

# MARKET REPORT

RETAIL

New York City Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

3Q/21

## New York Retailers Post Initial Signs of Progress, Bringing Single-Tenant Investors Off the Sidelines

**Retailers gain traction in the second quarter.** Reflecting the challenges faced by New York storefronts in the pandemic, more than 800,000 square feet of retail space was vacated between April 2020 and March 2021. That trend ended in the second quarter, however, as tenants, assuaged by lifted capacity restrictions, absorbed 150,000 square feet on a net basis in that span. Leasing activity was strongest in North Brooklyn and North Queens. The return of some residents and office workers also prompted the arrival of more retailers to Midtown South, where rents are some of the highest in the city. New tenants to the submarket included grocer Hannaford as well as several fitness concepts and fast-food establishments. Growing demand has yet to translate into improved property fundamentals, however, as several factors continue to weigh on the retail sector this year.

**Construction, delta variant raise concerns.** Despite an initial increase in space demand, vacancies across most boroughs continue to trend up. Operations are being challenged by new supply, with more than 1 million square feet set to open in the second half of this year. The rise of coronavirus variants adds additional hurdles. While new shutdowns are unlikely given widespread vaccine availability, mandatory inoculations for customers may still lead to fewer visits. Similar requirements at many private and public firms have pushed back some office reopenings, prolonging the recovery in neighborhoods more dependent on daytime foot traffic.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2021 Outlook



**200,000  
JOBS**

*will be created*

### EMPLOYMENT:

While metro employers have created more than 100,000 jobs in the first seven months of 2021, an unemployment rate of 10.5 percent reveals the extent that last year's sharp employment contraction continues to affect the local workforce.



**1,800,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Roughly double the amount of space delivered in 2020 will be finalized this year. The volume of arrivals nevertheless falls short of the record 3.2 million square feet completed in 2019. Deliveries will be heaviest in Brooklyn and Queens.



**40  
BASIS POINT**

*increase in vacancy*

### VACANCY:

A development pipeline concentrated in the back half of 2021 will push vacancy up to 4.4 percent this year, 100 basis points above the pre-pandemic mark. The possible impact of materials shortages on project timelines could potentially soften the rise in vacancy.



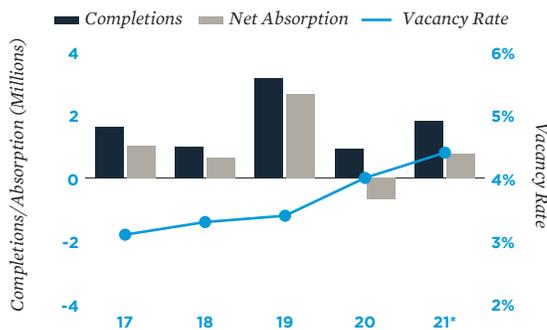
**1.9%  
INCREASE**

*in asking rent*

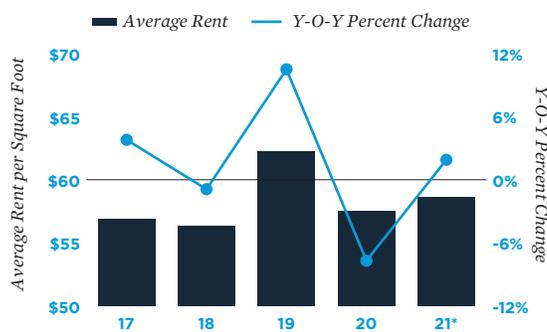
### RENT:

After dropping to an average of \$57.51 per square foot at the end of 2020, the improving economic environment will help lift asking rates to a per-square-foot mean of \$58.60 this year. The measure would be 7 percent below the pre-pandemic high.

### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast; \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q21 – 12-Month Period



### CONSTRUCTION

**1,112,000** square feet completed

- Approximately 500,000 fewer square feet were delivered over the past 12-month period ended in June than in the prior yearlong span.
- Completions made through the first half of 2021 were heaviest in Northwest Queens and Staten Island, with Hylan Boulevard's 170,000-square-foot building G comprising the largest single opening.



### VACANCY

**60** basis point increase in vacancy Y-O-Y

- Net absorption turned positive in the second quarter, helping keep vacancy steady at 4.2 percent through the first half of 2021.
- New York's single- and multi-tenant vacancy rates were both up 60 basis points year over year in June, at 4.3 percent and 3.6 percent, respectively. The former sector represents about seven times the inventory.



### RENT

**6.4%** decrease in the average asking rent Y-O-Y

- Stable vacancy helped lift the metro's average asking rent up to \$58.20 per square foot in June, down about 8 percent from the previous peak.
- Marketed rents have dropped the most for multi-tenant space, down 16.9 percent annually, while the single-tenant average fell 4.9 percent. Both measures are above where they started the year at, however.

## Investment Highlights

- More investors came off the sidelines in the 12-month period ended in June as the number of single-tenant trades increased by 15 percent over the previous annual period. The challenges still facing retailers nevertheless contributed to a 2 percent drop in the average sale price to \$685 per square foot over that same span. The mean cap rate inched up 10 basis points to 5.5 percent in relation to the higher risk profile.
- The transaction velocity for multi-tenant properties fell 20 percent year over year in June. Over that period the average sale price ticked up 1 percent to \$552 per square foot, while the average cap rate rose 30 basis points to 5.8 percent. A shift to older properties relative to the year before may have contributed to the higher mean yield.
- Overall retail trading activity continued to be highest in Brooklyn and Queens, with investors favoring South Brooklyn and Northeast Queens slightly over other neighborhoods. More Manhattan properties also changed hands than in the year before, led by deals in the Plaza District and in Harlem. Buyers targeting higher yields found options in Staten Island, where cap rates average in the high-7 percent band.