

# Retail Is In A New York State Of Mind

Banks and boroughs highlight discussion of New York City metro market activity at this year's New York roundtable.

*Roundtable chaired by Jerrold France and Randall Shearin*

**S**hopping Center Business and North-east Real Estate Business recently held our annual New York Roundtable at the New York City offices of Herrick, Feinstein LLP. To find out the state of the market, the magazines invited many developers, brokers and owners to this year's roundtable. In attendance were: Joe Povinelli, Acadia Realty Trust; Sandeep Mathrani, Vornado Realty Trust; Mitchell LaBar, Marcus & Millichap; Richard Hodos, Madison HGCD; Ed Hogan, Brookfield Properties; Andrew Fawer, CIBC World Markets; Jonathan Adelsberg, Herrick, Feinstein LLP; Patrick Smith, Staubach; Gene Spiegelman, Cushman & Wakefield; Cory Zelnik, Winick Realty Group; Andrew Pittel, Andrew A. Pittel & Co.; Brian Katz, Katz & Associates; David Rosenberg, Robert K. Futterman & Associates; Frank Zuckerbrot, Sholom Zuckerbrot Realty Corp.; Stephen Stephanou, Madison HGCD; Richard Brunelli, R.J. Brunelli & Co., Inc.; and Richard Brown, Herrick, Feinstein LLP.

**SCB:** Mitchell [LaBar], if you could give us an idea as to the real estate investment climate, particularly on the retail side, and how active it is in New York and the surrounding boroughs.



Andrew Fawer (left) and Cory Zelnik (right).



(left to right) Andrew Fawer, Cory Zelnik, Jonathan Adelsberg, and Steve Fleissig.

**LaBar:** For the last 2 years we've been talking about how we're going to deal with a slow down. We're talking to our brokers about it, trying to get them to push that message into their business plans. And we're not seeing it. It's not happening yet. So far this calendar year we've completed about 4,300 transactions. It's almost concerning that it's not slowing down. The demand is still there. I personally would like to see it slow a hair on the investment side. It's harder and harder to get the inventory. Single-tenant isn't slowing down either. Out of the New York office, last year we did 200 [deals]. We're showing about 230 single-tenant transactions, and I don't see any slow down there either.

**SCB:** Who are the buyers and sellers?

**LaBar:** On the single-tenant side, the buyers are consistently exchange buyers from across the country. Many of them are coming from the West Coast, taking advantage of their apartment assets, things of that nature, which we're selling for them out there. The buyers are from New York, Florida, Nevada, Texas — a lot of states without any state income tax. On the major retail sales, we don't see as much. Four or 5 years

ago, we saw a lot more movement from major apartment owners, big families in New York who were selling apartments, looking at moving into retail. That's kind of gone away. Most of the bigger retail [deals] are the major players most of you know.

**SCB:** Do you find investors looking for retail properties?

**LaBar:** In New York, it's a double-edged sword. The retail component of a lot of the buildings here creates some stability, but it's priced into it, so it is almost a wash.

**SCB:** As far as finance is concerned, what is the climate in the city versus the suburbs? Everybody is talking about a bubble.

**Fawer:** The fact is, all of the city and the suburbs all across the country, retail is not going to give on the fixed-rate side. On the securitized side, it makes up 40 to 50 percent of the pool, which is much higher than the next largest product class, which is office, with 30 percent. So clearly, retail is the most active product type. It is probably fiscally in the best shape, I think, across the country. And it is the highest demand

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among investors, like foreign investors, domestic investors, the 1031 guys, or their enablers, the TIC sponsors that put together the deal. It's slowing down a bit, but there's a large amount of capital out there. The deals that we had a few months ago, they are not being done now in the same, probably less often in terms of the structuring of the deals. The money is there for the permanent side, the construction side; we can't get enough on the construction side today.

**SCB:** Because there's so much money out there chasing retail, has there been a drop at all in the amount of equity that a developer or a real estate investor has to put up?

**Fawer:** Several months ago, you needed more equity because it cost more. The way that the market is working, we're putting in larger deals into larger securitizations, so that requirement has gone down. So before, we used to say that they needed that equity for the deal. Lately, what's been happening is more equity is going into deals.

**SCB:** A lot of buyers want to sell, but don't know how to redeploy the money. Mitch, you must see that a lot.

**LaBar:** Sure. That's where all the exchange opportunities come up. A big part of what's driving our business is the ability to move that capital across the country.

