Huge Win for Uber as New York City Mayor Drops Proposed Limit on Its Cars

By James Hickman Follow | 07/23/15 - 11:33 AM EDT

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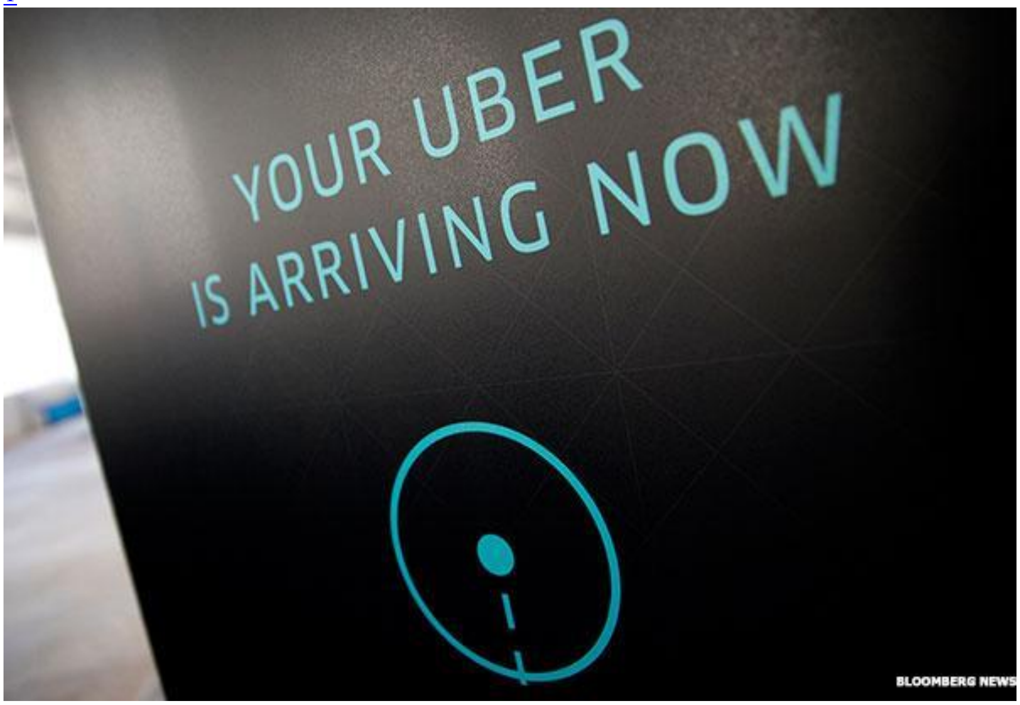

NEW YORK (TheStreet) -- After a remarkable week of high-stakes public debate, New York City Mayor Bill de Blasio has withdrawn a bill to put a one-year cap on the growth of transportation network companies (TNCs) like Uber.

Only months ago Uber and and TNCs were being lauded by NYC Taxi and Limousine Commission Chairwoman Meera Josh for introducing much-needed competition into the market.

But what had been viewed as acceptable market share gains for TNCs, a "minor blip" according to Joshi back in February, apparently became sufficiently damaging to the traditional taxi business to prompt the mayor, the TLC and the New York City Council to pursue an unprecedented cap on the burgeoning industry while it carried out an opaque "congestion study."

Public response to the plan was harsh: Mayor de Blasio was broadly criticized across the political and popular spectrum, and finally agreed to negotiations. The congestion study will go forward, but the growth cap proposal has been scrapped. For its part, Uber agreed to provide data previously denied the TLC.

Details of what the study will entail remain unclear except for the fact that economic and consumer benefits are not within its scope, nor are the contributions to congestion from other factors -- two hallmarks of impact studies.

Testimony from independent pro-commerce state and city agencies and ancillary businesses at the recent Transportation Committee hearing on the subject exposed some of the ignorance of the bill sponsors regarding the unintended economic consequences of the proposed legislation.

In 1940, New York City had 13,500 licensed taxis on the road. Today, after a recent 3% increase, the number stands at 13,605. The NYC population roughly doubled in that time frame. For a variety of reasons, the taxi medallion system was put into place during the Great Depression, animated by hard supply caps and regulatory prohibition of any new competition. The predictable result has been an extraordinary rise in taxi medallion values with little historical downside volatility, poor wages and working conditions for drivers, and the signature poor customer service and product quality of yellow taxis.

Along came Uber, and the free market -- customers and drivers -- have spoken loudly since.

In its testimony at the hearing, Uber stated it is facilitating "hundreds of thousands of rides per day" and is signing up 25,000 new customers per month in NYC. Uber has eclipsed the taxi nationally as the ground transportation choice of business travelers, and gained 10% share in NYC alone between March and June 2015.

