Garment District Residential Study

October 3, 2022

Prepared for **The Garment District Alliance**

Prepared by **BFJ Planning,** in collaboration with **Urbanomics** and **Perkins Eastman**

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1. The Evolution of the Garment District

District's Early Days and the Creation of the Special Garment Center District (SGCD)

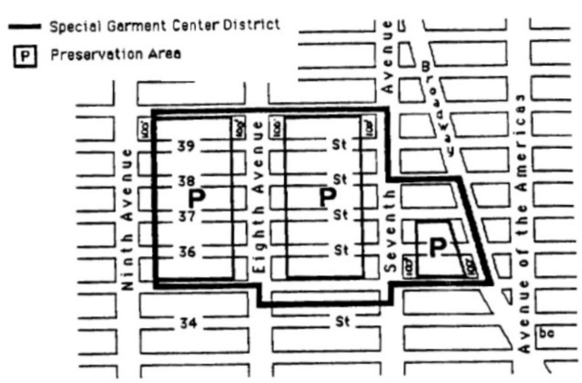
In the 1920s and 1930s, the NYC garment industry was the largest industry in NYC and the fourth-largest in the Country.[1] Garment manufacturers, whose vast majority settled along 5th Avenue in the 1910s, had troubles finding a stable location in Manhattan due to tensions with other uses, businesses and residents. Right around the time NYC created its first zoning law in 1916, the City realized that the garment industry needed its own manufacturing district to avoid those tensions.[2] The Garment District (or "District"), an area between 9th Avenue and Broadway and between 34th and 42nd Street, was created to give space to the industry. The garment manufacturers moved en-masse to the area, resulting in new development to meet the needs of the industry.

The increasing land value and the scarcity of available land resulted in the creation of a new architectural style, a "New York style"[3], also known as wedding-cake design. The Garment District became home to this avant-garde architectural style, which became the signature of the District. Between 1924 and 1930, architect Ely Jacques Kahn became the principal architect of the area, designing more than 10 buildings within the District. Until the 1940s, the District was the heart of the garment production in the US, the world capital of fashion, and also the forefront of architectural development in NYC.[4]

The industry's steady growth would last until the 1950s, when a nationwide decline in the garment manufacturing industry caused job loss due to major global changes, including the birth of modern sportswear and standardized production. The decline continued through the 1960s and 1970s as unskilled jobs were being automated. Manhattan saw the number of garment producers reduced in half between 1958 and 1977, from 10,329 to 5,096.[5] From the 1980s onward, globalization forces continued to shrink the US garment industry, suggesting that it may never go back to the golden days.

The steady decline of the garment industry resulted in decreasing demand for industrial space while office space demand began to significantly increase due to the service sector rise. This shift caused a high number of vacant manufacturing spaces in the District being converted to office. In 1987, City Planning intervened to curb this conversion trend in an effort to preserve manufacturing jobs, especially garment related, in the District. By creating the Special Garment Center District (SGDC), NYC DCP created three Preservation Areas, located on the side streets within the District (Figure 1). The Preservation Areas intended to prevent office conversions without permanent preservation of manufacturing uses. Between 1987 and 2018, only 10 manufacturing to office conversions received a formal certification

Figure 1: Special Garment Center District (SGCD) Boundaries in 1987



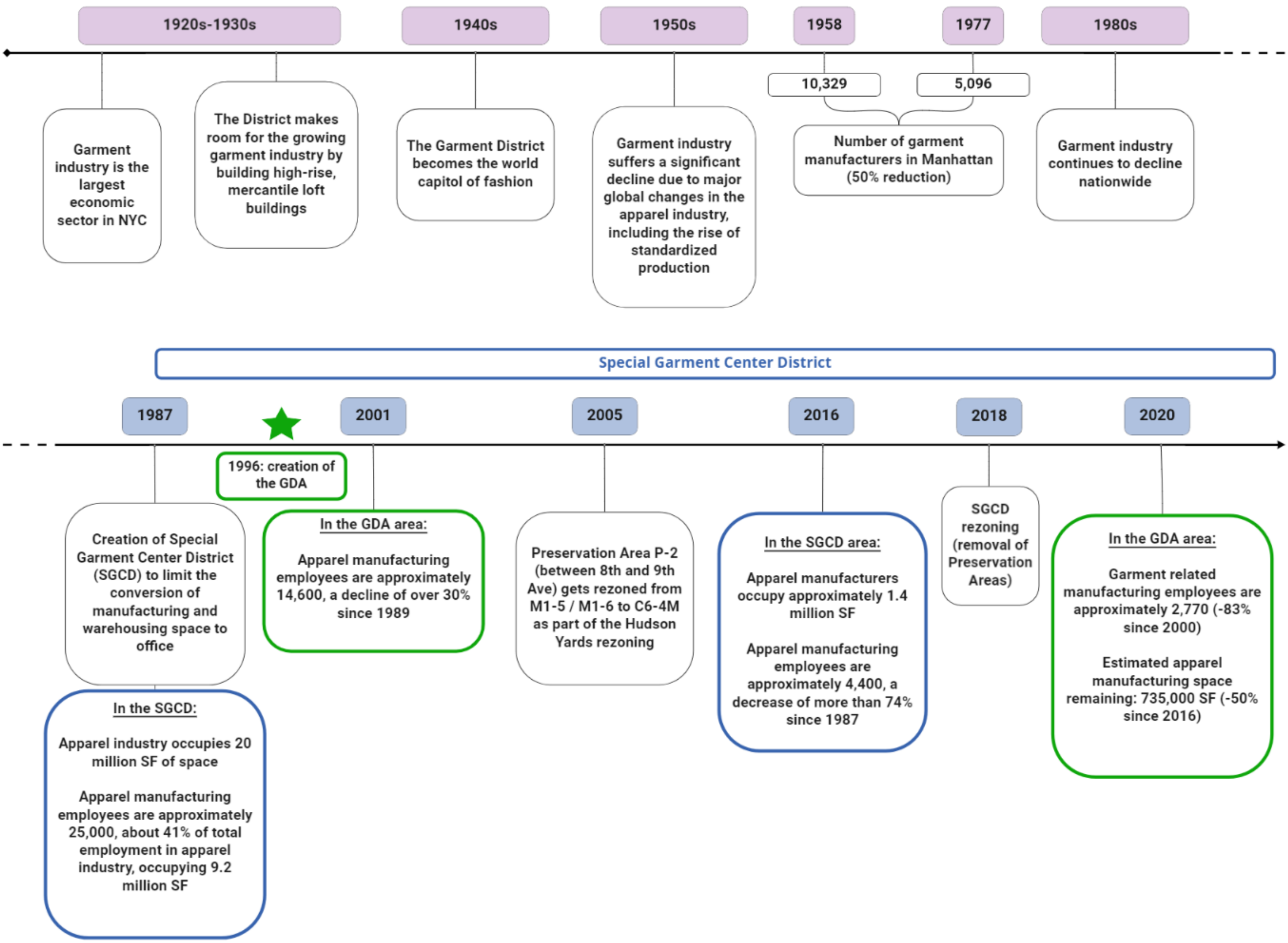
Source: CPC Report N 870241 ZRM

1 City Planning Commission (CPC) Report, N 180373 ZRM, October 31, 2018
2 History | Garment District NYC
3 History | Garment District NYC
4 History | Garment District NYC
5 History | Garment District NYC

to legally preserve manufacturing or warehousing uses in the SGCD, for a total of approximately 180,000 SF, out of the 8.5 million SF of space in the Preservation Areas.[6]

In 1987, the SGCD had approximately 25,000 apparel manufacturing employees, occupying 9.2 million SF of space. Within the SGCD, the garment industry as a whole occupied approximately 20 million SF of space.[7]

Figure 2: Garment District Timeline

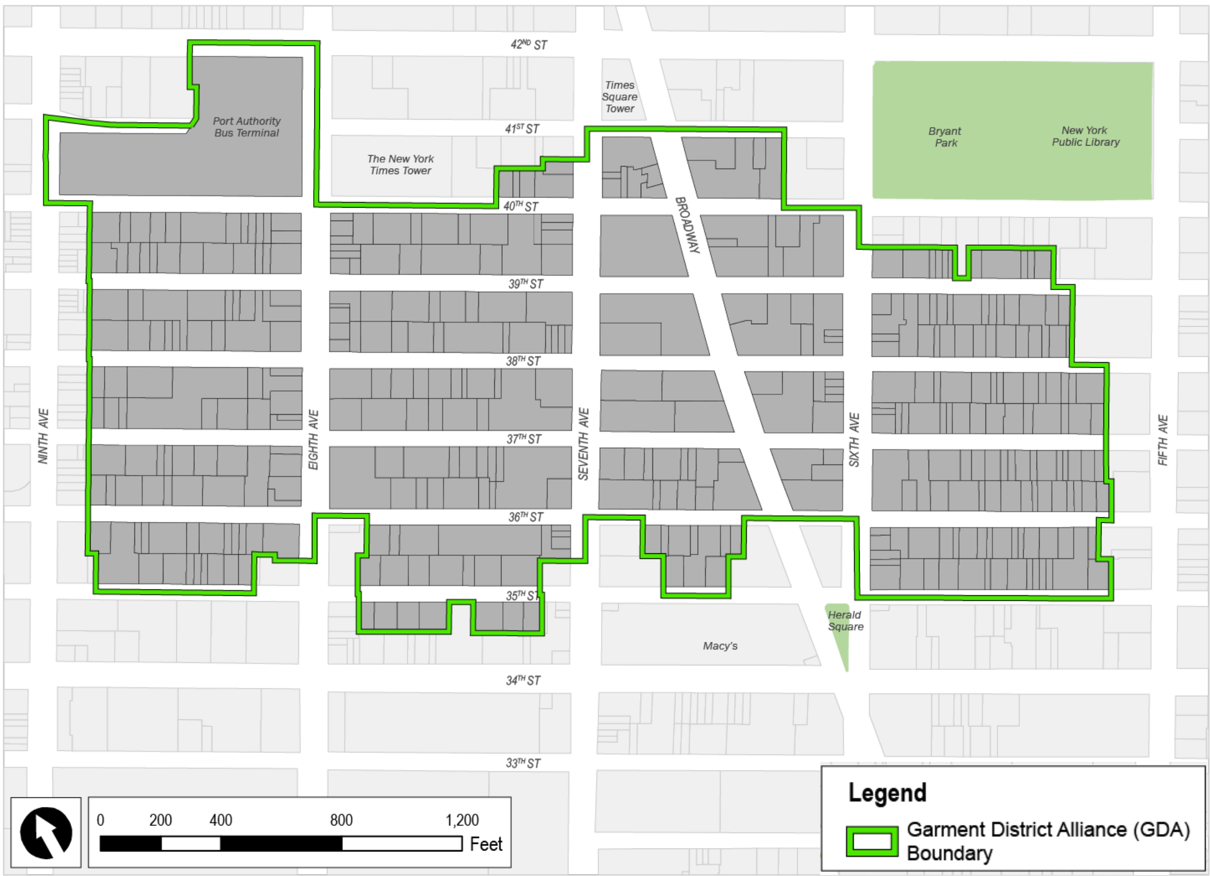


[6] City Planning Commission (CPC) Report, N 180373 ZRM, October 31, 2018
[7] City Planning Commission (CPC) Report, N 180373 ZRM, October 31, 2018

Post-SGCD Creation: Office Conversions Take Over

In 1993, the Fashion Center Business Improvement District (BID) – later renamed to Garment District Alliance (GDA) - was created to promote the development of the district and provide support to property owners and tenants through economic development programs, public safety and streetscape improvements activity.

Figure 3: Garment District Alliance BID Current Boundary



Sources: NYC DCP PLUTO, Garment District Alliance

As part of a 2003 report prepared for the Fashion Center BID by Appleseed and BFJ Planning, employment data from 2001 were collected from the Department of Labor (DOL) and other sources to understand trends in the garment industry. Data were collected at the zip code level (Zip Code 10018), which represents an area that is slightly larger than the BID. Fashion-related industry at that time still accounted for the largest share of the area's employment (46.6%).[8] The overall number of garment-related jobs in the Zip Code area, however, fell more than 15% between 1989 and 2000.[9] The report suggests that most of the decline was attributable to the decline in apparel manufacturing jobs, which experienced employment numbers falling by more than 30% (from approximately 21,550 in 1989 to 14,600 by 2000).[10]

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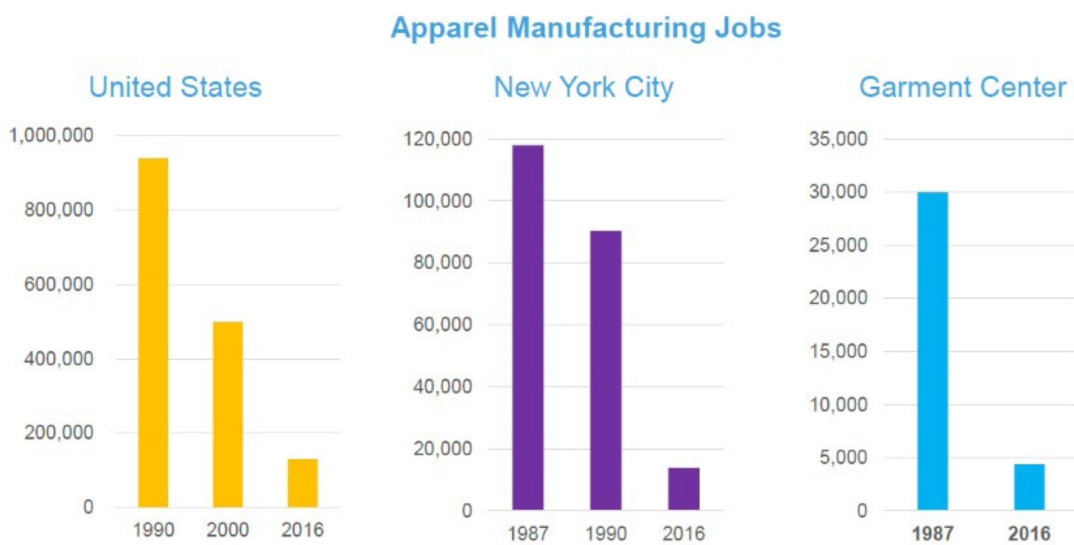
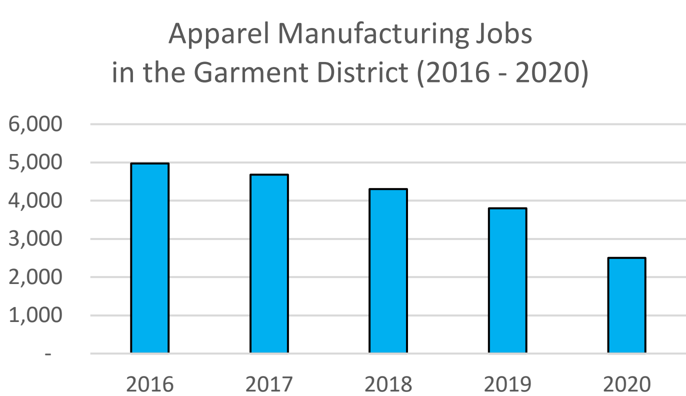
[8] "Remodeling the Fashion District", February 2003, prepared by Appleseed/BFJ for the Fashion Center BID.
[9] "Remodeling the Fashion District", February 2003, prepared by Appleseed/BFJ for the Fashion Center BID.
[10] "Remodeling the Fashion District", February 2003, prepared by Appleseed/BFJ for the Fashion Center BID.

