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FOLLOW-UP SURVEY OF DOWNTOWN'S HIGH-TECH COMMUNITY POST-9/11 JANUARY 2002

OVERVIEW

Between December 12, 2001 and January 14, 2002, the Downtown Alliance conducted an on-line survey of the high-tech companies located in its Technology Business Exchange ("t/bex")¹ in order to assess the impact of the September 11th World Trade Center attacks on the technology sector. This survey was a follow-up to a survey conducted of t/bex's 600+ high-tech companies in April and May of 2001 that was scheduled for release in September 2001, but was delayed due to the tragic events of September 11th. The 186 original survey participants were contacted and asked to participate in this follow-up survey, which asked them to assess how their business needs and concerns have changed over the last four months as a result of the events of September 11th. Seventy-two firms participated in the follow-up survey.

While many of the follow-up survey questions are about the terrorist attack, the survey data primarily serves as a follow-up to the original survey data. Consequently, much of the analysis below compares the findings of the two reports.

The survey found that:

- **The events of September 11th have hit the sector hard.** Sixty-eight percent of area companies report sales declines, 28 percent have had to lay off employees, and eleven percent have relocated outside of Lower Manhattan within the last four months.
- **Despite these setbacks, the sector remains resilient.** Lower Manhattan's high-tech firms report that they are adapting to the new business environment with newly formulated contingency plans and additional security. A significant number anticipate hiring both technical and non-technical employees over the next six months.
- **T/bex firms are in need of community-building activities and events, as well as across-the-board incentives and tax breaks.** Like other Downtown businesses after September 11th, high-tech firms are looking for ways to build their community and remain in the area. Survey participants reported that they were interested in continued community-building activities and events, as well as incentives and tax breaks to keep them in the area.

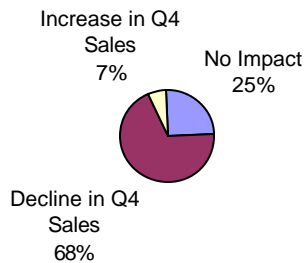
¹ Formerly known as the Information Technology District, the Technology/Business Exchange (t/bex) is a community of high-tech firms located in Lower Manhattan within the borders of the Alliance for Downtown New York, the area's business improvement district. These borders extend south from Chambers Street to the tip of Lower Manhattan and, for the purposes of t/bex, include firms located in Battery Park City.

KEY FINDINGS

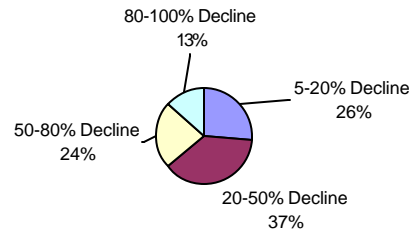
Industry Findings

- **High-tech firms suffered sales declines post 9/11.** Sixty-eight percent of respondents to the follow-up survey reported a decline in revenues for the fourth quarter of 2001. Of this group, 73 percent saw sales declines greater than 20 percent.

Effect of 9/11 on 4Q01 Sales

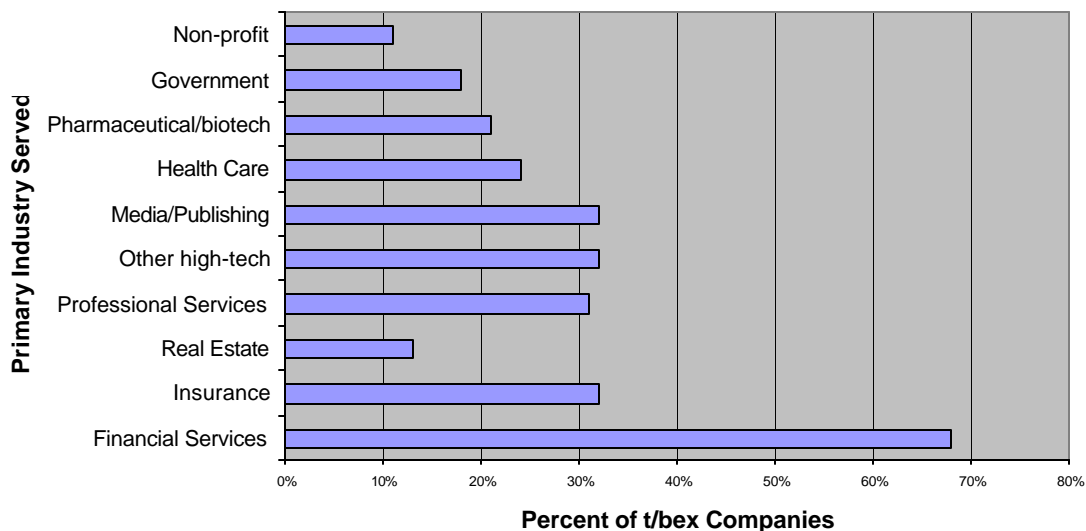


Decline in 4Q01 Sales (% of t/bex firms)



