Manhattan Retail, Q2 2020

# Hard hit, New York City embraces brave new world of retail

| Consumer Confidence | NYC Unemployment | NYC Quarterly Retail Sales | NYC Retail Job Count |
|---|---|---|---|
| 98.1 | 18.3% | $29.1B | 261.8K |

*Arrows indicate change from previous quarter.

Sources: The Conference Board, June 2020; NYS Department of Labor, May 2020; U.S. Census Bureau, Oxford Economics, May 2020; NYS Department of Labor, May 2020.

## MARKET NEWS

- New York City officially began Phase Two of reopening on June 22nd, allowing outdoor dining, offices, retail and hair salons to resume services with new social distancing and cleaning guidelines. Retailers may now refuse services to those without protective equipment, must keep store occupancy below 50% of the maximum allowed by the certificate of occupancy and ensure six ft. of distance between people.[1]
- Neiman Marcus Group, Inc., the iconic chain of luxury department stores, filed for Chapter 11 bankruptcy protection after struggling with accumulated debt and the impact of the COVID-19 pandemic. The liquidation efforts are to include the recently opened three-story, 250,000 sq. ft. flagship at the Shops at Hudson Yards.[2]
- The New York State Legislature passed the NYC COVID-19 Relief Package which incorporates over $100 million worth of rent relief and aid to commercial tenants impacted by the COVID-19 pandemic. The package additionally renders personal liability provisions in commercial leases unenforceable, prohibits landlord harassment of impacted commercial tenants, waives sidewalk seating consent fees, and limits fees charged by third-party food delivery services.[3]

## MARKET OVERVIEW

As the Manhattan market began to embrace the new realities of the retail business, the city's fundamentals continued to be hit hard by the disruptions caused by the COVID-19 pandemic. NYC spent most of Q2 in lockdown, as did much of the US, with all non-essential businesses closed and a dramatic decline in mobility. After seeing infections, hospitalizations and death rates swell, the NYC retail market has slowly emerged from the worst of the virus' impact. A cautious economic reopening began late in the quarter, with the city moving from Phase One to Phase Two in late June, which allows for resumption of some non-essential retail and personal services activities, but with limited indoor capacity, strict social distancing and PPE mandates, and enhanced cleaning guidelines. Many retailers have embraced the opportunity to partially resume business, but most are still in survival mode, facing reduced operations, foot traffic and revenue. With office buildings still largely empty, limited tourists and many residents still holed up or temporarily retreating out of the city, retail demand in Manhattan is significantly diminished, even as the city entered Phase Three on July 6th.

Leasing velocity in Manhattan experienced significant deceleration in the first half of 2020. Additionally, the number of direct, ground-floor availabilities experienced a new peak of 235 spaces on the prime 16 retail corridors in Q2 2020.

Average asking rent declined for the 11th consecutive quarter, with the average of the corridors dropping to $688 per sq. ft., a 11.3% year-over-year decline and 3.6% drop from the prior quarter. This marks the first time the figure has dropped below $700 per sq. ft. since 2011. The ongoing repricing of trophy properties was a significant factor in the declining average, and with an increasing amount of retail vacancy along the high-street corridors and the introduction of new, heavily discounted availabilities, average asking rents will likely continue to decline through the year.

## ECONOMIC OVERVIEW

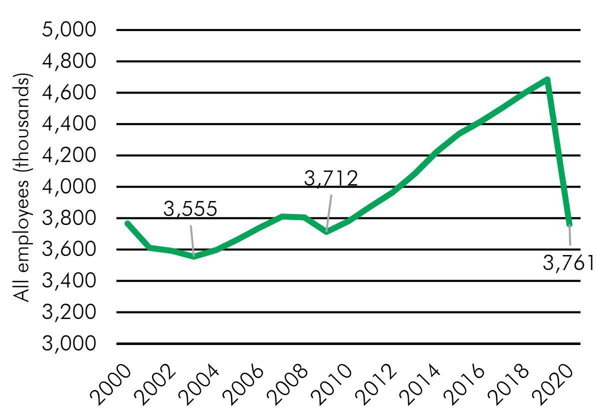
Virology, not the business cycle, has dictated the course of the world's economy this year. COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially the Northeast and Pacific coast, facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 15% and likely causing the economy to contract by more than 30% *per annum* in the second quarter.

