

INVESTMENT FORECAST

Retail
New York

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Retail Properties Benefit from Returning Foot Traffic; Mixed-Use Provides Hedge Against Uncertainty

Outer boroughs near recovery, with commercial districts well on the way. Amid questions over economic reopening, retail recovery continues across the five boroughs. Despite the emergence of COVID-19 variants, gaps between current foot traffic and pre-pandemic activity have consistently narrowed, and consumer spending will end this year over 20 percent above 2019 levels. Asking rents in the city's outer boroughs are approaching full recovery, with Queens and Staten Island reporting all-time highs for single-tenant assets in 2021. As most office workers remain on remote schedules, subdued commuter traffic leaves retail fundamentals in core Manhattan and Brooklyn submarkets further from pre-pandemic peaks. Despite this, robust leasing activity in January of this year is generating record-asking rents for office space in Midtown South, signaling tenant confidence in a large-scale return to workplaces in the near to mid-term. As large firms commit to bring employees back to Manhattan and Brooklyn, rising commuter activity will put significant positive momentum on retail asking rents in these office-heavy districts.

New York's mixed-use inventory gives retail investors unique opportunities. The city's retail investment market is moving forward from its pandemic slump. Trading velocity increased in 2021's latter half, as new COVID-19 strains did little to discourage investment activity. Sales trends have been bifurcated between different asset classes. The outer boroughs saw a multi-year high in single-tenant deal flow, led by a sharp rise in transactions in Queens, where retail markets are less dependent on commuter traffic than nearby boroughs. Investors willing to deal with a tougher regulatory environment also leaned on the city's multifamily sector when looking for mixed-use properties. In Manhattan, where the largest gaps still exist between current and pre-pandemic retail fundamentals, mixed-use retail-residential options change hands with yields in the low-4 to 5 percent range, roughly 100 basis points under the current market average.

2022 Market Forecast

- Employment**
up 3.5%

Employers will bolster staff counts with 150,000 new positions, but the city remains over 280,000 jobs short of previous highs.
- Construction**
1,660,000 sq. ft.

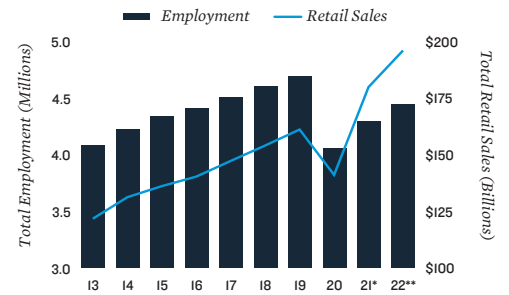
After developers finalized just under 900,000 square feet in 2021, retail space is projected to expand at a rate on par with the historical average.
- Vacancy**
up 10 bps

While net absorption surpasses 1 million square feet for the first time since the onset of the health crisis, market availability ticks up to 4.1 percent.
- Rent**
up 0.8%

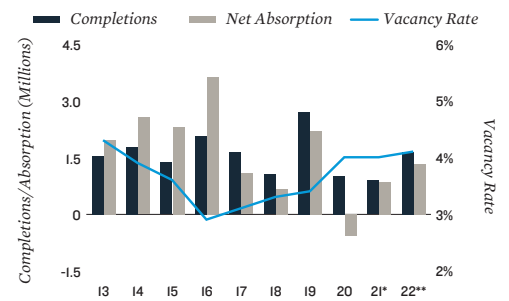
Asking rents rise to an average of \$58.25 per square foot, supported by an improvement in retail demand. Still, the year-end mean trails the heights achieved prior to the health crisis.
- Investment**

Retail properties in submarkets impacted by ongoing remote work schedules may see sudden upward pricing pressure when large employers fully commit to returning to offices.

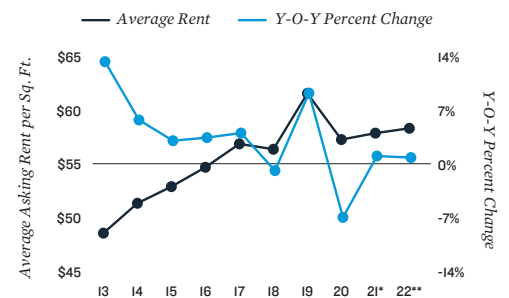
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.