BRIEF | Adaptive Spaces

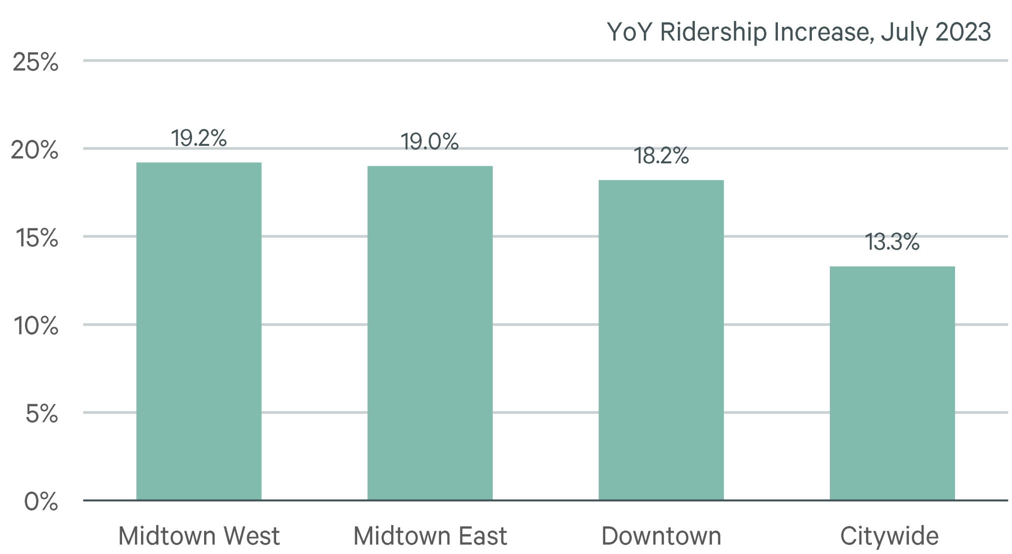
Restaurant Leases Restore Vibrancy to Manhattan's Business Districts

Manhattan's Midtown and Downtown business districts were observably livelier this summer as walls of vacant storefronts have steadily been replaced by new businesses, including hundreds of dining options.

CBRE's most recent Live-Work-Shop report identified access to retail and hospitality as being top-of-mind for returning office workers. Dining establishments in their many forms are the most important retail offering, providing options for breakfast, lunch, after-work drinks, and dinner while fostering a sense of community. For building owners, too, desirable restaurants can serve as a useful amenity that boosts their property's appeal to current and prospective office users.

Over 100 new restaurant leases in Midtown and Downtown are evidence of improving small business sentiment and should encourage more foot traffic in these districts. Subway ridership at stations in Downtown and Midtown were up 18-19% YoY in July 2023, compared to 13% citywide.

FIGURE 01: Manhattan's Business Districts Lead City in Ridership Recovery
YoY Change in Subway Exits in Midtown, Downtown, and Citywide, July 2023