In 2005, as part of the Hudson Yards rezoning, the SGCD area between 8th and 9th Ave (Preservation Area P-2), was rezoned from M1-5/M1-6 to C6-4M. The rezoning recognized that space needs for the industry have greatly reduced compared to the 1980s when the SGCD was created. The rezoning allowed for redevelopment of the area, while retaining preservation requirements for buildings greater than 70,000 square feet. NYC DCP's goal for this area was to allow for residential development on underutilized lots. However, the main result of the 2005 rezoning was the development of hotels; in the years 2005-2018, 29 new hotels were inaugurated or permitted. In the same period, only 3 sites were redeveloped for housing, for a total of 976 units.[11]

By 2016, apparel manufacturing employees in the SGCD dropped to approximately 4,400, or 5,500 when accounting for the larger BID area (Zip Code area 10018).[12] This number represents a roughly 74% decrease from 1987, which is aligned with the industry decline experienced citywide and nationwide. The space occupied by apparel manufacturing within the SGCD had shrunk to approximately 1.4 million SF, a 93% decrease over the same 20-year period.

Figure 4: Changes in Apparel Manufacturing Jobs Over Time



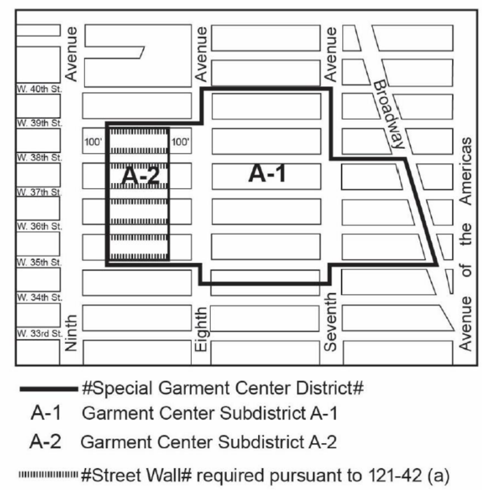


Sources:
Top charts: U.S. and New York City: NYSDOL QCEW, 1987-2016 (annual average); Garment Center: CPC survey (1987) and NYSDOL QCEW, 2016, from City Council presentation on November 15, 2018;
Bottom chart NYSDOL QCEW, 2016-2020

[11] City Planning Commission (CPC) Report, C 040502 PCM, November 22, 2004.
[12] City Planning Commission (CPC) Report, N 180373 ZRM, October 31, 2018; NYSDOL Employment Data, Zip Code 10018.

In 2017, DCP began a rezoning process to remove 1987's Preservation Areas from the SGCD. The rezoning was in response to the decreasing need for apparel manufacturing space in NYC while aligning the zoning with the existing land uses of the District. The use-restricting requirements enacted in 1987 to preserve the garment production activity in the District were proved not enough to prevent the industry from shrinking and moving elsewhere. Additionally, illegal conversions of manufacturing space into office accounted for approximately 5 million SF in the Preservation Areas as of 2017. The rezoning made these illegally-converted properties conforming to the new zoning by lifting the manufacturing preservation requirements. Another zoning change introduced by the 2018 rezoning was the establishment of a special permit requirement for hotel development.

Figure 5: Proposed 2018 Rezoning Map (Adopted)

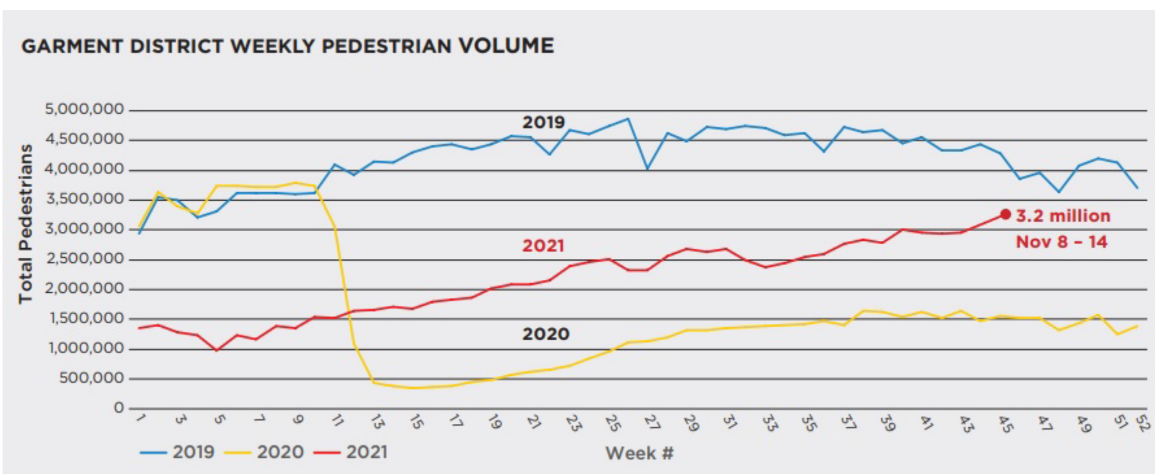


Source: CPC Report N 180373 ZRM

The District Today

Less than two and half years after the rezoning, the COVID-19 pandemic hit NYC and the Garment District. As office employees started working from home, the Garment District lost its most significant population. In addition, most businesses remained closed and tourists stopped traveling, leaving hotels empty or momentarily transformed in homeless shelters. With record-low pedestrian volumes, the impacts on public safety and quality of life in the District were substantial. The perception of being in a "ghost town" was much stronger in the District than in other mixed-use neighborhoods across NYC due to a lack of residents. The significant number of supportive services within the District and surroundings also affected (and affects) the street-level activity.

Figure 6: Garment District Weekly Pedestrian Counts between 2019 and 2021

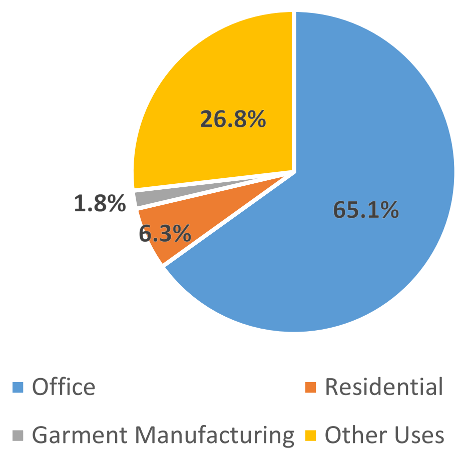


Source: Garment District Alliance 11-2021

As of 2022, the breakdown of uses within the District looks very different from 1987. It is no surprise that the garment industry continued to decline despite the GDA and the City providing an array of programs to support the fashion industry. According to NYC PLUTO, within the BID area, office uses occupy approximately 65.1% of the total built environment, while residential uses make up roughly

6.3%. In terms of manufacturing jobs, employment data from 2020 reports a 50% decline in garment related manufacturing jobs compared to 2016, from approximately 5,500 to 2,770.[13] Based on the same ratio of decline, the building area occupied by garment manufacturing in 2020 is estimated at 735,000 square feet, which represents only 1.8% of the total built area (Figure 7).

Figure 7: Use Mix in the GDA Area



Source: NYC DCP PLUTO

The GDA is closely monitoring return-to-office plans of their existing tenants, as well as signals of recovery in office space leasing activity. Although some offices reopened between 2021 and 2022, the recovery of the District has been slow and uncertain, as most companies have opted for a hybrid work model. For a neighborhood that mostly relies on its office tenants' population, the prospects don't look good for a full recovery to pre-pandemic levels. Office vacancy rates are still high, even at a time when other areas in NYC seem to recover at a much stronger pace than the District. While tourists are coming back to the area hotels, office space attractiveness seems to remain low in the District, which spurs questions of competitiveness and sustainability in the long run.

Why This Report

The GDA retained BFJ Planning in association with Urbanomics to understand post-pandemic trends in the office market, what these trends mean for the future of the District, and the status of the District in terms of uses and attractiveness as compared to other NYC neighborhoods. What would make the District more competitive, livable and attractive? What are the strategies that would make the District a complete, 24-hour neighborhood? Can residential conversions provide some of the benefits that the District is lacking? This report concludes that the answer to the latter question is "yes", and provides the market basis for this, the residential development potential for the District, and the zoning and tax recommendations to accomplish this.

This report comes at a time when NYC is experiencing a major housing crisis. New housing production does not seem to be able to catch up with the increasing demand, creating affordability challenges across the City. At the same time, office demand, especially for Class B and C spaces, remains weak. The current Mayoral administration has been outspoken about the housing crisis, often mentioning potential strategies to address it such as updating the zoning and allowing for conversions of vacant office space. This report provides up to date data that could support future City Planning strategies to help both alleviate the housing shortage and increase economic viability in the Garment District.

[13] NYSDOL Employment Data, Zip Code 10018. Garment related manufacturing jobs include apparel manufacturing, which represents the largest sub-category.

2. Market Review

This chapter provides a market overview of real estate conditions in New York City including socioeconomic drivers, employment and real estate market trends, and the demand for live/work/play environments for businesses. Initially, building-specific databases were utilized, but significant flaws were present in the data. Therefore, third-party sources were relied on for the real estate trends analysis. Urbanomics, a subconsultant and affiliate firm of BFJ Planning who specializes in market studies, conducted this market review.

As of May 2022, the outlook for New York City property markets remains cautiously optimistic according to Moody's Analytics REIS, a leading property analytics data provider. Key drivers of demand currently show mixed signals with employment showing moderate growth and population down modestly. Despite these signals, apartment demand in most of the City's neighborhoods has surpassed the earlier peak previously set in 2019 while office, retail, and entertainment sectors remain stalled as the city's major employers continue to delay return-to-office plans.

Real Estate Market Trends in New York City

24/7 Live/Work/Play: Changing Landscape of Mix of Uses

Rezonings throughout the City in the past two decades, including those in Long Island City, Greenpoint/Williamsburg, the North Shore of Staten Island, Chelsea, and Downtown Brooklyn have allowed the development of alternative uses in what were previously primarily industrial or office-zoned areas.

Downtown Brooklyn

The rezoning of Downtown Brooklyn to allow a mix of uses has, in particular, created a vibrant community and street life that would be unrecognizable from that neighborhood in the 1990s when it was dominated by government office space that closed at 5 pm.

Financial District

The 421-g tax incentive provided the financial impetus for owners to convert early 20th Century office buildings in the Financial District to residences from 1995-2006, in which time 98 buildings were converted to meet residential demand. In the years, since then 20 additional buildings have been converted while another 10 buildings (1.2 million sf) of residential have been newly constructed.

Hudson Yards

New developments such as Hudson Yards promote themselves on providing an array of uses as employers seek locations that provide their workers with residential, retail, and entertainment options in the immediate vicinity of the workplace.

Employment

The latest job estimates from the New York Department of Labor's Current Employment Statistics Program show moderate to strong employment growth year-over-year from March 2021 to March 2022 with gains of 6.9% citywide across all sectors of the economy. This rate of growth is considerably less than that reported in the spring of 2021 with gains of 11.3% from April 2020 to May 2021, although those 2021 measurements reflect year-over-year growth from the bottom of the COVID-19-induced recession. Total employment currently remains down 4.4% from March 2019 levels. The City's job recovery has lagged that of the US as a whole due to the City's slower pace of reopening and its local industrial mix according to the New York City Council (NYCC) Finance Division. The Division noted that 68% of the City's recovered jobs are from those in low- and moderate-wage jobs paying under $65,000.

Among office sectors, employment levels totaled 1,225,700 jobs in March 2022, down from a long-term peak of 1,241,600 in March 2019 (-1.4%) but up 4.9% over the 12-month period. Retail employment had a near-term March peak in 2015 and remains 12.7% down from March 2019 levels. The sector saw a gain of 5.9% over the past 12 months. The Arts, Entertainment, and Recreation sector also remains down 22.1% from March 2019 levels although it is recovering quickly with a gain of 49.7% over the past 12 months.

Table 1: March Employment Levels by Year & Industry for New York City, 3/2019 to 3/2022

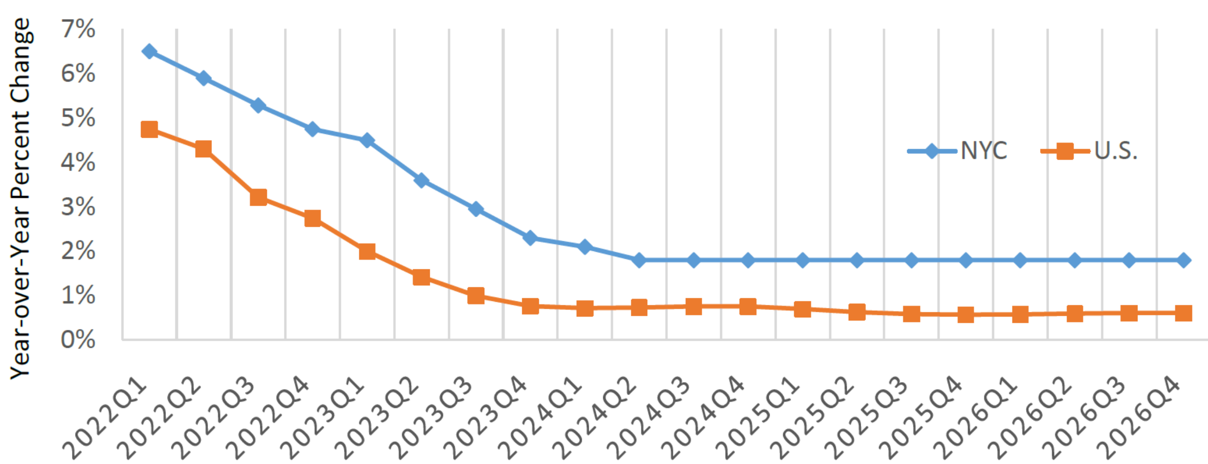
Year	Total Non-Farm	Office Sector	Retail Sector	Arts, Entertainment, and Recreation
2019	4,620,800	1,241,600	343,900	93,200
2020	4,631,400	1,251,100	334,400	91,300
2021	4,131,200	1,167,100	283,400	48,500
2022	4,416,800	1,224,700	300,200	72,600
Percent Change over Time				
3/2021 to 3/2022	+6.9%	+4.9%	+5.9%	+49.7%
3/2019 to 3/2022	-4.4%	-1.4%	-12.7%	-22.1%

Source: NYSDOL, Current Employment Statistics Program, March 2022

Employment forecasts from Moody's Analytics project continued job growth in New York City through 2025 (+2.71% from 2022 to 2025). Employment gains are expected to largely level off in the following years with a gain of just 0.06% from 2025 to 2031, resulting in a long-term forecasted employment gain of +2.78% from 2022 to 2031. At the industry sector level, employment trends will diverge. Office sector employment is expected to see continuous growth over the next nine years, increasing by 3.52% from 2022 to 2031. Industrial growth will decline over the long-term, falling by 3.25% by 2031 while all other industry sectors will increase by 2.92% over that period.

The NYCC Finance Division projects a considerably more optimistic forecast of job growth increasing at an annual rate of 6% in 2022, 4% in 2023, and 2% from 2024 to 2026.

Figure 8: New York City & U.S. Jobs Forecast, Year-Over-Year Percent Change



Source: NYCC Finance Division & IHS Markit, 2022

Work from Home

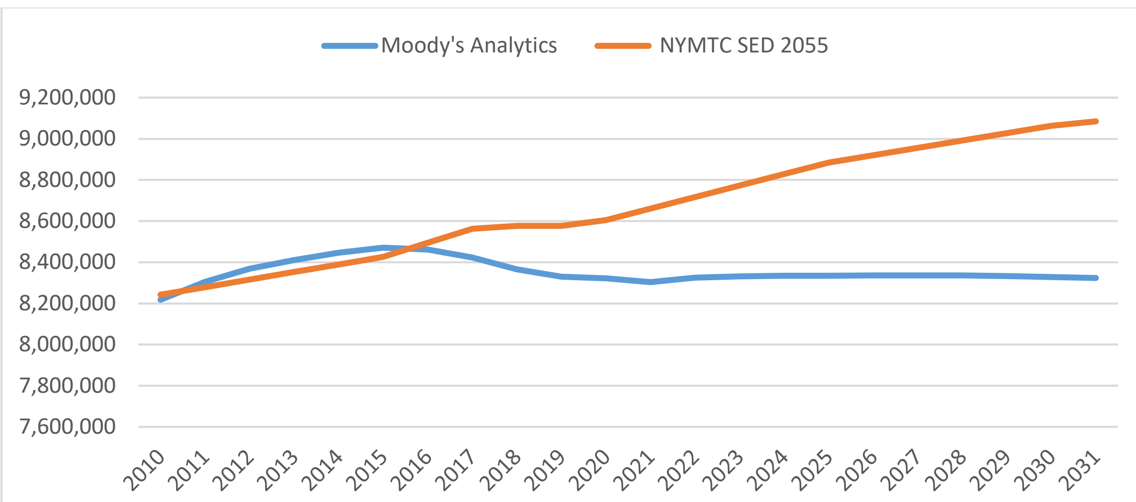
In the first half of 2022, the rise of the Omicron variant delayed many firms' return to office plans. As of May 10, 2022, the Partnership for New York City, a business advocacy group, reported that just 8% of Manhattan office workers are back in the office five days a week, and 28% are fully remote. Currently, 38% are in the office on an average weekday, down from an expectation of more than 50% by April reported in the Partnership's January 2022 survey.

