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Fashion-Tech alive and well in Midtown South, says ABS' TechStarter

By Al Barbarino

Leading brokerages recently speculated that Midtown South's popularity – and high cost – has led would-be office leasers to look for space elsewhere.

But ABS Partners' third quarter TechStarter report suggests that a new frontier still exists for "Fashion-Tech" in Midtown South, particularly in Chelsea, where "larger floor plates, high ceilings and exposed brick is ideal for a showroom-like atmosphere."

Institutional real estate investors remain bullish in Midtown South, as vacancies hit lows, rents hit highs, and venture capitalists look to invest in companies offering a diversion from the traditional model of online fashion retailers that offer deep discounts, the report suggests.

The submarket is "brimming with institutional real estate investors willing to purchase properties at a premium, making long-term bets on Midtown South's tech start up scene," the report states.

Finding properties is another story. Average asking rents have increased nearly 8 percent since the first quarter, and vacancy rates have dipped to nearly 5 percent (a number that varies depending on who you ask), according to numbers from ABS.

Property owners aren't rushing to unload these properties because sections of the Chelsea and Flatiron/Madison Square Park submarkets are drawing asking rents more than \$70 psf, according to Collier's third quarter office market report.

For their part, venture capitalists are willing to throw millions at companies with new takes on traditional ecommerce concepts, perhaps making ever-expensive Midtown South a more viable option.

Moda Operandi and Fab, both of which offer online retail business models that break from tradition, received additional venture capital funding this year, and both companies recently expanded into Chelsea.

Moda Operandi, headquartered at Moinian's 12-story loft building at 72 Madison Ave., gives online shoppers early access to designer clothing but sells the products at full cost.

The company has raised \$36 million from venture capital firm RRE Ventures, and strategic investors including IMG and Moët Hennessy Louis Vuitton.

“Those are lower margin businesses, and there’s a lot of competition now,” Adam Ludwin, a principal at RRE Ventures told the Times’ Dealbook, referring to traditional sites that offer deep discounts. “We had no interest in investing in a me-too company.”

Fab has raised a whopping \$105 million in VC funding.

It was Gilt Groupe and Rue La La, today among the largest online fashion e- companies, that “dramatically altered the fashion tech platform,” paving the way for fledging startups and venture capital funding, according to ABS.

A number of other fashion ecommerce companies are taking advantage of the attention, also drawing tens of millions of dollars in venture capital funding in 2012.

JustFab, which gives members access to celebrity stylists, shoes and handbags, has raised \$76 million.

Etsy, focused on vintage items and art/craft supplies: \$40 million

Boutique eyewear site Warby Parker: \$36.8 million.



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