



**TESTIMONY BEFORE A JOINT HEARING OF THE COMMITTEE ON SMALL BUSINESS
AND THE SUBCOMMITTEE ON ZONING OF THE NEW YORK CITY COUNCIL**

**OVERSIGHT HEARING ON ZONING AND INCENTIVES TO PROMOTE RETAIL
DIVERSITY AND PRESERVE NEIGHBORHOOD CHARACTER**

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The Manhattan Chamber of Commerce is a membership organization that drives broad economic prosperity by helping sole proprietors, startups, long-time neighborhood businesses and large companies succeed in business. We do this by facilitating strategic partnerships and offering networking opportunities; promoting members through marketing, advertising, business recognition and participation in high-profile events; providing resources and information to assist members in making strategic decisions; and acting as the collective voice for business on public policy and economic development decisions at all levels of government.

The current state of small business in New York City can be summed up thusly: it is the best of times and it is the worst of times.

On the one hand, things are going incredibly well insofar as new startups are popping up all over the city. But on the other hand, small, neighborhood stores that cater to the needs of long-time residents are disappearing. Not a day goes by where New Yorkers do not read about another business that is unique to the character of our city closing down. I attribute this to three major factors:

- (1) **Affordability.** Rapidly escalating rents are forcing many businesses to relocate or shutdown altogether. The average asking rent for retail space in Manhattan rose nearly 42% between 2012 and 2015 (from \$110 per square foot to \$156 per square foot). Several neighborhoods in the city are "hot" -- attracting new commercial tenants willing to pay rents that long-time businesses cannot afford.
- (2) **Obsolescence.** The evolving marketplace means that some businesses are becoming "extinct." Prime examples include record stores and flower shops, as customers increasingly go online to purchase music and may now buy flowers from their local pharmacy or bodega.

(3) ***New customer journey.*** In the span of only 10 years, technology has redefined the way people shop. Businesses must adapt to these changes in order to remain competitive. Websites, social media and online sales and reviews are now imperative for business success. Those that cannot keep up may not survive. Those that are agile and able to transform their business model may continue to attract a large customer base, mitigating the concerns outlined above (i.e., lack of affordability and possible obsolescence). For example, many startups have the advantage of having to pay little or no rent unlike many longtime "brick-and-mortar" stores.

Work must be done to help small, longtime neighborhood businesses in Manhattan survive and thrive by addressing these issues. This is critical because small businesses are a driving force for job creation. According to the Center for an Urban Future, if half of the city's 165,000 micro-businesses (those with fewer than five employees) in NYC were able to hire just one more employee it would mean 55,000 additional jobs citywide.

In addition, these long-time neighborhood businesses often cater to the needs of long-time residents who remain even in the face of gentrification. For example, my community of Harlem is undergoing tremendous changes and revitalization that has resulted in rising rents. Many residents have been priced out. Yet, the lowest-income residents who remain (often in public housing developments or rent-regulated units) have fewer and fewer affordable places to shop in their own neighborhood.

So what is the solution? In the end the best solution is to help these businesses compete.

In Manhattan, in particular, below 96th Street, there's a way to significantly reduce the costs on thousands of local businesses by eliminating the regressive Commercial Rent Tax ("CRT").

The CRT was enacted by a cash-strapped city in 1963. As fiscal conditions improved, the tax was eliminated for most parts of the city, including the outer boroughs and northern Manhattan. Today the tax is only imposed on commercial tenants south of 96th Street in Manhattan (except for areas near the World Trade Center).

The cruel irony is that the tax is calculated as a percentage of rent so businesses pay more as their rents increase. Tenants are exempt from the tax if their annual base rent falls below \$250,000. But, because rents jumped 42% in Manhattan between 2012 and 2015, more and more businesses are subject to the tax.

In 2003 the city collected nearly \$388 million from 5,858 businesses. By 2015, 7,354 businesses were on the hook for the tax, paying \$720 million to the city (86% more than in 2003).

Councilman Garodnick's legislation (Intro. 799-A) would raise the threshold at which businesses are on the hook for the tax (up from \$250,000 in annual rent to \$500,000), therefore carving out more businesses. Others want to raise the threshold even higher or target relief to retailers. Mayor de Blasio could also create a multi-year plan in his next budget that would phase this unfair tax out altogether.

Now is the time because the city is flush with tax revenue surpluses and reserves. Over time, the revenue losses will be offset by new tax revenue triggered by business expansion and a broader tax base.

In addition the Manhattan Chamber is working with the City's Department of Small Business Services on the Chamber on the Go program, which is funded by the City Council. The program allows us to meet businesses where they are and connect them with free support resources at SBS.

But part of the solution is also you and me. Modern ways of shopping prize speed, efficiency and cost over any loyalty to long-time businesses. So we must be the change we want to see -- by going out of our way to support the small businesses we want to help thrive. At the end of the day they need customers in order to pay escalating rents and hire staff.

Thank you.