Q&A with David Moin

MICHAEL H. RATNER

THE RICHTER+RATNER SIGN HAS BEEN ubiquitous at construction sites along luxury lanes and malls in the U.S. The 96-year-old, third-generation-run company,led by chairman and chief executive officer Michael H.Ratner, specializes in retail stores from Fifth Avenue inManhattan to Rodeo Drive in Beverly Hills, as well as inmalls nationwide.The firm has long-standing relationships with designer brands including Prada, Ferragamo, Giorgio Armani, Barneys New York and Bulgari. The portfolio has diversified to galleries, residences and public institutions, as well as a new consulting practice bearing Ratner's name, targeting merchants and manufacturers seeking to enter retailing and those abroad that want to establish a U.S. presence, guiding them through the store-development process .At his offices at 1370 Broadl:1ay in Manhattan, Ratner discussed everything from the state of his business to the economy, retail design trends, his most challenging projects, and one of his pet subjects - staircases - as design features to stimulate shopper flow.

WWD: How is business. in light of the world economic crisis?
Michael H. Ratner: The phone is not ringing anywhere near as much as it was. and that's why we are fortunate that we have longer-term relationships and projects that we are doing. We have seen the rise of institutional work, private schools, churches, non-profit organizations that already have capital. With the recent downturn, we are hoping to get better pricing. The smarter guys would be expanding right now if they have the money. They could get (jobs) done for less money and make better deals with landlords. I think this a challenging time for everybody. I was talking to a friend of mine who is much more involved in the real estate end. He said the banks are willing to loan money (to retailers) for merchandise but not for expansion.

WWD: Are designers and retailers using cheaper materials to save on construction costs?
M.H.R.: We haven't seen that at all. You've got to understand there is always a push. a challenge, or a need to accomplish the aesthetic at the lowest possible cost. So people are pushing as hard as they can . but they usually do that anyway.

WWD: What are you constructing that's unusual?
M.H.R.: We're doing the Ana Tzarev gallery for contemporary art on 57th Street between Fifth and Sixth Avenues. with a glassenclosed elliptical elevator with a winding staircase that snakes around it. It's a good example of how important staircases are. A decorative staircase will announce to the customers 'Hey, there is something worthwhile upstairs.' If you just have a plain set of stairs or a stairwell. people won't pay much attention. We are also doing a $35 million out of the ground LEED gold-rated building at the Bronx Zoo. It's the Center for Global Conservation, for scientists to do research.

WWD: What do you find most challenging in your work?
M.H.R.: After the architect gives us the set of documents we have to follow, we look at them and say 'Are you sure you want to do it this way?' The challenge is often to maintain the aesthetic and bring things in at a reasonable cost. That's where we shine....Also. an awful lot of the clients don't understand that 80 percent of what we do is in the walls. So when they walk on a job three weeks before it is supposed to open they get frantic. They don't understand that 80 or 90 percent of the work is done but they can·t see it. It's in the walls. That structural work takes a lot of time. To just put the Sheetrock and the final details in goes rather quickly. With Uniqlo [in SoHo] we took apart an old cast-iron building that wasn't built really well, and put it back together as a modern building. They knew how to cut corners in 1880 just as they do today. We went through two or three different designers and [completed] the is $20 million project in an outrageous amount of time - 16 weeks. We knew from Day One that we couldn 't be late because the client would feel very embarrassed.
Uniqlo was probably the most challenging project we ever did because of the time frame .

WWD: How do you accelerate a project?
M.H.R.: Work around-the-clock and put more people on the job than you want to. But then you lose efficiency because _ people get terribly tired.

WWD: What design trends do you see now?
M.H.R.: You see a lot of stone and glass these days. but I don't think there have been many [major] changes in the last couple of years. Minimalism still seems relatively hot.

WWD: What stores impress you?
M.H.R.: The Apple store in front of the GM building [on Fifth Avenue] because of the architectural impression that it makes. It makes really smart. creative use of a very difficult space. My very favorite store is Jil Sander on the Avenue Montaigne in Paris. Michael Gabellini has some details in that store that are just marvelous. He has these knife-edge valances. You get an infinity reaction. He used nickel silver, a very rare metal that has a certain sheen you don't see anywhere else, for displays and accentuating certain details.

