

The construction boom and bust in New York City

During the construction boom that began in 2000, construction employment rose later and with more intensity in New York City than in the Nation as a whole, while the eventual construction bust was later but less severe in the City than nationally; the City's gains and losses were concentrated in Manhattan, Brooklyn, and Queens

Rachel S. Friedman

The real estate boom and bust of the 2000–2010 decade reshaped New York City's building landscape and, with it, the City's construction industry. During this decade, the City's construction industry first gained 12,980 jobs and then lost 20,803. While similar booms and busts occurred nationally, the rise and fall in New York City's construction employment differed from the Nation's in both length and timing.

Using employment data from the Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages (QCEW),¹ this report provides a borough-wide analysis of the labor market effects of the real estate boom and bust on New York City from 2000 to 2010. In particular, the analysis focuses on how changes in the City's real estate market affected the local construction sector, and looks specifically at three subsectors: construction of buildings, heavy and civil engineering construction, and specialty trade contractors.²

Quarterly data from the QCEW program were chosen because they provided the most detailed picture of the construction industry and allowed for analysis of countywide contributions to changes in New York City's labor market.³ The mid-year of 2000 was selected as a starting

point because a number of observers believe that the boom got underway about that time.⁴ By using data that goes through mid-2010, this report analyzes New York City construction employment throughout a decade of change.⁵

The boom in New York City

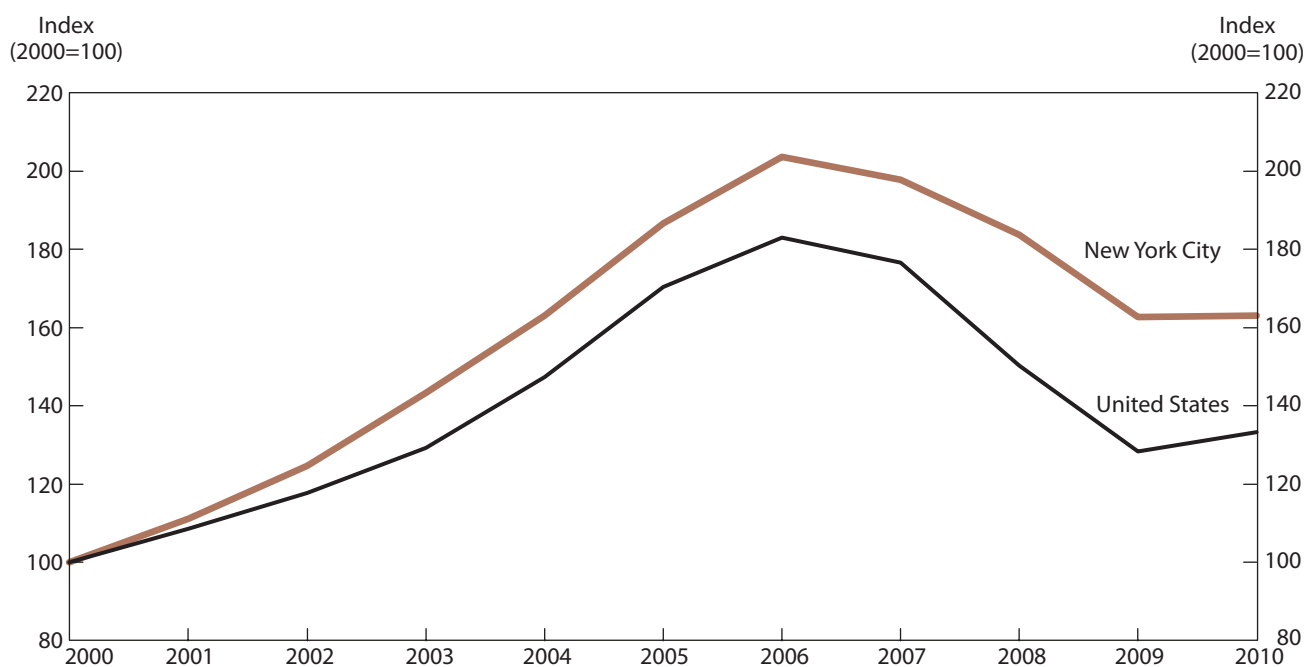
From June 2000 through June 2006, the price of residential housing in the New York City area doubled.⁶ (See chart 1.) Throughout the period, prices rose, with one of the larger increases occurring in 2005. Driving this price increase in 2004 and later years were gains in employment and income in both the financial and legal services industries.⁷ Furthermore, low interest rates and wider availability of loans and mortgages also contributed to increased demand and concomitant higher prices for residential housing.

