



Manhattan Retail Market Report

Rents Correct as the Pandemic Continues to Impact the Market

The effects of the pandemic became evident in market statistics with rents falling and availability rising from pre-COVID levels in all ten trade areas. This follows the second quarter, which posted shallower changes as great uncertainty prevailed; tenants and landlords were assessing whether closures were temporary or permanent; and landlords deliberated on changes to asking rents. During the second quarter, many landlords and their agents were reluctant to quote new asking rents, preferring instead to state that rents were highly negotiable or that there was no asking rent. However, during the third quarter, the majority of those cases had reevaluated and provided new asking rents.

Activity Resumed While Leasing Totals Remained Low

Leasing activity has declined significantly, with year-to-date velocity totaling just 1.1 million square feet, down 50.0% from the first three quarters of 2019. Volume is expected to close out the year well below the five-year annual average of 3.1 million square feet. Driving this trend is a drop in large deals above 25,000 square feet. There have been at least 15 every year since 2014, but just seven through the third quarter of this year.

Despite an overall decrease in activity, several significant deals were finalized during the third quarter. Essential businesses like food and beverage, healthcare and grocery, as well as ghost kitchens, and quick service restaurants, continued to drive leasing. Activity among gyms, entertainment venues, and sit-down restaurants remained low, though some did transact during the third quarter.

Bed Bath & Beyond signed the largest deal, renewing 92,000 square feet at 620 Avenue of the Americas, where it will downsize. Harry Winston renewed and expanded for 37,000

Current Conditions

- Leasing declined 50.0% over the prior year, but notable deals were signed and tenants began to reenter the market.
- Asking rents dropped and availability rose in all ten trade areas.
- A new deal structure emerged with low base rents early in the term followed by steeper than usual step-ups.
- Employment improved with retail, hospitality, and restaurant sectors regaining 158,900 jobs lost since April.

square feet at 712 Fifth Avenue. Urbanspace signed for 10,000 square feet at 124 East 14th Street, for their fifth food hall in the city. Lacoste took space for a new location at 541 Broadway in SoHo, totaling 4,750 square feet. Avra Estiatorio signed a deal for 16,500 square feet at 1271 Avenue of the Americas, its third New York City location. Culture Spaces, an interactive French art gallery also signed a deal for 30,000 square feet at 49 Chambers Street in Tribeca.

While leasing activity resumed, tenants reengaged the market in the third quarter with requirements for space. Trending similarly to leasing, these tenants are primarily quick service restaurants and essential businesses. They include Chick-fil-A, Dunkin', CityMD, Starbucks, and Chipotle.

Rental Rates Drop

All ten trade areas posted reductions in asking rents from pre-COVID-19 levels (1Q20), ranging from 14.3% in Fifth Avenue to negative 1.0% in the Plaza District, with an average drop of 7.8%. Year-over-year declines were steeper in some trade areas. Rents fell 20.4% in SoHo from third quarter 2019, 18.4% on Madison Avenue, and 14.7% on the Upper West Side.

A new deal structure emerged during the quarter. Some transactions are being signed with a low base rent early in the term, followed by step-ups that return rent to pre-COVID-19 levels. This is intended to support tenants with strong long-term prospects while elements of the public health crisis continue to create uncertainty in the economy.

3Q20 Notable Transactions

Tenant	Address	Trade Area	Square Feet	Deal Type
Bed Bath & Beyond	620 Avenue of the Americas	Chelsea	92,025	Renewal / Downsizing
Harry Winston	712-718 Fifth Avenue	Fifth Avenue	37,000	Renewal / Expansion
Culturespaces	49 Chambers Street	Tribeca	28,000	New
Avra Estiatorio	1271 Avenue of the Americas	Midtown	16,500	New
Pappas Taverna	103-105 MacDougal Street	Greenwich Village/NoHo	14,000	New

Availability Rises Across All Ten Trade Areas

Changes in availability were lesser than anticipated, with the ten trade areas averaging an increase of just 210 basis points from before the pandemic (first quarter 2020). These ranged from 420 basis points in the Meatpacking District to 40 basis points in the Financial District.

