

ICSCPREVIEW | MARKETS

Flexing Retail Muscle on 34th Street

J.C. Penney is coming to the neighborhood and more department stores could be on the way.

By Sharon Edelson

NEW YORK — One of the strongest retail markets in Manhattan, West 34th Street, is on a roll, but there are concerns that success might eventually raise rents too high.

In the last decade alone, rents have risen tenfold, from \$60 a square foot to \$500 to \$600 a square foot, real estate brokers said. That's because the level of foot traffic in the 34th Street corridor has few equals. Millions of people a year pass through the area of 34th Street and Broadway, home to Macy's Herald Square flagship, according to the 34th Street Partnership, a coalition of property owners and city officials. In fact, one million people a day using mass transit — the Long Island Rail Road, NJ Transit and Amtrak, city subways and buses and the PATH system — pass through the district.

The retail mix in the neighborhood has improved since the Nineties. Liquidators with permanent "going out of business sale" signs in their windows have been largely replaced by national chains with sleek facades. More changes are under way. J.C. Penney announced it will open a 150,000-square-foot flagship in the Manhattan Mall in late 2008 or early 2009. Penney's may have an opportunity to expand in the future. Vornado Realty Trust, which bought Manhattan Mall from Argent for \$689 million in November, also owns the Pennsylvania Hotel, which is adjacent to the mall. Vornado has said it intends to tear down the hotel and build an office tower with a trading floor. Penney's is said to be looking for 250,000 square feet in total.

"Herald Square could be the best outdoor mall in the country," said Peter Ripka, a principal of Ripco Real Estate. "Now another department store is coming. It's just going to get better and better."

"This is long in coming," said Dan Pisark, vice president of retail services at the 34th Street Partnership, referring to the addition of a department store to the neighborhood. "There still are other opportunities in the 34th Street district, [such as] the area near Eighth Avenue, where the Moynihan Station is ever so slowly getting closer to happening."

Moynihan Station, which is scheduled for completion in 2010, calls for 400,000 square feet for a new train station, including 100,000 square feet of retail space. There's 750,000 square feet for a private redevelopment opportunity and 1 million additional square feet of unused development rights under city zoning. The project will include a 250,000-square-foot post office.

According to sources, one or two more department stores could be included in projects in the area. "Nordstrom was looking but has been frightened away by the cost of doing a deal here," said one real estate executive, who asked not to be identified. "Kohl's has been looking on and off for a few years."

Robin Abrams, executive vice president of the Lansco Corp., represents the Children's Place, which chose not to renew its lease at 22 West 34th Street because of the higher rent. "Over the years, 34th Street has transitioned to higher-priced retailers," Abrams said. "Children's Place's lease recently expired. We tried to renegotiate a renewal and determined that we're not able to do a deal on 34th Street that makes sense. In the course of the past two years rents have doubled."

Children's Place would have renewed its lease at \$300 a square foot "because their business was very strong," Abrams said. "The new rent being quoted now at \$500 to \$600 a square foot doesn't make sense."

What's happening on 34th Street reminds some brokers of SoHo, where prices soared before the Sept. 11 attacks. After Sept. 11 tourists stayed away and the bottom fell out of the market. Many blamed landlords for getting greedy and raising asking rents too high.

Another issue is how upscale 34th Street can ultimately become. "The stores that are fashion-oriented and mid-priced do exceptionally well," said one retail broker who asked not to be named. "You can't be fashion-forward or edgy on 34th Street."

Retailers with a populist product can generate high sales volumes. Sunglass Hut is said to be ringing up \$4,500 a square foot in sales in a sliver of space, just 400 square feet. Gap's largest volume store is at 34th Street and Sixth Avenue. Macy's flagship is said to generate about \$650 million to \$675 million in annual volume.

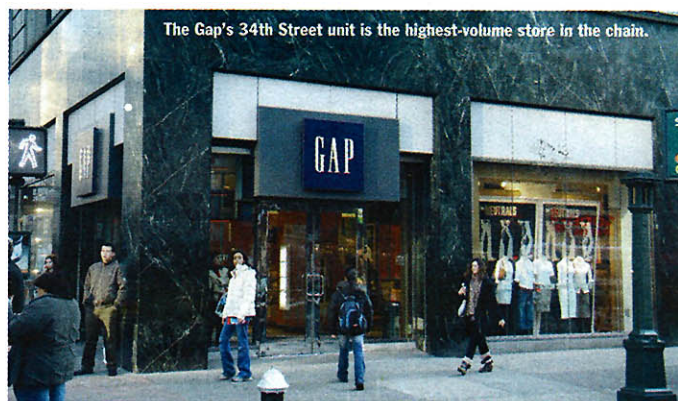
"Pricing has gotten so aggressive because there's not a lot of product," Abrams said. "[West 34th Street] is no longer an area that's up-and-coming, it's on everybody's radar."

Attesting to the shortage of space, Billabong recently signed a lease to open a 1,600-square-foot store at 112 West 34th Street, where the building's owner, W&H Properties, will reconfigure the lobby to accommodate the store.

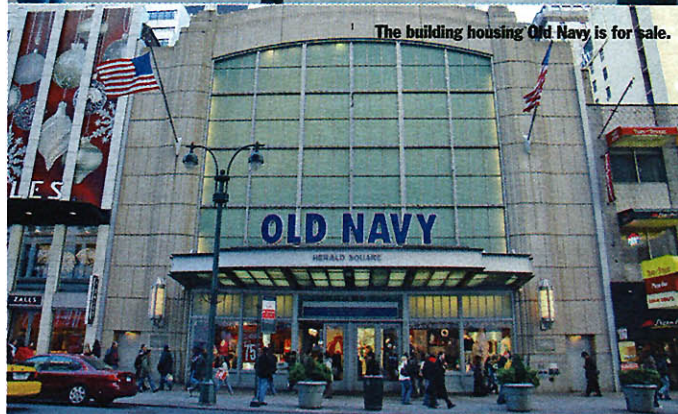
Spaces on the market include 23 West 34th Street, which Apple bought but will not occupy, and Banana Republic at 17 West 34th Street. There are also several stores in the Empire State Building, which are being marketed by CBRE and priced at around \$500 a square foot. Sources said the Empire State Building is trying to upgrade its retail offerings but the spaces are challenging in terms of layout.

The building that houses Old Navy at 150 West 34th Street is up for sale. A representative of Eastern Consolidated, which is marketing the property, said Old Navy's lease runs through 2019. "Could someone buy them out of their lease? That's the \$10 million question," he said. "It's a possibility. This is a very high-profile development site. There's a lot of action and a lot of interest. West 34th Street is a super hot area. Penney's is going to bring more people to the neighborhood. This area is going to explode."

"Everything that's been announced and is taking place is leading to westward movement along 34th Street," Abrams said. "Everybody's hoping that the area continues to expand west of Seventh Avenue with new activity and new excitement."



The Gap's 34th Street unit is the highest-volume store in the chain.



The building housing Old Navy is for sale.



J.C. Penney will be joining Manhattan Mall.



Macy's Herald Square flagship anchors the 34th Street corridor.