These higher prices triggered an expansion of the construction industry in New York City. While expenditures for new residential housing units rose during the early years of the decade, it is noteworthy that between June 2004 and June 2008, spending on new projects increased from \$211 million to \$1.5 billion.⁸ As a result, residential housing increased by 14,358 units in the City over the 4-year period.⁹

At the county level, the majority of the City's residential building activity was con-

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Chart 1. S&P/Case-Shiller® home price indices, New York City and United States, 2000–2010



NOTE: Data for New York City are for June of each year; U.S. data are for the second quarter of each year.
SOURCE: BLS chart made by author's rebasing of Standard & Poor's underlying indices.

concentrated in New York (known as the borough of Manhattan), Kings (Brooklyn), and Queens counties. From 2004 to 2008, these three counties showed large increases in spending (\$525 million, \$458 million, and \$300 million, respectively) and in newly-constructed units (5,448, 6,338, and 3,036). Richmond County (known as Staten Island) followed the trend but with smaller increases in spending and housing permits, while Bronx County exhibited declines in both measures of building activity over the 4-year period.

Although new residential building activity increased early in the decade, employment in New York City's construction industry fell for 3 years following the 2001 recession, dropping by 11,598, or 9.5 percent. However, beginning in 2004, employment in the City's construction industry rebounded. From June 2004 to June 2008, total employment in construction for all five counties rose by 20,071, or 18.3 percent. (See table 1.)

Within the sector, the specialty trade contractors subsector saw the largest increase over the 4-year period, adding 10,281 positions. Spurred by the expansion of the residential housing market, the construc-

tion of buildings subsector added 9,809 jobs between 2004 and 2008. Although this subsector had a smaller increase, it recorded a larger percent change (37.4 percent, compared to 13.6 percent for specialty trade). In comparison, the heavy and civil engineering construction subsector lost 19 jobs over the period.

At the county level, growth in the City's jobs for construction workers was largely concentrated in New York, Queens, and Kings Counties. New York County experienced the greatest spike in employment over the 4-year period, adding 8,200 positions.¹⁰ Two-thirds of Manhattan's new construction jobs were in the construction of buildings industry, while gains in specialty trade contractors accounted for the remaining third. Queens had the second largest numeric increase in employment, up 5,699. In both Queens and Kings Counties, job increases from 2004 to 2008 were concentrated in specialty trade contractors.

The national boom

Nationally, as in New York City, housing prices appreciated rapidly from 2000 through 2006, reflecting increases in demand. (See chart 1.) One difference between the United

Table 1. New York City construction employment, June, 2004, 2008, and 2010

Industry and area	NAICS code	Level			Change	
		2004	2008	2010	2004–2008	2008–2010
New York City¹						
Construction	23	109,974	130,045	109,242	20,071	-20,803
Construction of buildings	236	26,199	36,008	29,428	9,809	-6,580
Heavy and civil engineering construction	237	8,224	8,205	10,123	-19	1,918
Specialty trade contractors	238	75,551	85,832	69,691	10,281	-16,141
Bronx County						
Construction	23	10,252	11,403	9,584	1,151	-1,819
Construction of buildings	236	1,446	1,852	1,635	406	-217
Heavy and civil engineering construction	237	574	1,170	1,217	596	47
Specialty trade contractors	238	8,232	8,381	6,732	149	-1,649
Kings County						
Construction	23	22,757	27,004	22,833	4,247	-4,171
Construction of buildings	236	5,567	6,907	6,034	1,340	-873
Heavy and civil engineering construction	237	1,047	1,666	1,467	619	-199
Specialty trade contractors	238	16,143	18,431	15,332	2,288	-3,099
New York County						
Construction	23	29,164	37,364	30,107	8,200	-7,257
Construction of buildings	236	10,829	16,279	11,874	5,450	-4,405
Heavy and civil engineering construction	237	1,512	1,599	2,816	87	1,217
Specialty trade contractors	238	16,823	19,486	15,417	2,663	-4,069
Queens County						
Construction	23	41,276	49,975	40,782	5,699	-6,193
Construction of buildings	236	7,370	9,368	8,733	1,998	-635
Heavy and civil engineering construction	237	4,362	3,235	4,069	-1,127	834
Specialty trade contractors	238	29,544	34,372	27,980	4,828	-6,392
Richmond County						
Construction	23	6,525	7,299	5,936	774	-1,363
Construction of buildings	236	987	1,602	1,152	615	-450
Heavy and civil engineering construction	237	729	535	554	-194	19
Specialty trade contractors	238	4,809	5,162	4,230	353	-932

¹ New York City is composed of five counties: Bronx, Kings, New York, Queens, and Richmond. Data for New York City were calculated as the sum of these five counties.

