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WORKING TOGETHER TO ACCELERATE NEW YORK'S RECOVERY:

Update of The NYC Partnership's Economic Impact Analysis of the September 11th Attack on New York City

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The New York City Partnership, relying on research by the seven management consulting firms that conducted the Partnership's economic impact analysis last November, has taken a second look at New York's efforts to recover from the September 11th terrorist attack. Here are the topline findings:

- The general dimensions of the impact -- $83 billion in losses – are tracking projections, although job losses (originally a net of about 57,000 jobs lost due to the attack by 12/31/03) could be significantly greater than original estimates.
- The manner in which financial services firms diversify the location of their operations – a decision largely made to avoid concentrating their talent and facilities in one place – is moving more Wall Street and Midtown jobs outside of the city's five boroughs than originally projected.
- Federal support is seeding economic recovery. However, two lingering problems -- the failure to reimburse energy and telecom utilities for replacement infrastructure and the absence of a federal terrorism insurance policy -- could be a brake on the pace of recovery.
- Estimates of insured losses have risen sharply, reflecting the growth of liability claims. This development may signal that the economic impact of the attack is wider and deeper.
- Air travel and retail sales, as expected, continue to lag the nation, a condition that could also be a drag on the pace of recovery.
- The cleanup of the World Trade Center site as well as the pace at which mass transit services will be restored is moving much faster and at a lower cost than initially anticipated.

Last November, the New York City Partnership's economic impact study estimated that the September 11th terrorist attack would result in $83 billion of damage to New York City's economy. The 147-page study concluded that even after the payment of insurance claims, federal reimbursement for rescue, cleanup and

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infrastructure repair as well as the multiplier effect of these actions, the city's economy would sustain a net loss of at least $16 billion.

Now, five months after the attack on New York, the seven management consulting firms the Partnership commissioned to conduct the study have updated their findings. The firms – A. T. Kearney, Bain & Co., the Boston Consulting Group, Booz-Allen & Hamilton, KPMG, McKinsey & Co. and PricewaterhouseCoopers -- identified the following salient observations and developments:

- **Larger Financial Services Firms Are Adopting a "Two-Track" Strategy.** Financial services firms are reconsidering their concentration of talent and facilities in Manhattan, and are moving quickly to diversify the location of their business units. The impact of the attack on the entire industry – not just firms displaced from Lower Manhattan – is resulting in a greater shift of jobs out of the city than originally anticipated.
  - ➢ American Express plans to return 3,200 of its 5,000 workers to 3 World Financial Center by June. The only employees who will remain in New Jersey are those who were based there before September 11th.
  - ➢ Morgan Stanley, which had 3,500 employees in the World Trade Center towers, plans to buy a Westchester County property and move 2,000 jobs there. Most of Morgan Stanley's 14,000 employees will remain in its current locations in Midtown and Brooklyn. Morgan Stanley recently signed a lease for 150,000 square feet near the World Trade Center site.
  - ➢ Goldman Sachs, long based in Lower Manhattan, announced plans to move its equity trading division to the Jersey waterfront in Hudson County.

- **Implications of These Diversification Moves for New York.** Of the 129,000 financial services jobs left in Lower Manhattan after the attack, 31,000 of them were classified as "at risk" of leaving in the Partnership study. Corporations' heightened interest in dispersing their business units underscores the urgency of a five-borough strategy for developing satellite business districts in downtown Brooklyn, Long Island City and other areas beyond the two central business districts (Midtown and Lower Manhattan). These satellite districts can offer businesses another power grid and other alternate systems that can avoid or minimize business disruptions from natural and manmade disasters.
- **Signs of Major Business Commitment to Lower Manhattan and New York City Abound.** Many of the financial services companies displaced by the events of September 11th have committed to returning all or most of their employees to Lower Manhattan or Midtown.
  - ➢ Merrill Lynch has already returned 6,000 employees to the World Financial Center from spaces in Midtown and New Jersey.
  - ➢ Bank of New York returned to One Wall Street, has leased 800,000 square feet at 15 Broad Street and expects to return to other Lower Manhattan buildings as they become available for its 2,200 employees.

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➢ Lehman Brothers is leaving Lower Manhattan but moving most of its 6,000 employees to Midtown.

➢ Deutsche Bank completed the purchase of 60 Wall Street and is relocating Midtown employees to the building.

➢ The New York Stock Exchange has committed to proceed with construction of its new facilities on Wall Street.

• **The Insurance Conundrum.** The lag in the payment of insurance claims could be longer than initially expected as policyholders and insurers work to resolve differences in loss estimates and sort out which party bears what risk. As more claims have been filed and better information has become available, the estimates of insurable losses have also increased from $38 billion to as much as $52 billion. The increases are due to increased estimates in liability claims and may mean that the economic impact from the attack is significantly greater than originally estimated. Many of these liability claims will be disputed for years and may never be paid (similar to what has occurred since the 1993 World Trade Center bombing). The attack and subsequent claims have resulted in increases of up to 65 percent in commercial insurance rates for some lines, especially for larger properties.

Compounding the challenges created by these increases is the difficulty of obtaining terrorism coverage, assuming that it is available at all. Currently, this coverage can only be purchased at extremely high prices from offshore companies and a few well-capitalized U.S. insurers. If banks require terrorism coverage for new construction and the sale of existing buildings, costs will escalate, and activity in the commercial real estate market could be dampened.

• **The Void in Terrorism-Insurance Policy.** Washington's decision to postpone any action on apportioning the burden for terrorism coverage could have long-term negative consequences for business and the pace of recovery. Reinsurers have largely stopped providing terrorism coverage, leading primary insurers to exclude terrorism coverage from their new policies. As a result, there is heightened concern about the lack of coverage and any potential losses sustained due to another terrorist attack.

