

THE

By **ARIANNE COHEN**
with economic analysis by
EDWARD GLAESER and an
introduction by **MICHAEL IDOV**

PROFIT

CALCULATOR

The wild risks,
unexpected niches, and
day-in-day-out grind
behind making
a dollar in New York...

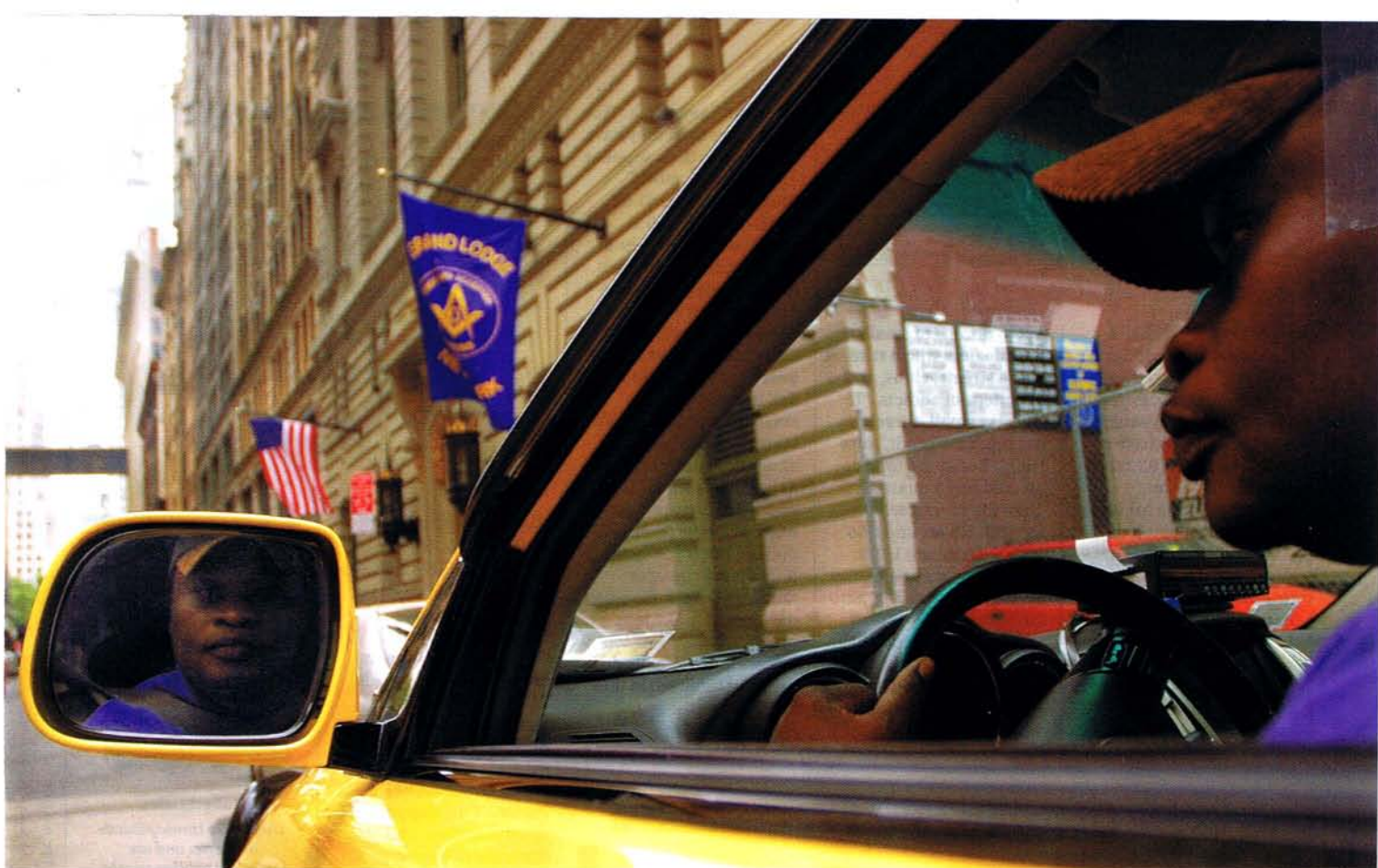
...for everyone
from a drug dealer to
Goldman Sachs.

YOU CAN'T LIVE IN NEW YORK—arguably, you can't spend an hour in New York—and remain oblivious to the machinery of profit pumping away under every surface. This city makes money, loses money, houses money; lately, with luxe condos stacking up like casino chips along the waterfront, the city looks like money. What's amazing, then, is how little we truly know about the inner workings of this beast we feed, and milk, daily: How does New York make its money?

Every company setting up in the city finds itself plugged into its myriad historical, cultural, and regulatory quirks. The biggest one, of course, concerns our island's most precious commodity and its most enduring obsession: real estate. New York businesses live and die by the rent; if you're a retailer leasing here, "making the rent" becomes the yardstick of solvency. The unofficial golden rule of restaurants dictates that the rent be made in a week and take up no more than a quarter of revenue. The bar version of the rule is even simpler: The rent should equal your Friday-night take. With each year, another company succumbs to the strange realization that where it sits may be more valuable than what it does. Even Macy's, that icon of consumerism, may be worth more as a building than as a store. We've

picked a disparate cross section of New York institutions and examined their inner workings. Some are nonprofits (a soup kitchen, a private school), some are not profitable (a fledgling yoga studio, the Yankees—at least on an annual basis), and at least one, Goldman Sachs, is stratospherically lucrative (though a lazy meth dealer ekes out a higher margin). A note: Where companies wouldn't provide figures, our estimates are based on analyst reports, tax filings, and interviews with former and current employees.

We also asked Edward Glaeser, a pioneering urban economist at Harvard, to analyze the New Yorkonomics of the businesses we profile. His insights are in *italic*. Glaeser is an expert in how New York's great density makes our lives—and livelihoods—hugely dependent on one another. We're all plugged, at different entry points, into the same awesome web. A failing restaurant keeps a printer in the black with its incessant flyering. The sex-toy market rises and falls with the consumer-confidence index. An eight o'clock Nobu reservation provides a cabdriver with his golden hour. And everyone—*everyone*—is cursing the rent. Except the landlords.



A YELLOW-CAB DRIVER

SAMUEL PEKOH

How It Works: Cabbies can never raise their prices: The city sets their meter rates at 40 cents for either four blocks or one minute standing, plus a starting amount (\$2.50 or more depending on time of day). Their hours are most profitable when driving long distances with no traffic. "I want to be making \$30 to \$40 an hour," says Pekoh, a

Ghanaian immigrant who owns his own medallion and drives 60-hour weeks. Pekoh aggressively hustles to pull in \$300 to \$400 a day after expenses.