NOTE: Employment data are from the Quarterly Census of Employment

and Wages program. Data are for private industry only and exclude workers not covered by Unemployment Insurance or Unemployment Compensation for Federal Employees programs.

SOURCE: U.S. Bureau of Labor Statistics.

States and New York City was that subprime loans were more prevalent in the Nation as a whole.¹¹

Stronger demand triggered, with a lag, increases in the supply of housing. Employment in the national construction industry dipped after the recession in 2001, but by 2003, when employment was at its lowest, it was only slightly below its level of 2000. Beginning in 2003, a year prior to the rebound in employment in New York City, national employment increased by 14.9 percent, peaking in 2006. (See chart 2.)

As was the case in New York City, specialty trade contractors accounted for the largest share of the additional jobs, but unlike New York, heavy and civil engineering also experienced substantial job growth. Despite this difference, employment in New York City's construction industry increased by a larger percentage (18.3 percent) over a longer period (2004 through 2008).

The national boom also was different from the City's boom with respect to the relationship between housing prices and construction employment. While national employment peaked with housing prices (as measured by the S&P/Case-Shiller® Home Price Index), employment in New York City continued to rise for 2 years after prices

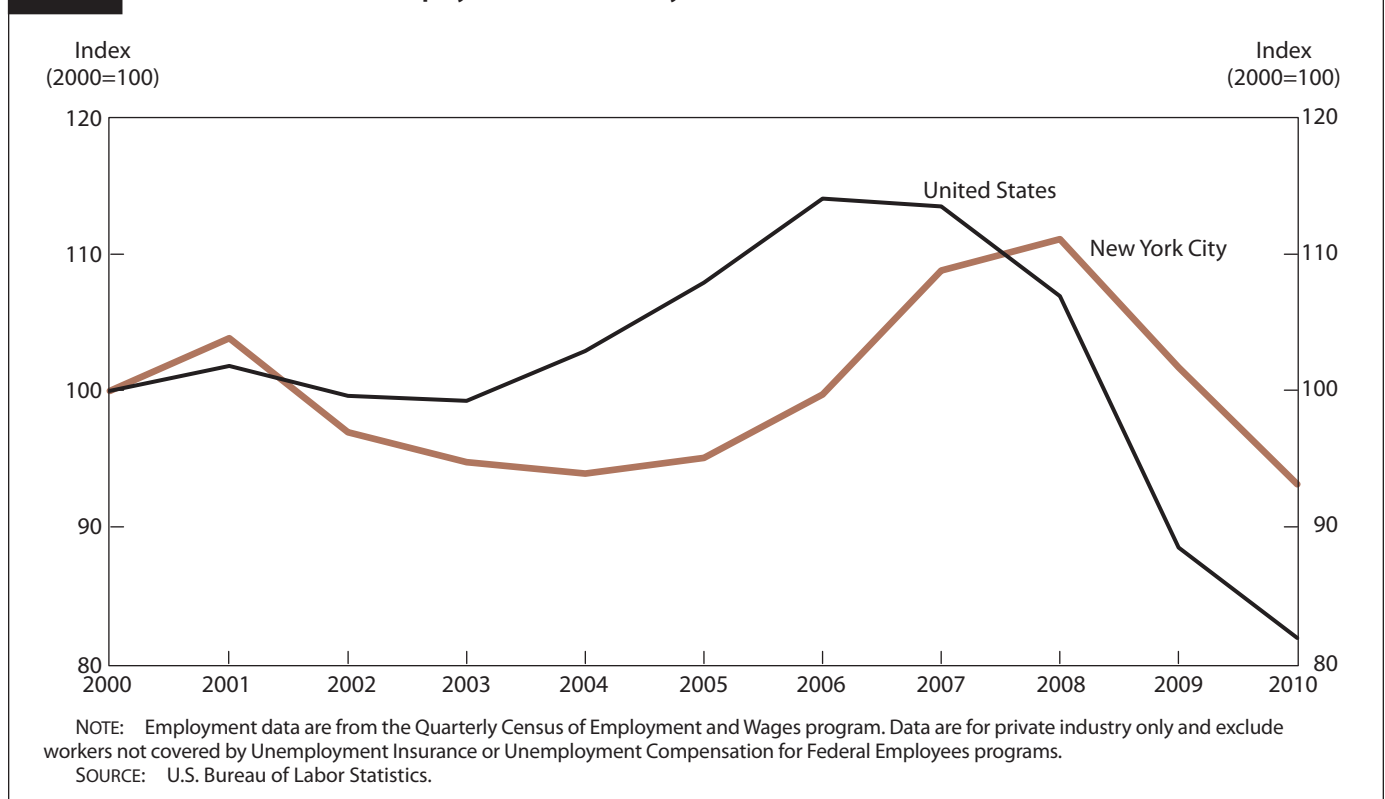
peaked before ultimately joining the national downward cycle.

