The Center for an Urban Future
May 1999

New Yo

New Jobs

The Big Squeeze

How Rising Rents and The Real Estate Crunch Are Forcing Small Businesses Out of New York

Despite New York's booming economy, an increasing number of successf small businesses are being forced out of the city. The result: New York Ci is losing well-paying jobs in industries ranging from food wholesaling t furniture making to biotechnology. Meanwhile, the city is grappling wit unemployment rates nearly double the national average and a mandate t move tens of thousands of people off public assistance and into jobs ove the next few years.

It is ironic that given the importance of developing jobs in the city, small and mid-size businesses are finding it hard to simply remain here and grow. A city that in the name economic development has committed hundreds of millions of dollars to a handful of co porations should be able to find the resources to aid its local entrepreneurs as well.

The Center for an Urban Future condu

a four month investigation of the needs of small businesses in all five bo interviewing nearly 100 people, including small business owners, priva ners, and officials at local development corporations, city and state a business advocacy groups, associations and local chambers of comme findings are surprising:

1

A LACK OF AFFORDABLE REAL ESTATE IS THE NUMBER ONE PROBLEM FOR SMALL BUSINESS OWNERS IN NEW YORK.

Taxes and energy costs are not the primary squeeze on businesses. Space is. The city is experiencing an unprecedented space crunch, which is pushing up rents and forcing out successful, growing businesses when they need larger space to expand.

* Over the last year, office rental prices increased by 37 percent in Midtown South, 18 percent in Midtown, and 18 percent in downtown. The increases have forced small office tenants into fringe areas of Manhattan that formerly housed small manufacturers and distributors.

* In Queens and Brooklyn, industrial real estate prices have risen by an average of 20 to 50 percent, and even more in areas that are closest to Manhattan. In Long Island City, for example, one-story buildings are now renting for as much as $10 a square foot, up from $5 to $6 a foot a year ago.

2

BUSINESSES FORCED OUT OF HATTAN BY SKYROCKETING FIND LITTLE SPACE AVAILABLE OUTER BOROUGHS.

Just as building owners are redevelo of Manhattan's remaining industrial into more profitable offices, the c desirable industrial neighborhoods Manhattan—including Long Island set Park, Greenpoint, Maspeth, Hu Williamsburg and Red Hook—are near capacity.

* In Queens, the borough-wide va for industrial space has shrunk by 3 since 1995, to 9.4 percent. And th rate is much lower in the borou desirable industrial neighborhoo looking for medium and large spaces ally out of luck—the vacancy rate fo ty between 75,000 square feet and square feet is a mere 3.2 percent.

* In Brooklyn, the borough-wide rate for industrial properties droppe percent in 1998, down from 13.3 p 1997 and 15.1 percent in 1997.

* In Staten Island, local economic ment officials have had to turn aw hundred companies looking for qual trial space in the last couple of yea because it wasn't available.

3

THE SPACE CRUNCH IS CAUSING THE CITY TO LOSE JOBS IN HIGH PAYING INDUSTRIES LIKE MANUFACTURING, HIGH TECHNOLOGY AND BIOTECHNOLOGY.

* During this investigation, the Center for an Urban Future identified a dozen successful businesses that have left the city within the last two years or are in the process of leaving because of problems finding suitable real estate.

* The number of companies forced to relocate out of New York will likely increase in the coming months as more companies' leases expire and a wave of firms that are being priced out of Manhattan are forced to compete for a limited supply of real estate in the outer boroughs.

* Hundreds of small manufacturers are feeling squeezed by real estate pressures just as the sector is experiencing a comeback. In fact, nearly 1,000 small manufacturers grew by more than 20 percent over the last three years, according to a 1998 report by the Industrial Technology Assistance Corporation.

* The city lost out on an opportunity to become one of the nation's leading centers for biotechnology largely because of a lack of affordable lab space. Eight of the 16 biotech firms that existed in the city in 1991 either moved out or went out of business over the next five years.

* Some new media firms have reported that venture capitalists urge them to move out of New York if they are serious about going public, simply because it is difficult to justify paying the city's incomparable real estate costs.

4

THE SPACE CRUNCH IS LARGELY A FACTO OF WAREHOUSING BY PRIVATE LANDOWN ERS AND THE CITY'S FAILURE TO AGGRE SIVELY ENCOURAGE DEVELOPMENT O VACANT AND UNUSED INDUSTRIAL PROPE TIES.

City land use policies are encouraging specul tive housing and retail development in the mo desirable industrial neighborhoods in Quee and Brooklyn, leading to higher real estate co for business and a permanent decrease in t supply of industrial properties.

* Real estate brokers, local development of cials and business owners estimate that buil ings being deliberately kept off the mark account for as much as 25 percent of t vacant industrial space in Brooklyn.

* When landlords do rent to industrial firm they often refuse to offer leases of more th two years or insist on leases that allow them evict industrial tenants with six mont notice—conditions that deter all but the mo transitory companies from renting space.

* In the Bronx, more than 40 companies th would like to expand within the borough relocate from outside New York have bee waiting for months (and, in some cases, for u to two years) for city approval to devel vacant, city-owned land.

* Though the city's economy is booming an the real estate market is tight, there has bee virtually no new industrial development.

Manufacturing Matters

The real estate crunch affects everyone looking for space in New Yor college graduates moving into studio apartments in the Village, to dev wanting a piece of the action in Midtown, to low-income families c up in apartments in the South Bronx. The crunch has made life part difficult for manufacturers who need large customized spaces to sust grow their business.

