NMTCs Turn Brooklyn Warehouse into Manufacturing Hub

TERESA GARCIA, STAFF WRITER

A
s demand for housing continues to grow in New
York City, conversions of old commercial and
factory buildings into market-rate residential lofts
have become increasingly common. This has created what
community development experts are calling an alarming
shortage of manufacturing space in the city. In an effort to
preserve industrial space in the city, nonprofit developer
Greenpoint Manufacturing and Design Center (GMDC)
has been rehabilitating blighted industrial buildings into
workspace hubs for small manufacturing businesses since
1992. GMDC has four existing manufacturing centers in
Brooklyn, for a combined 600,000 square feet available to
104 tenants and 530 workers.

GMDC’s latest project involves renovating a former auto parts warehouse in Brooklyn’s Crown Heights
neighborhood into a $14.5 million, 50,000-square-foot
manufacturing center for up to 14 small businesses. The
building will offer tenant spaces ranging from 1,200 to
6,100 square feet. Targeted tenants include those who
work in woodworking, small-scale manufacturing and
fine art and design. Scheduled for completion in January
2015, the project will create 54 construction jobs and space
for 70 manufacturing workers.

“We want to make a statement that [Crown Heights] is still
a viable industrial area,” said Brian Coleman, GMDC’s
CEO. “Our challenge was that the cost of acquisition and
construction is so high in New York City and manufacturers
are low-end users, meaning manufacturing is at the bottom
of the ladder in terms of ability to pay rent.” GMDC is
doing several things to encourage the growth of small
businesses. Leases for the small business tenants will be
about 20 percent below market, and will give tenants a
sense of stability with terms of five to 10 years. At press
time, GMDC is in the process of negotiating leases for the
new tenants, one of which is a tenant at one of GMDC’s
existing facilities that needs more space to expand.

Strong demand for small manufacturing space in the city
is evident in GMDC’s 100 percent occupancy rate at all of
its existing properties. Coleman attributes the shortage of
available industrial space in New York to the “rampant”
problem of manufacturing buildings being turned into
housing. “The industrial fabric of the community is put
at risk with [residential] conversions, both legal and
illegal,” he said. The issue has been so widespread that
in 2007 then-Mayor Michael Bloomberg signed a law that
substantially increased penalties for illegal conversions.

Other project partners agreed on the importance of
preserving industrial space in the city. “It’s in an area of
Brooklyn where a lot of former manufacturing facilities
have been converted into lofts or condos … This [project]
is a good preservation of that space, preserving the
industrial use of the building,” said Elaine DiPietro,
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Enterprise Community Investment Inc.’s vice president of structured finance. Enterprise provided $7.5 million in new markets tax credit (NMTC) allocation to the Crown Heights project and its affiliate, Enterprise Community Loan Fund, provided a $3.9 million term loan and $4.6 million in bridge financing.

DiPietro said that the high costs of renovating the building meant that the project would have had a funding gap because it would not have been able to attract the conventional financing it needed and still be able to rent to small businesses, which she said is why many developers convert former manufacturing buildings into housing.

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GMDC’s Crown Heights facility will offer tenant spaces ranging from 1,200 to 6,100 square feet each.

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“The new markets fill that gap, so [GMDC] can charge affordable rents to keep artisans and small manufacturers in the city and state,” agreed Mary Thompson, senior vice president at Bank of America Merrill Lynch, which provided $4.1 million in NMTC equity and $5 million of NMTC allocation through Banc of America CDE. Thompson added, “It really helped subsidize the project so that the net debt piece could be lower.”

“Without the infusion of equity that tax credits give us, we couldn’t do it. We don’t even look at a project unless it looks eligible for tax credits,” said Coleman. GMDC used the NMTC in two of its previous projects and the federal 20 percent historic rehabilitation tax credit (HTC) in its most recently completed development. Coleman said GMDC’s Crown Heights building was eligible for the 10 percent federal HTC, but GMDC decided against pursuing the credit because of the relatively small size of the project.

The Crown Heights project also received $4.1 million from the Brooklyn Delegation of the New York City Council and $500,000 in funds allocated by former Brooklyn borough president Marty Markowitz. The New York City Industrial Development Agency granted a real estate and sales tax exemption through their Industrial Incentives Program, and the Partnership Fund for New York City provided bridge financing to acquire the building in 2012.

Project partners agree that the Crown Heights development is another important step in preserving part of Brooklyn’s industrial character. Thompson said, “What this helps do is retain and promote the economic and cultural heritage of the manufacturing sector in New York City, which has been there for centuries.”

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Greenpoint Manufacturing and Design Center, Crown Heights

**FINANCING**

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