

Real Estate Forefront

Emerging Developments in the NYC Marketplace, #6

## **The Garment District: A Residential Destination?**

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When considering some of New York's most recent up-and-coming residential neighborhoods, Williamsburg, the Lower East Side and Harlem may come to mind but the Garment District? Few would think of this area loosely bounded by West 30th and West 40th Streets, from Fifth to Ninth Avenue as a residential destination. But since 2000, 13 residential buildings have been added to the housing stock in the neighborhood and another 11 properties are either in various stages of development or are slated for residential development either in the Garment district or in the neighboring Hudson Yards. The new construction has more than doubled the total housing inventory in the West 30s from 3.2 million square feet at the end of 1999 to 6.5 million square feet today, adding close to 3,200 housing units. Current plans underway will add at least another 2,400 units.

What is most compelling about this growth is that much of the new development started so quickly after the zoning restrictions from The Special Garment Center District (GC)<sup>1</sup> were relaxed. To be sure, while the area from Broadway to Eighth Avenue from West 35th to West 40th Streets is still restricted from any residential use, the area just west of there – from Eighth to Ninth Avenue has been incorporated into the Hudson Yards Land Use Plan, and now permits residential development<sup>2</sup>, and it is in this five-block area where development has been most prolific.

One of the largest residential developments in all of Midtown is in this five-block tract. Glenwood Management is building a 302,700-square-foot tower at 320 West 38th Street that will add 258 rental apartment units to the housing stock. This owner acquired a number of properties for this assemblage including a parking garage at 310-328 West 38th Street and some former garment buildings including 341-345 West 37th Street that had been a 58,910 square-foot office/warehouse building owned and occupied by G-III Leather Fashions, an apparel firm.

Just across the street on West 37th Street, Lalezarian Developers Inc. has plans to build Tower 37 at 350 West 37th Street. This 27-story building will add 183 apartment units, or 171,000 square feet.

Why have developers flocked to this neighborhood? Proximity to Midtown, Chelsea, good restaurants and convenient transportation access would be the first guess. In addition, many of these properties are either within or border the Hudson Yards development area and serve as a

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1 This plan was "created to maintain opportunities for apparel production, wholesale and showroom uses in designated Preservation Areas on selected midblocks between 35th and 40th Streets west of Broadway. In Preservation Area 1, east of Eighth Avenue, residences and hotels are not permitted and the conversion of industrial space to office use is restricted." *Source: NYC Dept of City Planning.*

2 In Preservation Area 2, between Eighth and Ninth Avenues, conversion of larger buildings to residential, office or hotel use is permitted as per the January 2005 re-zoning of the Hudson Yards Plan. The re-zoning allows for new residential building on properties that were less than 70,000 square feet or were greater than 70,000 square feet but were vacant for more than 3 years. *Source: NYC Dept of City Planning.*

forerunner for this new neighborhood. Indeed, the Department of City Planning Hudson Yards land use plan for the area west of Ninth Avenue and east of the new mid-block Avenue, called Hudson Boulevard (between 10th and 11th) calls for “predominantly residential (building) with limited retail.” The Plan also includes “district improvement bonuses” (“DIB’s”) for added floor-to-area ratio (FAR) above what is allowed under current zoning, although taking on this added FAR requires the developer to pay into the special Hudson Yards District fund. Notwithstanding the cost, the DIBs are a strong incentive to developers. Of course, the draw to these properties further west also includes the promise of the Number 7 subway extension, assuming it gets built.

Developers also sense the opportunities stemming from the potentially newly developed Moynihan Station. More than 1 million square feet of retail space is planned for the new complex and another 4.3 million square feet of commercial development rights have been transferred to the surrounding Moynihan Station Sub-district<sup>3</sup>. However this project could remain stalled for a number of years given not only the current unstable economic climate but Madison Square Garden’s recent announcement to renovate its existing facility in lieu of moving to the new site. This will undoubtedly change the current plans for Moynihan Station. Nevertheless, the spillover affects from this potential re-development have already been felt.

Alternatively, developers likely realize that this neighborhood is one of the last neighborhoods in Manhattan that has yet to see any residential renaissance in the last 15 years and feel not only that it is due, but that City government is nearly encouraging it and neighborhood watchdogs are non-existent. Of the 3.3 million square feet of housing space added to the market, most of the properties are larger than 100,000 square feet. Prior to 2000, the housing stock in this neighborhood consisted of approximately 100 buildings of various sizes, averaging 35,000 square feet. Moreover, the last time a new building was added to the greater neighborhood was in 1986 making for a 14 year construction drought.

One final explanation for this new development interest is that it is simply a spill-over of the development frenzy from the rest of Manhattan. No Manhattan neighborhood has escaped new residential construction over the last five years and the Garment District has offered a number of industrial sites outside of the Special Garment District restricted area. Developers have not only sought to build permanent housing: in addition to the residential development, 17 properties have been developed or are under development as hotels. These sites are estimated to add another 1.5 million square feet of hotel space or 3,500 hotel rooms in the West 30s alone.

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<sup>3</sup> The Moynihan Station Sub-district option would minimize construction within and over the operating train station. The boundaries of the sub-district roughly include approximately west 35th street to the north, 200’ west of 9th avenue to the west, 29th street to the south and about 150’ west of 5th avenue to the east. *Source: ESDC*

Finally, there have been at least 14 other properties sold in the last seven years that have been identified as development sites but their status has yet to be determined. Based on the current zoning of these sites and air rights sold, these sites could add another 1 million square feet of real estate to the Garment District.

While the current data resources enable us to estimate the potential real estate in this neighborhood, determining when these sites get built is another story altogether. The current climate is less than hospitable and financing for new construction is almost non-existent. The status of these sites could remain on hold for a number of years. And the bigger question still remains: will people move into these buildings?