Manufacturing firms are an integral part of a balanced and vibrant economy. Unlike their predecessors, today's smaller, flexible industrial firms find a niche in promising industries such as film production, food preparation and printing. These light manufacturers are growing in number—more than 30 percent of New York City's manufacturing sectors actually added jobs last year—and produce essential goods for other vital sectors like the arts, food, fashion, advertising and publishing. Most importantly, manufacturing is the largest employer of workers without a college degree in New York, with jobs paying an average of $12 an hour, 30 percent higher than wages in the retail sector, the city's other significant employer of individuals without college degrees.

Unfortunately, the city has been unwilling to preserve industrial sites or encourage new industrial development. Years of short-sighted land use decisions by city officials have gradually chipped away acres of land previously zoned for manufacturing, allowing industrial areas to be rezoned for residential, commercial and big-box retail uses. And, increasingly, these manufacturing areas are the dumping ground for unpopular businesses like sex shops and waste transfer stations.

Commenting on the results of these policies, Linda Cox, formerly of the City Department of Planning and the Municipal Art Society, says, "Each of these proposals, broached individually, has a certain logic and rationale. Underlying all of them is the conviction that there is industrially zoned land to spare. But cumulatively [these decisions] do not add up to a land-use policy that has anything to do with the needs of manufacturers and other industrial enterprises."

The development Queens West is or of the city's short-sighted land use poli early 90s, city and state government an Authority joined forces to develop the at Hunter's Point—a stone's throw f Island City—with residential units, retai ments and a private tennis club. The pr forward at a time when the city's econo a slump and there was no significant d industrial space. If that land were availab would be ideal for industrial expansion. impetus behind Queens West was unde the city was left without a large well-loca trial site once the economy picked up a for that type of space grew.

The city Planning Department is no in a long-term study of 22 designated m ing areas in northern Brooklyn to whether they should be rezoned for development. Most of the land under along the waterfront in Greenpoint and burg, which provide industry with close to Manhattan business districts.

The Center for an Urban Future does tion the need to rezone some industrial manufacturing sector is not the engine o economy of 30 years past. However, the study rezoning in this large swath of the waterfront without designating any port a safe haven for industry has invited ramp lation by land owners hoping the city w their properties, granting permission t market-rate housing or other more prof tures.

The city does have financing programs geared toward industrial firms, but they have not been effective in spurring new development.

Zoning policy, however, is not the only area that city officials should be looking at if they want to improve conditions for industrial users. First of all, it's important to acknowledge that much of the vacant industrial property in Brooklyn and elsewhere in the city is unusable in its current condition. A recent report commissioned by the Industrial Technical Assistance Corporation asserts th "the presence of older, unused industrial sites giv the misperception that there is a surplus of indu trial real estate."

A second problem is the failure to develop t large supply of unused city-owned land. In 199 the city had approximately 2,500 to 3,000 acres vacant and underutilized industrial proper Though local development experts say there is act ally much less available space today, little has be done to encourage its redevelopment for industr use. When the city has thrown its weight behi projects to develop vacant city-owned industr properties, the beneficiaries have rarely been man facturers. For instance, the city is now funding t construction of a new minor league ballpark for t Yankees on vacant industrial land in Staten Islanc

Moreover, even in the best of times developers a wary of industrial projects, finding it costly and una pealing to build new industrial facilities or bri dilapidated factories up to code. This is par because they can charge significantly more money sometimes two or three times as much—by leasi or selling the property to commercial or resident tenants. In addition, bank financing for new indu trial development is nearly impossible to obtain.

NY Manufacturing Jobs Lost Since 1950

job losses are slowing down

	Total Manufacturing Jobs Lost	Average Jobs Lost Per Year
1950-60	92,100	9,210
1960-70	180,800	18,080
1970-80	270,300	27,030
1980-90	158,200	15,820
1990-96	71,100	11,850
1996-98	4,500	2,250

Source: U.S. Bureau of Labor Statistics

Finally, though the demand for industrial space is high, developers are often deterred by the fact that federal law currently prohibits the use of triple tax free industrial development bonds, a lucrative city financing mechanism, for speculative development of industrial space.

The city does have financing programs geared toward industrial firms, but they have not been effective in spurring new development. One reason for this is that the city's programs focus mainly on assisting manufacturers who wish to develop their own space. The problem is that most manufacturers do not want to deal with the cost or hassle of being land owners in addition to managing a business. Most are small firms which typically need to rent space, particularly in buildings that house other companies.

Companies interested in developing unused city-owned sites on their own are deterred by the length of the city's land disposition process. For instance, most of the large open tracts of land in the Bronx are city-owned. But a Bronx economic development official says that some companies have been waiting more than a year as their potential sites go through the Uniform Land Use Review Process (ULURP) and auction procedures. One company, Condal Distributors, a large Hispanic-owned food distributor, has been waiting nearly two years for "a yes, no or a maybe" from the city for a specific plot of land. Most small businesses, which operate on narrow margins and often have imminent space needs, cannot afford to wait that long.

Another obstacle is the state's onerous regulations governing the cleanup of polluted industrial properties, known as brownfields. Current laws hold potential owners, developers and even investors liable for pollution created by previous owners. Exorbitant clean-up costs and uncertainty over the amount of remediation for which a potential owner is responsible have discouraged development of numerous vacant industrial sites throughout the five boroughs. Many states, including New Jersey, Pennsylvania and California have passed brownfields reform legislation. While legislation supported by Governor George Pataki is pending in Albany, its passage is uncertain.

