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. 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 are marking the one-year anniversary of the September 11 terrorist attacks with ceremonies that honor those who perished. During this necessary period of reflection and national dialogue, it is 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 last year, 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 complement that baseline report.
ECONOMIC REALITIES

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. Eleven months later, many had returned to Lower Manhattan.

<table>
<thead>
<tr>
<th>Sept. 30, 2001</th>
<th>April 18, 2002</th>
<th>August 18, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westchester</td>
<td>Westchester</td>
<td>Westchester</td>
</tr>
<tr>
<td>New Jersey</td>
<td>Fairfield</td>
<td>Fairfield</td>
</tr>
<tr>
<td>Midtown/Midtown South</td>
<td>Downtown* 46%</td>
<td>Downtown* 54%</td>
</tr>
<tr>
<td>Manhattan</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Newark</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Westchester</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Fairfield</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Downtown*</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Midtown/Midtown South</td>
<td>33%</td>
<td>26%</td>
</tr>
</tbody>
</table>

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


Approximately 50 large employers (those with more than 200 employees) have accepted incentive packages offered by the city and state. In the aggregate, these agreements represent a commitment to preserve or create nearly 46,000 downtown jobs and to maintain a presence in Lower Manhattan for seven years. (Source: NYC's Economic Development Corp. and NYS's Empire State Development Corp. Aug. 2002)

RISE IN BANKRUPTCIES

- From the fourth quarter of 2001 through the second quarter of 2002, bankruptcies in Manhattan more than doubled, while the national increase was just 12.6%. There was no surge of bankruptcies in the other boroughs of the city.
  (Source: Federal Reserve Bank of New York, Aug. 2002)

- Bankruptcy figures grossly understate the magnitude of the impact, however, since the vast majority of small business owners find formal bankruptcy to be far too costly.

Bankruptcy Filings for Companies of All Sizes in the Southern District of New York*

<table>
<thead>
<tr>
<th>Year</th>
<th>Filings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>1,236</td>
</tr>
<tr>
<td>2000</td>
<td>788</td>
</tr>
<tr>
<td>1999</td>
<td>565</td>
</tr>
</tbody>
</table>

*Includes Manhattan and the Bronx

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.

THE REGION’S AILING AIRLINE INDUSTRY

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.

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

<table>
<thead>
<tr>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept.</td>
<td>Sept.</td>
</tr>
<tr>
<td>Nov.</td>
<td>Nov.</td>
</tr>
<tr>
<td>March</td>
<td>March</td>
</tr>
<tr>
<td>April</td>
<td>April</td>
</tr>
<tr>
<td>May</td>
<td>May</td>
</tr>
</tbody>
</table>

-37% -38% -23% -23% -21% -21% -22% -22% -17% -17%

Source: Port Authority of New York and New Jersey
TOURISM: THE SLUMP IN VISITS BY TOURISTS FROM ABROAD

The 9/11 attack has dramatically reduced the number of tourists visiting New York, especially high-spending international tourists.

**Visitors to New York City**

![Chart showing the number of visitors to New York City in millions, categorized by domestic and international, with a decline in 2001.]

- **Domestic visitors:** Fell from 38 million in 2000 to 30 million in 2001.
- **International visitors:** Fell from 7.0 million in 2000 to 6.5 million in 2001.

**Tourists’ Spending Habits, 2000**

![Chart showing tourists’ spending habits per visit, categorized by day-tripper, domestic, and international, with spending drops.]

- **Day-tripper:** 19 million visitors spent $122 per visit.
- **Domestic:** 11.6 million visitors spent $585 per visit.
- **International:** 6.8 million visitors spent $800 per visit.

**Direct Visitor Spending, in Billions, Dropped 12% in 2001.**

- **2000:** $18 billion
- **2001:** $16 billion
- **Forecast:** $15 billion

**Rebound on the Great White Way**

- **Broadway Ticket Sales:** 2001-2002, with a rebound mid-year.
- **Theater Attendance:** 2001-2002, with a slight increase.

**Hotel Industry Still on the Mend**

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

![Chart showing average daily room rate and occupancy, with a decline in both categories.]

- **Average Daily Room Rate:**
  - **2000:** $275
  - **2001:** $175

- **Occupancy:**
  - **2000:** 80%
  - **2001:** 65%
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 a result, the cash flow from insurance companies to the city economy will be slow.

<table>
<thead>
<tr>
<th>COVERAGE</th>
<th>ESTIMATED LOSS¹ (As of Nov. 28, 2001)</th>
<th>PAYMENT COMPLEXITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability</td>
<td>$20 billion</td>
<td>5</td>
</tr>
<tr>
<td>Liability - Aviation 3.5</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Business Interruption 10</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Workers Compensation 3.5</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Property 5.0</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Property – WTC Towers² 3.5</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Other 2.0</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Life 3.5 - 4.5</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Aviation (hull) 0.5</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

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).

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.

...as a result, New York City has requested $650 million in federal aid to replace:

THE FLOW OF RECOVERY FUNDS

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. Nevertheless, as of this summer, the amount of aid that has reached the city is approximately $2 billion, due to a number of factors, including various regulations governing the release and use of funds from multiple agencies.

