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No Ebb Seen in Rising Real Estate Prices

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A rendering of the Mall of San Juan.
Photo By Courtesy Photo

In 2014, asking rents in New York broke records, Brooklyn neighborhoods came into their own, and American mall operators got creative.

There will be no respite from high rents in 2015, as the sale prices of prime buildings continue to soar. High rents, along with the soft euro, could deter European brands from opening stores in the U.S., although they might overlook that hurdle to tap into the relatively more robust pocketbooks of American consumers. Developers are staking out parts of Queens and the Bronx they still deem understored, while others will invest in places like San Juan, Puerto Rico, in 2015.

"This year will be another very strong year in the retail market, and in the best locations, some retail properties will sell for in excess of $50,000 a square foot in 2015," predicted Robert Knakal, chairman of Massey Knakal.

Last year saw the sale of a 4,000-square-foot retail condominium at 733-739 Madison Avenue for $123.8 million, or $31,000 a square foot. The condo was reportedly bought by an affiliate of Chanel, whose fine jewelry boutique now occupies the space. It's one of the few uses that could conceivably make a profit in a location with that kind of overhead.

"Generally, we're seeing a lot of upward pressure on rents, and that's spilling into the secondary areas," Knakal said. "The tertiary areas are still facing some challenges."

The Crown Building at 730 Fifth Avenue and 57th Street in December fetched $1.75 billion when it was sold to General Growth Properties and Jeff Sutton, a New York real estate mogul. The Fifth Avenue jewel boasts 35,000 square feet of retail space, which is occupied by Bulgari, Piaget and Mikimoto. "The retail box is worth more than what they paid for the entire property," said one real estate expert, who speculated the new owners will try to reconfigure the space to create a store for a single retailer.

But brokers are already getting pushback from prospective tenants about higher rents. "Eventually, you hit a threshold for retailers where there's just so much business they can do," said Jeffrey C. Paisner, partner at Ripco Real Estate. "Certain tenants say, 'We're just not going to pay that kind of rent.' The euro is only worth $1.22 now. The rents don't seem so discounted anymore for European tenants. If the currency trend continues, there's going to be a slowdown in European retailers coming here and a showdown of tourists from Europe visiting here. If things don't pencil out for them," retailers are not signing leases.

"We have a retail co-op at 85 Fifth Avenue that we're selling, and we expect to get a tremendous price," said Knakal. "That will happen out of necessity because there's only so much prime stuff to go around. We'll see some flagships opening in areas you wouldn't necessarily think of as flagship material. When Apple signed a lease in the Meatpacking District, there were some raised eyebrows. Certain retailers can create a neighborhood just by planting their flag in a location."

With the imminent arrival of Apple and Whole Foods to Williamsburg, Brooklyn, national and international tenants are showing renewed interest in the neighborhood, although not everybody is happy about its inevitable gentrification. Apple will open in the spring on the corner of North Third Street and Bedford Avenue, across the street from a future Whole Foods Market and a short distance from J. Crew and Urban Outfitters. Also in Williamsburg, Madewell in October unveiled a store on North Sixth Street and G-Star has signed a lease.

"The amount of residential buildings being built by the waterfront indicates that there's going to be a lot more money in Williamsburg," Paisner said. "Rents in Williamsburg have certainly gone up, but it's still early in the game. Other than Bedford Avenue, rents are $125 per square foot or less. You're getting more bang for your buck in Williamsburg."

Joanne Podell, vice chairman at Cushman & Wakefield, sees Gowanus, N.Y., as an up-and-coming area, "but it's going to take a long time," she said. "I love Long Island City. Vornado is developing a tremendous amount of retail there. There's a great deal of commitment with Tishman Speyer doing residential, and along with residential comes retail. Long Island City serves a big community. You'll see local stores and some national tenants there."

Lisa Rosenthal, a broker at Lansco, said 2015 will mark the opening of New York's first transit marketplace, Turnstyle, at the Columbus Avenue subway station. Tenants so far include Dylan's Candy Bar, Specs sunglasses and Studio Manhattan, which prints photos of New York on magnets, wallets and other accessories. "Once the Turnstyle model is proven, there will be opportunities at other hubs because this enhances the transit experience," Rosenthal said. "Think of Union Square and Times Square. You need a lot of space with a lot of trains on the line."

The Bronx, an overlooked New York area, is the third most densely populated county in the U.S., with a population of 1.4 million people. With the economy of the area less than vibrant, there was no retail expansion for years. Now, Bay Plaza Shopping Center, a strip mall, is expanding. Across the street on the west side of route I-95, Grid Properties and Urban Strategic Partners, its venture with the Gotham Organization, is building Gun Hill Square, a 350,000- to 425,000-square-foot open-air center made up of six mini blocks.

