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**SHOPPING CENTER
BUSINESS**



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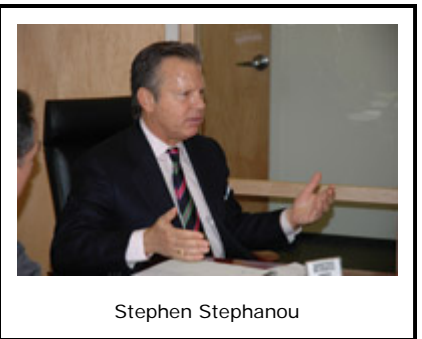
New York's Retail Continues Expansion
Despite tight space, retail is in high demand in New York City.
Moderated by Jerrold France, Randall Shearin and Stephanie Mayhew.

Shopping Center Business and *Northeast Real Estate Business* recently held their annual New York City Retail Roundtable at the New York office of Meister, Seelig & Fein LLP. Participants, which included brokers, developers and lenders, discussed current trends and the health of the retail sector in New York City. In attendance were: Patrick Breslin of GVA Williams, Scott McIsaac of John Hancock, Franklin Zuckerbrot of Sholom & Zuckerbrot Realty, Matthew Kasindorf of Meister, Seelig & Fein LLP, Joel Braun of Acadia Realty Trust, Beth Greenwald of Newmark Knight Frank, Daniel Lissner of Johnson Capital, Chuck Blessing of Marcus & Millichap, David Cohen of GE North American Lending, Andrew Pittel of Andrew A. Pittel & Co., Daniel Biederman of Bryant Park/34th St., Deborah Jackson of Weiser LLP and Stephen Stephanou of Madison HGCD.

SCB: Which areas in and around Manhattan are retailers asking you to find spaces?

Pittel: We have been working diligently on the Upper West Side and NoHo, just north of Houston Street. There is a tremendous amount of development in both of those areas, especially high-rise residential towers with major retail components. Everyone is exploring the opportunities. We will see a lot of change in this area.

Stephanou: The tenants we are working with are focusing on emerging neighborhoods Downtown, such as the Meatpacking District. We recently did a deal for Juicy Couture on Bleecker Street and we are working with some other clients on finding spaces there. The rents on Bleecker Street have become astronomical. Even if you have a tenant that is willing to pay those kinds of rents, finding a suitable space is really a challenge because retailers want to be in specific places [where there is significant foot traffic], and that need a configuration that works for a retail layout. Often, many of these emerging neighborhoods do not have the conventional retail format of a major avenue. We also recently represented Tiffany & Co., who is opening a store in the Wall Street area. It may not be a great move for all retailers, but now other retailers can see the opportunities in the Wall Street/financial area. This area is not really a residential area yet, but office space is being converted to residential, so you are starting to see a neighborhood building. Another emerging neighborhood for tenants is Brooklyn. National retailers tend to be somewhat confused by Brooklyn because it is a complicated area. However, we are looking for opportunities, particularly on Smith Street, for some of the apparel retailers. Brooklyn is wonderful for more interesting, less conventional retailers, but it is hard to find a suitable space for national retailers.



Stephen Stephanou

SCB: Are the rents predicated on supply and demand?

Pittel: Depends on the neighborhood. If you are in the Village on Bleecker Street and all of the major national fashion designers are in place, the landlords think the retailers can afford the big rents and begin to ask for them. However, in Brooklyn supply equals the demand so the rents are decent. But, in this area as well, once the tenants start coming into place the rents are going to jump. In the Downtown and Wall Street area, we have been showing spaces to several restaurant tenants. They believe in it, but they are not sure about the area. Once the first retailer makes that jump, perhaps a major chef, then others will follow. Again, some of the rents in the Downtown area are affordable and some are not. Since Tiffany and Hermès have come into place there, all of a sudden the rents are jumping.