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

TIER ONE: Direct Appropriations, $16.7 billion

<table>
<thead>
<tr>
<th>September 2001 Emergency Appropriation</th>
<th>FEMA</th>
<th>$6.35 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDBG for Economic Development</td>
<td>2.70</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>0.39</td>
<td></td>
</tr>
<tr>
<td>Repair/Relocation of Federal Offices</td>
<td>0.27</td>
<td></td>
</tr>
<tr>
<td>Aid to Individuals</td>
<td>0.26</td>
<td></td>
</tr>
<tr>
<td>SBA Loans</td>
<td>0.15</td>
<td></td>
</tr>
<tr>
<td>Assistance to Hospitals</td>
<td>0.14</td>
<td></td>
</tr>
<tr>
<td>Local Counter-Terrorism Activities</td>
<td>0.08</td>
<td></td>
</tr>
<tr>
<td>All Other</td>
<td>0.90</td>
<td></td>
</tr>
</tbody>
</table>

Federal Supplemental Appropriation

<table>
<thead>
<tr>
<th>FEMA</th>
<th>$2.75 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Transportation Hub</td>
<td>1.80</td>
</tr>
<tr>
<td>Utility Infrastructure</td>
<td>0.75</td>
</tr>
<tr>
<td>Repair Federally Aided Highways</td>
<td>0.17</td>
</tr>
</tbody>
</table>

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. To a large degree, the value of these provisions depends on the extent to which they are exercised before they expire. Expiration dates fall between the end of 2003 and the end of 2006.

Sources: NYC’s Independent Budget Office, Aug. 2002; IRS, Aug. 2002; Colliers ABR, March 2002

Note: Congress allocated $90 million for a 20-year health tracking program for WTC emergency personnel and rescue workers, but the President and Congress are at an impasse over the larger bill that includes this program. (Source: Office of Congresswoman Nita Lowey, Aug. 2002)

*General Accounting Office and NYC’s Independent Budget Office, respectively
Source: NYC’s Independent Budget Office, May 2002
GOVERNMENT AID TO BUSINESS

- **U.S. Department of Housing and Urban Development**
  About $292 million in federal economic recovery assistance has been awarded to Lower Manhattan businesses under the Community Development Block Grant Program. Seventy-seven percent—or $224.8 million—has been distributed to 11,756 small businesses south of 14th Street, employing over 71,000 people. (Source: NYC’s Independent Budget Office, June 2002)

- **U.S. Small Business Administration**
  The SBA has approved 2,283 loans totaling more than $187 million for Lower Manhattan businesses since 9/11.

### SBA Assistance to Businesses in the Five Boroughs

<table>
<thead>
<tr>
<th>Borough</th>
<th>Loans Approved in millions</th>
<th>Number of Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhattan</td>
<td>$298,099,700</td>
<td>3,313</td>
</tr>
<tr>
<td>Queens</td>
<td>$24,039,300</td>
<td>404</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>$14,595,400</td>
<td>244</td>
</tr>
<tr>
<td>Staten Island</td>
<td>$7,253,400</td>
<td>114</td>
</tr>
<tr>
<td>Bronx</td>
<td>$6,400,200</td>
<td>66</td>
</tr>
</tbody>
</table>

Source: U.S. Small Business Administration, Aug. 2002

- **Retention and Attraction Program**
  To date, state and city officials have allocated about $294 million in federal CDBG funds for business retention and attraction, focusing on large employers in Lower Manhattan. Among the companies included in this allocation are: American Express, American Stock Exchange, Brown Brothers Harriman, Bank of Nova Scotia, Bank of New York and Deloitte & Touche. (Source: New York Times, July 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, Aug. 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, Aug. 2002)

- **Rapid Transit**
  Of the 11 subway stations that were closed following the attack, seven have reopened. Service at the South Ferry and Rector Street stations on the 1/9 and at the Cortlandt Street N/R station will resume in mid-September 2002, leaving only Cortlandt Street on the 1/9, the former WTC station, closed. (Source: Metropolitan Transit Authority, Aug. 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. (Source: NY Waterways, Aug. 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
  March 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 (expected): Brooks Brothers, One Liberty Plaza

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.

Source: TenantWise.com, July 2002

Manhattan's Class A Office Space

Class A Vacancy Rate

- Downtown
- Midtown

Class A Average Asking Rent, per sq. ft.

- Downtown
- Midtown

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.
RESIDENTS AND WORKERS

The Loss of Life

- The estimated 9/11 death toll: 2,800  

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, Aug. 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.  

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.  

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, 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. Bankruptcies in Manhattan have skyrocketed.

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. The city’s jobless rate of 7.7% is higher than the nation’s rate of 5.9%.
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, for example, 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

Congress is negotiating a federal backstop program that would pick up claims from any terrorist attack that resulted in more than $10 billion in damage. This is essential legislation and should be structured as indemnification, not as loans to the industry. In addition, Washington should realize that state and local governments cannot afford to be exposed to the liability arising from terrorism and ought to be indemnified.

Without a federal backstop, the rebound of various sectors of the New York City economy will be slowed. Other metropolitan areas that are home to nationally or internationally recognized landmarks have also been affected. 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.