- **Most firms have not had to lay off employees to date.** Only twenty-eight percent of respondents have had to lay off employees as a result of September 11th. Seventeen percent of respondents reported that they expect to lay off employees in the near future.
- **Some firms have altered profitability timelines.** Thirty-four percent of respondents have had to extend their profitability timeline as a result of the declines in sales following the terrorist attacks.
- **Financial services firms remain high-tech firms' primary partners and clients.** The survey found that even after September 11th, Lower Manhattan's high-tech community still works closely with the financial services sector. Sixty-eight percent of survey respondents indicated that they consider the financial services sector to be a primary client base.

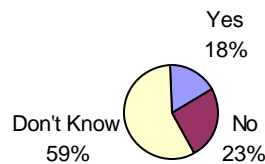
Primary Client Base



Real Estate Overview

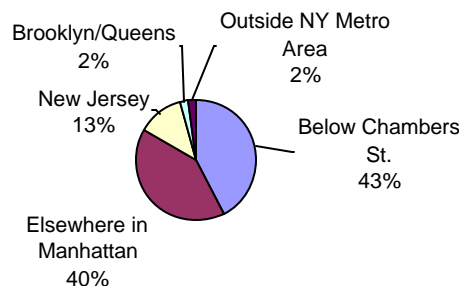
- **Most firms remained at their locations.** Local high-tech businesses are still located throughout t/bex, although a distinct majority were located east of Broadway. Most participants were able to remain at their original location following September 11th – only eleven percent of respondents reported that they had moved from Downtown. Not surprisingly, the overall proportion of firms located in the area north of Liberty Street and west of Broadway (where the World Trade Center complex was located) has changed. Prior to September 11th, 12 percent of t/bex firms were located in this area. The follow-up survey reveals that only seven percent of t/bex firms are currently located there.
- **Real estate needs remain consistent for most.** Following the events of September 11th, the real estate needs of t/bex firms have remained constant for most t/bex firms. Seventy-two percent of respondents reported that they need the same amount of space now as they did before September 11th. Four percent reported that they need more space, and 24 percent reported that they needed less space – and of this group, 38 percent have put space up for sublease, although only five percent have found tenants.
- **Firms uncertain about lease renewals.** In comparison to the pre-September 11th survey, in which 49 percent of firms said that they would renew their leases at the current location when they expired, 18 percent of respondents to the follow-up survey said that they would renew their leases and 59 percent did not know whether they would.

t/bex Firms Planning to Renew Leases, Post 9/11



- **Firms are considering relocation want to stay in Manhattan.** Of firms that do not plan to renew their current leases, 68 percent reported that they intend to remain in Manhattan. Of these firms, almost half (43 percent) reported that they plan to move to another location south of Chambers Street.

Desired Locations for Relocation

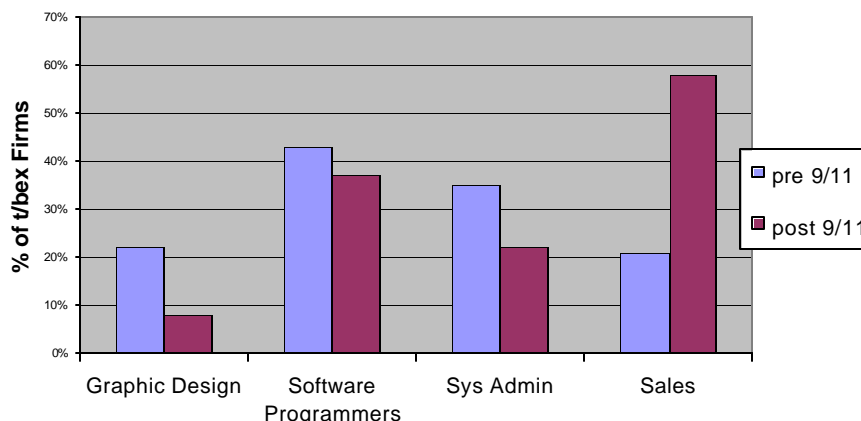


Business Practice Overview

Survey respondents reported that the terrorist attacks of September 11th changed their business practices in a number of ways.

