



Manhattan Retail Market Report

Large Transactions Drive Leasing Improvement as More Diverse Sectors Sign Deals

Despite the Omicron variant, which caused a drop in mobility that impacted businesses, the market continued to stabilize. Leasing activity closed the first quarter with 520,832 square feet, including three deals over 25,000 square feet. Each of these absorbed space that had been available for several years. The largest deal of the quarter was a 30,000-square-foot lease signed by Petco at 44 Union Square East. Another 52,200 square feet of leases were signed by tenants opening their first New York City location.

Several industries that were inactive during the pandemic emerged in 2021 with active requirements, and signed significant deals in the first quarter 2022. This included luxury retail brands and high-end restaurants. Valentino, Gucci and Armani each signed in a different trade area, at 654 Madison Avenue, 400 W. 14th Street and 134 Spring Street, respectively.

Large restaurant deals were finalized in trade areas driven by tourists and office workers, which struggled during the heart of the pandemic. These included Din Tai Fung at 1501 Broadway, Fushimi at 311 W. 43rd Street and Maribella Hospitality Group at 7 W. 51st Street.

Availability Rates Continue to Stabilize, With Majority of Trade Areas Down from One Year Ago

Availability rates decreased or were flat in nine of the ten core trade areas. The largest improvement was in the Meatpacking District, where availability dropped 250 basis points from last quarter to 25.9%. The lone exception is Fifth Avenue, where the availability rate rose 90 basis points from last year and 540 basis points from Pre-Covid-19 levels. Madison Avenue availability remained flat year over year but increased 90 basis points from the fourth quarter of last year to 25.4%.

Current Conditions

- Leasing activity closed at 520,832 square feet, with luxury retail brands and high-end restaurants signing significant leases.
- Changes in asking rents and availability rates moderated as the market continued its recovery.
- Pandemic deal structures, in which rent schedules are structured with low base rents and a return to pre-pandemic pricing in the second or third year of the lease, have continued but with less frequency.

Although Manhattan's core trade areas have seen a considerable rise in availability rates since the start of the pandemic, the rate of increase slowed over the last two quarters as demand improved, rents corrected and lease terms became more flexible. Two of the ten core trade areas saw improved or stable asking rents over the prior quarter. Notably, the Plaza District availability rate closed the first quarter at 16.5%, down 50 basis points from last quarter and 140 basis points from the first quarter of 2021.

Both the Upper West Side and the Upper East Side have the lowest availability rates and continue to decline quarter over quarter, closing the first quarter at 8.5% and 9.3%, respectively.

Decrease in Asking Rents Moderated

The ten core trade areas continued to post declines in asking rent, but at a slower pace, down just 2.7% on average from last quarter. That shallow drop was driven by the absorption of prime spaces, leaving secondary space on the market. Rents are still significantly below pre-pandemic levels with more than half of the trade areas seeing declines over 20% from the first quarter of 2020. However, the Flatiron District showed the strongest quarterly improvement among the trade areas, with a 9.1% increase in asking rents from last quarter to \$239/SF. The Upper East Side and Upper West Side also remain strong, with rents up 6.4% and 6.1% from the prior year, respectively.

As asking rents have continued to stabilize, taking rents have also rebounded. Average taking rents improved 24.0% from the prior year, after falling 33.0% from 2019 to 2021, when they registered the lowest level in more than fifteen years.

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The deal structures that emerged during the pandemic, in which rent schedules are structured with low base rents and a return to pre-pandemic pricing in the second or third year of the lease, have continued but with less frequency than during the peak of the pandemic.

Mobility Indicators Signal Ongoing Improvements for the Retail Market

The Omicron variant dampened momentum in mobility that was underway in late 2021, but that returned mid-quarter. Transit ridership increased in recent weeks from the fourth quarter, with LIRR ridership up 36%, subway ridership up 46.3% and bus

ridership up 50.7%. Bridge and tunnel traffic demonstrates that New York has surpassed pre-pandemic levels, a boon for retail. However, MTA data indicates that subway ridership is not yet back to pre-Omicron levels.

The slow, but ongoing return to the office for many companies is also a strong sign of retail's rebound. Kastle data indicates that office occupancy reached 38.3% in the most recent weeks, just below the national average of 43.1%. OpenTable reports reservations in the city are down 39.1% from pre-pandemic levels – the second highest rate since March 2020. This marks a notable improvement from the end of the fourth quarter when reservations were down 66.3%.

