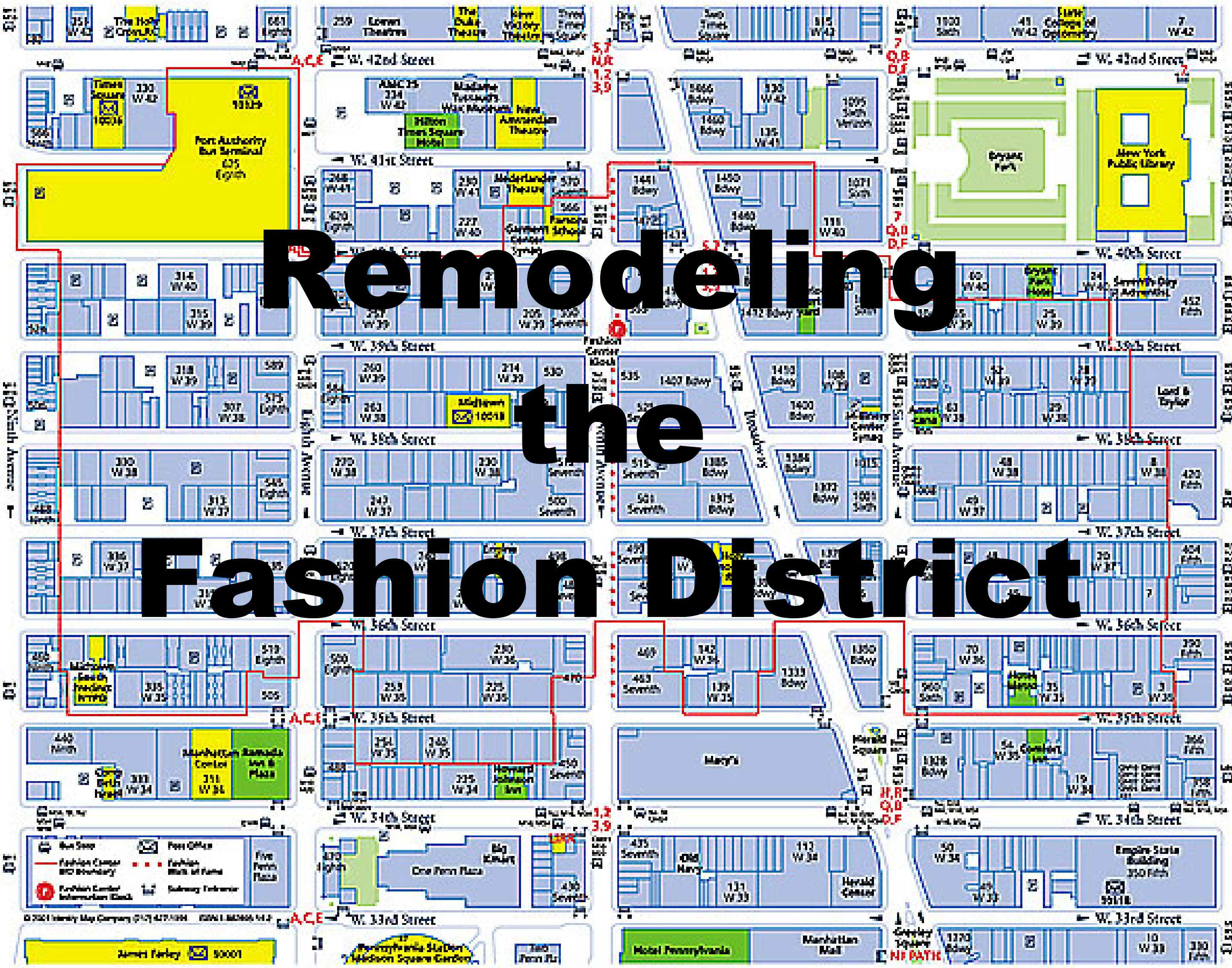
Remodeling the Fashion District



Report prepared by:
APPLESEED

In collaboration with:
Real Estate Solutions, LLC.
Buckhurst Fish & Jacquemart, Inc.

For:
THE FASHION CENTER new york city

February, 2003
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Executive Summary

As it has been for decades, the neighborhood that comprises the Fashion Center BID remains the heart and soul of New York City's fashion industry. However, while the fashion industry remains the largest presence in the neighborhood, the area has evolved over time to encompass much more than simply fashion. Today, the BID is home to over a hundred different industries and thousands of workers engaged in non-fashion related business. This growing diversity has not disrupted the functioning of the fashion industry, and indeed, the strategic importance of the BID area as a "Fashion District" is still evident. However, it seems that the area is not fulfilling its potential as a dynamic, diverse commercial district. To date, local economic development policies have neglected the neighborhood's strengths and competitive advantages as a well-located commercial district just beyond the heart of midtown Manhattan.

In the summer of 2002, the Fashion Center Business Improvement District, contracted with Appleseed, Real Estate Solutions and Buckhurst Fish & Jacquemart to assist the BID in assessing the impact that current conditions and longer-term trends in employment, space utilization, and real estate market conditions have had on the district. The team was also asked to consider the effect of ongoing and proposed developments around the BID. These analyses formed the basis for a strategy to help businesses and property owners in the area take full advantage of the various opportunities presented by these trends.

This report presents the results of the team's work.

A New Vision for the Fashion District

There has been a longstanding debate as to what policies make sense for the Fashion District. City policy has traditionally emphasized trying to maintain in the area the full range of fashion related businesses. Some industry participants and outside observers have long believed that maintaining a base of apparel and warehouse functions in the neighborhood is essential to the smooth functioning of the design, marketing and sales segments of the fashion industry. However, it seems this premise has not been borne out, as apparel production activity has steadily declined in the area over the years, while other segments of the industry have remained relatively stable.

Therefore, rather than being bound by past views of what makes sense for the neighborhood, the City should embark on a new agenda that looks to leverage the obvious strengths of the Fashion District. Policies that take advantage of the competitive strengths of the Fashion District neighborhood, and seek to realize its development potential, will yield substantial benefits to New York City. Improvements to the existing stock of commercial and industrial buildings can create opportunities to attract a more diverse tenant base to the Fashion District. This would not only reinvigorate the neighborhood but would also help provide space for growing segments of the City's economy – a challenge that proved difficult for the City during the economic expansion of the late 1990s. Revitalization of the area will also stimulate growth in what has been an under-performing tax base, as higher paying tenants will increase the rent rolls and stimulate new investments in property.

The continued evolution of the Fashion District into a mixed-use neighborhood, with a more diverse tenant base, more interesting retail and opportunities to build on the nearby residential community, would create a livelier district with around-the-clock activity and amenities. This new, dynamic Fashion District neighborhood would serve as an ideal complement to Times Square's vibrant commercial and entertainment district and the future mixed-use community that is being envisioned for the Hudson Yards area.

Current Employment and Historic Trends in the Fashion District Neighborhood

Looking at employment in the Fashion Center BID area reveals an interesting mix of employment in fashion related and non-fashion industries. As it has been for several decades, the Fashion District neighborhood remains the home of New York's bustling fashion industry. However, it seems that the concentration of neighborhood jobs within fashion-related industries has been shrinking, as factories are being replaced with a more diverse range of tenants.

- The current employment profile of the Fashion District neighborhood shows that fashion-related industries still account for the largest share (46.6 percent) of the area's employment, which totaled 106,020 workers in 2001. Employment in wholesale trade-apparel, apparel retailing, apparel manufacturing and textile manufacturing accounted for 49,438 jobs in 2001. Employees of apparel wholesalers made up the largest single employment group.

- Non-fashion industries accounted for the remaining 56,582 jobs found in the BID, more than half of the total employment base. While no single industry dominates in the "non-fashion" category, a few individual sectors do have a significant share of the area's employment base, including business services with 11,439 employees and engineering/accounting/research with 3,404 employees.

- The Fashion District has undergone significant changes in terms of employment since the late 1980s. Between 1989 and 2000, dominance of fashion-related activities in the Zip Code 10018 (an area slightly larger than the BID area) has slowly waned. Most of this decline is attributable to substantial losses in employment among apparel manufacturers, who saw employment totals fall 30.6 percent (21,550 in 1989 to 14,601 by 2000).

- While employment among fashion-related businesses in this neighborhood has declined, the number of jobs in service sectors has been on the rise since the late 1980s; significant gains in employment among communications firms, finance and real estate firms, recreational service companies, health service providers and social service agencies have increased the share of non-fashion industries in the neighborhood.

- In many ways, employment trends seen in the area of the Fashion Center BID reflect the experience of the City's overall economy. Just as in the Fashion District, both Manhattan and New York City overall experienced significant job losses in the fashion-related industries. Most of these losses can be attributed to the steep declines seen in apparel manufacturing employment.

- ❑ Yet, some employment patterns exhibited elsewhere in New York City have bypassed the Fashion District area. Industries such as business services, legal services, motion pictures, engineering, accounting & research services, and educational services all saw employment totals rise between 10 and 100 percent in New York City between 1988 to 2000. Yet, Fashion District firms in these industries lost employment or experienced much lower levels of growth than seen citywide. This sluggish employment performance within some of the most dynamic industries in New York City suggest that the Fashion District is failing to live up to its full economic potential.

Tenancy and Space Utilization

- ❑ According to a 2002 survey by Identity Map, the Fashion Center BID contains 380 separate commercial and industrial buildings with approximately 32 million square feet of space.

- ❑ There are 6,595 tenants in the BID area occupying 27.0 million SF of space (an average of 4,096 SF per tenant). There are 4,245 tenants in fashion related industries (including apparel, textiles/fabrics, accessories/jewelry, and buttons/trimming) compared to 2,248 tenants in non-fashion industries. No one industry dominates among non-fashion tenants, and instead there is a rich variety of non-fashion businesses located in the BID.

- ❑ In terms of space, fashion-related uses account for the largest share of occupied space in the BID, covering 17,630,717 SF of space (about 55 percent of total). Non-Fashion uses account for 9,382,547 SF (about 29 percent of the total)

- ❑ Within the 17.6 million SF of space occupied by fashion-related tenants, the greatest proportion (some 5.0 million SF) is occupied by showroom uses. Approximately 2.5 million SF is utilized by office-based fashion tenants, while 2.4 million SF are occupied by firms engaged solely in the manufacturing of apparel and other fashion-related goods. In addition, almost equal shares of space are utilized exclusively for either design (674,625 SF) or warehousing uses (603,207 SF). A large portion of the space occupied by fashion-related uses – some 6.4 million SF of space – is attributable to firms engaged in a mix of uses. In particular, combinations of showroom and design, warehouse and showroom, and design and office account for a significant amount of space in this neighborhood.

Real Estate Market Trends

The real estate market in the Fashion District area is best described as a sub-market of the larger midtown Manhattan market. The area is distinct from other parts of midtown in that its office stock is more heavily weighted to class B/C space rather than class A buildings. In addition, the area is characterized by its tenant mix, which includes industrial uses (manufacturing and warehouses) interspersed with the dominant tenant groups of wholesalers and office users. Finally, there is very little residential use in the BID area, most of which is west of Eighth Avenue.

Located just west of what is considered the “midtown core” of class A office space, the Fashion District is well positioned within the market. It is particularly well served by midtown’s mass transit network, with two regional transit hubs within walking distance – the Port Authority Bus Terminal to the north and Penn Station to south – and stops along 17 New York City subway lines and the New Jersey PATH train system.

Office Market

- The Fashion District tracks changes in the broader midtown market, but because of nature of its tenant mix, existing real estate market product and restrictive zoning policies, the area generally under-performs the rest of midtown in terms of rent.

- Due to the decline in the general economy, the overall midtown market has declined steadily since the end of 2000. However, class A net absorption in the Fashion District was a positive 152,000 SF over the past six quarters, while it was a negative 2,946,000 SF for the overall midtown market. This suggests that the lower rental rates offered in class A space in Fashion District have provided a competitive advantage in attracting cost conscious tenants seeking less expensive space.

- Prior to September 11, 2001, there was a strong trend within the Fashion District toward conversion of manufacturing space to office. Although that trend appears to have slowed, the relatively strong demand for class A office space within the Fashion District in comparison to other areas of midtown provides support to the idea that the conversion trend will return along with the overall economic recovery in the area.

Residential Market Trends

- Residential use is quite limited in the area of the Fashion District. However, the area is book-ended by residential activity – with the well-established residential community along the Ninth Avenue corridor to the west and new residential buildings sprouting up to the east near Sixth Avenue. While the current zoning does not allow residential uses within much of the area, there is strong potential for incorporating successful residential uses into the mix in the Fashion District.

- Residential development trends also indicate that developers expect any decline in rental rates to be short lived, as developers and investors continue to introduce new rental construction projects throughout the borough. Several new construction projects are underway throughout the City, including one recently opened in the Fashion District and one just outside the boundaries of the district on Ninth Avenue.

- In addition to these new construction projects, the conversion to residential use of an existing building on 36th Street in the BID was recently announced.

Retail Market

- The recent performance of the retail market indicates that, despite the decline in the local and national economy, there is still healthy demand for retail space in midtown Manhattan. The recent report by Real Estate Board of New York indicates that retail asking rents per square foot are up in 3 of 5 categories over the past year, and over the past 2 years rents are up in all categories.

- Despite the strength of the midtown retail market, little growth has occurred within the approximately 1.7 million SF of retail inventory within the Fashion District, due primarily to the following:
    - Non-contiguous retail frontage interrupted by loading docks and warehouse space
    - Limited pedestrian traffic
    - Trucks and deliveries that impede pedestrian flow
    - Inadequate merchandising and signage
    - Non-complimentary tenant mix and no cohesive leasing plan
    - A small number of residents with limited spending power
    - Competition from destination retailing in Times Square, Macy's, Herald Square and the 34th Street shopping district
- There is potential to improve the performance of existing retail, but a separate retail study is needed to determine the appropriate strategy.

Current Zoning Conditions

The Fashion Center Business Improvement District is governed by two different sets of zoning standards.

- The eastern portion of the BID is generally zoned as a high-density commercial area that allows light manufacturing, commercial office and residential use.

- Most of the BID area west of Broadway is included within the Special Garment Center District, a special zoning area designated by the City Planning Commission in 1987. Residential use is prohibited throughout the area, and the side streets are designated as a "Preservation Area" with restrictions on the conversion of manufacturing space to office.

Prospects for Rezoning and New Development in the Fashion District

Rather than viewing the Fashion District in the context of the current zoning, there seems good reason to re-conceptualize the area based on what uses might evolve under less restrictive use regulations.

- The building types and land uses found within the Fashion District vary considerably across the district.
  - A street level survey found the area from Fifth to Eighth Avenue to be generally built out to full capacity, with tall buildings (FAR 10 or greater) and no vacant land.
  - In contrast, the area between Eighth and Ninth Avenues is populated by many low-rise buildings (FAR 5) and numerous surface parking lots.
  - The area also has a modest concentration of residential units, and is bordered by ongoing residential development to the west along Ninth Avenue.

