

Where does NYC stand? Depends on where you sit

BY ELIZABETH MACBRIDE

FROM 2,800 MILES AWAY, the New York City economy actually looks pretty good.

That's the distance from here to Los Angeles, the nation's second-largest city, where commercial vacancies are through the roof and the budget is a shambles. The unemployment rate in the area is 11.0%, 3 percentage points higher than it is in New York.

At the height of the AIG bonus scandal, President Barack Obama, with some exasperation, told New Yorkers to stop worrying about cuts in million-dollar-plus compensation packages and take a look at what was going on in the rest of the country.

Though it may have been unfair of the president to conflate Wall Streeters with New Yorkers—in a city where the median family income is \$58,000 and the vast majority of workers have never even smelled an AIG-style bonus—Craun's took his words to heart. We compared New York with the nation, and with three metro areas in particular: Los Angeles, New York's West Coast counterpart; Houston, its main competitor as a corporate headquarters city; and Detroit, which, like New York, is home to an industry at the center of the economic storm.

The results: Although New York is suffering in this recession, when compared with the rest of the nation and these key cities, the local economy looks surprisingly resilient. With an unemployment rate of 8.0%, lower than the national rate of 8.9%, a commercial vacancy rate that is the envy of most big cities, and a home-foreclosure rate far below that of the worst-hit places, New York has so far avoided the worst of the downturn.

"I don't want to underplay the pain that many New Yorkers are going through," says Seth Pinsky, president of the New York City Economic Development Corp. "But this recession has shown how well-positioned New York City is. We've been able to ride out the downturn in a way that's been surprising so far."

When an industry dominates

DETROIT IS THE HUB of an industry that stands squarely in the crosshairs during this recession. But in Detroit, the worst fears have been realized. There, unemployment rose to 14.4% in April 2009 from 8.3% in the same month the year before.

"These are unprecedented economic times," says Tammy Carnrike, chief operating officer of the Detroit Regional Chamber. "Businesses are having to deal with an economy that was unimaginable two years ago."

The three big carmakers and their direct suppliers account for about 6% of employment in metro Detroit. But, like Wall Street in New York, the carmakers have an outsized effect on the economy. Timing is also an important factor in explaining why the area is doing so badly: When the recession hit Detroit, it struck a city already weakened by the decades-long decline of other manufacturing companies and the struggles of automakers facing strong global competition.

In New York, by the end of the boom, Wall Street accounted for 5% of the city's jobs and about a quarter of its payroll, a report by the city comptroller says. As a rule of thumb, economists say, every job in the securities businesses supports two to three others in the local economy. The recession has wounded New York, but it struck after years of record-breaking finance bonuses. So far, the timing has helped the city largely avoid the anticipated collapse in Wall Street-related employment.

New York has something else going for it. Federal dollars are flowing to both cities to aid their primary industries, both considered crucial to the U.S. economy, but look at the difference: Two of Detroit's Big Three got \$24.5 billion to stay afloat, before Chrysler declared bankruptcy. New York's big two—AIG and Citigroup—are receiving more than \$220 billion combined, and that's not including the huge sums that are going to the entire finance industry through various lending and insur-

ance programs enacted by the government.

The fact that New York is doing better than the rest of the country, despite Wall Street's role in the recession, isn't lost on people living and working in Detroit. The financial services industry securitized bad mortgages and contributed to a real estate crisis metastasizing into a global recession. Automakers just happened to be in bad shape at a bad time.

Still, says Gerry Anderson, president of DTE Energy, which supplies energy to the Detroit metro area, he understands the disparity: "In one case, you may be dealing with an important limb. In the other, you're operating on the heart. If you let the heart go, you can forget about the limb."

L.A. vs. NY states of mind

THE REASONS that New York is doing better than places such as Detroit are complicated, and go well beyond the uneven distribution of federal aid. The local economy is actually more diversified than it looks on the surface, and some of New York's major sectors are not quite as exposed in this particular recession as other cities' sectors.

In New York City, government, education, health care and tourism—large engines for the economy—remain strong by historical measures. In Los Angeles, the three industries that are arguably the city's most important are all suffering mightily: real estate, shipping and media. Orange County, Calif., was the center of the subprime mortgage industry, notes Jack Kyser, founding economist at the Kyser Center for Economic Research at the Los Angeles County Economic Development Corp.

