



The Hollowing-Out of New York City's Industrial Zones

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At a November 2015 press conference, New York Mayor Bill de Blasio vowed to take action to ensure that firms in the city's core manufacturing areas are shielded from speculative pressures as incompatible land uses like hotels, self-storage facilities, and office buildings continue to encroach on key industrial zones. The preservation of affordable space—for industry, artists, and low-income residents—is one of the administration's main priorities. But an analysis of commercial real-estate transactions in the newly hot Sunset Park neighborhood suggests that, unless the promised policy measures arrive quickly, high-rent commercial spaces, while touted as essential to creativity and innovation, will soon erase many of New York City's remaining concentrations of working-class industrial employment.

The future of manufacturing in New York City will be determined by neighborhoods like Sunset Park in Brooklyn. Its 2½-mile waterfront was once the site of an extensive intermodal industrial infrastructure comprising numerous working piers, factories, and warehouses that employed more than 20,000 workers. While deindustrialization and containerization have hollowed out much of the working waterfront, numerous small industrial businesses, including home construction suppliers and contractors, metal fabricators, garment and food manufacturers, and auto repair shops, now anchor Sunset Park's waterfront. It remains one of the city's densest industrial clusters. Sunset Park also stands out as a racially diverse, majority immigrant Latino–Asian working-poor neighborhood (Hum 2014).

Since the 2013 acquisition of a 49.9% ownership share in Industry City—a massive 16-building complex on the Sunset Park waterfront—by Jamestown Properties and their real-estate equity partners, media accounts regularly describe the commercial real-estate deals that are facilitating the neighborhood's transition to a workspace and “playground”¹ for “makers” and “innovators.” Late last year, Mayor de Blasio announced a citywide industrial preservation plan: in November, the Mayor, flanked by the city council Speaker, numerous council members, and industry advocates, described how his 10-point action plan² addresses “new imperatives” to protect industrial land uses and businesses that continue to be a critical employment source for immigrants, workers of color, and job seekers without college degrees. But with all the controversy generated by his mandatory inclusionary housing and zoning proposals currently undergoing public review, there has been virtually no discussion or follow-up.

¹ See: www.nytimes.com/2015/12/31/fashion/sunset-park-the-latest-party-spot-in-brooklyn.html?_r=0.

² See: <https://www.youtube.com/watch?v=imw07BwCHtQ>.

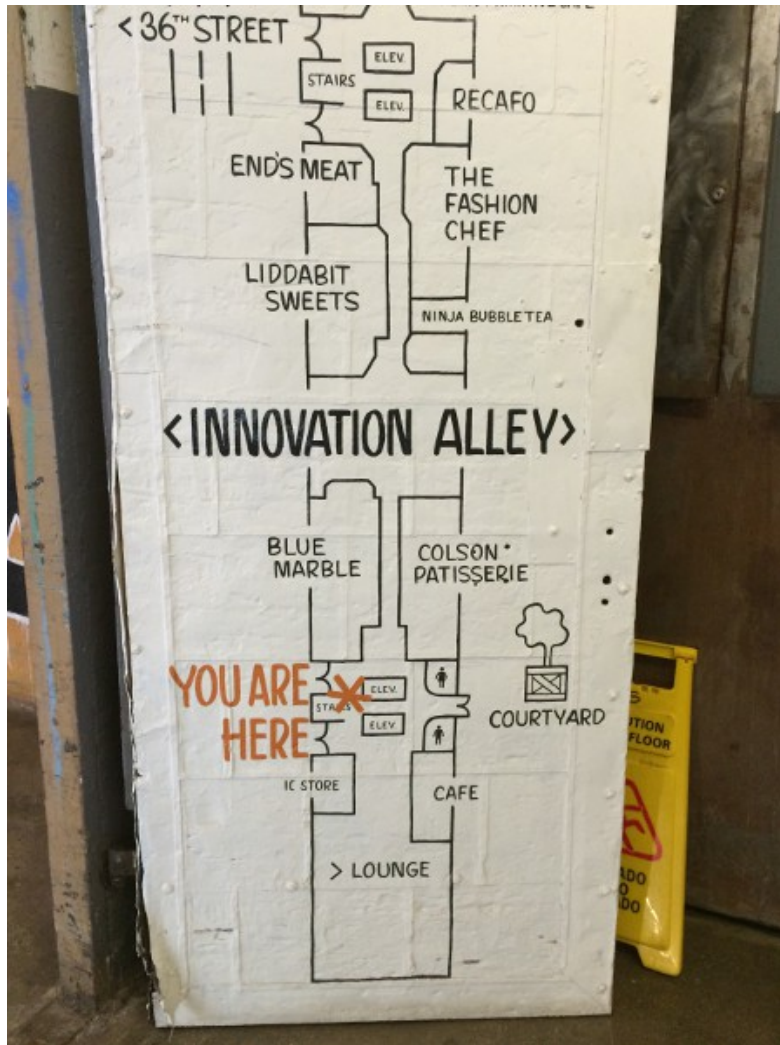
Figure 1. Industry City’s “Creative Workshops”



