

Travel, Logistics & Infrastructure Practice

New York: A concrete jungle where dreams are still made

Before the COVID-19 pandemic, millions visited the Big Apple every year to fulfill their travel and business aspirations. What will it take for them to return?

This article is a collaborative effort by Alex Cosmas, Linda Liu, Maurice Obeid, Jules Seeley, and Yael Taqu, representing views from McKinsey's Travel, Logistics & Infrastructure Practice.



Like moths to a flame, travelers from near and far used to flock by the millions to New York City (NYC). In 2019 alone, the most visited city in the Western hemisphere played host to 67 million visitors.¹

The vast majority—around 80 percent—came for leisure.² For many, peering down from the top of the Empire State Building, exploring masterpieces at the Met, marveling at the Statue of Liberty, or digging into a pizza at Lombardi’s (or a pastrami sandwich at Katz’s Deli) before spending the evening at a musical on Broadway fulfilled a lifelong dream.

The rest came for business. They attended meetings in Midtown and the Financial District and networked at conferences at the Javits Center and Piers 92/94.

But even those on work trips often couldn’t resist catching a sports event at Barclays Center, strolling through Prospect Park, or enjoying a craft cocktail at one of the city’s many high-end bars. In this city, business frequently slips into “bleisure.”

Whatever their purpose, travelers are a large part of what makes NYC the global economic and cultural powerhouse it is today. In fact, it is the United States’ most connected city, with regular flights to 147 international destinations (Exhibit 1). Twenty-one percent of all foreign visitors who fly into the country make sure to include NYC in their itinerary, more than any other city (and twice that of Los Angeles, which comes in second).³

Exhibit 1

New York City serves more international air travelers than US peer cities, making it the US’s most connected city.

Top 30 US cities by international airline service, 2019



Source: Diio Mi schedule data; McKinsey analysis

¹ *The tourism industry in New York City: Reigniting the return*, Office of the New York State Comptroller, April 2021, osc.state.ny.us.

² Ibid.

³ Passenger Intelligence Services (Pas-IS) data.

Before the pandemic, visitors contributed \$47.4 billion to NYC's local economy, supporting nearly 300,000 tourism jobs in hospitality, food and beverage, retail, and transport, which amounted to 7 percent of employment in the private sector. The travel industry indirectly supported an additional 376,800 jobs, from dry cleaners laundering linens for the city's hotels to farmers supplying fresh produce to local restaurants.⁴

Thus, when the COVID-19 pandemic broke out at the start of 2020, the blow to NYC's travel industry sent ripple effects across the city's entire economy. The financial impact was estimated to be six times that of the 9/11 attacks, and the city lost around \$1.2 billion in tourism-related tax revenues.⁵ Last year, overall visits fell by 67 percent, which contributed to an 82 percent plunge in hotel occupancy.⁶ At least 1,000 bars and restaurants closed,⁷ and many retail stores went out of business. In the once-buzzy Soho district, more than 40 stores pulled down their shutters for good.⁸

More than 31 percent of tourism jobs were eliminated, including 46 percent of jobs across hotels in Manhattan.⁹ The sector's devastation also disproportionately impacted financially vulnerable populations, given that 60 percent of travel industry workers over 25 years of age don't have a bachelor's degree, and minorities and immigrants make up the majority of the industry's workforce (66 percent and 46 percent, respectively).

In this article, we take the pulse of NYC's travel industry today, more than 20 months since the city saw its first COVID-19 case. While we observe glimmers of hope that the travel sector may be recovering, significant challenges remain that may slow down the return of travel jobs, as well as the industry's efforts to fully recoup its financial losses.

At the time of publication, the Omicron variant is casting further doubt on how quickly life can return to normalcy, as authorities consider the necessary public-health measures to reintroduce. It's a stark reminder that the pandemic is an ever-evolving public-health situation, especially during the colder months.

In the face of greater unpredictability, it's become more critical for industry stakeholders in both the public and private sectors to come together now to empower a faster, stronger, and better resurgence of the travel sector. We suggest three key areas of opportunity for travel players to focus their efforts.