Sixty to seventy percent of yellow cabs are leased from fleet operators for \$120 per twelve hours, with cabbies pocketing all revenue beyond gas costs. Most drive twelve-hour shifts and report \$150 to \$300

per shift. After twelve years of leasing, Pekoh bought a medallion for \$190,000 in 2000. As an owner, he's responsible for buying and maintaining his car.

Annual Revenue: \$75,000 (\$12,000 is profit before tax).

Annual Overhead Costs: Basic-model Crown Victoria: about \$7,000 (the \$28,000 car is replaced every three to five years); insurance: \$5,000; car maintenance: \$4,000 to \$5,000; parking: \$2,200; medallion debt payments: \$24,000 (he expects to sell his medallion at a profit; one went for \$600,000 last week).

Most-Profitable Fares: Low-traffic city trips: "Every time somebody gets out, someone gets in, and I get my \$2.50." Midday airport runs: "At 3 P.M., there's no traffic, and so many planes are coming in that you get \$90 plus tips."

Least-Profitable Fares: Borough trips in traffic: "It's a dead ride back to the city, and getting through a bridge or tunnel in rush hour can

ANNUAL GASOLINE COST:

\$18,000

be tough," says driver Cliff Adler.

Profit Catastrophes: Tickets: \$65 to \$115 per moving violation.

Added Value: Hacks are pulling for congestion pricing: Heavy traffic in midtown is making it an unprofitable (as low as \$20 per hour) standstill.

New Yorkonomics: *Taxis become economically attractive when the cost of paying someone to drive for you is less than the costs of storing your car. New York's high price of land makes parking so expensive that there's enough demand for an army of Samuel Pekohs.*

ANNUAL DEBT PAYMENT ON MEDALLION:

\$24,000

MOST-PROFITABLE DAYS:



Thursdays, Fridays, and Saturdays, along with Wednesday afternoons, are best for cabbies. "It's tourists eating lunch and going shopping," says driver Cliff Adler. Mondays, he adds, are the worst: "A lot of guys cut out early."

A DRUG DEALER

"NICK"

How It Works: "Nick," a top crystal-meth dealer for a decade before getting arrested in 2004, explains the system. Every other month, he'd purchase a pound of meth (\$32,000 to \$36,000) from producers in the Midwest or the Filipino mob in California, and have it shipped via regular mail or FedEx inside teddy bears, candles, or coffee. In the next 36 hours, he'd sell it in bulk to three or four associates, pocketing a 500 percent profit. The associates in turn would

sell to dozens of small-time dealers who'd take to the streets, clubs, and doorsteps of addicts. "If you stay small, there's not room for profit," says Nick. "But at the top, I would buy a quarter gram for \$5 and sell it for \$50. It's around \$65 today." There are 1,792 quarter-grams in a pound of powder (that's \$89,600 for Nick).

Nick ascended to the top organically. He began dealing just enough to cover his own addiction. "You outgrow the little guys you

buy from," says Nick. "You want more than they have. So you go to their supplier. Then their supplier."

Annual Revenue: \$1.02 million (\$813,600 is profit) with fifteen-hour workweeks and no taxes.

Annual Overhead Costs: Six pounds crystal meth: \$192,000 to \$216,000; Cell phone: \$2,400.

Best Way to Make Money: Sell to many users in small quantities. "It's like taking a pound of coffee and selling one grain at a time," says Nick. "If you sell by scoops, you'll make a couple thousand dollars, but if you break it down into quarter grams and work for a few days, you'll make tens of thousands." Most top dealers don't actually do this, and lazily sell in bulk, as Nick did.

Most-Profitable

STREET VALUE OF ONE POUND OF CRYSTAL METH:

\$89,600

Customers: Wealthy professionals who are hard-core addicts. They're discreet and always pay.

Least-Profitable Customers: Friends.

"Nightmare customers are your closest friends. They don't have a problem calling at 6 A.M., and they expect low prices."

Profit Catastrophes:

Prison. "One day you open your door and there are five cops, and they take you to prison for two and a half years, where you spend all your money on lawyers and make 10 cents an hour in the prison shop, like I did. It's almost inevitable, which is the downside of the business." Dealers avoid police by using only a small, trusted group of associates, which eliminates selling to undercover cops. Nick went to jail when an associate ratted on him.

New Yorkonomics: With data on petty drug dealers, the economist Steven Levitt has taught us that there is an abundant supply of people willing to work in the drug industry at near

DELIVERY MODE OF CHOICE:



Rollerblades

They allow inconspicuous deliveries and are preferable to bikes or cabs.

the minimum wage, so why does this guy make so much? His high earnings flow from a type of social capital that is in short supply on the streets of Harlem: This dealer has the connections to cater to a well-heeled clientele that is willing to pay extra for a discreet and reliable dealer. Of course, since someone with his social skills could also earn a living without breaking the law, his high earnings from meth dealing also provide compensation for the risks of going to jail.

A PRIVATE INVESTIGATOR

MICHAEL MCKEEVER

How It Works: Lawyers, insurance companies, and private citizens hire McKeever for a base rate of \$100 an hour. McKeever advertises heavily in phone books because he has almost no repeat private customers. At-home Internet sleuths have cut McKeever's locating business, but surveillance is steady.

Annual Revenue: \$120,000 (\$90,000 is profit before tax).

Most-Profitable Jobs: When a spouse becomes obsessive; McKeever spent more than 130 hours following an ex-husband for a current custody case.

Why Men Are Better Clients: They are nearly always wrong when they suspect a cheating spouse, but they often won't believe it and will keep McKeever tailing. (Women are 90 percent correct when they suspect their husbands.)

MCKEEVER'S CASELOAD:



Custody and divorce cases for legal firms
20%

Legal firms misc.
10%

Insurance cases for legal firms
20%

Private locates
10%

Men asking women to be followed
10%

Women asking men to be followed
30%



PHOTOGRAPHS: CLOCKWISE FROM BOTTOM RIGHT, SAMANTHA CASOLARI FOR NEW YORK MAGAZINE; NEW YORK MAGAZINE; GETTY IMAGES



A DINER

SILVER STAR

How It Works: The Upper East Side institution is caught between customers expecting low prices and ever-rising food and staff costs, made more difficult by a giant menu. "I can't cut the

menu because people keep coming back and asking for old items," says co-owner Elias Katsihtis. "I cut diavolo pasta four years ago, and people are still asking." The restaurant orders

daily from dozens of local small vendors and grocers to supply its 200-item menu. Katsihtis, who owns with his brother and a partner, says, "We make a living, but that's about it. Our food costs are very high, and so is our payroll—even if they're family, you gotta pay them. We lose money a few days a month."

