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JAACRES: The New York City commercial real estate market is evolving, and we must evolve with it

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Featured Company: JAACRES

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The overall commercial real estate picture in the New York metro area might look daunting to some investors and developers. We're on a down cycle in 2019, following a recovery that lasted nearly a decade.

Retail leasing has long been my specialty, but nowadays I find myself working more with sales of hotels and other commercial buildings, plus office and industrial leasing. I'm in a good position to comment on all the major categories.

Retail has been great for New York for generations—“We’re under-retailed” has been a constant complaint—but today’s brick-and-mortar retailers have to change as the demographics change, and as technology evolves. Spending at non-store retailers, including online vendors such Amazon, rose 1.7% last month, according to the U.S. Department of Commerce. Those outlets now account for 12.45% of the national retail spend. That’s not a disaster for traditional stores, but it does indicate that department stores and specialty retailers will have to work harder to differentiate themselves.

Successful retail used to be all about three factors: Location, location, and location. Today, three new factors have taken over: Experience, experience, and experience. Increased traffic can make any neighborhood more mainstream if a brilliant retail concept lures shoppers there. Retail is still strong in New York City, but it will take more effort, now, to make your offering stand out, whether you own the building or lease space in it.

Aside from the Hudson Yards and Park and Madison Aves., we have seen little in the way of new office developments, or mammoth leases by growing tenants. In general, demand for office space seems to be dwindling. Many employees are working from home two or three days a week, and “hoteling” when they work at the office. When an office lease comes up for renewal, tenants often find that they need half the space they had been leasing.

Companies like WeWork, which specializes in temporary shared space, is the fastest-growing office tenant. Sure, there’s movement in office leasing, but it’s almost all sideways: Companies leaving Times Sq., which was the “in” spot a generation ago, and moving to Hudson Yards or New Jersey.

Industrial real estate is vital to the New York metro area, and is now the darling of investors. All suppliers need distribution space for their deliveries—and for returns, which can take up one third of their space.

Hospitality is another bright spot. Business travel appears as strong as ever, no matter how sophisticated telecommunications become. Boomers and Millennials alike are traveling for pleasure. They seem to crave “experience” more than “stuff,” so entertainment has become a more important component of both the retail and hospitality sectors.

Residential rents look strong, but for-sale residential peaked in November 2017, prior to the change in tax laws. One bright spot in this category recently has been the condo conversion project at 212 Fifth Ave. near Madison Sq. Park. That’s an ideal location by anyone’s standards, but Robert Gladstone, who spearheaded that project, says he believes the concept, rather than the location, proved decisive in that building’s success.

That, I believe, is the case for most real estate today.

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