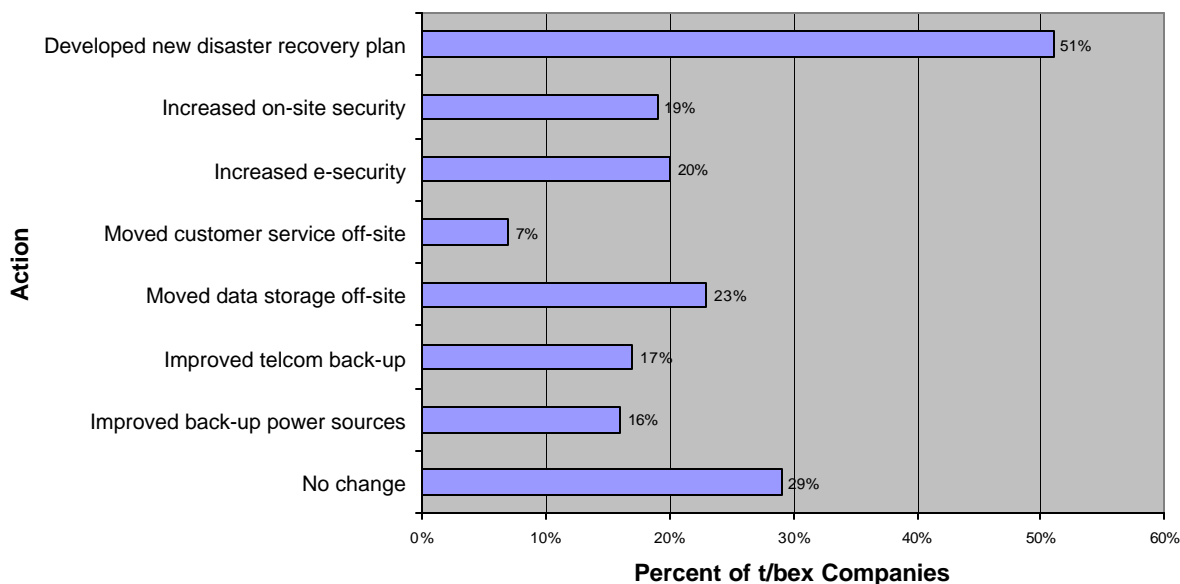
- Firms still plan to hire technical and non-technical employees.** The follow-up survey found that over the next six months, t/bex companies plan to hire both technical and non-technical employees. Of all categories, sales and software developers led the way: 58 percent reported that they plan to hire sales staff (a 27 percentage point increase from the pre-9/11 survey), and 37 percent intend to hire software developers.

Anticipated Hires in Next Six Months



- Firms are adapting to a post-9/11 world with contingency and back-up plans.** T/bex firms have adapted to a post-9/11 world in a variety of ways. Many have developed new contingency or recovery plans, others have moved data storage off-site, and some have increased electronic and on-site security.

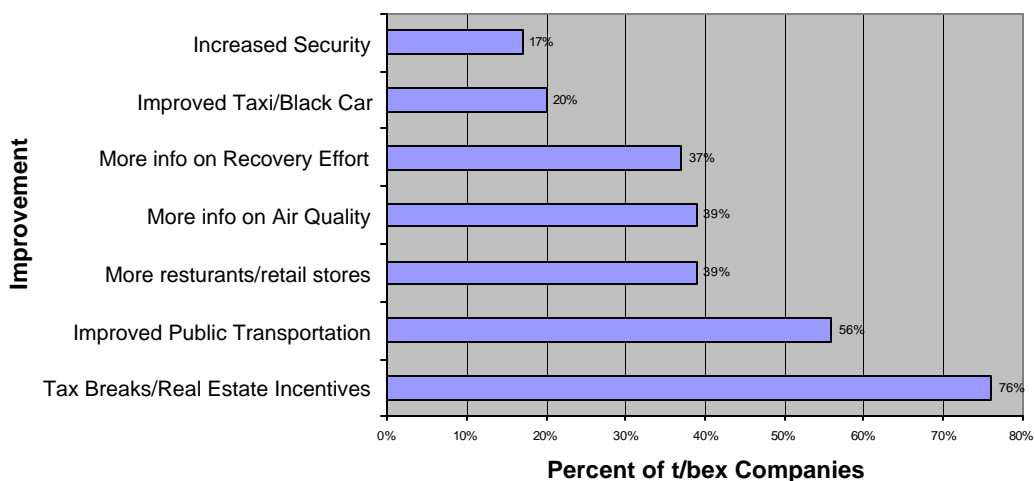
Changes since 9/11 (% of t/bex Companies)