Stephanou: We represented Borders and Sephora when they opened stores on Broadway to replace stores that had been at the World Trade Center. Borders was the one of the first major retailers to re-establish itself in Lower Manhattan and they had concerns because their World Trade Center store had been one of the most successful stores in the chain and they perceived Broadway as a different venue. They have been extremely happy there, as is Sephora. Lower Manhattan is so under retailled; yet, national retailers are very reluctant because it is not an easy area to perceive. You have to take into account the foot traffic, but also the people occupying the office space and the fact that there is a growing residential community there that is extremely affluent and doesn't have shopping venues nearby. There is a huge pent-up demand and retailers that are going there are finding that to be the case, but getting tenants over that psychological hurdle is not easy.

SCB: Are you talking just about the World Trade Center area?

Stephanou: I am talking about from Chambers Street to the south, an area that serves the Tribeca residential community and the financial area. There is a bit of a gap between Houston Street and Chambers where you see some of the more popular mom-and-pop type merchants that have now moved south of Houston Street because rents in SoHo along Broadway have become so astronomical. Because of the attention the World Trade Center has garnered, there are more people that now walk on Broadway toward Lower Manhattan that pre 9/11 really never went in that direction. There is an enormous amount of activity because of the government buildings, residential communities and the office worker/commuter. Once all of the transportation is in place it will become an even more popular area.

SCB: How are retailers looking at the World Trade Center area? Are mom and pops going to last?

Greenwald: Retailers will look at the area once more larger spaces are available. A Whole Foods and a Bed Bath & Beyond are taking space there, but you need big sites for those types of stores.

Breslin: It is almost impossible to find space down there.

Pittel: There is space down there and in the near future at the World Trade Center site there will be more than 300,000 square feet of retail space. However, there are retailers that are waiting to come back because they don't want to have dual stores. Certain retailers can afford two locations not far from each other, but others can't so they are waiting for that moment.

Greenwald: But, retailers need a density of like retailers. The same thing happened on Bleecker Street. It was the reason everybody went there and wanted to be there. People need the confidence of someone saying an area is ok.

Jackson: People will say that Downtown is a hot market because there is so much growth and residential activity, but the World Trade Center itself casts a shadow down there. There is not a lot of space that is available and intriguing to the hot or national retailers. Retailers thought something would be built years ago, but now they are waiting to see what is going to happen because there will be retail there, but it is not going to happen tomorrow.

Greenwald: H&M would be perfect in that area, and they would bring other like retailers. There is such a crossover in the area, practically everyone is a customer.

Breslin: H&M probably has a little apprehension because of the Century 21 store that is Downtown.

Stephanou: H&M taking space in Lower Manhattan would be a big coup for them because Century 21 does bring the tourists and shoppers looking for a bargain down to the area, so that makes the shopping experience a unique one. Retailers like to be clustered together, but if they are effective retailers there is usually a synergy, which means they can all do well.

Pittel: It is also about educating tenants that don't understand the Downtown dynamics.

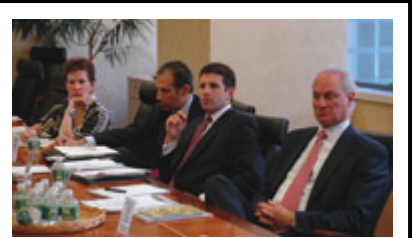
Stephanou: 86th Street is another street that national retailers don't understand. You explain that there is an express subway and it is a mix of shoppers from Uptown and the Upper East Side, but retailers have a hard time understanding it because it seems so urban. Obviously, it is hard to find a suitable place, but there are two development projects underway.

SCB: What retailers are moving into the city?

