



THE NEW YORK CITY PARTNERSHIP A BUSINESS LEADERSHIP ORGANIZATION



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UPDATE

VITAL SIGNS:

ECONOMIC REALITIES AND CHALLENGES FACING NEW YORK CITY ONE YEAR AFTER 9/11

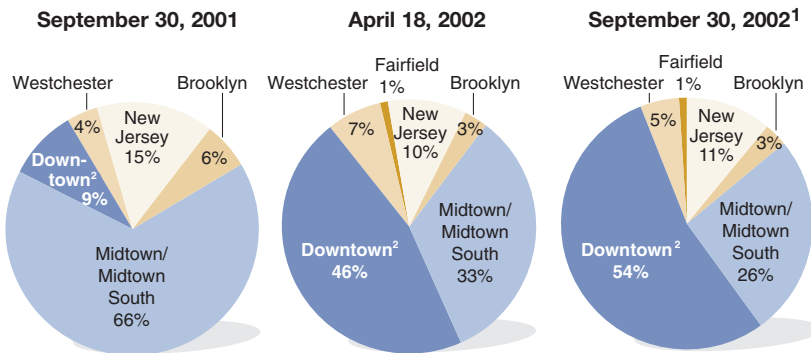
Engineering the post-9/11 recovery of the New York City economy, one of the nation's strongest engines of growth and prosperity, is a complex undertaking. In this document, the New York City Partnership has compiled facts and statistics to convey the scale of the challenge facing the city. The Partnership believes that in the months and years ahead, the city must restore the level of jobs and economic activity that existed in Lower Manhattan before the terrorist attack on September 11, 2001. The city's redevelopment strategy must also reposition downtown for future growth. This will require government, business, labor, residents and others to intensify their commitment to public-private collaboration. The public and private investment decisions that flow from these collaborations will have a profound effect on the economic security of the nation in this century.

Americans across the country marked the one-year anniversary of the September 11 terrorist attacks with ceremonies that honored those who perished. But it is also important for all Americans to know just how far New York has come since 9/11 and how far New York must go to fully recover from the economic damage attributable to 9/11 and its aftermath. In mid-November 2001, about eight weeks after the attack on the World Trade Center, the New York City Partnership and seven management consulting firms issued an in-depth, 150-page analysis of 9/11's impact on the city's economy. The data presented here—first issued to mark the one-year anniversary of 9/11 and updated in November 2002—complement that baseline report.



RELOCATION DECISIONS BY BUSINESS

The charts below capture decisions by the 50 companies that occupied the most space in and around the World Trade Center before September 11. Most businesses dislocated by the attack remained in Manhattan, many moving to Midtown. A year later, many had returned to Lower Manhattan.



New York Metropolitan Area



¹ The data represented in this figure remain current as of October 30, 2002.

² Refers to companies remaining or returning to downtown. Lower Manhattan remains the nation's third largest central business district after Midtown Manhattan and Chicago.

Source: Newmark & Co. Real Estate, Inc., October 2002

PRESSURES ON DOWNTOWN'S JOB BASE

- ▶ Beyond the obvious sources of pressure—recession and the high cost of doing business—other forces are bearing down on Lower Manhattan. In August, for example, the SEC and two other federal agencies issued a draft interagency white paper on how to ensure the resilience of the U.S. financial system in the event of a wide-scale, regional disruption.
- ▶ Under the draft guidelines, banks, securities firms and other entities critical to the settlement and clearing functions of the markets would have to open out-of-region backup facilities. Such backup facilities could not be dependent on the same labor pool, water supply, power supply, transport system and telecom system that serve a firm's primary operations in a city and metro region. These criteria, in effect, call for siting backup centers in locales 100 miles or more from primary sites.
- ▶ The white paper's goal is sound. However, its draft guidelines, if adopted, could lead to relocation decisions that would damage the city's already battered economy. In the public and private sectors, many believe that the firms themselves are best able to choose locations for backup facilities based on risk profile, available human resources and technology.

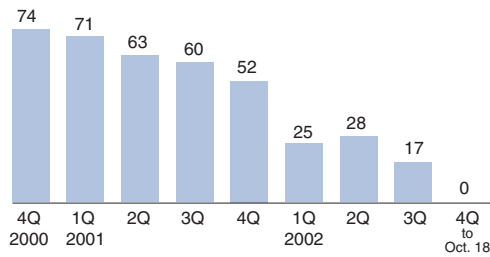




THE DROUGHT IN VENTURE CAPITAL FUNDS

In the quarters immediately following 9/11, fewer companies headquartered in New York City were able to raise venture capital funds.