Over the years, the city has taken a number of positive steps to put new industrial space on the mar-

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ket. In the late 1980s, the city used publ
renovate 2.5 million square feet of sp
Brooklyn Army Terminal (BAT), a onc
facility now home to more than 70 firn
which are small manufacturers. Because
erty is nearly at capacity, the Giuliani adm
is attempting to renovate an additional
square feet of undeveloped space at the

In 1994, the city's Economic Develop
poration helped enable a non profit orga
develop the Greenpoint Manufacturing a
Center into a home for scores of small v
ers, designers and artists when it sold th
owned factory building for $1. And
Island Economic Development C
(SIEDC) is proceeding with plans to
industrial park on city-owned land with
secured from federal, state and city g
Cesar Claro, director of the SIEDC,
demand for space is so great that, "within
of operating the park, we'll be fully occu

Despite these efforts, however, the city
down one of the more effective incentiv
for retaining industrial firms: the Business
Assistance Corporation (BRAC), which p
to $60,000 to small manufacturers to offs
of moving within New York City. Und
gram, landlords who displaced businesses
ing their commercial lofts into residential
required to contribute funds to help the
company move to other locations in the

The program was an extremely helpful retention tool precisely because companies are most likely to leave the city when they lose their lease. But the city stopped accepting applications for the program in 1995 and let it sunset in 1997. Although BRAC had been criticized for being overly bureaucratic, many believe that it was ended because of political pressure from the real estate industry.

Though the city designated a successor program–the Industrial Relocation Grant—it cut the size the largest grant in half, to $30,000 and eliminat BRAC's mechanism for raising funds from landlo converting buildings, thereby removing a stea source of future funding. The large number of indu trial conversions taking place in Manhattan cou have funded a good portion of the moving costs the scores of printing companies and other industr firms now leaving lower Manhattan.

Searching for Space

New York City's unprecedented space crunch is changing the econom landscape in Manhattan and spilling over into desirable industrial areas in th outer boroughs. Businesses squeezed out of Manhattan by escalating ren find little space available in other parts of the city. As a result, an increasin number of firms throughout the five boroughs must consider relocating t sites outside the city.

In Manhattan, plummeting commercial vacancy rates and skyrocketing rents have forced all types of service-oriented companies to look for cheaper space. Advertising agencies, law firms and architectural firms are moving from midtown to the Garment District and lower Manhattan; high tech firms are increasingly moving out of the Flatiron district and into old industrial buildings on the far West Side; and hundreds of printers, bakers and other small manufacturers are being uprooted from Manhattan altogether.

This reshuffling of Manhattan's economic landscape may be a natural byproduct of a tight industrial market. But while light industrial firms have been gradually pushed out of Manhattan over many years, the current real estate boom is on course to eat up all of the city's remaining industrial space.

Until recently, manufacturers forced to leave Manhattan could easily find suitable space in outer borough neighborhoods that, because of their proximity to Manhattan and their accessibility for employees, were more convenient than industrial sites in New Jersey. This is no longer possible today.

In Queens, the vacancy rate for industrial spa has shrunk 30 percent since 1995, to 9.4 percen Real estate brokers say the vacancy rate is mu lower in the borough's most desirable industr neighborhoods like Long Island City and Maspet Firms looking for medium and large spaces are o of luck—the vacancy rate for property betwe 75,000 and 100,000 square feet is a shockingly lo 3.2 percent.

In Brooklyn, the borough-wide vacancy rate f industrial properties dropped to 10.9 percent in t third quarter of 1998, down from 13.3 percent 1997 and 15.1 percent in 1996.

It's important to note the actual vacancy rate even lower, since most firms are looking for quali space in well-maintained buildings with freight el vators, loading docks and high ceilings in a hand of neighborhoods close to Manhattan (where ma have their client base) and near highways (for tru access) and subways (to tap into the city's large lab supply). The most desirable locales, like Long Isla City, Greenpoint, Williamsburg, Sunset Park a Maspeth, are all at or near capacity.

“I wanted to stay in the Bronx. We just couldn’t find space. New Jersey gave me a $750,000 inducement to go, which I wasn’t even looking for.”

Dominick Massa, who manages roughly 1.5 million square feet of industrial space in Sunset Park under lease from the city, says, "Ten years ago, I couldn't give away this space. A couple of years ago, I was 60 to 65 percent empty. Now, out of all my space, I only have 22,000 square feet left. And that's only because a tenant recently left. It will probably be filled within ten days. That's happening all over Sunset Park and all over Brooklyn."

The Brooklyn Army Terminal is at capac
Williamsburg In-Place Industrial Park
turn away "tons" of companies lookin
and the Brooklyn Navy Yard’s usable pr
95 percent occupied. Even Red Ho
often viewed by businesses as less de
other waterfront areas, now has few vac
O'Connell, who has developed severa
properties in the area, was able to fill up h
simply by posting two signs with his ph
on buildings that could only be seen from
hood streets. In three months, he recei
from businesses looking for space. The
square feet he owns in the neighborh
completely full.

Industrial businesses aren't having
luck in the Bronx or Staten Island. Hu
South Bronx neighborhood that is the ci
food wholesalers and distributors, is bur
seams. "On average, I get one or two
week from firms looking for 100,000 sq
more space. It's just not available,"
Robideau, manager of the Hunts Point
Development Corporation. And the Br
Economic Development Corporation i
working with more than 40 companie
been waiting for months for space to op
borough.

