

***The Lower Manhattan Commercial Sector:  
Signs of Stabilization***



September 2003

## Introduction

In the two years since September 11, 2001, companies and employees have left and returned to Lower Manhattan and residents have made their way back to a normal way of life. With Lower Manhattan on the cusp of infrastructure and transportation redevelopment, the Alliance for Downtown New York (Alliance) retained Audience Research & Analysis (ARA) to assess the status of commercial tenants in Lower Manhattan over the past 12 months in regard to:

- Employment and space needs
- Revenue performance and outlook
- Intention to renew leases and remain Downtown
- Challenges in hiring and retaining employees
- Utilization and impact of financial incentives

Throughout this report, we will make comparisons to survey results from the first Commercial Tenants study commissioned by the Alliance, issued in September 2002. The two time periods generally discussed are fiscal 2003 (July 2002 to June 2003) and fiscal 2002 (July 2001 to June 2002).

## Executive Summary

This study found important signs of stabilization; commercial tenants are more likely to renew their leases and hire new employees than a year ago. Fewer companies took additional space outside of Lower Manhattan, but three-quarters of those who did so found locations outside of New York City. Half of the larger companies (100+ employees) – who were the most optimistic about the future of Lower Manhattan – said transportation issues made it difficult for them to retain and recruit employees. The improvements seen in the last year, as well as the issues that remain, are summarized below.

### Outlook for Lower Manhattan

- Compared to six months ago, 45 percent said the outlook for the future in Lower Manhattan had *improved* while 42 percent felt it *remained the same*; 13 percent thought the outlook had *deteriorated*. At this time last year, 23 percent said the outlook had *deteriorated*.
- Among industry sectors, more than one-half of Non-profits and FIRE companies thought the outlook had *improved*, as did 57 percent of companies with more than 100 employees.
- Down from 26 percent one year ago, 20 percent still experienced resistance from non-Lower Manhattan clients to visit their offices Downtown. FIRE companies fared best in this regard with only 12 percent citing client resistance to traveling Downtown.

## Revenues

- Comparing the last two quarters of fiscal 2003 to the same period one year ago, 30 percent of all companies reported better revenues, 46 percent said they stayed about the same, and 24 percent reported they were worse. Larger companies with more than 100 employees had the highest incidence of improved revenues – 43 percent.
- Compared to last year, there was a broader recognition of the impact of the state of the economy on revenues: companies with worsening revenues attributed 52 percent to *the economy in general* and 48 percent to the *aftermath of 9/11*.
- More than half of the companies – 53 percent – believe that their next fiscal year (2004) will be better than the current one. These positive expectations were highest among High-tech (72 percent) and FIRE companies (61 percent). Larger companies were most confident with 62 percent expecting a better fiscal 2004 while none believed next year would be worse.

## Location and Office Space

- Three-quarters of all companies will maintain their current square footage, but among those with changing space requirements, twice as many expect to take more as opposed to less office space.
- The incidence of sub-leasing space declined this past year to 12 percent from 20 percent last year.
- Although less than last year's nine percent, seven percent of companies took additional space outside of Lower Manhattan in fiscal 2003. Two-thirds found locations outside of New York City, New Jersey being the most popular.
- The proportion of companies still considering taking additional space outside of Lower Manhattan, similarly, dropped from 19 to 11 percent. Half of these companies, however, would also seek space outside of New York City.
- While *employee preference* remained the number one reason for doing so, it played a much smaller role than 12 months ago.
- *Putting some activities on a different power grid<sup>1</sup>* and *decentralizing the workforce or relocating the back-office* gained in relative importance.

## Leases

- Close to half (48 percent) of companies with leases expiring prior to 2008 plan to renew, an increase from 43 percent at this time last year. Fewer companies remain undecided – 33 percent versus 42 percent last year. The proportion planning on not renewing, however, increased to 19 percent from 15 percent last year.
- Intention to renew is highest (57 percent) among larger companies. Professional services and FIRE industry firms are also more likely – 57 percent and 54 percent, respectively.

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<sup>1</sup> The interviews were conducted prior to the blackout in August 2003.

- Those not renewing at the same location will not necessarily leave Downtown: of those companies *not renewing or still undecided*, 43 percent would relocate somewhere else below Chambers Street.
- Of those companies who have decided *not to renew*, almost 25 percent will leave the city altogether.
- Space requirements among those renewing would stay the same for 83 percent of the companies while 12 percent will need more space.

### Employment

- Some challenges companies faced in fiscal 2002 when recruiting or retaining employees – such as concerns over security and personal safety – lessened in salience. Transportation-related issues, however, remain the number one issue, especially for large companies of which 50 percent cited transportation issues as a factor making it difficult to retain or recruit employees.
- Over the last fiscal year, 52 percent of all companies hired new employees. The incidence of new hiring was above 50 percent in all industries except Trade and Support (37 percent). Overall, 28 percent laid off employees in fiscal 2003 compared to 32 percent in fiscal 2002.
- Among industries, 43 percent of High-tech firms laid off employees compared with 21 percent of FIRE industry companies. The magnitude of the layoffs coming from the FIRE sector (104 per company who had layoffs), however, dwarfed those stemming from High-tech (12 layoffs per company who had layoffs).
- However, the total number of new hires was only equivalent to 70 percent of the number of employees laid off. Nonetheless, this was an improvement from a year ago when new hires (fiscal 2002) amounted to 60 percent of those laid off.
- Looking forward, about three-quarters expect their level of employment to remain stable. Of those changing employment levels, more than three times as many – especially firms with 26 to 50 employees – anticipate hiring additional employees rather than laying off in the next year. This is a slightly more optimistic prediction than employers made 12 months ago.

### Financial Incentives

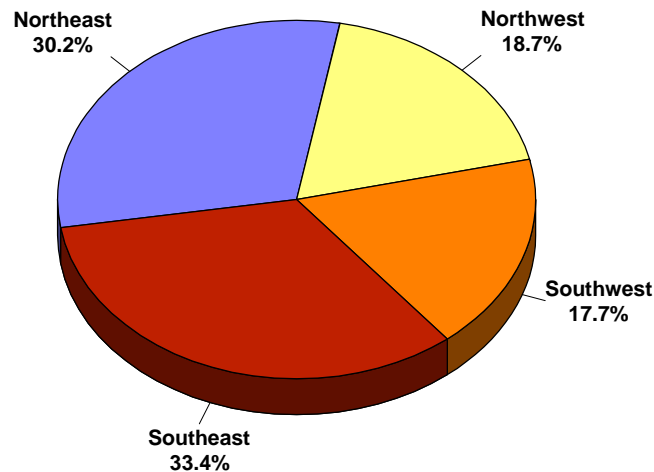
- Awareness of the various incentive programs ranges from a high of 73 percent for the *WTC Business Recovery Grant* to a low of 24 percent for the Downtown Alliance/Seedco loans (*Lower Manhattan Small Business and Workforce Retention Project*), which has limited applicability to commercial businesses. Similarly, the percentage of companies applying to these programs ranged from 51 percent for the *WTC Business Recovery Grant* to 3.5 percent for the *Downtown Alliance/Seedco loans*.
- Five out of six who applied for the *WTC Business Recovery Grants* received them.
- About four out of ten said the financial assistance they received from the various programs influenced their decision to remain Downtown.