Madison Avenue Takes Hit From Economic Troubles

Continued from page one

PHOTO BY ROBERT MITRA

mounting and sales expectations for the next several quarters are dropping.

"Between 59th and 72nd Streets, we have over 20 listings of available space," said Robert Futterman of Robert K. Futterman & Associates LLC. "My take is that the rents have peaked and the landlords need to come down to make some deals. The market, the tenant demands and landlord expectations are going in different directions. It's been quiet. It's really been quiet."

"Madison Avenue is littered with vacancies," agreed Jeffrey Paisner, broker at Ripko Real Estate Corp. And there could be more, he suggested. "There are tenants that have signed deals that are considering buying their way out of them. They just don't want to go forward with their leases in this economy. Some others aren't finalizing or are walking away from deals. A third category are those who are going back to landlords to renegotiate."

The trend on Madison Avenue seems glaring compared to Manhattan's SoHo, Times Square and Meatpacking District, where the rate of availability has declined, and Fifth Avenue, which has stayed stable, according to Cushman & Wakefield. It's also noticeably different from other top venues in the country, such as Rodeo Drive in Beverly Hills or Chicago's Michigan Avenue, where the space remains relatively tight, according to real estate executives.

But the vacancies along Madison Avenue are apt to linger — unless rent rates drop sharply. Rents remain as high as ever, at $1,000 to $1,200 a square foot between 57th and 72nd Streets, compared with $700 to $800 three to four years ago.

Despite the negatives, there still is no letup in the number of brands at least considering Madison. High-end European fashion firms scouting the avenue include Hackett, a classic British men's clothing and accessories firm; Façonnable, the Nice, France-based fashion house known for its traditional styling, and Lanvin, which is one of the hottest designer brands around under artistic director Alber Elbaz.

Loro Piana, which has kept its profile low with a small store on Madison, is said to be close to securing or has already secured a larger site. Real estate sources also said Dolce & Gabbana is in the market for an accessories concept and that Hublot Geneve, the fine watch firm, is seeking a space as well.

Among American brands, Michael Kors and John Varvatos are said to be looking for space, and Milly confirmed a search has been ongoing. "In New York City, we have been looking at Madison Avenue locations for well over a year," said Andrew Oshrin, the chief executive officer of Milly. "Given the economic conditions, we have been patient with the location selection and lease terms. When we find the right combination, we will jump at it. Milly is eager to advance its branding strategy," and does have a flagship in the works for Tokyo in the spring.

David Yurman is relocating to a bigger and better space in a landmarked townhouse on 62nd Street in about a year. "This will truly be a flagship in terms of the range of product we can present," said Paul Blum, Yurman's chief executive officer. "Madison Avenue is still the center of luxury for the American market. There may be some vacancies, but it's still the prime location in the U.S. for luxury brands."

Graff on Monday opened its new flagship at 710 Madison Avenue on the northwest corner of Madison and 63rd, after being in the middle of the block between 63rd and 64th Streets on Madison.

"The rents are so high. Only large international companies can afford it. The little independents can't stay," said Henri Barguirdjian, president and ceo of Graff in the U.S.

For a fine jeweler, the "golden blocks" are from 62nd to 66th Streets, where there's a concentration of fine jewelers, Barguirdjian noted. There's also the Lowell Hotel, and lots of restaurants like Nello, Bill Bouquet, La Goulue (which is looking to relocate) and Amaranth that provide "the perfect combination to attract ladies," he added. "They lunch and then shop."

Many of the vacant retail properties on Madison Avenue are smaller sites or have architecture that would be challenging for fashion presentations, and better suited for smallish jewelry firms. Some are also next to more moderate priced businesses that aren't the ideal neighbors for luxury brands. They prefer to situate next to other shops that draw similar customers.

