

THE LOWER MANHATTAN ECONOMY

New York State Assembly

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Speaker of the Assembly

May 20, 2005

Since the release of the Assembly report entitled *New York State, The Lower Manhattan Economy After September 11th*, March 2005, new data has become available to further study the economy of this area.¹

New employment and wage data indicates that though the worst employment losses appear to be behind us, activity in Lower Manhattan is still far below its pre-September 11th level. A critical factor in the process of economic recovery is the state of the office market. While the increased demand for Lower Manhattan residential space has led to the conversion of office space to residential space, the ability of the office space market to provide room for commercial expansion is currently limited. In fact, the stock of downtown office space in the first quarter of 2005 was 18.2 million square feet below its level in the second quarter of 2001. This decline in the office space inventory would have accommodated 72,800 jobs.²

The Office Space Market

- Until 2003, downtown Manhattan was the third largest central business district in the nation when ranked by the inventory of office space, after midtown Manhattan and Chicago. In 2004, the rank of downtown fell to fourth, behind Washington, D.C.
- The fall in the ranking of downtown Manhattan reflects both the loss of office space after the events of September 11th and the loss of office space due to its conversion to residential space.
 - As a result of the September 11th attacks, 34.5 million square feet of downtown Manhattan office space was damaged or destroyed. Of this total, 27.8 million square feet or 80.6 percent was Class A office space.³
 - Since 2001, 3.4 million square feet of downtown office space has been converted to residential space. There are plans to convert an additional 4.1 million square feet of office space to residential space in the future.⁴

¹ Lower Manhattan is defined as the area of Manhattan below 14th Street. Downtown Manhattan refers to the area of Manhattan below Chambers Street. Midtown Manhattan refers to the area of Manhattan between Chambers Street and 59th Street. The Ground Zero area is defined as the area covered by zip code 10280; this zip code includes the World Trade Center, Battery Park City and the immediate surrounding area. See map at the end of this report.

The three-year change, referred to frequently in this report, is the change between the year consisting of the quarters 2003:Q4 to 2004:Q3 compared to the year consisting of the quarters 2000:Q3 to 2001:Q2. The year before September 11th refers to the period 2000:Q3 to 2001:Q2. The year after September 11th refers to the period 2001:Q4 to 2002:Q3. Change in the year after September 11th is the change between the year consisting of the quarters 2001:Q4 to 2002:Q3 and the year consisting of the quarters 2000:Q3 to 2001:Q2. The second year after September 11th is the year consisting of the quarters 2002:Q4 to 2003:Q3. The third year after September 11th consists of the period 2003:Q4 to 2004:Q3.

Employment and wage change is calculated from the Quarterly Census of Employment and Wages of the New York State Department of Labor and the Bureau of Labor Statistics. Data for 2004 is subject to revisions by the New York State Department of Labor.

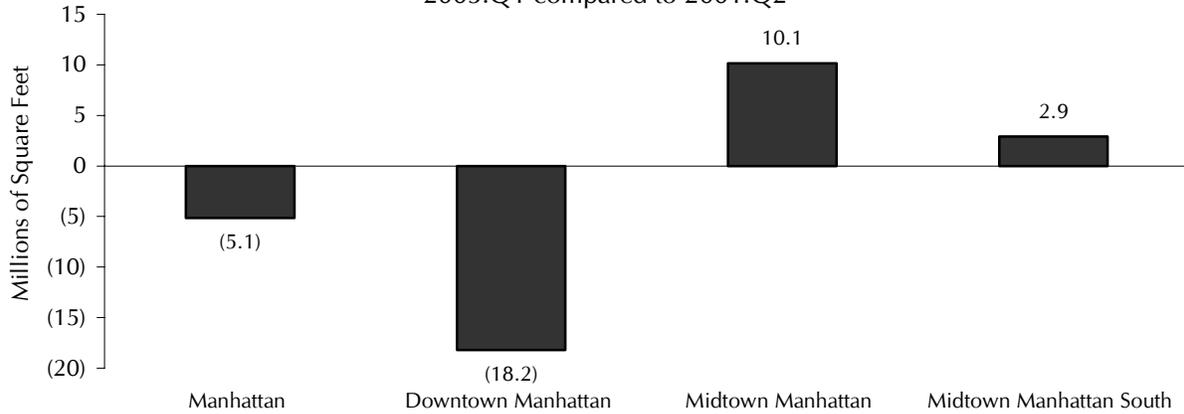
In the tables and graphs of this report, “rest of” refers to the area excluding the previous region under consideration. For example, “rest of Downtown Manhattan” is the area of downtown Manhattan outside the Ground Zero area, and the “rest of Lower Manhattan” is the area of Lower Manhattan excluding downtown Manhattan.

² This calculation assumes 250 square feet of space per employee, which is based on estimates from Cushman and Wakefield.

³ Class A refers to office space of the highest quality.

