

SMALL Business

BIG Impact

***Expanding
opportunity
for Manhattan's
storefronters***



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MANHATTAN
BOROUGH
PRESIDENT

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Executive Summary

The Manhattan Borough President's Office (MBPO) produced this report to help more small businesses thrive and grow, because small businesses have historically provided the majority of jobs for New Yorkers and a gateway to the middle class, especially for immigrants and ethnic communities.¹

Over the past few years, however, the future of the city's small businesses—and specifically street-level retail stores and restaurants—has begun to look murky. High rents, corporate competition, and real estate development deals are creating challenges over and above the ones small businesses typically face.

Activists have cited the speed with which commercial landlords move to evict small businesses to make space available for a corporate franchise or a bank, which can and do pay substantially higher rents. These evictions are having an impact on Manhattan's commercial landscape. Vast stretches where mom-and-pops once prevailed have disappeared from Clinton and Chelsea to Little Italy and the Bowery. Empty storefronts persist for weeks, months, and even years, and more and more streetcorners are claimed by major banks and corporate chains.

Launching a small business in New York City has never been easy. Of the thousands that open every year, many close that same year. Landlords evict commercial tenants for a variety of reasons. Tenants close up shop not just because of escalating rents but also because of back taxes, damages or losses for which they haven't carried enough insurance, and demographic changes among clientele. Regardless of why small businesses close, when they do, everyone loses, because small businesses hire locally, contract out services locally, make local purchases, and give New York City streets their character.

Based on what the MBPO heard from small business stakeholders, we've made recommendations under four categories: (1) help small businesses cope in the current real estate market, (2) improve government interaction with small businesses, (3) reform the city's Commercial Rent Tax, and (4) maximize resources among government agencies.



Special thanks to Lucian Reynolds of the MBPO Land Use Division for his extensive work on this report.

HOW BIG IS SMALL?

Finding the data to help analyze the small businesses targeted in this report was difficult because there is no standard definition of "small." We looked at how federal, state, and city agencies set the maximum number of employees a business can have to qualify as a small business:

Federal: Depending on industry sector, the U.S. Small Business Administration (SBA) measures business size by either the company's dollar value or the number of employees. The Small Business Act defines small business as generally one with fewer than 500 employees.

The SBA further recognizes microbusiness as an organization with fewer than five employees and small enough to require little capital (\$35,000 or less) to get started.

State: New York defines small business as a shop that employs fewer than 100 people.

Local: New York City's Small Business Services doesn't give a hard number; rather, it encourages any business to inquire about its services.

Clearly there's a need for better integration of benchmarks and criteria between different levels of government when it comes to smaller shops. It would be great to have common thresholds. We believe that the majority of storefronters our recommendations will help are businesses with 15 or fewer employees.

New York City has been fertile ground for small businesses

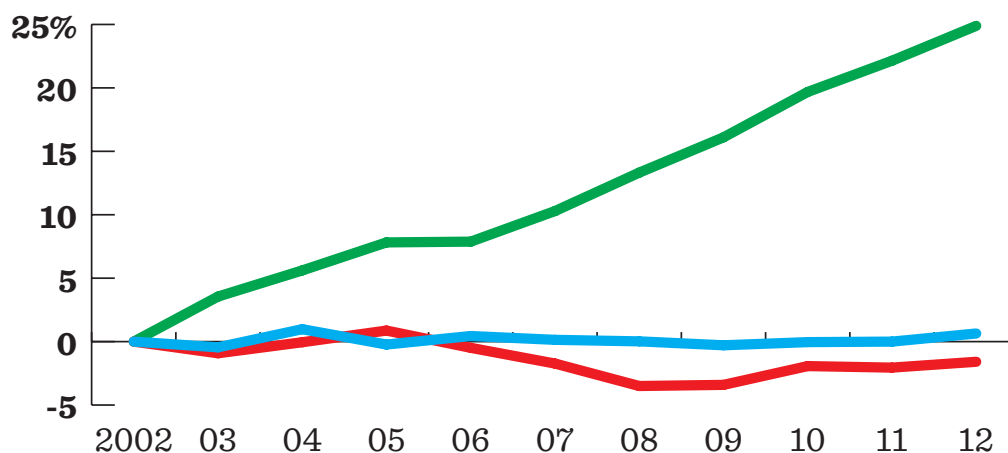
Successful small businesses make our city stronger, bolstering our unique identity and helping to revitalize neighborhoods. They provide a broad range of essential services—such as washing clothes, repairing shoes, and cooking and delivering food—and often go beyond that, exposing their customers to new products or experiences.

