Turning a Corner: NYC Retail Emerges from Covid

REPORT FIGURES

CBRE RESEARCH
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Introduction

Teeming streets, crowded trains and bustling shops attest to Manhattan's long journey back to vibrancy from the depths of the Covid-19 pandemic. New York City's resilience is rooted in its robust cultural attractions, densely populated communities and international appeal as a travel and leisure destination.

These enduring qualities have drawn millions of new and established residents, tourists and commuters back to the city's retail corridors. Even as the pandemic's fallout is still felt and economic headwinds stiffen, there is reason to be optimistic about Manhattan's retail fortunes.

This report quantifies New York City's recovery and examines trends and leading indicators that bring clarity to the improving retail landscape in Manhattan.

The city's recovery has advanced by leaps and bounds among residents and tourists and that improvement has been observed in retail corridors that cater to these groups. Challenges remain, however, in the retail corridors that cater to office workers, as office occupancy remains below pre-pandemic levels.

DEMAND OUTLOOK

Demand Outlook by User Group

Residents

Manhattan apartment leases are at 118% of 2019 levels as of October 2022

- The volume of new apartment leases returned to 2019 levels in September 2020 and has remained strong since, with leasing averaging 141% of 2019 levels in 2021 and 118% of 2019 levels thus far in 2022.
- Suburban property sales which soared in 2019 have slowed considerably in recent months, while Manhattan and Brooklyn home sales have decelerated at a much slower pace.
- While New York Tri-State saw a population shift to the suburbs in 2020, pre-pandemic habits are re-emerging with population gains expected in the urban core.

Office Workers

Office occupancy averaged 35-39% in CBRE-managed buildings on mid-week days in September 2022

- Manhattan office occupancy improved slightly after Labor Day with CBRE-managed properties reporting an average peak occupancy of 35-39% mid-week. Some property owners have reported occupancy as high as 65% for offices with financial tenants.
- With pandemic fears no longer playing into office occupancy calculations, the future office worker population appears to be normalizing.
- Growth in weekday subway ridership has slowed alongside office reoccupancy with weekday ridership at just under two-thirds of the pre-pandemic level and commuter trains at roughly three-fourths full.

Hotel Guests and Tourists

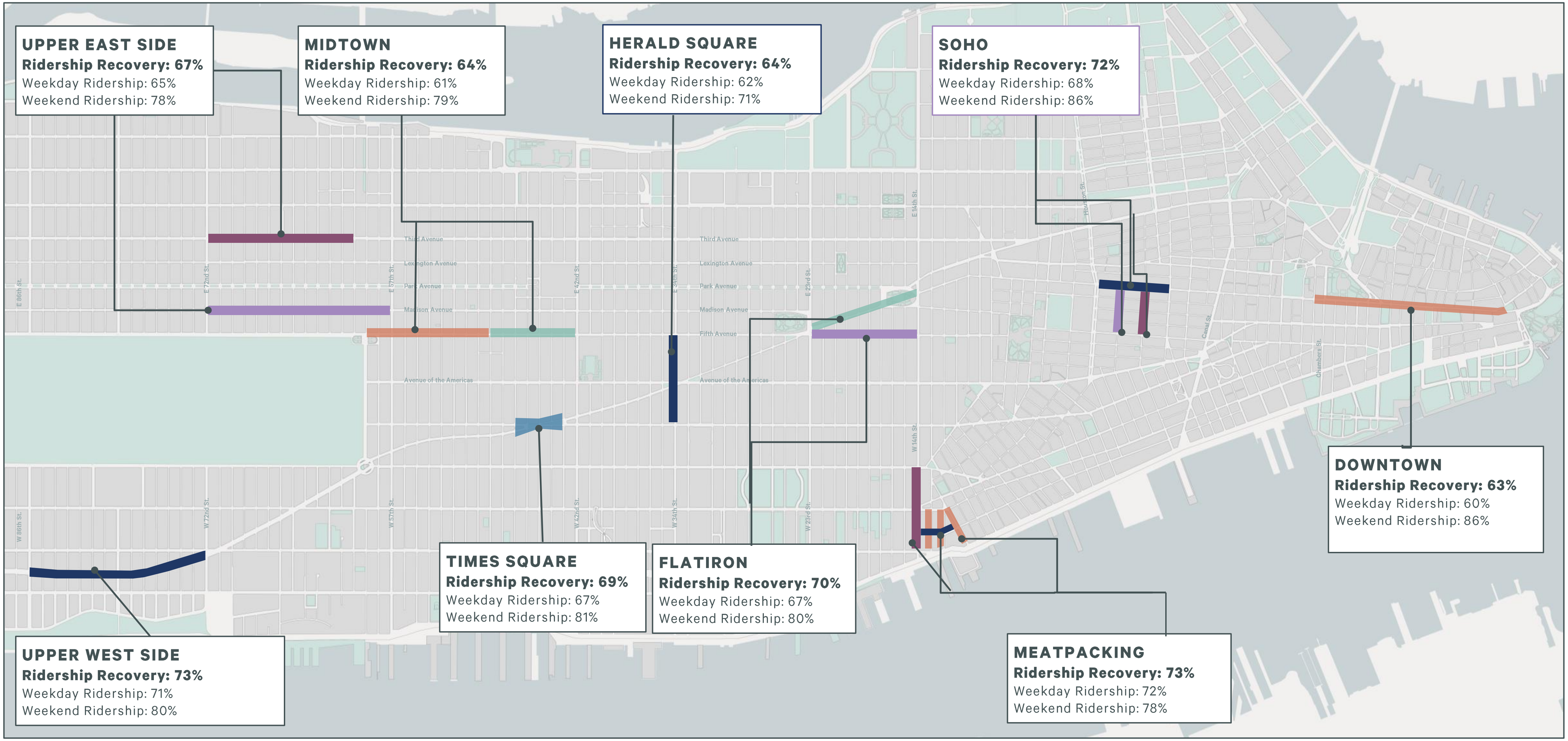
Hotel occupancy is at 95% of its 2019 level as of September 2022

- With COVID restrictions on travel largely laid aside and American borders open to the world, tourism has made a strong comeback in Manhattan.
- Domestic air passenger traffic is at 100% of the pre-pandemic level while international traffic is at 84% of the pre-pandemic level, limited by still-reduced travel volumes from Asia.
- New York City hotels are enjoying high levels of occupancy but the greater retail landscape still awaits the full return of international tourism, an outsized driver of leisure spending.

The Repopulation of Manhattan

The Return of Foot Traffic Provides a Lifeline to NYC Businesses

FIGURE 1 **Subway Exits by Retail Corridor; October 2022 Compared to October 2019**



Source: CBRE Research, subwayridership.nyc, October 2022.

