Special Report: Watches & Jewellery 2012

Richemont secures its place on Fifth Ave

Jim Shi considers the logic behind the Swiss company's $380m acquisition of prime retail space inside the St Regis hotel

St Regis Hotel: company may open stores at the site when space becomes available © Dreamstime

NOVEMBER 9, 2012 by: Jim Shi

Richemont's acquisition of a prime retail condominium inside the St Regis New York hotel for the tidy sum of $380m marked a significant step for the Swiss luxury-goods company in an arena so conspicuously dominated by LVMH Moët Hennessy and PPR.

The company paid $15,100 per square feet for the 24,800 sq ft space – more than triple what the condo traded for in November 2009 when Starwood Hotels & Resorts sold it for $117m (it continues to own the hotel) to raise cash and reduce debt during the recession.

Fully occupied by luxury retailers, including De Beers, Emilio Pucci and Bottega Veneta, it is understood that Richemont, eager to bring such nameplates as Piaget, Van Cleef & Arpels, Dunhill and Montblanc to the St Regis, intends to open one or more of its stores at the site when space becomes available (some tenants have seven years left on their leases).

A catalyst for Richemont's purchase of the retail condo could have come from Cartier, the star jewel in its portfolio, whose lease on its iconic Neo-Renaissance Fifth Avenue mansion recently came up for renewal with the Onassis Foundation, the landlord.

"It had to have been a wake-up call for Cartier when it came time to renew at a fair market price," says Robert Futterman, chairman and chief executive of RKF & Associates, a New York-based real estate brokerage, who was not involved with the transaction. "There had to be some pain involved."

Cartier eventually renewed.

Joel Isaacs, president of Isaacs and Company, says an expanded Richemont presence will further solidify Fifth Avenue as a luxury shopping destination. "Richemont certainly has the wherewithal to make this kind of long-term investment and they have the brands to fill the space," he says.

David LaPierre, executive vice-president at real estate services company CBRE, believes Richemont evaluated the idea of leasing before deciding to cut through the red tape.

Or maybe Richemont simply did not want an LVMH landlord? Mr LaPierre speculates that the transaction may have had an element of vanity as well. "Where you're positioned is a critical element of how others will look at you and your brand," he says.

Big fashion companies, primarily foreign, have become more aggressive buyers in such prime shopping corridors as Fifth Avenue. And while Richemont's acquisition made headlines because of the rarity of location and sheer frontage, not to mention being among the largest transactions for a retail condo on Fifth Avenue, it is part of a quiet trend.

On East 57th Street, Louis Vuitton, Tiffany & Co, Chanel and Burberry all own the buildings in which their respective flagships are housed. Gucci owns 685 Fifth Avenue, which had been home to its Manhattan flagship and still houses its corporate offices. In 2011, Inditex of Spain paid $324m for 39,000 sq ft of street-level space at 666 Fifth Avenue to house its largest Zara in the US.

Gene Spiegelman, brokerage executive vice- president at Cushman Wakefield, believes Richemont's acquisition was as much a play on capital as it was on retail. "If you look at the Inditex deal, there is a clear move to redeploy capital from western Europe into the US," he says. "A Fifth Avenue asset is a perfect Triple-A location to deploy that capital."

It is no secret that Richemont has always wanted to own its own retail block in Manhattan. It owned 20 years ago the entire street level retail condo on Madison Avenue from 69th to 70th Streets, in the former Westbury Hotel. It now occupies just the two prime corner spots, operating units for Cartier and Chloé.

It is not unusual to cluster. Omega and Breguet, both Swatch Group brands, sit side by side at 711 Fifth Avenue while Richemont brands IWC, Dunhill and Panerai leased stores on Madison Avenue in the 1950s. "It creates synergy as brands support one another and bring customers who may cross shop," says Robin Abrams, Lansco Corporation executive vice-president. "It's about controlling their destiny."

In a field dominated by supersized flagships, the landmark St Regis, allowing a prospective tenant to create miniature jewel-box stores, is ideal for Richemont's watch brands. There appear to be few downsides. Richemont could use the space for its brands or rent it out at $2,500 to $3,000 a sq ft.

Faith Hope Consolo, chairman of Prudential Douglas Elliman Real Estate, says it is unusual to see such a sizeable acquisition at this ultra-luxury level, but adds: "This is the time to shine and let the world know about Richemont and its many brands."

"When you get a price tag at that level, it's like you're at the casino," says Mr LaPierre.

"Fifth Avenue is the one street that has always retained its value," concludes Ms Consolo. "Good times, bad times, all times."