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Diagnosing NYC’s Vacant Storefront Problem

By **Abigail Savitch-Lew** | December 5, 2017

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A vacant storefront at West 90th St and Amsterdam Ave that was noted in a report by the office of Councilmember Helen Rosenthal.

The number of businesses in New York City is increasing. The percentage of residents making above $100,000 continues to climb. Yet while vacancies are usually associated with times of economic distress, many advocates and policymakers say the problem of empty storefronts is growing, especially in affluent neighborhoods.

According to the New York Times, it’s generally agreed that a five percent vacancy rate is a healthy level for a busy retail corridor. Larisa Ortiz, a commercial revitalization consultant says anything under 10 percent is acceptable. A number of recent studies have found retail corridors in prosperous Manhattan neighborhoods struggling with much higher rates, from 14 percent on Columbus in the Upper West Side to 20 percent on Broadway in SoHo.

“There’s no question that there are a growing number of empty storefronts—and it’s not just a Manhattan problem,” says Jonathan Bowles, director of Center for an Urban Future.

The extent of the vacancy problem, and the driving causes, vary by neighborhood. One cause, in affluent and gentrifying neighborhoods, is landlords evicting their commercial tenants and waiting for higher-paying ones, including chain stores that tend to move slower on lease deals. Another factor is that both independent businesses and chains are hurting due to the rise of online shopping, making it harder for landlords to find any tenant willing to pay the rents they expect.

In other neighborhoods, landlords might be warehousing sites as they wait for a rezoning to change a neighborhood’s economy, or new development may itself cause temporary vacancy by adding new, yet-unleased spaces to the market. Older businesses sometimes close when they struggle to adapt to changing neighborhood demographics. And of course there are still areas where vacancy rates are not caused by a changing real-estate market but by the traditional factors of disinvestment, lack of foot traffic, and lack of sufficient demand.

Landlord have a legal right to hold out for the rent levels they want. But many policymakers and advocates point to the public costs: retail vacancies mean fewer neighborhood services. Theoretically, they could also mean declining revenues for those shops that rely on foot traffic.

Vacancies are also disturbing to policymakers because they could be symptomatic of other trends: higher-priced businesses replacing older stores and providing goods and services that may be unaffordable to neighborhood residents, or an increase in the presence of chain stores. Chain businesses come with their own issues: Research hasfound chains reinvest roughly about 14 percent of revenue back in the local economy, while independent, locally owned businesses reinvest about 48 percent.

Last week, the City Council took a step to address the hardships faced by small business, reforming the Commercial Rent Tax, which currently affects businesses in Manhattan south of 96th Street paying more than $250,000 in annual rent. Council raised the threshold for who is affected by the tax, reducing taxes for 2,700 small businesses. The Council is also considering a number of other measures to address vacancy rates and broader retail problems. It's a problem recognized by the de Blasio administration as well.

"Small businesses are a cornerstone of our city's economic health. We recognize that there a variety of issues facing the retail sector, and vacancies are a symptom of those challenges," wrote Ben Sarle, a City Hall spokesperson, in an e-mail to City Limits. "We are pursuing a number of policies to address the underlying issues such as pro bono leasing clinics to help tenants push back against bully landlords, and measuring/analyzing vacancies in a more systematic way to understand from landlords why they are not renting their spaces."

Quantifying vacancy

While the city doesn't yet conduct a comprehensive assessment of storefront vacancies, several reports provide partial data on the matter. It's worth noting that reports may use varying definitions of vacancy: a study can choose to include or exclude temporary "pop-up" stores, as well as include or exclude stores that are currently vacant but have already been leased and will soon be occupied.

The Department of Small Business Services (SBS) publishes the average vacancy level based on data self-reported by the city's 72 Business Improvement Districts, which are spread across 37 high-income neighborhoods and 35 low-to-moderate income neighborhoods. The average ground floor retail vacancy rate across these BIDs increased from 7.4 percent in FY 2014 to 8.3 percent in FY 2015 and decreased again to 6.4 percent in FY 2016. The averages, however, mask the widely varying trends within individual BIDs. (SBS did in FY 2015 release those individual BIDs self-reported data—which may vary in their accuracy—but FY 2016 is not publicly available.)

Much of the recent attention on the issue has been focused on rising vacancies in affluent neighborhoods of Manhattan. In March, the Times reported vacancy rates of 20 percent in SoHo on Broadway between Houston Street and Canal Street, not including new tenants that had not yet opened their stores. In May, State Senator Brad Hoylman foundan 18.4 percent vacancy rate on Bleecker Street and a nearly 10 percent vacancy rate on other avenues in Greenwich Village and Chelsea. In June, Borough President Gale Brewer's office counted 188 vacancies along the length of Broadway.