Number of Firms Securing Venture Capital



Source: VentureSource, October 2002

BUSINESS BANKRUPTCIES IN NEW YORK CITY

- ▶ In 2001, business bankruptcies increased by 82.2% in New York City and by 114% in Manhattan over the previous year, while the national increase was just 13%. In the first half of 2002, business bankruptcies climbed 5% in New York City and 9.7% in Manhattan compared to the first half of 2001. In the nation, business bankruptcies fell 4.4% in the first half of 2002 compared with a year earlier. (Sources: Administrative Office of U.S. District Courts and Federal Reserve Bank of New York, November 2002)

District Courts and Federal Reserve Bank of New York, November 2002)

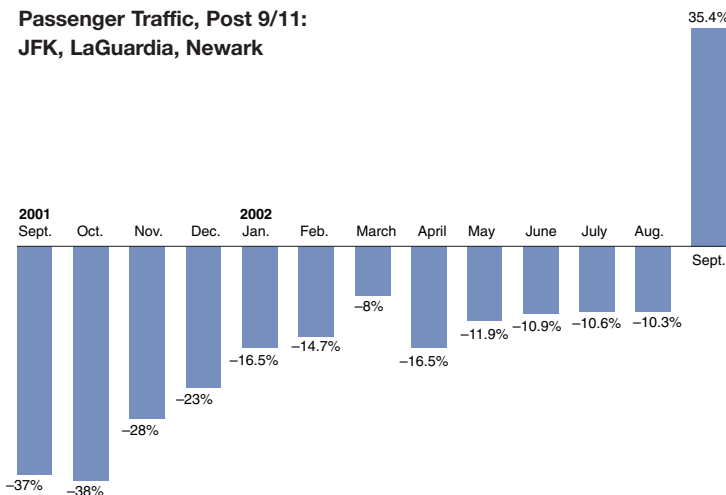
- ▶ Available data may not yet reflect the impact of 9/11 because bankruptcy is a lagging indicator and many small business owners find formal bankruptcy far too costly.

[Note: The first edition of *VITAL SIGNS* misstated the periods when bankruptcies doubled in Manhattan.]

THE REGION'S AILING AIRLINE INDUSTRY

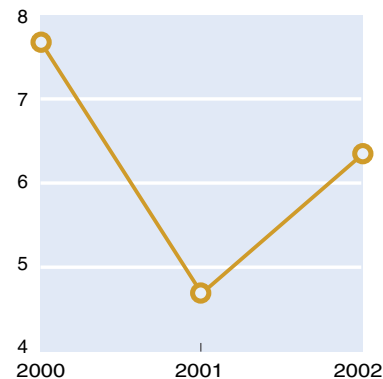
Despite steady improvement, the reduced airline passenger traffic at New York City's major airports, compared with a year earlier, underscores the need to adopt effective security innovations that will fully restore travelers' confidence.

Passenger Traffic, Post 9/11: JFK, LaGuardia, Newark



Source: Port Authority of New York and New Jersey, October 2002

September Passenger Volumes: JFK, LaGuardia, Newark, in Millions



Source: Port Authority of New York and New Jersey, October 2002

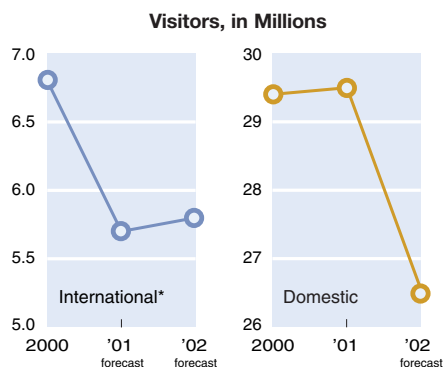


ECONOMIC REALITIES

TOURISM: THE SLUMP IN REVENUE AND VISITORS FROM ABROAD

Despite an overall rise in the number of domestic visitors to New York City in 2001, this group's spending was down nearly \$1 billion.

