. Although Jamaica as a whole was restructuring its workforce toward manufacturing in this period, manufacturing growth in Inner Kingston was far greater than elsewhere.

In 1987, Inner Kingston's 15,900 jobs accounted for 4.5 percent of the 350,100 total employment in metropolitan Kingston (here defined to include all of Kingston, St. Andrew, and St. Catherine Parishes). Its average annual employment growth over the next few years (743) represented 5.4 percent of the annual job growth in the metropolis (13,700).

Unemployment in the surrounding neighborhoods has declined. The Project was designed not just to revive the downtown economy, but specifically to improve economic conditions for residents of the distressed neighborhoods nearby. Data from the Statistical Institute of Jamaica (various years) indicate that this aim is being achieved. In 1982, 27 percent of Jamaica's labor force was unemployed. Even with the recession over the next few years, the unemployment rate declined, reaching 22 percent in 1986. During the Project period it declined further reaching 17 percent in 1989. Unemployment data are not available for all of the neighborhoods surrounding Inner Kingston, but data are available for Kingston Parish which is a reasonable proxy. Like the national experience, the Parish's unemployment rate declined throughout the 1980s, but it did so even more rapidly dropping from 37 percent in 1982 to 24 percent in 1986 to 19 percent in 1989. Thus the initial Project objective in this regard was clearly achieved, although the specific contribution of the Project is impossible to estimate reliably.

C. INVESTMENT IN DOWNTOWN KINGSTON

The monitoring program employed a number of techniques to quantify the amount of investment in the project area. A complete tabulation of permits for renovation and new construction was a primary source for identifying sites on which investment took place, however, this was supplemented by a series of visual inspections during the project period (both to confirm building permit data and to identify other investment activity). When investments were identified, the owners (or managers) were tracked down to provide information on dollar values and other characteristics.

Private Property Related Investment

The survey obtained information on 168 properties in Downtown which had been improved since 1986.[5] Of these properties, 115 of the investments were substantial improvements to create new space (43 projects) or renovate existing space (72 projects). The high proportion of investment aimed at upgrading existing buildings can be explained by several factors:

- The mature physical structure of Downtown, with many solidly-constructed, older buildings, provides a large stock of buildings for renovation and very few undeveloped sites;
- KRC's experience indicates that the cost of renovating existing buildings which are structurally sound (as are most in Downtown) are substantially less than that of new construction;
- Downtown establishments generally desire to remain Downtown—the establishment survey revealed that only 28 percent of firms in 1987 and 20 percent of firms in 1990 wished to leave the area.

Investment projects were distributed across sectors (commercial, services, manufacturing) in about the same proportions of the number of establishments found in each sector, except for a slightly higher concentration of projects relating to office-based space.

The total value of private sector investment identified since 1986 is $50.3 million (see Table 4.6).[6] The volume of investment shows large variation between years, reaching peaks in 1987 and 1990. The increasing pace of investment in later years is partly accounted for by 11 projects valued at over $1.0 million since 1987. This growth was almost five times higher than the real rise of national investment during 1986-90 (which averaged 15.8 percent annually).

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[5]The survey results do not include investment by public sector agencies such as UDC and MPM; these are covered later in this section. The figures in the tables do not include KRC's own development activities (such as D&G Complex, Knitting Mills, or Machado Complex) unless specifically noted, but do include investments made under KRC's Restoration Grant program. In addition to the investment noted in the tables, a further 21 properties had their exteriors painted during the survey period.

[6]All values in this section relating to investment (except where noted) are quoted in constant 1985 Jamaican dollars with current prices adjusted by the consumer price index. Also, where projects were in progress across calendar years, the investment has been reported in the year the work was completed rather than attempting to distribute the expenditure. This implies (because of inflation) that the tables tend to slightly understate the true value of investment in real terms.

Table 4.6
PRIVATE SECTOR INVESTMENT ACTIVITY 1986-1990
(Constant 1985 J$'000s)

	Projects	Total	1986	1987	1988	1989	1990	in Progress
INVESTMENT TYPE								
New construction	10	9,486	348	7,899	60	585	594	0
Expansion/addition	13	10,576	0	3,106	489	5,204	1,777	0
Restoration	20	7,465	0	448	1,755	1,278	2,626	1,358
Renovation	72	17,216	938	2,142	2,650	5,305	4,400	1,781
Facade improvement	20	3,637	0	207	316	28	2,886	200
Interior refinishing	13	754	17	41	564	76	57	0
Other/Not classified	20	1,194	0	0	105	186	760	143
TOTAL	168	50,328	1,303	13,842	5,940	12,661	13,100	3,482
SECTOR								
Office activities								
Financial services	16	8,789	0	3,013	301	230	5,044	200
Professional services	20	11,271	17	8,477	372	1,638	766	0
Business services	11	3,058	0	622	0	851	1,586	0
Other services	9	1,772	0	0	1,279	49	6	438
TOTAL	56	24,890	17	12,112	1,953	2,769	7,402	638
Commercial activities								
Wholesale trade	19	3,584	348	594	1,898	645	43	57
Retail trade	45	6,791	0	1,005	540	1,698	3,097	451
Restaurants/bars	9	1,735	87	0	3	56	1,504	86
Other activities	17	3,790	0	16	414	340	769	2,251
TOTAL	90	15,901	434	1,616	2,855	2,739	5,413	2,844
Manufacturing								
TOTAL	11	5,586	0	73	53	5,345	114	0
Other activities								
TOTAL	11	3,352	851	41	1,080	1,808	171	0
TOTAL	168	50,328	1,303	13,842	5,940	12,661	13,100	3,482
Number of Projects		168	5	18	35	46	52	12

Given the relative size of the sectors (in terms of number of establishments Downtown), the investment volumes indicate relative concentration in the service sector compared to existing activity. The average investment project in the service sector ($444,000) was much larger than that of commercial activities, which averaged only $177,000 per project. This is an encouraging trend, as it implies a continuing commitment by these business groups which have historically been core activities in the Downtown economy. However, the service sector demonstrated only modest growth, suggesting that investments may be aimed more at improving the quality of the property rather than to accommodate expanded operations.

Private sector investment totals for the manufacturing sector, which were dominated by one large project valued at $4.9 million, do not explain the strong employment growth in the manufacturing sector which was identified in the establishments surveys. KRC played a major role in investing in manufacturing space during the period, with four projects in the sector valued at $13.8 million. (Including its other commercial projects, KRC undertook investment equal to 30 percent of all private property related investment since 1986.)

Private Investment in Additional Equipment

In addition to the primary investment in the properties, the survey also found that 48 of the projects also included additional investment in equipment. This investment during 1986-90 amounted to $25.8 million—more than half as much as the investment in property (see Table 4.7). The large majority (83 percent or $21.6 million) of additional investment is associated with the creation of new space. This is not surprising, since expansion or construction of additional space seems likely to require additional equipment for the activities which are being accommodated there. What is surprising is that only one of the investments classed as new construction reported any additional investment in equipment. This suggests that establishments building new space are moving existing operations from other locations and so have no need to invest in additional equipment.

