

December 3, 2018

COMMERCIAL REAL ESTATE

Lower Rents Are Enticing Retailers To Ink Deals



By Lois Weiss



Restaurants, condos and hotel rooms will fill The XI on Manhattan's West Side. Dbox Courtesy of HFZ Capital Group

Retailers have a reason to celebrate this season.

After several long years of escalation, rents have dropped and stabilized, according to the Real Estate Board of New York's fall retail report. "I can't emphasize enough that 'rent' is the four-letter word," says Joseph Farkas of Metropolitan Realty Associates. "Retailers want to be here, they just [couldn't] afford the astronomical rents that crept up on them four years ago when three-figure rents [per square foot] became prominent."

Now, lower rents have led to new opportunities for building owners and retailers. "We are seeing a lot of deals and offers because the landlords have come down to meet the market," says Faith Hope Consolo of Douglas Elliman Retail.



David Yurman is moving from its Madison Avenue townhouse. David Yurman

"If they won't pay \$800, they will pay \$600 [per foot]," one prominent owner with properties in the East 60s told Consolo, who adds, "Now they are coming down to a real number."

Owners and retailers alike are eager to ink deals. Recently, at MAPIC, the Cannes international retail show, Ariel Schuster of RKF observed that European brands are more interested in American outposts than they have been in years. “We will see more European tenants — because the rents scared them off, and they will now see there was an adjustment,” Schuster says. “For certain brands, Madison Avenue is hugely important.” he adds.

While tenants along Madison Avenue may swap storefronts like a game of musical chairs, the majority of retailers stay on the avenue, says Karen Bellantoni of RKF. And with better pricing and fewer competitors, tenants gravitate toward the best available retail, says Andrew Mandell of Ripco Real Estate.

Sources say Missoni is negotiating to move farther south along Madison Avenue. Meanwhile, David Yurman is moving from its Madison Avenue townhouse to 5 E. 57th St. right off Fifth Avenue.

In addition, short-term or pop-up tenants are using this opportunity to “go permanent,” or relocate nearby to a long-term flagship, says Beth Rosen of Ripco Real Estate. Others start with local office showrooms and eventually come around to opening entire stores.

This evolving retail landscape has politicians and passersby jumping to conclusions based on “space available” signage or empty storefronts. “It’s confusing because even if we lease, my sign will stay up while they are preparing for the new tenant,” Bellantoni explains. The drop in asking rents has Schuster and other brokers reviewing their clients’ leases and trying to lock them into deals long before the expirations. “There is more opportunity for local merchants than there have been for many, many years,” he adds



Indoor parachuting company iFly, already in Westchester, is looking at spaces in the outer boroughs, where rents are more affordable.iFly

Brands revolving around fashion, food, fitness and beauty continue to be the main groups targeting the Manhattan marketplace.

“Retailers want to be next to food and next to a really great coffee bar, like Joe & The Juice, because it provides good foot traffic,” says Bellantoni. “And now that rents are adjusted, the food tenants can afford to make deals in some of these places they couldn’t before.”

In Noho, Lafayette Street is doing well, but in Soho, the larger storefronts and higher rents along Broadway are causing some retail spaces to languish.

The South Street Seaport is filling in with food, shopping and entertainment tenants. On the Lower East Side, the large Essex Crossing development will change the complexion of the entire neighborhood, Mandell says.

North of the Meatpacking District, where Google is expanding, the XI, a buzzy full-block residential and hotel project at 76 11th Ave., is being helmed by HFZ Capital and will have a Six Senses hotel as well as restaurants and a few retailers.

Indeed, the entire side of Manhattan along the Hudson River is bustling with opportunity. “Just the fact that Hudson Yards is open and people can walk on the High Line [to the Meatpacking District] will help the West Side in general,” says Mandell. The new developments are also appealing to brands looking for brick-and-mortar options.

Hudson Yards and the Manhattan West project in the West 30s, for example, provide numerous opportunities. “We are seeing significantly more interest from retailers in all categories,” says Michael Goldban of Brookfield, the Manhattan West developer. “All the retailers are bullish on the holiday season and the general outlook into 2019.”

Goldban is scouring the world to find unique concepts to fill his projects. “We want to find brands building new experiences, experimenting with design and using technology in innovative ways,” Goldban says.



The newly opened Levi's flagship store in Times Square includes multiple customization options and four on-site tailors. Levi's

At Manhattan West, such retailers will join the already announced Whole Foods and fitness brand Peloton, or they could take space at the company's eponymous Brookfield Place downtown.

Pointing to Levi's new global flagship at 1535 Broadway in Times Square and to Nike at both 650 Fifth Ave. in Midtown and at 529 Broadway in Soho — which have features from a customizing hub in the former to a basketball court and make-your-own-sneaker setup in the latter — Goldban adds,

“The smart brands understand how they need to raise their game, especially when there is competition.”

In the Diamond District, the sparkling gems are the attraction. Jeweler Robert C. Friedman at 36 W. 47th St. says the newer towers include beautiful storefronts to show off pricey pieces. “Everyone in the world comes to New York for their jewelry,” Friedman adds.



Brooklyn's City Point, Flying Tiger is already open. Ric Seachrest

In Downtown Brooklyn, the residential and retail project City Point has space to let being marketed by RKF. To entice consumers, RKF is adding brands like cheap 'n' cheerful Danish accessories purveyor Flying Tiger Copenhagen, fashionista destination Hio and furniture firm Joybird.

In Industry City, developer Michael Phillips of Jamestown actively invests in unique visitor experiences, such as Japan Village, which opened over Thanksgiving weekend and is anchored by a food hall. At 33 35th St. in Sunset Park, "Distillery Row" features small-batch spirit producers like sake brewer Brooklyn Kura and vodka maker Industry Standard Distillery. Phillips wants to intersperse local brands with digital-savvy retailers like early clicks-to-brickers Warby Parker and Bonobos.

Outside Manhattan, Farkas says "junior" big-box tenants needing from 20,000 to more than 40,000 square feet will find rents in the \$20s to \$30s per foot. Beyond the boroughs, rents in the metro area run \$18 to \$20 per foot for similarly sized spots.

“That’s where companies can afford the rent and where 10-year leases are being signed,” he adds.

Tenants in that marketplace tend to revolve around the “Fs”: food, fast fashion, fun entertainment and furnishings, Farkas says.

Sources say current junior tenants in the market for space right now include Floor Décor, which focuses on tile, wood and carpet; At Home, which is a HomeGoods competitor; and iFly, the indoor parachuting company. Century 21 is looking “all over” for 50,000 to 70,000 square feet, while bowling company Pinstripes is on the hunt for locations with 30,000 to 40,000 square feet.

Says Jedd Nero of Avison Young, “If a landlord wants to make a deal, they make the best deal.”