**SCB:** Sandeep [Mathrani], as one of the major owners in the city, how do you see the market?

**Mathrani:** We love New York. We think the market has gotten very steamy. I do believe that we are heading into a recession. I think it's naïve not to think that the sales are coming down. You have a lot of money still in the marketplace, which hasn't caught up with the fact that we're going into a recession, or could potentially go into a recession. So when you start seeing money chase deals down to sub-5 percent returns, which is common in Manhattan, I smell



(left to right) Sandeep Mathrani, Frank Zuckerbrot, Gene Spiegelman, Mitchell LaBar, and Richard Hodos.

trouble. I think something is going to happen. I'm not sure — from a REIT perspective — it makes sense to continue to buy assets at the levels that they're down to. We paused on many deals. Even though we have holding power, we like to see if the rents are below market. I think you're going to see this euphoria for a few months, but it is going to come to a grinding halt pretty soon.

**SCB:** I remember many years ago when there was a glut of office space, and buildings were empty. Investors came in and were buying office buildings because the one thing about New York is that it's not going away and it continues to grow. And you always take a look at what they're buying a building at today and saying how can you buy it at this level, and then, 2 years later, you read in the paper, they're selling it for three times what they bought. Do you see that disappearing from the New York market?

**Mathrani:** I think when you're buying at 8 or 9 caps, which is what you did the last time around with the vacant office buildings, you were buying it for below-replacement cost. When you were buying an office building, you were paying \$200 a square foot, perhaps, but that's not applicable anymore. You're paying above-replacement cost today. You're buying it at forecasted cap rates. What is a great example is pre-9/11 rents on Broadway that were \$250, \$300 a square foot. Post-9/11, they dropped dramatically to \$125, \$150 a square foot. Deals that had been cut after Bloomingdale's opened at \$250 a foot, what should you be buying with that? If you're buying it based upon \$300 a square foot, but their lease rolls in 2007, if you're not willing to assume

that today is 2007, what happens? I think the issue then becomes, do I see values tripling in the next 10 years? I don't think so, because I think you're buying it above replacement cost. I think you're buying it at market rent, I think you will see rents coming down.

**SCB:** Frank, do you see rents coming down?

**Zuckerbrot:** I see more vacancy, a little bit more vacancy, and I think that's probably due to the owners raising their prices. Everyone's trying to get the top price on the street. I share some of Sandeep's concerns about how well some of the retailers are doing; also, I think that a slowdown exists. But, New York has constantly shown that we pick up pretty quickly, especially retail. By and large, the vacancy rate is very low in the outer boroughs. In addition, in the boroughs actually new areas are being created, as we're seeing today. It's amazing that new residential communities are sprouting up, which is creating new retail opportunities down the road for those people paving the way. Williamsburg [Brooklyn] is probably the hottest market today, although, in part of the rezoning that creates Williamsburg, you have the potential for an enormous amount of residential development. That will clearly create demand for basic goods and services retail, and we'll see what spreads from there. Long Island City is an area that everyone's talking about. It's probably one of the most interesting potential development projects. A lot of these communities lack basic retail, which I think is a safer retail.

**SCB:** Richard [Hodos], you had mentioned before the roundtable about the



(left to right) Patrick Smith, Ed Hogan, Brian Katz and Joe Pavinelli.

lack of locations that fit specific retailers. What is your take on that, as far as the city is concerned?

**Hodos:** It's problematic for a lot of the retailers that we represent in that we have a huge open to buy, for many quality retailers, a lot of major corridors, on the Upper West Side, SoHo and Flatiron, for example. We don't have the spaces that are appropriate inventory space to fill the orders. What's happened over the past 3 to 5 years is the banks have come along and they just paid, in my opinion, astronomical rates that have driven up the prices to the point where we created this market that has become unsustainable. What's happened is, you have rents from \$600 a foot to \$900 a foot. Suddenly a bank came along and paid reportedly \$1,100 a foot for a particular space. Then, [every landlord] wants \$1,100 a foot. Retailers have to maintain an occupancy cost percentage of 12, 14, maybe 16 percent of sales, and there aren't many retailers that can justify \$900 a square foot. So, there is a point at which rents just don't make sense for retailers. That's where Sandeep was going, maybe not in exactly the same way, necessarily, as where I'm going. But to answer your question, we're having an issue with supply and demand in that there just isn't the supply to fill in demand.

**Mathrani:** At the price.

**Hodos:** At the price, and the locations along the major corridors that we need.

**Stephanou:** And in the configurations that we're looking for.

**LaBar:** It's sort of contrary. On one hand, there isn't the supply; on the other

hand, prices are high.

**Stephanou:** What's the big challenge for apparel retailers on Madison Avenue? A perfect example, is that assuming that advertising is not part of the strategy of a Madison Avenue store, you really have to make the pro forma work. When you take the rent numbers, except for maybe a luxury jewelry store, where there are huge margins, it becomes very difficult. The national brand tenants that have been expanding or looking to expand, like Apple Computer and H&M, and various other brands like Liz Claiborne and American Eagle, they have come into the market and are more aggressive. The challenge for them is finding locations and configurations because retailers walk together; they like to cluster together, so that suitable locations are essentially taken along those corridors.

