New York Industrial Retention Network

The Garment Center: Still in Fashion

A Land Use Analysis of the Special Garment Center District

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Executive Summary

Special Report to

the Union of Needletrades, Industrial and Textile Employees
(UNITE)
&
Council for American Fashion
(CAF)

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The Garment Center - Still in Fashion

Summary

Since World War I, the Garment Center in midtown Manhattan has been the physical and creative engine for New York City's fashion industry. Despite decades of real estate pressure, the Garment Center is still overwhelmingly dedicated to apparel design, sales, marketing and even a significant amount of production. The continued preponderance of these activities demonstrates the extraordinary competitive advantages that are derived from clustering design, sales and some production in close proximity to each other. While much production has diffused to other areas, the creative and front office activities of the industry are located almost exclusively in the Garment Center. These strategic design and sales activities anchor the other components of the industry that are located in other areas of the city.

The importance of this clustering of garment activities led the City in 1987 to create the Special Garment Center District to reduce real estate pressures caused by the conversion of manufacturing space to office use. The Garment Center is at a critical moment in its history because of mounting real estate pressures. Manhattan remains the center for the apparel industry. Fifty-five percent of garment industry employment is located in Manhattan and it is concentrated in the Garment Center and Chinatown, two areas experiencing tremendous real estate pressures.

The Union of Needletrades, Industrial and Textile Employees (UNITE) commissioned the New York Industrial Retention Network (NYIRN) to conduct a land-use study of the Special Garment Center District. The land-use study conducted in July and August 2000 revealed that;

- 73% of employment and 74% of occupied space in the Special Garment Center District Preservation Area remains in the apparel industry;
- 60% of the leases of garment companies in the Special District Preservation Area will expire by the end of 2002;
- New York City has done virtually nothing to enforce the Special Garment Center District Zoning and the process is riddled with loopholes;
- There have been over 200 illegal conversions of manufacturing space; and
- The failure to enforce the law has led to tremendous uncertainty in the minds of garment tenants, the group the law was intended to protect. Garment tenants have extraordinarily negative expectations about their ability to continue to lease space in the Garment Center due to rising rent levels and conversions of manufacturing space to office use.

NYIRN is a citywide economic development organization dedicated to strengthening the manufacturing sector and saving manufacturing jobs. This report summarizes the key findings and recommendations of the land use study commissioned by UNITE. The full report can be found on NYIRN's website at www.nyirn.org.

Economic Impact

There are 95,000 people employed in New York's apparel industry generating over $2 billion in annual wages. Employment is heavily concentrated in Manhattan, which is home to over 2,600 apparel and textile companies employing over 59,000 people.

While a significant segment of this employment is found within the low-wage sectors of apparel, there is also a relatively large well-paying segment that is often overlooked. These better paying jobs are in design, marketing and sales and are concentrated in the Garment Center. For example, average annual wages for an individual working in the women's outerwear sector is $38,702 in zip code 10018, and $31,709 for Manhattan overall. Union benefits can add another 20% to 30% to employment compensation.

