Manhattan Retail, Q1 2018

Tenants find opportunities with strong economy and declining rents

Consumer Confidence	NYC Unemployment	NYC Quarterly Retail Sales	NYC Retail Job Count
▲ 127.7	▼ 4.2%	▲ $35.4B	▼ 349.0K

*Arrows indicate change from previous quarter.

Sources: The Conference Board, March 2018;
NYS Department of Labor, March 2018;
U.S. Census Bureau, Moody's Analytics, December 2017;
NYS Department of Labor, March 2018.

MARKET NEWS

- Nordstrom's first foray into New York City has begun, with a 47,000 sq. ft. Men's Store having opened at 57th Street and Broadway.[1] This will be followed by an adjacent Women's Store, which is currently under construction with expected delivery in late 2019.
- 65-year-old toy retailer, Toys "R" Us, is closing all 735 US locations.[2] The retailer had struggled with its debt obligation and an evolving retail environment.
- National retail REIT GGP has reached an agreement to be acquired by Brookfield Property Partners.[3] GGP owns and operates six prime retail assets in Manhattan, with more in the Tri-State area.
- Off-price retailers are continuing to grow in Manhattan. Target has plans for at least three additional small-format locations in the New York City, while TJ Maxx expanded its footprint at the 57th Street location.

MARKET OVERVIEW

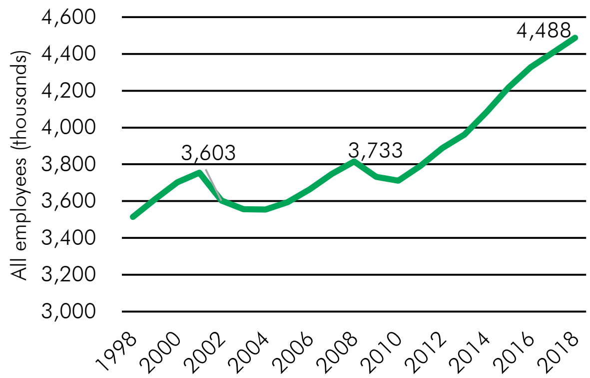
While the fundamentals of the Manhattan economy remain strong, the market continues to struggle with the disruption caused by secular changes to the business of retail. Year-over-year rents decreased along 13 of Manhattan's 16 main corridors, while the aggregate average asking rent fell 19.5%, to reach $653 per sq. ft. Much of the decline resulted from landlords repricing space downward. Total leasing decreased quarter-over-quarter, but remains active. The Plaza District was the most active neighborhood for leasing velocity in Q1, with close to 70,000 square feet of deals closed, followed by SoHo and Flatiron / Union Square, with approximately 56,000 square feet of leasing. Availability ticked up, however, and is on par with the prior peak of Q1 2017.

ECONOMIC OVERVIEW

New York City retail demand drivers remain strong and showed continued improvement in recent months, although the rate of improvement appears to be slowing somewhat. The city's unemployment rate continues to trend down, reaching a seasonally adjusted 4.2%,[4] a ten-year low, while total employment reached a new all-time high of 4.49 million.[5] Overall retail trade employment has also increased year-over-year by 1.2%, driven in particular by the food and beverage and grocery store segments.[6] Overall Gross City Product continued to expand, but at a modest rate of 1.2%. At less than half the growth rate for the overall US economy, this is the first time NYC has fallen behind the national rate since 2016.[7]

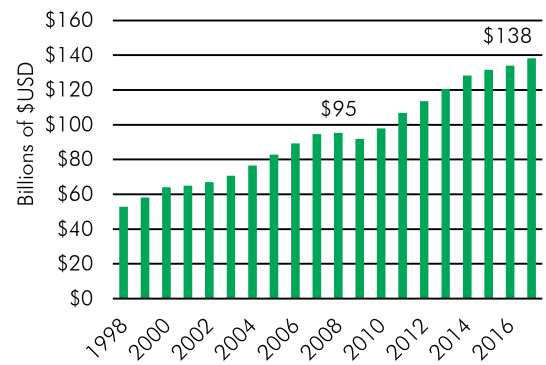
Total quarterly retail sales for the five boroughs grew by 4.8%[8] year-over-year in Q4, according to the most recent data. In tandem, consumer spending in New York City grew by 3.8%,[9] pointing to positive signs for the city's retail market. Domestic and international tourism to New York City is also expected to increase, reaching over 62 million visitors in 2018.[10]

Figure 1: NYC Seasonally Adjusted Total Employment



Source: NYC Department of Labor, March 2018.

Figure 2: NYC Total Retail Sales



Source: US Census Bureau, Moody's Analytics, December 2017.

LEASING

The Plaza District was the most active neighborhood in Q1 2018, with just over 70,000 sq. ft. of leasing, overtaking SoHo, which had been the busiest throughout 2017. Plaza District leasing was buoyed by the TJ Maxx expansion at 250 West 57th Street, as the footprint of off-price retailers continues to expand throughout Manhattan. Financial services, fitness, wine bars and apparel retailers all signed leases in this neighborhood. SoHo was the second most active neighborhood so far in 2018, the largest lease being Spanish label MANGO renewing their lease at 561 Broadway.

