

COVER STORY, DECEMBER 2004

TALKINGSHOP

Retailers, including big boxes, are finding that the Big Apple is the place to be.
Moderated by Jerrold France, Randall Shearin and Katie Foxworth

Northeast Real Estate Business recently held a New York Retail Roundtable at the law offices of Meister, Seelig & Fein in New York City. In attendance were Richard Brunelli, R.J. Brunelli & Co.; Michael Butler, Butler-Kane Inc.; Allen Cooperman, Welco Realty Inc.; Andrew Fawer, CIBC World Markets; Robert Futterman, Robert K. Futterman & Associates; Richard Hodos, Madison HGCD; Ed Hogan, Brookfield Properties; Matthew Kasindorf, Meister, Seelig & Fein; Noah Pfefferblit, Wall Street Rising; **Andrew Pittel, Andrew A. Pittel & Co.**; Mitchell Salmon, Mall Properties Inc.; Gene Spiegelman, Cushman & Wakefield Inc.; Frank Zuckerbrot, Sholom Zuckerbrot; Joseph Povinelli, Acadia Realty Trust; and Stephen Stephanou, Madison HGCD.



Northeast Real Estate Business recently met with real estate experts to discuss metro New York's retail real estate market.

Pictured, from left, are Matthew Kasindorf, Andrew Pittel, Gene Spiegelman, Frank Zuckerbrot, Stephen Stephanou, Richard Hodos, and Jerry France.

NREB: What is the investment climate for retail in the New York area?

Zuckerbrot: The supply [of properties] is at a low level and demand is high. There is an enormous amount of money chasing very few deals. My focus is in the outer boroughs. We're finding that cap rates are holding at relatively low levels, even with the interest rates notching up a bit. In fact, our firm just signed a contract on a shopping center that is selling at a 7 percent cap rate with some vacancy risks in the next 24 months. There are still very aggressive cap rates for a grocery-anchored shopping center on Long Island. There is a relative imbalance between people looking to invest in retail real estate and sellers willing to part with their real estate.

NREB: Andrew [Fawer], how is the demand for financing in this market?

Fawer: Like Frank [Zuckerbrot] said, there is extremely strong demand right now. A lot of our demand for capital is coming from acquisitions. It helps when the cost of capital is low — the 10-year rate is 4.05 percent. Spreads are down easily 50 basis points on the first mortgage from a year ago. There is plenty of mezzanine, high-yield capital to defer the leverage. That is down 100 or 200 basis points. This makes it easier to pay these lower cap rates. The real estate investing climate of 2004 is, I hate to say, mirroring the investment climate for technology in the late 1990s. It is a hot asset class.

NREB: Who are the buyers in the market?

Zuckerbrot: In our marketplace, it is private investors with great access to cheap capital, at times it is heavily engineered capital. Primarily, it is not the public operating companies; it is the individual investors.

Fawer: The tenant-in-common (TIC) structure has created an additional universe of investors willing to get aggressive, especially in the New York area. Everyone understands the New York area; you don't have to sell the market to a small investor as you would the Topeka market.

NREB: Are top brand retailers still actively looking for space in the market? Are there new retailers trying to enter the market?

Futterman: There are several new retailers that have entered the market. Forever 21 has opened a store on 34th Street. American Eagle, which has a very successful store in SoHo, has opened a store on 34th Street. Esprit has opened a store on Fifth Avenue. We are starting to see some new names on Union Square and in the Flatiron District, like DSW. There are several companies that are not here that want to be here. It is still very competitive in New York for space.

Stephanou: Other than the names that Robert [Futterman] mentioned, there are retailers like Mexx, a division of Liz Claiborne, which has two stores now in Manhattan. Guitar Center is another new tenant in the market that has opened in the Union Square area. DSW took space in part of a former theater in Battery Park City. The biggest problem that we have with the tenants that we represent is the fact that we can't find spaces in a lot of the strong retail corridors where we are looking. The demand for tenants on Madison Avenue has remained strong. There are very few wonderful spaces that are available and, of course, they are quite expensive. The Flatiron District is very tight as well.

NREB: What are the rents like?

