

# PLAZA DISTRICT

## *Opportunity for Flight to Quality Abounds*

The neighborhood that defined the hedge fund boom, and its ultimate collapse, is Manhattan's Plaza District. Long recognized as the home of New York City's most prestigious luxury office space, the Plaza District saw a meteoric rise in rental rates over the past five years, with some of the most expensive buildings realizing 80-100% increases over 2004 rates.



**"We are seeing once in a generation opportunities to secure ideal strategic locations that support our clients' long-term business goals."**

-Mort Schrader, Principal, PBSRE

Driven by the needs of sophisticated high-end financial services firms seeking Central Park views or the cachet of a Park Avenue office, the Plaza District was perfectly suited to the high-margin hedge fund community and its alternative investment brethren.

The subsequent correction in the financial markets has resulted in the addition of hundreds of thousands of square feet of high-quality office space in this premier location, now available at the lowest rents of the past decade. Robert Emden, a principal of PBSRE, and a tenant representative specializing in the Plaza District for nearly 40 years, says this is the opportunity many business owners couldn't have imagined during the landlord-favoring markets of the last five years. Mr. Emden believes that all tenants should be investigating how to leverage the current market conditions to their advantage. "Proactive tenants and brokers recognize that this is the perfect opportunity to negotiate long-term leases for superbly finished spaces that bring their real estate planning squarely in line with broader strategic business plans," says Mr. Emden, "especially if you are in the middle or at the end of a long-term lease."

Dr. Sam Chandan, President of Real Estate Economics, LLC, an independent economic research and advisory firm based in Manhattan, agrees. Dr. Chandan's research indicates that approximately 8% of leveraged office properties in Manhattan

now have debt service coverage below 1.0, and, in an effort to enhance cash flow stability and reach further for tenants, landlords have dramatically improved the value proposition for high quality space coming to market.

Confident business owners, as well as those owners facing short-term turmoil, are clearly in the best position to profit from this moment, since rent relief can typically be among a firm's largest costs. "Put simply, we are painting the canvas anew," according to Mr. Emden, "advising our clients to investigate this opportunity and strike if the price is right."

# REPOSITIONING MADISON AVENUE

## *Lessons Learned on 5th Avenue*

Credit Apple for the democratization of style and functionality, blame the economic crisis for the luxury buyer's interest in lower priced items for their casual needs, or acknowledge the influence of celebrities who pair \$5,000 "It Bags" with Ugg boots and Vince t-shirts, the bottom line is that luxury consumers increasingly seek a high/low mix in apparel and home goods; What they are not willing to compromise are excellent design and abundant choices.

Twenty years ago Fifth Avenue was the exclusive domain of luxury goods - Bergdorf Goodman, Cartier, Ferragamo and the like.

Today, the corner of 56th and 5th tells the story of why 5th Avenue has remained a thriving - and still glamorous - retail corridor while Madison Avenue has fallen behind.

**"The evolution of luxury consumer trends is the roadmap to revitalization of underperforming retail districts, and current economic reality is facilitating this transition."**

-Laura Pomerantz, Principal, PBSRE

On this very high profile corner Gucci and Harry Winston are now flanked by Abercrombie & Fitch and Armani's emporium. The latter two, both represented by PBSRE Principal Laura Pomerantz, are neighborhood newcomers that have tapped into the traditional luxury consumer's evolving interest in brands that have high aesthetic integrity without breathtaking price tags. The presence of aspirational luxury and lifestyle brands attracts foot traffic that trumps anything you see on Madison Avenue, where per square foot lease rates of recent years have closed out all but the highest margin retailers, making it much less of a draw to any but the wealthiest consumers. In economic terms, Madison Avenue has fallen victim to "clustering effects", where retailers selling the same or similar products locate together and narrow the appeal of a neighborhood causing long-term negative outcomes.

On Fifth Avenue, the introduction of aspirational luxury brands that appeal to the traditional luxury consumer as well as a broader demographic of business people, tourists and New Yorkers has created higher traffic that is a benefit to all. People who wouldn't have made a special trip to Gucci may stop in after all, and the Gucci customer who won't journey to Soho for a J. Crew cashmere sweater finds it easily accessible.

As leasing terms on Madison Avenue are becoming more favorable (even on coveted corner locations), the door is open to the creation of a retail district that is far more dynamic and profitable for both owners and tenants.



