



Restoring Commercial Vitality to New York City

Testimony before the New York City Council Small Business Committee

By Adam Friedman, Director

October 22, 2018

I am Adam Friedman, Director of the Pratt Center for Community Development, and I appreciate the opportunity to offer some thoughts about both Intro 737A and other strategies to help small businesses.

I first testified before the City Council on this issue about 30 years ago. It is one of most vexing policy challenges because it requires a difficult balancing of equities between business and property owners, and I have gone back and forth countless times.

To make it even more complicated, the conflict being played out between business and property owners is really a reflection of changes in the city's overall economy, specifically the growth in income disparity. The stores owners are being squeezed not just by rents, but by a shift in the demographics of the city, and not being able to shift with or capitalize on the changes in their customer base. This complicates the issue not only because the cause of the problem is so powerful, but it is ongoing, not a temporary, emergency situation.

This dynamic has the perverse effect of actually causing a kind of blight in many neighborhoods when landlords set rents in anticipation of gentrification. Then, storefronts and other commercial spaces sit vacant because the market is not there yet to support it. The result is empty stores, darkened streets and a psychological assault on the security of residents and business owners.

There is no single strategy to address this complex challenge. Instead, a series of measures to help return vitality to our city's commercial streets and stability to our neighborhoods should be on the table:

First, we simply need more information about the causes of the problem, including how it relates to gentrification, and whether it is citywide or concentrated in certain neighborhoods. We also need a better profile of property ownership, meaning individuals with 1 or 2 buildings vs. those with larger holdings and how this correlates to the problem. This information is essential to crafting the most beneficial but least bureaucratic strategies.

Second, I want to be clear that I think the strategy of mediation followed by binding arbitration is a reasonably balanced government intervention. Mediation alone may result in meaningful discussions that lead to an agreement but probably only in a modest percentage of cases. Given the unequal bargaining power, there needs to be an incentive for compromise. The possibility – or fear - of a third party arbitrator stepping in is the necessary incentive for mediation to work.

However, two points: first, I don't know whether this is a citywide or neighborhood specific strategy. As I said before, there is insufficient data on the problem.

Second, building owners should have an as-of-right option to achieve a reasonable rent increase without the mediation/arbitration process. This could be done by creating an index that reflects the costs of building management and maintenance plus a reasonable return on investment. An increase below this cap would not trigger mediation/arbitration. I suspect that this approach might accommodate many smaller owners of

commercial space, which is why it would be important to first look at the profile of who owns these spaces and how that relates to commercial displacement.

Third, a tax or surcharge on vacant storefronts would help correct the imbalance in the negotiating dynamic. However, it would have to be well beyond typical property tax levels if it is to actually influence a building owner's decision.

Fourth, limitations on chain or "formula stores" is another way to help preserve neighborhood character and address some of the imbalance.

Finally, the city needs to truly rethink the regulatory framework for everything from street signage to fire and health inspections. I am sure all these measures are well-intended but there must be a way to simplify the process, and eliminate conflicting and outdated regulations.

*NOTE: This testimony was prepared by the Pratt Center for Community Development.
It does not necessarily reflect the official position of Pratt Institute.*