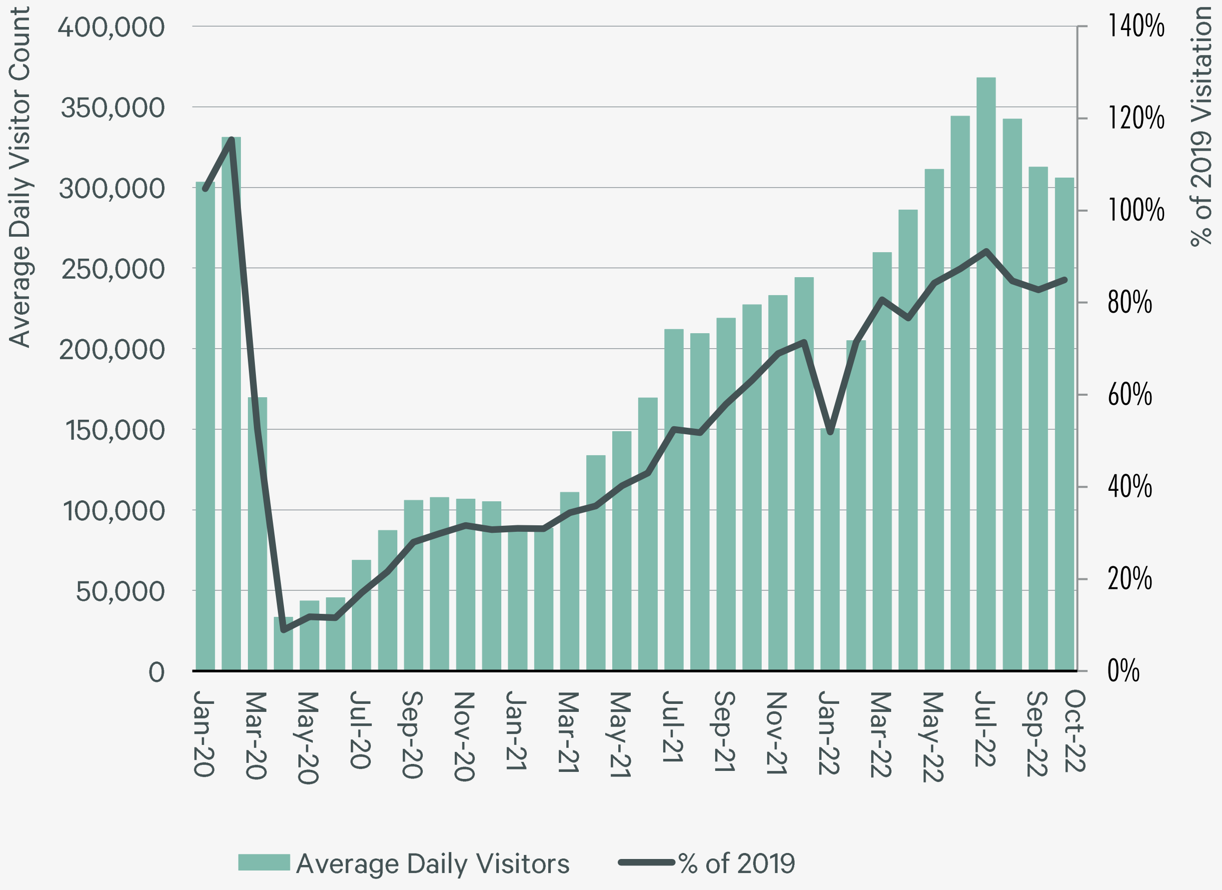
Manhattan's Leisure Crowds Have Returned

With approximately 25,000 hotel rooms, over 40 theaters, nine subway lines, and countless dining and shopping establishments, Times Square sits at the heart of the city's leisure industry.

Foot traffic through the neighborhood serves as a useful proxy for overall tourism recovery. Foot traffic peaked at 91% of 2019 levels in July 2022 and stood at 85% of 2019 levels as of October.

FIGURE 2

Average Daily Visitors to Times Square by Month



Source: CBRE Research, Times Square Alliance, October 2022.

Manhattan Restaurant Reservations Continue to Rebound

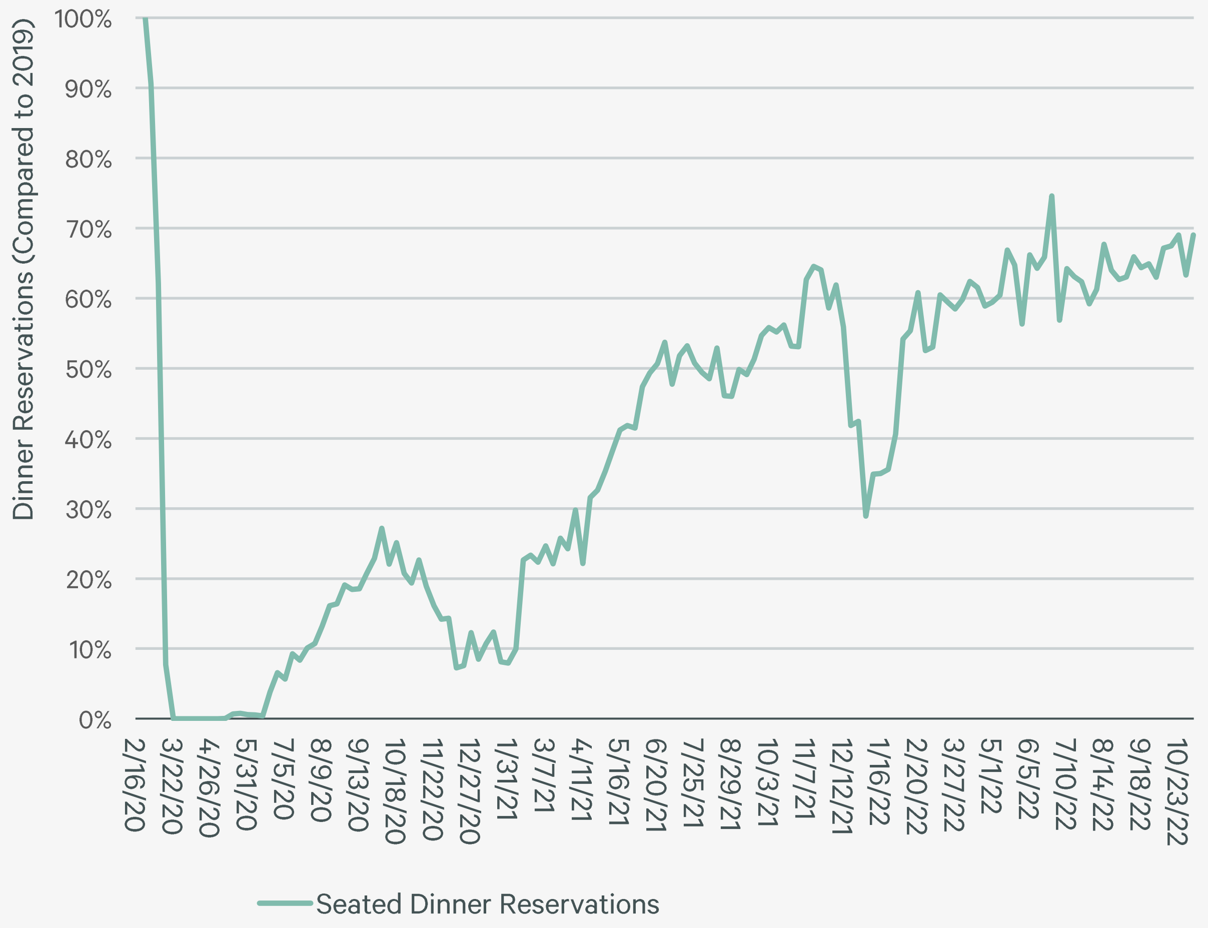
The disruption of the pandemic reeked havoc on Manhattan's restaurant industry as crowds vanished from business districts and restaurants were forced to rely on delivery and outdoor dining to survive.

The new year has brought a fresh crop of restaurant openings to replace those lost and reservations have been steadily climbing.

As of early November, reservations have recovered to roughly 70% of the pre-pandemic level in Manhattan.

FIGURE 3

Manhattan Restaurant Reservations Compared to the Same Week in 2019



Source: CBRE Research, OpenTable, November 2022.