Office Market Inventory

Manhattan Areas
2005:Q1 compared to 2001:Q2



Note: See footnote #1 for area definitions.

Source: Cushman and Wakefield.

- Between the third quarter of 1995, when the downtown office space inventory was at its peak, and the first quarter of 2005, downtown inventory fell by 22.5 million square feet. Of this decline, 18.2 million square feet were lost after the second quarter of 2001.
- In contrast, the inventory of office space increased in midtown Manhattan through the fourth quarter of 2004, when it reached its highest level in recent quarters. Between the second quarter of 2001 and the first quarter of 2005, the inventory of midtown office space increased by 10.1 million square feet.

Occupied Space

Manhattan Office Market
Midtown and Downtown



Note: See footnote #1 for area definitions.

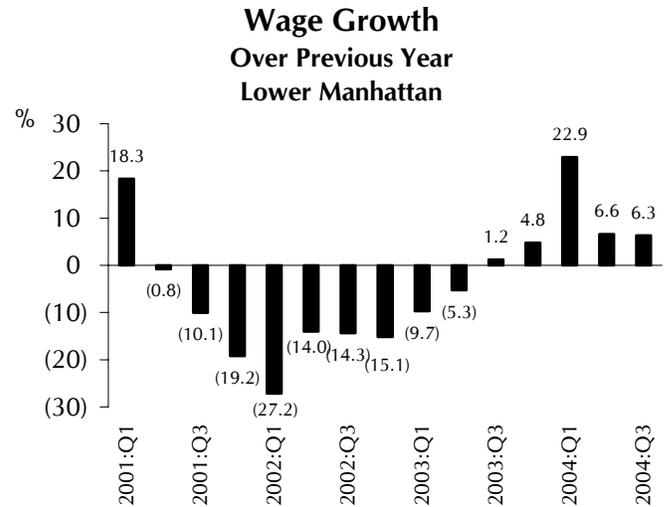
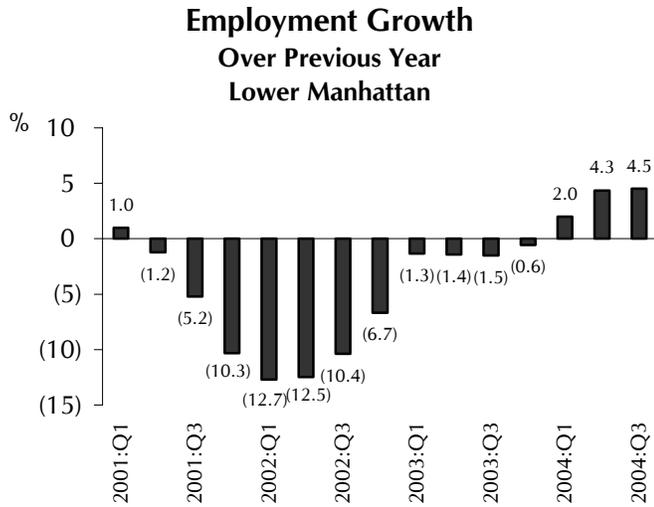
Source: Cushman and Wakefield.

- In midtown Manhattan, the stock of office space occupied has increased since the second quarter of 2003. However, downtown occupied space has stayed relatively flat since the fourth quarter of 2001.

⁴ Data from Cushman and Wakefield, May 2005.

Lower Manhattan Employment Recovery

- Employment in Lower Manhattan shows signs of recovery. Between the third quarter of 2003 and the third quarter of 2004, Lower Manhattan private employment increased by 20,300.⁵
 - Employment increased by 5,700 in leisure and hospitality, 5,100 in finance, insurance, and real estate, and 3,200 in information.⁶



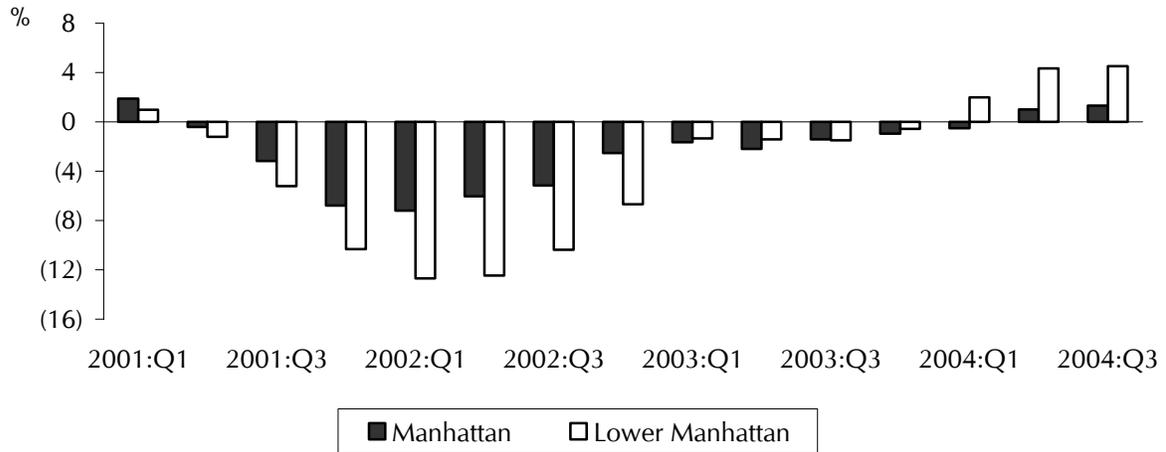
Source: NYS Department of Labor, QCEW.

