CBRE MARKETVIEW

Manhattan Retail, Q4 2017

Soft rents, strong local economy spell opportunities for tenants in 2018

Consumer Confidence	NYC Unemployment	NYC Quarterly Retail Sales	NYC Retail Job Count
▲ 122.1	▼ 4.7%	▲ $34.7B	▼ 356.6K

*Arrows indicate change from previous quarter.

Sources: The Conference Board, December 2017; NYS Department of Labor, November 2017; U.S. Census Bureau, Moody's Analytics, September 2017; NYS Department of Labor, December 2017.

MARKET NEWS

- Holiday shopping exceeded expectations, with many retailers posting solid sales growth over last year.
- Iconic toy retailer FAO Schwarz, Inc. plans to open a new store in New York City at 30 Rockefeller Center after closing its doors at the GM Building in 2015.
- The Marriott Edition Hotel at 20 Times Square topped out at 39 stories. Its 76,000 sq. ft. of street-level retail space is home to experiential concepts by the NFL and the Hershey Company.
- Essex Crossing, the mixed-use development on the Lower East Side with 400,000 sq. ft. of retail space, secured financing for another stage of development at 180 Broome Street.

MARKET OVERVIEW

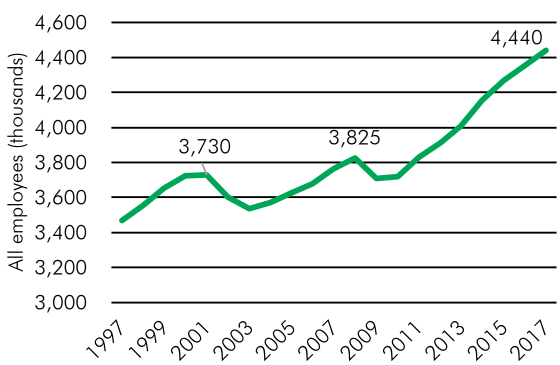
Conditions in the Manhattan retail market wrapped up 2017 with both challenges and opportunities for landlords and tenants. Market fundamentals are solid, consumer confidence is high and most retailers posted strong year-over-year holiday sales. Through the year, aggregate average asking rents across the 16 main retail corridors declined by 18.4% from those posted in 2016. Availabilities ticked up slightly in the past 12 months, but remained relatively flat quarter over quarter and even backed away from peak levels. Leasing velocity was healthy through 2017, with 2.6 million sq. ft. of transactions closing, though some pullback was recorded in Q4. The most active neighborhoods in terms of space leased over the year were SoHo, Midtown West and Penn Plaza/Herald Square. As rents continue to decline, landlords are becoming increasingly amenable to tenant improvement allowances and short term leases, creating opportunities for tenants.

ECONOMIC OVERVIEW

Drivers of the New York City economy are healthy, and many indicators are at all-time highs. New York's Gross City Product continued to outpace US GDP, with comparative annualized growth rates of 3.6% and 3.2%[1] respectively. The major New York City-based stock indices stood at record levels at the close of 2017, while the city's total employment continued its seven-year climb. The market overall is estimated to be at near full-employment.

The city's seasonally adjusted unemployment rate was 4.7%[2] as of November 2017, down slightly from November of the previous year . While retail-trade employment decreased in the past 12 months by 1.7%[3], some sectors showed improvements. Food services and drinking places employment increased 4.2% year over year, and the leisure and hospitality sector by 2.8%, demonstrating the shift in spending from goods to experiences. Domestic and international tourism is expected to continue to increase in 2018 and 2019, while the implementation of the Tax Cuts and Jobs Act legislation should give consumer expenditure a boost. Although the business of retail continues to evolve, national and local drivers affecting consumer spending were relatively healthy at year end, pointing to the underlying strength of New York City retail.

Figure 1: NYC Seasonally Adjusted Total Employment



Source: NYC Department of Labor, November 2017.

