

THE LOWER MANHATTAN ECONOMY

New York State Assembly

Sheldon Silver

Speaker

October 2006

Message from Speaker Sheldon Silver

More than five years have passed since terrorist attacks took the lives of thousands of innocent Americans and devastated the local economy of Lower Manhattan.

Indeed, over the past year, I, along with many local business leaders, have expressed concern regarding the lack of much-needed progress in rebuilding and revitalizing Lower Manhattan.

Since that time, I have also put forward and the State has enacted a Lower Manhattan "Marshall Plan," composed of incentives and building projects intended to renew Lower Manhattan's legendary commercial prowess. Clearly, however, much more needs to be done.

This report is provided to bolster rebuilding efforts. It is my hope that by identifying some slight progress, as well as areas that continue to need attention, the findings in this report will spur greater planning and cooperation. It is only through a focused, vigorous, united commitment that we can achieve dramatic long-lasting prosperity for Lower Manhattan, New York City, and the state of New York.

Introduction

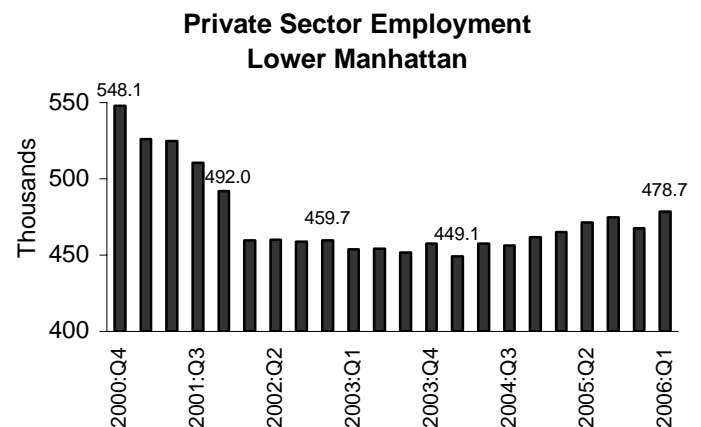
Since the release of the Assembly report entitled *New York State, The Lower Manhattan Economy After September 11th* in March 2005, new data on employment as well as other economic indicators such as productivity growth and income growth indicate an economic recovery which is expected to continue, demonstrating a need for additional office space.¹

Though the worst employment losses are over, activity in Lower Manhattan is still below its pre-September 11th level.² In fact, Lower Manhattan private employment in the first quarter of 2006 was 47,400 lower than its level in the first quarter of 2001.

¹ See Jason Bram and James Orr, Federal Reserve Bank of New York, *Current Issues in Economic and Finance*, vol. 12, no 4, May/June 2006.

² See area definitions on page 6.

New York City's employment has seen strong growth recently, and Lower Manhattan has shared in the expansion. Lower Manhattan's private employment grew 2.9 percent in the first quarter of 2006 over the previous year, adding 13,450 jobs. Private employment in Manhattan grew 2.3 percent, and the State as a whole grew 1.2 percent.



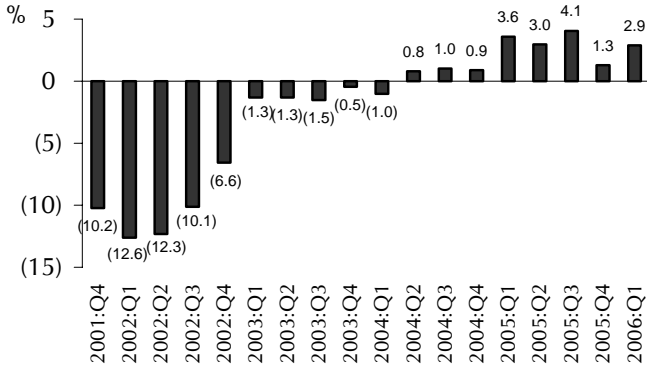
Source: NYS Department of Labor, QCEW.

