

Retail leasing picks up in NYC as summer ends and new vaccination mandates are introduced

▼ 109.3

Consumer Confidence

▼ 10.2%

NYC Unemployment

▲ \$38.3B

NYC Quarterly Retail Sales

▲ 292.2K

NYC Retail Job Count

▼ \$605

PSF Average Asking Rent

Note: Arrows indicate change from previous quarter.

Market News

- New York City introduced the “Key to NYC” Plan in August – a Covid vaccination mandate which requires those 12 and older to show proof they have received at least one dose of a Covid-19 vaccine to participate in indoor dining, fitness, and entertainment activities. The new mandate also requires all staff on premises to be vaccinated. Enforcement began in September.¹
- The Times Square Alliance, one of Manhattan’s largest business improvement districts, reported an improvement in tourism as it recorded as many as 255,000 visitors traveling through Times Square over Labor Day weekend – the highest number of people since the pandemic began but far less than pre-pandemic levels.²

Market Overview

The Manhattan retail market began to show signs of improvement in the third quarter of 2021. While the spread of the delta variant and short-term inflation concerns have dampened some optimism, the city’s economic fundamentals continue to strengthen with further improvement expected as vaccine efforts move forward, and more people return to pre-Covid routines. Leasing velocity in Manhattan increased in the third quarter of 2021, rising for the first time since 2019 and reversing eight consecutive quarters of decline. Additionally, the number of direct, ground-floor availabilities in Q3 2021 decreased to 282 spaces from 290 in Q2 in the 16 prime retail corridors tracked by CBRE. The average retail asking rent in Manhattan’s prime 16 retail corridors dropped a modest 1.6% quarter-over-quarter to \$605 per sq. ft. in Q3 2021. This marked the 16th consecutive quarterly decrease, though the pace of decline has slowed compared to a year prior, a small positive for the market.

The market saw other bright spots, as Wegman’s Food Market, Bathhouse and Pink Taco each signed new leases for their first New York City locations, a sign of confidence in the city and its recovery. Opportunistic retailers continued taking advantage of the tenant-favorable market conditions but also began to face new challenges as the inventory of prime second-generation spaces fills up.

Economic Overview

The summer of 2021 began with an economic surge, only to ease back as the delta variant forced many consumers to rethink future spending. Thus, CBRE’s U.S. GDP growth outlook for this year was pared back by an entire percentage point to 6%, followed by nearly 4% year-on-year growth in 2022. A plausible outlook is that waves of Covid-19 continue but the U.S. economy and health system learn to manage these disruptions.

In NYC, office-using employment (OUE) remains on the upswing and has recovered roughly 108,000 jobs from the 241,000 jobs lost due to the pandemic, reaching 1.68 million in August 2021, 93% of its pre-pandemic peak and on par with mid-2017 levels. The OUE recovery has been boosted by the advertising, media, and telecom, business and professional services, and high-tech industry sectors. Total retail employment is currently 4.2 million jobs, a 12% increase from pandemic low of 3.7 million jobs.

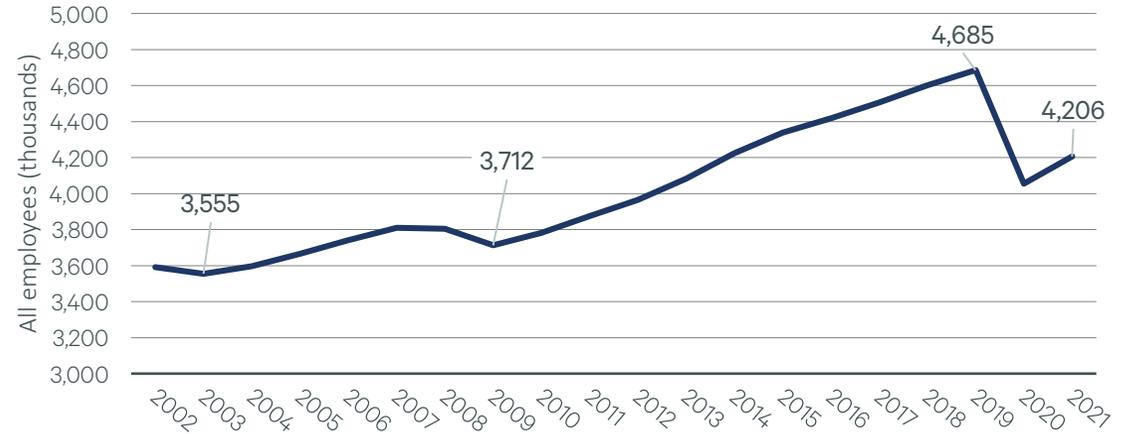
Quarterly retail sales in NYC continued to improve, rising roughly 3.8% to \$38.3 billion in the third quarter while the city’s overall unemployment rate along with the retail job count also showed improvement. At 10.2% as of August 2021, NYC’s unemployment rate is down considerably from its 20.0% pandemic peak, but higher than the 3% range just prior to the pandemic.

Leasing Activity

Retail leasing velocity in Q3 2021 increased for the first time since 2019. The Q3 2021 rolling four-quarter aggregate leasing velocity, which measures total leasing (renewals and new leases) for the four prior quarters, was approximately 1.57 million sq. ft., rising roughly 4.4% from the prior quarter but 45.5% below the rate recorded a year prior.

