

# Manhattan Retail MarketView

Q3 2014

CBRE Global Research and Consulting

 U.S. CONSUMER CONFIDENCE (SEPT '14) 86

 U.S. JOBS ADDED (SEPT '14) 329,000

 U.S. UNEMPLOYMENT RATE (SEPT '14) 5.9%

 U.S. GDP (SEPT '14) 3.9%

## Retail News

- In the Meatpacking District, Samsung has signed a lease for the entire building at 837 Washington Street, which includes 55,000 sq. ft. of indoor space and 7,000 sq. ft. of outdoor space.
- Microsoft will open its first-ever flagship store in 8,700 sq. ft. of space at 677 Fifth Avenue.
- Now the tallest residential tower in the western hemisphere, 432 Park Avenue contains approximately 412,000 sq. ft. of residential space. The building will also contain a retail component totaling 93,000 sq. ft.
- Acadia Realty Trust acquired two retail co-ops at 131-135 Prince Street, totaling 3,000 sq. ft., for \$50 million.

## Market Overview

The U.S. unemployment rate fell to 5.9% in September, the lowest level since July 2008.<sup>1</sup> Retail sales for the quarter remained stable, and sales increased by 4.3% year over year.<sup>2</sup> New York City unemployment decreased to 6.1% as of September 2014, similar to the national trend, while employment in the private sector improved, increasing by 95,400—a 2.8% year-over-year gain.<sup>3,4</sup> The Manhattan office market witnessed substantial activity, leasing a total of 22.96 million sq. ft. year to date, a 27% year-over-year increase. Manhattan's office leasing is on pace to be the highest-volume leasing year in a decade.

Manhattan retail leasing activity was largely shaped by the announcement of three new department stores in Q3 2014. Saks Fifth Avenue will expand its presence by serving as an anchor tenant at Brookfield Place, occupying a four-floor, 85,000-sq.-ft. store and joining other luxury tenants including Burberry and Salvatore Ferragamo. Saks OFF 5TH, the outlet division of Saks Fifth Avenue, will open its first store in Manhattan at 1 Liberty Plaza,

where it leased approximately 55,000 sq. ft. The debut of these two stores in Downtown Manhattan demonstrates the area's significant traction and continuing growth. Meanwhile, at Hudson Yards, Neiman Marcus, the Dallas-based luxury department store that has been in operation since 1907, is slated to open its first Manhattan store in 2018, leasing 250,000 sq. ft. on multiple levels.

In addition to these recent announcements, Nordstrom, Barneys New York, Macy's and Bergdorf Goodman will also contribute to the department store momentum. Nordstrom will anchor Extell's development at 225 West 57th Street, occupying approximately 285,000 sq. ft. across seven stories; the store is expected to open in 2018. In addition to its current Madison Avenue location, Barneys will return to its original location in Chelsea on Seventh Avenue between 16th and 17th streets, where it will occupy 57,000 sq. ft. across seven stories. Macy's at Herald Square and Bergdorf Goodman in the Plaza District are currently undergoing extensive renovations.

<sup>1</sup> U.S. Bureau of Labor Statistics

<sup>2</sup> U.S. Department of Commerce

<sup>3,4</sup> NY Department of Labor

Figure 1: Notable Transactions - Q3 2014

Address	Size (Sq. Ft.)	Tenant	Industry
9-19 Ninth Avenue	30,000	Restoration Hardware	Home Furnishings
793 Madison Avenue	9,000	Louis Leeman	Shoes
136 Greene Street	7,400	Brunello Cucinelli	Apparel/ Accessories
513 Broadway	6,000	True Religion Jeans	Apparel/Accessories
303 Tenth Avenue	5,100	Hudson Market	Restaurant/Consumables
699 Madison Avenue	4,388	Jimmy Choo	Shoes
33 Union Square West	3,300	Dylan's Candy Bar	Restaurant/Consumables
1333 Broadway	3,265	Shake Shack	Restaurant/Consumables
Brookfield Place	3,161	Omega	Jewelry
16 West 18th Avenue	1,706	Rent the Runway	Apparel/Accessories
94 Charles Street	1,400	Billy Reid	Apparel/Accessories
127 Prince Street	1,400	Lululemon Men's	Apparel/Accessories
680 Madison Avenue	650	Morgenthal Frederics	Optical Store

Source: CBRE Retail Research Group, Q3 2014.

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## FEATURED NEIGHBORHOOD

### UPPER MADISON AVENUE

## ASKING RENTS ON UPPER MADISON AVENUE CONTINUE TO CLIMB, CURRENTLY AVERAGING \$1,700 PER SQ. FT.—MORE THAN DOUBLE 2009'S AVERAGE ASKING RENT OF \$800 PER SQ. FT.

Upper Madison Avenue is a world-renowned retail destination. Characterized by an exclusive, elegant environment, the corridor features a diverse mix of the finest luxury brands, many situated in brownstones or limestone French Renaissance Revival townhouses originally built as private homes. The stretch of Madison Avenue between 57th and 72nd streets, which provides 15 contiguous blocks of retail, is considered one of the most prestigious corridors in Manhattan. Asking rents on Upper Madison Avenue continue to climb, currently averaging \$1,700 per sq. ft.—more than double 2009's average asking rent of \$800 per sq. ft.

