

Nordstrom's Manhattan debut

NEW YORK CITY'S LONG WAIT FOR A NORDSTROM HAS ENDED — WITH A RACK

By Jesse Serwer

AFTER YEARS OF WAITING

for the right real estate opportunity, Nordstrom opened its first New York City store in May. This Nordstrom Rack outlet store, in the basement of a former Virgin Megastore in resolutely midmarket Union Square, is not exactly how the Seattle-based luxury department store

had envisioned its Big Apple debut.

"Ideally, we'd be talking to you today about a full-line store, and yet we haven't had any ability to find a location there," President and CEO Blake Nordstrom told reporters. But, though this might not be the dream scenario, observers agree that opening off-price Rack stores in Manhattan in lieu of or in addition to a full-size flagship is a wise move. Same-store sales for 2009 grew 2.5 percent year on year at Rack units, versus a drop of 7.2 percent at the full-line stores.

"This is the growth part of the retail business, and it is going to be that way for as far as the eye can see," said Howard Davidowitz, head of Davidowitz & Associates, a New York City-based retail consulting and investment banking firm. "Nordstrom recognizes that. Their core business is anchor stores in malls where they do very well. But this

is a company hitting on all cylinders, and they are trying to build their value proposition."

Rack stores, which sell a mixture of merchandise ordered direct from name-brand manufacturers and clearance items from the department stores, are a growing focus for the 109-year-old retailer. In addition to 114 full-line department stores, the 193-store chain operates 76 Nordstrom Rack stores, two Jeffrey boutiques and one Last Chance clearance outlet. Management plans to open 17 Rack stores this year, versus only three department stores. An additional nine Rack stores are slated for next year. And though no date has been set, the



company also plans to open a Rack in San Juan, Puerto Rico's Plaza Internacional mall.

A similar movement toward value is being echoed throughout the luxury segment. It is a long-held logic that such discount outlets as Rack dilute the brand power of upscale retailers, but the current environment has created a twilight-zone effect, Davidowitz argues. "Living standards in America are never going to be the same, given the circumstances that we're in, and there is a recognition of that within the retail business," Davidowitz said. "I don't think it [opening Rack stores] is going to hurt Nordstrom's image at all. Saks is building up its Off 5th stores.

That is all they are building. Neiman Marcus just built a [Last Call] discount store in Dallas. If you offer value, that is a cool and smart thing to do, and I think everybody looks at it that way. This is a good way to enter and build a group of stores in Manhattan."

At 32,000 square feet, the Union Square store has about 3,000 square feet less floor space than a typical Rack store. More notably, it is some 200,000

square feet smaller than a Park Avenue space where Nordstrom had hoped to open a flagship department store. That project, on the site of the former Drake Hotel, remains in development limbo after creditors for

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Harry Macklowe, the developer who acquired and demolished the hotel in 2006 with plans to build an office tower above high-end retail shops, brought a foreclosure action on the property. Nordstrom has shown interest in other New York City department store locations, but is "unfortunately not close to anything," as Blake Nordstrom told reporters.

But now that the company has a foot planted in New York City, Rack stores could soon begin popping up in a variety of key Manhattan retail districts, observers say. A full-line Nordstrom store takes about four years from inception to completion, according to the retailer. By contrast, a Rack store takes just 12 to 18 months.

Faith Hope Consolo, chairman of



the retail leasing and sales division at Prudential Douglas Elliman Real Estate, says she expects Nordstrom to open as many as three additional Rack stores in New York City within the next 18 months — on the Upper East Side, on the Upper West Side and in SoHo.

"It makes so much sense," Consolo said. The cachet of the Nordstrom name could give Rack an edge over other discounters in the brand-conscious New York market, she says. "Nordstrom reaches a much more diverse shopper than Filene's, Shoe Warehouse or DSW," Consolo said. "Those are all pieces of a puzzle. This is the 800-pound gorilla."

Nordstrom must be increasingly innovative to sustain growth, Blake Nordstrom told an audience at RE-Con. The company will remodel about a half dozen stores per year while continuing to open stores as circumstances permit, he said. "We want to enhance the reputation and results of your project," Blake Nordstrom told developers in the audience. "We are bullish that there are many opportunities." scf