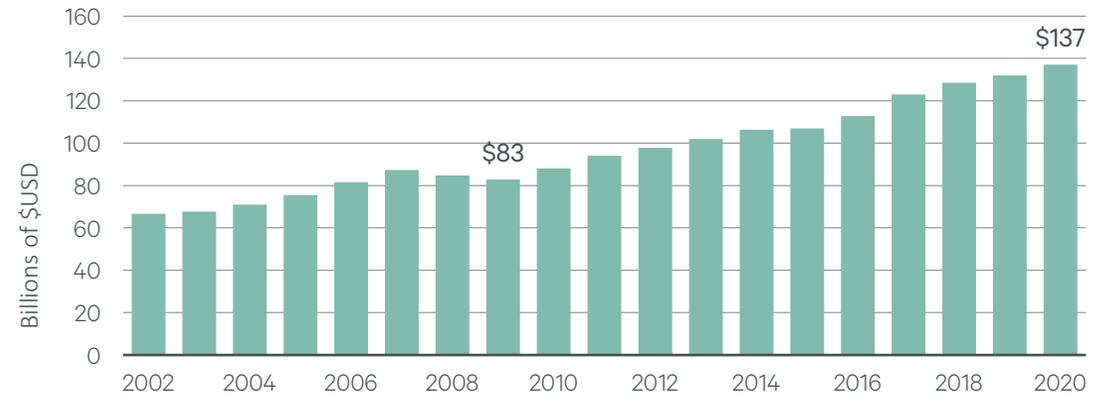
NoHo recorded the highest leasing velocity in Q3 2021 with over 89,000 sq. ft. transacted across two deals. The larger and more significant transaction was Wegman’s Food Market, a national chain based in Rochester, NY, planning to buy out and take over K-Mart’s 89,000-sq.-ft. flagship store at Vornado’s 770 Broadway, while Kyu Restaurants, a modern Asian fusion eatery based in Miami, announced a 6,600-sq.-ft. lease at 324 Lafayette Street. Both leases represent the first brick and mortar outpost for each retailer in Manhattan.

FIGURE 1: Seasonally Adjusted Total Employment



Source: NYC Department of Labor, August 2021.

FIGURE 2: NYC Total Retail Sales | Annual



Source: US Census Bureau, Oxford Economics, September 2021

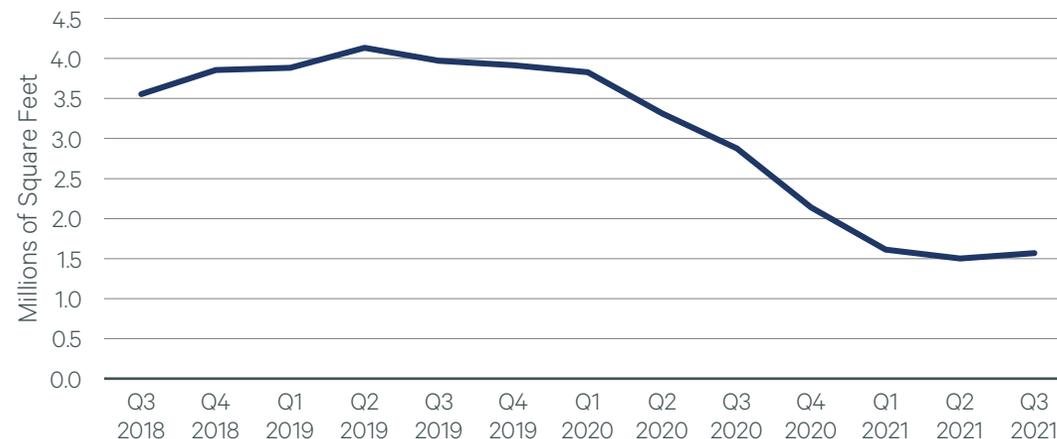
Flatiron/Union Square recorded the second highest leasing velocity in the third quarter with over 52,000 sq. ft. closed across six transactions. The largest transaction was by Bathhouse, a bath and massage spa based in Brooklyn, which signed for more than 34,000 sq. ft. for their first Manhattan outpost at 7 West 21st Street. An undisclosed health and wellness brand signed a new lease for 7,400 sq. ft. at the space formerly occupied by Eddie Bauer at 100 Fifth Avenue, while the modern furniture showroom Bungalow 5 took the 4,800 sq. ft. former Le Pain Quotidien space at Thor Equities’ 929 Broadway.

The Upper East Side saw the highest level of activity based on the number of deals closed in Q3 2021 with approximately 32,000 sq. ft. across 12 transactions. The largest transaction was Sollis Health, an upscale members-only health clinic, signing a 25-year lease for nearly 12,000 sq. ft. at 575 Park Avenue. Third Avenue was the most active street in the third quarter with Fridge No More, an online grocery delivery service based in Brooklyn, announcing plans for its first 3,800-sq.-ft. brick and mortar Manhattan outpost at 1198 Third Avenue. Julien Boulangerie, a Brooklyn-based bakery specializing in French pastries, leased more than 1,500 sq. ft. at 124-7 Third Avenue, and European Wax Center took roughly 1,100 sq. ft. at 1191 Third Avenue.

In terms of square footage leased, grocery was the most active tenant category in Q3 2021 with over 91,000 sq. ft. closed across three transactions. The largest was the aforementioned 89,000-sq.-ft. lease with Wegman’s at 770 Broadway, while new grocery retailers specializing in curbside pickup and delivery Fridge No More and GoPuff signed over 9,200 sq. ft. combined for their first brick and mortar locations at 1198 Third Avenue and 350 West 42nd Street respectively.

