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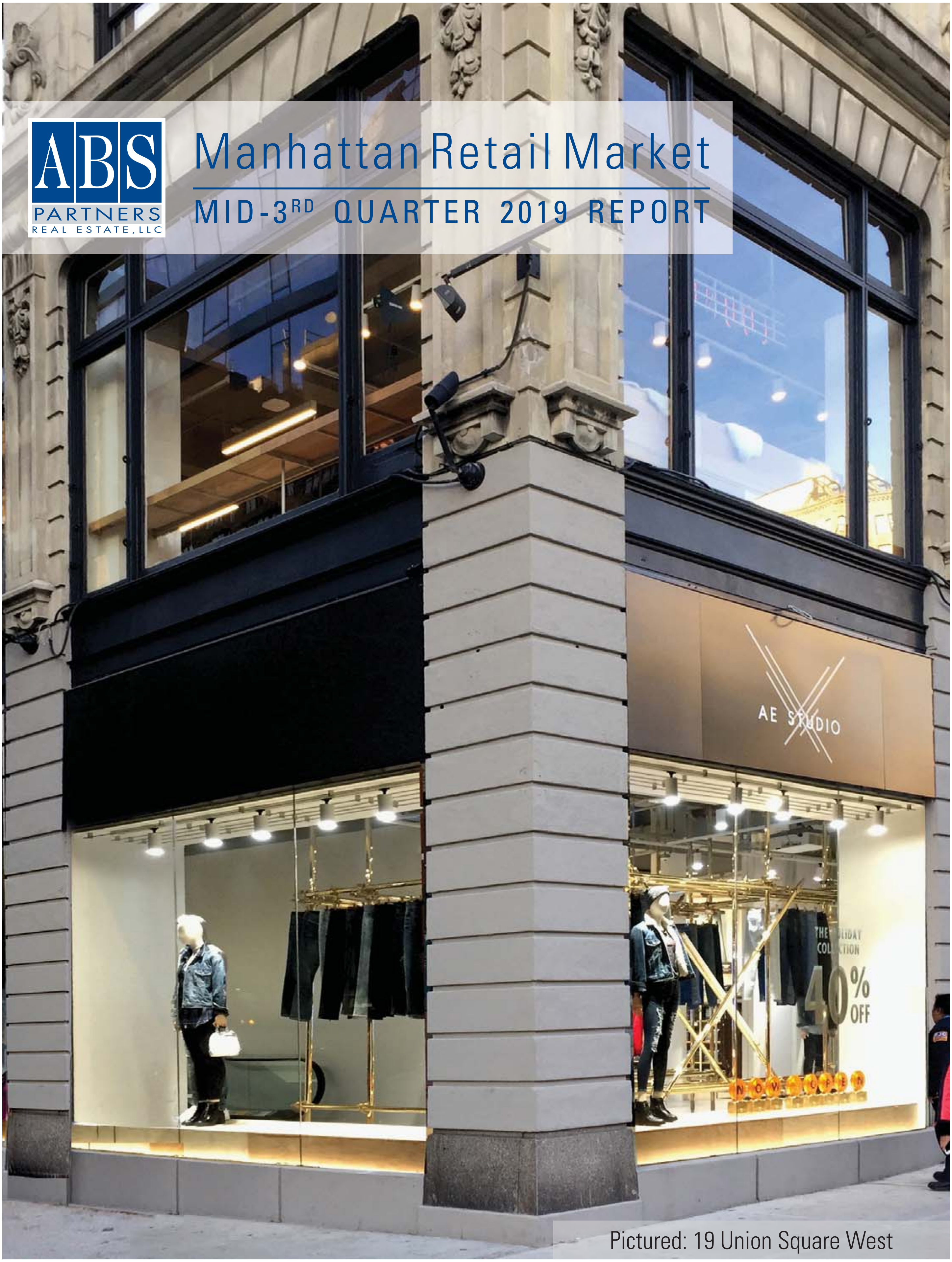
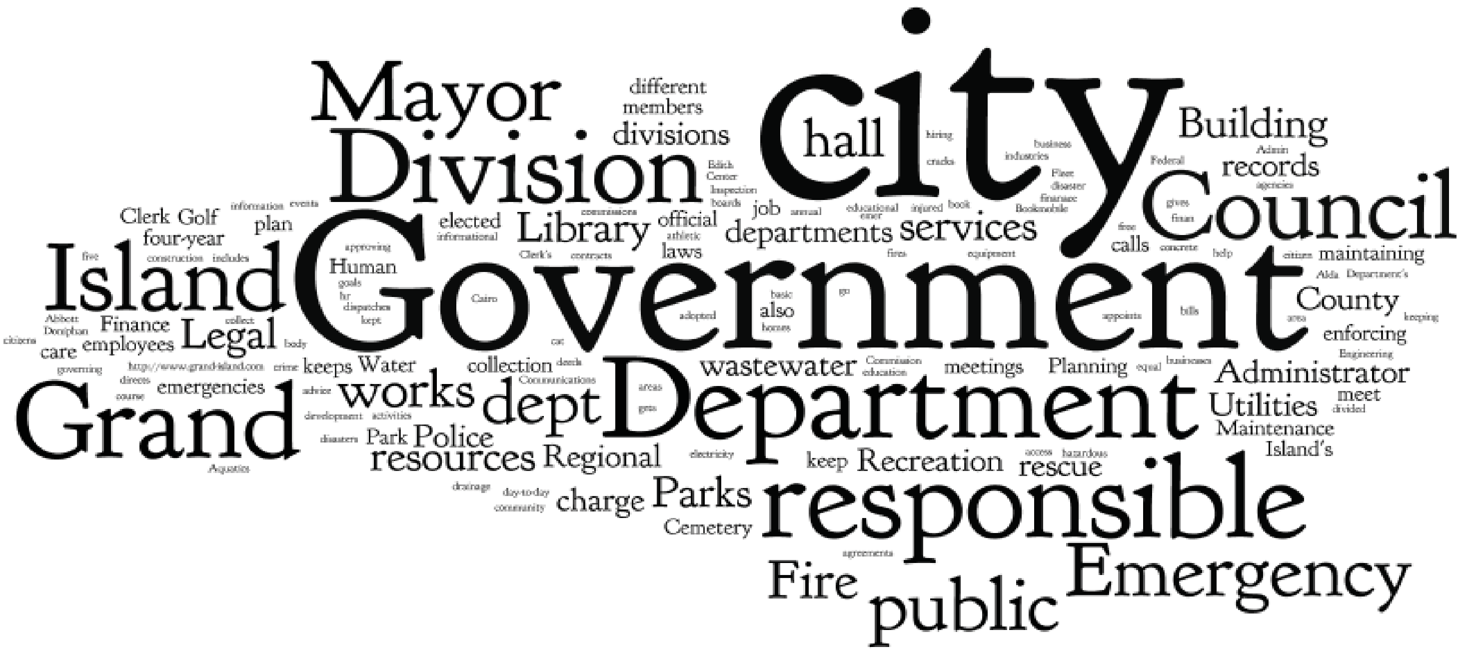
Manhattan Retail Market

MID-3RD QUARTER 2019 REPORT



Pictured: 19 Union Square West



Looking Ahead

City Council Approves Bill Requiring Registration of Storefronts

On February 23rd the city council approved a bill that if signed into law by Mayor de Blasio will require the Department of Finance (DOF) to collect data and establish a public dataset of ground floor or 2nd floor commercial premises throughout New York City. Landlords and property owners will be required to register no later than one year after the effective date of the enactment of the amendment to local law; and in each year thereafter according the text posted on the city council's website. The bill had initially been proposed in March among several others aimed at protecting small independently-owned businesses; but modifications have shifted the responsibility of the creation and maintenance of the publicly accessible online database from the Department of Small Business Services (SBS) to the DOF. The searchable dataset labeled by some as a **Storefront Tracker** is expected to be established by the DOF no later than (6) months after receiving owner submissions; and be based upon registrations filed during the previous year.

