

# ECONOMIC NOTES

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## As New York City's Economy Grows for Seventh Straight Quarter, Housing Prices Overheat

**Current Economic Issue:** Housing prices continued to soar in the second quarter and show signs of overheating. NYC housing prices appear to be overvalued, or in a "bubble," meaning they are unsustainably high based on underlying economic trends. In the second quarter of 2005, average cooperative and condominium prices rose 30 percent from levels in the same quarter a year earlier. Rising interest rates will lead to fewer sales and ultimately lower prices. While the impact of this reversal is likely to be less severe in NYC than in other cities that have experienced more rapid increases in housing prices and riskier mortgage lending practices, it will contribute to slower economic growth. For every 10 percent decline in the market value of housing, consumption spending by NYC homeowners will decline by nearly \$2 billion. These economic effects have implications for NYC's tax revenues.

**Economic Update:** The City's 2Q05 economic growth kept pace with the nation's, but City inflation and unemployment rates continued to be higher than the nation's.

- **Real Gross City Product (GCP), a measure of the overall City economy, grew 3.4 percent in 2Q05, slightly above the 3.3 percent for the U.S.** Of five key economic indicators for the City and nation, only two improved in the City, but four improved in the nation.
- **Payroll jobs in the City, seasonally adjusted, grew 9,200 in 2Q05,** about half the recent seasonally adjusted peak growth of 16,400 jobs in 1Q05. The City's 1.0 percent annualized 2Q05 job growth lagged the nation's 1.9 percent rate. All gains in the City were in the private sector. The City's job growth ranked eighth highest of the 20 largest U.S. metro areas.
- **Personal income tax revenues (PIT) rose 24.5 percent in 2Q05 over 2Q04.** Estimated-tax payments on interest income, rental income, and capital gains rose 42.6 percent. The more broadly based withholding taxes rose 3.4 percent. U.S. PIT revenues rose 28.9 percent in 2Q05 over 2Q04, faster than 9.5 percent in 1Q05 over 1Q04.

- **NYC inflation fell to 3.3 percent in 2Q05 from 4.1 percent in 1Q05.** NYC's core inflation (excluding food and energy prices) fell to 2.6 percent in 2Q05, from 3.7 percent in 1Q05.

- **NYC's unemployment rate was 5.7 percent, seasonally adjusted, in 2Q05, the same as in 1Q05** (lowest since 5.5 percent in 2Q01), as U.S. unemployment fell to 5.1 percent (lowest since 4.8 percent in 3Q01). Seasonally adjusted, 14,700 more New Yorkers were employed in 2Q05 than in 1Q04. NYC's unemployment rate was seventh lowest of the 20 largest U.S. metro areas.

- **Average Manhattan commercial vacancy rates fell in 2Q05 for the sixth consecutive quarter, to 9.8 percent,** from the 2Q04 rate of 11.8 percent, implying rising demand and higher rents. The average Manhattan commercial rent rose slightly to \$40.80 per square foot in 2Q05 (from \$40.56 in 2Q04) and rents increased in Midtown and Midtown South. But in Downtown Manhattan, where the vacancy rate fell the least, average rents decreased.

- **Leading economic indexes improved.** On a year-over-year basis, in 2Q05 the NYC business-conditions index increased 17.7 percent; the number of building permits authorized rose 5.7 percent; and the City's help-wanted-advertising index rose 9.3 percent.

**Summary Table.** Five Key Economic Indicators, NYC and U.S., 2Q05

|     | 1.                   | 2.                        | 3.                               | 4.                  | 5.                    |
|-----|----------------------|---------------------------|----------------------------------|---------------------|-----------------------|
|     | GCP/GDP Growth, SAAR | Payroll-Jobs Growth, SAAR | Personal-Income-Tax Growth, SAAR | Inflation Rate, NSA | Unemployment Rate, SA |
| NYC | 3.4%<br>WORSE        | 1.0%<br>WORSE             | 24.5%<br>BETTER                  | 3.3%<br>BETTER      | 5.7%<br>NO CHANGE     |
| US  | 3.3%<br>WORSE        | 1.9%<br>BETTER            | 28.9%<br>BETTER                  | 2.9%<br>BETTER      | 5.1%<br>BETTER        |

*Note: Data explanations are in Charts 4, 7, 10, 13, and 14, following the analysis of housing prices. NSA means Not Seasonally Adjusted. SA means Seasonally Adjusted. SAAR means SA Annualized Rate. Comparisons for "Better" or "Worse" are with the prior quarter.*

### ECONOMIC NOTES

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**Current Economic Issue**

**The City’s Housing Bubble**

**Housing prices in New York City have been rising rapidly, to the point where they indicate overheating, based on three criteria. Two questions arise, namely the reason for the overvalued housing market and the implications for NYC’s economy.**

Recent economic conditions have driven higher housing prices. Low mortgage rates have increased demand for housing throughout the United States. In areas with limited potential for expanding supply, such as large cities on the East and West Coasts, high demand has translated directly to higher housing prices. The national median price for existing homes in mid-2005 was a record \$219,000, 15 percent above a year earlier and the fastest rate of growth in 25 years.<sup>1</sup>

In NYC, prices of Manhattan apartments have soared. As of the second quarter of 2005:

- Cooperative and condominium mean prices rose 30 percent from a year earlier, and 8.5 percent from the first quarter, to a record \$1.3 million. The median price was \$775,000, a 10 percent increase over the first quarter.
- Studio apartment mean prices rose 18 percent from a year earlier, and 12 percent from the first quarter, to \$380,000.
- Mean prices of apartments with four or more bedrooms (less than 2 percent of all cooperative/condominium sales in 2004) rose 113 percent over a year earlier, from \$5 million to \$10.6 million.<sup>2</sup>

This growth was beneficial to the City’s budget. From FY 2000 to FY 2005, higher housing prices, increased sales, and a boom in mortgage refinancings generated a 211 percent rise in mortgage recording tax (MRT) revenues and a 120 percent rise in real property transfer tax revenues.<sup>3</sup>

**Three Criteria for a Bubble**

When prices rise above a level that underlying economic factors could reasonably be expected to sustain, the condition is typically described as a “bubble.” This report compares NYC housing prices with three underlying measures of sustainability:

<sup>1</sup> National Association of Realtors. The Realtors Affordability Index—which compares home prices with incomes—fell to its lowest level in 14 years.

<sup>2</sup> Figures for apartment prices from Prudential Douglas Elliman, “Market Overview, 2Q05,” July 2005. The Corcoran Group reports cooperatives at \$1.1 million average and condominiums at \$1.5 million average, July 3, 2005.

<sup>3</sup> Tax-collection data from NYC Comptroller’s Office. *Comprehensive Annual Financial Report*. FYs 2000-2004 and NYC Office of Management and Budget, *Adopted Budget FY 2006*, July 2005.

(1) *Changes in the consumer price index.* Housing prices have historically risen in line with overall inflation. Housing-price increases in excess of inflation are therefore an indication that these increases are unsustainable.

(2) *Changes in personal incomes.* All else equal, higher income is necessary to support higher housing prices, unless households are willing to reduce other spending. If housing prices increase faster than incomes, it suggests an unsustainable trend.

(3) *Rents.* Rental prices typically move in tandem with home prices. Market forces therefore dictate that the costs of renting and owning will not diverge significantly for long.

**Is It a Bubble in NYC?**

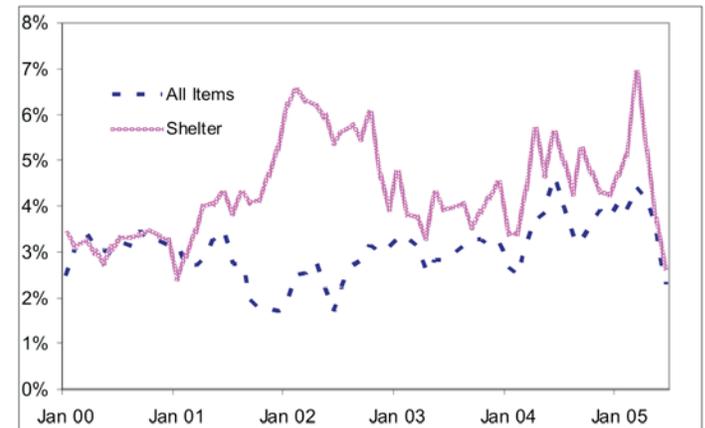
These three criteria suggest an answer to the question: “Since 2000, has the City been overtaken by a housing bubble?”

**1. NYC Housing Prices Have Risen Faster than Overall Consumer Prices.**

NYC “shelter” prices (an imputed rent based on housing costs and maintenance as defined by the Bureau of Labor Statistics) have risen recently at a rate exceeding the overall inflation rate. From February 2001 to June 2005, shelter prices rose 21 percent, 7.3 percentage points more than the overall CPI increase of 13.7 percent, as is shown in Chart 1.

NYC’s cost of shelter has been consistently above the nation’s since early 2001. Since the start of 2005, NYC’s cost of shelter has averaged 4.7 percent, two full percentage points above the nation’s 2.7 percent. Growth in the cost of shelter is the most significant factor (with a weight of 32.9 percent) in NYC’s high rate of inflation relative to the nation’s.

**Chart 1. NYC All-Items and Shelter Inflation Rates, January 2000-June 2005**



Source: Monthly data from U.S. Bureau of Labor Statistics. The NYC all-items inflation rate is the percent change for All Items of the Consumer Price Index (CPI) for Metro NYC. The shelter inflation rate is the percent change in the shelter component of the CPI for Metro NYC.

## 2. NYC Housing Prices Have Risen Faster than Personal Incomes.

The median price of NYC housing—adjusted for inflation—jumped to \$313,867 in 2003 from \$231,922 in 2000, a 35.3 percent increase.<sup>4</sup> However, NYC’s per capita personal income barely increased during the period, rising just 2.5 percent, to \$40,899 in 2003 from \$39,915 in 2000.<sup>5</sup>

Similarly, from 2000 to 2004, the median price for a single-family home in NYC rose 71.5 percent,<sup>6</sup> whereas over the same period average wage rates, a significant component of personal income, rose 9.6 percent.<sup>7</sup> (Personal income data are not yet available for 2004.)