Locally, NYC suffered a trifecta of economic disruption in Q2, as the full impact of the NY's closure of non-essential businesses, ban on large gatherings and stay-at-home directives unfurled. Confined to their homes and facing widespread layoffs and income reductions, city residents refrained from discretionary spending and many fled the city altogether. The closing of non-essential businesses rendered most of NYC's office buildings closed, dramatically reducing the daytime population of regional commuters who normally work and spend money in the city. Finally, with travel restricted, cultural institutions and entertainment venues closed and tourism to NYC faltered dramatically, causing quarterly retail sales in the city to drop nearly 15% to just $33.4B.

By late Q2, rates of new infections and mortality began to stabilize and then decline in Manhattan, allowing for the gradual reopening of the city's economy. Non-essential businesses are now reopened, but at reduced capacity and with on-going social distancing and PPE requirements. Over 16,500 of the 411,300 furloughed and laid off retail and hospitality workers were rehired in May, a small but welcome first step toward reducing the NYC unemployment rate, which was 18.3% as of May 2020.

While NYC moved into Phase Three of economic reopening on July 6, the city's retail market continues to face numerous uncertainties. With office buildings still largely empty and limited activity from both tourists and residents, retail demand in Manhattan remains significantly diminished. Also, while NYC and the surrounding Tri-State region continue to flatten the curve on the virus, much of the US South and West are seeing surges in new cases and hospitalizations, signaling that the overall US economic recovery, which CBRE had forecast to begin in earnest in Q3 2020, may now be delayed and/or weaker than expected in 2020. This presents a headwind for the local market, though NYC's early emergence from the grip of the virus will put its recovery path a few steps ahead of other parts of the country.

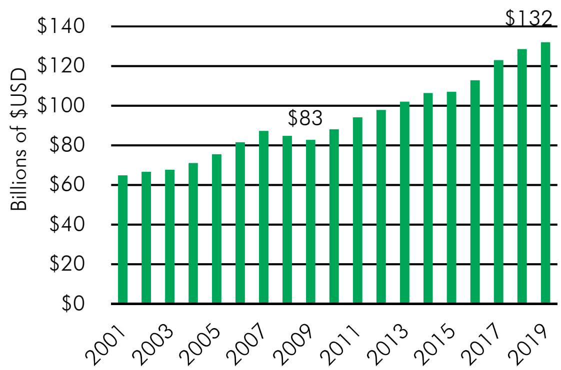
Figure 1: NYC Seasonally Adjusted Total Employment




Source: NYC Department of Labor, May 2020.

Figure 2: NYC Total Retail Sales | Annual




Source: US Census Bureau, Oxford Economics, May 2020.

## LEASING

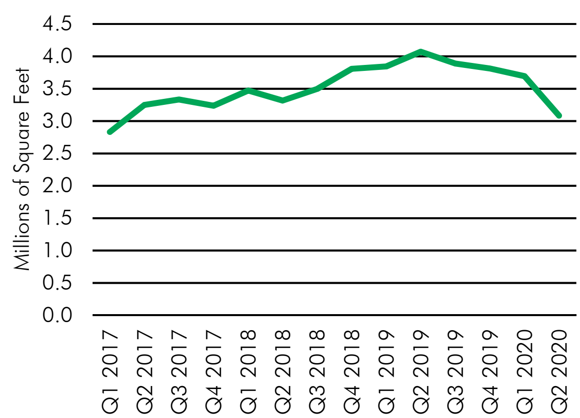
Retail leasing velocity maintained its downward momentum in Manhattan during the second quarter of 2020. The rolling four-quarter aggregate leasing velocity, which measures the total leasing (renewals and new leases) for the four prior quarters, significantly decelerated for the fourth consecutive quarter due to impact of the COVID-19 pandemic. In Q2 2020, the rolling aggregate total velocity was just below 3.1 million sq. ft., down 16.5% from the nearly 3.7 million sq. ft. for Q1 2020 and 24.3% from a year prior. While the downward trend is expected to continue through the latter half of 2020, the figure for Q2 remained 8.9% ahead of the totals seen in the early parts of 2017.[4]