LEASING VELOCITY

Despite the above-mentioned pullback, leasing velocity increased year over year. Total velocity, which includes new leases and renewal transactions, totaled 2.6 million sq. ft., an 8.2% increase from the 2.4 million sq. ft. recorded in 2016. SoHo was by far the most active neighborhood in 2017 by total square feet leased with 227,395 sq. ft., followed by Midtown West with 163,155 sq. ft. SoHo also was the most active neighborhood in terms of total number of deals completed, logging 43 transactions in 2017. In Q4, the Lower East Side saw the most activity within Manhattan's neighborhoods, posting 43,373 sq. ft. closed. This was aided by a 20,307-sq.-ft. lease by Marshall's and CVS Health's 9,956-sq.-ft. deal, both at the new luxury residential development at 196 Orchard Street, joining a 30,033-sq.-ft. Equinox location.

Figure 2: Top Lease Transactions

Tenant	Size (Sq. Ft.)	Address	Neighborhood	Industry
Old Navy	21,900	147 E 86th Street	Upper East Side	Apparel-Unisex
Marshalls	20,307	196 Orchard Street	Lower East Side	Department Store
Levi Strauss & Company	17,939	1535 Broadway	Times Square	Apparel-Unisex
AloYoga, Inc.	14,600	96 Spring Street	SoHo	Apparel-Unisex
Vans	12,500	140 W 34th Street	Penn Plaza/Herald Square	Apparel-Unisex
Ann Taylor, Inc.	11,240	7 Times Square Tower	Times Square	Apparel-Women's
Kiddie Academy	10,502	72 Reade Street	Tribeca	Education
CVS Health Corporation	9,956	196 Orchard Street	Lower East Side	Pharmaceuticals
Frame Gourmet Eatery	9,890	341-347 Fifth Avenue	Grand Central	Restaurant-Fast Food/Quick Service
MMMG LLC	8,342	433 Fifth Avenue	Grand Central	Hospital/Clinic

Source: CBRE Research, Q4 2017.

Figure 3: Most Active Neighborhoods by SF Leased | Q4 2017

Neighborhood	Leased (Sq. Ft.)	Number of deals
Lower East Side	43,373	8
SoHo	38,970	6
Upper East Side	38,060	8
Times Square	33,572	4
Grand Central	32,395	9
Upper Madison Avenue	30,918	3
Tribeca	29,246	6
Penn Plaza/Herald Square	28,990	6
Plaza District	25,509	10
Upper West Side	22,894	5

Source: CBRE Research, Q4 2017.

Figure 4: Most Active Tenant Type by SF Leased | Q4 2017

Tenant type	Number of deals	Leased (Sq. Ft.)
Apparel	145,613	18
Restaurants	91,995	39
Department Store	20,307	1
Education	19,003	2
Cosmetics	18,511	5
Banking	17,416	5
Health Care	16,836	5
Health Club	16,525	5
Pharmaceuticals	9,956	1
Accessories	8,616	2

Source: CBRE Research, Q4 2017.

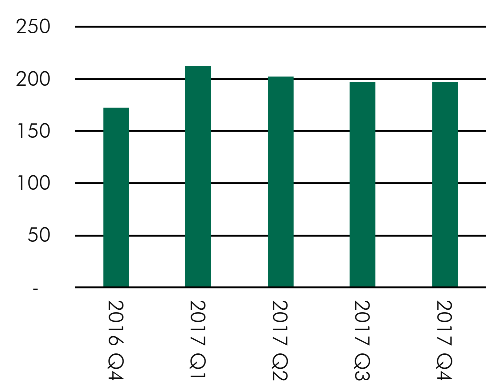
Tenants in the restaurant category were the most active in 2017, with 558,766 -sq. ft. of leasing velocity, accounting for 21.8% of total. Restaurants comprised 31.4% of all leases signed in 2017. This was followed by apparel categories, recording 430,775 sq. ft. of leasing, or 16.8%. Similarly, in the fourth quarter, apparel retailers and restaurants took the most space consecutively, at 34.5% and 21.8% of total volume respectively.

AVAILABILITY

As of the Q4 2017, there were 197 direct, ground-floor available spaces across the 16 corridors tracked by CBRE. Availability has ticked up year over year, while remaining flat quarter over quarter, and decreasing from its Q1 2017 peak, when 212 spaces were being marketed. Upper Madison Avenue saw the most quarterly space additions, with four new spaces in the corridor.