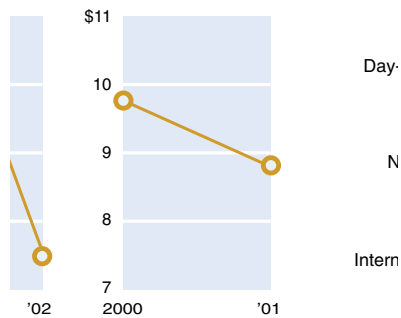
Visitors to New York City



*Actual figures for the number of international visitors to New York City in 2001 have not yet been released. However, the U.S. Department of Commerce has released figures showing an 11% drop in international visitors to the U.S. in 2001.
Source: NYC & Company, November 2002

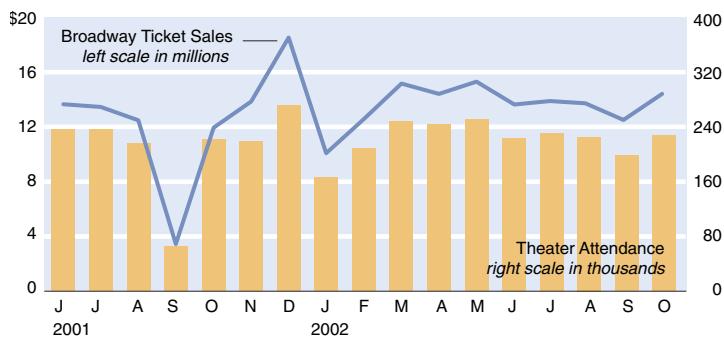
Sources: NYC & Company; Boston Consulting Group, 2002

Domestic Visitor Direct Spending, in Billions, Dropped 10% in 2001.



Note: Tourism in New York City is a significant source of federal, state and city tax revenue, which in 2000 translated into \$1.3 billion, \$882 million and \$936 million, respectively.
Source: NYC & Company, September 2002

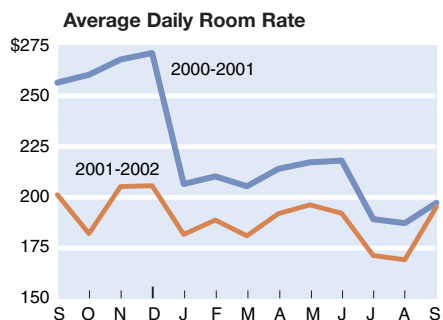
Rebound on the Great White Way



Source: League of American Theaters & Producers, November 2002

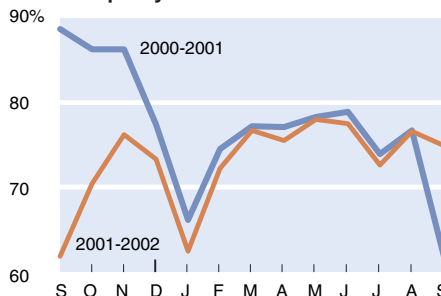
Hotel Industry Still on the Mend

Hotel occupancy is significantly below 2000's high levels, despite much lower room rates.



Sources: PKF Consulting and NYC & Company, October 2002

Occupancy



Sources: PKF Consulting and NYC & Company, October 2002



INSURANCE: DIM PROSPECTS FOR RAPID SETTLEMENT AND PAYMENT

Using analyst loss estimates as a baseline, about 70% of potential insurance benefits and payments related to 9/11 are from types of coverage with high degrees of settlement and payment complexity. As of October 2002, many firms are still awaiting payment of claims. Though most property claims have been paid or will be paid soon, companies report difficulty settling business interruption claims.

COVERAGE	ESTIMATED LOSS ¹ (As of Nov. 28, 2001)	PAYMENT COMPLEXITY (5 High - 1 Low)
Liability	\$20 billion	5
Liability - Aviation	3.5	5
Business Interruption	10	4
Workers Compensation	3.5	4
Property	5.0	3
Property – WTC Towers ²	3.5	2
Other	2.0	2
Life	3.5 - 4.5	1
Aviation (hull)	0.5	1

Note: A high level of complexity implies a longer settlement and payment process.

¹This assumes minimal personal lines losses.

²This assumes one occurrence; if two, this amount is estimated to be \$7.2 billion (currently in dispute).

Sources: Morgan Stanley; A.T. Kearney; New York City Partnership

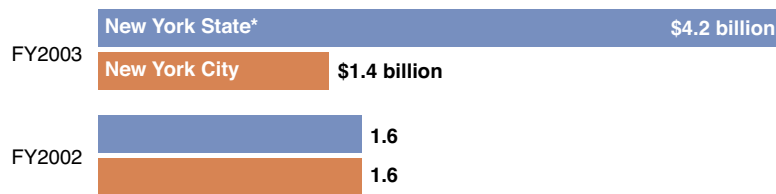
9/11's DEVASTATING IMPACT ON NEW YORK STATE AND CITY TAX REVENUE

Due to the shutdown of much of Lower Manhattan and the loss of economic output caused by 9/11, the state and the city are facing huge budget shortfalls.