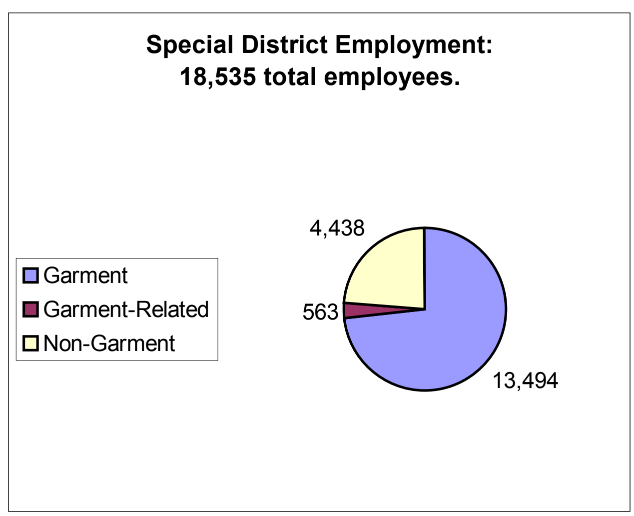
The Special Garment Center District

The Special District was created in 1987 to preserve space for apparel production within the traditional Garment Center because of real estate pressures anticipated from the heavily subsidized redevelopment of Times Square, which is immediately to the north of the Garment Center. In the Special District, the basic manufacturing zoning is augmented by additional regulations creating a "Preservation Area" which covers the mid-blocks. In the Preservation Area (SDPA), the conversion of manufacturing space to office use is prohibited unless an equal amount of space is dedicated elsewhere in the District for manufacturing.

The Special Garment Center District covers the area from 35th Street (north-side only) through 40th Street (south-side only) between 7th and 9th Avenues. Also included is 35th Street (north-side only) through 37th Street (south-side only) between Broadway and 7th Avenue. The Preservation Area includes only the side streets and begins on every side street 100 feet in from the avenues and excludes any building fronting on the avenues. (See map.)

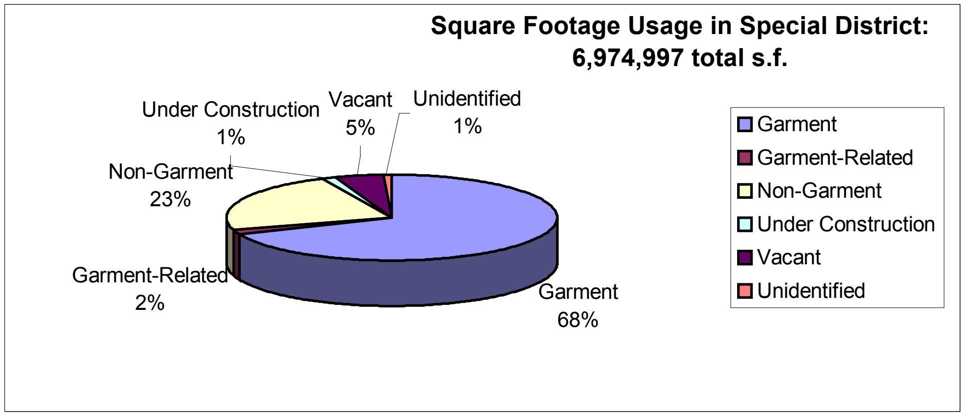
Key Findings

Employment:



Employment in the SDPA is overwhelmingly within the garment industry. Approximately 73% of total employment is in apparel. A surprisingly high percentage remains in apparel production. Forty-seven percent of SDPA employment (or 64% of apparel employment) is in production. Employees in other garment-related companies make up an additional 3% of the SDPA's employment base. The remaining 24% of the employees work in non-garment firms such as internet, food, architecture, computer services and printing companies, but are not heavily concentrated in any one industry.

Use of Space



Garment activities continue to consume the overwhelming majority of space in the SDPA. Approximately 69% of SDPA space is occupied by apparel uses. The largest portion of this space is used for production and a lesser amount is used for showrooms and offices for garment companies. Approximately 5% of the space is vacant and another 1% is under construction. When vacant space is removed from the universe, garment uses consume 74% of all space used in the SDPA. Garment-related companies occupy an additional 2% of the total identified square footage in the SDPA.

Risk of Space Loss Due to Lease Expirations:

Forty percent of the spaces used for garment purposes have leases that will expire by the end of 2001 and 60% will expire by the end of 2002. The timing of lease expirations for non-garment companies is not significantly different.

Tenant Expectations And Uncertainty About the Future

One of the most important findings of the study is the pervasive uncertainty and pessimism of many of the tenants about their ability to remain in the SDPA. Despite the existence of zoning protections, many buildings are obviously being converted to uses unrelated to apparel. These highly visible conversions and the general public perception that the apparel industry is disappearing have undermined the industry's own perception of itself.