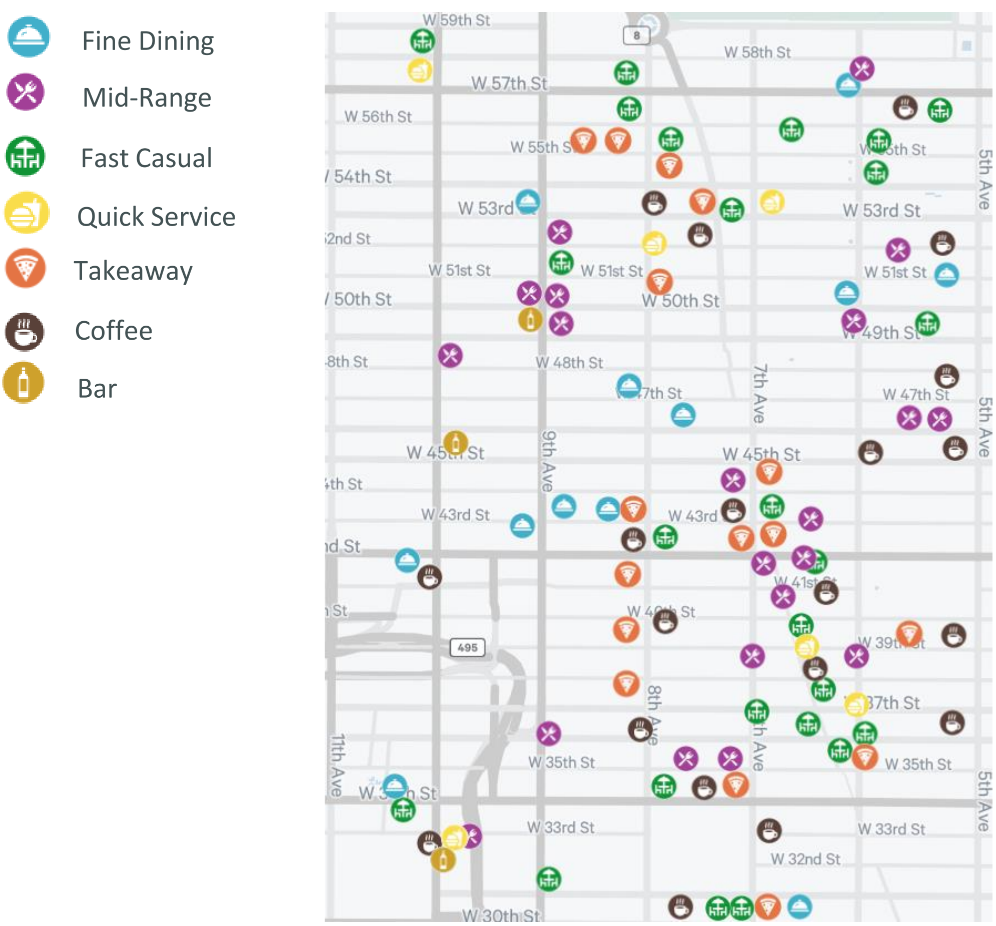
Source: Metropolitan Transportation Authority, CBRE Research, Q3 2023.

Midtown West

Restaurant openings were distributed widely across the Midtown blocks west of Fifth Avenue. Times Square was the epicenter of this activity as new restaurants set up shop along Broadway. Despite rising office availability, this area's strong mix of residential and leisure populations has promoted a healthy retail recovery. While Times Square has attracted a variety of dining concepts, the fast casual establishments that more heavily cater to office workers have set up shop on the Theater District's northern and southern boundaries where office workers predominate.

Hudson Yards' 7 train station enjoyed impressive YoY ridership growth of 24% in July, just ahead of a YoY improvement of 22% for the Times Square station. In addition to a growing number of office workers, the strong ridership performance hints at the city's impressive tourism rebound.