With 24 leases signed across 76,000 sq. ft., food and beverage (F&B) was the most active category in terms of number of transactions closed in the third quarter. The most notable F&B transaction was the 10,500-sq.-ft. lease by Pink Taco, a Mexican restaurant chain based in Los Angeles for their first Manhattan outpost at the space formerly occupied by TGI Fridays at 7 Times Square. Additionally, The Penrose, a local bar and restaurant with an old-fashioned feel, announced plans to take over the 7,300 sq. ft. space formerly occupied by Public House at 138 East 41st Street. Quick service chain Popeyes new 5,800 sq. ft. establishment at the Bow Tie Building at 1530 Broadway, along with Kyu Restaurants’ aforementioned 6,600 sq. ft. lease, contributed to the flurry of activity in the F&B sector.

FIGURE 3: Four Quarter Aggregate Leasing Velocity³



Source: CBRE Research, Q3 2021.

FIGURE 4: Rolling Four-Quarter Aggregate Total Leasing Velocity³

| Period | 12 Month Aggregate (Sq. Ft.) |
|---------|-------------------------------|
| Q3 2018 | 3,554,609 |
| Q4 2018 | 3,854,483 |
| Q1 2019 | 3,883,688 |
| Q2 2019 | 4,134,294 |
| Q3 2019 | 3,971,120 |
| Q4 2019 | 3,916,662 |
| Q1 2020 | 3,830,276 |
| Q2 2020 | 3,313,723 |
| Q3 2020 | 2,875,477 |
| Q4 2020 | 2,140,439 |
| Q1 2021 | 1,612,527 |
| Q2 2021 | 1,502,065 |
| Q3 2021 | 1,568,031 |

Source: CBRE Research, Q3 2021.

Availability

In Q3 2021, the number of direct ground floor availabilities tracked across Manhattan’s 16 premier shopping corridors decreased from 290 to 282 quarter-over-quarter. While the count remained 11.0% higher than the figure recorded a year prior, the 2.8% decrease marked the first decline in availability on the corridors since 2019.

Upper Madison Avenue added eight new listings over the past 12 months – increasing the number of ground floor spaces by 18.0% from 43 to 51. In Q3 2021, four new listings were added to market as the former Pucci at 845 Madison Avenue, Lanvin at 807 Madison Avenue, L'Etoile Royale at 784 Madison Avenue, and Vacheron Constantin at 729 Madison Avenue became available. Even though the Upper East Side’s residential population has returned, Madison Avenue continues its struggle to maintain tenancy. Both retailers and consumers have increased focus on the adjacent and more affordable Second and Third Avenue, which have fewer use restrictions and bigger retail footprints for new tenants looking to penetrate this active market.

FIGURE 6: Most Active Tenant Type by Sq. Ft. Leased | Q3 2021

| Tenant Type | Number of deals | Leased (Sq. Ft.) |
|----------------------------|-----------------|-------------------|
| Grocery | 3 | 91,776 |
| Food & Beverage | 24 | 76,431 |
| Apparel | 8 | 51,876 |
| Spa | 3 | 39,890 |
| Entertainment | 2 | 35,788 |
| Health Care | 5 | 30,195 |
| Sporting Goods | 1 | 20,070 |
| Fine Arts | 2 | 16,200 |
| Home Furnishings/Furniture | 2 | 12,223 |
| Financial Services | 1 | 11,021 |

Source: CBRE Research, Q3 2021.

FIGURE 5: Most Active Neighborhoods by Sq. Ft. Leased | Q3 2021

| Neighborhood | Number of deals | Leased (Sq. Ft.) |
|-----------------------|-----------------|-------------------|
| NoHo | 2 | 89,090 |
| Flatiron/Union Square | 6 | 52,409 |
| Upper East Side | 12 | 32,472 |
| Times Square | 4 | 31,691 |
| SoHo | 7 | 29,523 |
| Upper West Side | 10 | 26,073 |
| Grand Central | 2 | 25,419 |
| 14th Street | 1 | 24,500 |
| Chelsea | 5 | 24,033 |
| NoLiTa | 1 | 20,070 |

Source: CBRE Research, Q3 2021.

FIGURE 7: Top Lease Transactions | Q3 2021

| Tenant | Size (Sq. Ft.) | Address | Neighborhood | Tenant Type |
|-----------------------|----------------|----------------------------|-----------------------|--------------------|
| Wegman`s Food Markets | 82,490 | 770 Broadway | NoHo | Grocery |
| Bathhouse | 34,328 | 7 West 21st Street | Flatiron/Union Square | Spa |
| COS | 24,548 | 505 Fifth Avenue | Grand Central | Apparel |
| Exhibition Hub | 24,500 | 526 Avenue of the Americas | 14th Street | Entertainment |
| Wilson Sporting Goods | 20,070 | 594 Broadway | NoLiTa | Sporting Goods |
| Sollis Health | 11,880 | 575 Park Avenue | Upper East Side | Health Care |
| Petzel Gallery | 11,350 | 516 West 25th Street | Chelsea | Fine Arts |
| Museum of Broadway | 11,288 | 145 West 45th Street | Times Square | Entertainment |
| Capital One | 11,021 | 1841 Broadway | Upper West Side | Financial Services |
| Pink Taco | 10,519 | 7 Times Square | Times Square | Food & Beverage |

Source: CBRE Research, Q3 2021.