Although New York is one of the world's most expensive and competitive places to do business, entrepreneurs with one or only a handful of employees are undeterred from entering the ring. According to an October 2014 report by the Center for an Urban Future, firms with fewer than five employees constituted the bulk of growth in new businesses in New York City between 2000 and 2013, providing a net gain of 31,421 jobs.²

These numbers, of course, reflect the meteoric growth in digital and tech startups, buoyed by an array of Silicon Alley co-working spaces like New Work City and AlleyNYC.³ In addition, according to U.S. Census data compiled by the Center for an Urban Future, 7.9% of Manhattan residents were self-employed (meaning “in own not-incorporated businesses”) in 2012, a larger share of the workforce than in any other borough.⁴ When you add up these tens of thousands of Manhattanites, you can see how



*Growth rate
in quantity
of 100+
employee
firms*



*Growth rate
in quantity
of under-99
employee
firms*

Source: U.S. Census Bureau data for New York County

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Small Business Service

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firms with fewer than 20 employees constitute over 90% of the businesses in the New York metropolitan area.⁵

U.S. Census data on business patterns for Manhattan (New York County) between 2002 and 2012 reveal some interesting trends.⁶ For instance, the number of businesses with fewer than 99 employees and more than 99 employees varied by only a few percentage points in 2010. The number of food establishments with fewer than 99 employees appeared to be unaffected by the 2008 recession, increasing steadily by 25% over 2002 levels. Finding success in the restaurant business is notoriously difficult, but there seems to be no limit in the number of entrepreneurs attempting to do so in Manhattan.

The focus of this report is what we call storefronters—retail stores/services and food purveyors/restaurants that rely on street-level customer activity for their success—and therein lies the challenge. In a booming commercial real estate market, chain stores don't need to be profitable to afford their lease, because the street-level location may be more useful as an advertisement than as a means to profitably move merchandise. Storefronters, on the other hand, struggle mightily to pay \$65.14 per square foot—the average Manhattan asking rent in the fourth quarter of 2014 according to Avison Young.⁷

The types of small businesses we seek to help are independent (not part of a national chain and not franchisees), responsive to a neighborhood clientele, and have often built their businesses with very little capital, using their life's savings or getting loans from friends or family. Franchisees are often similar to our targeted storefronters, but the nature of the franchise allows them certain economies of scale and advertising support that are not enjoyed by those who fit our definition.

