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Inventive retailers find ways around high rents Catherine Curan

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Vintage poster dealers Jodi and Mickey Ross drew up a wish list last spring for their first Manhattan store: 1,500 square feet, ground floor, East 50s or 60s, maximum annual rent of \$250,000. The few brokers who responded to the Rosses' calls and e-mails had no affordable options. The couple, who already had a gallery in Westport, Conn., realized they would have to be flexible if they were ever to find a retail location in the city. Hitting the pavement, Ms. Ross spotted a sign for a listing by Cogent Realty Advisors broker Mitchell Waldman, who showed her space at 532 Madison Ave. It was 2,000 square feet and had 11-foot ceilings, large windows and an annual rent of \$120,000—well within their budget. But it had a drawback: It was on the fourth floor, better suited to an office than a store. The Rosses took it anyway, signing a 13-year lease. Faced with soaring rents, independent retailers that want to set up shop in Manhattan but don't have national chains' deep pockets are being forced to get innovative.

Location, location

Retailers whose leases are expiring are dealing with the same sticker shock. Rents have climbed 26% in the borough in the past year and are up 56% in the past five years. And while the average retail rent in Manhattan is \$133 a square foot, it is much more than that in the major retail corridors. Parts of Fifth Avenue in midtown can command \$1,500 a square foot—the nation's highest retail rent. The first option for those looking at a big rent hike is to search for cheaper space, which might mean going to another part of Manhattan. If staying in a particular neighborhood is important, however, many owners explore downsizing. Additionally, some in prime avenue locations find that they can get a better deal on a side street. "A lot of tenants have gone off major avenues," says Robin Abrams, executive vice president of Lansco Corp. Business owners can save as much as 50% on rent by relocating from an artery like Columbus Avenue, she says. For example, Daffy's couldn't afford to renew its lease for 30,000 square feet at Fifth Avenue and East 18th Street, where it had been for 20 years. Sources say the clothing retailer had been paying about \$75 a square foot, and the market rate for that corridor is now about \$300 a square foot. While fashion titan H&M took the lion's share of the space, in fall 2006 the landlord carved out about 18,000 square feet for Daffy's behind and below H&M, with an entrance on East 18th.

Same address, new door

"We came up with a strategy for Daffy's that enabled them to remain at 111 Fifth Ave., to maintain their loyal customer base and benefit from the new co-tenancy with H&M," says Robert Futterman, chairman of Robert K. Futterman & Associates, who brokered the deal with landlord The Winter Organization. High-end retailer Fortunoff also found a way to stay in a neighborhood in which it has deep roots. It recently moved from a space on Fifth Avenue and East 54th Street, which it had occupied since 1979, to a location on West 57th Street, three blocks north. If moving to a side street is still too costly, some retailers—like the Rosses—consider taking something other than a ground-floor space. Whole Foods Market proved that a retail business doesn't have to be at street level when it opened in the basement of the Time Warner Center and did well. Taking a less prominent space means spending more to ensure that customers can find you. The Rosses are allocating \$100,000 that they might have spent on rent for marketing, including brochures and in-store events. "Not being on the ground floor we have to promote ourselves, and that's a trade-off," Mr. Ross says. With foreign retailers and national chains continuing to gobble up the most prominent locations, brokers expect to see even more creative deals. "It is clearly going to be the wave of the future," says Jeffrey Roseman, executive vice president and principal of Newmark Knight Frank.

LANDLORDS LOBBY TO CREATE MORE RETAIL SPACE

RETAILERS AREN'T THE ONLY ONES getting creative. With rents reaching unprecedented heights, Manhattan landlords are devising unusual ways to carve out more space.

The latest trend: **putting stores in office buildings' commodious lobbies.** And retailers, eager for a foothold in crowded, high-grossing corridors, are snapping up the new spaces.

Teen-oriented clothing chain Billabong recently did a deal for about 1,500 square feet in the foyer of 112 W. 34th St. And a Circuit City opened in December at 521 Fifth Ave., at East 43rd Street, in part of the lobby and what had been second-floor office space.

This kind of makeover **works especially well with corner locations**, which can accommodate a retail entrance on a coveted avenue and an office entrance on the side street. Landlords are increasingly considering retail space—and the resulting rental income—when upgrading an older office property.

"That's going to happen more and more," says Gary Alterman, senior vice president at Robert K. Futterman. "There are sections of Fifth Avenue where retail space rents from \$500 a square foot to upwards of \$1,500 a square foot-it's an expensive lobby to have."

That was the conclusion that W&H Properties reached when it was drawing up plans to upgrade 112 W. 34th. That part of the thoroughfare had evolved from a low-budget area into one of the country's hottest specialty-store corridors, and W&H saw an opportunity. The trick was to slice off a retail piece while **retaining a lobby that would keep office tenants happy**.

The company fielded several offers and settled on Billabong last year. The site's 30-foot ceilings and location on the same block as Macy's made the chain willing to pay \$650 a square foot, sources say. W&H spent about \$4 million renovating the lobby. **COMMENTS?** cnyb@crain.com