

Q3 - 2012 | TechStarter

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Fashion Tech | Location Matters

Demand for creative space continues to drive rental activity in Chelsea. While older, smaller office buildings in Flatiron/Union Square have traditionally attracted start-ups, large companies like Google and Moda Operandi have found homes in Chelsea, benefiting from access to public transportation, larger floors and more favorable leases. The desirable 24-7 environment, culture, and the unique prewar façade of the buildings have made Chelsea one of the most attractive submarkets in Midtown South.

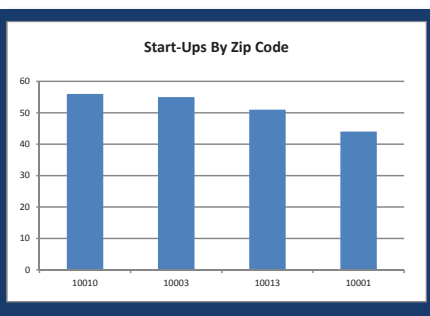
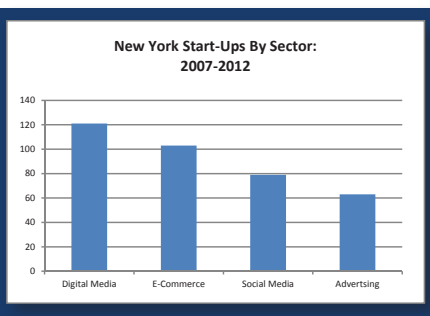
Tech start-ups, in particularly Fashion-Tech, have been eager to settle in Chelsea because of the networking opportunity and collaborative nature of the tech scene. As fashion continues to move south in New York, Chelsea's larger floor plates, high ceilings, and exposed brick is ideal for the "show room" like atmosphere fashion start-ups are looking for.

Given the high demand and low supply of office space in all of Midtown South, including Chelsea, the average asking rental rate in Chelsea has, on average, increased by nearly 8% since Q1 2012, while the vacancy rate has dipped to nearly 5.4%, making it even more difficult to find space in an already tight market. Driven by a landlords market, for some of the most desirable buildings in Chelsea and Midtown South, asking rents have begun to reach nearly \$50 to \$70 per-square-foot, pricing out smaller start-ups for more seasoned, better funded start-ups.

Future Outlook

Flash sales are one of the fastest-growing segments of e-commerce 2.0. Gilt Groupe and Rue La La, both started within the past five years, have dramatically altered the fashion tech platform. As fresh, new disruptive innovators, today they each rank among the world's largest companies in e-commerce. Being the forerunners of the segment, they have also helped to pave the way for fledgling start-ups like Moda Operandi and Fab who have recently received additional funding in Q2, receiving \$36 million and \$105 million in funding, respectively. We are seeing a strengthening of the flash sale start-up market. Additionally, there is a great deal of diversification in the e-commerce 2.0 market, creating plenty of opportunities for expansion. For example, there are e-commerce start-ups that focus almost exclusively on handmade or vintage items (Etsy), everyday design (Fab) or trendy eye wear (Warby Parker), all of whom have received funding in 2012.

As the e-commerce 2.0 platform continues to grow in both popularity and VC funding, so does their real estate needs as start-ups receive additional funding. Tracking when a start-up needs more space is a matter of funding and job creation. Start-up like, Moda Operandi and Fab, received additional funding in Q2 that resulted in a search for more space and employees. Moda Operandi and Fab, two of the most popular start-ups in New York, recently expanded their real estate footprint by moving south and taking space in Chelsea upon the announcement of their VC capital injection. Moda Operandi will be moving its office from 72 Madison to 315 Hudson Street, taking nearly 24,882 square feet, while the fast growing Fab.com will nearly double their space when they take 23,500 square feet at 95 Morton Street.



Source: Center for an Urban Future

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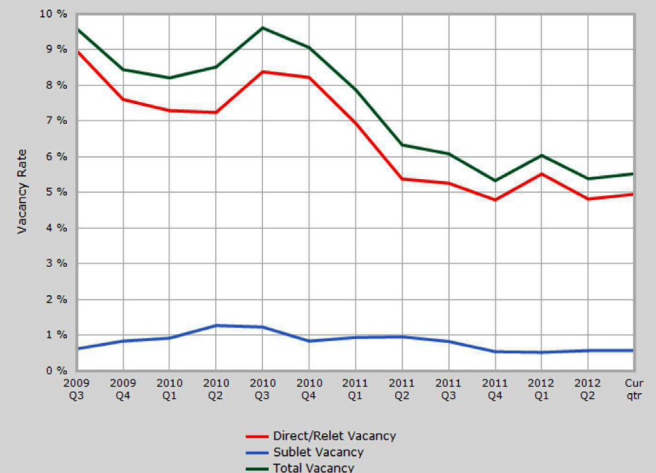
Sources: ABS Partners Real Estate, LLC, CoStar, NYCEDC, NYC Center for an Urban Future, and TechStarter.

Tech's Footprint on Real Estate

Institutional investors have begun investing in or purchasing buildings in Midtown South. While most buildings in Silicon Alley are held by private owners, Midtown South 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.

Chelsea, a submarket of Midtown South, has spearheaded the way in terms of institutional real estate investments and leasing activity in 2012. As one of the tightest markets in the US, Chelsea has seen a significant decrease in vacancy. While tech's footprint on real estate continues to grow, so does the interest and appetite for investors. With the potential of tremendous economic gain from the tech and start-up scene, leasing activity, as well as investing, will most likely increase in Q4 2012 into 2013.

Chelsea Vacancies



VC Transactions | Fashion Tech 2012

Company	Funding	Venture Capital Firm	Company Location
Fab	\$105 Million	Atomico Ventures	New York, NY
JustFab	\$76 Million	Rho Ventures	New York, NY
Etsy	\$40 Million	Index Ventures	Brooklyn, NY
Warby Parker	\$36.8 Million	General Catalyst Partners	New York, NY
Moda Operandi	\$36 Million	RRE Ventures	New York, NY

Companies to Watch

Company	Location	Industry	Founded
Clothes Horse	New York, NY	Fashion	2011
Fancy Hands	New York, NY	Service / Web	2010
Loose Cubes	Brooklyn, NY	CoWork	2010
Wanderfly	New York, NY	Travel / Web	2009
Animoto	New York, NY	Animation / Gaming	2006

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