

What Makes the City Run

*Preserving space for critical
economic activities*

April 2016

Executive Summary

In 2005, Mayor Michael Bloomberg recognized that his initiatives to rezone some industrial areas to create more housing had the unintended consequence of sparking speculation about future rezonings of industrial areas throughout the City. Land prices in industrial areas rose completely out of proportion to how the land could legally be used, leading to widespread displacement and job loss in the industrial sector. Out of this recognition grew the IBZs, areas that the Bloomberg Administration committed - and the de Blasio administration has recommitted - not to rezone for housing. The IBZ policy is essentially a message to industrial property owners to correct their market expectations.

Ten years later, different market and economic conditions are leading to another wave of speculation and displacement. This one is driven by both a surge in rezonings to create more housing and a growing vision that the “creatives” who had moved to New York and into the newly developed housing seeded under Bloomberg also need places to work, eat, shop and play. The IBZ policy was designed for an outdated economic context in which speculation was driven by the prospect of housing development. This policy is no longer adequate to address contemporary conditions in which speculation is also propelled by commercial development to house services ranging from offices to rock-climbing studios to entertainment venues for music, theater, film, and dance. The City needs to adapt the IBZ policy if it is to preserve space for the activities essential to the City's operations, such as the storage, preparation, and delivery of food, fuel, and building materials, as well as the 350,000 blue-collar jobs vital to the vital the basic functioning of the city.

Simply sending a message to the market is not enough to address today's challenge. It is perfectly legal to convert space from industrial uses to other non-industrial uses, which triggers residential displacement and the loss of blue-collar jobs. The City needs to introduce protections that prioritize industrial businesses and jobs in industrial areas.

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The need to protect industrial areas is a call for more balanced growth. The extraordinary diversity of our residents requires that we cultivate an economy that offers diverse opportunities for work and entrepreneurship and ensures pathways of economic opportunity for the 40% of New Yorkers who have only a High School degree or less.¹ If New York is to have a thriving entertainment and tourism sector, it also needs space for making everything from movie sets to artisan bread. If we are to have a thriving fashion industry, businesses need space to cut and sew clothes, even on a small scale. Alongside spaces for production, we also need space for all the back office and maintenance operations that are essential for the city to function, from parking and repair for trucks, buses, cranes and cement mixers, to the actual fabrication of the architectural metal and woodwork that creates inspiring homes and offices.

The City needs new tools that can more precisely guide development in its industrial areas to achieve more balanced growth. This report focuses on how those new tools, particularly Industrial Employment Districts (IEDs), may work by taking an in-depth look at their potential application in two different Brooklyn neighborhoods—East New York and Gowanus. We selected these neighborhoods because they illustrate different ends of the real estate market, are both the target (or likely to be the target in the near future) of zoning changes, and enjoy strong community support for industrial retention. This analysis reveals some of the strengths and weaknesses of the IED strategy and discusses additional land use tools the City could employ to achieve more balanced economic growth.



Image: Pratt Center

The City is on the brink of completing zoning changes to stimulate more housing development in East New York and must now play catch up in order to advance equitable economic development in land use. Jerome Avenue in the Bronx, which is not an IBZ but is nevertheless a heavy commercial zone that is currently home to more than 1,200 businesses, presents very similar issues to those discussed here.² The proposed economic development and land use tools in this report should be implemented in tandem with the City's housing initiatives if the City is to achieve the type of equitable and sustainable growth that is at the heart of Mayor de Blasio's administration.

¹ American Community Survey (ACS), Public Use Microdata Sample (PUMS) 2013.

² National Establishment Time-Series (NETS) Database, 2014. This figure is likely a significant undercount due to the many subtenants which operate in the corridor.

Executive Summary: Key Findings

- New York's blue-collar sectors—particularly manufacturing, transportation and warehousing—are at risk. Though real growth opportunities remain for these sectors, **space for jobs is shrinking as the development of non-industrial uses such as hotels, mini-storage facilities, entertainment venues, offices and big-box retail spreads into traditional industrial areas.** This is the result of changes in the city's economy since the zoning resolution was created more than 50 years ago and the failure of successive administrations to keep zoning current with those changes. The Department of City Planning is currently conducting a study to rethink how to better zone industrial areas and needs to preserve space for the operations that keep the city functioning.
- **The critical strategy for stabilizing the industrial real estate market is limiting non-industrial uses, which are currently permitted as-of-right, through the creation of Industrial Employment Districts (IEDs),** a new zoning tool that would be mapped in core industrial areas and require that development of non-industrial uses be linked to an application for a special permit. This requirement would minimize displacement and reduce speculation. Mayor de Blasio and the City Council have endorsed this strategy, but the Mayor has not yet taken the steps necessary to apply it in coordination with housing rezoning efforts.
- Creating the right space is also essential to preserving jobs, and **the successful application of the IED strategy depends on recognizing the particular characteristics of the businesses and built environment in each IBZ:**
 - **East New York's IBZ profile** calls for a restriction on uses and strategies that preserve the low-density character of the area in order to accommodate the many businesses that require ground floor space. There are already more than 5 million square feet of unused floor area ratio (FAR) development rights spread over 525 non-vacant lots in the IBZ, suggesting that rezoning to increase density is not an appropriate strategy. **As currently proposed, more than twice as much ground-floor space is being rezoned, as there is vacant space in the IBZ to accommodate displaced companies.** Except for owner-occupancy of previously acquired property or where there is no new acquisition cost, building even modest one-story industrial buildings will require public subsidy.
 - **Gowanus' IBZ profile** also calls for a restriction on uses in the core industrial areas where there is some modest opportunity to increase density for owner-occupied space. Increasing density beyond that to create rental space for other businesses such as small artisanal manufacturers is not financially feasible without very significant public subsidy. **A mixed-use strategy that employs a commercial cross-subsidy to underwrite manufacturing space is possible in the area adjacent to the IBZ but only if enforcement mechanisms are dramatically stronger than has historically been the case in New York.** This might be achieved through more negotiated arrangements with non-profit developers who own, manage and steward the space consistent with an industrial development mission, a strategy now being implemented in San Francisco.
- **Where increasing manufacturing density meets the needs of the businesses, there is likely to be a financial gap.** The underlying economics of industrial development simply do not work in most situations. Without first limiting uses, non-industrial development becomes a more attractive option and could accelerate real estate speculation.