From 2000 to 2004, the average sales price of condominiums and cooperatives in Manhattan rose 70.8 percent, to \$1,004,232 from \$710,788. The median sales price during the period rose 51.8 percent, to \$605,859 from \$399,000. The average price per square foot rose 46.9 percent, to \$767 from \$522.<sup>8</sup>

## 3. NYC Mortgage Payments Are Higher than Rents.

Median mortgage payments in NYC are substantially higher than median NYC rents. The most recent data available, for 2003, indicate a median rent for housing throughout NYC of \$816.<sup>9</sup> Based on a mortgage interest rate of 5.5 percent, the monthly payment on a home with the 2003 median value of \$313,867 would be more than twice that amount, \$1,782.<sup>10</sup> Conversely, the 2003 median monthly rent would support payments on a mortgage of only \$143,715, less than half the cost of the median home. This disparity is somewhat offset because mortgage interest on mortgages up to \$1 million is deductible from federal income taxes.

Rents have risen much less rapidly than home prices. The 2003 median rent in New York City was 5.7 percent above the median rent after adjusting for inflation. This is approximately one-sixth of the increase in the median home price during the period.

<sup>4</sup> American Community Survey, U.S. Census Bureau, [www.census.gov](http://www.census.gov). (Only 2000 and 2003 data are available.)

<sup>5</sup> U.S. Bureau of Economic Analysis, “Personal Income Data.”

<sup>6</sup> NYC Department of Finance, “2005 Property Tax Annual Report,” 34, [www.bea.gov](http://www.bea.gov).

<sup>7</sup> NY State Department of Labor, ES-202 Data.

<sup>8</sup> Prudential Douglas Elliman, Manhattan Market Report 1995-2004,” 2005, 7.

<sup>9</sup> This rent is the median for all apartments. Median rents for market-rate apartments are about 20 percent higher, based on data from the U.S. Census Housing and Vacancy Survey (Series 1A, Table 30).

<sup>10</sup> This calculation assumes 100 percent financing for purposes of a fair comparison with rents.

## Why NYC Housing Prices Have Risen So Rapidly

Changes in prices result from changes in demand for housing, supply of housing and (a factor relevant to both demand and supply) the availability and cost of financing. Possible explanations are reviewed for each.

### 1. Demand for Housing

Population, income, and employment growth are key determinants of housing demand. These have been growing in NYC, but at slow rates.

*Population* grew about 1 percent, from 7.8 million in 2000 to 7.9 million in 2003.

*Income*—per capita personal incomes of NYC residents—rose just 2.5 percent during the same period.

*Employment* fell 5.1 percent from 2000 to 2003 and remained 4 percent below the 2000 level in 2005.<sup>11</sup>

These demand factors therefore do not explain the sharp price increases seen in recent years.

Foreign buyers may have contributed to demand for NYC housing because the dollar’s value is approximately 33 percent below the peak of October 2000. A weaker dollar reduces the relative cost of U.S. real estate to foreigners. However, data are not available to assess the impact of this demand.

### 2. Supply of Housing

On the supply side, the number of NYC dwelling units has grown slowly until very recently. Supply has been constrained by the limited availability and high cost of land as well as by regulatory hurdles. These constraints help explain the high price of housing in NYC relative to other places, but have less power to explain recent price increases.

During the years 2000-2003, the cost of NYC residential construction per square foot rose only 4.8 percent, to \$125.91/sf in 2003 from \$120.20/sf in 2000.<sup>12</sup> But inflation hit harder in 2004—the price rose to \$132.18 in 2004, an increase over the four-year period of 10.0 percent.

The number of housing units in the City grew only 1.6 percent (slightly faster than population growth), to 3.25 million in 2003, from 3.20 million in 2000, a net of 50,000 new units.<sup>13</sup> Looking ahead, 24,220 permits were issued in 2004 for “new construction,” the most since 1972, when 36,601 permits were issued.<sup>14</sup> Residential permits have outpaced the rate at which

<sup>11</sup> NY State Department of Labor, monthly job data; computations by the NYC Comptroller’s Office.

<sup>12</sup> Dodge Analytics, McGraw-Hill Construction Data.

<sup>13</sup> U.S. Census Bureau, Current Population Survey.

<sup>14</sup> NYC Department of Finance, “Building Permits by Type,” *NYC Property Tax, FY 2005*, 40.

new households have been forming for the past three years.<sup>15</sup> By itself, this expansion of supply would be expected to temper price increases, provided that an equal or greater number of units are not being taken off the market.

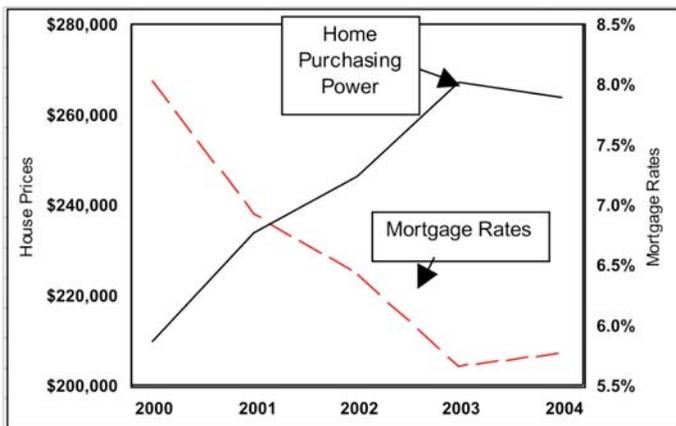
### 3. Availability and Cost of Home Financing

The more important explanation of the rise in NYC housing prices is the low rate of mortgage interest rates. The 30-year average U.S. mortgage rate fell from 8.04 percent in 2000 to 5.78 percent in 2004.<sup>16</sup> This enhanced individual purchasing power allows buyers to service a larger mortgage.

NYC's median home price was \$209,900 in 2000. In that year, a buyer purchasing the median home using a 30-year fixed-rate mortgage at the average 8.04 percent rate would incur a monthly mortgage payment of \$1,548 (assuming for the sake of simplicity that the buyer financed the entire purchase price). By 2004, a buyer making the same monthly payment at the lower 5.78 percent rate could finance a mortgage of \$264,057, a 26 percent increase in purchasing power.

Chart 2 demonstrates the impact on purchasing power of a change in mortgage interest rates. The broken line shows the average annual mortgage rate from 2000 to 2004 (the rate is shown on the right side of the chart). The solid line (calibrated on the left side of the chart) shows the relatively larger mortgage that could be financed in the years 2001 through 2004, compared with the same payment required for a home in 2000. This increase in buyers' purchasing power enabled sellers to ask for and receive higher prices for residential real estate.

**Chart 2. Mortgage Rates and Price Changes Attributable to Mortgage Rates, 2001-2004**



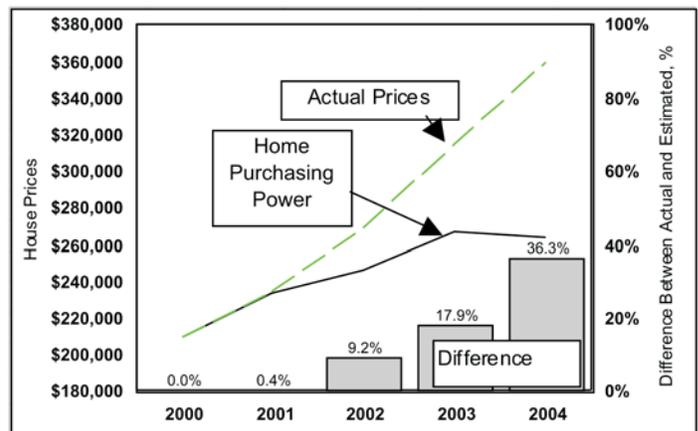
Sources: NYC Department of Finance (2000 average house price). Mortgage Bankers Association (30-year mortgage/[www.mbaa.org](http://www.mbaa.org)). Calculations by NYC Comptroller's Office. The monthly payment on a median-priced single family house in 2000 was \$1,548. This payment financed a more expensive home in 2001-2004 because of lower mortgage rates.

<sup>15</sup> NYC Rent Guidelines Board, *Housing Supply Report*, 2005, 2. Steven G. Cochrane, "Real Estate Activity Index," *Regional Financial Review*, June 2005, at [www.Economy.com](http://www.Economy.com).

<sup>16</sup> Mortgage Bankers Association of America, [www.mbaa.org](http://www.mbaa.org).

Chart 3 shows that for the first year, 2001, the change in purchasing power tracked closely the change in NYC median home values. However, since 2002 home price gains have significantly outstripped the benefit from lower interest rates and the cumulative difference shown in Chart 3 is approximately \$100,000 (\$360,000 - \$260,000). Actual housing prices grew faster than can be explained by the change in mortgage rates and other factors do not appear sufficient to explain the difference. This suggests psychological factors have played a part.

**Chart 3. Actual NYC Single-Family Home Prices and Home Purchasing Power**



Sources: See Chart 2.

## The Housing Outlook

The overheated housing markets may already be cooling. Just as lower mortgage rates appear to be driving the housing bubble, the factor most likely to cool the housing market is an increase in the cost of mortgage borrowing. Long-term interest rates have remained lower than most economists expected given economic pressures such as continuing large Federal budget deficits, the steadily rising fed funds rate, and the revaluation of Asian currencies.

However, as the short-term (overnight fed funds) rate has risen above the rate of inflation, long-term interest rates—including mortgage rates—have started to rise. As of the end of August, the 30-year mortgage rate was 5.61 percent, which was higher than the 5.52 percent rate of three months earlier.<sup>17</sup>

Assuming a fixed-rate mortgage, each one percentage-point increase in mortgage interest rates translates to a decline of about ten percent in the amount of mortgage principal that can be financed with a given monthly payment. For homeowners with variable-interest-rate mortgages, each one percentage-point increase in mortgage interest rates means an 11 percent rise in monthly payments.<sup>18</sup> Without a spurt in incomes making monthly payments more affordable, this will put downward pressure on housing prices.

<sup>17</sup> Data from [www.bankrate.com](http://www.bankrate.com).

<sup>18</sup> Calculations by NYC Comptroller's Office.