Employees: Thirty full-time.

Annual Revenue: \$2.52 million (\$252,000 is profit).

ITEMS ON SILVER STAR'S MENU:

200

MOST-PROFITABLE ITEMS (COST TO DINER → MENU PRICE):



Eggs

\$2 → \$3.25-\$8.95



Hamburger

\$1.75 → \$5.45



Homemade cake

\$15 → \$45



Liquor

\$4 → \$8

LEAST-PROFITABLE ITEMS (COST TO DINER → MENU PRICE):



Steak dinner

\$15 → \$19.95



Lox

\$8 → \$9.45



Fish dinner

\$10 → \$17.95



Veal dinner

\$10 → \$16.95

Annual Overhead

Costs: Food: \$780,000; payroll: \$840,000; rent: \$228,000; rent to city for two-yard building extension into the sidewalk: \$24,000.

Least-Profitable

Customers: The elderly. They have a tendency to return food.

Alternative Business

Options: "I would suggest opening a deli. They have low food costs and payroll. And whatever you do, keep the menu small."

Added Value:

Diners' margins are precarious, tied to the larger food and oil markets. "If oil jumps to \$100 a barrel, we're in trouble," Katsihtis

LEAST-PROFITABLE MEAL:



Package-item dinners

"Whenever there are three or four items in a meal, we don't make much profit."

says. And he can't pass on higher prices to customers, who frequent the Silver Star for its affordability.

A SOUP KITCHEN

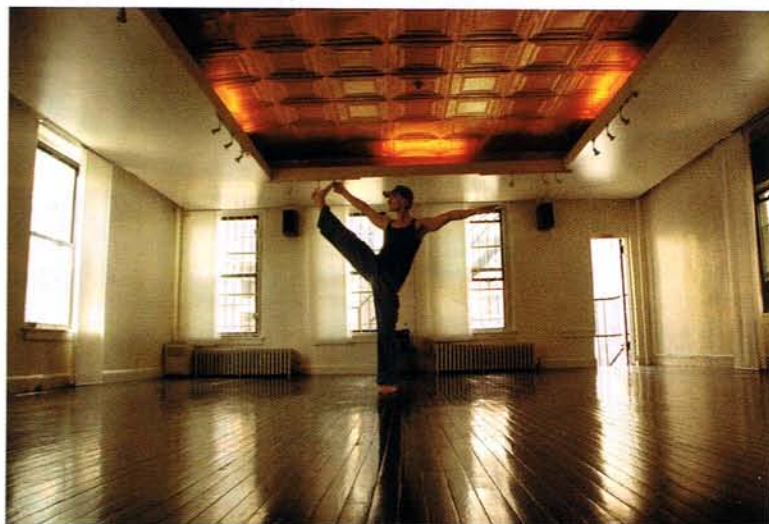
YORKVILLE COMMON PANTRY

How It Works: A fifth of the city's food pantries and kitchens have budgets of zero—they run on food donations alone. Yorkville Common Pantry is well funded and staffed, serving 4,800 meals per month (breakfast Monday through Friday and dinners Monday, Wednesday, and Friday). Each meal costs \$5.50; pancakes (every Wednesday), chicken, and pork chops are standbys. Food donations compose 42 percent of YCP's intake, of which City Harvest gives half. The rest comes from churches, synagogues, and

schools. Rent and utilities eat up 37 percent of its budget (\$210,325).

Annual Revenue: \$568,446 (none of which is profit).

New Yorkonomics: *New York is a place of astonishing extremes of wealth and poverty, but the city doesn't make people poor. It attracts poor people because of its economic opportunity, social services, and car-free living. The combination of wealth and poverty seems to engender sympathy for the poor, which shows up in charitable entrepreneurship like the Yorkville Common Pantry.*



A YOGA STUDIO

JOSCHI BODY BODEGA

How It Works: The most-profitable yoga studios are efficient: They fill four to five classes daily, plus private classes. Joschi, which opened in October, aims for the broadest client base by offering 25 varied weekly classes (\$17) rather than specializing in one branch of yoga. Joschi Schwarz teaches 75 percent of the classes himself, which saves on teacher costs and helps brand him as a guru. Most studios hope to be profitable within two years. "We aimed for six months," says business manager and co-owner Monika Werner. "We're not quite there yet. Joschi and I work for free." The studio needs roughly 530 students a month to break even; they've recently had closer to 450.

Employees: Seven freelance teachers, plus Schwarz and Werner.
Annual Revenue: \$77,940 (with \$24,000 in losses) projecting from earnings thus far.

Monthly Overhead Costs: Rent: \$4,000; teacher payments for eight weekly classes: \$1,400; insurance: \$90 ("It's low—that was a surprise," says Werner); loan payments: \$900 (Joschi took out a \$100,000 loan; he spent \$50,000 on studio

Best Ways to Lose Money:

Paying teachers more than class revenue. "Yoga studios generally pay a \$50 to \$75 flat rate per class, sometimes with a bonus fee per student over a dozen," says longtime teacher Matthew Seidman. Joschi pays \$40 to \$50 per class, needing four students to turn a profit.

Other Ways to Cash In:

Teacher training (\$2,000 to \$3,000 per student): three-month, 225-hour classes for a few dozen enrollees. Studio rental (\$45 to \$70 per hour): Joschi's studios are rented to other teachers, theater and dance auditions, and for social events.

Added Value: Few studios in Manhattan survive three years, and fewer turn more than a 10 percent profit. "Honestly, I would do private lessons in people's homes instead," says Campaniello. "You make \$100 a session with no overhead."