Lower Manhattan Employment and Wage Recovery

- Employment in Lower Manhattan shows signs of recovery. The latest data available indicates that between the first quarter of 2005 and the first quarter of 2006, Lower Manhattan private employment increased by 13,450. Lower Manhattan wage growth also continues to show signs of recovery. The most recent data from the first quarter of 2006 suggests that private wages increased in all areas of Manhattan.
- In the first quarter of 2006, Lower Manhattan private employment was 47,440 lower than its level in the first quarter of 2001. In the first quarter of 2004, Lower Manhattan private employment was 77,000 lower than the first quarter of 2001.

- The employment growth recovery in Lower Manhattan and Manhattan as a whole appear to be occurring at the same time

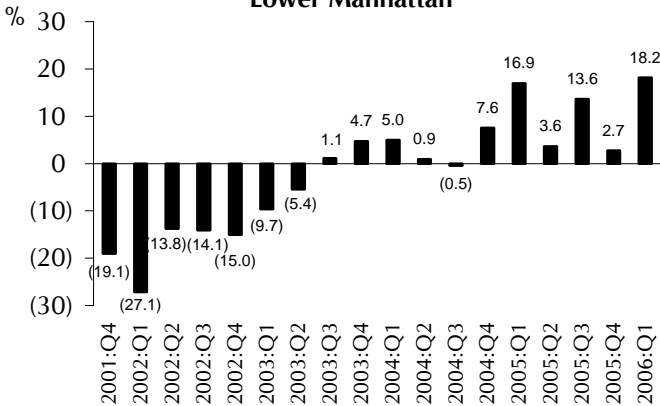
**Private Sector Employment Growth
Over Previous Year
Lower Manhattan**



Source: NYS Department of Labor, QCEW.

- Private wage growth in Lower Manhattan grew 18.2 percent in the first quarter of 2006 compared to the first quarter of 2005. Private wage growth in Manhattan was 11.9 percent, and private wages grew 10.6 percent in the State.

**Private Sector Wage Growth
Over Previous Year
Lower Manhattan**



Source: NYS Department of Labor, QCEW.

- The Pace University downtown index grew 3.2 percent in August 2006 over the previous year. This is a growth rate similar to the change in other months of 2006. The average of the index between September 2001 and August 2006 was 98.2. In August 2006, the index was at 103.8.³

³ The Pace Downtown Index is an index of economic activity in Lower Manhattan.

http://appserv.pace.edu/execute/page.cfm?doc.ed_10622.

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 during the three years after September 11th: 28,000 jobs or 57.7 percent of its private sector employment was lost, the majority of that in the first year.
- The losses were most dramatic in the first year after the attack, but employment started to increase in the third year.

Employment Change

**Three Years after September 11th
Over Previous Year**

	First Year	Second Year	Third Year
Ground Zero Area	(29,070)	(388)	1,473
Rest of Downtown Manhattan	(27,773)	(7,521)	(6,999)
Rest of Lower Manhattan	(20,807)	5,381	15,108
Rest of Manhattan	(84,316)	(8,979)	11,785
Rest of State	(115,760)	484	62,004
New York State	(277,725)	(11,023)	83,371
U.S.	(2,838,417)	371,583	1,829,750

Note: See area definitions on page 6.

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

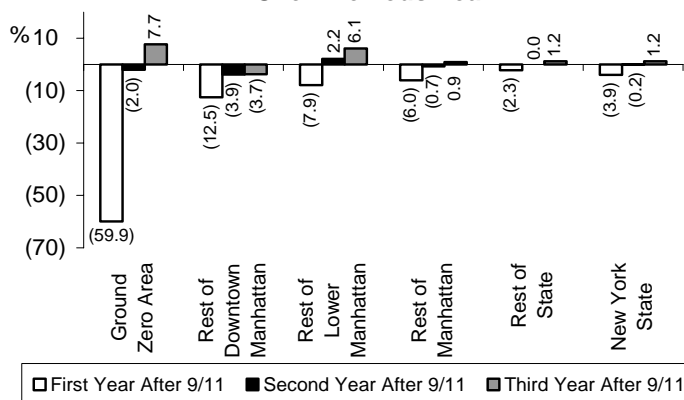
Lower Manhattan

- Downtown outside of the Ground Zero area was also extremely hard hit.
- Lower Manhattan, defined as the area of Manhattan below 14th Street, lost 70,600 private sector jobs or 13.2 percent of its private sector employment during the three years after September 11th. This employment loss accounted for 34.4 percent of the 205,400 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.
- 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 6.7 percent of the State's employment.

