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DOWNTOWN ALLIANCE SURVEY OF LOWER MANHATTAN RETAIL ESTABLISHMENTS JANUARY 2002

OVERVIEW

During the first two weeks of January 2002, the Downtown Alliance conducted a survey of 861 retail stores and restaurants located in Lower Manhattan south of Chambers Street and in Tribeca in order to assess the continuing effects of the September 11th World Trade Center attack on the sector.

This survey is a follow-up to a survey of Lower Manhattan retail establishments conducted by the Downtown Alliance in October 2001. Although both surveys were conducted using a door-to-door canvass, there are some slight differences in the scope of the two surveys. Four hundred retail businesses located south of Chambers Street in Lower Manhattan participated in the October 2001 survey. The January 2002 survey canvassed 861 retail businesses in Lower Manhattan, including those located south of Chambers Street and those located in Tribeca. The participants in January's survey represent about 75 percent of the area's retail establishments. Their responses provide a statistically valid insight into the state of the area's retail sector as a whole.

The survey found that:

- Retail businesses in Lower Manhattan **continued to experience a severe decline in sales volume** through the end of the fourth quarter 2001: **62 percent of area retailers reported a "severe decrease" in sales volume and 33 percent reported a "modest decrease."** Fifty percent of respondents indicated that their sales volume during the fourth quarter 2001 was between 20 and 50 percent lower than their volume during the fourth quarter 2000. Moreover, many businesses are not optimistic about expected sales volume for the first quarter 2002.
- Retailers throughout the area **continued to be concerned about the loss of their pre-September 11th client base.** Although retailers' concerns about client base differ slightly according to their geographic location, decreases in the client base were most frequently attributed to the loss of corporate clients and declines in weekday foot traffic. In addition, retailers consistently stated that **increasing Lower Manhattan's client base was essential to improving the area as a place to do business.**
- Lower Manhattan's restaurants and retail stores are still **dealing with unresolved insurance claims four months after the September 11th attacks.** Many retailers face processing delays and the possibility of partial payments. An **average of only five percent of retailers have received full payment** for claims filed against their carriers. **Fourteen percent of retailers have received partial payments,** and the claims of 60 percent of retailers who filed for coverage are still being processed.

DETAILED FINDINGS

I. The Continuing Impact of September 11th

The survey found that many of the small retail businesses across Lower Manhattan¹ are still facing the continuing negative impact of the events of September 11th. In particular, businesses reported dramatic changes in sales volume, increased layoffs, and additional repairs to damaged property. Retail stores and restaurants are also facing a dramatic shift in their client base and continued financial pressures from their landlords.

Declines in Sales Volume for 4Q01

Sixty-two percent of Lower Manhattan retailers reported that they had experienced a “severe decrease” in their fourth quarter 2001 sales volume; 33 percent reported a “modest decrease.” The numbers were only slightly more optimistic for the subset of retailers located in Tribeca: 35 percent reported a “modest decrease” and 56 percent reported a “severe decrease.”

For those retailers within the Downtown Alliance’s district south of Chambers Street (the “District”), cross-tabulation of results by store location suggests that participants’ responses are correlated to their location within the District.

- Stores and restaurants west of Broadway and north of Liberty Street – much of the area encompassed by the World Trade Center site – experienced the greatest declines in sales. All businesses reported decreases: 88 percent reported that they had sustained “severe decreases” in sales volume in the fourth quarter of 2001, and a mere 12 percent reported “modest decreases.”
- Retail businesses in the South Street Seaport did not fare well either. Sixty-nine percent of retailers in that area reported a “severe decrease” in fourth quarter 2001 sales volume, and 28 percent reported a “modest decrease.”
- Stores and restaurants in the area west of Broadway and to the south of Liberty Street – including Battery Park City and Battery Park – also experienced severe declines: 64 percent reported a “severe decrease” in sales volume and 31 percent reported a “modest decrease.”
- Stores and restaurants in the area east of Broadway and to the north of Liberty Street experienced similar losses in sales volume. 64 percent reported “severe decreases” and 31 percent reported “modest decreases.”
- Retailers in the area in the southeast corner of the District appear to have lost the least amount of business. Fifty percent reported “severe decreases” in fourth quarter 2001 sales and 46 percent reported “modest decreases.”