Breslin: Many mall tenants have come to the conclusion that they can't expand into the malls anymore because there are no more malls for them to go to. About 2 years ago, Lids [a Genesco retailer] was maxed out in the malls and realized that the only way to grow was to hit the streets. That is the first real mall tenant who really came out and looked at the streets of New York. We spent 20 months with them before they did a deal because it was hard for them to justify the cost of a deal in New York City when they can do 20 deals in suburbia for the same amount as one deal in New York City. They set up a store on 42nd Street that after 6 weeks was their No. 1 store out of 1,600 in the chain. They brought their other concepts into areas in New York City where they never anticipated being, such as the Bronx and Brooklyn.

Greenwald: The increase in tourism in New York City has caused some areas to become 7-day-a-week retail centers.

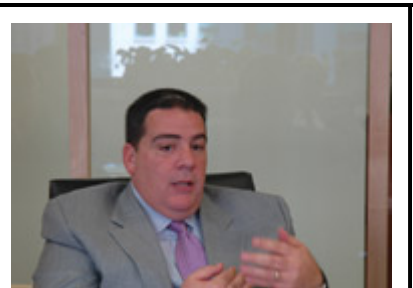
Stephanou: UNIQLO is sort of a new kid on the block. They have store that is opening up on Broadway in SoHo, which should be a great placement for them. Mango has a temporary store in SoHo, but they are going to open up a flagship store on Broadway. Juicy Couture now has two stores in Manhattan, one on Madison and 70th and one in the Flatiron district, both of which are doing extremely well. Molton Brown opened up a store on Spring Street and they will be rolling out more stores.



(left to right) Beth Greenwald, Daniel Lisser, David Cohen and Joel Braun.



Deborah Jackson, Dan Biederman and Andrew Pittel.



Patrick Breslin

Longchamps is also on Spring Street. And Reese is also a new retailer in that area.

Jackson: There is a lot of interest in the city, but again availability is the problem. If you are a large store, it can be a real challenge. For example, how long has Nordstrom been looking for a location in the city?

Pittel: Nordstrom is actually looking Downtown in the financial district, which would make a big difference.

Breslin: There are big-box retailers that are not in the city yet and they have realized that they are going to have to spend upwards of \$100 million to buy themselves space and really think outside the box to make it work.

Jackson: Look at the Target coup in Harlem. Costco though they had the area locked up and then Target came in. There are so many big-box retailers that now wish they had gotten into the Chelsea area. There were a few believers and then a few more believers and now there are no locations.

Breslin: So many retailers have missed the boat. Many of the big-box retailers demand parking and in New York City that is very difficult. Everywhere else you can get retail and parking, but not in New York City.

Zuckerbrot: That is where the boroughs may make more sense because it is sort of a middle ground.

Greenwald: When you talk about hot areas, Brooklyn is as hot as SoHo was hot 20 years ago.

SCB: What makes Brooklyn so hot? What retailers are there?

Pittel: It has become more affordable, and is more of a SoHo meets the West Village type of area. It attracts a hip, young crowd, there are cool little cafes and so many boutiques with great designer goods as well.

Stephanou: SoHo has become very touristy and is essentially almost a mall.

Blessing: In the 70s, SoHo was artsy, trendy and affordable. When the area became unaffordable, that demographic moved to DUMBO [down under the Manhattan bridge overpass, north of Brooklyn Heights] and Chelsea. Those that made those areas trendy are being displaced again to other areas of Brooklyn because it [DUMBO and Chelsea] is now getting too expensive. The tourists have begun to go there as well. Marriott is expanding their Downtown Brooklyn tower and there are six other new hotels popping up in Brooklyn. Brooklyn is not exactly a destination spot for tourists, but the influx of hotels is attributed to the fact that Brooklyn has become cool and hip. The herd mentality follows that and then the money follows after that and those that made the place hip are again priced out of the market. It is a phenomenon that you see in most urban infill or urban revitalization zones.

Lisser: There are a number of new units coming on in South Williamsburg, North Williamsburg and Greenpoint because of the re-zoning.

Pittel: We are handling a lot of space there now. Tenants are mostly locals and young designers that can open up stores because the area is somewhat affordable. It is what SoHo and NoLita were.

