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Business Improvement Districts: NYC success story

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Business Improvement Districts are essential for the future of retail and our neighborhoods.

As the keynote speaker at the recent New York City Business Improvement District Annual Conference, I spoke on the importance of BIDs and the future of retail. I wanted to share some of the highlights.

The first BID in New York City was to focus on reviving retail. At that time, our city and its retail corridors faced a serious fiscal crisis, much like today, with powerful forces that were driving companies and individuals out of the city.

The creation of the Fulton Street Mall in 1976 began a process of restoring our commercial corridors, revitalizing the surrounding neighborhoods and fighting back against the emergence of suburban malls that were luring retail sales out of our city.

From the very beginning, BIDs knew that investment in our retail strips were necessary if we were to compete with the surrounding malls and make our neighborhood commercial corridors desirable shopping destinations. The future of local retail required this investment.

This new investment focused on basic services — clean, safe streets and an attractive and cohesive streetscape — that conveyed a sense of order and control.

The formation of BIDs, as a collaboration of the public sector support and private sector investment, was a commitment to our major commercial corridors and their surrounding neighborhoods. Fighting against what many thought an unwinnable battle, BIDs helped turn around the fortunes of our retail corridors and many neighborhoods throughout our city.

Based on this success, the scope of BID activity expanded to encompass the revitalization of large areas of Manhattan's Central Business Districts.

The increasing number of BIDs and the creative expansion of their missions are signs of hope as we emerge from our serious economic crisis.

Since its modest beginning there are now 64 BIDs generating \$104 million, serving



over 3,200 block fronts and 16,000 businesses. They employ over 530 sanitation workers and over 360 security workers. Their presence has been integral to the re-emergence of our city, and the number is growing.

Starting with local neighborhood retail streets, including Fifth Avenue in Park Slope and Bay Ridge Brooklyn; it also includes the most expensive retail corridor in the world, Fifth Avenue in Manhattan.

BIDs have become essential elements to a thriving and vibrant retail corridor. The economic recovery is beginning to gather some momentum in New York, including the retail market.

Consumer and retail sentiment is trending upwards. However, consumers remain cautious about the prospects for employment and income growth.

As a result, this momentum is only slowly translating into retail sales growth.

Seasonally adjusted national retail sales at an annualized level were 9.24% higher in March, 9.77% higher in April, and 7.41% higher in May than a year ago.

NYC retail employment has been growing since February and has added a net 3.2 thousand jobs since the beginning of the year.

There are 6.8 thousand more people employed in retail in NYC this May than last May.

Some retailers are still pursuing their strategic expansion plans, but are more cautious than earlier in the decade.

Demand for prime space remains healthy. For instance, our recent retail report showed only a few available stores in Times Square where the average asking rent for ground floor space was \$1400 psf. The signings by Aeropostale and Disney signaled a return to large leases in Times Square.

Likewise, we continue to see demand for space on Fifth Avenue between 49th and 59th

Streets. Uniqlo signed a 15 year deal with a reported ground floor asking rent of \$2,000 psf.

Overall, availability is low and rents are stabilizing. However, outside these prime locations demand is generally weaker, vacancy higher and rents are generally still falling.

It is a good market for retailers who are negotiating long and hard in search of the most favorable terms.

According to CBRE, leasing incentives include longer free rent periods and larger fit-out contributions.

However, as you know, retail is highly localized. The prospects in one area can be contrary to the picture in another neighborhood — Times Square is likely to be very different from Court Square and Fifth Avenue in Manhattan different than Fifth Avenue in Brooklyn.

Retail benefits from a strong tourist market, as evidence in part by the vigor of Times Square and Fifth Avenue.

However long term, the key to economic recovery is the health of the consumers and they have been hit hard.

The recession had the largest impact on retailers that were highly leveraged and those in the luxury goods sector. Evidence of that locally was the rise in available space on Madison Avenue at the start of the recession in late 2008.

Our brokers have reported that this situation is turning around and we know that the efforts of the Madison Avenue BID have played an important role. Towards that end, it is in situations like this that we see the value of the BIDs to organize efforts and activities that promote and strengthen a retail corridor.

Similarly, it is the recession which has had the greatest impact on Mom and Pop retail. Even if not highly leveraged, working capital and lines of credit were difficult or impossible for these local businesses to secure. Combined with a dramatic decline in consumer spending these businesses were easily and quickly hurt by the recession.

We need to resist the temptation, as some



have done and continue to do, and blame these problems on rising rent.

Instead, we need to focus on small retail stores who are using the weak economy to expand. For instance Brentwood Pharmacy that signed a 15 year lease on West 8th Street to go along with its other location on West 14th Street and Lamazou Cheese, a staple in Murray Hill for 16 years, is taking advantage of depressed market and lower rents to open its first restaurant, a block away from its current shop. These are two examples of thriving businesses that are taking advantage of the weak economy.

The most glaring and immediate issue facing retail and the BIDs is more politics than economics.

These political issues arrive in many forms — local law and state legislation. REBNY has voiced concern and commented on those that would have an adverse impact on the retail market, including the new commercial rent control bill, mandatory paid sick leave bill, prevailing wage bill and a proliferation of landmark designations, particularly the expansion of historic districts.

BIDs have created an environment on the many streets of our city that will help the strong businesses get stronger and will offer the weak ones the best chance of success.

BIDs are a vital element in the future of retail in NYC.