The bust in New York City

In 2006, the real estate bubble burst, sending housing prices across the United States on a downward spiral. Although housing prices in New York City also fell after 2006, the decline in property values was more moderate. Between June 2006 and June 2008, housing prices depreciated by 9.8 percent in New York City, while nationally the decline was 17.9 percent.¹² (See chart 1.)

During this 2-year period, falling real estate prices and rising subprime mortgage delinquencies nationwide set into motion a series of events that included the implosion of financial giants such as Lehman Brothers and Bear Stearns, the government-aided rescue of AIG (American International Group, Inc.), and the contraction of global credit markets.¹³ (It is important to note the connection between the credit crunch, which is one aspect of this crisis, and the construction industry, whose health relies on the ability of homebuyers and businesses to access mortgages and various types of loans.) Together, declining

Chart 2. Indices of construction employment, New York City and United States, June, 2000–2010



housing prices and diminished access to credit ended the construction boom in New York City in 2008.

From June 2008, when new construction projects were at their height, to June 2009, spending on new residential housing units in New York City dropped by 91 percent to \$136 million; the drop in new construction spending translated into 15,927 fewer housing starts in New York City in June 2009 compared with 2008. These were the lowest figures recorded over the 10-year period. The number of dollars spent on new housing increased only slightly over the next year, reaching \$174 million in June 2010, and only 1,487 new units received permits.

This citywide decline in spending and permits was largely concentrated in New York, Kings, and Queens Counties. New York and Kings experienced the largest drops in spending and new units with decreases of \$481 million and 5,178 units, and \$470 million and 6,736 units, respectively. Queens followed with declines of \$345 million and 3,644 units. Richmond County showed smaller decreases in spending and permits, while Bronx County experienced a moderate increase in both measures. Although spending in New York City increased slightly over the year, it continued to decline through 2010 in New York and Richmond.

The contraction of the construction industry resulted in a decrease in employment of 16.0 percent from June 2008 to June 2010. (See chart 2.) Of the 20,803 jobs lost, 16,141 (78 percent of the positions) were in the specialty trade contractors subsector. The building construction subsector recorded a smaller loss, 6,580 jobs. The heavy and civil engineering construction subsector was unaffected by the collapse of demand for residential housing, and it added 1,918 positions between 2008 and 2010.

A closer look at the counties shows that the largest declines were spread across New York, Queens, and Kings Counties. Combined, these three counties lost 17,621 positions from June 2008 to June 2010. In Queens and Kings Counties, specialty trade contractors accounted for most of the decline, but in New York County the majority

of the losses were shared equally by building construction and specialty trade contractors.

The national bust

In contrast to New York City where employment plunged immediately after peaking, decreases at the national level were more moderate during the first two years after employment peaked. However, from June 2008 to June 2010, the national rate of decline in construction employment outpaced the rate in the City (down 23.4 percent nationwide, compared with a 16.0 percent drop locally). Some observers have noted that the greater extent of subprime lending at the national level resulted in higher rates of foreclosure, which in turn further diminished the demand for new housing.¹⁴ The reduced demand for construction at the national level resulted in construction employment in 2010 being 18.1 percent below its level of 2000. By contrast, construction employment in New York City in June 2010 was 6.7 percent below its decade-earlier level.

