

THE FINAL FRONTIER FOR MANUFACTURERS

Amount of undeveloped space at Federal Building #2 **1.1 million square feet**

Amount of undeveloped space at Building A of the Brooklyn Army Terminal **900,000 square feet**

Industrial vacancy rate in Sunset Park **1%**

Number of firms that could be housed at the two Sunset Park developments **120**

Thus far, neither of the Sunset Park projects has garnered much attention. However, in the long run, they could provide a bigger boost to the city's economy than higher-profile initiatives like the development of new stadiums for the Yankees, Mets and Nets and expansion of the Javits Convention Center.

Proposals to Redevelop Two Vacant Government Warehouses in Sunset Park Would Create 2 Million Square Feet of Space for Manufacturers at a Time When Industrial Firms in NYC Feel Squeezed

AFFORDABLE MANUFACTURING SPACE HAS BECOME AN INCREASINGLY rare commodity in New York City in recent years, as dozens of industrial properties have been converted into luxury condos, artists' studios and big box stores. Real estate brokers say that industrial vacancy rates around the five boroughs today are at historic lows, while scores of woodworkers, bakers, printers, jewelry makers and other manufacturers insist that the lack of reasonably priced space is their biggest impediment to growth—and the reason some are opting to move to the surrounding region. Yet, despite the space crunch, hardly any industrial buildings have been built in recent years, largely because most manufacturers can't afford to pay high enough rents to make it worthwhile for developers.

Fortunately, the Bloomberg administration now has a unique opportunity to spur development of 2 million square feet of new manufacturing space, enough room for upwards of 120 small and mid-sized firms and thousands of blue-collar jobs.

Administration officials could make this happen by following through with plans to redevelop two massive government warehouses in Sunset Park that have sat empty for years: Federal Building #2, a 1.1 million square foot building once occupied by the U.S. Food & Drug Administration, and Building A at the Brooklyn Army Terminal, a 1.8 million square foot structure, only half of which has been developed.

Both properties sit in one of the city's most viable remaining manufacturing districts, an area that's currently home to more than 1,600 industrial businesses. Both also sit within the city's newly designated Industrial Business Zones, areas that are supposed to be off-limits from residential conversion and thus provide manufacturers a measure of protection against speculative real estate increases and threats of displacement.

One of the reasons these projects make so much sense is that they are the kind of developments the city has already show it can do well. Some of the city's most successful economic development initiatives during the last 25 years have involved remaking vacant government-

FEDERAL BUILDING #2

Once used as a laboratory by the FDA, the block-long warehouse on the corner of Third Avenue and 30th Street in Sunset Park has sat vacant for years. When the federal government decided to unload the 1.1 million square foot building in 2000, a coalition of community groups and local officials started a campaign to reuse the building in a way that would benefit neighborhood residents and boost the local economy. It was immediately clear that a new home for small and mid-sized manufacturers, possibly with a mix of other commercial uses, made the most sense.

Some of the city's most successful economic development initiatives during the last 25 years have involved remaking vacant government-owned facilities into homes for manufacturers, film production companies and other small businesses—such as the Greenpoint Manufacturing and Design Center, the Brooklyn Navy Yard, Kaufman-Astoria Studios and the Brooklyn Army Terminal.

owned facilities into homes for manufacturers, film production companies and other small businesses—such as the Greenpoint Manufacturing and Design Center, the Brooklyn Navy Yard, Kaufman-Astoria Studios and the Brooklyn Army Terminal (another large building at the complex was developed in the 1980s). All of the space developed as part of these earlier projects is currently full or very near to it.

Thus far, neither of the Sunset Park projects has garnered much attention. However, in the long run, they have the potential to provide a bigger boost to the city's economy than higher-profile, publicly subsidized initiatives like the development of new stadiums for the Yankees, Mets and Nets and expansion of the Jacob K. Javits Convention Center.

The two Sunset Park projects are also likely to be a better value. The FDA building will involve roughly \$3 million in public monies, while redeveloping 900,000 square feet at the Army Terminal would likely cost the city \$80 million. The city and state are expected to commit more than \$1 billion to the expansion of the Javits Center and over \$200 million each toward construction of new ballparks for the Yankees and Mets. Development of the Nets arena and the Atlantic Yards project would cost the city and state at least \$200 million.