Zuckerbrot: What size stores and price ranges are you talking about for that area?

Pittel: Two spaces on Roebling and First Street and Roebling and Second Street are undergoing complete gut renovations, and are already getting approximately \$50 to \$60 per square foot.

Zuckerbrot: It is interesting that the chains have not come into that area yet.

Pittel: The sizes are just not big enough yet.

Breslin: They are old tenement buildings

Greenwald: That is what makes it so charming, like NoLita was.



Franklin Zuckerbrot and Scott McIsaac.



Beth Greenwald, Daniel Lisser and David Cohen.

Blessing: You compare Brooklyn to any middle America planned development community and the difference is that the neighborhood component in Brooklyn is unbelievable established. So, one of the challenges that a national retailer will have in Brooklyn is dealing with the neighborhood dynamics. Some of the landlord and tenant reps have to convince retailers that they will make money. Factor in a local community that doesn't necessarily want a middle America look and feel to their neighborhood, and it can be a clash. Even in affluent areas like Brooklyn Heights you don't see the flagship retail that you do in comparable areas in other cities around the country.

Zuckerbrot: Where did Whole Foods make its way in? Where did Bed Bath & Beyond make its way in? Where are all of the larger box tenants making their way in — through new development, taking the ground and lower levels. For example, we just recently built a Home Depot in Williamsburg. We must have asked Home Depot to take a look at that site half a dozen times over 5 years, but it was always no. Finally, enough building was going on and all of a sudden everyone wanted it. This store has been extremely successful and they are modeling their urban development on this particular store.

SCB: Joel [Braun], what developments are you doing in the Bronx?

Braun: We are doing work in Brooklyn, Queens, Manhattan, and in the Bronx. We bought the Sears building on Fordham Road [in the Bronx] and are going to take it from 117,000 square feet to 280,000 square feet. The retail response has been great. The biggest problem is how to find enough square footage to justify it for a national tenant. For a long time, retailers were not used to the odd configurations and now they understand that they can be upstairs and they can be downstairs. In this property, there will be three levels of retail and maybe a fourth if we end up with a health club on the fourth floor. The rest will be an office tower. Fordham is an interesting street because it has historically been unbelievable, growing in both directions.

Breslin: I did an AT&T deal in that area 2.5 years ago at \$80 per square foot, and today the rent is \$250 per square foot. We have done deals in Brooklyn and the Bronx where the rents are more expensive than they are on North Michigan Avenue in Chicago.

Zuckerbrot: Pushing the envelope in terms of the location is the way to do it. We just did a deal with Marshall's at the wrong end of Jamaica Avenue. They are getting it for a third of the price, they were able to get 50,000 square feet and everything they wanted, but they are just a couple blocks off.

Stephanou: If you do an analysis of Fordham Road, you will find that retailers are doing on average close to \$1,000 in revenue per square foot. You can justify that kind of rent with \$1,000 in revenue per square foot.

Blessing: Last year, for the first time in its history, Brooklyn outpaced Manhattan in residential permits. This is very significant because retailers will always follow the people.

Beiderman: The Manhattan BIDs [Business Improvement Districts] have done quite a bit to manage the areas outside of stores and I think it can be pushed even higher in the boroughs in terms of streetscapes, graffiti removal and a higher level of sanitation. On Fordham Road there is very limited BID and on 86th Street there is no BID, so this is an area where we need to step up these resources.

SCB: Doesn't the benefit from storefront maintenance outweigh the costs? Why would retailers fight this extra cost when it is something that benefits them?

Zuckerbrot: When you have graffiti removal programs and some maintenance taking place, the chains feel more comfortable and it can benefit the landlords as well.