Upper East Side recorded the highest leasing velocity in Q2 2020 with nearly 63,000 sq. ft. leased across two transactions. The bulk was attributed to the 55,000-sq.-ft., multi-level lease signed by Target at 150 East 86th Street. Barry's, a boutique fitness brand offering high-intensity interval workouts (and formerly known as Barry's Bootcamp), also secured a new 7,700-sq.-ft. outpost a block east at 241 East 86th Street.

NoLIta also registered a high leasing volume with roughly 30,000 sq. ft. from a single transaction. Aritzia Inc., an upscale women's fashion brand based in Vancouver, announced a 29,000-sq.-ft. direct lease at the former Dean & Deluca space at 560 Broadway. This lease is said to have a forward possession date tied to the expiration of Artizia's existing lease on Broadway in 2024.

Times Square, a market driven by large-format retailers and heavy tourism, had a single large transaction, the 24,000-sq.-ft. renewal of Chase Bank on the second floor of 3 Times Square.

Figure 3: Four Quarter Aggregate Leasing Velocity




Source: CBRE Research Q2 2020

Figure 4: Rolling Four-Quarter Aggregate Total Leasing Velocity

| Period | 12 Month Aggregate (Sq. Ft.) |
|---|---|
| Q1 2017 | 2,831,971 |
| Q2 2017 | 3,248,727 |
| Q3 2017 | 3,333,980 |
| Q4 2017 | 3,236,754 |
| Q1 2018 | 3,472,121 |
| Q2 2018 | 3,317,151 |
| Q3 2018 | 3,496,024 |
| Q4 2018 | 3,807,460 |
| Q1 2019 | 3,844,665 |
| Q2 2019 | 4,071,420 |
| Q3 2019 | 3,888,402 |
| Q4 2019 | 3,811,549 |
| Q1 2020 | 3,693,385 |
| Q2 2020 | 3,083,749 |

Source: CBRE Research Q2 2020

Financial services was the most active industry in Q2 2020, both in terms of square footage leased and transaction count, surpassing Food and Beverage as the most active category in the market. Financial services tenants secured nearly 62,000 sq. ft. across six leases.

In addition to the aforementioned Chase renewal in Times Square, the Charles Schwab Corporation signed two deals, a new 13,000-sq.-ft. outpost at 915 Broadway and a 10,000-sq.-ft. renewal at 60 East 42nd Street.

Figure 5: Most Active Neighborhoods by Sq. Ft. Leased | Q2 2020

| Neighborhood | Number of deals | Leased (Sq. Ft.) |
|---|---|---|
| Upper East Side | 2 | 62,782 |
| NoLIta | 1 | 29,431 |
| Times Square | 1 | 24,101 |
| Chelsea | 2 | 13,680 |
| Flatiron/Union Square | 1 | 12,699 |
| Grand Central | 1 | 10,702 |
| SoHo | 2 | 10,300 |
| Plaza District | 1 | 7,200 |
| Manhattan North | 1 | 6,000 |
| Little Italy/Chinatown | 1 | 4,880 |

Source: CBRE Research, Q2 2020.

Figure 6: Most Active Tenant Type by Sq. Ft. Leased | Q2 2020

| Tenant Type | Number of deals | Leased (Sq. Ft.) |
|---|---|---|
| Financial Services | 6 | 61,969 |
| Department Store | 1 | 55,000 |
| Apparel | 3 | 33,081 |
| Food & Beverage | 2 | 13,800 |
| Internet Related | 1 | 8,200 |
| Health Club | 1 | 7,782 |
| Grocery | 1 | 6,000 |
| Consumables | 1 | 2,680 |
| Jewelry | 1 | 1,000 |
| TOTAL | 17 | 189,512 |

Source: CBRE Research, Q2 2020.