New York City will lose \$3 billion over two budget years, and...

This loss includes \$915 million in personal income taxes, \$901 million in business taxes and \$700 million in sales taxes. The remaining \$484 million consists of adjustments for changes in tax policy and various taxes, including: lost property, mortgage recording and real property transfer.

Estimated Revenue Loss for New York State and New York City



*Estimates of New York State's two-year total range from \$4.6 billion to \$9 billion.

Note: New York City's fiscal year: July 1 - June 30; New York State's fiscal year: April 1 - March 30.

Source: U.S. General Accounting Office view based on NYS Division of Budget and NYC OMB estimates, October 2002



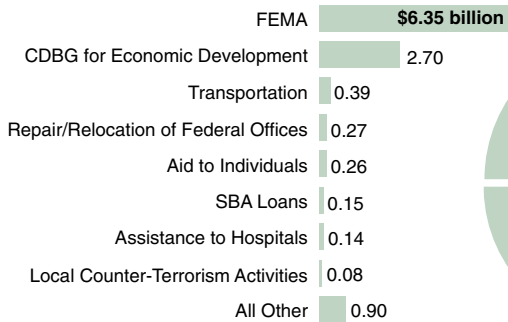
FEDERAL AID FOR NEW YORK

The federal government has been generous in committing more than \$20 billion in disaster recovery and economic aid to the city. Estimates of the amount of aid that has reached the city to date range from \$2.2 billion to \$2.7 billion, due to a number of factors, including various regulations governing the release and use of funds from multiple agencies and the reimbursement process.

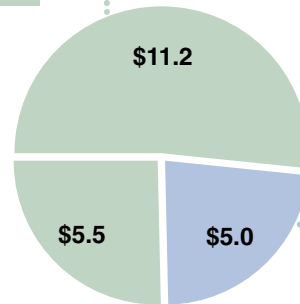
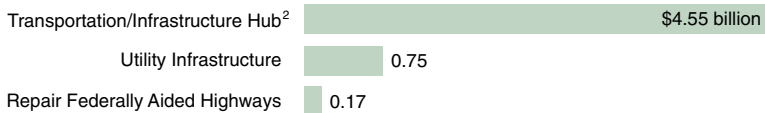
Federal Aid Earmarked for New York City: \$20.9 billion to \$21.7 billion¹

TIER ONE: Direct Appropriations, \$16.7 billion

September 2001 Emergency Appropriation



Federal Supplemental Appropriation



TIER TWO: Tax Credits, Bond Refinancing and Other Provisions, \$5 billion

Economic Stimulus Package

The federal government will forego \$5.0 billion in tax revenue (FY2002 - FY2012) through a combination of provisions including: business employee credits, depreciation changes, tax-exempt private activity bonds and advance refunding bonds. Expiration dates for these provisions fall between the end of 2003 and the end of 2006.

Sources: Independent Budget Office of the City of New York, August 2002; IRS, August 2002; Colliers ABR, March 2002

¹General Accounting Office and Independent Budget Office of the City of New York, respectively

²In an unprecedented decision announced in August 2002, FEMA reallocated \$2.75 billion to rebuild and improve Lower Manhattan's transportation infrastructure damaged in the attack. This amount, added to \$1.8 billion previously allocated to transportation in March 2002, brings the total available for transportation projects to \$4.55 billion.

