



As Rents Fall on Prime Streets, Retailers Seize 'Shoppportunities'

Cushman & Wakefield Report Reveals Rents on Retail 'High Streets' Falling Across the Globe; Retailers Capitalizing on Vacancies

By [Sasha M Pardy](#)
September 23, 2009

U.S. landlords are far from alone in their challenges to lease prime retail space in the midst of a tenant's market. According to Cushman & Wakefield's annual "Main Streets Across the World" retail report released earlier this week, 54% of the world's 274 prime retail markets have recorded declining rents over the past year.

In a podcast accompanying the report's release, Cushman & Wakefield's Global Head of Retail John Strachan commented, "This is the first year in the 24 years we've been doing this report that we've seen more than half of those high streets rents fall." Strachan said that landlords have come to learn that "It's the ability and willingness of retailers that drives rents up" and with retailers' sales and margins under such pressure in this downturn, "retailers simply cannot and will not do that at the moment."



These former Virgin and Circuit City stores in New York City's Union Square will soon re-open as Nordstrom Rack and Best Buy

Still, prime retail streets haven't fallen as hard as secondary and tertiary retail markets. In fact, at least 19% of prime markets have seen an improvement in rental growth over the last year and 28% have recorded stable rents, according to Cushman. In the U.S., the rent gap between prime and secondary retail locations is widening, with the "softening in rents more apparent in suburban markets than city centers." Additionally, Cushman's survey respondents conferred that retail operators have curtailed their expansion plans and pruned their least profitable stores, with secondary locations bearing "the brunt of the recession."

RETAILERS SEIZE PRIME RETAIL LOCATION AT LOWER RENTAL RATES

In the U.S., Cushman said prime retail rents are down a hefty 14% over the previous year, prompting retailers to try to strike more advantageous lease agreements with lower rents and better terms, most notably in locations where they may have found it too costly to establish a presence previously.

Cushman also expects to see a "growing trend towards the sharing of risk between retailers and landlords, in some instances with a lower base rent being off-set by a higher turnover component."

And as retailers become increasingly selective and focus their expansion efforts on AAA locations, they will also continue to scale back their presence in less profitable areas, a process that will drive a "further downward adjustment in rents" in secondary retail locations.

New York City leasing activity is probably the best example of this trend. According to Cushman's survey, at \$1,700 per square foot, Fifth Avenue ranks as the world's highest-priced prime retail location for retail tenants. Despite this, the submarket has recorded an 8.1% decline in the average rental rate over the last year. This decline is even more pronounced in Cushman's estimation that Madison Avenue rents are down more than 27% over last year, followed by East 57th Street rents down by 11%.

Faith Hope Consolo, chairwoman of the Retail Leasing & Sales Division at Prudential Douglas Elliman and Gene Meer, president of Friedland Realty, commented that in general, retail rents on New York City's high streets are down as much as 25%. The two retail leasing and tenant representation executives are both based in New York City, but work with landlords and retailers on high street leases across the country. Both confirmed that retailers are taking advantage of this down market by taking space they wouldn't have been able to get prior to this recession on the country's prime retail streets.



"This has been a market of what I call 'shopopportunities' and the smart retailers are taking advantage. They're shopping for a great deal and in many cases, they're getting it -- Not only at a good rent, but the whole deal is good -- with many leases including excellent free rent time, no escalations in the first couple years, a good consideration for their business, etc," said Consolo. However, "this is not for the weak or no-name retailers -- this is what well-known, brand retailers who bring stability to their lease can get," stressed Consolo. She said she's seen or been involved in plenty of deals of this nature in today's market in such prime street locales as New York City, Michigan Ave. in Chicago, Worth Ave. in Palm Beach, Rodeo Drive in Beverly Hills, Newbury Street in Boston, Georgetown in Washington D.C., etc.

In particular, Consolo said, International retailers are seizing the top retail spots. "They are mostly European retailers that have been sitting on the sidelines and have felt now is the time for them to come back," she said, explaining that there have been several instances of high-end brands that entered the U.S. with one New York City store seven to 10 years ago that have always wanted to open another store on the city's best streets -- Madison Ave., Fifth Ave., or East 57th -- and have finally taken the leap this year now that they can afford it and the spot has opened up.

Consolo cited UK-based cashmere purveyor, Christopher Fischer, as one example of this. Consolo's team represented Fischer for a store lease in Manhattan's SoHo district seven years ago and "for the last five years all he's talked about is Madison Avenue. Last month, we finally inked a deal for him on the street," said Consolo. Specifically, Fischer signed a 10-year lease for a 500-square-foot store in a co-op building at 1225 Madison Avenue, where the asking rent was nearly \$200 per square foot, which is approximately 30% lower than the landlord was asking for 12 months prior.



