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Art Groups Preserve Chelsea by Buying, Not Renting

By ALISON GREGOR

It is an all-too-familiar pattern in many communities: artists discover an inexpensive, underdeveloped neighborhood and move in, only to be ousted from the area by soaring retail rents once it catches on in popularity.

Many argue that it happened in Greenwich Village, and most point to SoHo as the quintessential example of the phenomenon. Now, the same pattern may be occurring in Chelsea, where an explosion of residential development along the High Line, is attracting retailers serving new residents — retailers who are now competing for space with the hundreds of art galleries that are the backbone of the neighborhood.

But some real estate experts say Chelsea's fate may be different, because a healthy number of the neighborhood's arts businesses had the foresight to buy their gallery and studio spaces, rather than lease them.

"The difference between SoHo and Chelsea is that so many artists, or even art companies or art investors, bought condos in Chelsea, so they actually made investments as opposed to leasing," said Barbara Byrne Denham, the chief economist at Eastern Consolidated, a commercial real estate brokerage.

"I think that will preserve their spaces, and the flavor of Chelsea as kind of an art mecca," she said.

Ms. Byrne Denham said there could be as many as 350 art galleries in Chelsea. Enough of them own their space that in a recent report on the commercial property sales market in Chelsea, Ms. Byrne Denham said, "we had to separate them as their own property type."

"I said, 'There's something in this that really stands out: the fact that so many properties sold as art studios, art condos and art buildings,'" she said.

In 2008, the sales volume in that sector peaked at about \$105 million, then activity froze with the financial crisis, according to the report. Sales activity in arts-related properties recommenced in the latter half of 2010.

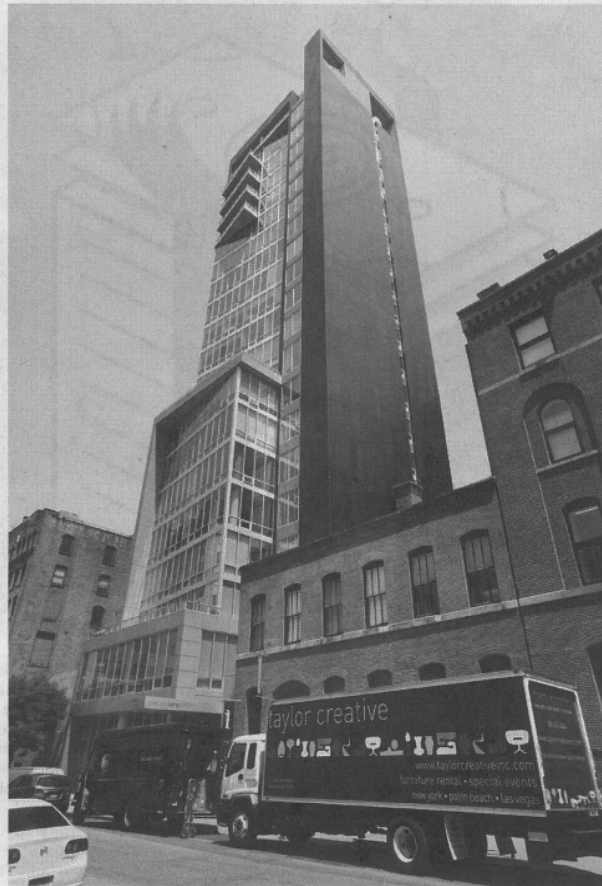
Before 2007, arts-related sales activity in Chelsea was much slower, with about two properties changing hands a year between 2003 and 2006, Ms. Byrne Denham said. Much of that space is in former industrial buildings that were converted as artists and art galleries left SoHo in the mid-1990s.

Many of Chelsea's arts sales in 2007 and 2008 were fed by one developer, Youngwoo & Associates, which built the Chelsea Arts Tower, a 20-unit commercial condominium at 545 West 25th Street.

The building took just over two years to sell out, beginning at prices of about \$700 a square foot and peaking at prices of more than \$2,000 a square foot in 2007, said Margaret Lee, a principal with Youngwoo. Then prices fell, as they did throughout Chelsea, though they have now returned to about \$1,200 a square foot, she said.

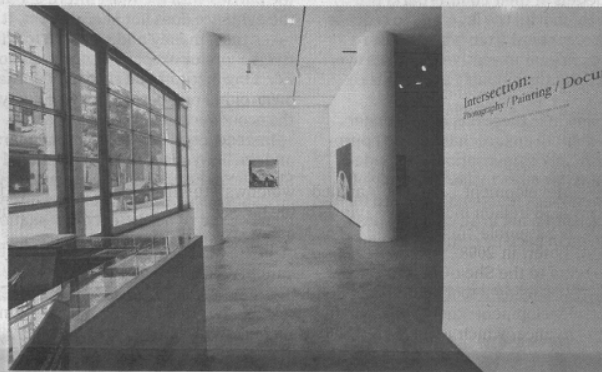
Ms. Lee said that planning for the Chelsea Arts Tower began as far back as the mid-1990s, when the developer acquired the lot in Chelsea.