The service and manufacturing sectors again accounted for the largest share of this investment. This trend again underlines the shift in the structure of the Downtown economy away from commercial activities and toward services and manufacturing.

Public Sector Investment

Public sector investment during 1986-90 totaled $98.9 million, about twice the volume of private sector investment during the same period (see Table 4.8). Public sector investment peaked during the middle years of the project period, with UDC's West Kingston Redevelopment Project the main focus of development, accounting for more than two-thirds of public investment in the Downtown area. Other major projects included the improvement of St. William Grant Park and the development of arcades by

Table 4.7
ADDITIONAL INVESTMENT IN EQUIPMENT 1986-1990

(Constant 1985 J$'000s)

	Projects	Total Value	1986	1987	1988	1989	1990	In Progress
INVESTMENT TYPE								
New construction	1	733	0	733	0	0	0	0
Expansion/addition	7	16,623	0	4,724	178	11,283	438	0
Restoration	3	54	0	0	0	39	14	0
Renovation	22	4,123	96	265	489	2,132	1,126	16
Facade improvement	7	486	0	0	0	10	477	0
Interior refinishing	7	2,335	0	24	2,197	105	9	0
Other/Not Classified	1	1,486	0	0	0	0	1,486	0
TOTAL	48	25,840	96	5,746	2,865	13,569	3,549	16
SECTOR								
Office activities								
Financial services	11	8,991	0	4,479	1,994	132	2,386	0
Professional services	7	915	0	798	0	79	38	0
Business services	6	2,503	0	245	0	1,984	275	0
Other services	3	126	0	0	75	26	24	0
SUBTOTAL	27	12,534	0	5,522	2,069	2,220	2,723	0
Commercial activities								
Wholesale trade	3	154	0	0	150	0	4	0
Retail trade	4	457	0	12	0	39	405	0
Restaurants/bars	2	111	96	0	15	0	0	0
Other activities	3	347	0	0	331	0	0	16
SUBTOTAL	12	1,069	96	12	497	39	409	16
Manufacturing SUBTOTAL	7	11,973	0	212	120	11,309	331	0
Other activities SUBTOTAL	2	264	0	0	178	0	86	0
TOTAL	48	25,840	96	5,746	2,865	13,569	3,549	16
No. of investments		48	1	7	11	10	18	1

Table 4.8
Public Sector Investment in Downtown Kingston 1986-1990

(1985 J$'000s)

	Pre-1986	1986	1987	1988	1989	1990	Total 1986-90
MPM							
Pearnel Charles Arcade	0	115	0	5	4	1,374	1,499
Old Holmers Arcade	0	245	38	79	0	3	366
Metro Arcade (KIG)	0	0	2,691	1,044	161	11	3,908
TOTAL	0	361	2,729	1,128	165	1,389	5,772
UDC							
West Kingston Development	9,915	4,739	16,162	20,084	20,409	6,140	67,533
St. William Grant Park	2,864	5,679	2,473	244	0	0	8,395
Waterfront Improvements	790	1,545	1,006	183	0	0	2,734
Kingston Trans. Center	0	239	1,174	2,162	2,470	561	6,607
Harbour St. Sewerage	0	0	235	1,777	2,386	729	5,127
TOTAL	13,569	12,201	21,050	24,451	25,264	7,430	90,396
GOJ							
Supreme Court Renovation	0	0	0	124	1,737	889	2,750
Road Resurfacing	0	0	0	0	0	0	0
TOTAL	0	0	0	124	1,737	889	2,750
TOTAL	13,569	12,562	23,778	25,704	27,167	9,708	98,919

MPM in the old Kingston Industrial Garage building on Church Street and the construction of the Pernell Charles Arcade on East Parade.

UDC's project components for the Inner Kingston project, which would have directly addressed some of the infrastructure problems plaguing Downtown should have totaled more than $40 million. However, because of design and implementation problems (see Chapter III) only $11.7 was spent and the majority of UDC's proposed investments remain uncompleted.

Assessing Investment Trends

It is apparent that the total volume of investment flowing into Downtown has greatly increased during the course of the project. Using data on the volume of private and public sector investment in the years preceding the project, the increase in investment volume can be estimated. Total property-related investment in Inner Kingston averaged $36.6 million annually during 1987-1990. This is a substantial increase over the average for the previous four-year period (1983-1986), when total investment averaged only $10.1 annually (see Table 4.5). UDC's activities in West Kingston were a

major contributor to the rise in investment, adding more than $10 million each year to the average.

On the private sector side, KRC's share of average annual private investment rose in absolute terms to about $3.7 million during 1987-1990 from just under $1.1 million during 1983-86. However, despite this much higher level of activity, KRC's proportionate share of private sector investment fell from 31 percent in 1983-1986 to 24 percent in 1987-1990—-other private sector investment increased by almost $9.0 million, to average $11.4 million annually during 1987-1990. Non-KRC private investment was thus the fastest-growing component of total investment in Downtown. The annual average for 1987-90 was about 4.6 times higher than the level recorded for 1983-86, well above the three-fold increase set as a target in the project design.

Property-Related Investment
(Average per year in constant 1985 J$'000s)

	1983-1986	1987-1990
Private		
KRC	1,084	3,670
Other	2,452	11,386
Total	3,536	15,056
Public		
UDC (Inner Kingston)	60	2,874
UDC (Other)	6,383	16,675
Other	90	2,040
Total	6,533	21,589
TOTAL	10,069	36,645

D. REAL ESTATE MARKET CONDITIONS

The Structure of Space Use Downtown

Table 4.9 shows the changes in the structure of space use between 1987 and 1990 in Downtown Kingston. The most striking figure in the table is the increase in space devoted to manufacturing use—from 155,000 square feet in 1987 to 344,000 in 1990, a 122 percent increase. The large majority of this increase—169,000 square feet—was the direct result of KRC rehabilitation. However, even other investors' addition of 20,000 square feet of manufacturing space would have increased the stock of space by 13 percent over its 1987 level, still giving it the highest growth rate of any sector. Other

