MARKETVIEW

Manhattan Retail, Q1 2021

Vaccine rollout and loosened restrictions bolster recovery hopes for NYC retail market

Consumer Confidence	NYC Unemployment	NYC Quarterly Retail Sales	NYC Retail Job Count
▲ 109.7	▲ 12.9%	▲ $36.4B	▼ 285.2K

*Arrows indicate change from previous quarter.

Sources: The Conference Board, March 2021; NYS Department of Labor, February 2021; U.S. Census Bureau, Oxford Economics, March 2021; NYS Department of Labor, February 2021.

- New York City officially expanded Phase Four of reopening with the resumption of indoor dining, the permanent implementation of the outdoor dining program, and the reopening of theaters and indoor entertainment venues in Manhattan with limited capacity. In tandem with New Jersey, the maximum capacity of indoor diners in New York State was expanded to 75% of occupancy on March 19; however, capacity in New York City remains limited to 50%.[1]
- Governor Cuomo signed into law the New York State COVID-19 Emergency Protect our Businesses Act of 2021 on March 9. The law encompasses extending eviction and foreclosure relief for commercial tenants with less than 50 employees and retailers that own less than 10 commercial units in the city through May 1, 2021.[2]
- The New York City Council voted to amend Local Law 98 of 2020, which was introduced last September to prohibit retail tenants from executing the personal liability clauses of commercial leases if they default on any money owed between the period of March 7, 2020 to March 31, 2021. The amendment extended the defaulting period through June 30.[3]

MARKET OVERVIEW

The Manhattan retail market continued to suffer the impacts of COVID-19 in the first quarter of 2021, with all market metrics continuing negative trends. Leasing velocity in Manhattan decelerated again in the first quarter of 2021, marking seven consecutive quarters of decline. Additionally, the number of direct, ground-floor availabilities in Q1 2021 increased to 275 spaces in the 16 prime retail corridors tracked by CBRE. The average retail asking rent in Manhattan's prime 16 retail corridors dropped 13.4% year-over-year and 5.1% quarter-over-quarter to $618 per sq. ft. in Q1 2021, marking the 14th consecutive quarterly decrease.

A few bright spots emerged as major luxury tenants such as Gucci, Cartier, Polene, and TUMI announced a flurry of new leases and renewals in the city's high-end retail neighborhoods. Opportunistic retailers continue to take advantage of the tenant-favorable market conditions, successfully negotiating enhanced tenant improvement allowance, free rent, flexibility on term length, and percentage-rent deal structures. Looking ahead, there is cause for optimism as residential vacancy rates decline in NYC, vaccination efforts accelerate throughout the region,

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and additional federal stimulus gives households more spending power – all of which should reinvigorate in-store spending in Manhattan in the months ahead.

ECONOMIC OVERVIEW

The outlook for the U.S. economy is becoming positive as COVID-19 vaccines are deployed at a rapid pace. At the close of Q1 2021, one-third of Americans had received at least one dose of the vaccine. With the pace of daily vaccinations accelerating and the eligibility timeline for all Americans moving up to April 19, societal and economic normalization is expected by mid-year, setting the stage for the U.S. economy to see nearly 7% GDP growth in 2021—the strongest pace seen since the early 1980s.

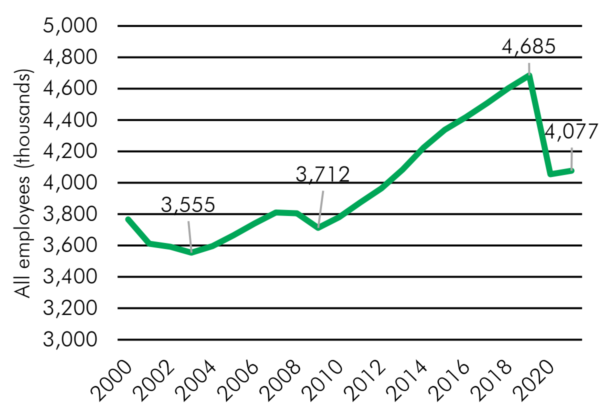
In NYC, employment continues to increase. Renewed growth in January and February—driven by the leisure, hospitality, and retail trade sectors—pushed total private sector employment up to 3.48 million, approximately 15% below the pre-COVID-19 high point.