Population and Households

Despite the strong 10-year population growth reported in New York City within the 2020 decennial census, (+7.7%), annual estimates of the population from Moody's Analytics have assumed a moderate short-term population decline in the City from 2015 through 2022 (-1.7%). Moody's projects that the City's population will increase by 0.10% from 2022 to 2025, but later drop by 0.13% from 2025 to 2031, leading to a nearly unchanged population size by 2031 (-0.02%).

A separate forecast prepared by New York City Department of City Planning (DCP) in conjunction with the New York Metropolitan Transportation Council (NYMTC) for purposes of assessing long-term transportation demand and does not attempt to forecast cyclical trends in the economy related to business cycles or natural disasters, forecasts moderate growth through 2031 with a gain of 4.2% from 2022 to 2031.

Figure 9: New York City Population Forecasts



Source: Moody's Analytics, 2022; NYMTC SED 2055 Forecast, 9/2021

Given that both sets of forecasts for 2020 are significantly lower than the 2020 Decennial Census count for New York City, the DCP/NYMTC forecast is considered to be the more likely population projection.

A key driver of demand for housing units in a given area is new household formations. During times of economic uncertainty such as during the 2008 Financial Crisis or the COVID-19 Pandemic, household formations slow as young adults delay marriage, domestic partnership, or cohabitation and live with parents or roommates instead.

While the annual rate of growth varies, when looking at actual numbers of households in the five boroughs, the population has continued to grow steadily and is expected to continue to do so, with growth curtailed only by the availability of housing units. Table 2 shows DCP's projections of Manhattan households through 2055. According to DCP, there will be strong growth in the number of households between 2020 and 2025, with the addition of 6,275 per year. Growth will gradually slow after that with an increase of 19,000 between 2025 and 2030, just under 10,000 between 2030 and 2035, before leveling off with annual average increases of 1,134 new households per year.

Table 2: NYC DCP Household Projections: Manhattan 2020-2055

	2020	2025	2030	2035	2040	2045	2050	2055
Total Households	795,367	826,742	845,984	855,913	861,581	867,248	872,916	878,583
New Households		+31,375	+19,242	+9,929	+5,668	+5,668	+5,668	+5,668
Annual Average New Households		+6,275	+3,848	+1,986	+1,134	+1,134	+1,134	+1,134

Source: NYMTC and NYC DCP 2055 SEDS Forecasts

Looking at only the mid-term, or 10-year forecast, there will be demand for 5,062 new units per year to maintain current vacancy rates.

Market Supply

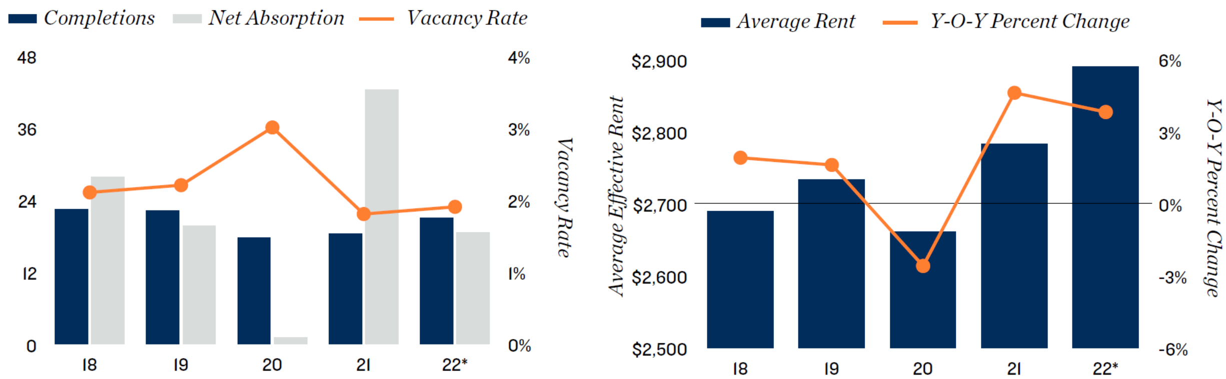
Residential

NYC

New York City's multifamily property sector has led the City's real estate market recovery in recent months as strong demand for market-rate rental apartments returned in the 3rd quarter of 2021, pushing vacancy rates down and rental rates upward. Demand for rental housing was driven by improving pandemic and economic conditions with a relaxation of pandemic restrictions for vaccinated workers and consumers as well as Return to Office requirements for some employers drawing a large number of workers and visitors back into Manhattan. The limited availability of housing units over the last several quarters has contributed to increased development activity, further bolstered by increasing job gains that support new household formations.

As of Q1 2022, the market-rate apartment sector had a vacancy rate of 3.6%, well below the high of 4.4% recorded in Q4 2020 according to Moody's Analytics REIS. Other real estate services firms, notably Marcus & Millichap, reported far lower vacancy rates, at 1.9% in Q2 2022, the lowest levels seen since 2002 according to their historic data. The City's dip in vacancies has been attributed to weak supply gains over the past two years although absorption fueled by household formations in the second half of the year contributed to strong demand.

Figures 10-11: New York City Apartment Supply, Demand & Rent Trends (Forecasted for 2022)



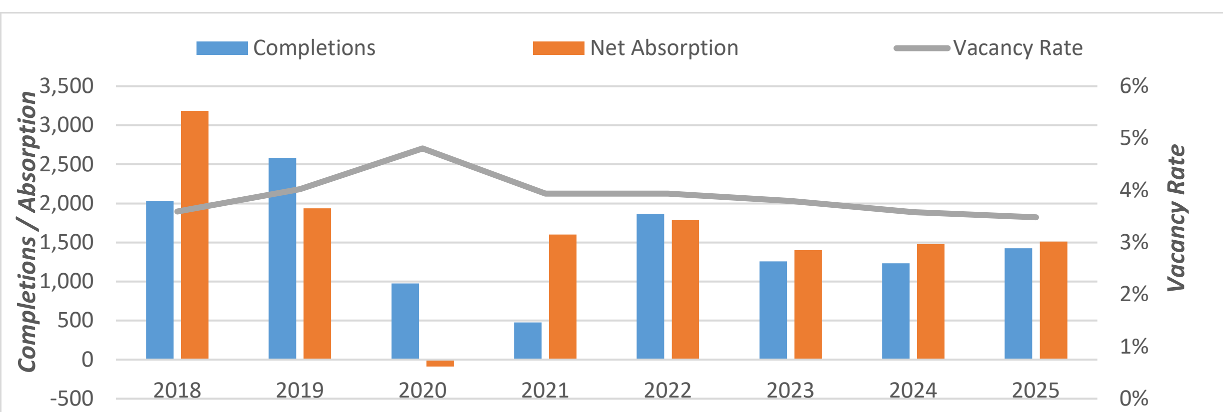
Source: Marcus & Millichap, Q2 2022 Multifamily Market Report, New York Metro Area

<u>Manhattan</u>

The Manhattan market is home to approximately 56.1% of the City's speculative apartment space, more than double the share in Brooklyn (21.0%), Queens (16.9%), and the Bronx (6.0%). Over the past ten years, Brooklyn has led the City's growth among such units, adding 26,225 market-rate apartments compared with a gain of 22,119 in Manhattan and 16,771 in Queens. Since 2019, nearly half of the City's inventory was located in Brooklyn (48.8%), compared with just 30.2% in Manhattan. Given the relative size of the Manhattan market within the City, broad supply and demand trends largely reflect that of the City as a whole. Moody's forecasts vacancy rates to edge downward through 2025 as the annual number of new completions declines and absorption exceeds completions.

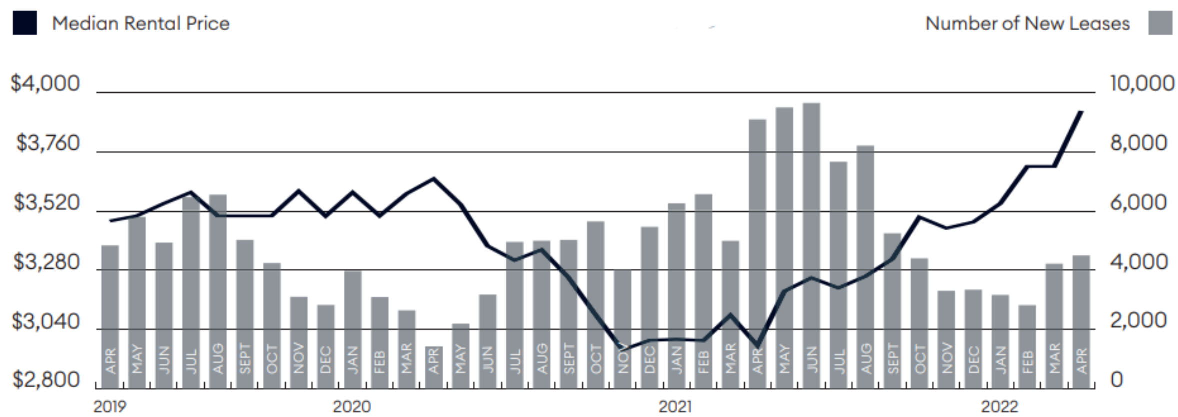
According to Douglas Elliman, Manhattan's April 2022 market-rate vacancy rate stood at 1.55%, compared with 1.89% in March 2022 and 11.60% one year earlier, in April 2021. Since the lows of the winter 2020/2021 season, Manhattan median rental prices have soared upward from nearly $3,000 in December 2020 to $3,850 in April 2022. Over the past year, rents increased at the highest rates at the luxury level or top 10% highest rents (+33.3%), followed by the mid-tier price range of 30%-60% (+32.1%), upper tier of 60%-90% (+30.1%), and entry tier 0% to 30% highest market-rate apartments (+25.5%). The April 2022 median rent for luxury units was $10,000 a month versus $6,850 for luxury units in Brooklyn while upper-tier Manhattan rents were $5,400, mid-tier rents were $3,700, and entry-tier rents were $2,499.

Figure 12: Manhattan Apartment Supply & Demand Trends (Forecasted for 2022-2025)



Source: Moody's Analytics, 2022

Figure 13: Manhattan Apartment Historic Rent Trends



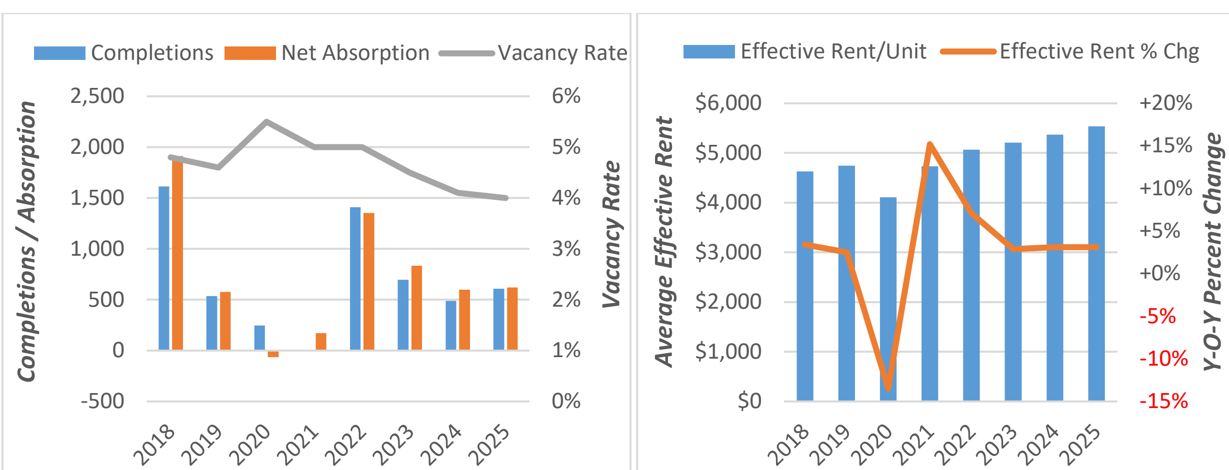
Source: Miller Samuel Real Estate Appraisers & Consultants, Douglas Elliman, April 2022 Elliman Report, Manhattan, Brooklyn and Queens Rentals

<u>Midtown West Submarket</u>

In the Midtown West submarket, bound by 14th Street, Park Avenue, and 59th Street, the area added 9,874 units over the past 10 years (+3.5%) compared with a marginally lesser gain of 3.4% in the City as a whole. Due to a large increase in completions expected in 2022 (+1,410), the annual vacancy rate in 2022 is expected to remain relatively high at 5.0% versus a rate of 4.6% in 2019. A gain of another 1,792 units through 2025 is projected to result in vacancy rates between 4.0% and 4.5% through 2025 according to Moody's Analytics. Due in part to a lack of available units, effective rents in the submarket are forecasted to reach $5,064 in 2022, up from $4,748 in 2019. By 2025, effective rents will increase moderately at roughly 3% annually, reaching $5,539 in 2025.

Douglas Elliman reported in April 2022, that the median rent for market-rate apartments on Manhattan's West Side, a considerably larger submarket than Midtown West, had climbed to $3,995 in April 2022, up 33.2% from April 2021 while the vacancy rate had plunged from 9.34% to 1.76% over that period. The number of new leases was just 962, down from 2,185 one year earlier.

Figures 14-15: Midtown West Apartment Supply, Demand & Rent Trends (Forecasted for 2022-2025)



Source: Moody's Analytics, 2022

According to the City's PLUTO property data file, there were 2,632 housing units in the Garment District Study Area, totaling 2,524,100 sf in 2021. Residential properties in the Garment District are mapped in Chapter 3.

Office

NYC

In the first half of 2022, the rise of the Omicron variant delayed many firms' return to office plans and the current share of in-office Manhattan workers on a typical weekday remains far below January 2022 expectations according to the Partnership for New York City, a business advocacy group. Currently, 78% of Manhattan's major office workplaces have adopted a hybrid work model, up from just 6% before the pandemic. This marked shift in workforce space needs continues to remain somewhat fluid, with major employers generally remaining unclear about long-term space needs given the COVID-19 pandemic's current nature which is potentially moving into an endemic phase. Already five U.S. states currently treat COVID-19 as an endemic, including the State of New Jersey. Beyond return to office plans, the City's employment levels remain more than 4% below 2019 levels, faring worse than the nation's other 82 primary metros aside from Chicago. The Partnership for New York City reported in May 2022 that 22% of New York City employers are reporting a decreased need for office space over the next five years, a signal that remote work may reduce demand for the City's office space in the mid-term.

At the borough level, Marcus & Millichap, a real estate services firm, reported that the areas most impacted by lockdown measures in the City, such as Midtown Manhattan, experienced a slower recovery in rents compared with less affected areas such as Queens, Outer Brooklyn, and the Bronx, where many neighborhoods reported rents near or surpassing pre-pandemic levels.

