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NY MEATPACKING DISTRICT DRAWS LEVI'S, LOSES MCCARTNEY

(Corrects purchaser of Levi's store building in 14th paragraph of story published Aug. 12.)

Aug. 12 (Bloomberg) -- Jeffrey Kalinsky opened a fashion boutique in Manhattan's meatpacking district in 1999. In those days, he said, the neighborhood was "lawless."

"There was meat and blood and smells," Kalinsky, 48, said in a telephone interview. "Obviously it was not a walking, trafficked neighborhood."

Stores such as Kalinsky's Jeffrey New York transformed the neighborhood of slaughterhouses and packing plants into an area known for chic restaurants and trendy shops and clubs. Now its popularity is driving up rents. One long-time tenant, British designer Stella McCartney, who sells \$2,345 wool twill coats and \$995 fabric tote bags, is relocating her lone East Coast store, in the district since 2002, to Soho later this year.

New tenants include chain stores with broader appeal, such as Levi Strauss & Co., which in November began selling jeans starting at \$54 from a ground-floor shop on West 14th Street that the company describes as "premium concept." Fashion chain Intermix and Sephora, which has more than 280 cosmetics stores in the U.S. and Canada, will join the neighborhood next month.

"Rents have gone through the roof," Robert Tunis, vice chairman at brokerage Colliers International in New York, said in a telephone interview. "There are a number of tenants that have indicated they're potentially leaving. These are moves off of West 14th Street, which is the prime area of retail. It is the epicenter, if you will."

District's Cachet

Asking rents for the highest-quality retail spaces in the Meatpacking District averaged \$400 to \$500 a square foot in July, according to Tunis; Faith Hope Consolo, chairman of retail leasing at Prudential Douglas Elliman in New York; and Jeffrey Roseman, executive vice president at Newmark Knight Frank's New York retail division.

For all of downtown Manhattan, defined by the Real Estate Board of New York as everything south of 14th Street, asking retail rents averaged \$103 a square foot at the end of March, the trade group said. Retail landlords in the neighborhood of Soho, which means South of Houston Street, sought an average

of \$268 a square foot in the second quarter, according to a report by New York-based broker Cushman & Wakefield Inc.

In 2010, Meatpacking District landlords along West 14th Street, from Hudson Street to 10th Avenue, sought an average of \$373 a square foot, according to the Real Estate Board.

The trade group didn't collect data for the neighborhood a decade ago, when designers such as McCartney arrived and signed long-term leases. Consolo estimated rents averaged \$75 a square foot at the time.

Return on Investments

One reason for the rent increases is that landlords who bought real estate at peak prices during the past few years are seeking a return on their investments, Roseman said.

In a neighborhood where properties traditionally have been owned by a few families, there have been at least 12 commercial-property transactions in the past five years, with a total value of \$314.3 million, according to New York City property records and data from Real Capital Analytics Inc. The two biggest recorded sales were for \$70 million each.

Developer Joseph Sitt purchased two Meatpacking District properties in 2007, for \$23.4 million and \$9.9 million, according to city records.

Neighborhood Evolution

“What prompted my initial investment in that area was seeing the evolution of other neighborhoods in New York,” Sitt, who witnessed the rebirth of Soho in the 1980s as a college student, said in a telephone interview. “I did not want to watch another one pass me by without being a player and a participant in it.”

A separate company, Sitt Asset Management, along with Carlyle Group, purchased a West 14th Street building in 2007 with three ground-floor retail spaces, city property records show. Levi Strauss, based in San Francisco, chose that building for its store, which features an in-house tailor. The storefront had been empty for more than eight months, according to Laura Pomerantz, founding partner at PBS Real Estate LLC in New York and the broker representing both the landlord and retailer in the deal.

Asking rent for the ground-floor space was \$450 a square foot, Pomerantz said. The figure was 20 percent higher than the average rent for the neighborhood listed by the Real Estate Board in March 2010, a month after the lease was signed.

Joseph Sitt said he has sought rents of as much as \$600 a square foot along West 14th Street to help recoup his investments in the district. The increases are not hurting the neighborhood and are a reflection of its growing popularity, he said.

Apple, McQueen

“Businesses that can't do high volume will be lost to the businesses that can,” Sitt said. “If I lost an Alexander McQueen and gained an Apple, I'd rather have an Apple.”

McQueen's shop on West 14th Street, which sells \$1,900 clutch purses and \$1,520 silk shirts, opened in 2002, the same year as McCartney's. The late designer's work was celebrated in an exhibit at New York's Metropolitan Museum of Art that closed Aug. 7.

Apple Inc., the Cupertino, California-based maker of the iPad and MacBook, opened its store on the corner of West 14th Street and Ninth Avenue in 2007.