Hodos: It depends on the neighborhood. Rents are quoted on a ground-floor basis and many of these retailers go multi-level, so they look at a blended basis. On a ground-floor basis on Broadway in Soho, rents are \$150 to \$200 per square foot. It is pretty much the same in the Flatiron District on lower Fifth Avenue. Steve [Stephanou] mentioned Madison Avenue; if you are looking north of 57th Street; rents have ratcheted up to \$500 or \$600 per square foot on the ground. The larger the space, the lower those rents go per square foot if the space is deeper and wider and in excess of 5,000 square feet. If the tenant goes multi-level, they are able to blend those rents down. The rents have gone up on Fifth Avenue, they've gone up on Madison Avenue. In the past 3 to 4 years, we've seen the banks take prime corners and they continue to pay high rents and squeeze specialty retailers out of the prime spaces. It has caused a great deal of anxiety in terms of getting space for a tenant like Esprit or Sephora.

NREB: Ed [Hogan], as someone who represents an owner, how do you look at retailers and rental rates?

Hogan: For us, we are primarily an office company with retail at the front door. Our view is that retail can only enhance our buildings. We are very selective in what retailers we choose to have in our projects. We only look for Class A retailers. As far as Midtown, we have Park Avenue and we have retail on a side street, East 47th Street, and we are getting offers well over \$100 per square foot. The retailers that were Downtown [pre-September 11th] are the first ones coming back downtown. If you are looking on lower Broadway, good luck finding a spot. Eckerd and Banana Republic both joined the World Financial Center after 9/11 and they are both exceeding their projections for the space. There is this wait-and-see feeling right now Downtown. Interest has leveled off, and retailers are very curious to see what's going on for the retail across the street from our project at the World Trade Center site.

NREB: Noah [Pfefferblit], what do you see in terms of activity and interest in Downtown and the Wall Street area?

Pfefferblit: As Ed [Hogan] said, there is a wait-and-see attitude. There is a lot of excitement about what is going to happen in the future Downtown. Not a week goes by without some major announcement of an exciting new project that is coming down. It was recently announced that Frank Gehry is going to be designing the performing arts center at the World Trade Center. We have new buildings — Frank Gehry is doing a 75-story proposed residential tower in the old NYU Downtown Hospital parking lot. There are a lot of new projects that are going to have retail attached to them. There is going to be a big period of construction and a lot of retailers don't want to be there for that, but no one wants to be too late. It is kind of a waiting game; we'd like to accelerate things a little bit. We'd like to get some of the retailers that we'd like to see in the area at this point rather than 10 or 15 years from now.

Hogan: In Midtown, office space is filling up fast, which will drive Downtown office leasing. That will raise the office population and make the environment more attractive to retailers. That coupled with the residential growth Downtown — there are 2,400 new residential units under construction — will make it attractive. In 1990, the population Downtown was 10,000; it will be 40,000 by 2007. The amount of tourists going to the World Trade Center Memorial, which is scheduled to be done in 2007, are nearly as many that visit Times Square. There are \$4.5 billion of construction projects underway Downtown right now. That's not pie in the sky, that's committed money.

NREB: Are the owners of buildings Downtown holding the line on retail rental rates?

Hogan: Downtown, there is not a lot of retail space. The retail space on Broadway is rising.

Stephanou: The streets are really broken up. If you look at Broadway, a lot of the public transportation goes along there and the activity is strong. The availability is extremely good. If you go to some of the side streets, like Church Street or West Broadway, there is more space available and it is softer. There are either restaurants or service areas for the residential community. A lot of the small businesses there have been impacted by the World Trade Center.

Hogan: One of the success stories this year has been Goldman Sachs' announcement of its new headquarters at the corner of Vesey and West streets. They will be vacating their office space that is located east of Broadway, centralizing it at their new 2 million-square-foot headquarters. Cadwalader sold its building east of Broadway and they are moving to the World Financial Center. You are seeing east of Broadway becoming the second choice for premier office tenants. They want to be west of Broadway in the newer buildings with the floor plates with a structure that meets their demands. That is mainly for infrastructure. The PATH station will be done in 2007, and two blocks from the PATH station will be a new subway station at Fulton Street. Those will be two major transportation hubs. It is going to change the access and improve it.

Spiegelman: The Urban Land Institute (ULI) hosted a blue-ribbon panel recently of leading international designers, developers, architects and urban planners to evaluate Downtown. The results were that Downtown could support another 600,000 to 1 million square feet of retail space. They anticipated the residential population would be 60,000 people with an average income of \$150,000. This year, one interesting deal Downtown was that BMW signed a lease at 67 Wall Street for a showroom. That is a statement of things changing there. Downtown, I think if you watch it in the next 3 years, it is going to be a different world.