- These unique characteristics suggest that the western portion of the Fashion District has strong potential for new and redeveloped residential use and thus should be considered in a somewhat distinct zoning context from the rest of the district. The area also deserves special consideration as it has been included in the boundaries of the City Planning Department's Far West Side study area.

- The area between Eighth and Ninth Avenues has an existing residential presence. In addition, there are 20 buildings with strong potential for residential conversion and could potentially provide between 550 to 650 units.

- This area also includes several large sites that could accommodate 585,000 SF of new residential development (approximately 585 housing units) under the current allowable FAR of 5.0. With a more generous FAR (which is typical of other mixed use districts in Manhattan), these sites could accommodate perhaps twice as many units of housing.

Summary of Housing Development Potential

	Estimated SF	Estimated Units
Existing Housing	430,000 SF	405 units
Possible Conversions	530,000 SF	500 - 600 units
Redevelopment	585,000 - 1,170,000 SF	600 - 1,200 units
Total	**1,545,000 - 2,120,000 SF**	**1,505 - 2,205 units**

Trends and Developments Shaping the Future of the Fashion Center

There are a variety of forces at work in and around the Fashion District that will have an impact on the neighborhood's evolution. These forces include:

- **Continued Erosion of the City's Apparel Manufacturing Sector**
  - The fundamental shift in the structure of the fashion industry shows no signs of reversing, strongly suggesting continued decline in employment among apparel manufacturers.
  - If historic decline rates were to be carried forward, by 2010 apparel manufacturing in the City would be just above 17,000 -- less than half of what it is today. While this decline may be softened by efforts to bolster demand for the services in which New York City producers specialize, a continued drop in employment is almost assured.
  - If the decline in employment among apparel manufacturers is likely to continue, it seems equally certain that the amount of space required by apparel manufacturers will also continue to decline. This fact has serious implications for the positioning of future policy to encourage economic development within the Fashion District.

- **Continued Growth in Demand for Office Space**
  - Despite the current demand conditions in the market today, the long-term need to increase the supply of commercial office space in New York City has been acknowledged in a variety of studies and analyses.
  - Projected levels of growth in office-based employment will trigger significant increases in the demand for office space in the City, or elsewhere in the region if suitable space cannot be provided within the NYC market. While there are significant opportunities for new office development at sites throughout New York City, these new construction projects will not serve the needs of smaller firms looking for office space.
  - Existing properties in the Fashion District, with access to superior transportation networks and proximity to the rest of midtown, will be well positioned to capture this particular segment of growing demand. With investments in building improvements and neighborhood amenities and amendments to current use restrictions, the Fashion District will be poised to benefit from the future growth of small and mid-sized entrepreneurial firms in the next business cycle.

- **Growing Importance of Creative Industries in NYC Economy**
  - A number of "creative" industries are growing in the City economy. This is good news for the future of the Fashion District, as the presence of the fashion industry can serve as an anchor to attract other creatively oriented industries.
  - Firms in these industries, which include film/visual arts/photo studios, advertising/marketing/graphic design, internet/network based, architectural design, music, non-profit theaters and cultural organizations, and magazine/book publishing, tend to be small and attract an employment base that looks for a more unusual physical environment. Thus, with many lofts and underutilized

warehouses, the Fashion District area has a potential advantage in attracting these tenants as the City's economy emerges from the current economic slump.

- **Strong Demand for Housing**
  - The demand for housing remains strong in Manhattan. While there has been residential development activity on the periphery of the Fashion District, the existing zoning has prohibited the conversion to and development of housing units in the district.
  - There are many opportunities to generate new housing in the blocks between Eighth and Ninth Avenues. If the zoning were changed to permit the housing to intermingle with the commercial and manufacturing uses that exist on those blocks, it is very likely that other complementary uses including restaurants and retail would also spring up.
  - These additions to the mix of activity in the area would help enliven the neighborhood and invigorate the non-residential areas of the Fashion District.

- **Impact of Development of Adjoining Areas**

Numerous office, retail and transit projects are slated for development in midtown Manhattan. These developments offer the possibility of spurring additional investment and economic activity in the areas that surround them, including the Fashion District. The most notable projects include the following:

- Penn Station Redevelopment (transit & retail)
- No. 7 Subway Extension (transit)
- Port Authority Bus Terminal (office & retail)
- New York Times (office)
- 7 Times Square Tower (office & retail)

These projects have the potential to draw thousands of new commuters, office workers and shoppers to the areas immediately surrounding the Fashion District. The vitality of Times Square to the east, and the prospect of dramatic improvements to the west, puts the Fashion District at the crossroads of vast new development activity and public investments.

Lost Opportunities: The Downside to Maintaining the Status Quo in the Fashion District

The existing conditions in the Fashion District – the limits of office use, restrictions on residential development and under-performing retail – already imposing substantial opportunity costs, both in terms of lost income and City tax revenues.

- These costs could grow if policymakers fail to take action to confront the forces at play in and around the Fashion District. Without efforts to drive new investment in the area and to attract the dynamic, growing segments of the City's economy, the economic expansion that is poised to occur in the surrounding areas will simply bypass the Fashion District.

- In addition, if the Fashion District does not evolve to attract more shoppers, tourists and business activity, the neighborhood could fail as a connection between midtown and the Hudson Yards, jeopardizing the success of this massive investment. Additionally the City's Olympic development will be compromised by its proximity and striking contrast to the Fashion District.

Implications for the Fashion District Strategy

The analysis of current conditions and recent trends in employment, space utilization and real estate market factors demonstrates the need to take a new look at the Fashion District. As the City's economy grows increasingly more dependent on office-based industries and multi-billion dollar public and private investments are reshaping the surrounding areas immediately encircling the area, powerful forces are pushing the Fashion District to evolve into a more diverse, dynamic mixed-use district. This vision is achievable, but only if the BID and the City work together to take the necessary steps to facilitate the realization of that vision.

- The City can facilitate the continued evolution of the Fashion District as mixed-use, diversified commercial area by:
  - Implementing more flexible zoning throughout the Garment Center Special District, so as not to inhibit the conversion of space to office use.
  - Amending zoning to allow residential uses in the areas between Eighth and Ninth Avenues. Consider implementing a higher FAR for residential use consistent with rezonings in other commercial areas of Manhattan.
- The BID can continue to be active in improving the neighborhood's amenities by:
  - Conducting a retail study for the Fashion District area to determine ways to improve the performance of existing retail space.
  - Continuing to invest in improved safety, lighting and streetscapes. The BID should also work with the City to consider policies that will reduce double parking of trucks and improve traffic flow.
- The City, the BID and other stakeholders can pursue projects for the area that will build on the prestige of the fashion industry and create an appealing identity for the neighborhood, such as:
  - A Fashion Museum and Design Center
  - Growing the performing arts
  - Cultural programming as an economic development resource
- The City, the BID and fashion industry participants can also work together to formulate and implement a sector-based strategy that will help sustain the fashion industry not just in the Fashion District, but throughout New York City.

Introduction

In the summer of 2002, the Fashion Center Business Improvement District, contracted with Appleseed, Real Estate Solutions and Buckhurst Fish & Jacquemart to prepare "Re-modeling the Fashion Center". The report was undertaken to assist the BID in assessing the impact that current conditions and longer-term trends in employment, space utilization, and the real estate market have had on the district. The team was also asked to consider in this analysis the effect of ongoing and proposed developments around the BID. These analyses formed the basis for a strategy to help businesses and property owners in the area to take full advantage of the various opportunities presented by these trends.

The Fashion Center Business Improvement District, a not-for-profit corporation, was established in 1993 to promote New York City's apparel industry and to improve the quality of life and economic vitality of Manhattan's garment district. Through programs in the areas of streetscape improvements, sanitation and security services, marketing and promotions, economic development, and community service, the BID aims to promote the district as a strategic midtown business location and to ensure New York's position as the fashion capital of the world. The boundaries of the district, depicted in a map on page 11, roughly encompass the area from 35^{th} to 41^{st} Street between Fifth and Ninth Avenues. The district includes approximately 450 buildings and is home to some 6,000 businesses, both fashion and non-fashion related.

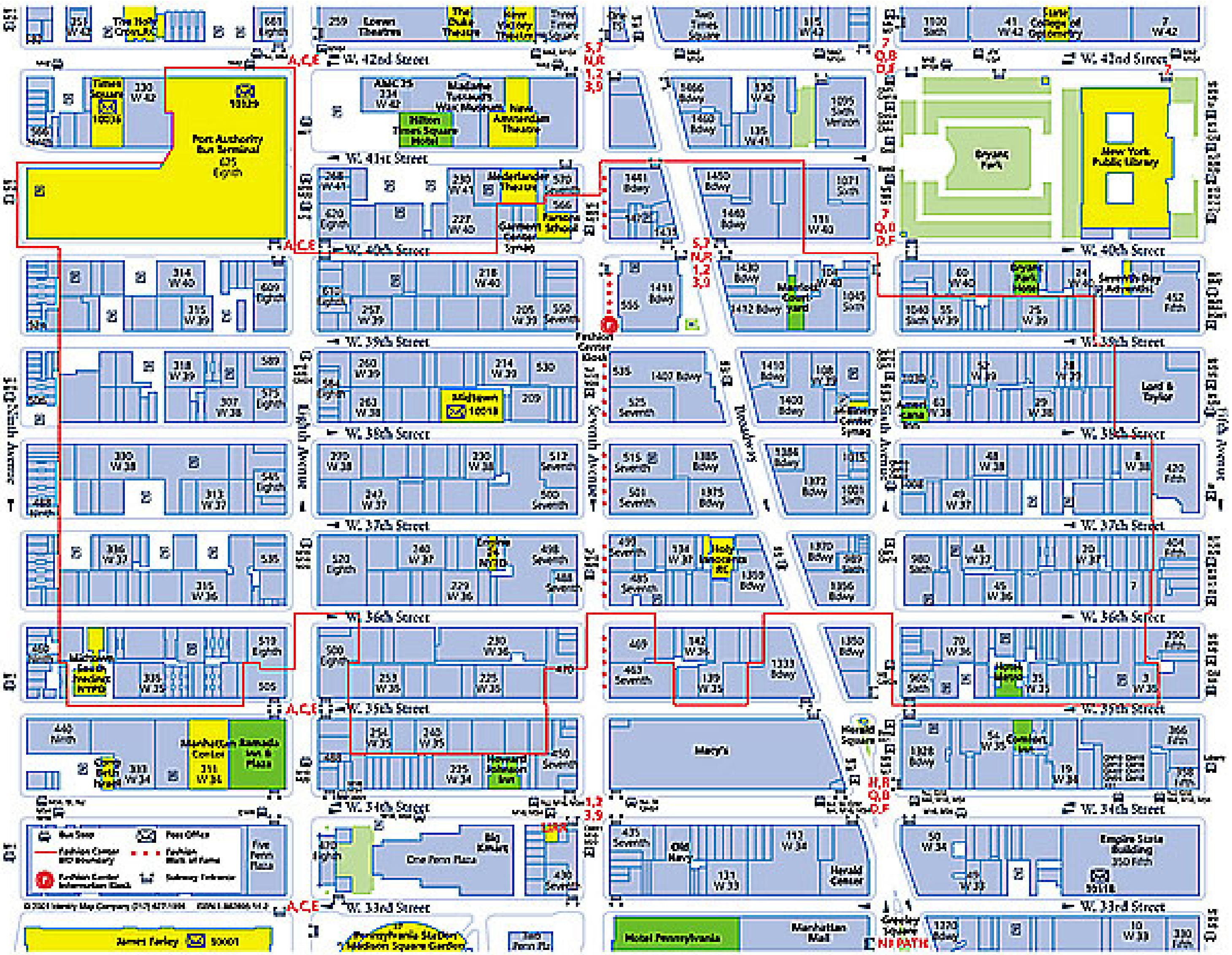
The report begins with a new vision for the Fashion District. The rationale for this vision is laid out in the sections that follow, which provide analyses of current conditions and longer-term trends in employment, space utilization and real estate market conditions in and around the BID. After this analysis, the report turns to the current zoning regulations governing the district, followed by a discussion of what might be achieved under less restrictive zoning regulations. The report then analyzes emerging trends and development projects that have potential to dramatically affect the Fashion District and considers the opportunities that could be lost if no action is taken. Finally, the report offers a set of recommendations for the BID, City and other stakeholders to undertake in order to allow the district to achieve the vision and better fulfill its economic potential.

ACKNOWLEDGEMENTS

The members of the Appleseed team would like to acknowledge the support and assistance provided throughout the course of this project by the staff of the Fashion Center BID, including Barbara Randall, Gerald Scupp, and Anne Bonacum. The team would also like to thank the BID's Board of Directors, many of whom made themselves available to meet personally with the study team.

We would also like to thank the following people for providing valuable input for this report: Richard Barth, Eric Kober, and Aron Kirsch of the New York Department of City Planning; Florence Chan, Continental Garment Manufacturer's Association; David Picket, Gotham Properties; David Thurm, New York Times; and Ann Weisbrod, Economic Development Corp.

Map 1 -- Fashion Center Business Improvement District



A New Vision for the Fashion District

As it has been for decades, the neighborhood that comprises the Fashion Center BID remains the heart and soul of New York City's fashion industry. The concentration of designers and showrooms in this neighborhood offers the thousands of buyers for retail stores a lively and convenient location in which to conduct their purchasing. The area's unrivalled concentration of market knowledge allows firms in the Fashion District to keep pace with rapidly-changing trends; and the concentration of talent and experience makes it easier for firms to find the people they need to succeed. The presence of Parsons School of Design within the BID area, as well as the Fashion Institute of Technology nearby, help ensure that the next generation of designers and fashion marketing executives are exposed to the great talent and institutional knowledge that the neighborhood has to offer.

However, while the fashion industry remains a large presence in the neighborhood, the area has evolved over time to encompass much more than simply fashion. Today, the Fashion District is home to over forty different industries and thousands of workers engaged in non-fashion related business. This growing diversity has not disrupted the functioning of the fashion industry, and indeed, the strategic importance of the BID area as a "Fashion District" is still evident. However, it seems that the area is not fulfilling its potential as a dynamic, diverse commercial district. To date, local economic development policies have neglected the neighborhood's strengths and competitive advantages as a well-located commercial district in the heart of midtown Manhattan.

There has been a longstanding debate as to what policies make sense for this area. City policy has traditionally emphasized trying to maintain the full range of fashion related businesses. Some industry participants and outside observers have long believed that maintaining a base of apparel production and warehouse functions in the neighborhood is essential to the smooth functioning of the design, marketing and sales segments of the fashion industry. However, it seems this premise has not been borne out, as apparel production activity has steadily declined in the area over the years, while other segments of the industry have remained relatively stable. This evidence should prompt policy makers to take a new look at ways to enhance the headquarters, design, marketing and sales functions of the fashion industry in the Fashion District while also considering ways to diversify the area by cultivating the growth of other industries that are compatible with – and might even reinforce – the neighborhood's role as the center for fashion.