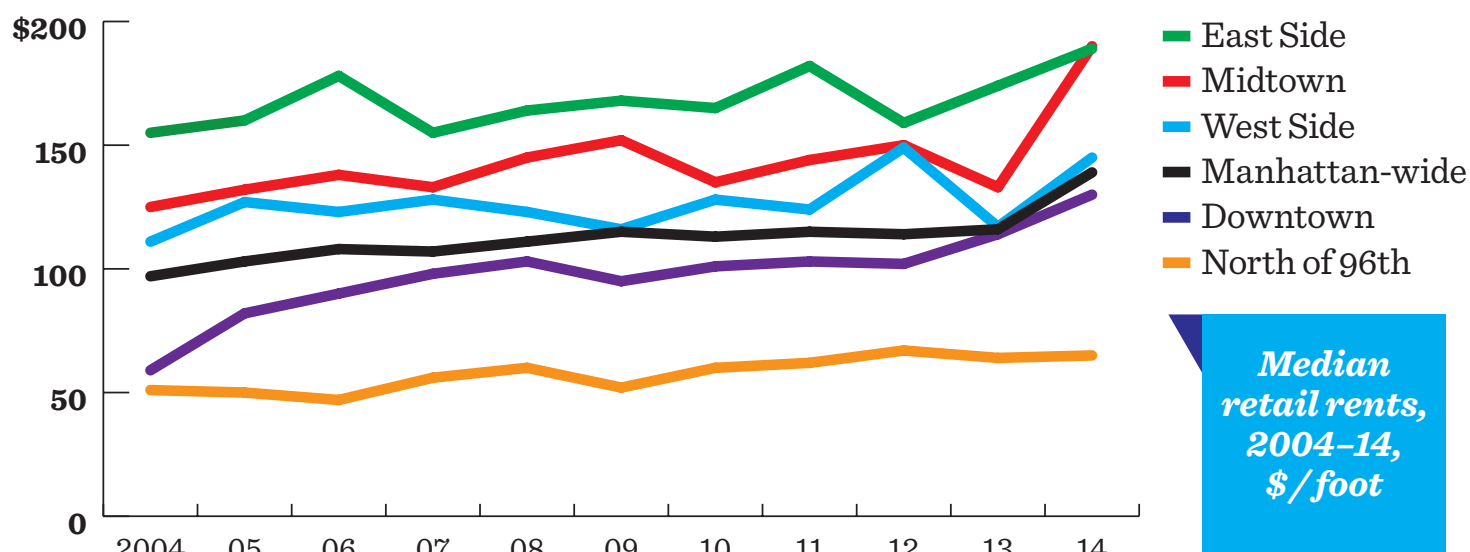
When small businesses are replaced with chain banks or chain drugstores, the market fails both the business owners and New Yorkers who prefer unique and specialized services. It also fails the economy. As noted urban theorist Jane Jacobs discussed in a 2003 interview, "The general idea at the time I wrote *The Economy of Cities* was that small businesses were . . . no longer of any importance. It's only a few years ago that it became the accepted new wisdom—which is true—that most of the jobs added in an economy are added in small businesses, not from growth in already large businesses."⁸

Challenges to making it in Manhattan

This report was shaped by what we heard during interviews with individuals from a wide spectrum of organizations in neighborhoods in all parts of Manhattan (*see sidebar at left*). These interviews gave us critical perspective on the market, on the damage that large rent increases are causing storefronters, and on challenges these entrepreneurs face daily.

Rising commercial rent and changing clientele

We've all seen businesses close under sad but recognizable circumstances. Most often, the market just does not exist for their product or service. Even well-established firms can be done in by credit problems, changes in management



Source: Real Estate Board of New York, Spring Retail Report 2014

costs, or retirement. Recently, however, New Yorkers have seen something different happening: the closing of businesses that have stood the test of time and enjoy healthy patronage from the neighborhood and surrounding city. The reason: large-scale increases in commercial rents.

As more ultra-high-income individuals move into New York City, property values and rents escalate, and owners of ground-floor retail spaces search for the new market ceiling. Many are avoiding locking themselves into 10- or 15-year leases at a price per square foot that may turn out to be below that of neighboring buildings. Instead, they are keeping their stores vacant until they land a tenant who accepts a higher rate, which establishes a new market norm.

Businesses that can't adapt their models to afford higher rents can do nothing but close. If banks and chain drug stores are the only tenants that can afford top-market prices, New York City will see greater numbers of storefronters going under.

With rising rents come new clientele, and a marked change in neighborhood demographics can significantly alter shopping patterns. The dissipation of an ethnic enclave could reduce demand for certain goods or services, even if the incoming population has the same purchasing power.⁹ Many small businesses consider a shift in strategy risky, but their failure to alter their business strategy is just as risky. A shift in neighborhood tastes could necessitate additional investment—for instance, a capital investment like a new display counter or funding to cover the retraining of employees to provide a new service—that the owner is unable to afford.

Ill-informed management decisions

In speaking with Bernadette Nation, Director of the City Business Assistance Program at New York City's Department of Small Business Services (SBS), we learned more about what causes businesses to fail. In the wake of natural or manmade disasters—for instance, building fires and flooding—SBS's program helps business owners pick up the pieces, connecting them to emergency response programs and helping them negotiate with insurance companies.

Here are some common small business pitfalls Ms. Nation cited:¹⁰

Not carrying enough insurance. Though businesses are usually required to buy insurance as part of their lease, many buy bare-minimum policies that prove insufficient for each type of coverage.

Delaying tax payments. Many small businesses elect to pay their state sales tax annually rather than quarterly, which gives them more time to dip into money that should be earmarked for the state. To further complicate matters, the state may not contact the business about unpaid sales tax until the second or third year, whereupon the owner might not have properly accounted for the sales tax revenues and is unable to pay.

