



When will business come back? Some advice from an experienced NYC broker - by Joseph Aquino

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A property owner might hope that the real estate situation in New York might return to near-normal by the end of this year, but it might be safer to assume that the recovery will take much longer. In the latter case, you might want to take a more aggressive approach to securing new retail tenants.

Many owners simply instruct their leasing teams to quote pre-pandemic rents and invite the prospective tenant to make an offer—but is that the best tactic? I believe it's not enough. Retailers have seen what has happened to the world economy, and even if they're not clawing themselves out of the rubble, they won't be chasing you for a deal. Plenty of retail spaces are available, and you have to assume that some will be as attractive as yours or more so.

Governor Cuomo has put travel restrictions on 31 states. If someone wants to come to New York from those states they have to quarantine themselves for 14 days. How many tourists or business travelers want to do that? How many tourists are coming in from other countries? And how soon, if ever, do you suppose the current social unrest will die down?

New York City had 67 million visitors in 2019. Anybody want to guess how many years will pass before we hit that number again? David Zaken, a member of my leasing team, used to own a dozen shoe stores here, and he tells me that 50% of his business came from tourists. Those customers are gone, and who knows when they'll come back? Retailers are also missing sales dollars from those nice rich folks who have hunkered down in their summer homes in the Hamptons or on the Jersey Shore. More and more people are shopping online, with several major retailers reporting record-setting remote sales in the past quarter.

An executive from Chanel, the luxury retailer, recently guessed it will take two years for their business to return to normal, but hotel owners estimate it could take eight to ten years for their occupancy levels and average room rates to return to pre-pandemic levels. It took five years for New York City's hotel business to rebound after 9/11 and some say this pandemic will be even more devastating. Currently, half of the city's hotels are closed, and those that are open are running at

about 40% occupancy.

My wife works for a large company in Midtown West that leases 50,000 s/f on one floor. She and two other people arrive at work daily. The company's other several hundred employees work at home. Many of them will never come back to the main office, and my wife tells me most of them don't want to. They're working productively at home—in some cases more productively than before. My niece's husband, who is an actuary for a large insurance company, says his company is saving money by letting their people work from home, because those employees use their own electricity, phones, office equipment, and insurance. Their productivity has not gone down; in some cases it has gone up. People are "zooming" at home and enjoying their newfound freedom, with kids and dogs playing in the background.

The retail scene in Manhattan looks pretty grim. 33 stores are available between 57th and 73rd Sts. on Madison Ave., and we see similar vacancy levels on Lexington and Third Aves. On a recent tour of Soho, it felt a little eerie, with no tourists swooping around. Not to mention, some of the cobbled streets in that neighborhood need re-setting, because driving has become difficult too. Rents are a derivative of sales—so most retail tenants can't pay pre-pandemic rents.

So, here's my advice:

Start with a lower rent, based on a percentage of sales. Give retailers the breaks they need. Once they start to do well, so will you. Gone, for now, are the days when you could simply lease a store to a credit tenant and expect the rent check to come in automatically on the first of every month.

Ask advice from shopping center owners. They tend to be better keyed into their tenants' sales, and know how to react to difficult situations. Often they will give the retailer a little marketing help. Hotel chains, also, tend to be more empathic to their operators, and will make special efforts to help drive sales.

The new model for property owners and retailers will be to work their businesses together, always keeping in mind the safety of residents, workers, commuters, and visitors. This collaboration will be vital to bringing business back to the city.

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