Table 4.9
Downtown Kingston Floor Space Use 1987-1990

	1987 Floor Area (Sq. Ft.)	Percent	1990 Floor Area (Sq. Ft.)	Percent	1987-1990 Percent Change
OCCUPIED PROPERTIES					
Business Use					
Commercial	1,814,914	29.5	1,841,805	30.1	1.5
Office	1,329,776	21.6	1,304,643	21.3	(1.9)
Manufacturing	154,882	2.5	343,872	5.6	122.0
Mixed Use	220,229	3.6	233,243	3.8	5.9
Parking Structures	266,535	4.3	266,535	4.4	0.0
TOTAL	3,786,335	61.6	3,990,097	65.2	5.4
Other Uses					
Residential	356,554	5.8	341,110	5.6	(4.3)
Government	674,679	11.0	709,479	11.6	5.2
Education	54,760	0.9	54,760	0.9	0.0
Religious	41,708	0.7	42,508	0.7	1.9
Other	222,478	3.6	222,478	3.6	0.0
Use Not Known	325,969	5.3	249,149	4.1	(23.6)
TOTAL	1,676,147	27.3	1,619,483	26.4	(3.4)
TOTAL OCCUPIED	5,462,483	88.9	5,609,581	91.6	2.7
VACANT PROPERTIES					
Vacant Building Space					
Commercial	265,295	4.3	237,015	3.9	(10.7)
Office	46,640	0.8	14,608	0.2	(68.7)
Manufacturing	167,248	2.7	33,032	0.5	(80.2)
Residential	13,208	0.2	2,940	0.0	(77.7)
Government	72,000	1.2	72,000	1.2	
Use Not Known	116,803	1.9	154,743	2.5	32.5
TOTAL VACANT	681,194	11.1	514,338	8.4	(24.5)
TOTAL	6,143,677	100.0	6,123,919	100.0	(0.3)

occupancies showing significant increases were mixed use space and government. The increase in mixed use space partially reflects the larger numbers of new and small businesses which operate out of small shops and offices. Thus, it was more common in 1990 than in 1987 to find different uses occupying the same floor in a building. The increase in space occupied by government arises from the taking up of new space by four government agencies since 1987; only one GOJ agency left its space in Downtown during the same period.

The other main occupancies in Downtown, commercial and office space, showed modest adjustments by gaining about 27,000 square feet and losing about 25,000 square feet, respectively. What these and other minor changes in the sum of space in differing uses in Downtown do not reflect is how the composition of these totals have changed since 1987. Within a healthy real estate market, there is a considerable amount of change in the use of space as adjustment to new market conditions takes place: new buildings are built, other buildings are demolished; vacant space becomes occupied, occupied space is left vacant. The table below shows that despite the relatively minor adjustments (outside of manufacturing) to the total amount of space in use, there has been significant turnover within the Downtown real estate market.

Change in Floor Space Use, 1987-1990

(000 sq. ft.)	Total	Occup.	Vacant
Total 1987	6143.7	5462.5	681.2
Demolition	-91.6	-53.7	-37.9
New construction	71.9	68.2	3.7
Occupancy gains	0.0	267.2	-267.2
Occupancy losses	0.0	-134.6	134.6
Net Change	-19.8	147.1	-166.9
Total 1990	6123.9	5609.6	514.3
New constr. plus Occupancy gains			
KRC Direct	49.9	112.5	-62.6
Other	22.0	222.9	-200.9
Total	71.9	335.4	-263.5

A total of 92,000 square feet of space (representing about 1.5 percent of the total stock of space in Downtown) which was either in use or available for use in 1987 was lost through demolition or damage which rendered it unusable. (About half of this space was lost as a result of a series of fires in 1989-90. The resulting damage has not yet been repaired in most cases.) Partially offsetting these losses was the new construction or rehabilitation of unusable space totaling 72,000 square feet. KRC was the main developer of this new space, contributing 50,000 square feet of the total.

The major changes, however, took place within the stock of existing floor space, with a net increase of 133,000 square feet in occupied space. Again, a large portion of these gains were the direct result of KRC investments which brought 119,000 square feet of vacant manufacturing space into use. However, other private investors also made significant contributions to the increase in occupied space, reducing the pool of vacant commercial and office space by 28,000 square feet and 32,000 square feet, respectively. Within the various occupancies, Table 4.10 shows that all categories of use showed declines in their vacancy rates. The drop was particularly large in the case of manufacturing, as noted above, but the gains in occupied commercial and office space also dropped vacancy rates for these types of space.

The end result of these changes in the stock of building space in Downtown was that the amount of vacant, useable space declined by 167,000 square feet (or 24.5 percent of amount of space vacant in 1987). Over the same period, the amount of occupied space increased by 147,000 square feet. In this sense, the pattern of space use in Downtown has changed just as the Inner Kingston project had hoped— some properties which had become unusable have been demolished, other vacant space has been brought into use either with or without rehabilitation—overall, the vacancy rate for Downtown space has declined by a quarter, from 11.1 percent in 1987 to 8.4 percent in 1990.

Even more encouraging from the point of view of looking at Downtown as a source of jobs, the increased use of space has been accompanied by an increased in the employment density, from 2.9 employees per thousand square feet in 1987 to 3.2 in 1990. Thus, the employment gains in Downtown are not simply the result of more space being brought into use, but also a higher level of employment for a given amount of space. This trend can be explained partly by the increasing importance of the manufacturing sector in the Downtown economy and by the increased number of small and new establishments which make up the Downtown business community.

Tenure Arrangements

Despite the apparent low cost of owning property, more than seven of ten businesses Downtown obtain their space through the rental market. Of the establishments interviewed in both 1987 and 1990, only 26 percent owned their premises.

Table 4.10
Downtown Kingston Vacancy Rates 1987-1990

	Total	Upper Floors	Total Vacant	Upper Vacant	Vacancy Rate (percent) Total	Upper
1987						
BUSINESS USE						
Commercial	2,080,209	800,419	265,295	119,118	12.8	14.9
Office	1,376,416	1,052,790	46,640	20,452	3.4	1.9
Manufacturing	322,130	92,036	167,248	51,234	51.9	55.7
Mixed Use	220,229	20,452	0	0	0.0	0.0
Parking Structures	266,535	266,535	0	0	0.0	0.0
TOTAL	4,265,518	2,232,231	479,183	190,804	11.2	8.5
OTHER USES						
Residential	369,762	299,258	13,208	2,808	3.6	0.9
Government	746,679	619,100	72,000	48,000	9.6	7.8
Education	54,760	27,380	0	0	0.0	0.0
Religious	41,708	12,536	0	0	0.0	0.0
Other	222,478	120,104	0	0	0.0	0.0
Use Not Known	442,772	391,936	116,803	77,935	26.4	19.9
TOTAL	1,878,158	1,470,313	202,011	128,743	10.8	8.8
TOTAL	6,143,677	3,702,545	681,194	319,547	11.1	8.6
1990						
BUSINESS USE						
Commercial	2,078,820	813,486	237,015	105,780	11.4	13.0
Office	1,319,251	1,045,395	14,608	11,724	1.1	1.1
Manufacturing	376,904	128,952	33,032	10,970	8.8	8.5
Mixed Use	233,243	37,760	0	0	0.0	0.0
Parking Structures	266,535	266,535	0	0	0.0	0.0
TOTAL	4,274,752	2,292,127	284,655	128,474	6.7	5.6
OTHER USES						
Residential	344,050	285,150	2,940	0	0.9	0.0
Government	781,479	619,432	72,000	48,000	9.2	7.7
Education	54,760	27,380	0	0	0.0	0.0
Religious	42,508	12,536	0	0	0.0	0.0
Other	222,478	120,104	0	0	0.0	0.0
Use Not Known	403,892	323,528	154,743	93,747	38.3	29.0
TOTAL	1,849,166	1,388,129	229,683	141,747	12.4	10.2
TOTAL	6,123,919	3,680,257	514,338	270,221	8.4	7.3