There's another deterrent for getting the spaces filled as well: "A lot of people don't realize it's a landmark district and that if a designer or a brand takes a space, they can't do exactly what they would like to do," explained Michael Ratner, chairman and ceo of Richter+Ratner, the construction company that has a long history of retail and residential projects including many in the luxury arena. "They have to get approval to make any changes to the front. That can stifle the presentation they want and the approval can take months." The landmarked zone runs from 61st to 79th Streets.

"I don't think the sky is falling," said Jeffrey Roseman, executive vice president of Newmark Knight Frank Retail, which, among other locations, is seeking a tenant at the southwest corner of 58th Street and Madison. "Madison is pretty healthy. I think retailers are still doing well." However, he added, "The whole city is going through a bit of an aftershock and I don't mean the events of the past few weeks. It's been the past six months."

Still, Madison Avenue stands out from SoHo, the Meatpacking District, Times Square and Fifth Avenue, where there are lower rents and a broader appeal to high-end and moderate businesses. Those Manhattan markets seem impervious to the recession, Futterman suggested. "Madison seems to have been affected."

Gene Spiegelman, executive director, retail service, at Cushman & Wakefield, said the rate of space availability between 57th and 72nd Streets, including vacancies and leases that are available for sale, has risen to over 12 percent from 6 to 8 percent. "This increase is substantially higher than any other prime submarkets" in New York City, Spiegelman said. He attributed Madison's high vacancies to "a natural roll" of the inventory, since many leases were signed 10 or 15 years ago, and recently expired, as well as the rents escalating to well over $1,000. "It's very important to also take into account that retail space [on Madison] is not fungible," particularly north of 64th Street, where it's more boutique-y and foreign in retail character. "That's a standout differential from the whole marketplace," creating an appeal for a narrower segment of the retail.

He projects the level of availability will be sustained through 2009. So far, "Landlords have not been dropping asking prices but they're taking at least 10 percent off asking prices," he said.

Ripko's Paisner said he just returned from California. "There just aren't as many availabilities on Rodeo Drive or Robertson," in Los Angeles. In San Francisco, Geary and Post Streets also have few vacancies, but it's important to remember that they are all shorter stretches with less real estate inventory than Madison Avenue, Paisner said. "In terms of supply and demand, it's different," he said, but added that North Michigan Avenue, which is like the Fifth Avenue of Chicago, also has a lower vacancy rate than Madison.

Despite the pressures, the rents on Madison Avenue are generally holding. "The market has not been reset because there hasn't been a deal yet where you can compare since the Wall Street bailout," said Paisner. "This is a temporary transition we are going through. Ultimately, markets like Madison Avenue retain their allure and value."

There is light around the corner. "The high vacancy rate on Madison will lead to lower retail prices and a healthier market with a mix of mom and pops, entrepreneurs and new national or international concepts that previously could not afford or were too afraid to venture into the Manhattan market," said Paulette Powell, principal of New Spectrum real estate advisers. "As international retail consultants, we see the current financial situation with the weak dollar and high vacancy rate as incentives for European retailers to locate across the pond," though the dollar is gaining strength significantly against both the euro and the pound.

Retail for Rent

	3Q '08 AVAILABILITY	3Q '07 AVAILABILITY
SOHO West Houston to Grand and West Broadway to Broadway	7.5%	9%
UPPER WEST SIDE Broadway, south side of 60th St. to north side of 86th St.	5.7%	6.4%
MADISON AVENUE South side of 57th St. to south side of 72nd St.	12.9%	8.6%
FIFTH AVENUE North side of 42nd St. to south side of 49th St.	9.2%	12.1%
FIFTH AVENUE North side of 49th St. to south side of 60th St.	3.2%	3.2%

RETAIL RENTS AROUND THE U.S.

New York: Madison Avenue
$1,070

Los Angeles: Rodeo Drive
$525

Chicago: Michigan Avenue
$450

Miami: Lincoln Road
$150

Boston: Newbury Street
$130

SOURCE: CUSHMAN & WAKEFIELD; PRICES ARE AVERAGE ASKING GROUND FLOOR RENTS PER SQUARE FOOT; RENT PRICES WERE TAKEN BETWEEN 2Q AND 3Q, 2008