NREB: When the World Trade Center existed, the retail there was doing dynamic numbers. Is the [office] population there now?

Spiegelman: If you put the retail space back, the people will be there automatically.

Hogan: There are 280,000 people working in 1 square mile; it is the most densely populated community in the nation. Before 9/11, you had 300,000 people; at the height there were 340,000 people.

Futterman: There is nothing to keep people at night and nothing to keep them there on the weekend. What is happening is that the people who work Downtown — maybe they live in Chelsea or the East Village or further uptown — but they are not spending their evening hours or leisure time Downtown. With all the residential buildings being developed, you will see more vibrancy, more of a neighborhood created there.

Spiegelman: They need to focus on that point; they need to bring the people back after they leave work.

Hodos: Downtown is a microcosm. The same thing happens in Cleveland and Pittsburgh and St. Louis; there is an outward migration after 5 p.m. Everyone goes to other parts of Manhattan and to New Jersey.

Pfefferblit: The financial district is a traditional 9 to 5 community and there has not been a real strong residential base. As we start to get more residents, that will change. Right now, Downtown is the fastest growing residential community in the city. There are new conversions from commercial buildings and new developments going up. Wall Street Rising has been trying to work on some cultural facilities and entertainment facilities in the area. We want to keep the people that work Downtown there later at night, and create something for residents in the area.

NREB: Why was Wall Street Rising created?

Pfefferblit: Wall Street Rising is a community revitalization organization. We run a lot of different programs to do exactly what we're talking about — to bring people Downtown and try to get the people who live and work Downtown to spend more time there. We want to help local businesses, culture and institutions. We have an information center at 25 Broad Street. There are also some economic development programs that we administer.

NREB: Last year, we talked about big box retailers coming into Manhattan. The Home Depot has since entered the market.

Salmon: It is a matter of opportunity for the big boxes. The opportunities, unless they are exceptional like you'll get on the FDR or some areas of Chelsea, are where they can focus on some industrial space. The big boxes have been focusing on the outer boroughs hard, because there were opportunities there for them to get something closer to their standard floorplates. Right now, Home Depot is making its entry into Manhattan. The big boxes, because they tend to move a little bit slower, tend to have been educated a little bit slower about the potential here. Now, they are educated and they realize the potential. The barrier is opportunity.

Zuckerbrot: Home Depot can do a lease today on a site if they like it. They can go from looking at it to completing a deal in 6 months. That's unbelievable for that type of tenant in the outer boroughs.

Cooperman: Home Depot has its best store on College Point Boulevard in Queens. Then they opened another one on 32nd Street and another store; they have three stores within walking distance to keep out Lowe's. They look at Manhattan and they pay the rents.

Salmon: They learned in Nassau and Suffolk [counties] that it works.

Cooperman: Related is developing a multi-level center [Terminal Market] in the Bronx with Home Depot in the basement and BJ's Warehouse and we are trying to make a department store deal there. They have a few other deals lined up as well. The income levels are astounding.

Salmon: Even when you go into the boroughs, income levels compare favorably with the rest of the United States. The sites just have triple or quadruple the population density.

Futterman: Being in the city forces the big box tenant to be more creative. Home Depot on 23rd Street [in Manhattan] has no parking. Target at Atlantic Terminal [in Brooklyn] has no parking. These tenants figure out that although prototypically they always need parking and delivery is cookie-cutter, in the city they have to figure it out. They may not be able to get a 55-foot trailer into a truck bay; they may not be able to sell sheet rock or lumber. They create new concepts that fit the urban setting. Home Depot also went into locations where there is foot traffic. Everyone in Manhattan always thought the big box guys should be on the West Side Highway. They went against the trend, not just where there were some big footprints but where they had to pay some rent. Now that Home Depot is open I think you are going to see many more big boxes that want to be in Manhattan.

NREB: When big boxes go into a neighborhood, are they changing the retail complexion of that area?

Futterman: Absolutely. 23rd Street was a no-man's land. Now, Cipriani's is opening and other furnishing stores are locating there. There is a sophisticated stereo store going on 22nd Street. Where there are people, there is an opportunity for retailers.