Table 4.11
Tenure Arrangements 1987-1990

	1987						1990					
			Non-Owning Establishments						Non-Owning Establishments			
BY SECTOR	Total	Owner Occupied	Sub-Total	Written Lease	Other Lease	Other	Total	Owner Occupied	Sub-Total	Written Lease	Other Lease	Other
Office Activities												
Financial services	100.0	43.2	56.8	43.2	13.5	0.0	100.0	51.1	48.9	37.8	6.7	4.4
Professional service	100.0	21.7	78.3	30.0	45.0	3.3	100.0	23.4	76.6	41.4	30.5	4.7
Business services	100.0	12.5	87.5	14.3	66.1	7.1	100.0	10.3	89.7	46.0	40.2	3.4
Other services	100.0	27.8	72.2	5.6	66.7	0.0	100.0	27.6	72.4	51.7	17.2	3.4
TOTAL	100.0	24.0	76.0	25.1	47.4	3.5	100.0	24.2	75.8	43.3	28.4	4.2
Commercial Activities												
Wholesale trade	100.0	42.9	57.1	24.7	32.5	0.0	100.0	42.7	57.3	34.0	19.4	3.9
Retail trade	100.0	31.4	68.6	29.7	35.1	3.8	100.0	30.7	69.3	37.9	24.9	6.5
Restaurants/bars	100.0	22.2	77.8	13.0	63.0	1.9	100.0	20.2	79.8	41.1	33.9	4.8
Other activities	100.0	14.9	85.1	23.0	56.3	5.7	100.0	9.7	90.3	40.3	45.5	4.5
TOTAL	100.0	28.0	72.0	23.6	45.3	3.1	100.0	26.2	73.8	38.4	30.1	5.3
Manufacturing												
TOTAL	100.0	18.2	81.8	21.8	60.0	0.0	100.0	20.6	79.4	41.2	36.8	1.5
Cultural & religious												
TOTAL	100.0	100.0	0.0	0.0	0.0	0.0	100.0	45.5	54.5	45.5	9.1	0.0
PRIVATE SECTOR SUBTOTAL	100.0	26.3	73.7	23.8	46.9	2.9	100.0	25.4	74.6	40.1	29.8	4.7
Public Sector												
Central government	100.0	50.0	50.0	0.0	50.0	0.0	100.0	50.0	50.0	50.0	0.0	0.0
State-owned enterpri	100.0	33.3	66.7	66.7	0.0	0.0	100.0	18.2	81.8	81.8	0.0	0.0
Local government	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	100.0	0.0	0.0
PUBLIC SECTOR SUBTOTAL	100.0	33.3	66.7	33.3	33.3	0.0	100.0	31.8	68.2	68.2	0.0	0.0
TOTAL	100.0	26.4	73.6	23.9	46.8	2.9	100.0	25.6	74.4	40.7	29.2	4.6

Unsurprisingly, those firms which have been at their location the longest were the most likely to own their property; just under half the firms at the same location for more than 10 years were owner-occupiers. Sectors with the older age structures (financial services, wholesale and retail operations) also had above average ownership rates-see Table 4.11).

In spatial terms, most of Downtown is occupied by renters. In only small, isolated parts of the downtown area do owner-occupiers of properties make up as much as 40 percent of the establishments located there. The prime business areas—along King, Duke, and East Queen Streets--all show a majority of blocks where the proportion of renters exceed 80 percent. A similar situation exists along the waterfront, where the commercial space is owned by UDC and thus is only available through leasehold arrangements.

Two possible explanations might explain the prevalence of renting. First, although the observed land price is very low, Downtown establishments are unable to purchase property because it is unavailable. Current owners of property may not be unwilling to place it on the market because of the low prices or expectations of future appreciation. Second, the low level of rents Downtown may make renting an economically viable alternative to owning property.

Within the rental market for commercial and industrial space, there is very little "informal" occupation of buildings--although the proportion did edge up between 1987 and 1990.[7] In 1987, only 2.9 percent of the renters claimed to have no arrangement with, or pay no rent to, their landlord. By 1990, this share had risen to 4.7 percent. Of the remainder, about one third have written leases, while two thirds rely on unwritten agreements with their landlords. Written leases are used mainly by the larger establishments. In both 1987 and 1990, the average number of employees for a tenant without a written lease was about 5.1 workers; establishments with written leases averaged 20.8 employees in 1987 and 11.9 employees in 1990. Thus, financial establishments--which tend to have many employees--favor written leases while low-skill service operations--which tend to be small--do not often have written leases. Even non-financial office establishments do not use written leases for their rented space—including 21 of the 35 legal offices interviewed in 1987 and 33 of 80 legal office interviewed in 1990!

In terms of changes of tenure over time, there were only modest changes detected in the three years since 1987 for establishments which responded to both surveys. A total of 35 establishments switched from being renters to owner-occupiers, perhaps indicating a greater degree of commitment to the Downtown market or a positive assessment of the Downtown real estate market. Conversely, 22 establishments switched from being owner-occupiers to tenants in the same period. The large majority of these changes were concentrated in the commercial sector— wholesale, retail, and

[7]"Informal" occupancy is defined here as those tenants paying zero or negligible rent without a written or other form of lease agreement with the property owner.

restaurants/bars accounted for 24 of the moves to ownership and 11 of the moves to tenancy.

The implications of these moves are mixed: the switches to ownership may indicate that these establishments believe the traditional functions of Downtown--i.e., a major shopping center for Kingston and its surrounding areas--will continue; those giving up ownership may believe that the Downtown is evolving toward a more mixed structure, where manufacturing and services play a larger role. Other data support both views. The number of commercial establishments increased by 8.6 percent during 1987-1990, faster than the number of service establishments (3.8 percent), but not as fast as manufacturing (27.8 percent--mainly due to KRC's creation of new industrial space). However, in terms of employees, the service sector grew by 16.7 percent in 1987-1990 while the commercial sector shrank by 3.9 percent. (Again, manufacturing grew by the fastest, by 104 percent, mainly due to new jobs created in KRC space). It remains to be seen whether the increased number of commercial establishments reflects an higher degree of specialization that will allow them to grow sufficiently to maintain the sector's place as a major part of the Downtown economy or whether other sectors will overtake it.

Rents and Land Values

Collecting information on rent levels and land values was by far the most arduous task under the monitoring program. It was found that there were no sources of published information on real estate prices and that real estate professionals were, in general, unwilling to divulge information about specific properties which had recently been sold or leased. Attempts to collect data to define net rents in Downtown through the establishment survey proved to be difficult as respondents gave unclear or contradictory answers about what was included in their rental payments. Therefore, a special survey (using a small sample of key Downtown properties) was undertaken by KRC to interview tenants in detail about their rent payments. Comparative rents for Upper Kingston were obtained through a real estate survey undertaken by Optima Associates for UDC.[8] For data on land sales prices, the main hinderance was the low level of turnover of parcels in the project area. Data were collected from a variety of sources, including the Land Titles Office (which records sales prices as part of the title registration process), valuations commissioned by UDC on its properties in the Downtown area, and, again, the real estate survey conducted by Optima Associates (which provided data on land sales in both Downtown and Upper Kingston).

