

# National Chains Zero in on Manhattan: Q&A With Madison Retail Group

**b** By Ian Ritter | Aug 21, 2009

The overall economy is bad and consumer spending is down, so why do so many large national chains seem to be focusing right now on expansion in New York City, a locale many of them shunned because of the perceived high cost of doing business? J.C. Penney just opened its first Manhattan store. Nordstrom is planning its advance into the city. Wal-Mart is kicking the tires, looking at some potential spaces. And many national chains that are already here are ramping up. **Stephen Stephanou** and **Virginia Pittarelli** two principals with **Madison Retail Group**, the brokerage firm looking for spaces for Nordstrom's **Rack** concept in Manhattan, spoke with **BNET** about national retailers entering Manhattan and the challenges they face.

**BNET:** *There is a lot of buzz about national chains coming to New York. Why is this happening now? Are they more aggressive because rents are cheaper?*

**Stephen Stephanou:** There are a couple of factors. Rents have definitely come down overall. And a number of the large ownerships of property that are based in New York and have other retail properties across the country have dealt with this huge economic challenge that has been facing all of us since the fall of last year. The economics of deals have had to change correspondingly. It's more than just a rent reduction, all sorts of factors go into these deals. These ownerships realize that it's a different work, and they're more receptive to the tenant. We had a time until about two years ago when the rents you would hear about on Fifth and Madison avenues for retail space were crazy. When you have public companies that had great sales and had other stores in Manhattan and were looking for other stores, and the pro formas didn't work, there should have been



Nordstrom Rack

warning signs. There have been lessons learned by some and things are a little bit more on an equal footing.

**Virginia Pittarelli:** The space is available. The office market is suffering, as we know. And because of past successes, these big boxes started to come in about 10 years ago, people have become a little bit more confident in our marketplace. **Crate & Barrel**, for example, looked for five years before they found a space on Madison Avenue. Some look for five or six years before committing. A lot has happened over that time, not the least of which is the available space. Announcements like J.C. Penney coming to Manhattan bring a tremendous amount of excitement and a flux of retailers in that price category. They flock, and they want to be next to each other, and they're feeling pretty confident that they can do the sales here.

**BNET:** *So you think we will actually see more of these national retailers coming in?*

**SS:** There have been articles about Kohl's coming in. They are definitely looking, we do know that. The challenges they have faced is finding the



Nordstrom

size requirement that works without being distributed over a number of floors.

**VP:** We will continue to see the national chains coming in as more and more development opportunities are built. Obviously there is a slowness. Projects that were planned for Hudson Yards, most of them are put on hold or delayed indefinitely. Not all of them, but many of them are doing great sales, and now that the pricing is a little more affordable because of landlord incentives, it's making it a lot more appealing for them to come to this market.

**BNET:** *What challenges do national retailers, like Nordstrom, have looking for space in Manhattan?*

**VP:** A lot of national retailers in boxes of this size are used to having their own pad sites and having a very clean vanilla box. As we all know, that does not happen in these urban environments. One of the biggest challenges is letting them understand and figure out how they can operate and merchandise out of multi-level locations. Most of their criteria is no more than two levels. But for premium space, some of them have gone to three levels. Specifically, the size of their footprint is just not available in many of the premier retail corridors of Manhattan. If they are, lots of times the ceiling heights are not what is expected, nor is the column spacing. The retailers need to lose their prototype and understand that they have to

design and think a little bit out of the box, and there are some great examples of that, like **Home Depot on 23rd Street**, which is a great example of retailing on multiple levels.

**SS:** There are some other interesting examples of retailers that have been successful and broken out of the suburban mold. **Bed Bath & Beyond, on 6th Avenue**, is probably the most obvious success story. But also in that building is **T.J. Maxx** and **Filene's Basement**. They're certainly not conventional formats that you would find in a lot of their stores.