The City's office sector is projected to maintain a vacancy rate of 15.8% through 2022 according to Marcus & Millichap, marginally less than the national rate of 16.5%. Given the sizeable completions expected in 2022 (8.2 million sf) and another 8.7 million sf through 2025, Moody's Analytics expects the City's vacancy rate to remain largely unchanged through 2025.

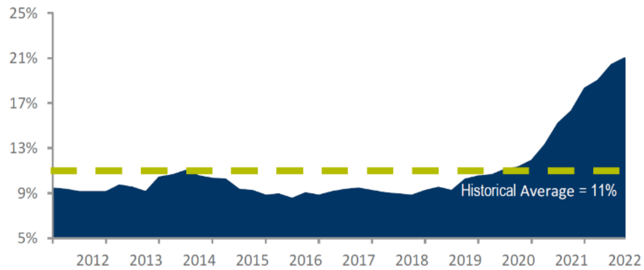
Manhattan

According to Cushman & Wakefield, a real estate services provider, Manhattan's office vacancy rate climbed to 21.0% in Q1 2022. The Borough's vacancy rate has maintained a continuous gain since mid-2018 although the sharp upturn began in earnest in the early months of the COVID-19 pandemic. Although new leasing activity has been very strong, exceeding the 15-year quarterly average over the past eight quarters, new construction completions contributed to increasing vacancies. Total vacant space in the Borough reached an all-time high of 86 million sf, exceeding the total inventory of every CBD in the nation, excluding Washington, D.C., and Chicago.

Asking rents edged upward in Q1 2022 due to new space on the market however current levels ($70.72 psf) remain down 2.3% from one year earlier ($72.41 psf). Vacancies are expected to remain elevated in the near term due to construction in the pipeline.

Figures 16-17: Manhattan Vacancy & Rent Trends

Vacancy Rate, 2012-2022



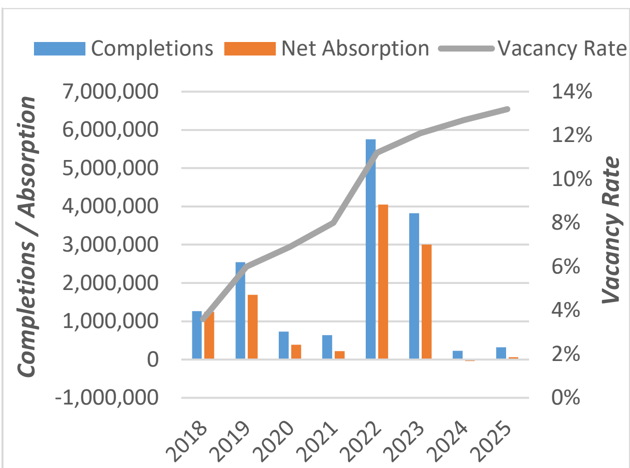
Overall & Class A Asking Rents, 2016-2022

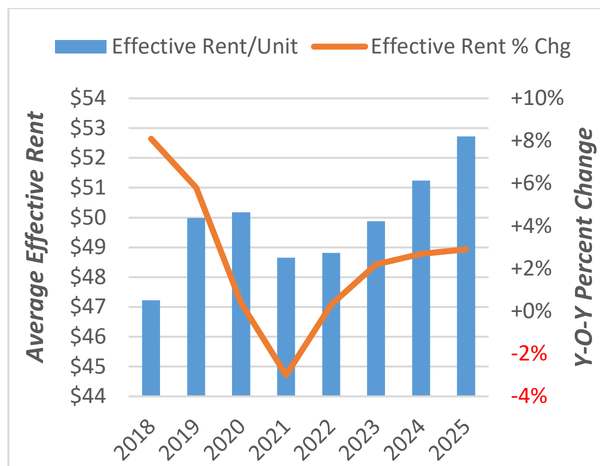
Source: Cushman & Wakefield, Q1 2022

<u>Times Square South Submarket</u>

The Times Square South submarket, home to the Garment District, is among Manhattan's weaker submarkets with a vacancy rate of 23.9% in Q1 2022 according to Cushman & Wakefield, the sixth-highest among 20 submarkets in the Borough. The submarket had an overall average asking rent of $57.26, the lowest in Midtown and Midtown South.

Figures 18-19: Penn Station Office Supply, Demand & Rent Trends (Forecasted for 2022-2025)





Source: Moody's Analytics, 2022

Due to a large number of completions expected in the area, Moody's Analytics anticipates the Penn Station submarket, an area with a similar geography encompassing the Garment District area, to see a rising vacancy rate through 2025 with effective rents expected to increase in the next year before leveling off through 2025.

<u>Garment District</u>

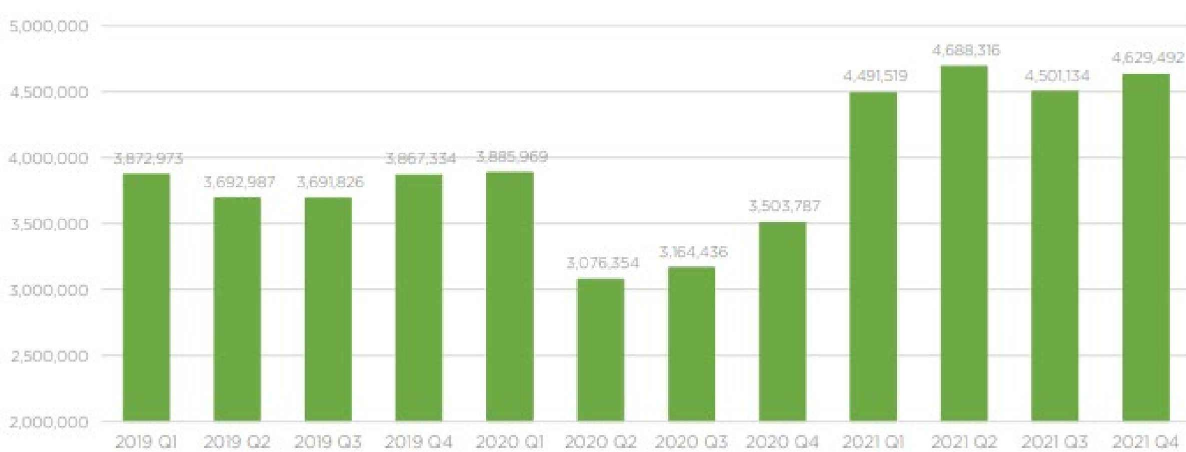
According to the City's PLUTO property data file, there was 26.2 million SF of office space in the Garment District Study Area (Figure 20).

Figure 20: Garment District Office Space

Source: NYC DCP PLUTO

As previously mentioned, the Garment District lies within and across multiple office real estate submarkets, so it is difficult to identify specific vacancy rates within the district. However, limited sample-based data are available within the bounds of the Garment District and have been compiled for the Garment District Alliance. Urbanomics has used this information in conjunction with other data sources to establish vacancy rates for the District.

Figure 21: Garment District Vacant Office Space 2019-2021



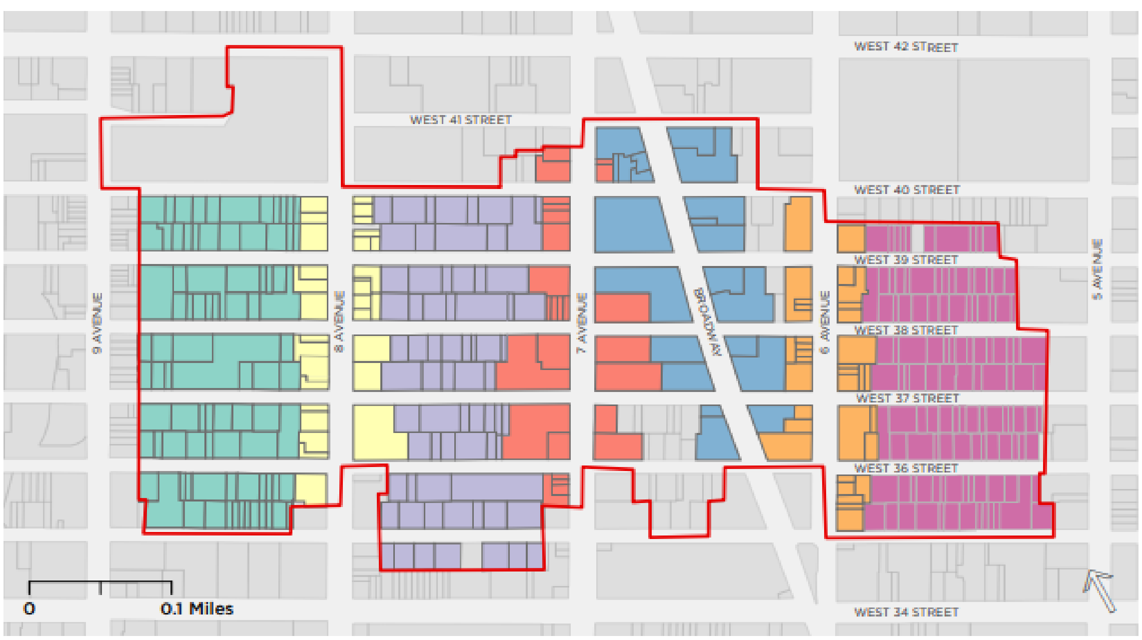
Source: CompStack, Inc. 3-month moving averages for The GDA Economic Quarterly Report Q4 2021

As shown in Figure 21, there was 4.6 million sf of vacant office space in the Garment District at the end of 2021. When divided by the total office floorspace, it yields a vacancy rate of 17.6 percent for the district – less than the overall Manhattan and Times Square South submarkets, but double that of the Penn Station submarket.

The majority of office space in the Garment District is Class B/C and is expected to have lower rents than the City's average. However, asking rents in the Garment District at $47.78 psf are significantly lower than the Manhattan overall average of $70.72 psf as shown in Figure 22.

Figure 22: Garment District Rents

	Sample Size	Dec. 2019 ($/SF)	Dec. 2020 ($/SF)	Dec. 2021 ($/SF)	2-yr. Change
8th-9th Ave Side Streets	9	$44.51	$43.27	$38.83	-13%
Eighth Avenue	4	$43.50	$36.98	$37.84	-13%
7th-8th Ave Side Streets	23	$47.50	$31.72	$38.14	-20%
Seventh Avenue	27	$52.00	$50.90	$50.69	-3%
Broadway	53	$59.56	$56.30	$52.35	-12%
Sixth Avenue	9	$68.67	$52.08	$51.44	-25%
5th-6th Ave Side Streets	18	$48.27	$40.88	$47.15	-2%
District Average	143	$53.95	$47.76	$47.78	-11%



Source: CompStack, Inc. 3-month moving averages for The GDA Economic Quarterly Report Q4 2021

Industrial

New York City's industrial market is concentrated in the outer boroughs and especially near major seaports, airports, and historic manufacturing centers.

Manhattan's industrial property market is sparsely clustered in East Harlem and West Midtown, primarily in the form of warehouse space. According to the City's PLUTO property data file, 43.3% (1.4M sf) of the Borough's factory, warehouse or loft square footage is located in Community District (CD) 4 including Chelsea, Clinton & Hudson Yards, followed by CD 5 including Midtown, Times Square, Union Square, Murray Hill, Herald Square, and the Flatiron with 25.9% (862,500 sf). These CDs are also home to over half of Manhattan's storage or loft purpose floorspace, with CD 4 accounting for 4.4 million sf and CD 5 having 4.1 million sf.

Little of Manhattan's industrial floorspace is used for active industrial uses. Due to high leasing rates and strong demand by non-industrial users, Manhattan loft space is traditionally used for creative industries, office, and residential uses. The Borough's storage floor space is used for the needs of residents and area businesses.

<u>Garment District Area</u>

According to the City's PLUTO property data file, the Garment District Study is home to 713,142 sf of factory floorspace and another 329,842 sf of storage or loft purposes floorspace, a total of more than 1 million sf of space. It is noted factory area in the District has decreased approximately by 20% between 2019 and 2021. As mentioned in Chapter 1, an estimated 735,000 SF of industrial space is utilized by garment related manufacturers.

Factory, warehouse or loft space is concentrated among several properties including 554 8th Avenue (227,685 sf), 254 West 35th Street (106,642 sf), 329 West 36th Street (102,763 sf), and 306 West 38th Street (68,698 sf). Among storage or loft uses, buildings with the largest floor space include 330 West 38th Street (94,671 sf), 257 West 38th Street (73,825 sf), and 498 7th Ave (42,936 sf). Notably, there are several buildings just outside of the Garment District Study Area with large amounts of storage or loft use floorspace.

Impacts of Neighboring Development

Illustrated in the following map, relatively little recently completed development or development in the pipeline is located in the Garment District Study Area compared with that of the broader midtown area. Within the study area one project was completed since 2020, 44 West 37th Street, a 39,000 sf office tower. As of July 2022, there were just three projects currently under construction. These include the Society House at 335 West 35th St (a 15-story 66 unit condo office-to-residential conversion), 203 West 38th Street (a 5-story 9.6k sf office building), and 58 West 39th Street (a 29-story 56k sf office tower).

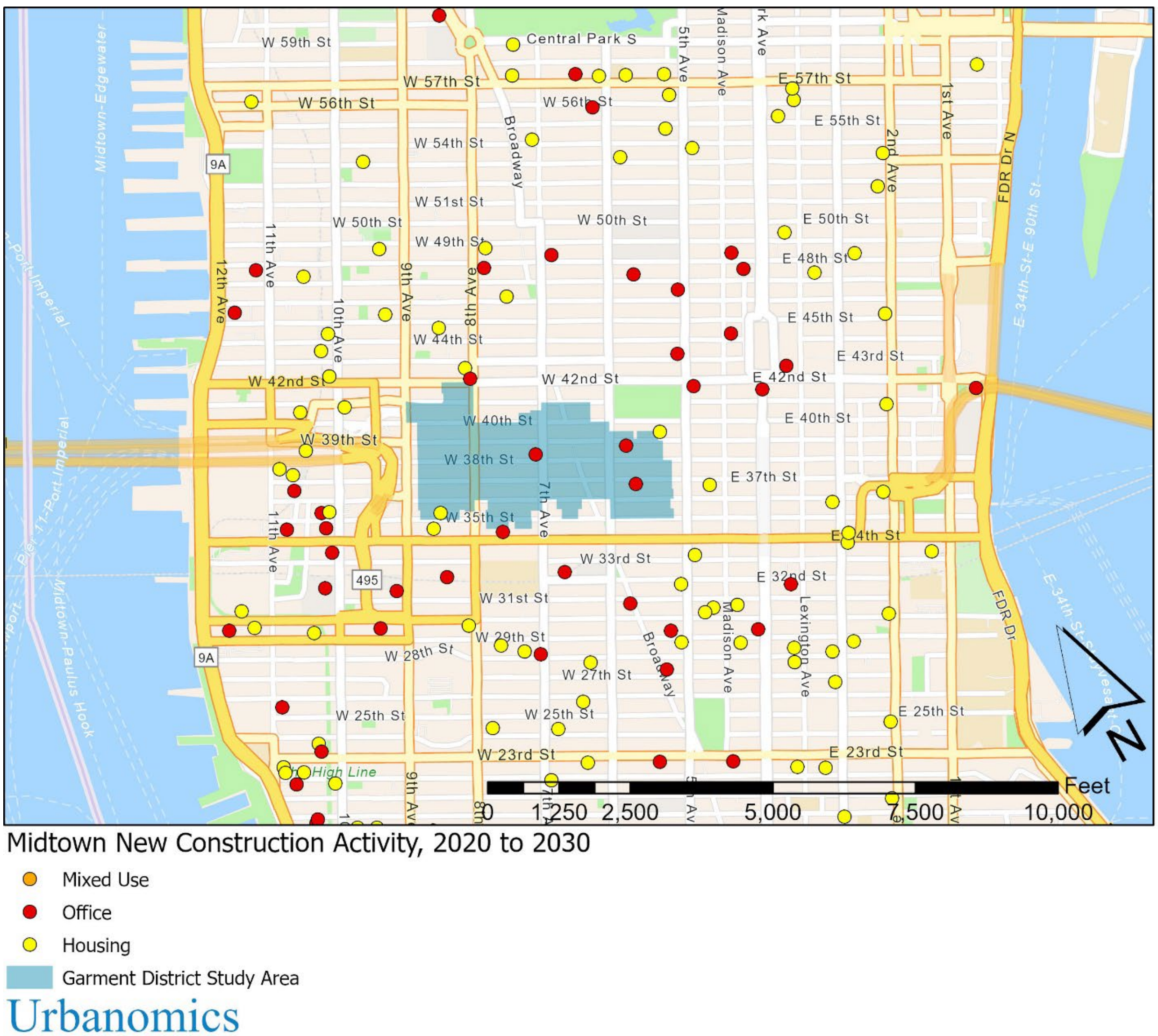
Table 3 below identifies new housing units and office floorspace added since 2020 or currently in the pipeline (under construction, approved, or planned). In terms of new units per acre, the Garment District Study Area is seeing considerably less housing development activity than the Midtown area community districts (CD 4, CD 5, and CD 6) as a whole with just 0.63 new units per acre compared with between 2.3 and 5.0 new units per acre in the midtown community districts. Similarly, the Study Area is seeing relatively little new office floorspace at just 998 sf per acre. This level is slightly more than CD 6 at 957 sf per acre but far less than CD 4 and CD 5 at 13,373 and 16,693 sf per acre, respectively.