New York is a port city, too, but the shipping trade does not account for as large a share of the region's jobs. Media companies are cutting back here, yet the latest statistics show that companies are slicing deeper in the Los Angeles area. The New York area's share of the nation's information-industry employment rose in April versus a year earlier, to 9.6% from 9.4%, in part because there have been more job losses in Los Angeles.

"I always thought the entertainment business was recession-proof, but I've been proved wrong," says Peter Lenkov, an executive producer for television show *CSI: NY*, who lives in Los Angeles. "There is a lot of belt-tightening, which translates into smaller budgets, less production and take-it-or-leave-it deals all across the board."

Mr. Kyser says the situation has been complicated by L.A.'s budget crisis: The city faces a projected deficit of \$1 billion over the next two fiscal years.

"We are looking with envy at Mayor Bloomberg," he says.

Indeed, the New York mayor's conservative budgeting helped the city avoid a deficit in fiscal year 2009. However, the Independent Budget Office estimates a \$1.1 billion city deficit for fiscal 2010, which begins July 1.

Houston, we have no problem

NEW YORK LOOKS surprisingly good compared with Los Angeles and Detroit. Houston looks even better.

New York and Houston share similar story lines. Both slipped into the recession much later than the rest of the country because of a boom in a key sector. In 2008, New York was living off Wall Street's 2007 glory days. This year, Houston—where about 50% of the economy is energy-related—is coasting on last year's record-high energy prices, says Loren Steffy, business columnist for the *Houston Chronicle*. That's

helping keep job losses lower than they might have been. Houston's unemployment rate in March (the latest month for which data are available) was 6.5%, up from 4.2% the year before.

Houston is looking at a brighter near-term picture than New York is.

Energy prices are expected to rise later this year and into 2010. Houston companies that are holding on to employees through the bad times have a reasonable expectation that better times are around the corner. The uncertainty enveloping the financial sector means that there's no predicting when New York's big moneymaking industry will fly high again.

Housing as saving grace

NEW YORK HAS ALWAYS FACED a problem that the rest of the nation has not: a severe shortage of living space. In this recession, that problem has turned into one of the city's saving graces.

The city's low foreclosure rate—the metro area ranks 147th on a list of 203 areas put out by RealtyTrac—reflects the relative strength of the housing market as much as it does New York's relatively tough anti-foreclosure laws.

Because of the historically severe shortage of housing and the growing number of people who want to live in the city, New York prices have been appreciating faster than the nation's for decades. Even factoring in the drop over the past six months, the average price per square foot for closed sales in Manhattan was \$1,158 in the first quarter, compared with \$772 in the first quarter of 2004, according to The Corcoran Group. That sort of price appreciation has kept many New Yorkers from going underwater on their mortgages.

Unlike markets elsewhere, the New York area has not been driven by flipping or investment. That's a big contrast to the sand states of Florida, Nevada, Arizona and California, where up to 30% or 40% of sales were driven by speculation, says Jonathan Miller, chief execu-

tive of Miller Samuel Real Estate Appraisers.

A historical shortage of supply in New York helps keep commercial vacancies relatively low. Including sublease space, the vacancy rate shot up in the past year to 11.9% in the first quarter, from 7.7% in the year-earlier period, reports commercial real estate brokerage Jones Lang LaSalle. The rate of increase is faster than that in other markets. But the vacancy rate remains under the national average of 16.5%, and well below that of other big cities where developers have nearly limitless space to speculate. Even in Houston, the commercial vacancy rate is much higher: 15.4%.

The 'last in, last out' effect

WHAT NEW YORK is doing better than most of the rest of the country—so far—does not necessarily mean that the recession will be easier here in the long run. Job losses in New York could speed up this summer, outpacing the slide nationwide.

The unprecedented turmoil on Wall Street and the global nature of the recession make the economic tea leaves more difficult than usual to read. But there is a general agreement that, true to historical precedent, New York's recovery will lag the nation's.

Mr. Miller, who has his eyes on the closest thing New York has to an economic heart—the Manhattan real estate market—believes that the city is just beginning a years-long period of readjustment. "Last in, last out," he says.

The past few decades have seen Americans become a nation of investors, with much of their wealth tied, directly or indirectly, to stocks and bonds. That has left the nation open to the boom-and-bust cycles that ravage the Street. But it has also made it clear to many people how important Wall Street—and, by association, New York—has become.

"We need New York to be strong," Detroit's Ms. Carnrike says. "New York is an important financial center of our world." ■