The table below summarizes the data on rent trends in Downtown and compares rents in 1990 to similar properties in Upper Kingston. The table shows that the trend of declining rents in the Downtown area has reversed, with rents rising (in real terms, as the table gives rents in constant 1985 Jamaican dollars) in all categories. (Rents for

[8]"Upper Kingston" includes the areas of New Kingston, Crossroads, Liguanea, and Half Way Tree.

Net Rents	1987 Estab.	1987 Avg. Net Rent (J$/sqft)	1990 Estab.	1990 Avg. Net Rent (J$/sqft)	Annual Increase (percent)
Inner Kingston					
Office Space	23	10.68	33	13.34	7.7
Commercial Space	105	12.75	23	15.28	6.2
Manufacturing Space (Other)	21	4.07	4	4.20	1.0
Manufacturing Space (KRC)	9	9.77	22	8.54	-4.4
New Kingston					
Office Space	NA	NA	3	21.90	NA
Commercial Space	NA	NA	64	24.61	NA
Manufacturing Space	NA	NA	1	7.83	NA

KRC's manufacturing space declined in real terms because KRC's rent escalations in its early leases—based on fixed increased after three years of a five-year lease—failed to keep up with inflation. KRC's recent leases have much stronger escalation rates, with rents rising as much as 15 percent annually.)

This rise in real terms was foreshadowed by the responses of establishments to questions about actual and expected rent increases in 1987 and 1988. Although inflation in those two years was less than 10 percent, rent increases (in nominal terms) on the order of 20 to 40 percent were expected. This indicates that property owners were beginning to realize that rents in the Downtown area were significantly underpriced. Actual nominal increases in rents during 1987-1990 averaged 21 percent annually for commercial space, 20 percent annually for office space, and 14 percent annually for manufacturing space. This has helped bring rents in Downtown closer to levels found elsewhere in Kingston.

However, the table also shows that rents in Downtown are still about 60 percent lower than rents for similar types of properties in Upper Kingston, the other main commercial concentration in Kingston. Thus, despite rising in real terms through the project period, Downtown remains a comparatively low-cost location for business requiring space.

The data on land values (which required pooling because of the low number of observations available for individual years), shown in the table below, illustrates a dramatic reversal of the decline of land prices in Downtown. The first set of figures is based on independent valuations commissioned by UDC on its undeveloped properties. Waterfront properties increased in value by 30 percent between 1986 and 1989. Properties along Harbour Street and Water Lane gained even more, doubling in value during the same period (although the size of the gain in terms of dollars per square foot

was about the same). Similarly large gains were found for developed properties in Downtown. Average sale prices for land and commercial buildings during 1987-1990 were 90 percent higher than prices for similar commercial properties during 1983-1987. In comparison, data available for Upper Kingston shows that the prices for land and commercial buildings actually fell in real terms across the two periods. While the data do show a robust increase in land values in Downtown, the comparison with Upper Kingston bears further explanation. The data for Upper Kingston do not reflect the range of prices found within the area. For example, *The Daily Gleaner*, 6 February 1990, reported that land prices in New Kingston were as high as $150-$200 per square foot ($85-$114 in constant 1985 dollars) in New Kingston. In comparison, the same article describes land prices in Downtown as reaching $75 per square foot ($43 in 1985 prices) on King Street. For certain parts of Upper Kingston, land prices are more than twice as high as those in Downtown. However, even on this front there has been significant improvement. In 1986-1988, the price of commercial property in Downtown was selling at prices between one tenth and one-fifth of the price of undeveloped land in New Kingston. Thus, although land prices in parts of Upper Kingston remain higher than prices in Downtown, the relative difference is shrinking. Downtown still remains an attractive location for investment and development because of its lower prices. The narrowing of price differentials indicates that land values are starting to respond to this increased demand for Downtown property.

Land Prices	Parcels	Area (Sq.Ft.)	Avg. Value (J$/sqft)	Change Over Period (percent)
UDC Land Valuations				
Waterfront 1986	9	372,409	20.10	
Waterfront 1989	9	372,409	26.13	30.0
Harbour St./Water Ln. 1986	8	293,531	5.72	
Harbour St./Water Ln. 1989	8	293,531	11.89	108.1
Reported Sales Prices				
Downtown 1983-86	14	42,953	28.94	
Downtown 1987-90	23	87,657	54.90	89.7
Upper Kingston 1983-86	10	93,909	29.67	
Upper Kingston 1987-90	13	129,992	25.49	(14.1)

E. OTHER INDICATORS OF DOWNTOWN PERFORMANCE

Use of the Oceana Hotel and the Jamaica Conference Center

The design of the Inner Kingston project also called for other indirect measures of Downtown activity to be monitored in order to assess how perceptions about Downtown outside the local business and real estate community were changing. To this end, one set of project targets specified that occupancy and usage rates for the Oceana Hotel and Jamaica Conference Center should rise significantly over the project period.

Occupancy data for the Oceana Hotel for 1986-1990 are shown in Table 4.12. As can be seen, the occupancy rates have improved steadily since 1986. According to hotel management, most of the stays at the Oceana are short, averaging about two days, and typical guests are usually in Kingston on business or attending meetings. In 1987, hotel staff noted that despite the low cost of the Oceana's accommodations—the hotel is among the least expensive of the major hotels in Kingston—many potential guests preferred alternative accommodation because of concerns about security and the lack of night-time activities in the Downtown area. The rise in occupancy suggests these perceptions may be changing. Overall crime rates in Downtown have remained broadly stable during 1986-1990 (see below) and the Oceana itself has been one of the leaders in efforts to provide after-dark activities in Downtown. However, despite these improvements, the Oceana overall occupancy rate remains at only about half the level required in the hotel industry for profitable operations.

As with the Oceana Hotel, the Jamaica Conference Center has also seen its performance improve substantially during the project period (also shown on Table 4.12). The number of events and total number of persons attending those events have risen 23 percent and 17 percent, respectively, through the project period. An important feature of this growth is that it has come mainly through increases private sector use of the facility; the number of government-sponsored events and persons attending have fallen since 1986. With this increase in activity has also come an increase in the revenues of the center and a greater degree of cost-recovery. Receipts rose more than three-fold between 1987 and 1990 and the share of costs covered by this income rose from 13 percent in 1987 to 26 percent in 1990. Although these figures suggest that the Conference Center still has a long distance to go in order to fully cover its costs, it should be noted that the facility was built primarily for the Law of the Sea conference (which meets annually from mid-March to mid-April). However, the Law of the Sea events, while reserving the entire center, have been scaled back from their envisaged level and currently only use about a seventh of the center's capacity. Thus, while it seems likely that the center will continue to operate at relatively low levels of capacity (as most local conferences do not require the center's large size and thus allow hotels and other sites to be competitive alternatives), the improvement in the performance of the Conference Center is strong positive sign about the growing acceptability of Downtown by the private sector as a venue for meetings and other functions.