To its credit, the city's Economic Development Corporation (EDC) has signaled an interest in supporting both Sunset Park projects. But neither is a done deal and stumbling blocks remain.

Sunset Park today is a working class neighborhood, with a large, mostly immigrant population residing to the east of Third Avenue and a sprawling district of manufacturers and distribution companies in the blocks west of Third Avenue. According to local officials, more than 10,000 residents live and work in the neighborhood. Meanwhile, there is hardly any industrial space available in the neighborhood for companies looking to expand or set up shop; local officials say the industrial vacancy rate is a mere 1 percent.

At the same time, large buildings throughout the five boroughs that are compatible for manufacturing have been rapidly disappearing. Longtime industrial havens in Greenpoint, Williamsburg, Long Island City, Port Morris and the far West Side of Manhattan have recently been rezoned to allow for residential development, displacing many manufacturers in the process. Numerous other firms have been uprooted from the Midtown Garment Center, Chinatown, East Williamsburg and Red Hook as a result of escalating rents or because building owners in those areas have converted their properties into more profitable offices, condos or party spaces.

A 2005 report by the city acknowledged that "many industrial businesses are experiencing considerable uncertainty about their ability to maintain and find space," adding that "the city risks losing these companies." Echoing the same conclusion, John Maltz, president of Long Island City-based real estate firm Greiner & Maltz, wrote in November 2005: "Two years ago the Greiner-Maltz

proprietary database contained over 90 listings of industrial zoned landsites from 10,000 to 50,000 square feet for sale or lease. We now have less than 20.”

If redeveloped for manufacturing, the former FDA building in Sunset Park could provide welcome refuge for manufacturers being displaced from other parts of the city. “This is one of the last places in the city where there’s M-zoned land [zoning that allows for industrial and other commercial uses] that most people perceive will stay M-zoned,” says Phaedra Thomas, executive director of the Southwest Brooklyn Industrial Development Corporation, a group which works with businesses in Sunset Park, Gowanus and Red Hook.

The Brooklyn Economic Development Corporation (BEDC), a nonprofit that has taken the lead in pushing for redevelopment of the site, says the building could provide space for up to 90 small manufacturing businesses and 1,500 jobs. It would likely house a mix of manufactur-

Richard Yu, project manager for EDC, asserts, “The goal of the project for EDC and BEDC is to increase the inventory of manufacturing space in the city.”

Compared to several other commercial development projects on the drawing board in the five boroughs, the public costs for this project are minimal. While BEDC has secured roughly \$3 million in city and federal funds for the project, the bulk of the development costs—estimated at \$70 to \$125 million—will be born by the developer, which EDC expects to select by the end of the summer.

The Bloomberg administration’s preliminary support for this project is laudable and, on the heels of its creation of Industrial Business Zones, another positive sign that City Hall is beginning to recognize the value of retaining manufacturing jobs. However, the site is still between 12 and 18 months away from being transferred to the development team (pending selection of a developer and completion of the Environmental Impact Statement,

It’s critical that the administration selects a developer who will adhere to the goal of leasing the building primarily to job-intensive manufacturers. Within that larger goal, particular emphasis should be on leasing to a significant number of industrial tenants who need less than 10,000 square feet—the types of spaces that are hardest to find in the five boroughs today.

ing firms, possibly including woodworkers, metalworking companies and apparel makers, something that works well in Sunset Park, which is already the city’s third largest apparel manufacturing center.

“It’s a unique opportunity to do something impactful about retention of manufacturing in New York City,” says Joan Bartolomeo, president of BEDC. “The plans call for a modern, efficient and habitable building that should be a great place for manufacturing companies to have a long term home. It will be a home of last resort for companies that are being displaced from other areas of Brooklyn.”

The good news is that, rather than simply sell the site to the highest bidder and possibly see another prime industrial building converted into luxury apartments, the Bloomberg administration has lent its backing to the community’s proposal to have a private developer recreate the facility for manufacturing and other commercial purposes. In December, EDC issued a Request for Proposals seeking a developer who would partner with BEDC to redevelop the facility in a way that focuses on “the maximization of manufacturing space.” It may end up including ground floor retail as a way of generating enough of a revenue stream so that the developers can offer affordable rents to manufacturers on the upper floors. However,

which the city is conducting), and much can happen to derail the project. It’s critical that the administration selects a developer who will adhere to the goal of leasing the building primarily to job-intensive manufacturers. Within that larger goal, particular emphasis should be on leasing to a significant number of industrial tenants who need less than 10,000 square feet—the types of spaces that are hardest to find in the five boroughs today, as well as the ones most frequently converted into residential use.