## Sample Distribution

ARA conducted interviews by telephone and in-person among senior executives in July and August 2003. The distribution of the sample of 604 Downtown companies into four geographic quadrants, below Chambers Street, is shown in the graph below. Broadway divides Downtown east and west, while Liberty Street separates north from south. The 604 companies were drawn from an updated list provided by the Alliance for Downtown New York.

### Distribution of Commercial Tenants

By Quadrant



To better understand the state of Downtown businesses in the past 12 months, 271 of the 604 companies that were interviewed in the 2002 study were re-contacted<sup>2</sup>. To more accurately reflect the behavior and opinions of companies on a per-employee basis, we oversampled Downtown's larger employers. Fourteen percent of the companies in our sample employed more than 100 people, compared to an average of about five percent across Downtown. The New York City Economic Development Corporation (EDC) estimated, prior to 9/11, that 140 of the approximately 11,000 Downtown companies employed about one-half of Downtown's workforce.

The distribution of commercial tenants from the five major industries reflects the actual distribution of businesses Downtown based on the source list of companies.

Distribution by Industry	(Percent)	Survey	Actual
Professional Services (accounting, legal, other)		33.1	36.6
FIRE (financial, insurance, real estate)		29.1	30.0
Trade & Support (wholesale, personal & medical services, other)		20.4	20.8
High-tech (telecom, software, e-commerce, other)		11.1	8.4
Non-profit <sup>3</sup>		8.9	4.2

<sup>2</sup> This core sample of companies allows a more consistent year-to-year comparison.

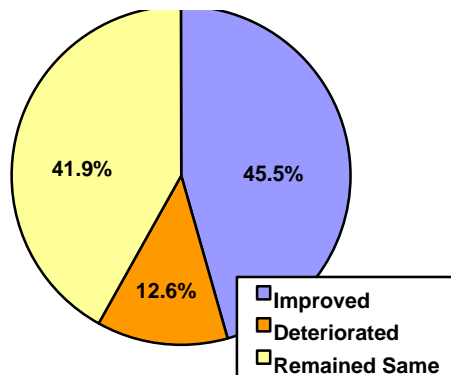
<sup>3</sup> Over-sampled to provide adequate sample size for analysis

## Detailed Findings

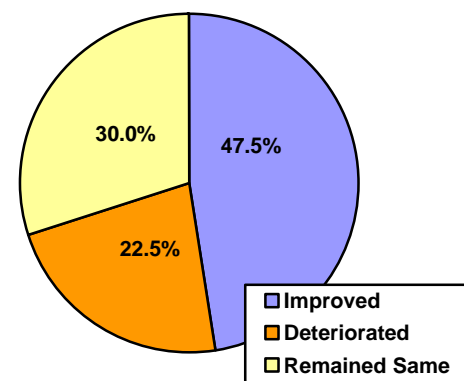
### Change in Outlook

About one-half (46 percent) felt that the outlook had improved over the last six months. This feeling of things getting better was strongest (57 percent) among the larger companies (more than 100 employees). Thirteen percent felt that the outlook had deteriorated recently, although this was an improvement from 23 percent in the previous year. The sense of deterioration was most notable among trade and support companies (21 percent).

**Change in Outlook**  
compared to six months ago  
2003



**Change in Outlook**  
compared to six months ago  
2002



### Resistance to Visit by non-Lower Manhattan Clients

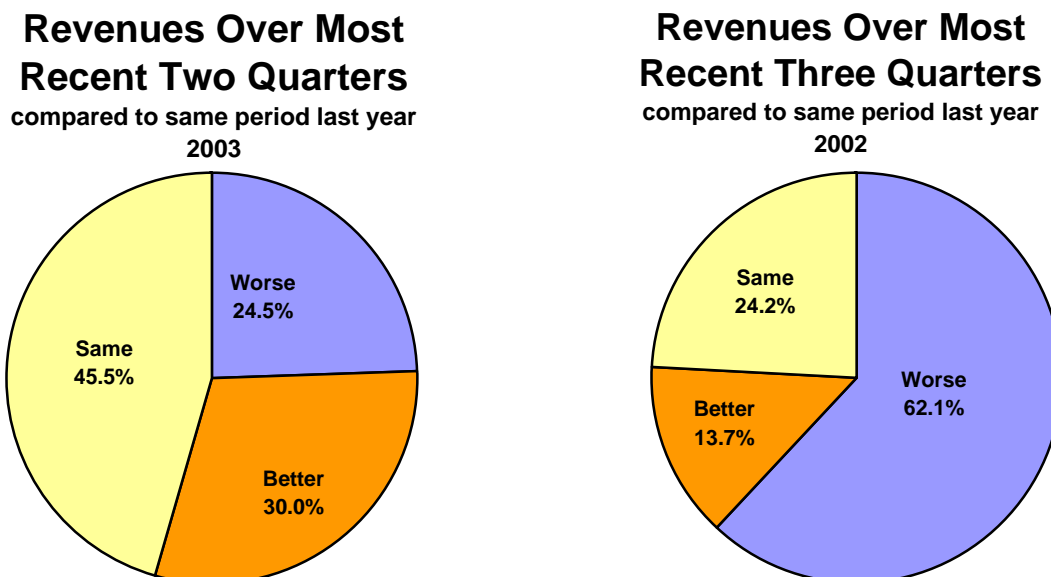
Twenty percent of companies, overall, said they currently experience resistance from non-Lower Manhattan clients to visit their offices Downtown, which is an improvement from 26 percent a year ago. The resistance was highest for companies located in the Northern quadrants – 25 percent in the Northeast and 21 percent in the Northwest. Similar to a year ago, Trade and Support companies experienced the highest incidence – 29 percent – of perceiving resistance from non-Lower Manhattan clients to visit their offices. FIRE companies – who were the least likely to be headquartered in Lower Manhattan<sup>4</sup> – fared the best in this regard with 12 percent citing client resistance – a decrease from 18 percent last year.

Thirty percent of companies not inclined to renew their leases when expiring cited resistance from non-Lower Manhattan clients to visit their Downtown offices.