- Nevertheless, Lower Manhattan employment is much lower than the 2001 level. In the third quarter of 2004, Lower Manhattan private employment was 67,400 lower than its level in the third quarter of 2000. This may be compared to the third quarter of 2003, when Lower Manhattan private employment was 87,700 lower than the third quarter of 2000.
- Lower Manhattan wage growth also shows signs of recovery.
- The employment growth recovery in Lower Manhattan and Manhattan as a whole appear to be occurring at the same time.

⁵ The report focuses on private employment, since the geographic location of government employment is not always easy to determine from the Quarterly Census of Employment and Wages. The calculations in these tables generally agree with the figures presented by the Office of the Comptroller, the City of New York, "The Impact of the September 11th WTC Attack on NYC's Economy and City Revenues," October 4, 2001.

⁶ These sectors are defined according to the NAICS (North American Industry Classification System). In other parts of the report, the SIC (Standard Industrial Classification) System is used.

Employment Growth Over Previous Year Manhattan and Lower Manhattan



Source: NYS Department of Labor, QCEW.

The Lower Manhattan Economy Three Years after September 11th

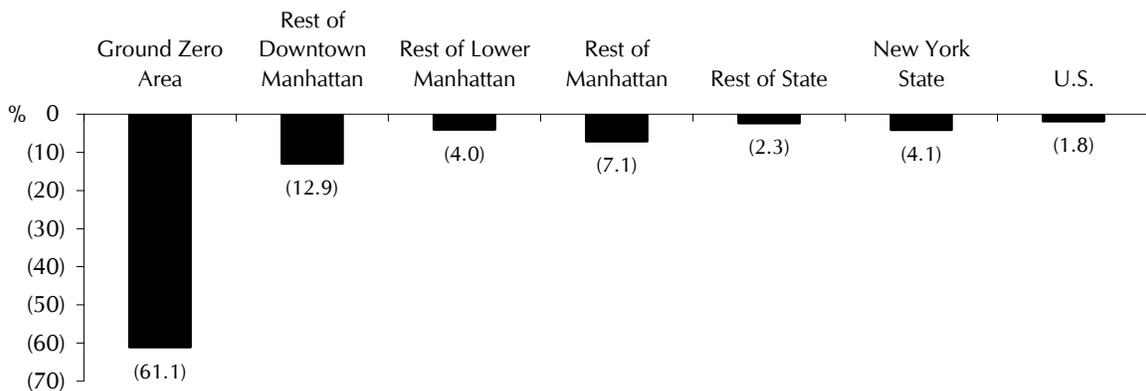
Employment

The Ground Zero Area

- The Ground Zero area, which includes the World Trade Center, Battery Park City and the immediate surrounding area, lost private sector jobs on a massive scale: 29,600 jobs or 61.1 percent of its private sector employment during the three years after September 11th.
- The losses were most dramatic in the first year after the attack. But even in the third year employment declined.

Employment Change Three Years after September 11th

2003:Q4-2004:Q3 compared to 2000:Q3-2001:Q2



Sources: Bureau of Labor Statistics, CES; New York State Department of Labor, QCEW.

Lower Manhattan

- Downtown outside of the Ground Zero area was also extremely hard hit.
- Lower Manhattan, defined as the area of Manhattan below 14th Street, lost 68,700 private sector jobs or 12.9 percent of its private sector employment during the three years after September 11th. This employment loss accounted for 24.0 percent of the 286,400 private sector jobs lost in the State in the same period.
- Losses were far less dramatic in the rest of Lower Manhattan, but the pattern of job loss was the same as in the Ground Zero area. The first year losses were the greatest, and losses continued into the third year.
- Lower Manhattan accounted for 7.6 percent of the State's private sector employment in the year before September 11th. Three years after September 11th, Lower Manhattan accounted for 6.9 percent of the State's employment.

Manhattan

- In the three years after September 11th, Manhattan lost 167,900 private sector jobs or 8.7 percent of its private sector employment. This employment loss accounted for 58.6 percent of the 286,400 private sector jobs lost in the State in the same period.
- In the year before September 11th, Manhattan accounted for 27.5 percent of the State's private sector employment. Three years after, Manhattan accounted for 26.0 percent of private sector employment.
- Manhattan as a whole continued to lose jobs in the third year after September 11th.