NREB: New York has so many neighborhoods. Many of the neighborhoods were destitute and now they are great spots for retail. What is the newest of the neighborhoods for retail?

Pittel: The Meatpacking District and NOLIta have been the latest. Even the 23rd Street area is a new neighborhood. People are flocking there.

NREB: What about Harlem?

Salmon: Development was substantial there, but it has cooled off there over the last 2 years. While Harlem has been hot, it hasn't continued on a rise.

Hodos: From a retail perspective, there might be a little bit of a lag, but from a residential perspective it is hot.

Kasindorf: My office is working on the conversion of seven different condo projects there now.

Hodos: The fact that Barbara Corcoran and all the major residential brokerages have opened major offices in Harlem make it a hot spot. The Lower East Side is another hot spot. Condos there are going for \$800,000 to \$1.4 million, and these are places where, personally, I wouldn't have ventured into 6 or 8 years ago.



(left to right) Matthew Kasindorf, Andrew Pittel, and Gene Spiegelman.

Cooperman: I have been in this business for 35 years and this is the longest up market I've been in. I live in Manhattan and 10 years ago, you could give away a one-bedroom apartment.

Hodos: This was the first year that the average price of a Manhattan apartment was above \$1 million.

Stephanou: While there are new areas for retail, there has been expansion and re-engineering of some of the stronger retail areas in the city. For example, on Fifth Avenue, you've seen the line pushed further south. Below 49th Street, it tended to be a different kind of retail than north of 49th Street. Now you see infill to 48th Street and 47th Street. Rents there are increasing correspondingly. The same is true in the Union Square/Flatiron area. There, Esprit took over the former Emporio Armani. Coach has expanded in the Flatiron. Deli spaces are converting to retail spaces. In Union Square, there is a strong demand by retailers for suitable spaces. In SoHo, luxury retail proved to be not very successful. Bloomingdale's has opened in SoHo and that is amazingly successful. It has pushed the retail corridor further down Broadway.

NREB: Are you talking about retailers duplicating stores or new retailers coming into the market?

Pittel: There is some replication. It is more of an expansion of the retail nucleus that already exists. Those neighborhoods — Fifth Avenue from 57th Street to 49th Street, was the premier high fashion area. The rents were \$600 per square foot and above. Other retailers wanted to experience the glory so they started to expand south — not replicating the stores but different retailers who could enjoy the same customer that Saks, Gucci and Prada might have. The same with SoHo; Bloomingdale's went further south where the rent was a lot less expensive. Now, the rents are starting to rise and Bloomingdale's has become an anchor for SoHo. Union Square is getting better going towards Chelsea one way and the East Village the other.

NREB: Robert [Futterman], how successful is Time Warner Center? How is it changing Columbus Circle and the area nearby?

Futterman: Time Warner Center is doing very well and it has had a huge impact on the Upper West Side. People who live on the Upper West Side take advantage of it as their local shopping center, especially with Whole Foods on the lower level. Whole Foods as an anchor seems to be driving a lot of traffic. Sales are terrific on all the levels. The restaurants are doing very well. It has had some impact on the neighborhood. You haven't seen that many changes on West 57th Street, which is the closest thoroughfare. There is a Nobu restaurant going in at 40 W. 57th Street, and Hearst's headquarters is being built close to Columbus Circle.

NREB: What are landlords or retailers asking for today in their leases?

Pittel: It is a give-and-take. There are a lot of retailers that have their guns out, but they haven't pulled the trigger. I also think landlords are very concerned about security. Sometimes they think they are asking this exorbitant amount of rent and they believe that sooner or later some of the retailers are going to fall by the wayside. There are tenants in lifestyle centers that get a cold, dark shell with \$185 worth of tenant improvement allowance and that is the only way they will consider doing a deal. They come to Manhattan and they will get zero tenant improvement allowance. What tenants are getting in the city is a lot different than what they're getting in other parts of the country.

Brunelli: In Northern New Jersey, it is clearly a landlord's market. We have the lowest retail vacancy rates we've had in 10 years. We have so many people that work in New York that when New York is doing well, there is more disposable income in New Jersey. New York has had a great comeback since 9/11 and we just don't have enough retail space in Northern and Central New Jersey to satisfy those people who commute and shop on the weekends.

NREB: Who is actively investing in New Jersey?