Percentage of Available Industial Space in Brooklyn (19

Square Feet	3rd Q 1998	3rd Q 1997	3rd Q 1996	3rd Q 1995	3rd Q 1994	3rd (
Total	10.87	13.31	15.12	14.62	14.42	13.9
2,000-4,999	11.14	11.54	10.69	12.57	11.01	11.5
5,000-9,999	9.70	12.23	12.35	11.25	12.61	13.6
10,000-19,999	11.31	11.81	13.83	13.63	13.22	15.0
20,000-29,999	12.17	16.15	17.28	16.70	18.50	19.3
30,000-39,999	13.05	18.99	18.16	18.31	17.75	17.2
40,000-49,999	10.82	8.66	13.04	10.39	12.08	13.5
50,000-74,999	6.25	9.02	9.38	7.57	9.15	11.3
75,000-99,999	9.54	16.02	19.79	17.12	18.98	24.1
100,000-149,999	13.24	16.53	18.63	16.81	16.09	9.29
150,000 +	11.28	13.53	16.77	18.35	14.76	8.74

Percentage of Available Industial Space in Queens (1993-

Source: Greiner Maltz Realty

Square Feet	3rd Q 1998	3rd Q 1997	3rd Q 1996	3rd Q 1995	3rd Q 1994	3rd Q 1993
Total	9.42	10.79	11.96	13.47	13.10	12.97
2,000-4,999	8.10	8.71	7.94	10.47	11.14	10.70
5,000-9,999	7.14	9.18	10.22	11.54	11.52	12.54
10,000-19,999	8.71	10.18	11.29	13.68	14.91	14.08
20,000-29,999	8.53	11.41	13.01	15.66	16.46	16.40
30,000-39,999	9.11	10.67	11.94	15.79	10.96	12.54
40,000-49,999	11.98	14.02	17.19	17.25	13.79	15.22
50,000-74,999	12.28	15.36	18.16	19.05	18.35	18.23
75,000-99,999	3.17	8.92	11.79	18.29	14.93	26.02
100,000-149,999	14.13	12.40	19.00	19.73	22.82	23.84
150,000 +	9.10	9.63	8.68	8.48	7.80	5.08

Among the successful small businesses that have left the city over the last two years or are in the process of leaving are a gelato manufacturer that jumped to Irvington, New Jersey from Nolita (North of Little Italy), a printing company that recently fled the rents of lower Manhattan for Jersey City and three Bronx firms that couldn't find space to expand: Snapple, the beverage manufacturer; Hudson Scenic Studio, a large manufacturers of scenery for Broadway theaters; and Imperial Bag & Paper Co., a wholesale distributor of paper goods.

Mike Nash, president of Imperial Bag and Paper Co., says that he recently inked a deal to move his growing business from Hunts Point to Bayonne, New Jersey after looking in vain for space to expand his business in the city. His extensive search resulted in exactly one parcel that suited his not unusual needs: high ceilings, loading docks, adequate parking, and a minimum of 140,000 square feet (he currently rents 93,000 square feet in two Bronx buildings). He says that city government showed no desire to help him acquire a portion of the 400,000 square foot former Alexander's warehouse in Hunts Point. "I was not asking for a lot. I just needed some help from the IDA (New York City Industrial Development Agency). But, the city just sat on it for months," says Na whose 130 employees earn an average annual sala of $62,000.

In comparison, New Jersey has been known roll out the red carpet for industrial firms in N York City. "New Jersey gave me a $750,000 induc ment to go, which I wasn't even looking for," Na says. "I wanted to stay in the Bronx. We just cou n't find space." Numerous other city-based comp nies that are currently looking for space within t five boroughs said they are being wooed with ge erous offers from New Jersey. Almost none of th companies have received similar offers from c economic development officials.

Industrial firms aren't the only businesses flee city rents. Moviefone has signed a deal to reloc 60 to 80 employees from midtown to Westchester. growing biotechnology company recently left Ma hattan for Westchester. And the city's tight real est market has spurred two major soon-to-be-compl ed office developments on the Jersey City wat front. Even before construction is complet Samuel LeFrak's 550,000 square foot building Three Newport Center is already fully leased. future tenants are three Manhattan-based business

US Trust, Cigna and Paine Webber. Another Manhattan firm, Lord Abbett and Co., has agreed to take up nearly half of the Colgate Center on the Hudson, the other office tower under development.

Disturbingly, the steady pace of companies leaving the city is likely to escalate as leases expire and a new

wave of firms being priced out of Man
forced to compete for limited real estate i
boroughs. Richard Lichaw, an industrial
agent with Kaplon-Belo Inc., says that he
the needs of only three or four of the ro
companies he is currently working with t

Companies That Have Recently Left NYC

Spice Market Inc.
This warehouse/distribution company moved more than 100 jobs from Brooklyn to Jersey City last July. Joel Barr, the firm's owner, says he couldn't find quality space in Brooklyn to expand his operation. "I could have created in excess of 200 jobs in Brooklyn. The last thing I wanted to do was to leave Brooklyn. A lot of people in Brooklyn lost their jobs."

Ciao Bella Gelato Co.
This gourmet ice cream manufacturer relocated its 35 employees from Nolita in Lower Manhattan to Irvington, NJ.

Paul Sernau Inc.
This importing business relocated its 8 employees from Midtown South to Newark. "We were paying $80,000 in rent for 6,000 square feet in Manhattan. Now, we have 12,000 square feet and we're only paying $4,000," says owner Robert Zakarin.

