CBRE

MARKETVIEW

Manhattan Retail, Q3 2020

Autumn reopening brings promise of renewed consumer confidence

Consumer Confidence	NYC Unemployment	NYC Quarterly Retail Sales	NYC Retail Job Count
▲ 101.8	▼ 16.0%	▲ $32.4B	▲ 303.2K

*Arrows indicate change from previous quarter.

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

- New York City officially began Phase Four of reopening on July 20th, allowing low-risk indoor health clubs, malls, higher education, arts & entertainment, professional sports competition with no fans, and hair salons to resume services with new social distancing and sanitation guidelines.[1]
- On September 30th, indoor dining was added to Phase Four allowing restaurants and bars to reopen with a maximum 25% capacity, dining tables spaced six feet apart and a citywide closing time of midnight. Restaurants are also required to provide face masks to all employees and upgrade their HVAC systems while also checking patrons' temperatures before entering the premises.[2]
- Century 21, the iconic apparel-based New York department store chain, filed for bankruptcy protection on September 10th, and announced plans to close its Manhattan flagship store along with 12 other locations in the metropolitan area. The company cited the lack of payment on its $175 million business interruption insurance and the impact of the COVID-19 pandemic as the cause of its liquidation.[3]

MARKET OVERVIEW

The Manhattan retail market has improved modestly in the third quarter, as the economy remains on a course of steady, gradual reopening. The most visible improvement has been the resumption of in-person, outdoor dining, which has brought life back to city streets and helped restaurants regain a bit more business after having to rely solely on take-out and delivery through the second quarter. Stores have also been allowed to offer indoor shopping at reduced capacity. A modest resumption of indoor dining is among the latest steps toward more normalcy. Still, even with the easing of operational restrictions, business activity in most stores and restaurants, other than essential services like groceries and pharmacies, remains significantly diminished from pre-COVID levels, as the daytime population in Manhattan remains far below historic norms. Across Manhattan, many retailers and restaurants have closed and those that have opened continue to face hardship, with accumulating debt, reduced foot traffic and overall diminished in-store demand.

Leasing velocity in Manhattan decelerated again in the third quarter of 2020, marking five consecutive quarters of decline.

Additionally, the number of direct, ground-floor availabilities experienced a new peak of 254 spaces on the prime 16 retail corridors in Q3 2020. Some bright spots included new leases by Greek restaurant Avra Estiatorio, luxury jeweler Chopard and online retailer Zappos.com, deals that offer a much-needed vote of confidence in the market's eventual recovery.

Average asking rent declined for the 12th consecutive quarter, with the average of the corridors dropping to $659 per sq. ft., a 12.8% year-over-year decline and 4.2% drop from the prior quarter. The ongoing repricing efforts incited by the economic impact of the COVID-19 pandemic was a significant factor in the declining average. The recent influx of closed storefronts along the main shopping corridors and the introduction of new, heavily discounted offerings will continue to put downward pressure on average asking rents in the coming months.

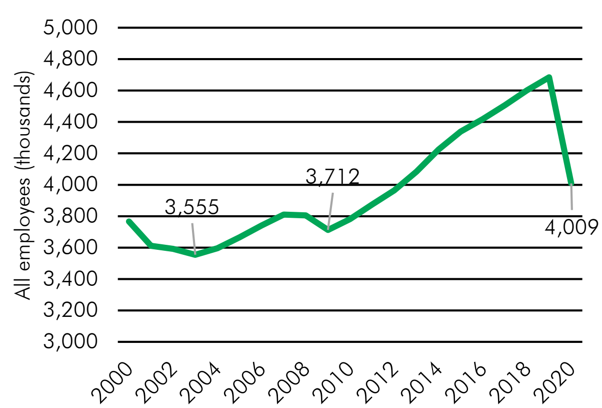
ECONOMIC OVERVIEW

Following the summer's wave of COVID-19 cases that restrained economic activity in July, key U.S. indicators suggest activity rebounded in August and September. The strong recovery of consumer spending and the easing of business restrictions around the country lead to a string of hiring that helped drive down the U.S. unemployment rate to 7.9% in September 2020.

