NEW YORK POST
24 HOURS A DAY

April 9, 2018

REALTY CHECK

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REAL ESTATE

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Why NYC's Empty Retail Space Surplus Isn't Fazing Developers

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Some 1.2 million square feet of newly minted retail space are coming to the Manhattan leasing market at three major new developments — Hudson Yards, Manhattan West and Essex Crossing — even as vacant stores blight almost every part of Manhattan.

Yet many retail landlords and brokers had a “What, Me Worry?” reaction to our Sunday column that forecast a ghost-town future for many streets and avenues.

Although most of the new product is spoken for, like Neiman Marcus’ 190,000-square-foot department store at Related Companies’ Hudson Yards, it’s far from fully committed. Westfield America still has unleased space on its hands at the World Trade Center more than two years since its Oculus mall opened.

The mega-projects put pressure on landlords struggling to find tenants for tens of thousands of square feet at newly created, high-priced storefronts at their own free-standing office, apartment and hotel buildings. Harry Macklowe’s super-tall 432 Park Ave. has found only one retail tenant in several years of trying: Swiss watchmaker Richard Mille, which took under 5,000 square feet of about 60,000 available.

Colliers International’s Brad Mendelson said bluntly, “All these new developments are not affordable. They were planned [a few years ago] in an environment that was growing 10 to 15 percent a year.”

When users finally sign on for the new projects, they tend to be pharmacies — and enough bank branches in a single neighborhood to serve the whole of Manhattan.

Meanwhile, long stretches of older properties remain dark at sidewalk level, including on Third Avenue north of Bloomingdale’s, Broadway north of Lincoln Center, numerous Bleecker Street blocks, West 14th Street in the Meatpacking District, and all over the Financial District.

Among the few with a balanced view was developer Douglas Durst, who spoke to The Post about the situation before the column ran. He noted, “I’ve been around for a while. We saw large vacancies in the 1970s and early 1980s. But it’s unusual to have today’s real estate retail recession at a time when the economy is taking off.”

Durst said the situation, which he declined to call a “crisis,” doesn’t need city interference. He said, “Developers are not going to build more space than they think they can lease. I think that’s going to happen naturally without any regulation.” The problem is that too much space has been launched in projects that were set in motion long before the dimensions of the retail fallout became clear.

Durst hasn't had much trouble renting out storefronts at his company's properties — he leased 46,500 square feet to Nordstrom Rack for the whole blockfront at 855 Sixth Ave. Even so, he's aware of online shopping's impact on bricks-and-mortar retail.

"We do a lot of shopping online," he said of his own family — "and returning," he added with a laugh.

In fact, as we pointed out, Amazon and many individual store sites make it a snap to send things back. Not only is it easier to ship back goods that arrive in the wrong fit or color than it would be to return them to the store, but also it can actually be easier than buying products in stores plagued by poorly trained employees and sluggish touch-screens.

The online shopping impact, which now accounts for 9.1 percent of retail spending nationwide, and growing fast, was our column's main thrust.

Yes, there are also issues such as impossibly high rents and commercial real estate taxes, but the main problem that few are willing to acknowledge is simple: Because so many customers, millennials especially, prefer to buy online, there aren't enough stores needing space at any price or of any size to fill all the holes.

Sure, fast-casual food spots and health-and-fitness facilities are expanding. But all the copycat salad bars, gyms and spas wouldn't come close to filling, for example, the 526,000 square feet that Lord & Taylor is giving up to WeWork at its Fifth Avenue flagship store, which will shrink to just 150,000 square feet.

et most industry insiders responded by focusing on the side issues — especially the belief that falling rents would eventually "stabilize" the situation. So did readers, who while lamenting the "nostalgia" for long-gone music and video shops, bookstores and neighborhood boutiques, emailed us that "commercial rent taxes are OUT OF CONTROL," "liberal democrats want to destroy any city they control by overtaxing," and landlords "throw out business in order to sell property to realtors hell-bent on putting up high rises on every block."

Real estate professionals took an optimistic, bottom-line view. “Tenants are the goose that laid the golden egg right now. They can drive a better bargain,” said RKF’s founder and president, Robert K. Futterman. He argued that the large new complexes are “completely separate” from the rest of the market and that asking rents, although “hard to quantify,” are much lower, “anywhere from 20 to 50 percent less in certain markets.”

Lee & Associates’ Peter Braus echoed, “I’m seeing rents correcting at a rate that is unprecedented in my 20-plus years in the business, and that, much more than any tax [relief], will get stores filled up again.”

We await the results.

Newmark Knight Frank’s Jeffrey Roseman downplayed Nine West’s bankruptcy filing last week. He tweeted, “They were in business for 40 years! That’s a pretty good run in any era. Retailers, like companies in every industry, change from decade to decade.”

Douglas Elliman’s Faith Hope Consolo saw the bright side: “We have all-time-high consumer confidence and tourists galore.” True, but it begs the question of why retailers aren’t clamoring to rent more space.

New York City planning sage Mitchell Moss, a professor of urban policy and planning at NYU and director of the Rudin Center for Transportation Policy and Management, insisted that people’s psychological need to go out and shop will be the battered retail scene’s salvation. “It’s not about shopping alone, but one providing an activity that reinforces people’s sense of themselves. That’s why they call it retail therapy,” he said.

And, Moss added, “If there’s one thing New York has, it’s inventive shopkeepers who find new ways to bring people in.”

He cited Apple stores as “an example of how new and creative retailing can work. There’s no place in America that knows how to separate money from customers better than Apple.”

But reader Charles Beck had a more ominous thought: “Wait until interest rates rise and banks close or downsize their branches in Manhattan. THEN you will see what a glut of space looks like.”