

# REPORT

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## Bushwick takes off as next W'burg

Trendy retailers, restaurants and galleries stream to low-rent area

BY JAMES COMTOIS

Six years ago, when Paris Smeraldo and Meg Lipke opened Northeast Kingdom in Bushwick, their menu featuring everything from \$9 veggie burgers to a \$23 braised lamb dinner was a bit of a reach. The area was still not the sort of place that drew many diners.

Even today, large swaths of Bushwick remain industrial backwaters, but the fact is that Northeast Kingdom, a 28-seat location at 18 Wyckoff Ave., is thriving in surroundings that have become more hospitable and even trendy in recent years.

"It's incredible," said Brooke Hoffine, the eatery's manager.

The change is indeed dramatic. In the last year alone, three cafés, two bars, one art gallery, one organic grocer and several other retail businesses have opened. And more are on their way, as people stream in from neighboring Williamsburg and other areas in search of a meal, a drink or just a look around, and as artists and others take up residence.

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**CLEAR CHOICE:** "It wasn't cheap, but it's worth it," Window-Fix owner Ernie Capello said of his purchase of a Brooklyn building.

BUCK ENNIS

## Industrial strength

Demand for space drives prices, vacancy rates close to best levels

BY ANDREW MARKS

No one thought much of it when a two-story, 12,700-square-foot industrial building in Sunset Park,

Brooklyn, went on the market late last year. In due course, a bidder appeared and discussions began; then the floodgates opened.

"We were in final negotiations with one guy, and all of a sudden

people were coming out of the woodwork," said Adam Hess, then a vice president with Massey Knakal and now a partner at brokerage Terra CRG.

Ultimately, five firms bid on 335-347 38th St., including two food distributors, a heating and cooling company, and a noodle maker. The winner was Window-Fix, with a bid of \$1.65 million. That translates to

\$160 a square foot for the first-floor industrial space (the second floor is for offices), a few dollars less than it might have fetched at the market peak in 2008.

"It wasn't cheap, but it's worth it because we need more space to grow our business, and we need easy access to all five boroughs," said Ernie Capello, owner of Window-Fix.

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# Industrial-strength space demand

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As Mr. Capello and his rival bidders can attest, the city's industrial property market is hot. Unlike its commercial and residential cousins, the overlooked sector is largely an outer-borough one, with 177 million rentable square feet in Brooklyn, Queens and the Bronx alone, CB Richard Ellis estimates.

## Climbing back fast

And it came through the downturn just fine. In the city outside of Manhattan, the industrial market had sales of \$312 million last year—an average of \$138 a square foot, or about 25% off 2008's frothy peak, according to Real Capital Analytics data.

Figures for leased space show similar trends, with deals signed at an average rent of \$11.73 a square foot in the fourth quarter, just 10% off peak levels, according to CoStar. And prices are rising.

"It's becoming difficult to find better space under \$12 a square foot, and you're seeing some going for \$15," said Alan Weisman, executive

managing director of Grubb & Ellis in New York.

Demand is coming from small and large businesses alike. In the latter group is fine-art auctioneer

## 'It's becoming difficult to find space under \$12 a square foot'

Christie's, which leased 218,800 square feet in Red Hook, Brooklyn, last year. Also in 2010, Verizon Wireless took 130,700 square feet in the Castle Hill section of the Bronx, and Federal Express leased 110,000 square feet in Astoria, Queens.

The vacancy rate in New York's industrial market stood at 4.7% at the end of 2010, just half a percentage point above the 2008 peak, ac-

ording to CoStar data. It was also a fraction of the 10.5% average vacancy rate in Manhattan's office market at year-end, according to Cushman & Wakefield.

Vacancy rate also reflects a major reduction in the supply of manufacturing and warehousing space. The New York Industrial Retention Network estimates that 23.4 million square feet of such property was rezoned between 2001 and 2008.

"There's no doubt that the city's rezoning effort has been a huge part of the supply-demand equation," said Joseph Simone, president of Simone Development. The tightness is a major reason behind Mr. Simone's decision last year to buy a 90,000-square-foot property on Zerega Avenue in the Bronx. He's renovating the vacant building to meet anticipated rental demand.

A local economy that weathered the recession relatively well and city programs designed to entice small manufacturers to the outer boroughs are also helping drive the movement.

Bestway Carting paid Verizon \$6.3 million in January for a 95,000-square-foot building on Norman Avenue in Greenpoint, Brooklyn, that needed refurbishing.

"Going out to New Jersey, or even Jamaica or the Rockaways, would have been much cheaper," said Bestway's president, Luciano Casagrande. "But it would have been more expensive for us in the long run, between added transportation time to my customers and my employees."

His growing company needed more space and easy access to customers via the Brooklyn-Queens and Long Island expressways, Mr. Casagrande said.

"Demand is definitely outstripping supply for both sales and rentals in small to midsize properties," said George Margaritis, a partner at Pinnacle Realty in Long Island City, Queens, who represented Verizon in the transaction with Beltway.

## NJ's siren song

Dramatically lower rents across the Hudson, however, continue to at least tempt businesses in need of storage and distribution space. Negotiations are under way to keep both the wholesale produce market and the New Fulton Fish Market from leaving city-owned facilities in Hunts Point, the Bronx, for cheaper digs in New Jersey.

For many, though, the convenience of the city beats the cost savings that the Garden State offers.

"People who need to be close to their stores, clients and customers in the city realize they need to keep their facilities here, even if it costs more," said Howard Kessler, a vice president at Newmark Knight Frank, who just leased 90,000 square feet at the former Budweiser plant in Long Island City to New Sensor Corp. Asking rent was \$15 a square foot.