With the caveat that International retailers, while dubbed "untouchable" in previous recessions, have also been hurt by this recession and are being cautious in opening up new boutiques, Meer gave examples of several that have signed new leases recently. He added that many new leases by this group are relocations within the city and pointed out that the group seems more active in comparison to American designers.

- **Brunello Cucinelli:** Earlier this month, the Italian luxury cashmere retailer announced its second Manhattan lease -- a 2,000-square-foot space at 683 Madison Avenue. Cushman & Wakefield represented the landlord, Spitzer Enterprises, while Isaacs & Co. represented the tenant.
 - **L'Etoile Royale:** In early September, the fine jewelry retailer announced it signed a 12-year lease for a 527-square-foot store at 784 Madison Avenue, which was a relocation. The asking rate for the store was \$797 per square foot. Prudential Douglas Elliman and the Corcoran Group co-brokered the deal.
 - **Camper:** In July, Meer negotiated a lease between West Land Corp. and Spanish shoe company, Camper, in a 2,380-square-foot lease at 635 Madison Avenue. Meer said the retailer, which has 150 stores in 70 countries, selected the space for its fourth U.S. store after a long five-year search. "Even in a weak economy, this deal on such a terrific corner was impossible to pass up," said Meer.
 - **F.P. Journe:** In May, the Swiss luxury watchmaker announced the signing of a 10-year lease for an 800-square-foot space at 721 Madison Avenue. Tenant rep, Diane Mandel of Lansco Corp. commented that the retailer would not have had the opportunity one year ago, when "vacancies on Madison Ave were few and far between" and high competition had rents sky-rocketing.
 - **Lalique:** In February, French crystal retailer, Lalique, announced a 15-year lease for 900 square feet at 609 Madison Ave, not too far from its previous location at 712 Madison (*now home to David Yurman*). According to Robert K. Futterman & Associates, the retailer secured the space at \$850 per square foot, nearly 20% below lease rates a year prior.
-

Second to international merchants, Consolo said retailers that typically sign mall leases also have been actively signing high street leases. "This market has also brought some of the mall tenants onto the high streets. So it's a reversal now -- where it was 'streets to mall', now it's 'mall to streets'; because one great location on a high street can do better than a dozen mall locations," said Consolo. In particular, she said affordable fashion retailers have signed leases or are on the lookout for prime spaces, including American Apparel, Urban Outfitters, White House / Black Market, Uniqlo, Zara, and H&M.

More generally, Meer said some of the bigger companies see this market as an advantage, with some big box retailers pressuring landlords that don't want their spaces to sit vacant for 6-12 months to be flexible and give them great deals on the A, but not AAA locations in the City. "While their sales have dropped, they're seeing that rents have dropped, too. If you sign a 10-15 year lease on a 100% site now and the market comes back in

the next 12 months, you have under market rents when the market picks up again," said Meer.

Consolo and Meer gave recent New York City examples:

- **Forever 21:** While the deal first surfaced in November 2008, confirmation that Forever 21 inked its lease to open a new store in the place of the Virgin Megastore in Times Square, came through in January. The retailer took additional adjacent space as well to open a 90,000-square-foot store by early 2010. Reportedly, landlords of the building and owner of Virgin, Vornado Realty Trust and Related Cos., ironically made the decision to close the Virgin store in favor of leasing to Forever 21 to secure a higher-rent tenant. According to various sources, Virgin was paying \$54 per square foot for the space, while Forever 21's rent was bound to be much closer to the new market rent, near \$700 per square foot.
- **Nordstrom Rack:** In July, Nordstrom officially announced that it signed a lease to open a 32,136-square-foot Nordstrom Rack store in Spring 2010 at One Union Square South. The off-price version of the luxury department store said it would have 30 feet of street level storefront, occupying the lower level of the former Virgin Megastore. According to the New York Post, landlord representative Winick Realty Group was asking \$700 per square foot for the ground floor space, but only \$150 per square foot for the lower level. Madison Retail Group represented Nordstrom in the deal.
- **Best Buy:** Also in July, Best Buy announced that it would open in the 46,000-square-foot space of the former Circuit City at One Union Square South during November. Ripco Real Estate represented Best Buy in negotiations with Winick Realty Group, representing landlord Related Cos.
- **Swarovski:** In May, fine crystal retailer, Swarovski, which is often found in upscale regional malls, signed a lease for the former 1,732-square-foot Sergio Rossi space at 694 Fifth Avenue and is already open.
- **Cole Haan:** In April, Cushman represented Cole Haan in signing a 15-year lease for a 3,200-square-foot store at an SL Green office building at 141 Fifth Avenue, at the corner of East 21st Street. Located in Gramercy Park, the building's asking rent was listed at \$375 per square foot. The previous tenant was Bath & Body Works.
- **Container Store:** This retailer, typically on the fringe of malls, is "close to inking another deal" in Chelsea, said Consolo.

