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Retail leads the charge out of the "Great RePression"

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Moving forward into first quarter 2010, there is a general consensus that the worst may finally be over for the U.S. economy. And leading the way towards fiscal recovery is retail, which resurfaced in December and has been on an upward swing ever since.

At the Prudential Annual Awards ceremony in February, where our group was named the number one retail team nationally for the fifth year in a row, the phrase the "Great RePression" was introduced. A combination of two economic terms, i.e., depression and recession, which have been in our collective mindsets since third quarter 2008, the new phrase aptly describes how tough it has been out there for all of us.

But the aftermath of this past year now appears to be a return to common sense and a level of normalcy. At the retail level, tenants are getting extremely fair deals in all categories. Landlords are being more receptive to the fact that rents are a derivative of sales and if consumers spend less, then the retailers are not able to pay the peaks rents we saw pre-Lehman.

But the good news is that the retail market in New York is getting progressively healthier all the way around. The banks are out of the market paying the higher multiples and we are seeing food users come back into the market, a long transparent use group.

Last year, there were deals along Madison Ave. that were done at relatively discounted rates, but now we are starting to see some stability at about $800+ per s/f. Of course, that's coming off of peak rates of $1,000 to $1,200 per s/f in 2008. If the peak in prices was 2008, then what we have now is more in line with 2005, which isn't so bad.

Besides Madison Ave., among the Manhattan markets in which we have seen similar types of adjustments is Soho, where rents have returned to $160 to $200 per s/f. But Broadway, from Houston to Broome Sts., has evidently maintained its appeal, with rates upwards of $400 to $500 per s/f for a storefront larger than 30 ft. On Third Ave., we're seeing deals in the $175 to $225 per s/f range, which is approximately one-third off the peak deals of $300 to $350 per s/f.

A Time of Opportunity

This year continues to offer excellent opportunities for retail, especially in New York. It's a great market with over eight million people and another 45 million tourists eager to go shopping. Let's not forget, New York attracts the most tourists in the world.

Adding to the shopping allure, several of the big luxury houses began re-pricing their goods in 2009 and 2010, offering comparably valued products at lower prices. Even the most recent Neiman Marcus catalogue displayed a Prada bag at $900, which ostensibly said to luxury buyers that they could look great and not hock the ranch to stay in style-well, the style to which they are accustomed. (Women are accustomed to paying double for a similar bag.)

This example also illustrates why it is so important for landlords to keep rents that are in tune with their tenants' gross incomes, as prices have changed in all categories. If landlords refrain from driving rates up again 2010, they will provide better opportunities for a new breed of retailers to expand and new tenants to enter the market. The reality is that with the current availability space, retailers have more choices in terms of location, size and pricing.

At the same time, retailers have to realize that this situation most likely won't last for much longer: once they get a foot in the door, they need to close the deal and get into the store. We're going to see a lot of new deals with new businesses in 2010. Owners, on the other hand, have to be patient for the golden eggs-and not hastily eat the goose!

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