Most recently, Upper West Side councilmember Helen Rosenthal's November reportdocumented vacancy rates of 12 percent on cross streets throughout her district, including as high as 14 percent on Broadway and Amsterdam Avenue. The report mentions that an earlier study completed in 2007 on the Upper West Side found 8.5 vacancy rates along Broadway, though a different methodology was used.

Vacancy rates in Manhattan as a whole have been trending upward, according to researchby Okada & Company, a commercial real-estate and investment company. Vacancy rates were at 3.1 percent in 2009, fell to 2.5 percent in 2012, but have since been climbing—reaching 4.2 percent in the first quarter of 2017. 4.2 percent might sound low, but Christopher Okada says it's definitely high for a Manhattan-wide average.

In comparison, vacancy rates have been on somewhat of a decline since 2013 in Brooklyn, the Bronx, and Queens, according to the third quarter 2017 Marcus & Millichap New York Retail Market report. Yet it once again depends greatly on the neighborhood, with Downtown Brooklyn sporting vacancies at nearly twice the rate of South Brooklyn. The report notes that the data is partly impacted by the fact that Downtown Brooklyn has a large inventory of newly developed, yet-unleased retail space.

Waiting out for the chain or high-class tenant

One driving factor of vacancy in many affluent neighborhoods is landlords holding out longer for the highest rent they can get. Okada says it’s a function of the thriving economy. “When the market is doing well, people are getting greedier, and rents go up and they’re willing to wait.”

As neighborhoods grow more populated and their inhabitants grow richer, there is also a growing market for chain stores. Holyman’s report includes some telling examples. A Bleecker Street pharmacy that had been in its location since 1929 closed in 2015 when the landlord tripled the rent and replaced it with a salad chain. A men’s clothing store on Eighth Avenue closed in 2014 after four decades of business when its rents rose from $7,000 to $24,000 a month. It was replaced by a Verizon store.

2016 was the eighth year that national chain stores increased in the city overall, according to the Center for Urban Future’s 2016 State of the Chains report. Rosenthal’s report found that Broadway in the Upper West Side, which tied with Amsterdam Avenue for the highest percentage of vacant businesses, had seen an increase in the percentage of national chains along the corridor from roughly 17 percent in 2007 to 40 percent this year. But chains are making their most rapid gains in outer boroughs (and actually decreased slightly in Manhattan in the last year of reporting), which means no borough is immune to the chain-store creep.

Chains are generally able to afford higher rents than the older businesses they replace. They also appeal to landlords because, due to their size, they have greater creditworthiness—meaning there’s less of a risk that they’ll go bankrupt and be unable to make rent. But chains also tend to be in less of a rush to negotiate a lease, which can contribute to longer periods of vacancy.

In comparison, outer-borough neighborhoods that have remained relatively inexpensive over the past decade are not suffering rising vacancy rates to the same degree, says Scott Plasky of Marcus & Millichap. He also says retail corridors where stores cater only to local residents are not seeing the same severe increases as destination corridors.

The impact of online shopping

Yet even while landlords are looking for chains or other high-paying tenants, fewer businesses are willing to pay those high rents due to the continually growing impact of online shopping on revenues. Nationally, E-commerce increased by 15.5 percent over the past year, while total retail sales only increased by 4.0 percent.

“Shoe stores like Nine West or companies like Aeropostale, they don’t have as many stores as they used to, and I think it’s because they’re facing competition from Zappos and Amazon.com,” says Bowles. “Certainly part of the problem is that expectations have to catch up to reality. I think a lot of landlords across the city are still waiting for those same retail chains and other healthy retailers to rent in their storefronts…These days retailers are hurting, so there aren’t as many that are as willing to pay the prices that they would have paid [three] years ago.”

In Manhattan, retail rents rose a whopping 90 percent from 2010 to 2014, while retail sales only grew by about 32 percent, according to CBRE, a real-estate services company. While rents have since fallen 20 to 30 percent since 2014, some landlords are still seeking those higher numbers.

Why would a landlord not be quicker to readjust their expectations? It depends: Some landlords own enough property that keeping one parcel vacant makes no difference to them, especially if they have finished paying off their mortgage. On the other hand, some who are still on the hook to lenders have to seek high rents to keep a building financed.

