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NYC Retail Boom Signals Monster RE Prices In 2014

By **Kaitlin Ugolik**

Law360, New York (December 16, 2013, 6:29 PM ET) -- New York City's retail market has experienced a frenzy in 2013, and experts — particularly those in leasing — expect the activity volume and high pricing to reach a fever pitch in 2014 as foreign tenants continue to enter the market and push prices up.

A slew of factors have contributed to the "wild" retail market this year, but experts say one of the biggest things fueling the heightened prices and number of deals has been the increased demand from retailers outside the country to purchase or lease a New York City location, which they expect will continue well into 2014.

Although brick-and-mortar retailers struggle around the country thanks to the growing popularity of online shopping, the same simply hasn't been true for New York, where tourists still want to shop and retailers based all over the world want to be more than ever.

"I have never seen a frenzy like this past year in the retail leasing market in New York City, both in terms of the number of deals — the volume — as well as the escalation in pricing," said Bradley Kaufman of Pryor Cashman LLP, who represents landlords and tenants in major luxury lease deals around the city.

The growth has come from two distinct arms of the retail asset class: high-end luxury like Gucci, and budget, "fast" fashion like H&M.

At both ends of the market, landlords and tenants are experiencing the same squeeze that those in other asset classes in the city are facing in terms of ever-shrinking inventory and the resulting bidding wars that send prices sky-high.

But at the luxury end, that price pressure is compounded by the influx of European and Asian retail tenants who may not have the same reservations about paying top dollar that some American tenants do.

Foreign companies like the ones that control Uniqlo and Zara aren't usually beholden to investors and internal rates of return the way many American retailers are, and perhaps more importantly, they tend to choose their spaces for their expected success over a long term.

Being in New York is so important to many retailers that they expect to stay for as long as a lease will allow, or to purchase a property with no plans of reselling it within the next several decades. In those cases, paying a bit too much for a property in a prime location is not a problem.

"I think you've got an influx of foreign retailers ... coming abroad and grabbing up good space and being willing to pay top dollar for it, and that's forcing the prices up," eventually roping the American retailers into paying the same prices and pushing the market up across the board, Kaufman said.

In August, CBRE Group Inc. found that average asking rents for retail space in Midtown's prime Fifth Avenue shopping corridor between 49th and 50th streets had **passed the \$3,000-per-square-foot mark** for the first time.

The expansion of lower-cost retailers like H&M, Forever 21 and Uniqlo has also played a major part in the retail sector's growth over the past year and is likely to continue pushing the asset class forward in 2014. Tourists and locals alike are drawn to these more accessible fashion houses, and they have played an integral role in expanding New York's fashion districts.

Although several years ago retailers "turned their noses up" at Madison Avenue and Fifth Avenue below Rockefeller Center, now both areas are experiencing strong retail growth as both luxury and lower-cost retailers expand and fight for limited inventory of space.

Madison and Fifth avenues have seen a remarkable amount of action this year. Major deals included Ralph Lauren Corp. taking 38,000 square feet at 711 Fifth Ave. as well as Vornado Realty Trust's deals for mixed retail and office spaces **at 655 Fifth Ave.** and **650 Madison Ave.**, for \$278 million and \$1.29 billion, respectively.

Now, "if you don't believe in 57th and Fifth and 64th and Madison, what do you believe in?" said Ronald Sernau of Proskauer Rose LLP.

These locations have become the place to be, for domestic and foreign retailers alike, and for those truly focused on long-term gains, the \$3,000-per-square-foot price tags seem well worth it.

"New York is one of the anointed cities," Sernau said, listing Michigan Avenue in Chicago and Rodeo Drive in Beverly Hills as other minimarkets that are garnering skyrocketing prices.

These cities benefit from the factor of tourism that many secondary markets do not, experts say.

As the economy has gotten stronger and customers have been more willing to patronize retail establishments, they've also become more willing to make shopping part of their vacation plan again, said Nina Rokat of Olshan Frome Wolosky LLP.

"The demographics work. Tourism is at all-time highs. People are here shopping, and retailers seem to be trying to take advantage of those opportunities," Rokat said.

These trends are expected to continue into next year, as the economic and real estate recovery continues and prices remain under pressure from low inventory.

"I think [retail] will be one of the top-performing sectors in the real estate market in 2014," Rokat said.

--Editing by Jeremy Barker and Katherine Rautenberg.