Requirements differing for Class 1 property owners, electronic registration submissions to the DOF as part of the annual income and expense statement submission will include:

1. The street address of the premises, including borough, community board district, block and lot number, and zip code;
2. The tax identification number of the property owner;
3. A brief description of the type of the premises, including its current use;
4. The total floor space of the premises, expressed in square feet;
5. The owner's name and contact information;
6. Contact information of an individual who shall be the contact person of the premises;
7. Whether the premises was occupied for any time period during the twelve months preceding the January 1st of the current calendar year, and the following information for each such occupancy:
   (a) Whether the premises was occupied by a tenant or owner of the premises; and
   (b) The type of economic activity that was or is being conducted at the premises;

Registration of Storefronts (cont'd)

8. For any such premises that was leased to a tenant for any time period during the twelve months preceding the January 1st of the current calendar year, the following:
   (a) The start date and expiration or renewal date of each such lease;
   (b) A schedule of rent escalations contained in each such lease, if any;
   (c) A statement of whether concessions were granted to the lessee when each such lease was entered into, and if concessions were granted, a list of such concessions; and
   (d) The average monthly rent per square foot charged for the premises during the twelve months preceding the January 1st of the current calendar year, excluding any period that the premises was not leased to a tenant;
9. For any such premises that was vacant for any time period during the twelve months preceding the January 1st of the current calendar year, the date as of which the premises became vacant and the duration of such vacancy;
10. For any such premises that was not leased to a tenant during the twelve months preceding the January 1st of the current calendar year, the monthly rent per square foot paid by the most recent tenant.
11. Any additional information as the department of finance may require.

In addition, a supplemental registration statement must be submitted if the premises became vacant at any time during the period from January through June 30 of the current calendar year, or the ownership of the premises has changed during that period. A filing fee determined by the DOF will accompany the registration statements, excluding buildings owned by a not-for-profit organization fully exempt from property taxation; and failure to file, or substantially misrepresent reported information may result in penalties.

Looking ahead although there is no formal proposal on the table yet, and would likely require authorization from the legislature in Albany, a somewhat related topic began to surface in April 2018 intended to offer an alternative way to reduce the length of time retail spaces remain empty. Details are few for the proposal originated by the Manhattan Borough President, which suggests the potential of a commercial **vacancy tax** that would "levy landlords who let their retail spaces sit vacant for long periods of time." Critics of the proposed tax point out that the "city's retail environment is going through a transition primarily due to macro-market forces," with a potentially higher rate of tenant turnover due to the preference by nascent brands for shorter term leases. It has been further commented that "property owners incur a loss in revenue when they are unable to secure a tenant, and a vacancy tax will only further increase the negative financial impact, while failing to address vacancy; and potentially add an increased financial burden to retail tenants due to the likelihood that landlords would have to raise rents to offset the cost."

Looking Ahead (cont'd)

U.S. Grocery Industry Expected to See Continued Stability and Growth

A report released in June takes a close look at the current state of the U.S. grocery[1] industry, predicting that growth will be steady over the next 5-years for the historically stable grocery segment that remains a valuable anchor and co-tenant. Although grocery sales growth rarely exceeds overall retail growth, it nearly never declines due to the industry's resilience to economic downturns. In 2018 overall retail sales grew by 5%; and although partially due to the increasing shift in consumer preference to dining out total grocery sales grew at a slower pace of 3.5% to reach more than $743 billion (including revenue through all channels — traditional grocers to warehouse clubs), low e-commerce penetration has kept most of the industry's growth in the store.

It is also anticipated that:

- Online share of grocery e-commerce will be much lower than most other retail categories; and despite expectations that it will rise over the next 5-years, real estate demand is predicted to remain strong.
- Technology will play a critical role in redefining the store experience for customers and streamlining back-end operations.
- For grocery players seeking market share, both in store formats (small-format, convenience and specialty channels) and offerings (higher margin profit products and services), diversification will be a key strategy.
- Consolidation will continue in an already concentrated competitive landscape as players with scale and healthy balance sheets are best-positioned for growth in an omni-channel context.

Growth: Although traditional grocery stores account for the largest share of food and beverage spending (F&B), other formats have rapidly gained share. Leading the way are warehouse clubs and supercenters, which saw a 22% increase in share of the overall market in 2017 from 7% in 1997; and has been fueled by significant real estate expansion by larger players such as Costco and Target, as well as increased demand by consumers for value-oriented options. In addition, aggressive private-label strategies have given the two formats a significant pricing advantage. In contrast the share of traditional groceries fell to 58% from 71% over the same 20-year period. Within the segment, discounters, such as Germany-based Aldi and Lidl, and smaller-format specialty stores such as Trader Joe's have been capturing more shares among the traditional groceries by focusing on specific customer bases. Also, the increasing shift in spending toward non-traditional channels has prompted an increasing diversity in store formats, sizes and locations, with a growing number of smaller-format specialty concepts being created in denser, urban markets.

U.S. Grocery Industry (cont'd)

Revenue: Within a very crowded and competitive market, a few large players capture most of the grocery sales revenue. Leading the way is Walmart, which accounts for 28.6% of overall grocery sales revenue, followed by the 16.5% and 10.2% captured by The Kroger Co. and Costco respectively. Further chipping away at profits is the added expense of investing in technology platforms and logistics infrastructure for e-commerce growth; however many have eschewed e-commerce offerings entirely, particularly those on the discount end of the market that focus on low-cost, low-margin operations. Further efforts to boost revenue share regions or consumers include the search for opportunities for strategic expansion in regions or consumer segments with good growth prospects. Despite profit-margin pressures, reinvestment in existing store portfolios is being made by larger grocers in order to remain competitive, giving rise to store redesigns and remodeling, as well as technology enhancements intended to elevate brand image and adapt to anticipated omni-channel growth.

Consolidation: Value-oriented and discount-focused brands have intensified competition as a result of the tremendous downward pricing pressure they exert in an industry already challenged by low profit margins, which is driving increasing industry consolidation. A key part of growth strategies for many established grocers has been the acquisition of smaller regional chains to increase market share and footprint in markets where they have a smaller presence. The importance of a wide ranging real estate presence has increased, with e-commerce delivery requiring a closer proximity to consumers.

E-commerce: Although estimates vary due to different definitions of what constitutes "online" transactions, e-commerce grocery sales currently account for roughly 2% to 3% (between $17 billion and $26 billion) of the total grocery market, a percentage that is substantially lower than the 9.9% share of the overall retail market. Growth forecasts range from the most conservative estimates of 20% annually, pushing e-commerce grocery sales to a 5% share by 2022, to the most aggressive forecasts that predict e-commerce share rising to 10% over the next 3-years, or over $100 billion. However the pace of e-commerce grocery growth will depend upon consumer demand and the grocery industry's ability to fund it. Investments are already being made by larger brands to adjust store content and layouts in order to accommodate click-and-collect counters and curbside pick-up.

It is anticipated that the ever-shortening delivery times and low- or no-cost shipping that consumers have grown accustomed to in other retail categories will carry over to grocery shopping. The high-cost of delivery has been a challenge across the retail market, prompting some grocers to experiment with different logistics models that will enable them to capture online share while lowering the cost burden. While some brands are building their own logistics capabilities, other options being explored include the partnering with third-party logistics specialists, or a blend of third-party with in-house capabilities. Additional options are starting to surface as new third-party technology and logistics solutions enter the market. Last year the Waltham, MA-based start-up **Takeoff** reportedly launched its first "hyperlocal grocery micro-fulfillment center powered by robots and artificial intelligence (AI)." Through a partnership with existing grocers, Takeoff builds mini-robotic fulfillment centers, which require 6,000 – 10,000 square feet, inside the stores with an "end-to-end software solution that manages inventory, robotic fulfillment and customer delivery logistics." However the ideal logistics model will likely vary by location and real estate footprint of the operating grocer.

Meal Kits: An increasing number of grocers are adding meal kits to their offerings in response to significant consumer demand over the past several years. Although the nascent industry's overall size is relatively small ($3.1 billion or less than 1% of the overall $743 billion grocery industry), the concept saw a 20% increase in revenue in 2018, and is forecast to continue seeing double-digit annual growth through 2023. However the business model that has proven difficult to sustain and profit from, with further challenges due to the relatively high-cost of meal kits and relatively low customer retention, is less of a threat to grocery sales that some imagined. Yet current popularity has prompted some grocers to acquire or collaborate with meal-kit companies, since the addition of meal kits and prepared meals in the store has provided further potential to drive store traffic and hedge losses to restaurants, especially from the fast-foot and fast-casual segments.