"All these galleries were being ousted by retailers in SoHo, and they came to Chelsea, and they started buying their real estate, because everywhere they go, the neighborhood gets really nice, and the rent goes up so high, they have to leave," she said. "We saw that and went in early and said, 'I think a lot of these art-related businesses would



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About half of the units in the Chelsea Arts Tower, above and below, on West 25th Street are art galleries. The rest of the building's units are devoted to fashion- and arts-related businesses.



want to buy instead of rent."

Initially, the Chelsea Arts Tower was aimed only at galleries, but developers soon found out that relatively few galleries had the capital to purchase a condo. "You had to be an established gallery to buy," Ms. Lee said. "There are many more struggling galleries than successful galleries."

Ms. Lee said that about half of the Chelsea Arts Tower was art galleries, most of which came not from SoHo but from the 57th Street area, a part of Manhattan popular with the interior design industry. The rest of the tower's units are devoted to fashion- and arts-related businesses.

Relatively few of the units have re-

sold. "Maybe four at the most," Ms. Lee said.

Part of what has kept real estate developers and retailers at bay so far in Chelsea is special zoning created by the city in the 1990s, which helped preserve Chelsea's low scale and kept commercial mixed in with residential, mostly in midblock areas of 24th through 27th Streets. As well, the area's relative lack of mass transportation has discouraged widespread residential development, real estate experts said. While SoHo has many subway lines running through it, creating ample foot traffic, gallery-hoppers — and potential shoppers — have to go out of their way to get to Chelsea.

But the residential development

along the High Line is changing that equation. For instance, among the dozens of projects planned is one by AvalonBay that is creating more than 700 rental apartments near 28th Street and 11th Avenue. The growing need for retail amenities as well as essential services is creating competition with art galleries for retail space, said Jonathan Denham, a principal with Denham Wolf Real Estate Services, a commercial real estate brokerage that works exclusively with nonprofit organizations.

Mr. Denham said there were still commercial spaces that nonprofit arts businesses could afford to lease, especially in the eastern part of Chelsea, away from the High Line. But Ms. Byrne Denham said she thought the number of art galleries in Chelsea might have peaked at about 350.

Still, the opening of a six-story branch of the Whitney Museum of American Art at Washington and Gansevoort Streets at the foot of the High Line could spur renewed interest in Chelsea by arts tenants, Ms. Byrne Denham said. She described it as a double-edged sword, however, saying it could drive up real estate values even more.

Even buying space may not protect all art galleries and businesses, and there have already been some arts-related casualties in the neighborhood. After being foreclosed upon, the Chelsea Art Museum sold its building at 556 West 22nd Street earlier this year to the Albanese Organization, a New York City developer. The museum will continue to operate there until the end of 2011, but then will find a new home. Meantime, the building is on the market for leasing.

"We bought the building to be sure the museum could stay," said Dorothea Keiser, the president of the Chelsea Art Museum, who attributed the building's loss to failed and contentious real estate negotiations with a developer. As for relocating somewhere in Chelsea, with its rising prices, Ms. Keiser said that would be "very questionable."

"But how would people find us if we move to another part of New York?" she asked. "It already took years for the visitors to be accustomed to us in Chelsea."

The Joyce Theater at 175 Eighth Avenue and 19th Street, which has a 35-year lease that expires in 2016, is contemplating moving out of Chelsea altogether. Part of that is because of pricing worries, but the theater company also needs more operational space, said Mr. Denham, who is counseling the Joyce in its search.

"We've looked at a couple things in Chelsea, but we're being realistic, and if we do have to go, we'll probably want to play the role of being the incubator or pioneer in another up-and-coming neighborhood, similar to what we've done here," said Linda Shelton, the executive director of the Joyce.

Other arts organizations may be maneuvering to stick it out in Chelsea, like the Pace Gallery, which bought the space at 510 West 25th Street in September 2010, Ms. Byrne Denham said. Still, selling is not always as simple as accepting a cash buyout, brokers said. Unless the art business is closing altogether or has other branches, it has to buy or lease a new location.

"It can be tempting to entertain those offers," Mr. Denham said. "You might be able to sell for top dollar, but in order for the organization to stay in business, they also have to go out immediately and buy property, also frequently at top dollar."