Table 4.12
Usage Rates: Oceana Hotel and Conference Center

	1986	1987	1988	1989	1990
Oceana Hotel Occupancy Rates					
January	20.0	10.0	18.2	18.4	44.7
February	18.4	11.0	29.4	21.3	34.7
March	17.9	11.0	35.0	60.1	56.6
April	9.9	44.1	63.2	41.5	49.0
May	7.8	15.5	33.1	33.2	49.4
June	8.2	21.6	20.0	30.5	54.6
July	8.8	20.0	34.5	44.8	39.2
August	9.0	21.0	19.2	45.0	43.4
September	8.5	21.0	12.6	42.1	23.9
October	8.8	37.6	19.5	33.7	48.3
November	9.0	24.6	34.8	33.8	33.4
December	9.8	23.5	34.4	34.7	n/a
Jamaica Conference Center Usage					
Events					
Government	86	72	57	99	76
Private	86	140	204	243	220
TOTAL	172	212	261	342	212
Participants					
Government	11,572	8,037	5,525	8,188	6,874
Private	9,890	17,063	33,541	38,883	26,456
TOTAL	21,462	25,100	39,066	47,071	25,100
Receipts					
Government	n/a	n/a	525	297	361
Private	n/a	n/a	515	769	727
TOTAL	460	1,320	1,040	1,066	1,320
Receipts as share of costs (%)	12.5	32.8	25.6	25.9	26.2

Crime Rates

One of the strong opinions about Downtown encountered in the early stages of the Inner Kingston project was the perception that the area was suffered from severe security problems and was plagued by high levels of crime. Since 1986, anecdotal evidence suggests that this perception has changed and that the public feels that downtown has become a safer place. (For example, in the early stages of the project it was often extremely difficult to find a taxi in Downtown after 5:00 in the afternoon. In 1990, taxis could easily be hailed as late as 6:30 pm.)

Interestingly, data provided by the Superintendent of Police show that these perceptions may be based on relative changes in the level of crime as well as actual changes in crime rates in Downtown.[9] For the period 1986-1989, police statistics in Table 4.13 show that crime rates peaked in 1987, but have since fallen, with 1989 levels about 18 percent lower than the peak and only slightly higher than levels recorded in 1986. While the numbers of violent crime have fluctuated without trend, the number of burglaries and thefts have both declined since 1987. These trends may reflect both the improved physical environment as well as greater security measures taken by local business establishments.

Table 4.13
Crime Rates in Downtown Kingston

					Average per 1,000 Population		
	1986	1987	1988	1989	1986	1989	Percent Change
Downtown							
Violent Crime	370	458	374	466	12.7	16.1	25.9
Burglary	148	181	159	159	5.1	5.5	7.4
Theft	465	656	579	431	16.0	14.8	-7.3
TOTAL	983	1,295	1,112	1,056	33.9	36.4	7.4
St. Andrew Central							
Violent Crime	312	412	373	378	10.1	12.2	21.2
Burglary	404	397	426	384	13.0	12.4	-5.0
Theft	343	254	805	794	11.1	25.6	131.5
TOTAL	1,059	1,063	1,604	1,556	34.2	50.2	46.9

[9]The crime data for Downtown are for an area including the Inner Kingston project area, but extending farther north to North Street.

Data were also collected for a similar commercial area elsewhere in Kingston to see if the incidence of crime was substantially higher in Downtown. The comparison area, St. Andrew Central, is located in Upper Kingston and includes the areas of Crossroads, Half Way Tree, and New Kingston and is similar to Downtown in that it contains a mix of both intensive commercial development and residential areas (each of about 30,000 inhabitants). Despite Downtown's reputation for high levels of crime, in every year but 1987 the number of crimes reported in St. Andrew Central was higher than Downtown and the crime rate has increased dramatically since 1987—a trend exactly opposed to that of Downtown. Thus, it may also be true that the rising rate of crime elsewhere has contributed to the perception that the security situation in Downtown has improved, since Downtown no longer seems significantly more dangerous than other similar areas.

F. PERCEPTIONS OF CHANGE IN DOWNTOWN KINGSTON

Overall, a key question which the Inner Kingston project must answer is this: Does the public believe that conditions in Downtown are improving? If the answer is "Yes", then the task of attracting investment and promoting development in Downtown is greatly simplified and project efforts since 1986 will have succeeded in helping reverse the perception that Downtown was decaying beyond redemption.

Evidence on perceptions is available from four sources. First, as a part of the 1990 survey, a random sample of pedestrians downtown were asked whether they thought conditions in the area were improving. Second, in the establishment component of that survey, managers of downtown establishments were asked the same question and, also, about whether they wanted to move out of the area. Third, those contacted in the investment survey were queried about their reasons for investing downtown. Finally, special in-depth interviews on this issue were conducted with a number of government and business leaders.

Perceptions of Downtown Pedestrians

Table 4.14 shows the results from the pedestrian survey. The figures show that: more than half the respondents thought conditions in Downtown had improved over the past five years; only about one-fifth of those responding thought that conditions in Downtown had continued to decline. Across occupation types, there was very little variation in the percent responding positively on downtown improvement.

Among those who though conditions had worsened, small traders showed a response rate that was significantly higher than other occupation classes. Again, this may be related to the economic conditions which street vendors in Downtown have faced over the past few years. Increasing competition among vendors and stronger efforts to remove them from certain areas have made the conditions under which they operate more difficult.

Table 4.14
Perception of Changes in Downtown Conditions Since 1986

(Pedestrian Survey)

	Responses	Total	Better	Same	Worse
Occupation					
Management/professional	234	100.0	55.1	20.9	23.9
Supervisor	107	100.0	57.9	23.4	18.7
Secretarial/clerical	353	100.0	59.8	19.8	20.4
Skilled worker	372	100.0	59.4	21.8	18.8
Unskilled worker	294	100.0	59.5	18.4	22.1
Small trader	213	100.0	56.3	15.0	28.6
Other occupations	581	100.0	57.0	17.2	25.8
Total	2,154	100.0	58.0	19.1	22.9
Residence					
Downtown	171	100.0	50.9	22.8	26.3
Central Kingston	465	100.0	56.6	18.9	24.5
Other Kingston	839	100.0	59.6	19.8	20.6
St. Catherine	718	100.0	58.4	17.0	24.7
St. Andrew	77	100.0	48.1	27.3	24.7
Other areas	130	100.0	61.5	26.9	11.5
Total	2,400	100.0	57.8	19.6	22.6

When the responses were grouped according to the place of residence of the respondent, the pattern of responses were broadly similar between categories. One point of interest is that Downtown residents themselves were the most negative about how things had changed; just half thought the area had improved and more than a quarter thought conditions had gotten worse. This may indicate that some of the problems which affect local residents (such as poverty and unemployment) have not yet felt much impact from the changes which have taken place downtown.

