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Macy's Historic New York Flagship Store May Lead Shopping Into Another Century

Early Leader in 'Experiential' Retail Seeks a New Mix Where It All Began



Macy's potential redevelopment of its Herald Square flagship mirrors endeavors underway by other Penn Plaza landlords. Image: JJBers, Wikimedia Commons

The moment Macy's opened its nine-story Herald Square department store building in New York City in 1902 with 33 elevators and four wooden escalators, it defined the retail concept of creating a shopping experience. Almost 120 years later, executives are trying to figure out how to use the space to shape the next century of shopping.

Macy's is examining options for the future of its iconic flagship retail store as retailers in New York City and nationally readjust to a changing industry favoring smaller stores. Chief Executive Jeff Gennette told investors and analysts in a conference call to discuss its fourth-quarter earnings the company is exploring redevelopment of the store that could incorporate complementary uses of its space.

“We have been working closely with the team of land-use development and design experts to produce a menu of economically viable redevelopment alternatives,” said Gennette, adding that the company is holding preliminary meetings with city officials and community stakeholders “to gather their input and feedback.”

Macy's could be discussing with city officials and land-use specialists structural changes to the building, or redeveloping it, splitting it up, or getting tax abatements, explained Jedd Nero, executive managing director and retail group lead at commercial real estate brokerage Avison & Young.

“They are trying to be as creative as they can to stay relevant and survive. You have to be creative to stay alive as a department store,” added Nero, noting that Macy’s could also be contemplating bringing in partners or bringing a new aspect of entertainment to the site.

“With the need to innovate or die, Macy’s must get creative in monetizing its real estate assets and re-allocate the proceeds for growth initiatives. The 2.5 million-square-foot iconic Macy’s store at Herald Square is the asset on everyone’s mind as ripe for monetization,” said Josh Lipton, co-founder of commercial real estate services firm Invictus Property Advisors.

By the time of the Herald Square store's opening in 1902, the chain's original founder, Rowland Hussey Macy, had died. Ownership of Macy’s, which made its Manhattan debut at the corner of Sixth Avenue and 14th Street in 1858, had passed to brothers Isidor Straus and Nathan Straus. The Straus brothers moved the Macy’s store uptown to 34th Street, where it sits today. It was named a National Historic Landmark in 1978.

“Selling the flagship New York City location is akin to blasphemy, but if it comes to it, the building could fetch between \$3 billion and \$3.5 billion,” Lipton said. “More realistically, Macy’s leadership would likely free up certain floors and enter into long-term leases for those spaces to relative newbies like WeWork. Alternatively, for greater liquidity and in a much shorter time frame, Macy’s could clear floors and sell them off as office condos for well over \$1,000 per square foot.”

Operating against a backdrop of fresh store closing announcements from national brands including Victoria's Secret and Payless, financial health is clearly top-of-mind for Macy's. Its acknowledgment of these early discussions regarding the Herald Square flagship comes as it undertakes a restructuring that is expected to save \$100 million in 2019.

“They're having difficulties - they've announced a plan for \$100 million in annual cost savings. It seems clear to me they are cutting management jobs to do so,” Nero commented.

And Chief Financial Officer Paula Price said Macy's has engaged in asset sales that have resulted in \$1.7 billion in cash proceeds over the past four years. Most recently, in the fourth quarter it sold its 250,000-square-foot I. Magnin building in San Francisco's Union Square neighborhood for \$250 million in cash proceeds and recorded a gain of \$178 million. Prior to selling, it had submitted plans to the city to turn some floors into office space, according to local media reports.

However, the retailer is expanding investment into its brick-and-mortar locations through its Growth 150 plan, which targets improvements at its top 150 stores nationally. Those investments include upgrades including facilities, fixtures, assortment and customer service, Macy's said in SEC filings. Macy's also plans to expand its Backstage brand, which sells excess inventory at a discount and competes with shops like TJ Maxx, by adding 45 branded locations nationally in the coming year.

In Manhattan, landlords of hard-to-fill retail space have repurposed some of it to accommodate alternative uses such as [what SL Green did at 2 Herald Square](#) by bringing in WeWork as an office tenant and utilizing part of the ground-floor retail formerly occupied by H&M for a dedicated building lobby.

Another recent example of this trend also involved WeWork, which at the beginning of the year unveiled redevelopment plans for its [\\$850 million acquisition](#) of the Lord & Taylor department store.

The Herald Square flagship, however, is one of Macy's top-performing stores in the country. At \$3 billion to 3.5 billion, the sales price would equate to roughly 15 percent of what it earned as a conglomerate in 2018, which was \$24.9 billion. Repurposing some of the floors, as it tried to do in San Francisco, would bring the retailer a significant capital infusion.