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The New York City Council’s 2014 report *Engines of Opportunity: Reinvigorating New York City’s Manufacturing Zones for the 21st Century* provided ample evidence that former Mayor Bloomberg’s designation of the city’s concentrated manufacturing clusters as Industrial Business Zones (IBZs) “does not appear to offer adequate protection from conversion to commercial uses” (p. 16). Speakers at the Mayor’s press conference affirmed “rampant speculation” as industrial land continues to fall “prey to hot real-estate markets.” In fact, the NYC Council report (2014, p. 16) found that commercial land uses in the Southwest Brooklyn IBZ (largely comprising Sunset Park’s waterfront) had more than doubled since 2005 with the “as-of-right” conversion of over 2.3 million square feet of industrial space. As the Mayor noted, “there’s only so much land to go around” and he intended the press event to send a clear message that IBZs will be strengthened and non-conforming uses such as hotels and self-storage facilities will no longer be “as of right.” As one of the city’s few remaining industrial waterfronts, Sunset Park constitutes a test of whether the Mayor’s plan has enough teeth to protect industrial businesses, especially since the “as-of-right” uses that threaten IBZs include industrial-to-commercial real-estate conversions.

Figure 2. Innovation Alley at Industrial City



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Commercial conversion is the land-use strategy of choice for real-estate entrepreneurs who see opportunity in the city's growing innovation economy. Under the stewardship of Jamestown Properties' Andrew Kimball, Industry City is being rebranded and remade from an industrial into a commercial hub that attracts all types of "makers" ranging from the Brooklyn Nets (who will soon have a new training facility with a rooftop terrace) to artisanal manufacturers paying an average \$20 per square foot in rent (as opposed to \$15 per square foot in other industrial zones).³ Fox Rothschild, a national law firm, is preparing Industry City's special permit application to develop a hotel (possibly two), a university facility, and expanded retail. Sunset Park stakeholders will probably learn the details and scope of Industry City's plans when Fox Rothschild's application is certified by the Department of City Planning (DCP), initiating the formal public land-use review process. But, as seasoned planners and community stakeholders know, once a proposal is certified by DCP, the plan is frequently a *fait accompli* (Angotti 2010).⁴ Meanwhile, the hype fueled by

³ I calculated the average per-square-foot rents based on current industrial real-estate listings for Sunset Park and Crown Heights in Brooklyn, and Hunts Point in the Bronx. The listings were retrieved from LoopNet.com, a comprehensive online commercial real-estate website.

⁴ The New York City Council, composed of 51 members, is the final decision-maker on land-use matters subject to the Uniform Land-Use Review Procedure, including changes to the zoning map and text. Typically, city council members follow the lead of their colleague in whose district the land-use matter is sited in their vote to approve (with or without modification) or disapprove.

numerous Brooklyn-centric commercial real-estate summits has fed a frenzied and speculative market in Sunset Park.

Figure 3. The Food Hall at Industry City



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In an effort to gauge the impact of Jamestown Properties on Sunset Park’s local real-estate market, I conducted an analysis of commercial real-estate transactions based on NYC Department of Finance sales data for five years from 2011 to 2015 inclusive. I divided this data into two comparable periods – 2½ years before and 2½ years after the mid-August 2013 Jamestown Properties acquisition of Industry City. The two periods are January 2011 to August 15, 2013 and August 16, 2013 to December 2015.⁵

Sunset Park Commercial Property Sales Volume and Prices, 2011-2015
Pre and Post Jamestown Properties Acquisition of Industry City