Perceptions of Managers of Downtown Establishments

Table 4.15 shows the responses from the survey of establishment managers. The respondents divide into roughly two groups: managers of commercial activities, of which less than half thought downtown had improved over the past five years; and managers of other activities, including services and manufacturing. In general, these results parallel the economic performance of these sectors. The commercial sector during the project period has been marked by higher levels of turnover of firms, a downsizing of average firm firms size, and lower total employment. Conversely, the other sectors have been more stable (in the case of services) or growing dramatically (in the case of manufacturing). The data also show that the previous perceptions of downtown worsening has clearly been reversed, with only about one in five managers holding this view.

Questions related to private sector managers desires to move offer even more positive findings on downtown improvement. First, the percent stating they wanted to move at all was fairly small and has declined: from 28 percent in 1987 to 20 percent in 1990. But a manager's desire to move may be motivated by a number of reasons other than dissatisfaction with his current location. The key question here is the percentage of all managers who said they wanted to move their establishments out of downtown: this share declined notably from 16 percent in 1987 to only 9 percent in 1990.

Perceptions of Investors

Investors cited the desire to improve the operation of their establishment as the primary reason for undertaking their investment; 28 percent of the respondents gave this reason. The other major reasons for investing in the property were to provide more space for their operations (16 percent) and because the building required repairs or upgrading for continued use (28 percent). Thus, those interviewed showed a willingness to invest in downtown property rather than find other properties and locate elsewhere.

KRC was most often identified as having played a significant positive role in establishments' investment decision. In many cases, KRC participated through its Restoration Grants program. In 15 projects, KRC's provision of $800,000 leveraged an additional $5.0 million in total investment. KRC also provided financial support for four denominational projects through its Community Development program.

Table 4.15
Perception of Change in Downtown Conditions Since 1986

(Establishment Survey)

	Responses	Total	Better	Same	Worse
Office Activities					
Financial services	39	100.0	59.0	20.5	20.5
Professional services	119	100.0	50.4	22.7	26.9
Business services	79	100.0	59.5	19.0	21.5
Other services	27	100.0	66.7	18.5	14.8
Subtotal	264	100.0	56.1	20.8	23.1
Commercial Activities					
Wholesale trade	94	100.0	44.7	38.3	17.0
Retail trade	272	100.0	49.6	30.1	20.2
Restaurants/bars	119	100.0	40.3	37.8	21.8
Other activities	127	100.0	53.5	29.9	16.5
Subtotal	612	100.0	47.9	32.8	19.3
Manufacturing					
Subtotoal	67	100.0	52.2	25.4	22.4
Cultural & Religious					
Subtotal	10	100.0	60.0	20.0	20.0
PRIVATE SECTOR SUBTOTAL	953	100.0	50.6	28.9	20.6
Public Sector					
Central government	10	100.0	70.0	20.0	10.0
State-owned enterprises	9	100.0	55.6	11.1	33.3
Local government	1	100.0	100.0	0.0	0.0
PUBLIC SECTOR SUBTOTAL	20	100.0	65.0	15.0	20.0
TOTAL	973	100.0	50.9	28.6	20.6

About 73 percent of those interviewed stated that they expected to earn a good financial return from their investment. The most pessimistic investors were those investing in the creation of new space—these projects typically have the highest unit costs and the most uncertain returns.

Those interviewed were also strongly positive about changes in downtown over the past few years. Of all respondents, 71 percent thought that conditions downtown had gotten better since 1986; only 5 percent thought conditions had gotten worse. In terms of perceived changes in property values, the results were broadly similar. About 51 percent of investors thought property values rose faster over the past three years than over the two years previously; another 23 percent thought property prices were rising at about the same rate as before. Only one percent thought the path of property values had been downward.

Interviews with Business and Community Leaders

In early 1991, special interviews about changing downtown conditions were conducted with the Mayor, the Minister of Local Government, the President of the Chamber of Commerce, and 22 CEOs (or other high officials) of important businesses in metropolitan Kingston. The latter group included the leaders of four banks, three life insurance companies, and a variety of other types of businesses ranging from major trading companies to real estate firms--the group included several who had moved their corporate headquarters outside of downtown as well as many who stayed.

The results (reported in depth in Dubinsky, 1990) are difficult to summarize because such a variety of topics were discussed. However, several results are noteworthy. First, all respondents thought downtown conditions had definitely improved over the past four years, although opinions about the extent of improvement spanned a broad range. Several felt that a major transformation had already occurred while, at the other end of the spectrum, there were a few who felt the changes so far were marginal and insufficient to stop further outmigration of firms. Virtually all said they thought downtown land values were now increasing, but a number thought the change was still small (lower than that actually measured in section E above).

Second, all recognized that much remains to be done. Crime and disturbance due to hagglers clearly remain a major concern of many. Opinions about priorities for action also spanned a broad range: e.g., tightening security, disposing of and developing the vacant UDC waterfront lands, completing of the airport road, providing more and better human resource programs, getting the national government to move more of its activity back downtown. Perhaps the most frequently cited recommendation, however, was, somewhat surprisingly, improvement in downtown housing opportunities. Many emphasized need for more residents to overcome the fact that downtown remains "dead" in the evening and generally to enhance the business climate.

Third, and perhaps most pronounced, was uniform high praise for KRC and its program in the area. Most respondents saw KRC as an agency that was "getting things done" (in sharp contrast to government). Virtually all thought KRC's "energetic and skillful" Executive Director was a major reason for its success.

G. SUMMARY OF FINDINGS AND CONCLUSIONS

While the economic revitalization of Inner Kingston is far from complete, there have been marked improvements since 1986. The changes are reflected by virtually all relevant measures and they have generally been the types of changes the Project's planners had hoped for. The most important (from 1987 to 1990) are:

- *Downtown economic activity grew significantly.* Downtown registered a net increase of 94 establishments and 2,200 employees, representing annual growth rates of 2.7 percent for establishments and 4.5 percent for employment. The latter figure compares with 2.5 percent for metropolitan Kingston as a whole and 2.4 percent for all of Jamaica over the same period. KRC projects contributed 7 percent of downtown's new establishments and 33 percent of its new employees.

- *Manufacturing dominated downtown employment growth.* Manufacturing accounted for 64 percent of net increase in total employment, and jobs in this sector add considerably more economic benefit than many of the marginal commercial and service activities typical in the area in the past.

- *Unemployment in the surrounding neighborhoods declined.* For example, Kingston Parish's unemployment rate dropped from 24 percent (1986) to 19 percent (1989).