The State of the Market

Retail Performance in Q3 2022

Retail Sales Surging, Aided by Inflation

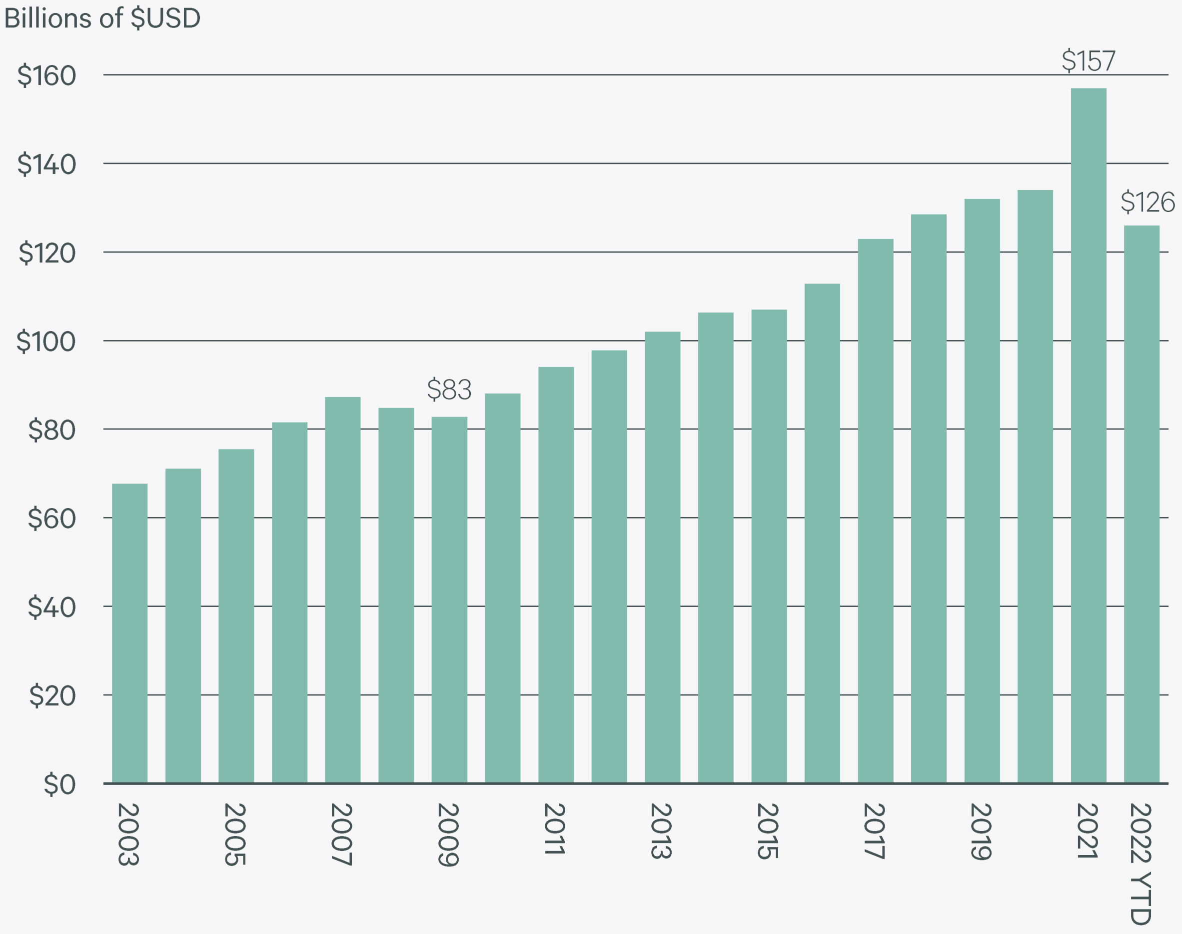
New York City retail sales powered through the pandemic and remained strong through the first three quarters of 2022.

The sharp jump in New York City's retail sales in 2021 and 2022 may be partly explained by improving tourism and commuter numbers. However, higher consumer good costs, driven by stubbornly high inflation, has also contributed to higher spending volume in 2022. This inflationary pressure may begin to weigh on consumer spending in 2023.

With the economy expected to contract in 2023 alongside an improving inflation picture, consumer spending is expected to slow.

FIGURE 4

New York City Total Retail Sales



Source: Oxford Economics, September 2022.

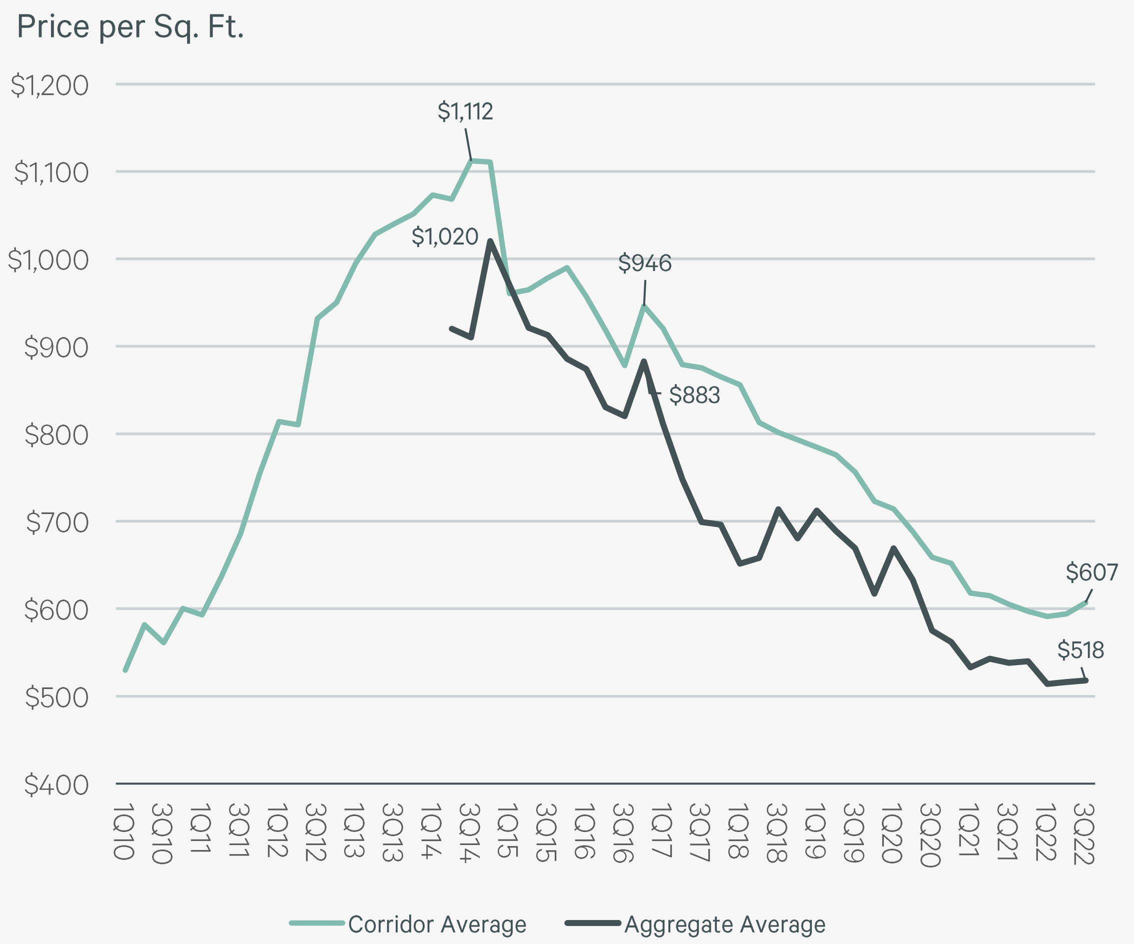
NYC Asking Rents Inched Upwards

Average asking rents across Manhattan's 16 retail corridors rose 2.2% quarter-over-quarter in Q3, rising for the first time since Q4 2016.