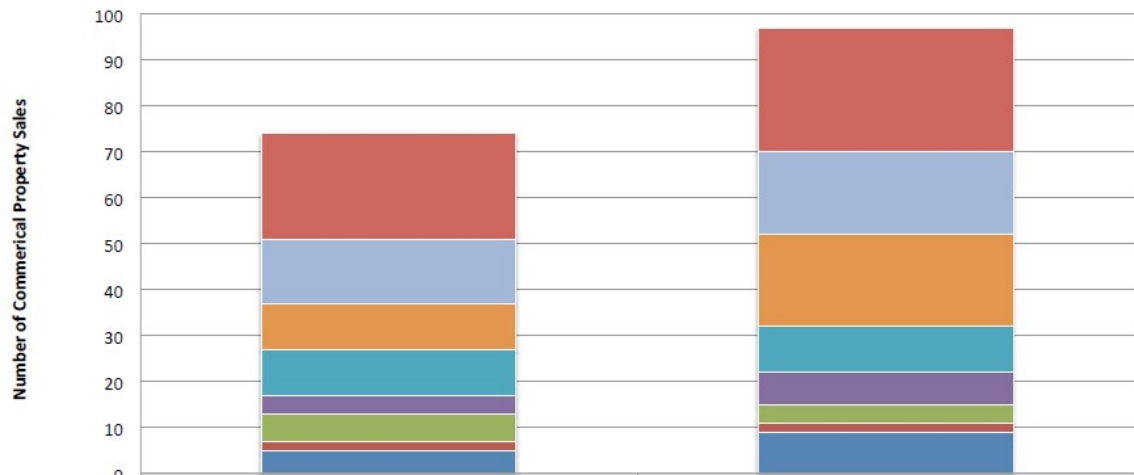
YEAR	Total Sales Volume	Total Sales Value (2015 dollars)	Avg. Sales Price (2015 dollars)
2011	19	\$64,310,833	\$3,384,781
2012	36	\$64,534,364	\$1,792,621
January-August 15, 2013	19	\$75,838,776	\$3,991,515
Pre Jamestown Properties	74	\$204,683,973	\$2,766,000
August 16 - December 2013	22	\$148,438,789	\$6,747,218
2014	35	\$147,980,137	\$4,228,004
2015	40	\$234,716,187	\$5,867,905
Post Jamestown Properties	97	\$531,135,113	\$5,475,620
Post Jamestown Properties*	95	\$355,415,146	\$3,741,212

*Sales of Brooklyn Whale Building and Sunset Industrial Park Excluded

Data Source: New York City Department of Finance Sales Data

⁵ I defined Sunset Park by 2 zip codes (11220, 11232) and excluded property transfers for nominal amounts (\$0–100).

Pre and Post Jamestown Properties Acquisition of Industry City
 Commercial Property Sales in Sunset Park, January 2011 - December 2015
 Data Source: NYC Department of Finance



	January 2011 - August 15, 2013	August 16, 2013 - December 2015
Warehouses	23	27
Factories	14	18
Commercial Garages	10	20
Store Buildings	10	10
Office Buildings	4	7
Commercial Vacant Land	6	4
Loft Buildings	2	2
Other	5	9

A clear pattern emerges in the commercial real-estate transactions of the past few years. Sunset Park’s industrial infrastructure, composed of warehouses, factories, and garages, is being sold and refashioned into high-end commercial office space. Not surprisingly, the number of commercial real-estate sales increased by 30% in the post-Jamestown Properties period. It is noteworthy that the two “behemoth”⁶ sales—both involving 601W Companies, a leading private commercial real-estate investment and development corporation—occurred after Jamestown Properties acquired Industry City in August 2013. Even if these two sales are excluded from calculating an average sales price, commercial real-estate prices (adjusted for inflation) steadily increased and, on average, were 36% higher in the post-Jamestown Properties period. If the two sales are included, the average price for Sunset Park’s commercial real-estate nearly doubles to \$5.5 million. Increasing sales and escalating prices have been augmented by speculative property flips. Notable examples include the landmarked and dilapidated former police station located at 4302 4th Avenue that was sold in January 2015 for \$2.6 million and resold six months later for \$6 million. Similarly, a warehouse at 347 37th Street sold for \$6.35 million in October 2014—41% more than its sales price approximately a year earlier.

The most important trend that is reshaping Sunset Park’s commercial real-estate market is the dominance of transnational equity and finance corporations, including Chinese state-owned banks. Just months ago, Industry City’s massive \$300 million debt was recapitalized by a \$403 million loan⁷ from the Bank of China and SL Green. The 14-acre Sunset Industrial Park, owned and managed by the Figliolia family for 30 years, was sold in August 2013 to a partnership of The Savoy Group and 601W Companies for \$91.5 million. The Savoy Group is a global investment firm that manages private equity and real-estate funds. The second sale involving 601W Companies was the Brooklyn Whale building,⁸ purchased in 2011 for \$25.4 million. After spending \$5 million⁹ to

⁶ See: <http://therealdeal.com/2015/08/11/zegen-captures-brooklyn-whale-building-in-82-5m-deal>.

⁷ See: <https://commercialobserver.com/2015/12/good-news-facility-brings-industry-city-loan-to-403m>.