Figure 7: Top Lease Transactions | Q2 2020

| Tenant | Size (Sq. Ft.) | Address | Neighborhood | Tenant Type |
|---|---|---|---|---|
| Target | 55,000 | 150 East 86th Street | Upper East Side | Department Store |
| Aritzia Inc. | 29,431 | 560 Broadway | NoLIta | Apparel |
| Chase Bank | 24,101 | 3 Times Square | Times Square | Financial Services |
| Charles Schwab Corporation | 12,699 | 915 Broadway | Flatiron/Union Square | Financial Services |
| Hill Country Barbecue Market | 11,000 | 30 West 26th Street | Chelsea | Food & Beverage |
| Charles Schwab Corporation | 10,702 | 60 East 42nd Street | Grand Central | Financial Services |
| Barry's | 7,782 | 241 East 86th Street | Upper East Side | Health Club |
| 312 Food Corp. | 6,000 | 538 West 181st Street | Manhattan North | Grocery |
| Chipotle | 2,800 | 885 Tenth Avenue | Midtown West | Food & Beverage |
| Wine Store | 2,680 | 238 Seventh Avenue | Chelsea | Consumables |

Source: CBRE Research, Q2 2020.

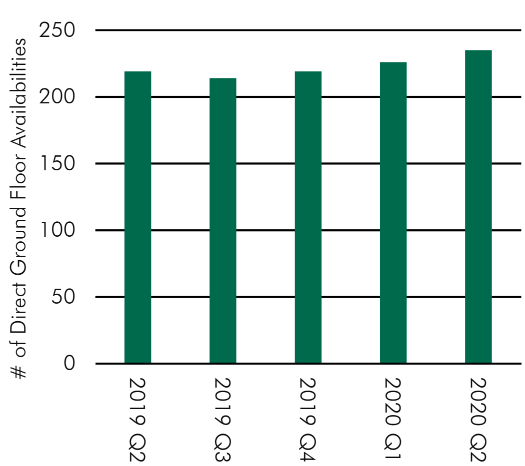
## AVAILABILITY

The count of direct ground-floor availabilities tracked across Manhattan's 16 premier shopping corridors increased from 226 to 235 quarter-over-quarter, a 4% jump and a new high watermark surpassing the previous peak of nearly 230 spaces recorded in 2018.

Downtown Broadway saw the largest rise in availability over the past 12 months, with a 47% increase from 19 to 28 ground floor spaces. Among these new additions were the former Chase space at 270 Broadway, a space previously occupied by Modell's at 150 Broadway, and the now vacant store at 174 Broadway last occupied by The Vitamin Shoppe.

Upper Madison Avenue also saw a significant annual spike in availabilities, from 37 to 44. Dwindling demand for the upper parts of the avenue kept supply high in this corridor and also led to some agency changes for lingering available spaces

Figure 8: Count of Direct Ground-Floor Availabilities




Source: CBRE Research, Q2 2020.

## AVERAGE ASKING RENTS

Manhattan's declining average asking rent persisted through the second quarter of 2020, falling to $688 per sq. ft. This was a 3.6% decline from Q1 2020 and 11.3% drop from the prior year. Average rents dipped below $700 per sq. ft. to reach a level not seen since the third quarter of 2011. The aggregate average asking rent among all available spaces in the 16 corridors also decreased 5.4% quarter-over-quarter and 8.1% year-over-year to $633 per sq. ft.

The 37.5% annual decline on Prince Street in SoHo was the largest percentage decrease among the corridors. Asking rents fell from $699 per sq. ft. to $437 per sq. ft. year-over-year, dipping below $500 per sq. ft. for the first time since 2014. The drop was caused by three factors. First, several small format transactions in the higher-priced spaces of the street including TAFT and Marc Jacobs contributed to some of the sharp decline in pricing. Additionally, ongoing downward repricing persisted in SoHo, and the introduction of several new spaces with asking rents in the high to mid-$300 per sq. ft. range exacerbated the decline.