Similarly, NYC's quarterly retail sales continue to improve, rising roughly 3.4% to $36.4 billion in the first quarter. While total employment and retail job count remain below levels recorded a year ago, about 53,000 jobs have been recovered from the 239,000 jobs lost due to the pandemic, with business and professional services and advertising, media, and telecom sectors seeing the most notable early gains. By the end of February 2021, OUE was at 1.63 million, about 10% below the pre-COVID-19 peak.

Despite the gains in payroll employment, NYC's overall unemployment rate remains elevated at 12.9%, up 920 basis points (bps) from one year ago, and well above the national unemployment rate of 6.2% as of February 2021.

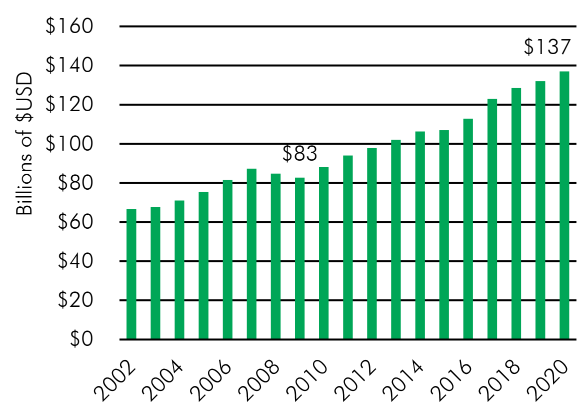
Looking ahead, the massive $1.9 trillion federal stimulus will provide households with an influx cash to put toward consumer spending. This will coincide with a critical mass of vaccinations in the local market, which will boost spending at bricks-and-mortar retail and entertainment venues in NYC.

Figure 1: Seasonally Adjusted Total Employment



Source: NYC Department of Labor, February 2021

Figure 2: NYC Total Retail Sales | Annual



Source: US Census Bureau, Oxford Economics, March 2021.

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LEASING

Retail leasing velocity in Q1 2021 decreased for the seventh consecutive quarter. The Q1 2021 rolling four-quarter aggregate leasing velocity, which measures total leasing (renewals and new leases) for the four prior quarters, was approximately 1.55 million sq. ft., falling below two million sq. ft. for the first time since 2014. The Q1 2021 total was down 26.3% from Q4 2020 and 58.8% from a year prior.[4] There is cautious optimism that this will mark the nadir of leasing in the market, as improving economic conditions and normalization of city life, coupled with tenant-favorable market conditions, inspire retailers to sign for new locations in the months ahead.

The Plaza District recorded the highest leasing velocity in Q1 2021, though the volume was relatively low at just two transactions for a combined total of approximately 47,000 sq. ft. The larger and more significant transaction was the two-year 46,000 sq. ft. renewal signed by Gucci to retain its outpost at the Trump Organization's 721 Fifth Avenue. Gucci's renewal, three years in advance of its 2024 expiration, will keep the luxury brand firmly rooted to the corridor beyond 2026.

SoHo recorded 43,000 sq. ft. leased across six transactions. Greene Street was the most active street in this popular retail submarket as three tenants completed nearly 20,000 sq. ft. of leases in the first quarter. The largest transaction was signed by Cartier, the French luxury watch and jewelry manufacturer, which closed on more than 9,300 sq. ft. for a new outpost at 102 Greene Street. New leases signed by Bottega Veneta, an Italian luxury fashion house, and Polene, a French luxury leather goods brand, combined for more than 10,000 sq. ft. at 101 Greene Street and 62 Greene Street, respectively. Additionally, TUMI, the high-end luggage manufacturer, secured roughly 9,200 sq. ft. at 513 Broadway.

Harlem saw activity in Q1 2021 with two transactions for over 31,000 combined sq. ft. The larger of these was Trader Joe's lease for a 28,000-sq.-ft. multi-level store, its first outpost in Upper Manhattan, in the Urban League Empowerment Center at 121 West 125th Street.

In terms of square footage leased by industry, apparel recorded 71,000 sq. ft.—the highest leasing velocity in the first quarter. Much of the leasing was accounted for by the aforementioned Gucci transaction.