A housing bubble is likely to deflate more slowly compared, for example, to some other asset bubbles, such as might occur in the stock market. Owners of equities can ordinarily buy and sell them quickly. This is not generally true of homeowners, because their asset is also a necessity.

However, people tend to change their spending in response to changes in the value of their homes and other assets. This is called the “wealth effect.” Just as consumption rises when interest rates are low, consumption is likely to fall when interest rates rise.

Homeowners are additionally confronted with higher energy costs. The wealth effect will therefore be compounded with another consumption effect—the crowding out of other purchases because energy costs are taking a higher share of household budgets.

Some indicators suggest the housing bubble may have peaked nationwide in June. Rents are reportedly rising, indicating that potential buyers are concerned about high housing prices and prefer to rent rather than buy. Overall housing prices in July were virtually unchanged from the previous month, according to the National Association of Realtors—but the price of condominiums fell for the second month in a row, while the number of condominiums being offered for sale rose sharply.

The number of U.S. homes sold in July fell 2.6 percent from June, to an annual rate of 7.16 million. The median price of condominiums and cooperatives fell 1.1 percent, to \$219,000. Single-family home sales fell 2.3 percent while condominium and cooperative sales fell 5 percent. July sales rose 4.7 percent above a year earlier. The median sales price rose slightly from June to \$218,000, 14.1 percent above a year earlier, according to real estate agents.<sup>19</sup>

## The Likely U.S. Impact of a Cooling Housing Market

Cooling regional housing markets in the U.S. implies several possible effects:

### 1. Less Consumer Spending

For every \$1 decline in the value of consumers’ holdings of stocks and bonds, they are estimated to reduce spending by 3 to 4 cents; for every \$1 decline in housing assets, the reduced spending is 5 to 7 cents.<sup>20</sup> This relationship describes the extent of the wealth effect. Reduced consumer spending could significantly reduce GDP growth.

### 2. Debt Stress and Foreclosures

The recent surge of flexible financing—no-down-payment mortgages, loans that require no proof of income, and interest-only loans—make the housing market riskier for mortgage lenders and could affect their profits. Borrowers could lose their homes to lenders or be forced to sell them on unfavorable terms. A worrisome factor is that home-equity loans typically carry an adjustable rate, which means that higher mortgage rates will translate instantly into higher monthly payments on these loans.

### 3. Capital Market Impact

In 2003, the Office of Federal Housing Enterprise Oversight (OFHEO) and Fed Chairman Alan Greenspan, among others, voiced concerns about risks facing Fannie Mae and Freddie Mac.<sup>21</sup> These are government-chartered companies that package mortgages purchased from loan-making institutions and sell them to investors. While government-chartered, the two companies are private companies (unlike Ginnie Mae, which is government-backed). Because these two companies are not government-backed, they will lose money (and therefore stock price value) if housing prices decline or are stagnant. In a bursting-bubble scenario, these two companies or their shareholders would likely face losses that could create difficulties for the capital markets.

<sup>20</sup> Karl E. Case, John Quigley, and Robert J. Shiller, “Comparing Wealth Effects: The Stock Markets versus the Housing Markets,” NBER Working Paper, October 2001. Wealth effect is cited as 7 percent for housing assets by Stephen Roach, “The Asset Economy,” Steve Roach Weekly Commentary, Morgan Stanley, June 21, 2004, 3. The wealth effect is cited as 5 percent for housing assets by Richard W. Peach, “Are Home Prices the Next ‘Bubble’?”, *Economic Policy Review*, Federal Reserve Bank of New York, December 2004, 2.

<sup>21</sup> Office of Federal Housing Enterprise Oversight (OFHEO), *Systemic Risk: Fannie Mae, Freddie Mac and the Role of OFHEO*, February 2003. Alan Greenspan, “Letter to Rep. Richard H. Baker (R-LA),” May 19, 2000. Greenspan, Testimony to the Senate Banking Committee, June 15, 2004.

<sup>19</sup> National Association of Realtors, [www.realtor.org](http://www.realtor.org).

**4. Real Estate Industry Impact**

Real-estate-related employment in construction, banking, insurance, and other sectors will be affected when the housing market cools.

It is difficult to predict how quickly such effects will be evident. The cooling of an overheated housing market tends to show up first in the volume of sales rather than an immediate decline in prices. Sellers often prefer to wait out a downturn in the market, hoping that prices will recover, and do not accept lower offers. With inflation, nominal prices will tend to rise eventually.

**The Likely Impact on the New York City Economy**

Four possible consequences for the NYC economy might follow the cooling of the housing markets. The first two of these effects may be less serious for NYC than in some other parts of the United States.

**1. Less Impact on Consumer Spending**

The impact of a cooling market is likely to be weaker in NYC than in many other cities because the growth in housing prices has been less rapid. NYC housing prices have surged 77 percent in the last five years, but prices in other large cities have risen much more. For example, housing prices in Santa Barbara rose 122 percent; in San Diego, 118 percent; and in Miami, 96 percent.<sup>22</sup>

One attempt to estimate the underlying value of houses concludes that metropolitan NYC's housing prices are 25 percent above what is sustainable. This is considerably below the estimates for other areas such as Santa Barbara, for which the estimate is 69 percent.<sup>23</sup>

As mortgage interest rates rise, the wealth effect tends to reduce consumption. In New York City, there are about 1.5 million housing units consisting of 1-, 2-, and 3-family homes, cooperatives, and condominiums with a 2004 market value of \$320 billion. A ten percent decline in housing wealth would imply a decline in consumption of approximately \$1.9 billion (5 to 7 percent of \$32 billion).<sup>24</sup> This is about half of one percent of NYC's gross product. A sharper decline in housing values would have an even greater impact on the City's economy. However, interest rates tend to rise slowly and the impact is likely to be felt over a period of time, so that the overall impact on the economy from the wealth effect is not likely to be immediate.

<sup>22</sup> PMI Group, Walnut Creek, Calif.

<sup>23</sup> Data for first quarter 2005. Richard J. DeKaser and John G. Charamonde, "House Prices in America," National City Economics, (Cleveland, Ohio), July 2005.

<sup>24</sup> Calculation by NYC Comptroller's Office.

**2. Relatively Less Risky Mortgage Banking**

Banks in NYC and the Northeast region generally have been less aggressive in promoting risky financing vehicles than in many other U.S. regions, according to both the FDIC and Cambridge Consumer Credit. For example, in the first four months of 2005, 57 percent of San Francisco loans and 51 percent of Washington, DC loans were interest-only, compared with only 22 percent in NYC.<sup>25</sup> A positive factor in NYC may be the role of cooperative boards, which interview prospective buyers and usually require conservative financing and owner-occupancy.

**3. Possibly Significant Capital Market Effect**

If regional housing bubbles burst with unexpected force, the capital markets may be affected because the mortgage risks securitized by Fannie Mae and Freddie Mac may flow through to the shareholders in these companies. Disruption in these markets could damage NYC's finance sector.

**4. Possibly Significant Employment Effect**

A cooling of the residential real estate market will reduce NYC's economic growth most clearly in the real estate industry and its financial extensions (the insurance and banking industries). However, jobs have already declined in all these sectors in the 2000-2004 period, as shown in Table 1, so that the impact may be primarily on incomes rather than jobs. Some construction jobs may have migrated to the informal economy and the impact of a decline in demand may be felt in that area. The real estate sector may feel the largest impact both in numbers of jobs and incomes.

**Table 1. NYC Jobs, Housing-Related Sectors, 2000-2004**

|                     | 2000  | 2004  | Change | Change % |
|---------------------|-------|-------|--------|----------|
| <b>Real Estate</b>  | 118.9 | 115.7 | -3.2   | -2.7%    |
| <b>Banking</b>      | 102.7 | 88.7  | -14.0  | -13.6%   |
| <b>Insurance</b>    | 61.5  | 56.4  | -5.1   | -8.3%    |
| <b>Construction</b> | 120.5 | 111.1 | -9.4   | -7.8%    |

Source: NY State Department of Labor.

<sup>25</sup> LoanPerformance.com.

## The Likely Impact on NYC Revenues

The revenue impact of a decline in housing transactions or prices will have a varying effect on different tax revenues. Also, because of lags built into the City's tax-collection system, the impact on revenues will be less immediate than the impact on the local economy.

### 1. Real-Estate-Related Taxes

The two "real-estate-related" taxes—the mortgage recording tax and the real property transfer tax—respond most rapidly to changes in market conditions. Since FY 2000, these revenue sources grew from 4.0 percent of all NYC tax revenues to 7.7 percent in FY 2005.<sup>27</sup> In the Adopted FY 2006 Budget, the Mayor has projected an increase in long-term interest rates and a corresponding decline of \$875 million in real-estate related taxes, reducing their share of revenues to 4.8 percent.<sup>28</sup> The Comptroller's Office has projected the decline would be less dramatic in FY 2006, with revenues from these taxes falling \$276 million.<sup>29</sup> Tax collections are likely to reflect weakness in transactions more rapidly than weakness in housing prices.

### 2. Property Taxes

NYC's property tax system has a complicated set of caps and phase-ins on residential taxable assessed value. Because of these restrictions and the fact that property is assessed only once per year, property-tax revenues are insulated against sharp fluctuations in market values. City property-tax revenues over the next few years will continue to rise because of phased-in increases in property assessments. Growth in assessed values during the recession of 1989 to 1992 demonstrates the effect of this delay between higher property values and increased property taxes. Real-estate values rose rapidly in the late 1980s and declined during the recession. But residential billable assessed values continued to rise until 1994.

### 3. Other Taxes

Gauging the impact on other taxes is more difficult because they are less directly tied to the value of real estate. However, slower economic growth will constrain tax collections. The capital gains portion of the personal income tax may be directly affected by fewer housing transactions and softening prices.

<sup>27</sup> NYC Comptroller's Office, calculations based on data from the NYC Office of Management and Budget, *The City of New York Executive Budget, Fiscal Year 2004*, April 2003.

<sup>28</sup> All numbers in this sentence are calculations by the NYC Comptroller's Office based on data from supporting documents from the NYC Office of Management and Budget's Tax Policy, Revenue Forecasting, and Economic Analysis Task Force, 2003 and 2005.

