

New York's Positive Position

With demographics and tourism like no other market, New York retail is on an upward swing and shows no signs of slowing.

Roundtable moderated by Randall Shearin and Jerrold France

The retail climate in the New York area is positive and signs are pointing upwards. Rents continue to climb as more tenants search for space in the Number 1 market in the United States. Experts are quick to point out, though, that New York is like no other market. The density and spending power of the local population, combined with large tourism numbers create a market that can't be duplicated. *Shopping Center Business* recently held its New York Retail Roundtable at the offices of Ackman-Ziff to get a panel of experts to comment on the state of the retail market.

In attendance at this year's roundtable were: Timothy Bruce, Brixmor; Virginia Pittarelli, Crown Retail Services; Christopher Conlon, Acadia Realty Trust; Ed Hogan, Brookfield Properties; Nina Kampler, Kampler Advisory Group; Joe DiMittio, A&G Realty Partners; Richard Brunelli, R.J. Brunelli & Co.; Ariel Schuster, Robert K. Futterman & Associates; Joanne Podell, Cushman & Wakefield; Richard Cohan, 34th Street Partnership; Helen Putterman, Cohen & Company; Louis Novick, Felenstein Retail Ser-



(left to right) Richard Brunelli, Joanne Podell, Virginia Pittarelli and Timothy Bruce.

vices; Patrick Breslin, Studley; Michael O'Neill, Cushman & Wakefield; Frankie Campione, Create Architecture; Stephen Stephanou, Crown Retail Services; David Robinov, Ackman-Ziff; and Alan Miller, Eastern Consolidated.

SCB: How is the retail climate in and around New York City? Has it changed from last year?

Virginia Pittarelli: The energy level is amazing. We are chasing rents in ev-

ery primary retail market. Tenants are expanding and repositioning their stores. The rents are escalating in Soho. We recently negotiated a transaction on Madison Avenue. During those negotiations, which took place over about 6 months, [rents at] the building next to us escalated by 25 percent by the time we signed our lease. New York is very isolated from the rest of the country. There is a lot of foreign investment.

Joanne Podell: I just returned from the ICSC meeting in Shanghai. There was tremendous interest in New York. There is a level of confidence in looking at this market. We have the density; we have the tourists; and we have a stable economy.

Richard Brunelli: Northern New Jersey has stabilized. We saw a lot of Borders Books close so a number of prime spaces became available. That allowed several national retailers who will only locate in A centers the opportunity for new locations. Retailers are looking for prime spaces, but the B and C properties are still suffering.

SCB: Are there specific areas that retailers are asking to go when they come to New York for the first time?



(left to right) Nina Kampler, Chris Conlon, Louis Novick, Richard Brunelli, Joanne Podell and Virginia Pittarelli.

Patrick Breslin: Some tenants don't comprehend that — in some high-end locations — 2,000 square feet equates to \$6 million in rent. There are a lot of retailers who don't do \$3,000 per square foot in sales. There has to be a top where rents will level off or all chaos will break out. But rents keep going up — and there is no sign of them stopping.

Louis Novick: New York City is a different animal. It is insulated from the rest of the world. A lot of the foreign investors consider New York City the most solid place to park their money, as do retailers. Zara bought its retail condo on Fifth Avenue. I work in the boroughs, as well as Long Island, Westchester County, New Jersey and Connecticut. The market is as vibrant as I've ever seen it. There is a cross section of many retailers that are expanding and making deals based on proformas. The landlords have a perception that the market is getting stable. There is a lot of activity.

Nina Kampler: Soho is the hottest market right now for retailers from overseas. Luxury retailers are doing well now. What used to be considered secondary corridors in Soho are now primary streets — Greene and Mercer are getting as much attention as Prince and Spring.

Richard Cohan: At 34th Street, we max out at \$1,200 per square foot asking rent. It's hard to say with a straight face but we are the value provider. Victoria's Secret is opening a renovated store. They were tracking at \$65 million per year in sales before the renovation. Macy's is doing a \$400 million renovation of its store, including the world's largest women's shoe department.



(left to right) Richard Cohan, Ed Hogan and Patrick Breslin.