Not budgeting for utilities. New small business owners are often unaware that utilities treat business customers differently from residential customers: if they fall behind on their payments, Con Edison will cut off electricity and gas to the shop.

Lack of readiness to change or expand

Communities can change a lot over the course of a 15-year lease. If a business serves a neighborhood of young families with strollers, they may need to reflect on their business plan if a decade passes and children become adolescents but young families are no longer moving in. Consumption patterns change as well. Family bakeries and bagel shops have had a wild ride as tastes have changed from no-carb to whole-grain bread to gluten-free products.

Some small business owners may fear change, especially if they have been running their business the same way for a long time. These businesses would benefit from an organization that could help them identify the new market and make any needed adjustments to their strategy.

Changing consumer tastes might force business owners to carry more expensive products that would require taking out a loan. But because many small businesses have been built from personal savings or loans from friends or family, their owners don't have experience gathering the paperwork to successfully apply for a loan. Moreover, many fear an application that requires them to be transparent about their business's financial history and future.

Both New York State's Empire State Development Corporation (ESDC) and the federal government's Small Business Administration (SBA) have loan programs for small businesses. Independent microloan organizations like Accion and Grameen America serve needs that are too small for traditional banks and credit unions. If more small businesses could be connected with these services, more would succeed.

Business-inhibiting laws and policies

Although city, state, and federal governments all have agencies that respond to the needs of small businesses, government can also restrict business when enforcing those zoning codes, laws, and regulations to protect the public's interests. These inhibitors include:

Rigid zoning codes. New York City's Zoning Resolution dictates whether a business can operate in any of the five boroughs. Business types are separated into groups, and each group may be included in one or more zoning districts or commercial overlays. The city's current zoning system distinguishes between residential, commercial, and manufacturing uses. Exceptions can be made as some commercial districts may be built with residential units and certain commercial establishments are allowed in some manufacturing zones. These rigid descriptions do not leave much room for interpretation, and storefronters need room to innovate.¹¹ Real estate development is an incredible opportunity to add ground-floor commercial units to the market and increase Manhattan's overall supply. Unfortunately, many new commercial spaces are built out in large dimensions that please investors but not storefronters, who are unable to justify spacious floor plans suited to chain pharmacies and banks.¹²

Uncooperative agency inspectors. Various New York City agencies interface with small businesses to ensure that they comply with regulations—the Department

of Consumer Affairs (DCA), the Department of Sanitation (DSNY), the Department of Transportation (DOT), and the Department of Health and Mental Hygiene (DOHMH).

The DCA protects New Yorkers from business practices that may cause economic or physical harm—for instance, misleading product signage, availability of receipts, and the sale of expired over-the-counter medicine. For many storefronters, the DCA is their principal contact with city government. But for many of the small business owners we interviewed, DCA inspectors were perceived as taking a guilty-until-proven innocent approach, viewing business owners as willfully negligent or perhaps even as scam artists.

As people making a life for themselves, storefronters are not inclined to look for problems. If the owner is discovered to have unknowingly violated a regulation, he or she should be given the opportunity to learn from this mistake and be fined only if the situation is not corrected. This situation is compounded by the fact that each city agency deploys its own inspectors with specific checklists, subjecting small businesses to at least four different visits and complex interactions over regulation.

Commercial Rent Tax. If you are an entrepreneur who does business between 96th Street and Chambers Street in Manhattan, the cost of doing business will likely include the Commercial Rent Tax. For the most part, this is a tax levied on for-profit commercial tenants paying at least \$250,000 per year in gross rent. It turns out that this threshold is easier for a small business to reach than one might expect.

To calculate gross rents, the city looks at how much a business pays its landlord every month per the requirements of its lease. Gross rent takes other costs into account, such as property taxes. Many commercial leases have pass-through clauses that make a lessee pay any increase in property taxes for their space. So if their landlord's property taxes increase, the tenant will have to pay the difference; what the tenants pay in property taxes is included in what is considered gross annual rent. This tax-on-a-tax punishes successful business owners for improving their neighborhoods.