Outside of New York City, both Consolo and Meer agreed that Florida's Worth Avenue in Palm Beach has been hit hard by vacancies. In fact, Meer said, "there has been a tremendous flux of tenants leaving Worth Avenue and going to malls." Cushman reported Worth Ave rents to be down only 5.4% over last year; but Meer explained the comps just aren't there because there's "no shopping going on" and no deals getting done. CoStar Tenant recorded one tenant taking advantage of upgrading its locale in the shopping district this year -- Gucci signed a 4,528-square-foot lease at 150 Worth Ave in July, moving from its spot at 256 Worth Ave.

Cushman said Rodeo Drive rents are down 25.4% over last year and Consolo said the market is experiencing a lot more vacancy than its used to. Despite this, Meer said Rodeo Drive is, "holding up" because it is dominated by major retailers that have "deep rooted pockets" and realize it is in their best interest to stay despite slow sales. A search for any recent retail leases in the Golden Triangle comes up nil, while a search for retail space available on Rodeo Drive comes up with at least 66,000 square feet on the market.

Meer said San Francisco's Union Square is also battling vacancies, but holding up well. Cushman said rents are down 5.9% over last year in the prime retail market. In March, French apparel and accessories retailer, Façonnable, announced that it signed a 4,500-square-foot lease for its fifth U.S. store at the former spot of Sharper Image at 253 Post Street in San Francisco's Union Square. The San Francisco Business Times said the deal marked the first retail lease in the market since third quarter 2008. The asking lease rate for the space was about \$355 per square foot when it was put on the market in August 2008, which is already 11% below the market average, according to Cushman's estimates.

In Chicago, Cushman said prime retail rents are down 17.6% on East Oak Street, down 14.3% on State Street, and stable on North Michigan Avenue. Leasing activity appears to be keeping up fairly well in these markets, however.

In May, Stuart Weitzman made a move up on Chicago's Magnificent Mile by signing a 1,786-square-foot lease at The Shops at North Bridge at 520 N Michigan Ave. The store is less than the high-end footwear retailer's 2,400-square-foot store at 900 N Michigan Ave. Asking rents for The Shops were typically in the range of \$400 per square foot, but some estimate the retailer could have secured the space for 35% less than that.

At Michigan Plaza on 225 N Michigan, Sweet Water Tavern & Grille signed a lease in March to take over the former Bennigan's restaurant space. Sperry Van Ness represented the tenant in the long-term, 7,500-square-foot deal, while Stone Real Estate represented the landlord.

GLOBAL RETAIL OUTLOOK

Looking forward, Cushman said that optimism is surfacing from its offices around the world. While still at historically low levels, business activity and household confidence have turned positive in many countries, said Cushman, adding that its seeing month-to-month improvements in manufacturing and production in some countries as well. Strachan added that "there are far fewer retailers going out of business," lately as well.

Cushman said "the global retail property market appears to be more stable" and it expects a "modest pick-up in activity" to soon be evident. The brokerage warned, however, that the recovery will be "slow, fragile and uneven," with the next 6-12 months continuing with uncertainty for retail real estate.

Strachan said that no one can predict with certainty when global retail rental growth will return. "For those markets that have fallen, 2010 is an absolutely crucial year. We need to see stabilization and some growth in sales -- a return to a healthy retail market -- before we can start contemplating increasing retail rents," said Strachan. "There is unlikely to be a significant resumption of rental growth in the short term in most countries," concluded the Cushman report.

U.S. PRIME RETAIL LOCATIONS, RANKED BY LARGEST YEAR-OVER-YEAR RENTAL RATE DECLINE				
Market	Prime Retail Location	Rental Rate		Annual Rental Decline %
		June 2009		
New York	Madison Avenue	\$	875.00	-27.1%
Los Angeles	Rodeo Drive	\$	500.00	-25.4%
Washington DC	Chevy Chase	\$	87.00	-21.4%
San Diego	Del Mar Heights Blvd	\$	48.00	-20.0%
Chicago	East Oak Street	\$	350.00	-17.6%
San Diego	5th Avenue	\$	60.00	-16.7%
Washington DC	Georgetown	\$	110.00	-15.4%
Chicago	State Street	\$	150.00	-14.3%
San Francisco	Post Street	\$	350.00	-12.5%
New York	East 57th Street	\$	800.00	-11.1%
Boston	Newbury Street	\$	125.00	-10.7%
New York	Fifth Avenue	\$	1,700.00	-8.1%
San Francisco	Union Square	\$	400.00	-5.9%
Palm Beach	Worth Avenue	\$	123.00	-5.4%
Miami	Lincoln Road	\$	128.00	-1.5%
Chicago	North Michigan Ave	\$	400.00	0.0%

Source: Cushman & Wakefield "Main Streets Across the World" Report on Global Retail Rents, Released 9/22/09