The greatest changes in availability rates from first quarter 2020 were seen in the Meatpacking District, Times Square, Madison Avenue, Flatiron District and Fifth Avenue. Retailers in these trade areas cater primarily to the office population, with many working from home, as well as tourism, which has paused.

Bankruptcies contributed to the rise in availability with twelve large retailers in New York filing during the third quarter. These included Sur La Table, Brooks Brothers, Lucky Brand, Ascena Retail Group, RTW Retailwinds (New York & Co.), Lord &

Taylor, Century21 and Town Sports International. Filings peaked in July and fell in subsequent months through October.

Mobility Improves

The city's population movement began to rebound in June after social distancing restrictions were lifted. According to data from the MTA, subway and bus ridership levels rose 315% and 137%, respectively, from the low point in April. While public transit levels are still down from pre-pandemic levels, data from Apple, Citi Bike and MTA indicates that walking, biking and traffic levels are up significantly from the trough. OpenTable data also showed an increase in restaurant reservations throughout the third quarter as restaurants reopened for outdoor dining. At the end of the third quarter, city and state officials also approved indoor dining at a limited capacity and extended outdoor dining into 2021.

Average Asking Rent by Trade Area

Trade Area	Current Quarter	Prior Quarter	Pre-Covid (1Q20)	Prior Year
Fifth Avenue	\$1,693	\$1,693	\$1,976	\$1,624
Financial District	\$356	\$360	\$376	\$353
Flatiron District	\$283	\$303	\$321	\$284
Madison Avenue	\$693	\$730	\$788	\$849
Meatpacking District	\$337	\$349	\$361	\$380
Plaza District	\$472	\$476	\$477	\$520
SoHo	\$295	\$321	\$343	\$371
Times Square	\$885	\$898	\$923	\$977
Upper East Side	\$220	\$224	\$226	\$220
Upper West Side	\$175	\$181	\$187	\$205

Availability Rate by Trade Area

Trade Area	Current Quarter	Prior Quarter	Pre-Pandemic (1Q20)	Prior Year
Fifth Avenue	26.1%	26.1%	23.4%	26.1%
Financial District	19.0%	18.6%	18.6%	20.4%
Flatiron District	15.4%	13.0%	12.6%	14.6%
Madison Avenue	18.4%	16.9%	15.4%	18.4%
Meatpacking District	29.5%	25.9%	25.3%	28.9%
Plaza District	16.5%	16.1%	15.6%	20.2%
SoHo	19.3%	18.0%	18.1%	16.3%
Times Square	23.9%	22.8%	20.6%	31.1%
Upper East Side	12.3%	11.9%	11.4%	10.3%
Upper West Side	10.5%	10.1%	8.6%	11.2%

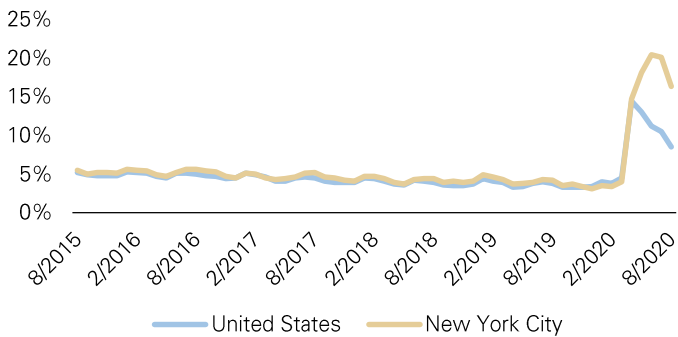
Economic Conditions

The national unemployment rate escalated to 14.4% in April, but has fallen each month since, closing August at 8.5%. The descent has not been as linear for New York City, which posted a local unemployment rate above 20.0% in June and July before dropping to 16.3% in August. Since February, there have been 61.9 million national weekly unemployment insurance claims, 24.8 million more than during the Great Recession.