- Fifty-four percent of garment companies reported that they expected to have difficulty renewing their lease. These negative expectations are based primarily on expectations of rent increases and space conversions, and not on negative assessments about business conditions.
- Negative expectations are twice as high in the garment industry (54%) as in other industries (22%) in the District.

Type	Expectation of Difficulty in Lease Renewal	Yes	Percent of all "Yes"	Percent of Firms By Type
Garment		129	91%	54%
	Rent Increase	78	55%	
	Landlord Wants Them Out	17	12%	
	Poor Business	2	1%	
	Other	4	3%	
	No Answer	28	20%	
Garment Related		1	1%	11%
Non-Garment		12	8%	22%
Total Each Answer		*142*		

Given that rent levels for garment showrooms/offices and non-garment uses are relatively close, the higher level of negative expectations in the apparel industry may be more a reflection of concerns about the general changes in the District and the conversion of space. Expectations such as these discourage investment and can create a self-fulfilling prophecy of industry shrinkage.

Rent Levels

Space used for garment showrooms and offices in the Preservation Area commands a significantly higher rent than space used for production. The average reported rent for garment showrooms and offices was over $19 per square foot. While this is a relatively high rent for the mid-blocks it is significantly less than the rents for showrooms and other high quality space on the avenues. The average reported rent for Preservation Area production space was over $13 per square foot. Garment Center contractors are clearly paying a significant premium above what they would pay in other areas of the City, however, where production space rents range from $5 per square foot to $15 per square foot, with most rents falling between $6 and $9. Payment of premium rents demonstrates the contractors' commitment to being in the center of their market.

Enforcement

The illegal conversion of manufacturing space is widespread in the SDPA. Conversion of manufacturing space to office use is actually permitted but is subject to "floor area preservation" requirements. Prior to converting any amount of floor area to office use, a building owner must designate an equal amount of floor area, in either the same building or a comparable building, to be preserved and maintained for manufacturing uses. The designation of preservation space is a multi-step process that includes:

1. Execution of a restrictive declaration with the City Register for the property where the equivalent floor area to be preserved is located;
2. Application for a "Chairman's Certification" from the City Planning Commission, certifying compliance with the floor area preservation requirements. A copy of the restrictive declaration must be submitted along with a completed Land Use Review application.
3. Application for building permits from the Department of Buildings for the conversion of floor area to office use. This is considered a Type I Permit, which requires amending the building's certificate of occupancy to indicate the change in use, regardless of whether construction work is done.

The NYIRN survey found at least 212 spaces in 45 buildings in the Preservation Area that have been converted to offices since the Special District was created. Only <u>two</u> buildings in the entire District, however, have obtained all the permits required for converting factory space to offices. NYIRN examined a sampling of the records filed with the Department of Buildings and found that:

- In the two instances where the owners followed the process, it took one 12 and the other 18 months to obtain the necessary permits to convert space;
- In other conversions, owners filed Type II alteration permits which do not require a

site visit by a building examiner and may be self-certified by an architect. Type II permits may be used where there is <u>no change of use</u>. Similarly, the owners did not change their Certificates of Occupancy, which indicated that the uses were still factories.
- In a few instances, owners did not disclose that the building was located in a special district as is required on the alteration application.

Enforcement was originally facilitated through a special task force of the Mayor's Office of Midtown Enforcement, which performed cyclical inspections of the buildings to ensure compliance with the zoning regulations, building code, and other health and safety regulations. This Garment Center Enforcement Project completed one cycle of inspections throughout the District in 1991, but the Project's funding was eliminated in 1992, leaving the District much more vulnerable to illegal conversions.

Recommendations:

Today's Garment Center remains a unique place for the creation and marketing of fashion. It also remains home to a surprising amount of production. The willingness of manufacturers to pay relatively high rents for production space demonstrates the importance they continue to place on the integration of production with design and marketing. In addition, the design and marketing activities that occur in the Garment Center anchor the other elements of the industry throughout the City.

In short, there remains something very much worth saving.