Opportunities and challenges for New York City's travel sector

As the city enters its second winter living with the pandemic, there are reasons to be both optimistic and concerned. On the positive side, travelers are slowly returning. NYC's destination marketing organization, NYC & Company, projects about 36.1 million will visit this year¹⁰ but that a return to prepandemic levels is not likely to be achieved before 2025.¹¹ Meanwhile, the Omicron variant threatens to roll back some of the progress made, by further extending the pandemic and delaying the return of travelers.

McKinsey has surveyed thousands of executives on the likelihood of nine different scenarios for economic outcomes of the COVID-19 pandemic. These scenarios account for the GDP impact of the virus's health effects and the effectiveness of governments' public-health and economic-policy responses to it. In the United States, the A1 scenario, which assumes a muted recovery, is expected to be the most likely. The A2 scenario, which assumes a stronger rebound, is also worth considering given recent indicators of an acceleration in recovery.

⁴ *The tourism industry in New York City: Reigniting the return.*

⁵ Ibid.

⁶ *A call for action and collaboration*, Partnership for New York City, July 2020, pfnyc.org.

⁷ Bao Ong, "A favorite Columbia hangout shuts on the Upper West Side—and more closings," *New York Eater*, August 27, 2021, ny.eater.com.

⁸ Matthew Haag, "SoHo catered to free-spending tourists. What happens without them?" *New York Times*, October 5, 2021, nytimes.com.

⁹ *The tourism industry in New York City: Reigniting the return.*

¹⁰ "NYC & Company launches largest-ever global tourism recovery campaign, 'It's Time for New York City,'" NYC & Company, June 24, 2021, business.nycgo.com.

¹¹ Patrick McGeehan, "Tourism, engine for NYC economy, may not fully recover until 2025," *New York Times*, May 13, 2021, nytimes.com.

Both scenarios have factored in some virus resurgence—such as outbreaks of the Omicron variant—with the difference being the pace and time needed for economic recovery.

We used the assumptions in these scenarios to project air-passenger traffic to NYC, and our analysis suggests that, in both scenarios, air travel to the city may potentially rebound by 2023 based on various reopening plans, improving GDP trajectory due to pent-up demand, recoveries in other markets, and limited structural impact outside of business travel. This may create additional upside to potential visitor numbers over the next couple of years (Exhibit 2).

A number of other indicators point to people’s eagerness to come back to NYC to reconnect, explore new destinations, or revisit cherished favorite places. For one, Airbnb cited NYC as the fall’s most popular destination.¹² And when travelers do visit NYC, they are likely to spend more than they would have prepandemic, based on McKinsey analysis indicating that savings rates spiked 10 to 20 percent in the United States during the pandemic.

However, significant hurdles remain as the travel sector picks back up. Domestic and leisure travelers will likely be the first to return in big numbers, but higher-spending international and business

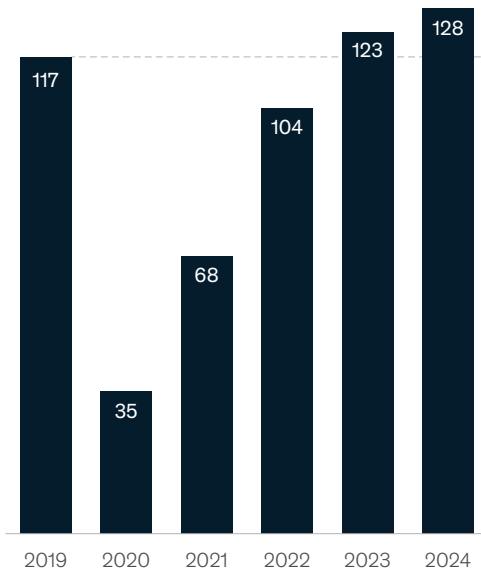
Exhibit 2

New York City air visitors are likely to return to 2019 levels by 2023.