Higher quality retail inventory combined with improving tourism numbers and a tightening housing market have vastly improved the fortunes of Manhattan's retailers from one year ago.

FIGURE 5

Manhattan Retail Corridor Average Asking Rents



Source: CBRE Research, Q3 2022.

Availability Continues to Fall

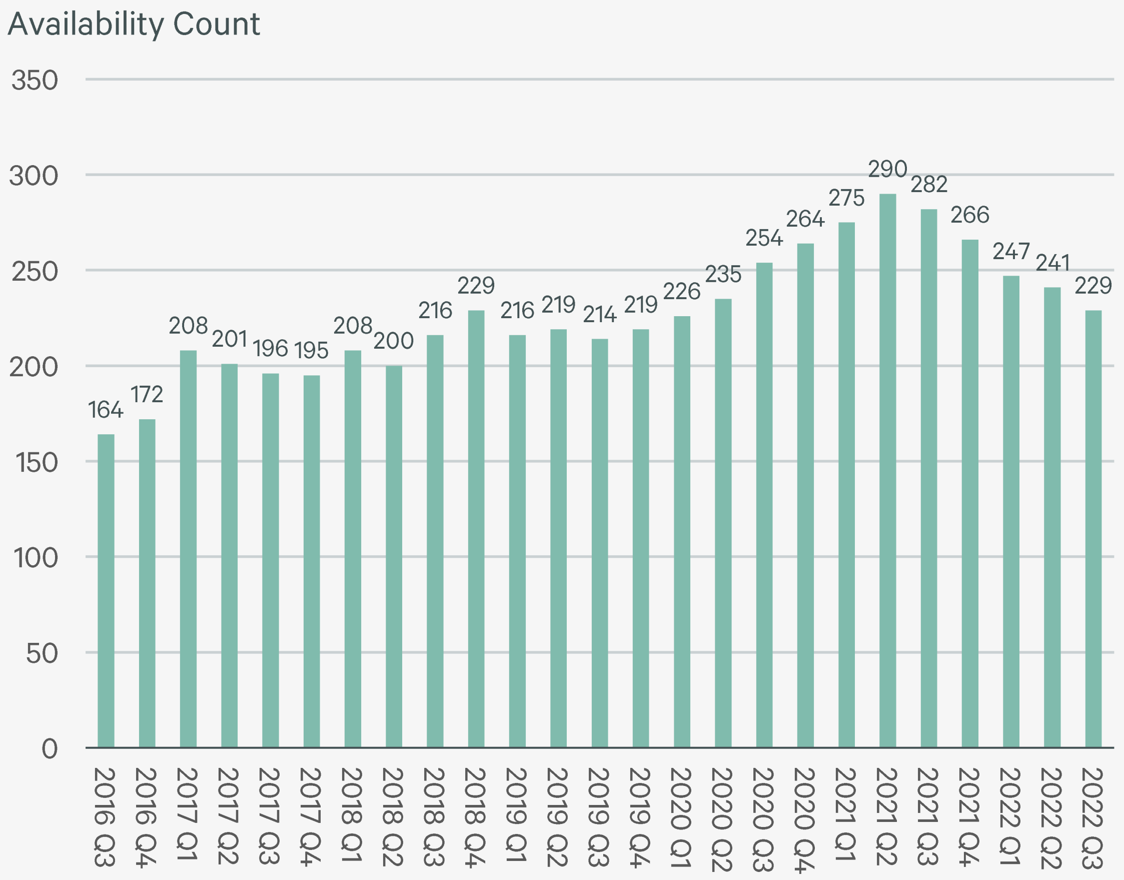
Manhattan availabilities peaked in Q2 2021 after rising for seven consecutive quarters and have fallen each quarter since.

Manhattan's newfound energy in the wake of the pandemic has driven availability back to where it stood prior to the pandemic.

Despite macroeconomic headwinds, improving foot traffic and still-favorable rental rates should continue to entice retailers to the market.

FIGURE 6

Count of Direct Ground-Floor Retail Availabilities



Source: CBRE Research, Q3 2022.

Residents

A Competitive Residential Market Hints at a Manhattan Population Rebound

Manhattan's Apartment Market Tightens

Manhattan experienced a significant outflow of population in the months following the pandemic, followed by a rapid return of residents by the summer of 2020.

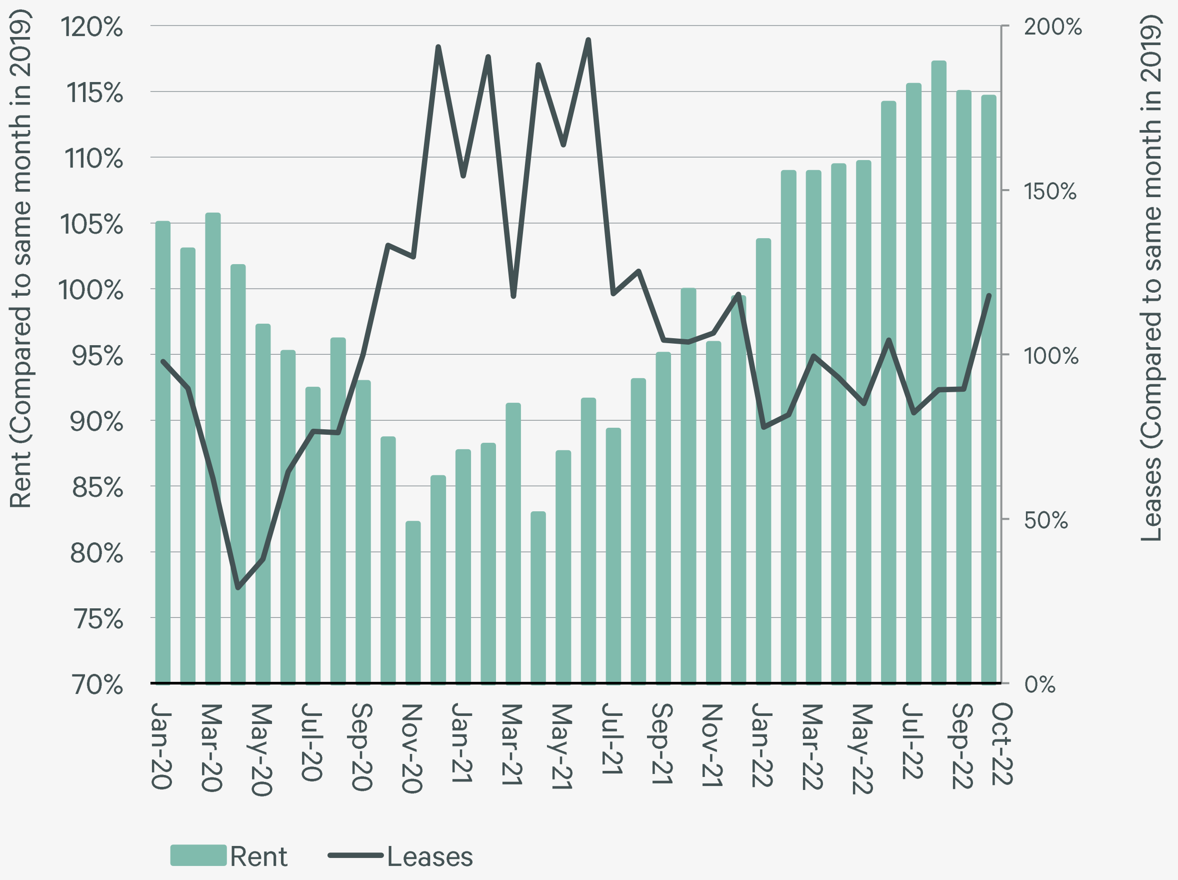
New residents were drawn to apartment rents that had fallen to as low as 82% of their pre-pandemic level, causing a spike in demand in 2021.