Figure 3: Four Quarter Aggregate Leasing Velocity

Source: CBRE Research, Q1 2021

Figure 4: Rolling Four-Quarter Aggregate Total Leasing Velocity

Period	12 Month Aggregate (Sq. Ft.)
Q1 2018	3,512,751
Q2 2018	3,364,275
Q3 2018	3,546,517
Q4 2018	3,847,553
Q1 2019	3,884,788
Q2 2019	4,105,544
Q3 2019	3,926,777
Q4 2019	3,870,730
Q1 2020	3,771,076
Q2 2020	3,274,960
Q3 2020	2,847,223
Q4 2020	2,108,024
Q1 2021	1,552,999

Source: CBRE Research, Q1 2021

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Food & beverage (F&B) companies completed the largest number of transactions among Manhattan's retail sectors in Q1 2021 with twelve transactions totaling more than 41,000 sq. ft. The most notable F&B transaction was the roughly 14,000-sq.-ft. lease signed by Delmonico's, one of New York City's oldest steakhouses, at 510 West 42nd Street. Pera Mediterranean Brasserie, an upscale, eastern Mediterranean restaurant, also announced plans to renew their 6,300-sq.-ft. lease at Empire State Realty Trust's 60 East 42nd Street. Sonic Drive-In, the American restaurant chain owned by Inspire Brands, showed that new tenants are exploring opportunities in New York City by committing to more than 5,400 sq. ft. for their first Manhattan outpost at 966 Avenue of the Americas.

Figure 5: Most Active Neighborhoods by Sq. Ft. Leased | Q1 2021

Neighborhood	Number of deals	Leased (Sq. Ft.)
Plaza District	2	47,463
SoHo	6	42,766
Harlem	2	31,090
Upper East Side	4	22,760
Upper West Side	2	22,204
Downtown West	2	19,220
Flatiron/Union Square	4	16,795
Midtown West	1	14,000
Little Italy/Chinatown	2	9,300
Greenwich Village	4	8,138

Source: CBRE Research, Q1 2021

Figure 6: Most Active Tenant Type by Sq. Ft. Leased | Q1 2021

Tenant Type	Number of deals	Leased (Sq. Ft.)
Apparel	7	70,506
Grocery	4	56,800
Food & Beverage	12	41,092
Health Care	4	19,856
Pharmacy	1	18,718
Luggage	2	15,143
Office Supply	1	12,728
Jewelry	1	9,336
Furniture	1	4,889
Hair Salon	1	4,360

Source: CBRE Research, Q1 2021

Figure 7: Top Lease Transactions | Q1 2021

Tenant	Size (Sq. Ft.)	Address	Neighborhood	Tenant Type
Gucci America Inc.	46,203	721 Fifth Avenue	Plaza District	Apparel
Trader Joe`s Company Inc.	28,000	121 West 125th Street	Harlem	Grocery
Brooklyn Fare	21,600	75 West End Avenue	Upper West Side	Grocery
CVS Health Corporation	18,718	217 Broadway	Downtown West	Pharmacy
Delmonico's	14,000	510 West 42nd Street	Midtown West	Food & Beverage
Staples, Inc.	12,728	1286 Lexington Avenue	Upper East Side	Office Supply
CityMD	10,326	18 West 18th Street	Flatiron/Union Square	Health Care
Cartier, Inc.	9,336	102 Greene Street	SoHo	Jewelry
Tumi, Inc.	9,143	513 Broadway	SoHo	Luggage
Pera Mediterranean Brasserie	6,395	60 East 42nd Street	Grand Central	Food & Beverage

Source: CBRE Research, Q1 2021

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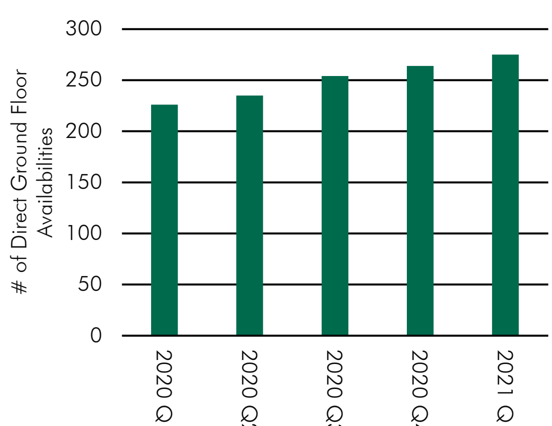
AVAILABILITY

In Q1 2021, the number of direct ground-floor availabilities tracked across Manhattan's 16 premier shopping corridors increased from 264 to 275 quarter-over-quarter, a 4.2% hike and replacing last quarter's total as the new high watermark for availability.

