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SQUARE FEET

As Omicron Bears Down on Retailers, Landlords Get Creative to Fill Space

Tenants are being offered concessions like reduced rates and customized spaces, while vacant storefronts are being filled with pop-up shops and works by local artists.

By Jane Margolies
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In the fall of last year, many retail landlords were breathing a sigh of relief. They had gone all out to fill empty storefronts during the grimmest days of the pandemic, offering concessions to tenants and saying yes to pop-ups. That strategy appeared to pay off.

By the third quarter of 2021, the storefront scene was recovering in many parts of the county. Thanks to vaccinations, the return of international travelers and pent-up consumer demand, shoppers were flocking to malls and downtown districts and prospective tenants were signing leases. Asking rents, which had plunged in 2020, were leveling out and even rising in some places.

But the Omicron variant of the coronavirus may throw a wrench in the recovery, and landlords may need to extend temporary measures to fill empty spaces.

At the Oculus, the transit hub and shopping mall in Lower Manhattan, foot traffic has fallen precipitously recently, said Diana Grasso, the vice president of Westfield World Trade Center. “You saw the impact almost immediately,” she said.

She and other retail real estate managers had been through a similar roller coaster ride when the Delta variant interrupted the “hot vax summer” and prompted companies to postpone return-to-office plans, dealing another blow to the businesses that depend on commuters.

But cases from the fast-spreading Omicron variant quickly outpaced those of Delta. Already, visits to some businesses, like coffee shops, have declined, according to a new report from Coresight Research, which tracks the retail sector, as people avoid public spaces. And although it is too soon to say what the variant’s ultimate impact on real estate will be, some landlords are already adjusting their expectations.

After losing a few tenants in the pandemic, Ms. Grasso enlisted a nonprofit organization to bring minority- and women-owned businesses to the Oculus over the holiday season. Now she is considering a longer-term place for the businesses in one of the building’s vacant spaces.

“We want to potentially have a full, in-line space where we can continue to bring in these types of businesses,” she said.

But the setback from Omicron might not be as severe or prolonged as the one from Delta, experts say, in part because more people are vaccinated and because the variant appears to cause milder illness.

“Consumer behavior will be less impacted than it was over the summer,” said Michael Baker, a senior retail analyst at D.A. Davidson, a financial services firm. “I do think there will be a step back, but a smaller step back, a shorter step back.”

Of course, brick-and-mortar stores were already struggling before the pandemic, as consumers shifted purchasing online. That trend accelerated in 2020 as lockdowns shuttered stores and e-commerce sales soared.

The resulting rash of storefront vacancies taught landlords to be more flexible with retail tenants, real estate experts say. Some cut longtime tenants slack, waiving rents or entering into revenue-sharing agreements. To entice new tenants, they reduced rates, offered free rent and agreed to customize spaces.

Landlords also scaled back lease terms. In 2016 and 2017, the average lease for apparel shops was 5.3 years, according to data from the research firm CoStar Group; that has fallen to 4.8.

“For many years, it was, ‘Either you sign a 10-year lease or we have nothing to talk about,’” said Ariel Schuster, a vice chairman at Newmark, summarizing the old attitude of many landlords. “Everyone has to be more adaptable.”

Then there are the stopgap measures — anything to keep the space occupied.

“That’s a desperation play,” said Michael Brown, a partner at the consulting firm Kearney. “That’s the Realtor saying, ‘I don’t have anything better to do with the space.’”

To bring in some revenue, some landlords have given storefront windows over to digital advertising. Storefront occupants have long used flashy signs to grab attention for their own businesses. Now companies are bringing interactive ads for movies, automakers and sneaker brands to empty store windows, with landlords receiving a percentage of the amount charged to advertisers.

Johnny Hackett Jr. paid a reduced rate for his Black Friday Market in a prominent building owned by Empire Properties in Raleigh, N.C. Eamon Queeney for The New York Times

“You just need to roll a little bit with a tenant you think is solid and in the long run is good for the community,” said Greg Hatem of Empire Properties. Eamon Queeney for The New York Times

Other landlords are allowing their empty windows to be filled with artwork — efforts that generate good will and make vacant spaces look less bleak. In Philadelphia, a tourism and marketing agency commissioned artworks that paid tribute to local Black- and brown-owned businesses.