FIGURE 02: Retail Leases Tracked by CBRE since March 2020, Midtown West



July 2023
Subway Passenger Exits at Major Stations

Penn Station & Herald Square

4.57M Exits

+13.9% YoY

Times Square

4.59M Exits

+21.6% YoY

Hudson Yards

472K Exits

+24.0% YoY

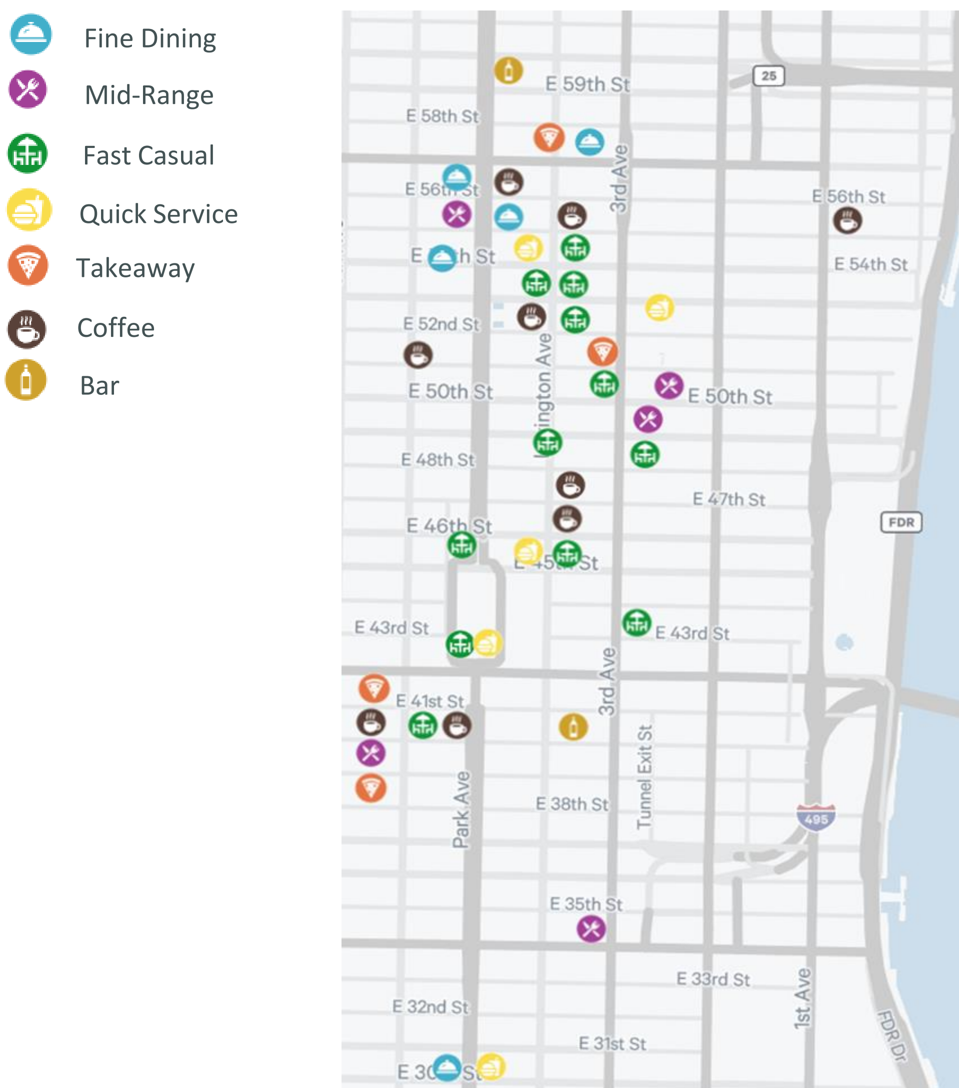
Source: CBRE Research, Q3 2023.

Midtown East

New dining options have been opening along Lexington Avenue, breathing life into a corridor that felt particularly desolate after Covid-19 emptied the offices and hotels that predominate along the stretch. The retail revival of Midtown East parallels a strong office market on Park Avenue where the submarket's availability rate of 10.7% is well below the Midtown average of 19.6%. While high-end restaurants have claimed locations directly on or adjacent to Park Avenue, the fast-casual eateries and coffeeshops that are the foundation of office workers' food culture have sprung up along the length of Lexington Avenue.

The East Side submarket along Third and Second Avenues has an office availability rate of over 20%, suggesting greater difficulty for retail tenants focused on serving office workers.