Opportunities and challenges for street vendors. Street vendors are storefronters without a brick-and-mortar location. This style of retail should be a very low-cost, low-risk way to enter the marketplace, as the vendor doesn't need a commercial lease and may be able to get his/her business up and running with little or no credit. In reality, however, street vendors' overhead is often higher than anticipated. They may be operating from a table or cart, but their equipment and inventory may need to be transported and must be safely stored when not in use, which can be costly.

The city recognizes street vendors as a legitimate business type, but policies that limit the expansion of street vending constrain opportunity. The city capped the number of street vendor licenses in 1979 and has not been taking new names on the waiting list since 1992. (There are exemptions for U.S. military veterans or First Amendment vending like newspapers and magazines.) The city also makes it difficult for street vendors to contract private carting services for their business waste (which can result in business waste ending up in overflowing public trash receptacles).¹³

Gaps in government support

Government agencies—New York City's SBS prime among them—provide very useful resources to help small businesses. New York State's ESDC and Harlem Community Development Corporation (Harlem CDC), along with the federal government's SBA, have offices that provide small business support. Like the regulatory agencies, these agencies seek to improve the lives of New Yorkers, but sometimes gaps in service occur.

Department of Small Business Services. SBS helps demystify the process of getting a business up and running and overseeing New York City's Business Improvement Districts (BIDs). Although SBS works hard to lower the barrier to entry for small businesses of every class, our interviews revealed a handful of issues that reduce its effectiveness.

While SBS offers impressive services for those preparing to establish a business that conforms to current laws and regulations,¹⁴ the same types of services are not available for street vendors who may or may not hold a license but want to expand into a brick-and-mortar location. Such a service is sorely needed as New York City has no lack of entrepreneurs. This SBS service could assist them in launching informal-sector businesses or helping legitimate microbusinesses as they grow to stay in compliance with laws and regulations that previously did not apply to them.

SBS provides services to storefronters that could be complemented by available state and federal services. Unfortunately, the city does not appear to be coordinating its efforts with ESD, SBA, or other agencies. SBS is best situated to provide small businesses with individualized assistance. Entrepreneurs would be better served if SBS coordinated its services with those of other agencies, making referrals to clients and tracking when this is done.

Business Improvement Districts. BIDs are credited with improving the look and feel of commercial areas by providing additional sanitation services and beautifying the area with plantings and tree care. Many BIDs, like that in Washington Heights, provide an expansive slate of services to small businesses by conducting market research and lobbying on their behalf.

Because BIDs are primarily funded by an assessment on real properties within the district's boundaries, many of our interviewees expressed dismay that the funding mechanism makes BIDs beholden to property owners over all other constituents. It makes sense that BIDs seek to improve property values for the entities that dominate their boards and from which they garner most of their budgets. But the city needs to empower BIDs to provide more services that benefit storefronters in their catchment areas.

Recommendations

We need to pursue all possible avenues to help new storefronters survive and existing ones strengthen their foothold in Manhattan neighborhoods. Given the challenges our interviewees helped us identify, the MBPO suggests the following solutions.

Help small businesses cope in the current real estate market

Negotiate or mediate lease renewals

To take some of the pressure off of lease renewals, we recommend institution of a mandatory negotiation and mediation period, with the option of a short-term lease extension. As a long-term commercial lease draws to a close, these policies will aid both small business owners and property owners alike by ensuring a frank, informed conversation takes place while maintaining protection and flexibility for both parties. This isn't a new concept—in 1986, the Small Business Retail Study Commission (SBRSC) examined the city's retail market and included this policy in its recommendations. Three decades later, the urgency is only greater, and this is an idea whose time has come.

Unlike commercial rent control, this plan leaves the question of how much a tenant will pay for the duration of their lease to the negotiation between tenant and landlord. It does not give the city or state authority over market rates; it merely requires both parties to talk. If an agreement is not reached, the lease is extended to give the tenant a reasonable amount of time to move.

The landlord of a small retail business with an expiring commercial lease would have to contact that tenant 180 days before the end of the lease to let the tenant know whether

they intend to offer a renewal. If they do, they will also have to provide the terms. Should the tenant seek to negotiate with the landlord or the landlord's representative, they would have to do so within 30 days of receiving the terms.