¹ For the purposes of this analysis, “Lower Manhattan” refers to the entire area canvassed and as such includes all retailers in the Downtown Alliance’s district south of Chambers Street and in Tribeca. Portions of the analysis refer only to retailers in the “District” – that is, retailers located south of Chambers Street within the Downtown Alliance’s boundaries. Portions of the analysis that focus on Tribeca retailers identify them as such.

When asked to compare their fourth quarter 2001 sales volume to their sales volume in fourth quarter 2000, 50 percent of retailers reported that their sales volume was 20-50 percent lower this year than last. Twenty-seven percent reported that their sales volume had decreased between 51 and 80 percent.

According to survey participants, there appeared to be a variety of September 11th-related reasons for the dramatic drop in sales:

- Seventy-six percent indicated that the loss of corporate clients was a significant factor in their sales losses.
- Fifty percent indicated that clients' inability to access the area was a factor in sales decreases.
- Thirty-nine percent reported that "negative perceptions about Downtown" make customers unwilling to come to the area, thereby contributing to their drop in sales.
- Twenty-eight percent of retailers indicated that other factors had contributed to the loss of sales, including the presence of street vendors in front of their stores, residents moving away, changes in transportation patterns, and a loss of regular tourism business.

Retailers were not optimistic about first quarter 2002 sales, either. Sixty-five percent of retailers reported that they expected their first quarter sales this year to be lower than sales during the first quarter of 2001. Eighteen percent indicated that they "didn't know."

Employee Lay-Offs Increase

Half of all retailers in both the District and Tribeca reported that they had not laid off any employees over the last four months as a result of the events of September 11th. Thirty-eight percent of retailers had laid off between one and three employees. Moreover, a closer look at the numbers by type of retail establishment demonstrates that the incidence of layoffs differs dramatically by sector:

- All District shopping establishments laid off employees: 37 percent laid off between one and three employees, and nearly 59 percent reported that they laid off eight or more employees since September 11th.
- While 36 percent of food and dining businesses in the District did not lay off any employees, 44 percent reported that they laid off between one and three employees, and 16 percent reported that they laid off between four and seven workers.
- Sixty-two percent of businesses categorized as personal and professional services retail establishments (e.g., copy services, hair salons, and the like) in the District did not lay off any employees, and 33 percent laid off between one and three employees.

Repairs to Physical Damage Continue

Twenty-one percent of respondents reported that their stores sustained physical damage as a result of Sept 11th. Of those reporting damage, approximately 77 percent reported that this

damage had been fully repaired. There was some disparity among retailers, however: while only nine percent of food and dining establishments in the District reported that they had not yet fully repaired their stores, 20 percent of personal/professional services retailers in the District had not yet repaired their stores. Twenty percent of Tribeca retailers reported partial repairs.

Changes in Client Base Continue

Retailers were asked to indicate how their client base has changed since September 11th, if at all. Only five percent of retailers in the District and Tribeca reported no change. Seventy-one percent reported fewer corporate clients,² 59 percent reported fewer walk-ins, and 55 percent reported a decrease in foot traffic.

When broken down by geographic area, the numbers change slightly:

- Decreases in foot traffic appeared to be a primary concern for South Street Seaport retailers: 56 percent indicated that it was a factor in their changing client base. Forty percent of Seaport retailers reported that they had fewer corporate clients, and 38 percent said that they had fewer walk-ins.
- A decrease in corporate clients was a concern for 97 percent of retailers in the area west of Broadway and north of Liberty Street. Seventy-one percent of these retailers also reported that fewer walk-ins had changed their client base; 66 percent reported that decreases in foot traffic had changed their client bases as well.
- Forty-two percent of Tribeca retailers reported decreases in foot traffic and walk-ins as a primary concern regarding their client base. Although still significant, this seems to be a concern for a smaller number of retailers in Tribeca than in other parts of the area.
- Retail shops and restaurants located to the east of Broadway were consistent in their concerns regarding client base: 76 percent of businesses east of Broadway and north of Liberty Street reported that they had fewer corporate clients, as did 72 percent of firms east of Broadway and south of Liberty Street. Similarly, retailers in both areas were concerned about decreased walk-ins and declines in foot traffic.