Technology Investment: The need to lower operational costs, streamline back-end logistics, and increase customer convenience are the key motives for grocery tech investment. Technology has opened the door to the elimination of cashier checkouts, thereby freeing up floor area for more revenue-generating products and services; as well as reducing labor costs.

Direct-to-Consumer: The growing use on online grocery purchases and a consumer preference toward more convenience has sparked the potential rise of direct-to-consumer models by consumer packaged goods (CPG) companies, reducing their reliance on grocers. Although CPGs can offer consumers prices that are significantly lower than in-store prices, presenting another competitive threat to the grocery industry, they will face the same logistics and last-mile distribution costs that grocers do. In the near future the potential threat will likely be marginal, but it could grow with technology and logistics advancements over the long term.

Sources: https://thespoon.tech/takeoff-is-creating-new-hybrid-hyperlocal-robotic-grocery-fulfillment-centers/
https://www.cbre.us/research-and-reports/US-Food-in-Demand-Series-Grocery-May-2019

Real Estate Board of New York's Spring 2019 Manhattan Retail Report

As asking rents in Manhattan's retail leasing market continue to self-correct, "deal-making has increased with tenants committing to space in key areas for both new and existing product," with "increased interest in retail space by new retailers entering the market, retailers previously deterred by high prices, and retailers looking to move to emerging neighborhoods" according to the report released in May by REBNY. In addition, the importance of brick-and-mortar locations is substantiated by a growing number of e-commerce and digitally native brands that are establishing locations as distribution hubs for products and as a physical extension of their marketing presence.

Manhattan's top retail corridors continue to experience "decreased rent values with heightened availability rates amid increases in consumer spending, income growth and employment;" however the rate of rent depreciation has slowed "causing rents in several corridors to level off as transaction volume increases." Leasing activity in Manhattan was led by the food and beverage industry, followed by activewear, cosmetic, and technology brands, as the first few months of 2019 continued 2018 trends. New high-profile developments such as Hudson Yards, Gansevoort Row, the Seaport District and Essex Crossing have increased retail inventory; and as a result of offering competitive asking rents and elevated visibility, property owners of existing vacant retail spaces are facing pressure to lower asking rents and offer greater flexibility in the form of shorter-term deals, concessions and build-outs.

The corridors profiled in REBNY's report represent Manhattan's top tier retail corridors, and the asking rents quoted reflective of available ground level space. It has been furthered pointed out that asking rents are significantly affected by numerous attributes such as location (street/avenue), frontage, ceiling heights, and volume of space availability; and that rents on adjoining side streets may lease for considerable less that the locations profiled.

Spring 2019 Manhattan Retail Report (cont'd)

Corridor	Spring 2019 Avg.Asking	Spring 2019 Asking Range	Fall 2018 Avg. Asking	% Yr-over-Yr Change	% Change Fall 2018
Eastside					
East 86th St: Lexington-2nd Aves	$365	$225 - $475	$367	-9%	-1%
Madison Ave: 57th – 72nd Sts	$1,039	$800 - $1,600	$1,160	-25%	-10%
Third Ave: 60th – 72nd Sts	$226	$160 - $300	$233	-14%	-3%
Westside					
Broadway: 72nd – 86th Sts	$273	$166 - $410	$306	-16%	-11%
Columbus Ave: 66th – 79th Sts	$279	$125 - $458	$298	-8%	-6%
Midtown					
East 57th St: 5th – Park Aves	$944	$800 - $1,175	$925	-3%	2%
Fifth Ave: 49th – 59th Sts	$3,047	$2,000 - $4,000	$2,973	-22%	2%
Fifth Ave: 42nd – 49th Sts	$878	$500 - $1,500	$939	-20%	-7%
Broadway & 7th Ave: 42nd – 47th Sts	$1,936	$1,500 - $2,350	$1,860	0%	4%
Herald Square					
West 34th St: 5th – 7th Aves	$613	$447 - $850	$573	2%	7%
Flatiron					
Fifth Ave: 14th – 23rd Sts	$400	$295 - $550	$393	-5%	2%
Broadway: 14th – 23rd Sts	$372	$325 - $410	$378	3%	-2%
SoHo					
Broadway: Houston – Broome Sts	$544	$300 - $978	$558	-9%	-2%
West Village					
Bleecker St: 7th Ave South – Houston St	$294	$150 - $584	$293	-12%	0%
Meatpacking					
14th St: 9th – 10th Aves	$277	$195 - $375	$303	-12%	-9%
FiDi					
Broadway: Battery Park – Chambers St	$401	$150 - $625	$338	9%	19%
Harlem					
125th St: Hudson – East Rivers	$137	$90 - $250	$140	10%	-2%

Sources: https://www.rebny.com/content/dam/rebny/Documents/PDF/News/Research/Retail%20Reports/REBNY_Manhattan_Retail_Report_Spring_2019.pdf?

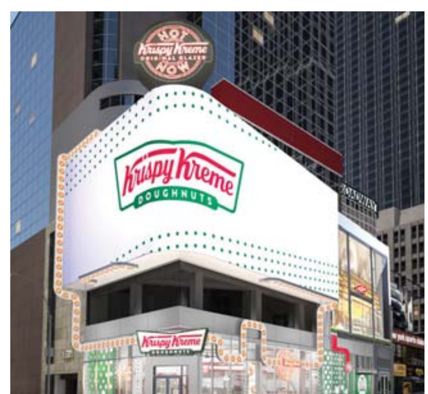
In the News

Equinox to Offer Workspaces at its Fitness Clubs

The high-end fitness brand has reportedly partnered with flexible workspace provider Industrious in order to launch a new co-working concept to be co-branded **Industrious at Equinox**. The new concept will make its initial debut in the 3rd quarter at 35 Hudson Yards; and will be located within 44,000 square feet spanning the 8th and 9th floors of the 72-story mixed-use tower that also hosts the first-ever **Equinox Hotel**. Increased demand for "an all-encompassing experience that includes opportunities to live, work, play and work out in one property" prompted the move according to reports. Members of the flexible workspace at Hudson Yards will also have access to Industrious' national network and services and amenities, as well as an option to integrate a fitness club membership to Equinox Hudson Yards. The offering of flexible workspace will also add an amenity to travelers staying at the hotel, which can elect to use the space for the duration of their stay.

Krispy Kreme Flagship to Debut in Times Square

The donut-maker that underwent a successful restructuring following a buy-out by private-equity firm JAB Beech, which took the former public company private again, is returning to Manhattan in a big way. Launched in 1937, the only place in New York City to currently buy Krispy Kreme's "iconic glazed donuts" is in Manhattan's Penn Station. The 5,741-square-foot deal announced in June includes ground and lower level space under a lease term that extends through February 2035 according to available online sources. A portion of the space formerly served as the longtime home of chocolate brand Hershey's, which relocated to a 6,940-square-foot space at the base of the new **Marriott Edition Hotel,** 20 Times Square (aka 701 Seventh Avenue) last year.



Krispy Kreme, 1601 Broadway - Rendering

Krispy Kreme's new 24-hour flagship will be situated at the base of 1601 Broadway. The 46-story building that spans the entire Broadway block-front between West 48th and 49th Streets hosts a mix of office and retail space and the **Crowne Plaza** hotel. Expected to open in early 2020, the store will reportedly feature the "world's largest "Hot Light" sign, broadcasting in neon that employees are serving fresh doughnuts 24/7;" as well the company's largest "doughnut box" giving customers a chance to witness donut-making in action from stadium-style seating overlooking the conveyor belt that guides the delicacies through a "glaze waterfall." In addition, customer convenience features will include an exterior walk-up window for the purchasing ore-packed dozens and coffee; as well as an interior "grab-and-go" counter. In preparation for the new flagship, the doughnut purveyor has reportedly leased 26,500 square feet of warehouse space in the Bronx. Located within the **Zerega Industrial Park** at 535 Zerega Avenue in the Castle Hill section of the borough, Krispy Kreme will utilize space within the 70,000-square-foot warehouse to host a regional bakery and distribution center serving its metro area locations according to reports.