Broadway in SoHo also saw a large annual decline in average asking rents, falling 30.1% year-over-year and 4.9% quarter-over-quarter to $399 per sq. ft. Rents on the corridor dropped below $400 per sq. ft. for the first time since tracking began in 2010. While several new leases signed by Aritzia Inc., Hugo Boss, and PacSun recently brought new life to the stagnant submarket, the prolonged downward repricing, along with the addition of several new spaces with sub-$300 per sq. ft. asking rents, maintained the pressure on pricing along the corridor in the second quarter.

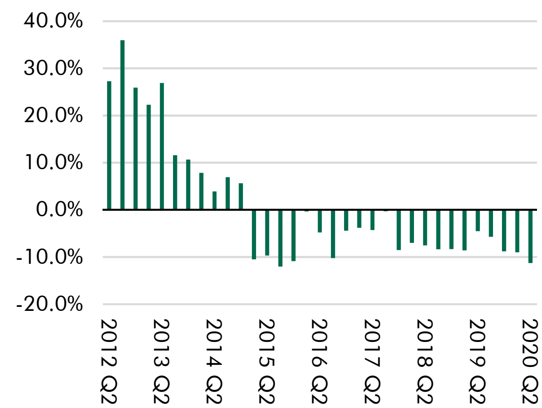
  

The corridor along 34th Street in Herald Square witnessed a substantial 19.9% annual decline, from $607 per sq. ft. to $486 per sq. ft. The quarterly reduction of 2.9%, drove average rents below $500 per sq. ft. for the first time since 2011. Although a flurry of significant transactions in the higher-priced sections of the corridor contributed to some leasing activity in the last 12 months, inventory stagnation and the ongoing uncertainties surrounding the future of Macy's continued to put downward pressure on rents in this major retail submarket.

Meatpacking District's 14th Street corridor was a bright spot for Manhattan retail in the second quarter. The average asking rent modestly increased 3.9% quarter-over-quarter to $345 per sq. ft. Several of the lowest-priced spaces on 14th Street were leased by Fjallraven and USPS, resulting in the modest climb in asking rents and demand in the submarket.

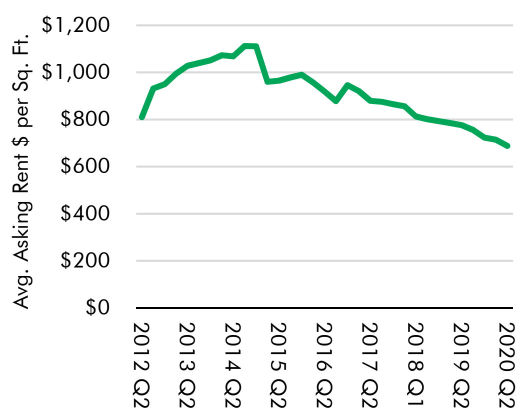
Broadway on the Upper West Side also recorded an increase in average asking rent, reaching $243 per sq. ft., up 3.3% quarterly but still 8.2% below the rate recorded a year prior. In contrast to the aforementioned 14th Street, the addition of new spaces in the highest-priced sections of the market, such as Papyrus and Stuart Weitzman's former locations at 2151 Broadway, was the main driver of this slight quarterly increase.

Figure 9: Year-over-Year Asking Rent Change




Source: CBRE Research, Q2 2020.

Figure 10: Average of Corridors




Source: CBRE Research, Q2 2020.