Retail and restaurant employment began to improve during the third quarter, recovering from lows recorded during the second quarter, regaining a total of 59,100 retail jobs and 99,800 jobs in restaurants and hospitality since April 2020. However, from February through September, these sectors lost a combined 185,800 jobs, making them some of the hardest hit sectors of the economy.

Unemployment Rate

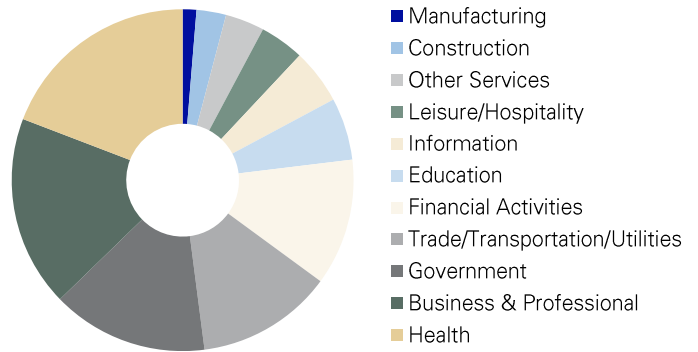
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment by Industry

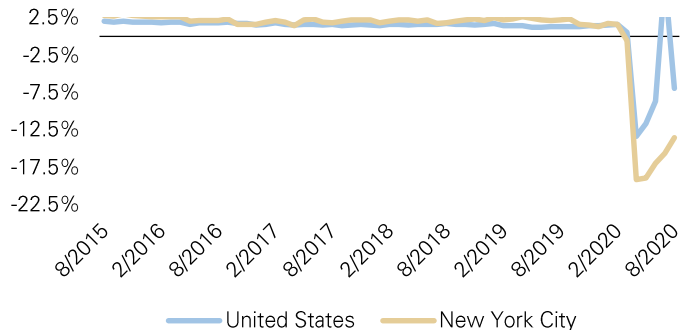
NEW YORK CITY, AUGUST 2020



Source: New York Stat Department of Labor

Payroll Employment

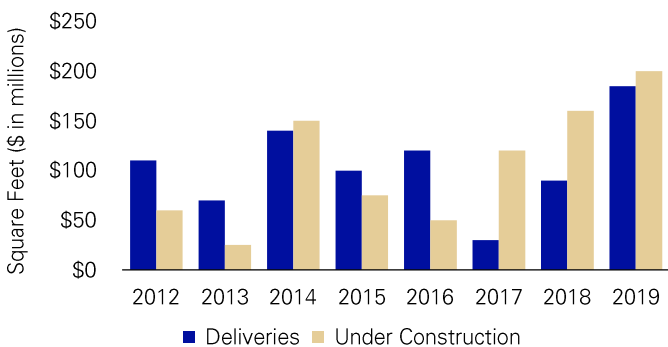
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

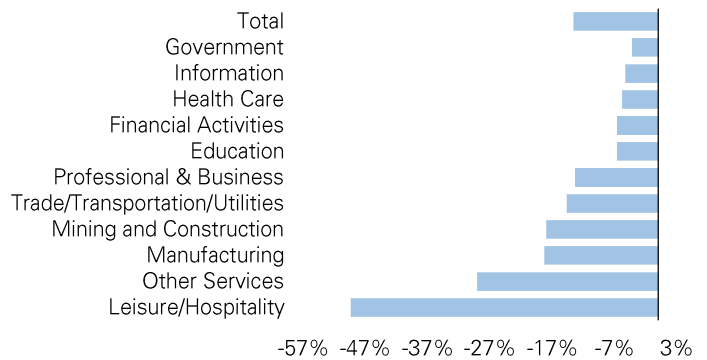
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

NYC, AUG 2020, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: New York State Department of Labor

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