

RETAIL REPORT

FALL 2011



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REAL ESTATE BOARD OF NEW YORK

EXECUTIVE SUMMARY

The market for New York City retail store space is still tight in the most prestigious corridors and some of the excess demand is spilling over into other prominent corridors within Manhattan according to our Retail Advisory Group. We've seen this encouraging activity despite a backdrop of continued economic weakness at all levels.

Global Economic Factors

The Euro has slid against the dollar by over 3 percent since the last REBNY retail report and is threatening to move lower as the credibility of the European bailout mechanism is being questioned. Mixed economic reports out of China have stunted global economic optimism as well. Still, these developments have not had much impact on the New York tourist industry as the Manhattan hotel occupancy rate increased to 89.3 percent in the third quarter compared to the third quarter of 2010 as measured by PKF Associates. As a result, the major retail corridors in New York had little change in the amount of foreigners with shopping bags at their side.

Mixed Signals on Consumer Spending

U.S. consumers are also sending mixed signals. The most cited official U.S. unemployment rate is stagnant at 9.1 percent, real disposable income declined .1 percent in September, and measures of consumer sentiment are at levels not seen since the recession. Despite these dismal figures, personal consumption expenditure still increased 2.4 percent from the second quarter and real retail sales increased 3.9 percent in September compared to last September. Regardless of their economic problems, American consumers are still spending.

Prime 5th Avenue Retail Corridor Spillover

The 5th Avenue retail corridors, according to our Retail Advisory Group, have continued to tighten and as a result of that activity, asking rents have increased. With very little availability, the average asking rents on prime Upper 5th Avenue spaces between 49th and 59th Street have increased 17 percent over the spring and 11 percent since last fall to \$2,633 per square foot. This average asking rent is a function of owners responding to very high demand

while there are very few spaces on the market.

There has been somewhat of a spillover effect from the high asking rents on Upper 5th Avenue to 5th Avenue between 42nd and 49th Streets. Owners sensing that even high end international retailers will be priced out of Upper 5th yet are still willing to pay a premium to be near this popular corridor have increased their asking rents. The average asking rent for retail space on 5th Avenue between 42nd and 49th Streets is up 31 percent from the spring and 35 percent from last fall to \$675 per square foot. Some of the high profile companies to take space on 5th Ave since the spring have been Swatch, Michael Kors, and Dolce & Gabbana.

Limited Supply in Prime Corridors Impacts Asking Rents

As we have done in earlier reports, we need to remind our readers that these are asking rents, not taking rents. In retail corridors where there is a balance of supply and demand we have seen stability in asking price for available space. However, in other corridors where there is limited supply we have seen dramatic jumps in asking rent. Needless to say, the very high asking rent for these spaces can result in equally high percentage increases from report to report and year to year. Our Advisory Group had a robust discussion about these exorbitantly high, almost unrealistic asking rents and whether they should be included in the report. The group cited several reasons for excluding and including these unusually high rents. According to the group, the listings could be excluded on the basis that they are not reflective of the market, will not be leased for anywhere near that level, and that they hurt the market as they scare away tenants. The reasons for including the listings are that this is what the owner is asking, that the space may drive up the price for all space in the market and that the owner may get a higher taking rent than he would have otherwise. The Advisory Group found all these reasons to be correct, and therefore included these questionable rents in the averages. However, this report addresses the issue by providing, not only the average, but the range and the median as well. With these additional market indicators, a careful reader will be very cau-

EXECUTIVE SUMMARY

tious about drawing attention to these corridors in which this situation occurs. Likewise, we do not call out these percentage increases because in our judgment and the judgment of the Advisory Group they are not an accurate representation of the market. If these owners are successful in leasing such high-priced space it has been their experience that they have provided an above-market amount of free rent and tenant improvement allowance. This typically brings the taking rent very close to other signed leases in the market.