While the tempo of leasing has decreased and pricing now exceeds pre-pandemic levels, new leases shot upward again in October 2022 to 118% of the pre-pandemic level.

Vacancy rates in Manhattan declined to 2.35% in October 2022, 54 basis points above the pre-pandemic rate of 1.81%.

FIGURE 9

Manhattan Median Rent and Monthly Leasing Volume



Source: CBRE Research, Douglas Elliman, September 2022.

Urban Home Sales Remain Elevated

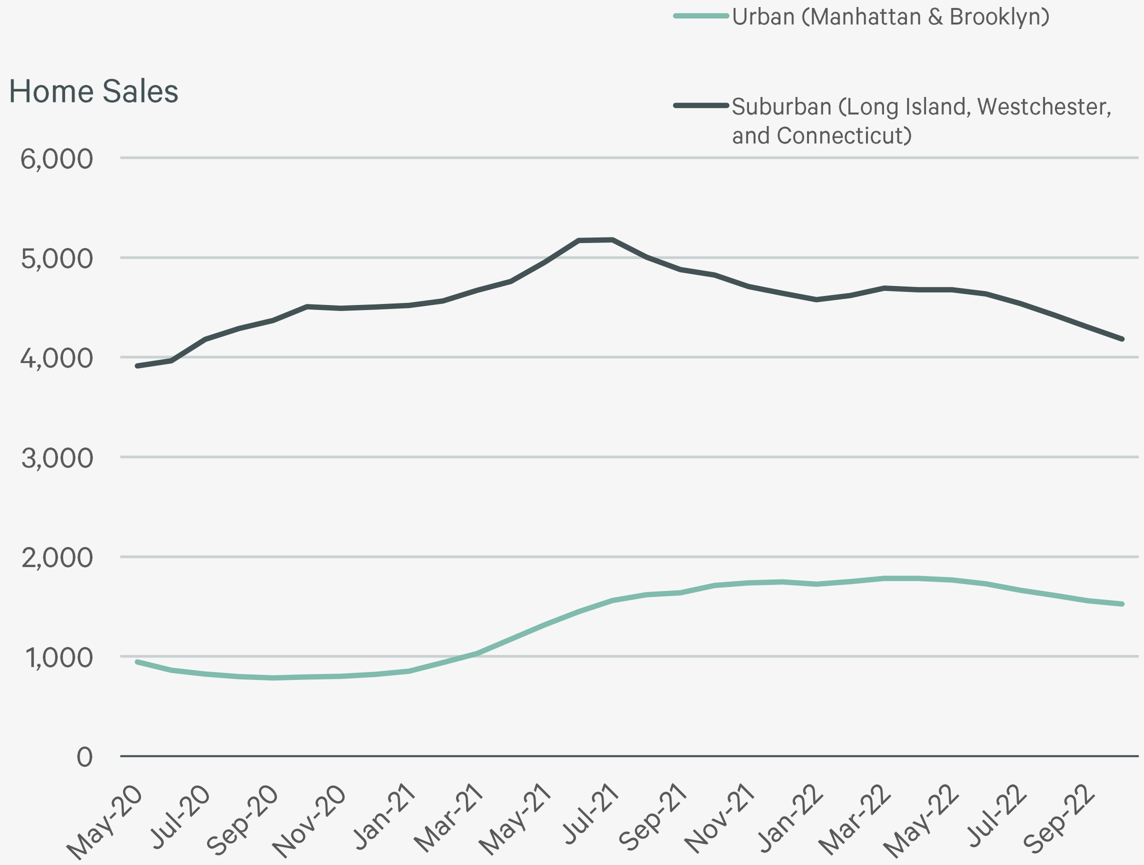
Home sales in Manhattan and Brooklyn bounced back after the well-documented exodus of New Yorkers to the suburbs in the first months of the pandemic.

Even as home sales in the suburbs began to fall off in mid-2022, under pressure from high interest rates and low inventory, urban home sales remained relatively strong and are falling at a more gradual rate.

These promising urban core home sales suggest that well-heeled buyers are being lured back to a vibrant, post-pandemic New York City.

FIGURE 10

New York City Total Retail Sales



Source: CBRE Research, Douglas Elliman, September 2022.

Office Workers

Employment Rebounds but Workers Slow to Return to Their Desks

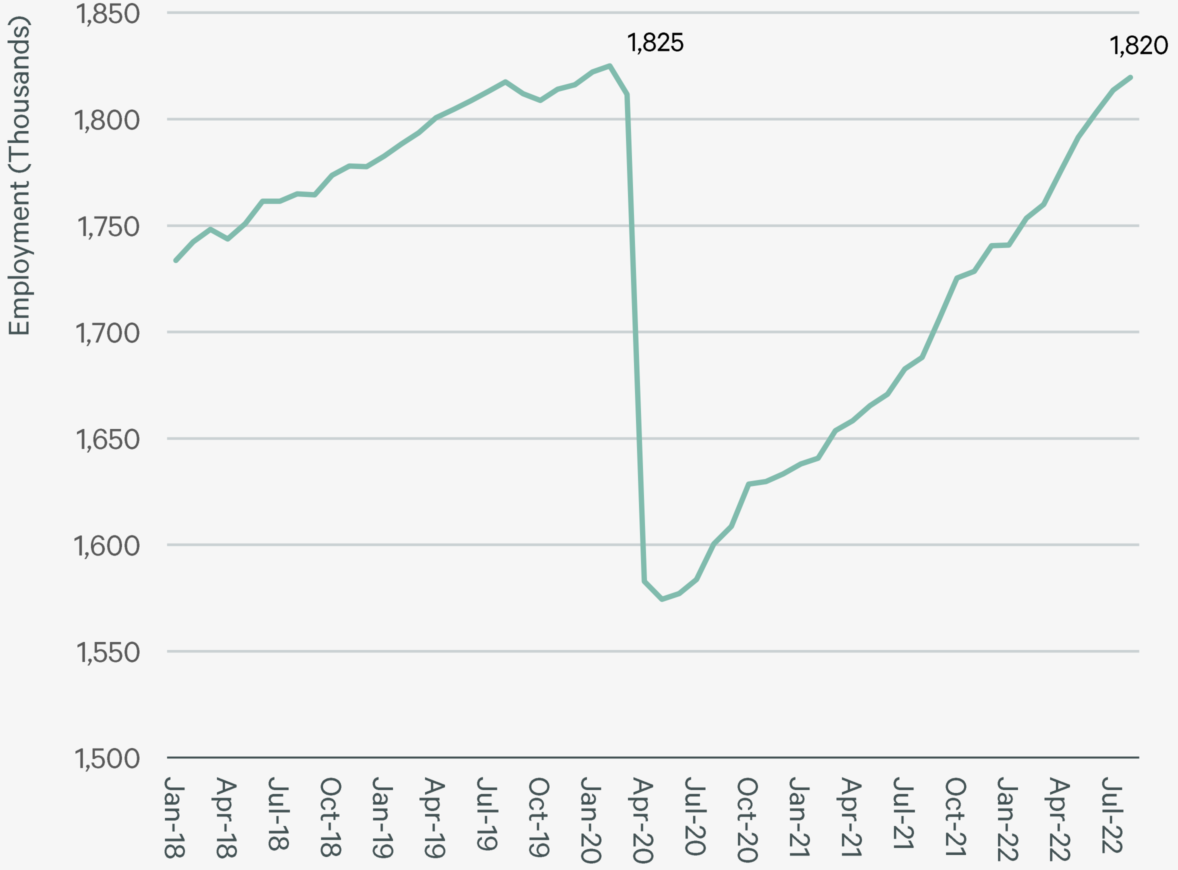
Office-Using Employment Nearly Restored

Office-using employment fell by 14% at the onset of the pandemic to a low of 1.57 million in May 2020.