Upper Madison Avenue added seven new spaces in Q1 2021, contributing to the largest annual change in availabilities—up 11 ground floor spaces or 26.2% from 42 to 53 recorded a year prior. Despite a handful of new leases signed by major high-end tenants on the corridor in 2020, demand from luxury retailers continues to be outpaced by excess supply. Demand has migrated to more affordable and active retail markets in Midtown South and Downtown. Stagnant inventory, particularly on the upper half of the corridor continue to make Upper Madison Avenue a challenging draw for new retailers.

Fifth Avenue in Flatiron also saw availabilities nearly double over the past 12 months, from 11 to 21 ground floor spaces. In Q1 2021, the former Outdoor Voices at 142 Fifth Avenue and the former Aldo at 97 Fifth Avenue came to market.

Figure 8: Count of Direct Ground-Floor Availabilities



Source: CBRE Research, Q1 2021

While this corridor has seen moderate leasing activity over the past several months, looming decisions from major tenants on the corridor with near term lease expirations, along with increased competition from the adjacent Broadway/Union Square West corridor, could create further availability increases.

AVERAGE ASKING RENTS

Average asking rent in Manhattan's retail corridors declined for the 14th consecutive quarter, falling to $618 per sq. ft. in Q1—a 5.1% decline from Q4 2020 and 13.4% drop from the prior year. The current rent marks the lowest level for nearly a decade. The aggregate average asking rent among all available spaces in the 16 corridors also decreased 5.2% quarter-over-quarter and 20.3% year-over-year to $533 per sq. ft. While there was a slight slowdown in the quarterly decline in Q1, pricing remains mostly negotiable beyond their face asking rents, and tenants are successfully negotiating other concessions such as generous tenant improvement allowances and free rent periods, lease flexibility through termination clauses/renewal options, and percentage-rent deals.

Among the corridors, Prince Street in SoHo's 39.5% annual decline was the largest percentage decrease of Q1 2021. Asking rents fell from $683 per sq. ft. to $414 per sq. ft. year-over-year. In 2020, pricing in the corridor dropped below $500 per sq. ft. to levels not seen since 2014. Ongoing downward repricing of the stagnant inventory continued to push rents to historic low levels.

Washington Street in the Meatpacking District saw the second-highest annual percentage decline — 28.2% from $575 per sq. ft. to $413 per sq. ft. Similar to Prince Street in SoHo, ongoing repricing of premium spaces that have been marketed for over two years, along with the introduction of several new discounted offerings, continued to put downward pressure on rents.

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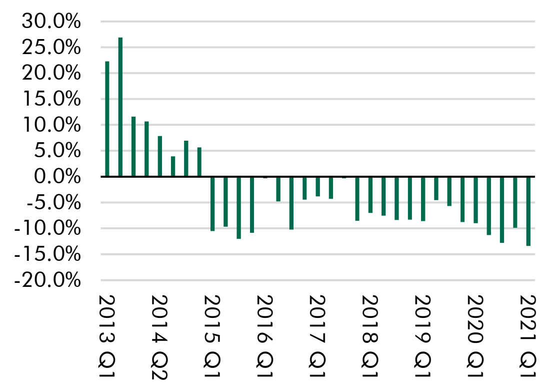
Broadway in SoHo recorded a significant annual decline in average asking rents, falling 26.2% year-over-year and 6.7% quarter-over-quarter to $310 per sq. ft. Leases signed over the past several months by TUMI, Target, and PacSun—all new additions to this corridor—are a positive indicator for this market. Despite the activity, the decline in average asking rent is ongoing as landlords continue to reprice on spaces that have lingered on the market for longer than two years. With recent deals closing with a significant ask-take spread and for short terms, the pressure on asking rents has resulted in the lowest rent level since 2010.