“The people that purchased properties in, let’s say, 2015 and 2014…a lot of them don’t have a choice, because if they take a lower rent then they’re coming out of pocket every month to pay the mortgage,” says Okada.

While the impact of increased online shopping can be felt across the city, the impact is less severe in certain retail sectors and certain business corridors.

“The degree to which it impacts a particular neighborhood, I think, is informed by the level of access that people have to the Internet to begin with," says Kerry McLean of the Women's Housing and Economic Development Corporation (WHEDco), which supports commercial corridors in the Bronx. She says competition from online shopping is not seen to be as big a threat as big-box chain stores in the areas WHEDco assists. One thing that does protect local businesses, she says, is that in the neighborhoods where WHEDco works, "people appreciate knowing their local merchants" and businesses "are very reflective of the culture of the neighborhood."

Bowles says there might be "a silver lining" for independent businesses in the rise of online shopping: Chains may be more vulnerable than local boutiques to the shift, which means that eventually if rents come down, independent businesses might have a chance at competing for space.

Unique neighborhood issues

While profit-seeking landlords and the rise of online shopping are certainly two key factors, vacancy is driven by its own set of issues in each neighborhood.

According to Ortiz, a lot of landlords in Long Island City are including demolition clauses in their leases, which allow them to evict a tenant before the lease is up if they have plans to demolish and redevelop the building. It can be difficult to find a tenant willing to sign on to such a lease, however, resulting in longer periods of vacancy.

SoHo landlords understand their district as a destination for flagship stores—and national retail companies are sometimes willing to lose money (in rent paid verses revenues earned) on such a store because it is seen as a marketing opportunity for the national brand. But especially with online shopping on the rise, there aren't enough of these highly lucrative companies to go around. "Landlords have unrealistic expectations of what they can get. Maybe some of them can, but not everyone's going to get a tenant who's looking for a marketing opportunity," says Ortiz.

Then there are still areas of the city where disinvestment in storefronts and lack of foot traffic are likely the main drivers of vacancy. Staten

Island's Bay Street, according to SBS's Commercial District Needs Assessment (CDNA), has a startling vacancy rate of 21 percent. Problems listed in the city's CDNA for the corridor include sanitation, safety and the need for storefront physical improvements and improved signage.

"The problems facing Bay Street are entirely different form the problems facing the Upper West Side, and for a lot of neighborhoods there's very little if any national chains. For a lot of neighborhoods, their problem has boiled down to a lack of business. Entrepreneurs are not going to invest in Bay Street or any neighborhood if they don't think they can make a buck," says Bowles, who says lack of housing density in the Bay Street area might also be a cause for slow business on the corridor. For business advocates, that's a key reason to support the city's proposed rezoning of Bay Street, which would enable more residential development in the area.

Vacancy and rezonings

Indeed, vacancy levels are not just a function of market forces and national shopping trends. They can also be reduced—or, perhaps, driven—by city land use policies.

Take Liberty Avenue in East New York. Liberty Avenue is not a continuous retail corridor like Bleecker Street or Broadway: it currently contains many warehouses, churches, parking lots and ground-floor residential properties, along with some retail stores. According to the city's CDNA, Liberty Avenue has a 19 percent retail vacancy rate and suffers from issues like poor streetscaping and graffiti. One of the goals of the de Blasio administration's neighborhood plan for East New York is to encourage more active retail corridors throughout the neighborhood. The 2016 rezoning of the neighborhood encouraged residential development and expanded commercial overlays—areas permitting local commercial retail uses—along Liberty Avenue and other corridors. The city is also providing grand money to help revitalize these business corridors.

City Limits spoke with three store workers along portions of Liberty Avenue who didn't really think of "vacancy" as a problem in the area. But a teacher at a local school, on route to grab her lunch at La Cuesta—the only open restaurant for blocks—said there seemed to be many shuttered stores and that the avenue could use more amenities. Another pedestrian noted a meat store that had been closed for years and said it would be good to have a meat market on the avenue again.

But there's a possibility the rezoning could also be a cause of some vacancy or at least prolong vacancy. That former meat store has been vacant for many years—long before any news of the 2016 rezoning. The landlord of the building, Thomas Cerverizzo, says he's done renovations to the buildings and stores his own belongings inside the ground floor (he also does rent out another storefront that is part of the same building). But Cerverizzo also told City Limits he's heard the neighborhood is changing, and now doesn't want to give anyone a ten-year lease.

"It wasn't ready to rent, and now, I don't want to give it ten years," Cerverizzo says. "Rezoning is definitely the reason…Send someone to rent who doesn't want a ten year lease." It's an example of how a rezoning can impact how landlords view the best use of their properties.

