

## Manhattan Retail, Q1 2017

# Fundamental demand drivers remain strong, yet retail market faces headwinds



Consumer Confidence  
**125.6**



NYC Unemployment  
**4.3%**



NYC Annual Retail Sales  
**\$134.2B**



NYC Retail Job Count  
**342.0K**

\*Arrows indicate change from previous quarter.

Sources: The Conference Board, March 2017;  
NYS Department of Labor, March 2017;  
Moody's Analytics, April 2017;  
NYS Department of Labor, March 2017.

## MARKET NEWS

- Trader Joe's announced that it will open a new store at 233 Spring Street (part of the One SoHo Square development) that will encompass the building's entire ground floor. The store, as well as the previously announced Trader Joe's at 670 Columbus Avenue, is expected to open later this year.
- Luxury retailer Hermès signed a lease for a 10,496-sq.-ft. store at 46-48 Gansevoort Street in the Meatpacking District. The store, which is expected to open in the spring of 2019, will reflect a less formal presentation than the Madison Avenue flagship, with an emphasis on items that appeal to younger clients.
- Restoration Hardware's plan to develop a concept hotel at 55 Gansevoort Street in the Meatpacking District has been approved by the Landmarks Preservation Commission. This experiential retailing concept is Restoration Hardware's first hotel, where guests will be able to purchase the hotel's furnishings.
- Ralph Lauren announced in April that it will close its flagship Polo store on Fifth Avenue. This news follows the announcement last year that the luxury retailer is closing 50 stores across the US.

## MARKET OVERVIEW

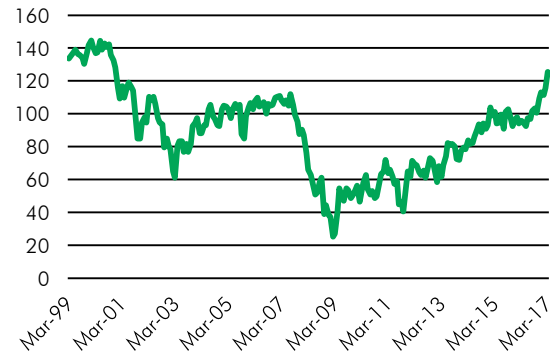
Following an unprecedented rental increase between 2012 and 2014 in which average asking rents rose by close to 90%, the Manhattan retail market is in a period of easing. Of the 16 corridors tracked by CBRE, 12 recorded decreases in average asking rents year-over-year, while the overall average dropped 2.7% in the past 12 months. Downward pressure on rents is coming from increasing availability, with the total number of available spaces growing by 24.4% quarter-over-quarter. However, retail fundamentals within New York City are performing well, as unemployment is down and gross metropolitan product is up. Discount retailers signed three of the top five transactions this quarter, while food retailers, including quick-service restaurants, cafés, bakeries and sit-down restaurants, remained active.

### ECONOMIC TRENDS

Several important trends continue to reshape the retail landscape both nationally and locally. Growing online retailing, which increased to 8.3%<sup>1</sup> of total national retail sales in 2016, continues to put pressure on traditional brick-and-mortar operations. Retailers are also confronting the consequences of over-expansion, often at historically high rents. These phenomena are compounded in New York City by the negative impact of the rising dollar on spending by foreign tourists, a trend that has hit the luxury market especially hard.

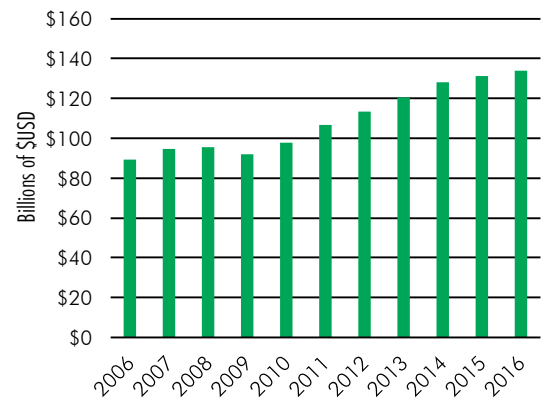
However, while the retail market faces headwinds, the fundamental demand drivers for the city remain strong. The Conference Board's Consumer Confidence Index improved sharply in March, increasing to 125.6 from 116.1 in February<sup>2</sup>. In New York City, unemployment is near historic lows, 4.3%<sup>3</sup> in February, decreasing from 5.6% a year ago. The New York City region's gross metropolitan product is on the rise, increasing 4.1% year-over-year to \$1.2 trillion in Q1 2017<sup>4</sup>. Total citywide retail sales are also trending positively, increasing 2.1% year-over-year to \$134.2 billion (exclusive of online retail sales)<sup>5</sup>.