In particular, City policies should look to leverage the presence of the fashion industry as a magnet for the other creative industries – music, media, theater, films, television, advertising, etc. – that have experienced growth in New York City over the last decade and have already established a small community in this area. At the same time, the City should consider a more comprehensive approach to sustaining the fashion industry citywide, with an emphasis on bolstering the competitive advantages of New York City-based apparel production. The approach should also include an effort to find alternative locations elsewhere in New York City for those fashion-related businesses that are important to the City's economy but can thrive in lower cost locations outside of the Fashion District. In this way, the City can pursue complementary policies that both help support the overall fashion industry in New York City and also leverage the latent potential of the Fashion District as a more diverse hub of economic activity.

Pursuing a policy that takes advantage of the competitive strengths of the Fashion District, and seeks to realize its development potential, will yield substantial benefits to New York City. Improvements to the existing stock of commercial and industrial buildings can create opportunities to attract a more diverse industry base to the Fashion District. This would not only reinvigorate the neighborhood but would also help provide space for growing segments of the City's economy – a challenge that proved difficult for the City during the economic expansion of the late 1990s. Revitalization of the area will also stimulate growth in what has been an under-performing tax base, as higher paying tenants will increase the rent rolls and stimulate new investment in district property.

Finally, the continued evolution of the Fashion District into a mixed-use neighborhood, with a diverse tenant base, more interesting retail and a new residential community, would create a livelier district with around-the-clock activity and amenities. This new, dynamic Fashion District would serve as an ideal complement to Times Square's vibrant commercial and entertainment district and the future mixed-use community that is envisioned for the Hudson Yards area.

Current Employment and Historic Trends in the Fashion District

Looking at employment in the Fashion District area reveals an interesting mix of employment in fashion related and non-fashion industries. As it has been for several decades, the Fashion District remains the home of New York's bustling fashion industry. However, it seems that the concentration of neighborhood jobs within fashion-related industries has been shrinking, as factories are being replaced with a more diverse range of tenants.

A Note about the Data

The employment analyses in this study relied on two sources of data not only to provide a profile of employment in the Fashion District today, but also to see how the profile has changed over time. First, the current employment profile was derived from data provided by Claritas, a for-profit provider of demographic and business data. Claritas data tends to be more comprehensive than publicly available data sources, as it counts workers covered by unemployment insurance as well as those who are not. In addition, Claritas data can be restricted to small geographic areas, allowing the study team to focus in on current employment conditions within the BID boundaries.

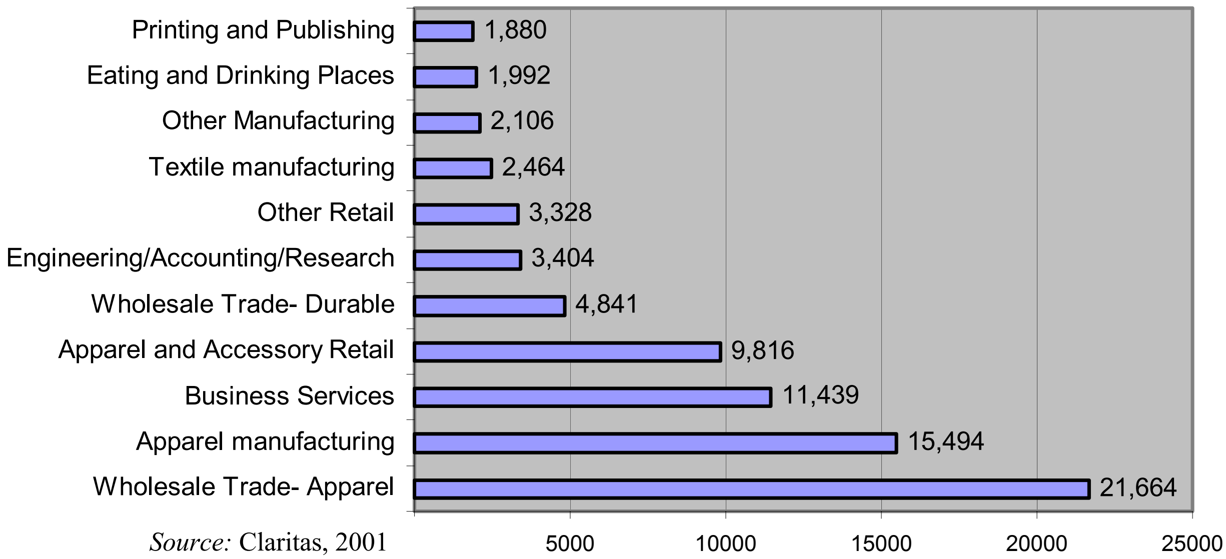
However, Claritas data is not available in time series fashion. Thus, the study team was unable to use Claritas data to make comparisons of employment in the BID over time. Since trend analysis is an important part of the study of the ongoing evolution of the Fashion District, the study team has incorporated comparisons of employment data reported by the New York State Department of Labor (DOL) at various years between 1988 and 2000. However, because DOL data is not available for areas below the zip code level, the analysis of changes in employment over time is based on Zip Code 10018, an area a bit larger than the BID. In addition, the DOL data set used in this analysis, DOL employment and wages series, only tracts employees covered under unemployment insurance and thus excludes certain classes of workers.

Current Employment Profile

The current employment profile within the Fashion Center BID shows that fashion-related industries still account for the largest share (46.6 percent) of the area's employment, which totaled 106,020 workers in 2001 (Claritas 2001). Employment in wholesale trade of apparel, apparel retailing, apparel manufacturing and textile manufacturing – what can be considered an approximation of the "fashion industry" – accounted for 49,438 jobs in 2001. Employees of apparel wholesalers made up the largest single employment group, followed next by apparel manufacturers.

Despite the apparent distinctions made by these apparel-related category titles, in the BID the actual functions of employees in the fashion industry do not necessarily sort out quite so neatly. Careful observation of the firms listed among the apparel wholesalers, manufacturers, and retailers suggests that many of the employees within each of these categories is likely involved in the design and marketing of apparel, rather than actually selling or sewing clothing. These suspicions are confirmed in the analysis of space utilization, which follows in next section.

Chart 1
Employment in the Fashion Center, 2001



Source: Claritas, 2001

Non-fashion industries accounted for the remaining 56,582 jobs found in the BID, more than half of the total employment base. While no single industry dominates the "non-fashion" category – there are 43 non-fashion industries represented in the area – a few individual sectors do have a significant share of the area's employment base. One example is Business Services, which accounts for 11,439 employees (10.8 percent). Another example is Engineering/ Accounting/Research, which had 3,404 employees in the BID (3.2 percent of the total).

Employment Trends Since the Late 1980s

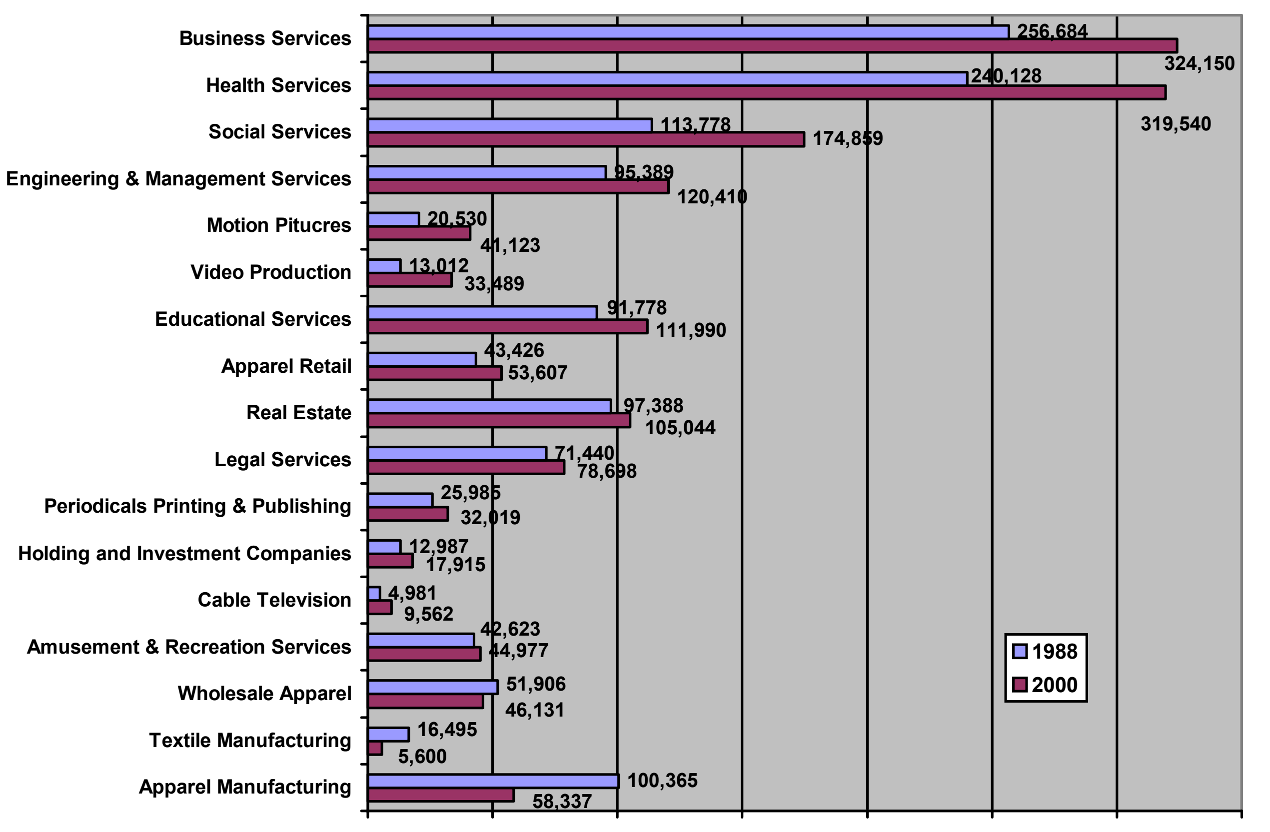
The Fashion District area has undergone significant changes in terms of employment since the late 1980s. According to the New York State Department of Labor (DOL), employment in Zip Code 10018 (encompassing the BID area as well as blocks west) was 90,435 in 1989.[1] Over the intervening years employment fluctuated, falling to 81,000 in 1992 and then climbing once again to reach 88,320 by 2000. Over this time, the dominance of fashion-related activities in the Zip Code area has slowly waned, and employment in non-fashion industries now accounts for more than half of the jobs in the neighborhood. According to the DOL, in 1988 apparel/textile manufacturing, wholesale apparel trade and apparel retailing accounted for 50.4 percent of total employment in Zip Code 10018. However, by 2000 fashion-related industries'

[1] The NYS Department of Labor does not track employment trends specifically for the BID. Instead, the closest approximation available is provided by data for zip code 10018, which covers the area from 34th to 41st Streets from Fifth Avenue to the Hudson River. Additionally, the DOL zip code data refers to average employment for the first quarter of each year cited.

share of total employment had dropped off to 43.7 percent. The overall number of fashion-related jobs in the Zip Code area also fell, dropping 15.3 percent from 45,537 in 1989 to 38,556 in 2000. Most of this decline is attributable to substantial losses in employment among apparel manufacturers, who saw employment totals fall 30.6 percent (21,550 in 1989 to 14,601 by 2000).

While employment among fashion-related businesses in this neighborhood has declined, the number of jobs in service sectors has been on the rise since the late 1980s; significant gains in employment among communications firms, holding companies and other investment offices, depository institutions, non-depository credit institutions, real estate firms, recreational service firms, health service providers and social service agencies have increased the share of non-fashion industries in the neighborhood. Modest growth seen among educational service firms also contributed to this trend.

Chart 2
Change in Employment in Selected New York City Industries, 1988 - 2000



Source: NYS Department of Labor

Just as in the Fashion District, both Manhattan and New York City overall experienced significant job losses in fashion-related industries. Most of these losses can be attributed to the steep decline seen in apparel manufacturing employment. Employment among apparel manufacturers in New York City fell dramatically, dropping 42 percent from 100,365 jobs in 1988 to 58,337 by 2000. The rate of decline has been even steeper in Manhattan, which lost a total of 33,072 jobs in apparel manufacturing, resulting in an employment drop of almost 49 percent. The textile manufacturers also suffered sharp declines in New York City since 1988, with employment falling off 62.8 percent by 2000. Apparel wholesaling employment also declined over this period, although at a significantly slower rate – in New York City, the drop was relatively modest at 11.1 percent. Only apparel retail has seen growth in this period. Since 1988, apparel retailers (which in New York City include many American design firms) have seen an *increase* of 10,181 employees in New York City – representing growth of 23.4 percent.[2]

Table 1 – Comparing Changes in Employment in New York City and the Fashion District, Selected Industries (1988 – 2000)

Industry	New York City		Fashion District (Zip Code 10018)	
	Net Change in Employment	**Net % Change in Employment**	**Net Change in Employment**	**Net % Change in Employment**
Apparel Manufacturers	- 42,028	- 41.9%	- 6,949	-30.6%
Textile Manufacturers	-10,895	- 66.1%	- 732	- 60.9%
Wholesale Trade – Apparel[3]	- 5,775	- 11.1%	+ 1,022	+ 5.1%
Apparel Retail	+ 10,181	+ 23.4%	- 322	- 23.0%
Holding & Investment Companies	+ 4,928	+ 37.9%	+ 223	+ 103.7%
Real Estate	+ 7,658	+ 7.9%	+ 779	+ 78.0%
Recreational Services	+ 2,354	+ 5.5%	+ 484	+ 424.6%
Health Services	+ 79,412	+ 33.1%	+ 393	+ 232.5%
Social Services	+ 61,081	+ 53.7%	+ 4,162	+ 527.5%

Source: New York State Department of Labor, 1988, 1989 & 2000

Given the patterns exhibited in fashion-related industries both in the Manhattan and citywide economies, the employment trends experienced in and around the Fashion District are not surprising. The substantial drop-off in apparel manufacturing seen in New York City overall was echoed in zip code 10018, which saw apparel manufacturing employment drop 6,949 apparel between 1989 and 2000, a 30.6 percent decline.[4] The same similarity can be seen

[2] The types of job functions categorized under "apparel retail" are very different when considering overall New York City as compared to the Fashion District. In parts of the City outside of the Fashion District, employees in apparel retail refer primarily to employees of stores that sell clothing and associated products. Inside the Fashion District, most employees counted under "apparel retail" are much more likely to be engaged in fashion design, marketing and administrative functions.

[3] Unlike in the case of the employment trends for New York City, the data for the Zip Code 10018 refer to employment in the more general category of Wholesale Trade – Non-durable. The more narrowly defined category used for New York City, Wholesale Trade – Apparel, is not available at the zip code level. However, in the neighborhood of the Fashion Center, it is very likely that the vast majority of the employees counted under the Wholesale Trade – Non-durable category are in engaged in wholesale trade in apparel-related industries.