In New York City, where both government and business leaders have taken a cautious approach to resuming normal business activity, the city's private sector employment fell by 20% to a low of 3.18 million in April due to the enormous losses in the retail and hospitality sectors. However, as the infection rate began to decline over the summer, NYC recovered nearly 31% of the private jobs lost, and the gains are expected to continue through 2020. In the meantime, office occupiers have been slow to recall workers back into the office, with the average weekly re-occupancy of Manhattan office buildings at about 11% through September 2020. For more information on the state of NYC's recovery six months out from the start of the COVID-19 crisis, click here to download the NYC Recovery Index report released on October 6, 2020.

As NYC commenced Phase Four of economic reopening on July 20th, many of the city's retail indicators showed signs of a modest recovery. The city's quarterly retail sales increased approximately 11% to $32.4 billion and the unemployment rate dropped for the first time since the start of the COVID-19 pandemic, moving down roughly 2 basis points to 16%. Gradual reopening of office buildings and the expansion of outdoor dining with new social distancing and sanitation guidelines have been positive for the retail sector, but the market remains at a significant disadvantage with far fewer office workers and tourists in Manhattan than one year ago. Using smart phone "heartbeat" data as a metric, the level of activity in Manhattan south of 96th Street had only recovered to 58% as of late August, reflecting the reduced numbers of tourists, office workers and even residents found in the heart of the city. While there are indicators of improving demand, the progress has been slow and office worker and tourist populations are likely to remain depressed well into 2021.

Figure 1: Seasonally Adjusted Total Employment



Source: NYC Department of Labor, August 2020

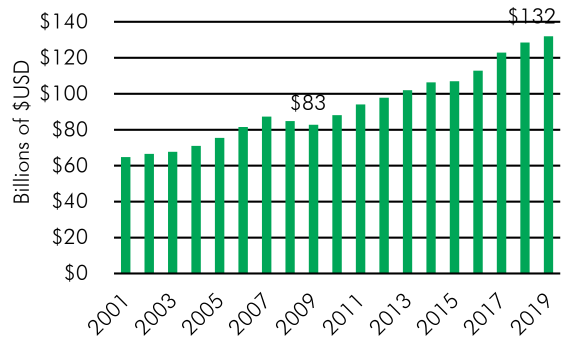
LEASING

Retail leasing velocity in Q3 2020 decreased for the fifth consecutive quarter due to the impact of the COVID-19 pandemic. The Q3 rolling four-quarter aggregate leasing velocity, which measures the total leasing (renewals and new leases) for the four prior quarters, dropped below 3 million sq. ft. for the first time since Q1 2017, down 16.2% from the nearly 3.2 million sq. ft. in Q2 2020 and 31.2% from a year prior.[4] Leasing velocity is likely to remain depressed through 2020, as there is ongoing uncertainty about when demand will pick up and when stores and restaurants will be able to operate at normal capacity.

The Plaza District recorded the highest leasing velocity in Q3 2020 with over 25,000 sq. ft. leased across three transactions. Avra Estiatorio, an upscale Greek seafood eatery owned by Tao Group Hospitality, announced a 16,000-sq.-ft. direct lease at the space formerly occupied by Fidelity Investments at the Rockefeller Group's 1271 Avenue of the Americas, while Ted's Montana Grill renewed its lease for its 6,100-sq.-ft outpost fronting 51st Street in the same building. Additionally, Chopard, the Swiss luxury watch and jewelry manufacturer, signed a new lease for nearly 2,500 sq. ft. at Brookfield Properties' historic Crown Building at 730 Fifth Avenue, with a possession date stated to be around March 2021.

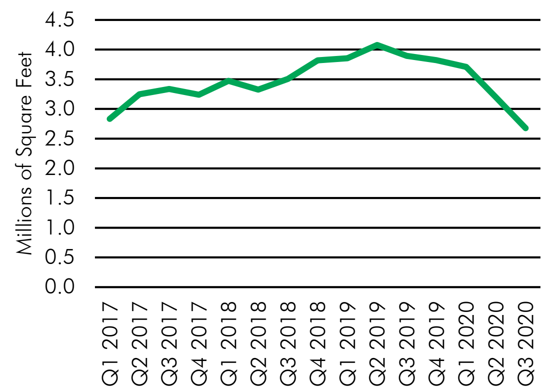
SoHo also recorded a significant level of leasing in the third quarter with nearly 21,000 sq. ft. leased across four transactions. Nearly half of the volume was attributed to the 10,000-sq.-ft., multi-level lease signed by Paul Smith at the former Mulberry space at 134 Spring Street. Apparel tenants played a significant role in the third quarter in this submarket as Hugo Boss signed a short-term extension for its 5,000-sq.-ft. outpost at 132 Greene Street, and Lacoste finalized a 10-year renewal for its 4,750-sq.-ft. store at 541 Broadway.

