

RETAIL

## HBC sells off Lord & Taylor building to make way for co-working space

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HBC-owned Lord & Taylor has called Fifth Avenue its home for more than 90 years. Image credit: Lord & Taylor

By STAFF REPORTS

Retailer Hudson's Bay Company has entered a global, multi-faceted strategic relationship with communal workspace network WeWork.

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One of retail's primary stressors is the operational cost associated with bricks-and-mortar storefronts now that so much of the market share has moved online. HBC's strategic partnership with WeWork and Rhne Capital, an affiliate of WeWork Property Advisors, hopes to lessen the burden by maximizing the productivity and value of the retailer's global real estate assets while also positioning its brands as being on the forefront of experiential retailing.

WeWork together

HBC is the parent company of luxury retailer Saks Fifth Avenue and its off-price division Saks OFF 5th, as well as Gilt, Germany's Galeria Kaufhof, Belgium's Galeria INNO and its namesake department store chains. HBC also owns Lord & Taylor, considered the oldest U.S. luxury department store, founded in New York in 1826.

The retail group's relationship with WeWork will first have an impact on department store chain Lord & Taylor's Fifth Avenue flagship in New York, which was sold to WeWork Property Advisors for \$850 million. WeWork Property Advisors was created as a joint venture between WeWork and Rhne Capital through its \$500 million investment in HBC.

Lord & Taylor's flagship will maintain current operations throughout the entire 11-floor building through the end of the 2018 holiday season.

After, WeWork will convert the building into its New York headquarters and office space. At that point, Lord & Taylor's floorplan will be redesigned and scaled down to selling floor of approximately 150,000 square feet.

HBC has also entered agreements with WeWork to lease retail space within select department stores under its umbrella, beginning with the top floors of Hudson's Bay locations in Toronto and Vancouver as well as Frankfurt's Galeria Kaufhof. Through the agreement, WeWork will then pay market rent back to HBC to help reduce its \$1.1 million debt.

As for sales from these locations, HBC currently is anticipating "minimal impact" on its earnings.



*Lord & Taylor's Fifth Avenue building was named a New York landmark in 2007. Image credit: Lord & Taylor*

HBC explained that the Lord & Taylor Fifth Avenue building, is "many times less productive" in comparison to the nearby Saks Fifth Avenue flagship. Therefore the sale underscores the retail group's commitment to maximizing productivity.

As for WeWork, the acquisition of the Lord & Taylor building further secures its prime retail location strategy, which is meant to utilize premium space both effectively and efficiently. Per the New York Post, WeWork was recently valued at \$20 billion.

In a statement, Richard Baker, HBC's governor, executive chairman and interim CEO, said:

"HBC and WeWork have been working together to reimagine retail environments for current and future generations. This is a transformation partnership that rethinks how retailers create exciting environments and leverage less productive space, while substantially improving value proposition.

"Immediately upon closing, these transactions are expected to significantly strengthen HBC's balance sheet, enhance our liquidity and advance our core strategies by monetizing the Lord & Taylor Fifth Avenue building and increasing the productivity of key locations, which taken together, is expected to enable us to drive ongoing value creation," he said.

When speaking about HBC taking a leadership role in redefining retail, Mr. Baker continued:

"This partnership places HBC at the forefront of dynamic trends reshaping the way current and future generations live, work and shop: the sharing economy and urban and suburban mixed-use real estate planning.

"WeWork's business goes beyond offering modern, shared office spaces to creators, leaders and self-starters, by building robust communities," he said. "Our partnership with the WeWork team creates new opportunities for HBC to redefine the traditional department store by extending those communities and drive additional traffic to our stores, particularly as we add co-working and community space to existing, vibrant retail locations."

Despite Mr. Baker's positivity, shareholder Land & Buildings, which has a 5 percent stake in HBC, feels more can be done to serve the interest of investors. For instance, Land & Buildings suggests further consolidation is needed as well as off-loading HBC's "crown real estate jewels" such as the Saks Fifth Avenue flagship.

Jonathan Litt, founder and chief investment officer of Land & Buildings argues that HBC has a better chance of survival in the current challenging environment if its focus is on retail real estate rather than actual retailing, as its property values are worth more than those of its retail businesses.

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