Brunelli: It is a seller's market. Cap rates are extremely low. Kimco has been very active and Federal Realty is another REIT that comes to mind. Garden Commercial is the most active ground-up developer in the area.

NREB: Restaurants are another type of retailer looking for space in the market. Are they putting retailers in a competitive mode for locations?

Zuckerbrot: Food has been at the top of my list. Restaurants are on a tear, especially in the outer boroughs in a variety of casual dining concepts. We go through these different stages in the market: a few years ago it was cell phone stores, then the banks. In 2004, banks and food were really hot. We have a client, Quiznos, which came to New York rather late in its national expansion, and we are signing our 50th lease with them in a 24-month period. They are not the only ones expanding at such a fast pace. Tex-Mex food like Chipotle and Qdoba are other ones. And all these uses are competing on the same sites. California Pizza Kitchen has announced a major expansion in the market.

Stephanou: California Pizza Kitchen is an example of a retailer that has shopping center locations and has learned how to make its pro format work in New York City. Part of the challenge for them is to make it comfortable. They need a ground floor that is larger.

Pittel: Barney's is a mainstay in Manhattan and it has recently opened a Barney's Co-Op on the Upper West Side and is one of the hottest stores in the city, if not the country, looking to expand.

Hodos: With the opening of the West Side store, which has been phenomenal, they are looking for more Co-Op stores throughout the country. We represent them and we are under pressure to get more stores for 2005 and 2006 in Manhattan and other markets. Barney's is also about to announce two new flagship stores as well, not in New York.

Pittel: Kohl's has also been looking in Manhattan.

Cooperman: Kohl's has its two best stores in the country in Queens and the Bronx.

NREB: Is security still a concern among visitors to New York?

Hogan: Worldwide, people perceive New York to be safe. We have European and Asian tourists coming to New York. You also still see Southern women with more bags than they can hold. People spend money in New York; that's why they come here, along with the theater and restaurants.

NREB: How is retail in the outer boroughs?

Salmon: The retailers who have been intelligent enough to realize the potential of the boroughs have been smart. It is hard to find space for big boxes there, but it is happening. You find supermarkets are still trying to find a

solid presence in the boroughs. It is tough to find a 50,000-square-foot floorplate or a 30,000-square-foot floorplate. While the margins are difficult in some of the suburban areas, they are more beneficial in the boroughs based on the volume that they will do. Target recently opened up in Riverdale, Bronx at 225th and Broadway. Riverdale has a higher per capita income than the remainder of the Bronx and those aren't necessarily the people that will shop in Target, but it helps the mentality. Target has an excellent site with great visibility.

NREB: Acadia has just made some acquisitions. How do you view the market, as an owner here?

Povinelli: The urban retail market is new to us. There is no doubt that there is a need for retail in the urban markets, there is no doubt that the retailers need sites. The problem is finding the sites and making them work. We recently purchased a Sears building on Fordham Road in the Bronx. Now, we are going to be involved in operating and finding the best use for it. Retailers are in-tune to multi-level stores, but they have to find the right floorplate. We have another project on the border near the Bronx in Pelham, New York. It is currently a site with multiple industrial buildings. We plan to take those buildings down and build a shopping center. Will it be one level or two levels? We aren't sure. We are learning about how the retailers can operate in the urban market.

Salmon: Beyond the boxes, we have seen, in our Park Chester complex, more than 12,000 apartment units where we are only 1.5 percent vacant. The retail there is also very well leased with national tenants. We are opening the first Pizzeria Uno in the market there.

NREB: Looking down the road, what are some future initiatives for the market?

Spiegelman: The major happenings in the city will include the Hudson Yards rezoning. Will it be a New York Jets stadium? West Chelsea is in the process of being rezoned. An RFP has just been issued for the whole College Point area near Shea Stadium. There are some major initiatives out there that could change what New York City and its boroughs look like.

Hodos: At Pier 57, which is south of Chelsea Piers, they are down to two finalists to redevelop that. The use is to be determined depending who is chosen.

Spiegelman: Times Square used to be the story, but that is old news now. New York has moved from its core; from river to river, it is firm territory now. Four years ago, if you walked one block in one direction you could get mugged. Now, it is so far from that.

Brunelli: In New Jersey, the biggest development is The Mills Corporation's Xanadu project. It is a \$1.3 billion project that has recently broken ground.