Figure 1: Consumer Confidence Index



Source: The Conference Board, March 2017

Figure 2: NYC Retail Sales



Source: Moody's Analytics, December 2016

Figure 3: Top Lease Transactions

Tenant	Size (Sq. Ft.)	Address	Industry
TJX Companies (d.b.a. Marshalls)	68,400	140 West Street	General Sales
Whole Foods	60,000	5 Manhattan West	Grocery Store
Nordstrom Rack	44,000	855 Avenue of the Americas	Apparel/Accessories
Target	43,000	112 W 34th Street	General Sales
Crunch Fitness	31,200	140 Broadway	Fitness
Union Fare	21,000	282 Eleventh Avenue	Restaurant
Alo Yoga	17,600	164 Fifth Avenue	Sportswear
PetSmart	16,000	10 Madison Square W	Pet Store
LINE FRIENDS	13,100	1515 Broadway	Miscellaneous
Hermès	10,496	46-48 Gansevoort Street	Apparel/Accessories
Caldezonina	7,499	601 Fifth Avenue	Apparel/Accessories

Source: CBRE Research, Q1 2017

### LEASING ACTIVITY

The first quarter was a busy one for discount retailers, which accounted for three of the five largest Manhattan transactions. TJX Companies signed a 68,400-sq.-ft. lease for a Marshalls at Downtown's 140 West Street, across from One World Trade Center. Nordstrom Rack took 44,000 sq. ft. at 855 Avenue of the Americas, and Target signed on for 43,000 sq. ft. at 112 West 34th Street, the chain's third location in Manhattan. Food retailers, especially fast-casual offerings, were the most active in leasing space, accounting for 34% of all transactions this quarter.

### AVERAGE ASKING RENTS

Across all 16 corridors tracked by CBRE, average asking rents dropped 2.7% year-over-year. Despite decreases, average asking rents remain near record highs, after rents nearly doubled between 2012 and 2014. Since the peak in the first quarter of 2014, average asking rents have decreased 20.8% across all 16 retail corridors, to an average of \$850 per sq. ft.

Looking at individual corridors, four recorded increases in asking rents year-over-year. The most prominent of these was Downtown Broadway, which saw rent increase 19.5% to \$419 per sq. ft. The strong Downtown economy is elevating rents, as new office tenants, a growing residential population, and more hotel rooms and tourists are increasing demand.

Figure 4: Average Asking Rents | Q1 2017

Corridor	Boundaries	Q1 2017	Q2 2016	Quarter-over-quarter change	Q4 2016	Year-over-year change
Upper West Side	Broadway   72nd to 86th Streets	\$305	\$339	(6.1)	\$325	(10.2)
Upper East Side	Third Avenue   60th to 72nd Streets	\$342	\$321	(7.9)	\$372	6.6
Upper Madison Ave	Madison Avenue   57th to 72nd Streets	\$1,406	\$1,438	(0.2)	\$1,409	(2.3)
Midtown	Fifth Avenue   49th to 59th Streets	\$1,121	\$1,362	(3.7)	\$1,165	(17.7)
Midtown	Fifth Avenue   42nd to 49th Streets	\$3,432	\$3,360	(8.3)	\$3,741	2.1
Times Square	Broadway & Seventh Avenue   42nd to 47th Streets	\$2,187	\$2,275	(3.1)	\$2,257	(3.9)
Flatiron	Broadway   14th to 23rd Streets	\$380	\$441	(6.7)	\$408	(13.7)
Flatiron	Fifth Avenue   14th to 23rd Streets	\$391	\$408	0.8	\$388	(4.2)
Herald Square	34th Street   Fifth to Seventh Avenues	\$665	\$771	(7.7)	\$721	(13.8)
SoHo	Broadway   Houston to Broome Streets	\$678	\$798	(3.6)	\$703	(15.0)
SoHo	Prince Street   Broadway to West Broadway	\$802	\$933	(1.3)	\$813	(14.1)
SoHo	Spring Street   Broadway to West Broadway	\$896	\$1,050	(12.0)	\$1,018	(14.6)
Meatpacking	14th Street   Eighth to Tenth Avenues	\$335	\$386	(0.1)	\$335	(13.3)
Meatpacking	Gansevoort   Little West 12th Street   13th Street   Ninth to Tenth Avenues	\$453	\$513	(5.2)	\$478	(11.8)
Meatpacking	Washington Street   14th to Gansevoort Streets	\$623	\$567	0.0	\$623	9.9
Downtown	Broadway   Battery Park to Chambers Street	\$419	\$351	9.9	\$381	19.5
Aggregate	All Corridors	\$850	\$874	(3.7)	\$883	(2.7)