Source: Independent Budget Office of the City of New York, October 2002



GOVERNMENT AID TO BUSINESS

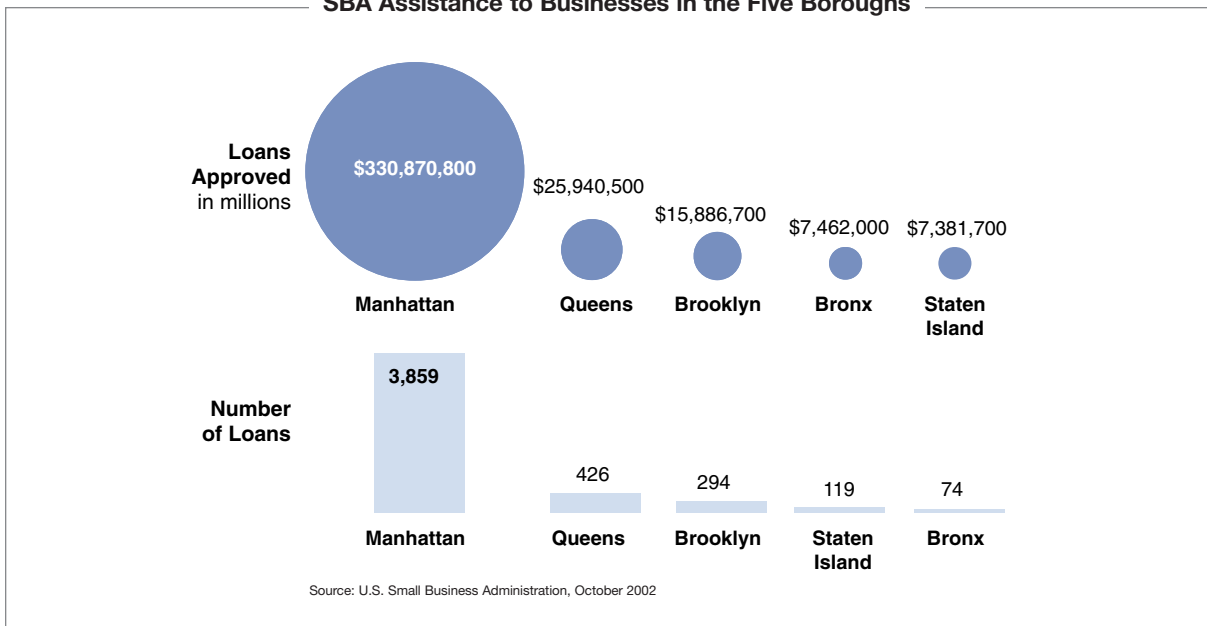
▶ U.S. Department of Housing and Urban Development

More than \$545 million in federal economic recovery assistance has been awarded to Lower Manhattan businesses under the Community Development Block Grant Program. Seventy-five percent—over \$406 million—has been distributed to more than 13,000 small businesses south of 14th Street, employing roughly 130,000 people. (Source: Independent Budget Office of the City of New York, October 2002)

▶ U.S. Small Business Administration

The SBA has approved 2,522 loans totaling more than \$202.3 million for Lower Manhattan businesses since 9/11.

SBA Assistance to Businesses in the Five Boroughs



▶ Retention and Attraction Program

Fifty large employers (those with more than 200 employees) have accepted incentive packages totaling nearly \$140 million offered by the city and state. In the aggregate, these agreements represent a commitment to preserve or create more than 40,000 downtown jobs and to maintain a presence in Lower Manhattan for at least seven years. Among the companies included in this allocation are: American Express, Brown Brothers Harriman, Bank of Nova Scotia, Bank of New York and Deloitte & Touche. (Sources: NYC Economic Development Corp. and NYS Empire

State Development Corp., October 2002)



9/11's IMPACT ON INFRASTRUCTURE

▶ Cleanup

Cleanup of the World Trade Center site has proceeded much faster and cost much less than originally anticipated. Actual cleanup time was nine months rather than one year. The actual cleanup cost was \$750 million, not the projected \$2.5 billion.

▶ Power

About 13,400 customers lost power. Two major substations housed in 7 World Trade Center and cabling infrastructure that serviced Lower Manhattan were destroyed. The peak load for the WTC complex was about 90 megawatts, similar to the load of Albany, New York. The five networks lost as a result of the attack had a peak load of about 450 megawatts, similar to the load of Hartford, Connecticut. One substation has been replaced and one more will be completed prior to the summer of 2004. (Source: Consolidated Edison, October 2002)

▶ Telecommunications

About 14,000 businesses, 20,000 residents, 300,000 voice lines and 4.5 million data circuits lost service after the attack. Since then, 45 miles of fiber optic cable and 22 miles of copper cable have been laid. One central office switch has been replaced, one will be replaced in December 2002 and the other two are scheduled for replacement in the future. (Source: Verizon, October 2002)

▶ Rapid Transit

Of the 11 subway stations that were closed following the attack, 10 have reopened. Cortlandt Street on the 1/9, the former WTC station, remains closed. (Source: Metropolitan Transportation Authority, October 2002)

▶ Ferry Service

From September 10, 2001, to August 30, 2002, ferry ridership increased from 33,000 passenger trips daily to 65,000; the number of routes increased from 15 to 25, and the number of ferries in service increased from 24 to 45. A growing number of small ferry operators are now providing an additional 5,000 passenger trips daily. (Source: NY Waterway, October 2002)

OPENINGS AND REOPENINGS

Despite 9/11 and a soft economy, major retailers are choosing Lower Manhattan.