- *Nonproject investment clearly exceeded the target.* Total property related investment averaged $36.6 million annually over 1987-1990, compared with an average of 10.1 million over the preceding four years. (KRC activity accounted for 31 percent of the 1987-1990 total). The 1987-1990 yearly average of non-KRC private investment was 4.6 times the average for 1983-1986.

- *Considerable vacant building space was brought into productive use.* Occupied floor space increased by 147,100 sq. ft. (2.7 percent growth) and vacant floor space dropped by 166,900 square feet (24.5 percent decline). (KRC activity accounted for just one third of the total increase in occupied space).

- *Occupancy rates increased in major facilities*; for example, from 22 percent to 43 percent at the Oceana Hotel, and from 17 percent to 37 percent at the Jamaica Conference Center.

- *Rents and land values also increased.* Data for a sample of undeveloped properties showed land value increases ranging from 20 to 40 percent per year. Rents for office space went up by 21 percent per year.

To what extent was the Inner Kingston Project itself responsible for this turnaround? As noted earlier there is no reliable way to measure its influence, but a number of indicators suggest that its role was important.

First, in the interviews noted in Section G, a substantial number of private and public sector leaders in the area concluded that KRC's activities had done a great deal to promote positive change. Its direct investments at a very early stage, demonstrated that projects could be developed and marketed profitably in the area. The fact that in 1990, a number of business leaders were willing to provide equity funding to cover the full costs of KRC's project at 38A-40 Harbour St. is a truly dramatic change--few would have conceived that as a possibility four years earlier. In the interviews, property owners who had improved their buildings under KRC's Restoration Grants program early on said they would not have done so had program support not been available. Also, the interviews uniformly praised the high energy level of KRC's Executive Director and Board Chairman in their "networking" and varied and frequent promotional activities to change the image of downtown.

Second, proportions in the numbers above also suggest that the Project's role was important; e.g., KRC's direct activity accounting for one third of the gross employment gains and, again, one third of the gross increase in occupied floor space. Had the KRC proportions been close to 100 percent, one would judge that the Project had failed in its role as "catalyst". Had they been close to zero, one would suspect that the improvements in the area would have happened even if KRC had not existed.

In interpreting these trends, it is important to remember that Project did proceed against a background of a period of national economic recovery. But, at the very least, it seems clear that downtown would have captured a smaller share of the national growth generated during this period without KRC's impetus.

But the Project's investments were not simply intended to shift the location of growth from one area to another. KRC has always been able to produce floor space via renovation downtown much more cheaply than is required to produce the same amount of space via new construction elsewhere. In 1990, for example, KRC was renovating attractive and convenient office space at a total cost of about $260 per sq. ft. compared with a minimum of $700 per sq. ft. required for new construction. Furthermore, the public infrastructure needed to support employment growth in Inner Kingston was

already there and operating with idle capacity. New construction elsewhere implies additional costs for infrastructure. In short it appears very likely that the Project's direct and indirect effects *reduced investment costs of the national growth* that occurred in the late 1980s.

Also, it must be remembered that KRC addressed a market that was not being addressed by others (providing space for small, indigenous manufacturers). Many of these operators could not have afforded space in a new building; i.e., some might not have been able to establish (or expand) their business at all if KRC provided space had not been available. Therefore, it also appears likely that the Project *contributed a net addition to national investment growth* during the period.

ANNEX

BUSINESS SURVEY METHODOLOGY
INNER KINGSTON DEVELOPMENT PROJECT

Introduction

An important aspect of the monitoring program associated with the Inner Kingston project is the measurement of project impact on the downtown area. Apart from the direct impacts of the activities carried out by KRC and UDC, the monitoring program also seeks to identify the indirect benefits engendered by the project. These indirect benefits include: private investment influenced by changing conditions in the area; changes in employment by downtown firms (in terms of the number of employees, the types of jobs, and where the employees are drawn from); and trends in the land and space rental market in Downtown. To evaluate how these variables might change over time, the monitoring program had to establish the conditions which obtained at the start of the project.

In order to create the data baseline from which to measure changes in the project area, The Urban Institute (in conjunction with UDC and KRC) designed a survey of businesses located within the project area to collect information on the numbers and types of businesses, employment levels and characteristics of the downtown workforce, the amount of vacant and occupied space, rent levels and leasing arrangements, and employment levels. In addition to constructing the data baseline, the survey also aimed to assess the potential for business expansion within Downtown and assist KRC in assessing how it is perceived in the downtown area and identify project opportunities.

Survey Scope

The survey area incorporated the entire project area with the exception of the IDB West Kingston Markets project area (where most of the area was to be rebuilt) and the predominantly residential areas of East Kingston. (A map of the survey area can be found in Section 1 of this report.)

The survey population was defined as business establishments operating out of permanent, primarily non-residential structures. This population included, for example, storefront businesses with residential quarters behind or above the shop, but not artisans working in their home. Vendors operating in the streets or public markets were not included in the survey. In general terms, purely public institutions were not included in the survey; these encompassed ministry offices, the courts, police stations and post

offices, primary and secondary educational institutions and bodies which serve government (the Government Printing Office). Statutory bodies or para-statal organizations (Air Jamaica) were included in the survey, as were private, non-profit organizations (Chamber of Commerce) and private educational institutions operated on a commercial basis (secretarial schools). Ecumenical institutions and associated activities were excluded from the survey.

Survey Methodology

The survey was conducted by Caritech Associates Limited of Kingston. Twenty interviewers and four supervisors conducted interviews in the downtown area during July and August 1987. The interviewers identified 1,156 business establishments in the survey area and successful interviews were conducted with representatives of 758 of these firms. (Interviews were conducted mainly with the owners or managers of the businesses.)

The survey instrument (reproduced in this annex) consisted of three parts:

- Building census form: This form notes the physical characteristics of each building. At the same time, interviewers enumerated the business establishments located within the building and attempted to identify the appropriate contact person for the later interviews.

- Business interview: The interviews covered the type of activity in which the business was involved, expansion plans, tenure arrangements, and rent levels. Each interview took between 20 and 30 minutes to complete. Follow-on spot checks were made by supervisors to verify the accuracy of the information recorded by the interviewers.

- Data form: At the conclusion of the interview, a form was left with the business asking them to provide details of employment and space use by the firm. This form was then collected by the interviewers at a later date.

The survey plan envisaged a concurrent set of interviews to be conducted with the owners of rental properties identified through the business survey. However, this questionnaire turned out to be infeasible to administer given the difficulty in locating many of the landlords and the time and financial constraints of the survey budget.

Following completion of the survey, the data entry from the questionnaires was carried out by the Research Unit of UDC under the direction of Dr. Vincent George. In January of 1988, an initial set of response frequencies and cross-tabulations were produced UDC. This report served as a valuable starting point for the baseline report and also outlined some minor inconsistencies within the data set. Eight respondents to the questionnaire had to be dropped from the data file because of a large number of

incomplete or inconsistent responses in their set of answers. In cases where respondents gave incompatible responses within subsections of the questionnaire, these respondents were not included in the analysis.

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