Kampler: There is only one Manhattan. When you are a foreign retailer and you want to expand to the United States, it almost doesn't matter what it costs. The demand is not evaporating. As long as there is demand to push rents up, the rents will go up. As a foreign retailer, if you are trying to enter the United States, you can't afford not to be here. What expensive new deals are doing is the wave of the future: it is being able to say that half the cost of the store is marketing.

Helen Putterman: New York is different. You can't put it with the rest of the United States.

Novick: There are other options outside New York City. New York has 41 neighborhoods. Brooklyn is the third largest city in the United States, if viewed separately. It has 3.5 million people. Brooklyn is not as daunting and it's not \$3,000 per square foot.

Podell: Urban markets are strong. If you are looking in Chicago and Lincoln Road [in Miami Beach], it's relative. You figure your pro-forma and you see the sales that you have to do. In those markets, retailers have a sense of confidence that they can do business there. Respectfully, \$3,000 per square foot is a fortune, but there are tenants who can afford it.

SCB: Ten years ago when we held this roundtable, we did hear that many retailers used the 'marketing expense' line to justify the rent levels.

Breslin: It is different now. Retailers like Uniqlo and Zara have come here and done sales that are stratospheric.

David Robinov: And while rents on Lincoln Road [in Miami Beach] may be 10 percent of what they are in Manhattan, the growth of the rental rate on Lincoln Road is amazing. Rents there have doubled every 6 to 9 months.

Breslin: They are banking on the tourism and the South Americans who are parking money.

Ariel Schuster: Some retailers who depend partly on online shopping are allocating some of the rent [in New York] to marketing. The retail world is changing. People go to the stores and then shop online. You are also seeing more online retailers opening stores, Piperlime is one example. Bricks and mortar is melding with online and retailing will be different in 15 years.



Nina Kampler (left) and Chris Conlon.

Michael O'Neill: We have seen tremendous appreciation in rents in several major submarkets of Manhattan: Soho, Times Square, Fifth Avenue. That has unintentionally expanded the geography of most retailers. Retailers who have had a foothold in Manhattan are seeking locations in Brooklyn.

Breslin: Armani A/X has signed in Brooklyn. That is a huge plus for Brooklyn because it opens the door for other retailers. Century 21 is also opening there. I think it is a matter of time before other retailers locate there as well.

Stephen Stephanou: TJ Maxx did a deal in Brooklyn at 505 Fulton. H&M and Shake Shack have also opened.

Novick: Other than what Forest City Ratner has created for big box and clean space, there hasn't been that kind of opportunity. Now, because of Barclays Arena sort of anchoring Flatbush Avenue, you can see the explosion on Court Street, Smith Street and Adam Street. That whole area is bustling.



David Robinov (head of table) addresses the roundtable.

Podell: Are we seeing expansion in Brooklyn because retailers have grown as much as they can in Manhattan?

Novick: It is an extension. Look at Queens. Where are you going to go except Queens Center and Bay Terrace Shopping Center? Where are you going to spend the same capital to build a store and have that kind of critical mass and demographic? They are home runs.

Stephanou: Retailers, because they are here now, realize that New York City is a much bigger place. It is daunting when they first enter; the costs and regulations are daunting. Once they are comfortable that they can operate in the city, they realize that there is more than just Manhattan. There's more than just the tourist component.

Timothy Bruce: We have 92 million square feet of space across the country.

Our Mid-Atlantic and Northeast offices have seen successful results lately. I think the expansion that we are talking about runs through the entire region, from Boston to Philadelphia. We are seeing a lot of activity in the open-air center environment.

SCB: Is there a category of tenant that is more predominant?

Breslin: It is a good cross section. One sector of interest is the grocery tenants. You have Fairway, Whole Foods, The Fresh Market, Trader Joe's, Aldi and others who are expanding. The bankruptcy of Pathmark left a gaping hole in a lot of markets. You have the national supermarkets and the local operators looking at a lot of those spaces. Walmart is also going into the supermarket sector; they are looking to penetrate the boroughs and the metro market.

Bruce: Walmart considers the Northeast a core market. They want to open 500 of their neighborhood markets by 2016. Their pipeline is nowhere near filled.

Breslin: The top producers in our company [Studley] are in Washington, D.C. That office is knocking the ball out of the park. Philadelphia and Southern New Jersey are seeing an economic upturn. With regard to retailers, the operations people are the ones who have to figure out the sales number.