These results underscore how dramatically the traditional client base of Lower Manhattan's retail community – that is, the thousands of workers, residents, and visitors who worked, lived, and visited the area pre-September 11th – has changed. It is estimated that at least one hundred thousand workers have been relocated or displaced following the World Trade Center attack, and thousands of area residents were displaced from the area during this time as well. Moreover, many of the traditional Downtown tourist attractions were closed during the fourth quarter of 2001, further curtailing tourist traffic to destinations outside the immediate vicinity of the World Trade Center site.

Retailers' concerns about changes in foot traffic are further supported by pedestrian counts conducted recently by the Downtown Alliance. These counts, conducted on a weekday and a weekend day in early December 2001 and compared to similar counts done throughout the District in June 2001, found that pedestrian traffic throughout the area has shifted dramatically,

² For the purposes of this analysis, "corporate clients" refers to the businesses, non-profit, and government organizations that patronize retailers as institutions as opposed to individual clients.

as rush-hour traffic is rerouted in response to changes in public transportation, and in some cases has declined due to decreased numbers of workers in the area. At the same time, weekend foot traffic has increased dramatically in several locations close to the World Trade Center site.

Yet another outcome of the changing composition of Downtown's client base has been a decrease in evening trade for local restaurants. Seventy-four percent of restaurants in the District and Tribeca reported "significant decreases" in their evening businesses, and 13 percent reported "slight decreases." In Tribeca alone, 67 percent of restaurants reported "severe decreases" and 33 percent reported "slight decreases."

Business Pressures Affect Ability to Pay Rent

Fifty-eight percent of retailers reported that they have been able to pay their rent consistently since September 11th. Twenty percent have not been able to do so, while 22 percent have been able to make partial payments. The survey results suggest that rent payments have been particularly difficult for retailers located in the area west of Broadway and north of Liberty Street: only 34 percent of these businesses have been able to pay their rent consistently, and 44 percent have not been able to. Twenty-two percent have made partial rent payments.

When asked about their ability to pay rent going forward, 42 percent of retailers said that they expected to be able to pay their rent consistently over the next three months, while 47 percent reported that that they "did not know" if they pay their rent consistently. Restaurants and food stores in the District appear to be particularly uncertain: a full 52 percent reported that they did not know whether they could pay their rent over the next three months, while only 36 percent said that they could.

Forty-six percent of participants said that their landlords have "been understanding" about their financial situation, while 25 percent reported that their landlords have "not been understanding." Others reported that their landlords had lowered rents, although others reported that their landlords "didn't care" and some landlords appear to have increased rents.

II. Retailers' Continuing Efforts to Adjust to a Post-9/11 World

In addition to the continuing impact of the events of September 11th on the Lower Manhattan retail community, the survey also examined retailers' continuing efforts to adjust to the new economic climate in which they now live. Many have changed their business practices – some have added advertising and marketing campaigns – and many are seeking financial assistance through loan and grant programs. Some are also seeking relief through insurance claims filed with their carriers on a variety of policies.

Changes in Business Practice

With steep decreases in their traditional corporate client base and dramatic changes in the area's foot traffic, some businesses are changing their businesses practices. Seventy percent of retailers across the District and in Tribeca reported no change in their hours of operation during the week. Twenty-five percent had shortened their weekday business hours. A similarly large portion of retailers – 74 percent – reported no change in their weekend hours of operations.

Only 21 percent had shortened their weekend hours, and five percent reported that they had increased their weekend hours.

The recent installation of a viewing platform on Fulton Street between Broadway and Church Streets has also had an impact on the way some area retailers do business. As of January 14th, the date that the survey was completed, 78 percent of retailers reported that the establishment of the World Trade Center Site viewing platform had had no impact on their business. The remaining retailers were divided regarding the question of its impact: 12 percent reported a positive impact, and ten percent reported a negative impact. When broken down by geographic area, retailers' responses to the World Trade Center Site viewing platform differed.

- Thirty percent of South Street Seaport retailers felt that the viewing platform had a positive impact on their business. This may be related to the fact that visitors to the site must pick up tickets at the South Street Seaport to gain access to the platform. Only eight percent of Seaport retailers felt that the platform had a negative impact on their business.
- Although 30 percent of retailers in the area west of Broadway and north of Liberty Street also reported that the viewing platform had positively affected their business, a higher percentage of retailers in this area – 19 percent – than in the South Street Seaport felt that the viewing platform had negatively affected their business.