**Hodos:** The banks took a lot of the locations.

**LaBar:** Just like they're doing right now. A big bank just came in on 38th and Madison, signs just went up in the last 2 days, and they just put four retailers out.

**Stephanou:** It may be great if you're a landlord, but it's difficult because it sort of destroys the retail synergy. Typically corners are the most significant sort of bookend in branding the block, so I think there's been some challenges.

**SCB:** It was Starbucks before, and now it's the banks?

**Katz:** Landlords in Midtown are taking out a retailer on one corner, and putting a bank in. In some cases, they've got two banks in one building. Who is

going between them? It has made it challenging for fashion guys to get the A buildings that they want to be in that have a good mix of tenants and to compete with the rents.

**Zelnik:** I think a lot of that leads to the general dynamic of New York as a market, and so retailers really have to step back and rethink. They have to look at ground-floor and lower levels, and ground floor and second floors to justify some rents to create their positioning. Every CEO sits with his board and says, 'Why aren't we in New York?' Some of the response is, well, 'It's \$400 a square foot, we can't do it.' [Retailers] need someone to make a very big operational decision to say, ground and up or ground and down, and that's how you'll get there. That is just what New York is all about. Now that Home Depot is here, they're showing people that they can do it on multiple levels. I've represented Duane Reade for years, and they were one of the first to do two levels, and we're working on our first three-level store. It's about location, and that's what you have to adapt to. I think most of the brokers in the room here will tell you that. One of the hardest things to convey to a major national tenant in bringing them here, is that New York is different. We can't just cut out 4,000 feet on the corner. You've got to find a way to adapt and change and get yourself here.

**SCB:** You represent property owners. How are the property owners looking at the market? Are they being unreasonable as far as what they expect for rent? Are they giving direction as to the retailers they want in their buildings?

**Zelnik:** Yes and yes. I think that they can't help but hear what numbers are on the street, and the knee-jerk reaction is 'You got \$300 a foot, I want \$300 a foot.' You have to go through an explanation of why he got \$300, and yours is not worth \$300. It's a careful presentation, obviously, because you don't want to hurt anybody's feelings. Every landlord now says, 'Get me a bank, get



(left to right) Gene Spiegelman, Mitchell LaBar, Richard Hodos, Andrew Fawer and Cory Zelnik.

me the highest dollar.' We're sitting strategically with the landlord and saying, 'Ok, we'll get a bank on the corner, but what will we do with our lower level? What will we do with our second floors?'

**SCB:** Andrew [Pittel], what is the most active retail area?

**Pittel:** There are so many out there. I think based on what the biggest developers are building buildings, and creating markets, like Vornado and Related Companies. You have the Bloomingdale's area now that is incredibly hot. There's major retail, there are high rents. The landlords dictated their rents when they bought the properties and fill up their buildings. The area around Bloomingdale's, Time Warner Center on Columbus Circle, and downtown in the Bleecker Street area of the West Village are some hot areas.

**SCB:** The barrier to entry in New York is pretty tough for big boxes. Gene [Spiegelman], how are big boxes expanding in the New York market? We heard earlier that Home Depot has been successful. Are they going to find more locations, and are there other big boxes that are looking at the New York market?

**Spiegelman:** The rapid expansion of big box retail is really going to be a political thing. There's so much land, or sites, that potentially can absorb big box space in the city of New York and boroughs, it's really up to politics, because of zoning and use issues. Also, the other big box retail family, Wal-Mart, has had a union backlash, and labor issues created all this of New York City. You have the best examples in Target. It is

expanding successfully in New York and the five boroughs, and I think they will continue to do so, but it's going to be a very moderate pace. You're not going to get two, three projects a year that will be able to accommodate some of the 100,000 to 125,000 square feet, it's just not a real fast pace. I think it's quite amazing, actually, that Home Depot opened two stores in New York City. That was quite a risk on their part, it's quite an accomplishment to bring them into the market. And you look at Costco over the years, and they have banged out three different sites in New York City between 1996 and probably 2000 or 2001. Regarding escalating rents, there's one thing I have to say and that is, yes, banking is the three-legged chair. At some point, the demand will cease, the banks will satisfy their appetites, and the net rents will come back. In areas like SoHo you've seen rent levels increase without that banking demand. Banks are not as lively in the market in SoHo and you're seeing retail is into the thousands, \$1,200, \$1,400 a foot in sales. And that's also what is driving the rents, the people who pay those rates. Retailers who fit in that 25,000 to 50,000 square foot range; you have retailers that are just doing unbelievable business, like \$1,000 to \$1,300 a foot, which is typically two and half times what these retailers do within their boxes in suburban environments. As long as people still cook up those numbers at the cash register, this market will remain stable. I think if a crash comes up in the office market, and vacancies increase, we'll see more of those moderate sized boxes going into the city, especially in Midtown.