Bruce: Trader Joe's has a store in the basement at 72nd and Broadway; they have to load merchandise in to the basement afterhours. It is an incredible challenge.



Stephen Stephanou (left) and Ariel Schuster (right).

Breslin: It is a \$95 million store; they will figure it out.

Stephanou: When The Home Depot came to New York, they edited the store to make it operate in Manhattan. Not all retail organizations are cut out to do that or want to do that. It requires a certain amount of executive time to figure out which items are going to sell. They have to edit the product assortment.

Pittarelli: Another store that has done a good job of editing its merchandise to fit Manhattan is Bed Bath & Beyond on the Upper West Side. It is everything for apartment living. It is sized right for that. They've figured it out. They know who their core customer is in the market.

Ed Hogan: New York elevates the game. Since Nordstrom Rack came in, you can see that the New York store helped to elevate their game. The New York customer doesn't just want retail to face an office building. They want to be in a vibrant community. What we are doing in Lower Manhattan is repositioning the World Financial Center after 25

years. We are not just putting in convenience retail there. We are creating a dynamic retail environment so that people think this is where they want to go on the weekends and where they want to meet up for a drink after work. It is an extension of a New York neighborhood; it is not a mall.

SCB: Give us an update on the World Financial Center.

Hogan: We are under construction. We are opening in April 2014. We are building in phases, but we will open the entire center then. It will be 250,000 square feet of retail on two levels. We will have a mix of luxury to aspirational fashion. There will be a limited number of small spaces and junior anchors. We are putting in a gourmet, European-style market that is about 25,000 square feet. Like Eataly transformed 23rd Street, this market will transform the neighborhood in Lower Manhattan. We will also have a collection of restaurateurs who have created neighborhoods with their restaurants. If you look at how much retail is going to be built in Lower Manhattan when everything is built in 2016, it pretty much equals how much retail was there in 2000. What has changed is that the residential population has doubled since 2000 and the tourism has easily tripled. The office community is also changing. Condé Nast is coming downtown. There is diversity in the office tenants now. There is almost \$30 billion in new construction taking place in Lower Manhattan from 2011 to 2016. It is not just the World Financial Center and World Trade Center; it is also Goldman Sachs' new headquarters, the Conrad Hotel, the W Hotel and some residential projects. Never have we seen that much concentration of development in such a



(left to right) Ed Hogan, Patrick Breslin and David Robinov.

small area of the United States. In 2014, when the new transportation center opens and the new World Trade Center tower opens, it is going to be a very different world there. We spoke about Brooklyn before, and Brooklyn has caused a lot of growth for Lower Manhattan.

Stephanou: *The Wall Street Journal* recently covered incredible change in Lower Manhattan. The article indicated that after Times Square, Lower Manhattan is the most trafficked tourist destination in the city. You really feel that now that the tower is almost completed. It is packed. However, there is still little street retail. There are a few blocks on West Broadway and in Tribeca. There are a few blocks on Greenwich in Tribeca. Then you've got Broadway, which is loaded mostly with banks on the corner. It would be great if that were morphed into something that is more retail-friendly.

Hogan: Lower Manhattan is the most densely built square mile in North America. It is a European street grid, not a Colonial street grid. It doesn't lay out well like other parts of Manhattan for retail. I think you will see the luxury and better fashion show up in the World Financial Center; I think you will see Westfield open a successful center in the World Trade Center. I think Broadway will morph into fast casual retail with players like Zara and Uniqlo. The Seaport will be an exciting project.

Kampler: There is also an emotional lure to downtown. It is on the top of every tourist's list to visit downtown New



(left to right) Richard Brunelli, Joanne Podell, Virginia Pittarelli, Timothy Bruce, Stephen Stephanou and Ariel Schuster.

York. What Brookfield is doing downtown is beautiful, but the feeling of what is happening down there is even more compelling because of the history and the backdrop of the events of the last decade. That will increase the tourist footprint, and once all this is built I can't imagine how congested it is going to be.

Hogan: People also like living down there. There is a lot more green space than there is in other parts of the city. There's a relationship with the water.

SCB: Chris [Conlon], tell us where Acadia is active?