In addition, Ortiz, who is also a member of the City Planning Commission, questions whether it's always in the best interest for retail, in the long run, for the city to promote ground-floor retail requirements and commercial overlays.

"[There's] this assumption that ground-floor retail is the way to keep a street vibrant…without the understanding that there may not be demand for all the retail that we're zoning for," she says. If there isn't sufficient demand to sustain businesses, that can hurt revenues and contribute to vacancy. When it comes to Liberty Avenue, "I don't know if it makes sense. Why would you undermine Pitkin Avenue…with a street in between?" she says.

How much business a neighborhood can sustain can be a complex and controversial issue. East New York has a $591 million "retail leakage"—meaning residents spend half a billion dollars annually at stores outside their neighborhood, according to the CDNA. Based on this information, some will argue that East New York's current residents already have the capacity to sustain more local businesses and capture some of that "leakage."

Bill Wilkins of the Local Development Corporation of East New York argues that lowering Liberty Avenue's vacancy rate is important because vacancy "creates less outlets for a community that's probably lacking in mobility"—and given that the rezoning will spur new residential development and add more residents, he has no concerns about adequate demand.

125th Street in East Harlem provides another example of the way disinvestment followed by a rezoning can drive vacancy. In 2016, the corridor has a 25 percent vacancy rate, according to the city's CDNA. Old, battered store awnings are still a common sight and about 48 percent of merchants think that safety and sanitation issues need to be addressed to draw more shoppers. But wholescale development—prompted by the corridor's rezoning in 2008—is also part of the issue. Between Park and Madison, a few vacant, abandoned buildings have been replaced by newly renovated spaces that are yet to be leased. A one four-story building with three inactive stores is surrounded by scaffolding and slated for demolition.

Vacancy rates may go down as the block continues to be redeveloped (at a much higher price point), but for now, Dennis Cee, a local street vender, finds it a bit forlorn. He misses older times on the block, a time when people still lived in the building that is about to be demolished, a time before some of the old businesses closed. "We used to barbecue out here [on] Fourth of July," he recalls, saying it was a "real tight knit" community.

Another problem is that in neighborhoods that are gentrifying—whether following a rezoning or not—older independent businesses may have trouble adapting to changing demographics. The owner of a jewelry store on 125th Street who identified herself as Mrs. Diamond said that a lot of residents are unemployed these days, and that new, white, wealthier residents are not shopping at East Harlem's old stores.

The cost and the solutions

Beyond the Council's recent reforms to the commercial rent tax, there are a variety of potential solutions being discussed by policymakers and advocates to address vacancy rates and the deeper issues they symptomize.

Advocates have long called for the passage of the Small Business Jobs Survival Act, which would require mediation for landlords and tenants who cannot agree on commercial rents. The bill has stalled over legal concerns, but still has supporters in the Council; Rosenthal says she will work to "improve and finally pass" the bill.

United for Small Business NYC, a coalition of organizations dedicated to protecting small businesses—particularly low-income, minority-run enterprises—launched a platform this year that calls for the creation of a non-profit commercial development fund to provide subsidized commercial space and a penalty for property owners who leave spaces vacant—a proposal also supported by Center for Urban Future's Bowles.

Because immigrants run 48 percent of all New York City's small businesses, USBnyc also want a law to clarify that harassing business owners, their workers and customers based on immigration status is subject to penalty. And they argue SBS's offerings mostly cater to new businesses and that there needs to be more legal resources for businesses fighting harassment.

Others have called for more technical assistance for small businesses, additional tax credits, and support to help businesses in gentrifying neighborhoods adapt to new customers and to enter the market quickly. Zoning measures to prevent chain businesses have also become a popular solution.

On the local level, Wilkins says that neighborhoods like East New York that are on the brink of gentrification need to take extra steps—from assisting storeowners with marketing campaigns to helping them purchase their buildings—to ensure existing businesses are not pushed out.

The Department of Small Business Services provides one-on-one legal services as well as leasing clinics to small businesses. It's produced a new toolkit for immigrant small business owners. The agency also provides other forms of education and financing, including grants to long-time businesses to adapt to changing neighborhoods. Some, however, think the city still needs to go farther to protect businesses from displacement .

Rosenthal says this can start with a "systemic assessment of commercial vacancy rates and commercial rent trends across the five boroughs."

Full link: https://citylimits.org/2017/12/05/diagnosing-nycs-vacant-storefront-problem/