Other corridors across the city were flat, recording one space addition or removal, or no change quarter over quarter. In the past 12 months, Downtown Broadway doubled its availabilities, from eight to 16. However, this was due in part to the addition of spaces within new construction. The Upper East Side saw availabilities grow from 11 in Q4 2016 to 19 in Q4 2017—a major driving force in the overall year-over-year increase.

Figure 5: Count of Direct Ground-Floor Availabilities



Source: CBRE Research, Q4 2017.

AVERAGE ASKING RENTS

As the market correction continued in the last quarter of the year, average asking rents maintained their downward trajectory. Aggregate average rent for Manhattan availabilities was $721 per sq. ft., an 18.4% year-over-year decrease. Over the quarter, there was a small 1.4% increase; this was due to a number of spaces coming to market in more expensive corridors.

Of the main retail corridors in Manhattan, 14 of 16 recorded year-over-year decreases, and the corridor average fell 10.5%. Third Avenue on the Upper East Side witnessed the largest year-over-year decline. Space priced below average came to market as the number of direct spaces along the corridor increased from 11 at year-end 2016 to 19 in Q4 2017. Lower-priced availabilities also came online, while existing availabilities were repriced downward, pulling the average asking rent down to $291 per sq. ft.

Washington Street in the Meatpacking District also recorded a substantial decrease. This small corridor had limited availability, and as of Q4 2017 only three spaces were actively being marketed. In

Figure 6: Average Asking Rents | Q4 2017

Corridor	Parameters	Total direct ground floor availabilities Q4 2017	Q4 2017	Q3 2017	Quarter-over-quarter change	Q4 2016	Year-over-year change
Upper West Side	Broadway | 72nd to 86th Streets	13	$270	$287	(6.1%)	$325	(16.9%)
Upper East Side	Third Avenue | 60th to 72nd Streets	19	$291	$295	(1.4%)	$372	(21.7%)
Upper Madison Ave	Madison Avenue | 57th to 72nd Streets	30	$1,286	$1,289	(0.2%)	$1,409	(8.7%)
Plaza District	Fifth Avenue | 49th to 59th Streets	5	$3,386	$3,412	(0.8%)	$3,741	(9.5%)
Grand Central	Fifth Avenue | 42nd to 49th Streets	13	$1,048	$1,023	2.5%	$1,165	(10.0%)
Times Square	Broadway & Seventh Avenue | 42nd to 47th Streets	5	$2,020	$2,086	(3.2%)	$2,257	(10.5%)
Flatiron/Union Square	Broadway | 14th to 23rd Streets	5	$393	$393	0.0%	$408	(3.7%)
Flatiron/Union Square	Fifth Avenue | 14th to 23rd Streets	9	$403	$406	(0.8%)	$388	3.9%
Herald Square	34th Street | Fifth to Seventh Avenues	11	$606	$575	5.5%	$721	(15.9%)
SoHo	Broadway | Houston to Broome Streets	20	$588	$607	(3.2%)	$703	(16.4%)
SoHo	Prince Street | Broadway to West Broadway	6	$783	$771	1.5%	$813	(3.8%)
SoHo	Spring Street | Broadway to West Broadway	8	$828	$817	1.3%	$1,018	(18.7%)
Meatpacking	14th Street | Eighth to Tenth Avenues	18	$327	$351	(6.7%)	$335	(2.3%)
Meatpacking	Gansevoort | Little West 12th Street | 13th Street | Ninth to Tenth Avenues	16	$411	$442	(7.1%)	$478	(13.9%)
Meatpacking	Washington Street | 14th to Gansevoort Streets	3	$490	$550	(10.8%)	$623	(21.3%)
Downtown	Broadway | Battery Park to Chambers Street	16	$411	$414	-0.6%	$381	7.9%
All	Average of corridors	-	$846	$857	(1.3%)	$946	(10.5%)

	Total direct ground floor availabilities Q4 2017	Q4 2017	Q3 2017	Quarter-over-quarter change	Q4 2016	Year-over-year change
Aggregate Average Asking Rent	197	$721	$711	1.4%	$883	(18.4%)

Based on ground floor only, not inclusive of subleases.