<sup>4</sup> Eighty-two percent of all respondents to the survey said their location was the company's headquarters. Professional services companies were the most likely to be headquartered Downtown – 91 percent – while only 69 percent of FIRE companies identified their location as the company's headquarters.

## Revenues

Three out of ten companies reported that their revenues over the most recent two quarters were better than the same period a year earlier.<sup>5</sup>



FIRE companies led the positive trend. The High-tech sector was not homogenous in its results, having both the highest incidence of companies with improved revenues as well as the greatest percentage experiencing worse revenues.

2003 Change in Revenues by Industry (Percent)	Prof. Services	FIRE	High-tech	Non-profit	Trade/Support
Better	29.0	<b>38.6</b>	<b>35.3</b>	13.0	24.4
Worse	18.0	18.2	<b>35.3</b>	24.0	<b>39.8</b>
Same	53.0	43.2	29.4	63.0	35.8

The larger companies (100+ employees) had the best results, overall, with 43 percent reporting higher revenues.

2003 Change in Revenues by Company Size (Percent)	25 or fewer	26-50	51-100	More than 100	Re-contacts
Better	25.2	<b>41.9</b>	28.1	<b>42.9</b>	32.1
Worse	29.6	16.2	17.5	13.1	25.1
Same	45.2	41.9	54.4	44.0	42.8

<sup>5</sup> In the study conducted a year earlier, the period under consideration was longer by one-quarter (total of three quarters), but the results were more negative with only 14 percent reporting better revenues than the comparable period a year earlier (prior to 9/11).

### Attribution of Worse Revenues

In the study one year ago, 62 percent of companies attributed their worsening revenues to the *aftermath of 9/11* and 38 percent to *the economy in general*. The most recent study reveals a shift in emphasis with companies now attributing 48 percent of the blame to the *aftermath of 9/11* and 52 percent to *the economy in general*.

Comparing this year to last, there is a much wider recognition of the state of the economy and its impact on the revenues. The larger companies are most likely to attribute any revenue declines to the downturn in the economy: 71 percent of companies with more than 100 employees blamed the economy in general.

Attribute Worse Revenues	2003				2002			
	25 or fewer	26-50	51-100	More than 100	25 or fewer	26-50	51-100	More than 100
Events of 9/11	51.3	40.8	41.0	28.7	65.8	57.6	50.4	47.4
Economy	48.7	59.2	59.0	71.3	34.2	42.4	49.6	52.6

Seventy-four percent of Downtown companies source, at least, some of their revenues from other firms located in Lower Manhattan, a similar percentage to last year. For these companies, the proportion of revenues currently sourced from other Downtown companies dropped, however, from 42 percent to 26 percent, which amounts to a proportionate decline of 38 percent. Similar to the previous study, the decline was most noticeable in the High-tech sector, followed by the Professional Services.

Percent of Revenues from other Downtown Companies	2003						2002
	Total	FIRE	Prof. Services	Non-profit*	High-tech	Trade/Support	Total
Twelve months ago	41.6	46.8	41.5	42.2	39.2	38.4	43.6**
Current	25.5	29.1	21.0	13.6	17.7	35.7	36.2
Percent drop from earlier period	38.7	37.8	49.4	67.8	54.9	7.0	17.0

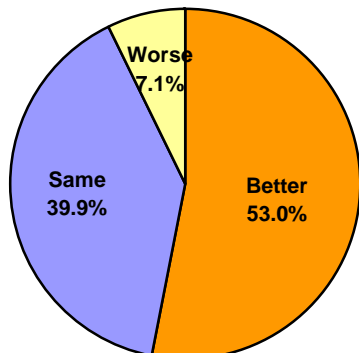
\* Small sample size compared to the other sectors.

\*\*Prior to 9/11

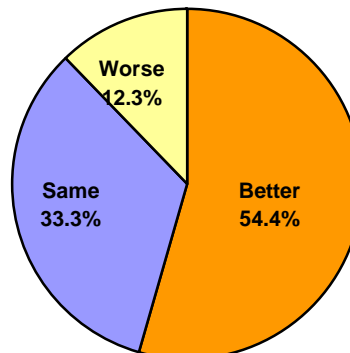
## Outlook for Fiscal 2004

Similar to last year, more than half of the companies continue to believe that the next fiscal year will be better than the more recent one. The drop in the percentage of those who felt that the next year would be worse – down from 12 to 7 percent – is a positive departure.

**Outlook for Fiscal 2004**  
compared to 2003



**Outlook for Fiscal 2003**  
compared to 2002



High-tech and FIRE industry firms remain the most upbeat for fiscal 2004. The Non-profits are the least optimistic, especially compared to their view last year when 42 percent anticipated better revenues for fiscal 2003.

Expectations for Fiscal 2004 (Percent)	Prof. Services	FIRE	High- tech	Non- profit	Trade/ Support
Better	47.0	<b>61.4</b>	<b>72.5</b>	29.6	52.8
Worse	7.5	3.4	5.9	9.3	<b>11.4</b>
About the same	45.5	35.2	21.6	<b>61.1</b>	35.7

The outlook among larger firms was the most positive with 62 percent predicting a better fiscal 2004 and none expecting next year to be worse.

Expectations for Fiscal 2004 (Percent)	25 or fewer	26-50	51-100	More than 100	Re-contacts
Better	50.1	56.8	54.4	61.9	54.2
Worse	9.5	0.0	10.5	0.0	6.6
Same	40.4	43.2	35.1	38.1	39.1

Firms in the Southern quadrants had higher expectations, especially the Southeast quadrant.

Expectations for Fiscal 2004 (Percent)	NW	SW	NE	SE	Re-contacts
Better	46.9	56.1	46.2	<b>60.9</b>	54.2
Worse	8.0	8.4	7.1	5.9	6.6
Same	45.1	35.5	46.7	33.2	39.1

## Location and Office Space

More than four out of five (82 percent) of the companies were headquartered Downtown, while the balance were branch offices (16 percent) or subsidiaries (two percent). The Northwest quadrant had the highest proportion (88 percent) of headquarters.

Almost all the companies (99 percent) had been operating in Lower Manhattan prior to 12 months ago. The few that had just moved Downtown in the last 12 months mainly came from other Manhattan locations. One reason cited by the majority (71 percent) of these companies for moving Downtown was low rent or lease rates. Forty percent also mentioned tax incentives or grants.

One out of nine companies (11 percent) currently operates from more than one location Downtown, which is comparable to the 12 percent reported in the 2002 study. The average number of locations reported among these multiple location companies was 3.7. Companies with multiple locations located in the Northeast quadrant had the highest average number of offices (4.4). Three percent reported a change in the number of locations operated Downtown, which is lower than the 7.5 percent who reported a change in the previous study.

