

Just as the economy was showing signs of bouncing back from the Dot-Com bubble, the September 11, 2001 attacks on the U.S. occurred.

About the Attack

September 11, 2001 - terrorists hijack four U.S. airliners. The attack of planes leveled the World Trade Center and inflicted serious damage to the Pentagon in Arlington, VA, causing nearly 3,000 total deaths. The fourth plane was heroically crashed by passengers when they learned of the plot, preventing destruction of another structure. The plot was attributed to the Al-Qaeda organization led by Osama Bin Laden. The U.S. then began the War on Terrorism and attacks Afghanistan. [View some of the costs of the attacks.](#)

Effect on NYC

In NYC, 13.4m SF of Class A office property was destroyed and another 14.4m SF damaged. This would negatively affect the national absorption numbers for the office sector. Lower Manhattan lost approximately 30 percent of its office space. This was more than the total vacant space in an already tight New York City office market. After 9/11, some tenants spread to multiple locations, including suburbs, and, in many cases, moved to low-rise buildings. In New York City, about \$2.8 billion in wages were lost in the three months following the 9/11 attacks. The economic effects were mainly focused on the city's export economy sectors. The city's GDP was estimated to have declined by \$27.3 billion for the last three months of 2001 and all of 2002.⁷



[View the complete World Trade Center study by FEMA.](#) View a [Detailed report on Tenants that were effected in NYC](#)

Effect on Commercial Real Estate & the Economy⁸

As a result of September 11, consumer confidence was low. Air travel was more difficult due to enhanced security and people were afraid to fly. Retail spending was down. There was a lot of speculation that "trophy" buildings would suffer, but that would prove not to be the case. The effect of 9/11 was short-lived in that aspect. With hindsight, we can see that the U.S. economy was already suffering and the 9/11 attacks did not have a significant effect on economic growth either nationally or in New York. In the months that followed, there was a flock to secondary markets, especially in the retail and apartment sectors, but that would also prove to be short-lived.

The 9/11 attacks had a profound impact on the attitudes among corporate real estate executives. Most firms were adopting a number of new security and safety measures, revisiting all communication procedures and engaging in general disaster and business recovery planning. Some firms moved their business to more suburban areas. Total occupancy costs, as a result of security and insurance costs, were said to increase by 1% to 3% on average with greater increases on central business district high-rise properties. At the same time, it appeared that lenders would not finance property if terrorist insurance was not part of the coverage. The cost of insurance for office space went up from \$0.24 to \$0.40/SF. Some of these costs were pushed down to the tenants.

Security

In 2001, the cost of security in privately-owned office buildings was approximately \$0.50/SF. By 2003, that cost had doubled to more than \$1.00/SF. The increased expenditures covered items such as: identity cards, scanners, security cameras and personnel. In government-owned buildings, which have installed security codes, concrete barriers, structural reinforcement, wider stairways and enhanced communication systems, the costs go as high as \$2.00/SF. On the other hand, the cost of office security in the suburbs is considerably less than it is in the cities. Moving just 15 to 20 miles outside of the city can reduce the cost of security by as much as 60 percent. Moreover, studies show workers feel safer when situated just a few miles outside the urban areas, so several firms did move their shops to suburban areas.

Back-Up Sites

Another result was the potential need for some firms to create back-up sites. Firms were wary of concentrating their data in one place. The cost, time and manpower to research catastrophe preparedness, and the investment in additional real estate and equipment to set up dual locations can be considerable.

Looking on the Bright Side

This is not to say that heightened security measures are all negative. In fact, the number of robberies and break-ins committed in New York City office buildings has declined. With gated and secure parking areas, there have been fewer car thefts. Over all, commercial buildings are safer than ever before.⁹