[4] While the rate of decline in employment among apparel manufacturers seems to be slower in the Fashion District than in either Manhattan or New York City overall, this is likely due to inconsistencies in the types of jobs being tracked by the data. The presence of many headquarters operations in the Fashion District means that many firms

among textile manufactures, who suffered dramatic losses throughout New York City and Manhattan, and also saw employment fall over 60 percent in the Fashion District area, reaching an employment low of just 469 in 2000 (New York State Department of Labor).

Just as the citywide trends in decreasing employment among apparel and textile manufacturing have been echoed in the Fashion District, so too have some of the employment *increases* seen throughout New York City. Many industries that saw increases in citywide employment totals – such as holding companies and other investment offices, real estate, recreational services, health services and social services – also showed growth in the Fashion District. In fact, as Table 1 shows, some of these industries showed particularly strong growth in the Fashion District, which indicates the area's appeal to employers in a wide variety of industries.

However, it seems that this appeal is not universal. Despite realizing strong employment gains in certain growing New York City industries, the Fashion District missed out on economic expansion enjoyed by some of the City's most dynamic employment sectors. Industries including business services, legal services, motion pictures, engineering, accounting & research services, and educational services all saw employment totals rise between 10 and 100 percent in New York City from 1988 to 2000. Yet, Fashion District firms in these industry categories lost employment or experienced much lower levels of growth than seen Citywide.

Table 2 – Comparing Changes in Employment in New York City and the Fashion District, Selected Industries (1988 – 2000)

Industry	New York City		Fashion District (Zip Code 10018)	
	Net Change in Employment	Net % Change in Employment	Net Change in Employment	Net % Change in Employment
Business Services	+ 67,466	+ 26.3%	- 3,339	-23.7%
Legal Services	+ 7,258	+ 10.2%	- 59	- 15.7%
Motion Pictures	+ 20,593	+ 100.3%	- 33	- 7.8%
Engineering, Accounting and Research Services	+ 25,021	+ 26.2%	- 50	- 1.7%
Educational Services	+ 20,212	+ 22%	+ 74	+ 2.0%

Source: New York State Department of Labor, 1988, 1989 & 2000

The Fashion District's sluggish employment performance within some of the most dynamic industries in New York City suggests that the area is failing to live up to its full

that categorize themselves as "apparel manufacturers" actually employ workers who perform design, marketing, sales and other headquarters-related tasks rather than those related to the cutting and sewing of garments. And unlike production functions, which predominate among apparel manufactures outside the Fashion District, these non-production functions have not fallen prey to the competitive pressures generated by lower-cost overseas production operations. Thus, the drop off in employment experienced by the overall group of apparel manufacturers in the Fashion District is most likely linked to reductions in production-related employment, while the presence of the design and marketing functions that are unique to this neighborhood buoyed the overall staffing within the "apparel manufacturer" category.

economic potential. Firms chose to locate or expand elsewhere in New York City rather than in the Fashion District, despite the convenience of the area to numerous modes of mass transit and the diverse office product offered at prices several dollars per square foot below adjacent midtown neighborhoods.

Interviews with property owners and managers indicated several reasons why the Fashion District is under-performing in terms of attracting growing industries: obstacles to converting space for office use, a lack of retail opportunities and restaurants, congestion and discontinuity associated with trucks and loading docks that mar the streetscape, lack of vibrancy in comparison to the nearby Times Square district, lingering questions about safety and illegal drug activity (especially around Eighth Avenue). These concerns highlight obstacles to realizing further economic development of the Fashion District. Unless these hurdles are overcome, the Fashion District may well repeat its lackluster performance among many of the industries that have the greatest probability of achieving future growth in New York City.

Tenancy and Space Utilization

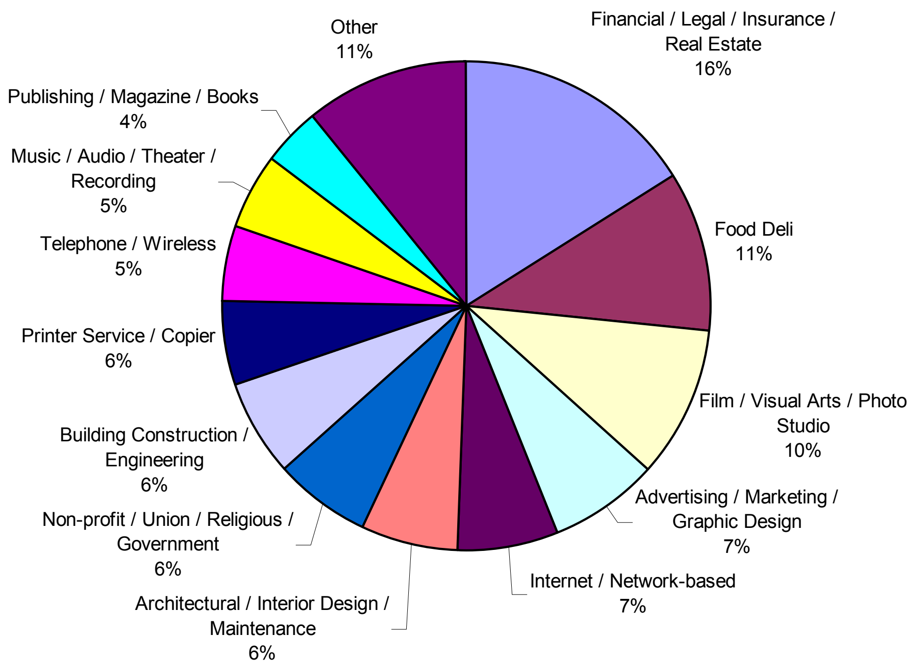
In 2002, the Fashion Center BID contracted with Identity Map to conduct a door-to-door survey of the properties in the district. According to the survey, the Fashion Center BID contains 380 separate commercial and industrial buildings with approximately 32 million square feet of space. This count includes those buildings that are either occupied by or available to commercial business and non-profit tenants but excludes government buildings, residential properties and other non-commercial uses and instead. This survey identified 8,339 separate units and found a vacancy rate of approximately 13.4 percent. Uses in the occupied units were broken down among warehouse, manufacturing, showroom, retail, design, office and other uses – or in many cases, some combination thereof.

There are 6,595 tenants in the BID area occupying 27.0 million SF of space (an average of 4,096 SF per tenant). These tenants are engaged in businesses that span numerous industries, including those shown in Table 3 below, which have the highest representation in the BID neighborhood. Despite years of decline in employment and tenancy, the fashion industry still dominates the district in terms of the number of tenants and space utilized.

Table 3 – Breakdown of Fashion Center BID Tenants (by Industry)

Industry	Number of Tenants
Fashion-related (includes apparel, textiles/fabrics, accessories/jewelry, & buttons/trimming)	**4,245**
Non-Fashion Tenants	
Financial / Legal / Insurance / Real Estate	297
Food Deli	196
Film / Visual Arts / Photo Studio	182
Advertising / Marketing / Graphic Design	137
Internet / Network-based	122
Architectural / Interior Design / Maintenance	119
Non-profit / Union / Religious / Government	118
Building Construction / Engineering	114
Printer Service / Copier	107
Telephone / Wireless	92
Music / Audio / Theater / Recording	88
Publishing / Magazine / Books	75
Other	199
Total Non-Fashion Tenants	**2,248**
Unknown	102
Total Tenants	**6,595**

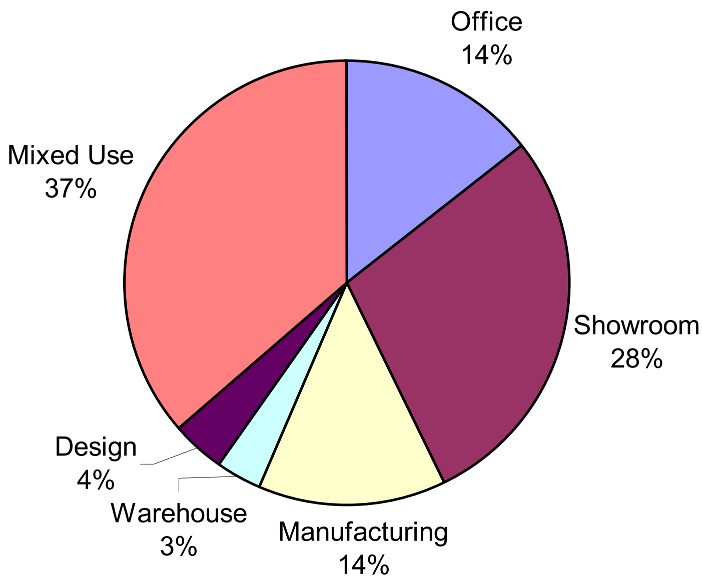
Chart 3
Industry Breakdown of Non-Fashion Tenants in the Fashion Center BID



Fashion-related industries, including apparel, textiles/fabrics, accessories/jewelry, and buttons/trimming, account for 4,245 tenants (64 percent of the total) as compared to 2,248 tenants (34 percent) in non-fashion industries. As the employment data suggested, no single industry dominates among non-fashion tenants, and instead there is a rich variety of non-fashion businesses located in the BID. The tenant distribution is depicted in Table 3 and Chart 3.

In terms of space, once again fashion-related uses account for the largest share of occupied space in the BID, covering 17,630,717 SF of space or about 55 percent of the total space (and 65 percent of the occupied space). The Identity Map survey attempted to categorize the functions these fashion-related tenants conducted in their space (see Chart 4 below). Non-Fashion uses account for 9,382,547 SF, about 29 percent of the total space in the BID (and 35 percent of the occupied space).

Chart 4
Space Distribution Among Fashion Related Uses
in the Fashion Center



Within the 17.6 million SF of space occupied by fashion-related tenants, the greatest proportion, some 5.0 million SF, is occupied by showroom uses. Approximately 2.5 million SF is utilized by office-based fashion tenants, while 2.4 million SF are occupied by firms engaged solely in the manufacturing of apparel and other fashion-related goods[5]. In addition, almost equal shares of space are utilized exclusively for either design (674,625 SF) or warehousing uses (603,207 SF). While these breakdowns are illustrative of how space is divided among fashion uses in the district, it is important to note that a large portion of the space occupied by fashion-related uses – some 6.4 million SF of space – is attributable to firms engaged in a *mix* of these uses. In particular, combinations of showroom and design, warehouse and showroom, and design and office account for a significant amount of space in this neighborhood.

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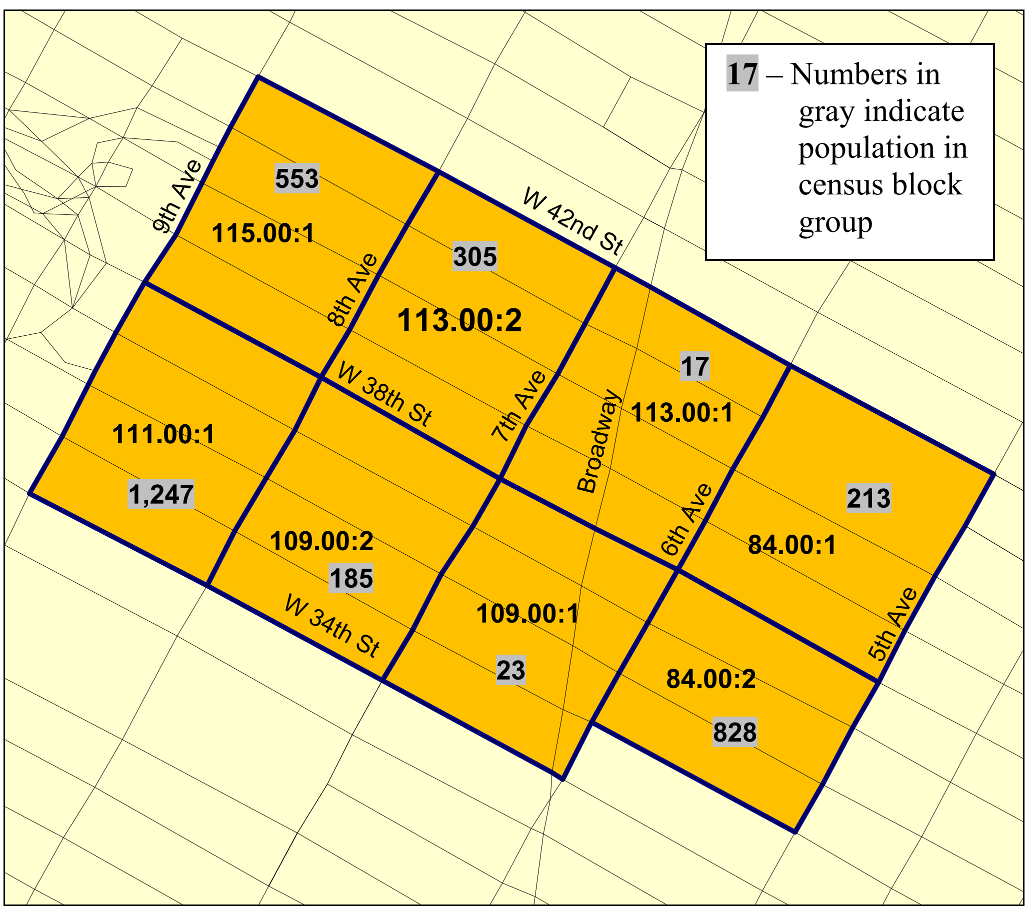
[5] Note that in the Identity Map survey, manufacturing refers to tenants with actual sewing machines or cutting stations in use within their occupied spaces. This is in contrast to what is categorized as "manufacturers" according to the Department of Labor and Claritas data sets.

Demographic Trends

As a district dedicated primarily to commerce, the Fashion District has a rather small population. Thus, the study team conducted only a brief analysis of the area's demographic characteristics. Relying on data available from the US Census Bureau, the analysis focused on 8 census block groups, which approximate the boundaries of the Fashion Center BID but do not correspond perfectly.

The area of consideration is bounded by Fifth Ave to the east, West 42nd St to the north, Ninth Ave to the west, and West 34th St to the south. As of 2000, the area contained 1,825 housing units, with a vacancy rate of 8.1 percent. These few units are home to 3,371 residents, which were divided among 1,678 different households as well as one of the several group homes in the area (including a New York University dormitory on West 34th Street). Over half of these residents (1,800) were found to be living between Eighth and Ninth Avenues, while the blocks between Sixth and Seventh only housed 40 residents. This reflects the nature of the zoning on these blocks, which prohibits residential use east of Ninth Avenue (most existing residential use in the area is granted special permission by the Department of City Planning).

Map 2 – Census Block Groups Surrounding the Fashion Center BID



Although limited in number, the population in and around the Fashion District exhibits diverse racial and ethnic composition, although not to as large an extent as in New York City as a whole. Non-Hispanic whites accounted for the biggest racial group in 2000 (41 percent), while 28 percent of the population was Asian (the only ethnic group that grew in this neighborhood between 1990 and 2000) and 20 percent Hispanic. Only 7 percent of the area's residents were non-Hispanic black. By contrast, 35 percent of New York City's residents were non-Hispanic white, 27 percent were Hispanic, 25 percent were non-Hispanic black and 10 percent were Asian. The area is also somewhat distinct from City norms in that it has a larger than average concentration of young adults and also has relatively few children.

