

# THE REAL DEAL

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## The 'mall'ing' of Manhattan

*A historic amount of large-scale retail is coming to NYC*

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Clockwise from top left: World Trade Center site, Port Authority Bus Terminal, South Street Seaport, Hundson Yards, World Financial Center and Farley Post Office/Moynihan Station

"Mall" has been a four-letter word in the Manhattan retail world for some time now. Despite that, Manhattan property owners have begun to -- or are planning to -- rehab and build a historic amount of large-scale retail over the next few years.

Currently, developers such as the Westfield Group, Brookfield Properties, the Related Companies and Vornado Realty Trust have more than 2.5 million square feet of retail space under construction, or at least on the drawing board, in mall-like projects south of 59th Street.

If all of what's planned gets built, it would be the greatest amount of large-scale retail space ever delivered in Manhattan during a five- or six-year period, a review of prior development by *The Real Deal* shows.

Brokers differed on what impact such a large amount of space would have.

"I believe it will have a huge positive effect on New York," said Joanne Podell, executive vice president of retail at Cushman & Wakefield, noting that the borough is still short of retail locations.

But Bob Grayson, a retail consultant with the Grayson Group, said if all the locations get built, it could put downward pressure on leasing prices.

"There is no question; if all that space does come on the market, it should have an impact on the rents that [landlords] can command, because they'll be slinging it out, probably for similar tenants," Grayson said.

The first major retail project that's slated to come online is the approximately 200,000-square-foot rehabbed space at the World Financial Center. The next, which is slated to debut in 2015, is the World Trade Center, with about 365,000 square

feet of retail.

Further uptown, two enormous but still-uncertain plans are in place, for approximately 750,000 square feet at Related's Hudson Yards and about 750,000 square feet at the Farley Post Office.

Meanwhile, the smaller, 130,000-square-foot Port Authority Bus Terminal is open now, but is undergoing a renovation. And finally, South Street Seaport properties, with nearly 300,000 square feet of retail, are also open, but brokers expect them, too, to be reimagined and re-tenanted.

Not all of the space is new -- the owners of the World Financial Center are spending \$250 million to rehab the existing retail space there in phases (the mall will stay open during construction). And, while not complete, the reimagined space is in competition to lure in tenants today.

But building mall-like space in Manhattan is not a sure thing.

The borough is littered with examples of failed attempts at malls -- from the Manhattan Mall, which relaunched as an urban mall in the 1980s, but ultimately saw its retail space rehabbed and reduced in size to find success, to the World Financial Center itself.

However, there are examples of success too. Case in point is Related's Time Warner Center, which opened in 2004 and now has 400,000 square feet in its Shops at Columbus Circle. Also, the World Trade Center had rising rents and waiting lists for retailers when it was destroyed in 2001.

Jeffrey Roseman, an executive vice president with Newmark Knight Frank Retail, said there were "probably more than 75 retailers that have [stores with] more than 50,000 square feet in Manhattan."

While brokers don't believe the new locations signify a sea change for retail (at least when it comes to drawing consumers away from storefronts and into urban malls), the planned construction appears to demonstrate a confidence in Manhattan shopping even as dark economic clouds have gathered again on the horizon.

Every broker interviewed repeated the mantra as if on script: "Manhattan is under-retailed."

Demand from tenants has increased cautiously since the uneasy recovery began. Many healthy companies are now telling their real estate departments that they are "open to buy," a term used in the shopping center trade world when a company wants to find more locations.

Also, major retailers that lack locations in Manhattan, such as Nordstrom and Kohl's, both reported strong second-quarter earnings last month.

"It is mixed, cautious. It's a slowly increasing curve," said Chase Welles, executive vice president at Northwest Atlantic, of demand for new stores.

Welles represents big-box tenants such as Staples and Whole Foods.

Once potential tenants do decide to make a move, they'll have plenty of options. Here's a closer look at some of the in-the-works projects.

### **World Financial Center**

It's a battle of the titans -- at least when it comes to the World Trade Center and the World Financial Center vying for tenants. That's because both buildings are currently on the lookout for retailers, although the World Financial is in the market with formal plans, while the World Trade Center's retail plans have not been released. In addition to timing, there are personality differences between the two.