In the News (cont'd)

Check-out Free Amazon Go Makes its NYC Debut

Lower Manhattan's **Brookfield Place** welcomed the New York City debut of **Amazon Go** in early May. The opening of the roughly 1,300-square-foot convenience store on the 2nd level of the multi-building complex' **Winter Garden** at 200 Vesey Street reportedly establishes the 12th U.S. store of the e-commerce giant's latest concept, with other locations in San Francisco, Seattle and Chicago. The Brookfield Place location is additionally notable in that it is the first to accept cash amid backlash of discrimination toward people without credit cards or smartphones. Initial reports surfaced in October 2018 of the planned opening of the store that offers advanced shopping technology, eliminating the need to wait on a check-out line. Amazon's push to reportedly open up as many as 3,000 of its cashier-free stores by 2021, and increase its market-share of U.S. grocery sales, has already brought a second location in the city at **300 Park Avenue** (Plaza) between East 49th and 50th Streets. While the grab-and-go market in Lower Manhattan is open 7-days a week offering breakfast, lunch, and dinner options, as well as snack items and Amazon-created meal kits — some of which is locally sourced, the 1,700-square-foot Park Avenue store that opened in June will only be open on weekdays, but will also offer freshly brewed coffee and espresso options.

Amazon Go, Brookfield Place

Agreement Reached for Sale of Barnes & Noble

After receiving interest from multiple parties, including the bookseller's executive chairman, Barnes & Noble, Inc. has reportedly agreed to sell to hedge fund Elliott Management. The deal reportedly valued at $683 million includes a cash payment of $475 million plus the assumption of outstanding debt. Initial reports of a sale being considered of the struggling chain surfaced in October; and upon the expected closing before the end of the 3rd quarter will take the company private once again. Elliott is paying $6.50 per share for all shares of the company, about 9% above the $5.96 price reached following news of an imminent deal according to reports. Elliot expects to "invest in improving the appearance" of the 627 Barnes & Noble stores currently in operation nationwide. The purchase represents the New York-based company's second foray into the book business, having reportedly acquired United Kingdom's largest bookseller **Waterstones** with 293 bookstores last June.

Barnes & Noble's beginning reportedly dates back to 1886 when a bookstore called **Arthur Hinds & Company** operated in New York City's Cooper Union Building. Upon establishing a partnership with Gilbert Clifford Noble in 1894, the store was rebranded Hinds & Noble; and subsequently in 1917 upon relocating to 31-35 West 15th Street, Noble bought out Hinds and partnered with William Barnes, leading to a rebranding once again to the renowned Barnes & Noble name. Despite being the country's largest bookstore chain, the bookseller has faced challenges attracting shoppers while competing online with digital rivals such as Amazon, which reportedly accounts for nearly half of all new book sales. Several attempts to widen its customer reach by offering gift items and toys; as well as experimenting with various store concepts, proved to be unsuccessful in bolstering sales revenue.

Looking ahead, despite certain optimism among industry people noting that Barnes & Noble remains a "critical partner to publishers, who depend on it to help promote and showcase established writers as well as up-and-coming authors," the challenges of matching "Amazon's pricing, loyalty programs or integrated merchandising" is likely to reignite growth difficult.

Sources: https://www.pcmag.com/news/368912/amazons-2nd-new-york-go-store-serves-coffee-accepts-cash
https://www.cnbc.com/2019/05/07/amazon-go-opens-at-brookfield-place-in-downtown-new-york-accepts-cash.html
https://www.cnet.com/news/amazon-gos-first-ny-store-is-also-the-first-to-accept-cash/
https://wsj.com/articles/barnes-noble-to-be-acquired-by-elliott-management-for-6-50-a-share-11559906841

In the News (cont'd)

Launch of Toys "R" Us Comeback Nears

This fall will bring the opening of the first two **Toys "R" Us** stores as a result of the reorganization by lenders of the remaining assets, including the bankrupt retailer's intellectual property, leading to the launch of a new retail operating business. Based in Parsippany, NJ, **Tru Kids Brands** established in January 2019 plans to debut the new stores in November at the onset of the winter holiday season — one at the **Westfield Garden State Plaza** in Paramus, NJ and the other at **The Galleria** in Houston. In an effort to refresh the brand and provide a totally new shopping experience for consumers, Tru Kids has reportedly formed a joint venture with **B8ta**, a San Francisco-based software-powered experiential retailer founded in 2015. The highly immersive smaller-format concept that range in size of about 6,500 square feet will offer a curated selection of products in an "interactive, playground-like environment centered around product discovery and engagement" according to reported statements by a spokesperson for the venture. Operating under a consignment model, toy manufacturers will pay to get shelf space but keep all the sales from their products; and will have the opportunity to custom design experiences and branded shops. As a result of the joining with B8ta, the stores will leverage the startup's **Retail as a Service** (RAAS) platform, allowing brands to "actively manage in-store experiences and measure how offline experiences translate to online sales." Over the next year, the JV plans to open additional locations in prime, high-traffic U.S. retail markets. The new business is hoping to bank on the 70-year heritage of the brand to re-spark consumer interest.

Toys "R" Us - Rendering

In the News (cont'd)

Times Square's Digital Array Intensifies as LED Displays Increase in Size and Numbers

The first advertising screens to appear in Times Square reportedly made their debut in 1996 on **One Times Square** (aka 1475 Broadway), the building best known as the "**ball drop building**" on New Year's Eve. As a pioneer of the advertising concept, oversized TV screens that were installed over the north façade of the 22-story, 117,000-square-foot building reportedly fetched in the neighborhood of $12 million a year, increasing to $23 million in 2012; and since the displays were so easily changeable, were able to "give any brand or person 15 minutes of fame" according to reports. Over the years, the popularity of the displays heightened, offering prominent branding opportunities for retailers and the potential for generating significant cash revenue for building owners. According to some figures reported in 2012:

- $1.1 Million - $4 Million – reflects the price range to purchase one of the digital or neon billboards in Times Square that are not only viewed by tourist traffic, but are seen in numerous incidental appearances on TV shows, particularly on New Year's Eve.
- $23 Million – income generated by the renowned billboards on 1 Times Square
- $3.8 Million – the cost for a 30 second advertisement spot during football's Super Bowl

H&M Signage

The lease reported in 2012 for the 42,510-square-foot space secured by discount high-end fashion store H&M at **One Five One** (aka 151 West 42nd Street, formerly 4 Times Square) included 2 rooftop signs at an asking rent of $1 million per year each; and 2 ground level signs at a combined asking rent of $5.5-$6 million per year.

Development activity in the neighborhood has included the installation of some significant LED displays including:

- **20 Times Square** – The recently opened 452-key Marriott-branded **EDITION** hotel features a 120-foot-tall, 18,000-square-foot LED display with 16 million LED pixels that debuted in August 2017.
- **215 West 42nd Street** – As part of the redevelopment of the former **Times Square Theater**, a trio of LED signs totaling 3,692 square feet will be installed on the approximately 33,274-square-foot structure located between Broadway and 8th Avenue

Sources: https://www.timessquarenyc.org/do-business/promote-partner/advertising-sponsorships/digital-screens-billboards

Times Square Digital Array (cont'd)

- **One Times Square** – A makeover of the building that dates back to 1905 is well underway by Jamestown. As part of the project the existing array of billboards will be replaced with 32,000 square feet of new signage to include an interactive 200-foot-tall digital sign on the building's north façade that can be rented by the hour, the minute, or the second, versus the old signs its replacing that were usually rented under a 10-year contract for each sign. In addition (4) larger display panels which can be programmed as a single unit are replacing (6) that are now outdated.

- **1535 Broadway** – The 6-story, 4K LED billboard mounted on the Broadway-facing façade of the **Marriott Marquis** hotel is 330-feet-wide; and is comprised of 24 million LED pixels. Upon construction completion in 2014 technology giant Google served as the billboard's inaugural client and the exclusive advertiser for an undisclosed price for an advertising campaign that extended into 2015. Reports at the time indicated that landlord Vornado Realty Trust was asking monthly rents of over $2.5 million. In a separate deal in 2015 wireless provider T-Mobile secured a 10-year lease for 4,000 square feet; and on top of the storefront base rent was reportedly paying $5 million for LED signage above it.