**Pittel:** The credit [for the big boxes] is due to the landlord, because they

brought a vision, they brought the attention to their project, and they worked with the big boxes to make it possible for them.

**Smith:** Retailers mimic success. It will be really interesting here to see if the next tranch of mid-size and large boxes are going to be the guys that come down and see Whole Foods in Union Square. It is amazing to see a grocery store unit is on three levels. Filene's Basement is also on upper levels. That is pioneering stuff. We've had two tours in the last 2 weeks, one with a guy who is just looking at vertical transportation — what works, what doesn't work. How does a store on [the third level], with a ground-floor entrance, with very little signage and presence, how do you get them up there? I can't point to another grocery store in the United States that is on three levels, that's powerful. I think that's going to be the next tranch of the evolution of big box stores in this city.

**SCB:** One of the unique things about New York is that there are so many different neighborhoods and boroughs. Now, areas that you would never drive to, fly over, or even talk about, are now the place to be. What areas are really hot for retail?

**Rosenberg:** In boroughs alone, you've probably have 50 or 60 viable shopping districts. You've got up and coming areas — like Williamsburg and segueing into Greenpoint [in Brooklyn]. There are little pockets in downtown Brooklyn where you see a tremendous amount of development, like Smith Street, which historically is a very local, service-oriented, lower-income stretch. It is now starting to see the transition from a housing perspective to a much more middle and upper middle class residential population. You're starting to see local designers open up boutiques, and little local restaurants open up. That's carrying down Fifth Avenue, which we consider to be in Park Slope. Most of you are familiar with Blue Ribbon Restaurant in downtown [Brook-



(left to right) Andrew Pittel, Sandeep Mathrani, Frank Zuckerbrot, and Gene Spiegelman.

lyn], they've opened on this little stretch where you've got, again, a lot of restaurants. You're starting to see some of the more boutique operators, the local designers open up. Then you've got your traditional shopping streets, like Fulton Street in downtown Brooklyn and 86th Street in Bay Ridge. You look at the expansion of Queens Center, with all the developments that are going on in and around the boroughs, and I think it's just a function of the density and a function of, again, as Patrick said, success breeds success. They were the pioneers, so to speak, in the medium and big box sector. You have to look at Target as probably being one of those. You never would have thought a store of that size could locate, because you wouldn't find a 7- to 10-acre piece of land in Brooklyn or Queens, so what they did is they went into projects and did multi-level, or they were on the second floor and the third floor. Look at Atlantic Terminal in downtown Brooklyn: who would have ever thought that you would have Target on second and third floors, entering through a mall?

**SCB:** Can you expand on Brooklyn retail?

**Rosenberg:** Related is looking to do a second phase to their Gateway Center. They're going through the design issues and entitlements. Gateway Center was a traditional suburban power center, which, again, you never would have thought that could have been built in the city of New York. But there was a 100-acre piece of land just sitting there for a long time, and finally got zoning and entitlements, and you've got Tar-

get, a Home Depot, a Bed Bath, an Old Navy, a Circuit City, a BJ's. These stores are all building a tremendous amount of business, probably in the tops of all of their companies, because they've got highway access, the new interchange was creative, they've got highway visibility, they have surface parking. Each one of these stores has parking in front of their door, and it's very atypical of New York City. You look at the opposite, and the downtown Brooklyn, the Atlantic Terminals, or the project that Sandeep's working on now in Rego Park. Whoever thought of 100,000-square-foot retailers stacked three to four on top of each other? But that's what you're starting to see. In Brooklyn, you've got Related's property, and there is another project that we're working on with a local developer that is sort of piggybacking off the success of Gateway. They're actually going to call this project The Shops of Gateway, which is about 250,000 square feet with great parking; it will be a two-level project. There are a variety of projects that are going on in downtown Brooklyn. Most of the developments are residential projects with retail components anywhere from 10,000 to 30,000 square feet. We do a lot of business with the luxury brand retailers, and a lot of them have come to us and asked about Williamsburg. You get out there now, and you don't really see the evolution yet. You're seeing projects, small-scale projects, residential projects that have been converted, but you just don't have the density to support the retail businesses quite yet. As time goes by, I think in 5 years, if we all sit back around this table, we are going to see a completely different retail complexion in Williamsburg and in Greenpoint.