Figure 2: NYC Total Retail Sales | Annual



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

Figure 3: Four Quarter Aggregate Leasing Velocity



Source: CBRE Research, Q3 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	3,336,985
Q4 2017	3,239,759
Q1 2018	3,475,126
Q2 2018	3,325,390
Q3 2018	3,505,319
Q4 2018	3,820,103
Q1 2019	3,853,468
Q2 2019	4,078,313
Q3 2019	3,893,484
Q4 2019	3,821,737
Q1 2020	3,710,101
Q2 2020	3,196,386
Q3 2020	2,677,254

Source: CBRE Research, Q3 2020

Flatiron/Union Square was another submarket with a significant amount of leasing activity in the third quarter as Zappos.com, an online shoe and clothing retailer owned by Amazon, signed for its first brick and mortar location in New York City with a 10-year, 16,000-sq.-ft. deal at 19 Union Square West.

Food & beverage (F&B) was the most active tenant category in Q3 2020 both in terms of square footage leased and transaction count. F&B tenants secured nearly 35,000 sq. ft. across eight leases. In addition to the aforementioned Avra Estiatorio and Ted's Montana Grill transactions at 1271 Avenue of the Americas, Temperance Wine Bar signed a 10-year, 4,000-sq.-ft lease to take over the former Carma Asian Tapas storefront at 38 Carmine Street in the Greenwich Village.

Figure 5: Most Active Neighborhoods by Sq. Ft. Leased | Q3 2020

Neighborhood	Number of deals	Leased (Sq. Ft.)
Plaza District	3	25,088
SoHo	4	20,937
Flatiron/Union Square	1	16,309
Midtown West	1	8,322
Rockefeller Center	1	5,000
East Village	2	4,926
Lower East Side	1	4,000
Greenwich Village	1	4,000
Grand Central	1	3,378

Source: CBRE Research, Q3 2020

Figure 6: Most Active Tenant Type by Sq. Ft. Leased | Q3 2020

Tenant Type	Number of deals	Leased (Sq. Ft.)
Food & Beverage	8	34,842
Apparel	6	27,066
Footwear	1	16,309
Hospital/Clinic	1	8,322
Books	1	4,000
Financial Services	1	3,378
Jewelry & Furs	1	2,422
Retail Sales	1	900
TOTAL	20	97,239

Source: CBRE Research, Q3 2020

Figure 7: Top Lease Transactions | Q3 2020

Tenant	Size (Sq. Ft.)	Address	Neighborhood	Tenant Type
Avra Estiatorio	16,560	1271 Avenue of the Americas	Plaza District	Food & Beverage
Zappos.com	16,309	19 Union Square West	Flatiron/Union Square	Footwear
Paul Smith	10,246	134 Spring Street	SoHo	Apparel
Century Medical and Dental	8,322	827 Eleventh Avenue	Midtown West	Hospital/Clinic
Ted's Montana Grill	6,106	1271 Avenue of the Americas	Plaza District	Food & Beverage
Hugo Boss	5,041	132 Greene Street	SoHo	Apparel
Michael Kors, Inc.	5,000	610 Fifth Avenue	Rockefeller Center	Apparel
Lacoste	4,750	541 Broadway	SoHo	Apparel
Bluestockings	4,000	116 Suffolk Street	Lower East Side	Books
Temperance Wine Bar	4,000	38 Carmine Street	Greenwich Village	Food & Beverage

Source: CBRE Research, Q3 2020

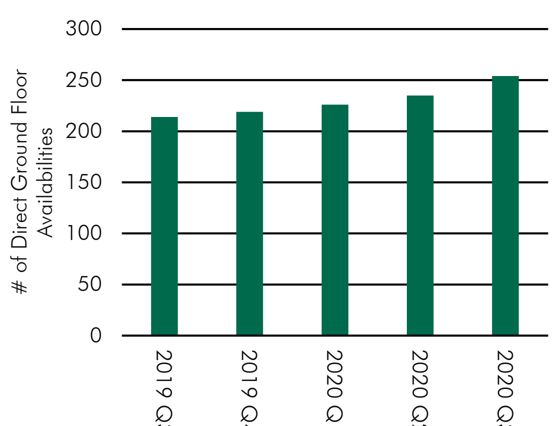
AVAILABILITY

The count of direct ground-floor availabilities tracked across Manhattan's 16 premier shopping corridors increased from 235 to 254 quarter-over-quarter, an 8.1% jump and a new high watermark surpassing the previous peak recorded in the prior quarter.