Despite renewed economic headwinds, employment has nearly returned the 2019 level. With most Manhattan offices back to pre-pandemic staffing levels and adopting hybrid work arrangements, retailers can count on the partial return of worker to centrally located retail corridors in Midtown and Downtown.

FIGURE 11

New York City Office Using Employment



Source: CBRE Research, St. Louis FRED, August 2022.

Manhattan Office Occupancy Arriving at New Normal

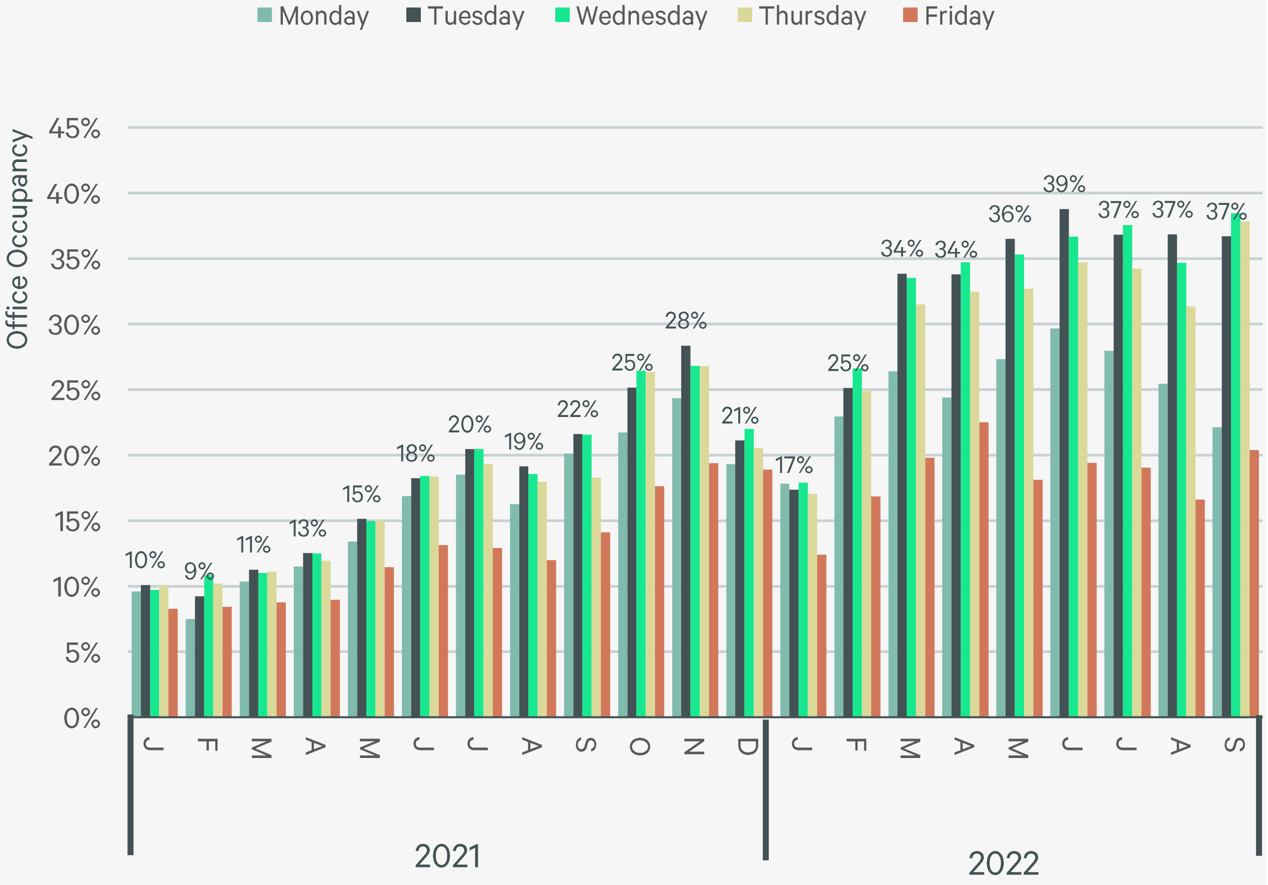
A new normal has established itself in the city's work culture with offices reaching peak occupancy between Tuesdays and Thursdays.

Manhattan's CBRE-managed offices are routinely achieving occupancy of 35-39% mid-week and roughly half that on Mondays and Fridays. Some landlords report occupancy as high as 65% for offices with financial tenants.

With pre-pandemic occupancy estimated at between 80% and 90%, Manhattan's daily occupancy under new hybrid work schedules appears to be settling in at just under half of prior levels.

FIGURE 12

Office Occupancy in CBRE-Managed Manhattan Buildings by Day of Week



Source: CBRE Research, CBRE Project Management, September 2022.

Transit Ridership Tied to Commuting

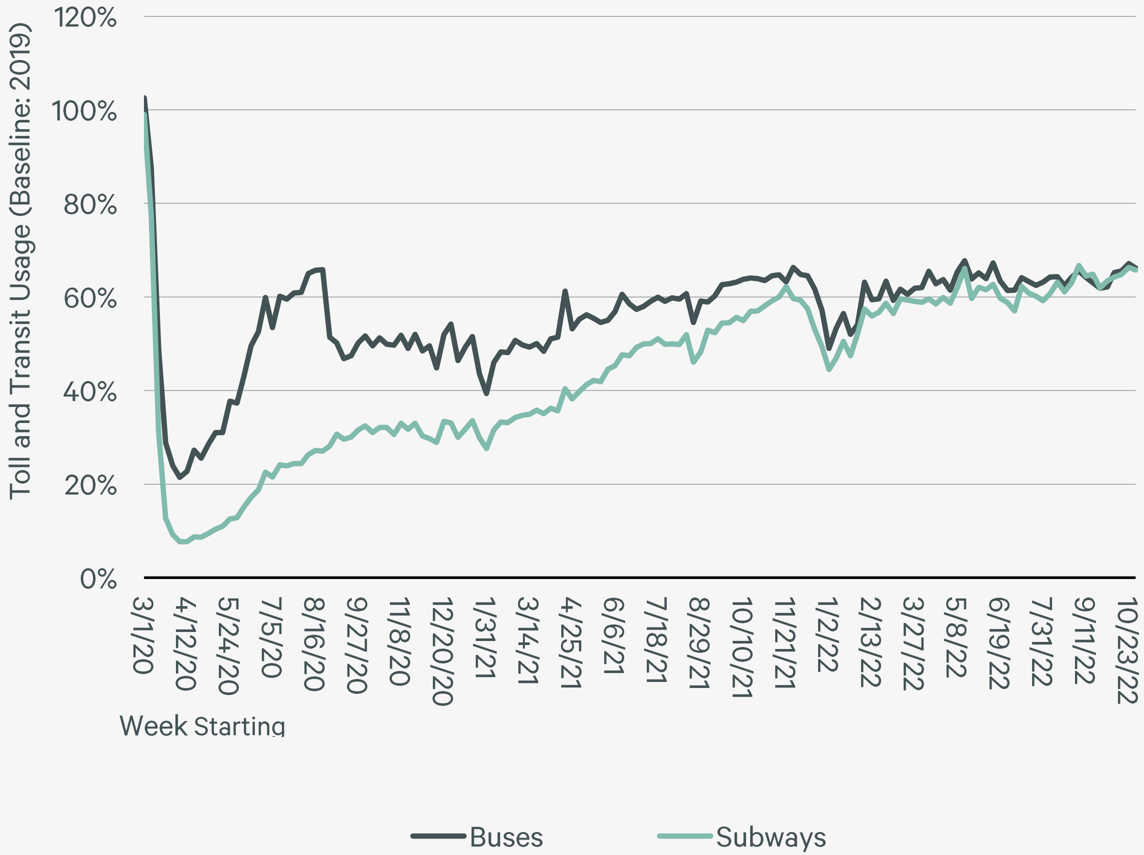
Subway ridership continues to make gains, but progress has slowed considerably in the fall alongside a sluggish return-to-office.