McCartney, whose brand is a joint venture with Amsterdam-based Gucci Group NV, is moving because the neighborhood's asking rents have become too high for her, Prudential's Consolo said. The designer signed a lease in June at 112 Greene St. in Soho, where asking rents were about \$250 a square foot, according to Joel Isaacs, founder of Isaacs & Co., McCartney's broker.

Shuttered Stores

Arabella Rufino, a spokeswoman for the designer in New York, didn't return two phone messages and three e-mails seeking comment on the reasons for McCartney's departure from the district.

When McCartney leaves, she'll join other retailers who have shuttered their Meatpacking District stores. Auto, a home accessories shop that opened in 1999, and Shelly Steffee, a women's clothing and jewelry boutique in the neighborhood since 2001, both closed last year.

Fashion retailers Lucy Barnes and Girlshop, and Bodum, seller of French-press coffeemakers, closed stores in 2007, according to Julian Kline, program manager of the Meatpacking District Improvement Association, a neighborhood development group. Dernier Cri, a rock 'n' roll inspired fashion retailer that had a shop on Washington Street for a decade, left the following year.

Retail Vacancies

In the second quarter of 2009, the district's retail vacancy was among the highest in Manhattan at 13 percent, according to Consolo. Today, about 10 percent to 12 percent of the neighborhood's retail space is empty, Tunis of Colliers estimated. The vacancy rate in Soho, where McCartney will be relocating, was 6.5 percent in the second quarter, Cushman & Wakefield said in its report.

"We're seeing a transition going on," Consolo said in an e-mail. "I think we're in the middle of a brief uptick in vacancy as the pioneers move around."

On a July afternoon, couples wearing sunglasses and designer jeans sat at sidewalk tables outside Pastis restaurant at Ninth Avenue and Little West 12th Street. Packs of office workers funneled into a German-style beer garden at the base of the Standard hotel.

High Line 'Hype'

Around the corner, camera-carrying tourists popped in and out of stores, passing through rows of construction scaffolding to ascend to the High Line, the railroad viaduct that was turned into a park in 2009. More than 2 million people visited the park last year, according to the Friends of the High Line neighborhood group.

"The hype of High Line" is fueling changes in the district, Consolo said. "Three, four years ago, nobody came to New York asking for Meatpacking. Now, it's, 'I've gotta be in Meatpacking.'"

The influx of tourists “broadens the types of retail,” Consolo said. “You can't just have \$4,000 gowns and \$1,000 shoes for whoever isn't going to the Apple store.”

More retailers that offer appeal to a broader consumer base may be coming to the neighborhood. Permit applications were issued in April on behalf of Urban Outfitters Inc. for a space across West 14th Street from Jeffrey, according to New York Department of Buildings records.

‘Hip and Young’

Crystal Carroll, a spokeswoman for Philadelphia-based Urban Outfitters, wrote in an e-mail that the company was “finalizing details” for its New York expansion plans and declined to comment further.

The chain had 176 stores in North America and Europe at the end of its fiscal year in January, according to a regulatory filing. It plans to open 12 more locations this fiscal year. The retailer sells such items as sweater dresses, mustache-patterned bandages and skull-shaped piggy banks.

Drew Hirsch, a salesman at the Diane von Furstenburg boutique, one of the Meatpacking District's pioneers, said the entrance of more mainstream brands will make the neighborhood more fun, hip and young.

“It seems that anyone can be here now,” Hirsch said.

Sephora, owned by Paris-based LVMH Moët Hennessy Louis Vuitton SA, will open in September in a redeveloped space managed by Aurora Capital Associates. Asking rent was \$450 a square foot, according to Jared Epstein, Aurora Capital's vice president of acquisitions and leasing.

Kiehl's Shop

French fashion retailer Vanita Rosa plans to open a store in the neighborhood, its first in New York City, later this year. Kiehl's Since 1851, which has 39 locations in the U.S. and is owned by Paris-based L'Oreal SA, started selling its skin-and hair-care products from its West 14th Street shop in June, according to Lauren Rodolitz, a spokeswoman.

“There are big brands that might want to be in the neighborhood who have the financial wherewithal to pay those rents,” Kalinsky said. “There are also other people that just do not want to pay those rents. People want to be there because Stella McCartney and Alexander McQueen are there. If tenants of this ilk leave, other tenants will not want to come to the neighborhood.”

Kalinsky signed a 20-year lease for Jeffrey New York in 1999 and said he has no plans to go anywhere anytime soon. That may change when his lease is up and he's presented with the rents now being sought in the neighborhood.

“I would imagine I'll leave,” he said.

--Editors: Christine Maurus, Daniel Taub, Rob Urban