Fifth Avenue in Grand Central also saw availabilities increase by 55.6% over the past 12 months, from 9 to 14 ground floor spaces. While no new listings were added to the corridor in Q3 2021, the additions of the former Timberland space at 511 Fifth Avenue, Duane Reade at 537 Fifth Avenue, and AT&T at 590 Fifth Avenue in the prior quarter elevated availability on the corridor compared to a year prior.

Average Asking Rent

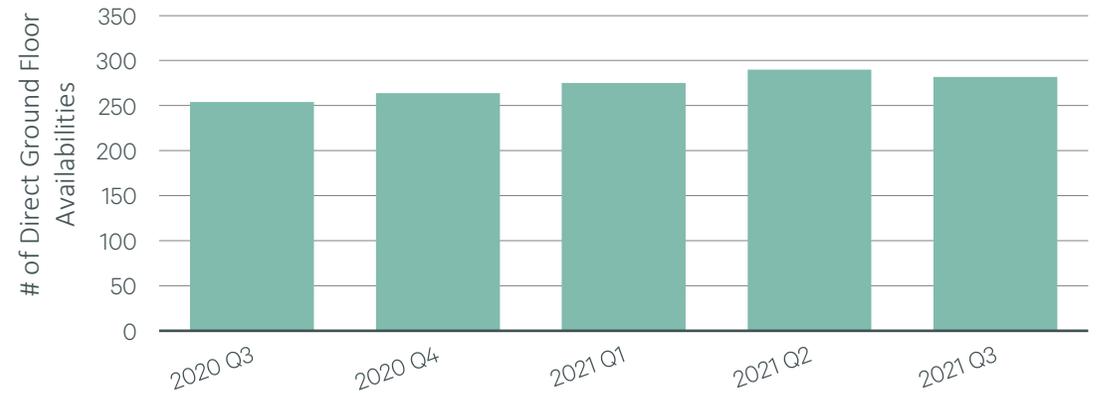
Average asking rent in Manhattan’s retail corridors declined for the 16th consecutive quarter, falling to \$605 per sq. ft. in Q3—a 1.6% decline from Q2 2021 and 8.3% drop from the prior year. The Q3 2021 asking rent was the lowest level seen in nearly a decade. The aggregate average asking rent among all available spaces in the 16 corridors also declined 1.0% quarter-over-quarter and 6.4% year-over-year to \$538 per sq. ft. Landlords remain negotiable to discounts to their asking rents, but there are signals that the window for generous concession packages and tenant improvement allowances has begun to gradually close as the city reopens and demand for Manhattan’s prime retail market returns.

Among the corridors, Times Square’s 19.2% annual decline was the largest percentage decrease of Q3 2021. Asking rents fell annually from \$1,492 per sq. ft. to \$1,205 per sq. ft., or 5.7% quarter-over-quarter to the lowest level since 2011. Despite a recent flurry of new leases signed in Q3 2021 by tenants such as the Museum of Broadway, Popeyes, and Pink Taco, the ongoing uncertainties and disruptions to international tourism will likely keep downward pressure on rents along the corridor.

On the Spring Street corridor in SoHo, two new listings with above-average asking rents were added in the third quarter, contributing to a 3.4% quarterly increase. The corridor recorded the second-largest annual decline with a 16.0% year-over-year decrease in average rents, from \$599 per sq. ft. to \$503 per sq. ft. While pricing on the corridor remains below levels seen as far back as 2015, demand for the market began to improve in the third quarter with Jay Cos, Valentino and Pinko announcing deals in the past 12 months.

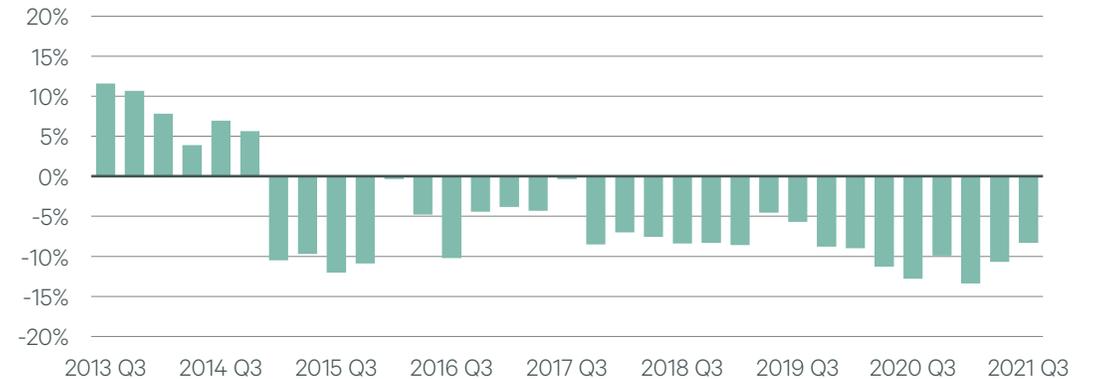
34th Street in Herald Square also saw a large quarterly average asking rent decline, falling 12.0% quarter-over-quarter and 12.4% year-over-year from \$503 per sq. ft. to \$440 per sq. ft.

FIGURE 8: Count of Direct Ground-Floor Availabilities



Source: CBRE Research, Q3 2021.

