artnet news

The Gray Market

How Dozens of Gallery Expansions Hide the Brutal Reality of Real Estate Today—and How a Proposed Law Could Help (and Other Insights)

Pandemic-era deals may be long gone, but one commonsense reform offers hope.

Tim Schneider, April 13, 2022

A sign advertising retail space for rent in New York's Financial District. (Photo by Spencer Platt/Getty Images)

Every Wednesday morning, Artnet News brings you The Gray Market. The column decodes important stories from the previous week—and offers unparalleled insight into the inner workings of the art industry in the process.

This week, examining the state of late-pandemic real estate…

NEW LEASE ON LIFE?

As of this column's publication, it has been more than seven months since economic momentum started pushing more and more small businesses in the arts to scale up their square footage, particularly in New York City. But as the good times roll on the sales side, are the dealers and other art entrepreneurs increasing the size of their footprints also at risk of tripping straight into a buzzsaw?

By my count, north of 40 for-profit art businesses have now announced physical expansions of one kind or another since the start of the fall 2021 art season. The total is up more than 50 percent from when I last wrote about the new art-world space race this February. A slew of those upgrades have been sited here in New York City, with dealers who specialize in emerging art sizing up and spreading out just as eagerly as their blue-chip big siblings.

Yet evidence shows that the art businesses signing up for more space in New York are doing so despite prices surging back to pre-pandemic levels, if not beyond them in prime neighborhoods. Even worse, many, if not most, commercial landlords in the Empire City are determined to keep lease terms short to benefit from the market's rise again as soon as possible—while leaving tenants more exposed than ever in one of the world's most cutthroat real-estate markets.

This combination of factors doesn't necessarily mean that dealers and art entrepreneurs made poor decisions by opting for architectural upgrades. Several will undoubtedly benefit (and some likely had no choice other than to grow). Still, an unblinkered view of the landscape makes plain that the New York art industry would do well to mobilize for permanent statewide regulation of commercial real estate before the next art-market downturn. Otherwise, the trade could very well be in store for the type of multilevel carnage avoided during COVID, but made all too real during the Great Recession.

A view of sparsely populated lower Manhattan in April 2021. Over 17 percent of Manhattan's office space was vacant or about to become so in March 2021. Photo by Spencer Platt/Getty Images.

REVENGE OF THE FALLEN RATES

Many of you are already painfully aware that *residential* real-estate prices in the U.S. have gone berserk in the late-pandemic era. Commercial real estate prices have largely followed the same trajectory due to the influence of similar market forces. However, their stomach-roiling return to orbit may come as news to almost anyone who hasn't tried to lease a vacant storefront themselves in the past three quarters.

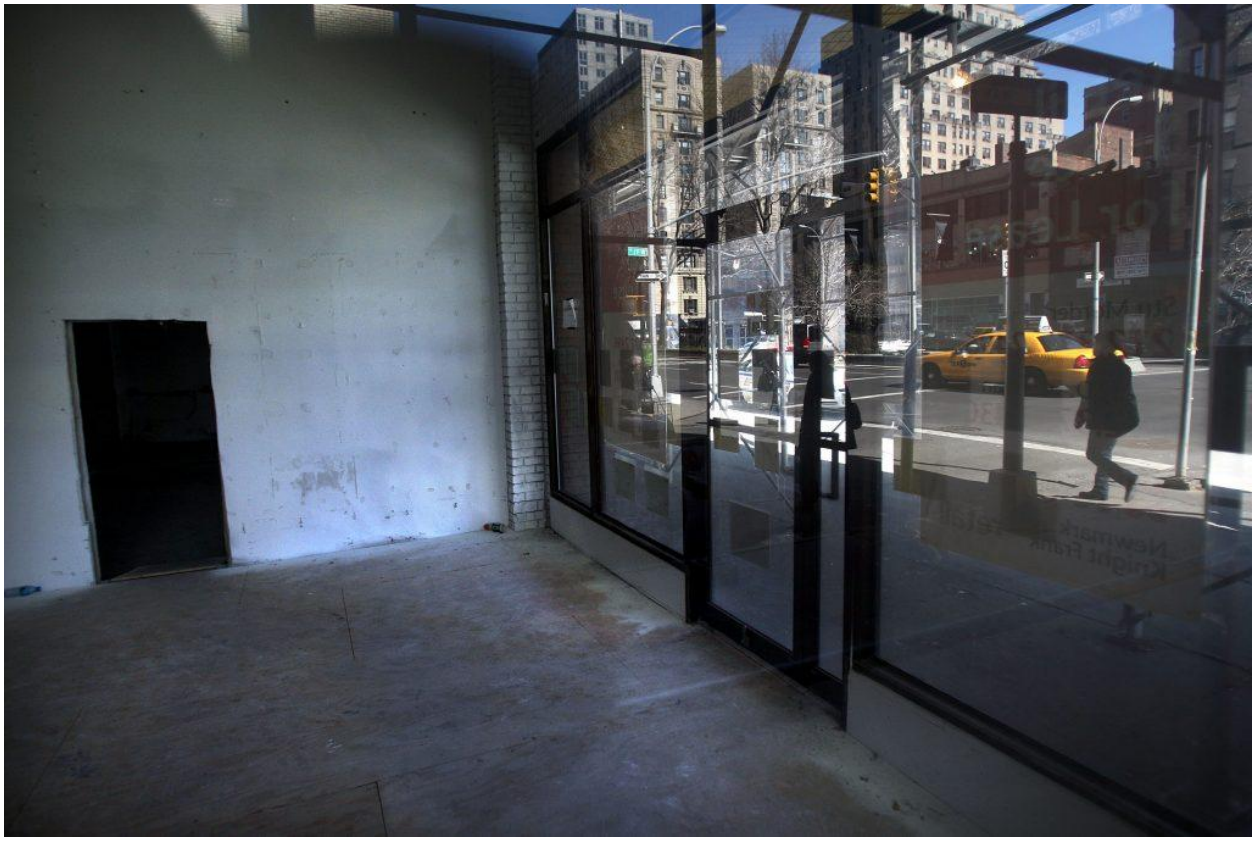
Why the discrepancy? Part of it has to do with a wide disparity in access to useful, reliable data on each sector.