Snapple Beverage Corp.
In late April, the company relocated its Bronx warehouse and distribution facility from Hunts Point to a larger building in Pelham Manor. The move involved approximately 50 employees.

Cunningham Graphics International Inc.
This Manhattan printing company recently purchased a 150,000 square foot building in Jersey City.

Companies On Their Way Ou

Imperial Bag & Paper Co.
This paper goods wholesaler has ir
deal to move its 130 employees
Hunts Point to Bayonne next Feb
After searching for space througho
city since last May, the company's
Mike Nash, observed that "Ther
exactly one parcel that suited my ne

Bruno the King of Ravioli Co.
Rising rents and a need for larger
forced this Hell's Kitchen pasta ma
purchase a new factory in Hacke
Though it will maintain a retail st
the West Side, it is moving its 15 e
ee manufacturing operation to New
by the end of June.

Hudson Scenic Studio Inc.
Unable to locate suitable space in t
during a search that has lasted nea
years, Hudson Scenic Studio, the
largest company that builds se
Broadway theaters, is now in the p
of negotiating a deal to move its
employees from the Bronx to Yonkers
were looking at taking over a vacan
owned parcel in the Bronx. It was
fect space. But, the city's just dr
their feet," says Tony DiCamillo, the
pany's marketing director. "Yonke
doing backflips to get us to come th

Moviefone Inc.
Moving 60 to 80 back office jobs
Midtown to Westchester. The compa
keep its headquarters in Manhattan.

Ciao Bella Gelato was offered a relative bargain when its landlord decided to increase the firm's rent from $12 to $35 a square foot last year.

space in Brooklyn and Queens. At least 20 or 30 of them have informed him that they are now looking for space in New Jersey.

Marjorie Seaman, a real estate broker at Insignia/ESG's Queens office, says that as the industrial population of Manhattan is forced to relocate, a number of industries are taking a new look at the outer boroughs. In past months she has worked with a number of movie production companies that have had a difficult time finding adequate space in Long Island City and Greenpoint. "Many of them are finding they either need to build their own space, which some of them are doing, or look outside of the city." In addition, she says that, in recent weeks, "about a dozen" Manhattan-based pastry and bread manufacturers and two major groups of printing companies have looked for space in Long Island City.

But with a limited number of suitable properties, prices have skyrocketed and firms have been forced to actively compete for a handful of quality spaces. In January, the Bulova Watch Company paid the highest-ever recorded sale price for an industrial site outside of Manhattan. Even more telling, at least three other companies made backup offers for the Greenpoint distribution facility at the same high price.

While this isn't the first time New York has experienced a tight real estate market, the current space crunch is affecting more areas of the city than ever before and pushing industrial firms into neighborhoods long avoided because of distance from Manhattan and a lack of road and subway access.

Moreover, while the soaring economy has led to numerous commercial, residential and retail developments throughout the city, it has spurred virtually no new industrial development, leaving displaced manufacturers and distributors to compete for a rapidly diminishing supply of sites. As a result, it is becoming increasingly clear that the negative effects of the current real estate boom will be felt long after the city's economy slows down.

Food Manufacturing

Bread and pastry makers and other small specialty food manufacturers produce fresh goods essential to the daily operation of hundreds of the city's restaurants, hotels and caterers. These food producers must be located where they can make rapid and frequent deliveries to their customer base in Manhattan.

Escalating real estate costs have forced an increasing number of these firms to relocate out of Manhattan. Some have already jumped ship to New Jersey. F.W. Pearce says that his manufacturing firm, Ciao Bella Gelato, was actually offered a relative bargain when its landlord decided to increase the rent at its ground floor facility in Nolita (North of Little Italy) from $12 to $35 a square foot last year. New tenants coming into the neighborhood—mostly boutique clothing stores that could not afford rents in Soho—were paying rents of $45 to $55 a square foot.

Unfortunately, as with other manufacturers, Ciao Bella Gelato could not turn a profit facing rents much higher than $12 a square foot. Pearce looked at space elsewhere in the city, but couldn't find anything available that suited his company's needs. As a result, late last year the firm moved to Irvington, New Jersey, where it is paying "one-half of what we would have paid in Queens and one-third of Manhattan rents."

Rising Real Estate Prices

An inability to find good affordable space is inhibiting the growth of small busnesses and t ening to push an increasing number of them out of the city. During its four-month inve tion, the Center for an Urban Future found skyrocketing real estate costs are affecting office properties in Manhattan and industrial space throughout Queens and Brooklyn.

Manhattan

Average Office Rents in Manhattan / sq. foot

	3/1/98	3/1/99	$ Increase	% Increase
Midtown South	$22.68	$31.10	$8.42	37 %
Midtown	$37.41	$44.29	$6.88	18 %
Downtown	$27.04	$31.81	$4.77	18 %

(Source: Insignia/ESG Office Market Review)

Rising rents have sent office tenants to the outer fringes of Manhattan, thereby displacing scores of light manufacturing tenants. For example, two buildings in Chelsea–the Starrett Lehigh Building at 601 West 26th Street (12th Avenue) and the old Port Authority facility at 111 8th Avenue (15th Street)–were long home to printers, book binders and other light manufacturing businesses paying roughly $6 to $10 a square foot. Today, space in these buildings is renting for $18 to $25 a square foot, well beyond what manufacturers can afford. Some manufacturers whose leases have expired within the last year have already left. Real estate agents say that dozens of additional firms will be pushed out in the next few years as their leases expire.