<sup>29</sup> NYC Comptroller's Office, *The Comptroller's Comments on the Adopted Budget for Fiscal Year 2006 and the Financial Plan for Fiscal Years 2006-2009*, July 2005.

## Economic Update

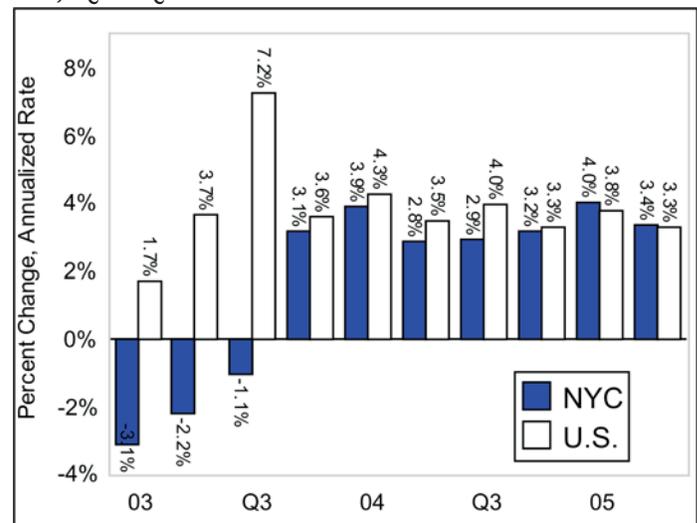
### New York City's Economy Grows for 7th Quarter

Economic developments were mixed in the second quarter. Negative developments included an increase in the fed funds rate of 50 basis points and oil prices passing the \$60-per-barrel mark, while the European Union met opposition to its proposed constitutional changes. Positive developments included long-term interest rates (the 10-year Treasury bond) remaining unusually low. The net effect of these developments was a boost in residential real estate prices and a slight recovery in stock-market indexes.

#### 1. GCP, GDP and Key NYC Sectors

Gross City Product (GCP) rose 3.4 percent in the second quarter, slightly above the preliminary Gross Domestic Product (GDP) of 3.3 percent, as shown in Chart 4.

**Chart 4.** Real NYC GCP and Real U.S. GDP, Percent Change, Annual Rate, 1Q03-2Q05



Source: U.S. GDP from the Bureau of Economic Analysis, U.S. Department of Commerce (BEA); GCP from the NYC Comptroller's Office. Both are estimated in chain-weighted 2000 dollars. U.S. recessions are determined by the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER), which has said that a recession occurred in March-November 2001, though the BEA shows GDP declines in only the first and third quarters of 2001. NYC recessions are defined as two consecutive quarters of negative real GCP growth.

**GDP and Its Components.** GDP measures the inflation-adjusted dollar amount of goods and services produced in the U.S. during a year, quarter, or month. Real chain-weighted GDP (preliminary) grew 3.3 percent in the second quarter. Although the growth rate was lower than in the first quarter, it was the ninth consecutive quarter that the rate of GDP growth exceeded three percent.

*Private investment* fell 3.3 percent after rising for eight quarters. All components of private investment increased in the second quarter from the first quarter except change in inventories, which fell by \$55.6 billion. Change in inventories subtracted 1.99 percentage points from GDP growth.

Consumer spending rose 3.0 percent and added 2.12 percentage points to GDP growth. Consumer spending growth has slowed since the third quarter of 2004. Durable goods expenditure rose 7.7 percent.

Government expenditure rose 2.7 percent and contributed 0.51 percentage points to GDP growth.

The U.S. trade deficit fell to \$611.2 billion in the second quarter from \$645.4 billion in the first, as imports rose 0.5 percent and exports rose 13.2 percent. Net exports added 1.22 percentage points to GDP growth.

**GCP.** The City's real (chain-weighted) GCP rose at an annualized rate of 3.4 percent in the second quarter, lower than the 4 percent in the first quarter but a continuation of (the seventh successive quarter) positive growth, after 11 quarters of decline.

**Wall Street Profits.** NYSE member firms reported pre-tax profits of \$2.6 billion in the first quarter of 2005, about half the rate of profits in the same quarter in 2004. The firms are expected to report profits of about \$1.5 billion for the second quarter, slightly below the \$1.7 billion earned in the second quarter of 2004. Reasons for the slower growth in profits are higher interest rates, reduced trading revenues, as well as lawsuits and related settlements.

Since the City's budget projections assume Wall Street revenues of \$14.4 billion, the \$4.1 billion in revenues during the first half of the year is below expectations.

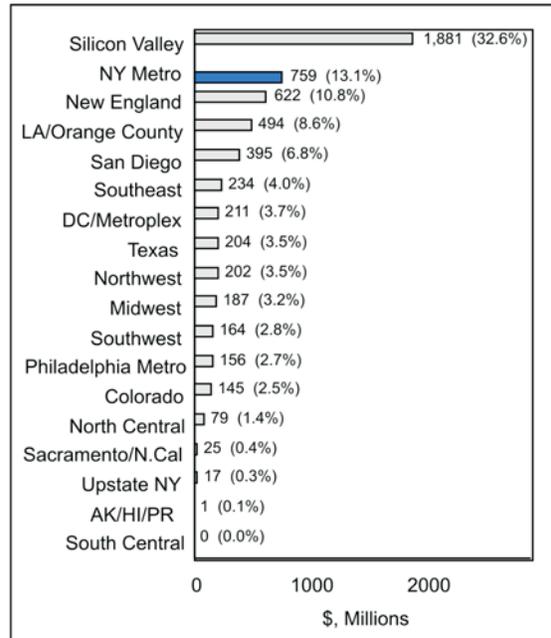
Earnings results for key institutions follow:

- Citigroup Inc., the nation's largest financial institution, reported lower-than-expected second-quarter profits because of higher short-term interest rates and a large number of bankruptcies in advance of new legislation.
- JPMorgan Chase & Co., the nation's third-largest bank, reported lower second-quarter earnings, reflecting a decline in trading revenue.
- Merrill Lynch & Co. Inc. reported a rise in second-quarter profits of 6 percent on strong stock performance and fixed-income trading.
- Lehman Brothers Holdings Inc. reported a second-quarter earnings increase of 12 percent year-over-year, reflecting strong performance in its Asia and Europe operations.
- Goldman Sachs Group Inc. reported a sharp drop in second-quarter earnings as investment-banking and trading revenues fell.
- Morgan Stanley profits fell 24 percent in the second quarter, in part because of high-profile lawsuits.

**High-Technology Capitalization, 2Q05.** Venture-capital firms continue to invest in NYC area firms at a rate second only to Silicon Valley. In the second quarter of 2005, venture-capital firms invested \$1.9 billion in firms in Silicon Valley (32 percent of all investments) and \$759 million in

firms in the NYC area (13 percent of all investments). The NYC area has only one-fifth as many venture-capital deals as Silicon Valley (44 vs. 217) but receives 40 percent as much money.<sup>29</sup> New England ranked third, Los Angeles fourth, and San Diego fifth. These areas accounted for 72 percent of all investments (see Chart 5).

Chart 5. Venture-Capital Investments by Metropolitan Area

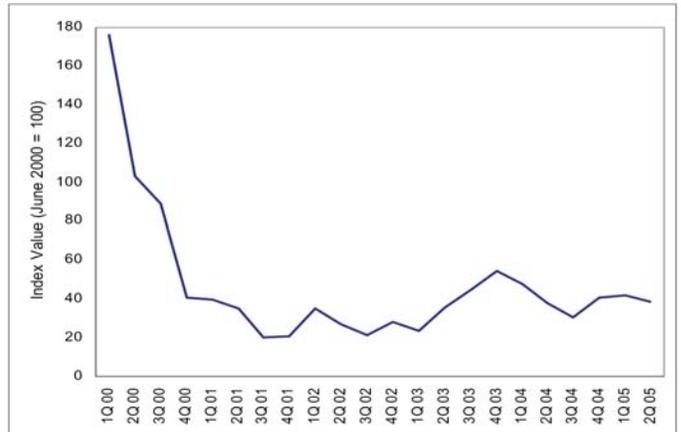


Source: PwC/Thomson Venture Economics/National Venture Capital Association, "Money Tree Survey," New York Metro Edition, 2Q05.

The venture-capital firms' second-quarter investment in the NYC area is 2.7 times the amount invested in the first quarter.

**Silicon Alley.** The "Silicon Alley 15" index rose 1.5 percent to 38.16 in the second quarter compared with the second quarter of 2004. (See Chart 6.)

Chart 6. Silicon Alley 15 Index. Quarterly. 1Q00-2Q05



Source: NYC Comptroller's Office. Data from DowJones.com/quotes. Calculations are based on stock prices of the 15 largest NYC-based IT companies (June 30, 2000=100) and the number of their shares outstanding.

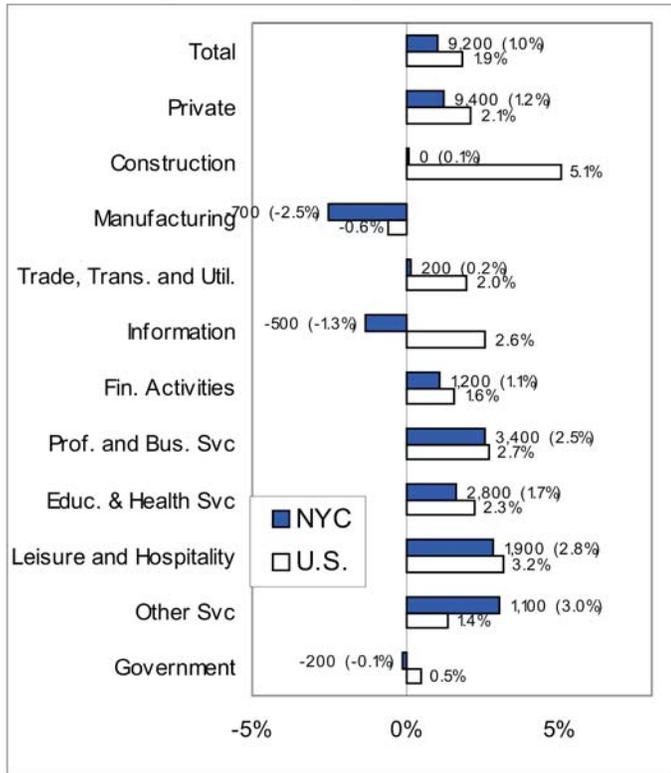
<sup>29</sup> PwC/Thomson Venture Economics/National Venture Capital Association, "Money Tree Survey," New York Metro Edition, 2Q05.