FIGURE 9: Year-over-Year Asking Rent Change



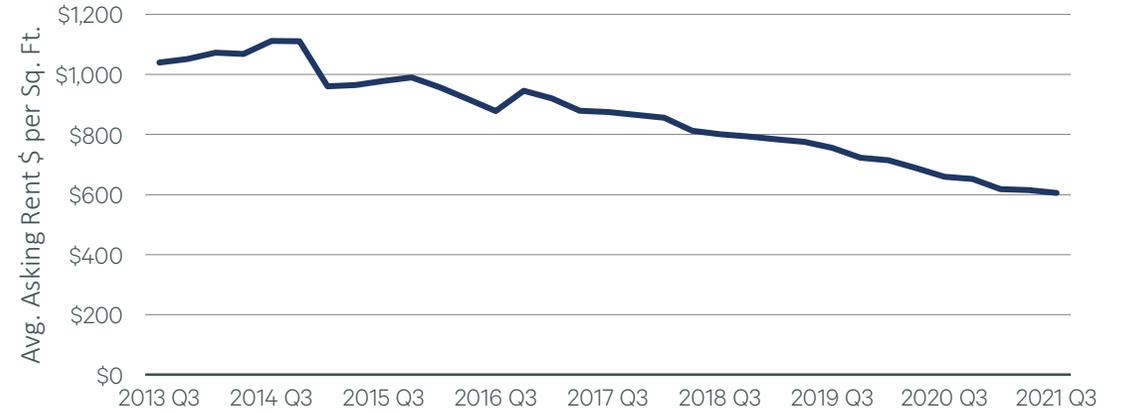
Source: CBRE Research, Q3 2021.

Stagnant inventory and lack of new activity continues to put downward pressure on rents in this major retail submarket.

Third Avenue in the Upper East Side was one of the only corridor to record both a quarterly and annual increase in average asking rent, rising 19.0% quarter-over-quarter and 8.4% year-over-year to \$220 per sq. ft. As residents return to the area and demand for the Upper East Side’s retail improves, new tenants such as Sollis Health, Fridge No More, and Ever/Body penetrated the market. Several above-average priced spaces, such as Ethan Allen at 1010 Third Avenue and Dylan’s Candy Bar at 1011 Third Avenue, were brought to market in Q3 2021.

Meatpacking District’s Washington Street corridor also saw a sizable increase in pricing in the third quarter. The average asking rent increased 11.8% year-over-year to \$501 per sq. ft. While the inventory and pricing remained unchanged on Washington Street in Q3 2021, the addition of several new listings with above-average prices resulted in a slight annual spike in asking rents on the corridor.

FIGURE 10: Average of Corridors



Source: CBRE Research, Q3 2021.

FIGURE 11: Average Asking Rents * | Q3 2021

| Neighborhood | Corridor Parameters | Total direct ground floor availabilities Q3 2021 | Q3 2021 | Q2 2021 | Quarter-over-quarter change | Q3 2020 | Year-over-year change |
|-----------------------|---|--|---------|---------|-----------------------------|---------|-----------------------|
| Upper West Side | Broadway 72nd to 86th Streets | 24 | \$246 | \$229 | 7.3% | \$243 | 1.4% |
| Upper East Side | Third Avenue 60th to 72nd Streets | 19 | \$220 | \$185 | 19.0% | \$203 | 8.4% |
| Upper Madison Ave | Madison Avenue 57th to 72nd Streets | 51 | \$741 | \$773 | (4.1%) | \$839 | (11.7%) |
| Plaza District | Fifth Avenue 49th to 59th Streets** | 11 | \$2,722 | \$2,750 | (1.0%) | \$3,000 | (9.3%) |
| Grand Central | Fifth Avenue 42nd to 49th Streets** | 14 | \$656 | \$675 | (2.8%) | \$708 | (7.3%) |
| Times Square | Broadway & Seventh Avenue 42nd to 47th Streets | 11 | \$1,205 | \$1,277 | (5.7%) | \$1,492 | (19.2%) |
| Herald Square | 34th Street Fifth to Seventh Avenues** | 11 | \$440 | \$500 | (12.0%) | \$503 | (12.4%) |
| Flatiron/Union Square | Broadway 14th to 23rd Streets | 15 | \$334 | \$318 | 4.9% | \$344 | (3.1%) |
| Flatiron/Union Square | Fifth Avenue 14th to 23rd Streets | 20 | \$292 | \$310 | (6.1%) | \$299 | (2.4%) |
| SoHo | Broadway Houston to Broome Streets | 25 | \$343 | \$340 | 0.9% | \$388 | (11.5%) |
| SoHo | Prince Street Broadway to West Broadway | 7 | \$435 | \$469 | (7.2%) | \$405 | 7.4% |
| SoHo | Spring Street Broadway to West Broadway | 11 | \$503 | \$487 | 3.4% | \$599 | (16.0%) |
| Meatpacking | 14th Street Eighth to Tenth Avenues | 15 | \$298 | \$278 | 7.2% | \$322 | (7.4%) |
| Meatpacking | Gansevoort Little West 12th Street 13th Street Ninth to Tenth Avenues | 15 | \$341 | \$337 | 1.2% | \$348 | (2.2%) |
| Meatpacking | Washington Street 14th to Gansevoort Streets | 6 | \$501 | \$501 | 0.0% | \$448 | 11.8% |
| Downtown | Broadway Battery Park to Chambers Street | 27 | \$399 | \$407 | (1.9%) | \$407 | (2.0%) |
| All | Average of corridors | - | \$605 | \$615 | (1.6%) | \$659 | (8.3%) |

| | Total direct ground floor availabilities Q3 2021 | Q3 2021 | Q2 2021 | Quarter-over-quarter change | Q3 2020 | Year-over-year change |
|---------------------------------|--|---------|---------|-----------------------------|---------|-----------------------|
| Aggregate Average Asking Rent** | 282 | \$538 | \$543 | (1.0%) | \$575 | (6.4%) |