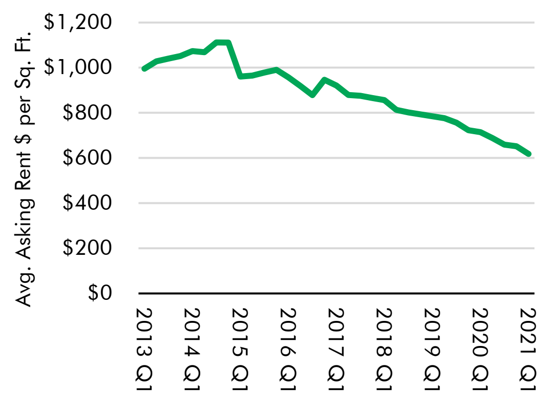
The Times Square corridor, which has been deeply impacted by the disruption to tourism, recorded a 21.5% annual decline in average rents, from $1,647 per sq. ft. to $1,293 per sq. ft., their lowest level since 2010. While the area is still far from recovering its pre-pandemic vitality, some tenants appear optimistic about a recovery on the horizon, as credit F&B tenants including Jollibee and Taco Bell Cantina recently signed long-term commitments to the area. At current rent levels, the Times Square corridor presents many options for opportunistic tenants who were previously priced out of this submarket.

Figure 9: Year-over-Year Asking Rent Change



Source: CBRE Research. Q1 2021

Figure 10: Average of Corridors



Source: CBRE Research, Q1 2021

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Figure 11: Average Asking Rents* | Q1 2021

Neighborhood	Corridor Parameters	Total direct ground floor availabilities Q4 2020	Q1 2021	Q4 2020	Quarter-over-quarter change	Q1 2020	Year-over-year change
Upper West Side	Broadway | 72nd to 86th Streets	26	$226	$237	(4.5%)	$236	(3.9%)
Upper East Side	Third Avenue | 60th to 72nd Streets	15	$197	$207	(5.0%)	$221	(10.8%)
Upper Madison Ave	Madison Avenue | 57th to 72nd Streets	53	$731	$815	(10.2%)	$920	(20.5%)
Plaza District	Fifth Avenue | 49th to 59th Streets**	8	$3,000	$3,000	0.0%	$3,000	0.0%
Grand Central	Fifth Avenue | 42nd to 49th Streets**	12	$686	$762	(10.0%)	$774	(11.4%)
Times Square	Broadway & Seventh Avenue | 42nd to 47th Streets	10	$1,293	$1,425	(9.3%)	$1,647	(21.5%)
Herald Square	34th Street | Fifth to Seventh Avenues**	9	$503	$503	0.0%	$500	0.5%
Flatiron/Union Square	Broadway | 14th to 23rd Streets	16	$309	$334	(7.5%)	$362	(14.7%)
Flatiron/Union Square	Fifth Avenue | 14th to 23rd Streets	21	$298	$292	1.8%	$338	(11.8%)
SoHo	Broadway | Houston to Broome Streets	25	$310	$332	(6.7%)	$420	(26.2%)
SoHo	Prince Street | Broadway to West Broadway	8	$414	$423	(2.2%)	$683	(39.5%)
SoHo	Spring Street | Broadway to West Broadway	9	$479	$571	(16.1%)	$644	(25.7%)
Meatpacking	14th Street | Eighth to Tenth Avenues	15	$293	$318	(8.0%)	$332	(11.7%)
Meatpacking	Gansevoort | Little West 12th Street | 13th Street | Ninth to Tenth Avenues	16	$340	$348	(2.5%)	$376	(9.7%)
Meatpacking	Washington Street | 14th to Gansevoort Streets	5	$413	$448	(7.7%)	$575	(28.2%)
Downtown	Broadway | Battery Park to Chambers Street	27	$406	$415	(2.1%)	$401	1.2%
All	Average of corridors	-	$618	$652	(5.1%)	$714	(13.4%)

	Total direct ground floor availabilities Q1 2021	Q1 2021	Q4 2020	Quarter-over-quarter change	Q1 2020	Year-over-year change
Aggregate Average Asking Rent**	275	$533	$562	(5.2%)	$669	(20.3%)

*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, Q1 2021.