3Q22 Notable Transactions

Tenant	Address	Trade Area	Square Feet	Deal Type
Petco	44 Union Square East	Union Square	30,000	New
Din Tai Fung	1633 Broadway	Times Square	26,400	New
Valentino	654 Madison Avenue	Madison Avenue	25,418	New
Fushimi	311 W. 43rd Street	Hell's Kitchen	20,000	New
Todd English Food Hall	15 Park Row	Financial District	19,327	New

Average Asking Rent by Trade Area

Trade Area	Current Quarter	Prior Quarter	Pre-Covid (1Q20)	Prior Year
Fifth Avenue	\$1,308	\$1,357	\$1,976	\$1,528
Financial District	\$267	\$274	\$376	\$313
Flatiron District	\$239	\$219	\$321	\$253
Madison Avenue	\$626	\$630	\$788	\$636
Meatpacking District	\$303	\$313	\$361	\$316
Plaza District	\$360	\$384	\$477	\$446
SoHo	\$255	\$262	\$343	\$261
Times Square	\$752	\$758	\$923	\$825
Upper East Side	\$208	\$212	\$226	\$196
Upper West Side	\$182	\$177	\$187	\$171

Availability Rate by Trade Area

Trade Area	Current Quarter	Prior Quarter	Pre-Pandemic (1Q20)	Prior Year
Fifth Avenue	28.8%	27.0%	23.4%	27.9%
Financial District	19.9%	20.4%	18.6%	22.6%
Flatiron District	16.1%	16.5%	12.6%	18.5%
Madison Avenue	25.4%	24.5%	15.4%	25.4%
Meatpacking District	25.9%	28.5%	24.4%	29.7%
Plaza District	16.5%	17.0%	15.6%	17.9%
SoHo	15.9%	15.8%	18.1%	22.4%
Times Square	22.2%	20.0%	20.6%	25.0%
Upper East Side	9.3%	9.9%	11.4%	13.4%
Upper West Side	8.5%	8.8%	8.6%	10.8%

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Economic Conditions

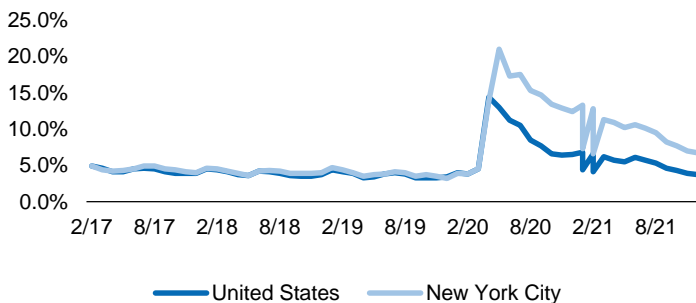
The national unemployment rate remained robust, closing February at 4.1%, a month-over-month decline of 30 basis points. Despite the strong unemployment picture, inflation remains a paramount concern. The national Consumer Price Index soared by 8.5% year over year, with a healthier 1.8% increase posted in New York City.

The New York City unemployment rate remains well above the national level but saw a similar month-over-month decline in February as unemployment reached its lowest point in nearly two years, closing February at 6.6%.

The retail industry has now recovered 85.5% of pre-pandemic employment. Hotels and Restaurants were among the slowest to recover but are now adding jobs at a faster rate than nearly all other industries. Office-using employment dipped by 22,100 jobs from last quarter, but office-using job growth in New York City has recovered to 93.0% of pre-pandemic levels. While overall job growth is down 6.2% over the past two years, New York City job totals have improved by 31,500 since December 2021.

Unemployment Rate

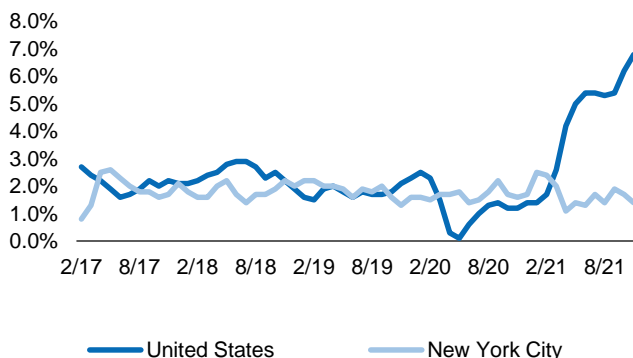
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

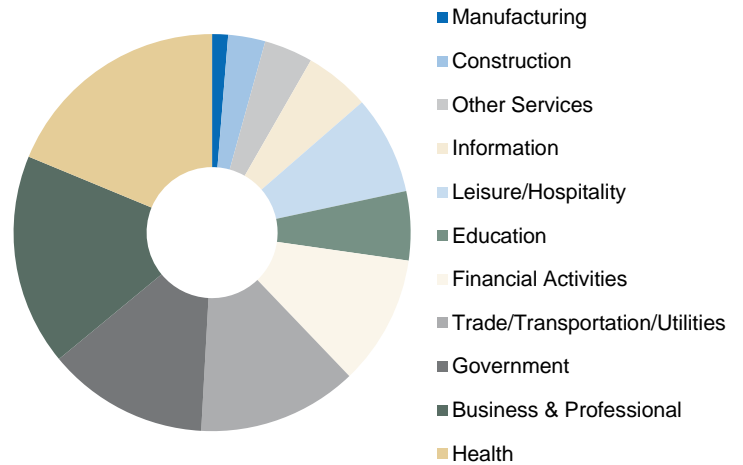
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