In 1999, median household incomes in the Fashion District neighborhood were higher than the Citywide median level of $38,293 (with the exception of one census block group with only 17 residents). However, the income levels vary considerably within the district, with median household income ranging from $31,250 to $102,264 in the 8 census block groups covered in this analysis. The highest median household income levels (from $66,771 to $102,264) were found in the blocks between Fifth and Sixth Avenue, as well as between Sixth and Eighth Avenues south of 38th Street. Lower incomes ($31,250 to $54,219) were found in the blocks between Eighth and Ninth Avenues, as well as the area between Sixth and Eighth Avenues north of 38th Street.

Real Estate Market Trends

Overview

The Fashion District is best described as a sub-market of the larger Midtown Manhattan market, which is the largest and most highly valued market in the country. The Fashion District is unique from other parts of Midtown in that its office stock is more heavily weighted to class B/C space rather than class A buildings. The area is also characterized by its tenant mix – with a significant though lessening presence of industrial uses (manufacturing and warehouses) interspersed with the dominant tenant groups of wholesalers and office users. As noted previously, there is very little residential use in the Fashion District, almost all of it is west of Eighth Avenue.

Located just west of what is considered the "midtown core" of class A office space, the Fashion District should be well positioned within the market. It is particularly well served by midtown's mass transit network, with two regional transit hubs within walking distance – the Port Authority Bus Terminal to the north and Penn Station to south – and stops along 16 New York City subway lines and the New Jersey PATH train system. This transportation makes the area highly accessible to a broad regional labor force as well as allows workers in the district to remain connected to business partners throughout New York City.

The Fashion District's Midtown location and superior transportation access should make the neighborhood a premier midtown sub-market, but the nature of its tenant mix, existing real estate market product and restrictive zoning policies have caused the area to under-perform the rest of the midtown market. During the interviews conducted by the study team, property owners, real estate investors and building managers conveyed their opinion that tenants find the Fashion District to be the "office market of last resort". A recent *Wall Street Journal* article noted the displeasure of one well-known tenant (a financial service company that relocated from the World Trade Center after September 11) upon taking space in the Fashion District. The tenant cited the noise, congestion and lack of amenities as main complaints. In addition to the incompatibilities of office tenants and warehouse/distribution activity, office tenants complain of the lack of dining and retail amenities as well as feelings of insecurity that results from the limited lighting in the neighborhood. These factors have the effect of holding the Fashion District back from fulfilling its true potential as a thriving midtown sub-market attracting a multitude of industries with growth potential in New York City. The following section discusses this potential and makes the case for why the role of the Fashion District should be reexamined in the context of the larger midtown marketplace and the City's ambitions for creating new, dynamic centers of commerce and activity in Manhattan.

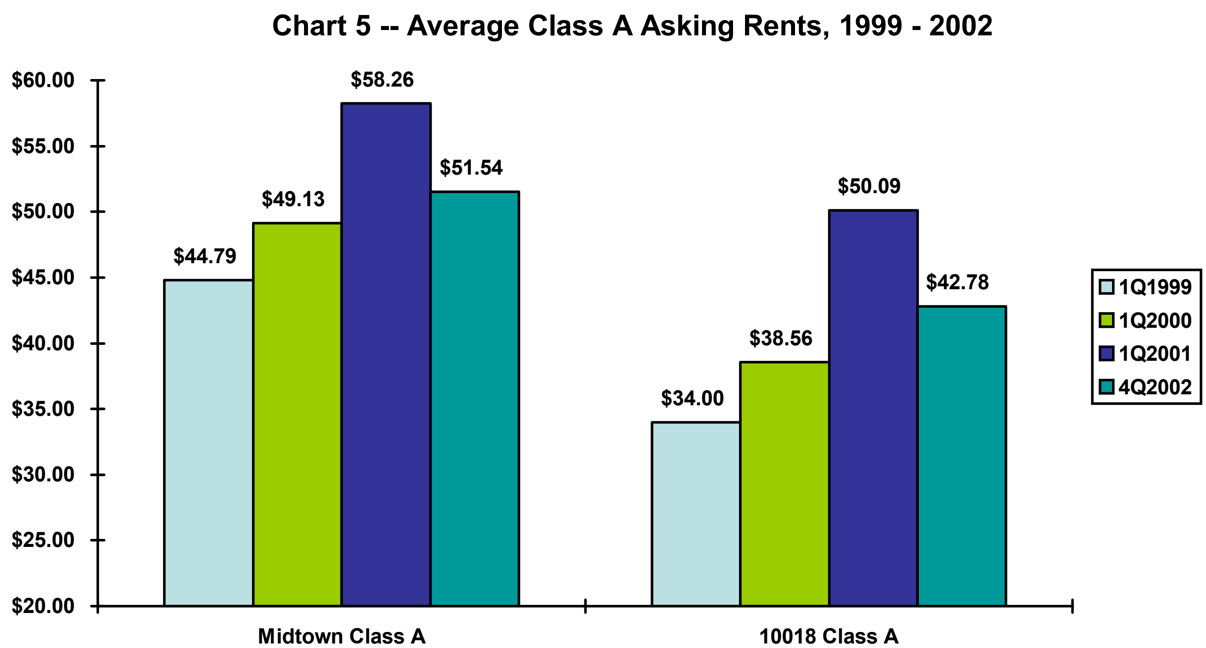
The Fashion District offers significant economic development potential. The nature of the area's location in the center of midtown and its competitive office rental prices offer prospective tenants an attractive alternative to other off-price office sub markets, such as Lower Manhattan, New Jersey, and the outer boroughs. The potential for additional office tenancy, as well as complementary residential uses, provides a logical replacement for the manufacturing and warehouse uses that have shown steady decline in demand in the neighborhood over the last

15 years. While these uses are expected to continue to fall off in the years to come, residential demand remains strong and office demand is expected to increase as the City's economy recovers. The successful development of Times Square and the ongoing development of surrounding areas including the Port Authority Bus Terminal project and the New York Times building on Eighth Avenue will continue to draw attention to the Fashion District as a strategic midtown location. Retail demand also remains steady in New York City, and while creating additional retail opportunities in the Fashion District presents some challenges, it seems probable that the Fashion District could achieve better performance of the existing retail stock – which would create a better environment to attract tenants to the area's office buildings.

Office Market Trends

Recent and historic patterns indicate that trends for the Fashion District are closely tied to the overall Midtown Manhattan. The Fashion District tracks changes in the broader midtown market, but generally under-performs it in terms of rent. For purposes of statistical analysis, market data collected for the 10018 zip code is considered to provide a reliable indication of the Fashion District.

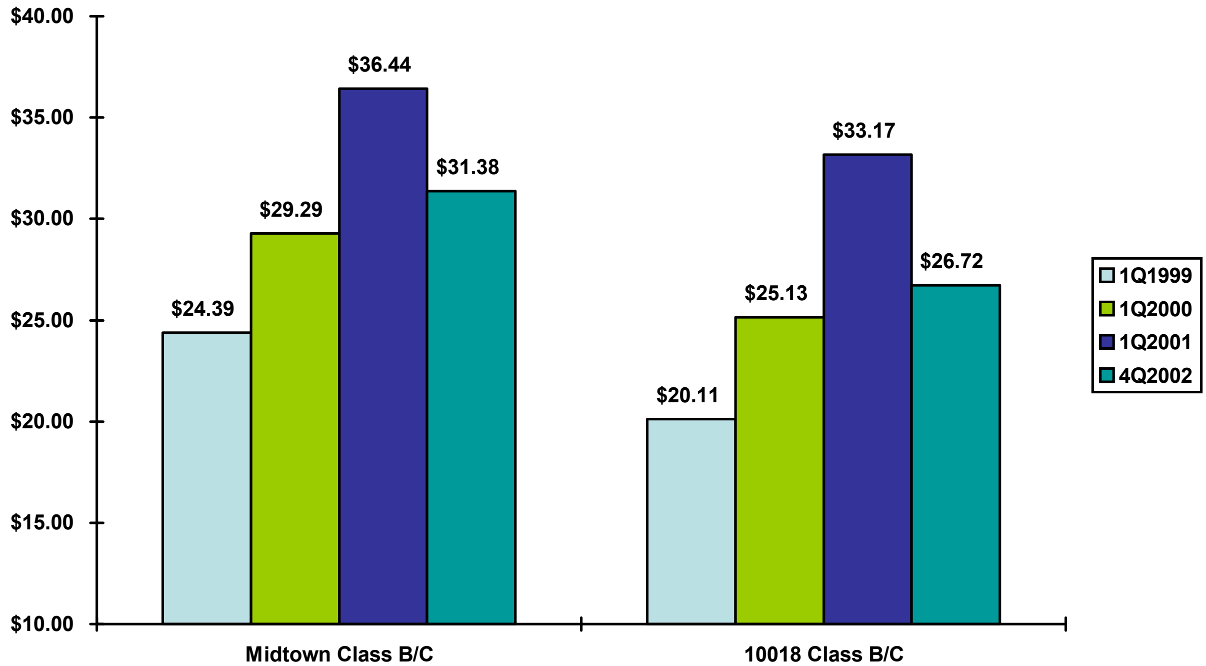
<u>Office Rental Rates</u>



Note: 4Q2002 is only complete through mid December, the most recent data available

Due to the decline in the general economy, the overall midtown office market has declined steadily since the end of 2000. The trends indicate that although 4th quarter 2002 class A rental rates are down from the prior year in both the overall market and the smaller sub market, rates are still well above 1st quarter rents exhibited in prior years. The same trend is also true for class B & C space in the same corresponding markets (as indicated in Chart 6 below). Although the bottom cannot be predicted with great accuracy, it appears that there is some evidence of a stabilizing market in Midtown overall.

Chart 6 -- Average Class B/C Asking Rents, 1999 - 2002



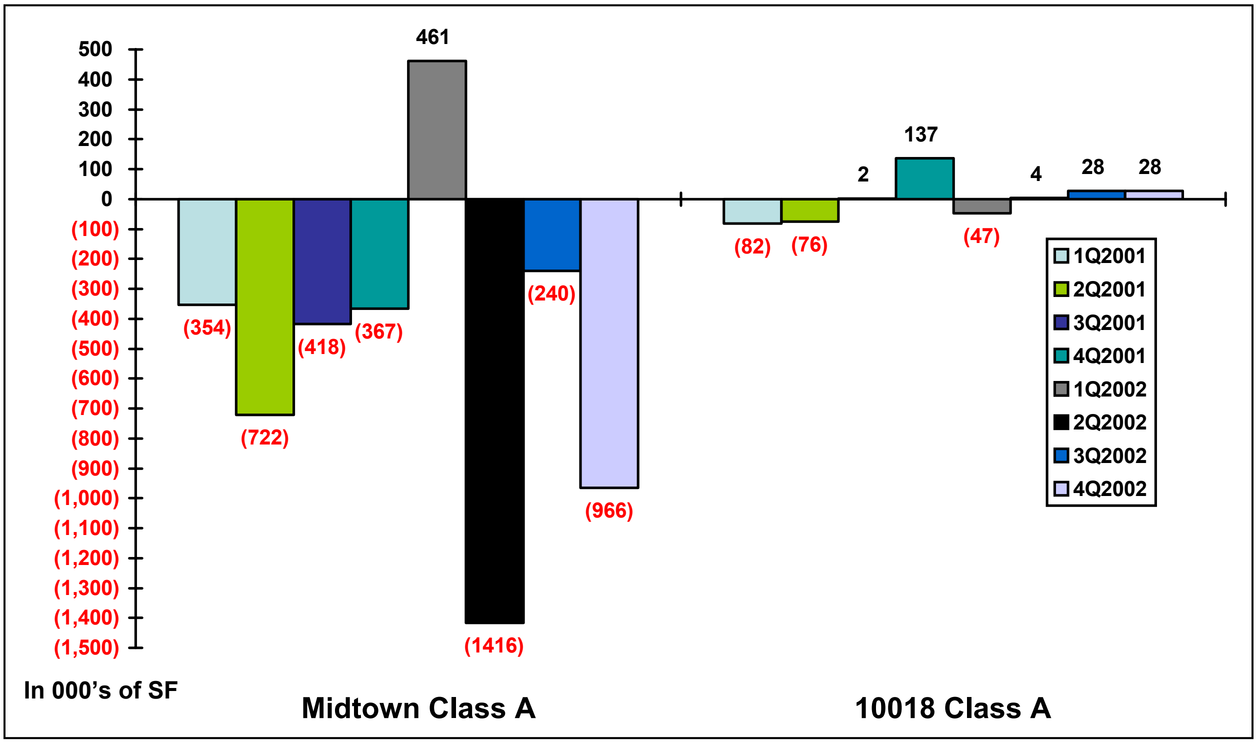
Note: 4Q2002 is only complete through mid December, the most recent data available

<u>Vacancy and Absorption</u>

A look at recent vacancy and absorption patterns in the Midtown market confirms in many ways what one would expect to find at a time when asking rents are declining; the market experienced increasing vacancy rates and negative space absorption. The vacancy rate for all space in midtown, including direct and sublet space, increased from 6.43 percent to 10.30 percent during the time between year-end 2000 and the end of the third quarter 2002. Vacancy rates for the Fashion District started off at a slightly higher base and increased overall from 7.14 percent at year-end 2000 to 13.57 percent at the end of the third quarter 2002.

However, patterns in the overall Midtown and Fashion District markets diverge when looking at quarterly trends in absorption. The class A net absorption in the Fashion District was a positive 152,000 SF over the past six quarters, while it was a negative 2,946,000 SF for the overall Midtown market. This observation, illustrated in Chart 7, suggests that the lower rental rates offered in class A space in Fashion District area have provided a competitive advantage in attracting cost conscious tenants seeking less expensive space. (The advantage appears to be associated only with class A space. The divergent pattern was not borne out in terms of class B/C space – the Fashion District's dominant stock – as net absorption among these building types in both markets exhibited negative net absorption in almost every quarter since first quarter 2001.)

Chart 7
Quarterly Class A Net Absorption, 1Q2001 - 4Q2002



Note: 4Q2002 is only complete through mid December, the most recent data available

Prior to September 11, 2001, there was a strong trend within the Fashion District toward conversion of manufacturing space to office. Although that trend appears to have slowed, the relatively strong demand for class A office space within the Fashion District in comparison to other areas of Midtown provides support to the idea that the conversion trend will return along with an overall economic recovery in the area if conversion restrictions are eased or lifted. With manufacturing use expected to continue to decline in the Fashion District as well as in New York City as a whole, office use provides a logical replacement for that lost space due to the District's central Midtown location, its access to public transportation, and its competitive rent levels. In addition, as the office market grows in the immediate and surrounding areas, it will enhance demand for space within the Fashion District.