No one would have envisioned that the Garment District as a residential destination as recently as five years ago, but then again, no one would have expected the Finance District as a residential destination during its building boom starting in the mid 1990s. The retail market Downtown has clearly responded to its new residents and it should just be a matter of time until the retail market in the Garment District responds to its changing demographics as well.

<b>Built or Near-built</b>					
<b>Building Address</b>	<b>Rentable Building Area (sq. ft.)</b>	<b>Sale Date</b>	<b>Year Built</b>	<b>Type</b>	<b>Number of Units</b>
885 Avenue of the Americas	47,600	2/7/2006	2008	Multi-Family	50
125 W 31st Street	495,483	n/a	2007	<b>Condominium</b>	458
<b>502 Ninth Avenue</b>	<b>35,000</b>	<b>9/08/1998</b>	<b>2007</b>	<b>Condominium</b>	37
9 W 31st Street	100,000	1/19/2006	2006	<b>Condominium</b>	105
134 W 32nd Street	579,854	5/26/2005	2005	Multi-Family	610
315 W 36 <sup>th</sup> Street (partial conversion)	35,000	n/a	2004	Multi-Family	36
475 Ninth Avenue	234,728	2/07/2002	2003	Multi-Family	247
35-39 W 33rd Street	160,126		2002	Multi-Family	171
69 W 38th Street	332,500		2002	Multi-Family	350
483 9th Avenue	225,000	7/28/2004	2002	Multi-Family	259
312 W 34th Street	111,567		2001	Multi-Family	117
352-358 Ninth Avenue	82,853		2001	Multi-Family	77
305-319 W 33rd Street	672,270		2000	Multi-Family	334
<b>Total</b>	<b>3,111,981</b>				<b>2,851</b>

Source: Eastern Consolidated, CoStar, NYC Dept. of Buildings and NYC Dept. of City Planning

In Development						
Property Address	Size (sq. ft.)	Year built	Sale Date	Type	Number of Units	Notes
320 West 38 <sup>th</sup> Street	302,692	2010	3/26/2007	Multi-Family	258	Glenwood Management acquired a number of sites
505 West 37 <sup>th</sup> Street	800,000	2009	1/8/2002	Multi-Family	389	Rockrose development site: part of Hudson Yards re-zoning; completion date 2009

Slated or Housing					
Property Address	Size (sq. ft.)	Sale Date	Sale Price	Number of Units	Notes
555 West 34 <sup>th</sup> Street	47,000	12/21/2005	\$54,788,000	900	Moinian site: part of Hudson Yards re-zoning; developer also bought 535 and 545 W 34 <sup>th</sup> St.
550 West 35 <sup>th</sup> Street	24,390	12/21/2005	\$2,712,000		
406 West 31 <sup>st</sup> Street	324,885	6/9/2004	\$48,000,000	493	FIT Housing built by Dormitory Authority of NY
47 West 34 <sup>th</sup> Street	30,708	8/29/2005	\$1,920,000	30	potential site
<b>350 West 37<sup>th</sup> Street</b>	<b>171,000</b>	<b>1/24/2007</b>	<b>\$14,785,800</b>	<b>183</b>	<b>Lalezarian Development, Inc.</b>
304 Fifth Avenue	19,907	9/25/2007	\$7,500,000	21	Property was demolished. Plans include a 15-story multi-family building
433-439 West 37 <sup>th</sup> Street	59,250	10/26/07	\$19,000,000	125	Developer from NJ plans to build 125 residential units over ground-level retail
431 West 37 <sup>th</sup> Street	27,287	11/7/2007	\$7,250,000		
<b>Total residential planned or in development</b>	<b>1,807,119</b>		<b>\$155,955,800</b>	<b>2,399</b>	

Source: Eastern Consolidated, CoStar, NYC Dept. of Buildings and NYC Dept. of City Planning

Other Development Sites: Status Undetermined							
Building Address	Buildable Square Feet	Sale Date	Sale Price	Building Address	Buildable Square Feet	Sale Date	Sale Price
396-400 Fifth Avenue	245,500	11/1/2005	\$125,000,000	504-506 W 38 <sup>th</sup> Street	9,800	11/1/2006	\$1,150,000
484 10 <sup>th</sup> Avenue		5/15/2001	\$12,150,000	511-515 W 35 <sup>th</sup> Street	12,696	9/21/2007	\$24,000,000
321 W 33 <sup>rd</sup> Street	25,740	4/1/2005	\$4,000,000	506-510 W 36 <sup>th</sup> Street	7,400	9/21/2007	\$15,375,000
<b>344 W 37<sup>th</sup> Street</b>	<b>10,000</b>	<b>4/22/2005</b>	<b>\$2,750,000</b>	350 10 <sup>th</sup> Avenue	120,226	10/16/2007	\$17,155,000
453 W 35 <sup>th</sup> Street	10,865	8/10/2004	\$1,200,000	60-62 W 36 <sup>th</sup> Street	44,440	11/16/2006	\$10,960,000
446-450 11 <sup>th</sup> Avenue	98,750	6/27/2006	\$29,130,000	867-873 Avenue Of The Americas	214,349	3/15/2004	\$9,200,000
13 West 39 <sup>th</sup> / 14-22 W 40 <sup>th</sup> Street	12,197	9/26/2006	\$45,000,000	855 Avenue of the Americas	139,068	2/7/2006	\$86,083,250
				<b>Total</b>	<b>951,031</b>		

Source: Eastern Consolidated, CoStar, NYC Dept. of Buildings and NYC Dept. of City Planning

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