**2. Jobs**

Seasonally adjusted payroll jobs rose by 9,200 or an annualized growth rate of one percent in the second quarter, about half the nation's pace. The City's second-quarter job gains were about half of the 16,400-job gain in the first quarter.

The private sector added 9,400 jobs, but government lost 200 jobs. Chart 7 shows the job gains in different sectors for the City and the nation.

**Chart 7. Change in NYC and U.S. Jobs, SAAR, 2Q05 vs. 1Q05**



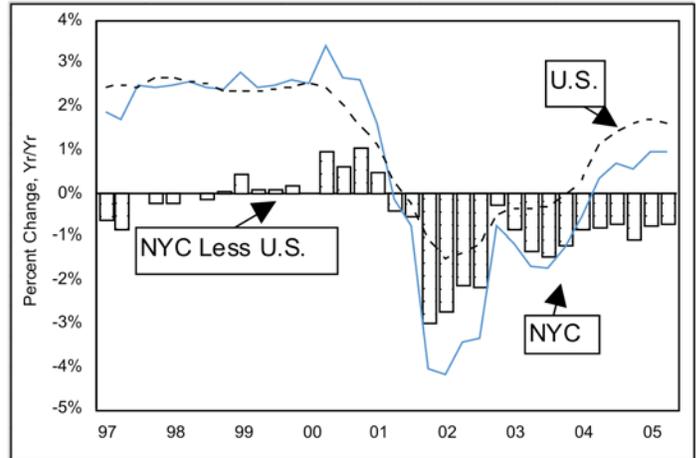
Source: NYS Department of Labor and U.S. Bureau of Labor Statistics (BLS). Seasonal adjustments by the NYC Comptroller's Office. SAAR is the Seasonally Adjusted Annual Rate of growth, in the form of a percentage. Changes are from the previous quarter. For NYC, construction includes both natural resources and construction jobs, but for the United States it includes only construction jobs.

The City lost jobs in manufacturing, information, and government sectors, but the nation lost jobs in manufacturing only.

Despite the rise in housing prices and 5.1 percent annualized growth in U.S. construction jobs, NYC construction jobs were 111,500 in the second quarter, the same as in the first quarter.

The gap between year-over-year U.S. and City job growth is narrowing, as shown in Chart 8. U.S. jobs rose 1.6 percent in the second quarter compared with the second quarter of 2004, while the City's job growth over the same period was one percent.

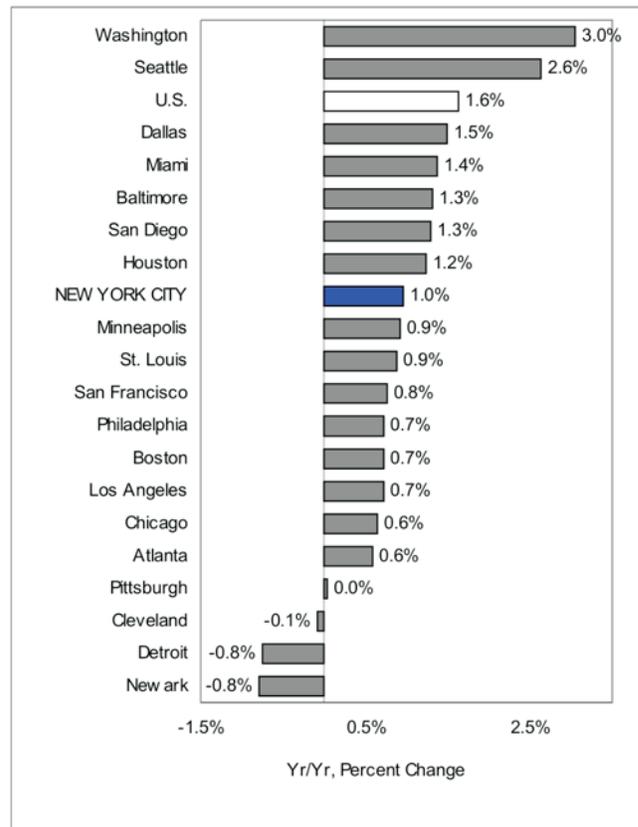
**Chart 8. Payroll Jobs, NYC and U.S., Year-over-Year Quarterly Percent Change, 1Q97 to 2Q05**



Source: NYS Dept. of Labor and BLS.

The City had the eighth-highest rate of job growth of the 20 largest metro areas. The 20 cities and the U.S. average are shown in Chart 9. Cities other than Washington, DC and Seattle have been underperforming relative to the U.S. Average. (See Chart 9.)

**Chart 9. Job Growth, U.S., NYC and 19 Next-Largest Metro Areas, Percent Change, 2Q05 vs. 2Q04**

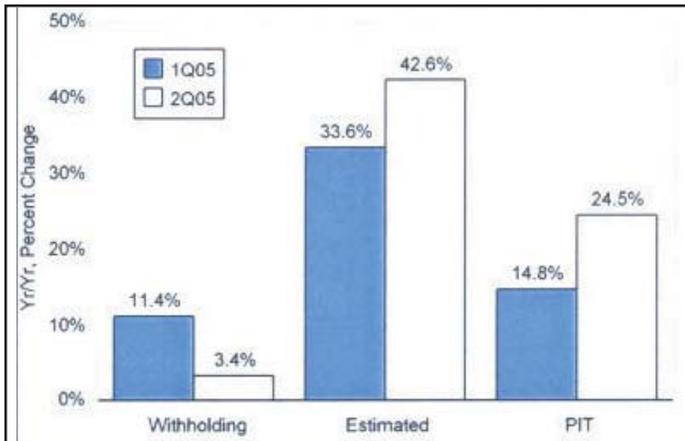


Source: BLS. Not seasonally adjusted. For NYC and Pittsburgh, city data are used. For Los Angeles, San Francisco, Chicago, Miami, Dallas, Philadelphia, Newark, Seattle, Detroit, and Washington, Metropolitan Division data are used. For Boston, New England city and town area (NECTA) data are used. For San Diego, Houston, Atlanta, Cleveland, Baltimore, St. Louis and Minneapolis, Metropolitan Statistical Area data are used.

**3. Income**

Since personal income data are released with a two-year lag, personal income tax (PIT) data are used as a proxy. On a year-over-year basis, PIT rose 24.5 percent, withholding taxes—broad-based deductions from paychecks—rose 3.4 percent, and estimated tax revenues—from a smaller number of taxpayers paying taxes on expected interest, rental income, and capital gains—rose 42.6 percent in the second quarter of 2005. Chart 10 shows PIT revenues for the first and second quarters of 2005.

**Chart 10. NYC Personal Income Taxes, Year-over-Year Percent Change, 1Q05 and 2Q05**

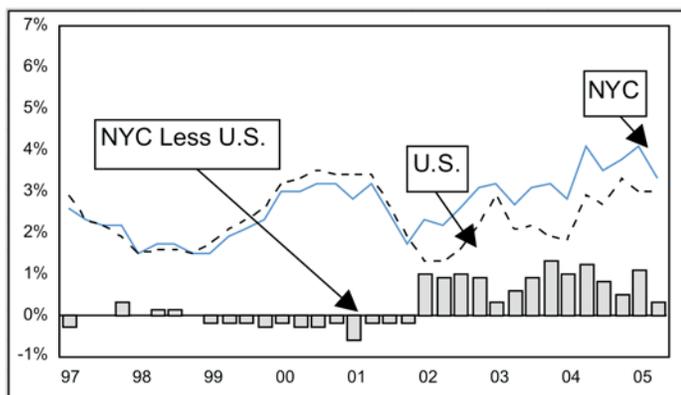


Source: NYC Comptroller's Office, based on data from the NYC Department of Finance. The percentage-change figures may be distorted by 2003 tax-law changes. The data are not seasonally adjusted.

**4. Inflation**

The NYC metro area inflation rate fell to 3.3 percent in the second quarter of 2005 from 4.1 percent in the first quarter. Although the second-quarter inflation rate is the lowest since 2.8 percent in the first quarter of 2004, it is still above the 2.9 percent for the nation as shown in Chart 11.

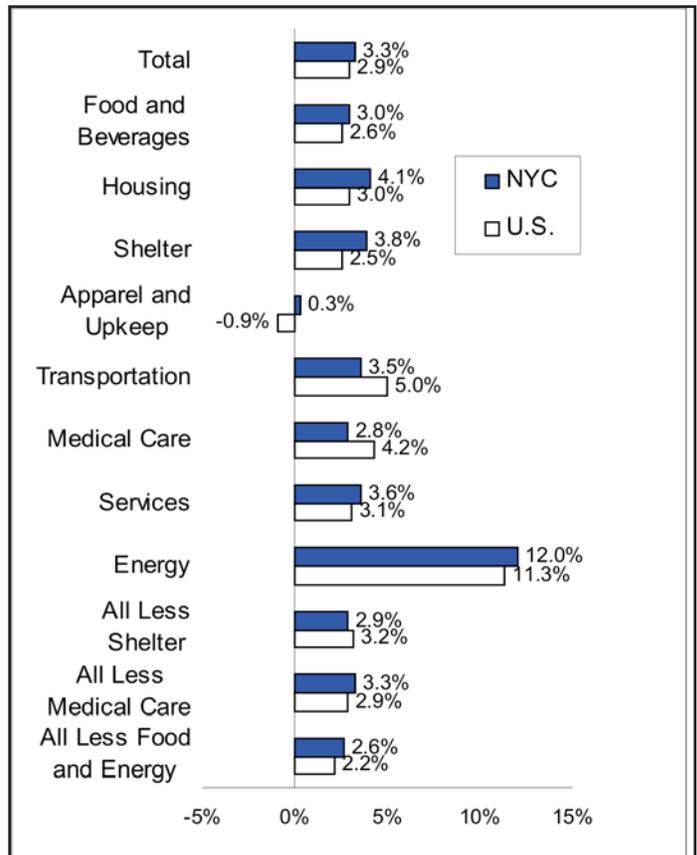
**Chart 11. Inflation Rates: NYC Area, U.S., and NYC Minus U.S., Quarterly, 1Q97-2Q05**



Source: BLS. Differences computed by the NYC Comptroller's Office.