Downtown As a Place to Do Business

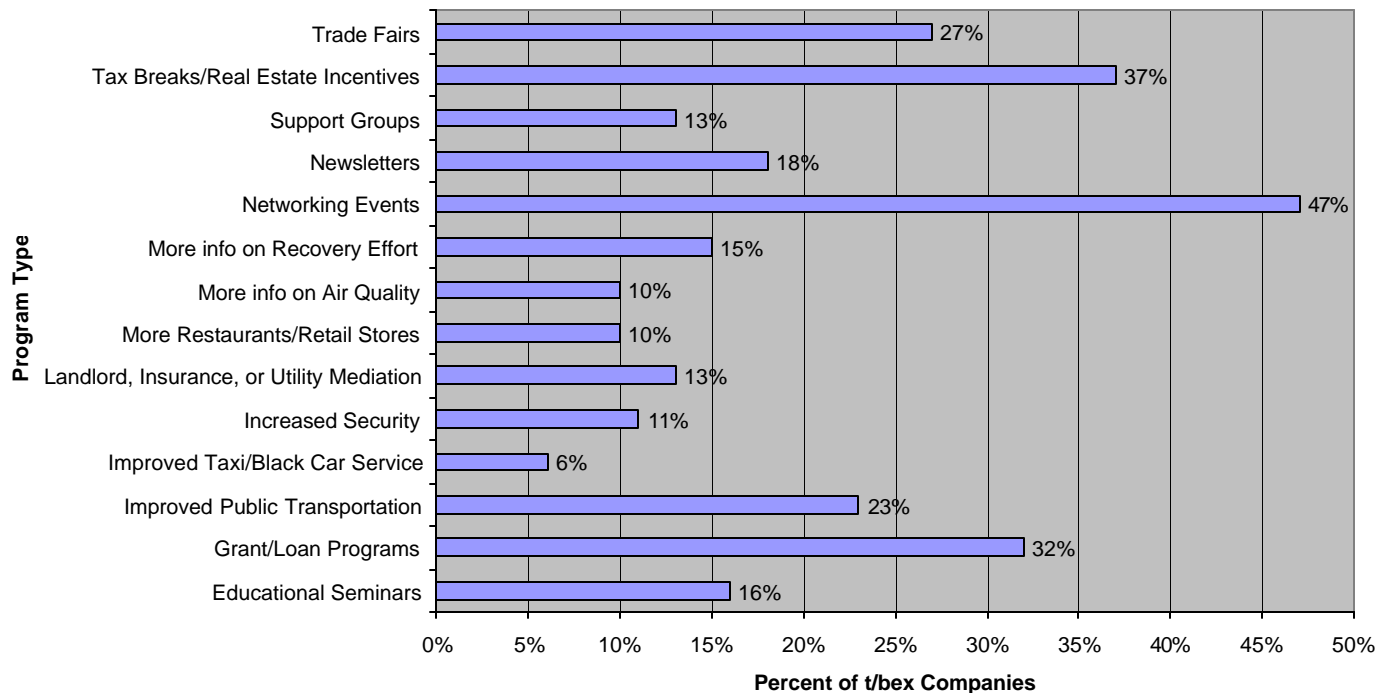
The survey also found that t/bex firms are interested in numerous programs and policies designed to improve the area as a place to do business. In particular, firms were primarily interested in various forms of support and in improved transportation. Not surprisingly, the firms that suffered sales declines had a greater desire for tax breaks and real estate incentives than those firms that did not (46 percent versus zero percent). These firms were also most interested in grant and loan programs (39 percent versus 13 percent) than those firms that did not suffer sales declines.

Requested Improvements



- **Tech firms seek support.** Many respondents indicated that they want business support activities such as networking events, trade fairs, and newsletters as well as financial help, including grant and loan programs and tax breaks/real estate incentives.

Programs Desired by t/bex companies



- **Transportation.** Fifty-six percent of respondents reported that improved public transportation would make the area more attractive as a place to do business. This represents a dramatic change from the pre-September 11th survey, which found that 85 percent of respondents felt that mass transportation met their needs.

CONCLUSION

The results of this follow-up survey demonstrate that while the events of September 11th have certainly affected Lower Manhattan's high-tech firms, the sector remains resilient. The longer-term effects of the terrorist attacks on the industry – as well as the longer-term effects of the national economic slowdown – are unknown. But there are signs of hope: four months after the attacks, the area's many high-tech businesses report that they are slowly getting back to normal by taking on new clients, changing their business practices, and hiring new employees.

There are other signs of hope as well. The U.S. Department of Housing and Urban Development has provided New York with \$700 million in federal aid, much of it targeted to economic recovery and revitalization efforts in New York City. The New York State Empire Development Corporation (ESDC) has begun working with New York City's Economic Development Corporation (EDC) to distribute portions of these funds through the World Trade Center Business Recovery Program, which provides grants to affected businesses. The state and the city have established Business Recovery Centers to assist businesses and distribute financial assistance. In addition to these forms of aid, ESDC and EDC are currently crafting incentives designed to attract and retain area businesses and residents. The details of these incentive packages are likely to be finalized within the next few weeks.

As both these surveys of the t/bex community demonstrate, Lower Manhattan's high-tech sector plays an important role in the area's economic health. In addition to working closely together, these businesses address the varied technology needs of other key area sectors, such as the financial services sector. High-tech firms – along with their employees and clients – bring vitality to the area. And while the events of September 11th have certainly affected this business community, they have not harmed it irreparably. Downtown's high-tech firms are here to stay.

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.