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The Big Squeeze

This groundbreaking report examines how rising rents and the real estate crunch are forcing small businesses out of New York City

by Jonathan Bowles

This is an excerpt. Click here to read the full report (PDF).

Findings

The Center for an Urban Future conducted a four month investigation of the needs of small businesses in all five boroughs, interviewing nearly 100 people, including small business owners, private planners, and officials at local development corporations, city and state agencies, business advocacy groups, associations and local chambers of commerce. The 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 MANHATTAN BY SKYROCKETING RENTS FIND LITTLE SPACE AVAILABLE IN THE OUTER BOROUGHS.

- Just as building owners are redeveloping most of Manhattan's remaining industrial properties into more profitable offices, the city's most desirable industrial neighborhoods outside of Manhattan÷including Long Island City, Sunset Park, Greenpoint, Maspeth, Hunts Point, Williamsburg and Red Hook÷are all at or near capacity.
- In Queens, the borough-wide vacancy rate for industrial space has shrunk by 30 percent since 1995, to 9.4 percent. And the vacancy rate is much lower in the borough's most desirable industrial neighborhoods. Firms looking for medium and large spaces are virtually out of luck÷the vacancy rate for property between 75,000 square feet and 100,000 square feet is a mere 3.2 percent.
- In Brooklyn, the borough-wide vacancy rate for industrial properties dropped to 10.9 percent in 1998, down from 13.3 percent in 1997 and 15.1 percent in 1997.
- In Staten Island, local economic development officials have had to turn away several hundred companies looking for quality industrial space in the last couple of years, simply 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 FACTOR OF WAREHOUSING BY PRIVATE LANDOWNERS AND THE CITYâS FAILURE TO AGGRESSIVELY ENCOURAGE DEVELOPMENT OF VACANT AND UNUSED INDUSTRIAL PROPERTIES.

- City land use policies are encouraging speculative housing and retail development in the most desirable industrial neighborhoods in Queens and Brooklyn, leading to higher real estate costs for business and a permanent decrease in the supply of industrial properties.
- Real estate brokers, local development officials and business owners estimate that buildings being deliberately kept off the market account for as much as 25 percent of the vacant industrial space in Brooklyn.
- When landlords do rent to industrial firms, they often refuse to offer leases of more than two years or insist on leases that allow them to evict industrial tenants with six months notice÷conditions that deter all but the most transitory companies from renting space.

- In the Bronx, more than 40 companies that would like to expand within the borough or relocate from outside New York have been waiting for months (and, in some cases, for up to two years) for city approval to develop vacant, city-owned land.
- Though the city's economy is booming and the real estate market is tight, there has been virtually no new industrial development.

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