- **1568 Broadway** – The rebranded **TSX Broadway** hotel development at West 47th Street will add to the neighborhood a high-resolution 18,000-square-foot LED screen that wraps around the tower's 10-story podium as part of the redevelopment of the former 468-key **DoubleTree Hotel**. An additional 4,350-square-foot LED sign will be installed on the crown of the hotel's tower.


One Times Square

One Times Square

One Times Square

Other LED displays within Times Square include:

- **1500 Broadway** – The 3,685-square-foot ABS Supersign on the corner of West 44th Street is known for its signature LED ribbons. In addition there is a 2-side screen known as the "**Broadway Spectacular**" that is 56-feet wide and 29-feet high.

- **1551-1555 Broadway** – The multi-panel display offers a combined total of 15,000 square feet of LED signs on the façade of the building that serves as the 4-level, 25,000-square flagship of American Eagle Outfitters.

- **151 West 42nd Street** – The 7-story LED display at the base of the **One Five One** tower, formerly known as 4 Times Square, sits atop Nasdaq's sign on the West 43rd Street and Broadway corner of the building; and is capable of full motion video, live simulcast events, interactive engagement, and social media feeds.

- **719 Seventh Avenue** – There are a total of (7) LED screens installed on the façade of the building located on the corner of West 48th Street. An **LED Tower** extends 160-feet above the street.

- **3 Times Square** – The (11) high-definition LED screens on 32-story The **Reuters Building** span a total linear height of 22-stories; and are capable of full-motion video, simulcast events, mobile inter-activity, social media integration.

- **1552 Broadway** – The (4) LED displays installed on the façade of the building at the corner of West 45th Street extend 18-stories above street level. A 3-level, 30,000 square-foot space at the base serves as the flagship of clothing retailer Express.

- **1540 Broadway** – The digital billboard stretches 3-stories for a total of 1,708 square feet of advertising space above a Disney store between West 45th and 46th Streets.

Developing Trends

Number of Retail Chains Testing the Smaller Store Concept Continues to Climb

Amid the ongoing rapidly changing retail market landscape, a growing number of retail chains are following in the footsteps of several other brands that have been launching smaller format store concepts. In May, reports indicated that the latest name to be added to the list is family-owned retailer **Modell's Sporting Goods**. Initially making its debut in 1889 in the city's Lower Manhattan neighborhood, the retailer reportedly announced plans to begin testing smaller format stores ranging in size from 5,000 to 8,000 square feet, which are less than half the size of its typical stores. Decisions were reportedly prompted by a drop in sales "as the rise of online sellers and larger retailers have pushed further into Modell's market share." Currently operating 150 stores spread across 10 states in the nation's North East region, Modell's was reportedly nearing a deal for its first small format at an undisclosed Manhattan location as of May 21st reports. In December the Modell family sold its longtime-owned 3-story, 285,630-square-foot warehouse in the Bronx neighborhood of Morris Park at 1500-1502 Bassett Avenue. Formerly used for the distribution of inventory, the sale to reportedly Maryland-based logistics real estate company Realterm Logistics attracted a price of $115 million ($403 per square foot).

Other retailers that have entered the small format market in recent years include:

- **Duane Reade** – The Walgreens Boots Alliance-owned pharmacy chain is seeking new locations of about 6,000 to 8,000 square feet versus the typical 10,000 to 15,000-square-foot store.

- **Ikea** – The Sweden-based furniture and home décor retailer opened its first Manhattan small-format concept dubbed **IKEA Planning Studio** in April. The 17,530-square-foot store at 999 Third Avenue in the Upper East Side is significantly smaller than the retailer's full-format stores which range in size from about 200,000 to 450,000 square feet.

- **Whole Foods** – The Texas-based grocery market now owned by Amazon had initially announced plans to open 40,000-square-foot stores under **365 by Whole Foods** back in 2015. However it was recently reported that the stores operating under the cost-friendly brand, which are about 50% smaller than the market's typical full-format store, will be converted to regular Whole Foods stores by the end of the year.

- **Target** – The Minneapolis, MN-based big-box chain has had great success with its 12,000 to 80,000-square-foot small-format concept; and has opened several locations throughout New York City in recent years, which are significantly smaller than its average 145,000-square-foot full-format store size.

- **Barnes & Noble** – The bookseller began testing a smaller format concept in 2017 with the debut of a 10,000-square-foot outpost in Dallas, Texas versus the chain's average 26,000-square-foot store.

- **Petsmart** - The pet supply chain opened a 1,820-square-foot "micro-version" of its traditional 13,000 to 20,000-square-foot store size in 2017 at the base of the 30-story, 280-unit Upper West Side condominium at **670 Columbus Avenue** in 2017. However the new concept is dedicated to grooming services-only.

Retail Chains Testing the Smaller Store (cont'd)

Going in another direction as retailers continue to experiment with different concepts intended to lure consumers back to the brick-and-mortar stores, a growing number of retail brands are launching food and beverage ventures. Fashion house Ralph Lauren initially expanded into hospitality reportedly 20-years ago with the debut of the RL Restaurant adjacent to the company's flagship store in Chicago; and more recently Ralph's Coffee. (have logo) Currently operating in-store locations in New York, Tokyo and Hong Kong, a lease was recently signed in Manhattan's Flatiron District at 160 Fifth Avenue for approximately 1,650 square feet. The space shared with the Ralph Lauren-owned Club Monaco store on the corner of West 21st Street was formerly occupied by Toby's Estate Coffee; and . Other cited examples include:

- **Crate and Barrel's** launch of a full-service restaurant in Chicago. The restaurant dubbed **The Table at Crate** is "designed to showcase the kitchen tools and tableware sold at the store, while serving a menu featuring ingredients sourced from local farms" according to reports.

- **RH**, formerly known as Restoration Hardware has opened **RH Rooftop Restaurant** in collaboration with renowned restaurateur Brendan Sodikoff. The retail chain's new multi-level store at 9 Ninth Avenue in Manhattan's Meatpacking District features a coffee bar and wine terrace along with dedicated showroom space and art installations on the first 4-floors, and its RH New York restaurant in 10,000 square feet of the 5th floor, establishing the 6th restaurant in operation under the new venture

9 Ninth Avenue

- **Barnes & Noble** has for several years included Barnes & Nobel Cafés operated by Starbucks in its stores, the bookseller began testing its enhanced **Barnes & Noble Kitchen** in some of its stores over the last few years. Ranging in size between 5,000 and 21,000 square feet, the upscale casual American in-store restaurants serve breakfast, lunch and dinner, as well as beer and wine intended to help increase evening traffic — all of which can be carried throughout the store by customers as they shop

Barnes & Noble Kitchen

Story at Macy's

Developing Trends (cont'd)

Rotating Multi-brand Store Concept on the Uptick

As a growing number of e-commerce and digitally native brands seek to get their products in front of customers, companies ranging from "venture-backed startups to retail behemoths" are capitalizing on the trend. The developing business model "combines the elements of flexibility and collaboration that helped co-working sweep the office industry," by opening the door to a large number of small brands being able to share a space, thereby reducing the "commitment and the overhead of a traditional lease." Varying from company to company, many of the multi-brand stores operate similarly to an art gallery, with highly curated collections that rotate at different intervals.

Future growth of the business model that has yet to prove its viability raises uncertainty among some industry people despite an increasing footprint and interest among investors. For landlords and established asset heavy retailers their curated spaces can potentially drive traffic and serve as a testing ground for new brands without additional overhead; but reports indicate that in contrast startups essentially become "middlemen with the overhead of a landlord."

- **Naked Retail Group** – The startup launched with a single direct-to-consumer product-line in 2015 under the name Upton now showcases a variety of brands which are swapped out every 30 to 90 days. Initially opening a 4,000-square-foot flagship at 224 Mulberry Street in NoLita, the rebranded company has added a 1,100-square-foot outpost in SoHo under a 3-year lease at the base of the 207-key hotel at 11 Howard Street. Working with online brands making their debut in the brick-and-mortar market, as well as established brands that have a new product or campaign to promote, Naked Retail reportedly "offers a completely hands-off rollout for a monthly fee which can run anywhere from $5,000 to $50,000 a month" according to reports. Other services reportedly include a variety of retail and brand management, including pop-up management outside of their own spaces.