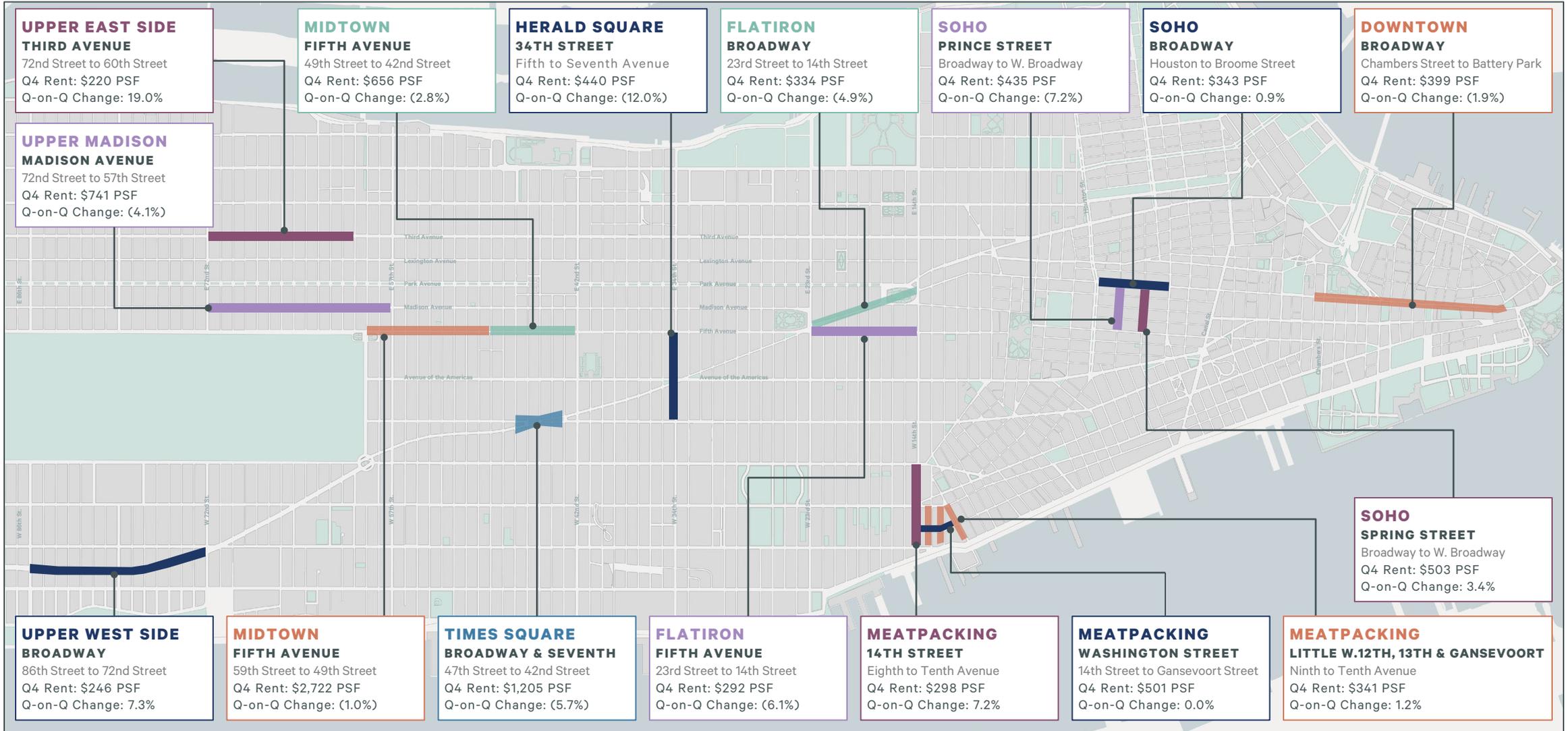
*Based on ground floor only, not inclusive of subleases.

**Historic Average Asking Rent data has been revised since original publication due to updated information

Source: CBRE Research, Q3 2021.