The proportion of companies occupying more than 200,000 square feet at all of their Downtown locations remained constant at five percent. In the FIRE sector, the proportion rose to eleven percent (one percentage point higher than last year's study). Similar to the results of the previous study, none of the firms in the High-tech sector occupied that much space.

The majority of the companies, 77 percent, expect no change in the amount of space they would require in the next 12 months.<sup>6</sup> While less than 10 percent said they would require less space in the next 12 months, 15 percent indicated they would need more space. Companies in the Southeast quadrant had a higher incidence of requiring more space (18 percent). The need for more space among companies with 26 to 50 and 51 to 100 employees was the highest, 22 and 21 percent, respectively. Only a very small proportion of the largest companies (2.4 percent) would need less space in the near future, while 17 percent will require more space.

Space Requirements in the Next 12 Months by Number of Employees (Percent)	Total	Re-contacts	25 or fewer	26-50	51-100	More than 100
About the same	77.2	76.8	78.1	68.9	75.4	81.0
More	14.7	15.9	12.1	21.6	21.1	16.7
Less	8.1	7.4	9.8	9.5	3.5	2.4

<sup>6</sup> The proportions were similar for the re-contacted companies: 77 about the same, 16 percent more.

There was a small decline in taking new space outside of Lower Manhattan: nine percent of the companies took additional office space outside of Lower Manhattan after 9/11 compared to seven percent this past year. Among the re-contacts the proportion was even lower, only five percent. The smallest companies were the least inclined to take space outside of Lower Manhattan, while the largest companies (with over 100 employees) were far more likely.

<b>Companies Taken New Space Outside of LM by Number of Employees</b> (Percent)	<b>Total</b>	<b>25 or fewer</b>	<b>26-50*</b>	<b>51-100*</b>	<b>More than 100</b>
2003	7.1	2.1	17.6	12.3	17.9
2002	8.7	6.1	10.4	12.0	18.2

\*relatively small sample size

Companies in the SE quadrant had the highest incidence of taking new space outside of Lower Manhattan in both years of the survey, although the incidence was lower than 12 months ago.

<b>Companies Taken New Space Outside of LM by Quadrant</b> (Percent)	<b>Total</b>	<b>NW</b>	<b>SW</b>	<b>NE</b>	<b>SE</b>
2003	7.1	5.3	6.5	6.0	<b>9.4</b>
2002	8.7	7.9	6.3	7.1	<b>11.4</b>

The proportions in each sector of companies taking new space remained about the same as a year earlier with the exception of trade and support, which dropped from 10 percent to four percent.

<b>Companies Taken New Space Outside of LM by Industry</b> (percent)	<b>Total</b>	<b>Prof. Services</b>	<b>FIRE</b>	<b>High-tech</b>	<b>Non-profit</b>	<b>Trade/Support</b>
2003	7.1	5.5	9.1	5.9	14.8	4.1
2002	8.7	6.1	9.5	6.1	14.0	10.1

All the companies that have taken new space outside of Lower Manhattan still occupy it. Geographically, close to one-third of the space taken was located elsewhere in Manhattan or New York City; almost one-fourth was in New Jersey. (See table, Location of New Space, on page 13.) With several large companies taking in excess of 150,000 square feet, the amount of space averaged 23,700 square feet<sup>7</sup>. Half of the companies, however, took less than 4,000 square feet.

<sup>7</sup> The reported average space taken outside of Lower Manhattan in the past 12 months is driven mainly by a few companies taking much larger space than the majority of the firms. The median of 4,000 sq. ft. represents the midpoint of space taken by all companies.

Close to one-fourth cited *employee preference* as the reason why companies took space outside of Lower Manhattan. This is a sharp drop from a year ago when 46 percent of the companies taking new space were driven by employee preference. On the other hand, one out of seven identified the *need to relocate the back-office to another area* while one out of six, each, said *decentralizing essential workforce* or *putting critical information on different power telecom grid* were reasons to take new space. The latter increased in importance this year over last.

<b>Reasons Companies Took Space Outside of Lower Manhattan</b> (Percent)	<b>2003</b>	<b>2002</b>	<b>+/- Percent Change<sup>8</sup></b>
Employee preference	23.3	45.5	-48.4
Relocate back-office to other area*	14.0	-	-
Decentralize essential workforce	11.6	13.6	-14.7
Put critical information on diff. power/telecom grid	11.6	4.5	+157.7
Construction disruption*	2.3	-	-
Client unwillingness to travel Downtown*	7.0	-	-
Allocate backup office to other area**	-	2.3	-
Previous space destroyed or damaged**	-	29.5	-
Other*	55.8	-	-

\* Not asked in the previous study

\*\* Not asked in the current study

Looking forward, the proportion of companies considering taking space outside of Lower Manhattan has dropped considerably: one out of nine companies compared with almost one out of five a year ago.

<b>Companies Considering to Take New Space Outside of LM by Number of Employees</b> (Percent)	<b>Total</b>	<b>25 or fewer</b>	<b>26-50</b>	<b>51-100</b>	<b>More than 100</b>
2003	11.1	11.5	8.2	12.0	10.1
2002	18.6	19.2	13.3	11.6	24.6

Now at six percent, the professional services sector demonstrated the largest drop (60 percent) in the proportion of companies considering taking space outside of Lower Manhattan. The same is true, to a lesser extent, of FIRE companies (down 39 percent).

<b>Companies Considering to Take New Space Outside of LM by Industry</b> (Percent)	<b>Total</b>	<b>Prof. Services</b>	<b>FIRE</b>	<b>High-tech</b>	<b>Non-profit</b>	<b>Trade/Support</b>
2003	11.1	<b>5.8</b>	<b>12.5</b>	14.6	6.5	17.8
2002	18.6	<b>14.8</b>	<b>20.5</b>	17.7	10.2	26.0

<sup>8</sup> A minus sign (-) indicates a drop in the proportion of companies citing the item as a reason. Conversely, a plus sign (+) is an increase in the proportion of employers.

The decline in incidence of considering space outside of Lower Manhattan was evident in all quadrants, especially so in the SW.

<b>Companies Considering to Take New Space Outside of LM by Quadrant</b> (Percent)	<b>Total</b>	<b>NW</b>	<b>SW</b>	<b>NE</b>	<b>SE</b>
2003	11.1	9.3	10.0	10.5	13.1
2002	18.6	17.2	25.7	15.3	17.8

When considering taking new space outside of Lower Manhattan, companies also cited *employee preference* to a far lesser extent than last year. It was now equal with *relocating back-office to other area*. Among companies with 50 to 100 employees, the proportion citing *employee preference* and *relocating back-offices* were both much higher, 33 and 50 percent, respectively.