Weekday subway ridership is roughly two-thirds of the pre-pandemic level, however, stations in neighborhoods with a strong retail mix like SoHo and the Meatpacking District tend to outperform the system as a whole.

Subway usage is crucial to the city's recovery and ongoing investments in stations, signals, and train cars are expected to promote a continued ridership recovery.

FIGURE 13

Ridership Recovery for the Subway and Bus Systems



Source: CBRE Research, MTA, October 2022.

Suburban Ridership Gains Begin to Slow

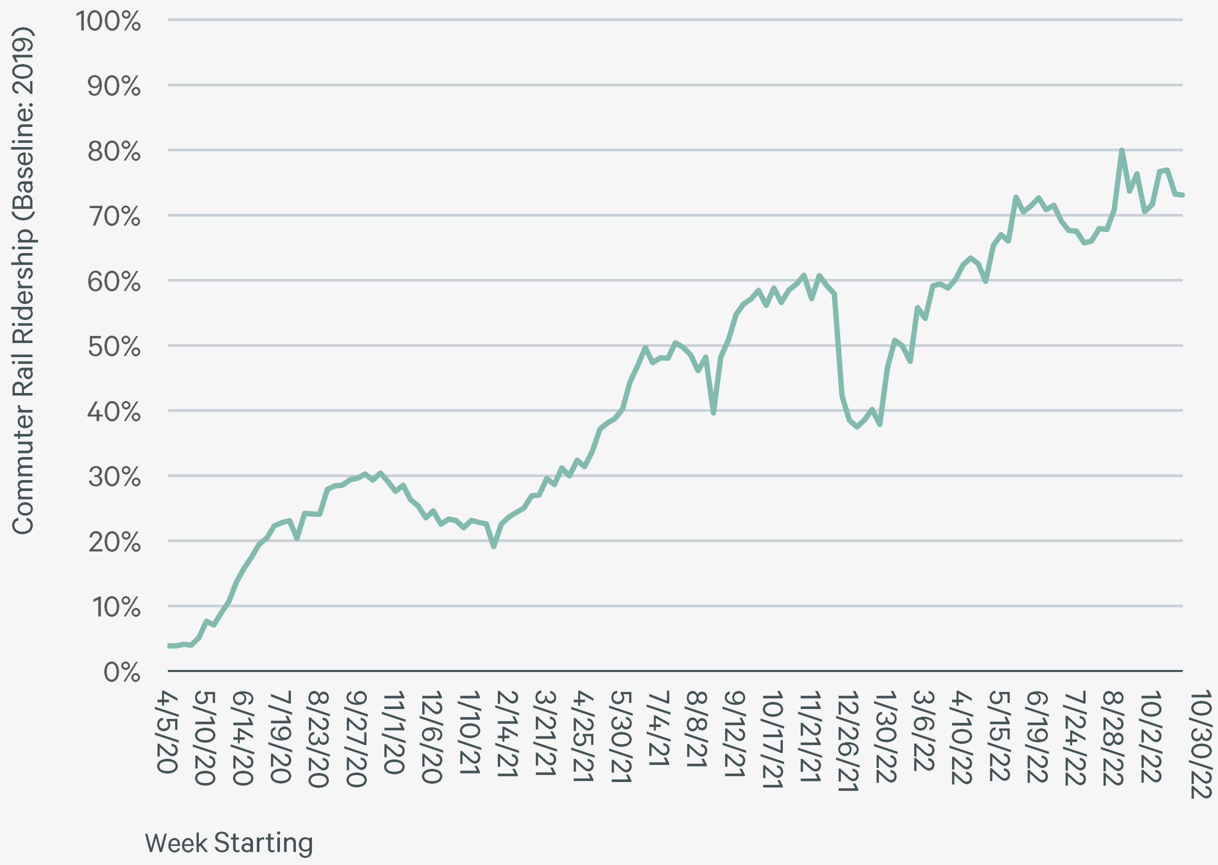
Weekday commuter rail ridership has followed the pace set by the return-to-office movement, with sizable gains made in the summer and shortly after Labor Day followed by a plateau through October.

Weekend ridership, however, remains a different story with pre-pandemic ridership levels frequently achieved on Saturdays and Sundays as leisure crowds are drawn to Manhattan's shopping and attractions.

The unveiling of Long Island Rail Road service to Grand Central Terminal at year end is expected to encourage ridership by trimming commute times for nearly 50% of the LIRR's ridership.

FIGURE 14

Commuter Rail Ridership for the LIRR and Metro-North



Source: CBRE Research, MTA, October 2022.