The City's prices rose faster than the nation's in every category except transportation and medical care, as shown in Chart 12. The nation's transportation costs have risen faster than the City's since the third quarter of 2004. The nation's medical care costs have risen faster than the City's since the second quarter of 2001. The City's core inflation rate, which includes all items except food and energy, is 2.6 percent, the lowest since the first quarter of 2004.

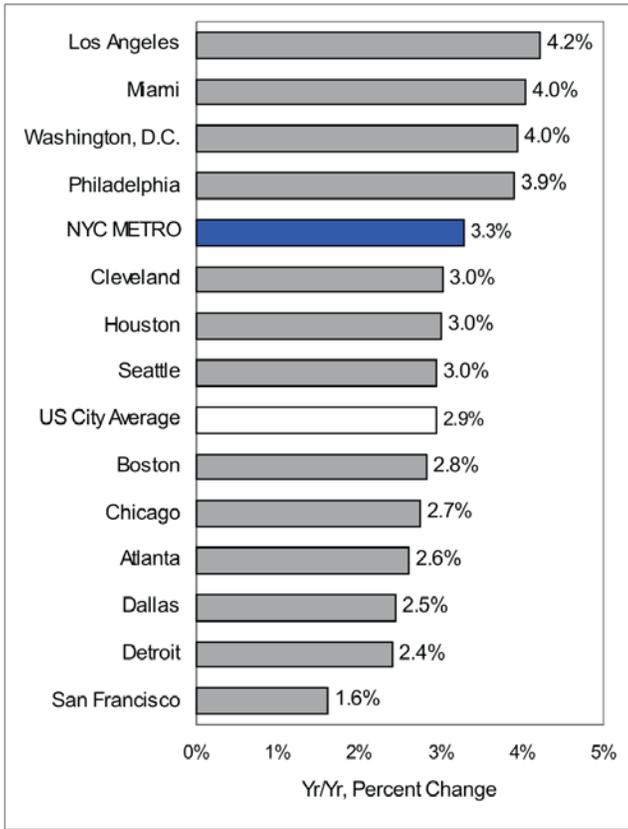
**Chart 12. NYC and U.S. Inflation Rates, 2Q05**



Source: BLS.

Compared with the U.S. urban average and 13 largest metro areas, the NYC metro area had the fifth-highest inflation rate. Los Angeles had the highest inflation rate and San Francisco had the lowest as shown in Chart 13.

**Chart 13. Inflation Rate, 14 Largest Metro Areas and U.S. Urban Average, 2Q05**



Source: BLS. Quarterly inflation rates are computed by the NYC Comptroller's Office as averages of monthly BLS data. Data are collected by the BLS for the 14 largest metro areas. (Percentages shown to the right of each bar are rounded to one decimal place; the bar lengths are drawn with more decimal-place precision.)

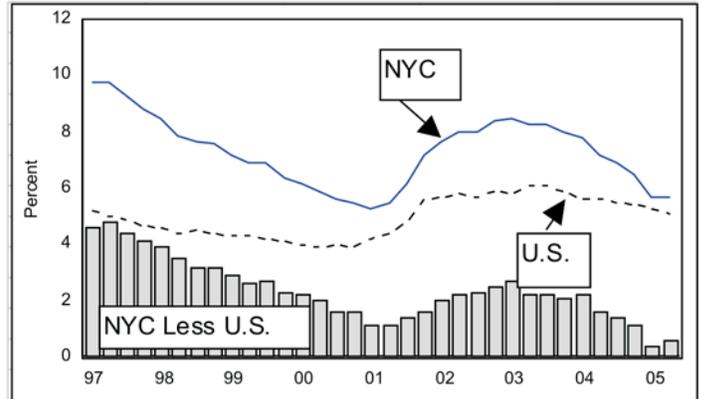
### 5. Unemployment and Employment of New York City Residents

The number of employed City residents, seasonally adjusted, rose by 14,500 in the second quarter to 3,511,800, the highest level on record. As a result, the employment/population ratio rose to 55.7 percent, the highest since the third quarter of 2000.

The number of unemployed New Yorkers fell by 1,700 in the second quarter, but the City's unemployment rate remained unchanged at 5.7 percent.

Although NYC's second-quarter data improved, the City still lagged the nation. The U.S. Employment/population ratio rose to 62.7 percent in the second quarter, the highest since 62.8 percent in the third quarter of 2002. The U.S. unemployment rate fell to 5.1 percent, the lowest since 4.8 percent in the third quarter of 2001. Chart 14 shows the City's unemployment rate versus the nation's.

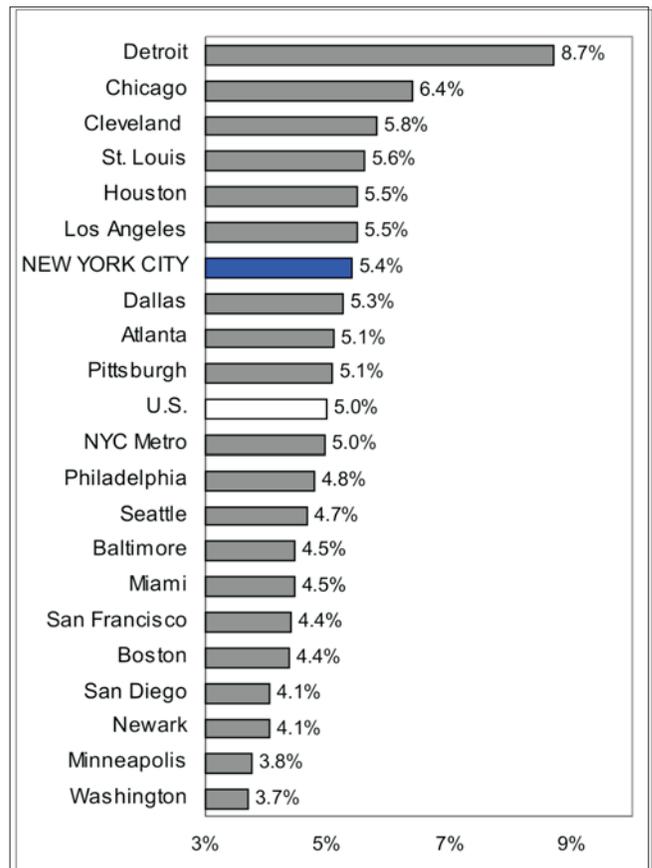
**Chart 14. Unemployment Rates, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q97-2Q05**



Source: Seasonally Adjusted (SA) series and differences computed by the NYC Comptroller's Office, based on monthly data from the NYS Department of Labor and BLS.

The City had the seventh-highest unemployment rate among the 20 largest metro areas. Detroit had the highest unemployment rate, 8.7 percent, and Washington, D.C. had the lowest, 3.7 percent, as shown in Chart 15.

**Chart 15. Unemployment Rates for NYC, the 20 Largest Metro Areas, and U.S. Urban Average, 2Q05**

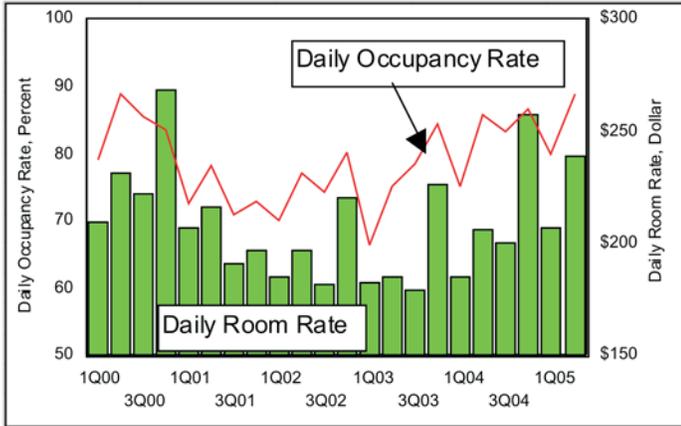


Source: BLS. All data (except for NYC and the U.S.) are for entire metro areas as defined in Chart 6. The NYC metro area is composed of the five NYC boroughs plus Westchester, Putnam, and Rockland counties. The unemployment rate for NYC alone is higher and is shown for comparison. These numbers are not seasonally adjusted.

### 6. Tourism, Including the Hotel Industry

The weak dollar has boosted the tourism industry. The hotel industry had one of its busiest periods in the second quarter of 2005. While the average daily occupancy rate hit a 25-year record, daily room rates did not. The average daily occupancy rate was 89 percent, the highest since 1980. The average daily room rate was \$239. Chart 16 shows these rates.

**Chart 16.** Daily Room and Occupancy Rates, NYC Hotels, 1997-2005

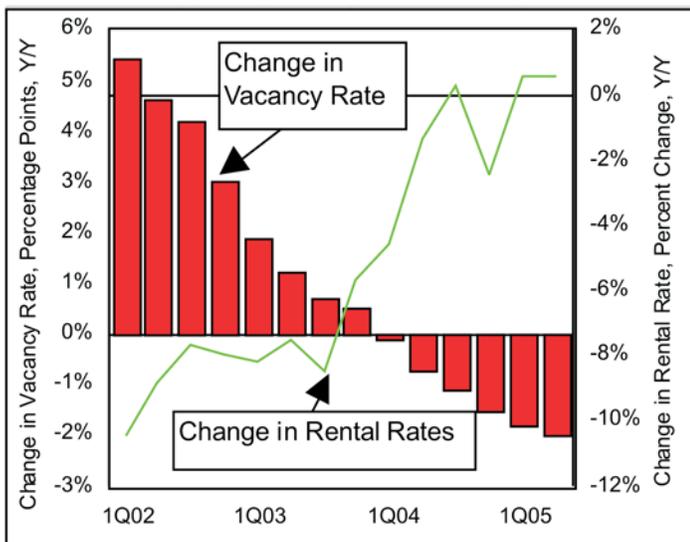


Source: PKF Consulting and NYC Comptroller's Office.