⁸ Website: <http://whalesquarebrooklyn.com>.

renovate, 601W Companies sold the complex for \$82.5 million to Madison Realty Capital in August 2015.¹⁰

By matching the Department of Finance data on recent sales of industrial buildings to the National Establishment Time Series data on small businesses, I identified numerous industrial businesses that are no longer in operation, such as Gilmour Supply Co. (a heating and plumbing company), Durable Kitchen, and Orion Mechanical and Heating. For industrial business owners who also own their buildings, the huge rent gaps created by current market conditions present irresistible windfall opportunities. In early January 2016, I contacted ABR Plumbing Inc. located in a Sunset Park commercial building that had recently sold. The owner shared:

“While listing half the space for rent we were given an offer to purchase the property which we couldn’t refuse. We bought the building six years prior and were able to obtain 90% financing and so only laid out \$130,000. We sold the building for a profit of approximately \$1.5 million. We now rent an office and keep the trucks in parking lots at a considerable saving per month on our operating costs. We have reinvested the profits into a multifamily property netting more than a 5% return.”

Property owners who opt not to sell their buildings seek to correct the “under-market rents” by attracting higher-paying tenants. For example, the Damast family’s¹¹ Commodore Manufacturing Corporation had specialized in the production of Christmas decorations and other seasonal products at their building on 4312 Second Avenue. In 2013, they outsourced a large part of their operations to China and now hope to “woo film-industry companies, advertising agencies, and high-tech manufacturers” to Sunset Park.

The industrial real-estate “land grab”¹² extends to the neighborhood’s extensive rent-stabilized housing stock. TerraCRG is a commercial brokerage firm founded in 2008 with a sole focus on Brooklyn. The firm has an office on 44th Street in Sunset Park. Their portfolio includes rent-stabilized, multifamily buildings such as 4103 Seventh Avenue¹³ and 4121 Seventh Avenue.¹⁴ The sales pitches for these properties reference proximity to Industry City in order “to capitalize on the large influx of tenants that will want housing on the Park to be close to jobs created by Jamestown Properties’ conversion of Bush Terminal into a high-tech office and retail business hub”.

Sunset Park’s expansive waterfront with a “180-degree to-die-for view”¹⁵ makes it unique among gentrifying Brooklyn neighborhoods. But the process of industrial gentrification and displacement is fairly standard. New property owners seek to extract profits by reducing operating costs and maximizing revenues in rent increases. Industrial tenants are especially vulnerable because many are unable to pay higher rents. Property owners who anticipate even greater profits through a “higher and better” use will seek a rezoning to change the “as-of-right” land uses and development parameters. The Savoy/601W Companies’ Sunset Industrial Park proposal clearly lays out the actions that will, ultimately, facilitate gentrification: (1) reduce “wasteful operating costs” by cutting payroll and security costs; (2) increase rents of existing tenants; (3) increase cash flow by capitalizing on “as-of-right” development; and (4) rezone for future development. Sunset Park’s industrial infrastructure is being repositioned as an extension of Brooklyn’s Tech Triangle.¹⁶ Mayor de Blasio’s endorsement of a streetcar line¹⁷ servicing Brooklyn and Queens waterfront neighborhoods from Sunset Park to Astoria exemplifies a private real-estate-driven vision to

⁹ See: <https://commercialobserver.com/2014/09/the-plan-the-brooklyn-whale-building>.

¹⁰ Cf. <http://therealdeal.com/blog/2015/08/11/zegen-captures-brooklyn-whale-building-in-82-5m-deal> and <http://therealdeal.com/blog/2015/02/12/from-a-to-zegen>.

¹¹ See: <http://therealdeal.com/2014/11/11/damast-family-looking-to-fill-200000-sf-at-sunset-park-property>.

¹² See: <http://therealdeal.com/2014/04/11/another-investor-makes-land-grab-in-sunset-park>.

¹³ See: www.terracrg.com/recent-transaction/4103-seventh-ave.

¹⁴ See: www.terracrg.com/recent-transaction/4121-seventh-avenue.

¹⁵ See: <https://commercialobserver.com/2014/09/the-plan-the-brooklyn-whale-building>.

¹⁶ Website: <http://brooklyntechtriangle.com>.

connect former industrial–maritime spaces in a series of “live–work–play” enclaves complete with “to-die-for” views.

The 2014 NYC Council report recognized that the decline in urban manufacturing is not just an outcome of global structural changes but of “catalytic factors” related to real-estate speculation and financialization. Sunset Park exemplifies the transformative changes wrought by transnational real-estate investments. A recent *Nation* article¹⁸ cited a housing expert who critiqued the Mayor for failing to use all the tools at his disposal to change the paradigm between developers and the city in terms of affordable housing production. Similarly, the experience of Sunset Park raises the question of whether all the city’s tools are, in the words of the Council report (2014, p. 16), being deployed to stem “the rise in commercial land use within the supposed industrial safe havens of the IBZs.”

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¹⁷ See: www.nytimes.com/2016/02/04/nyregion/mayor-de-blasio-to-propose-streetcar-line-linking-brooklyn-and-queens.html.

¹⁸ See: www.thenation.com/article/bill-de-blasio-is-new-yorks-most-progressive-mayor-in-decades-is-that-enough.