Table 3: New Construction Activity by Area, 2020-2030

Area	Acres	New Housing Units	New Office Floorspace	New Units Per Acre	New Office Floorspace Per Acre
Garment District Study Area	105	66	104,809	0.63	998
CD 4	1,132	5,627	15,132,340	4.97	13,373
CD 5	1,005	3,564	16,784,358	3.54	16,693
CD 6	889	2,041	850,000	2.30	957

Note: New Units includes housing added since 2020, under construction, approved or planned as of July 2022.
Source: Moody's Analytics, REIS, 2022; NYCDCP

Figure 23: New Construction Activity Map, 2020-2030



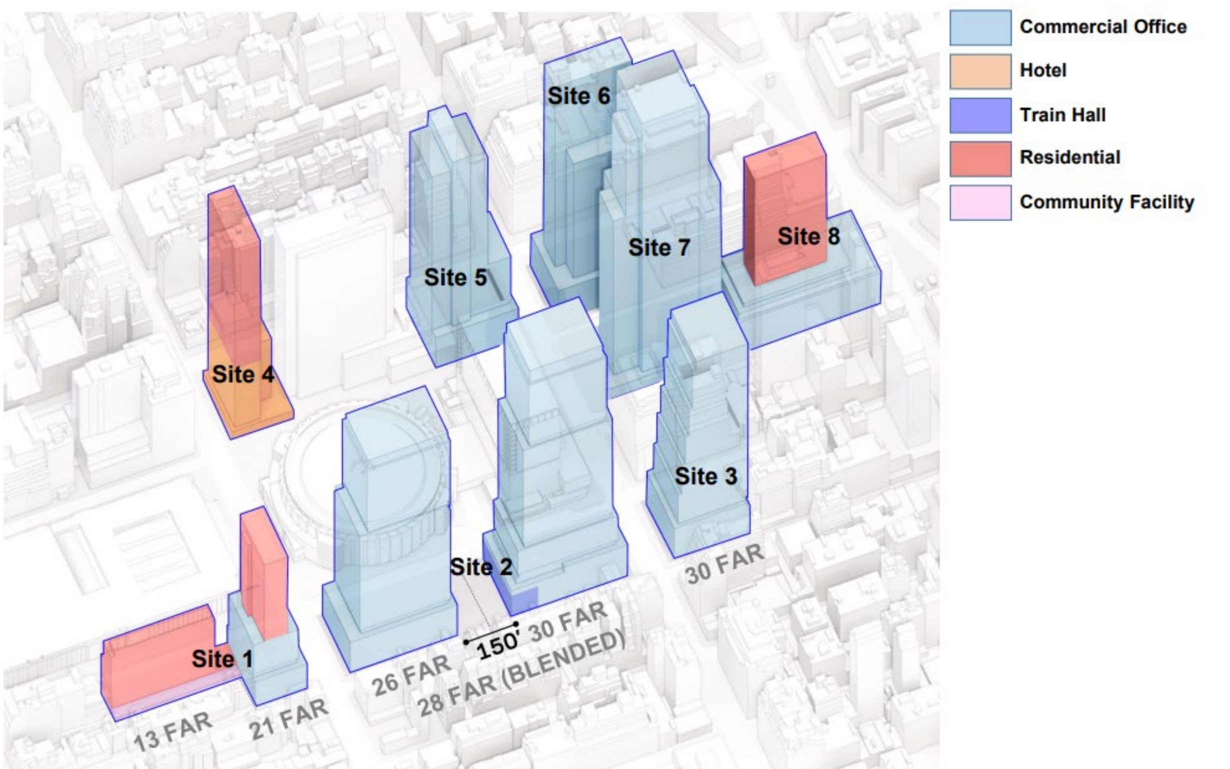
Sources: Moody's Analytics, REIS, 2022; ESRI World Basemap

Penn Station Redevelopment

In June 2022, New York State Governor Hochul and New Jersey Governor Murphy announced plans to move forward with a $6-7 billion redevelopment of Penn Station expected to be completed by 2038, including the construction of a new Moynihan Train Hall and revitalization of the surrounding neighborhood. The Final Environmental Impact Statement was completed on June 30, 2022. The project is being developed collaboratively with the MTA, NJ Transit and Amtrak with a proposed buildout includes the following:

- Up to 18m sf of primarily Class A commercial office, retail, and hotel space and up to 1,800 housing units, including 540 permanently affordable units across 8 development sites,
- 40% increase in commuter platform space,
- Eight acres of public space,
- Up to 13m sf of office space,
- Up to 2,300 hotel rooms,
- 800k sf of retail space,
- 800k sf of hotel space,
- Nearly 20k sf of community facility space,
- Up to 3.4m sf non-program space,
- 40% of building frontage including active uses such as retail or community facilities
- Demolition of several buildings including St. John the Baptist Church

Figure 24: Penn Station Area Redevelopment Project, Proposed Revised Illustrative Massing, 2038 Analysis Year



Source: Empire State Development, Penn Station Area Redevelopment Project, 2nd GPP & DEIS Public Hearing, January 20, 2022

Hudson Yards Development

Hudson Yards is ongoing 28-acre major development under construction between the neighborhoods of Chelsea and Hell's Kitchen. The project's first phase opened in 2019 and includes 12m sf of gross area in total, including a public green space, eight buildings encompassing housing, hotels, offices, a mall, and cultural facility. As of July 2022, nearly all buildings (9m sf) in Phase 1 have been completed with the exception of 50 Hudson Yards, which is expected to be completed in the second half of 2022 (2.9m sf) and will rank as the fourth largest office tower in the City.

As of 2022, the second phase has not started construction and will include 6.2m sf of gross area, encompassing 4m sf of housing, 2m sf of office space, 100k sf of retail space, and a 120k sf school. The full build-out will include the following:

- Up to 18.2m sf of Class A office space, residential, hotel, retail, cultural and parking uses,
- Up to 4,000 residences,
- 212 room hotel,
- 14 acres of public open space,
- A 750-seat school.

Figure 25: Hudson Yards Site-Map, 2019

Source: The Related Companies, About Hudson Yards, March 2019 Press Kit

Other major development projects neighboring the site either recently built or with construction underway includes Manhattan West (7m sf, completed in 2021); The Spiral (2.8m sf, opened in 2022); 3 Hudson Boulevard (1.9m sf, on hold); One Hudson Yards (178 units, completed in 2017); Abington House (386 units, completed); 601 West 29th Street (931 units, to be completed in 2022); and 606 West 30th Street (312k sf, completed in 2022).

Major Rezoning Case Studies

Looking at long-term build-out trends following major re-zonings in New York City may shed light on the potential ramifications of continued relaxation of the zoning regulations that protect the Special Garment Center District Preservation Area.

Special Lower Manhattan District

Established in 1998 and covering the area south of Murray Street, City Hall Park and the approaches to the Brooklyn Bridge, excluding Battery Park City, the Special Lower Manhattan District was established to support the vibrancy and vitality of Lower Manhattan, the City's oldest central business district and a growing residential community. The special district allowed for the conversion of older commercial buildings to residential uses and incentivized a mix of uses while protecting the area's historic skyline and street design.

Although build-out character for the special district is not widely available from the time of the rezoning, an analysis of assessment information from 2002 and 2004 to present shows a wide transformation in the special district's character. The area's gross floorspace has increased by nearly 15% since 2002 (+15.8M sf), largely due to strong housing construction activity (+16.4K housing units). Although office floorspace decreased by 13% (-11.2M sf) due to conversions, the special district's retail floorspace nearly doubled since 2004 (+2.8M sf). The special district's assessed value rose by nearly 52% since 2002 (+$4.6B) in 2022 dollars.

Table 4: Historic Change in Floorspace & Assessed Value, Special Lower Manhattan District

	2002	2004	2022	% Change, 2002-2022	% Change, 2004-2022
Total Gross sf (floorspace)	106.1M	108.4M	121.9M	+14.9%	+12.5%
Commercial Floorspace	94.9M	94.6M	87.5M	-7.8%	-7.5%
Residential Floorspace	9.3M	13.8M	29.1M	+211.6%	+111.3%
Office Floorspace	No data	84.8M	73.6M	No data	-13.2%
Retail Floorspace	No data	3.0M	5.8M	No data	+92.0%
Storage Floorspace	No data	720.6K	687.4K	No data	-4.6%
Residential Units	10.8K	14.0K	27.2K	+151.9%	+94.3%
Total Assessed Value	$5.5B	$6.3B	$13.5B	+146.6%	+115.9%
Total Assessed Value ($2022)	$8.9B	$9.7B	$13.5B	+51.8%	+39.5%

Source: NYCDCP PLUTO Datafile, 2002, 2004, & June 2022

Special Downtown Brooklyn District

Established in 2001, substantially modified in 2004, and covering parts of Downtown Brooklyn including Brooklyn Heights, DUMBO, the Brooklyn Navy Yard, Boerum Hill, Cobble Hill, Fort Greene, the Special Downtown Brooklyn District was established to strengthen the business core of Downtown Brooklyn as a mixed-use area. Other key goals included fostering local development activity where appropriate, creation of appropriate transition in density and use between the commercial core and lower-scale residential communities, preservation of the community's historic architectural character, development of public as well as visual amenities, incentivization of affordable housing, and promotion higher uses where appropriate to conserve the City's land value.

Since the 2004 rezoning, the area has received more than $9 billion in private investment and $300 million in public improvements in 2017 dollars. The area's gross floorspace has more than doubled since 2002 (+9.3M sf), primarily due to a sharp increase in housing construction activity (+8.5k housing units) and to a lesser extent, increased retail development (+700K sf). In 2022 dollars, the special district's assessed value rose by more than 300% since 2002 (+$1.4B).

Table 5: Historic Change in Floorspace & Assessed Value, Special Downtown Brooklyn District

	2002	2004	2022	% Change, 2002-2022	% Change, 2004-2022
Total Gross sf (floorspace)	7.2M	7.2M	16.5M	+129.7%	+129.3%
Commercial Floorspace	6.7M	6.8M	7.2M	+7.3%	+6.9%
Residential Floorspace	388.6K	425.9K	8.6M	+2,105.6%	+1,912.2%
Office Floorspace	No data	3.5M	2.5M	No data	-28.0%
Retail Floorspace	No data	1.4M	2.1M	No data	+48.9%
Storage Floorspace	No data	407.6K	51.5K	No data	-87.4%
Residential Units	0.6K	0.6K	9.1K	+1,526.2%	+1,532.0%
Total Assessed Value	$273.0M	$280.8M	$1.8B	+557.7%	+539.4%
Total Assessed Value ($2022)	$443.5M	$434.5M	$1.8B	+304.8%	+313.2%

Source: NYCDCP PLUTO Datafile, 2002, 2004, & June 2022

Conclusions

Office

- Office Space Will Continue to Exceed Demand
    - 21% office vacancy rate in Manhattan
        - 4.6 million sf of vacant space (17.6%) in the Garment District (4Q2021)
    - Future Demand: +7.5 million sf needed by 2030 to meet forecasted employment growth (0.6%) for all of Manhattan. (Maintains existing vacancy rate of 21%.)
    - Future Supply: 9.47 million sf of new office expected online by 2025 in Midtown alone
        - 5.3 million sf in Hudson Yards is 64% pre-leased
- Implications for Garment District
    - Higher vacancies as businesses migrate to new Class A space.
    - Millions of square feet of new, Class A office development have, or will, come onto the market in nearby Hudson Yards and other adjacent areas, with potential to attract businesses that are ready to reduce their square footage due to hybrid work policies while upgrading to a modern, amenity-rich office environment.
    - Lower Rents
        - At $47.78 psf, District rents are already $23 psf under the Manhattan average of $70.72 for Class B/C.
            - The 7th-8th Avenue side streets in the heart of the Special District are already even lower at $38.14 psf.
        - Potential to further develop entrepreneurial ecosystem, but that demand will not be enough.

Housing

- Housing Demand Exceeds Supply
    - Manhattan Residential rentals are currently at 1.55 % vacancy
    - DCP Household forecasts for Manhattan (2020-2030) require completions of 5,000 units per year to maintain the current overall vacancy rate of 4%.
        - Average number of units in the pipeline per year: 1,200.
- Implications for Garment District
    - Residential is almost guaranteed to be successful.
    - Live/work/play environment would improve perceptions of the neighborhood and ultimately increase office demand.

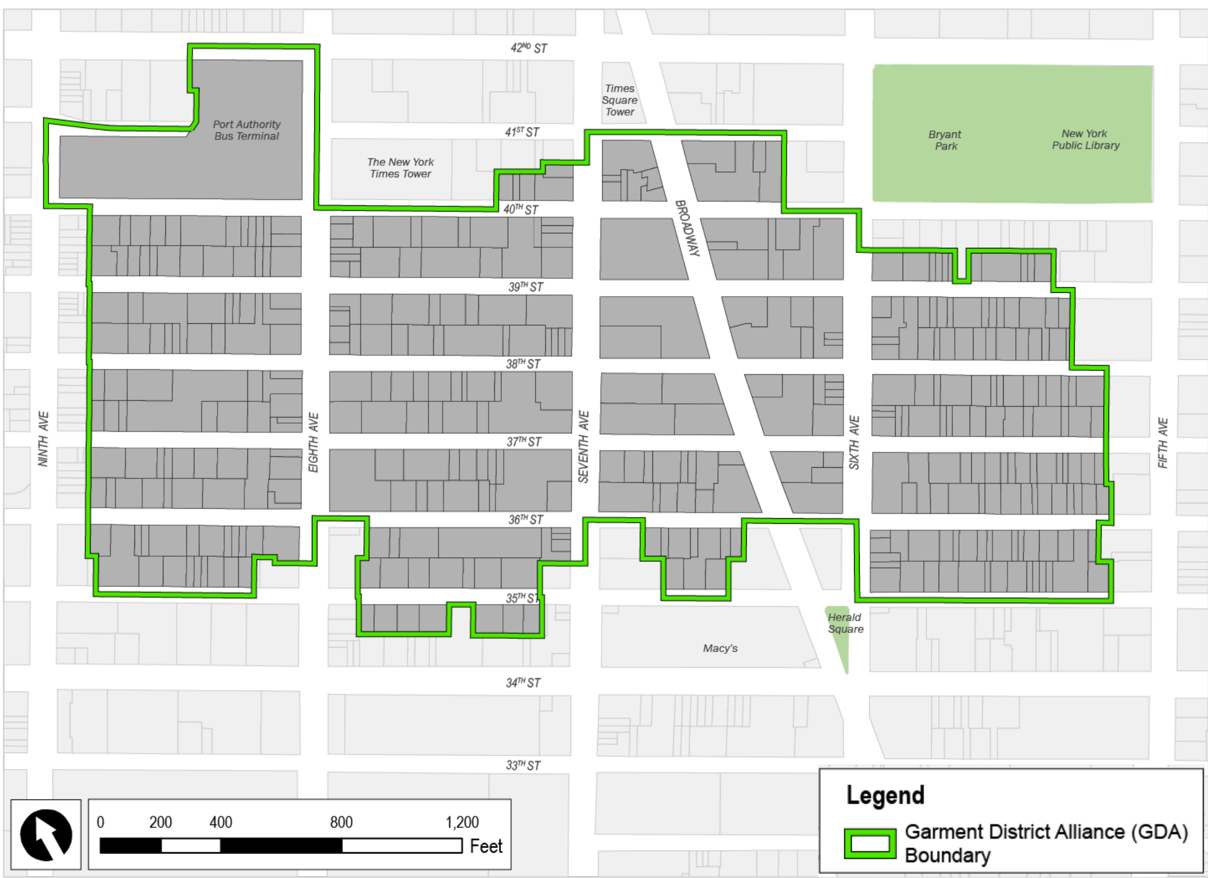
3. Development Potential in the District

The first part of this chapter presents a review of the uses and zoning of the Garment District, with a particular focus on existing residential uses. Subsequently, we provide an analysis of the development potential both as allowed by current zoning regulations and with zoning changes that allow for residential conversions throughout the Garment District. The recommended zoning changes are described in Chapter 4. The development potential is mostly based on potential for office to residential conversions, as the market review highlights a stronger residential demand over office.