Conlon: We have invested heavily in Chicago, Miami, Georgetown [Washington, D.C.], New York City and Boston. We are driven by what retailers tell us they want. We looked at our portfolio and realized it was out of balance; it was about 30 percent street and urban retail and 70 percent suburban. While we embraced the suburban experience, it is limited



Christopher Conlon.

to high-barrier-to-entry markets like Nassau County, Westchester, Fairfield, Bergen, Essex and Passaic counties. In Chicago, we are not investing in suburban Illinois because it is trailing behind the urban market. When we went to Chicago and made our first investment 2 years ago, we spent an enormous amount of time researching what Chicago was all about. Retailers told us they wanted more stores in Chicago. We are less

bullish about the suburban markets, except when high density and high barriers to entry show up. In Brooklyn, we are developing one of the largest retail properties right now. We are under construction with a 550,000-square-foot, five-level urban retail center anchored by Century 21 and the recently signed Armani Exchange lease. We also signed a lease with Alamo Draft House for the fifth level. At the end of the year, we will announce another anchor that will take 120,000 square feet, the entire second level. We are just in the ground, and all we have left is the ground and lower levels. That's exciting. Brooklyn is the most under-retailed market in the country. There are 23 square feet of retail per capita in Brooklyn versus 55 square feet throughout the country. The gentrification of the areas around downtown Brooklyn is great. The transformation of Fulton Street is comparable to the transformation of Times Square over the last few decades.

Robinov: We've touched a little bit on the influx of foreign capital. The U.S. is perceived as the most politically and economically stable country in the world. There's also an influx of tourism. Investors see the six sexy cities: Washington, New York, Boston, Los Angeles, San Francisco and, surprisingly, Seattle.

Kampler: Tourism includes domestic tourism also. Do your own scientific study: walk around Times Square on a Sunday afternoon. You can't move down the block and you do hear more English than any other language.

SCB: Give us an update on 34th Street, where tourism plays into a lot of numbers.

Cohan: We have a phenomenon on 34th Street with B&H Photo. Retailers have got to be on their game. B&H does not open on Saturdays; they close early on Fridays; and they are closed on every Jewish holiday. With the exception of Apple, there is more energy at B&H Photo than any store I've seen. Friends of mine who are into photography say they will spend an hour with you on a camera lens. That is a rarity. No one is running to B&H for pricing; the prices are good but they are really providing service. It has always been said that most [retail] CEOs won't go west of Macy's. Recently, we've seen Joe Fresh, DSW, Payless, Party City, Lane Bryant, Cohen's Optical there. Retailers are realizing that you can go west of Macy's. The new Sam Ash store will go between Eighth and Ninth Avenues.

SCB: There are some outlet centers being developed near the city. Will those have any impact?

Robinov: My personal experience is that you go to outlet centers when you are on vacation. I don't think the tourists run out of things to do here. New York is somewhat of an outlet center between Century 21 and Canal Street; if you are looking for bargains you'll find plenty of them there.

Stephanou: For foreign tourists, Woodbury Commons has been part of the tour of New York for years. It has been an extremely successful center.

Frankie Campione: We are the architect for the renovation of Woodbury Commons. Just like you can't speak of New York and any other city, you can't speak of Woodbury Commons and any other outlet center. It is the Ferrari of outlet centers. It is going to have every square inch redone in the next 3 years.



Timothy Bruce (left) and Stephen Stephanou (right).

SCB: What is the investment market like in the New York metro area?

Robinov: We talk about the three U's in our business: urban, upscale and unique. That is where the demand is — retail condos and vertical projects in the city. There is more capital than product right now. We are seeing low financing rates driving a lot of sales. In the suburbs, we are seeing less interest in the grocery-anchored centers. People are holding their properties and refinancing them. When you talk about the debt supply, there is starting to be a little differentiation between quality sponsorship and location. For a while, the CMBS market was throwing money at anybody. CMBS 2.0 is more of a thinking man's lender.

Alan Miller: From a real estate perspective, this sounds great. But the tourism areas can really be affected by an economic downturn. In 2009, when no transactions were being done from the investment sales side, tourism also stopped. I am

a resident of Times Square and I work near Grand Central Terminal. All these rents are predicated on what developers can pay for the land. The bounce back in land values on non-income producing assets is driven by the retail rents, not just the incredible apartment rental market that is at a high point.