<b>Reasons Companies Considering to Take Space Outside of LM</b> (Percent)	<b>2003</b>	<b>2002</b>	<b>+/- Percent Change</b>
Employee preference	22.6	66.7	-66.1
Relocate back-office to other area	22.6	16.2	+39.5
Decentralize essential workforce	14.5	16.2	-10.5
Client unwillingness to travel Downtown*	12.9	-	-
Put critical information on different power/telecom grid	6.5	15.2	-57.2
Construction disruption*	4.8	-	-
Previous space destroyed or damaged**	-	5.1	-
Other	50.0	-	-

\* Not asked in previous study

\*\* Not asked in the current study

Only one-third of commercial tenants who already took space outside of Lower Manhattan located elsewhere in New York City. One-half of those still considering taking additional space, however, are likely to locate in New York City. New Jersey has been, and remains, the second most popular choice.

<b>Location of New Space</b> (Percent)	<b>Already Taken</b>	<b>Considering Taking</b>
Elsewhere in Manhattan	16.3	33.9
Other New York City	16.3	16.1
	32.6%	50.0%
New Jersey	23.3	21.0
Long Island	9.3	11.3
Westchester/Rockland	7.0	6.5
Other New York State	4.7	6.5
Connecticut	0.0	3.2
Elsewhere	30.2	12.9

## Leases

Consistent with the previous study, 79 percent of companies lease their space while 11 percent own it and ten percent sublease. Larger companies, of course, are more inclined to own, as are companies in the FIRE sector. Twenty-nine percent of companies with 100 or more employees own their building, as do 21 percent of FIRE companies.

Still indicating the presence of excess capacity, 12 percent said that they intend to sub-lease space to others. Companies who own their own building are the most inclined to sub-lease, 18 percent, while 12 percent of commercial tenants holding a lease intend to do so. No current sub-lessees planned on sub-leasing. **The overall percentage intending to sublease, however, declined from twenty percent one year ago.** At that time, 28 percent of building owners, 19 percent of primary leaseholders, and 16 percent of sub-lessees intended to sublet. The highest incidences of subleasing would occur among the largest companies (17 percent) and those companies located in the Northwest quadrant (18 percent).

Among those who leased or subleased, 35 percent reported their current lease will end by 2005; another 17 percent have terms that end prior to 2008. The balance<sup>9</sup>, 48 percent, have longer commitments.

**Close to one-half (48 percent) of the companies, facing lease expiration prior to 2008, planned to renew their leases at the end of their terms.** The proportion was highest in the Southwest quadrant, but lowest in the Northwest, 61 and 40 percent, respectively.

Fewer companies were uncertain about their renewal plans this year. Those who “don’t know” declined from 2002 to 2003. About as large as a percentage who “didn’t know” in 2002 moved into the “no” as the “yes” category in 2003: the 8.7 percent difference between 41.7 percent (2002) and 33.1 percent (2003) has now been allocated as a 4.5 percentage point increase in “yes” responses and a 4.2 percentage point increase in “no” responses. Thus, the ratio of “yes” to “no” has narrowed over the last year.

Overall, organizations located in the Northwest quadrant are the most likely to be uncertain about their renewal plans.

Lease Renewal (Percent)	2003 (lease expires prior to 2008)					2002 (expires prior 2008)
	Total	NW	SW	NE	SE	
Yes	47.8	40.4	61.0	47.0	45.8	43.3
No	19.2	17.0	7.3	21.2	25.0	15.0
Don't know	33.0	<b>42.6</b>	31.7	31.8	29.2	41.7

<sup>9</sup> Thirteen percent of companies who lease or sublease did not know or refused to answer when their lease expired and were not counted in the analysis.

Professional services firms and companies in the FIRE industries were the most likely to renew upon lease expiration – 56 percent and 54 percent, respectively. At 36 percent each, High-tech and Trade and Support were the least likely. Trade and Support was also the most likely to *not to renew* – 29 percent.

Among companies who said *no* or *don't know* to the question on planning to renew, 16 percent cited *concerns* about *LM rebuilding* progress and 14 percent mentioned the *shift in location of customers*. Twelve percent pointed to the *construction of streets and sidewalks*.

Reasons for Not Renewing (lease expiration prior to 2008)	Percent
Concern about LM rebuilding progress	15.6
Shift in location of customers	14.1
Construction of streets and sidewalks	11.7
Safety/sanitation issues	7.0
Problems with regional rail access	8.6
Problems with subway access	5.5
Some other reason <sup>10</sup>	54.7

Some lease non-renewals have more to do with their present location than Downtown in general. As shown below, more than four out of ten who answered *no* to the question on planning to renew would relocate below Chambers Street. Overall, 23 percent would leave New York City.<sup>11</sup>

Areas Most Likely to Relocate	Percent
Stay below Chambers Street	42.6
Elsewhere in Manhattan	23.4
New Jersey	12.8
Other New York City	12.7
Long Island	2.1
Westchester	2.1
Connecticut	0.0
Other	6.4

<sup>10</sup> Includes those who felt it was premature to decide. Some mentioned the need to do a cost analysis at that time, and/or to examine their business strategy.

<sup>11</sup> Earlier in this report, it was stated that 50 percent of those considering taking additional space would do so outside of New York City. That additional space might have been intended for back-office operations or other reasons. In any event, it is easier to move auxiliary operations outside of NYC than an entire company.

As was the case last year, the largest companies – those with 100+ employees – were more likely to renew their lease agreements at the end of their terms.

<b>Plan to Renew Lease by Company Size</b> (Percent)	<b>Total</b>	<b>25 or fewer</b>	<b>26-50</b>	<b>51-100</b>	<b>100+</b>
2003	47.8	48.1	50.0	31.3	57.1
2002	42.6	44.9	37.7	34.7	40.3

Compared with last year’s study where one out of five companies planning to renew indicated they would require more space, only 12 percent now say they would need more space when they renew. This decline is offset by the fact that the largest companies – who require the greatest amount of square footage – are evenly split between the need for more space and same amount of space.

In the Southeast quadrant, three out of ten companies planning to renew their lease will need more space while in the Northwest quadrant the demand was one-third of that.

<b>Will Require More Space by Geographic Quadrant</b> (Percent)	<b>Total</b>	<b>NW</b>	<b>NE</b>	<b>SE</b>	<b>SW</b>
2003	12.0	10.5	0.0	<b>30.3</b>	8.0
2002	19.6	16.3	13.8	<b>26.4</b>	20.5

An above average proportion (16 percent) of Professional services firms will require more space upon renewal.