**SCB:** The Ratner stadium, is that a go? If it is, how is it going to affect the area around it for retail?

**Rosenberg:** From what we read today, it's a go. One never knows what the community boards and local groups can do when they voice their opinions, but I think that it would be great for the

area. We can take an area that, where they're going to build this thing, it's not much of anything today. It's a bunch of open railyards. I think the stadium will bring people to that area of Brooklyn that don't typically frequent that area. You've got the residential component of the project, you've got the retail component. It will create more life and more activity in that area, where right now, you've got the crossroads of two major arterial roadways, Flatbush Avenue and Atlantic Avenue. Then you've got Forest City's two projects, which for the most part, one is an internal big box center, and one is in some respects a mall. So people aren't out on the street, people aren't out walking around, people aren't shopping on the street because they're in all of these projects, so I think it will be a windfall for the area.

**SCB:** Brookfield is obviously a major player in lower Manhattan. Is retail starting to come back? Is it becoming more of a sought-after location for retailers? I know that it was having difficulties a year ago. Has it begun to improve?

**Hogan:** It has. Eighty percent of our retailers are at or above the pre-9/11 sales numbers, so that's good. What's interesting to me is the mix of people downtown. You now have more tourists there, the residential population keeps growing, and the office population is as good as it gets in North America. It is the most densely populated square mile of office space in North America. What has happened in the last 6 months, and I can't explain it, is that I've had retailers who I've called for years — high-end, higher than anything we've got at the World Financial Center, calling me, and wanting to come down. They understand downtown. I think that people are realizing that there is \$10 million of investment being done within a 3-block radius of ground zero. Whenever you invest \$10 million there's quite an opportunity out there, especially with retail. Goldman Sachs committing to the neighborhood has been huge. It's really changed the whole makeup of down-

town. You know, what's interesting too, is how restaurants that were down by Water Street are now open on Saturdays and Sundays. Their business includes residential life, the tourist life. We're looking at ways to expand our retail substantially. I'm sure General Growth is looking for ways to expand their retail at the Seaport. The studies post-9/11, pre-9/11, all say the same thing — Downtown needs more retail.

**Smith:** I think [downtown] has turned a corner. I'm amazed at what we're hearing about DSW down there. Every time we've gone down there, especially when you're doing a Manhattan trip, and you stand there at Broadway and Houston, you're going to have to have a whole different experience. A lot of

the guys that we represent are co-tenant driven. They're doing the same thing — trying to mimic success. When you see guys like DSW, and you see the performance in World Financial, you see now the bigger boxes coming down to set up.

**Hodos:** I agree. Borders is extremely pleased with their success they've had at 100 Broadway. We're about ready to sign a lease that will be announced by the time this is published, for Sephora at 150 Broadway. Sephora could do three stores in Lower Manhattan, and I think they will eventually.

**SCB:** Is that an area high-end retailers are going to look at?



(left to right) Andrew Pittel, Sandeep Mathrani, and Frank Zuckerbrot.

**Hodos:** Yes. A lot of them have waited. A lot of them had stores at the World Trade Center, or World Financial Center. Some of them are still waiting to see what happens, but I think the wait is now over, and they're ready to recommit.

**SCB:** Joe [Povinelli], Acadia owns property in the suburbs. How have your properties been doing in terms of retail?

**Povinelli:** This is a new venture for our company. The studies that we've looked at will tell you that the Bronx, Queens and Brooklyn remain understored from a national tenant basis as compared to the demographics of the area. If you compare it to Long Island, it's an astronomical difference. The trick is to find sites that the retailers can utilize. As a public company, you have to make the pro forma work. If you're buying at low cap rates, you have to get by rents in the first quarter. If I give [tenants] a smaller entrance on the first floor, and I could put you on the second floor, and you can pay the rent, you'll still do your sales, and the project will work. It's not been that easy outside of Midtown Manhattan to convince someone that in the Bronx or Queens, that they do well on the second floor, or in the lower level. The projects are tricky, though. There are lots of vertical problems — up and down, and maybe even third-floor space, and then office as well. But we've found that the Bronx is still an area that's exciting, and we're trying to find the right real estate, where we can adapt and redevelop to multi-level retail.

**SCB:** How are the sales per square foot

## NATIONAL REALTY & DEVELOPMENT FORGES AHEAD

Purchase, New York-based National Realty & Development is one of the most active big box developers in the Northeast. The company has continued its brisk development and redevelopment pace with a number of projects in 2005 and 2006.

In June, the company opened a 258,000-square-foot shopping center in Rockaway, New Jersey, anchored by Wal-Mart, Bed Bath & Beyond and DSW Shoe Warehouse.

In October, the company opened the 250,000-square-foot expansion of its Hadley Center in South Plainfield, New Jersey. Hadley Center, which was 300,000 square feet before the expansion, is adding Target (opening March 2006), Marshalls, Famous Footwear and Harmon Stores to bring the center to approximately 550,000 square feet.