▶ Openings

- December 2001: Brasserie Les Halles Downtown, 15 John Street
- January 2002: Ritz Carlton Hotel, Battery Park City
- February 2002: Starbucks, 195 Broadway
- February 2002: Starbucks, 241 Canal Street
- April 2002: Ann Taylor Loft, 2 Broadway
- June 2002: Modell's Sporting Goods, 55 Chambers
- July 2002: Duane Reade, 17 Battery Park
- July 2002: Nine West, 2 Broadway
- August 2002: Starbucks, 115 Broadway

▶ Reopenings

- October 2001: J & R Music & Computer World, Park Row
- February 2002: Century 21, 22 Cortlandt Street
- May 2002: United Artists Battery Park Stadium 16 multiplex, Battery Park City
- May 2002: The Embassy Suites Hotel New York City, Battery Park City
- September 2002: Brooks Brothers, One Liberty Plaza
- May 2003 (expected): Borders, 100 Broadway

Note: This list is illustrative of the renewed interest in Lower Manhattan and is not meant to be a comprehensive accounting of retail and commercial activity downtown.

Sources: Wall Street Rising, Starbucks, Duane Reade, and other sources

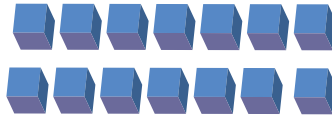
9/11's IMPACT ON REAL ESTATE

Destroyed and Damaged Properties: 34.5 Million Square Feet

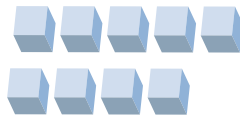
6 Destroyed Properties
13.4 M sq. ft.



23 Surrounding Properties Damaged
over 21M sq. ft.



14 of the 23 Reopened
about 17.5M sq. ft.

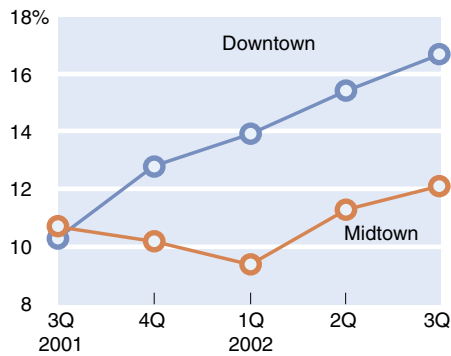


The disposition of the other nine, representing about 3.5M sq. ft., has not been determined.

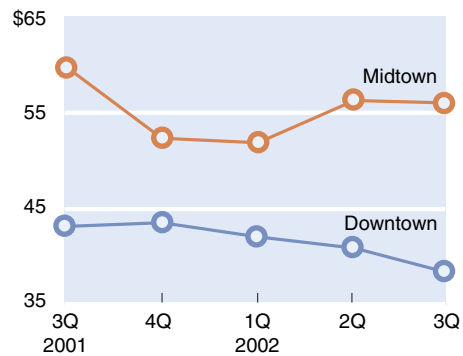
Sources: TenantWise.com and Newmark & Co. Real Estate, Inc., October 2002

Manhattan's Class A Office Space

Class A Vacancy Rate



Class A Average Asking Rent, per sq. ft.



Note: Newmark tracks about 402 million sq. ft. in Manhattan. Firms tracking less space are reporting slightly lower vacancy rates. TenantWise.com is reporting downtown vacancy rates of up to 20%.

Source: Newmark & Co. Real Estate, Inc., October 2002



RESIDENTS AND WORKERS

The Loss of Life

- ▶ The estimated 9/11 death toll: 2,800 (Source: *New York Times*, September 2002)

Charitable Giving

- ▶ Individuals, foundations and corporations have contributed \$1.88 billion to 9/11-related causes. Individuals donated \$1.25 billion, foundations \$195 million and corporations \$410 million. (Source: Research Alert, August 2002)
- ▶ The Red Cross and the September 11th Fund plan to underwrite extended mental health treatment for those affected by the 9/11 attack. Approximately 150,000 families are eligible. The Red Cross expects to spend \$40 million over three to five years; the September 11th Fund \$45 million to \$55 million over five years.

