

SQUARE FEET

Hectic Times Square Is Keeping the Developers Busy

By JULIE SATOW

Some two decades ago, New York City began a huge cleanup of its down-trodden theater district, vastly improving the fortunes of the pedestrian-clogged Times Square neighborhood. In recent months, that progress has gone into high gear, with rents reaching new highs and several redevelopment projects proceeding.

Reflecting rising demand, asking retail rents topped \$2,400 a square foot in the fourth quarter of 2012, a jump of nearly 42 percent from a year earlier and second only to rents on Fifth Avenue, according to CBRE, a commercial real estate brokerage. Ground is scheduled to be broken this year on an \$800 million, 39-story hotel and retail complex at 701 Seventh Avenue, at the northern edge of Times Square, and plans for a \$140 million renovation of the retail beneath the New York Marriott Marquis Times Square are also under way.

Each day 370,000 pedestrians traipse through the Times Square bow tie, where Broadway and Seventh Avenue intersect, and each year shoppers spend \$6.5 billion in the area's stores, according to the Times Square Alliance. That spending has contributed to the skyrocketing retail rents.

"Rents in the area are approaching Fifth Avenue levels, and while a lot of this is due to the cleanup that began in the 1990s, even more is due to the massive influx of tourists over the last few years," said Faith Hope Consolo, chairwoman of the retail group at Douglas Elliman Real Estate. "We expect more than 54 million this year."

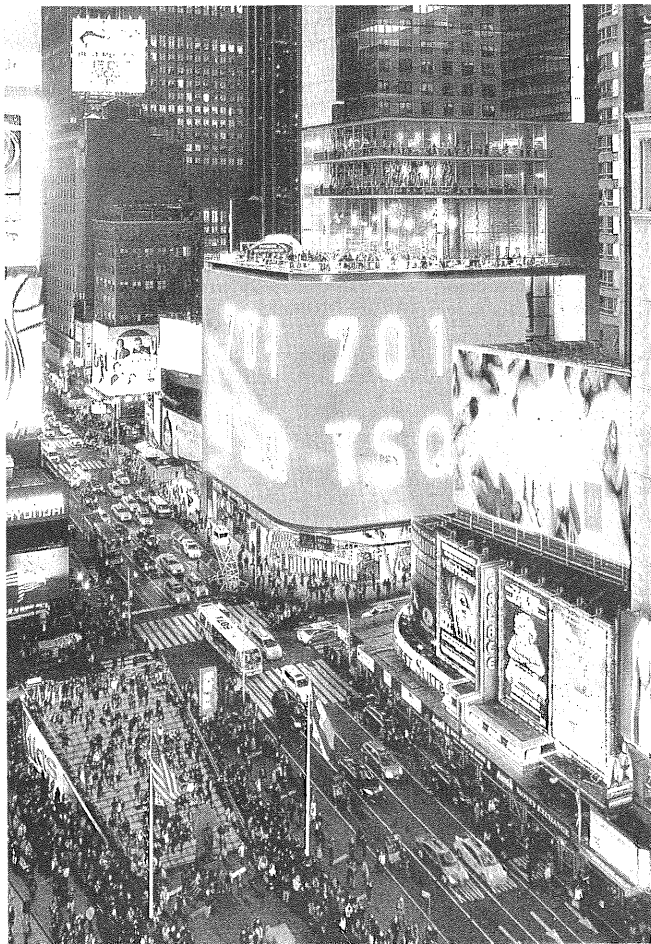
In the wake of such demand, developers are snatching up properties and repositioning buildings to create additional supply. One of the largest projects is at 701 Seventh Avenue, at 47th Street, where a building will be razed and replaced by 85,000 square feet of retail space and a 500-room Marriott Edition boutique hotel.

The retail space, which will feature 25-foot glass storefronts, will be spread across the first four floors and two basement levels, and 40,000 square feet on the seventh and eighth floors will be set aside for an event space, club, several restaurants and 6,000 square feet of terraces. The building will have a 20,000-square-foot LED sign on its facade.

"There were plenty of people who were trying to buy this site, but they wanted to break ground immediately to capture the white-hot retail market," said Steven C. Witkoff, whose firm, the Witkoff Group, is a partner in the project with Howard M. Lorber's New Valley L.L.C., and the investors Winthrop Realty Trust and Maefield Development. "In our case, we felt this was a mixed-use project, and we went out and landed a hotel deal."