In Somerdale, New Jersey, NRDC is redeveloping and expanding its Lions Head Plaza. The 200,000-square-foot expansion is expected to be online by the end of 2006.

In Plainfield, Pennsylvania, NRDC is developing a 425,000-square-foot center anchored by Super Wal-Mart and Lowe's Home Improvement Centers. Similarly, the company is developing a Super Wal-Mart-anchored center in Monsey, New York. In addition, the company has new projects planned for Springfield and Agawam, Massachusetts. In Springfield, NRDC plans to develop a 600,000-square-foot power center. In Agawam, the company plans a 560,000-square-foot power center.

The company's head of development and leasing, John Orrico, has seen a lot of activity from big boxes who find it hard to locate space in the Northeast. Players like Kohl's, Wal-Mart and Target are interested in nearly every project that NRDC brings to the table because of the population density of the region and the barriers to entry in many northeastern markets combined with NRDC's reputation for delivering projects on time.

"The problem for us and for the retailers today is finding the new opportunities," says Orrico. "Once you do find sites, it's a 3- to 4-year approval process before you can put a shovel in the ground."

— Randall Shearin



Joe Povinelli (left) and Richard Brunelli (right).

in the boroughs?

**Zuckerbrot:** In the outer boroughs, we have retailers anywhere from about \$400 a square foot to \$1,000 a foot. Drug store numbers in the outer boroughs, in parts of Brooklyn, in parts of Queens, are out of sight.

**Rosenberg:** I think that holds true for other retailers. Look at Queens Center Mall. Before the expansion, the mall did \$900 a foot. I think the numbers point to the fact that they're in the top 20 malls in the country. And that just speaks of the volume power that is in the boroughs. The boroughs are completely under retailled.

**Spiegelman:** Five million people are living in Queens and it has two regional malls.

**Rosenberg:** That's why you see all of these central business districts all throughout Brooklyn and Queens and the Bronx that are very viable shopping alternatives, because they've evolved instead of the malls. You just don't have the land to build more malls. You now are starting to see more of these vertical projects being built for that reason. The demand is there by the retailers, and the costs are justified because you can get the rents from the tenants.

**Mathrani:** If you look at the growth and you think about Queens, there hasn't been a new project in a few years. The Shops at Atlas Park is the next biggest project with 600,000 square feet that's not going to come online until 2007. Rego Park is our project; we just got board approvals for 400,000 to 600,000 feet.

**Zelnik:** Related has got the Bronx Terminal market now, about 1 million square feet.

**SCB:** Cory, what new retailers are coming in?

**Zelnik:** There are always people coming in looking. The domestic retail in New York has just proven itself to be beyond excellent. There's a little bit more of the "stick my big toe in the water" type of approach down on Bleeker Street, as opposed to, you know, when H&M came to New York. They came [in and opened] large stores at top dollar. I don't know that you'll see a lot of that. I think you will see more of the Bleeker Street type experimentation, and then growth from there. While there are a tremendous amount of success stories throughout the city, there are certainly a tremendous amount of failures. People are a lot wiser; the public companies that are behind a lot of these do very careful studies. New York has been and will always be an area [in which] people must be, so they will find their way here if they're not here already.

**Brown:** To follow up your question on foreign retailers, we just finished a lease for a tenant from Spain, Zara, another sort of H&M.

**Pittel:** There have been a few big deals done in the city; major mall tenants that are here in the city now. Abercrombie & Fitch is opening at 56th and Fifth, and then you've got Anthropologie that recently signed a 20,000-square-foot deal at Rockefeller Center. New York & Co. has also signed a lease.

**Hodos:** Reiss is a store from Great Britain that opened on West Broadway recently. It's their first store in the country, I believe. You have Mango from Spain that is actively looking in the market; they're about to sign some leases. American Apparel has been very aggressive in the market. Polo Rugby just opened on 12th and University; it's a great-looking store, I think their second store in the country. And we're actively

looking for a lot of the Liz Claiborne brands in the market. Mexx, which just opened next to Bloomingdale's in SoHo and I have another store on Fifth Avenue in the Plaza District, is looking for other locations. Juicy Couture, which is another Liz Claiborne brand, opened its first store in the expansion of The Forum Shops in Caesars [in Las Vegas] and is actively looking in Manhattan for several locations as well.

**Spiegelman:** I have a best-kept secret to share with the room. I think the next market in Manhattan, the most undervalued market of the city, is Canal Street. We have a bunch of people saying, 'Show me Canal Street.' They want to understand it because of the amount of money that walks down that street. Give it 5 years, 6 years, maybe a little longer — it's going to change dramatically.