Employment Change
Three Years after September 11th
2003:Q4-2004:Q3 compared to 2000:Q3-2001:Q2

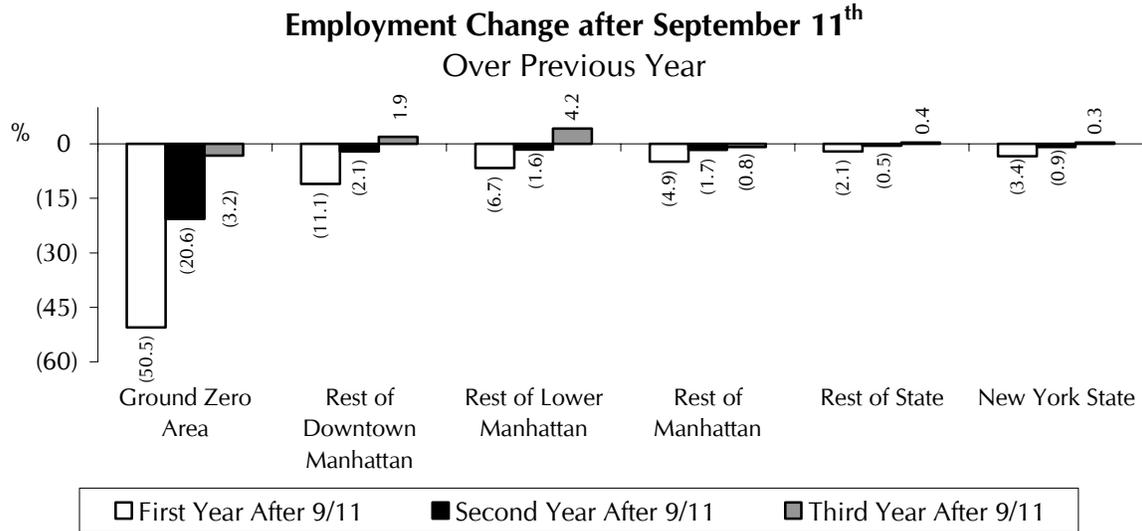
	Change	Percent Change
Ground Zero Area	(29,603)	(61.1)
Rest of Downtown Manhattan	(28,566)	(12.9)
Rest of Lower Manhattan	(10,564)	(4.0)
Rest of Manhattan	(99,202)	(7.1)
Rest of State	(118,445)	(2.3)
New York State	(286,379)	(4.1)
U.S.	(2,011,750)	(1.8)

Note: See footnote #1 for area definitions.

Sources: Bureau of Labor Statistics, CES; NYS Department of Labor, QCEW.

New York State

- In the three years after September 11th, New York State lost 286,400 private sector jobs. The State lost 4.1 percent of its private sector employment in the three years after September 11th, compared to the loss of 1.8 percent in the nation.
- The rate of employment loss in the second year after September 11th was slower than in the first year in all areas of Manhattan and the State.
- In the third year, employment declined in the Ground Zero area but increased in downtown outside the Ground Zero area and in Lower Manhattan outside downtown. In Manhattan outside Lower Manhattan, employment continued to decline in the third year. In the State outside Manhattan, employment increased in the third year.



Note: First year is 2001:Q4-2002:Q3; second year is 2002:Q4-2003:Q3; third year is 2003:Q4-2004:Q3. See footnote #1 for area definitions.

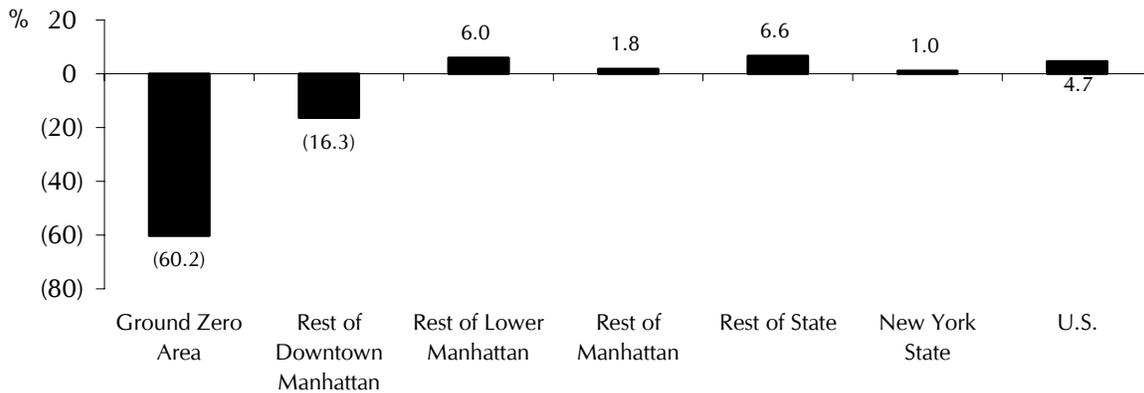
Source: New York State Department of Labor, QCEW.