Not all areas of the city witnessed the type of volatility in asking rents as the international shopping destinations of the 5th Ave corridors and Times Square where supply is short, demand is high, and one opening can drastically change the corridor's average asking rents. Third Avenue between 60th and 72nd and 5th Avenue in the Flatiron District are two larger corridors where a steady supply of space leads to stable rents. Average asking rents this fall on Third Avenue between 60th and 72nd are up 4 percent from last fall to \$255 dollars per square foot but down 5 percent from last fall. Average asking rents on 5th Avenue in the Flatiron District are up 1 percent from the spring to \$279 and 9 percent from last fall.

Unique Aspects of the Retail Market

In preparing to release our report, our Advisory Group always reminds us to clearly acknowledge the unique aspects of the retail space market. The asking rent does not factor in a free rent period or a financial allowance for making interior improvements in the space. The dollar value of these lease provisions can vary depending on the relative strength or weakness of a particular market, and the availability of comparable space in the same corridor. Similarly, a tenant with strong financials, especially over an extended period of time, provides an owner with

greater assurance that the rent will be paid on time. A tenant in this position can generally negotiate a lower rent than a tenant that cannot offer the owner the same level of financial security.

There are exceptions. Many retailers have unique space needs. For a retailer who wants a store on Fifth Avenue in the mid 50s an available space on Sixth Avenue is no substitute, not even at a lower price. Likewise, for a retailer that wants to be on Seventh Avenue in Times Square, a store a short block away on Eighth Avenue is not an option. A few years ago the competition in the retail banking industry led to very specific space requirements for branch locations. Banks wanted to be on a corner and could not be persuaded to lease a similar mid-block space at a discount or with generous concessions. With strong competition for a specific location on a block, it was not unusual for the taking rent in these cases to be higher than the asking rent as well as the normal range of rents for the corridor.

As you review our report, keep in mind that we are using asking rents for available space and that in the prime retail corridors there may be a limited number of stores available on which we can report. We have tried to provide a broad range of price information to give you a comprehensive account of pricing in the market.



AVERAGE ASKING RENT: SELECTED MAJOR RETAIL CORRIDORS AVAILABLE GROUND FLOOR SPACE ONLY

	Fall	Spring	Fall	% Change	% Change
	2011	2011	2010	From Spring	From Fall
				2011	2010
EASTSIDE					
Madison Ave: 57 - 72 St	\$989	\$919	\$1,049	8%	-6%
Third Ave: 60 - 72 St	\$255	\$246	\$270	4%	-5%
East 86 St: Lexington Ave - 2nd Ave	\$398	\$333	\$293	20%	36%
WESTSIDE					
Broadway: 72 - 86 St	\$316	\$275	\$301	15%	5%
Columbus Ave: 66 - 79 St	\$250	\$255	\$229	-2%	9%
MIDTOWN					
East 57 St: 5 Ave - Park Ave	\$700	N/A	N/A	N/A	N/A
Fifth Ave: 42 - 49 St	\$675	\$515	\$501	31%	35%
Fifth Ave: 49 - 59 St	\$2,633	\$2,250	\$2,367	17%	11%
Broadway & 7 Ave: 42 - 47 St	\$1,433	\$1,600	\$1,700	-10%	-16%
MIDTOWN SOUTH					
Flatiron					
Fifth Ave: 14 - 23 St	\$279	\$275	\$255	1%	9%
Broadway: 14 - 23 St	\$229	N/A	N/A	N/A	N/A
Herald Square					
West 34 St: 5 - 7 Ave	\$482	\$455	\$419	6%	15%
DOWNTOWN					
Meatpacking					
14 St: 9 - 10 Ave	\$365	\$363	\$371	1%	-2%
Financial District					
Broadway: Battery Park - Chambers St	\$144	\$184	\$150	-22%	-4%
SoHo					
Broadway: Houston - Broome St	\$506	\$498	\$526	2%	-4%
West Village					
Bleeker St: 7 Ave South - Hudson St	\$371	\$488	\$486	-24%	-24%
UPPER MANHATTAN					
Harlem					
125th St. (River to River)	\$129	\$125	\$117	3%	10%