Residential Market Trends

As the previous demographic analysis indicated, residential use is quite limited in the area of the Fashion District. However, the area is book-ended by residential activity – with the well-established residential community along the Ninth Avenue corridor to the west and new residential buildings sprouting up to the east near Sixth Avenue. While the current zoning does not allow residential uses within much of the area, there is strong potential for successfully incorporating residential uses into the mix in the Fashion District. And, if the zoning were changed to allow residential uses, it would have the added benefit of injecting new life to the

Fashion District, providing spill-over benefits in terms of safety and retail amenities that would support the other uses in the area.

Demand for Residential Property

There have been measurable declines in some segments of the residential market in the last few years, but the outlook for Manhattan residential property remains positive. According to the Corcoran Group, a residential real estate brokerage firm that provides semi-annual market reports for Manhattan, sales prices for ownership housing (including condominiums, cooperatives, lofts, and townhouses) increased in 20 of 32 Manhattan market segments surveyed between year end 2002 and mid 2003. In the first half of 2002, average sale prices for condominiums ranged from $194,000 for studios in the upper east side to $3.658 million for three or more bedrooms on the upper west side. The low end of the range is down from year-end 2001, but the high end increased over that time frame. Sale prices for lofts declined from an average of $625 per SF to $622, but sale prices for all lofts larger than 1,500 SF increased in price. Townhouses increased in price on the east side and west side, but decreased downtown. The average sale price on the east side reached $5.373 million by mid 2002. These findings demonstrate an overall pattern of continued strong demand for ownership housing in Manhattan.

It seems that the strength of the ownership market along with other economic factors has had a modest negative impact on the market for Manhattan's rental housing. According to Corcoran, rental rates declined 6 percent between mid 2001 and mid 2002, from $3,268 to $3,071. In midtown, the decline was 8.6 percent from $3,161 to $2,887 during the same period.

Yet, rather than a sign of fundamental weakness, declining rental rates are likely the result of several short-term factors including the following: the overall decline in the national and regional economy; use of owned real estate as an alternative investment to the declining stock market; and low mortgage interest rates furthering interest in owned real estate. Each of these factors point to the decline of rental rates as a short-lived situation that should reverse itself upon the return of a healthy economic. Residential development trends have also indicated that developers expect any decline of rental housing to be short lived, as developers and investors continue to introduce new rental construction projects throughout the Manhattan.

Residential Market around the Fashion District

Several new construction projects are underway throughout the area, including one recently opened within the Fashion Center BID and one just outside the boundaries of the district on Ninth Avenue.

The newest completed project in the area is the Atlas NY on 38th Street and Sixth Avenue, which involved the demolition of a 21,600 SF office building. Six months after opening (June 2002), the building was 95 percent leased (284 of 298 units). Rental rates range from $2,090 to $4,400 and higher for studio, alcove studio, one- and two-bedrooms that range from 435 to 1,156 SF (approximately $45 to $60 / SF per year).

Another new residential project is currently under construction just outside the boundaries of the Fashion Center BID. It is located on the west side of Ninth Avenue, from 36th to 37th Streets and is known as Hudson Crossing. This project is expected to open in the spring of 2003. Rental rates have not yet been set, but there will be a total of 259 units ranging from studio to two-bedrooms. The project will also have an affordable housing component.

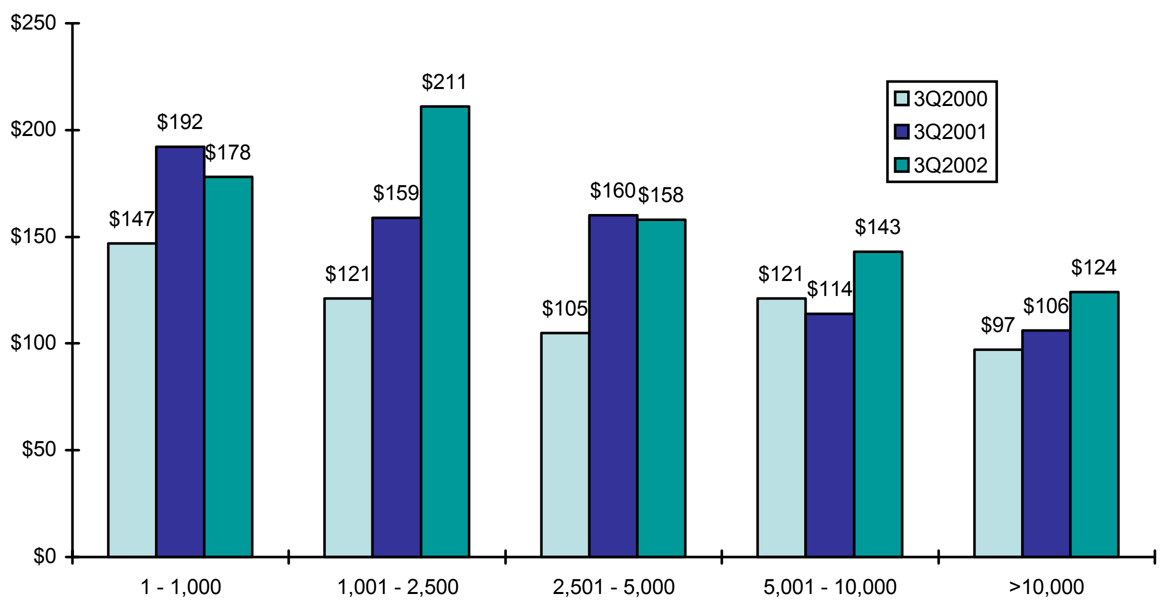
In addition to these new construction projects, the conversion to residential use of an existing building in the BID was recently announced. The building is located on 315 West 36th Street between Eighth and Ninth Avenues.

In summary, despite some recent minor setbacks on the rental side, the residential market remains strong. Recent and current activity in the immediate area of the Fashion District indicates the potential for success of residential development in the area if it were permitted under different zoning provisions.

Retail Market Trends

A complaint frequently heard both from Fashion District tenants and property owners is the lack of quality retail amenities and table service restaurants in the area. A strong retail presence provides neighborhood benefits on two levels. First, strong retail activity can increase profits that allow for new investment and increase the tax base. In addition, a quality retail environment can be a powerful catalyst for the improvement of conditions in other segments of the real estate market. This philosophy was expressed by many current property owners, who noted during interviews that improved retail and dining amenities would help to attract new tenants to the neighborhood.

Chart 8 -- Midtown Asking Rents by Store Size, 2000 - 2002



Existing Conditions in the Retail Market

The recent performance of the retail market indicates that, despite the decline in the local and national economy, there is still healthy demand for retail space in Midtown Manhattan. The Real Estate Board of New York (REBNY) recently completed their fall retail report for Midtown, which indicates that retail asking rents per square foot are up in 3 of 5 categories over the past year, when tracked by store size. Over the past 2 years, rents are up in all categories.

Despite the strength of the Midtown retail market, little growth has occurred within the approximately 1.7 million SF of retail inventory within the Fashion District. The lack of growth is considered to be a result of several factors unique to this area. First, the current demand for retail on the side streets is limited since:

- Retail frontage along the side streets is not contiguous but is interrupted by loading docks and warehouse space,
- Pedestrian traffic is limited throughout the day,
- Trucks and deliveries impede pedestrian flow and the ability to merchandise effectively.

Secondly, retail performance on the avenues is held back by current conditions including:

- Non-contiguous retail uses with intermittent wholesalers,
- Inadequate merchandising and signage,
- Non-complimentary tenant mix and no cohesive leasing plan.

Retail potential on both the side streets and avenues is also affected by the demographic profile of the area. The small number of residents, and the limited spending power associated with them, limits prospects for attracting customers outside of normal business hours. Retailers and restaurateurs consider this a drawback to doing business in "9-to-5" areas such as the Fashion District, which also helps to explain why there has been little investment in either retail or restaurants in the area.

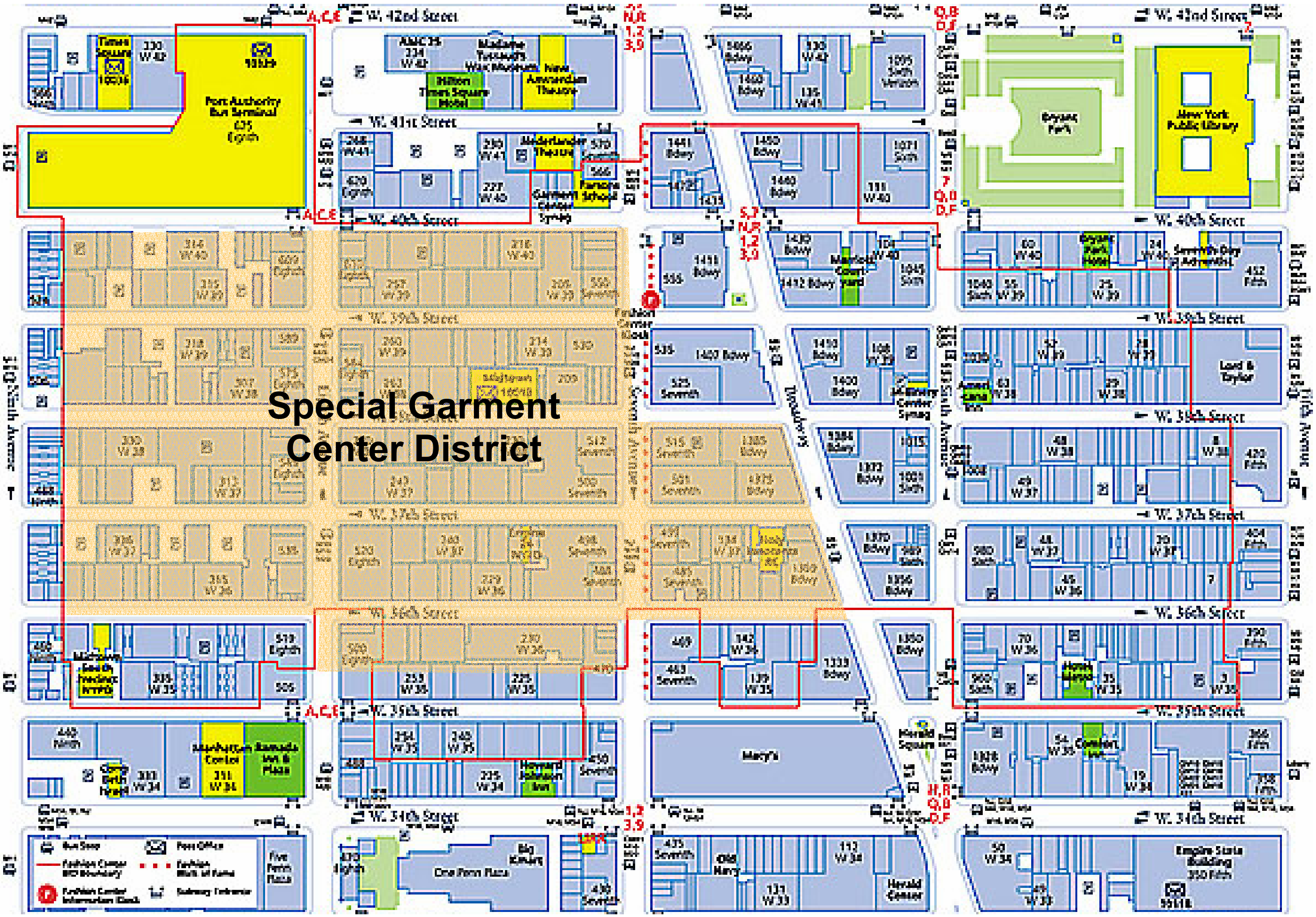
Finally, substantial destinations retailing both to the north (Times Square) and the south (Macy's, Herald Square and 34th Street) of the district draw such a large amount of retail spending that it is difficult to lure shoppers away from those areas and inside the district without the presence of a major destination of its own.

Even with the large pedestrian counts that already exist along the avenues in the district, given the variety of negative factors influencing the current retail environment and the surrounding competition, those pedestrians are decidedly on their way somewhere else and are not likely to stop in the district to shop. To reverse this trend, the retail plan will need to include nodes of destination retailing or entertainment cultural opportunities to attract pedestrians and increase potential sales within the Fashion Center district.

Studying the Retail Potential

The Economic Profile 2002 by Robert B. Pauls, LLC indicates that estimated spending from local residents and employees plus visitors and tourists could support an additional 544,000 SF of retail space in the Fashion District. In the absence of additions to supply, Pauls indicates that the existing supply could improve performance. However, based on the study team review of the Pauls analysis, it seems that the demand estimates may be somewhat aggressive, given that a capture rate of 100 perfect was applied to the estimated spending from employees within the district. The true capture rate is likely to be somewhat lower, however finding this rate and determining the associated implications for retail potential in the Fashion District require further analysis. Any progress in addressing the identified limitations for the retail market would allow the Fashion District to capture a greater share of the demand created by new development in the vicinity. Although it is unlikely that increased retail demand would result in any significant increase in retail supply in the area (due to the configuration of existing retail frontage) the merchandising mix and performance of the existing retail could be improved substantially.

Map 3 – Special Garment Center District and Fashion Center BID Boundaries

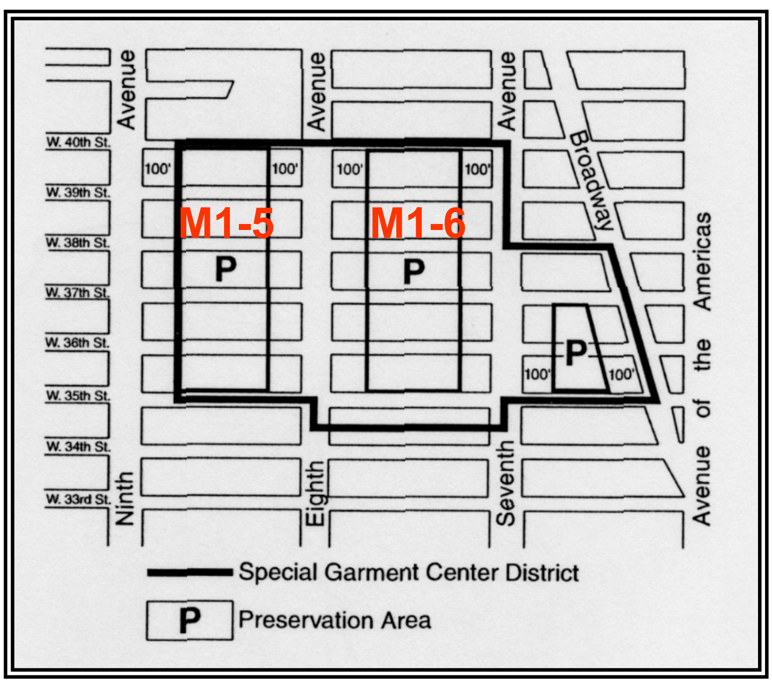


Current Zoning Conditions

The Fashion District is governed by two different sets of zoning standards. Most of the District area west of Broadway is included within the Special Garment Center District, a special zoning area designated by the City Planning Commission in 1987. (The zoning provisions that govern the special district are described below.) Outside the Special District, the BID area is generally zoned as a high-density commercial area that allows a range of as-of-right uses, including light manufacturing, commercial office and residential use.