- The growth in the third year was in many sectors, especially the service-providing sectors. Service sectors such as retail trade and leisure and hospitality have shown the largest gains.
- Lower Manhattan private small business employment fell 9.0 percent in the year after September 11th.

**Employment Change after September 11th
Over Previous Year**



Note: First year is 2002:Q3-2003:Q2; second year is 2003:Q3-2004:Q2; third year is 2004:Q3-2005:Q2. See area definitions on page 6.
Source: New York State Department of Labor, QCEW.

Manhattan

- In the three years after September 11th, Manhattan lost 152,100 private sector jobs or 8.1 percent of its private sector employment. This employment loss accounted for 74.1 percent of the 205,400 private sector jobs lost in the State in the same period.
- In the year before September 11th, Manhattan accounted for 27.3 percent of the State's private sector employment. Three years after, Manhattan accounted for 26.0 percent of private sector employment.

New York State

- In the three years after September 11th, New York State lost 205,400 private sector jobs. The State lost 2.9 percent of its private sector employment in the three years after September 11th, compared to the loss of 0.6 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 increased in the Ground Zero area and in Manhattan outside downtown.

Wages

The Ground Zero Area

- The Ground Zero area lost \$5.7 billion in private sector wages during the three years after September 11th. This represents 54.3 percent of its private sector wages in the year before September 11th.

Wage Change

**Three Years after September 11th
Over Previous Year**

	First Year	Second Year	Third Year
Ground Zero Area	(6.7)	0.6	0.4
Rest of Downtown Manhattan	(7.3)	(0.4)	(0.8)
Rest of Lower Manhattan	(0.6)	1.0	3.5
Rest of Manhattan	(6.6)	9.2	9.1
Rest of State	3.3	6.8	5.4
New York State	(17.9)	17.1	17.7
U.S.	(37.4)	157.6	221.4

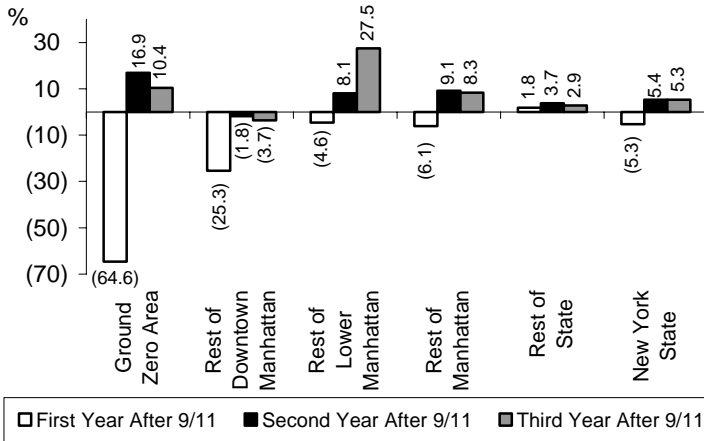
Note: See area definitions on page 6.

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

Lower Manhattan

- Lower Manhattan lost \$10.2 billion in private sector wages or 19.7 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.
- Lower Manhattan accounted for 15.3 percent of the State's private sector wages in the year before September 11th. Three years after September 11th, Lower Manhattan accounted for 11.7 percent of private sector wages.

Wage Change after September 11th Over Previous Year



Note: First year is 2002:Q3-2003:Q2; second year is 2003:Q3-2004:Q2; third year is 2004:Q3-2005:Q2. See area definitions on page 6.
Source: New York State Department of Labor, QCEW.

