

Manhattan Retail MarketView

Q2 2014

CBRE Global Research and Consulting

▲ U.S. CONSUMER CONFIDENCE (JUN '14) 85.2	▲ NYC JOB COUNT (JUN '14) 20,700	▲ U.S. JOBS ADDED (JUN '14) 288,000	▲ NYC PRIVATE SECTOR EMPLOYMENT (MAY 2013-MAY 2014) 2.3%
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Retail News

- Thor Equities is under contract to acquire roughly 50,000 sq. ft. of retail at 530 Fifth Avenue for \$595 million and recently closed on the purchase of 685 Fifth Avenue for \$475 million.
- J. Crew, Paul Smith and Posman Books recently signed leases at Brookfield Place and will join tenants such as Theory, Michael Kors, and Hermès, bringing the property to 85% leased.
- Samson Management purchased two retail condos for \$35 million at 451 Lexington Avenue, where TD Bank and GRK, a Mediterranean chain restaurant, will each occupy a ground-floor unit.
- Cooper Investors Inc. recently sold a three-level, corner retail condo at 377 Broadway for \$10 million. The 15,000-sq.-ft. space located in TriBeCa features 9,600 sq. ft. on the lower level, 4,500 sq. ft. on the ground floor and 1,200 sq. ft. on the mezzanine.

Market Overview

In June, U.S. employers added 288,000 jobs, marking the fifth consecutive month when more than 200,000 jobs were added.¹ This drove down the unemployment rate to 6.1%, the lowest reading since September 2008.² The U.S. Consumer Confidence index reached 85.2 in June, its highest since January 2008.³ Meanwhile, U.S. retail sales rose from April to May by 0.3%, driven by sales of motor vehicles and home-improvement materials, which typically surge in the spring.⁴

In May 2014, New York City's private sector employment rate posted a year-over-year increase of 2.3%.⁵ Between April and May 2014, the job count increased to 20,700, with the leisure and hospitality sector experiencing the most significant growth.⁶ The city's unemployment rate from April to May remained unchanged at 7.9%, a 0.9% decrease from the previous May.⁷

Manhattan continues to prevail as a global retail hub, with an increasing number of international tenants opening in the market. Lazzoni, a Turkish luxury furniture

store with a location in Chelsea, will open its second Manhattan store at 26 Greene Street in SoHo. Likewise, Zimmerman, an Australian clothing and swimwear retailer with a location in SoHo, will open a store in the Meatpacking District. Additionally, Italian men's fashion retailer Caruso will open its first U.S. store at 45 East 58th Street, an 11,000-sq.-ft. flagship in the Plaza District.

Swedish-based fast-fashion retailer H&M has an established presence throughout the borough. This fast-growing retailer accounts for some of New York City's largest leases, with 42,000 sq. ft. at 4 Times Square, 57,000 sq. ft. at 589 Fifth Avenue and, most recently, 63,000 sq. ft. at Herald Center. H&M's signage at 4 Times Square has become part of the Manhattan skyline, a testament to the brand's ubiquity. The firm will expand its position in Manhattan through the opening of its sister label, & Other Stories, which signed for a space at 575 Broadway in SoHo, while COS, H&M's high-fashion brand, is slated to open this fall in SoHo on Spring Street.

¹ U.S. Department of Labor
² U.S. Department of Labor
³ The Conference Board

⁴ U.S. Department of Commerce
⁵ New York State Department of Labor
⁶ New York State Department of Labor

⁷ New York State Department of Labor

Figure 1: Notable Transactions - Q2 2014

Address	Size (Sq. Ft.)	Tenant	Industry
575 Broadway	10,915	& Other Stories	Apparel/Accessories
158 W. 27th Street	9,661	Peloton Interactive	Gym
45 E. 58th Street	9,185	Caruso	Apparel/ Accessories
499 Broadway	8,000	Brandy Melville	Apparel/Accessories
875 Washington Street	1,250	Zimmerman	Apparel/Accessories
202 Elizabeth Street	1,000	Coop & Spree	Apparel/Accessories
273 Lafayette Street	900	Dita	Eyewear

FEATURED NEIGHBORHOOD

SOHO

WITH LIMITED AVAILABILITY ON SPRING STREET AND PRINCE STREET—WHERE AVERAGE ASKING RENTS RANGE FROM \$675 TO \$1,250—TENANTS HAVE BEGUN SEARCHING FOR SPACES ALONG STREETS SUCH AS GREENE STREET

Previously an art district known for its lofts and galleries, SoHo has slowly been transformed into a mecca for boutique and fast-fashion retailers. The neighborhood's appeal resides in its capacity to provide a unique shopping experience that attracts a high volume of international tourism as well as local shoppers. Limited space availability, in addition to retailers' strong demand to establish a storefront in the area, may pose a challenge for prospective tenants, as some asking rents have topped \$1,500 per sq. ft.