Part of the process for retailer, whether they are small or large, if they have not had specific experiences in Manhattan, is that it's just daunting in so many respects. It's different than the way many retailers have operated, whether they were in a traditional shopping center, a lifestyle center or a big box center. You've got loading issues, vehicular issues, you may be sharing freight elevators and loading facilities. But those that have adapted to many of those challenges have been success stories. The density and the build-out costs in New York City also multiplies it. Before you even get to whether or not the physical plan works, there's the daunting, psychological issue of: Can it work here? We've heard retailers say: "We hear about these great numbers, but I'm not sure if our organization is equipped to deal with the fulfillment aspect of it." When **Whole Foods first went into the Time-Warner Center**, they had to change the queing system because they didn't have enough space for people to get through the checkout line.

**VP:** It's hard when they're first looking in these places to really understand the sales volumes they will do. Most of them will come in with a more conservative sales volume because they don't have the history of doing the type of sales that end up happening in high-density areas. It really starts with the site-selection process that they have in many of their organizations, and they really have to throw that out the window to understand how an island like Manhattan works. You're servicing 250,000 people in this very small, tight

area. They are used to serving 250,000 people in a 25-mile radius. It goes back to educating them to understand the dynamics of the market.

**BNET:** *A lot of bank branch space is opening up due to bank consolidation. What kinds of retailers, if any, do you see filling that up?*

**SS:** Clearly, with the consolidation there is going to be a lot of spaces. There is also going to be an adjustment on the part of landlords that have been very spoiled by the rents that they were able to achieve on a lot of these corners. While I think there will be a lot of retailers that will be looking for space in a lot of these spaces, the rents are set at a very different level than they were when many of these bank deals were done in the last four or five years.

**VP:** We actually predicted that when the banks were competing with each other that it just stood to reason that once the consolidation started, a lot of these branches would become available. You could say the same for these cell phone stores. Those categories single handedly increased the rental market considerably.

**BNET:** *Everyone, as with banks, jokes that there is a drugstore on every corner. Are they next?*

**VP:** I don't think you're going to see that in the very near future. Their markets are very different. What you have seen is that the footprints of the drugstores are much bigger, and the merchandise is a wide range with everything from health and care products to apparel and toys and food. They're encroaching on the **Wal-Marts** of the world, and that's a very different category. In time, like any category that goes after the competition as fiercely as the drugstores have, eventually you will see one or two of them give up the corner, but that's not going to be in the immediate future.

**BNET:** *How is New York City's retail holding up compared to other major markets in the country that you follow?*

**SS:** For the higher-end, specialty players, whether that's **Neiman Marcus**, **Bergdorf Goodman**, **Nordstrom** or probably **Bloomingdale's**, and the boutiques, it's challenging. The sales for all of these stores are down 20-plus percent no matter where they are in the country. The customers in those areas, whether it's Orange County, Calif., or Connecticut, the discretionary income that fed a lot of those businesses, is not spending that money or does not have that money to spend. Off-price and promotional spending seems to be holding up better, and that is going to be the trend. People are going to be cautious about the splurge of aspirational luxury.

---

Ian Ritter is the national online editor of commercial real estate news site [GlobeSt.com](http://GlobeSt.com) and author of its Counter Culture retail blog.



## Madison Retail Group

Madison Retail Group is a leading provider of retail leasing and tenant representation services in major metropolitan markets throughout the United States. Based in Washington, D.C. and New York, our clients include storefront owners, retail chains, institutional landlords and real estate developers.

Our property portfolio includes over 2 million square feet and we represent more than 50 leading retail and restaurant brands. Our Washington, D.C. office services the entire Washington/Baltimore region. The New York office is a licensed real estate broker and services Manhattan and other major urban markets throughout the country.

Madison Retail Group is an affiliate of Madison Marquette, a successful investor, developer and operator of unique retail and mixed-use destinations. Madison Retail Group was established as a national brokerage brand in 2006 when Madison Retail Group of Washington, D.C. joined with New York-based Madison HGCD.

For more information about the company, visit [www.madisonretailgroup.com](http://www.madisonretailgroup.com).