Source: CBRE Research, Q4 2017.

addition, new space with below-average asking prices pulled the asking rent down 21.3% to $490 per sq. ft. SoHo's Spring Street also recorded a decline of 18.7% in average asking rents year over year, to $828 per sq. ft. by Q4.

Of corridors recording increases year over year, Downtown Broadway showed the highest increase, 7.9% to $411 per sq. ft. This was due to the regeneration of the retail, office and hotel segments within Lower Manhattan. Although the number of direct spaces marketed has doubled in the Downtown corridor over the year, the increase can be attributed to new construction space coming to market.

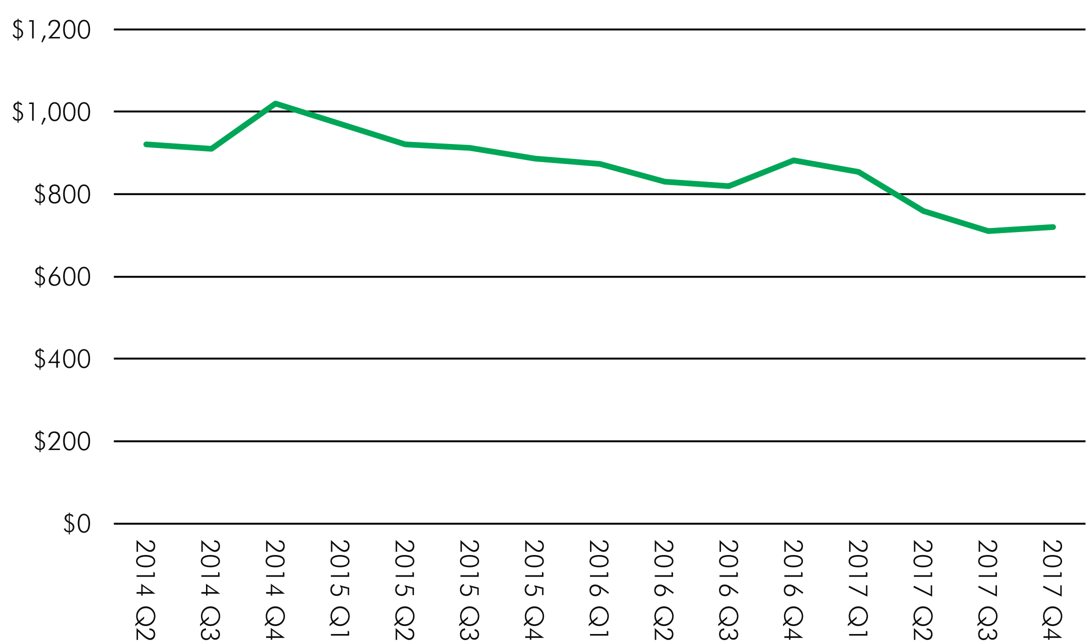
Fifth Avenue in Flatiron/Union Square also recorded an increase of 3.9% to $403 per sq. ft. Rents in this corridor have not receded from peak levels as other corridors have declined (by 3.9% since 2015).

Comparatively, this neighborhood did not see escalations at a similar trajectory to the average, and thus rents should hold steady in 2018.

Across Manhattan, as rents decline, lease structures are evolving as the market becomes increasingly tenant favorable. Additional incentives tenlike free rent periods and tenant improvement allowances are standard practice, while short-term leases are becoming more prevalent, allowing for greater ant flexibility.

