

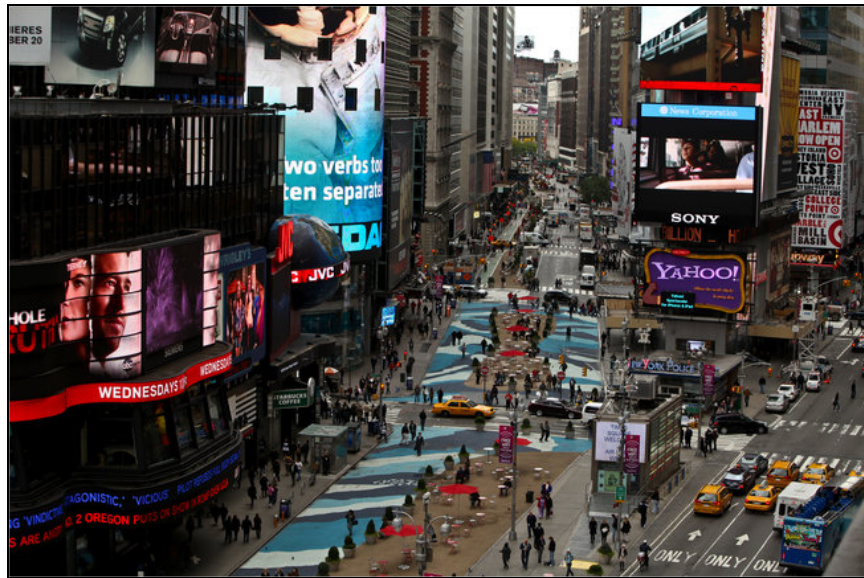
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Business Day Square Feet

In Times Square, at Least, Retailing is Rebounding

By TERRY PRISTIN



When the sunglass and sportswear maker Oakley wanted to expand its presence in Manhattan, it leased space last month on a busy corner that was swarming with tourists. To get that space, Oakley is paying \$1,375 a square foot - what some luxury retailers paid on Madison Avenue's choicest blocks before the recession.

But Oakley's store, which will be 1,815 square feet, will not have a Madison Avenue address. Instead, it is at 1515 Broadway at 44th Street in Times Square, a neighborhood once known more for peep shows and prostitutes than astronomical rents. Yet three other retailers competed with Oakley for the space, said Jeffrey B. Roseman, an executive vice president at the brokerage Newmark Knight Frank, who represented the landlord, the S L Green Realty Corporation.

Not so long ago, stores in New York seemed to be emptying out at a rapid clip. Shoppers cut back on spending, making it difficult for many merchants to keep up with the high rents. At the same time, tens of thousands of square feet were added to the market as struggling retailers like Circuit City sought bankruptcy protection or others, like the Gap and Barnes & Noble, closed stores in New York.

Some of the gloom has lifted. Though unemployment in the city remains high - and the office market is showing only minimal improvement - retail leasing began picking up late last year and has been accelerating this year. The new tenants are dominated by apparel stores, including the Japanese clothier Uniqlo at Fifth Avenue at 53rd Street and the discount apparel store Century 21 in 61,000 square feet at Broadway and



66th Street that is currently occupied by Barnes & Noble. The five former Circuit City spaces have new tenants. Most recently, the food market Fairway leased space on 86th Street between Second and Third Avenues that used to house a Circuit City and a Barnes & Noble.

And in one shopping district, Times Square, the average annual asking rent of \$650 a square foot is actually higher than it was in late 2008.

Brokers say business began improving when rents in many neighborhoods declined by as much as 30 percent - enough to persuade tenants that they were getting a good deal. "The landlords responded to a wave of creditworthy tenants," said Gene P. Spiegelman, an executive vice president at Cushman & Wakefield. "They had secure cash flows in a time of uncertainty." In addition, landlords have sweetened deals by giving extra months of free rent and contributing to the cost of building the store interior, brokers say.

Landlords have also become flexible in other ways, said Benjamin Fox, the president of Winick Realty Group. For example, he said, space on Third Avenue and 44th Street that was formerly leased to a card store sat empty for more than two years, but is now home to two restaurants, Le Pain Quotidien and Hello Pasta. "I don't think that landlord ever contemplated having food there," Mr. Fox said.