"It's across from the big mall, which is taking off," said Drew Greenwald, principal of Grid. "We'll get the [retailers] that don't want to be in the larger mall. There's been pent-up demand in the Bronx. People are getting back to work, there's money in the stock market, and housing prices will rise. You'll see a boom in retail construction because interest rates are low."

Grid specializes in doing projects in understored locations. The company is the developer, owner and operator of Harlem USA and D.C. USA. "We absolutely want to do other things," said Greenwald, who is also working on a site in White Plains. "We love New York, and it still has underserved areas. It's a good future out there."

While the final verdict on Christmas 2014 won't be known for several weeks, experts have been warning that the holiday season won't be so jolly for some retailers.

Andy Graiser, copresident of A&G Realty Partners, said a number of specialty retailers are vulnerable this year.

“We’ve seen Deb Shops, Delia’s and Dots file Chapter 11 bankruptcy protection,” he said. “We’re expecting more bankruptcies or large store closing programs in the first quarter. The women’s-teen sector is still a very challenged, overstored area. The consumer is buying less.”

Graiser expects some big-box retailers to relocate to smaller locations as their leases come up for renewal. “When this happens, it gives landlords the opportunity to redevelop part of a mall or strip center. There’s still a number of retailers who are continuing to grow,” Graiser said, noting that there’s demand for strip centers from chains that can’t afford to open in a regional mall.

Some chains are downsizing and leasing part of their square footage to other retailers. In the case of Sears Holdings Corp., the unprofitable department store chain is always looking for ways to raise money, and it has agreed to give up space to Primark, the U.K. budget apparel chain. Primark will lease about 520,000 square feet across seven Sears units. Analysts suggested that Sears and Primark could do additional deals.

While it remains to be seen whether Americans have a taste for Primark’s cheap fashion — the first store will open in Boston at the end of the year — they’re clearly hungry for the savings offered at outlet malls. “A lot of discussion in the industry has to do with the development and expansion of outlet centers,” said Stephen Stephanou, broker at Crown Retail Services. “This isn’t surprising when outlet stores are a key strategy for a fair number of apparel brands. The declining traffic in shopping centers indicates a continuing shift toward value. Primark is a value-driven expansion that could chip away at [J.C. Penney Co. Inc.] and Sears.”

Alco Stores, a discount retailer with about 200 units, in November said it would close all of them, citing the effects of the lingering economic slowdown on its shoppers. Graiser sees more pressure on the discount sector coming this year.

“More nontraditional retailers will start to open in shopping centers,” he said. “There’s going to be a lot of redevelopment going on around supermarkets.” For example, Simon Property Group demolished The Nanuet Mall, a tired shopping center in Nanuet, N.Y., and built The Shops at Nanuet, an open-air property anchored by Fairway Market and a store roster that includes Michael Kors, Apple, J. Crew, P.F. Chang’s China Bistro, Lucky Brand, L’Occitane, Lululemon and Sephora.

This could also be the year of San Juan. Taubman Centers’ Mall of San Juan, billed as Puerto Rico’s first luxury mall, is slated to open with Nordstrom and Saks Fifth Avenue as anchors, as well as 100 specialty stores and restaurants. Puerto Rico’s biggest mall, Plaza Las Américas, continues to expand, and Macy’s Inc. this year will open a unit at Plaza del Caribe, the company’s second in Puerto Rico. Sambil Puerto Rico is scheduled to break ground this year, with 300 stores planned to fill the three-level center. While Puerto Rico’s economy has contracted for the past several years, developers are undeterred, building high-priced residential communities such as Caribbean Property Group’s Paseo Caribe along the waterfront, where prices range from $400,000 to more than $1.6 million for apartments.

One place where there seems to be no shortage of demand for retail is the Middle East. No sooner did United Developers, the group behind an 8 million-square-foot, mixed-use project, take its show on the road to Europe than the company revealed it had been positively received by retailers on the Continent. The property also made an appearance at MAPIC, the international retail real estate meeting in Cannes.

The architecture of Place Vendôme, the retail component of the project, is intended to be reminiscent of Rue de la Paix and the Place Vendôme itself in Paris. In a concept worthy of Las Vegas, a canal fed by the sea will course through the project, culminating in an open area that will have restaurants overlooking the water. The project is slated to open in 2017.

United pointed out that Qatar’s gross domestic product in 2012 was $106,000, ranking it among the world’s top three fastest-growing economies, and “the growth shows no signs of slowing down. Mindful of the large market for luxury products, a large portion of the mall is designated and specifically decorated to host the world’s leading designers and boutiques.”

In addition to a constant stream of Doha and Lusail residents, Place Vendôme promises to put tourists at retailers’ doorsteps with two five-star hotels flanking the shopping center and an adjacent apartment complex.

Place Vendôme is expected to have two million visitors per month. As an added incentive, the 2022 FIFA World Cup will begin across the street from the mall.