

October 11, 2006

A Pro-Business City Policy Backfires on a Few
By TERRY PRISTIN

The New York Times
Late Edition - Final, Section C, Page 8, Column 2, 1282 words

After struggling for more than two decades, Harvey Shomer says, he finally found his niche in the city's dwindling garment industry. Operating out of 5,000 square feet in a dilapidated brick building in Brooklyn, his company, M. Franabar Associates, corrects mistakes in bulk orders arriving from manufacturers in China — the upside-down labels, the incorrect price tags and the missing bar codes.

Many of Franabar's 26 employees walk to work, passing under the Gowanus Expressway, the dividing line between the industrial and residential sections of Brooklyn's Sunset Park neighborhood.

In June, however, Mr. Shomer and the owners of 25 other businesses that rent space in a cluster of three century-old industrial buildings along the waterfront learned that the city planned to sell the complex, which is fully occupied, to a developer who would rehabilitate it.

The tenants, who provide work for about 300 people, say private redevelopment of the buildings would be likely to result in sizable rent increases, forcing them to leave the city or close their businesses.

The city is weighing proposals for the three brick buildings, which sit between 41st and 43rd Streets — including one from a nonprofit group that would keep the current tenants and let them eventually buy their spaces. The buildings, completed between 1895 and 1905, contain 460,000 square feet. They are part of the Bush Terminal Complex, which stretches from 41st Street to 51st Street.

New York's industrial companies provide about 466,000 jobs, but space has become increasingly scarce, especially with the recent rezoning of large swaths of industrial neighborhoods like Williamsburg and Greenpoint in Brooklyn to permit the more lucrative residential development.

In Sunset Park, for example, the vacancy rate in industrial buildings was less than 1 percent, said Phaedra Thomas, the executive director of the Southwest Brooklyn Industrial Development Corporation, a nonprofit economic development group.

The Bloomberg administration has been aggressively trying to nurture light manufacturing in New York by upgrading city-owned industrial real estate, like the three Bush Terminal buildings; offering tax credits and other incentives; and creating 16 protective zones, where residential conversions are banned, in Queens, Brooklyn and the Bronx.

But the possibility that several hundred jobs may be lost when the city sells the three Bush Terminal buildings has drawn criticism from economic development advocates who otherwise praise the administration's industrial policy as the best in decades.

Jonathan Bowles, the director of the Center for an Urban Future, a New York research organization, said the administration should have given the tenants an opportunity to buy the building or renegotiate their leases before putting the complex on the market.

"It doesn't seem right, what the city is doing," he said. "It doesn't seem to jibe with the recent policies to try to help industrial businesses." But Janel Patterson, a spokeswoman for the city Economic Development

Corporation, said that it would be illegal for the city to negotiate with one group before issuing a request for proposals.

Carl Hum, director of the mayor's 21-month-old Office of Industrial and Manufacturing Businesses, said tenants in the Bush Terminal buildings were paying rents "that you cannot find anywhere else in the city."

Mr. Hum said the city should not be propping up businesses that would not exist if not for the below-market rent. "Our focus is to support businesses that are viable, not businesses with operating costs that are artificially low," he said. The prospective buyers have all assured the city that they would offer help to the existing tenants, Mr. Hum said.

The tenants acknowledge that some of them are paying rents that are well below market rate. Fox Paper, a distributor of plastic and paper party items, moved into Building C 21 years ago, when Sunset Park was plagued by drug dealers and prostitutes. The owner, Larry Fox, said he pays an annual rent of less than \$4 a square foot for 35,000 feet on the ground floor.

The market rate for such space in older loft buildings is \$10 to \$12 a square foot, while space on higher floors may go for \$6 or \$7 a foot, industrial brokers say.

Upper-floor tenants, including companies that make high-end furniture, kitchen cabinet doors and lingerie, say they pay \$5 or more a square foot for substandard space. The elevator continually breaks down and a power failure can disrupt their business for days, they said.

For several years, the business owners in Building C have been month-to-month tenants, frustrated by the city's unwillingness to grant them leases. But they said the city had never told them it planned to sell the buildings. They say they were shocked when the city Economic Development Corporation informed them by letter on June 26 that it would issue a request for proposals for the building that very day.

Undaunted, Mr. Shomer, who has been in his building for six years, decided to take action. "I got a crazy idea. I got the guys together and said, 'Let's buy the building.' "

But a group of tenants would not have met the city's criteria for prospective buyers. So instead, the tenants sought help from local politicians and business assistance groups. Ms. Thomas's group, Southwest Brooklyn Industrial Corporation, steered them to several potential buyers, including the Fifth Avenue Committee, a local nonprofit developer with extensive experience in low-cost housing. The tenants selected Fifth Avenue, which agreed to offer each tenant a 10-year lease with an option to buy.

"It was smart to get the Fifth Avenue Committee involved," Ms. Thomas said. "They have access to creative financing tools."

The Fifth Avenue bid includes Building C and the better-maintained Building B, where a manufacturing company called Fixture Hardware has been a tenant since 1947. "If I have to move, I'd close the business," said the owner, Kenneth L. Weiss. (A plastics company that is the lone tenant in the third building filed a separate proposal to buy that property.)

State Senator Martin J. Golden, a Brooklyn Republican, said he was a strong supporter of the Fifth Avenue bid. "It's unusual to see businesses organizing for their own self-preservation," he said.

Mr. Golden also helped persuade the city Economic Development Corporation to buy a long-vacant 1.1-million-square-foot building on Third Avenue at 30th Street in Sunset Park from the federal government to create more space for local industrial businesses. With its partner, the Brooklyn Economic Development Corporation, a nonprofit business assistance group, the city is selecting a developer for the building.

Construction on the Third Avenue site is not expected to begin until 2008. But the administration can already point to some successes in its campaign to help light industry. Since April 2005, the city has stepped up its enforcement against illegal conversions of industrial buildings to other uses, Mr. Hum said. The city Buildings Department has issued 470 violations involving more than 70 buildings, said Jennifer Givner, a spokeswoman. Sixteen stop-work orders have been issued, she said.

Ross F. Moskowitz, a real estate partner at the law firm Stroock & Stroock & Lavan, said he advised clients not to bother seeking variances in the 16 areas designated as industrial business zones, “where the administration has clearly articulated a policy of maintaining a manufacturing base.”

There is no question that the new policies have “thrown a bit of cold water on the market” for conversions, said Brian T. Coleman, chief executive of the Greenpoint Manufacturing Design Center, a nonprofit real estate company that develops industrial space. But he and other advocates for industrial businesses said they worried that the new industrial business zones might not outlast the Bloomberg administration.

“At least for the time being,” Mr. Coleman said, “the Wild West conditions that existed before I.B.Z.’s will no longer be tolerated.”