Madison Avenue between 57th and 62nd streets is the most heavily trafficked section of the corridor and boasts the highest average asking rent, at \$1,835 per sq. ft. The stores on this stretch tend to have larger floor plates than other sections of Upper Madison Avenue, and cater to the surrounding office population as well as the tourist overflow from Fifth Avenue. Notable retailers along this stretch include Barneys New York, Hermès, Mulberry and Tod's. Fendi recently leased space at 598 Madison Avenue, on the northwest corner of 57th Street.

Retailers located on Madison Avenue between 62nd and 72nd streets typically have smaller footprints, which provide an optimal boutique space for products like jewelry, shoes and accessories. Asking rents are more modest, averaging \$1,600 per sq. ft., and current stores house luxury retail such as Alexander McQueen, Bottega Veneta, Céline, Chanel and Lanvin. Ralph Lauren has a long-established presence on this corridor,

with the Men's Store in the Rhinelander Mansion, as well as three different stores across the street, including the Women's and Home Flagship in a limestone Beaux-Arts "palace" that opened in 2010. New entrants will include Givenchy and Louis Leeman. Additionally, Oscar de la Renta and Valentino both expanded their footprints on this section of Madison Avenue in 2013.

The stretch north of 72nd Street up to 79th Street has become home to a new type of retailer for Madison Avenue. Hip, contemporary clothiers like Calypso, Zadig & Voltaire, Milly and Rebecca Taylor have all opened stores, attracting a younger generation of shoppers. Additionally, Apple will be opening a 12,580-sq.-ft. space at 940 Madison Avenue, and in 2015 the Metropolitan Museum of Art will take over the Whitney Museum's Breuer Building at 945 Madison Avenue. The museum will reopen in 2016 to showcase the Met's collection of modern and contemporary art. These two openings—augmented by visitors from renowned hotels such as the Carlyle, the Surrey and the Mark—will likely result in higher foot traffic, which may attract additional retailers. The average asking rent on this corridor is \$935 per sq. ft.

Figure 2: Upper Madison Avenue



# MAJOR RETAIL CORRIDORS

Nine of 11 average asking rents on Manhattan's major retail corridors saw slight to moderate increases from Q2 2014 to Q3 2014, led by a 10.9% increase on Upper West Side Broadway. The increase in the average asking rent from \$317 per sq. ft. to \$352 per sq. ft. can be attributed to a rise in asking rents of existing availabilities, as well as the addition of new availabilities, including corner space, which came to market at a price slightly higher than the market's average. However, Upper West Side Broadway experienced a 12.6% decline in its year-over-year average asking rent, decreasing from \$402 to \$352 per sq. ft. as a result of the re-zoning of the Upper West Side to create a Special Enhanced Commercial District. Specifically, the zoning has imposed regulations on frontage and

transparency for ground-floor retail for banks and loan offices, which typically command higher rents. Some landlords have lowered their asking rents with the understanding that it may be more challenging to attract certain tenants.

The largest year-over-year increase occurred in Herald Square, at 16.5%, a rise attributable to new product coming on the market priced above the average. Within that corridor, H&M will open its largest store in the world, with 63,000 sq. ft. of retail at Herald Center. Nearby, at 1333 Broadway, Urban Outfitters recently opened its new lifestyle store, its largest in the world, and Shake Shack will open a new restaurant in 2015.

Midtown Fifth Avenue from 49th to 59th streets also experienced a substantial year-over-year rise in its average asking rent, which increased by 13.2%. Recognized as a premier shopping corridor, this portion of Fifth Avenue commands asking rents that continue to rise as the demand to secure highly coveted space in the area remains strong. The unprecedented branding opportunity, combined with the area's compelling image as a global retail destination, contributes to the steep average asking rent, which has surpassed \$3,500 per sq. ft. The demand from retailers continues to prevail, demonstrated by the wave of newcomers including Valentino, Polo Ralph Lauren and, soon, Microsoft, which will occupy the former Fendi space.

**Figure 3: Average Asking Rent for Major Retail Corridors - Q3 2014 (North to South)\***

Neighborhood	Parameters	Average Asking Rent Q3 2014	Average Asking Rent Q2 2014	% Change**	Average Asking Rent Q3 2013	% Change**
Upper West Side	Broadway 72nd to 86th Streets	\$352	\$317	10.88%	\$402	12.56%
Upper East Side	Third Avenue 60th to 72nd Streets	\$271	\$268	1.27%	\$256	6.20%
Upper Madison Avenue	Madison Avenue 57th to 72nd Streets	\$1,771	\$1,668	6.15%	\$1,651	7.24%
Midtown	Fifth Avenue 49th to 59th Streets	\$3,567	\$3,500	1.90%	\$3,150	13.23%
Midtown	Fifth Avenue 42nd to 49th Streets	\$1,101	\$1,067	3.20%	\$1,082	1.77%
Times Square	Broadway and Seventh Avenue 42nd to 47th Streets	\$2,390	\$2,250	6.22%	\$2,229	4.28%
Herald Square	34th Street Fifth to Seventh Avenues	\$860	\$814	5.65%	\$738	16.53%
Flatiron	Fifth Avenue 14th to 23rd Streets	\$393	\$390	0.64%	\$356	10.25%
Soho	Broadway Houston to Broome Streets	\$860	\$854	0.73%	\$865	-0.55%
Meatpacking District	14th Street Ninth to West End Avenues	\$336	\$347	-3.25%	\$386	-13.03%
Downtown	Broadway Battery Park to Chambers Street	\$277	\$277	-0.17%	\$262	5.55%

\*Based on ground-floor only; not inclusive of subleases

\*\* Percentage changes are based on unrounded asking rents



Credit: Madison Avenue Business Improvement District

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