New Yorkonomics: *Money isn't all there is to a job. Economists also consider "compensating differentials," nonmonetary pros and cons. A meth dealer needs high returns to take on the risk of arrest, and apparently people are willing to earn much less for the pleasures of being a yoga guru.*

A SEX SHOP

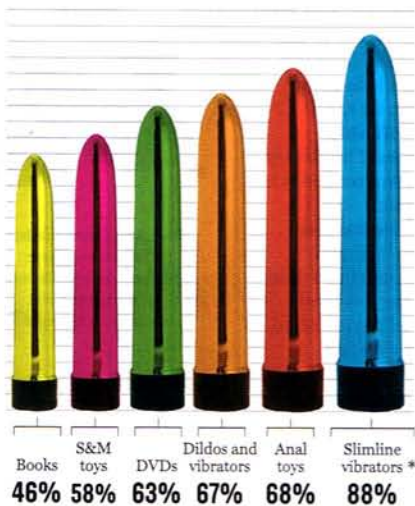
BABELAND

How It Works: The high-end sex shop buys from tiny artisan-type vendors, making for an upscale clientele and an average 63 percent markup.

Annual Revenue: \$1.75 million from its Mercer Street store (\$192,000 is profit).

New Yorkonomics: *Adam Smith wrote that "the division of labor is limited by the extent of the market," and nothing shows that better than Babeland. New York's vast scale makes it possible for even a shop this specialized to thrive.*

MARKUPS BY CATEGORY:



*Babeland's most profitable item (pictured).

BEST WAY TO MAKE MONEY:



Ten-class packs

"You'd rather sell multiple-class packs, because people will let them expire. People have big eyes."

and shower renovations).
Best Ways to Make Money: Private classes (\$95 per hour), Joschi's bread-and-butter. Members (\$140 for one-month unlimited). "It's the same principle as a gym membership," says Michele Campaniello, a former studio owner. "You count on people not showing up."

TYPICAL MONTHLY LOSSES:

\$2,000

A DISCOUNT STORE

JACK'S 99¢ STORES

How It Works: When manufacturers and retailers want to ditch a large stock or some duds, they call Jack's. While half of Jack's products inherently cost around \$1 (frozen food, Hawaiian Punch), dollar stores are also quietly fed products manufacturers want to expose to a more down-

market demographic. "Companies figure that customers aren't going to overlap from department stores to dollar stores, so they sell the same product at both," says one analyst. Of course, Jack's vice-president, Ira Steinberg, can't tell you who these manufacturers are. "Part of my agreement with

national brands is that I don't admit that I carry their brands." The week we went, Jack's had Black & Decker coffeemakers, Hormel salami, and Hamilton Beach blenders. **Employees:** 270.

Annual Revenue: \$30 million (\$6.9 million is profit) for its three stores.

Best Way to Make Money: It's all about turnover. The store can sell a tractor-trailer of Mrs. Fields cookie packs in four days (that's 162,000 cookies). Any item moves at the right price. "Lipstick that was a horror show at 99 cents, put it at ten for a dollar and you've got a crowd," says Steinberg.

New Yorkonomics: *The dense city's crowds of customers mean that goods can turn over faster than anyplace else in America. Those crowds have made the city a remarkably cheap place to sell, because goods sit for so little time on the shelf that they end up using little space. Along with furious competition among stores, this makes the city an excellent place to shop for cheap goods, despite the high cost of land.*

MARKUPS OF MOST- AND LEAST-PROFITABLE ITEMS:

↑
45%

Toys

↑
45%

Housewares

↑
45%

Seasonal decorations

↑
25%

Food

↑
20%

Household consumables

↑
15%

Electronics

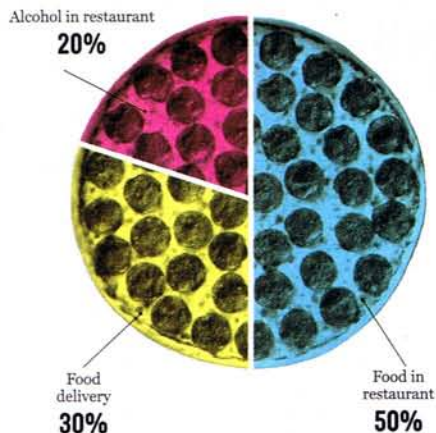
A PIZZA PLACE

NINA'S ARGENTINIAN PIZZERIA

How It Works: Nina's is a small Upper East Side eatery, dependent on family labor to turn an extremely modest profit from serving 300 meals a week in its 24-seat dining room. The majority of Nina's income comes from fancy pizza; the cheese, sauce, and dough in the \$11.95 Nina's Original cost Nina's \$3. Wine is another moneymaker, at a 200 to 250 percent markup.

Annual Revenue: \$186,000 (\$18,000 is profit).

SOURCES OF PROFIT:



PHOTOGRAPH: BOTTOM, SAMANTHA CASOLARI FOR NEW YORK MAGAZINE



A COPY SHOP

COPYLAND

How It Works: Those small, ubiquitous photocopy stores are very lucrative, and can be launched with no seed money—just rent. Owners lease copy machines for \$500 per month. The companies charge a few pennies per copy. Stores purchase their

own Internet kiosks and fax machines, charging \$1 per sent or received page. Walk-in customers are a minuscule percent of business; local offices provide nearly all income, which in a good month can top \$20,000.

Employees: One, plus

owner Mark Tadres. **Annual Revenue:** \$192,000 (\$42,240 is profit). **Annual Overhead Costs:** Employee salaries: \$60,000; rent: \$36,000; copy machines: \$6,000 each, plus 1 cent per black-and-white copy and 10 cents per color copy. **Most-Profitable Services:** Restaurant flyers. Those annoying restaurant flyers fuel the photocopy industry. Local restaurants order 1,000 new flyers every three days. **Added value:** For many companies, the high price of printer cartridges makes

A RESTAURANT'S FLYER-ORDER AMOUNT EVERY THREE DAYS

1,000

using a photocopy store a more economical choice than doing large-scale printing in-house. The rotating schedules of legal, doctor, and university

offices ensure year-round business.

New Yorkonomics: Business services like this copier have replaced light manufacturing as the backbone of New York City. Abundant copy shops thrive because smaller New York firms don't want to lease their own copiers or pay for the space to house them. These business services help make the city an engine of entrepreneurship, because start-ups can buy services from freestanding suppliers, instead of buying their own equipment.

SOURCES OF PROFIT:



Black-and-white copies **40%**
Color copies **20%**
Stationery and letterhead **20%**
Fax **10%**
Internet usage **10%**

A PRIVATE SCHOOL

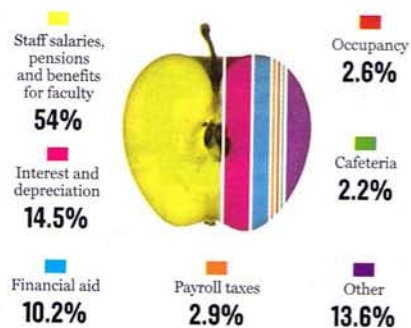
HORACE MANN SCHOOL

How It Works: Horace Mann, one of New York's top private schools, educates 1,605 K-12 students, a fifth of whom receive some financial aid.