Manhattan

- In the three years after September 11th, Manhattan gained \$1.5 billion in private sector wages, which was a 0.9 percent increase. In the rest of New York State, wages rose by \$15.5 billion in the same period.
- In the year before September 11th, Manhattan accounted for 47.1 percent of the State's private sector wages. Three years after September 11th, Manhattan accounted for 45.3 percent of the State's private sector wages.

New York State

- In the three years after September 11th, New York State gained \$17.0 billion in private sector wages. The State gained 5.0 percent in private sector wages in the three years after September 11th, compared to a gain of 8.5 percent in the nation.
- In each year after September 11th, the State, excluding Manhattan, gained wages.
- The rate of wage loss in the second year after September 11th was slower than in the first year in downtown Manhattan outside the Ground Zero area. In Lower Manhattan outside downtown and in the Ground Zero area, wages rose in the second year after September 11th.
- Since the third year after September 11th, all areas of Manhattan experienced a wage gain. Wages also rose in the State as a whole.

The Office Space Market

In the first quarter of 2006, occupied office space in downtown Manhattan increased by 0.6 million square feet over the previous year.

Since September 11th, the composition of office space in Lower Manhattan has changed from predominantly Class B and C space to a higher percentage of Class A space. Reasons for the change include both residential conversions and changes due to destruction and rebuilding as a result of the September 11th attacks.⁴

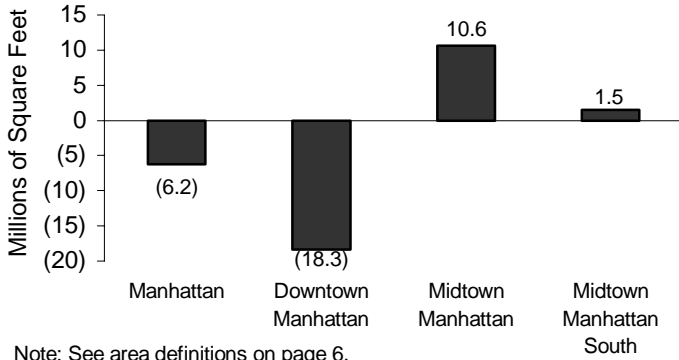
- The downtown office market vacancy rate in the first quarter of 2006 was 11.6 percent compared to 7.8 percent midtown. The downtown vacancy rate was one percentage point higher than in the fourth quarter of 2005. This was partly on account of the inclusion of the newly constructed 7 World Trade Center tower in the inventory of office space. However, since the first quarter, there has been leasing activity at both 7 WTC and the World Financial Center in 2 WTC. These activities caused a drop in the second quarter vacancy rates.
- Downtown overall rents rose from \$31.57 per square foot per year in the fourth quarter of 2005 to \$34.97 in the first quarter of 2006. Several sources have recently noted increasing optimism and confidence in the downtown leasing market. This has led to an increase in asking rents, although when adjusted for inflation, rents in both midtown and downtown are almost \$10 per square foot below rents in August 2001.⁵
- At the close of the third quarter of 2005, there were only three blocks of Class A office space larger than 200,000 square feet available downtown, ten such blocks of space available midtown, and one such block available midtown south.⁶
- In 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 2005, the rank of downtown was fourth, behind Washington, D.C.

⁴ Tenantwise.com, *Market Analysis*, "Downtown Major Market Analysis: Second Quarter 2006."

⁵ Jones Lang Lasalle, *The New York STAT*, July 2006.

⁶ Cushman and Wakefield, *Marketbeat*, Third Quarter 2005.