Figure 3: Top Lease Transactions

Tenant	Size (Sq. Ft.)	Address	Neighborhood	Industry
TJX Companies, Inc.	19,000	250 West 57th Street	Plaza District	Department Store
MANGO	18,800	561 Broadway	SoHo	Apparel
MasterCard Worldwide	15,000	150 Fifth Avenue	Flatiron/Union Square	Financial Services
Morton Williams Associated Supermarkets	12,840	1251 Third Avenue	Upper East Side	Grocery
Tailor's Inn	12,700	505 Eighth Avenue	Penn Plaza/Herald Square	Restaurant
Fidelity Brokerage Services	10,300	350 Park Avenue	Plaza District	Financial Services
Aerie	10,000	75 Spring Street	NoLIta	Apparel
Pergola	9,900	116 East 16th Street	Flatiron/Union Square	Restaurant
Gentle Monster	9,655	70 Wooster Street	SoHo	Accessories
Samwon Garden	8,950	37 West 32nd Street	Penn Plaza/Herald Square	Restaurant

Source: CBRE Research, Q1 2018.

Figure 4: Most Active Neighborhoods by SF Leased | Q1 2018

Neighborhood	Leased (Sq. Ft.)	Number of deals
Plaza District	70,046	12
SoHo	55,901	11
Flatiron/Union Square	55,259	8
Penn Plaza/Herald Square	37,954	7
Upper East Side	35,327	10
Grand Central	34,661	5
Chelsea	23,133	7
NoLIta	22,807	10
Upper West Side	21,085	11
Upper Madison Avenue	16,979	6

Source: CBRE Research, Q1 2018.

Figure 5: Most Active Tenant Type by SF Leased | Q1 2018

Tenant type	Leased (Sq. Ft.)	Number of deals
Restaurant	159,106	52
Financial Services	81,150	11
Apparel	80,717	20
Accessories	25,806	7
Home Furnishings/Furniture	22,764	6
Cosmetics and Beauty	21,665	10
Health Club	19,095	5
Department Store	19,000	1
Grocery	18,340	2
Spa	13,450	4

Source: CBRE Research, Q1 2018.

SoHo as a neighborhood has been experiencing a rise in pop-up and short-terms deals, and in Q1 saw a mix of short-term (< 3 years) and longer term (> 7 years) transactions.

The restaurant category was the most active segment in the first quarter, with nearly 160,000 square feet of deals closed. This includes sit-down s restaurants, which outpaced the growing quick service restaurant (QSR) category in Q1. Financial services were also active, recording just over 80,000 square feet of leasing, while apparel retailers rounded out the most active categories in Q1, with nearly 80,000 square feet of closed deals.

AVAILABILITY

The number of direct ground floor spaces along the 16 main retail corridors tracked by CBRE was flat year-over-year but ticked up quarter-over-quarter. There were 209 direct ground floor spaces being actively marketed in the 16 retail corridors in Q1 2018. Drivers of the quarterly increase were the Broadway section of the Flatiron District, Fifth Avenue in the Plaza District and Third Avenue on the Upper East Side. All other corridors were flat, recording either no changes or one addition or removal.

Anecdotally, a recent trend is the increase of sublease space in Manhattan. Some of the space for tenants whose footprint was over expanded is being brought back to market on a sublease basis. Direct spaces must also compete with available space offered by tenants as well as landlords. In this environment, tenants looking for short-term space and flexible deals can find more negotiable rent and terms from sublease space.

Figure 6: Count of Direct Ground-Floor Availabilities

Source: CBRE Research, Q1 2018.

AVERAGE ASKING RENTS

As the market continues adjusting to secular changes in retailing, Manhattan average asking rents continue to decline. Year-over-year, direct rents decreased along 13 of the 16 main corridors tracked by CBRE, while the aggregate average asking rent for spaces along all 16 corridors fell 19.5%, to reach $653 per sq. ft. Quarter-over-quarter, there was a less discernible pattern across the board, with seven corridors recording decreases, five recording increases and four corridors remaining flat (between 1 & -1% change).

Among the corridors recording decreases, Washington Street in the Meatpacking District