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

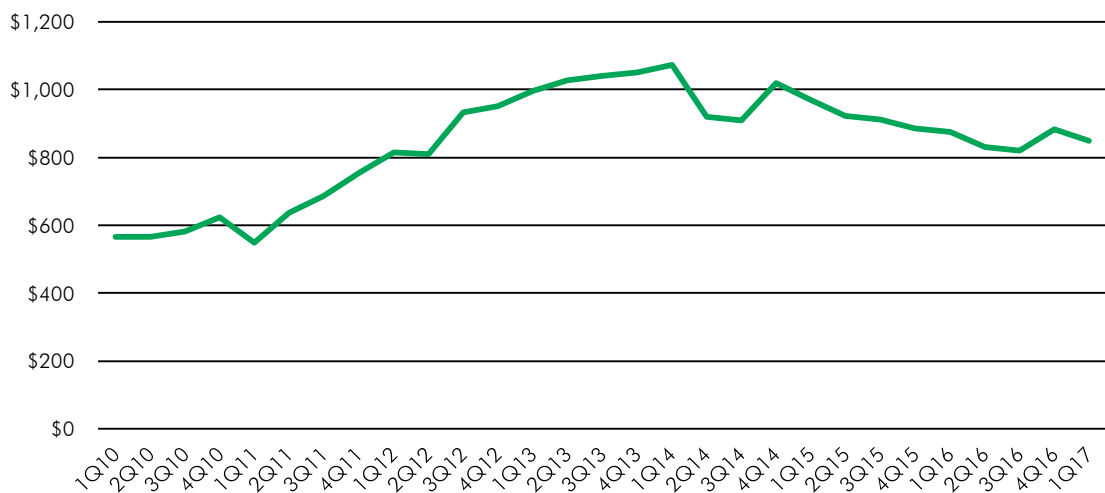
Source: CBRE Research, Q1 2017

In addition, the opening of Brookfield Place in 2015, and Westfield World Trade Center and Saks Fifth Avenue in 2016, have enhanced Downtown's position as a retail destination, driving further rent growth.

On Washington Street in the Meatpacking District, the average asking rent increased by 9.9% year-over-year to \$623 per sq. ft. While there was no quarter-over-quarter change, with only three availabilities currently on Washington Street, the removal of a less-expensive space has increased the average asking rent over the past 12 months. On the Upper East Side, where ground-floor availabilities increased from eight in Q1 2016 to 21 in Q1 2017, spaces listed at \$425 per sq. ft. has pulled up the asking rent 6.6% in the past 12 months to \$342 per sq. ft. The recently opened Second Avenue subway has increased access to the Upper East Side, which will likely drive retail growth in this neighborhood.

Midtown's Fifth Avenue between 42nd and 49th streets recorded the largest decrease year-over-year, declining 17.7% to \$1,121 per sq. ft., after having peaked in late 2015 at \$1,366 per sq. ft. While the decline is notable, asking rents are still near historic highs. In SoHo, increasing availability, particularly on Broadway, is putting downward pressure on rents: average asking rents along the Broadway, Prince Street and Spring Street corridors decreased year-over-year by 15.0%, 14.1% and 14.6%, respectively. Despite decreases in average asking rents, SoHo is well positioned. The successful Williamsburg institution, Smorgasburg, is opening a new location at 76 Varick Street this summer, while SoHo's desirability as a fashion powerhouse will likely continue to draw shoppers and tenants.

Figure 5: Aggregate Average Asking Rents | Quarterly



Source: CBRE Research, Q1 2017.

RETAIL CORRIDORS



**DEFINITIONS**

**Availability** — 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

**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.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf)
2. <https://www.conference-board.org/data/consumerconfidence.cfm>
3. <https://www.labor.ny.gov/stats/nyc/>
4. BEA; BLS; Moody's Analytics
5. U.S. Census Bureau (BOC); Moody's Analytics Estimated

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