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International Gem Tower: Bid to revive Manhattan's diamond district

By Claire Adler

A 34-floor, 750,000 sq ft tower being built in Manhattan is intended to put New York back at the heart of the international diamond trade.

Slated for a late 2012 opening in the heart of the city's diamond district – 47th Street – the developer and former diamond dealer Gary Barnett, of Extell Development, believes “companies buying space are building equity”.

The International Gem Tower will be the only place on 47th Street with secure underground truck delivery. Plans include a vault complex, offices with 360 degree views of Manhattan, cutting edge security systems, a concierge service, a luxury shopping centre on ground level, parking, restaurants and a health club.

“The deterioration of New York's diamond district has been a real shame. The Tower will revitalise the streetscape,” says Mr Barnett. “Because of it, others on 47th Street are finally beginning to do things to improve the district. The overall benefits will reverberate for decades.”

The tower's status as a foreign trade zone means businesses located in it will be able to defer, reduce or eliminate Customs duties on imported goods, potentially saving hundreds of thousands of dollars every year, according to Mr Barnett.

As an inducement, New York state has made \$100m in mortgages available and is providing Extell with up to \$49.6m in tax breaks if the company fills 85 per cent of the tower with new or expanding jewellery businesses. Mr Barnett and his investors have contributed more than \$175m of their own money to the project.

“Mortgage financing will help the city in the short term by putting people to work,” says Milton Pedraza, chief executive of the New York based Luxury Institute. “The state needs jobs and the government is willing to subsidise that,” he says.

In 2006, Robert Zarnegin, a Beverley Hills-based property developer, began promoting a similar project in Las Vegas, the 50-storey, 1m sq ft World Jewelry Center. It was put on hold last year before construction began because of the economic crisis.

However, as a result of an intense globe-trotting campaign promoting the New York building, 45 per cent of the units on the market are either sold, under contract or have letters of intent.

The Gemological Institute of America, inventor of the Four Cs of diamond quality and grader of famous diamonds, including the Hope and Wittelsbach-Graff diamonds, has bought an entire floor.

Other buyers include Israel-headquartered diamond company Dalumi, which has 13 offices on four continents; Sarin Technologies, a leader in technological equipment and software for the diamond and jewellery industry; and jewellery liquidation and asset recovery specialists SimplexDiam.

Sushil Goyal, chief executive of gem and jewellery manufacturer Liberty Gems, is considering buying office and retail space in the building.

“The state-of -the-art building, the free trade zone and its location near Times Square and the Rockefeller Center will be an asset for New York-based jewellery importers and dealers,” Mr Goyal says.

Big industry operators such as Leviev, Graff and The Rapaport Group are absent from the list of the building’s future occupants. Many companies are reluctant to comment on the project, possibly because they are tied into long-term leases in the neighbourhood and are waiting for prices to drop.

Estate jewellery specialist Paul Lubetsky, president of Windsor Jewelers, who reported his best year ever after 30 years in business, is planning to expand his office space 250 per cent. “I told them I’d buy a quarter of a floor if they buy me out of my current lease,” he says.

When speaking to clients, Mr Lubetsky is at present careful to point out he is located on 48th Street between Madison and Fifth Avenue, rather than on the more run-down 47th Street.

“The diamond industry is dissipated between 44th and 50th Street. The International Gem Tower will centralise everything and help clean up the area which needs to move away from the image of a souk, with high end shops next to shops selling low quality goods, into a higher class area more like Madison Avenue,” he says.

“Other buildings are likely to be hit hard. But diamond prices are stable now and people are starting to look ahead and are negotiating hard for the best deal in the Tower.”

The Luxury Institute’s Milton Pedraza remains sceptical. He says: “The economic timing is unfortunate. Growth is coming from Asia now, not the US.” Mr Pedraza’s recent lunch meetings have included frank conversations with heads of global diamond jewellery retailers, now focusing on customer-centric strategies, rather than on more prestigious headquarters.

“We’ve seen results from several top jewellery brands plus public companies such as Zales, who are all suffering. If this was a building in Shanghai, I’d say OK, but in the US, the International Gem Tower is now a challenging proposition. If it uses up capacity, it will have to be at low prices,” he predicts