If the negotiation does not produce an agreement, the tenant or the landlord may invoke nonbinding mediation within 30 days. This way, landlords are not able to simply run out the clock on their tenant without coming to the table in some way. The mediation session must have a mediator present, and if the mediator feels that progress is being made toward an agreement, he or she can order that the parties attend a second round of mediation. If both parties do not agree on lease terms, the tenant's current lease is extended for one year with up to a 15% increase in rent. This gives the tenant enough time to search for a new retail space.

We also recommend an increase in the supply of ground-floor retail space to provide more competition between building owners and more competitive leases for small businesses. More commercial space in the neighborhood can also give a business that is forced to move out of its current space a way to secure a more favorable lease in the same neighborhood. This is another good idea with roots in the 1986 SBRSC report, and there are several ways the city might put it into practice:

Don't allow ground-floor retail to expire. Many ground-floor commercial units have been functioning as a nonconforming use but were grandfathered as an existing use under the 1961 zoning. When these spaces lay vacant for two or more years, they were required to conform with the permitted use, which meant an end to the continuation of that space as retail. The commercial overlay would allow existing businesses to expand and new small businesses to replace those that close without the danger of losing the grandfathered retail space forever.

Create an Urban Neighborhoods Fund. The New York State Association for Affordable Housing has found that current subsidy programs do not adequately support the creation of ground-floor retail. To ensure that such space is built whenever possible, it proposes an Urban Neighborhoods Fund for the city's affordable housing developments.¹⁵ This fund would reduce the level of debt that a developer must carry on the retail portion of their project, which can reduce the amount of rent that that building needs to charge. Cheaper commercial spaces providing important neighborhood services can be prioritized for storefronters. The fund is structured to leverage federal and state resources and would be administered by the New York City Department of Housing Preservation and Development.

Expand retail opportunities by expanding commercial overlay districts. It's critical that the city allow for additional commercial retail density in places where upzonings occur and create opportunities for commercial activity in surrounding areas. The Department of City Planning (DCP) should match the expansion of commercial overlay districts with additional zoning provisions requiring new buildings with a certain amount of commercial frontage to have a minimum number of storefront establishments. In neighborhoods like the Upper West Side, banks are assembling smaller commercial retail units to create larger frontages, which allow them to use the space as advertising. The Upper West Side's 2012 Neighborhood Retail Streets rezoning protected storefronters by preventing the further loss of appropriately sized commercial spaces. Under the new provisions, banks and formula retail could still use building cellars, space on the second floor, and commercial space behind other smaller units to expand their usable commercial area without having to dominate the street frontage.

Create commercial opportunities for storefronters within public housing complexes. Commercial overlays should be added to the existing residential zones to permit retail activity. The New York City Housing Authority (NYCHA) could then remodel the bases of some of its buildings to allow for ground-floor commercial units to replace underutilized

***Expand
the supply
of retail
space***

storage or workshop space. This will provide additional revenue for the cash-strapped NYCHA as well as important “eyes on the street” storefronts that help create vibrant and safe neighborhoods—something that “towers in the park”-style developments often lack.¹⁶ **Create an ultra-low-intensity commercial district.** Zoning currently lumps together a broad range of uses classified as retail, but more than one metric can be used to measure building intensity. If a ground-floor retail space is strategically important to a business and the intensity is low, parts of the city could accommodate the business even if currently zoned as residential. Many residential zones allow for community facilities that can be used for medical offices. A low-intensity commercial district would create additional commercial space for other types of unobtrusive businesses. Because this class of business would no longer compete for commercial space, demand would be reduced. This pilot would require an agency with experience in business plans to assist the DCP in establishing the low-intensity threshold and reviewing applications. The low-intensity zones should be distributed near commercial areas experiencing high demand for ground-floor commercial stock.

Make it easier to buy the building

One way for storefronters to avoid the need for lease negotiations is to buy the commercial space they had been leasing. Given the current market for residential property in Manhattan, however, it is unlikely that many owners could manage this.

One solution is to separate residential and commercial units into condominiums. The SBA’s 504 Loan allows businesses to purchase properties valued at up to \$5 million if they can provide at least 10% of the purchase amount and if 51% of the building is used as part of the business.¹⁷ A program that promotes “condo-ization” for compliance would make the purchase of ground-floor retail space possible for storefronters. A procedure with New York State’s Real Estate Finance Bureau would allow building owners to easily separate the uses if the split has no effect on residential tenants.¹⁸ Once the commercial units are legally separate, the commercial tenant is far more likely to use 51% of the condominium.

