

THE REAL DEAL

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COVER STORY

Holiday retail turnaround

If shopping season is strong, NYC retailers might 'open the spigot' and increase expansion plans

BY ED LIEBER

All indicators are pointing toward this holiday shopping season in New York City outperforming the past two, which were among the worst in decades. At the same time, an increase in leasing activity in the city seen in the past year is expected to continue going into 2011 -- especially if retailers have a strong showing this month.

Faith Hope Consolo, chairman of retail leasing at Prudential Douglas Elliman, believes that New York City retailers will do at least 2 to 3 percentage points better this holiday season than the past two years.



Jeff Roseman, executive vice president at Newmark Knight Frank, said consumer spending has been "pent up" for the past two years. "Retailers are discounting earlier and more often, and this could create the perfect storm for shoppers," he said, predicting a "surprisingly good" holiday season.

Electronics chains, both nationally and in the city, are expected to perform especially well, due in large part to high-profile new products like Apple's iPad, Microsoft's new Kinect for the Xbox 360, and even the advent of 3D televisions.

Retail brokers in the city generally believe that merchandisers that offer savings will outperform their competitors. So the big question mark this year is how New York luxury retailers will do.

Some brokers, like Consolo, believe that in addition to activity at discount retailers, "we will see a return of luxury apparel spending," particularly at high-end luxury specialty boutiques.

"They are the two best: luxury boutiques and discounters, in all use sectors, such as accessories, jewelry or electronics," she said. "It is the midrange retailers that have no attraction and won't do well. That is because there is no compelling reason to buy there, no value, no glitz."

Other brokers are focused more exclusively on the bright future for cost-conscious retailers.

"The common wisdom is that people are looking for value, and they won't spend money on

frivolous things," said Lon Rubackin, managing partner at GFI Retail Group. "Sweaters, scarves and gloves will move -- the emphasis will be on the practical. Discounters will do well."

Indeed, Roseman said, "luxury retailers have been on hold for the most part."

"We haven't seen Gucci take too many new stores," Roseman noted. He said that he expected moderately priced stores, like H & M and Urban Outfitters, to do well.

Perhaps most important, brokers believe 2011 will be a time for retail expansion rather than contraction. That's partly because there's already been a major bloodbath on the New York City retail front in the past two years.

"There's been a huge shakeout already. Most people don't expect the major store closings that took place a couple of years ago," Consolo said.

She said with the recovery under way but rents still down, there is a lot of opportunity and retailers "want to take advantage of deals."

Rubackin said some landlords are still offering rent concessions and "tenant allowances" in which the landlord contributes \$25 to \$75 a square foot to help the tenant build out the space before moving in.

"Landlords Vornado and Friedland [Properties] reduced rents significantly in the short term. Vornado and Friedland accepted a much cheaper rent, but only for a few years, then the rents will go to what they consider a more normal number," said Rubackin, referring to spaces on Madison Avenue.

For example, a hypothetical Madison Avenue space that would have fetched \$800 per square foot during the pre-recession days would be rented for \$500 per square foot now. But that price might only be for maybe three years, then it would revert to \$800, Rubackin said.

Vornado declined to comment and Friedland officials were not available.

Rubackin noted that while much of the space on Madison Avenue that was empty last year has since been rented, some spaces in highly desirable neighborhoods remain empty because landlords refused to offer the kinds of deals that helped fill Madison Avenue.

Across the board, rents are still down about 20 percent in Manhattan, brokers said. But this does not include certain high-traffic areas, where rents are just as high, if not higher, than they were during the boom times.

Brad Mendelson, executive vice president at Cushman & Wakefield's retail group, noted that "Times Square rents never went down," primarily due to lack of availability, whereas "other markets are as high as they were," such as Fifth Avenue, Soho and the Meatpacking District.

Roseman agreed, but added, "Some markets are suffering -- the Upper East and West sides and the Flatiron District."

Meanwhile, several boutiques have expanded, like the designer Michael Kors, who is opening four stores Uptown and three stores Downtown -- one each on Bleecker Street, Soho and in the Meatpacking District, Consolo said. The clothing store Caché and the wristwatch store Vacheron

Constantin have also re-entered New York City, Consolo said.

Also, the UK retailer Accessorize, which sells everything from bags to jewelry to footwear, opened its first U.S. store on Bleecker Street in October, followed by a second in Union Square last month, according to published reports. This is the first of 100 planned stores set to open in the U.S. throughout the next four years.

Rubackin predicted retailers will still be conservative, but "there have been a lot of conversations in a lot of retail conference rooms" about possible expansions.

"If Christmas comes in well, they might open the spigot a little more; maybe they will open 12 or 13 stores next year instead of 10," Rubackin said.