THE WALL STREET JOURNAL.
GREATER NEW YORK
July 11, 2011

COMMERCIAL PROPERTY

CB2 will open its second New York City store at 979 Third Ave., above. The landlord said CB2 brings pizzazz to the Decoration & Design Building, home to more than 120 furniture and interior design showrooms.

Retail Tenants Face a Tale of Two Cities

As Coveted Spots Fill Up in Prime Areas, Some Stores Strike Bargains in Less Bustling Neighborhoods; CB2's Allure

By Laura Kusisto

On weekend mornings, shoppers converge on CB2 in SoHo to score a fashionable rug on sale for $119 or to pick up a brightly colored mug for $3.

Until earlier this year, CB2, Crate & Barrel's more-frugal sister chain, had also been on an extended bargain hunt of its own. After a three-year search, CB2 in February signed a lease for its second New York City location at Third Avenue and 58th Street.

"It was a hard thing to come by because of the size and location," said Gene Spiegelman of Cushman & Wakefield Inc., CB2's broker. "We wound up negotiating a very competitive deal."

Charles Cohen, president and chief executive of the landlord, Cohen Brothers Realty Corp., said he was asking $250 a square foot for the huge corner spot, but he gave it to CB2 for $200 a foot. Mr. Cohen cut the deal with the furniture store, in part, because CB2 brought extra pizzazz to the Decoration & Design Building, home to more than 120 furniture and interior design showrooms.

"It's the first time we've had a tenant like that in the building in a while," he said. "It was really a tenant that appealed to the trade and to the public." The store will probably open by November.

Vacant storefronts in prime city areas are filling up, and many stores are seeing rents reminiscent of 2007. But some retailers are getting creative and finding bargains in less popular areas, such as the Upper West Side, Upper East Side, Downtown and Brooklyn.

"It's a tale of two cities," said Mr. Spiegelman of the price gap between prime locations and bargains available elsewhere.

The high-end rebound contrasts sharply with a few years ago.

In 2008, the retail vacancy rate hit 9% on coveted upper Fifth Avenue, according to data provided by Faith Hope Consolo, chairman of retail leasing and sales at Prudential Douglas Elliman. It now hovers around 7.5%. Rents fell to less than $2,000 a square foot, which still made them the highest in the city.

Rents skyrocketed on Madison Avenue during the previous boom, but the area was also one of the biggest victims of the downturn, when the vacancy rate hit 15%, according to Ms. Consolo's data. In SoHo, another hot retail area, the vacancy rate went above 11%.

As vacancies rose, restaurants and grocery stores—typically a bane to landlords because of the smell, ventilation and waste disposal issues—were big winners. Eataly, Mario Batali's high-end grocery store and restaurant emporium, landed in a huge space in the former International Toy Center at 200 Fifth Ave.

Before the recession, Eataly's broker, David LaPierre of CB Richard Ellis Group Inc., said the landlord "wouldn't have made a deal with us at any price. Without the markets being where they were, we would never even have gotten in the door."

They got a meeting with the building's owner in the late fall of 2008, right after the crash. But David Levinson, chief executive of landlord L&L Holding Co., said he was looking for just what Eataly offered.

"We had a vision, where we wanted a multirestaurant food operator and we wanted to develop the roof," he said. "It's a leap of faith that you take. Everything about it worked out really, really well."

Along the Store Front

Rents and vacancies have improved in prime retail areas, but continue to lag elsewhere.

RETAIL CORRIDOR	ASKING RENTS, PER SQUARE FOOT	VACANCY RATES
Madison Ave.	$667 to $1,300	12.8%
Lower Downtown	$75 to $300	9.0%
SoHo	$425 to $550	8.1%
Upper Fifth Ave.	$2,000 to $2,500	7.5%
Times Square	$1,300 to $2,000	7.4%
Lower Fifth Ave.	$400 to $680	6.5%
Brooklyn	$150 to $175	4.3%
Queens	$135 to $150	3.7%

Source: Prudential Douglas Elliman

In a twist, Eataly has become one of the hottest spots in the city for tourists and locals alike and is credited with reviving retail in the Flatiron District. Mr. Levinson recently signed a deal with Norwegian clothing and decor company Marimekko at 200 Fifth at twice the rent that other landlords in the area have been getting.

Starting last summer some high-priced deals were signed for retail space in prime areas such as Times Square. That seemed to spell an end to bargains for retailers, at least in the city, where the retail recovery is happening much faster than the rest of the country.

But even just off bustling Fifth Avenue or Times Square, side streets often languish. in more residential areas and especially in downtown Manhattan, the recovery very much continues. On Third Avenue on the Upper East Side, where CB2 obtained its new space, the vacancy rate still hovers at 11.4%, according to Ms. Consolo's data.

For tenants, at least, that's good news. Cheaper rents on less busy streets have helped preserve smaller retailers endangered by rapidly rising rents elsewhere.

The Crown Art Gallery, for example, has been in SoHo for 40 years and current owner John Turan has watched as most other art galleries have been driven out by the high rents,

But the gallery recently was able to negotiate a deal on West Broadway, a less expensive street compared to some in SoHo, which allowed him to stay and expand. The gallery doubled its space and its rent will only rise to $30,000 a month from $22,000.

"The rent is not affordable," he said. "The rent is very high, but because we sell high-end artwork, we can sell a Picasso or a Chagall for $150,000 or half-a-million dollars."