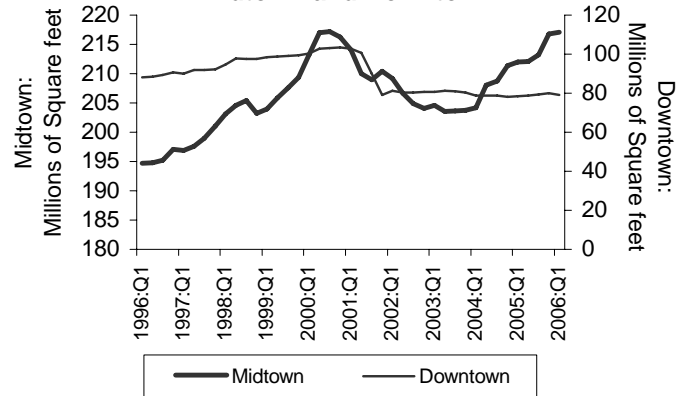
**Office Market Inventory
Manhattan Areas
2006:Q1 compared to 2001:Q2**



Note: See area definitions on page 6.
Source: Cushman and Wakefield.

reoccupied by businesses returning to their original location.

**Occupied Space
Manhattan Office Market
Midtown and Downtown**



Note: See area definitions on page 6.
Source: Cushman and Wakefield.

- 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, 13.4 million square feet of downtown Manhattan office space was destroyed. All of the destroyed space was Class A office space.⁷ Since 2001, 7.2 million square feet of downtown office space has been converted to residential space. These conversions were aided by property tax incentives.
- Between the third quarter of 1995, when the downtown office space inventory was at its peak, and the first quarter of 2006, downtown inventory fell by 22.7 million square feet. Of this decline, 18.3 million square feet were lost after the second quarter of 2001. In contrast, the inventory of office space increased in midtown Manhattan through the first quarter of 2006, when it reached its highest level in recent quarters. Between the second quarter of 2001 and the first quarter of 2006, the inventory of midtown office space increased by 10.6 million square feet.

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.⁸
- Of the 23.5 million square feet occupied by large tenants, 13.9 million square feet was relocated to new locations, while 9.6 million square feet was

- Of 13.9 million square feet that were relocated to 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.
- As of September 2003, 45.1 percent of large tenants had moved to midtown Manhattan. In addition, 29.4 percent had relocated to downtown, and 5.7 percent had moved to New Jersey.⁹ Recent evidence suggests that roughly half of former WTC tenants remain in midtown, and just under ten percent are in New Jersey.¹⁰
- 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.

⁹ Tenantwise.com, September 2003.

¹⁰ Daniel Friedman and Jeremy Olshan, "Ex-WTC Firms are 'Rebuilt'," *New York Post*, September 11, 2006.

⁷ Class A refers to office space of the highest quality.

⁸ A large tenant occupies 10,000 square feet of space or more.

Definitions

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 between 59th Street and 32nd Street, and **Midtown South** refers to the area between 32nd Street and Chambers 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 newsletter.

The three-year change, referred to in this newsletter, is the change between the year consisting of the quarters 2004:Q3 to 2005:Q2 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 2002:Q3 to 2003:Q4. Change in the year after September 11th is the change between the year consisting of the quarters 2002:Q3 to 2003:Q4 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 2003:Q3 to 2004:Q2. The third year after September 11th consists of the period 2004:Q3 to 2005:Q2.

Employment and wage change is calculated from the Quarterly Census of Employment and Wages of the New York State Department of Labor and the U.S. Bureau of Labor Statistics.

The update 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.

In the calculations on employment and wage change in the first year after September 11th, sector definitions were based on the SIC (Standard Industrial Classification) system. For all other sector calculations, sectors are defined according to NAICS (North American Industry Classification System), the system used by the New York State Department of Labor to classify industries since 2002.

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.