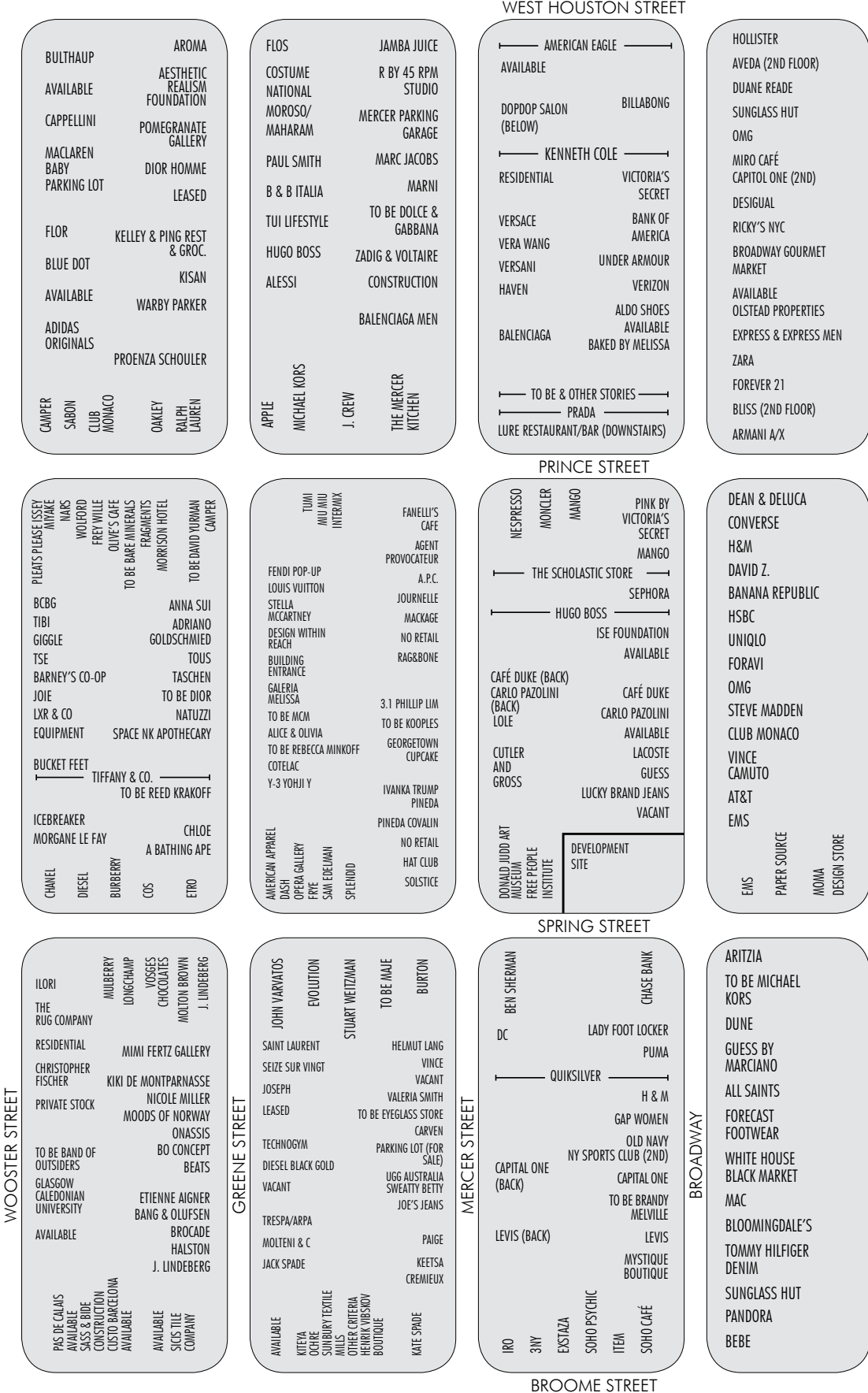
The presence of international retailers and high-fashion tenants in SoHo continues to grow. In the past two years, Balenciaga and Versace were added to the roster of luxury tenants, both opening stores on Mercer Street. Frey Wille, a Vienna-based handcrafted jeweler, opened a location at 122 Prince Street, its second in Manhattan. French luxury brand Céline will be the latest addition to the group, with a new store opening on Wooster Street within the next year.

