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July 12, 2012

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As Village Rents Rise, More Choose to be Landlords

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In the last ten years, retail rents in Greenwich Village, the East Village, the Meatpacking District, and NoHo have risen substantially. The most extreme example of this has been parts of Bleecker Street where rents have risen as much as 500%. As a result, when looking at Bleecker Street's stores and restaurants west of 7th Avenue, essentially all of the businesses are operated by someone other than the property owner.

In the remainder of the area, there are people who own and operate retail businesses out of properties that they also own. Frequently, this is a smart arrangement: it provides significant insurance against fluctuations in the rental market, and it circumvents the often-problematic nature of landlord-tenant relationships. We see this phenomenon throughout the Village and East Village, for example, where more than one out of every 15 businesses is operated by the same person who owns the property. Examples of this trend include a neighborhood restaurant operating in a retail condominium on Charles Street, a liquor store on First Avenue that has been in operation for decades, a piano tuner, a classic car dealer, a number of bodegas, a high fashion women's store, and even a large supermarket.

There is, however, one frequently touted "benefit" to this arrangement that is only half true. It is especially prevalent of those owner/operators who have owned their property for a number of years and no longer have a mortgage. This half-truth is that when you own the property, as a business owner you do not have to pay rent. As one happy owner/operator of a pizza store on Sixth Avenue recently told me with a wink, "The landlord's a nice guy, so the rent never goes up!"

It is true that the business does not have any rent expense. Simultaneously, however, the property owner is foregoing any rental income from the space. At best, this double-edged sword is neutral, but at worst, it is a severe detriment to the property owner's bottom line. The nature of this arrangement has thus increased pressure on many owners of retail businesses to give them up in favor of renting the space and becoming purely landlords. This arrangement has some benefits, as in

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many cases the person ultimately earns more money following their retirement than they did operating their business.

To put hard numbers behind this qualitative observation, consider the fact that right now, the average retail lease between Houston and 14th Street is approximately $183 per square foot according to Massey Knakal's data. Let it be said that while $183 per square foot is the average, a number of factors including location, façade, frontage, ease of access, and size, among others, can cause this number to vary from as little as $50 per square foot to upwards of $500 per square foot. Similarly, the size of these spaces varies tremendously, with the average being approximately 1,300 square feet. Multiplying the average rent per square foot by the average square footage, we can conclude that a typical Village ground floor would be worth nearly $20,000 per month. With a rent expense of this magnitude, a business owner must earn several times that amount in sales in order to cover their cost of sales, personnel, payroll tax, and other expenses, not to mention their profit. It becomes clear how the pressure can mount quickly to give up operating the business and switch to collecting and cashing checks as a landlord.

To be sure, there is nothing wrong with many business owners' choice to continue operating their business, even given the potential loss of additional income they could have from simply renting their space. Many of these subsidized businesses offer their owners rewarding careers, and moreover, are beloved neighborhood institutions. In the Village, some of these neighborhood retail treasures include a famous guitar shop, a renowned falafel stand, and a historic theater where the business owners also own the properties that house those businesses. That being said, more and more frequently, property owners have approached brokers for a professional evaluation of what their space is worth in order to keep track of whether or not they are possibly foregoing additional income in order to keep their business alive.

The market has changed so much in recent years that it has become increasingly difficult for property owners to evaluate it on their own. Market rent, however, can be an easy figure to obtain by speaking with a professional who works in retail real estate in the area. Real estate brokers that specialize in the neighborhood are excellent resources for local information and comparable lease rates and can determine how much a specific space is worth. My team, for example, has worked with landlords in the area who own businesses from pizza shops to funeral homes, who need to know if it makes sense to lease their space to a new tenant. After a thorough analysis is completed, it is up to the owner/operator to determine what makes the most sense for him or her, given his or her financial and personal priorities.

As rents in the area continue to climb (showing no signs of abating), we will certainly see this trend continue. As owner/operators shutter their businesses, room is being made for new, exciting retailers to try their hand in this dynamic market. In some cases, like one on the highest rent portion of Bleecker Street, new property owners have even come in to open their own new businesses. With a mix of students, tourists, and residents driving constant foot traffic in the neighborhood, the Village will undoubtedly remain an exciting, fast-paced, and rewarding retail environment.