The residential real-estate market is awash in noteworthy figures nationwide. In February, for instance, the *Los Angeles Times* relayed that the median rental price in the country's 50 largest metro areas "rose an astounding 19.3 percent from December 2020 to December 2021," citing research by listings site Realtor.com on properties with a maximum of two bedrooms. The U.S. Census bureau, meanwhile, found that only 5.6 percent of U.S. rental units needed tenants in Q4 of 2021, a smaller share than at any time since 1984.

Local data on residential real estate is ample and alarming, too. The *New York Times* reported that rents in New York City soared 33 percent between March 2021 and March 2022—almost twice the national average—based on data from the online rental aggregator Apartment List.

The total number of available apartments across the five boroughs peaked in August 2020, at nearly 76,000 units per online listings aggregator StreetEasy.com. By January 2022, that figure had plummeted by almost three-quarters, to less than 20,000. Supply in the city's residential rental market has only dipped lower once since January 2016: In April 2020, the first full month after officials ordered nonessential businesses in New York to shutter.

But good luck finding comparable statistics on business leases in the Big Apple.



A vacant New York City storefront. (Photo by Spencer Platt/Getty Images)

THE DARK SIDE

Even today, information on New York's commercial real-estate market largely remains siloed by landlords and developers. The asymmetry largely forces brokers and potential tenants to cobble together whatever they can, whenever they can, however they can.

A recent transparency initiative has done relatively little to level the playing field so far. Inaugurated last year, the NYC Storefront Registry is a database that aims to track vital info on all of Gotham's "ground-floor or second-floor commercial premises that are visible from the street and accessible to the public." The data is supposed to include occupancy status, lease terms (if applicable), square footage totals, and much more, with all info updated quarterly.

As of this column's deadline, however, the registry's last update (on December 3, 2021) only contained data covering 2020, more than 14 months in the past. Earlier data releases were also

riddled with inconsistencies, such as a failure to distinguish between the different reasons a storefront might be tenantless. (In fairness, this particular deficiency had been fixed in the version I reviewed.)

The office of New York comptroller Brad Lander recently added select data on commercial real estate to its monthly fiscal and economic outlook, but to me, the figures don't offer much value.

The April 4 edition includes two entries: a chart showing the quarterly square footage and average asking rent of office property citywide (dating back to Q1 of 2018); and a table tracking Manhattan's year-over-year retail availability rate in 11 different neighborhoods during the fourth quarter of the past three years.

Both visualizations are haunted by unanswered questions. How is the analysis defining "office" space, exactly? Are storefronts being lumped in with high-rise corporate towers? Why are percentages of available Manhattan retail space even useful to know, especially without accompanying data on prices?