To incentivize this process, the city could implement a program by which buildings that have accumulated heavy Buildings Department fines or are in arrears in Department of Environmental Protection sewer payments can get these debts reduced by using the earnings from the sale of their commercial condominium to pay for the necessary capital improvements. The property owner would have to agree to not apply for a Major Capital Improvement by New York State’s Department of Homes and Community Renewal, which would allow them to increase the tenant’s rent in return for fixing the serious, longstanding issues.

Improve government interaction

Maximize city inspector efficiencies

As noted in the previous section, improving interactions with DCA, DSNY, DOT, DOHMH, and other regulatory agencies can make small businesses more sustainable.

Combine overlapping inspections. Agencies with complementary goals can combine efforts to provide more comprehensive oversight. An ideal combination would be NYPD’s Traffic Enforcement Agents and Department of Sanitation inspectors. Combining inspections would give owners fewer interruptions from tending to their business and allow sanitation and traffic laws to be dealt with simultaneously. The city might pilot this process by recruiting experienced inspectors for the new position or by creating interagency teams to go into the field.

Transform inspectors into educators. Inspectors have the potential to become the city’s greatest asset for connecting with storefronters. While inspecting retail establishments is important for consumer protection, DCA should reform and expand this position to make it a Small Business Education Specialist to assist small businesses in achieving compliance. Education Specialists would engage in outreach on behalf of SBS, nonprofit

partners, and local BIDs when applicable. They would connect the city to the needs of the storefronter and respond with a menu of available city services.

Provide language services for Cure Law participants. The 2013 Cure Law—which the MBP co-sponsored as a City Council Member¹⁹—listed 84 DCA violations that can be corrected by submitting certification that the condition has been fixed. It also allows businesses to avoid DCA fines by expanding the list to include over 100 types of violations that can be corrected. We need to ensure that storefronters—regardless of their fluency in English—have enough language support to properly submit their paperwork to “cure” first-time DCA violations. Otherwise, those with limited fluency might be unable to benefit from this law, which helps small business owners by reducing the number and cost of fines, increasing transparency and fairness, and improving business education.

The persistence of street vendors in the face of adversity confirms their entrepreneurial spirit. New York City should help these sidewalk storefronters grow their businesses.

Create a ladder of entrepreneurship. SBS can strengthen the pipeline to fill brick-and-mortar retail spaces by helping fledgling entrepreneurs learn stronger business practices. Because every vendor has different needs, SBS could build out multilevel, multi-language curricula beginning with the basics (building and using credit) and finishing with classes on commercial lease negotiation.

Raise the cap on vendor licenses and permits. The current limit has not been raised since 1981. Allow new entrepreneurs to go into business for themselves. New York City should think of every new business as a startup, not just those seeking venture capital funding.

Issue temporary license papers to replace lost or stolen licenses. DCA does not currently issue temporary cards for vendors to use until their replacement card arrives. So if a street vendor loses his or her license card for any reason, he or she is unable to work until receipt of a replacement, which can take up to a month.

***Empower
street
vendors***

Reform the Commercial Rent Tax

City government should improve how the Commercial Rent Tax deals with store-fronters. In particular, the base gross annual rent should be raised from \$250,000 to exclude the majority of storefronters from qualifying for the tax. All retail tenants should also be allowed to ignore any property tax pass-throughs when calculating gross annual rent.

Facilitate agency collaboration

New York City has the potential to give small businesses access to a full line of free or low-cost business services. SBS’s Business Express is a fantastic tool to jumpstart new businesses.²⁰ The state’s ESD has a Business Mentorship Program.²¹ The federal government’s SBA has impressive loan programs and conducts free seminars.²² To get businesses the support they need, we recommend an integrated system in which each level of government takes in new clients and passes them off to the agency providing those services.

Publish enhanced SBS open data. Before the city, state, and federal governments begin sharing their caseloads, SBS must develop a way to track and tally the number of businesses it takes in and subsequently hands off to state or federal partners. These data will enter the city’s Open Data Portal (created by Local Law 11 of 2012, co-sponsored by the MBP as a Council Member),²³ where they can be analyzed by external organizations to better target the needs of storefronters.