**Mathrani:** I think if someone really treks all the way down [Canal Street] and then back, you are actually seeing what's really happening. If you go down Broadway, the retail is actually going closer and closer, it's probably a block away from Canal Street.

**Spiegelman:** I agree. We just leased a store to Z Gallerie, down at Howard Street. It is 10,000 square feet for their first store in Manhattan. It took us a year and a half to convince someone to go down the street from Pier 1.

**SCB:** Jonathan [Adelsberg], as a firm that represents landlords, what do you see going on? What are the landlords looking for? How are they negotiating with the retailers? What are they giving and what are they asking for?

**Adelsberg:** Well, it really depends upon the type of deal that you're doing. With regard to the retail banks, we've been seeing it on both sides. Everybody wants the retail banks in the space, and everyone sees in a few years that, 5 years from now, we're all going to be sitting around the table, and the retail guys are going to be subleasing all that space. What we're really seeing is sig-

nificant discussions of what types of restrictions you're placing in terms of retail use on location. Really significant negotiations have been what's the exit strategy for the bank in terms of who we're going to allow in, when we're going to allow them in, and what we're going to do. Needless to say, everybody wants the credit of the bank that secures your financing and a lot of other things. But there is a real concern, not intending to be judgmental at all, but a lot of Class A businesses don't want Duane Reade to replace a bank on Madison Avenue, or in a prime Class A office building. So we see a lot of negotiation on that part. We've also been seeing a lot of creativity with regard to opening up opportunities in areas that have been traditionally restricted for retail use. The Fifth Avenue corridor has had a restriction on bank use for a number of years. The Theater District has had a restriction on bank use. We've been working with a number of our clients, both landlords and tenants, pushing the city to remove some of these restrictions, which happen to be a bit archaic at this point, since they never fit the intent of what these business districts are all about. In Lower Manhattan and in the boroughs, we're actively involved with changing the use to go from manufacturing to retail. Historically, you've seen a lot of the entrepreneurs that would be willing to go to locations where technically they've been prohibited from operating.

**Brown:** What we're seeing is the landlord shake hands with clients, like Wachovia, and then a week later, you get a call that Bank of America is going to take \$50 a foot more, and a week later, HSBC is saying another \$50 a square foot more, so you have to now pay, after you've had a handshake, \$150 a square foot more just to secure the space.

**SCB:** Richard [Brunelli], how does New Jersey compare to New York City and the boroughs? How do you see retailers that are looking at your market? Are they looking at Manhattan first, or are they looking at New Jersey, then New



(left to right) Gene Spiegelman, Mitchell LaBar, Richard Hodos, Andrew Fawer, Cory Zelnik, Jonathan Adelsberg, and Steve Fleissig.

York City?

**Brunelli:** It's hard for me to say where they've been first. The national chains probably have a real estate director that would have New York City and some of the five boroughs [as part of their territory]. Sometimes, that same person will have Northern New Jersey and Central New Jersey. From my point of view, we are apt to tour Northern and Central New Jersey with a real estate director, then head into New York, because it's really a separate market. Whole Foods has just come into Northern New Jersey, and of course, Whole Foods has come to New York City. The same thing that is happening in New York, with the banks, is happening in New Jersey. They're bidding it up. We also have a tremendous problem with regard to inventory; we have very low vacancy rates, approximately 2 percent in Northern Jersey, and about 4 percent in Central New Jersey. There continue to be the good old areas, around Paramus, and Wayne/Route 46. Clifton is picking up and has the Meadowlands now. Xanadu is going to be built; they [The Mills Corporation] just broke ground in Secaucus on that unbelievable Xanadu project. But in terms of real growth, Middlesex and Monmouth counties offer the greatest opportunity for growth because there is still land available.

**SCB:** Brian [Katz], as one who does work in New Jersey, how do you see this market?

**Katz:** I think the best example, to answer your question, is Cost Plus World Market, who is a 20,000-square-foot

store based in San Francisco. They have no locations in the region; the closest store they've got here is with Joe [Povinelli] in Wilmington, Delaware. That makes our strategy for them for the whole metro New York area. The inventory is so low that it's really a matter of where can they get physical locations and get them open. So there might be one in Northern New Jersey, one in Manhattan and one in Long Island.

**SCB:** Are there any new restaurants that are opening up and serving as a magnet for retail?

**Zuckerbrot:** We've had hot restaurants come out and open up on Long Island, and some of the outer boroughs, and that's an industry that has taken off — restaurant growth in our suburban world. Not just middle-of-the-road restaurants, but high-end restaurants, such as Umalino, which is ranked one of the top 10 restaurants in the city. We actually have a number of cooking schools that have opened up on Long Island, culinary art institutes, for training. We're just creating a much better product out there. Right now, they're going toward traditional high-end locations, like the Miracle Mile in Manhasset.