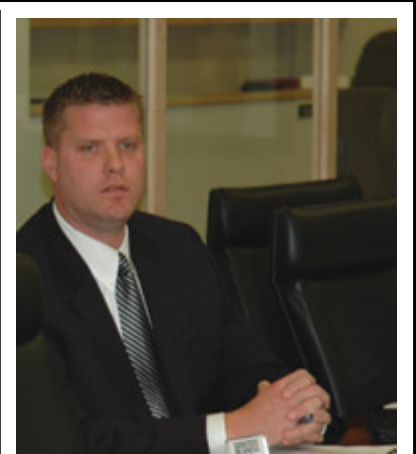
Jackson: Most national retailers understand the need for common area maintenance because they understand that it is all part of the overall environment — people buy more when they feel good.

SCB: What is the investment climate for retail properties in New York City?

Breslin: It is unstable because so many people want investment properties.

Pittel: But, the climate is good.

Kasindorf: You can still find a 6 to 7 percent return on retail outside of New York City, but you can't within the city.



Chuck Blessing

Cohen: It is all about value creation. For example, in SoHo there are rents that are so below market that we are willing to take the upside risk in the lending by putting a property on balance sheet and letting it season. In regards to NOI and cap rates, it is really about the underlying story and where you are going to get the upside in your future value later on. Cap rates are going down and we are in a very volatile market right now. For the most part, interest rates are going up and you have cap rates that are either going to stay stagnant or are decreasing. As retailers in NoHo and SoHo, that have been paying below market rents, have leases coming due, landlords are trying to figure out the upside. How are the leases going to keep as the rents keep going up? And they will keep going up.



David Cohen

Mclsaac: John Hancock underwrites the lower of actual or market rents, then underwrites the higher of market or actual vacancy, and then taps it at nothing less than 7 percent. We are very concerned about where treasuries might be in 3 or 4 years when some of these loans start maturing.

Kasindorf: The biggest problem we all face, which is something we have not experienced in quite a while, is rising cap rates. That will evaporate prime equity and will evaporate mezzanine position faster than any other downturn in the market that we can potentially face.

Mclsaac: Forget about what is going on in spreads, and forget about what is going on in supply and demand and rents. It is ultimately what is going to happen in the treasury markets in 3 or 4 years that determines that, and that in turn is going to be driven by inflation, employment and the value of the dollar.

SCB: What is the amount of equity needed now by developers?

Cohen: If you are a well-capitalized equity, you can go out and get a 75 to 80 percent first mortgage loan and probably go up to 95 percent.

Kasindorf: Retail is one of the easiest asset classes to sink your teeth into as a new investor because there is so much of it around and so many different kinds. A new investor is not going to buy a neighborhood office building, but they could buy a 60,000 to 70,000-square-foot strip center with eight or nine spots. This is going to keep the demand for retail as an asset class going a lot stronger and dipping less in the investment cycle.



Matthew Kasindorf

Blessing: There is less tolerance for risk with B/C properties than your A core assets.

Cohen: We are seeing a lot of variation in the flexibility and structures of underwriting deals today. Whether you put in 10 percent equity or you put in 5 percent equity, it really depends on the asset and the location. The most important thing that we drive home at GE is our execution plan. Do we have a good sponsor and how are they going to execute on this piece of real estate?

Braun: In the early '90s there was so much debt, but I don't really see that kind of debt now. I do see plenty of equity. If equity gets a lower return on its investment it's ok, but if it ends up back in the lender's hands through foreclosure or otherwise, then it gets very ugly because the lender can't carry it and you get all of that domino effect. If equity gets less money it is still better than it falling back into the hands of the lender.

Blessing: With all of the appreciation we have seen over the last 5 years, there is plenty of equity in real estate through exchanges. The underwriting has definitely tightened and affected velocity in certain ways, but the private investor, which has more equity than it has ever had before, are able to make up the underwriting challenge with a lower LTV.

Mclsaac: We find that in order to win deals, we have had to do things with our underwriting that we have not had to in the past. We have to be creative and figure out reasons to relax our constraints in order to underwrite the deal and win it. However, even when we do that and win deals, we find that more of our originations this year and last year have been constrained by debt coverage rather than by LTV. This has been true for the first time in 10 or 15 years.