Queens

	Industrial Rental Prices / sq. foot		Sale Prices / sq. foot	
	1998	1999	1998	1999
1-Story Buildings	$5-$6	$6-8	$50	$60
Multi-Story Buildings	$4.50	$5.50	low $20s	$30-40

(Source: Estimates based on interviews with real estate brokers: Marjorie Seaman of Insignia/ESG; Richard Lichaw of Kaplon-Belo Inc.; and Steve Nadel of Greiner Maltz.)

Brokers say some areas are renting at significantly higher prices. For example, Marjorie Seaman of Insignia/ESG and Richard Lichaw of Kaplon-Belo Inc. report that some Long Island City buildings are renting for as much as $10 a square foot.

Brooklyn

	Industrial Rental Prices / sq. foot		Sale Prices / sq. foot	
	1998	1999	1998	1999
1-Story Buildings	$4	$5-6.50	$30	$40
Multi-Story Buildings	$3.25-3.50	$4.25	$20s	$25-30

(Source: Estimates based on interviews with real estate brokers: Marjorie Seaman of Insignia/ESG; Richard Lichaw of Kaplon-Belo Inc.; and Steve Nadel of Greiner Maltz.)

While real estate costs have rapidly increased throughout the borough, prices are particularly high in Greenpoint and Williamsburg because industrial businesses there are increasingly competing with artists and other residential tenants for space in industrial buildings.

Twenty-First Century Jobs

A variety of high-tech sectors, including new media and software, have been among th city's fastest growing industries over the past few years. But high real estate costs threate to inhibit growth in these emerging industries.

High Tech Industries: Biotechnology

The high cost of real estate in Manhattan is one of the main reasons the city lost out on an opportunity to become a leading center for biotechnology. Almost a decade ago, economists predicted rapid growth in the industry in New York, largely based on the fact that Manhattan is home to so many top-flight medical research institutions. However, because the city was slow to respond to the space needs of the industry, this growth never materialized.

Columbia University, with help from the city and state, developed a biotech incubator in the Audubon Ballroom building on 166th Street in 1993. Now space at the incubator is renting for $35 a square foot, a hefty sum for companies that often go for years before turning a profit. Even so, the incubator, which has been home to a handful of start-up companies, has long had its 40,000 square feet of developed space fully leased. And there is virtually no affordable space in Manhattan for firms to move to when they have outgrown the incubator. As a result, numerous growing biotech firms have departed the city for less expensive locales in Boston, Washington, Baltimore, New Jersey and Long Island, all of which are now home to significantly more biotech companies —and more biotech jobs—than New York City.

In fact, eight of the 16 biotech firms in the city in 1991 moved away or went out of business, according to a 1997 study. Between 1991 and 1996, when biotechnology was one of the fastest growing industries in the nation, employment in the city's biotech industry grew by a mere 36 jobs, a 7 percent increase. In contrast, biotech companies on Long Island created 1,819 new jobs during the same period, a 220 percent increase over 1991.

Dr. Ron Cohen says that the lack of affordable lab space in Manhattan "makes it virtually impossible to start and grow a biotech company in New York City." Dr. Cohen should know. A New York City native who went to school at Columbia and still lives in Manhattan, he wanted to keep his growing biotech firm here. But the high cost of real estate forced him to move his firm, Accorda Therapeutics, to Westchester last August. His company has grown from four to 20 employees since relocating out of the city.

High-Tech Industries: New Media & Software Firms

The city's ability to attract and retain jobs in other high-tech industries like new media and software will also hinge on the availability of affordable space.

Though city and state incentives helped make the high-tech building at 55 Broad Street a success, at least one new media firm that leases space there has seen its rent jump from $16 to $29 a square foot over the past three years. The rising cost of real estate may end up pushing out a number of new media firms that were already paying substantially higher rents than their peers in Silicon Valley and other parts of the country.

Alice O'Rourke, president of the New York New Media Association, believes most of the smaller firms that started in the city will likely stick it out. But she worries that the city will lose the most successful firms that cannot justify spending so much on real estate to outside investors. "When it gets to the point where venture capitalists are investing in a company and paying the bills, they say 'Not with my money you're not paying $29 a square foot in rent. Why don't we move you to New Jersey or someplace further south?'"

Zoning Out Industry

For the most part, industrial property in the city is scarce and real estate p increasing because of high demand and low supply. It is a typical byproc strong economy. However, a significant number of building owners and de are contributing to the problem by keeping their spaces empty. Some ar waiting for prices to go up higher. Others are waiting for the city to give th mission to convert thier buildings to a more profitable use.

Landlords are warehousing space throughout Brooklyn and Queens, but the problem is most prevalent in Greenpoint, Williamsburg and Long Island City—neighborhoods most likely to attract residential or commercial tenants.

Richard Lichaw, the real estate broker at Kaplan-Belo Inc., says that five building owners in Northern Brooklyn have recently taken their properties off the market after showing them to and even taking offers from prospective business tenants. Lichaw believes the building owners, spurred by the increasing demand for housing in hip neighborhoods like Williamsburg and Greenpoint, simply decided they could get a better deal by keeping their properties vacant until prices go up even higher. David Sweeny, director of the Greenpoint Manufacturing and Design Center, believes buildings being deliberately kept off the market account for as much as a quarter of the vacant industrial space in Brooklyn.

Tony Morris, owner of Morris Fine Furniture, observed warehousing of industrial space first hand when he had to move out of his Long Island City building in 1996. "I know landlords who have buildings that have been empty for years. Instead of lowering the prices, they just hold onto it and wait for the values to go up," says Morris, who eventually moved his firm to Greenpoint.

