



# Energy & Economics

...A Monthly Newsletter from Con Edison's Forecasting Department

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## Mayor Says Fiscal Crisis Is Not A Replay Of The 1970's

Mayor Michael R. Bloomberg recently described the reasons why the current fiscal crisis is not as dire as the situation in the 1970's. The following are highlights from the Mayor's letter transmitting the **November 2002 Financial Plan** to the City Council and the Financial Control Board.

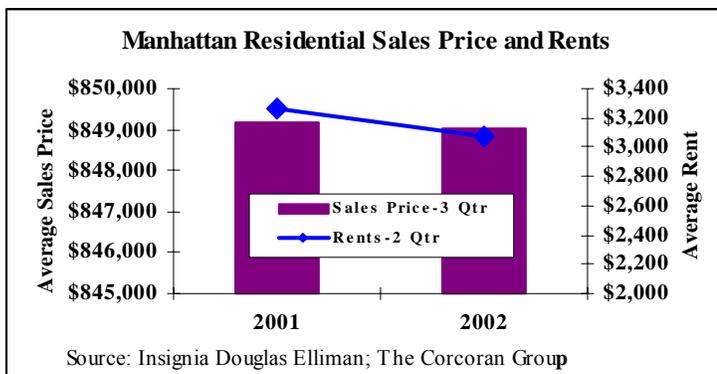
The magnitude of the current budget gap is large, but the city does not face the same difficulties as in 1975. That is because the economic foundation of New York City remains strong. Population is at an all time high and the city "is recognized as a vital and cutting edge place to do business." Evidence of this is the commitment of major media corporations in constructing new Manhattan headquarters. Among them are AOL Time Warner, Hearst, The New York Times, and Bloomberg LP. In contrast, the 1970's witnessed an exodus of corporations, jobs, and residents. Hotel occupancy rates have recovered to pre-September 11 levels and personal income levels remain high despite the economic downturn. Manhattan office vacancy rates are also lower than in any other major city in America. Welfare cases continue to fall and crime continues a decade long decline.

Against this backdrop, the financial information and fiscal planning reforms implemented after 1975 are strong and effective. The systems put in place after 1975 require regular monitoring of actual receipts and disbursements, review of forecasts of revenues and expenditures, and estimates of the magnitude of prospective deficits for upcoming fiscal years. This process enables the city to take immediate steps to avoid a potential financial crisis. The financial situation has eroded significantly since the Fiscal Year (FY) 2003 budget was adopted last June and projected gaps are now \$1.1 billion and \$6.4 billion for FY2003 and FY2004. The revenue decline results, in part, from Wall Street profits being much lower than originally expected.

The city proposes closing the FY2003 gap by increasing the property tax, personal income tax reform, and reducing expenditures. In FY2004, additional requests from the State would add \$1.4 billion toward closing the gap. The Mayor's objective in the November Financial Plan is to preserve vital services—police, fire, sanitation, and teachers—because cuts in these agencies would ultimately do more harm than good by driving out businesses and people.

## Price Trends In Residential Markets

The residential real estate sector has been one of the few well-performing areas of the New York City economy primarily due to low interest rates and the flight from equity markets, according to the third quarter 2002 report, *Manhattan Market Overview*. The report is issued by Insignia Douglas Elliman and prepared by Miller Samuel, Inc. The current housing market is different from the 1980's because then there was an oversupply of housing stock and interest rates were rising, the opposite of the current situation in the housing market.



The average sales price of Manhattan apartments had more than doubled by early 2000 to over \$800,000 compared with average prices that hovered just below \$400,000 between 1992 and 1996. The average sales price for all units was \$849,013 in the third quarter of 2002, up from \$828,936 in the second quarter and about unchanged from \$849,194 in the third quarter of 2001.

In the rental market, The Corcoran Group reports that the average monthly rent for all apartments as of midyear was \$3,071 compared with \$3,268 in 2001, a drop of 6 percent. Citywide, *The New York Times* reports that rents have been dropping from 5 to 15 percent. Commenting on the drop in prices in the *New York Times*, Professor Michael Schill, director of the Furman Center for Real Estate and Urban Policy at New York University, said,

"Certainly, in a city like New York, with some of the highest rents in the country, lower housing costs are good news for a large number of households. One problem the city has faced in recent years is a difficulty in providing affordable housing for the middle class."

## Deutsche Bank To Move Headquarters To Lower Manhattan

Deutsche Bank will move its national headquarters to 60 Wall Street, a 1.6 million square foot office tower formerly owned by J.P. Morgan Chase. The building is considered to be the best office tower in Lower Manhattan because it was built in the 1980's and has fully equipped trading floors. *The New York Times* reported on December 6 that the bank received \$34.5 million from the World Trade Center job retention program, financed by federal aid. The grant was in return for a 10-year commitment to keeping at least 6,500 employees in New York City. This includes keeping 5,500 employees in Lower Manhattan.

Deutsche Bank also owns 130 Liberty Street, severely damaged in the attack on the World Trade center. That building, a 41-story tower, may have to be demolished because of the extensive damage.

## Groundbreaking For 7 World Trade Center Is First Step In Rebuilding Downtown

A groundbreaking ceremony was held on November 20<sup>th</sup> by Silverstein Properties for a new 7 World Trade Center building. Silverstein Properties is the leaseholder of the World Trade Center site. The first 7 World Trade Center burned down on September 11. *Real Estate Weekly* reported on the groundbreaking event on November 27<sup>th</sup>. The new building will be 52 stories high and contain about 1.7 million square feet of space. A Con Edison substation will occupy the first 10 stories to replace the one that was lost in the terrorist attacks. The remainder of the space will be used for offices. At the ceremony, Governor George E. Pataki, Mayor Michael R. Bloomberg, and developer Larry Silverstein, referred to the project as the first step in rebuilding the World Trade Center site.

## Mayor Bloomberg's \$3 Billion Plan For Public Housing

Mayor Bloomberg announced a \$3 billion plan for public housing that calls for the repair and preservation of 38,000 units of existing housing and building 27,000 new units around the city. *The New York Times* reported on the Mayor's proposals on December 11<sup>th</sup>. This is to be a five-year plan that will include encouraging private developers with new measures to facilitate the development of much needed low- and middle-income housing. These measures will include rezoning commercial areas, developing city-owned property, and streamlining the building code and approval process. The plan includes grants to developers who agree to clean-up and build on brownfields or contaminated former industrial sites.

## Service Area Jobs

### Service Area Employment Data

	Oct. 2002	Percent Change from Oct. 2001	10-Month Average	
			2002	Percent Change from 2001
Private Nonmanufacturing	3,179,600	-0.8	3,144,200	-2.6
Manufacturing	251,500	-4.4	253,400	-5.5
Government	613,800	-1.4	627,900	0.0
<b>Total Employment</b>	<b>4,044,900</b>	<b>-1.1</b>	<b>4,025,400</b>	<b>-2.4</b>
<b>Key Sectors</b>				
<b>New York City:</b>				
Construction	125,200	-3.1	121,000	-2.7
Retail	433,200	0.7	426,400	-1.7
Finance, Insurance & Real Estate Services	458,500	-2.0	460,800	-6.0
	1,458,300	-0.2	1,437,800	-1.8
<b>Westchester:</b>				
Construction	26,700	1.9	25,400	0.6
Retail	66,100	-0.5	65,100	0.2
Services	160,000	0.6	157,200	0.4

Source: NYS Department of Labor

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