A sign advertising available retail space in New York's Financial District. Photo by Spencer Platt/Getty Images.

TRENDING DOWN

In the end, dogged niche journalism may be the best tool for understanding New York's commercial real-estate market. An impressively reported October 2021 feature by Kim Velsey in Curbed

concluded that the state of play in this sector is at least as upsetting as late-pandemic results on the residential side:

Though the numbers fluctuate slightly by season and shopping corridor, the overall story is the same: Despite the closures and the changed nature of the city—despite everything—it costs about as much to rent a store in most neighborhoods as ever… There are more pop-ups, yes, and some new lease structures that might stick around, but retail landlords seem convinced that while there might be a few blips here and there, at the end of the day, the city only ever gets more expensive.

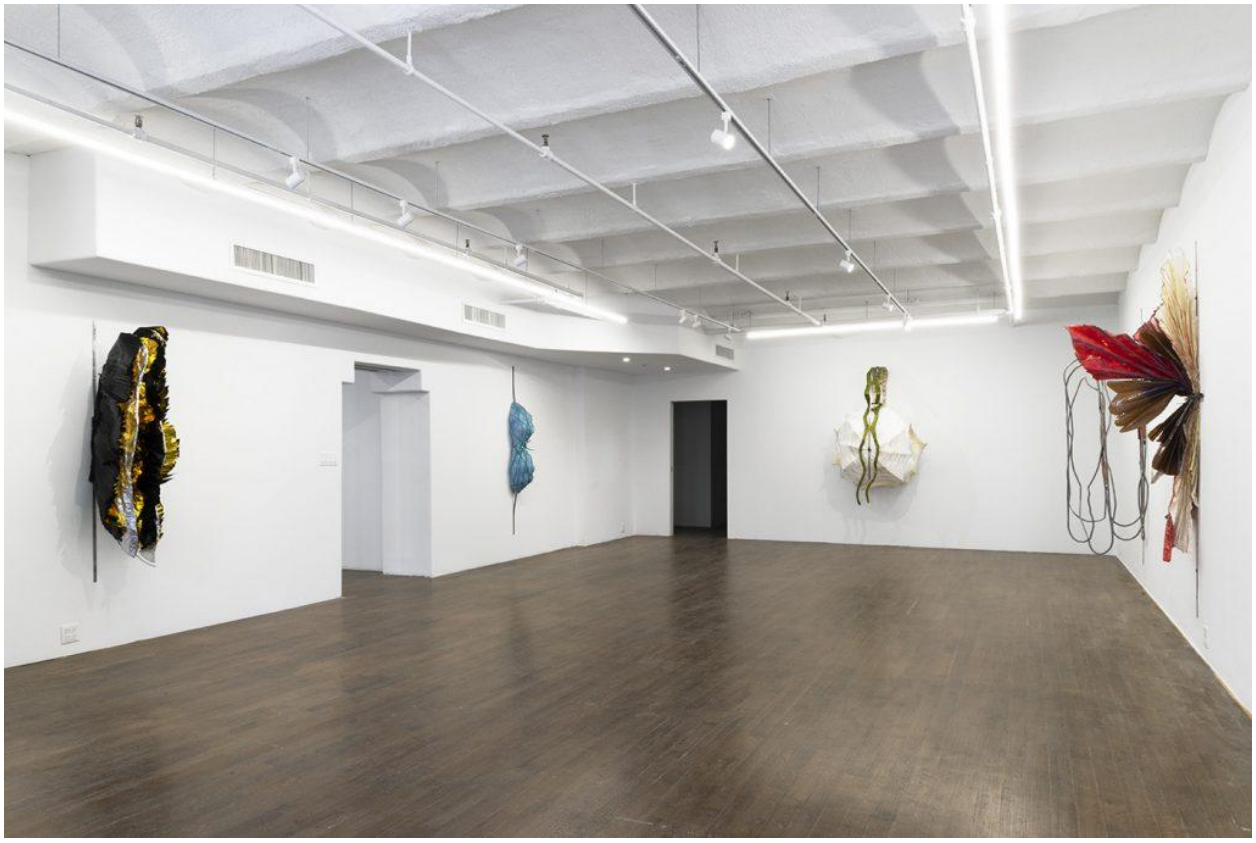
If you're hoping the trends have improved in the past seven months, then brace yourself for an update from Paula Z. Segal, senior staff attorney at TakeRoot Justice, an organization that provides legal support to New York community groups pursuing equitable ends.