Tourists

New York's Appeal as a Leisure Destination Has Brought Back Crowds of Visitors

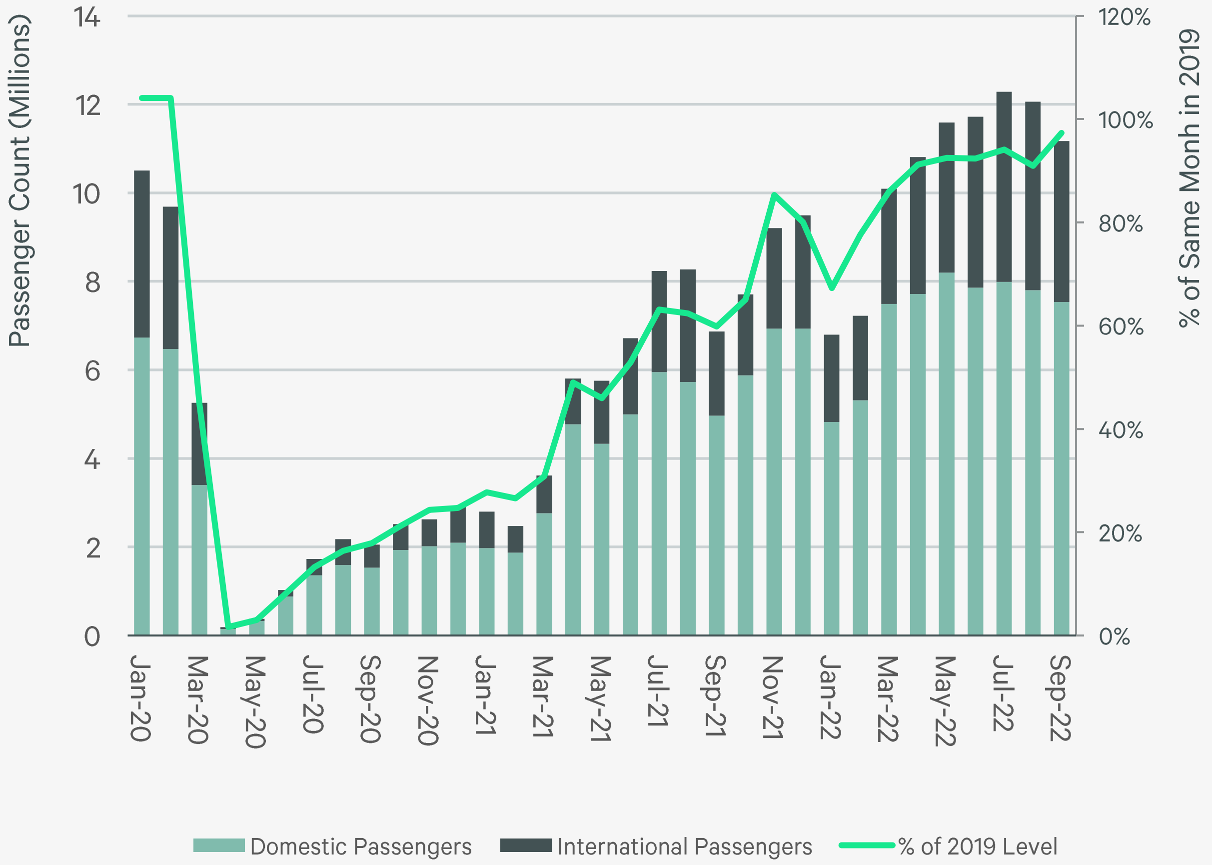
Air Travel Makes a Strong Recovery

Domestic air travel to New York City returned to 100% of its pre-pandemic volume in April 2022 and has maintained this level in the months since. Meanwhile, international air travel continues to recover and stood at 84% of the pre-pandemic level in September 2022.

The strong air travel recovery in 2022 was propelled by pent-up demand after two years of pandemic restrictions. While economic headwinds are emerging in 2022, the ebbing of the pandemic and reopening of Asia-Pacific economies could return more high-value international tourists to Manhattan's streets in 2023.

FIGURE 15

Air Passenger Counts at New York and % of Travelers Compared to Same Month in 2019 at New York Area Airports



Source: CBRE Research, Port Authority of New York/New Jersey, September 2022.

Hotel Occupancy Gaining Strength

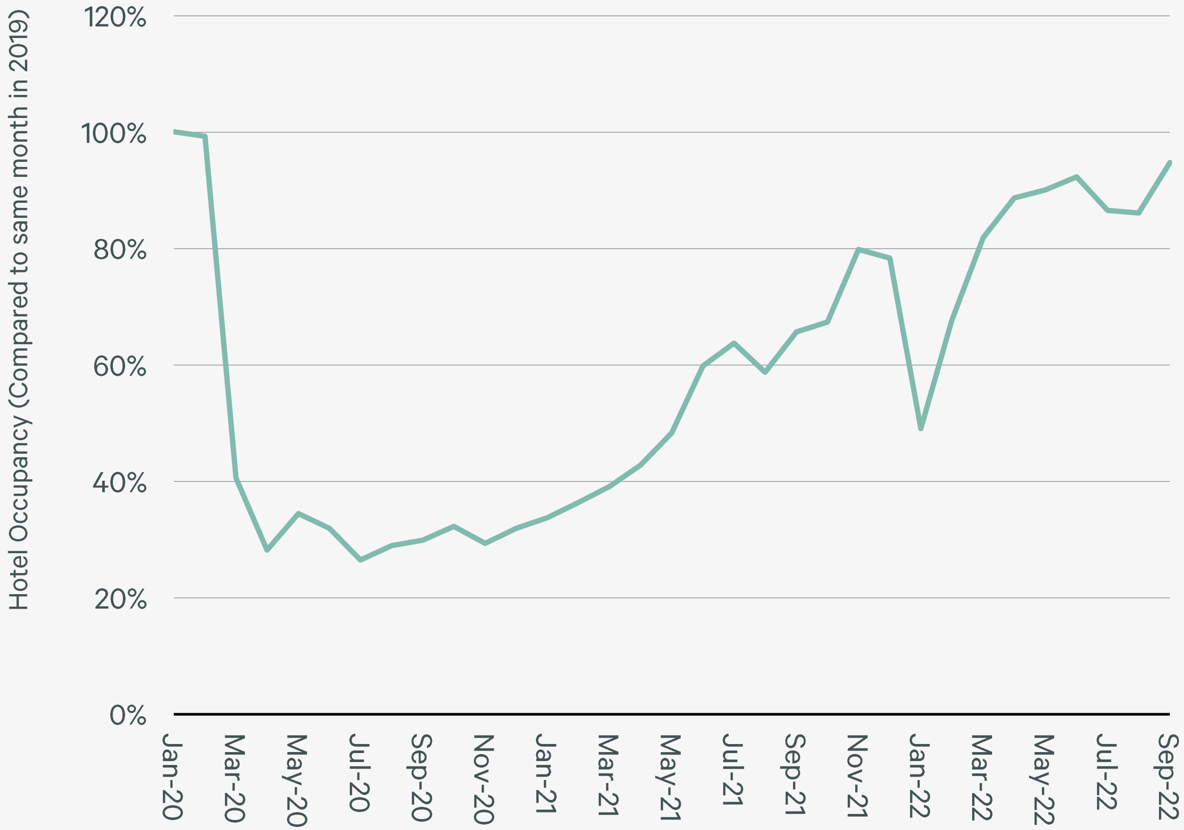
Hotel occupancy achieved the highest level since the onset of the pandemic in September 2022 with reservations at 95% of the 2019 level.

While the pandemic forced the closure of several hotels resulting in lower inventory, the return of overnight stays in Manhattan's existing stock is an encouraging sign, especially as several new properties open and existing properties reopen.

A full return to pre-pandemic levels of occupancy at major events like the New York City Marathon, New Year's Eve Ball Drop, conferences and concerts should ensure a return Manhattan's historically high levels of occupancy.

FIGURE 16

Hotel Occupancy Compared to Same Month in 2019



Source: CBRE Research, Kalibri Labs, September 2022.

Looking Forward

Things to Consider

Consistently low Covid-19 cases have allowed society to reopen, restoring a sense of normalcy to public spaces which are again teeming with crowds.

Despite the renewed vibrancy and ubiquitous feeling of recovery in the residential and hospitality sectors, the long-term effect of reduced office occupancy on retail corridors remains unknown.

The city faces challenges – and opportunities – in its ongoing recovery which will continue to play out in 2023.

Looming Recession

- Recessionary concerns could impact travel plans and spending in 2023 alongside high inflation.
- Layoffs have already been announced by many companies in the technology sector which have been slow to return to their offices along the west side of Manhattan.

A Changing Physical Landscape

- The recession has amplified conversations about the changing nature of American cities with broad implications for retail.
- Office-to-residential conversions, a migration of office users to fewer and better buildings and greater emphasis on catering to leisure crowds could remake Midtown Manhattan in the years to come.

Better, Faster Transit

- Huge investments in public transportation will enable faster and more efficient access to Manhattan and its retail corridors in the years to come.
- The imminent unveiling of Grand Central Madison will bring tens of thousands of commuters directly to Midtown East while new Metro-North access to Penn Station will do the same for Midtown West.

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