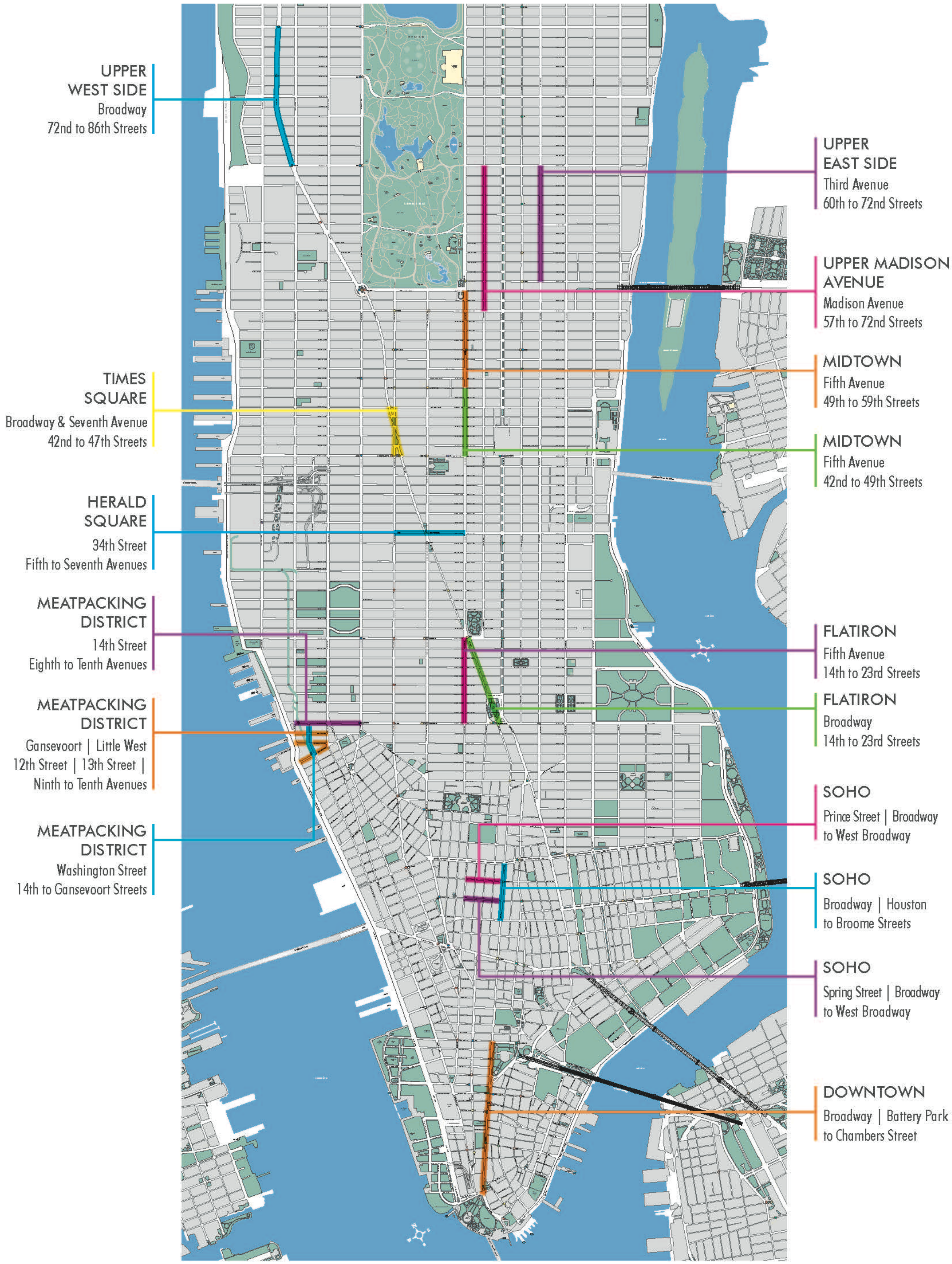
**All Q4 2016 average asking rent data have been revised since original publication. The revision was based on a change in methodology, switching from a weighted average method to a straight average calculation. Since Q1 2017, all CBRE Manhattan retail reports calculate average asking rents with the straight average method.*

Figure 7: Aggregate Average Asking Rents | Quarterly



Source: CBRE Research, Q4 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.

Aggregate average asking rent—The straight-line average of all direct, ground-floor availabilities with corridor frontage.

Corridor Average—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.

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://comptroller.nyc.gov/
2. https://www.labor.ny.gov/stats/nyc/
3. https://www.labor.ny.gov/stats/nyc/
4. NYC & Company

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