The second part of the chapter provides an overview of opportunities for residential conversions, including common practices and examples, as well as anticipated outcomes of increasing the District's full-time population.

For the purposes of this analysis, the study area follows the Garment District Alliance (GDA) boundary (Figure 26). The terms "GDA area", "Garment District" and "District" are used interchangeably to identify the study area. The acronym SGCD is used when referring to the Special Garment Center District area only. The different boundaries are illustrated within the maps.

Figure 26: Garment District Alliance Boundary (Study Area)



Sources: NYC DCP PLUTO, Garment District Alliance

Existing Land Use and Zoning

Land Use

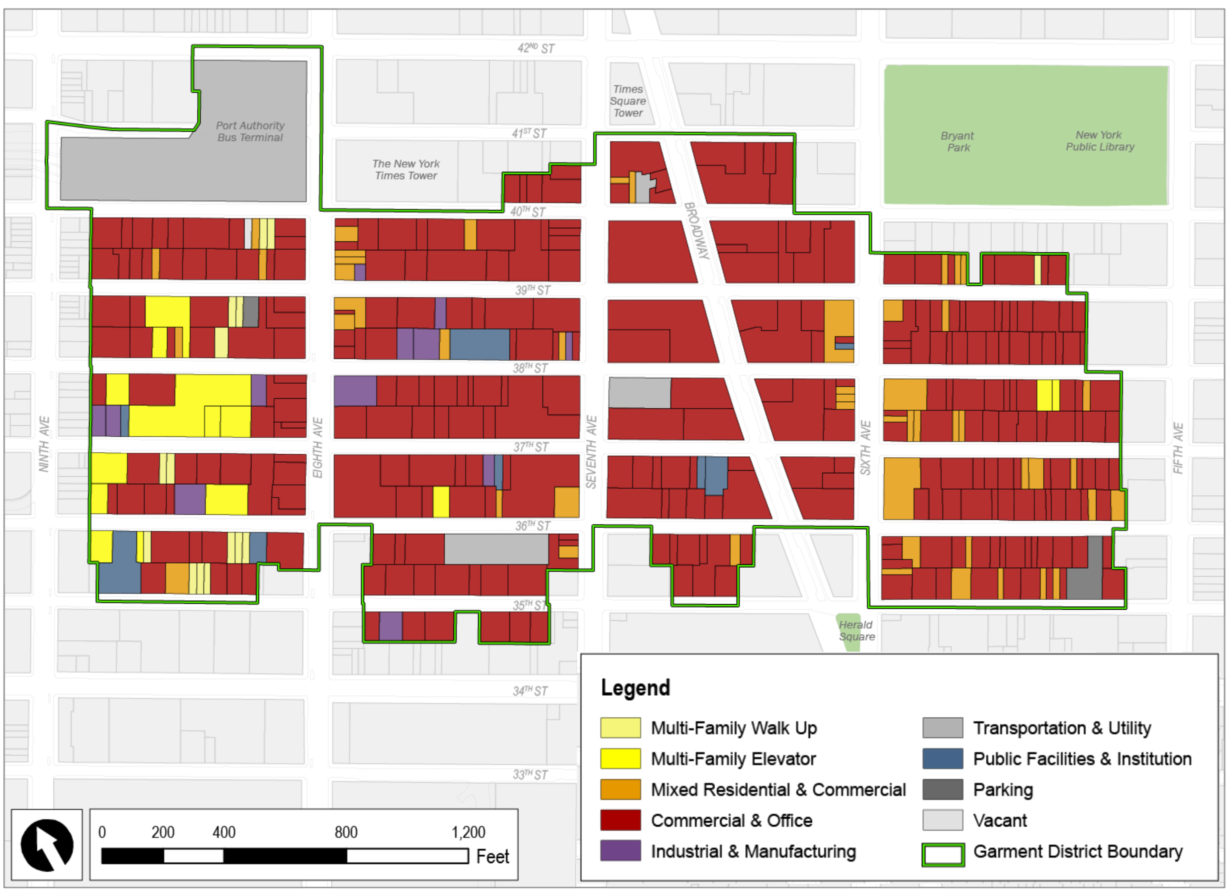
The GDA area is characterized by a dense middle- to high-rise built environment, with roughly 78% of the buildings built between 1900 and 1930. As mentioned in Chapter 1, most of the buildings were constructed to respond to the needs of the garment manufacturing industry, and were originally used for production, warehousing and showrooms. The study area covers approximately 106 acres, including roadways, for a total of 406 parcels and approximately 4.3M square feet of building area. The current (2021) land use breakdown is illustrated in the table below and in Figure 27.

Table 6: Garment District Land Use Mix

Use	Area	Percentage of total
Office	26,234,968	65.1%
Hotel	4,944,147	12.3%
Residential	2,524,100	6.3%
Retail	2,418,100	6.0%
Factory	713,142	1.8%
Other Uses	5,879,951	6.8%
Total Built Area	**40,318,166**	**100.0%**

Source: NYC DCP PLUTO 21v4

Figure 27: Garment District Land Use



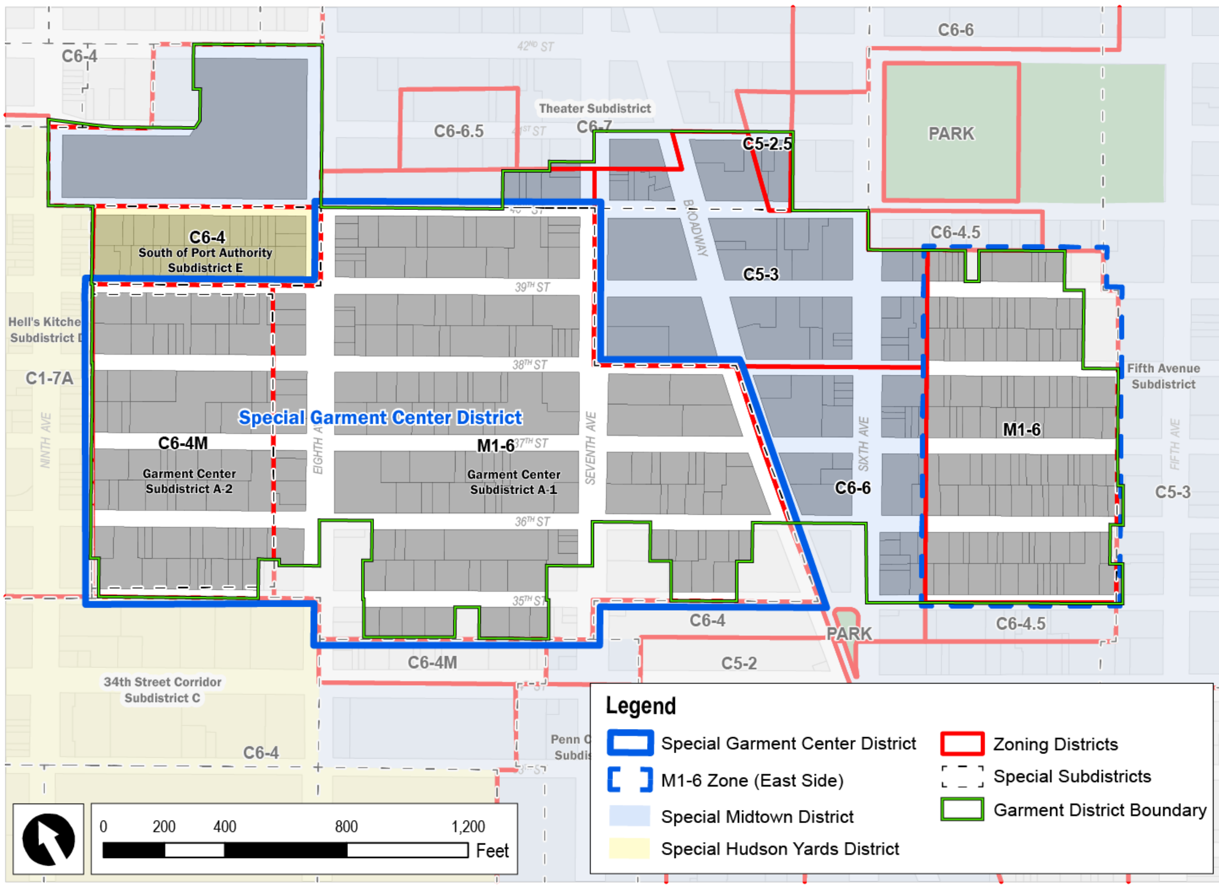
Source: NYC DCP PLUTO 21v4

Zoning

The GDA area is largely characterized by five different zoning districts (M1-6, C6-4M, C6-4, C6-6 and C5-3) mapped in six sub-areas, with the exception of a few buildings on the fringes of the study area that are mapped in the C5-2.5 and C6-7 zoning district.

The study area contains three Special Purpose Districts: the Special Garment Center District (with Subdistricts A-1 and A-2), the Special Hudson Yards District (Subdistrict E - South of Port Authority), and the Special Midtown District.

Figure 28: Garment District Zoning Map



Source: NYC DCP PLUTO 21v4

<u>Special Garment Center District (SGCD)</u>

The SGCD is an overlay district established in 1987 and modified throughout the years following rezonings. The SGCD is composed by two subdistricts, A-1 and A2.

Subdistrict A-1 includes areas between Broadway and 7th Avenue and 35th and 38th Street, as well as areas between 7th and 8th Avenue and 35th and 40th Street (including properties within 100 feet from 8th Avenue). The underlying zoning district is M1-6. M1-6 is a light manufacturing zone that allows manufacturing, commercial and community facility uses, up to an FAR of 10, but does not allow residential use.

Subdistrict A-2 includes the western porstion of the SGCD, between 8th and 9th Avenue and 35th and 39th Street, with the exclusion of the properties located within 100 feet from the avenues. The underlying zoning district is C6-4M, which is a loft district designation that allows for uses such as commercial, residential and community facilities. However, the subdistrict A-2 overlay prohibits the conversion of manufacturing and warehousing space in buildings of 70,000 square feet or larger to residential or dormitory facility use.

C6-4 Zone between 5th and 6th Avenue (eastern portion of the study area)

This city block (excluding parcels 100 feet from 9th Avenue) between 8th and 9th Avenue and 39th and 40th Street is located directly across the Port Authority Bus Terminal to the south. Commercial and residential uses are allowed in the C6-4 zone, for an FAR up to 10.

M1-6 between 5th and 6th Avenue (eastern portion of the study area)

This manufacturing-zoned area between 5th and 6th Avenue and 35th and 39th Street does not have any special district overlay. As mentioned above, the uses allowed in M1-6 are manufacturing, commercial and community facility, up to an FAR of 10, but not residential.

C6-6, C5-3, C5-2.5 and C6-7 Zones

The study area includes some areas that are zoned as General Central Commercial zones that allows for a large variety of commercial uses but also residential use. While the allowed commercial FAR varies between these zones (10 to 12), the residential equivalent is R-10 zoning, which allows for a residential FAR of 10.

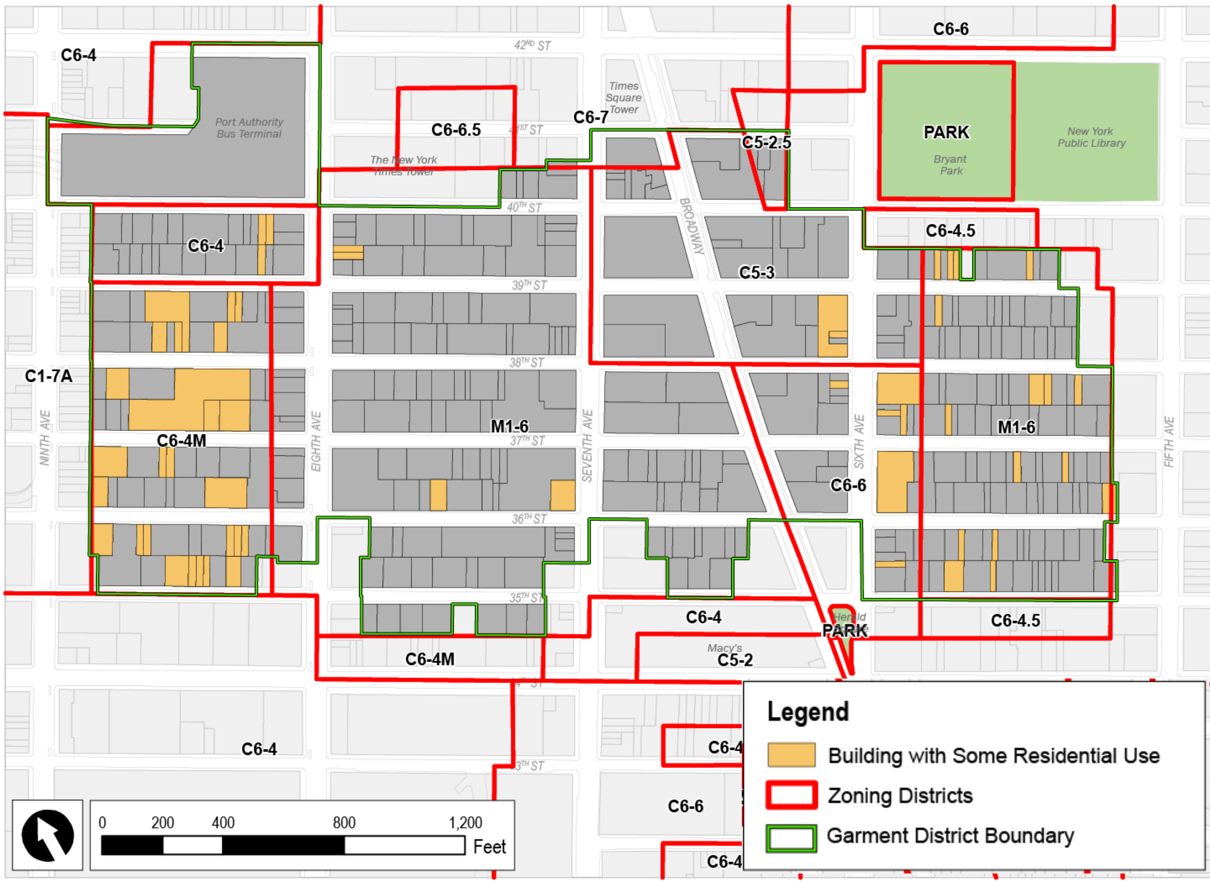
Existing Residential Uses

According to PLUTO data, the study area includes approximately 2.5 million SF of residential area, or just over 2,600 units. According to the 2020 Decennial Census (Redistricting Data), Census Tracts 113 and 109, which cover an area between 6th and 8th Avenue and 42nd and 34th Street (roughly two-thirds of the Garment District area), have a combined population of approximately 623 people, making the study area one of the least populated neighborhood in Manhattan and NYC.