Broadway once contained the most attractive retail space in SoHo for high-end international retailers. However, today the corridor predominantly serves as a location for mass-market retailers that require larger floor plates. Tenants such as Lululemon Athletica, Gap, Zara and Topshop have each opened stores on Broadway, benefiting from the corridor's heavy foot traffic. Brandy Melville recently doubled its store space by moving from 518 Broadway to 8,000 sq. ft. at 499 Broadway. Ground-floor asking rents on Broadway continued to rise this quarter, averaging \$850 per sq. ft. between Houston and Broome streets.

As Broadway now caters to retailers like Express, Steve Madden and Desigual, luxury fashion tenants have increasingly gravitated to streets that provide smaller floor plates and a boutique feel. With limited availability on Spring Street and Prince Street—where average asking rents range from \$675 to \$1,250—tenants have begun searching for spaces along streets such as Greene Street.

Historically known for its upscale furniture stores, Greene Street is now home to luxury retailers like Chloé, Dior Homme and Stella McCartney. The street provides an unparalleled boutique shopping experience among cast-iron architecture and Belgian block paving. In the last year alone, the average asking rent increased from \$200 per square foot to \$500 per square foot. In particular, Greene Street between Prince and Spring streets has evolved into one of the more desirable blocks for luxury retailers. Louis Vuitton set the tone with its lease at 116 Greene Street ten years ago and recently expanded its store to open an atelier. Tiffany & Co. has occupied 97 Greene Street since 2012 and expanded into 106 Wooster Street in a floor-through space that combines the two locations. Fendi opened a pop-up store at 122 Greene Street that will remain open through the 2014 holiday season. Most recently, MCM Handbags signed on at 100 Greene Street, which was formerly occupied by Jill Sanders. The presence of high-end retail tenants has made Greene Street a coveted target for retail investment.

Figure 2: SoHo



MAJOR RETAIL CORRIDORS

Four of Manhattan's 11 retail corridors experienced year-over-year decreases in asking rent during Q2 2014. Broadway on the Upper West Side was the most significant, dropping by 22.30% from its Q2 2013 average. This was the result of numerous spaces being leased, and the area's rezoning to limit the number of bank tenants, which typically pay higher rents.

Quarter-over-quarter numbers in Midtown on Fifth Avenue between 49th and 59th streets and Times Square remained unchanged, while rents in SoHo on Broadway continued to steadily tick upwards, indicating a consistent demand for the most sought-after retail space.

Downtown Broadway saw the largest average year-over-year asking rent increase, rising by 22.03% since Q2 2013. Though average asking rents on Downtown Broadway decreased by 0.9%, rents varied significantly throughout the corridor, starting around \$100 per sq. ft. and going as high as \$500 per sq. ft. near the Fulton Street Transit Center, World Trade Center and Brookfield Place. Herald Square experienced an increase of 18% since Q2 2013. Though the latest quarter-over-quarter increase has been modest, the high transaction prices for the H&M and Swatch locations, in addition to a surplus of product in the Herald Square submarket, finds landlords continuing to be bullish on retail pricing within the corridor.

DOWNTOWN BROADWAY SAW THE LARGEST AVERAGE YEAR-OVER-YEAR ASKING RENT INCREASE, RISING MORE THAN 22% SINCE Q2 2013

Figure 3: Average Asking Rent for Major Retail Corridors - Q2 2014 (North to South)*

Neighborhood	Parameters	Average Asking Rent Q2 2014	Average Asking Rent Q2 2013	% Change	Average Asking Rent Q1 2014	% Change
Upper West Side	Broadway 72nd to 86th Streets	\$317	\$408	-22.30%	\$326	-2.76%
Upper East Side	Third Avenue 60th to 72nd Streets	\$268	\$255	5.10%	\$278	-3.65%
Upper Madison Avenue	Madison Avenue 57th to 72nd Streets	\$1,668	\$1,640	1.71%	\$1,693	-1.48%
Midtown	Fifth Avenue 49th to 59th Streets	\$3,500	\$3,050	14.75%	\$3,500	0%
Midtown	Fifth Avenue 42nd to 49th Streets	\$1,067	\$1,109	-3.79%	\$1,086	-1.75%
Times Square	Broadway and Seventh Avenue 42nd to 47th Streets	\$2,250	\$2,413	-6.76%	\$2,250	0%
Herald Square	34th Street Fifth to Seventh Avenues	\$814	\$690	17.97%	\$807	0.87%
Flatiron	Fifth Avenue 14th to 23rd Streets	\$390	\$358	8.94%	\$383	1.83%
Soho	Broadway Houston to Broome Streets	\$854	\$794	7.56%	\$846	0.94%
Meatpacking District	14th Street Ninth to West End Avenues	\$347	\$366	-5.19%	\$355	-2.29%
Downtown	Broadway Battery Park to Chambers Street	\$277	\$227	22.03%	\$280	-0.90%

*Based on ground-floor only; not inclusive of subleases



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