By contrast, the permitted uses within the Special Garment Center District are far more restricted – reflecting the City's efforts of the late 1980s to protect the garment industry in the neighborhood. The district itself was created by City Planning as a reaction to concern that the ongoing vitality of the overall fashion industry was being threatened by the erosion of garment manufacturing activity in the area. The Department identified of garment manufacturing space to office and other non-garment industry uses as a major threat the conversion. Therefore, residential use was prohibited throughout the special district, and the side streets were designated as a "Preservation Area" with restrictions on the conversion of manufacturing space to office use (See Map 4). The preservation restrictions were also designed to accommodate other apparel industry tenants, such as warehouses and showrooms, which are allowable under the manufacturing conversion provisions. It was thought that these efforts would help maintain a geographic concentration of the various segments of the garment industry, and thereby reinforce the strength of the overall industry. It was also the hope that the restrictions of the preservation area zoning would slow the decline of apparel manufacturing employment in the area (and thus in New York City).

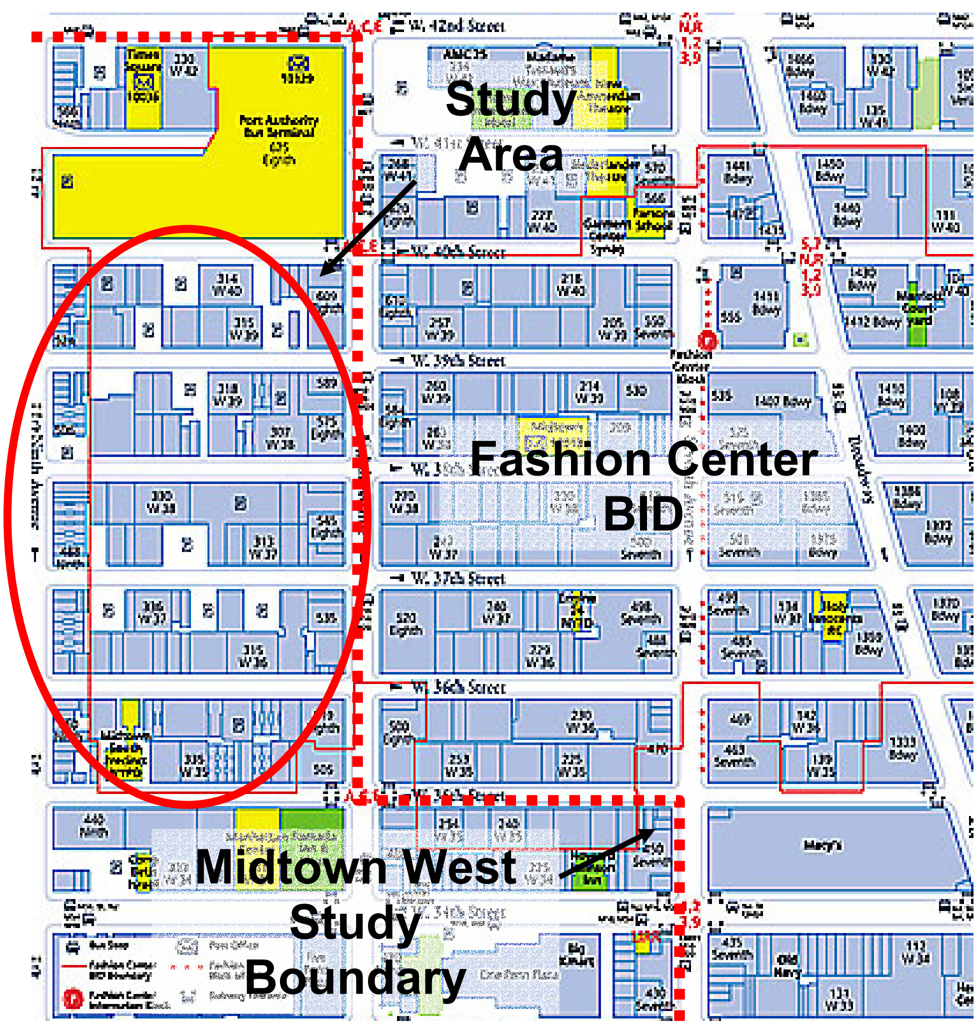
Map 4 – Preservation Area within the Special Garment Center District



Prospects for Rezoning and New Development in the Fashion District

Rather than viewing the Fashion District in the context of the current zoning, which imposes the restrictions of the Preservation Area within the Special Garment Center District while allowing a more liberal set of uses in the areas farther east, there seems good reason to re-conceptualize the area based on what uses might evolve under a less restrictive zoning scheme. More specifically, the building types and current land uses vary from east to west in the Fashion District, and this presents an interesting opportunity to offer a distinct vision for the western portion of the district – a vision that could help stimulate investment and new economic activity in the Fashion District as well as serve as a complement to the proposals for the redevelopment of the Hudson Yards area.

Map 5 – Fashion Center BID Boundaries with Far West Midtown Study Area Boundary



The building types and land uses found within the Fashion District vary considerably across the district. A street level survey by the study team found the area from Fifth to Eighth Avenue to be generally built out to full capacity, with tall buildings (FAR 10 or greater) and no vacant land. In contrast, the western portion of the district in the area between Eighth and Ninth Avenues is populated by many low-rise buildings (FAR 5) and numerous vacant lots (mostly surface parking). The area also has a modest concentration of residential units, and is bordered by ongoing residential development to the west along Ninth Avenue. These unique characteristics suggest that the western portion of the Fashion District has strong potential for new and redeveloped residential use and thus should be considered in a somewhat distinct zoning context from the rest of the district. The area also deserves special consideration as it has been included in the boundaries of the City Planning Department's Hudson Yards study area.

Built Environment East of Eighth Avenue


Southside 36th St. between 7th & Bdwy.

Northside 36th St. between 7th & Bdwy.

Versus
Built Environment West of Eighth Avenue

308-310 39th St.

349 36th St.

The study team conducted a street level survey of the buildings on 35th through 40th Streets, Eighth to Ninth Avenues and matched these observations with information available from City Sandborn maps. This analysis revealed a mix of manufacturing, commercial office and institutional buildings.

Map 4 – Current Land Use in Fashion District between Eighth and Ninth Avenues

By Building
- 16 Parking
- 17 Commercial
- 8 Residential
- 16 Mixed use
- 32 Manufacturing
- 5 Institutional

Key:
Yellow: Residential
Orange: Mixed Use
Red: Commercial/Office
Purple: Manufacturing
Grey: Parking
Blue: Institutional

In addition, there exists on these blocks a modest concentration of residential uses, found in some 24 buildings (similar to the ones pictured on the following page), about half of which have commercial uses on the ground floor. There are 405 residential units, occupying approximately 430,000 SF of space.

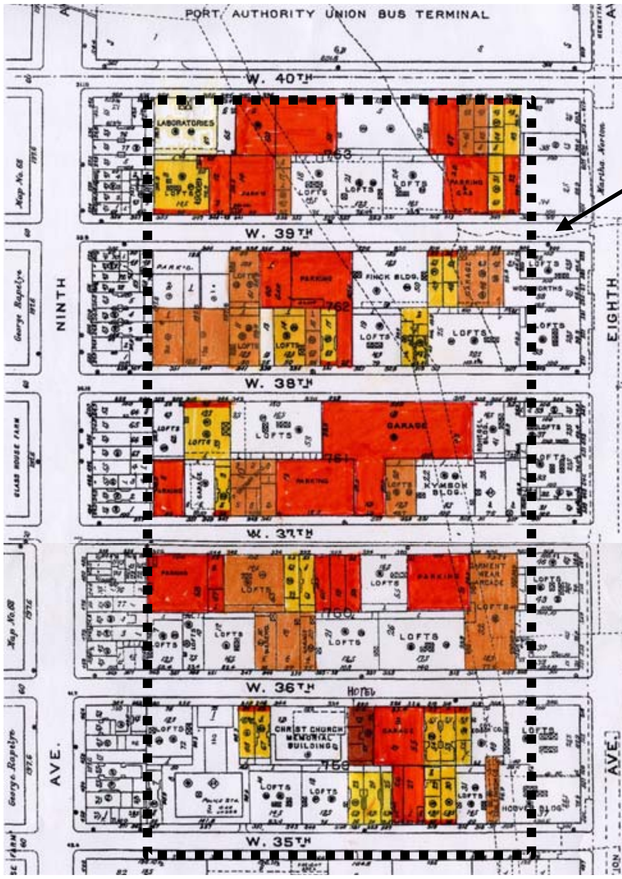
Examples of Residential Buildings Between Eighth and Ninth Avenues

In addition to the existing residential buildings, the survey revealed several buildings that had strong potential for residential conversion. The conversion candidates are modest in scale, generally between 5 to 8 stories, have a building form suitable for residential use (providing potential units with adequate access to light and air), and are adjacent to compatible uses. Following these conservative criteria generates a list of 20 buildings with approximately 530,000 SF of space, suggesting a potential for 550 to 650 units through residential conversion on these blocks.

Potential Residential Conversions

While there appears to be strong potential for residential conversions, the blocks between 35th and 40th Streets seem to offer even greater potential in terms of new residential development. As the following map depicts, numerous lots with either surface parking or low-rise garages offer several large sites that could accommodate new residential construction. If the existing zoning were expanded to allow residential uses, these sites could yield 585,000 SF of new residential development (approximately 585 housing units) under the current allowable FAR of 5.0. However, with a more generous FAR (which is typical of other mixed use districts in Manhattan), these sites could accommodate perhaps twice as many units of housing.

Map 5 – Existing Residential, Residential Conversion and Potential Development Sites



Preservation Area

Key:
Yellow: Residential
Orange: Suitable for Conversion
Red: Potential Development Sites (New Construction)

In summary, the segment of the Fashion District between Eighth and Ninth Avenues offers substantial potential for redevelopment and new housing.

Table 4 – Summary of Housing Development Potential

	Estimated SF	**Estimated Units**
Existing Housing	430,000 SF	405 units
Possible Conversions	530,000 SF	500 - 600 units
Redevelopment	585,000 - 1,170,000 SF	600 - 1,200 units
Total	**1,545,000 - 2,120,000 SF**	**1,505 - 2,205 units**

If allowed under modified zoning regulations, these units could draw thousands of new residents to the Fashion District – enlivening the streets and bolstering local retail demand. This would not only make the Fashion District safer and more desirable for businesses; it would also create a gateway into the mixed-use district being proposed for the Hudson Yard area.

Trends and Development Shaping the Future of the Fashion District

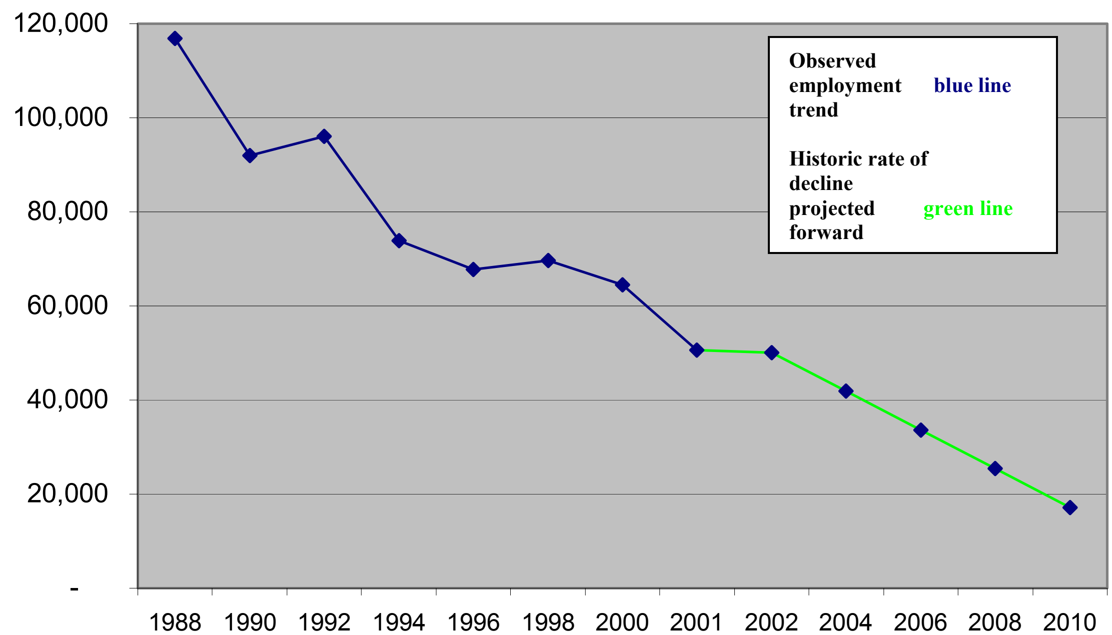
There are a variety of forces at work in and around the Fashion District that will have an impact on the neighborhood's evolution. These forces include:

- Continued erosion of the city's apparel manufacturing sector;
- Recovery and further expansion of office-based industries;
- Growing importance of creative industries in the New York City economy;
- Strong demand for housing; and
- Ongoing development projects including transportation, commercial and retail developments

❑ Continued Erosion of the City's Apparel Manufacturing Sector

The fundamental shift in the structure of the fashion industry shows no signs of reversing, and thus the prospect for continued decline in employment among apparel manufacturers seems assured. No longer competitive in mass production, New York City's manufacturers receive business primarily for higher-end production orders, sample production, specialty products, products requiring "quick turn around", short run orders, and re-orders – important services to be sure, but ones lacking sufficient demand to sustain the levels of employment once seen in the City's apparel manufacturing sector.

Chart 9 -- Observed and Projected Future Employment Among Apparel Manufacturers in New York City, 1988 - 2010



The chart above illustrates the steady decline in employment among apparel manufacturers seen in New York City since 1988. If these historic decline rates were to be carried forward, by 2010 apparel manufacturing employment in the City would be just above 17,000 -- less than half of what it is today. While this decline may be softened by efforts to bolster demand for the services in which New York City producers specialize, a continued drop in employment is almost assured.

Chart 9 is not a forecast; rather it is just a mathematical projection into the future of trends from the past dozen years. Nevertheless, there are emerging factors in the local, national and global marketplaces that suggest that apparel production in New York City will continue to decline.

Since 1999, the volume of imported apparel has grown at five times the rate of consumption, squeezing out US-made products.[6] In addition, developments in U.S. trade relationships with countries where production costs are lower (including those cited below) suggest that imports will continue to increase their share of the overall U.S. apparel market.

- Congress has amended the legislation authorizing the Caribbean Basin Initiative in order to give Caribbean nations access to the U.S. market comparable to that enjoyed by Mexico under NAFTA.
- Congress has also extended trade preference to the nations of Sub-Saharan Africa.
- Under the Uruguay Round agreement, quotas on textile products and apparel that had been authorized under the Multi-Fiber Agreement are to be eliminated on December 31, 2004.
- Since Congress reinstated presidential Trade Promotion Authority, the U.S. Trade Representative has been negotiating free trade agreements with Chile, Singapore, and the nations of Central America and southern Africa. Those and other bilateral or regional agreements will continue to expand low-cost producers' access to U.S. markets.