WHILE THE RISE AND FALL OF HOUSING PRICES IN NEW YORK CITY matched the timing of the national boom and bust, New York City's construction industry lagged national employment trends during periods both of growth and decline. In addition, local employment experienced a longer expansion and a larger percentage increase. During the boom, most of the City's new residential housing was built in New York, Kings, and Queens Counties. Not surprisingly, a large portion of the construction jobs added during the boom and lost during the bust also was concentrated in these three counties. Although there were low levels of building activity and construction employment in 2010, history has shown that construction in New York City is a cyclical industry, indicating that the sector will undoubtedly rebound. However, when the next upturn will begin is yet to be determined. □

Notes

¹ The data are derived from summaries of employment of workers covered by State and Federal unemployment insurance legislation and provided by State Workforce Agencies.

² According to the NAICS manual, the construction of buildings subsector (NAICS 236), at times referred to in this report as building construction, comprises establishments primarily responsible for the construction of buildings. The work performed may include new work, additions, alterations, or maintenance and repairs. The heavy and civil engineering construction subsector (NAICS 237) comprises establishments whose primary activity is the construction of entire engineer-

ing projects (e.g., highways and dams), and specialty trade contractors, whose primary activity is the production of a specific component for such projects. The specialty trade contractors subsector (NAICS 238) comprises establishments whose primary activity is performing specific activities (e.g., pouring concrete, site preparation, plumbing, painting, and electrical work) involved in building construction or other activities that are similar for all types of construction but that are not responsible for the entire project.

³ While data from the Current Employment Statistics (CES) program are more current, they are not available for all three detailed

industries for New York City.

⁴ New York University's Furman Center for Real Estate and Urban Policy used 2000 as the starting point of the boom in New York City. See the Center's *State of New York City's Housing & Neighborhoods 2009*, at furmancenter.org/research/sonychan/2009-report (visited August 3, 2010). "House of cards," a special report on property in the May 31, 2003 issue of the *Economist*, noted a rapid surge in house prices after 2000 in the United States and many other countries. See <http://www.economist.com/node/1794873> (visited October 24, 2011). George A. Akerlof and Robert J. Shiller contend that the boom in housing prices in the United States began at some point in the late 1990s and was well underway by 2000. See Akerlof and Shiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism* (Princeton University Press), 2009.

⁵ Data in this release are not seasonally adjusted; accordingly, over-the-year analysis is used throughout.

⁶ The S&P/Case-Shiller[®] Home Price Index for the New York City area was used as a measure of price inflation. The index for New York rose from 106.00 to 215.83 between June 2000 and June 2006. Home Price Index data can be found at www.standardandpoors.com/indices.

⁷ See "Causes and Consequences of New York City's Residential Building Boom" in the Furman Center's report, *State of New York City's Housing & Neighborhoods 2009*, furmancenter.org/research/sonychan/2009-report (visited August 3, 2010).

⁸ See the U.S. Census Bureau at <http://censtats.census.gov/bldg/bldgprmt.shtml> for all permit and spending data cited in this report. This figure is the projected cost of construction for new residential housing units and does not include continuing costs from previous

housing starts.

⁹ In this article, new residential housing is measured by the total number of residential housing permits issued by the City of New York. Data on non-residential construction spending and permits were not available for New York City.

¹⁰ While data from the Bureau's QCEW program showed that New York County exhibited the largest gains in employment over the period, James Parrot of the Fiscal Policy Institute suggests that there is significant underreporting in Queens County's housing construction industry. For further reading on this subject, see "The underground economy in the New York City Affordable Housing Construction Industry," *Fiscal Policy Institute*, April 17, 2007, http://www.fiscalpolicy.org/publications2007/FPI_AffordableHousingApril2007.pdf (visited October 7, 2010).

¹¹ The percentage of subprime mortgages given nationwide was double that for New York City. Ebiere Okah and James Orr, "Subprime Mortgage Lending in New York City: Prevalence and Performance," *Federal Reserve Bank of New York Staff Reports*, February 2010, http://www.newyorkfed.org/research/staff_reports/sr432.html (visited August 23, 2010).

¹² See the Case-Shiller[®] indices, available at www.standardandpoors.com/indices.

¹³ See James R. Barth, *The Rise and Fall of the U.S. Mortgage and Credit Markets: A Comprehensive Analysis of the Meltdown*, Milken Institute (Hoboken, NJ, John Wiley & Sons, 2009).

¹⁴ One in every 144 U.S. housing units filed for foreclosure in the second quarter of 2010, compared with 1 in every 629 housing units in New York State. See Realty Trac, www.realtytrac.com (visited March 8, 2011).