Wages

The Ground Zero Area

- The Ground Zero area lost \$6.3 billion in private sector wages during the three years after September 11th. This represents 60.2 percent of its private sector wages in the year before September 11th.
- This loss of wages translates into a State income tax decline of more than \$400 million.

Wage Change
Three Years after September 11th
 2003:Q4-2004:Q3 compared to 2000:Q3-2001:Q2



Note: See footnote #1 for area definitions.

Sources: Bureau of Economic Analysis; New York State Department of Labor, QCEW.

Lower Manhattan

- Lower Manhattan lost \$10.2 billion in private sector wages or 19.8 percent of its private sector wages during the three years after September 11th. Although wages show an increase in the third year after September 11th, this increase is from a substantially lower base. Wages in the State rose by \$3.4 billion in these three years.
- Lower Manhattan accounted for 15.2 percent of the State's private sector wages in the year before September 11th. Three years after September 11th, Lower Manhattan accounted for 12.2 percent of private sector wages.

Wage Change
Three Years after September 11th
 2003:Q4-2004:Q3 compared to 2000:Q3-2001:Q2

	Change (\$ in Billions)	Percent Change
Ground Zero Area	(\$6.3)	(60.2)
Rest of Downtown Manhattan	(4.7)	(16.3)
Rest of Lower Manhattan	0.7	6.0
Rest of Manhattan	1.9	1.8
Rest of State	11.7	6.6
New York State	3.4	1.0
U.S.	185.9	4.7

Note: See footnote #1 for area definitions.

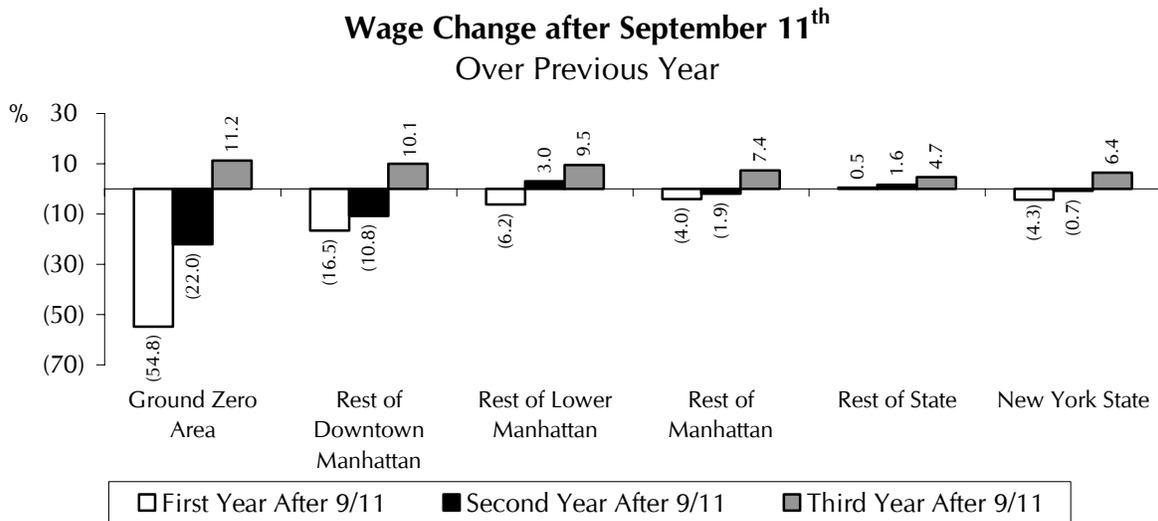
Sources: Bureau of Economic Analysis; NYS Department of Labor, QCEW.

Manhattan

- In the three years after September 11th, Manhattan lost \$8.3 billion in private sector wages, which was a 5.2 percent decline. In the rest of New York State, wages rose by \$11.7 billion in the same period.
- In the year before September 11th, Manhattan accounted for 46.7 percent of the State’s private sector wages. Three years after September 11th, Manhattan accounted for 44.3 percent of the State’s private sector wages.

New York State

- In the three years after September 11th, New York State gained \$3.4 billion in private sector wages. The State gained 1.0 percent in private sector wages in the three years after September 11th, compared to gain of 4.7 percent in the nation.
- In each year after September 11th, the State, excluding Manhattan, gained wages.
- Wage growth in the State three years after September 11th was below national wage growth by over three percentage points. Wages in the State grew at 1.0 percent, compared to 4.7 percent growth in the United States.