Annual Revenue: \$62.26 million (\$6.376 million is profit, which the school invests at its discretion).

Sources of Income: Tuitions are 72 percent of the school's money; donations and interest, the rest.

WHERE THE \$29,110 TUITION GOES, BASED ON TOTAL BUDGET EXPENDITURES:



A FOUR-STAR RESTAURANT

NOBU

How It Works: "There's a saying that you're only as good as your lease," says co-owner Drew Nieporent. "It's true." Cheap rent lets Nobu work a lower-price, higher-volume game than many of its top-of-the-line brethren: The median check, including alcohol, is \$75. The strategy makes for 90 percent dinner occupancy and 200 to 250 meals per day. Nobu's spinoffs, Nobu Fifty-Seven and Nobu Next Door, share office and marketing costs and lower the cost of food for the original. "It's like buying for your famous cousin—you get a better price because

suppliers know there are other restaurants," says restaurant consultant Clark Wolf. "That's 3 to 20 percent lower costs, which is all bottom-line money." Most restaurants pockets a dime on the dollar; Nobu banks

twice that.

Annual Revenue: \$8.5 million from Tribeca location (\$1.7 million is profit).

Most-Profitable Item: Black cod with miso (\$20): The restaurant's top-selling item is cheap per ounce. Cost to Nobu: about \$7.

Least-Profitable Item: Toro tartare (\$32): Tuna belly is extremely pricey per pound. Cost to Nobu: Depending on markets, can be \$20.

Added Value: Spare Japanese design pays off: Tight seating maximizes capacity, with no pricey tablecloths to launder.

SOURCES OF PROFIT:



Sushi and sashimi **30%**
Sake **10%**
Other food **40%**
Other alcohol **20%**

A DEPARTMENT STORE

MACY'S HERALD SQUARE

How It Works: Macy's Herald Square flagship, owned by Federated, profits from the sheer volume of 9,000 pedestrians who walk through Herald Square during a peak hour, a third of whom enter Macy's. Though less than half make a purchase, about 40,000 shoppers pass through the store daily (up to 120,000

during holidays), making 22,000 daily transactions (62,000 during the holidays). Federated owns the 2.2 million-square-foot Herald Square building, so Macy's is rent-free. The store keeps 4 million items in stock, refreshed by 15 to 20 daily tractor-trailers.

New York Employees: 3,000 at the store.

Annual Revenue: \$600 million (\$60 million is profit) at the flagship.

Floor-by-Floor Profit: Macy's main floor generates about a third of its revenue. "The higher up in the store, the lower the margin tends to be," says Marshal Cohen, chief analyst for the marketing firm NPD, who also supplied the markups below. Furniture and rugs, expensive items with a low purchase frequency, are on the top floors.

Nonprofits: An estimated \$12 million to \$24 million a year in theft and lost goods.

Added Value: Macy's is sitting on a gold mine, so it may change its approach. "New York real estate is so compelling that I think they're going to make that space more productive for mixed use—office, hotel, condo, and retail, like the Time Warner Center," says retail consultant Howard Davidowitz, chairman of Davidowitz & Associates. **New Yorkonomics:** Macy's continuing profitability shows the value of the right real estate, which in this case abuts the enormously busy streets that connect the city to Penn Station.

MARKUPS OF MOST- AND LEAST-PROFITABLE ITEMS:

↑
60%

Cosmetics

↑
70%

Accessories

↑
54%

Fashion

↑
35%

Footwear

↑
42%

Kids clothing and toys

↑
15%

Food and deli

A DRUG COMPANY

PFIZER

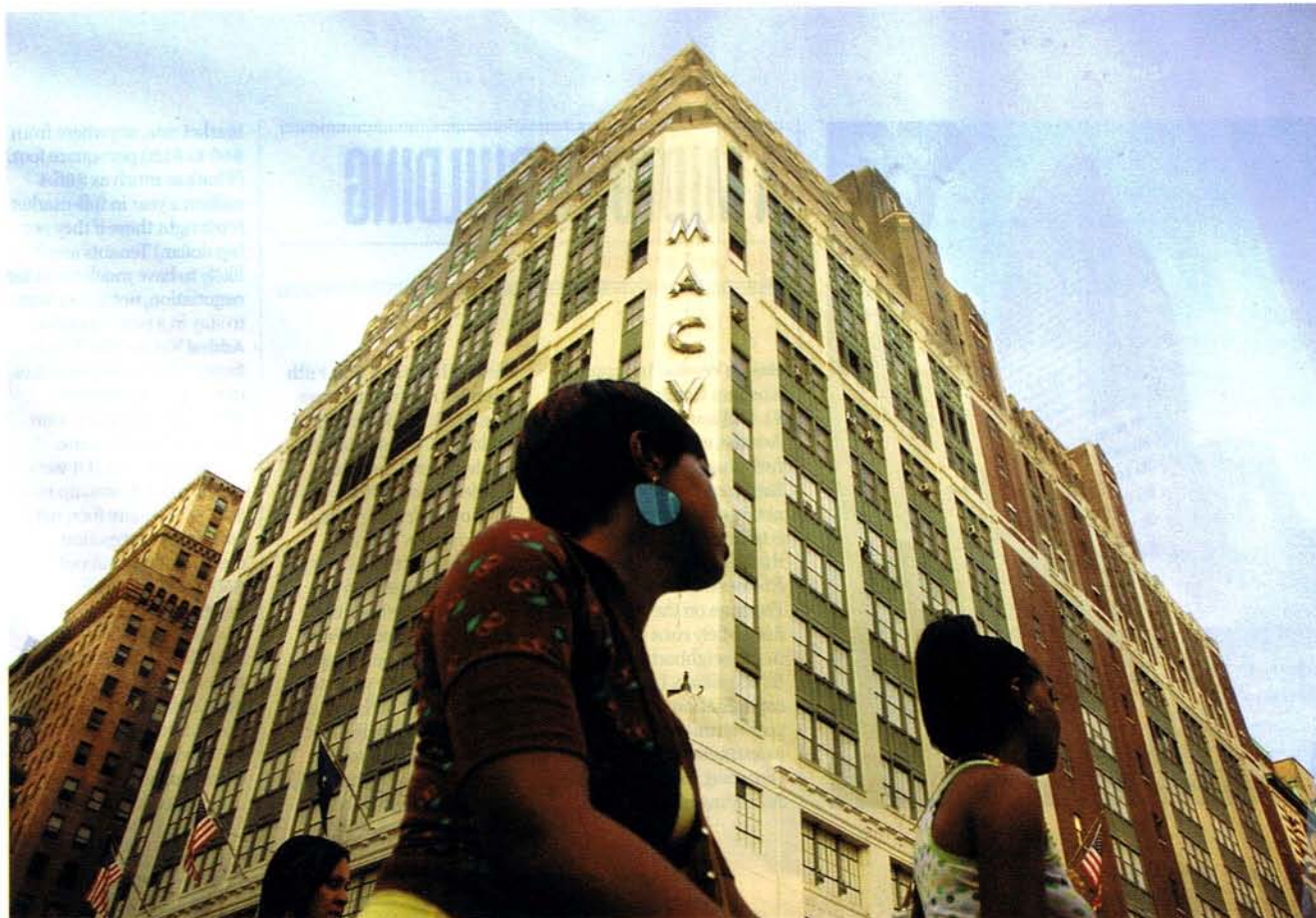
How It Works: Pfizer is dependent on hits, but it'll soon lose patents on smashes like Lipitor; the firm's been shedding workers lately.