Figure 11: Average Asking Rents* | Q2 2020

| Neighborhood | Corridor Parameters | Total direct ground floor availabilities Q2 2020 | Q2 2020 | Q1 2020 | Quarter-over-quarter change | Q2 2019 | Year-over-year change |
|---|---|---|---|---|---|---|---|
| Upper West Side | Broadway \| 72nd to 86th Streets | 20 | $243 | $236 | 3.3% | $265 | (8.2%) |
| Upper East Side | Third Avenue \| 60th to 72nd Streets | 17 | $206 | $221 | (6.5%) | $231 | (10.6%) |
| Upper Madison Ave | Madison Avenue \| 57th to 72nd Streets | 44 | $882 | $920 | (4.1%) | $1,042 | (15.3%) |
| Plaza District | Fifth Avenue \| 49th to 59th Streets** | 10 | $3,000 | $3,000 | 0.0% | $3,150 | (4.8%) |
| Grand Central** | Fifth Avenue \| 42nd to 49th Streets | 9 | $753 | $774 | (2.6%) | $812 | (7.2%) |
| Times Square | Broadway & Seventh Avenue \| 42nd to 47th Streets | 10 | $1,647 | $1,647 | 0.0% | $1,880 | (12.4%) |
| Herald Square** | 34th Street \| Fifth to Seventh Avenues | 8 | $486 | $500 | (2.9%) | $607 | (19.9%) |
| Flatiron/Union Square | Broadway \| 14th to 23rd Streets | 12 | $357 | $362 | (1.6%) | $384 | (7.3%) |
| Flatiron/Union Square | Fifth Avenue \| 14th to 23rd Streets | 11 | $334 | $338 | (0.9%) | $372 | (10.2%) |
| SoHo | Broadway \| Houston to Broome Streets | 21 | $399 | $420 | (4.9%) | $571 | (30.1%) |
| SoHo | Prince Street \| Broadway to West Broadway | 6 | $437 | $683 | (36.1%) | $699 | (37.5%) |
| SoHo | Spring Street \| Broadway to West Broadway | 8 | $631 | $644 | (1.9%) | $702 | (10.1%) |
| Meatpacking | 14th Street \| Eighth to Tenth Avenues | 14 | $345 | $332 | 3.9% | $367 | (6.1%) |
| Meatpacking | Gansevoort \| Little West 12th Street \| 13th Street \| Ninth to Tenth Avenues | 14 | $378 | $376 | 0.5% | $375 | 0.8% |
| Meatpacking | Washington Street \| 14th to Gansevoort Streets | 3 | $503 | $575 | (12.5%) | $550 | (8.5%) |
| Downtown | Broadway \| Battery Park to Chambers Street | 28 | $410 | $401 | 2.3% | $409 | 0.4% |
| All | Average of corridors | - | $688 | $714 | (3.6%) | $776 | (11.3%) |

| | Total direct ground floor availabilities Q2 2020 | Q2 2020 | Q1 2020 | Quarter-over-quarter change | Q2 2019 | Year-over-year change |
|---|---|---|---|---|---|---|
| Aggregate Average Asking Rent** | 235 | $633 | $669 | (5.4%) | $689 | (8.1%) |

*Based on ground floor only, not inclusive of subleases.
**Historic Average Asking Rent data has been revised since original publication due to updated information.

Source: CBRE Research, Q2 2020.

**RETAIL CORRIDORS**

## DEFINITIONS

Availability — Direct space that is actively marketed; includes spaces for immediate and future occupancy.

Asking Rent — Average asking rent calculated using the straight line average for direct ground-floor spaces that have street frontage along one of the 16 corridors tracked by CBRE. Does not include sublease space.

Aggregate Average Asking Rent —The straight-line average of all direct, ground-floor availabilities with corridor frontage.

Average of Corridors —The average rent for the 16 main retail corridors tracked by CBRE. This is calculated by taking the average of the 16 corridor averages for the quarter.

Leasing Velocity —Total amount of square feet leased within a specified period of time, including pre-leasing and renewals.

Rent Changes – Percentage changes to asking rents that are less than 1% are reported as flat or virtually unchanged. Rent changes greater than 1% are reported as either increases or decreases.

Rolling Four-Quarter Aggregate Total Leasing Velocity - This metric is calculated as the sum of total leasing velocity for the previous four quarters. For example, the rolling aggregate for Q2 2020 includes total leasing velocity over Q1 2020, Q4 2019, Q3 2019 and Q2 2019. The rolling four-quarter aggregate figure helps track momentum in leasing velocity while controlling for the normal up and down variations seen between quarterly leasing totals. The aggregate data lags by one quarter, to allow time for complete data collection of closed deals.

Total Available Spaces — Based on available ground-floor space with street frontage that faces one of the 16 corridors tracked by CBRE.

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3. https://commercialobserver.com/2020/05/ny-approves-100m-rent-voucher-bill-coronavirus-tenants/
4. The Q2 2020 rolling four-quarter aggregate total leasing velocity was revised since original publication, based on the availability of additional leasing data.


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