I. Enforce Existing Law:

The process for enforcing the Special District is both ineffective and overly burdensome. The City should:

- Maintain a registry of all buildings and spaces dedicated for apparel production. Improving access to information for Department of Buildings staff, garment tenants and the public will improve enforcement and reduce uncertainty;
- Require signage in buildings to identify dedicated space and describe the protections provided by the zoning;
- Close the loopholes that allow use of Type II building permits which can hide the conversion of space through self-certification. Inspectors should have to visit the site to determine if a change of use has occurred and ensure compliance with the zoning;
- Re-institute cyclical inspections to detect illegal conversions and promote safety;
- Institute legal action against owners who have illegally converted space. Owners should either dedicate space as originally intended or be fined to deprive them of the benefits obtained illegally; and
- Impose a moratorium on the issuance of building permits in the Special District until improved procedures have been enacted.

II. Protect Showroom Space

Maintaining design, marketing and sales activities is essential to maintaining other components of the garment industry throughout the City. There would not be production in Sunset Park, Flushing or the South Bronx without buyers coming to the Garment Center to shop. However, these critical "showroom" and ancillary functions are also located on the avenues, which are excluded from the protections of the Special District.

The City could encourage the maintenance of these critical showroom buildings in at least two ways, which might be pursued either separately or together. The showrooms are very heavily concentrated on a few blocks between 35th and 41st streets. The City should develop new zoning that requires buildings in this area to maintain a certain percentage of apparel businesses that are registered with the New York State Department of Labor's *Apparel Registry*. The *Apparel Registry* is an already existing database of apparel companies developed to ensure compliance with minimum wage, health and safety codes. This model for allowing only a certain category of "certified" tenants to occupy space in particular areas already exists for artists who are certified by the City and allowed to occupy joint live/work spaces in designated zones.

The City could also provide financial incentives similar to those used in Lower Manhattan to anchor financial services and related sectors to that area. Both financial services and internet companies derive competitive advantages from being clustered together, similar to companies in the garment industry. To encourage this clustering, the City initiated a series of programs that provided tax benefits to building owners to enable them to attract and retain companies in these sectors. The City could initiate a similar program for the Garment Center.

III. Expand Production Space City-wide and Facilitate Relocation

Even with improved enforcement, production space is likely to decrease in the Garment Center. In addition, growing real estate pressures in Manhattan's Chinatown threaten the displacement of thousands of garment workers. Chinatown's close proximity to the Garment Center makes it the next best location for production if Garment Center space is not available. At least 14 loft buildings in Chinatown have recently been converted from manufacturing to residential and office uses. To maintain existing manufacturing space and to encourage development of alternative production facilities, the City and State should:

- Renovate the remaining vacant portions of the Brooklyn Army Terminal for apparel use. BAT is located in Sunset Park which is already home to a significant cluster of garment companies and relatively convenient for many garment workers;
- Create an Industrial Development Grant Program to encourage the development and maintenance of space for manufacturing companies. This program would be similar to a "reverse mortgage" in which the public sector offers a grant for owners willing to dedicate space for apparel use at terms bid by the buildings owners, thereby creating a competitive process to obtain the grants;
- Review the portfolio of properties owned by the City, State and Federal governments to identify buildings suitable for garment production and dispose of these sites for manufacturing uses;

- Fund the Move Smart program to assist individual companies seeking to relocate. Move Smart is a new initiative developed by the Garment Industry Development Corporation, the Industrial Technology Assistance Corporation and NYIRN to provide a comprehensive package of services that would include:
  - Relocation grants to reimburse companies for expenses associated with moving;
  - Technology assistance to use the relocation as an opportunity to improve the competitiveness of companies through upgraded technology and improved processes;
  - Real estate and business planning assistance to help companies project their space needs, identify appropriate space, plan their moves, apply for relevant City and State assistance and link relocating companies to training and employment organizations in their new neighborhoods.
- Create a federal tax credit to encourage the renovation of manufacturing space similar to the tax credit for low income housing; and
- Reform the industrial development bond program to provide financing for large, multi-tenant industrial buildings.