BROOKLYN ARMY TERMINAL, BUILDING A

Just a few subway stops south of the old FDA building lies another immense city-owned building that’s been vacant for years—and another incredible opportunity to bring a significant amount of new industrial space onto the market. This site, part of the enormous Brooklyn Army Terminal complex, has approximately 900,000 square feet of space that hasn’t yet been developed. If renovated, it could provide reasonably priced space for several dozen small and mid-sized businesses.

The Brooklyn Army Terminal is already a model for how government-owned property can be remade into an

affordably priced center for small and mid-sized businesses. Built in 1918 as a U.S. Army depot, the 97-acre, multi-building complex was abandoned by the federal government in 1975 and taken over by the city in 1981. After sitting empty for years, in the 1980s the Koch administration took the lead in redeveloping one of the buildings at the site, Building B, using \$130 million in city and federal funds to repair freight elevators, install new plumbing and make other necessary renovations.

Though the upfront government expenditures were initially criticized, the investment ultimately proved to be a success. Today, the eight-story, 2.2 million square foot building is nearly 100 percent occupied, primarily with manufacturing and distribution companies, but also back office operations of financial firms and some warehousing and health care uses. It also remains one of the more desirable industrial properties in the city—with amenities ranging from dozens of loading docks to on-site parking and child care.

While Building B at the Army Terminal is bursting at the seams, the building next door—Building A—has about 900,000 square feet of undeveloped space. Also eight stories tall, Building A has a total of 1.8 million square feet of space. The half of the building that's already been developed is primarily occupied. Overall, there are 72 companies in Buildings A and B.

Redeveloping the remaining 900,000 square feet would require a substantial upfront investment to renovate the building, including environmental abatement of lead and asbestos, electrical, elevator repairs and erecting new restrooms.

Bringing just half of that space on line would probably cost \$38 to \$40 million, according to EDC.

But, with few vacancies at the Army Terminal and a shrinking amount of industrial space throughout the five boroughs, building out the remaining space in Building B is an investment worth making. Janel Patterson, an EDC spokesperson, says that the agency is considering just that, with an eye to making the new space available for manufacturers and biotech-related uses. "We are in the process of reviewing suitable programs for industrial and bioscience users and identifying funding sources for the renovations of the remaining approximately 900,000 square feet of space in Building A."

Thus far, no funds have been committed and it remains unclear whether the administration will make the Army Terminal project a priority.

Redeveloping the raw space at the Army Terminal and Federal Building #2 aren't the only actions the Bloomberg administration can take to help ease the space crunch facing manufacturing firms in the five boroughs. In the long run, enacting new zoning protections that limit the use of industrial space for residential, office, retail and municipal uses will be even more important to ensure that remaining manufacturing zones don't all succumb to the same speculative real estate pressures that led to the displacement of scores of businesses in other parts of the city. Still, creating 2 million square feet of new industrial space will be a huge boost for scores of businesses and, in two quick strokes, vastly increase the stock of industrial real estate in the city.

CREDITS

The Center for an Urban Future is a New York City-based think tank dedicated to independent, fact-based research about critical issues affecting New York's future including economic development, workforce development, higher education and the arts. For more information or to sign up for our monthly e-mail bulletin, visit www.nycfuture.org.

This policy brief was written by Jonathan Bowles and Tara Colton.

General operating support provided by Deutsche Bank, Bernard F. and Alva B. Gimbel Foundation, The F. B. Heron Foundation, The Rockefeller Foundation, The Scherman Foundation, Inc. and Taconic Foundation.

The Center for an Urban Future is a project of City Futures, Inc. City Futures Board of Directors: Andrew Reicher (Chair), Michael Connor, Russell Dubner, Ken Emerson, Mark Winston Griffith, Marc Jahr, David Lebenstein, Lisette Nieves, Ira Rubenstein, John Siegal, Karen Trella and Peter Williams.