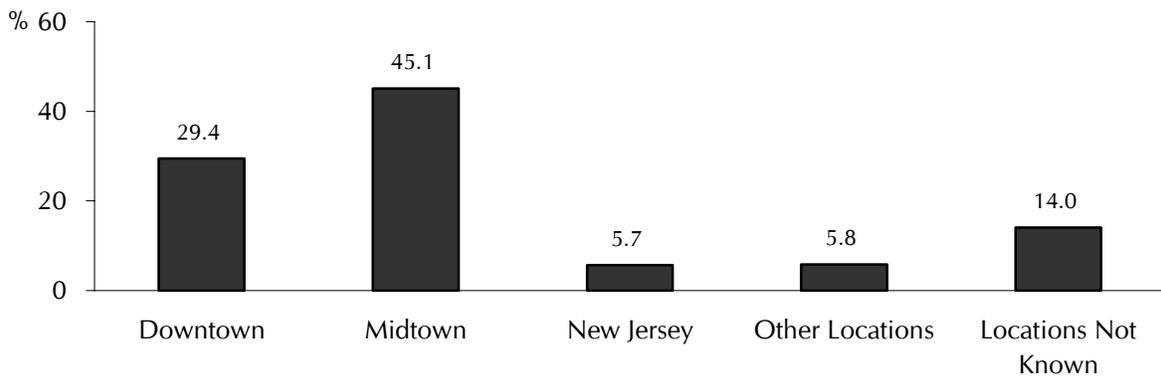
Note: First year is 2001:Q4-2002:Q3; second year is 2002:Q4-2003:Q3; third year is 2003:Q4-2004:Q3. See footnote #1 for area definitions.
Source: New York State Department of Labor, QCEW.

- The rate of wage loss in the second year after September 11th was slower than in the first year in the Ground Zero area and downtown Manhattan. In Lower Manhattan outside downtown, wages rose in the second year after September 11th.
- In the third year after September 11th, all areas of Manhattan experienced a wage gain. Wages also rose in the State as a whole.

Office Relocation

- Of the 34.5 million square feet of office space affected by the events of September 11th, large tenants occupied 23.5 million square feet.⁷
- Of the 23.5 million square feet occupied by large tenants, 13.9 million square feet was occupied in new locations, while 9.6 million square feet was reoccupied by businesses returning to their original location.
- Of 13.9 million square feet that were occupied in new locations, 4.1 million square feet or 29.4 percent was in downtown and 6.3 million square feet or 45.1 percent was in midtown.

Relocation of Large Tenant Office Space from Downtown Manhattan to New Locations by Destination as of September 2003



Note: Large tenants occupy 10,000 square feet of space or more. Relocation refers to the movement of downtown tenants to new locations in downtown Manhattan or to other areas.

Source: *Tenantwise.Com*, September 2003.

- Of the 6.3 million square feet of office activity that moved to midtown Manhattan, the securities industry accounted for 3.0 million square feet, the insurance industry for 0.9 million square feet, the business services industry for 0.6 million square feet, and the legal services industry for 0.4 million square feet.
- Of the 1.6 million square feet of office activity that moved out of Manhattan, the insurance industry accounted for 0.9 million square feet and the securities industry for 0.5 million square feet.
- The vacancy rate in the downtown office market remained steady in 2004 at 13.7 percent compared to 13.5 percent in 2003, despite a fall in the inventory of office space from 92.9 million square feet to 90.6 million square feet in the same period.

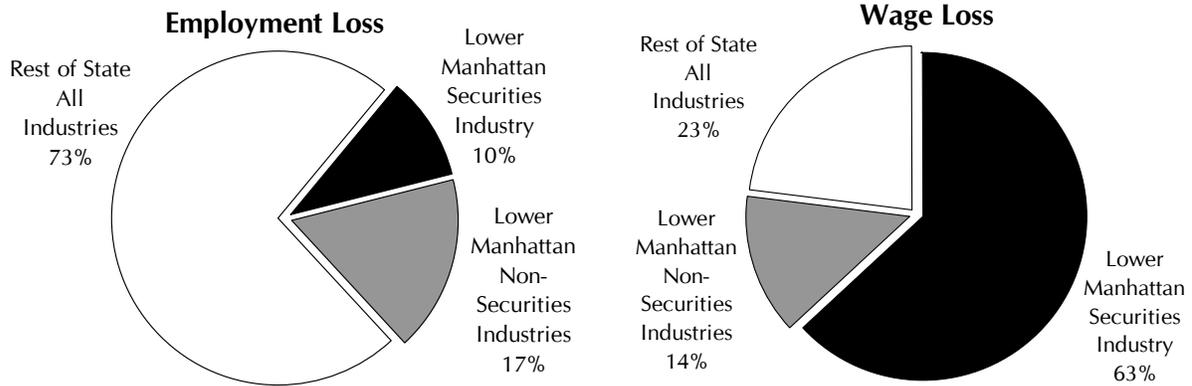
The Securities Industry the Year after September 11th

- The Lower Manhattan securities industry saw declines of \$9.2 billion or 36.1 percent in wages and 24,300 or 24.1 percent of jobs.
- The Lower Manhattan securities industry accounted for 62.9 percent of New York State's wage loss.
- The Lower Manhattan securities industry accounted for 10 percent of New York State's employment loss.