## Employment

The mean number of employees varied considerably by industry; the average across all industries was 189. In the FIRE sector, the existence of almost one-quarter of the companies with more than 100 employees (about ten percent over 500) raised its mean sharply.

Number of Employees by Industry (Percent)	Total	Prof. Services	FIRE	High-tech	Non-profit	Trade/Support
1 to 10	40.2	41.5	30.6	41.2	31.6	55.3
11 to 25	24.2	25.5	23.9	29.4	13.0	25.2
26 to 50	12.3	13.0	13.1	15.7	13.0	8.1
51 to 100	9.4	8.0	9.1	7.8	22.2	7.3
More than 100	13.9	12.0	23.3	5.9	20.4	4.1
<b>Mean</b>	<b>188.7</b>	<b>91.5</b>	<b>470.7</b>	<b>64.6</b>	<b>118.8</b>	<b>230.8</b>

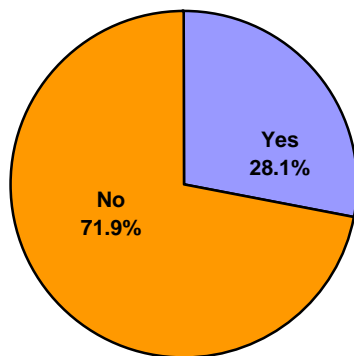
More of the largest firms are located in the Southeast quadrant, while many of the smallest companies are in the Northern half.

Number of Employees by Quadrant (Percent)	Total	NW	SW	NE	SE
1 to 10	40.2	<b>44.2</b>	35.5	<b>51.1</b>	30.7
11 to 25	24.2	23.9	23.4	28.0	21.3
26 to 50	12.3	8.0	18.7	7.7	15.3
51 to 100	9.4	6.2	14.0	6.6	11.4
More than 100	13.9	17.7	8.4	6.6	<b>21.3</b>
<b>Mean</b>	<b>188.7</b>	<b>9.8</b>	<b>38.0</b>	<b>75.5</b>	<b>1,265.3</b>

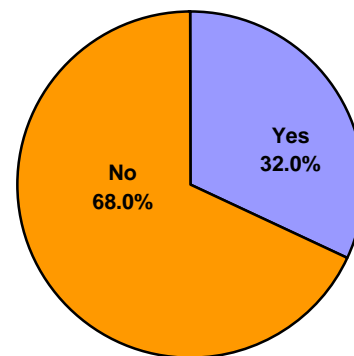
### Employee Layoffs

Seventy-two percent of the companies did not lay-off employees in the last 12 months, comparable to 68 percent in the earlier study. The 28 percent of companies who laid-off employees this past year reported an average of 30 layoffs compared with 26 per company among the 32 percent who laid-off employees in fiscal 2002.<sup>12</sup>

**Percent of Companies Laid Off Employees - 2003**



**Percent of Companies Laid Off Employees - 2002**



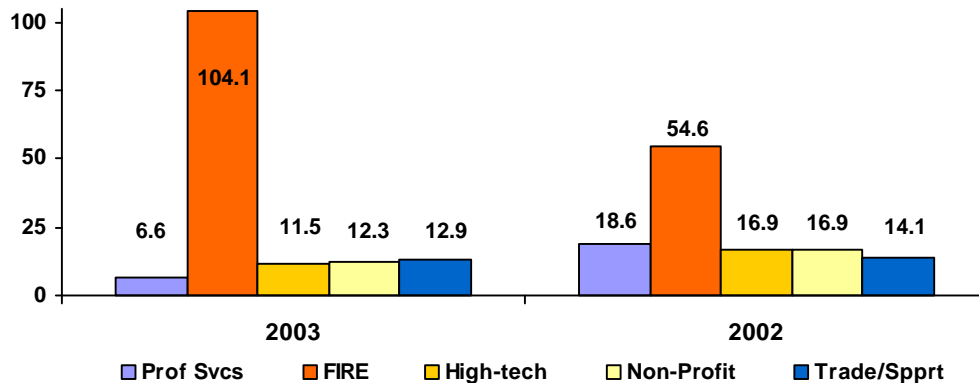
<sup>12</sup> Many large companies interviewed a year ago were planning on laying-off employees prospectively – in the fall of calendar year 2002. This was not captured in the number of employees actually laid off in the fiscal year 2002.

The highest incidence of layoffs occurred in High-tech while the lowest were in the FIRE sector.

Incidence of Layoffs by Industry	Total	Prof. Services	FIRE	High-tech	Non-profit	Trade/Support
Percent of companies	28.1	28.0	21.0	<b>43.1</b>	27.8	32.5

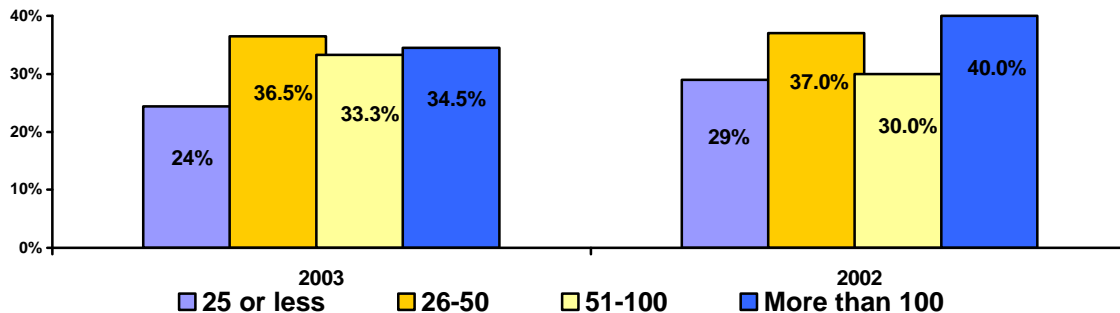
Despite the lowest incidence of layoffs, FIRE companies had the highest average number of layoffs – owing, in part, to their larger size – in both fiscal 2003 and fiscal 2002. The differential from companies in other industries, however, was far greater this year than last<sup>13</sup>. The lowest number of employees laid-off per firm in fiscal 2003 was among professional services companies.

**Average Number of Employees Laid-off by Industry**



The graph immediately below shows that, with the exception of the smallest companies, between 33 and 37 percent of all companies laid-off employees in the most recent fiscal year. The table that follows reveals that companies with more employees had larger (proportionate) layoffs. At the same time, the incidence of layoffs among the larger firms has moderated from 40 to 35 percent this year.