• **The September 11th Death Toll and Life Insurance.** The decline in the estimated death toll has resulted in a $1.5 billion drop in estimated life insurance and workers' compensation payments.

• **Federal Government Aid Flows.** Congress and the White House have so far committed a total of $11.2 billion for the rescue, cleanup and rebuilding of Lower Manhattan. The Congressional funding includes Federal Emergency Management Act (FEMA) resources as well as $2.7 billion in Community Development Block Grant (CDBG) funding for aid to business. The only area of contention so far is the failure of the federal government to reimburse private utilities for about $1 billion in costs of replacing power and telecommunications lines destroyed in the attack. Above all, the revitalization of New York's economy will require a wise and

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sophisticated use of additional government support. Just like other American cities damaged by catastrophic earthquakes or other natural calamities, New York City will need more federal aid.

• **Tourism and Travel.** Leisure travel and business travel remain at depressed levels. Since September 11th, passenger volume on airlines has dropped 15 percent nationally. Passenger volume for the airlines at New York's three major airports dropped more than 20 percent in the same period. During the all-important holiday season (the last quarter of 2001), New York City hotels saw their revenue-per-room drop by 23 percent compared to the same holiday season in 2000.

• **A Sluggish Retail Sector**. The recovery of New York's retail sector continues to lag the nation, as expected. This state of affairs reflects the continued weakness in tourism, especially the drop in visits by affluent tourists from abroad, and the falloff in performance of high-end department stores and carriage-trade specialty outlets. Early estimates from a cross-section of companies suggest that retail sales in the city from September through December were 10 percent lower than those in the rest of the nation. New York's retail performance continues to be affected by the attack. Deep discounting, which began in October and continued through the holiday shopping season, has affected profits.

• **Location, Location, Location.** Damaged and destroyed property has been quickly restored, increasing vacancy rates and making rents more attractive to business. Manhattan rental rates fell to $45.13 per square foot in the fourth quarter of 2001, a drop of $8.30 per square foot from the comparable period in 2000. There are healthy indications that dislocated tenants want to stay in Manhattan. Tenants who occupied about 77 percent of the destroyed space have decided to stay in Manhattan. Only 13 percent have decided to relocate to New Jersey, and another 6 percent will move to upstate New York or other states, with 4 percent remaining undecided.

• **A Rising Vacancy Rate.** In line with expectations, vacancy rates for commercial space rose to more than 8 percent in the last quarter of 2001. The rise reflects declining demand, the addition of about 10 million square feet of available space after September 11th and other factors.

• **The Pace of Some Recovery Efforts Exceeds Expectations.** Workers have completed repair and reopened more than a third of the 29 million square feet of property damaged or destroyed. Removal of debris from Ground Zero, once expected to take two years, is expected to be finished as early as June.

• **The Array of Public Agencies with Overlapping Jurisdiction Could Slow the Pace of Redevelopment and Economic Recovery.** The logistics of developing, coordinating and executing a recovery strategy are proving to be more difficult and complicated than expected. The city, state and federal entities that have jurisdiction over redevelopment are still determining the most effective way to collaborate.

• **Mass Transit Challenges**. People who live or work in Lower Manhattan continue to cope with much longer commutes as well as severe crowding on subways and commuter rail lines. Major repair projects are underway or about to commence.

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The Port Authority, for example, recently announced a $544 million investment to rebuild essential rail access near Ground Zero. In the interim, workers and residents who have to get into and out of Lower Manhattan continue to endure commutes that are up to one hour longer than their commutes before September 11th. This is largely due to the destruction of key transportation infrastructure, including the PATH stations and the subway tunnel for the 1 and 9 lines. Above ground, restrictions on vehicular traffic, especially the limited access to the Brooklyn Battery Tunnel and gridlock throughout Lower Manhattan, remain a major problem for business and residents.

New York's business community continues to believe that the following key actions are required to accelerate economic recovery and Lower Manhattan's redevelopment:

• **Reach consensus on a plan to redevelop Lower Manhattan before the World Trade Center cleanup is completed later this year:** The Lower Manhattan Development Corporation has hired staff and is beginning to work with various agencies, civic organizations and other stakeholder groups to prepare the redevelopment plan and organize its implementation.

• **Ensure that the improvements in Lower Manhattan's infrastructure – transportation, power and telecommunications – meet 21st Century standards:** The Partnership study – and an emerging consensus expressed by a variety of stakeholders – underscores the importance of making infrastructure investments that will retain and attract business, housing and other forms of development to Lower Manhattan during the rest of this century.

• **Support investment in comprehensive security measures and innovations:** The federal, state and city governments have taken some of the steps required to improve security on airlines and public safety in the city. A closer working relationship between security agencies and the business community is the next step in achieving a more secure environment.

• **Intensify efforts to make Lower Manhattan a functioning community for small business, large companies and residents:** The Partnership continues to work on attracting new entrepreneurial businesses in emerging sectors, including biotech, international companies and enterprise software. Before September 11th, Lower Manhattan had started to build a live/work community in Battery Park City. In the years ahead, those who redevelop Lower Manhattan should exploit its potential as a mixed-use community with a 24/7, live/work environment.

• **Promote New York for business and tourism:** The efforts of the city's business leaders and the support of global business community have already paid dividends. The World Economic Forum's decision to move its conference – for the first time – from Davos, Switzerland, to New York City is proof of the value of these efforts. NYC & Company has invested heavily in promoting tourism, which helped boost the number of visitors during and beyond the holiday season.