New York Employees: 6,100.

Annual Revenue: \$48.4 billion (\$12.9 billion is profit).

New Yorkonomics: When firms in high-risk industries, like pharmaceuticals or finance, locate in New York, they are providing their workers a form of insurance: If this firm were to collapse, another would take its place.

DISTRIBUTION OF REVENUE FROM A DRUG LIKE LIPITOR:



A FINANCIAL FIRM

GOLDMAN SACHS

How It Works: As the most consistently profitable firm on Wall Street, Goldman is the Street's most powerful talent magnet, ensuring continued success. It will execute any and all financial transactions for every kind of customer, and also happens to run one of the world's largest hedge funds. Increasingly, Goldman is its own best source of moneymaking opportunities. In the company's first fiscal quarter of 2007, 13.5 percent of revenues—\$1.73 billion—came from investing on their own behalf. Like all Wall Street firms, Goldman pays top dollar for top talent. In its latest quarter, it paid out \$6.1 billion in compensation and benefits, a full 48 percent of total net revenues of \$12.73 billion.

New York Employees: 13,000.

Annual Revenue: \$37.7 billion (\$9.34 billion is profit).

Sources of Revenue: Investment banking; Arranging large

SOURCES OF REVENUE:



transactions for big clients, often lining up both buyers and sellers, usually for a flat fee or a percentage of the size of the deal; \$5.6 billion in revenues. Trading and investing: Executing transactions for clients and themselves, which could involve purchasing anything: stocks, bonds, currencies, and derivative securities; \$25.6 billion in revenues. Asset management: Client portfolio management; \$6.5 billion in revenues. **Annual Overhead Costs:** Compensation and benefits: \$16.5 billion (an average of \$622,000 per employee, though the salary scale is exceedingly top-heavy); transaction fees to exchanges and brokerages: \$2 billion; occupancy (i.e., real-estate) expenses: \$850 million; legal and advisory fees: \$545 million; communications and technology: \$544 million. **Most-Profitable Activities:** Trading and investing: 41.5 percent profit margin. Goldman's most profitable department is also the most volatile and risky—the trading desk is in the red 40 days a year, compared with just 28 at

ANNUAL COMPENSATION AND BONUSES:

\$16.5 billion

Morgan Stanley and just eight at both Bear Stearns and Lehman Brothers.

Least-Profitable Activities: Investment banking: 27.8 percent profit margin. "Investment banking is the face of the business," says Matthew Albrecht, a banking analyst at Standard & Poor's. "They bring in clients, then say, 'Hey, we can also provide asset-management services, and facilitate trades, and match you up with buyers and sellers of your stock.'" Extremely people-intensive, banking by nature has thinner profit margins than trading, where one brilliant call by a single trader can return more than an entire group of bankers brings in over months. **Gilt by Association:** To have Goldman lead-manage

your IPO is a stamp of legitimacy. Some clients want Goldman as much as Goldman wants them. **New Yorkonomics:** Like all older, colder cities, New York City suffered greatly in the seventies when declining transport costs made it possible for manufacturing to relocate to cheaper places. New York's resurgence since then has been based on innovations in financial services, including junk bonds, leveraged buyouts, mortgage-backed securities, and hedge funds. The flow of innovations was the result of a remarkable concentration of smart people in New York, each learning from the other how to get rich. Goldman Sachs is the ultimate example.



A MIDTOWN BUILDING

666 FIFTH AVENUE

How It Works: In January, Kushner Companies paid \$1.8 billion for 666 Fifth Avenue, a Manhattan real-estate record. Did the Kushners overspend? Yearly net income from office and retail spaces, including the NBA Store, Brooks Brothers, and Hickey Freeman on the ground floor, likely runs somewhere in the neighborhood of \$57.6 million, based on a capitalization rate—the one-year return expected on the investment—of 3.2 percent, according to one source. According to documents

filed with the city, 666 Fifth Avenue's new owners now owe \$1.215 billion on the building. Commercial-real-estate expert Lawrence Fiedler's back-of-the-envelope calculation pegs the Kushners' likely mortgage payments at \$79 million each year. So far, it looks like the building is in the red, though Jared Kushner, who also bought the *Observer* last year, says, "Sixty percent of the office space is rolling in the next four years," which means about 720,000 square feet's worth of leases will be at

market rate, anywhere from \$80 to \$120 per square foot. (That's as much as \$86.4 million a year in full-market rents right there if they get top dollar.) Tenants aren't likely to have much room for negotiation, not if they want to stay in a prime location. **Added Value:** The "trophy factor": Marquee properties don't come around too often, says appraiser John Cicero. The land alone would likely cost, if it were on the market now, up to \$700 per square foot, not counting construction costs, which run about \$500 per square foot. Add payments for architects to design a replacement, a marketing team to fill it with tenants, and lawyers to handle the formalities, and the \$1,200 per square foot the Kushners paid seems somewhat sane.