### 7. Real Estate

Manhattan commercial real estate continued to improve in the second quarter of 2005. Vacancy rates declined and rental rates increased, as shown in Chart 17.

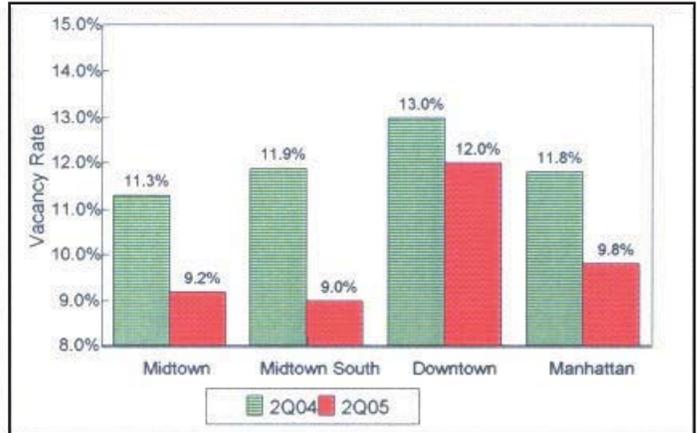
**Chart 17.** Change in Vacancy Rates and Rental Rates, Manhattan, Commercial, Y/Y, 1Q02-2Q05



Source: Monthly data from Cushman & Wakefield. Calculations by the NYC Comptroller's Office.

Manhattan commercial vacancy rates fell to 9.8 percent in the second quarter of 2005 compared with 11.8 percent in the second quarter of 2004. The biggest decline was in Midtown South, where vacancy rates fell by 2.9 percentage points as shown in Chart 18.

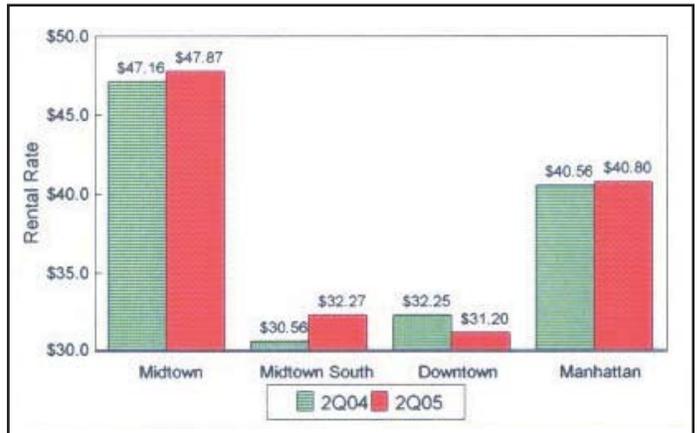
**Chart 18.** Vacancy Rates, Manhattan, Overall Commercial, 2Q04 and 2Q05



Source: Cushman & Wakefield.

Higher demand for the commercial real estate led to an increase in rental rates. Rents were up everywhere in Manhattan except Downtown, as shown in Chart 19.

**Chart 19.** Rental Rates per Sq. Ft., Manhattan, Commercial, Average, 2Q04 and 2Q05



Source: Cushman & Wakefield.

## 8. Leading Economic Indexes

On a year-over-year basis, three economic indexes used to forecast the NYC economy improved in the first quarter of 2005, as shown in Table 2.

**Table 2.** *Three Leading Economic Indexes, NYC, 2Q05 over 2Q04*

|                               | 2Q05   | 2Q04   | Change |
|-------------------------------|--------|--------|--------|
| NYC Business Conditions Index | 337.4  | 286.7  | +17.7% |
| “Current Conditions” question | 53.1   | 62.7   | -15.4% |
| “Six-Month Outlook” question  | 63.4   | 69.4   | -8.6%  |
| No. of NYC Building Permits   | 28,615 | 27,064 | +5.7%  |
| NYC Help-Wanted-Advertising   | 19.7   | 18.0   | +9.3%  |

*Source: National Association of Purchasing Management-New York (Business Conditions Index, 1996=100), NYC Dept. of Buildings (permits authorized) and the Conference Board (Help-Wanted-Advertising Index, 1987=100).*

**Business Conditions Index.** The NYC business conditions index is the NAPM-NY’s composite gauge of current business conditions in New York City. It increased 17.7 percent in the second quarter of 2005, on a year-over-year basis. However, two key components (out of 11 questions in the survey) declined—the “current conditions” index, which fell 15.4 percent, and the “six-month outlook” index, which fell 8.6 percent.

**Number of Building Permits.** The number of NYC building permits authorized rose 5.7 percent in the second quarter of 2005 compared with the second quarter of 2004.

**Help-Wanted-Advertising Index.** According to the Conference Board, the NYC help-wanted-advertising index (print media only) rose 9.3 percent in the second quarter of 2005 compared with the second quarter of 2004.

### New York City Economic Indicators

|       | Labor Market                             |         |  |         |   |         |                          |     |                                       |      | Inflation                     |   |                       |       |              |
|-------|--|---------|--|---------|---|---------|--------------------------|-----|---------------------------------------|------|-------------------------------|---|-----------------------|-------|--------------|
|       | Payroll Jobs <sup>1</sup><br>(thousands) |         | Private Jobs <sup>1</sup><br>(thousands) |         | Civilian Employment <sup>2</sup><br>(thousands) |         | Unemployment<br>Rate (%) |     | Labor Force<br>Participation Rate (%) |      | Help<br>Wanted<br>Advertising | Consumer Price Index (CPI), 1982-84 = 100 |                       |       |              |
|       | NSA*                                     | SA      | NSA                                      | SA      | NSA   | SA      | NSA                      | SA  | NSA                                   | SA   |                               | All Items                                 | Core CPI <sup>3</sup> |       |              |
| 2003  | NSA*                                     | SA      | NSA                                      | SA      | NSA   | SA      | NSA                      | SA  | NSA                                   | SA   | 1987=100                      | Level                                     | %Ch Year Ago          | Level | %ch year ago |
| Aug.  | 3,496.7                                  | 3,513.1 | 2,937.4                                  | 2,961.2 | 3,400.2   | 3,403.7 | 8.3                      | 8.3 | 58.7                                  | 58.8 | 15                            | 199.1                                     | 3.1                   | 212.5 | 2.6          |
| Sept. | 3,505.0                                  | 3,525.4 | 2,965.6                                  | 2,969.3 | 3,375.8   | 3,406.4 | 8.3                      | 8.4 | 58.3                                  | 58.9 | 20                            | 199.6                                     | 3.3                   | 212.2 | 2.4          |
| Oct.  | 3,546.2                                  | 3,529.3 | 2,994.7                                  | 2,972.0 | 3,394.3   | 3,409.9 | 8.2                      | 8.0 | 58.6                                  | 58.7 | 16                            | 200.0                                     | 3.3                   | 213.3 | 2.6          |
| Nov.  | 3,574.3                                  | 3,530.1 | 3,016.4                                  | 2,973.2 | 3,416.9   | 3,414.3 | 7.9                      | 8.0 | 58.8                                  | 58.8 | 17                            | 199.4                                     | 3.1                   | 212.6 | 2.7          |
| Dec.  | 3,593.9                                  | 3,532.3 | 3,032.7                                  | 2,975.2 | 3,417.8   | 3,419.4 | 7.6                      | 8.0 | 58.6                                  | 58.9 | 13                            | 199.3                                     | 3.2                   | 212.2 | 2.8          |
| 2004  |  |         |  |         |   |         |                          |     |                                       |      |                               |   |                       |       |              |
| Jan.  | 3,473.9                                  | 3,526.3 | 2,920.6                                  | 2,969.5 | 3,410.0   | 3,425.3 | 8.4                      | 7.9 | 59.0                                  | 59.0 | 17                            | 199.9                                     | 2.7                   | 212.7 | 2.1          |
| Feb.  | 3,493.4                                  | 3,532.5 | 2,941.3                                  | 2,978.4 | 3,428.3   | 3,431.4 | 7.9                      | 7.7 | 59.0                                  | 58.9 | 16                            | 201.1                                     | 2.5                   | 213.9 | 2.4          |
| Mar.  | 3,522.4                                  | 3,538.2 | 2,968.9                                  | 2,981.7 | 3,440.3   | 3,437.6 | 8.0                      | 7.6 | 59.3                                  | 59.0 | 17                            | 203.4                                     | 3.2                   | 216.6 | 3.4          |
| Apr.  | 3,527.5                                  | 3,537.0 | 2,972.4                                  | 2,980.7 | 3,435.9   | 3,443.6 | 7.1                      | 7.3 | 58.7                                  | 58.9 | 18                            | 204.0                                     | 3.7                   | 217.4 | 3.7          |
| May   | 3,550.4                                  | 3,542.4 | 2,993.7                                  | 2,985.5 | 3,427.1   | 3,449.6 | 6.7                      | 7.1 | 58.3                                  | 58.9 | 18                            | 204.4                                     | 3.9                   | 216.9 | 3.2          |
| June  | 3,562.5                                  | 3,545.5 | 3,003.3                                  | 2,987.6 | 3,435.4   | 3,455.4 | 7.3                      | 7.2 | 58.8                                  | 59.1 | 18                            | 206.0                                     | 4.6                   | 217.5 | 3.5          |
| July  | 3,540.2                                  | 3,534.8 | 2,975.4                                  | 2,991.7 | 3,486.0   | 3,461.0 | 7.4                      | 7.0 | 59.7                                  | 59.0 | 18                            | 205.5                                     | 3.9                   | 217.1 | 2.9          |
| Aug.  | 3,521.9                                  | 3,539.5 | 2,970.7                                  | 2,995.3 | 3,478.3   | 3,466.4 | 6.7                      | 6.8 | 59.2                                  | 59.0 | 16                            | 205.7                                     | 3.3                   | 217.4 | 2.3          |
| Sept. | 3,532.6                                  | 3,553.0 | 2,993.7                                  | 2,997.6 | 3,458.6   | 3,471.6 | 6.5                      | 6.8 | 58.7                                  | 59.1 | 16                            | 205.9                                     | 3.2                   | 218.1 | 2.8          |
| Oct.  | 3,568.3                                  | 3,550.7 | 3,020.4                                  | 2,996.9 | 3,477.6   | 3,476.4 | 6.4                      | 6.5 | 58.9                                  | 59.0 | 16                            | 207.3                                     | 3.7                   | 219.5 | 2.9          |
| Nov.  | 3,594.8                                  | 3,550.0 | 3,040.0                                  | 2,996.4 | 3,503.9   | 3,480.9 | 6.0                      | 6.3 | 59.2                                  | 59.0 | 17                            | 207.2                                     | 3.9                   | 218.9 | 3.0          |
| Dec.  | 3,612.6                                  | 3,550.1 | 3,054.7                                  | 2,996.5 | 3,502.8   | 3,485.0 | 6.3                      | 6.6 | 59.3                                  | 59.2 | 17                            | 206.8                                     | 3.8                   | 218.4 | 2.9          |
| 2005  |  |         |  |         |   |         |                          |     |                                       |      |                               |   |                       |       |              |
| Jan.  | 3,516.0                                  | 3,567.4 | 2,965.5                                  | 3,013.7 | 3,471.5   | 3,491.7 | 6.2                      | 5.8 | 58.7                                  | 58.9 | 18                            | 208.1                                     | 4.1                   | 220.4 | 3.6          |
| Feb.  | 3,525.8                                  | 3,564.3 | 2,977.7                                  | 3,011.3 | 3,490.6   | 3,499.3 | 6.5                      | 6.1 | 59.2                                  | 59.2 | 20                            | 208.9                                     | 3.9                   | 221.2 | 3.4          |
| Mar.  | 3,550.2                                  | 3,566.3 | 2,998.9                                  | 3,012.5 | 3,506.0   | 3,501.0 | 5.3                      | 5.2 | 58.8                                  | 58.6 | 20                            | 212.4                                     | 4.4                   | 225.5 | 4.1          |
| April | 3,565.0                                  | 3,574.3 | 3,012.1                                  | 3,020.5 | 3,511.9   | 3,517.0 | 5.4                      | 5.7 | 58.9                                  | 59.2 | 20                            | 212.5                                     | 4.2                   | 224.6 | 3.3          |
| May   | 3,581.8                                  | 3,573.8 | 3,027.0                                  | 3,020.0 | 3,500.3   | 3,515.2 | 5.5                      | 5.9 | 58.8                                  | 59.3 | 18                            | 211.4                                     | 3.4                   | 222.9 | 2.8          |
| June  | 3,595.5                                  | 3,577.6 | 3,040.0                                  | 3,025.1 | 3,501.6   | 3,503.3 | 5.3                      | 5.5 | 58.7                                  | 58.8 | 21                            | 210.7                                     | 2.3                   | 221.5 | 1.8          |