- **Batch** – The San Francisco-based flex retail concept focuses on interior design; and offers new collections of products in an offline space that rotates each season. The startup that has two locations made is New York City debut this year upon opening its **Batch Mini** within the **Shops & Restaurants at Hudson Yards**.

- **Showfields** – The startup that reportedly raised $9 million in seed funding in January has established its New York City outpost within the entire 4-story, 14,707-square-foot building at 11 Bond Street in NoHo. The space aimed at facilitating offline connections between brands and consumers appears to be divided into three areas — a showcase area where brands display their products for a monthly fee to help unlock offline growth; **The Loft**, offering a revolving array of art, food and drink, as well as community programming; and **House of Showfields**, an immersive theatre experience that bridges art and retail, while offering consumers a hands-on opportunity to touch and taste all onsite products and artwork.

Multi-brand Store Concept (cont'd)

- **Story** – The New York-based "narrative-driven retail concept shop" acquired by Ohio-based Macy's is opening in 36 Macy's stores spread across 15 states. The start-up launched in 2010 has been credited with pioneering a "retail as media business model" featuring a rotating cast of brands in its former Chelsea location. The small "shop-in-shop" spaces that average about 1,500 square feet will also provide Macy's a testing ground for new products and brands. Offering a blend of curation, editorial storytelling, interactive events and displays, the concept is anticipated to create what has been described in Macy's press release as a "real life version of scrolling through Instagram." The created STORY themes will change every few months, with the inaugural Color STORY launched in March featuring more than 400 products for men, women, kids and the home from over 70 small businesses that have come together. Among the 36 stores that are debuting the concept, (3) are located in New York City in the boroughs of Brooklyn, Queens and Manhattan. STORY in the flagship Herald Square store will spread across 7,500 square feet of continuous space on the ground and mezzanine levels; and offers a broader range of brand partners, including several independent brands, and interactive experiences.

In addition to Macy's other large players, including REITs, have tried similar models to varying degrees of success according to reports.

- **General Growth Properties** (GGP) – Prior to being acquired by Brookfield Asset Management, the Chicago-based mall operator reportedly launched a "living lab" dubbed **In Real Life** (IRL) in 2017 at its **Water Tower Mall** in Chicago. Retail strategist and pop-up architects The Lionesque Group partnered with GGP to create the concept that intended to foster the connection between online retailers and consumers within an omni-channel storefront. The collections of rotating brands, some of which were locally sourced, were organized around a theme that changed every few months. Digital displays enabled customers to learn more about the specific companies and displayed items; and although products were not stocked, customers were able to place orders for home delivery or text themselves a link to a product for purchase-making decisions at a later time. A member fee was paid by participating brands, while Lionesque Group handled all store operations excepting shipping inventory. Initially home-themed, plans for a second theme were halted upon GGP's sale.

- **Simon Property Group** – The Indianapolis, IN-based mall operator launched **The Edit@Roosevelt Field** in 2017 through a partnership with London-based start-up Appear Here, which connects landlords to short-term users. The 3,500-square-foot space within the Garden City, Long Island mall is intended to offer both established and emerging brands a way into the mall. The "turnkey micro retail model is "an interactive and experiential retail space that blurs the lines of physical space," as reportedly described at the time by the company. In addition the concept is intended to help attract new retailers to the high-end mall with a continually changing line-up of participating companies, including "some previously online-only brands making a first jump into brick-and-mortar;" as well as give customers a chance to interact in a physical location with new brands and digitally native brands that only had an online presence.

  Simon reportedly plans to expand nationally the program that offers participants between 20 and 200 square feet of display space, along with its own branding, the use of custom-designed modular fixtures, and digital media walls. Staffing is provided by Simon for those brands that are unable — a concept that represents a shift in the traditional retail mall model in that "instead of simply renting space to retailers, its creating a new kind of retail store and doing some of the work for the brands that want to participate."

  Macerich – The Santa Monica, CA-based mall operator launched **BrandBox** in late 2018, offering a turnkey approach for high-growth digitally native brands according to a company press release at the time. The flexible real estate and services package includes design, retail analytics, technology and marketing, enabling participating brands to be quickly up and running in a fully functional store that is unique to their brand's aesthetic and philosophy; while also being able to track the impact physical stores have on their e-commerce growth. Stores ranging in size from 500 to 2,500 square feet feature modular walls to facilitate reconfigurations, and lighting and fixtures that are easily swapped out. Offering lease terms of 6 to 12 months, Brandbox also provides a platform for established brands to test a new market or concept.

Retail Increasingly Embraces the Adoption of "Alternative Data"

In recent years amid today's struggling retail landscape mall owners and retailers have been reportedly "making a dramatic push to study location data gleaned from shoppers' smart phones." Growing interest in alternative data has spurred an increasing number of startups that "collect shoppers' movements and compile them in reports for stores and landlords." The data provides invaluable information that helps guide decision-making and strategy-building, thereby reducing the potential of making expensive mistakes such as "leasing to a retail tenant that won't get foot traffic or opening in a location that will fail." In addition location data can be key to mall owners when figuring out what experiential options at a particular location are likely to increase foot traffic. The field known as location analysis had a market value of $8.35 billion in 2017, and is expected to grow to $20 billion by 2023 according to a cited report by Market Research World.

According to reports a steady stream of location information is provided by today's smartphones and other GPS-capable devices by either "pinging service towers or by exchanging transmission with satellites." Along with the location data, non-identifying personal information such as user ages and genders is also being collected by companies as part of the allowances generally included in most service contracts and app downloads. The information is aggregated and analyzed by third parties to create data sets which are then licensed to companies; and while on its own the data is of little use, when incorporated into other platforms such as a mapping system along with information such as population density, average income, housing breakdowns, it can be used to "understand the workings of actual trade zones instead of mere approximations." Other companies have had success capturing mobile data through the process of **geofencing**, which opens the door to obtaining information about all who enter the designated geo-fence — a virtual perimeter for a real-world geographic area that can either be dynamically generated — as in a radius around a point location, or as a predefined set of boundaries.

In the past demographic data — like population and income levels — in nearby zip codes was solely relied upon to help determine a new store location, or the tenant mix of a shopping center; but the data is not always reliable and does not provide a full picture of the consumers frequenting the location or the stores they typically go to. Furthermore census data, which is only updated every 10-years, can quickly become outdated; while the study of collected real-time consumer location data is able to reveal "foot traffic patterns, dwell time, distance traveled, cross-shopping and customer loyalty."

However the heightened collection of data that travels across the web and stored on a cloud platform, has given rise to growing concerns with regard to increasing security risks and the potential infringement upon peoples' privacy rights. Looking ahead, it is anticipated that the U.S. will likely follow in the comprehensive legislative footsteps of the European Union, which recently enacted its **General Data Protection Regulation**. Among its many rules, the law reportedly "requires companies to get consent from people in the EU to process their data and gives those individuals the right to withdraw that consent at any time. It also requires companies that collect data to put security protections in place and give people the right to have their data erased within 30 days." Until recently the "debate over data privacy in Congress has mostly focused on e-commerce and social media companies, but legislators say they will include physical stores in their bills as well."

On a local level, a proposed bill reportedly introduced to the city council near the end of July would "make it illegal for companies to sell location data collectd from cellphones inside the city limits;" and if passed, would make New York City the first in the U.S. to ban the practice. Initially going before the council's **Committee on Technology** for a vote, the bill "will still allow the location data to be shared with law enforcement agencies, uses agreed upon by the user, and as required by local and federal law." Telecommunication firms and app developers will also be able to "share, collect or store the location data of cell phones but only for 'providing a service explicitly requested' by the users" according to reported stipulations outlined within the bill. Companies that break the law to be enforced by the New York City Department of Information Technology and Telecommunications can reportedly be fined between $1,000 to $10,000 a day. The proposal has sparked some wide ranged concern among some busineses since location data "has been an increasingly valuable commodity" for those businesses looking to gain insights into consumer habits to help them stay competitive.

