

Garment tenants cut from new cloth

By [Holly Dutton](#) • August 5, 2015

In an area of Manhattan once known mainly for mass apparel manufacturing, a major shift has been taking place among its tenants and retailers, and landlords and brokers are taking notice.



Photo by Mike Licht/ Flickr

Emerging as a manufacturing center after World War I, factory owners began developing buildings to house apparel manufacturing, which displaced what was formerly the Tenderloin slums.

By the 1960's, 90 percent of the country's apparel was made in the Garment District — today that number is three percent, according to New York Historical Tours.

The Garment District, an area defined as 35th Street to 41st Street, between Fifth and Eighth Avenues in Midtown, accounted for 57.5 percent of Midtown South office leasing in the second quarter of 2015, according to a Collier's International market report. The Penn Plaza/Garment District area had the strongest leasing velocity of all 17 Manhattan submarkets.

And on the sales side, commercial property transactions reached \$1.76 billion in the first half of 2015, propelled by Bank of China's \$600 million land lease deal at 7 Bryant Park in May, according to a report from Eastern Consolidated.

If investment property activity continues at that pace for the rest of the year, the area could have a record year.

Since 2011, dollar volume of building sales in the Garment District has been on the upswing, after bottoming out in 2009. In 2014, dollar volume was over \$2.8 billion, a 73 percent jump from 2013, and slightly above the pre-financial crisis high of \$2.7 billion in 2007.

"I think it has a lot of legs," said Handler Real Estate Organization president Scott Galin. "There's just a gigantic metamorphosis over the last several years."

Galin's firm just signed a long-term lease at its 561 Seventh Avenue building with the Traffic Audit Bureau for Media Measurement, bringing that property 100 percent leased. The non-profit moves into the 3,944 s/f space — the entirety of the 12th floor — later this year.

"The Garment District has quickly become one of New York City's most desirable neighborhoods, with a diversity of tenants attracted to the wealth of services, entertainment, and convenient access to transportation," said Galin.

It's easy to see why the neighborhood's transportation is a draw for potential tenants — the Garment District is located in the middle of three major transit centers — Penn Station, The Port Authority, and Grand Central Terminal.

Empire State Realty Trust, the firm led by Anthony Malkin that owns the Empire State Building, among other buildings, recently revamped four trophy office buildings in the district — 1333 Broadway, 1350 Broadway, 1359 Broadway, and 1400 Broadway.

Malkin's firm inked a 50,000 s/f lease with Urban Outfitters at 1333 Broadway, as well as Shake Shack, which reportedly paid \$225 psf in the building.

Last year, four properties along Broadway in the District all traded at high numbers — 1370 Broadway sold for \$186 million, 1412 Broadway sold for \$250 million, 1372 Broadway sold for \$222 million, and 1328 Broadway, (also known as 2 Herald Square) sold for \$365 million.

Though the Garment District has always had its roots in the apparel industry and continues to thrive in that arena, TAMI tenants have been drawn to the area for its reasonable rents, location, and more friendly vibe.

"Ten years ago, you had pullboys pulling garments through the streets, trucks delivering and picking up, a dirtier look to the neighborhood, and more of a frenzied, hurried atmosphere," said Adelaide Polsinelli, senior managing director and principal of Eastern Consolidated. "It wasn't as safe as it is today."

Taking notice of the shift, landlords have been repositioning their buildings in the area, renovating floors and lobbies, and rents are beginning to creep up as a result.

"The reason there are more transactions there as of late, is this transition from old-school garment center warehouse industrial-type tenants that were typical of the area, are starting to move out, not necessarily because of rents, but because of less demand for that end user," said Polsinelli.

"A younger, talented, innovated tenant is replacing old manufacturing tenants, and as landlords are seeing that, they are upgrading buildings to the need of new tenants looking at space."

Despite the shift, it doesn't mean the garment industry is leaving, said Polsinelli, pointing to a "substantial" amount of showroom tenants that still exist.

A surge of new retailers moving into the area, more greenery added to the once gritty area with the updated public plazas, and a large amount of hotels in the area have all made the area more people and tourist-friendly, shaping a brighter image for the District.

"It's kind of the perfect storm," said Polsinelli. "TAMI hits the runway — both of those blend together and increase the user profile of the buildings."