The Upper West Side saw the largest rise in availability over the past 12 months, with a 50% increase from 16 to 24 ground floor spaces. Demand for retail space in the corridor seems to have dwindled over the past several months as many residents of the affluent neighborhood have continued to shelter in place or have temporarily retreated out of the city due to the impact of the COVID-19 pandemic. Among the new additions were the 5,000 sq. ft. former Victoria's Secret space at 2333 Broadway as well as several other smaller storefronts located along the block of the former Barney's New York outpost at 2151 Broadway.

Downtown Broadway also saw a significant annual spike in availabilities, from 21 to 28. Leasing has been low in this corridor over the past 12 months and has suffered further due to the COVID-19 pandemic. As office buildings in the financial district remain largely empty and tourism is limited due to travel restrictions, the available space inventory, which includes several storefronts that have been on the market for over two years, added more supply in the last several quarters and will likely see more spaces come online, including Century 21's flagship.

Figure 8: Count of Direct Ground-Floor Availabilities



Source: CBRE Research, Q3 2020

AVERAGE ASKING RENTS

The trend in declining average asking rent among Manhattan's retail corridors persisted for the 12th consecutive quarter in Q3 2020, falling to $659 per sq. ft.—a 4.2% decline from Q2 2020 and 12.8% drop from the prior year to a level not seen since the latter half of 2011. The aggregate average asking rent among all available spaces in the 16 corridors also decreased 9.2% quarter-over-quarter and 14.1% year-over-year, to $575 per sq. ft. Further downward pressure amid mounting space additions will keep rents negotiable beyond their face asking prices as Manhattan remains in an environment of price discovery.

Among the corridors, Prince Street in SoHo's 42.6% annual decline was the largest percentage decrease of Q3 2020. Asking rents fell from $705 per sq. ft. to $405 per sq. ft. year-over-year. This corridor witnessed ongoing downward repricing for existing spaces during the third quarter and saw several agency changes for spaces that have been on the market for more than a year. Additionally, the introduction of several new spaces along the corridor with asking rents roughly half of the average prices recorded a year prior illustrates the desire of many landlords to lease their vacant storefronts.

Washington Street in the Meatpacking District also saw a large annual decline in average asking rents, falling 22.2% year-over-year and 11.1% quarter-over-quarter to $448 per sq. ft. Rents on the corridor dropped below $450 per sq. ft. for the first time since tracking began in 2015.

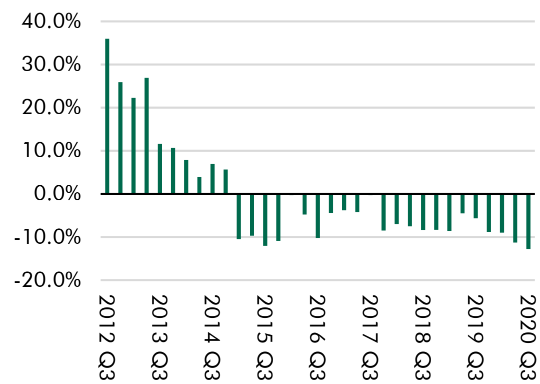
A significant amount of this decline was attributed to the introduction of new spaces with rents below the average at Romanoff Equities' 817 and 825 Washington Street.

The Times Square corridor witnessed a substantial 18% annual decline in average rents, from $1,820 per sq. ft. to $1,492 per sq. ft. The quarterly reduction of 9.4% drove average rents below $1,500 per sq. ft. for the first time since 2011. Even at these reported asking rent levels, there is further room for tenants to negotiate as dwindling demand for high-end trophy spaces and big box retail remained a prevalent theme in Manhattan over the last several quarters. Times Square has been particularly affected as activity on the retail corridor diminished during the first half of 2020 as strict travel restrictions brought about by the COVID-19 pandemic kept foot traffic in this tourist haven to a minimum and continued to put downward pressure on rents.

34th Street in Herald Square was the only corridor to record a quarterly increase in average asking rent, rising 3.5% quarter-over-quarter to $503 per sq. ft. The uptick was due to the addition of the above average priced space at Jenel Management's 138 West 34th Street that was formerly occupied by Sprint.