# THE MEATPACKING DISTRICT DIVERSIFIES

## *Agglomeration Economies and the Power of Attraction*

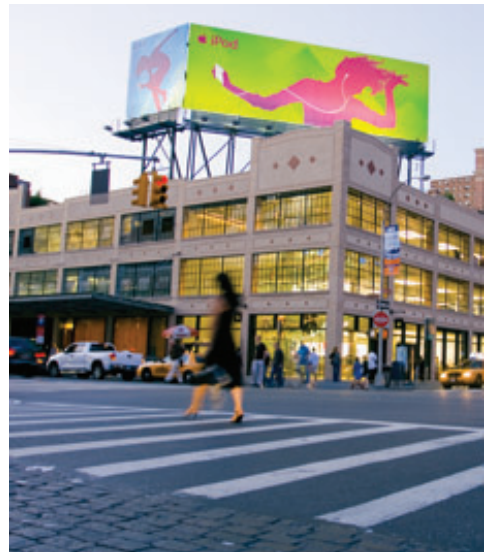
Unlike 5th Avenue, which has transformed itself in response to evolving consumer trends (see previous article), the Meatpacking District is a native, cutting edge answer to the desire today's consumers have for a design driven live, work, play, stay destination. It is the most exciting new neighborhood since Soho in the 1980's but it has taken that model of urbanization to all new levels of appeal and profitability. The Meatpacking District is a prime example of what economists call positive agglomeration economies – destinations that accrue urbanization benefits from the concentration of complementary activities and amenities.

**"The Meatpacking District's advantage is that it is a true live, work, play, stay destination. It has many of the same points of appeal that SoHo had in the 1980's, but even more advantages for a broader array of tenants."**

-John Brod, Principal, PBSRE

Today in the Meatpacking District luxury boutiques including Alexander McQueen and Stella McCartney are juxtaposed with lifestyle brands like Apple and Puma. Older buildings with massive floor plates have been successfully converted into headquarters for companies with demanding infrastructural needs like Google, the Food Network and Euro RSCG. While Morimoto and Del Posto provide sleek venues for executive lunches and dinners, Pop Burger, Son Cubano and Chelsea Market serve more budget conscious employees with a diverse array of cool fare at approachable prices. The late 2009 opening of The High Line promises an utterly dynamic green space lined with classic New York cultural destinations and high profile residences by even higher profile architects. The High Line will be just the second elevated park in the world; the first, Promenade Plantée, was built in the early 1990's on a rail viaduct near the Bastille in Paris.

All of the pieces are in place for the Meatpacking District to continue its upward trajectory as the hottest new business and recreational location in Manhattan. Media, fashion, entertainment and hospitality companies looking to position themselves for the market upswing should take advantage now of what is still an underexploited neighborhood. PBSRE is the exclusive agent for two exceptional commercial properties at the center of this neighborhood, 414 West 14th Street and 415 West 13th Street, and recently closed transactions for Vince and Tory Burch in the area.



# PBSRE EXCLUSIVE: ABERCROMBIE & FITCH

*UK Open; Paris, Milan, and Copenhagen Are Next*

Abercrombie & Fitch, a global leader in casual luxury apparel brands, has begun its Western European expansion with one A&F flagship in London and three prominent Hollister mall locations in the UK. PBSRE is the exclusive European real estate consultant to A&F and their affiliated brands, Hollister, Gilly Hicks and Abercrombie Kids. Hollister recently opened its first mall-based store in late October at Brent Cross Shopping Center in the UK and its performance is providing evidence that the international mall-based Hollister concept has growth potential.

Laura Pomerantz, the PBSRE principal in charge of the A&F account, has finalized work on their next three flagships. Milan is slated to open in 2009 followed by Paris and Copenhagen in 2011. Ms. Pomerantz is a leader in luxury real estate advisory work and counts Giorgio Armani, David Yurman and Stuart Weitzman among her clients. She will be a featured speaker at the World Retail Congress 09 this May.