MEDIAN ASKING RENT: SELECTED MAJOR RETAIL CORRIDORS AVAILABLE GROUND FLOOR SPACE ONLY

	Fall 2011	Spring 2011	Fall 2010	% Change From Spring 2011	% Change From Fall 2010
EASTSIDE					
Madison Ave: 57 - 72 St	\$1,000	\$950	\$900	5%	11%
Third Ave: 60 - 72 St	\$250	\$250	\$273	0%	-8%
East 86 St: Lexington Ave - 2nd Ave	\$425	\$350	\$292	21%	46%
WESTSIDE					
Broadway: 72 - 86 St	\$325	\$258	\$325	26%	0%
Columbus Ave: 66 - 79 St	\$250	\$276	\$240	-9%	4%
MIDTOWN					
East 57 St: 5 Ave - Park Ave	\$700	N/A	N/A	N/A	N/A
Fifth Ave: 42 - 49 St	\$525	\$490	\$463	7%	14%
Fifth Ave: 49 - 59 St	\$2,500	\$2,250	\$2,500	11%	0%
Broadway & 7 Ave: 42 - 47 St	\$1,500	\$1,700	\$1,700	0%	-12%
MIDTOWN SOUTH					
Flatiron					
Fifth Ave: 14 - 23 St	\$250	\$263	\$250	-5%	0%
Broadway: 14 - 23 St	\$185	N/A	N/A	N/A	N/A
Herald Square					
West 34 St: 5 - 7 Ave	\$500	\$449	\$417	11%	20%
DOWNTOWN					
Meatpacking					
14 St: 9 - 10 Ave	\$375	\$375	\$375	0%	0%
Financial District					
Broadway: Battery Park - Chambers St	\$125	\$175	\$150	-29%	-17%
SoHo					
Broadway: Houston - Broome St	\$500	\$500	\$490	0%	2%
West Village					
Bleeker St: 7 Ave South - Hudson St	\$346	\$488	\$500	-29%	-31%
UPPER MANHATTAN					
Harlem					
125th St. (River to River)	\$125	\$86	\$109	45%	15%



ASKING RENT RANGE: SELECTED MAJOR RETAIL CORRIDORS AVAILABLE GROUND FLOOR SPACE ONLY

	Fall 2011	Spring 2011	Fall 2010
EASTSIDE			
Madison Ave: 57 - 72 St	\$600 - \$1500	\$667 - \$1,333	\$550 - \$2,484
Third Ave: 60 - 72 St	\$180 - \$300	\$200 - \$325	\$200 - \$375
East 86 St: Lexington Ave - 2nd Ave	\$240 - \$500	\$250 - \$400	\$225 - \$400
WESTSIDE			
Broadway: 72 - 86 St	\$225 - \$452	\$200 - \$375	\$250 - \$350
Columbus Ave: 66 - 79 St	\$250 - \$250	\$200 - \$329	\$173 - \$275
MIDTOWN			
East 57 St: 5 Ave - Park Ave	\$700 - \$700	N/A N/A	N/A N/A
Fifth Ave: 42 - 49 St	\$500 - \$1,000	\$400 - \$680	\$400 - \$680
Fifth Ave: 49 - 59 St	\$2,400 - \$3,000	\$2,000 - \$2,500	\$2,100 - \$2,500
Broadway & 7 Ave: 42 - 47 St	\$800 - \$2,000	\$1,300 - \$2,000	\$1,400 - \$2,000
MIDTOWN SOUTH			
Flatiron			
Fifth Ave: 14 - 23 St	\$250 - \$350	\$250 - \$350	\$200 - \$300
Broadway: 14 - 23 St.	\$121 - \$380	N/A N/A	N/A N/A
Herald Square			
West 34 St: 5 - 7 Ave	\$422 - \$520	\$415 - \$500	\$311 - \$500
DOWNTOWN			
Meatpacking			
14 St: 9 - 10 Ave	\$350 - \$375	\$325 - \$375	\$325 - \$400
Financial District			
Broadway: Battery Park - Chambers St	\$75 - \$275	\$75 - \$300	\$100 - \$200
SoHo			
Broadway: Houston - Broome St	\$425 - \$600	\$450 - \$550	\$350 - \$807
West Village			
Bleeker St: 7 Ave South - Hudson St	\$250 - \$542	\$425 - \$550	\$411 - \$543
UPPER MANHATTAN			
Harlem			
125th St. (River to River)	\$75 - \$220	\$35 - \$220	\$55 - \$200



