ECONOMIC SCENE

The commercial resilience of New York is clear three years after the 9/11 attacks.

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THREE years after the terrorist attacks of Sept. 11, economists have pieced together a reasonably good picture of their effect on New York City's economy. That picture is one of remarkable resilience.

In the most comprehensive analysis so far, a team of researchers organized by the Russell Sage Foundation has found that although the attacks were undoubtedly an economic setback and, needless to say, a tragedy for thousands of families, they did not fundamentally knock the city's economy off track.

Shortly after the attacks, many analysts predicted that New York would suffer a long economic decline because the fear of future attacks would cause businesses and residents to flee, or because the destruction of office space inhabited by prized companies in Lower Manhattan would cause those and other companies to move to cheaper locales outside the city.

Instead, the way the economy coped is a tribute to human ingenuity in the face of adversity. The relocation decisions of businesses also tell much about why cities exist in the first place.

The task for researchers is to compare trends in employment, property values and other economic indicators with a credible estimate of what those trends would have been in the absence of the attacks -- that is, to compare the actual to the "counterfactual" outcome.

Establishing a convincing counterfactual scenario is particularly difficult in this case because the attacks occurred just after a recession had begun (in March 2001, according to the National Bureau of Economic Research) and the stock market had turned down. These developments would have caused New York's economy to deteriorate after Sept. 11 even if the attacks had been thwarted.

To estimate the effects of the attacks, economists have compared New York's performance before and after Sept. 11 with its performance in past recessions, with the performance of the rest of the nation before and after Sept. 11, and with the experience of other large cities. A similar picture emerges from all these comparisons, raising one's confidence in the conclusions.

First consider commercial real estate, which the attacks affected directly. The destruction of the World Trade Center and damage to surrounding buildings rendered 10 percent of New York City's prime commercial space -- and 60 percent of the downtown area's prime space -- at least temporarily uninhabitable.

Other things being equal, this supply shift would be expected to drive prices up. But if companies were discouraged from locating in the city because of the attacks, demand for commercial real estate would simultaneously have fallen, putting downward pressure on prices and rents.

Andy Haughwout, an economist at the New York Federal Reserve Bank, found that, after initially dipping, the price of office buildings in Lower Manhattan relative to the nation as a whole has increased slightly in the three years since Sept. 11. Prices in Midtown, by contrast, increased sharply in the months after Sept. 11. He said there was no sign of a significant drop in demand for a New York address.

Relatively little residential real estate was destroyed. Thus, the supply of residential real estate was unaffected in the short run, and prices would be expected to drop if New York became viewed as a less desirable place to live. Again, there is no sign that the appeal of New York suffered. In the three years before Sept. 11, prices in the New York area rose faster than in the nation as a whole, and they have continued to rise at about the same pace in the three years afterward.

Some 80 percent of the businesses that were based in the World Trade Center relocated elsewhere in Manhattan or returned to restored buildings after the attacks; most of the rest went to New Jersey. The migration to Midtown and the New Jersey waterfront hastened a trend that had already been in motion: even before the attacks, the downtown business area was in the process of becoming more of a residential center.

Franz Fuerst of the City University of New York discovered another fascinating pattern: businesses tended to relocate in areas where other businesses in their line of work were already clustered.

For example, most of the architectural firms that were displaced from the World Trade Center relocated in the same area between 14th and Canal Streets, already home to the highest concentration of architects in Manhattan.

Economists have long wondered why companies in the same industry locate near one another. Geographic agglomeration, the defining characteristic of cities, is hard to explain in a world with low transportation and communication costs. The tragic events of Sept. 11 suggest that information spillovers -- in production methods and knowledge about the suitability and availability of office space -- as well as similarity in business requirements are responsible for agglomeration effects, even over a very short period.

Mr. Fuerst also found that businesses often used space that they had available but that was not listed as vacant, like basements that could be put to better purposes. Substitution of resources is an underappreciated response to economic shocks -- including hurricanes and terrorist attacks -- that helps to limit the damage.

There is little evidence that New Yorkers overreacted to the tragedy. Indeed, only a slight sign of apprehension can be detected from the pattern of vacancy rates. Before Sept. 11, the vacancy rate for buildings with 50 or more stories moved in tandem with that for other buildings. Since the middle of 2002, however, the vacancy rate in tall buildings increased by a few percentage points more than the rate for all buildings in Manhattan.

Employment mirrored business location. The number of jobs fell in the recession, but studies have found that after an initial sharp drop, the loss of employment in New York after Sept. 11 was not noticeably different from what it was in other major cities. Cordelia Reimers of Hunter College concluded, "The ongoing recession had a much more negative impact than 9/11 on New York City's workers."

Although President Bush and his administration frequently point to the terrorist attacks as a reason for the economic downturn, the evidence suggests that the recession hurt the economy in New York and the rest of the country much more. This conclusion should be viewed as an important victory in the war against terrorism, as the terrorists sought to disrupt the American economy and largely failed.