For Some, Increased Advertising/Marketing Efforts

A significant majority of area retailers – close to 74 percent -- have *not* undertaken any new advertising efforts since September 11th. Of those who have done new advertising, 26 percent have distributed circulars and 18 percent have placed print advertisements. It is worth noting, however, that while retailers across the District followed these general patterns, retailers in Tribeca were more likely to advertise. Thirty percent of Tribeca retailers reported that they had placed print advertisements; 29 percent also indicated that they had used circulars.

For those retailers who embarked on new advertising efforts, 61 percent paid for their campaigns through savings, 19 percent used incoming revenues to fund their campaigns, and five percent used donated advertising.

Forty-seven percent of retailers who had increased their advertising considered their advertising efforts to be successful, 29 percent said that they did not consider these efforts successful, and 24 percent said that they did not know whether or not their advertising efforts had been successful.

Some Seek Assistance Through Grants and/or Loans

Twenty-eight percent of survey respondents stated that they had applied for other than traditional commercial sources for financial assistance since September 11th. However, not enough participants provided dollar figures for the loan and/or grant funds they had sought or received to calculate a statistically valid average.

The current status of respondents' applications for assistance is indicated in the table below:

	RETAILERS APPLYING FOR THIS FORM OF ASSISTANCE	STATUS OF APPLICATION		
		PENDING	AWARD MADE	NO AWARD MADE
SBA	53.16%	51.59%	19.84%	25.4%
FEMA	22.78%	37.04%	12.96%	38.89%
NYS/ESDC	55.27%	37.40%	50.38%	5.34%
NYC/EDC	6.75%	43.75%	31.25%	18.75%
Downtown Alliance/Seedco	30.38%	44.44%	36.11%	8.33%
American Red Cross	5.91%	14.29%	35.71%	21.43%
Other	13.5%	21.88%	50.0%	9.38%

The Continuing Challenge of Insurance Claims

Forty percent of survey respondents provided information about the nature and status of their insurance claims. Of this group, an average³ of 38 percent have filed claims. An average of five percent of claims have been paid in full, 14 percent of claims have been partially paid, and 60 percent of claims are being processed. On average, 20 percent of retailers have received no payment for claims filed.

However, as the chart below suggests, the results vary somewhat depending on the type of insurance policy.

	RETAILERS WITH THIS KIND OF INSURANCE	RETAILERS THAT HAVE FILED CLAIM AGAINST POLICY	TYPE OF PAYMENT RECEIVED			
			FULL PAYMENT	PARTIAL PAYMENT	BEING PROCESSED	NO PAYMENT
GENERAL	72.59%	37.75%	14.13%	11.96%	55.43%	18.48%
WORKER'S COMP	27.70%	26.32%	0.0%	9.09%	63.64%	27.27%
BUSINESS INTERRUPTION	52.77%	76.37%	14.04%	25.84%	50.56%	9.55%
PROPERTY DAMAGE	53.94%	56.22%	8.82%	22.55%	54.90%	13.73%
EQUIPMENT DAMAGE	21.57%	31.08%	0.0%	18.18%	59.09%	22.73%

The data in the table above suggest that the filing rate varies greatly by policy. For example, the majority of retailers with business interruption insurance (76 percent) have filed claims, whereas only 31 percent of retailers with insurance for damage done to equipment and

³ The average figures listed here incorporate information regarding the following types of insurance policies: general, liability, disability, casualty, worker's compensation, business interruption, property damage, and equipment damage. For the sake of brevity, the insurance chart accompanying the text above does not include information on liability, disability, and casualty insurance. These numbers are available from the Downtown Alliance.

machinery have filed claims. The survey also suggests that most claims are still being processed, and only a small proportion of claims have been paid in full.

III. The Future of Downtown

Finally, as means of assessing the future of Downtown retail, the survey asked business owners to consider what would make the area more attractive as a place to do business. Seventy-eight percent of retailers across the District and Tribeca indicated that an increase in client base was critical. Twenty-seven percent said that tax breaks or real estate incentives would make the area more attractive, 27 percent indicated that marketing assistance would make it more attractive, and 21 percent said that improved transportation access would make it a better place to do business.

When these results are broken down by geographic location, they suggest that retailers in different locations favor different ways of making the district more attractive.

