

# THE REAL DEAL

NEW YORK CITY REAL ESTATE NEWS

## Spurred by strong Downtown retail, landlords convert apartments to stores

*Stone Street, SMA Equities, others stand to reap far higher rents per square foot*

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By [Adam Pincus](#)

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For some time now, coveted Downtown neighborhoods such as Soho and the West Village have commanded some of the highest residential rents in Manhattan. But about a dozen landlords – most recently Stone Street Properties and SMA Equities – have found that converting ground-floor apartments into retail space is far more lucrative.

This month, Stone Street filed plans to convert a first floor apartment at 101 MacDougal Street, between Bleecker Street and Minetta Lane, to a store, while SMA Equities did the same at 22 Spring Street, between Elizabeth and Mott streets, records filed with the city's Department of Buildings show.

Indeed, a review by *The Real Deal* shows that landlords have moved to convert apartments in at least 12 buildings in Manhattan to much more valuable retail in the last two years. The two applications filed in 2013 so far may represent a slight uptick over the previous two years: in 2012, there were four such applications, and in 2011 there were six, DOB records show.

(*The Real Deal* looked at DOB applications to convert ground-floor residences to retail space filed between Jan. 1, 2011 and today.)

Though a conversion is not an easy process, requiring city approvals and tenant negotiations, the payout in some cases can be an exponential increase in rent per square foot. This is particularly true in hot retail areas like Greenwich Village, Nolita and Soho, where shoppers are streaming in to once sleepy streets.

At Stone Street's 101 MacDougal, the most lucrative use for the ground floor was retail, said the firm's managing principal, Jeffrey Kaye, who purchased the apartment building this past November as part of a [\\$73 million portfolio](#) of 16 buildings, along with Robert Morgenstern, also a managing principal.

The property "is the only building on that block that does not have ground floor retail, and the amount of interest in retail on that block in the West Village is staggering," Kaye said.

Other firms that have filed plans or already transformed apartments include Midtown-based the Jackson Group, which filed to convert the West Village space at 407 Bleecker Street, between West 11th and Bank streets, in 2011 (leased to shoe retailer Jimmy Choo); and First Atlantic Real Estate, which filed in 2011 to convert [156 Prince Street](#), between West Broadway and Thompson Street, in Soho, which leases space to the health food chain Juice Press.

For 407 Bleecker, the conversion was a round trip, according to DOB records. A certificate of occupancy from 1941 identified the first floor as store space. That was changed at some point before 1978, when a new certificate of occupancy said it was residential.

But there are likely more conversions to come, retail experts said, even though it is not a simple process and may include buying out or relocating rent regulated tenants.

"In a neighborhood that has been gentrifying, where retail has been creeping in, it is much better to get retail rents," said Albert Laboz, a principal at United American Land, which owns properties in Soho, among other areas. "Especially if you buy out rent control or rent-stabilized tenants, you are really increasing your net income exponentially."

Another landlord agent, who was not involved in these transactions, said he expected owners would be able to lift revenue per square foot by as much as ten fold.

"Bleecker Street in the West Village is a great example of this strategy," Jared Epstein, vice president at Aurora Capital Associates, said. "Ground floor residential units that rented for \$50 to \$75 [per square foot] are increasingly being converted to retail space that commands \$500 per square foot."

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From left: Jeffrey Kaye, 407 Bleecker before (source: Trulia) and after the conversion