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Where does NYC stand? Depends on where you sit

By **Elizabeth MacBride**

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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—*Crain'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.”

Housing as saving grace

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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 executive 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

That 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.”

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