Residential buildings are mostly concentrated in the western portion of the study area, between 8th and 9th Avenue and 35th and 39th Street. Hotel use is also prominent in this area, with approximately 30 lots occupied by hotels. This area, with the exception of the properties facing 8th Avenue, was rezoned in 2005 as part of the Hudson Yards rezoning from M1-5/M1-6 to C6-4M.

Most of the remaining residential area is located along 6th Avenue, in two large residential buildings that contain a total of 942 residential units (320 W 38th Street and 980 6th Avenue). A number of small buildings with residences on upper floors are scattered throughout the side streets between 5th and 6th Avenue. A few residential uses are located between 7th and 8th Avenue, an area where residential use in not currently allowed. One notable exception in this manufacturing-zoned area is 488 7th Avenue, a corner building with 104 residential units above retail.

Figure 29: Existing Residential Uses in The Garment District



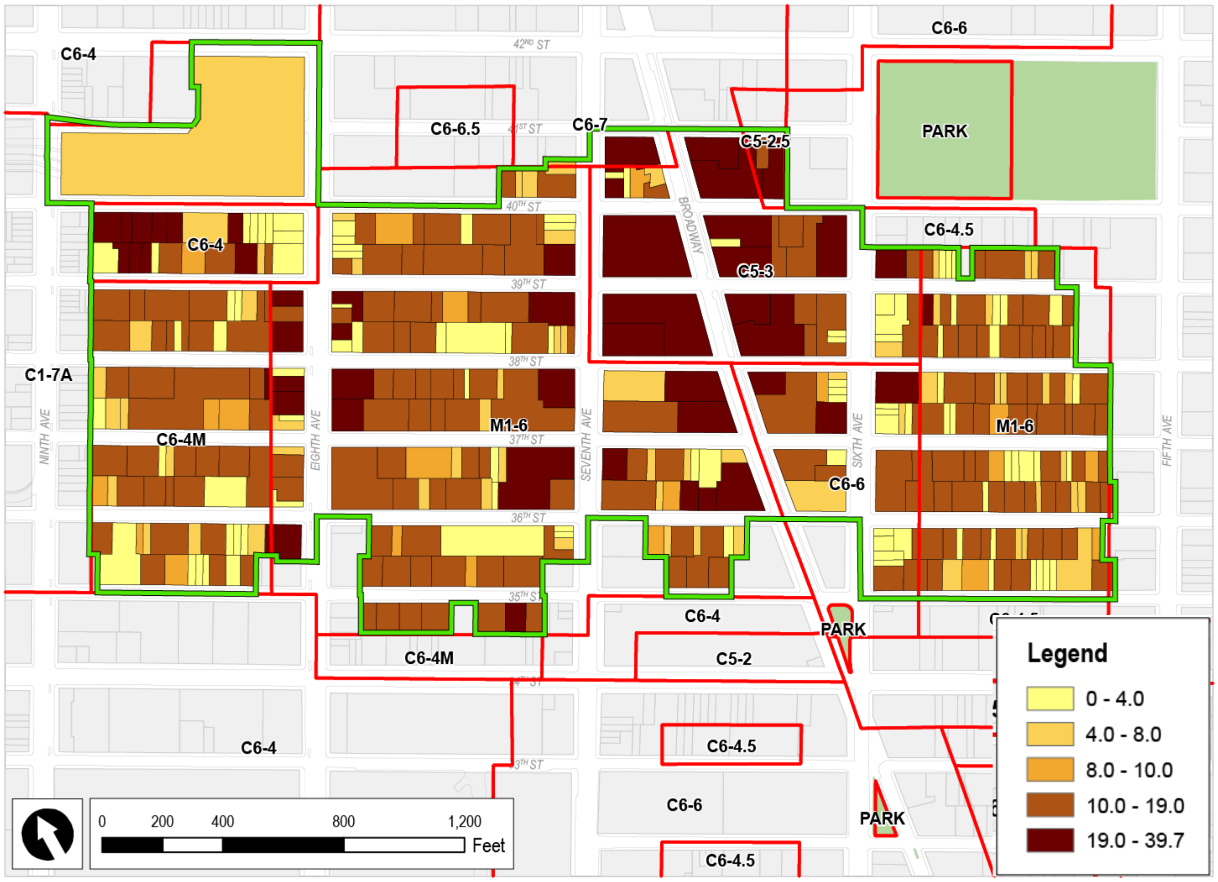
Source: NYC DCP PLUTO 21v4

Residential Potential Under Existing Zoning

Identification of Buildings Appropriate For Residential Conversions

The District has experienced some residential conversions over the last few decades. The appeal of converting an existing building rather than pursuing new construction is that developers would be able to convert the entirety of an existing building to residential, even when FAR exceeds current limits. Most Garment District buildings are overbuilt (i.e., FAR exceeds currently allowed limit), due to their age. The more restrictive zoning regulations that are in place did not exist in the first three decades on the 20th century, when most buildings were built. The map below illustrates how much excess floor area exists in the District (Figure 30).

Figure 30: Garment District Built Floor Area Ratio (FAR)



Source: NYC DCP PLUTO 21v4

Zoning regulations for conversions (Article 1 Chapter 5 of the NYC Zoning Resolution) set specific rules for conversions, which are often more permissive than regulations for new construction. One key example is the allowance of interior rooms with mechanical ventilation in residential conversions. This is not allowed under new construction. The special rules for conversions of nonresidential buildings to residences apply only to buildings constructed before 1961, which means they would apply to over 80% of the Garment District building stock.

Additionally, conversions are typically less expensive than new construction. Developers would save on excavation and foundations, in particular when core relocation is not needed. Building structure and shell are mostly in place, saving on materials transportation, materials themselves as well as their supply chain costs. There are also significant emissions savings, making reuse of building more environmentally friendly than building new.

Lastly, loft apartments are particularly in high demand. Areas like SoHo/NoHo have shown great success when it comes to demand for bigger, open concept and high ceilings apartments that may include space for home offices.

Office to residential conversions can vary in their gross to net area outcomes. In buildings with regular layouts and minimal setbacks, where the core is strategically located (or can be relocated in the middle of the building), conversions can reach the same efficiency, or close, to new construction. In buildings where major core elements are retained, or with multiple setbacks/irregular floors, gross to net area efficiency may be reduced to 70-80%.

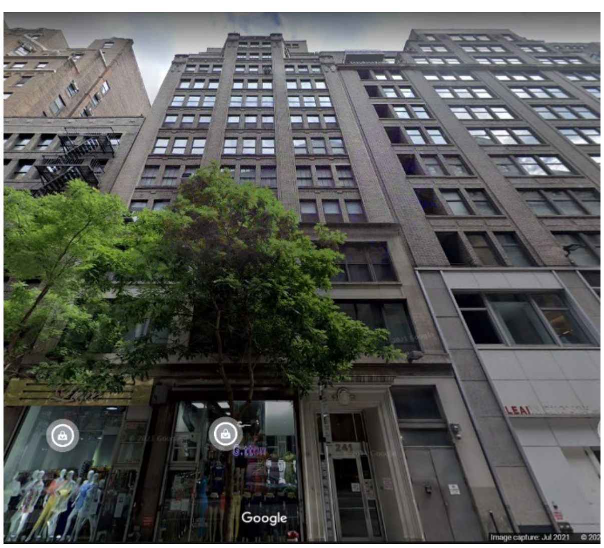
In the Garment District, there are mainly two type of units that could result from conversions:

- Live/Work space "loft apartments": these units are typically larger than 1,200 SF and can even be much larger. There are some examples of past conversions in the District that resulted in this type of residences (see 361 W 36th Street and 241 W 36th Street in Table 7 and Figure 31).
- Typical residential conversion units with more standard layouts. Primary unit type is a one bedroom with an interior mechanically ventilated room. These units can be 40 feet deep or even deeper. Frontage (street, rear yard, or courtyard) is sometimes determined by existing window or structural patterns. Legal window frontage is one of the most important factors in determining efficient unit sizes. Units typically range from 400 to 1,200 SF. In a few cases where there is a very small rear yard, the minimum unit size is 1,200 SF. One example of this typical residential conversion is the Sienna37 building at 313 W 37th Street, as illustrated in Table 7 and Figure 32.

In general, unit layouts of office-to-residential conversions are very dependent on:

- Existing floor plans, including location of windows.
- Regularity of floor plates.
- Location of cores or ability to relocate cores. Sometimes the increase in salable floor area and sales price per square foot make to cost of cores relocation justifiable.

Developers that are looking to convert a building to a different use may also encounter constraints that are not physical. For instance, some buildings may have established tenants on certain floors. There could be situations where part of the building is vacant but the other part includes established activities that do not necessarily want to relocate. In this case, the location of these active tenants within the building could play a role in the developer decision-making process. One example of mixed-use building that recently converted the upper floors to residential is 315 West 36th Street. This is a 1926 Gothic-Deco style building that features 7 stories of loft units above 10 stories of commercial space (office). The two portions have separate entrances and elevators.



Figures 31-32: To the left, 241 W 36th Street; to the right, 313 W 37th Street "Sienna37"

Table 7: Residential Conversions Examples in the Garment District.

Address	361 WEST 36 STREET	313 WEST 37 STREET “Sienna37”	241 WEST 36 STREET
Lot Area (SF)	5,760	9,916	5,400
Building Area (SF)	56,513	82,354	74,100
Commercial Area (SF)	7,125	8,000	4,000
Residential Area (SF)	49,388	74,354	70,100
Building Frontage (Feet)	58.00	100.00	55.50
Building Depth at Ground Floor (Feet)	99.00	99.00	98.75
Building Coverage	99%	100%	100%
Year Built	1925	1922	1925
Year Conversion	1982	2014	1998
Built FAR	9.81	8.31	13.72
Residential Units	18	80	26
Average Gross Residential Unit Area (SF)	2,744	929	2,696
Zoning District	C6-4M	C6-4M	M1-6

Source: NYC DCP PLUTO 21v4

Residential Conversions Under Existing Zoning

This analysis estimates the potential for residential conversions under the existing zoning regulations. As described in the zoning section above, residential conversions are allowed in commercial zones (C6-4, C6-6, C5-3, C5-2.5 and C6-7) in some NYC Community Districts, including Manhattan Community District 4 and 5. The two areas zoned as M1-6 do not allow for residential conversions, while the C6-4M zone (SGCD subdistrict A-2) only allows residential conversions for buildings below 70,000 SF.

<u>Assumptions for Residential Conversions Under Existing Zoning</u>

- No change of use for hotel buildings.
- First and second floors to remain commercial.
- Port Authority Bus Terminal is excluded from the calculations.
- Only 80% of the total building area (minus first two stories) is considered in the conversion to residential calculations due to layout inefficiencies (particularly high in conversion projects), common areas, elevator space, etc.
- Average unit size to be 1,200 square feet. No change of use for buildings that already include residential uses.

Residential potential is calculated for conversions only, without taking into consideration any new development. This is considered to be the most likely redevelopment scenario, as many buildings exceed the FAR limit as set in the current zoning (residential FAR of 10). Many avenue buildings have an FAR of 19 or more (Figure 30). It is likely that developers would want to take advantage of the extra FAR available, since residential conversions allow use of all excess floor area. Redevelopment of underutilized parcels, on the other hand, may materialize only in a few cases due to lot assembly issues, multiple property owners, etc.

Table 8: Full Residential Potential Under Existing Zoning (Short-Term 10-year Projection)

Zoning District	Potential Residential Area from Conversions (SF)	New Residential Units (*)
C6-4M (**) SGCD Subdistrict A-2	404,684	270
M1-6 West SGCD Subdistrict A-1	0	0
C6-4	227,595	152
M1-6 East	0	0
C5-3	6,386,284	4,258
C5-2.5	272,395	182
C6-7	491,213	327
C5-3 East	72,310	48
C6-6	1,591,342	1,061
Full Build-Out	**9,445,823**	**6,297**

(*) Considering 1,200 SF Avg Unit Size, and 80% of the total area due to inefficiencies
(**) Residential conversions are allowed only in buildings under 70,000 SF
Source: NYC DCP PLUTO 21v4

Today, approximately 9.5 million SF of building area could be converted to residential use in the GDA area. Based on the above assumptions, this would correspond to approximately 6,300 new units. However, a full build-out never occurs. A residential conversion rate needs to be applied to provide a more realistic adjusted projection, as explained in the following section.

<u>Residential Conversion Rate</u>

The neighborhoods of Financial District and Chelsea were chosen as comparables. The Financial District experienced a period when office-to-residential conversions where incentivized through a State tax incentive program, known as 421-g or “Lower Manhattan Conversion Program”. This program provided tax exemption and abatement for conversion of commercial buildings, or portions of buildings, into rental apartments. The 421-g applied to areas south of Murray Street, City Hall, and the Brooklyn Bridge between 1995 and 2006. The Chelsea area was chosen because its past zoning regulations, land uses and the built environment are similar to today’s Garment District. For instance, high streetwall, loft buildings are one of the prevalent building forms along the avenues and midblocks of Chelsea. Residential conversions in Chelsea may be very similar to future conversions in the District.

The following table illustrates the conversion rate for the Financial District and Chelsea for both short- and long-term scenarios:

	Financial District (Zip Codes 10004, 10007, 10038)	Chelsea (Zip Code 10011)
Altered 1995-2006 as Share of Total Built Area	10.10% (*)	11.44%
Altered 1995-Present as Share of Total Built Area	19.37%	24.78%

(*) The 421-g State tax incentive program applied here.

Given the above rates of conversions as share of the total built area in the two comparable neighborhoods, the following rates will be applied to the Garment District area to estimate a range of potential conversions (short- and long-term scenarios):

Short Term (10-Year)		Long-Term (25-Year)	
Financial District	Chelsea	Financial District	Chelsea
10%	12%	20%	25%

Table 9: Adjusted Residential Potential Under Existing Zoning (Short-Term 10-year Projection)

Zoning District	Potential Residential Area from Conversions (SF)	New Residential Units (*)
Adjusted Projection with FiDi Conversion Rate (10% of the Full Build-Out)	**944,582**	**630**
Adjusted Projection with Chelsea Conversion Rate (12% of the Full Build-Out)	**1,113,350**	**756**

Both conversion rates are calculated for years 1995-2006. The Financial District benefitted from 421-g tax incentives in that period.

Under existing zoning, the adjusted projection for potential conversion for the next 10 years is between approximately 630 – 756 units, which would be spread across the commercial zoning districts of the GDA area.

Future Potential Residential Conversions

This analysis intends to estimate the potential for new residential conversions in the District based on previous experiences of comparable neighborhoods. This analysis is not meant to provide an exact number of residential units that would be developed if zoning changes and other incentive tools are implemented (see "Recommendations" chapter). Instead, it seeks to explore the magnitude of potential development through commercial-to-residential conversions and what this may mean for the District (see section "Potential for Economic and Other Benefits"). The estimated number of new residential units are calculated for both a short- and long-term scenario.

Assumptions for Future Potential Residential Conversions

For both the short- and long-term scenarios:

- The residential conversion rates of the two comparable neighborhoods are applied to the entire Garment District, to generate a range of developable square footage through conversions.