Other landlords attach so many conditions to leases that they effectively deter all but the most transitory companies from renting space. In some cases, landlords refuse to offer leases of more than two years. Others insist upon leases that allow them to evict tenants with six months notice.

In Long Island City, there has been pressure to rezone certain blocks to make owners to redevelop their industrial bu office or retail use. But the city Departme ning has come up with a plan that sm rezoning to one relatively small and geo confined area—36 blocks out of 360 blo area. Essentially, the city is trying to disco ulation with the remaining 300-plus blo neighborhood.

But in Brooklyn, the city Departmen ning has done nothing to stop real esta tion. In some cases, it has actually encou not declaring certain manufacturing area for rezoning. The Planning Department large swath of the Brooklyn waterfront manufacturing uses a "study area" for This ambiguity has only encouraged buil ers to keep space off the market unt makes a decision.

Last year, the Planning Commission rezoning initiatives in Williamsburg an Hill. Officials maintain they are only rez with large tracts of vacant or unused indu erties that show no promise of being rede industrial use. However, it is difficult to b these areas could not have been rented or for use by industry. For building owners, easy. If the cost of redeveloping dilapida ings is significant, and owners can get on per square foot by renting space to industr they might as well keep the property e they can develop the space for resident who can pay up to three times as much.

In the Forefront: Cheryl Cohen

In March, the Center for an Urban Future's Jonathan Bowles spoke with Cheryl Cohen, one of th city's most creative developers of industrial properties. Cohen, and her father, Irwin, demo strated that industrial developers could turn a profit by successfully renovating two abandone Long Island City warehouses into modern centers for dozens of small and mid-sized manufa turers. In the late 1980s, the team developed the former Gimbels warehouse into the Falc Building, a 500,000 square foot space that is now home to 35 light manufacturers. The Coher most recent accomplishment is the Chelsea Market, which has become at once a busy retail foo market and a convenient home to scores of small food manufacturers, film production comp nies, new media firms and other light manufacturing businesses.

The Center for an Urban Future: There are very few people who are interested in developing manufacturi properties. Why has your company bucked the trend?

Cheryl Cohen: There's a selfish and an unselfish reason. We're New Yorkers and we feel the best thing abo New York is the influx of talented workers. Unless there's a place for them to be employed, New York will in bad shape. But, also, commercial tenants don't always grow in size if they do better. Manufacturers ten to need more space as they produce more.

CUF: Why aren't more developers following your lead?

CC: I think that most other developers are not very creative. Most developers want a plain vanilla box. We li 31 flavors. Also, we really feel a sense of advocacy for the tenants. We fill out city incentive applications f them. We care about their success and their ability to grow. For us, that's profitable.

CUF: Do you think the city does enough to encourage the development of new manufacturing properties?

CC: We probably could have made the Falchi building into back office space in the 1980s, but the city w very aggressive in marketing a bundle of incentives that tilted the balance towards manufacturing as a viab development opportunity. Unfortunately, many of the city incentive programs that were available in the 198 have been cancelled. If there are new programs out there now, I don't know about them.

CUF: Is there any particular program you'd like to see brought back?

CC: The single best program was the Business Relocation Assistance grant. Manufacturers received a che from the city reimbursing them for moving expenditures. It was a huge psychological plus for companies th were used to writing checks to the city.

CUF: What should the city do to encourage the development of new industrial properties?

CC: The city should reward people who develop industrial space. It should create incentives for developers be more creative. Low cost public money that's matched by private funds is a responsible way to encoura manufacturing spaces to be developed.

City officials argue that, in most cases, their rezoning plans do not force out industrial businesses that fall within a rezoned area. However, these “non-conforming” businesses are prohibited from expanding and many owners feel that if they don't have the option to grow, they may as well move. In addition, as residents move in around them, businesses are often inundated with complaints from their new neighbors and more frequent visits from regulatory agents. "The deck is stacked very much against industry. The city doesn't get in the way of residential development of any kind," says one Brooklyn-based private planner. "If it's possible to rezone, the developers are doing it," adds Michael Shor, a broker at Metro Industrial Realty.

“If you have an industrial facility, it’s virtually impossible to plan a future in New York City,” says Steve Hindy, president of the Brooklyn Brewery.

Woodworkers Co-op

For the owners of eight businesses in a woodworkers co-op in Greenpoint, it's deja vu.

For seven years in the 1980s, the companies were part of a much larger woodworking co-op in Carroll Gardens. But in 1988, when the economy was strong, their landlord decided to convert the building to residential use. Thanks to pressure from the local community, the landlord was required to find the woodworkers a new space. They've been in Greenpoint ever since. That may soon change, however, because their new landlord recently backed out of a lease renewal agreement and is now attempting to double their rent.

The co-op, which employs between 25 and 30 people, was paying $5,400 a month in rent before its lease expired in December. Joe Toledo, the president of the co-op and owner of Toledo Interiors, said that they reached a verbal agreement with the building's owner for a five-year renewal at $7,500 a month and another five years at a slightly higher price.

Toledo says the owner reneged, coming back with an offer of $9,000 a month for only two years. Although the woodworkers objected to the short lease period, they agreed to the deal. But, again, they saw no lease agreement. Eventually, the owner's son drew up a lease, this time at $9,500 for 12 months and another 12 months at $11,500.

"We're expecting to move shortly," says Toledo. "There's no security in a two year lease and the money being asked of us is more than we can afford to pay. We're looking at the possibility of going to the Bronx or even Yonkers, because there's not a lot of space. We're finding there's nothing available [in the City] or that what is available is at rents we can't afford."