Developing Trends (cont'd)

Nascent Business Model for Restaurants Hopes to Improve Profit Margins

Restaurants, which typically operate on a narrow profit margin, have faced heightened challenges as minimum wage requirements for staff and rents for restaurant space continue to rise. Further impacting the bottom line is the growing popularity of home delivery, with the fees paid to delivery apps further chipping away at profits. In recent years a new business model for restaurants has begun to surface offering shared kitchens in warehouse space. The concept would allow restaurants to save on rent by eliminating street-facing storefronts and switching focus entirely to delivery. The growing consumer preference of the convenience of home food delivery sparked the launch of what was described as **"virtual or ghost" restaurants** a few years ago under a similar premise such as **Savory**, a single identity brand launched in 2011 that is also a kitchen-only caterer located at 15 West 39th Street, and **Maple**, the 2015 startup that was delivering farm-to-table-style food to homes and offices in Lower Manhattan and parts of Midtown, but shut down operation just 2-years later.

The budding startups of late fall more within the category of the co-working business model, with companies such as CloudKitchens, Kitchen United and Deliveroo, which turn industrial facilities into shared kitchens for subletting to restaurants looking to prepare food for delivery.

- **CloudKitchens** reportedly has about 10 locations in several major U.S. cities, the Los Angeles-based startup offering kitchens at a starting size of about 220 square feet with adaptable layouts according to the company's website.

- **Kitchen United** currently operates about 18 kitchen centers nationwide with plans in place to build 400 kitchen centers and install 5,000 kitchens over the next few years in high-demand locations per the company's website.

- **Deliveroo** offers a slightly different twist to the concept through its **Deliveroo Editions** that serve as kitchen hubs. A collection of hand-picked restaurants are selected by the British food-delivery company; and each restaurant designs its kitchen specifically for delivery-only business. In addition the hubs serve as a platform to support start-up restaurants by providing the ability to help them launch with zero start-up costs.

NYC's Food & Beverage Sector Enjoys Robust Growth

The preference for purchasing food outside the home by New Yorkers is fueling the growth of the food & beverage (F&B) sector, a trend that is expected to continue to outpace more traditional retail categories over the next 5-years according to a report released in May. In comparison to the rest of the nation, New Yorkers spend 130% more on F&B, in part due to the high number of single-member households — 46% versus 27% nationally; as well as the high-volume of restaurants in New York, especially in Manhattan where one can be found on almost every block, making F&B outlets more readily accessible to city dwellers where a pedestrian-oriented lifestyle prevails. Nationwide the rise of the fast-casual segment has expanded consumer access to affordable dining, further contributing to an increase in spending on F&B; while in New York, the trend is shaping what kinds of restaurants are taking space.

Compiled data within the report reveals that since 2015, F&B leases have made up between 20% and 35% of the total number of retail transactions closed in Manhattan; and since 2016, fast-casual and quick serve restaurants (QSR) have accounted for 35% of all F&B leases in the borough. The F&B sector is also consistently the most active tenant in terms of number of deals transacted. Employment growth in the city is also shifting as a result of the increasing pace of F&B growth, as the rate of retail employment in F&B substantially exceeds that of retail overall; as well as New York City's overall employment growth, which continues to reach new peaks.

Sources: http://cbre.vo.llnwd.net/grgservices/secure/NYC%20Retail%20Viewpoint_FB_May_2019.pdf

Manhattan's Luxury Retail Corridor Decentralizes

The days when high-end fashion houses were found in concentrated corridors along Madison and 5th Avenue, as well as 57th Street, are becoming a trend of the past as more and more brands spread out throughout Manhattan. Although headlines in recent years have announced the closure of several luxury retailers shuttering flagship stores along traditional luxury corridors, the state of luxury retail leasing in Manhattan has been described as "more a sea of change than an emptying river." However concerns continue to surface not only of the number of spaces available, but of the larger sizes of some of the vacancies. Some of the larger availabilities being marketed as of mid-July include:

Building	Available Retail		Building	Available Retail
5 East 59th Street	45,000 SF		40 West 57th Street	14,385 SF
The Solow Building, 9 West 57th Street	30,550 SF		Buchmann Tower, 680 Fifth Avenue (Gap)	13,200 SF
654 Madison Avenue*	25,418 SF		601 Madison Avenue	11,954 SF
681 Fifth Avenue (Tommy Hilfiger)	17,992 SF		GM Building, 767 Fifth Avenue	11,847 SF
645 Madison Avenue	17,402 SF		815 Madison Avenue	10,530 SF
119-121 West 57th Street	15,650 SF		803 Madison Avenue	10,404 SF
711 Fifth Avenue	14,686 SF		*Sublease	

Acknowledging that brick-and-mortar retail leasing has been 'disrupted,' with e-commerce a contributing factor, it must also be taken into consideration that the real estate market was already overheating. By the end of 2016 the "micro-bubble of high-value urban retail real estate burst" as market adjustments began to decrease rents, and increase concession packages to "provide the necessary financial incentives to encourage retailers to sign new leases."

Although reports indicate that expectations are moderate for continued luxury retail expansion in the second half of 2019, while some are closing stores on 5th and Madison Avenues, others have shifted directions and are establishing new homes in areas outside traditional luxury corridors. Attributing to the trend is the changing demographic of today's up-and-coming consumers, with luxury retailers seeking smaller locations in neighborhoods more appealing to millennials.

Reported Luxury Brand Leases | 5th & Madison Avenues | 2018 to mid-July 2019		
Tenant	**Location**	**Sq. Ft.**
Hermès*	706 Madison Avenue	40,000
Balenciaga	608 Madison Avenue	7,466
Ralph & Russo**	680 Madison Avenue	5,800
Jennifer Tattanelli**	1122 Madison Avenue	4,500
Missoni	680 Madison Avenue	3,500
Joe Bananas***	943 Madison Avenue	3,044
Moschino	635 Madison Avenue	1,200
*Relocation/consolidation from 690 and 691 Madison Ave **First NYC store ***First U.S. store		

A westerly migration has established outposts of several high-end retailers within the Shops & Restaurants at Hudson Yards including Kate Spade, Stuart Weitzman, Scanlon Theodore, Chanel, Coach, Dior, Louis Vuitton, Tory Burch, Fondi, Cartier, Rolex, Piaget, and Van Cleef & Arpels. Other luxury brands headed south, with SoHo accounting for the majority of reported deals over the past 18 months.

Reported Luxury Brand Leases | Midtown South | 2018 to mid-July 2019		
Tenant	**Location**	**Sq. Ft.**
Alexander McQueen	71 Greene Street	6,600
Grace Loves Lace	43-45 Wooster Street	4,300
Loro Piana	1-3 Ninth Avenue	3,000
Michael Kors	90 Prince Street	2,850
Issey Miyake	152-154 Elizabeth Street	2,224
Eleventy	77 Greene Street	2,200
Falconeri	101 Prince Street	1,850

Developing Trends (cont'd)

Mega-Sized Galleries Transforming Chelsea's Gallery Corridor

Over the past 20-years, Chelsea's western edge has been frequently described as "New York's de facto gallery district." Over the years numerous art galleries have lined the streets primarily west of 10th Avenue between West 18th and 28th Streets. While some galleries have relocated out of the area due to a growing popularity of the neighborhood and new residential developments pushing commercial rents higher, others are reportedly spurring a developing transformation as the gallery spaces of some increase to a size that can almost resemble museums.

- **David Zwirner** currently operates (2) galleries in the neighborhood at 537 West 20th Street, a 5-story, 30,000-square-foot exhibition and project space the art dealer developed back in 2013, and a rented space at 525 West 19th Street. Looking ahead, David Zwirner will be opening in the fall of 2021 an estimated $50 million, approximately 43,515-square-foot gallery at 540 West 21st Street. The new gallery is situated at the base of a 20-story, 171,717-square-foot mixed-use development being developed by Casco Development between 10th and 11th Avenues. It is likely that the 19th Street gallery will be closed following the opening of the new space.

- **Pace** has (2) galleries in the neighborhood — 510 West 25th Street and at 540 West 25th Street, which underwent reconstruction by owner Weinberg Properties. Expected to make its debut this fall, Pace will occupy the newly constructed 8-story, 75,000-square-foot building that will provide the art gallery with a ground floor space featuring 18-foot ceilings to house the over 10,000 art books that comprise Paces' library, as well as a 5,000-square-foot gallery; and a 4,200-square-foot exhibition space, plus an adjacent 1,000-square-foot terrace and open storage facility for artwork on the 2nd floor. In addition, a setback in the building's design will create a 6,000-square-foot outdoor sculpture garden on the 6th floor. Reports earlier this year indicated that while the other gallery is owned, the new flagship will be occupied under a reportedly triple-net lease through December 2038. Initially paying $112.66 per square foot in rent, escalations will be 3% per year through 2028. An investment of $18.2 million was made by Pace to complete its own interior buildout according to reported data provided by Kroll Bond Rating Agency.