John J. McCullough, general manager of Nightingale Properties, agreed to have artworks from the program placed in the windows of three of his downtown buildings. “We saw it as a win-win,” he said. “It was an opportunity to help out these small-business owners. And we get more eyes on our space.”

Some landlords welcomed pop-up retailers, and not only during the typical holiday season. Retailers have embraced the trend as part of their marketing campaigns — luxury brands use them to kick off collections, e-commerce companies to introduce themselves, and companies of all types like the opportunity to test out a site. But landlords, and their lenders, accustomed to the financial security of long-term leases, have not always been on board.

During the pandemic, though, more landlords gave pop-ups a try, hoping to bring life to languishing ground-floor spaces. They might not earn as much from the arrangements, but at least some revenue was coming in. And the deals often involve quick licensing agreements, rather than more complicated leases, and no outlay for capital expenses. Plus there’s always the chance that a pop-up may become a permanent tenant, a trend known as pop-to-perm.

“A lot of real estate groups want to have a relationship with the next Warby Parker, the next Casper,” said Melissa Gonzalez, founder and chief executive of the Lionesque Group, a retail consultancy. “This is how you get those relationships.”

Storefront, a digital listings platform where landlords advertise retail space suitable for pop-ups, saw more owners listing spaces, said Nicholas Roberts-Moore, the company’s head of marketing.

And ChaShaMa, a nonprofit organization founded to wrangle free space for New York artists, started turning over some of its donated storefronts to minority-owned businesses. That is how Daryl Wright, a custom tailor who specializes in men’s suits, was able to set up a ground-level shop in a building in Manhattan’s garment district owned by GFP Real Estate.

“I have this giant building,” said Eric M. Gural, a co-chief executive and principal at GFP. “I can do something with the storefront that’s meaningful to the neighborhood and doesn’t hurt me in the pocketbook too much.”

Elsewhere, downtown economic development organizations and suburban malls have encouraged pop-ups, said James Cook, director of retail research at JLL.

The Downtown Raleigh Alliance in North Carolina started two pop-up programs to address storefront vacancies — which had risen to 14 percent in 2020 from 10 percent before the pandemic — and help budding local businesses. Early last year, the organization began matching landlords with entrepreneurs.

Black Friday Market did so well in the space that Mr. Hackett signed a five-year lease. Eamon Queeney for The New York Times

More recently, the alliance started Pop-up Shops at Martin Street to provide low-cost space to women- and minority-owned businesses. The owner of the building, LM Restaurants, reduced the asking rent, and the alliance kicked in some money; the entrepreneurs pay the rest.

Suburban shopping malls have been embracing pop-ups for some time to spice up their retail mix. Recently, Macerich introduced a digital platform to ease short-term leasing in malls from Virginia to California.

And Brookfield Properties filled a space at its Oakbrook Center near Chicago that Sears occupied before its bankruptcy with a traveling exhibition about the Sistine Chapel. Such events “draw people from miles away,” said Katie Kurtz, Brookfield’s senior vice president for retail business development.

But ultimately, most landlords engaging in short-term activations hope to land long-term tenants. Sometimes it happens.

In the fall of 2020, the Downtown Raleigh Alliance helped place Johnny Hackett Jr. in a storefront in a prominent building owned by Empire Properties for three months at a reduced rate.

Mr. Hackett paid $3,000 a month for the trial run and used the space to open Black Friday Market, carrying art, apparel and other wares from dozens of Black vendors. The store did so well that Mr. Hackett signed a five-year lease at a monthly rent of $4,500. And one of his vendors had so much success that she ended up taking over the empty storefront next door.

“You just need to roll a little bit with a tenant you think is solid and in the long run is good for the community,” said Greg Hatem, Empire’s founder and managing partner.