FIGURE 03: Retail Leases Tracked by CBRE since March 2020, Midtown East



July 2023
Subway Passenger Exits at Major Stations

Grand Central Terminal

2.57M Exits

+32.2% YoY

Lexington & 59th Street

880K Exits

+12.5% YoY

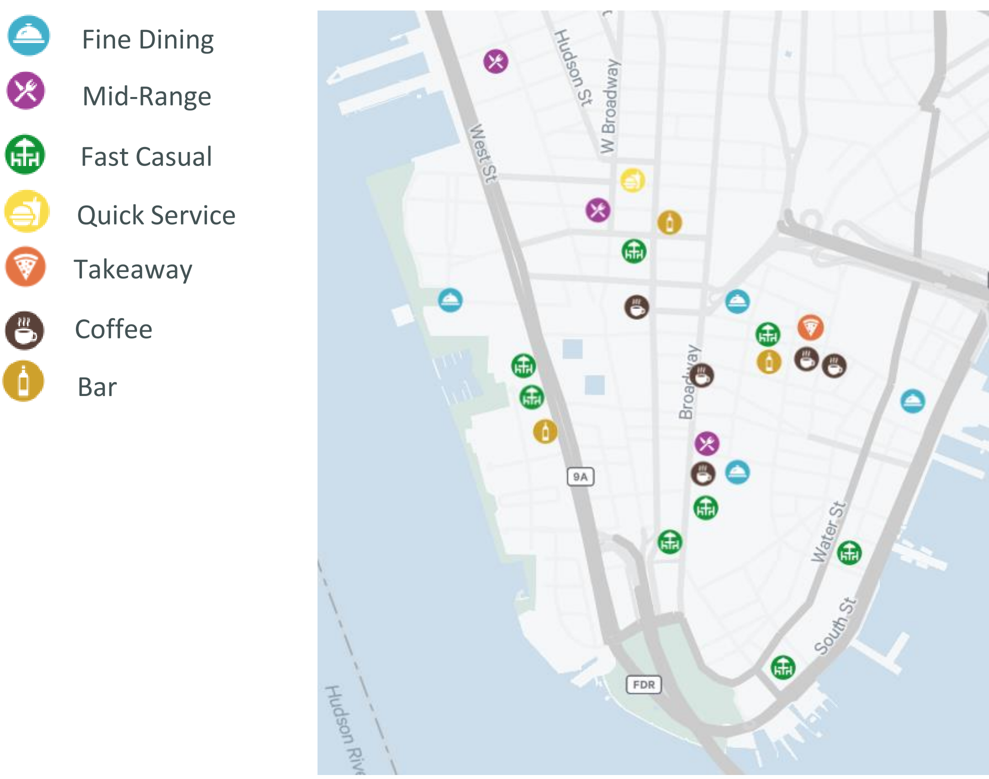
Source: CBRE Research, Q3 2023.

Downtown

Downtown has seen fewer retail openings than Midtown. The Financial District is wrestling with an office availability rate of more than 28%, the city's highest. Consequently, retail rents along Broadway have inched upward more slowly than in other major retail corridors in New York. New Downtown restaurants have been concentrated in the crowded blocks southeast of City Hall. City government offices, which are concentrated in the area, have had a stricter return-to-office policy than most private sector employers. This has bolstered daytime foot traffic and revived demand for food and beverage operators in this area.

While Downtown is struggling with low office occupancy, the area benefits from a growing residential community. The recent completion of 1 Wall Street and current and future projects at 25 Water Street and 55 Broad Street will add hundreds of permanent residents to Lower Manhattan, strengthening and diversifying demand for neighborhood retail.

FIGURE 04: Retail Leases Tracked by CBRE since March 2020, Downtown



July 2023
Subway Passenger Exits at Major Stations

World Trade Center

1.05M Exits

+21.9% YoY

Fulton Center

1.50M Exits

+18.5% YoY

Source: CBRE Research, Q3 2023.

The rising foot traffic and ridership numbers are further abetted by a much-improved tourism picture. Manhattan hotel rooms were booked at 96% of the pre-pandemic level in July 2023, thanks to a full recovery in domestic and international air traffic.

Data from the MTA suggests that ridership momentum is working in favor of the hundreds of new businesses that have taken a bet on populating the vacant storefronts of Downtown and Midtown. As additional workers populate the office buildings above, the retail landscape should help these neighborhoods maintain a baseline level of vibrancy and desirability.

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