The Uber driver network began to explode in the summer of 2014, growing from 7,000 to 16,000 from July to December. The company subsequently announced plans to add 10,000 more NYC drivers during 2015 to meet the ongoing demand surge. In January 2015, Uber CEO Travis Kalanick disclosed in a speech at the DLD Conference in Munich that NYC Uber rides were "growing 4X year-over-year."

Through a Freedom of Information Act request, TheStreet learned Uber drivers accounted for almost 90,000 trips in February. If Kalanick's growth disclosure in New York persisted, Uber's monthly trips by July would number above 170,000, consistent with their testimony during the City Council hearing.

To be sure, the taxi business is suffering. Since the historically steady upward rise of NYC taxi meter revenue ended in May 2013 -- coinciding with the time when Uber's driver network began to reach critical mass -- revenues per yellow taxi medallion have declined, dropping 9.7% through May 2015. The average year-over-year comparison for revenues in the last 3 months has been negative 7.7%, indicating the negative trend has not begun to flatten.

Prior to the 17% fare increase in 2012, meter revenue had been rising at 3% per year. In addition, delinquencies on taxi medallion loans, restructurings of "troubled" debt, loan-to-value ratios and foreclosures have spiked across the medallion lending industry. In New York, **Signature Bank** disclosed the debt service coverage on its taxi medallion loans has declined from 1.7X to 1.2X in the last six months.

Aggregate NYC data show total trips for yellow cabs are down by approximately 69,000 per day since 2013. But Uber and new green borough taxis have accounted for over 200,000 daily trips in that time (assuming Uber has reached 150,000 trips per day, some of which came at the expense of traditional black cars).

Hence, ride-sharing and green taxis are not simply reshuffling the for-hire trips deck by taking all the organic growth while steadily eating into NYC taxi medallion revenue. They are significantly *expanding* the market. How? First, by capturing demand long untapped because of the structural supply shortages enforced by regulators in support of the taxi industry incumbents. Second, by capturing demand from long under-served peripheral markets like the outer boroughs. Third, by attracting new customers based on a superior product at a competitive price.

The City Council bill, now tabled, effectively predetermined that Uber was responsible for congestion and a reduction in average traffic speeds in Manhattan. These were the ostensible reasons for freezing any further growth, despite still untapped consumer demand. If the study fails to pass the legitimacy test, it will simply be deemed by the state and consumers a perfunctory exercise meant to provide cover for a mayor with deep ties to Big Taxi. The following facts need to be accounted for in the study if its conclusions are to be taken seriously:

- Headlines have trumpeted that Uber vehicles exceeded yellow taxis in NYC for the first time in 2014, and now total over 18,000 (6,000 of which converted from existing black and yellow fleets). This figure at face value is minor in the context of daily inbound Manhattan traffic of 915,000 vehicles, as of 2013. These figures do not count traffic from vehicles beginning the day within the city limits.
- Uber drivers average 23 hours a week on the Uber network in NYC. The full-time equivalent (FTE) of 18,000 vehicles, therefore, is just 3,100 yellow cabs, which average *133* hours per week in double shifts. Hence, the headline-grabbing assertion "18,000 Uber vehicles exceed taxis" is technically true but substantively false.
- Uber drivers often *park i*n an area where demand is expected to be robust, and don't start driving until matched with a customer. Taxis cruise the city streets in perpetual search of the next fare, having a meaningfully greater impact on congestion and emissions compared to an Uber/ridesharing vehicle.
- Truck traffic in the city has significantly increased due to the rise of on-demand delivery services. There is also more non-MTA bus traffic, increased street use for bike and bus lanes and pedestrian plazas, and in 2014 Mayor de Blasio implemented a plan to reduce average traffic speeds.

In short, in the absence of a comprehensive study that examines all potential contributors to congestion, and that considers the benefits side of Uber's impact, the conclusions will not survive broad scrutiny.

New York Gov. Andrew Cuomo stated on Wednesday that Uber is "one of the great inventions of this new economy ... I don't think government should be in the business of trying to restrict job growth."

State action will trump any city action, and Cuomo's words may have been what prompted de Blasio to stand down. The mayor and his taxi-industry supporters face a much higher burden of proof than they appeared to recognize when, prior to any study, they declared Uber et al the cause of "congestion" long endemic to Manhattan, and excoriated ride-sharing for contributing to a suddenly pernicious decline in traffic speeds, an outcome for which the mayor has publicly advocated.

This article is commentary by an independent contributor. At the time of publication, the author was short TAXI.