The continued negative pressure on the domestic and local manufacturing industries suggests an associated decline in the demand for space among apparel manufacturers in New York City. Indeed, the amount of space occupied by apparel-related businesses appears to have dropped off considerably since the Special Garment Center District was created in the late 1980s. A report prepared for the City Planning Commission by Louis Harris Associates in 1986 indicated that there were 8 million SF of space occupied by apparel manufacturers in the neighborhood of the Fashion District; by 2002, Identity Map discovered just 3 million SF of space in use by firms producing apparel within the boundaries of the BID. If the decline in employment among apparel manufacturers is likely to continue, it seems equally certain that the amount of space required by apparel manufacturers will also continue to decline. This fact has serious implications for the positioning of future policy to encourage economic development within the Fashion District.

[6] Malone, S and Ellis, K. "Playing the Free-Trade Gambit", *Women's Wear Daily*: Vol. 183 Issue 29, p 12.

❑ **Continued Growth in Demand for Office Space**

Despite the current demand conditions in the market today, the long-term need to increase the supply of commercial office space in New York City has been acknowledged in a variety of studies and analyses. In June 2001 the Group of 35, a blue-ribbon task force convened by Senator Charles Schumer, established both the potential for strong long-term growth in the City's office based industries and the corresponding demand for new office stock to accommodate that growth. The Group of 35 found that:

> *Half the projected employment growth* [in New York City] *for the next 20 years will be found among office-based companies. To accommodate growth in the office sector, the City will need to add approximately 60 million square feet of office space by 2020. Without this new space, New York City will lose thousands of jobs and the economic activity they will generate.*[7]

In a report commissioned by the Civic Alliance to Rebuild Downtown New York, economist Hugh Kelly similarly highlights the need for additional office space.

> *The tone of the Group of 35 report, while acknowledging the inevitability of economic and property market cycles, is confident about New York City's long-term economic prospects. Post-9/11, its outlook seems exuberant. Yet its fundamental argument, namely that New York City's economic health depends on its ability to nurture, diversify and grow its key office-using industries, and that in turn means developing an adequate volume of modern office facilities at competitive prices, can hardly be gainsaid. The destruction of the World Trade Center, and the extensive damage to surrounding properties (perhaps ultimately requiring the demolition of some buildings such as 130 Liberty Street), if anything underscores the issue of supply-side sufficiency once the economic cycle turns upward again….*
>
> *Unless one is willing to forecast the permanent eclipse of growth in Manhattan's office industries, the conclusion of the Schumer Group of 35 appears to remain sound, namely that this office market will require substantial volumes of construction over the coming two decades.*[8]

These two reports echo the discussions of planners, economists and real estate market observers – that New York City's economic future is based on the continued expansion of industries that require office space, and furthermore, an ability to maximize that economic future is reliant upon the market's ability to provide the necessary office space.

Several existing analyses predict strong growth trends in the office-based sector's of the New York City economy:

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[7] Group of 35, *Preparing for the Future: A Commercial Development Strategy for New York City*, June 2001, p. 2.
[8] Hugh F. Kelly, *The New York Regional and Downtown Office Market: History and Prospects after 9/11* (report prepared for the Civic Alliance), August 2002, pp. 20, 35.

- The Group of 35 projected an increase of 300,000 office-based jobs in New York City between 2000 and 2020.[9]
- Barbara Byrne Denham of *The New York STAT*, a long-time observer of the City's office based industries and its office space market, characterizes estimates of a 1.0 percent average annual increase in office-based employment as a "safe" assumption for the next 20 years.
- In its analysis of the demand for office space in Lower Manhattan (prepared for the Port Authority of New York & New Jersey and the Lower Manhattan development Corporation), Urbanomics offers a somewhat more conservative forecast, projecting an increase of approximately 200,000 in office-based employment *in Manhattan* through 2025.
- Economy.com projects average annual growth in *total* payroll employment in the New York City PMSA of 1.1 percent between 2002 and 2010.

Such strong growth in office-based employment will trigger significant increases in the demand for office space in the City, or elsewhere in the region if suitable space cannot be provided within the New York City market. While there are significant opportunities for new office development at sites throughout New York City – including a handful of choice sites in Midtown, the World Trade Center site and surrounding sites in Lower Manhattan, and the Hudson Yards area on the Far West Side – these new construction projects will not serve the needs of all those looking for office space in the City. Smaller tenants who either do not want or cannot afford to rent space in existing or newly developed class A office buildings will instead seek out quality, lower-cost space, ideally located in neighborhoods with amenities and nearby transportation access.

Properties in the Fashion District, with access to superior transportation networks and proximity to the midtown core, will be well-positioned to capture this unique segment of growing demand. With neighborhood upgrades and amendments to current use restrictions, the Fashion District neighborhood will be poised to benefit from the future growth of small and mid-sized entrepreneurial firms in the next business cycle.

Growing Importance of Creative Industries in the New York City Economy

As the employment data demonstrated, a number of "creative" industries are growing in importance in the New York City economy. This is good news for the future of the Fashion District, which is already the home of one of the City's most identifiable "creative" industries – fashion design. While certain functions within the fashion industry, including production and warehousing, will almost certainly face ongoing pressure to relocate to lower cost locations, the design and marketing segments of the industry will likely fair better in terms of maintaining a presence in the Fashion District. This presence can be a strong asset for the neighborhood, serving as an anchor to attract other creatively oriented industries. In fact, many of these industries are already gaining a foothold here – film / visual arts / photo studios, advertising / marketing / graphic design, internet / network based, architectural design, music, non-profit

[9] Group of 35, p. 2.

theaters and cultural organizations, and magazine / book publishing all have significant representations already among the tenants of the Fashion District. In many cases, these firms tend to be small and attract an employment base that looks for a more unusual physical environment – one that contrasts with the new class A office buildings that attract many financial service and business service firms. Thus, with many lofts and underutilized warehouses, the Fashion District has a potential advantage in attracting these tenants as the City's economy emerges from the current economic slump.

- **Strong Demand for Housing**

As the earlier residential market analysis demonstrated, the demand for housing remains strong in Manhattan. While there has been residential development activity on the periphery of the Fashion District, the existing zoning has for the most part prohibited the conversion to and development of housing units in the district. The building conditions analysis highlighted the many opportunities to generate new housing on the blocks between Eighth and Ninth Avenues. If the zoning were changed to permit housing to intermingle with the commercial and manufacturing uses that are ongoing on those blocks, it is very likely that other complementary uses including restaurants and retail would spring up as well. These additions to the mix of activity in the area would help enliven the neighborhood and invigorate the non-residential areas of the Fashion District.

- **Impact of Development of Adjoining Areas**

Numerous office, retail and transit projects are slated for development in Midtown Manhattan. These developments offer the possibility of spurring additional investment and economic activity in the areas that surround them, including the Fashion District. The most notable projects are described briefly below.

- **Penn Station Redevelopment (transit & retail)**

  The 1.4 million SF James A. Farley U.S. Post office building at 33rd Street and Eighth Avenue is slated for conversion to a new transit facility for Long Island Railroad and Amtrak train service. The project also calls for a total of 700,000 SF of new retail space and will also include a deal with a private developer to develop 805,000 SF of air rights. The project is expected to be completed within the next 5 years.

- **No. 7 Subway Extension (transit)**

  In connection with New York City's bid as a finalist to host the 2012 Summer Olympic Games, the MTA intends to extend the No. 7 Subway line west from Times Square to the Port Authority Bus Terminal on Eighth Avenue, then south to the new Penn Station and onward west to a future development above the Hudson Yards. This extension, along with contemplated revisions to the zoning code on the west side of Manhattan, will dramatically affect the redevelopment potential of this community.

- **Port Authority Bus Terminal (office & retail)**

  The air rights above the north tower of the Port Authority Bus Terminal at the southwest corner of 42nd Street and Eighth Avenue are being leased on a long-term basis from the

Port Authority of New York & New Jersey to a private developer. The development is to contain in excess of 1 million SF of new office space and will entail the renovation / relocation of the existing retail space along with infrastructure improvements to the transit facilities. The project will begin once an anchor tenant has been secured.

- **New York Times (office)**

The New York Times Company plans to build a new headquarters on the east side of Eighth Avenue between 40th and 41st Streets. They will own and occupy approximately 700,000 square feet and anticipate opening in 2005. In addition to the headquarters, the New York Times' development partner, Forest City Ratner Co., intends to develop a 600,000 SF speculative office project on the upper floors of the same building. The State gained control of the site in late 2002 through condemnation and is expected to transfer the property to the developer in the near future.

- **7 Times Square Tower (office & retail)**

This project is currently under construction and anticipated for completion in May 2004. At commencement of construction, the accounting firm Arthur Andersen was the anchor tenant for the project. However, Arthur Andersen subsequently withdrew from the deal, as did a major law firm that was negotiating to replace Andersen, leaving the project as a speculative development. The project is to contain 1.13 million SF of office space and 66,815 SF of retail space.

These projects have the potential to draw thousands of new commuters, office workers and shoppers to the areas immediately surrounding the Fashion District. The transit improvements will also enhance what is already a highly accessible area, and will surely increase the draw of tenants to the areas west of the Fashion District. With the vitality of Times Square to the north, and the prospect of dramatic improvements to the west, the Fashion District now sits at the crossroads of vast new development activity and public investments. The district is ideally positioned to transform itself into a more diverse and dynamic neighborhood. However, the positive spillover that the surrounding development projects offer will likely bypass the Fashion District unless the City adopts a progressive economic strategy for the area and amends the current restrictive zoning scheme.

Lost Opportunities – The Downside of Maintaining the Status Quo in the Fashion District

The existing conditions in the Fashion District – the limits of office use, restrictions on residential development and under-performing retail – already pose a substantial cost both in terms of lost income and City tax revenues. According to a 1999 study conducted by REBNY, buildings in the Special Garment Center District area (including both those in the Preservation Area and those on the avenues) were assessed at lower rates per square foot than buildings in a comparable M-zoned mixed-used area (Seventh to Park Avenue South, 23rd to 28th Street in Manhattan). Taking into account differences in building type and size, the study found that assessed values in the Garment Center ranged from $1.10 to $7.08 per SF *less* than what was found in the comparison area.[10] REBNY expresses concern with this finding because "one would expect higher values in the Garment Center given the central location and proximity of transportation."[11] By their calculations, the differential in assessed values amounted to $30,125,806 in lost tax revenues for the City between the years of 1995 and 1999.[12]

The costs of foregone tax revenues could grow if policymakers fail to take action and confront the forces at play in and around the Fashion District. Without efforts to drive new investment in the area and to attract dynamic, growing segments of the City's economy, the economic expansion that is poised to occur in the surrounding areas will simply bypass the Fashion District. As manufacturing continues to decline, existing buildings will be at risk of becoming underutilized, depriving owners of any incentive for reinvestment. As the surrounding areas benefit from new investment, the Fashion District's lack of retail, residential or business activity will make the area even less desirable to tenants. This would be a lamentable loss of opportunity to capitalize on the inherent value of a strategically located and currently undervalued segment of the Midtown Manhattan marketplace.

In addition, if the Fashion District does not evolve to attract more shoppers, tourists and business activity, the neighborhood could fail as a connection between Midtown and the Hudson Yards, jeopardizing the success of this massive investment. Another concern is that the City's Olympic development could be compromised by the proximity and striking contrast to the Fashion District. Pursuing new economic opportunities in the Fashion District would enhance the positive impacts other investments in surrounding areas, while inaction in the Fashion District could be a drain on the these investments.

[10] Real Estate Board of New York, Inc, "Special Garment Center District: An Analysis of the Effectiveness of a Zoning District" (June 1999), 11.
[11] Ibid, 10.
[12] Ibid, 12.

Implications for Fashion District Strategy

The analysis of current conditions and recent trends in employment, space utilization and real estate market factors provided compelling arguments for taking a new look at the Fashion District. As the City's economy grows increasingly dependent on office-based industries and multi-billion dollar public and private investments reshape the areas immediately encircling the district, powerful forces are pushing the Fashion District to evolve into a more diverse, dynamic mixed-use area. This vision is achievable, but only if the BID and the City work together to take the necessary steps to facilitate the realization of that vision.

The City can facilitate the continued evolution of the Fashion District as mixed-use, diversified commercial area by:

- Implementing more flexible zoning throughout the Special Garment Center District, so as not to inhibit the conversion of space to office use.

- Amending zoning to allow residential uses in the areas between Eighth and Ninth Avenues. Consider implementing a higher FAR for residential use consistent with rezonings in other commercial areas of Manhattan.

The BID can continue to take an active role in improving the neighborhood's amenities by:

- Conducting a retail study for the Fashion District area to determine ways to improve the performance of existing retail space. The study should focus on particular strategies for improving the quality of retail and bolstering sales at key avenue locations along routes from the proposed new Pennsylvania Station, Times Square and the Port Authority Bus Terminal. In addition, the BID should look to use its influence to assure that a retail merchandising strategy is implemented at key locations that would optimize retail values without unnecessarily interfering with existing manufacturing, warehousing, and wholesale operations.

- Continuing to invest in improved safety, lighting and streetscapes. The BID should also work with the City to consider policies that will reduce double parking of trucks and improve traffic flow.

The City, the BID and other local stakeholders can pursue projects for the area that will build on the prestige of the fashion industry and create retail destinations with an appealing identity for the neighborhood, such as:

- ***A Fashion Museum and Design Center.***

A study conducted by Ernst & Young for the Fashion Center Business Improvement District in 1998 highlighted the impact that a Fashion Museum and Design Center could have in raising the visibility of the area's fashion industry, spotlighting the work of both established and emerging designers, providing high-quality space for industry events and exhibits, and attracting tourists to the Fashion District. The Fashion Center BID should seek support from New York City, New York State and the fashion industry to move ahead with this project.

- ***Growing the performing arts***

The movement of small non-profit theater groups and other performing arts organizations into the Fashion District during the past few years highlights the area's potential attractiveness as a center for a broad range of creative activities. The BID should work with these groups to market the area as an emerging center for the performing arts, and assist other similar groups in finding space in the area.

- ***Cultural programming as an economic development resource***

In other commercial areas in New York City, local organizations have used a wide variety of cultural events and activities to enliven their neighborhoods, creating more attractive places to work and do business. The collaborative efforts of the Lower Manhattan Cultural Council, the Alliance for Downtown New York and major downtown property owners, for example, helped stimulate the revival of Lower Manhattan after the severe recession of the early 1990's. The BID should explore the feasibility of launching a similar collaborative effort in the Fashion District.

Finally, the City, the BID and fashion industry participants should work together to formulate and implement a sector-based strategy that will help sustain the fashion industry not just in the Fashion District but throughout New York City.