Most insiders expected the World Financial Center to have a slightly more upscale mix of retailers than the World Trade Center. That's partly because, unlike the World Trade Center, the financial center will not be directly over the area's main

transit hub, and will need to more actively lure shoppers in.

"Without the transportation infrastructure, World Financial Center is obviously more suited for destination shopping, and I imagine Brookfield will attract shoppers with a cohesive mix of upscale shopping and services," said Welles, referring to Brookfield Properties, which is headed by Ric Clark and owns the complex.

The World Financial Center's original failure as a mall -- tenants such as Barneys left years ago -- prompted the current rehab. One broker called it "awkward retail."

David Cheikin, Brookfield's vice president of leasing for New York and Boston, said several hundred potential tenants have already come to look at the World Financial Center's 40 to 50 spaces. Cheikin said he expected nearly all of the current tenants to be replaced.

Cheikin also rejected calling the space a "mall," saying that at between 175,000 and 200,000 square feet, it is smaller than most malls. He also noted that unlike a mall, it's integrated with the neighboring streets and the Hudson River.

Sources say asking rents at the World Financial Center are between \$150 and \$400 per foot, with the possibility of percentage-rent deals, which give the landlord a cut of the retailer's profits.

Alissa Bersin, a retail site specialist with the Philadelphia-based McDevitt Company, Brookfield's agent at the site, declined to comment on asking rents or on what kinds of retailers the company was seeking. She said only that they were looking for "best-in-class retailers."

Cheikin said that in Brookfield's pitch to tenants, it highlights that its September 2013 delivery date is years before the Trade Center. "Assurity to deliver the product is always an advantage," he said.

Robin Abrams, executive vice president at Lansco, said the complex's timing is good.

"They are going to be in a position to meet this need and desire that has been building," she said.

By 2014, once the space is re-tenanted, Cheikin said he expects gross sales to be twice what they were when the mall was last fully occupied in 2000.

## **World Trade Center**

Across the street at the WTC, brokers said they expected the retail to have broader appeal, with more options at the lower end, than World Financial. Stores will likely range from the likes of GNC, the vitamin giant, and discount fashion tenants such as Strawberry, to more upscale tenants such as handbag purveyor Coach.

"There are people of every stripe, from the secretary to the executive. The retail is going to have a broad appeal," said one retail veteran.

Cushman's Podell echoed that point. "I think Hugo Boss is more likely to be at the World Financial Center, and J. Crew is more likely to be at World Trade Center," she said, noting that she doesn't know about those two retailers' intentions specifically.

In July, the Westfield Group, the Australia-based retail property giant, inked a \$612.5 million deal with the Port Authority to take a 50 percent stake in the retail at the site, which includes space both above- and belowground.

Sources say the company is likely to tap its relationships with retailers around the globe to do direct deals with tenants and avoid paying broker's fees.

One broker, who asked not to be identified being critical of Westfield, said, "They believe they have tenant relationships and don't need brokers, but most tenants use brokers for their [New York City] deals in particular."

Others disputed that, saying the company would try to do direct deals when possible, but would be open to a broker if the

tenant wanted to use one.

Sources said Westfield is expected to release its retail plans for the site in the coming weeks.

Robert Futterman, chairman and CEO of Robert K. Futterman & Associates, which has a consulting arrangement with the Port Authority for the World Trade Center, said he believed tenants are waiting to see options there.

"I think a lot of tenants are holding back," Futterman said. Retailers will "probably pick one, not the other," between the World Trade Center and the World Financial Center as they choose where to set up Downtown.

Some observers believe the rebuilt Trade Center will be upscale, now that Condé Nast has 1 million square feet of office space in the One World Trade Center tower.

"[The World Trade Center] is being promoted as an 'iconic' destination, so I'm sure Westfield will go for major luxury names, who might not be easy to accommodate in the older buildings Downtown," said Faith Hope Consolo, chairman of retail leasing and sales at Prudential Douglas Elliman. "Would I try to put a Louis Vuitton, Cartier or Jimmy Choo in the complex? You bet."

### **Farley Post Office/Moynihan Station**

Another potentially enormous project, the expansion of Pennsylvania Station into the Farley Post Office building just to the west, would add as much as 750,000 square feet of retail in the Beaux Arts building.