Co-locate agencies from different levels of government. Each of the government agencies should share an office space for overlapping and complementary programs where employees who cover intake, handoffs, and strategic planning can work, communicate, and build partnerships. If developed jointly, future programs could reduce administration

***Integrate
city, state,
and federal
services***

costs across all levels of government, with the savings applied to help small businesses. ***Expand 311 to cover state and federal programs.*** The city's 311 operators are trained to ask the right questions and navigate the caller through a special knowledge base to narrow the list of possible services. While city services and agencies are well represented, state and federal programs should also be included, especially if a similar service is not offered by the city. For example, if a minority or woman who owns a business wants to become certified as an M/WBE and do business with the state, a call to 311 would connect the client with Harlem CDC to start the certification process.

Leverage BID resources

Few organizations know the current commercial climate of an area like the local BID. Moreover, BID staffers often have very close relationships with the businesses in their catchment areas. BIDs pay to collect important data, and their staff have the training to identify trends that would help local businesses strengthen their products and services in light of changing consumer tastes.

Partner with SBS to identify and help struggling businesses. BIDs can help identify storefronters who need SBS assistance and refer them to the closest center. For example, because the Washington Heights BID and SBS share office space, they work very closely together to target needed services. SBS should explore how this model can be replicated throughout the city and give BIDs more power to directly help small businesses.

Develop the capacity to provide microloans. Once the local BID has identified ways to strengthen a business, the owner may need a small loan to begin selling a new line of products or update a sign. SBS should start a pilot program to give BIDs with a large share of storefronters the ability to provide microloans of less than \$25,000. These loans can help to build a business's credit rating and expose entrepreneurs to the loan procurement process. Organizations with experience in providing microloans are in turn eligible for assistance from the SBA.²⁴

Encourage government innovation

Government can help small businesses achieve economies of scale. As with the Affordable Care Act, action by the state or federal governments to unify the buying power of individuals or small organizations brings economies of scale to everyday people.

Create a New York State commercial insurance exchange platform. Commercial insurance comes in many forms. Depending on the nature of a business and where it is located, it could have at least four types of commercial insurance. While many commercial leases require fire and theft insurance, other types of insurance (like business interruption insurance and flood insurance) are often not required but no less important. When leases do require fire and theft insurance, storefronters sometimes buy cheap plans with poor coverage. A commercial insurance exchange would allow them to input important aspects of their business—such as risk factors, size of shop, and approximate value of capital investment—and then allow them to shop between the various plans according to monthly cost or payout.

Launch an annual SBS competition for small business apps. Small businesses have a great deal to gain from the proliferation of smartphones. Well-written apps can help them work together and build their own scale without having to be part of a chain. Mind My Business by Vizalytics Technology allows business owners to subscribe to a feed about what is happening in their neighborhood and what people are saying about their shop.²⁵ CUPS by Urban CUPS Inc. creates a single customer loyalty program for independent coffee shops to share, freeing consumers to reward themselves by drinking coffee regardless of where they are in Manhattan.²⁶

Next steps

As a follow-up to this report, we will convene a series of roundtables with small business stakeholders, elected officials, and city, state, and federal agency representatives—including all individuals we interviewed for this report.

The first two roundtables—one for Upper Manhattan and another for Lower—will focus on first-year pitfalls among new storefronters. From these discussions, we will gather information from city, state, and federal agencies to produce a menu of the most common pitfalls that can doom a business in its infancy. Such a comprehensive publication does not currently exist and would be indispensable to new and existing businesses.

The second series of roundtables will focus on three of our recommendation areas: (1) Help small businesses cope in the current real estate market (2) Improve government interaction with small businesses (3) Maximize resources among government agencies.

Our goal is to learn which of our recommendations will best serve a particular neighborhood or community and tailor strategies to varying needs across the borough.

With this targeted feedback, we will be better prepared to move ahead on all fronts to increase the social mobility that small businesses have always provided New Yorkers, especially lower-income families and immigrants. Storefronters and small businesses more generally are essential to preserving the character of our neighborhoods and maintaining the livability of New York City for the middle and working class.

Endnotes

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