Previous reports on the Lower Manhattan economy by the New York State Assembly include:

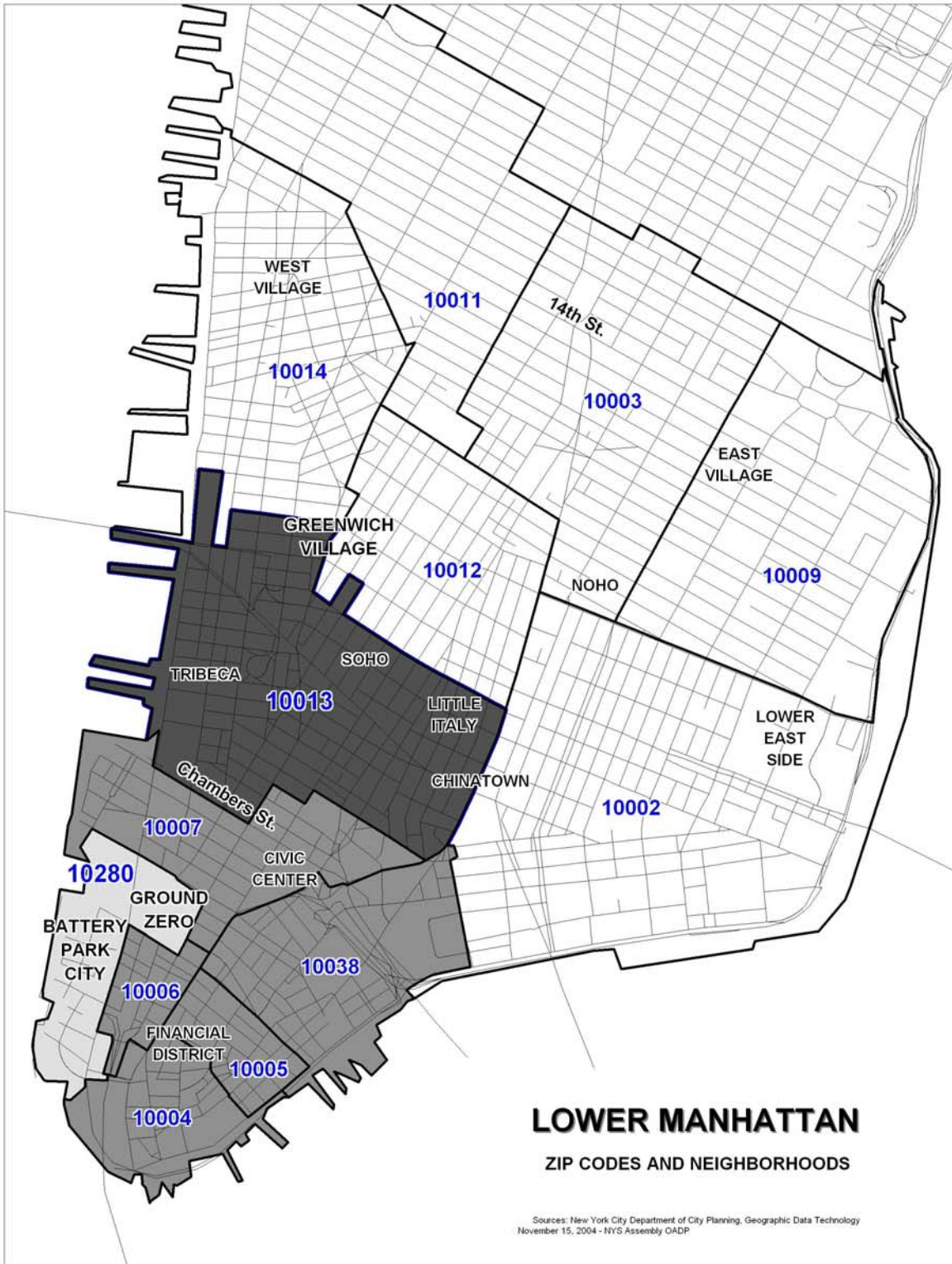
The Lower Manhattan Economy after September 11th, March 2005

The Lower Manhattan Economy, May 2005

These and other publications are available on the New York State Assembly website at: <http://assembly.state.ny.us/>

For more information on publications of the Assembly Ways and Means Committee, please contact:

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Note: Map is not drawn to scale.

“Update on Lower Manhattan”

Sheldon Silver

Speaker

New York State Assembly