**Percent of Layoffs by Size of Company**



Average Number of Layoffs by Size of Company	Total	25 or fewer	26-50	51-100	More than 100
2003	<b>30.3<sup>14</sup></b>	6.1	10.3	20.9	146.0
2002	<b>25.8</b>	6.5	10.0	32.4	106.8

<sup>13</sup> The fiscal 2003 FIRE sample included more larger companies than in fiscal 2002. Given a larger employee base, the number of employees laid off may be somewhat augmented.

<sup>14</sup> The re-contacted companies – a greater proportion of which were FIRE companies than the total sample, reported a higher average number of layoffs – 44.6 employees.

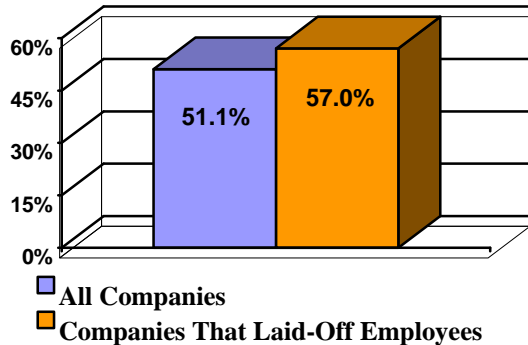
### *New Hires and Net Employment*

**Fifty-two percent of all companies hired an average of 11.8 new employees Downtown in the past 12 months. We reported above that 28 percent of companies Downtown laid-off an average of 30 employees in the past year. The net result of the layoffs and hires is a loss of approximately 30 percent. In other words, new hires made up for more than 70 percent of the jobs lost to layoffs.**

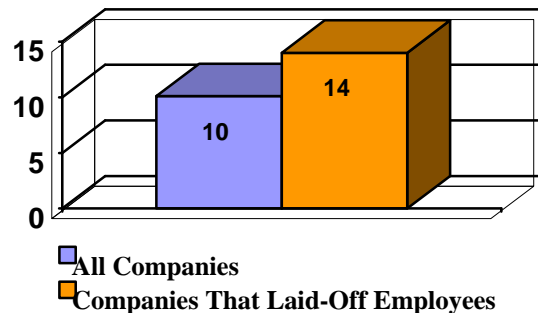
Those who laid-off employees were more apt to hire new employees (57 percent) than those who did not lay-off any employees, and tended to hire a greater number of new employees as well (an average of 14 vs. 10).

### **Hiring of New Employees**

**(All Companies vs. Those that Laid-Off Employees in Last 12 Months)**

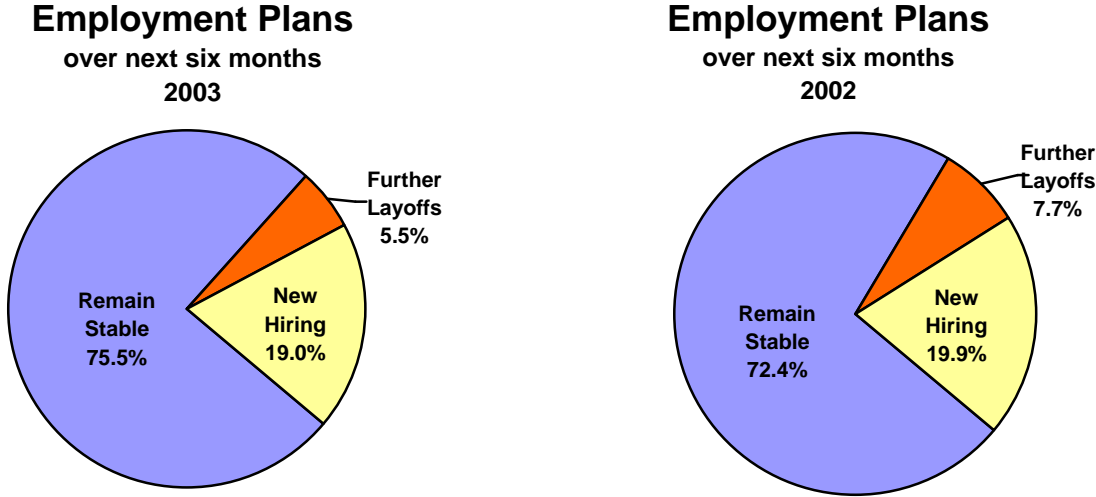


**(Average)**



*Employment Plans*

**Seventy-six percent of the companies surveyed expect employment levels to be stable over the next six months.** More than three times as many companies (19 percent) anticipate hiring than those (6 percent) who expect further layoffs. The ratio of new hires to expected layoffs is greater than we observed in the survey 12 months ago, but these “expectations” did not turn out to be a good predictor. As noted above, net employment was negative with new hires only compensating for 70 percent of those laid off.



Companies in the FIRE industries, along with High-tech firms, revealed the highest incidence of predicting new hiring while Trade and Support companies were the most likely to have further layoffs.

Employment Plans (Percent)	Total <sup>15</sup>	Prof. Services	FIRE	High-tech	Non-profit	Trade/Support
Further layoffs	5.5	4.0	4.5	2.0	5.6	<b>10.6</b>
New hiring	19.0	19.5	<b>21.6</b>	<b>21.6</b>	18.5	13.8
Will remain stable	75.5	76.5	73.9	76.5	75.9	75.6

With regard to company size, those with 26 to 50 employees were the most likely to hire new employees in the near future: 32 percent expecting to hire vs. one percent intending to layoff. Companies in the two southern quadrants also had a more positive employment outlook with about one-quarter anticipating new hiring.

<sup>15</sup> Re-contacted companies reported similar future employment plans: 5.9 percent further layoffs, 17.7 percent new hiring, and 76.4 percent remain the same.

## Recruiting and Retaining Employees

More than one-half of Downtown employers (56 percent) identified issues that made it harder to recruit or retain employees, considerably lower than the results in the 2002 study when 72 percent identified similar issues that affected employment objectives. Improvement was seen in almost every category, the most notable being the *security and personal safety* issue where there was a 40 percent decline. The *increase in commuting time*, still raised by one-third of the employers in the current study, decreased from 46 percent one year earlier. The incidence of mentioning *uncertainty about the rebuilding* also decreased, by a factor of one-fourth.

The response categories<sup>16</sup> for transportation were asked differently this year than last: *other transportation issues* versus *after-hours transportation including taxis and car services*. The valence of the transportation issue, however, is still significant.

Difficulties retaining and recruiting employees (Percent)	2003	2002	+/- Percent Change
Lack of restaurants, retail stores, and personal services	13.1	17.2	- 23.8
An increase in commuting time	<b>33.9</b>	46.0	- 26.3
Other transportation issues	26.2	-	-
After-hours transportation including taxis and car services	-	24.2	-
Security and personal safety	20.0	33.2	- 39.8
Uncertainty about the rebuilding	19.0	25.6	- 25.8
Other	8.8	7.3	+ 20.5

The *increase in commuting time* issue was more salient for larger companies: 50 percent and 46 percent of firms with more than 100 employees and 51 to 100 employees, respectively, cited the transportation issue as a factor making it harder to retain or recruit employees.