⁷ A large tenant occupies 10,000 square feet of space or more.

**Employment and Wage Loss
Lower Manhattan and the Rest of State
One Year after September 11th**

2001:Q4 - 2002:Q3 compared to 2000:Q3 - 2001:Q2

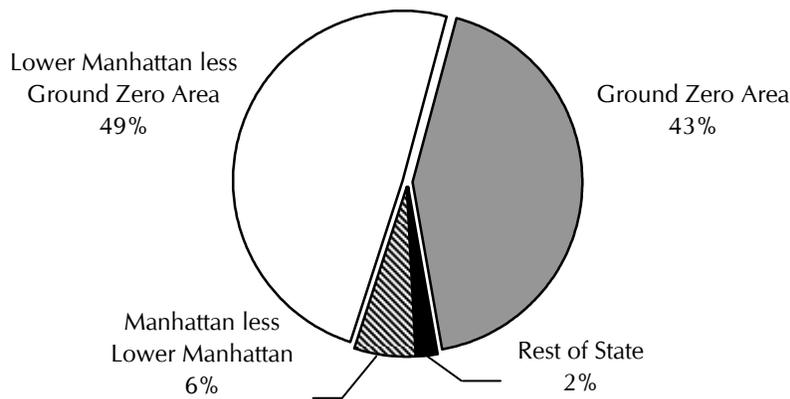


Note: Total losses are for the private sector.
Source: NYS Department of Labor, QCEW.

- Almost all of New York State’s securities industry wage loss in the year after September 11th took place in Manhattan, which accounted for 98.1 percent of the \$9.9 billion in securities industry wages lost in the State.

**Wage Loss, New York State Securities Industry
One Year after September 11th**

2001:Q4 - 2002:Q3 compared to 2000:Q3 - 2001:Q2

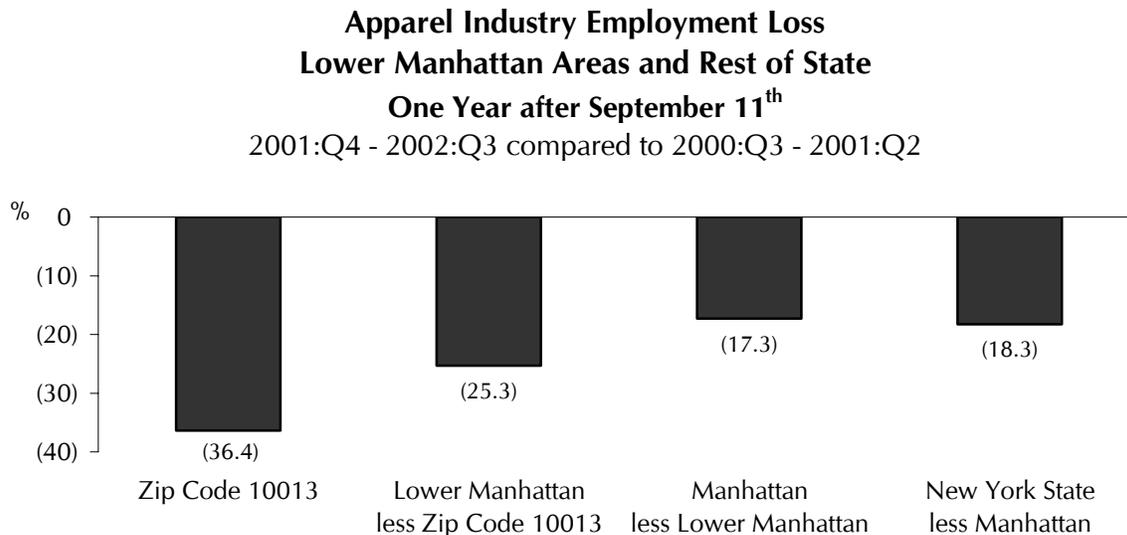


Note: See footnote #1 of this report for area definitions.
Source: NYS Department of Labor, QCEW .

- The securities industry in the Ground Zero area accounted for 43.1 percent of the total State securities industry wage loss while the rest of Lower Manhattan accounted for an additional 49.2 percent of the total State securities industry wage loss. In total, 92.3 percent of New York State’s securities industry wage loss was in Lower Manhattan.

The Apparel Industry the Year after September 11th

- In the year before September 11th, the area in zip code 10013 accounted for 6,500 apparel industry jobs, which was 67.3 percent of the apparel industry employment in Lower Manhattan.
- In the year after September 11th, 36.4 percent of apparel industry jobs in zip code 10013 were lost. The apparel industry's loss of 2,400 jobs accounted for 53.3 percent of the jobs lost in zip code 10013.