One block south, Vornado Realty Trust has been leasing retail space at its building at 1540 Broadway, between 45th and 46th street. Last month, Vornado announced it had signed a deal with the Sunglass Hut at the building, for \$2,025 a square foot, a record for the neighborhood, Vornado said.

It also plans a \$140 million redevelopment of the retail space across the street at 1535 Broadway, underneath the New York Marriott Marquis Times Square. The project, which would include closing the arcade that runs under the hotel, is in the planning stages. Ground is expected to be broken late



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A rendering, above, of the \$800 million, 39-story hotel and retail complex planned for 701 Seventh Avenue in Times Square. At left, the site as it looks today.

this year or early next.

As part of the redevelopment, Vornado plans to create a glass facade for the stores, which will include 20,000 square feet on the ground floor and 25,000 square feet below ground, and reposition them to face Broadway. Vornado is also installing a 25,000-square-foot, 80-foot-high LED sign that will cover the Broadway face of the hotel and wrap 50 feet around each side of the building. Vornado declined to comment.

Activity also is occurring along side streets. At the former headquarters of The New York Times, at 229 West 43rd Street, the landlord Africa Israel is increasing marketing efforts for the last two available retail spaces at the building.

Last December, it paid \$250,000 to JEMB Realty Corporation and Aurora

Capital Associates to buy the lease for the former Daffy's store. JEMB and Aurora acquired a number of Daffy's leases after the discount retailer filed for bankruptcy last year. The 28,000-square-foot space opens onto West 44th Street.

The landlord is asking \$2.2 million a year for the space, which includes 1,000 square feet on the ground floor, with the rest below ground, and has a marquee and conspicuous signs. The asking rent is nearly three times the \$800,000 Daffy's paid when it signed its lease in 2009.

"We have tremendous interest from entertainment venues for the space but nothing is signed," said Gary Trock, a senior vice president at CBRE who is marketing the space with Lon Rubackin, also a senior vice president.

A second retail space on the West

43rd Street side of the building that is vacant consists of 17,000 square feet on the ground floor and 21,000 square feet on the second floor. The landlord is considering several options for the space, including a food market similar to Eataly, Mario Batali's Italian food emporium on West 23rd Street.

Africa Israel bought the building in 2007 for \$525 million and in 2011, sold the top 11 floors to the Blackstone Group in a \$160 million office condominium deal. Blackstone has signed two leases totaling less than 60,000 square feet and has an additional 420,000 square feet available at the building.

"We are waiting to see how quickly Blackstone will lease the office space above us, since obviously we want them to lease it up, as that will help us get better terms on the retail," said Tamir Kazaz, chief executive of Africa Israel USA.

"Probably in the next two to three months we will know how to proceed, whether we want one or two destination restaurants or whether the high end food market makes more sense," Mr. Kazaz said.

New retail development is also under way at the former Roxy Deli site at 1565 Broadway, at 47th Street. The landlord Jeff Sutton, who already owns properties in the neighborhood, acquired the two-story building recently for \$30 million.

He is planning to refurbish or possibly demolish the building and replace it, and will expand the current two-story sign into a large 14-story LED sign. Mr. Sutton's Wharton Properties is also combining three buildings it owns at 1552 Broadway, 1560 Broadway and 155 West 46th Street in a \$250 million deal that will create a sky lobby and additional ground floor retail. Mr. Sutton declined to comment.

With so much potential for retail, James B. Buslik, a principal at Adams & Company, began converting many retail tenants to month-to-month leases rather than signing long-term agreements. "Two years ago I would make 10-year leases, but now I am letting my store tenants do short-term deals to give myself the option to create something interesting when the time arises," he said.

While the retail market in Times Square is certainly the highlight, office leasing is also thriving. Deals in the Times Square submarket, bounded by West 42nd Street and West 49th, the Avenue of the Americas and Ninth Avenue, accounted for nearly 20 percent of all office leasing activity in Midtown Manhattan last year, compared with just 5.2 percent in 2011, according to Cresa New York, a brokerage for commercial tenants.

Asking rents were \$63.26 a square foot in the fourth quarter of 2012, a 6 percent increase over \$59.62 in the fourth quarter of 2011, according to CBRE.

The mix of tenants has also shifted, as more technology companies migrate to Times Square from Midtown South. In fact, tech companies made up nearly 13 percent of the leases signed in Times Square last year, compared to just 7.4 percent in 2011, according to Cresa New York.

"We are going to see more tech and media firms moving into Times Square, especially because Midtown South has so little vacancy and tenants are looking for alternatives," said Jane Roundell, a senior vice president at Cresa New York.