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SLEW OF RETAILERS HEAD TO DOWNTOWN BROOKLYN

Barneys Co-op -- set to open at 194 Atlantic Avenue in Downtown Brooklyn Sept. 1 -- is the first of several new big-box retailers coming to the neighborhood, and a prime indicator of the borough's shifting demographics and ongoing expansion, experts say.

"The corridor is changing, as national stores are looking now in places where before they didn't think they could support businesses," said Caroline Pardo, the director of leasing for Two Trees Management at Wednesday's annual NYC Business Improvement District Conference covering the future of retail in New York City.

In the past five years, Pardo has helped bring over 50 businesses to the Downtown Brooklyn and Dumbo areas. Trader Joe's on Court Street, and Urban Outfitters on Atlantic Avenue, were two of the more recent additions to the area, with Pier 1 Imports and furniture retailer Crate and Barrel 2 also looking to set up shop on the avenue, she told *The Real Deal*.

H&M and Sephora are seeking space on Fulton Street in Downtown Brooklyn, she said, and the Paper Source stationery store is hunting for a location on Smith Street. Swarovski Crystal is also looking at a spot on Court Street, off Atlantic Avenue, Pardo added.

"These stores are now coming to the outer boroughs because the retailers realize that the people who shop in Manhattan actually live in Brooklyn," Pardo said. "The demographics are changing and they realize there is a lot of money in Brooklyn, so now it makes 100 percent sense that they want to expand there."

Brooklyn in particular has been underserved, according to Steven Spinola, president of the Real Estate Board of New York, who was the keynote speaker at the conference. He noted that Brooklyn has one mall for every 2.5 million people, while Long Island -- a suburban enclave of roughly the same population -- has one for every 386,000.

Costco and Walmart have opened in the city in recent years and are doing well, despite initial skepticism regarding their chances for survival, Benjamin Fox, vice president of Winick Realty Group, told *The Real Deal*. He also dismissed the notion that New York City would get taken over by big-box retailers. "It's unfounded," he said. "There is a place for everything. The big-box retailers help the local city by

retaining money that would otherwise be in the suburbs."

Even while the city recovers from the economic recession, retail sales have been steadily improving, Spinola said, though consumers remain cautious. But the market is slowly adjusting, he said.

Spinola pointed to the Times Square leases of Aeropostale and the Walt Disney store as signs of a return to large leases in New York City. There is less space available for leasing, he said, and the space that is, comes at a premium, averaging \$1,400 per square foot. But even with all this growth, "we are dramatically under-retailed in New York," Spinola noted. "New York City can support more retail stores if we lower operating costs and stop mandating wages and benefits."

Fox highlighted other neighborhoods that he says have a dearth of retail -- the Lower East Side, Chinatown and Harlem. Similar to Brooklyn, he attributes the limited number of retailers to the changing demographics that have outpaced the retail cycle. "In those neighborhoods, there is a changing population base, which bodes well for retailers," he told The Real Deal. "There is now more spending power, but in the past, retail hadn't kept up with the change in the neighborhoods."

Fox said consumer confidence is tied to the unemployment rate, which was at 9.5 percent in June. "There will be more consumer confidence when unemployment starts to shrink," he noted after the conference.

He also emphasized the value of having a neighborhood entrepreneur opening up in his or her hometown, as the catalyst to help attract retailers who hail from outside the area.

"Harlem is a classic example of how low-income neighborhoods can change and retailers can open up to affordable rates," Fox said.

The future of retail looks bright, Fox said.

He predicts that in the next 10 years there will be a strengthened middle class with more disposable income, and more retailers in Downtown Brooklyn as well as in Washington Heights, Inwood, Harlem and neighborhoods in the South Bronx. Pardo agreed, saying that she expects to see more malls opening outside Manhattan, similar to Downtown Brooklyn's Fulton Mall and the Queens Center Mall in Elmhurst.