(Source: *New York Times*, August 2002)

Residents Return

- ▶ Residents, some responding to incentives offered by property owners and the government, are moving back to buildings surrounding the World Trade Center site. Vacancy rates have almost returned to pre-9/11 levels—just below 5% from a 45% average late last year. (Source: *New York Times*, August 2002)

Unemployment and Income Effects

- ▶ The estimated loss of income directly attributable to the September 11 attack is approximately \$4.5 billion, lower than early estimates. The estimated losses for hotels, air transportation, restaurants, performing arts and sports were as much as 32,000 jobs and \$1.2 billion in earnings. (Source: Federal Reserve Bank of New York, April 2002)

LESSONS LEARNED

The Rough Road Ahead

Weighed down by 9/11's side effects and a recession, the pace of the city's economic recovery is sluggish. The slow flow of insurance payments, the learning curve for federal agencies forced to respond to an act of foreign terrorism, and post-9/11 changes in air travel are just some of the drags on the recovery. As a result, Lower Manhattan still needs to regain some 62,000 jobs. Startup firms find it difficult to raise money. In Lower Manhattan and Midtown, office vacancy rates have entered double-digit territory.

Indirect Effects

In response to the public's post-9/11 fears about air safety, Americans altered their travel habits, causing layoffs in tourism and travel-related industries. Many small businesses that were dependent on clients who worked in the World Trade Center suffered. The cost of securing and insuring offices and landmarks has soared. The 9/11 attack caused a steep rise in the city's unemployment rate. Thousands of New Yorkers thrown out of work by the attack and its ripple effects have not found jobs and are about to see their unemployment benefits expire. As of October 2002, the city's jobless rate of 7.8% is higher than the nation's rate of 5.7%.



FEMA

In the first weeks after 9/11, the Federal Emergency Management Agency was at the top of its game, working with city and state agencies on the search for survivors, the recovery of remains and the cleanup of Ground Zero. However, the statute governing FEMA does not grant the agency the flexibility to cover many of the 9/11 costs.

Under the Stafford Act, which defines FEMA's mandate, the agency cannot reimburse businesses or nonprofits for economic damage, thus excluding private utilities from receiving reimbursement for the cost of rebuilding the energy and telecom infrastructure. The agency cannot reimburse local governments for lost tax revenue or for the costs of government shutdowns.

Small Business

The Small Business Administration's regulations make it difficult for the agency to effectively assist small businesses that need aid to survive the first six to twelve months after a terrorist attack. These businesses need grants, not loans, that will be sufficient to cover overhead costs for the period in which revenue was lost due to an attack.

Small businesses often cannot negotiate the SBA's loan application process. Service-based urban businesses should be compensated for business interruption and time lost. Technology firms need to be reimbursed for the loss of valuable research and development time. The number of businesses that survive would rise if the SBA eliminated the requirement that any additional emergency monies the business receives should first be used to repay the SBA.

Terrorism Insurance

The yearlong impasse in Washington over the creation of a federal backstop for terrorism insurance has been a brake on the pace of New York City's recovery from 9/11. Now that the differences between the House and Senate have been resolved, the nation will soon have a backstop that will make the federal government responsible for most of the insurance industry's losses that exceed \$10 billion. Implementation of this program should significantly improve the business climate in the city.

Other metropolitan areas that are home to nationally or internationally recognized landmarks have also been affected by the absence of a federal backstop. Building owners and employers nationwide already face abrupt and steep rate increases for terrorism coverage, if it is available.

Homeland Security

As Congress and the White House think through Homeland Security funding priorities, they should add sufficient funds for intelligence-gathering and the prevention of terrorist attacks in cities that have many high-profile targets. Earmarking aid for this should complement, not compete with, aid for first responders.

Environment and Public Health

After 9/11, a shortage of reliable data about public health and environmental hazards generated legitimate concerns about the conditions at and near Ground Zero and in Lower Manhattan. The lines of authority among the city, the state and the Environmental Protection Agency were unclear to the public. All levels of government ought to establish clearer lines of authority for assessing environmental hazards and disseminating accurate information.

The mission of the New York City Partnership, a business leadership organization, is to improve New York City's economic climate, recognizing that a vibrant economy is essential to the future of the city.