The project, to be named in honor of late U.S. Senator Daniel Patrick Moynihan, would create a new retail destination to bookend vibrant West 34th Street. However, it's by no means certain. Vornado and Related, which partnered to strike a deal with the state in 2006 to develop the retail, face a year-end deadline to solidify the financial terms.

Furthermore, three avenues to the east are two malls that provide cautionary tales to retailers. The Manhattan Mall and the Herald Center, both within spitting distance of Macy's on Sixth Avenue at 34th Street, were reimagined in the 1980s, but failed and were recreated in scaled-down forms again in subsequent years.

Yet in the project's favor is the massive amount of commuter foot traffic in the area. In 2010, Penn Station was the busiest transportation facility in the country, with 600,000 passengers daily.

The first phase of the project broke ground last fall and focuses on the transportation infrastructure. The retail post office will remain in place on the Eighth Avenue side of the building, with new entrances for commuters to ease congestion into Penn Station.

The retail development -- which Vornado and Related are doing with the property owner, Empire State Development Corporation, and in consultation with the Port Authority -- is part of the project's second phase, which could include a hotel or other amenities. That has not yet started.

One set of plans from the state's Moynihan Station Development Corporation shows a possible street-level layout with seven spaces comprising more than 106,000 square feet of retail, including blocks of "destination retail" on the Ninth Avenue side of the building. It also shows blocks of up to 50,000 square feet on other levels in the six-story building.

"That is a great building," Grayson said, referring to the 1912 McKim, Mead & White icon.

"It starts with heritage. If you put [in] the right kind of tenant, it can be really exciting," he said, pointing to examples in historic buildings such as Chelsea Market.

### **Port Authority Bus Terminal**

The Port Authority is quietly upgrading its retail space at the 51-year-old transportation hub in the bustling Times Square district. It's trying to capture both tourists and commuters, and increase the amount of retail on the first two floors in the six-story property.

But some insiders are scratching their heads about the makeover at the 625 Eighth Avenue site, noting that it will increase the available retail space only slightly, to about 130,000 square feet. (It's not clear how much space will be added). They wonder why anyone would bring a tenant to the location when a much larger project, a new 1.5 million-square-foot office tower above the bus station, is looming. Vornado, the leasing agent, is leading a group that struck a tentative deal in 2007 to build the office tower, but was facing a deadline in August to finalize it with the Port Authority.

While the construction timeline remains unclear, given that it could begin sometime after moving in, "why get a tenant all excited?" Futterman asked.

The terminal is now home to traditional commuter retailers such as Starbucks, Au Bon Pain and Radio Shack, as well as a 28,000-square-foot Frames NYC Bowling & Lounge. But Vornado has ambitions to upgrade the tenant roster. In marketing materials to brokers, it listed Crunch Fitness and Swarovski as examples of who they would like to lease to.

Vornado declined to comment on the rehabilitation.

### **Hudson Yards**

Related's Hudson Yards -- which is not yet under construction but could be open for business by 2016 -- is also going to shoot for high-end tenants at the new 26-acre neighborhood. The project, which includes plans for 12 million square feet of commercial and residential space, will have about 750,000 square feet of retail on 10th Avenue.

"We are looking at bridge to luxury," Jay Cross, president of Related Hudson Yards, said, using terms to describe upscale and higher-end luxury retailers. Headed by Stephen Ross, the company is actively trying to sign up a large anchor retailer that would lease several hundred thousand square feet, and industry sources say it's in talks with Nordstrom. But it's also looking to attract tenants that have one-off stores in hot neighborhoods like Chelsea and the West Village.

"They are local, very successful retailers; they are not chains. We would like to think that we could get many of those local, successful retailers to go from a one-store to a two-store concept, and we might be part and parcel of that," Cross said.

He estimated that office workers and shoppers would pass.

### **South Street Seaport**

The Howard Hughes Corporation, which owns the Seaport, is keeping a tight lid on its plans for the nearly 300,000-square-foot site. The site is comprised of four properties in Lower Manhattan, including the Pier 17 Pavilion and the Fulton Stall Market.

Insiders said the retail destination, which was caught up in the bankruptcy of former owner General Growth Properties, will have a more active food component, and possibly a large anchor tenant, once it is reintroduced to the market, possibly in the coming months.