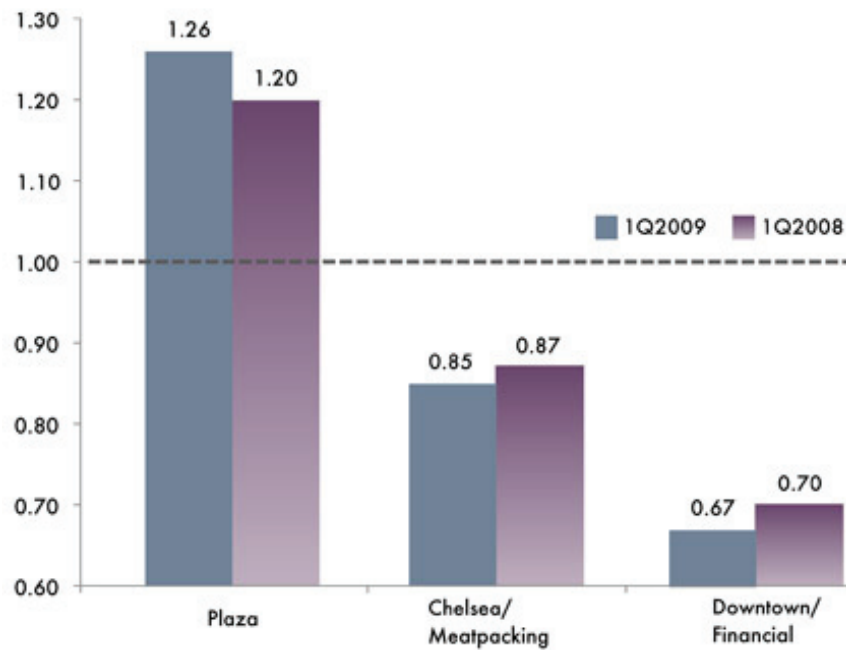




# PBSRE SUBMARKET PREMIUM INDEX/OFFICE

The PBSRE Indices show the asking rent premium or discount for submarkets within Manhattan. Each quarter, the average asking rent in Manhattan is normalized to a value of 1.0. A value of 1.2 for the Plaza District means that the submarket commands a 20% rent premium in the current quarter.

NEW YORK BY SUBMARKET



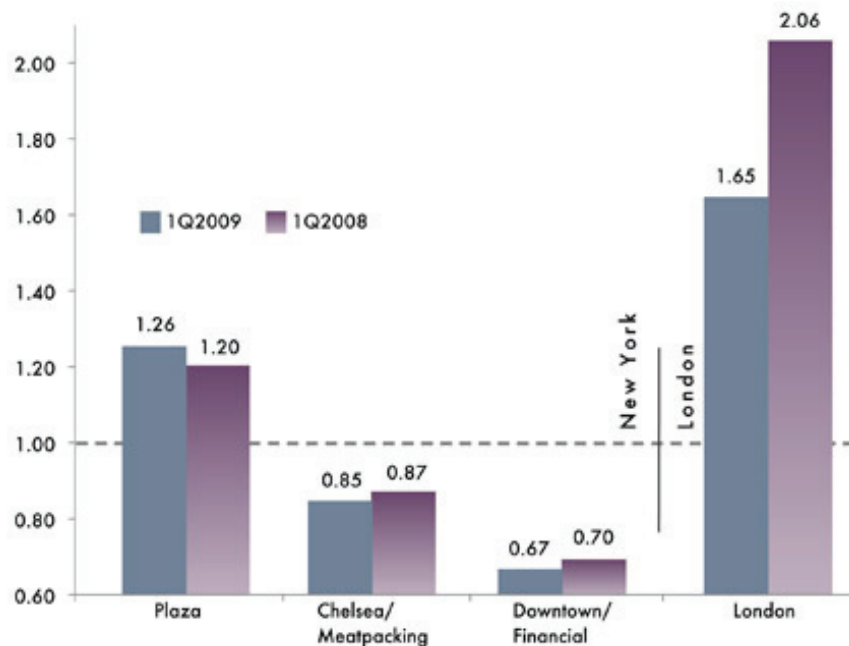
- Manhattan Office Normalized to 1.0 in Each Quarter
- Average Class A Asking Rent 1Q2008: \$87.12
- Average Class A Asking Rent 1Q2009: \$78.60
- One Year Change: -9.8%

# PBSRE SUBMARKET (cont.)

## PREMIUM INDEX/OFFICE

While rents are declining across all of Manhattan's Class A office submarkets, the relative attractiveness of the Plaza district has borne out in the first quarter PBSRE Office Index. Asking rents in Downtown have fallen to 0.67 of the Manhattan baseline. On the other hand, "trading up" to the Plaza has pushed the premium for this section of Midtown to a first quarter Index of 1.26 – up from 1.20 a year ago – in spite of lower asking rents.

NEW YORK VS. LONDON



London remains amongst the most expensive office markets in the world but its premium to New York has moderated over the last year.

	Q1 2009	Q1 2008
Manhattan Class A	\$78.60	\$87.12
Plaza District	\$99.04	\$104.54
Chealsea/ Meatpacking	\$66.81	\$75.79
Downtown/ Financial	\$52.66	\$60.98
London	\$129.69	\$179.47