

Lucrative Lease: DMA Helps Make Barney's New York Deal a Historic Success

DEVELOPMENT MANAGEMENT | ACCOUNTING

LOCATION: CHICAGO, ILLINOIS

OWNER: M DEVELOPMENT

ARCHITECT: GENSLER

CONTRACTOR: W.E. O'NEIL



When an Israeli investment firm paid \$117 million for the two-year-old home of Barneys New York's flagship Chicago store, industry experts and the media hailed the April 2011 deal. Sources saw it as a major sign of recovery for the city's tepid commercial real estate market. As was widely reported, IDB Group's investment of \$1,000 per square foot -- in cash -- for the six-story building was one of the highest-priced commercial real estate transactions in the city's history.

The Barneys deal was a remarkable success in a prominent location, part of Chicago's Gold Coast. It resulted, as commercial real estate successes typically do, from the work of experienced professionals. Yet the story behind the success is anything but the typical tale of a large retail developer delivering another high-end project.

It begins in late 2006, when a fledgling Chicago real estate investment firm learned that Barneys' Chicago lease was up for renewal. The firm, M Development, formulated the idea to offer a superior building product to Barneys across the street from its existing location, on the corner of Rush and Oak streets. M Development already had several recently acquired properties on its plate and turned to Mike Levin, principal of Development Management Associates, LLC (DMA), as the development manager for the project. Established in 2007, DMA was a young firm with a roster of experienced professionals.

From the start, the Barneys project faced myriad issues that might easily have thwarted its eventual success.

"With our experience in the retail arena and serving third-party clients, we were uniquely suited to providing our client, M Development, with the bench strength and horsepower needed for this kind of project," said DMA Development Manager Jon Ruda. "Our review of the pro-forma and project objectives identified two key elements that required immediate attention: the ability to get a lease executed within a very narrow window of opportunity and the building cost per square foot.

In hammering out what became a 15-year lease for Barneys, DMA needed to ensure that the expectations of all parties involved were realistic -- and achievable.

"For example, the developer had turned to an experienced contractor for an initial cost estimate, and when we looked at the numbers, we could see that some of the base assumptions were not correct," Ruda said. "The contractor had done some due diligence, even traveling to see a newer Barneys store in a different market, but unfortunately, this was not consistent with what both Barneys and M Development were discussing as part of their shared vision for the project. Had the lease been executed based upon these initial numbers, it is doubtful the project could have been completed to the satisfaction of either party."

DMA also had to make sure that the project could be completed by its spring 2009 target date, one of two critical opening windows for retail sales cycles.



“From the beginning, it was clearly a schedule-driven project,” said John Russell, President, Chicago, of W.E. O’Neill Construction, brought in by DMA to manage the core and shell of Barneys’ 15 E. Oak St. locale.

To jump-start the project schedule, Ruda and Russell worked diligently to take advantage of new protocols that the city of Chicago had instituted to streamline the permitting process for “green” development projects. As a result, DMA slashed the traditional permitting time in half.

As permitting and other crucial pieces of the project began to fall into place, DMA’s main challenge was “to keep everyone focused and working efficiently together throughout the life of the project,” Ruda said.

“In any project, there are many distractions and lots of nitty-gritty, but ultimately critical, bits of information,” he continued. “With any of our projects, one of our strengths is our ability to focus the efforts of the team so that everyone is on the same page. This means things like translating the ‘design and construction speak’ from the contractor so that the owner’s finance people can use it to make informed decisions.”

DMA’s translations clearly hit the mark. A month after the building opened on schedule in April 2009, CS magazine described Barneys’ new flagship store as “an adventureland for Barneys loyalists.”

In the same CS article, Simon Doonan, Barneys Creative Director, said that “the old Barneys was tight and efficient, but this one has more glamour, more space and more fabulousness. This is a real affirmation of our commitment to Chicago. We wanted to bring a whole new shopping experience to our Chicago customers.”

That experience includes a gourmet restaurant in the penthouse, as well as a veil enveloping the building that Gensler Design Director Brian Vitale said “adds poetry” to Barney’s design.

“That veil was meant to seduce people to come in, so that you couldn’t see everything from the street, but at the same time, it was also blocking the sun,” Vitale said. “So, you have a dual function.”

Controlled sunlight is among the many green attributes of the new LEED-CS certified Barneys store, which also features a 6,000-square-foot green roof. In addition, 93 percent of the demolition waste from the construction was recycled.