SCB: Do you look at the New York market differently in regards to financing than other parts of the country?

Cohen: New York is the best region in the United States. New York City is a very low hurdle market. It has such strong demographics and an abundance of tourism. The problem in New York is finding the deal.

SCB: Are you approaching the financing of properties in this market differently than you would properties in Chicago or Minneapolis?

Lisser: At least the vacancy. You go out and look at the inability to truly increase

the supply. There is such a density of people here with so much disposable income and it is hard to believe that there are certain areas that are under-retailed.

SCB: Do you find, as a lender, when you are lending on a property on the East Coast or in the New York market that you are more protected than you would be in other markets?

Everyone: Yes, absolutely!

Breslin: GE must be more comfortable doing a deal here than anywhere else.

Cohen: Yes, we love New York City retail.

Breslin: It goes back to old-fashioned supply and demand. The demand is here. People from Dubai want to buy here. People from Saudi Arabia want to buy here. The Brazilians and South Americans are also starting to spend more money on properties than anyone.

Mclsaac: We are very comfortable with the stability in New York. However, for example, if a deal is of a certain size, it is sent up to Toronto to be looked at. I am working on a deal right now where the retail component is \$900 per square foot. In Toronto that raises eyebrows and does not look as safe as a strip center outside of St. Louis where the anchor is paying \$15 per square foot.

Cohen: But as everyone has said in this room — the retailers need to be in New York City, especially the luxury retailers. Wall Street is thriving, there is strong consumer confidence in New York City and there is increasing job growth. This is just the market to be in.

Braun: On average, in the U.S. the square feet per capita is about 22. For New York it is 6. So, where is the underserved market? The Bronx is still less than 4 square feet per capita.

Zuckerbrot: We stack vertically in the city; therefore, you have that density level. Now the smart retailers are learning to stack vertically as well. That is the only way you are going to get more footage.

Braun: We developed a property in Greenwich, Connecticut, in which we took three buildings and completely gutted them. We got 17,000 square feet of retail by dropping the floor 4.5 feet. It cost a fortune, but took us from a 7-foot ceiling height to an 11.5-foot ceiling height. We did it so we could get 17,000 square feet.

Beiderman: On 34th Street there is 30 million square feet of office space, and the area could use about 12 tablecloth restaurants. The area serves 150,000 office workers every day, but we are begging restaurants to come in.

Braun: We bought a building on 161st Street in the Bronx. Across the street is the 750,000-square-foot Bronx Criminal Court Building, which is will serve hundreds of people per day. However, you walk around that area and it is almost impossible to find a single place to eat.

SCB: What kind of criteria is being set for values on properties?

Jackson: It is difficult to set values, and not just in New York City, but throughout the country. There is so much money chasing such a little bit of product that we have yet to see a turn on the retail side. Everything is cyclical, but we have yet to see a turn where you see an upward movement in return. In the city, there is street-front retailing, retail condominiums, some freestanding retail and retail products that sit at the base of larger buildings. You really need to be on top of the market and have your finger on the pulse of what's going on. Hopefully, values are nearing the price that someone would pay for that asset at that point in time. People used to look at the B and C products because they could not afford the A product and now that B and C product is gone, so people are looking at the C and the D product that they can do something with. There is not always the upside that you saw 5 or 6 years ago.

Kasindorf: Are we talking about a real reduction in people's return expectations or are we talking about people buying in lower cap rates because they smell the upside and are trying to monetize some of that value?

Cohen: That is why it always goes back to what sponsor are you financing. Acadia, for example, knows what they are doing and have a good market grasp. A sponsor that has a good execution strategy, knows the market and has a good track record is the most important thing.

Blessing: Value-add brokers are going to do very well in this market. You can't just hammer a sign to a property and expect it to sell. If you can't make the lender comfortable, if you can't make the buyer's equity comfortable than you are not going to make it to the closing table.