Figure 7: Average Asking Rents* | Q1 2018

Neighborhood	Corridor Parameters	Total direct ground floor availabilities Q1 2018	Q1 2018	Q4 2017	Quarter-over-quarter change	Q1 2017	Year-over-year change
Upper West Side	Broadway | 72nd to 86th Streets	14	$277	$270	2.7%	$305	(9.2%)
Upper East Side	Third Avenue | 60th to 72nd Streets	22	$280	$291	(3.7%)	$342	(18.1%)
Upper Madison Ave	Madison Avenue | 57th to 72nd Streets	28	$1,239	$1,286	(3.7%)	$1,406	(11.9%)
Plaza District	Fifth Avenue | 49th to 59th Streets**	8	$3,700	$3,700	0.0%	$3,717	(0.5%)
Grand Central	Fifth Avenue | 42nd to 49th Streets	13	$1,060	$1,048	1.2%	$1,121	(5.4%)
Times Square	Broadway & Seventh Avenue | 42nd to 47th Streets	4	$1,938	$2,020	(4.1%)	$2,187	(11.4%)
Flatiron/Union Square	Broadway | 14th to 23rd Streets	8	$368	$393	(6.1%)	$380	(3.1%)
Flatiron/Union Square	Fifth Avenue | 14th to 23rd Streets	10	$420	$403	4.1%	$391	7.4%
Herald Square	34th Street | Fifth to Seventh Avenues	11	$611	$606	0.8%	$665	(8.1%)
SoHo	Broadway | Houston to Broome Streets	20	$556	$588	(5.6%)	$678	(18.1%)
SoHo	Prince Street | Broadway to West Broadway	6	$813	$783	3.8%	$802	1.3%
SoHo	Spring Street | Broadway to West Broadway	9	$851	$828	2.8%	$896	(5.1%)
Meatpacking	14th Street | Eighth to Tenth Avenues	19	$318	$327	(2.8%)	$335	(5.0%)
Meatpacking	Gansevoort | Little West 12th Street | 13th Street | Ninth to Tenth Avenues	17	$406	$411	(1.2%)	$453	(10.3%)
Meatpacking	Washington Street | 14th to Gansevoort Streets	3	$490	$490	0.0%	$623	(21.3%)
Downtown	Broadway | Battery Park to Chambers Street**	17	$412	$411	0.1%	$427	(3.7%)
All	Average of corridors	-	$859	$866	(0.8%)	$920	(6.7%)

	Total direct ground floor availabilities Q1 2018	Q1 2018	Q4 2017	Quarter-over-quarter change	Q1 2017	Year-over-year change
Aggregate Average Asking Rent	209	$653	$696	(6.2%)	$811	(19.5%)

*Based on ground floor only, not inclusive of subleases.
**Historic Average Asking Rent data has been revised since original publication due to updated information.

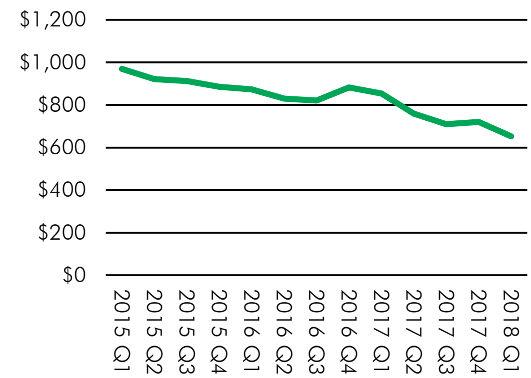
Source: CBRE Research, Q1 2018.

showed the largest year-over-year decline, although remaining stable quarter-over-quarter. As a small corridor with only three direct spaces currently being marketed, the removal of higher-priced space and negative repricing caused the average rent to decrease from $623 per sq. ft. to $490 per sq. ft. The Upper East Side's Third Avenue corridor recorded an 18.1% year-over-year decrease due to spaces being repriced, as well as new additions on the corridor priced below the asking rent. Similarly, Upper Madison Avenue recorded a 11.9% year-over-year decrease to $1,239 per sq. ft. Four spaces were added to this corridor in Q1 with asking rents below the average, while a number of spaces have been repriced down. Across Manhattan, as available space remains on the market for a longer time, downward repricing is becoming more common. As of Q1 2018, there were 72 spaces that have remained on the market since Q1 2017 which have been repriced down across 13 corridors.

On Fifth Avenue in the Plaza District, the recent trend is not entirely indicative of the current state of that market for a number of reasons. Average asking rent in Q1 2018 was $3,700 per. sq. ft., essentially flat year-over-year and quarter-over-quarter. However, some landlords are reluctant to quote asking rents, which limits the data available to calculate the average rent. Others have indicated plans to reduce rents to below currently marketed rates. Additionally, almost 50% of the available space along this corridor is marketed on a sublease basis, including some of the most sought-after tenancies, increasing competition among landlords and making pricing more volatile. The average asking rent for sublease space in this corridor is approximately $2,875 per sq. ft. as of Q1 2018, 22% below the average for direct space. Finally, limited transactions along the corridor makes it difficult to ascertain the new market rate. However, with Manhattan witnessing rents at 82% of ask, it is likely that the achievable rent has fallen year-over-year even as quoted asking rents stay stable.

Among the corridors recording increases on year-over-year basis, Fifth Avenue in Flatiron / Union Square and Spring Street in SoHo had increases of 7.4% and 1.3% respectively. These increases can be attributed to new additions at pricing above the previous average, rather than spaces being repriced upwards.

Figure 8: Aggregate Average Asking Rents | Quarterly



Source: CBRE Research, Q1 2018.

RETAIL CORRIDORS

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.

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. Nordstrom Investor Relations
2. Toys "R" Us Investor Relations
3. GGP Investor Relations
4. NYC Department of Labor
5. NYC Department of Labor
6. NYC Department of Labor
7. NYC Comptroller
8. Moody's Analytics, US Census Bureau
9. NYC Comptroller
10. NYC & Company

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