AVERAGE ASKING RENT: MAJOR RETAIL NEIGHBORHOODS

ALL AVAILABLE SPACE (GROUND FLOOR, LOWER LEVEL, UPPER LEVEL, MEZZANINE)

	Fall 2011	Spring 2011	Fall 2010	% Change From Spring 2011	% Change From Fall 2010
MANHATTAN	\$112	\$115	\$118	-3%	-5%
EASTSIDE 60th Street to 96th Street, Fifth Avenue to the East River	\$176	\$182	\$180	-3%	-2%
WESTSIDE 60th Street to 116th Street, West of Morningside Park	\$141	\$124	\$128	14%	10%
MIDTOWN 35th Street to 59th Street	\$130	\$144	\$149	-10%	-13%
MIDTOWN SOUTH 15th Street to 34th Street	\$98	\$95	\$103	3%	-5%
DOWNTOWN South of 14th Street	\$100	\$103	\$99	-3%	1%
UPPER MANHATTAN 97th Street and higher, Fifth Avenue to the East River; 116th Street and higher, West of Morningside Park	\$67	\$62	\$67	8%	0%



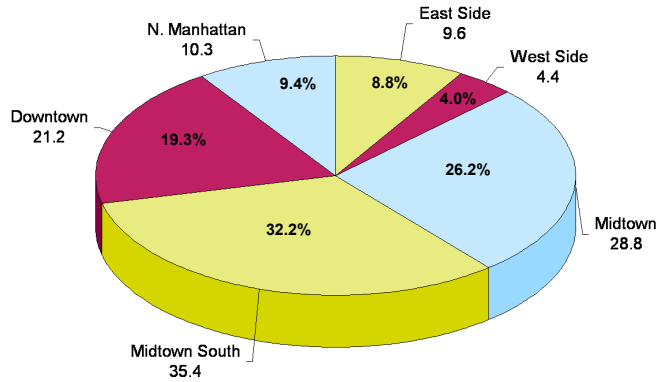
MEDIAN ASKING RENT: MAJOR RETAIL NEIGHBORHOODS

ALL AVAILABLE SPACE (GROUND FLOOR, LOWER LEVEL, UPPER LEVEL, MEZZANINE)

	Fall 2011	Spring 2011	Fall 2010	% Change From Spring 2011	% Change From Fall 2010
MANHATTAN	\$83	\$83	\$85	0%	-2%
EASTSIDE 60th Street to 96th Street, Fifth Avenue to the East River	\$135	\$130	\$124	4%	9%
WESTSIDE 60th Street to 116th Street, West of Morningside Park	\$120	\$108	\$105	11%	14%
MIDTOWN 35th Street to 59th Street	\$100	\$94	\$100	6%	0%
MIDTOWN SOUTH 15th Street to 34th Street	\$75	\$73	\$76	3%	-1%
DOWNTOWN South of 14th Street	\$83	\$84	\$80	-1%	4%
UPPER MANHATTAN 97th Street and higher, Fifth Avenue to the East River; 116th Street and higher, West of Morningside Park	\$51	\$53	\$54	-4%	-6%