Japan Foods, which owns a



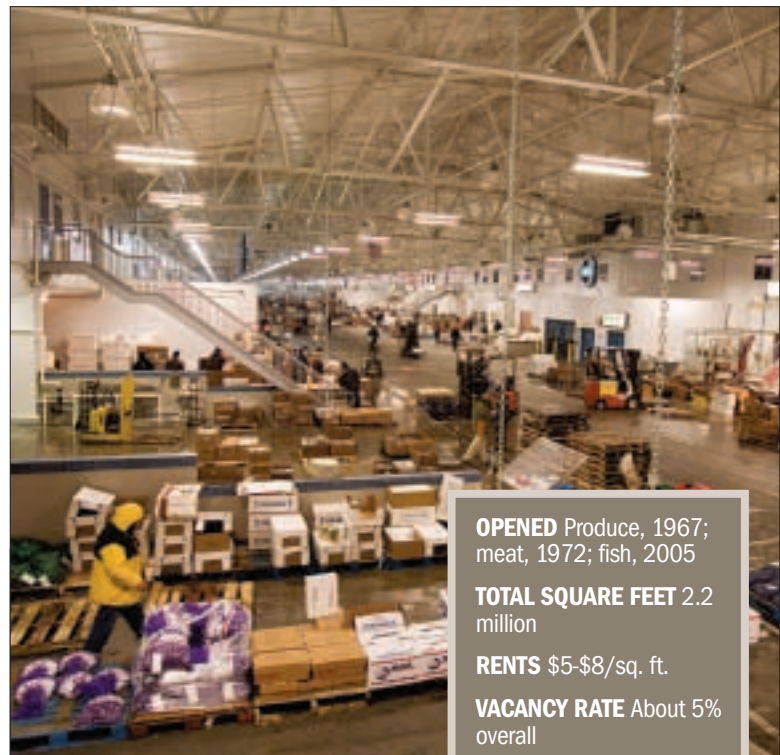
## MANHATTAN, ODD BOROUGH OUT

"THERE'S NOT VERY MUCH OF IT TO BEGIN WITH, and there's even less of it over time," said Stephen Sunderland, senior managing director at brokerage Optimal Spaces, referring to Manhattan's industrial property market of about 15 million square feet.

Last month, 71 spaces in 28 buildings were available, at per-square-foot rents ranging as low as \$12 in Harlem to \$30 on Greenwich Street downtown, Mr. Sunderland said. The vacancy rate on leased property is just 1%, he added.

Manhattan had only one industrial property sale last year, for 43,000 square feet, according to Real Capital Analytics. One transaction has taken place so far this year: Equity Capital Management sold a 98,753-square-foot building for \$26.6 million, or \$269 a square foot, on March 11. It was listed as occupied by Federal Express.

—ANDREW MARKS



**OPENED** Produce, 1967; meat, 1972; fish, 2005  
**TOTAL SQUARE FEET** 2.2 million  
**RENTS** \$5-\$8/sq. ft.  
**VACANCY RATE** About 5% overall  
**LARGEST TENANT/SPACE** Produce market/910,000 square feet  
 Source: NYC Economic Development Corp.

## HUNTS POINT

**THE THREE CITY-OWNED** wholesale fresh-food markets in the Hunts Point section of the Bronx house 800 businesses employing 25,000 people, but those numbers are dwindling.

The bankruptcy filing in February of M. Slavin & Sons, the biggest tenant at the 430,000-square-foot New Fulton Fish Market, was a blow to that operation, which has an 18% vacancy rate.

Meanwhile, lease negotiations drag on between the New York City Terminal Produce Co-operative Market and its landlord, the city Economic Development Corp. The current lease expires next month. At issue are rents and as much as \$270 million worth of needed renovations at the food center's 105-acre site, which also houses the Hunts Point meat market.

The produce market's executive administrative director, Myra Gordon, said the operation's future at Hunts Point is uncertain. Jones Lang LaSalle, its real estate representative, is looking for space in New Jersey, she added.

Local officials remain hopeful. "I'm confident that with the city and state getting involved in negotiations, a solution to the sticking points on the lease will be found," said Jeremie Sautter, managing director of the Hunts Point Economic Development Corp.

—ANDREW MARKS

100,000-square-foot building in Long Island City, is banking on continued strong demand. The import company put the building on the market late last year at a pricey \$200 a square foot—about what it would have fetched at the peak, said

John Reinertsen, senior vice president at CB Richard Ellis, who is handling the property.

"They know there's a lot of demand out there now, and they don't need to sell" right away, Mr. Reinertsen said. ■

## BROOKLYN NAVY YARD

**INDUSTRIAL SPACE** is typically a low-margin business for landlords.

"It provides the lowest return in real estate, and that's why our mission to provide quality space and long-term leases to small and midsize manufacturers is so critical," said Andrew Kimball, president of the Brooklyn Navy Yard.

Over the past decade, the vacancy rate at the city-owned location has averaged a minuscule 2%. Leases range anywhere from 500 square feet to 200,000 square feet; 70% of its 275 tenants have less than 5,000 square feet.

"My biggest issue is finding more space to meet demand," said Mr. Kimball, who plans to add 1.6 million square feet by 2020.

—ANDREW MARKS

**OPENED** 1801 (by U.S. Navy)

**ACQUIRED BY NYC** 1968

**SIZE** 300 acres, 45 buildings, 4 million square feet

**OLDEST TENANT** Cumberland Packing, maker of artificial sweeteners; 200,000 square feet; opened 1980

**LARGEST TENANT** Steiner Studios, movie/TV production; 310,000 square feet; opened 2004

**RENTS** \$10-\$15/sq. ft.

**VACANCY RATE** 2%

Source: Brooklyn Navy Yard