SCB: Are you finding that a great percentage of the buyers in New York City are from outside the market?

Blessing: Capital comes from everywhere. The sponsor is always local or has a focus in that area. On the private side, if you go into a neighborhood that has complicated dynamics, a buyer from New Jersey might not be able to maximize the story that the broker is telling them. That buyer may not have the competencies to execute it.

Mclsaac: It is not always an upside either, even for the B/C non-descript product in the suburbs. Sometimes it is a low cap and looks stable and the buyer is trying to execute a 1031 exchange in 90 days.

Zuckerbrot: We manage a decent sized net lease portfolio for chains like CVS and Eckerd, all of which have properties in the boroughs. I am able to get sense of the market from the number of calls coming in asking if the owners will sell. Over the last 2 or 3 months, that volume of sales calls has increased to such a great degree. You can see the appetite out there and the knee jerk reaction to 1031 exchanges, but the product for sale in the metro areas is limited.

SCB: Are bank locations still hot and heavy in Manhattan and is that pushing the envelope on rental rates?

Breslin: Yes, I am doing a deal in which the landlord is asking for \$250 per square foot on a space. I gave the pricing to the client, Cingular Wireless, but then I got a call that a bank out on the West Coast offered \$450 per square foot for the same space.

Kasindorf: Five years ago on this street alone [40th Street near Lexington Avenue] there were no banks and now there are seven of them.

Stephanou: There is a double implication on the retailers. If you look at the Flatiron District, for example, the LensCrafters on the corner of 20th and 5th is being forced into a smaller space so Chase can take over the corner. When you take an important retail corner with great exposure and you put a bank there it does two things. It changes the market rent to something significantly higher than what everyone else is paying and it breaks up the retail flow. Traditionally, the retail corners create the image of the street and create value for the smaller spaces. So, it is unfortunate that this is happening because once you do that to a corner it really affects the block. A bank can be a destination retailer.

Greenwald: You are also inflating the ground floor values.

Zuckerbrot: But, from the landlord perspective it is phenomenal.

Braun: Often, you look at a set of stores and think it is just another set of standard stores. Standard stores are fine and work great in some locations, but how much of that are we seeing in New York? Is the brokerage community seeing pressure by owners to get non-national, non-chain retailers?

Pittel: In Manhattan, that is not a problem, but outside it can be. In Manhattan anything really goes, but certain streets are viewed as malls. However, in certain communities you put in a store that fills the need of the project and the community.

Stephanou: In New York, there are some retailers that can seem very pedestrian, but in other areas they really aren't that pedestrian. A genuine streetscape environment makes the presentation of a project more interesting. If you are a landlord, you are going to want a substantial tenant and a credited tenant. Obviously, national chains fill that requirement much more easily than mom-and-pop type retailers do. The reality for most shoppers in Manhattan is that it really is different even if there are some of the same retailers because the way it is done in Manhattan is so different from how it is done in shopping centers. The market for true luxury retailers in the U.S. is very limited. Also, if you are an edgy retailer there are limited spaces.

Beiderman: We have found a tremendous amount of hyperbole in this field of national versus non-nationals. A lot of people will tell me that certain areas are national and they are not. For example, in Hanover, New Hampshire, near Dartmouth College, I have been told that these streets are all national retailers, but when I went, only two out of 13 retailers were nationals. So, there are a lot of things that could keep the street presentation from being too dull.

Pittel: In New York City, landlords do make suggestions or have requirements for certain retailers to set the tone of the building or area. Oftentimes, the ground floor retail will set the tone for what is going on upstairs. Landlords will be very specific to cater to their clientele upstairs, and at times landlords can get higher rents because of what is going on downstairs.

Lisser: From a lender's point of view, if you have above market rent, the lender will give you credit for an above rent if it is from a credited tenant. So you do have to be aware of that.