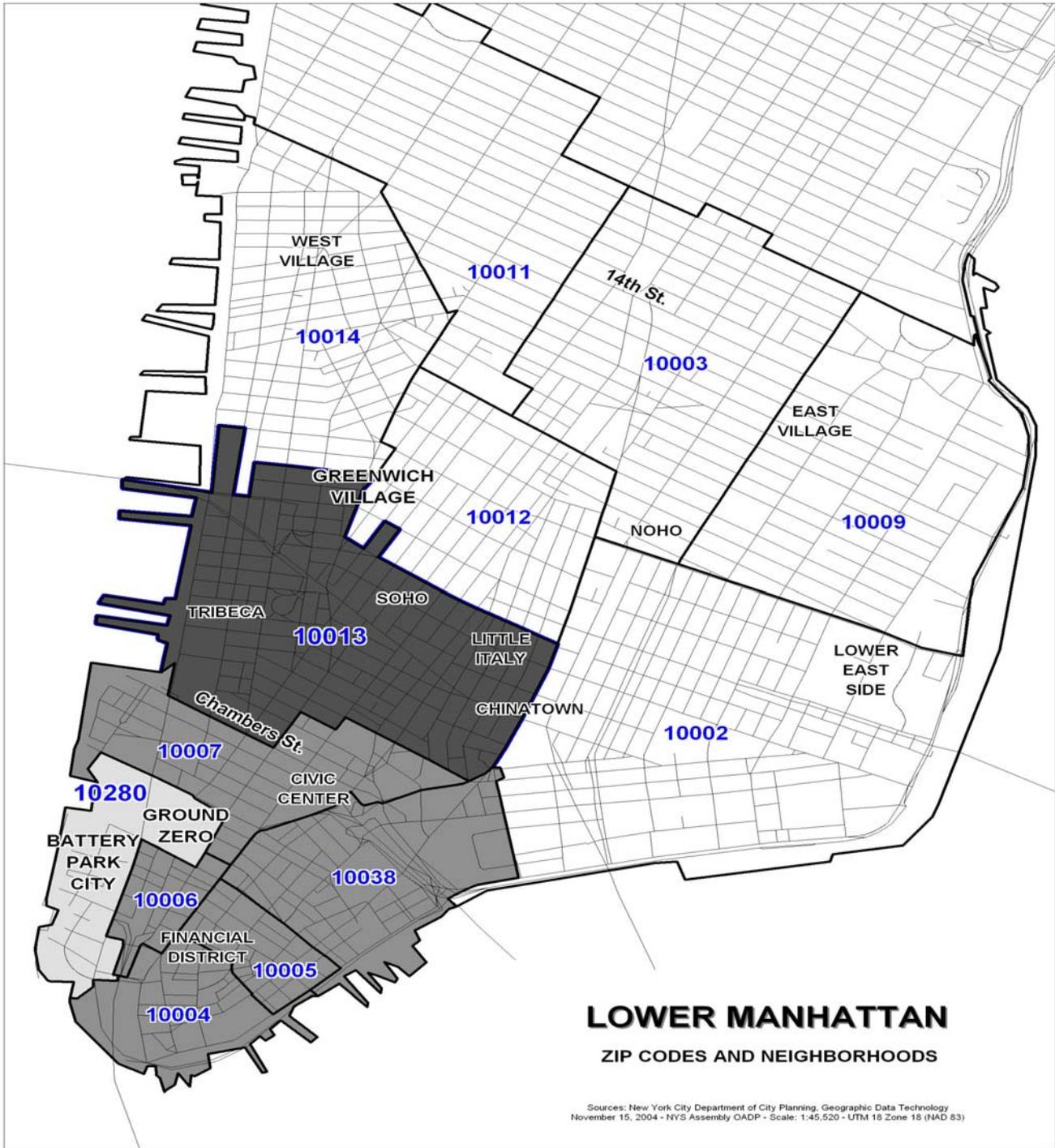
Source: NYS Department of Labor, QCEW.

- Outside zip code 10013, New York State lost 18.3 percent of apparel jobs; therefore, the loss of apparel jobs in zip code 10013 was at twice the rate of the apparel job loss in the rest of the State.

Tourism

- In 2001, the total number of visitors to New York City declined by 2.7 percent to 35.2 million people, the lowest number of visitors to the City since 1988.⁸
- In 2001, the number of domestic visitors increased 0.3 percent and in 2002, the number of domestic visitors increased by 2.4 percent. Domestic visitors accounted for 83.8 percent of the total number of visitors to New York City in 2001.
- In 2001, the number of international visitors declined 15.8 percent. The number of international visitors declined by 1.1 million people and accounted for the entire 1.0 million decline of visitors overall.
- Since 2001, the number of domestic visitors to New York City increased in every year, but the number of international visitors declined until 2003.
- In 2004, both the number of domestic visitors and the number of international visitors are estimated to have increased.

⁸ New York City and Company, February 2005 <<http://www.nycvisit.com/content/index.cfm?pagekey=57>>. Data on tourism are only available by calendar year.



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