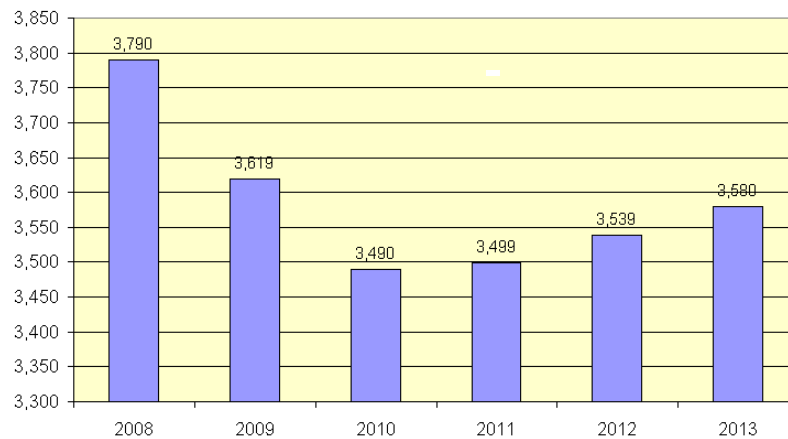
SELECTED MARKET DATA

Manhattan Retail Square Feet by Area (millions of square feet)



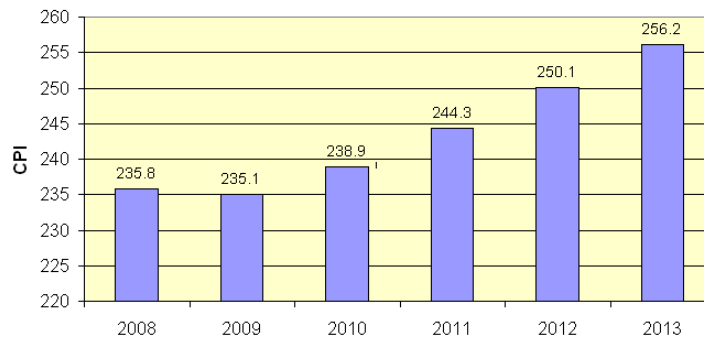
Forecast of New York City Economic Indicators

New York City Employment (in thousands)



Source: NYC Office of Management & Budget

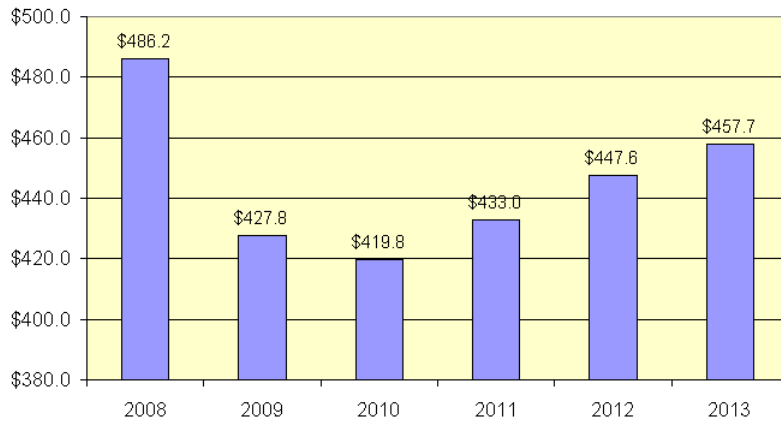
New York City CPI (1982-1984=100)



Source: NYC Office of Management & Budget

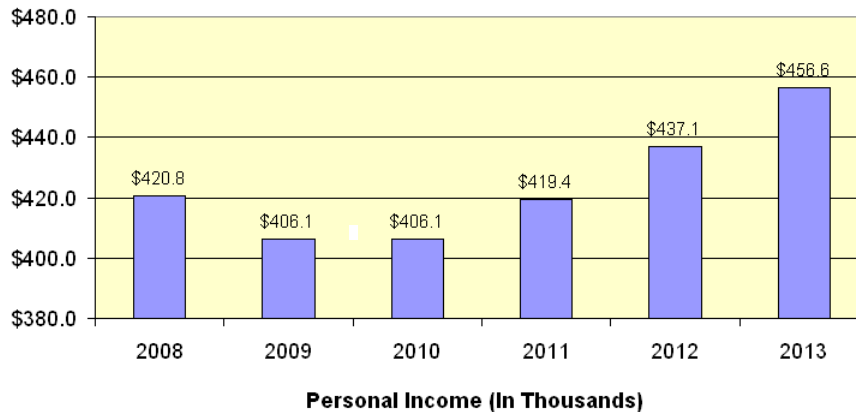
SELECTED MARKET DATA

New York City Real Gross City Product (billions)