\*NSA=Not Seasonally Adjusted. SA=Seasonally Adjusted.  
 Notes: 1. Payroll jobs are derived from the Establishment Survey. 2. Civilian employment is derived from the Household Survey. 3. Core CPI—all items less food and energy. Continued →

**New York City Economic Indicators**

| Cont'd | Real Estate Transaction Taxes |                  | Income-Sensitive Taxes |        |        |        |              |              | Manhattan Commercial Real Estate (Overall) |                    |   |              | Construction         |                      | Hotel |  |
|--------|-------------------------------|------------------|------------------------|--------|--------|--------|--------------|--------------|--|--------------------|---|--------------|----------------------|----------------------|-------|--|
|        | MRT <sup>1</sup>              | RPT <sup>2</sup> | Sales                  | Corp.  | Bank   | PIT    | Vacancy Rate |              | Asking Rental Rate                         |                    | Total Number of Building Permits Authorized |              | Hotel Occupancy Rate | Daily Room Rate (\$) |       |  |
|        |                               |                  |                        |        |        |        | Midtown (%)  | Downtown (%) | Midtown (\$/s.f.)                          | Downtown (\$/s.f.) | (# of Units)                                | Year-to-Date |                      |                      |       |  |
| 2003   | \$ mil.                       | \$ mil.          | \$ mil.                | \$ mil | \$ mil | \$ mil | (%)          | (%)          | (\$/s.f.)                                  | (\$/s.f.)          | (# of Units)                                | Year-to-Date | (%)                  | (\$)                 |       |  |
| Aug.   | 53.1                          | 32.5             | 269.2                  | 0      | 0      | 280.9  | Na           | na           | na   | na                 | 8,035                                       | 62,526       | 79.2                 | 164.63               |       |  |
| Sept.  | 85.5                          | 69.2             | 371.4                  | 303.9  | 82.8   | 453.5  | 11.9         | 13.0         | 45.63                                      | 35.60              | 8,511                                       | 71,037       | 80.1                 | 203.92               |       |  |
| Oct.   | 42.9                          | 42.3             | 301.6                  | 25.8   | 10.4   | 338.5  | Na           | na           | na   | na                 | 9,720                                       | 79,548       | 85.9                 | 216.73               |       |  |
| Nov.   | 41.7                          | 30.6             | 283.8                  | -9.3   | -22.2  | 369.5  | Na           | na           | na   | na                 | 7,321                                       | 86,869       | 84.6                 | 222.11               |       |  |
| Dec.   | 65.8                          | 30.7             | 411.4                  | 311.2  | 104.0  | 618.6  | 11.9         | 13.5         | 45.37                                      | 36.92              | 7,291                                       | 94,160       | 82.8                 | 239.08               |       |  |
| 2004   |                               |                  |                        |        |        |        |              |              |  |                    |   |              |                      |                      |       |  |
| Jan.   | 69.0                          | 31.1             | 337.2                  | 74.8   | 11.0   | 809.5  | Na           | na           | na   | na                 | 6,480                                       | 6,480        | 68.2                 | 177.42               |       |  |
| Feb.   | 74.8                          | 32.7             | 275.3                  | -49.1  | -15.4  | 512.4  | Na           | na           | na   | na                 | 7,054                                       | 13,534       | 73.9                 | 184.93               |       |  |
| Mar.   | 91.1                          | 74.6             | 400.0                  | 482.3  | 67.3   | 337.1  | 11.8         | 12.9         | 45.61                                      | 33.68              | 9,011                                       | 22,545       | 83.3                 | 193.67               |       |  |
| Apr.   | 90.8                          | 28.2             | 309.7                  | 63.5   | 13.3   | 709.8  | Na           | na           | na   | na                 | 8,649                                       | 31,194       | 85.0                 | 196.99               |       |  |
| May    | 78.4                          | 55.2             | 310.0                  | -4.7   | -7.7   | 244.6  | Na           | na           | na   | na                 | 8,661                                       | 39,855       | 85.7                 | 213.30               |       |  |
| June   | 46.0                          | 60.0             | 438.0                  | 291.0  | 162.0  | 518.0  | 11.3         | 13.0         | 47.16                                      | 32.25              | 9,754                                       | 49,609       | 87.1                 | 208.23               |       |  |
| July   | 119.3                         | 0.0              | 282.0                  | 0.0    | 0.0    | 329.5  | Na           | na           | na   | na                 | 9,755                                       | 59,364       | 83.4                 | 185.72               |       |  |
| Aug.   | 97.9                          | 0.0              | 275.1                  | 0.0    | 0.0    | 350.9  | Na           | na           | na   | na                 | 9,814                                       | 69,178       | 79.9                 | 188.39               |       |  |
| Sept.  | 87.9                          | 119.5            | 443.3                  | 339.4  | 155.8  | 538.8  | 11.0         | 12.7         | 47.04                                      | 32.16              | 8,648                                       | 77,826       | 86.9                 | 225.58               |       |  |
| Oct.   | 91.5                          | 123.5            | 308.6                  | 47.7   | 11.1   | 335.5  | Na           | na           | na   | na                 | 8,753                                       | 86,579       | 88.9                 | 245.35               |       |  |
| Nov.   | 90.3                          | 77.3             | 308.2                  | 10.6   | -18.3  | 446.8  | Na           | na           | na   | na                 | 8,398                                       | 94,977       | 86.8                 | 253.00               |       |  |
| Dec.   | 85.8                          | 76.5             | 456.4                  | 399.2  | 137.3  | 748.7  | 10.1         | 13.7         | 45.98                                      | 31.55              | 7,984                                       | 102,961      | 84.6                 | 273.43               |       |  |
| 2005   |                               |                  |                        |        |        |        |              |              |  |                    |   |              |                      |                      |       |  |
| Jan.   | 105.4                         | 82.5             | 366.9                  | 59.8   | 7.5    | 920.0  | Na           | na           | na   | na                 | 7,425                                       | 7,425        | 72.0                 | 193.94               |       |  |
| Feb.   | 96.0                          | 83.3             | 284.8                  | 3.4    | -1.7   | 587.4  | Na           | na           | na   | na                 | 7,396                                       | 14,821       | 80.4                 | 207.69               |       |  |
| Mar.   | 108.5                         | 90.0             | 464.0                  | 605.1  | 124.5  | 396.6  | 9.8          | 12.3         | 47.13                                      | 31.03              | 9,558                                       | 24,379       | 87.5                 | 217.86               |       |  |
| April  | 126.9                         | 110.2            | 325.7                  | 88.5   | 13.5   | 962.1  | Na           | na           | na   | na                 | 8,989                                       | 33,368       | 87.4                 | 230.39               |       |  |
| May    | 134.6                         | 152.8            | 330.2                  | 18.3   | -0.7   | 306.9  | Na           | na           | na   | na                 | 9,552                                       | 42,920       | 89.6                 | 240.23               |       |  |
| June   | 106.2                         | 92.4             | 477.0                  | 365.4  | 166.0  | 566.3  | 9.2          | 12.0         | 47.87                                      | 31.20              | 10,074                                      | 52,994       | 90.0                 | 245.03               |       |  |

Sources: Bureau of Labor Statistics, The Conference Board, Bureau of the Census, NYS Department of Taxation, Cushman & Wakefield, PKF Consulting, NYC Dept. of Buildings, NYS Dept. of Labor, and NYC Comptroller's Office.  
 1. MRT = Mortgage Recording Tax. 2. RPT = Real Property Transfer Tax. n.a. = not available.