<i>What would make area attractive?</i>	INCREASED CLIENT BASE	INCREASED AREA SECURITY	TAX BREAKS/REAL ESTATE INCENTIVES	IMPROVED TRANSPORTATION ACCESS	MARKETING ASSISTANCE
SOUTH STREET SEAPORT	75.0%	1.39%	6.94%	16.67%	40.28%
East of Bway, north of Liberty	82.18%	4.95%	31.19%	22.28%	30.69%
East of Bway, south of Liberty	76.85%	3.70%	25.93%	18.52%	22.22%
West of Bway, north of Liberty	84.38%	3.13%	28.13%	3.13%	18.75%
West of Bway, south of Liberty (incl Battery Park City)	80.0%	0.0%	23.33%	40.0%	10.0%

KEY CONCERNS

In this survey, Downtown retail business owners expressed three primary areas of concern: declines in sales, continued lack of a viable client base, and unresolved insurance issues.

- **Declines in sales.** Virtually all Downtown retailers have experienced dramatic declines in sales volume through the end of fourth quarter 2001. These declines threaten businesses' ability to recover from the losses incurred in the days and weeks following September 11th, and consequently inhibit their ability to seek further assistance. Nor is it likely, based on retailers' projections for the first quarter 2002, that they will be able to reverse the decline in sales in the near future.
- **Continued lack of client base.** Nearly all Downtown retailers relied heavily on corporate clients. Numerous businesses and close to one hundred thousand workers have been displaced from or left the area, and as a result many businesses have seen their carefully cultivated client bases disappear. Although the influx of visitors to the World Trade Center site has provided some businesses with a new client base, many are still struggling with a dramatic decline among corporate clients and walk-ins alike.

Many retail business owners also anecdotally reported to our survey team that they considered street vendors to be a key factor in the erosion of a client base, and their inability to attract a new clientele. Tourists find street vendors to be an easy way to get a snack without having to leave the immediate vicinity of the World Trade Center site.

- **Unresolved insurance issues.** Four months after the attacks, most businesses have been not received payment for insurance claims filed after September 11th. While not all retail businesses had insurance, for those who do, it can provide an additional source of financial assistance.

In addition to slow claims resolution, many retailers reported anecdotally that by reopening as soon as possible after September 11th, they disqualified themselves from receiving business interruption insurance, or from receiving as much interruption insurance as they could have had they stayed closed longer.

RECOMMENDATIONS

The Downtown Alliance recommends that the following steps be taken to support the area's recovery during the first quarter of 2002:

- **Retention and attraction programs for Downtown businesses** to stabilize and grow retailers' corporate and worker client base. The best way to ensure the long-term health of Lower Manhattan's retail community is to ensure that its clients come back. Retaining and attracting businesses to Lower Manhattan is central to this effort.
- **Retention and attraction programs aimed at stabilizing and restoring the Downtown residential community**, a key retail client base. Supporting the area's residential community will benefit the retail community over the long term as well.

- **Sales tax holiday.** Many retailers reported anecdotally that they think a reduced or eliminated sales tax for Lower Manhattan would provide consumers with an additional incentive to buy in the area. In addition, other forms of tax relief may be also appropriate. Some retailers have reported anecdotally that they face penalties for delayed quarterly tax payments; these retailers should be granted deferrals on their payments.
- **Continued marketing and promotion of the area's stores and restaurants.** In particular, an effort must be made to promote Lower Manhattan's retailers to corporate clients in and around the area so that these businesses can rebuild their corporate client base.
- **Continued grant and loan programs for eligible businesses.** Because many retailers still face an inhospitable business environment, they continue to need financial assistance in the form of loans and/or grants from other than traditional sources for commercial lending.
- **Increased marketing of improvements to area accessibility.** Even for those customers who want to come Downtown, facing the transportation challenges in the area seems like a daunting task. However, access to Lower Manhattan continues to improve as service along local subway routes is restored and local roads are reopened. While well short of pre-September 11th standards, the ability of customers to get to Lower Manhattan should be marketed more forcefully.
- **Better control of street vendors on an emergency basis.** Increased control of street vendors throughout Lower Manhattan during emergency situations would allow for improved pedestrian traffic, especially along the north-south Broadway corridor.

The Alliance for Downtown New York manages the Downtown-Lower Manhattan Business Improvement District (BID). The Downtown Alliance serves an area roughly from City Hall to the Battery, from the East River to West Street, for which it provides supplemental sanitation and security, economic development, streetscape and transportation improvements, marketing and enhanced tourist services.