Diminishing industrial space is costing New York hundreds of jobs.

Despite complaints from business owners, the city is now routinely approving applications for variances that allow landlords to tear down industrial buildings in areas zoned for manufacturing use and replace them with residential developments. Between January 1997 and June 1998, the City Board of Standards and Appeals approved 39 of these variance applications in south Williamsburg alone.

The city has also shown little interest in halting illegal conversions of industrial buildings to residential units in north Williamsburg, a practice that has increased substantially with an influx of students and young professionals. While artists have been illegally residing in industrial lofts for years, the recent increase in residential conversions has taken available industrial space off the market and caused prices to increase dramatically.

Diminishing industrial space is costing New York hundreds of jobs. When the Brooklyn Brewery first opened a warehouse in Williamsburg in 1988, the company's owner, Steve Hindy, planned to build a large brewery and grow his business exclusively in the area. However, he soon realized that the large numbers of artists living illegally in the neighborhood's industrial loft buildings would severely limit his ability to acquire the additional space to expand his business. Though the brewery employs roughly 70 people in Brooklyn, Hindy ultimately decided to build only a small brewery in Williamsburg and contract out most of the firm's brewing operations to company based in upstate Utica, costing Brooklyn about 100 jobs.

"If you have an industrial facility, it's virtually impossible to plan a future in New York City because the increasing use of property for residential units makes the cost of property extremely high and prohibitive for industrial use," says Hindy. "The city has addressed things like taxes and energy. The problem is how to expand."

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Recommendations & Solutions

Proposed by the Center for an Urban Future

Growing manufacturers, new media firms, biotech companies and oth businesses will continue to flee the five boroughs, dealing a crushing New York's ability to gain well-paying jobs and undermining its goal ating a more diversified economy, unless the city, local development and business leaders work together to develop a comprehensive stra address the shortage of affordable real estate. The Center for an Urban recommends that local policy makers take the following actions:

Re-evaluate Land Use Policy In Manufacturing Zones

The Planning Department must rethink its industrial policy, taking into account the today's industrial real estate market: though few large manufacturing companies remain, hu small to mid-size manufacturers are growing and need space to expand. And, far from a unused manufacturing sites in the city, there is actually a severe shortage of quality industrial

Given these space needs, and the importance of manufacturing as a job producer and to service sectors, the city must abandon the pattern of benign neglect that has essential real estate developers to make their own planning policy. The Planning Department's deci examine much of the city's commercial zoning laws presents an opportunity to address th industrial firms.

Create Industrial Sanctuaries

The city must work with local development officials and industry leaders to designa areas as industrial sanctuaries, where businesses would not be subject to zoning changes f anteed number of years. This would protect business owners from speculative real estate and the obstacles of working in a neighborhood that is becoming more residential, allov to sign long-term leases and re-invest in their company's growth.

This practice has been implemented in Chicago, which has preserved hundreds of w manufacturing jobs by creating Planned Manufacturing Districts (PMDs). While oute areas like Greenpoint, Williamsburg, Long Island City and Red Hook are ideal cand industrial safe havens, the city should also set aside parts of Manhattan, including the gar ter. With these havens, the city will be able to proceed with rezoning some industrial hoods for residential use while addressing the needs of manufacturers.

Develop Vacant City-Owned Land and Strengthen Incentives for Private Developers

The city must commit to supporting and encouraging new industrial and commercial develo ment for small and medium-size businesses just as it has for major employers in the financial secto

It should provide incentives to replicate successful projects like the Brooklyn Army Terminal a the Greenpoint Manufacturing and Design Center. Policy makers should also create addition industrial parks in desirable manufacturing areas to enable businesses to benefit from tax incentiv for capital renovations.

In addition, the city must strengthen incentives to individual developers and not-for-profit org nizations to refurbish large, underutilized properties into modern facilities for rental to small a mid-sized manufacturers. The Center for an Urban Future endorses the New York Industrial Rete tion Network's plan to set up a Trust for Industrial Land, which would own, manage and redevel manufacturing space. In addition, the city should lobby for exceptions to the federal law that do not allow industrial development bonds to be used for the speculative development of industri space.

Lobby for State Legislation Easing Brownfields Regulations

Local elected officials should support the passage of proposed state legislation to encourage t re-use of polluted former industrial properties. With properly written legislation, it is possible redevelop currently empty industrial properties without causing environmental harm.

Failing this, the city must lobby for passage of legislation that provides clarity to potential owne of their responsibility for remediation, allowing them to budget for actual clean-up costs in advanc

Create More High-Tech Incubators and Post-Incubator Strategie

New York City needs more public/private initiatives to create modern facilities with affordab rents for start-up new media, software and biotechnology firms. Other states and municipalities a doing just this. The State of New Jersey, for example, is in the process of building a second 60,0 square foot building for high-tech firms in North Brunswick.

The city must also ensure that emerging industries have access to affordable space as they beg to outgrow their incubators. This can be done through subsidies and tax breaks for development commercial properties and lab spaces for developing high-tech firms. To receive these public ben fits, developers would have to agree to lease space at affordable rates.

Restore the Business Relocation Assistance Corporation

The city must restore BRAC, which has proven effective at keeping manufacturers in the city. A since it is no longer just Manhattan where manufacturers are being displaced because of the conversi of industrial buildings to other, more profitable uses, BRAC should be expanded to all areas of the ci

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