Passengers arriving to or departing from NYC airports,¹ million

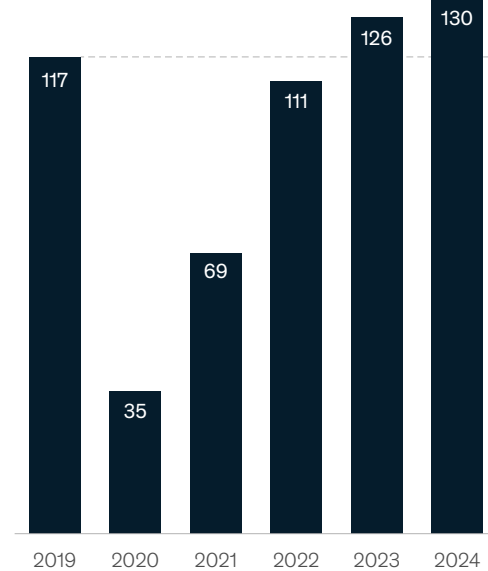
A1 scenario (base)

Virus recurrence; muted recovery



A2 scenario (optimistic)

Virus recurrence; strong world rebound



¹Connecting passengers not included.
Source: Diio Mi schedule data; McKinsey analysis

¹² “Extended weekend stays and scenic cities top fall travel plans,” Airbnb, August 30, 2021, news.airbnb.com.

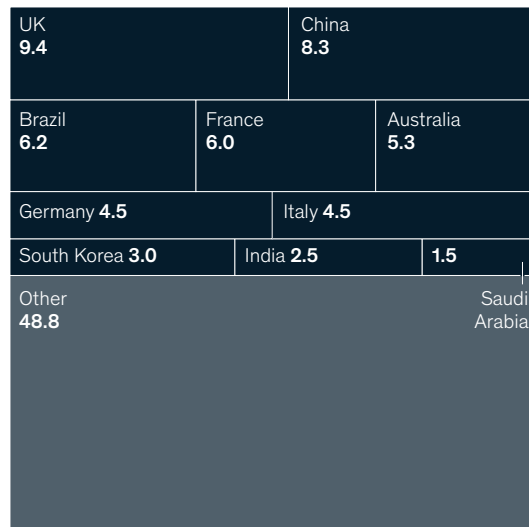
travelers leave a greater impact on the travel economy. Business travelers spend twice as much as leisure travelers despite making up a smaller portion of the city's total visitors. Even though international travelers made up only around 20 percent of total visitors before the pandemic, they spent \$1,709 on average, or 3.5 times more than domestic travelers. Chinese visitors alone spent \$3.3 billion in NYC in 2019, accounting for nearly 15 percent of total international spending (Exhibit 3).

Business and international travelers will likely be the hardest to lure back. McKinsey analyses reveal that, historically, corporate travel takes longer to bounce back after a downturn. While the leisure-travel market took two years to recover after the 2008 financial crisis, business travel took five years. Meanwhile, many regions around the world are still bound by travel restrictions and quarantine requirements. While the United States has recently reopened to vaccinated foreign travelers,¹³ and there has been an uptick in international bookings, many people continue to feel unsafe traveling internationally. Of course, the Omicron variant further complicates the outlook.

Exhibit 3

Highest-contributing international visitors to NYC are bound by strict travel restrictions from the US State department.

Share of international visitors to NYC, by country of origin, 2019, %



Share of spending by international visitors to NYC, by country of origin, 2019, %



Average visitor spending, by country of origin, 2019, \$



Source: NYC & Company; OSC analysis

¹³ Vjosa Isai, Zolan Kanno-Youngs, and Heather Murphy, "Vaccinated travelers from abroad, including Canadians with mixed doses, can enter the U.S. starting Nov. 8," *New York Times*, November 8, 2021, nytimes.com.

As such, the return of global visitors may be much slower and more uncertain than domestic travelers. In addition, ongoing work-from-home policies and flexible work arrangements are keeping more people at home, and therefore reducing the need for people to travel to (and within) NYC.

Given the importance of travelers to the city's social and economic fabric, the sector's slower recovery relative to other sectors throughout the pandemic, and the impact of current and potential future coronavirus variants, creative approaches should be considered for the sector to emerge stronger.