<sup>16</sup> Two other response categories were offered last year: *Psychological carryover from the events of 9/11* and *Concern about air quality and other health measures*. Fifty percent alluded to a psychological carryover while 31 percent mentioned concern about air quality.

## Financial Incentives

The order of the magnitude of awareness of the various programs was similar to last year. The slightly lower levels, with the exception of the Lower Manhattan Energy Program (Low Cost Power), are due more to sampling error (different companies responding) than to any underlying trend. Looking at the re-contacted companies only, all the awareness levels are at or above last year's levels.<sup>17</sup>

For most of the major grant programs, somewhat more companies had received awards by 2003 as compared to 2002. Many applications may have been in process at the time of the last study.

Incentive Program	% Companies Aware		% Applying (of Total Companies)		% Receiving (of Total Companies)	
	2003	2002	2003	2002*	2003	2002
WTC Business Recovery Grant	73.2	78.0	50.8	-	42.5	38.3
WTC Small Firm Attraction and Retention Grant	53.5	59.6	25.5	-	18.4	8.3
LM Commercial Revitalization – RE Tax Abatement and Commercial Rent Tax Reduction	53.1	55.7	19.2	-	12.9	9.2
LM Energy – Low Cost Power	39.2	31.7	12.9	-	6.8	3.4
WTC Business Recovery Loan – Low Cost Financing**	-	46.2		-		4.1
NYLZ Tax Incentives – Tax Credit	40.9	39.5	13.7	-	9.9***	13.6
NYLZ Tax Incentives – Tax Benefit	33.3	34.9	8.8	-	6.8***	11.9
LM Small Business Workforce Retention – Downtown Alliance/Seedco Loan*	23.8	-	3.5	-	2.2	-
LM Small Business Workforce – Downtown Alliance/Seedco Grants & Wage Subsidy*	28.8	-	6.5	-	4.0	-
SBA Disaster Recovery Loans*	65.7	-	13.7	-	6.8	-
NYC Partnership Financial Recovery Grants*	27.8	-	4.5	-	2.8	-
Other	4.6	-	3.8	-	-	-

<sup>17</sup> In the study conducted a year earlier, the period under consideration was longer by one-quarter (total of three quarters), but the results were more negative with only 14 percent reporting better revenues than the comparable period a year earlier (prior to 9/11).

<sup>18</sup> Thirteen percent of companies who lease or sublease did not know or refused to answer when their lease expired and were not counted in the analysis.

<sup>19</sup> Includes those who felt it was premature to decide. Some mentioned the need to do a cost analysis at that time, and/or to examine their business strategy.

<sup>17</sup> WTC Recovery – 79.7 percent; WTC Retention – 59.0 percent; Real Estate program – 56.8 percent; Low Cost Power 43.2 percent; Liberty Tax Credit – 44.3 percent; and Liberty Tax Benefit – 35.1 percent.

\*Not asked in the 2002 study \*\* Not asked in the 2003 study \*\*\* Small sample size

<sup>17</sup> WTC Recovery – 79.7 percent; WTC Retention – 59.0 percent; Real Estate program – 56.8 percent; Low Cost Power – 43.2 percent; Liberty Tax Credit – 44.3 percent; and Liberty Tax Benefit – 35.1 percent.

The majority of companies receiving grants and loans found them somewhat or very helpful. The *LM Small Business Workforce* (Alliance/Seedco) and SBA Disaster Recovery Programs were rated as the most helpful, but this was based on a much smaller number of companies receiving these grants or loans. **Of the many who received the WTC awards, 35 percent said that the *Business Recovery Grants* influenced their decision to remain Downtown. Similarly, 41 percent credited the *WTC Small Firm Attraction and Retention Grants* with helping them to remain Downtown. The Lower Manhattan Commercial Revitalization (Real Estate) and *LM Small Business Workforce* (Alliance/Seedco) as well as the SBA Disaster Recovery Loans all scored very well in this regard as well.**

Type of Incentive	Percent Received	Helpful			Influenced to Remain Downtown
		Very	Somewhat	Not Very	
WTC Business Recovery Grant	42.5	38.5	47.9	13.6	35.4
WTC Small Firm Attraction and Retention Grant	18.4	34.2	51.4	14.4	41.4
LM Commercial Revitalization –RE Tax Abatement and Commercial Rent Tax Reduction	12.9	19.2	61.5	19.2	42.3
LM Energy – Low Cost Power	6.8	14.6	56.1	29.3	9.8
NYLZ Tax Incentives – Tax Credit	9.9	40.0	51.7	8.3	25.0
NYLZ Tax Incentives – Tax Benefit	6.8	31.7	57.5	9.8	24.4
LM Small Business Workforce Retention – Downtown Alliance/Seedco Loan	2.2	53.8	38.5	7.7	51.2
LM Small Business Workforce – Downtown Alliance/Seedco Grants & Wage Subsidy	4.0	50.0	41.7	8.3	37.5
SBA Disaster Recovery Loans	6.8	68.3	24.4	7.3	46.2
NYC Partnership Financial Recovery Grants	2.8	70.6	23.5	5.9	23.5

## **Conclusion**

The outlook among Downtown companies has improved. Forty-five percent said the outlook for the future of Lower Manhattan has improved while only 13 percent said it had deteriorated. Among larger companies, 57 percent agreed that the outlook was getting better. Fifty-three percent expect fiscal 2004 to be better than 2003. Confidence was highest among larger companies with 62 percent anticipating higher revenues.

This year's survey found more firms intending to renew their current leases than one year ago. Among those with changing space requirements, twice as many expect to take more as opposed to less space.

Business thinking has graduated to a more global orientation. Companies are now attributing any declines in revenues to the economy in general as opposed to the tragic events of two years ago. Security and personal safety concerns have lessened as well.

Yet serious issues remain for Lower Manhattan and New York City. Transportation-related issues are a major challenge. Fifty percent of the larger companies cited the increase in commuting time as a difficulty in workforce retention and recruitment. Twenty percent of companies still experience resistance from non-Lower Manhattan clients to visit their offices Downtown.

This past year seven percent of all Downtown companies found additional space outside of Lower Manhattan, two-thirds of which were not located in New York City. Expansion outside of the City continues as 11 percent are still considering taking new space outside of Lower Manhattan.

Policy makers need to focus on the requirements of the business community providing transportation and other amenities that make conducting business Downtown – in New York City – a sound economic proposition.