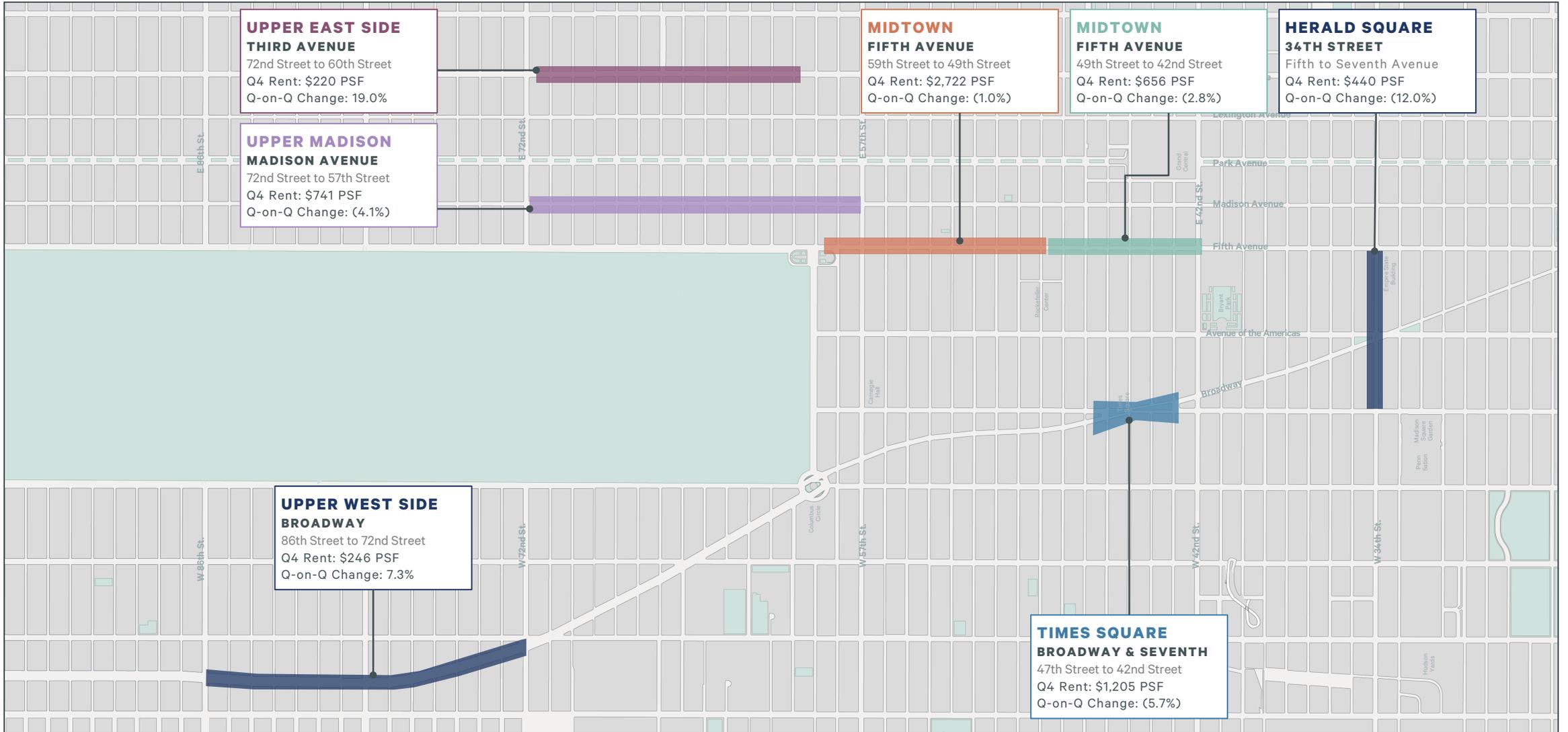
Retail Corridors

Overall Aggregate Average Asking: \$538 (1.0%) | Overall Average Asking Rent: \$605 (1.6%)



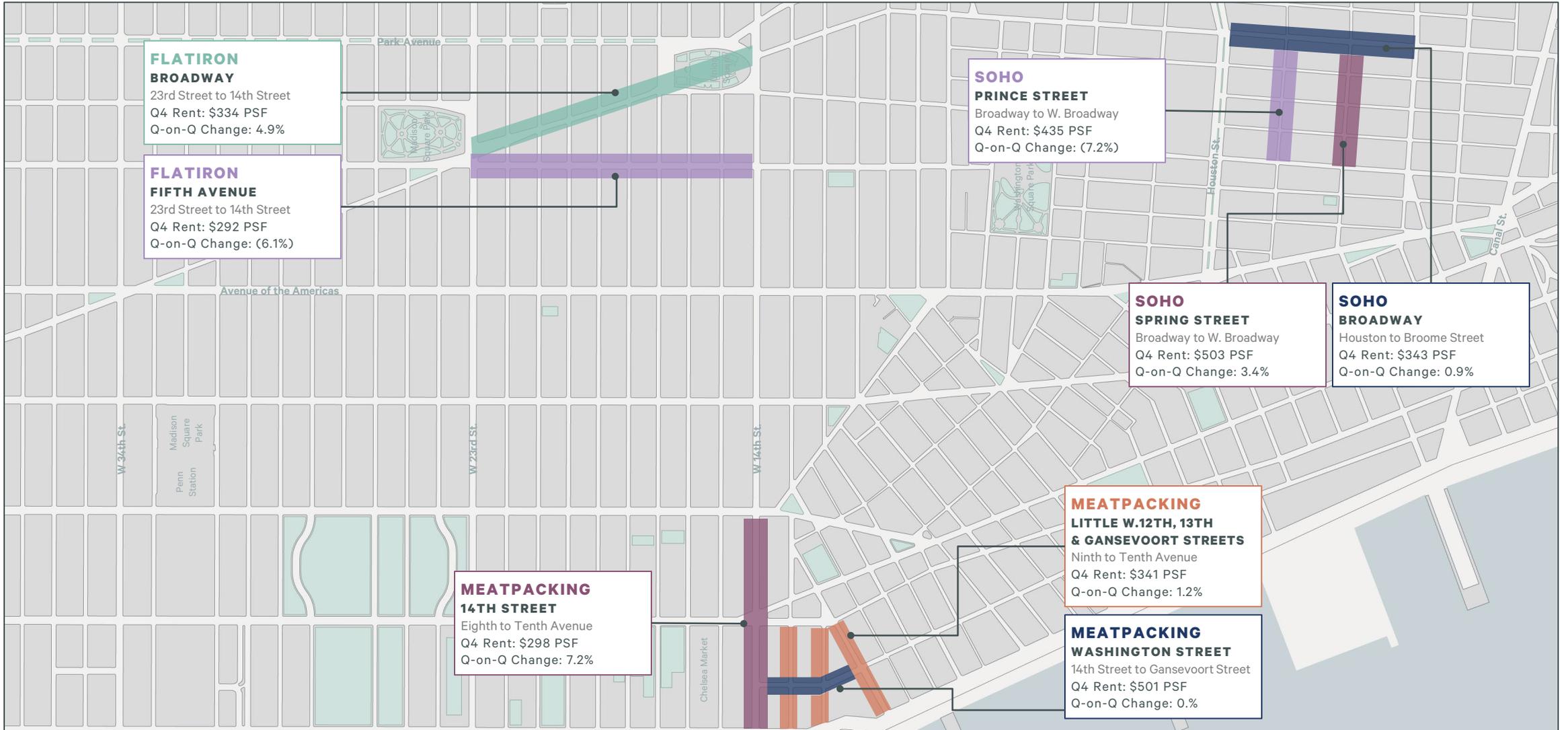
Source: CBRE Research, Q3 2021.