Similarly to the assumption for the as-of-right residential conversions, to estimate the number of new units BFJ used the following assumptions:

- Only 80% of the total building area (minus first two stories) is considered in the conversion to residential calculations due to layout inefficiencies (particularly high in conversion projects), common areas, elevator space, etc.
- Average unit size to be 1,200 square feet.

Table 10: Residential Conversion Potential in the Study Area (Short-Term and Long-Term)

Short-Term (10-Year) Projection					
Study Area	Existing Building Area (SF)	Financial District Residential Conversion Rate Applied (10%)	Chelsea Residential Conversion Rate Applied (12%)	Potential New Residential Units (*)	
Garment District Alliance (GDA)	40,318,166	4,031,817	4,838,180	**2,688**	**3,225**

Both conversion rates are calculated for years 1995-2006. The Financial District benefitted from 421-g tax incentives in that period.

Long-Term (25-Year) Projection					
Study Area	Existing Building Area (SF)	Financial District Residential Conversion Rate Applied (20%)	Chelsea Residential Conversion Rate Applied (25%)	Potential New Residential Units (*)	
Garment District Alliance (GDA)	40,318,166	8,063,633	10,079,542	**5,376**	**6,720**

Both conversion rates are calculated for years 1995 to current. The Financial District benefitted from 421-g tax incentives in years 1995-2006

(*) Considering 1,200 SF average unit size, and 80% of the total area due to inefficiencies

In a 10-year timeframe, between 2,688 and 3,225 new residential units are estimated to be developed though conversions. In a longer timeframe of 25 years, the rate of conversion is estimated to roughly double the short-term rate, with an approximate range of 5,376 to 6,720 new residential units within the District.

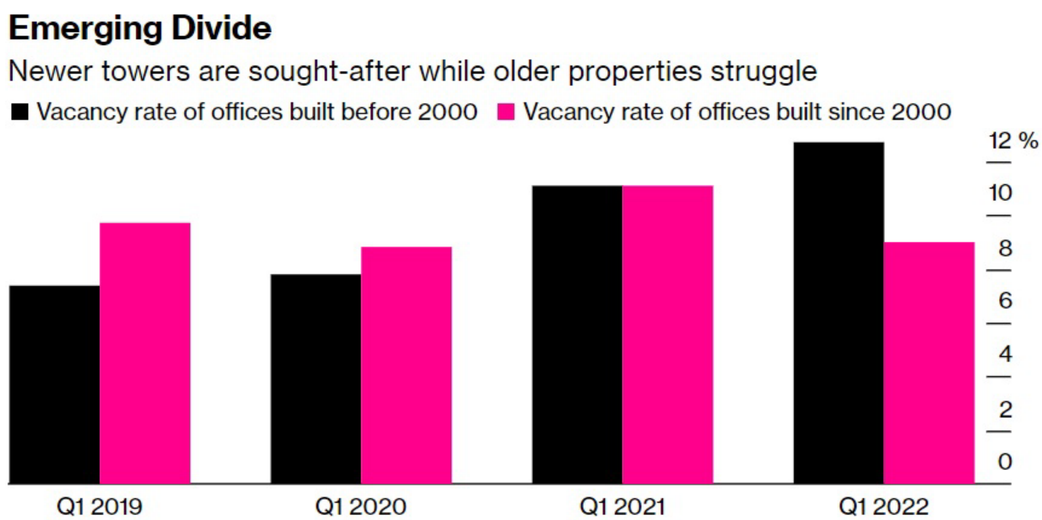
In conclusion, the existing zoning potential for residential conversions is so low (630-756 units) that it would deliver very little change to positively impact quality of life in the District. On the other hand, with residential use allowed, as many as approximately 2,700 to 3,200 new units could become available in the next 10 years. This magnitude is what is needed to change the vibe and quality of life of the Garment District.

Impact on Office Space

Chapter 2 describes NYC's office market overview and the future office supply currently in the pipeline. With 5.3M square feet of office space expected to be complete in Hudson Yards by 2025, the Garment District office space is expected to suffer from even higher vacancy rates than currently. Longer-term plans for a major commercial development just to the south of the District, the Penn Station Area Redevelopment Project, will provide additional Class A office space that will further decrease demand for office space in the District.

Recent trends observed by commercial real estate companies like CBRE and others suggest that Class A office space is gaining back interest from companies at a much higher rate than Class B and C offices (Figure 33).[14] This is partially a consequence of companies trying to attract their employees back to the office by offering amenity-rich spaces. Higher return-to-office rates are also recorded in centrally-located mixed-use neighborhoods that have more to offer in terms of activities and destinations.

Figure 33: Office Vacancy Rate by Built Year.



Source: CoStar Group Inc. Note: 2022 data are through January.

Although office vacancy rates in the Garment District are similar to the rest of Midtown and Manhattan, it is anticipated that they will increase in the next few years. In addition to having greater, higher-end office supply in nearby areas, current office tenants may decide to downsize their office space when leases are up for renewal. Commercial leases are generally 5 to 10 year long, hence the effects of work from home and hybrid work may become more evident around 2025. Low office occupancy rates (only 38% of employees are in the office on an average weekday) are affecting the neighborhood significantly as there are fewer people that patronize retail businesses and walk the streets.

If zoning changes are implemented and some office space is converted to residential, the office market in the Garment District will not be negatively affected because there is currently a surplus of commercial space, which is also anticipated to increase in the next few years due to a likely increase

[14] https://www.bloomberg.com/news/articles/2022-02-07/manhattan-offices-face-reckoning-with-divide-between-old-and-new

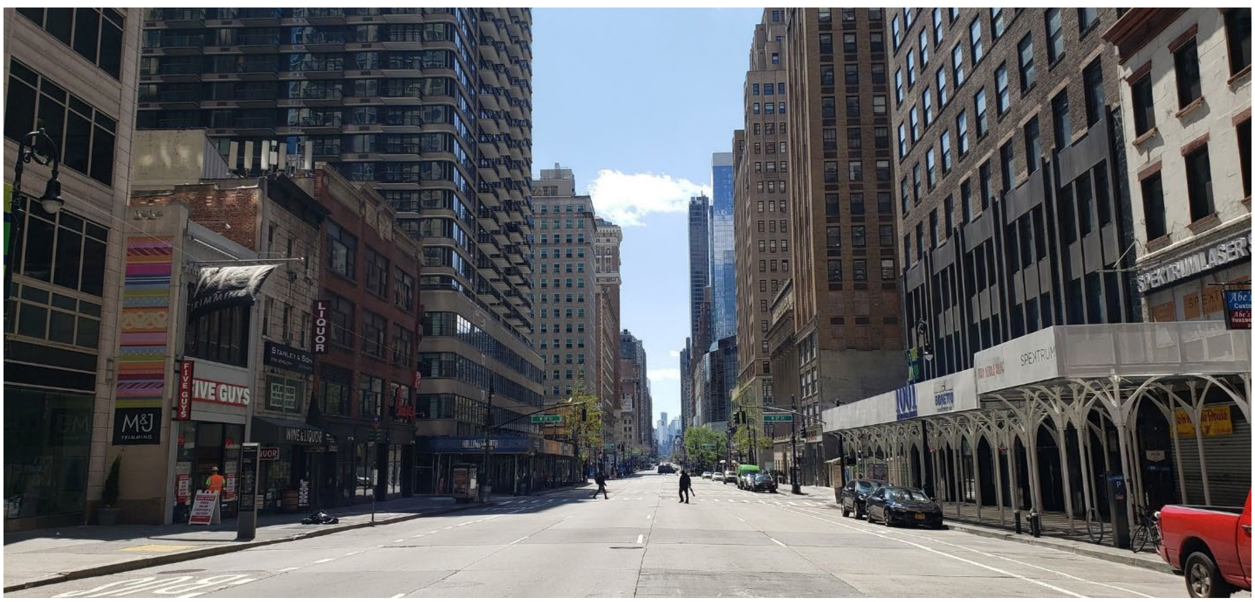
in vacancies. Commercial real estate companies do not expected that Class B and C office space will gain interest from tenants, as the price does not seem to drive tenants' decision-making anymore.[15]

Potential for Economic and Other Benefits

Business as usual will not help the Garment District navigate a changing workplace landscape and consequent office market fluctuations and uncertainties. For a district that is dependent on its 9-5 workers population, current shifts like hybrid work hurt the neighborhood in many different ways. There is no doubt that during economic downturns and shutdowns mixed-use neighborhoods fare better than solely business districts. Adding full-time population to the District is a win-win scenario to help the entire ecosystem withstand shifting trends.

Residential conversions have the potential to fill up inevitable vacancies within office buildings. The market for residential development is stronger than the office market, and older office buildings – which make up most of the building stock of the Garment District - are no longer attractive for most companies. Rather than leaving commercial buildings fully or partially vacant, allowing for residential use would provide property owners with the opportunity to overcome the cost of conversion by filling up existing vacancies with uses that guarantee a better return than office space in this current market.

Allowing and incentivizing residential conversions would expand the housing supply in the City. This opportunity comes at a time when NYC is experiencing a housing crisis that is expected to continue at least in the medium term due to not enough construction permits/residential units in the pipeline.



6th Avenue between 38th and 36th Street (Photo Credits: Garment District Alliance)

With zoning regulations that allow residential use, the District would likely see increased investment and more building upgrades from property owners and developers, as the value of a mixed-use neighborhood in such a central, accessible area has become increasingly clear especially after the pandemic. As mentioned in Chapter 2, the 24/7 Live/Work/Play neighborhood is also a more attractive environment for office tenants, offering more attractions, services and a more vibrant streetlife throughout the day.

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15 https://www.bloomberg.com/news/articles/2022-02-07/manhattan-offices-face-reckoning-with-divide-between-old-and-new

Currently, the Garment District suffers from a lack of 24/7 population, which causes a perception of unsafe street environment and general unattractiveness in the after-work hours, as retail businesses follow a 9 to 5 office schedule. With fewer workers coming into the office, retail and food and beverage activities would continue to see reduced revenues as the daytime population in the District may never recover to pre-pandemic numbers. Ground floor vacancies are already high in the District. Gaining a full-time population would help solve these issues and improve quality of life and public safety, while retaining and attracting new businesses.

If zoning changes are implemented and residential uses replace some office space, the impacts to the Garment District will be significantly positive. A full-time population would walk the streets and patronize the stores, helping small businesses recovering from the pandemic and attracting new ones. Buildings that may be struggling today to attract commercial tenants could instead become residences, ensuring a full utilization of existing spaces and higher tax revenues for the City. From an urban design perspective, more property owners would be incentivized to invest in their properties, including exterior and interior upgrades to the aging building stock of the District.

4. Recommendations

Legislative Changes

Special Garment Center District Text Change (Short Term)

As mentioned in the existing zoning section of Chapter 3, most of the Special Garment Center District does not allow for residential uses. This prevents commercial-to-residential conversions as-of-right. The first recommendation is to allow residential use as a permitted use in the SGCD by implementing a text change in Article 12, Chapter 1, of the NYC Zoning Resolution. This text change should affect the entire Special Garment Center District to allow residential in all underlying zoning areas on the avenues and the side streets. Residential should be allowed either as of right or by certification of the Chair of the City Planning Commission.

Permitting residential use, and in particular commercial-to-residential conversions, in the SGCD would further the objective of "*promot*[ing] *the most desirable use of land within the district, to conserve the value of land and buildings, and thereby protect the City's tax revenues*", as listed in the SGCD "special purpose district" zoning text. Additionally, conversions would preserve the scale and character of the SGCD area, as well as the iconic wedding-cake building design, which is another goal of the zoning text.[16]

This text change is expected to supersede any restrictions on residential conversions in any of the underlying zones, and apply throughout the Special District, on both side street and avenue buildings.

As market conditions shift, zoning regulations should become more flexible to accommodate the needs of businesses, residents and workers and make the District thrive again. Current use-restricting regulations are impeding the District to reinvent itself, preventing a full recovery that other NYC neighborhoods have experienced due to their mixed-use nature.

As specified in this report, residential conversions are anticipated to create fewer units compared to new construction, because of challenges that existing buildings may pose in the conversion. Some commercial buildings may not lend themselves to residential development. Also, some property owners may not be interested in conversions if their properties are fully leased out. This approach would allow flexibility in the uses so that existing activities could continue while vacant spaces could be filled with uses that are currently more in demand.

Because the addition of residential should have beneficial impacts on the district, it is hoped that the City Environmental Review Process (CEQR) can be accomplished through a long form Environmental Assessment Statement (EAS). This would allow the text change to receive a negative declaration under CEQR so that it could enter the full Uniform Land Use Review Process (ULURP).

Zoning Change for the M1-6 District Between 5th and 6th Avenue (Longer Term)

In addition to the SGCD, the GDA area contains another zoning district that does not allow residential use. This area is the M1-6 zone located between 5th and 6th Avenue and 35th and 39th Street. The zoning designation of M1-6 does not reflect the current uses of the area, therefore it is recommended to rezone the district to a more appropriate designation. The existing land use is largely made of a mix of office buildings (high- and medium-rise), hotels and retail uses, while only a few buildings contain residential or manufacturing uses. More suitable zoning designations for this area could be commercial zones like C6-4.5 (mapped to the north and south of this area) or a Mixed-Use District.

[16] Chapter 1 | Zoning Resolution (nyc.gov)

This rezoning would unlock potential for residential conversions in an area adjacent to the 6th Avenue corridor where a few large apartment buildings are already existing. More residential use, especially for commercial buildings that are struggling to lease their spaces, would blend in with the mixed use nature of the broader area.

As another long-term strategy the Department of City Planning might consider additional changes to Chapter 5, Article I of the Zoning Resolution. These changes could include allowing any commercial building to convert to residential use as-of-right, including when located in a manufacturing district.

Other Zoning Changes for Consideration

Although the zoning text change above described is the necessary step to unlock the potential of the District, other zoning changes could be considered. For instance, residential uses could be allowed on different floors of a building, without requiring such uses to be on floors above commercial uses. This would facilitate the conversion of portions of buildings that are not fully vacant or have longer commercial leases, mixing the uses within the building itself. Creative zoning solutions have been applied to newer special purpose districts such as the Special Long Island City Mixed Use District.

Tax Incentives

There are widespread concerns that, without tax incentives, residential conversions are not economically feasible. In many cases, from a developer perspective, residential conversions may be as expensive as new construction when accounting for less efficient layouts – hence fewer units – that do not allow to recover gut-renovation costs from rents as quickly as for new construction.

Going back to the late 1990s-early 2000s, the Financial District provides us with a good example of a tax incentive program, coupled with a set of zoning changes, that spurred residential development in Lower Manhattan. The 421-g Tax Incentive Program or “Lower Manhattan Conversion Program” (also mentioned in Chapter 3) provided tax exemption and abatement for conversion of commercial buildings, or portions of buildings, into rental apartments. The 421-g applied to areas south of Murray Street, City Hall, and the Brooklyn Bridge between 1995 and 2006. This financial incentive program contributed to making the Financial District a mixed-use, 24/7 neighborhood through the conversion of approximately 10.5 million SF of office space in the Financial District to residential use, for a total of approximately 10,347 units.

To have a similar successful transition, it is recommended that the State establishes a tax incentive program for the Garment District area. This tax incentive program would be instrumental to encourage meaningful investment and to increase full-time population in the District with a relatively quick timeline, especially at a time when the 421-a tax incentive program has expired.

Anti-Harassment Provision

To supplement these zoning changes recommendations, the Special Garment Center District zoning text could include an anti-harassment provision to protect existing tenants through the end of their leases. While more common anti-harassment regulations typically intend to protect occupants of existing dwelling units, an anti-harassment provision in the Garment District should expand its scope to protect existing tenants of commercial and manufacturing spaces. The anti-harassment provision should ensure no tenants should be threatened or forces to vacate their leased space until the end of the lease period. This provision would help maintain a varied ecosystem of uses within the District, while zoning changes and tax incentives would facilitate infill residential of vacant spaces.