Though some retailers are taking advantage of the market, many others still cannot get financing to open a store, Mr. Fox said. "The activity has increased - no question about it," he said. "But the velocity is still not what it used to be. There are still a lot of national chains sitting on the sidelines, in New York and elsewhere."

Still, on the so-called Gold Coast of Madison Avenue, from 57th Street to 72nd Street, vacancies have dwindled to 20 from 30 since early last year, Mr. Spiegelman said. Because some space has been consolidated, the vacancy rate has declined only two percentage points from its peak of 13 percent at the end of 2008 and well below the 6.5 percent rate in 2006. The newest tenants on Madison include the Swiss watchmaker Vacheron Constantin at 64th Street, the boot maker Ugg at 58th Street and the lingerie store Agent Provocateur at 61st Street.

Though the average asking rent is about \$841 a square foot, some deals were struck at \$600 a foot early in the recovery, Mr. Spiegelman said.

A spate of new leasing has also occurred on 34th Street, between Fifth Avenue and the Avenue of the Americas. Among the new arrivals are the clothing stores **Who. A. U. from South Korea** and **Desigual from Spain.**

Though brokers are breathing easier these days, they say some neighborhoods are still hurting. The Flatiron District, on Fifth Avenue and Broadway from 14th Street to 23rd Street, for instance, is still riddled with vacancies. **“Not everything has been coming back with great luster,” said Faith Hope Consolo, the Chairwoman of Retail Leasing at Prudential Douglas Elliman.**

The proliferation of bank branches before the recession swelled rents on stretches like Third Avenue on the Upper East Side to unrealistic levels because banks were competing for corner locations, brokers said. Now many spaces on the avenue are or will soon be empty. “A lot of leases came due at the same time, and the tenants chose not to renew,” said Gary Alterman, a senior vice president at Robert K. Futterman & Associates.

Desirable spaces on Third Avenue once commanded more than \$300 a foot, but are now about \$250, Mr. Spiegelman said.

But rents are rising in tourist areas like SoHo and Times Square. Sam Chandan, the chief economist for Real Capital Analytics, a New York research firm, said “the strong rebound in tourist traffic” was benefiting the retail corridors that attract visitors.

One gauge of SoHo’s success is the diminishing number of spaces for temporary, or “pop-up” stores, said Stephen Tarter, a principal of Tarter Stats O’Toole, a local brokerage. “A year ago, there were probably 20 spaces where you could put a temporary tenant,” he said. “Now there are about three.”

In Times Square, the “bowtie” section, from 42nd to 47th Streets where Broadway and Seventh Avenue cross, is the second-most expensive shopping district in the city, with an average annual asking rent of \$1,000 a square foot, higher than before the recession, according to Cushman & Wakefield. Only the Fifth Avenue shopping strip north of 49th Street performs better, with an average asking rent of over \$2,300.

For Oakley, which also has stores in SoHo and the meatpacking district, a berth at 44th Street and Broadway seemed ideal because the corner drew international tourists “almost 24/7” and the neighboring clothing stores, Aéropostale and Billabong, catered to a similar youthful customer, an Oakley spokeswoman said. “The co-tenancy is definitely desirable,” she said. Times Square has an advantage over most other shopping districts because the stores remain open late into the evening. In coming months, the real estate industry will be watching closely to see whether some of the razzle-dazzle of Times Square can be extended east. C. Bradley Mendelson, another executive vice president at Cushman & Wakefield, is representing the owners of three buildings on the south side of 42nd Street between Broadway and the Avenue of the Americas, including the Knickerbocker Hotel, the 1918 Bush Building and 1095 Avenue of the Americas - formerly known as the Verizon Building - where a new plaza is being built.

Mr. Mendelson says he hopes to create a destination on that block, with restaurants and stores that will bring new life to the street. Finding the right tenant for the corner of 42nd Street and the Avenue of the Americas will be crucial, he said.

“Everybody knows we could put a CVS on that corner or a Duane Reade,” Mr. Mendelson said. “But it would do nothing for that block.”

*** WHO.A.U. store, at 22 W. 34th Street, was leased by Faith Hope Consolo and Joseph Aquino of Prudential Douglas Elliman's Retail Group.**