**SCB:** We're all facing an increase in gas prices and energy prices in general. Will there be an impact on retail?

**Spiegelman:** There's no doubt that the gas prices are starting to hit everywhere, from people driving cars to flight. You're going to see it really happen this winter with home heating oil. Because that's where it will really hit people's pock-

ets. The home heating oil prices are \$3 a gallon. Whatever that cost is, that's when it's really going to start to impact people in this specific region. It hits a certain segment of the population very hard.

**Smith:** To kind of dovetail what Joe was talking about, we think probably one of the biggest stories that is evolving is some of the new development in the

Bronx. The fact that there have been successful projects, and the big boxes have done great in Queens. That hasn't happened to a great extent in the Bronx. The fact that between Joe's [Povinelli] project and stuff we're doing in Pelham, Related is doing an 800,000-square-foot project, Bronx Terminal Market. It's a project that we're involved in, which is 500,000 square feet. Talk about some pioneering things, that's kind of the next

undiscovered borough. You think about how well tenants do on the major shopping corridors in the Bronx, then you have this massive borough that basically is serviced by really small bodegas, for the most part. The next 3, 4 years, you'll have national tenant retailers.

**Rosenberg:** It's the fastest growing borough, but before, it was Manhattan.

**SCB**

### **WINICK REALTY GROUP: PROVIDING BROKERAGE FOR THE LONG RUN**

**W**inick Realty Group is a Manhattan-based brokerage firm that was founded approximately 20 years ago by Jeff Winick. Initially focusing primarily on landlord representation throughout Manhattan, Winick and partner Cory Zelnik, who joined the firm more than 9 years ago, grew the business and moved to become a straight-out brokerage group. Beginning in Manhattan, the firm has spread through the tri-state area, moving into all five boroughs of New York City and into Suffolk County, Nassau County, Westchester County, Rockland County and throughout New Jersey.

Winick Realty brokers deals within the retail sector, and while it is involved with investment properties, strip centers, free-standing properties and all things of that nature, everything Winick does revolves around retail.

"One of the things that sets us apart from other brokerage firms is our tendency to remain with clients over the years," explains Zelnik, president and principal with the firm. "We've gathered a reputation throughout the industry of being a brokerage house that really can service a client and stick with it. I think it's rare for a firm to be with several companies as long as we have."

For example, Winick Realty provides brokerage services for Duane Reade drug stores, which now is a 250-store chain. When the firm first became involved with Duane Reade, the store only held 39 locations, and over the past 8-plus years, Winick Realty has negotiated nearly every single deal, providing consulting if Duane Reade wants to acquire chains and other services of the like. Winick Realty also represents Blockbuster in New York and has brokered approximately 200 deals for the retailer over 10 years. Just to name a few others, the firm represents Moe's Southwest Grill, Office Depot, Starbucks Coffee in the four boroughs aside from Manhattan, and Chase Bank, which it aided through several mergers and still works with today.

"In trying to avoid cliché, we really put our heads down and go for it, and that's the key to our success," Zelnik says. "We have a vision, and we don't look at transactions on a 'one-off' basis. We look at the big picture: where is our next deal for this client, where are our next 10 deals for this client, and so on. As we understand the brokerage field, it's a marathon, not a sprint."

Winick Realty's short-term goals include bringing on new talent, a different type of talent at that, hopefully to aid the firm in growing to a new market. Zelnik notes that the luxury market is something he hasn't yet tapped, and it's a short-term goal of the firm to bring on board people who have experience in that market in the hopes of discovering new clients. For example, the firm recently signed a lease on Rodeo Drive in Los Angeles with Graff Jewelers, a very prominent, high-end jeweler. Zelnik explains that this type of activity hopefully will serve as a launching pad for Winick Realty's future in the luxury market.

"We can do a small deal at \$1,000 per square foot, and that's definitely major from a dollars and cents perspective," says Zelnik. "But what we do is 'multi'; we continue to expand and reposition Duane Reade, and we've completed several deals for Chase, and we're remaining consistent in that respect. In addition, we currently represent more than 300,000 square feet of retail space in Manhattan's Financial District."

In the future, Winick Realty plans to become more involved in big box leasing. In addition, as far as expansion goes, the firm has been seeking opportunities across the country in Los Angeles, Chicago and Florida. Just as it spread from one borough to five boroughs and then to New Jersey, Winick Realty will handle brokerage wherever it makes sense.

"We're looking at outside opportunities, but I'm not going to hang a shingle in L.A. just to hang a shingle; I don't want to roll the dice in that respect," Zelnik says. "But if we can work our way out there, we hope to do that in the next few years."

— Dan Marceci