



Pop up or pooped out? Insight into today's retail - by Joseph Aquino

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Talking to a colleague from Rome, he says the Italians see New York City as a pop-up city from all the uncertainty in the retail sector; and every day seeing another Madison Ave. storefront come onto the marketplace on a daily basis. As I travel by car around Manhattan, and throughout the other boroughs, I actually see brokers and property owners have the words “pop up” on their for rent signs too. In my long and illustrious career, I have never once seen this trend and my advice to brokers, and property owners, don't think twice, but think three and maybe four times before you consider this type of marketing or go down this path. Why? I feel the long term consequences can take years to reverse itself.

I feel the proper way to ride through this storm is to listen to the retailers and what they are saying now instead of burying one's head in the sand like an ostrich. It appears the retailers' margins have been squeezed from the Internet, as well as rising costs in occupancy. Competition is fierce with retailers trying to sell what everyone else is selling and consumers are demanding that goods go on sale faster. And, let's not forget that tourism appears to be down as well. It used to be if you sold jeans, you sold jeans. Now the jean company is selling everything from eyewear to shoes and lingerie too. There is just too much product out there.

I have been doing this long enough to remember down cycles, and if you are a long-term property owner or have been practicing brokerage for some time, you can remember the periods we went through too. We had the savings and loan crisis; the tech bubble; the financial crisis vis-a-vis Lehman Brothers; the tragedy of 9/11; and in each of these cycles the rents hit the skids immediately. However, in each instance I remember simultaneously retailers jumped back in the market locking in rents at low levels for the next ten years. Retailers aren't cruel by taking advantage of these moments, they are opportunistic.

I remember on the last downturn I actually did a deal at \$500 per s/f on Madison Ave. one block north of Barneys. What a deal that tenant got! In the past, the hits were quick—one day the market was good and the next day the baby fell out of the cradle and the market collapsed. In this new market it's much slower. It's coming, but it's like seeing a train in a distance. The train will arrive, but it has time to come.

By now I am sure you are looking for some good advice on how to surf this new market I still feel retailers are opportunistic. Yes, I am making calls and they are saying, “Joe, not now we are focusing on our website.” But we can all change that if the rental prices were more in favor of

retailers who are struggling at the moment. Remember, this is not a shy bunch and they are still opportunistic. However it is a numbers game and numbers don't lie. They want to make a profit operating a store in your building. They have a good idea what they can do in sales and what they can afford in occupancy costs. So I encourage property owners to do a portfolio review.

There are a few ways to navigate through this next downturn. One way is to offer a discount in rent for just the first two years. Come off the present highs and agree with the tenant that things are tough now but you are confident that things will change in the next two years. On the third year, you negotiate an adjustment. If this is not enough to secure a new tenant, then another option is to offer a cancellation period at a certain point in the lease. We all agree these are tough times for retailers, but if we all use our heads we can get through this one.

As a commercial real estate broker I constantly travel the world searching for new retailers to bring back to New York City and the other cities in America. I've had the pleasure to visit and canvass all the high streets and shopping malls in Singapore, Sao Paolo, Vienna, London, Milan, Rome, Capri, Naples, Florence, Venice, Munich, Belfast, Dublin, Montreal, Toronto, Paris, Zurich, Lausanne, Geneva, Buenos Aires, Santiago, Mexico City and even got to bargain with the traders in the souk in Marrakech.

So for now I will close in saying in Italian, "Ci Vediamo a presto!" Which means, see you soon.

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