"Everything has only gotten worse," she said.

Segal called commercial landlording in New York "the last unregulated industry"—ironically, a title that art professionals and analysts have been applying to the art market for decades. About half of the city's residential units were rent-regulated circa 2018 (counting public housing), according to a municipal housing and vacancy survey. In commercial real estate, however, "everything is treated as a contract between equals, and there is no law" to limit price hikes, Segal said.

One artifact of this lawlessness is the chasm between the amount of publicly available data on the residential versus commercial property markets. Since state and local governments have no obligations to enforce regulations in the latter, property owners can hoard data with near impunity. Case in point, part of the problem with the NYC Storefront Registry may be that landlords are expected to self report their quarterly data or else face… the meager threat of a $500 fine.

The information asymmetry puts landlords in a position of extreme power. The harder it is for the consumer to even understand the severity of the problem, the harder it is to mobilize a coalition for change. No wonder so many galleries and other small businesses here still experience the hunt for new space as a hellish trial.



Installation view of “Em Rooney: Entrance of Butterfly,” at Derosia, New. York. Courtesy of Derosia, New York.

Elyse Derosia is one dealer thrilled to be done with the process for some time. Co-owner of newly expanded and rebranded Derosia gallery (fka Bodega), she and her colleagues needed a full year to find their new location at 197 Grand Street. So much about the process typified the broader struggles of New York small business owners across sectors.

“There was one brief little moment during COVID where landlords were freaked, and a few people got deals,” Derosia said. “But if anything, when I started looking in March 2021, landlords were digging their heels in because they could see the light at the end of the tunnel, and they were pissed because they’d lost money.”

After months of back and forth, Derosia eventually managed to sign an eight-year lease on the new space, at a rate that was more favorable in terms of cost per square foot than the basement unit where the gallery spent its previous seven years. But it only happened after a series of false starts and some hard-nosed bargaining.

“One of the biggest challenges was negotiating a lease for more than five years,” she said. “No one was willing to do 10 years. Eight felt like a triumph.”

Based on commercial lease terms elsewhere in the city, it was. Sources say that even the rare deals struck during the COVID-discount era were normally only for a year or two, allowing landlords to jack prices back up to market rates at the first opportunity. Velsey of Curbed also reported that post-pandemic commercial leases sometimes contain new safeguards for landlords stipulating that

tenants would be responsible for paying full rent even during mandatory pandemic-related lockdowns.

In other words, one of the most notorious rental markets in the country has only gotten tougher since the pandemic. That fact throws yet another obstacle in front of small art businesses seeking to keep some soul and accessibility in the nation's cultural capital. Still, one local proposition could work wonders for everyone in the arts, regardless of their size or market might.

A view of One World Trade Center looming above a sparsely populated lower Manhattan in April 2021. Photo by Spencer Platt/Getty Images.

STABILITY NOW

In 2019, city councilman Stephen Levin introduced a commercial rent-regulation bill proposing the formation of a business-facing counterpart to New York's residential rent guidelines board, which sets a new maximum allowable price rise for rent-stabilized apartments every year. To me, it's a commonsense reform that incentivizes landlords and tenants to develop the types of long-term social connections being eroded by the profit motive. After all, if property owners can no longer price-gouge their current occupants to make way for drastically higher-upside replacements, the city might still avoid becoming an antiseptic megalopolis ruled by big brands and high-earners.

Segal of TakeRoot Justice, a staunch backer of Levin's bill, emphasized that the commercial rent guidelines board would exert *regulation*, not *control,* over the market. Unlike its residential

equivalent, the structure would empower commercial landlords and tenants to formally contest the decided-upon rent if they believe it deviates too far from the market rate in either direction.

“We don’t want to freeze rents that are unusually low or high,” Segal said. “We want landlords to be able to appeal the ruling to bring rates up, and tenants to be able to appeal to bring them down.”

In an industry so used to relying on self-regulation, Levin’s bill represents a rare opportunity for small businesses in the arts to solve a major problem by pressuring someone else to get their act together. With dozens and dozens of galleries committing to more exhibition space amid a booming market, New York dealers might think that calling a city councilman to support a niche proposal is nothing more than a distraction. (A spokesperson for the Art Dealers Association of America said the group had done no advocacy on the bill to date.) But no bull market lasts forever—and neither does any commercial lease.

[Curbed]

That’s all for this week. ‘Til next time, remember: the better things are going in the moment, the more important it becomes to plan for when they won’t be anymore.