S. JOHANNA ROBLEDÓ

PHOTOGRAPH BY KATE LEONOVA/COURTESY OF PROPERTY SHARK



A BASEBALL TEAM

NEW YORK YANKEES

How It Works: Yankees management plays two games. The first is the day-to-day running of the team. Fifty-one thousand fans pay an average of \$28 to come to 81 home games, where they suck down sodas and hot dogs for \$4.50 each, generating half the team's sales. The other half comes from \$140 million in ad deals and media rights. The largest expense is player costs, which run about \$200 million a year, and then there's league revenue sharing and the costs of flying the team around the country. But eking out a marginal profit on operations is hardly the aim. The bigger game they're playing is maximizing the value of the team itself. No need to worry about last year's \$28 million loss, when its value rose \$200 million, to \$1.2 billion. "Like a piece of property in New York City, it's really not an annual profit-and-loss-based business," says Joseph Perello, former vice-president of business development. The Yankees—read Steinbrenner—also own more than a third of the YES network, which broadcasts Yankees games to 8.7 million subscribers. The network's revenues top a quarter billion and its profit margin is 60 percent. Though

WORST WAY
TO MAKE MONEY:



Membership in Major League Baseball

The Yanks hand over \$100 million a year to MLB (\$70 million revenue sharing, \$25 million luxury tax).

a completely separate business from the Yankees, YES's value is directly tied to how much interest people have in the team, making a \$200 million payroll a very easy decision.

Annual Revenue: \$302 million (with \$28 million in losses).

Sources of Revenue: Stadium tickets: \$117 million (4.2 million tickets at an average of \$28 each); YES network TV/radio

rights: \$60 million; Major League TV and licensing: \$30 million; concessions: \$10 million; sponsorships and advertising: \$30 million; premium seating: \$27 million; local radio: \$13 million; catering: \$5 million; other: \$10 million.

Annual Overhead Costs: Player salaries: \$195 million; Major League revenue-sharing fees: \$70 million; Major League luxury tax: \$25 million; stadium operations: \$20 million; travel and training: \$20 million.

Best Way to Make Money: Buy a related business—a cable network like YES—and rake in your profits there. And run a tight ship: The Yankees staff is a mere 200 in New York, including the players and the Staten Island farm team. Most stadium staffers are contracted out.

New Yorkonomics: *Owning the most storied franchise in all of sports provides benefits, like international fame and World Series rings, that go far beyond the bottom line. My guess is that as the number of billionaires proliferates, the price of the Yankees will continue to rise. Expect to see the team's future owners lose more and more in the quest to be at the head of another pin-striped victory parade.*

ANNUAL LOSSES:

\$28,000,000

A MUSEUM

MUSEUM OF MODERN ART

How It Works: MoMA's annual financial goal is to balance the budget—while collecting worthy art, preserving it, and displaying it to over two million annual visitors. Unlike most museums, MoMA eschews government funding, instead subsisting on a fragmented budget with a half-dozen different sources of income, none larger than a fifth. The strategy is to never rely too heavily on one income channel, and recalibrate annually. "If we know we aren't going to have the most popular exhibition schedule," says COO James Gara, "we look at other ways of raising revenue."

Employees: 815.

Annual Revenue: \$145 million (none of which is profit).

Most-Profitable Item: A book: *MoMA Highlights* (\$19.95), a collection of photos of 350 pieces of artwork. MoMA has sold over 100,000 copies in seven languages, generating over \$2 million, at a 70 percent profit margin.

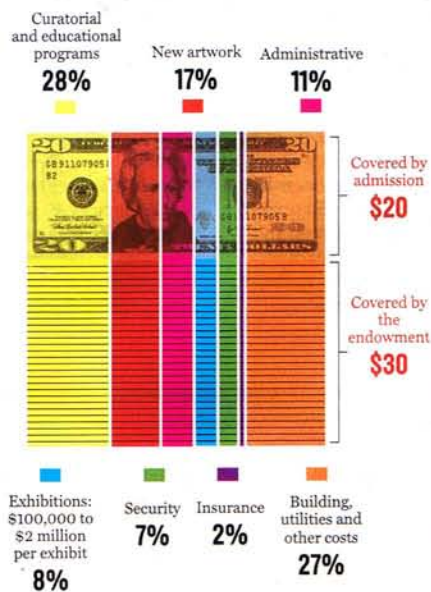
Worst Ways to Make Money: Despite the museum's much-ballyhooed \$20 entrance fee, "we lose money on admissions," Gara says. "It costs about \$50 per person who walks in." The \$20 ticket price doesn't cover security and utilities, and only 50 percent of visitors pay the full price anyway.

Good Business Months: When Edvard Munch is on display, attracting 419,653 visitors.

Bad Business Months: February is its worst month, with 150,000 visitors tops.

Added Value: "We're more dependent on the New York economy than we'd like to be," admits Gara. But MoMA's assets are strong: It plans to grow the \$650 million endowment to over \$800 million.

EVERY VISITOR COSTS MOMA \$50.
THE BREAKDOWN:





A CLOTHING STORE

H&M FLAGSHIP

How It Works: Swedish superpower Hennes & Mauritz (1,400 stores worldwide) is a cash cow because goods go from design desk to store in as little as two weeks. Competitors take a minimum of three months. What does this mean? H&M orders clothes from its 700 vendors (60 percent in Asia), and picks up and pays for the clothes often within two weeks. In return, vendors slash their usual

fees by up to half. "In an industry that's notorious for department stores' either not paying clothing makers or paying 50 to 70 cents on the dollar, H&M always pays on time, in full," says Burt P. Flickinger III, a retail consultant who provided the markups below. "Vendors know that, so they agree to a margin under 30 percent." So H&M's savings are passed on to customers in the form of an \$18 average product price. Furthermore,

"H&M's flagship lease was an ingenious deal," says Philip Sprayregen, principal at the real-estate consultancy Byram Wood. "They took office space that was a tough rent at the time [2000] and probably got a great renewal rate, so they are and will be paying well below market rate."

Employees: 250 in the flagship.

Annual Revenue: \$36 million (\$7.7 million is profit) at the flagship, which is three times greater than at H&M's other city stores.

Annual Flagship Overhead Costs: Goods: \$19.2 million; rent: \$10.2 million; marketing: \$1,440,000; salaries: \$1,092,000.

Most-Profitable Items: Jewelry: 50 to 70 percent

CUSTOMER BAIT:



Swimsuits

"A key part of H&M's marketing is bathing suits. They drive foot traffic."

markup; hats and scarves: 50 to 70 percent markup; formal clothing: 50 percent markup.