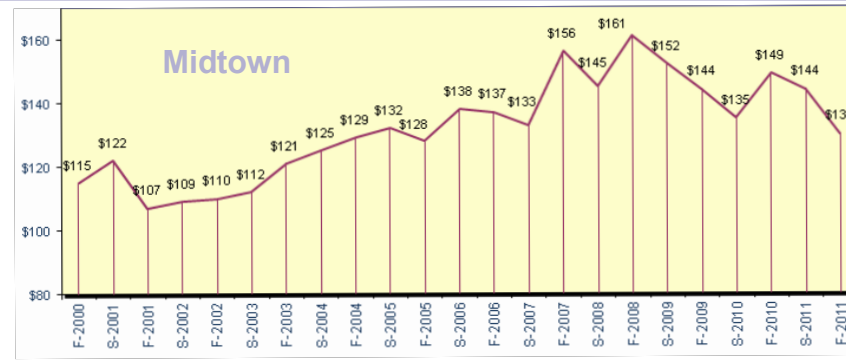
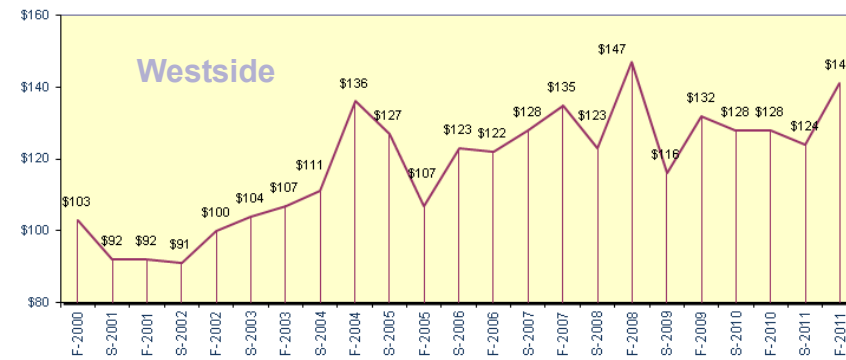
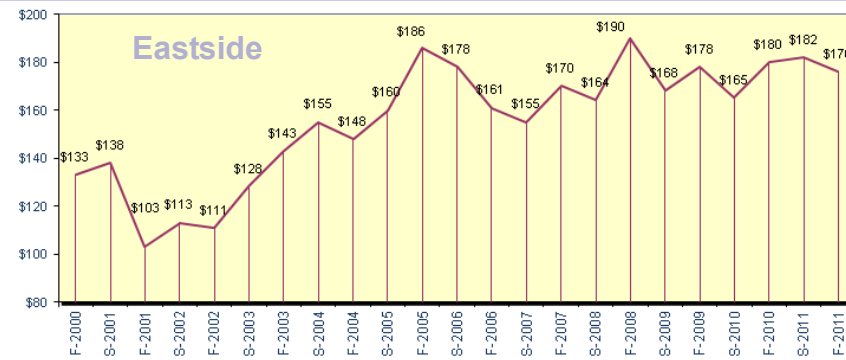
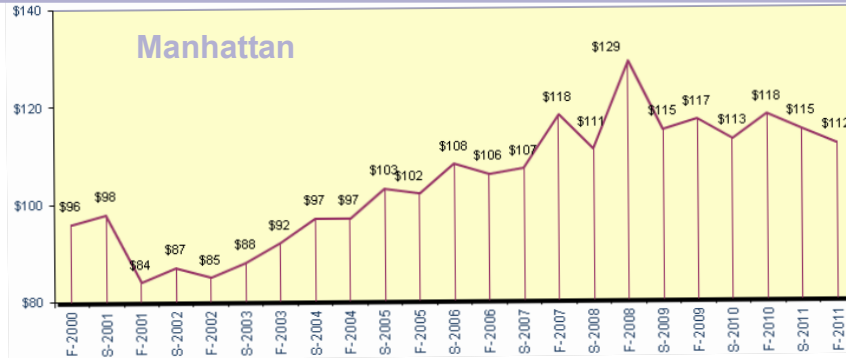
Source: NYC Office of Management & Budget