We propose three areas to consider: focusing efforts on encouraging domestic travelers to visit—and revisit—the city; reinvigorating the workforce to enhance visitors' experiences; and reimagining the city as a hub for business travel by keeping up to date with changing working norms.

Create new reasons for domestic travelers to (re)visit New York City

With "It's Time for New York City" (at \$30 million, the city's largest-ever marketing campaign, launched in June 2021¹⁴), it's clear NYC knows how important targeted, analytical marketing is for the recovery of the travel sector. Given that the return of international travelers may be prolonged and unpredictable, the city may need to focus on domestic travelers.

The good news is that many Americans are ready to travel. According to the International Air Transport Association's (IATA) Air Travel Pulse survey, the United States has one of the highest "flight interest indexes" in the world, signaling Americans' comfort with flying. In addition, historically, two-thirds of domestic travelers to NYC hailed from cities in New York state and neighboring states such as New Jersey, Pennsylvania, and Connecticut.¹⁵ As evidenced by the recent uptick in bookings, NYC

has become a great option for nearby travelers to "escape the suburban sprawl" or experience something new in a familiar destination.

Approaches to entice domestic travelers include doubling-down on offering must-attend, extraordinary events, encouraging visitors to extend their stays to explore undiscovered parts of NYC, and harnessing digitization to elevate visitor experiences with smart-city (or technologically modern) concepts.

Historically, people have traveled to NYC for its incredible events—musicals, fairs, sporting events, and concerts. Increasing the frequency of not-to-be-missed events, especially during nonpeak seasons, and marketing them across the United States, could be one way to persuade travelers to book a trip.

Some destinations have given their iconic landmarks an artistic twist so that even return visitors can encounter a familiar monument with fresh eyes. This year, Cairo surrounded the Giza pyramids with pop-up art installations,¹⁶ and the entire Arc de Triomphe in Paris was wrapped in polypropylene to honor the late artists Christo and Jeanne-Claude.¹⁷ Could something similar (or completely different) be done with, say, the Brooklyn Bridge?

Given that most domestic visitors historically don't stay in NYC for more than two days, a "two- or multicenter" approach could be adopted to market itineraries that add a day or two to travel plans so visits have more of an international-getaway feel. For example, itineraries could start with an urban experience, directing travelers to Times Square, followed by a viewing of art at MoMA PS1 in Queens, a visit to Fort Wadsworth in Staten Island, or a tour of the New York Botanical Garden in the Bronx. Combined with thoughtful improvements to the city's urban transit system, such an approach could make it easier for visitors to explore new parts of the

¹⁴ "NYC & Company launches largest-ever global tourism recovery campaign 'It's Time for New York City,'" NYC & Company, June 24, 2021, business.nycgo.com.

¹⁵ *The tourism industry in New York City: Reigniting the return*.

¹⁶ Nadine Khalil, "At the pyramids of Giza, an unprecedented exhibition of contemporary art," Artsy, November 2, 2021, [artsy.com](https://www.artsy.com).

¹⁷ "An estimated 6 million people viewed L'Arc de Triomphe, Wrapped, Paris, 1961–2021 in person," Office du Tourisme Paris, November 9, 2021, christojeanneclaude.net.

city outside of Manhattan, as well as help to infuse lesser-known neighborhoods with greater vibrancy and economic stimulus.

Leveraging digital technologies to bring smart-city concepts to life could enhance visitor experiences and attract new travelers, while helping the city progress toward its sustainability goals. Recent upgrades to airports servicing the area demonstrate the city's clear focus on achieving such goals.

Meanwhile, the digital traffic-flow management tools used to plot the most efficient routes for rideshares and taxis could indicate journeys that produce the least amount of carbon emissions. Mobile apps could notify tourists that the Museum of Modern Art is overcrowded and indicate a time they should come back as well as suggest the Bronx Museum of the Arts current exhibition as an alternative.