Least-Profitable Items: Bathing suits: \$2 to \$3 markups; intimate apparel: 10 to 30 percent gross margin; basic tops and sweaters: 10 to 30 percent gross margin. "A key part of their marketing signature is bathing suits," says Flickinger. The markup isn't much, but "they make customers trust the prices and then spend three times longer in the store."

Cost-Cutting Strategy: H&M salaries only one sixth of staff, relying largely

on low-paid students. Similar stores run closer to 60 percent part-timers.

Future Investments: H&M is building its third Fifth Avenue Store, at 42nd Street. "Retailers make a statement by building on Fifth—there are other motivations besides profit," says Davidowitz. He estimates that half of the flagships between 50th and 57th Street are not profitable.

Why We're Lucrative Customers: Manhattanites are predictable fashion drones, buying three trucks' worth of clothes a day, in precisely seasonal color trends and cuts. "The only other city that compares this way is Los Angeles," says spokesperson Lisa Sandberg.

New Yorkonomics: *New York is a hub of innovation both because the city crams smart people together and lets them riff off each other. By attracting innovators, the city gets access to their new ideas, and I expect that proximity to H&M will set off some intellectual lightbulbs in the heads of New York's older retailers.*

MARKUP OF TOP-SELLING ITEMS:



Skinny pants



Bohemian tunics



Printed hoodies



Berets

A PUBLISHING COMPANY

RANDOM HOUSE

How It Works: "Many books are unprofitable," says CEO Peter Olson. Fifteen to twenty best sellers at a time and a huge volume of steadily selling older titles support Random House, a unit of German media giant Bertelsmann. Every week, the country's biggest trade publisher releases 67 new books, but it's the the 33,000-book backlist (Ian McEwan's *Atonement*, for example) that supplies 80 percent of its profit. Random House editors pay advances to authors of as much as \$10 million (it helps to have the last name "Clinton"), and as little as \$7,000.

New York Employees: 1,500.

Annual Revenue: \$2.3 billion (\$230 million is profit).

Sources of Revenue: Fiction: 55 percent; how-to, nonfiction, lifestyle: 22 percent; children's: 20 percent; Christian: 3 percent. Under 10 percent of profits come from top-ten titles such as *The Audacity of Hope*, by Barack Obama.

Overhead Costs: Two thirds of Random House's income comes from paperbacks, which retail for

THE BOOK BUSINESS'S BOOKS:



Out of every eight books, one is very profitable, one is very unprofitable, and six either break even or lose money.

about \$10. Of that, \$5 goes to the retailer; \$2 covers Random House buildings and staff; \$1.50 goes to author payments; \$1 goes to paper, printing, and binding; 50 cents is profit.

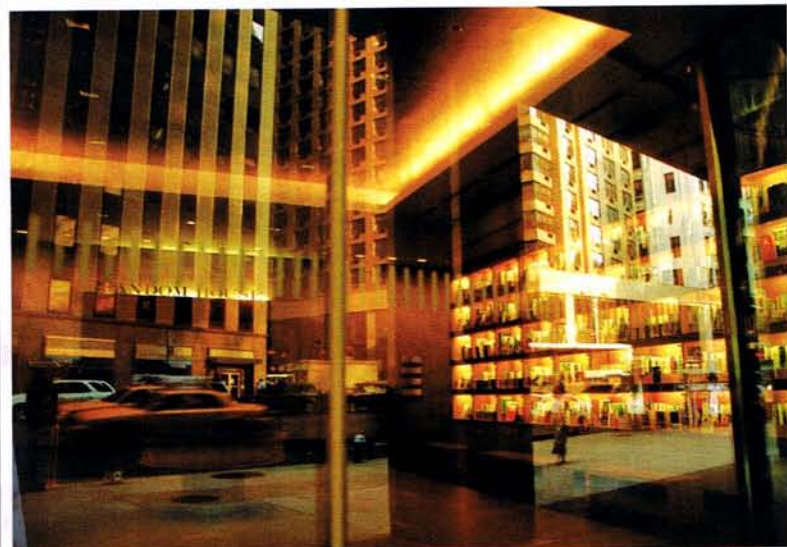
Best Ways to Make Money: Underpay writers. "The most-profitable books are highly successful authors early in their career with a contract that doesn't reflect their success," says Olson. Some writers sign multi-book contracts, which pay off big if the first book's a blockbuster.

Added Value: "Publishing is much less consolidated than any other industry," says Pat Schroeder, president of the Association of American Publishers. Random House is the largest of the dozen major commercial publishers, which gives it a strong negotiating hand against the three key retailers, Barnes & Noble, Borders, and Amazon, which sell over half of all books.

New Yorkonomics: *Printing and publishing has been a big industry in the city since the early 1800s, when New York publishers were the first American printers with access to pirated English best sellers. The book business is about selling ideas, which makes it an ideal match for New York City, since density makes it easy to exchange ideas and ideas don't take up much space. Here, Random House gets access both to the city's bevy of idea producers and packagers—writers and agents.*

TYPICAL AUTHOR PAYMENT ON A \$10 PAPERBACK SALE

\$1.50



CITY GOVERNMENT

THE CITY OF NEW YORK

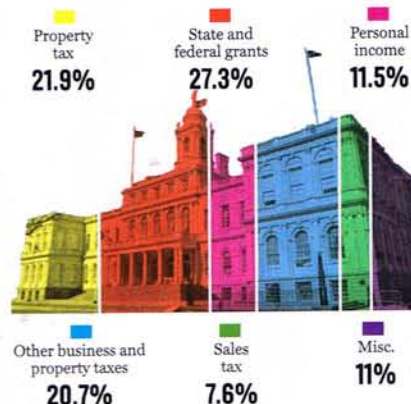
The real-estate boom has spiked property-tax income to nearly a quarter of the city's income; Wall Street's gargantuan year-end profits have also filled city coffers, increasing tax revenue from personal income and corporations. Here's where a third of your paycheck went over the last eleven months.

Employees: 312,989 full-time equivalent workers.

Annual Revenue: \$59.263 billion (none of which is profit), based on the 2007 budget. Though last year the city ran about a \$2 billion deficit, a balanced budget is projected for '07.

New Yorkonomics: *The city's \$60 billion budget is about \$7,500 worth of spending per capita, which is more than 25 percent of the income of the average city resident. Why is the city so expensive? The roughly 1.6 million New Yorkers in poverty make it more expensive to provide schooling, police, and social services. Even without that poverty, the city's extraordinary density comes at a substantial cost: infrastructure that makes New York much more expensive to run than some Sun Belt suburb.*

CITY REVENUE:



CITY SPENDING:

