

INVESTMENT FORECAST

Marcus & Millichap

RETAIL

New York City Metro Area

2019

Supply Growth Reaches Cycle High as Marquee Offerings Come Online Throughout New York City

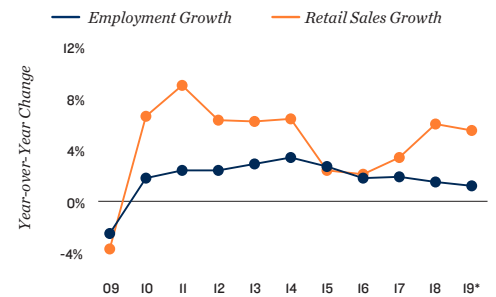
Tenant shuffling lifts vacancy moderately higher amid surging rent prices in core submarkets. Amid the resilient New York City economy, the largest annual delivery of retail space within the current cycle will occur in 2019. Headlined by the long-awaited delivery of The Shops & Restaurants at Hudson Yards, the pipeline will contain nearly 1 million square feet of retail space on Staten Island. Other notable projects include the retail portion of Essex Crossing in Soho and Tangram Tower in Flushing, with a combined square footage of nearly three-quarters of a million square feet. Due to the sheer volume of projects coming online — roughly 5 million square feet is expected by year end — vacancy will push higher as retailers rush to take new space, leaving older floor plates to be slowly filled over time. The high-quality offerings coming online will pressure the average asking rent higher in nearby locations, particularly in Midtown Manhattan where vacant floor plates are likely to price well above the metro average.

Price, yield differential draw incremental capital to outer boroughs; deal flow focused on high-quality locations. Amid ongoing robust appreciation in the market, buyers have maintained an active acquisition pace, fueled by higher cap rates and lower price tags in the outer boroughs. While institutions still focus their attention on high-quality assets in Manhattan and portions of Brooklyn with cap rates in the low-4 percent area, private investors have shifted their allocations to more speculative neighborhoods in Queens and eastern Brooklyn. Here, cap rates are up to 50 basis points higher than more premier locations, encouraging deal flow and dollar volume that nearly reached \$1 billion in 2018. The rezoning of several submarkets, combined with multiple opportunity zones throughout the outer boroughs, has accelerated this trend in recent months, particularly following the announcement of Amazon's intention to take space in Long Island City. Locations near mass-transit stations in the area remain especially attractive.

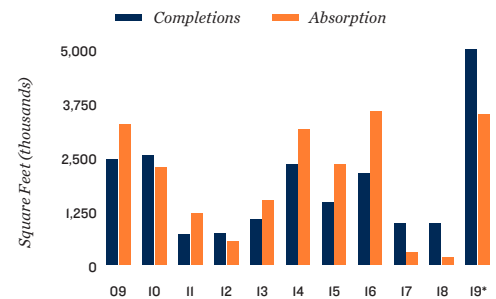
2019 Market Forecast

- Employment**
up 1.2%
After creating 67,100 jobs in 2018, New York City organizations will hire 55,000 people this year.
- Construction**
5 million sq. ft.
Development will more than quintuple this year as major deliveries are brought online in Manhattan and Staten Island, reaching a new cycle high.
- Vacancy**
up 50 bps
Considerable net absorption fails to keep up with accelerating construction, pushing vacancy up to 4.1 percent. Last year, vacancy rose 40 basis points.
- Rent**
up 0.8%
The average asking rent ticks up to \$61.90 per square foot, adding to last year's advance of 1.6 percent.
- Investment**
The western coast of the East River remains a favorable location for acquisitions due to the dramatically growing renter base and acceptance of corporate giants such as Amazon.

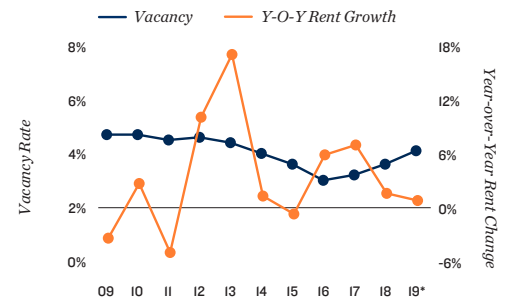
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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