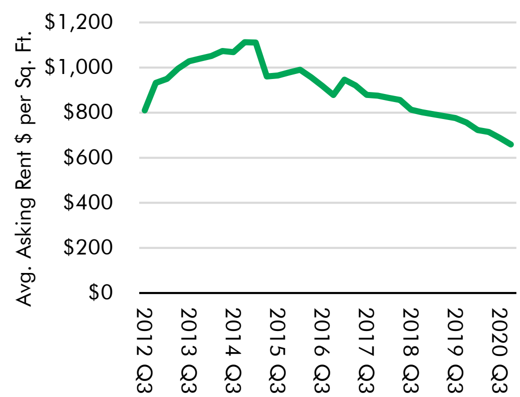
Downtown Broadway also recorded an increase in average asking rent, reaching $407 per sq. ft., up 3.4% from the rate recorded a year prior. Similar to the aforementioned 34th Street, the introduction of newly constructed spaces offered at a premium price, such as 185 Broadway, was a driver of the rise in asking rents.

Figure 9: Year-over-Year Asking Rent Change



Source: CBRE Research. Q3 2020

Figure 10: Average of Corridors



Source: CBRE Research, Q3 2020

Figure 11: Average Asking Rents* | Q3 2020

Neighborhood	Corridor Parameters	Total direct ground floor availabilities Q3 2020	Q3 2020	Q2 2020	Quarter-over-quarter change	Q3 2019	Year-over-year change
Upper West Side	Broadway | 72nd to 86th Streets	24	$243	$243	0.0%	$262	(7.4%)
Upper East Side	Third Avenue | 60th to 72nd Streets	17	$203	$206	(1.4%)	$232	(12.2%)
Upper Madison Ave	Madison Avenue | 57th to 72nd Streets	43	$839	$882	(4.9%)	$954	(12.1%)
Plaza District	Fifth Avenue | 49th to 59th Streets**	9	$3,000	$3,000	0.0%	$3,150	(4.8%)
Grand Central	Fifth Avenue | 42nd to 49th Streets**	9	$708	$753	(6.1%)	$836	(15.4%)
Times Square	Broadway & Seventh Avenue | 42nd to 47th Streets	9	$1,492	$1,647	(9.4%)	$1,820	(18.0%)
Herald Square	34th Street | Fifth to Seventh Avenues**	9	$503	$486	3.5%	$521	(3.6%)
Flatiron/Union Square	Broadway | 14th to 23rd Streets	14	$344	$357	(3.4%)	$384	(10.2%)
Flatiron/Union Square	Fifth Avenue | 14th to 23rd Streets	16	$299	$334	(10.6%)	$346	(13.6%)
SoHo	Broadway | Houston to Broome Streets	23	$388	$399	(2.7%)	$486	(20.1%)
SoHo	Prince Street | Broadway to West Broadway	7	$405	$437	(7.3%)	$705	(42.6%)
SoHo	Spring Street | Broadway to West Broadway	9	$599	$631	(5.1%)	$720	(16.8%)
Meatpacking	14th Street | Eighth to Tenth Avenues	15	$322	$345	(6.7%)	$353	(8.9%)
Meatpacking	Gansevoort | Little West 12th Street | 13th Street | Ninth to Tenth Avenues	18	$348	$378	(7.8%)	$357	(2.5%)
Meatpacking	Washington Street | 14th to Gansevoort Streets	4	$448	$503	(11.1%)	$575	(22.2%)
Downtown	Broadway | Battery Park to Chambers Street	28	$407	$410	(0.7%)	$394	3.4%
All	Average of corridors	-	$659	$688	(4.2%)	$756	(12.8%)

	Total direct ground floor availabilities Q3 2020	Q3 2020	Q2 2020	Quarter-over-quarter change	Q3 2019	Year-over-year change
Aggregate Average Asking Rent**	254	$575	$633	(9.2%)	$669	(14.1%)

*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, Q3 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 Q3 2020 includes total leasing velocity over Q2 2020, Q1 2020, Q4 2019 and Q3 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.

SOURCES

1. https://www.governor.ny.gov/news/governor-cuomo-announces-new-york-city-cleared-global-health-experts-enter-phase-four-reopening
2. https://www1.nyc.gov/nycbusiness/article/nyc-restaurant-reopening-guide
3. https://www.cnn.com/2020/09/10/business/century-21-bankruptcy-closing/index.html
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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