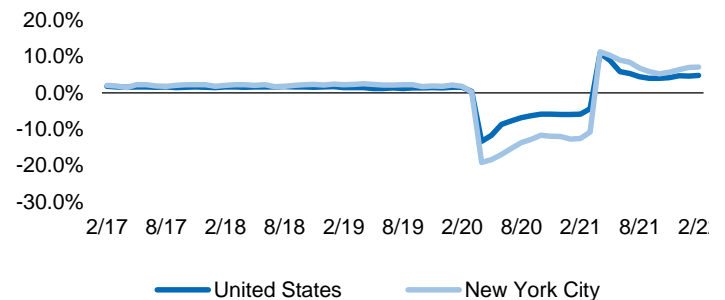
NEW YORK CITY, FEBRUARY 2022



Source: New York State Department of Labor

Payroll Employment

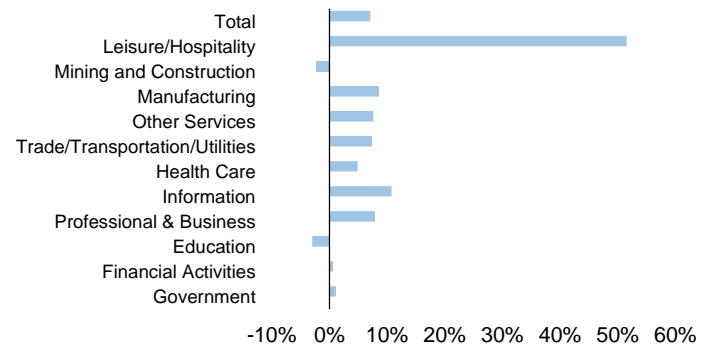
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

NYC, FEBRUARY 2022, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: New York State Department of Labor

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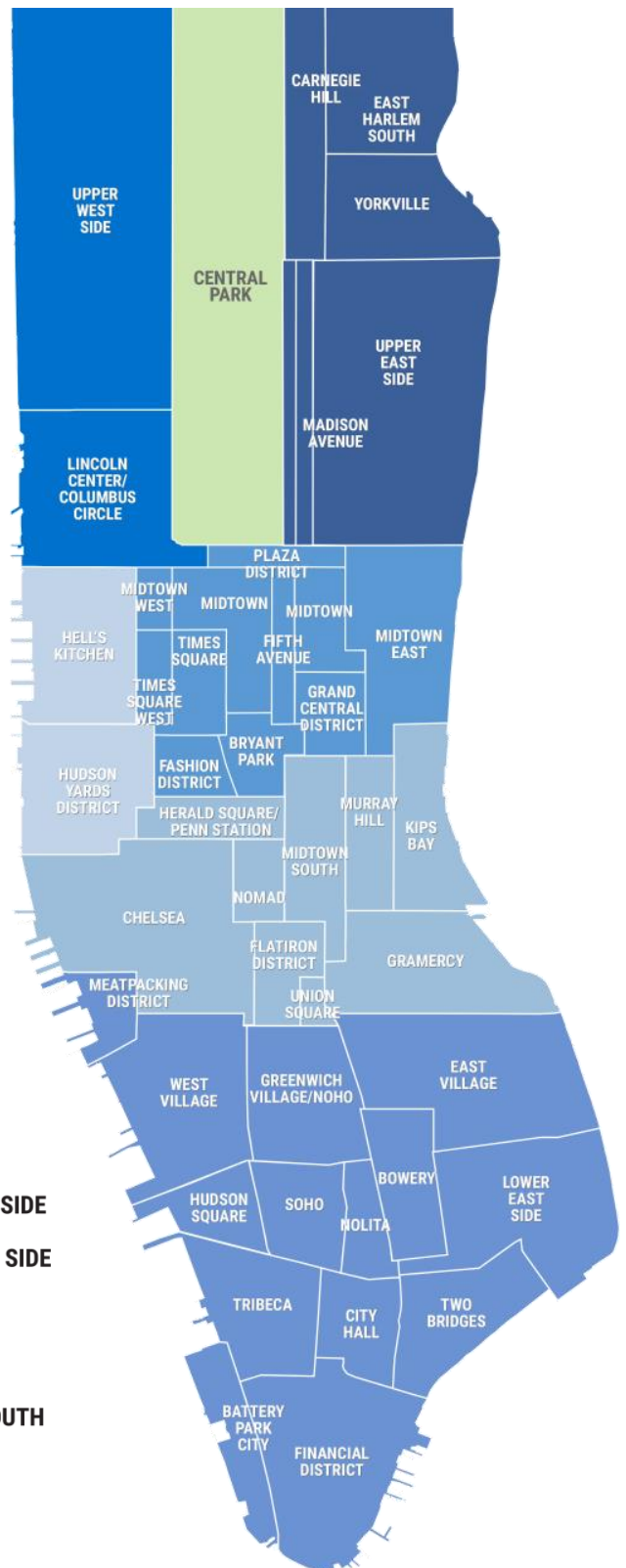
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