Bringing these ideas to life may require both public-private partnerships and investment. By working together, the city would be better positioned to welcome back and delight leisure travelers.

Reinvigorate the travel workforce

As in healthcare, tourism, too, has its frontline workers. These are the friendly faces that greet you at hotel reception, drive you around in yellow cabs (or rideshare vehicles), and serve you a meal at your favorite eatery. They are the first point of contact and have a direct impact on whether visitors' experiences in NYC are positive or negative.

McKinsey research projects¹⁸ that the accommodation and food services, arts, entertainment, and recreation, and retail trade

sectors in NYC may see a total decline of 23,000 jobs between the fourth quarters of 2019 and 2022, while the number of healthcare jobs may rise by 40,000. Roles such as retail sales staff and hospitality workers—which have a median wage of \$30,000 (versus the city's overall median wage of \$52,000)—are likely to experience a net employment decline of 12,000.

Exacerbated by widespread labor shortages across industries, a diminished workforce could see the travel and hospitality industry short-staffed and lacking the capacity to deliver indelible memories to visitors. Tourism growth would also likely be inhibited.

Addressing this could require sustained interventions across a number of dimensions. To attract and retain workers in tourism and hospitality, employers and public stakeholders could partner to offer incentives and perks, such as providing discounted transportation from home to the workplace, flexible working times (where feasible), and career training and development for further advancement within the sector. Focusing on fostering a sense of purpose, meaning, and fulfillment (through rewards, improved working lifestyles, and recognition) could help minimize attrition and help ensure that well-trained and talented travel employees don't switch industries.

Dubai, through Dubai Way, offers courses with certifications for workers to expand their skill sets and develop expertise in hospitality and service.¹⁹ Similarly, NYC could offer sommelier classes for restaurant servers or marketing courses for tour guides to help workers advance their careers.

¹⁸ Current Population Survey; McKinsey analysis, in collaboration with Oxford Economics.

¹⁹ "Dubai way" training platform offers online learning resources to strengthen skillset of tourism workforce," Dubai Department of Economy and Tourism, April 29, 2020, dubaitourism.gov.ae.

Reimagine New York City as a hub for business travel

Norms around the way we work and how business is conducted are changing, and NYC could reimagine its role as a nexus of business activity. As more companies embrace hybrid models of work and more functions are performed remotely, some forms of business travel may never return. McKinsey analysis suggests this may result in a permanent decline of up to 20 percent in corporate travel.

For those who do begin to travel for work again, we expect regional business travel for sales meetings to be among the first to return. While international conferences would likely be the last to return, companies may be more receptive to sending employees to regional conferences. Companies, especially small and medium-size enterprises, may seek a “first player advantage” to cultivate important client relationships in-person instead of through a video screen. One way to target these travelers would be to market bleisure events, such as access to physically distanced meeting spaces combined with tickets to the Rockettes at Radio City Music Hall, to help enhance potential client relationships.

This would also open up opportunities to convert vacant office and meeting spaces left by the hollowing out of physical offices for more flexible uses, such as networking events, company off-site meetings, start-up incubators, and smaller-scale, hybrid conferences. Some abandoned real estate could even be converted into accommodations with integrated coworking and community-building elements to cater to a growing number of people looking for flexible work arrangements with an emphasis on work–life balance. Similarly, coworking spaces with health–safety protocols in place may emerge as a new asset for business–travel circuits or for people who want to live in NYC but work for companies without a local presence.

Bringing visitors back to NYC is critical for a full recovery to take root. Many New Yorkers depend on it for their livelihoods. Now is the time for the city to draw from its spirit of reinvention, which has been a beacon drawing in travelers from across the United States and abroad for centuries. As the singer Alicia Keys reminds us in “The Empire State of Mind,” the streets “will make you feel brand-new. Big lights will inspire you. Let’s hear it for New York.”

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The authors wish to thank Urs Binggeli, Margaux Constantin, Clay Cowan, Guenter Fuchs, Vik Krishnan, Ellen Scully, Tony Shorris, Rebecca Stone, and Jasperina de Vries for their contributions to this article.

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