Retail Corridors: Midtown



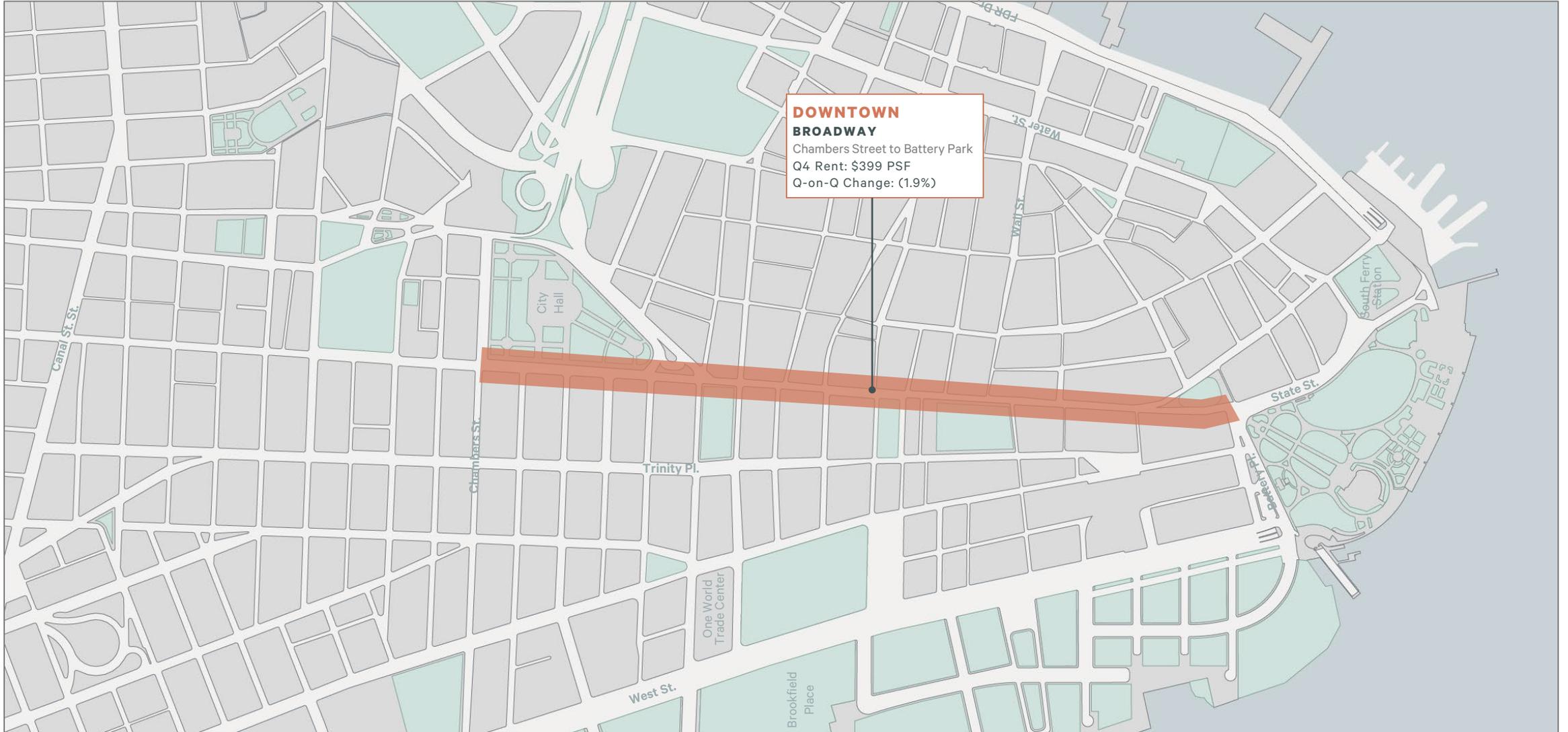
Source: CBRE Research, Q3 2021.

Retail Corridors: Midtown South



Source: CBRE Research, Q3 2021.

Retail Corridors: Downtown



Source: CBRE Research, Q3 2021.

Market Area Overview

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 Change: 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 2021 includes total leasing velocity over Q2 2021, Q1 2021, Q4 2020 and Q3 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.

Definitions

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

Sources

1. <https://www1.nyc.gov/site/doh/covid/covid-19-vaccines-keytonyc.page>
2. <https://commercialobserver.com/2021/09/tourists-returning-to-times-square-but-far-less-than-before-pandemic/>
3. The Q2 2021 rolling four-quarter aggregate total leasing velocity was revised since original publication, based on the availability of additional leasing data.

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