Robinov: I don't think I can overstate the importance of foreign capital. If you are a foreign investor right now, the entire U.S. is a core market. They see this as the safest place to put their money. We get calls from people almost daily that want to know the product we have.

Schuster: The majority of people buying in New York now are New Yorkers. There are some European buyers, but you are seeing the same owners over and over. The bigger the deal, the more international the money is. The New Yorkers are buying the smaller deals.

Joe DiMitrio: With the disposition projects that I'm working on where I've got Manhattan properties as well as those around the country, there is always an incredible amount of demand for New York. We can almost name our price when we are trying to sell leases here. When you are talking about New York and the boroughs, you've got retailers from the discount chains to apparel retailers who are willing to come out of their comfort zone to get the real estate here.

SCB: Frankie [Campione], what projects are you working on in the Northeast?



(left to right) Joe DiMitrio, Frankie Campione and Michael O'Neill.



(left to right) Joe DiMitrio, Frankie Campione, Michael O'Neill, Helen Putterman and Richard Cohan.

Campione: We have a lot of work in Philadelphia, both urban and suburban. In the last 2 or 3 years, we are getting calls for work in the five boroughs. I can't discuss most of the projects on the boards. A lot of it is mixed-use with retail on floors one to four, then residential above. Most of the developers hope to open these projects in 3 to 4 years.

Stephanou: Has anyone heard what is going on with the Xanadu/American Dream project?

Schuster: With [Triple Five Worldwide's] experience in West Edmonton and at Mall of America, if there is a developer who can make it work, it is them.

It is a massive project, but they have the ability to look at [retail] CEOs and say, 'We've done it twice, look at the sales and how we've transformed retail.'

SCB: How do you see retail faring over the next year?

Breslin: In New York, retail is always going to be good. We have 50 million tourists per year visiting. The demographics are still very strong.

O'Neill: I see demand remaining strong, inventory remaining low. I think we are getting close to the point of stabilization as it relates to rents.

Campione: Nationwide, we are seeing developers reinvesting in their A properties. Malls are bouncing back. We have a ton of mall renovation work on our boards right now.

Schuster: I'm amazed at the contrast between this roundtable and the one in 2009. As brokers, we are optimistic by nature. That was a different world. Today, no one said anything negative!

Stephanou: One thing that will be really exciting will be watching the infill south of 48th Street to 42nd Street on Fifth Avenue. There will also be a transformation

on 57th Street from Fifth Avenue to Columbus Circle. Nordstrom will be building its flagship store in that area. Some of the highest [cost] residential buildings are being built there. Five years from now, it will look very interesting there.

Bruce: From the broader spectrum of the country, we see a lack of ground-up development and leasing. I don't see that changing in the near term. Combine that with the retailers' need to grow and there will be supply issues. PetSmart wants to open 45 stores; Dollar Tree, 425 stores; Dollar General, 625 stores; Dick's Sporting Goods, 40 stores; Five Below, 50 stores; Publix, 35 stores; DSW opened 40 stores; the list goes on. We see this as a positive trend for existing shopping centers.

Pittarelli: I'm very positive, especially for New York. The demand will continue to be there. There is a lack of space inventory. There are still areas to grow. It is an amazing city.

Podell: You have to be aggressive as a leasing agent here. Transportation is critical here. The cross streets have continued to grow in importance; how near a location is to the subway is important.

Brunelli: In Northern and Central New Jersey, we have the highest average household income in the United States. There is little development going on. I'm optimistic, but I'm concerned about the fiscal cliff.

Conlon: There will be a further divide between the have and have-nots in the New York metropolitan area. Those properties that are in high-density, high-barrier-to-entry urban areas will be the haves. The have-nots will be the areas outside of that.

Kampl: Retailers have seen a shake-down. The survivors have cash to deploy and are being smarter about it.

Robinov: There are so many new retail concepts coming out. There are so many specialty retailers that just sell salads, smoothies or soaps. The other big tenants are entertainment retail: Microsoft, Nintendo, Hershey's and Lego. Retail is always reinventing itself. **SCB**

LEADING THE WAY THROUGH THE 21ST CENTURY
**SHOPPING CENTER
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