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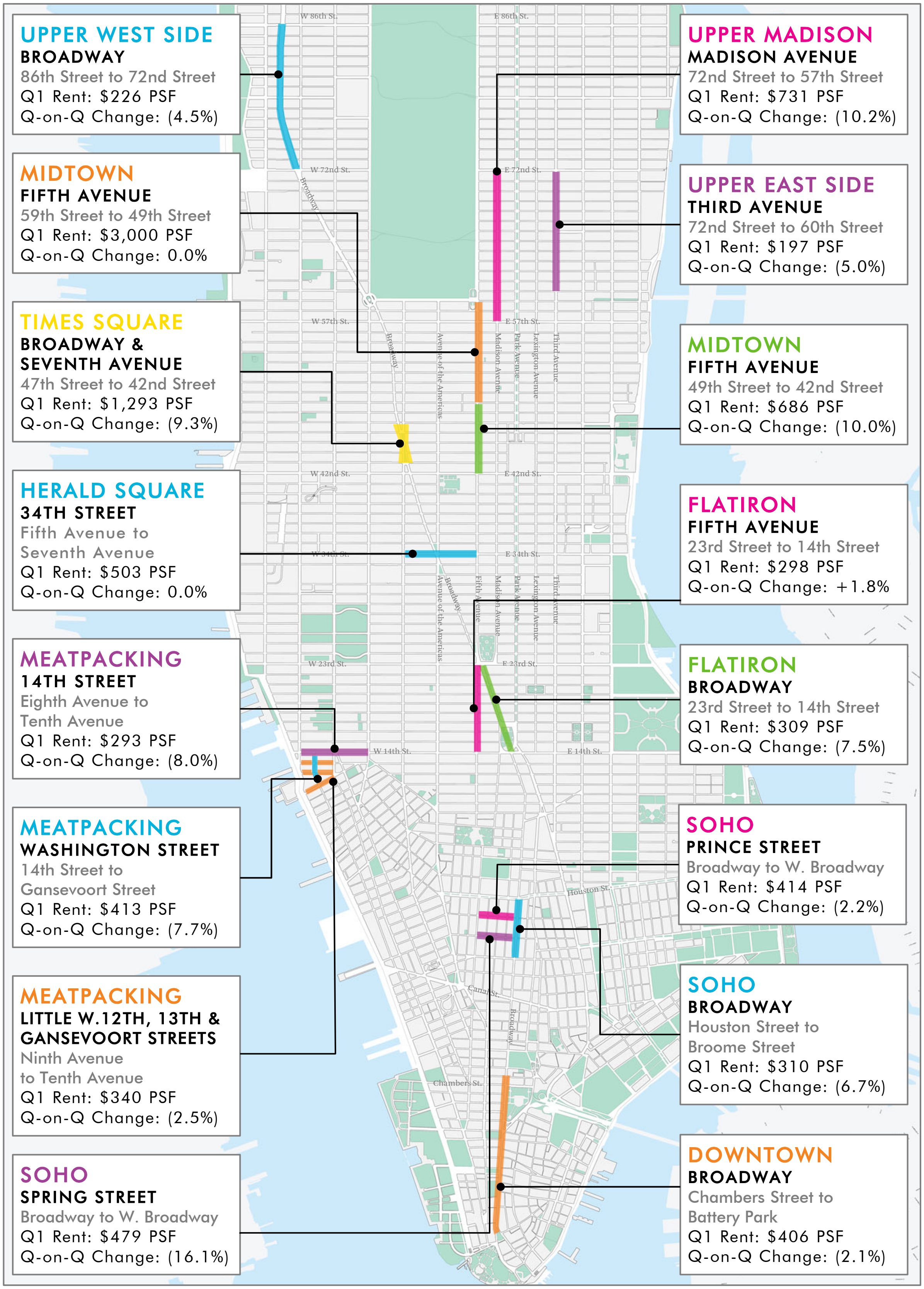
RETAIL CORRIDORS

OVERALL AGGREGATE AVERAGE ASKING: $533 PSF | (5.2%)
OVERALL AVERAGE ASKING RENT: $618 PSF | (5.1%)



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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 Q1 2021 includes total leasing velocity over Q4 2020, Q3 2020, Q2 2020 and Q1 2020. 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.nytimes.com/2021/03/11/nyregion/indoor-dining-nyc-nj.html
2. https://www.governor.ny.gov/news/governor-cuomo-signs-covid-19-emergency-protect-our-small-businesses-act-2021-establishing
3. https://legistar.council.nyc.gov/LegislationDetail.aspx?ID=4835164&GUID=3320048A-1984-4A1D-9EB5-71A095F81F17&Options=&Search=
4. The Q4 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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