New York City Gross Personal Income

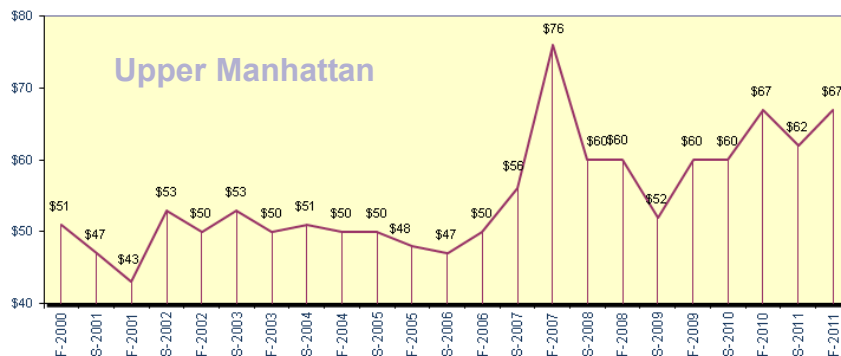
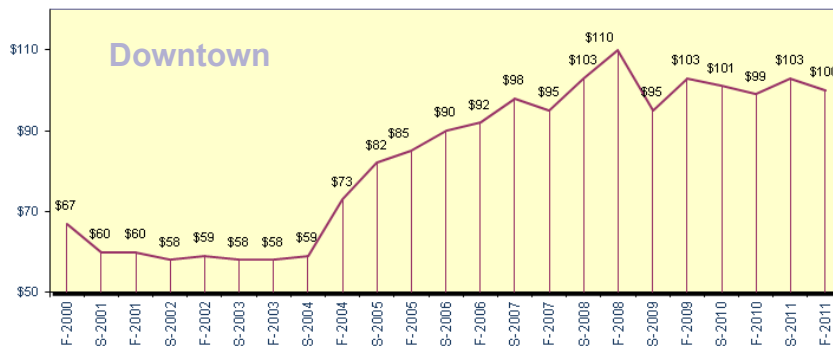
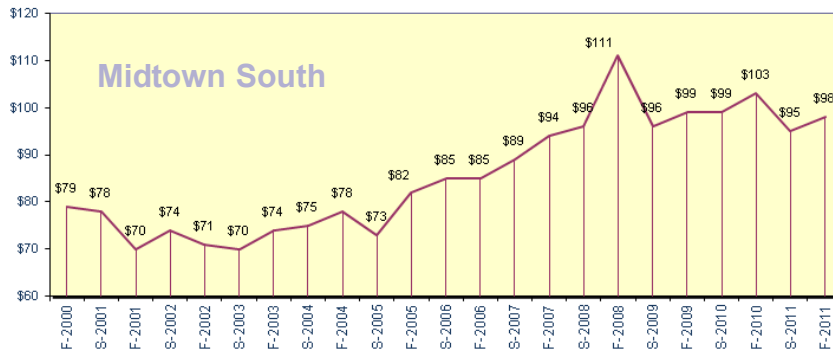


Source: NYC Office of Management & Budget

AVERAGE RETAIL ASKING RENTS PSF



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The Retail Report provides objective, comprehensive information about asking rents and market trends in Manhattan.

Issued twice a year—Spring and Fall—the report is a project of the REBNY Retail Committee.

The report presents retail space information by geographical area and focuses on the asking rent of the ground floor space on the major retail streets.