Pace, 540 West 25th Street Rendering

- **Hauser & Wirth** reportedly made its Chelsea debut in 2012 in a 24,700-square-foot space at 511 West 18th Street, and temporarily relocated to 548 West 22nd Street upon the 2017 lease expiration. New building applications were initially filed in 2015 for the 5-story, 33,007-square-foot building at 542 West 22nd Street that topped out in July. A former 3-story, 20,250-square-foot was demolished to make way for new construction. The new location is controlled under a 42-year leasehold secured in January 2015 for roughly $26.854 million ($814 per buildable-square-foot); and includes (3) 15-year extension options. The building will serve as Hauser & Wirth's permanent location in the neighborhood; and be its first new, freestanding and purpose-built location.

- **Marlborough Gallery** currently operates its New York City gallery at 545 West 25th Street, where the gallery founded in 1946 in London has been located since 2007 upon acquiring the pair of commercial condo units totaling 9,228 square feet for $7 million ($759 per square foot) from Bass Associates, LLC. Situated at the base of the 22-story, 88,599-square-foot commercial condominium between 10th and 11th Avenues, the gallery has reportedly acquired the adjacent single-story, 5,891-square-foot commercial building at 547 West 25th Street for an undisclosed price; and plans to combine the spaces to create an approximately 15,119-square-foot exhibition center. Expected to open in 2020, the expanded gallery will be branded as Marlborough's flagship, leading to the December closure of its Midtown space at 40 West 57th Street according to reports.

Leasing Activity

MTA Releases RFP to Revamp Retail in Subway Stations

Ongoing efforts to upgrade the retail at some of the city's busiest subterranean subway stations has led to the recent release of a request for master-lease proposals by the Metropolitan Transportation Authority (MTA) for the space below the **Port Authority Bus Terminal**. The selected respondent will have the exclusive right to lease, develop, manage, and operate approximately 8,800 square feet of mezzanine food and retail space within the station located at 42nd Street and 8th Avenue. The MTA reportedly began shifting current leaseholders to month-to-month contracts 2-years ago in preparation for the planned revamp of the space that is divided into 18 retail units ranging in size from 150 square feet to 1,700 square feet; and is hoping to transform the retail into a mix of more independent, local offerings and upmarket options. Retailers within the 42nd Street subterranean subway hub benefit from the approximately 100,000 weekday riders that traverse the station. The MTA is reportedly expecting the new stores to open by spring 2021 at the latest.

Another two requests for master lease proposals will be released over the next (9) months — 3rd quarter 2019 for the 5,000 square feet of retail space at the 47-50th Streets **Rockefeller Center** station that sees about 61,000 weekday riders; and in the 1st quarter of 2020 for the 3-units totaling 2,400 square feet plus (9) newsstands on the platforms at the **Times Square-42nd Street** station which sees over 200,000 weekday riders. The MTA reportedly generates about $80 million in gross revenue annually from retail, of which **Grand Central Terminal** accounts for about 50% of the total according to reported information provided by MTA officials. It is expected that the new leases will lead to an increase in retail revenue.

Similar efforts led to the successful transformation of the retail in Grand Central Terminal back in the 1990s, followed by a more recent request for proposals (RFP) intended to secure more upscale shops, and replace some of the stores that have been serving commuters for 20 years, as part of the ongoing renovation of the Midtown transit hub. A second revamp took place at the underground mall within the corridors of the Columbus Circle transit hub following an RFP released in 2012. The project represented the first time the MTA privatized a retail development within its real estate portfolio allowing it to rely on private dollars instead of using money from its own budget. In April 2016 the completed transformation delivered the 27,000-square-foot **Turnstyle Transit Marketplace** offering a selection of (20) small restaurants and eateries plus a collection of (19) shops, kiosks and pop-up stores primarily comprised of local independent businesses and artisans. Store sizes range from 219-780 square feet and businesses are required to remain open a minimum of 12-hours a day

Leasing Activity (cont'd)

Lease Deal Highlights

Midtown

KFF, Inc. / 218-232 West 40th Street (Penn Plaza) – The Asian superstore and food hall operator will be establishing an outpost at the base of the 12-story, 194,180-square-foot office building located between 7th and 8th Avenue. A 15-year lease was secured for the multi-level 22,927-square-foot space — 10,316 square feet on the ground level, 5,192 square feet of mezzanine space, and 7,419 square feet of basement space. Average asking retail rents at the building are reportedly $100 per square foot. The currently vacant space was last occupied by Elegant Fabrics, which relocated to a downsized space at nearby 242 West 36th Street according to reports.

AMC Theatres / 304-328 West 34th Street (Penn Plaza) – The Leawood, KS-based theater chain will remain at its 95,341-square-foot location of 18-years at the base of the 333-unit rental tower located between 8th and 9th Avenues. The theater's renewal of its 14-screen, multi-level will extend its stay for 15-years, having opened at the building in 2001, about one-year following construction completion of the 36-story, 222,855-square-foot block-through building that also goes by the address 315 West 33rd Street.

Midtown South

Republic Bank / 90 Fifth Avenue (Union Square) – The Philadelphia-based lender has reportedly secured a 15-year lease for 10,498 square feet at the base of the 11-story, 137,704-square-foot building. The new branch will spread across 3,920 square feet on the ground level and 6,543square feet of lower level space according to reports.

Alexander McQueen / 71 Greene Street (SoHo) – The top-line fashion brand owned by retail conglomerate Kering will be opening a store between Broome and Spring Streets. Although full details of the deal were not released, the new 6,600-square-foot space is double the size of the label's 3,300-square-foot flagship leased under a 15-year term in 2013 at 747 Madison Avenue (Plaza).

Corner Table Restaurants / 1201 Broadway (NoMad) – The restaurant group behind the well-known casual American Brasserie **The Smith** will be opening a yet-to-be-named new concept at the base of the 10-story, 131,874-square-foot office building located on the corner of West 29th Street. Lease terms were not released for the 11,000-square-foot space on the ground and lower level that had a reported asking rent between $250 and $300 per square foot.

Lease Deal Highlights (cont'd)

Downtown

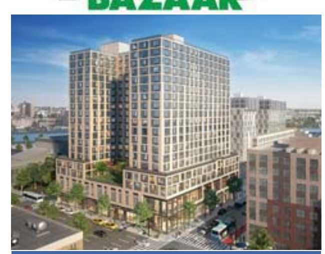
Live Nation / 78-86 Trinity Place (World Trade Center) – The live music promotion company and ticket seller is hoping to establish a 3,000-person concert venue and events space in Lower Manhattan. In partnership with Legends Hospitality LLC, the developer and operator of One World Trade Center's observation deck, Live Nation is currently negotiating a lease for about 80,000 square feet at the former **American Stock Exchange Building**. Prior to the deal moving forward, approvals will be required from the neighborhood's Community Board 1; and although approvals to sell alcohol are granted by the State Liquor Authority, recommendations by the local community board are factored in according to reports. Currently Live Nation hosts outdoor summer concerts on the roof of South Street Seaport's **Pier 17**, which opened in 2018 following the completion of a major redevelopment of the pier by the Howard Hughes Corporation.

The landmarked 17-story, 181,725-square-foot block-through building has remained vacant since the end of 2008, when trading for the American Stock Exchange (Amex) was relocated to a floor at the New York Stock Exchange (NYSE) following a merger with NYSE (ultimately rebranded NYSE Euronext). In 2011 developer GHC purchased the building they are calling **123 Greenwich Street** for $17 million ($94 per square foot), subsequently selling a 70% stake to Clarion in 2015 for $105 million ($825 per square foot). Early last year reports indicated that the partnership intended to move forward with plans to invest an estimated $65 million investment to reposition the Art Deco building into a hotel with a retail component that could reportedly reach up to 100,000 square feet on the (4) lower levels. Decisions were prompted following a successful 2-month long exhibition by fashion house **Louis Vuitton**, which had utilized a portion of space at the base of the building; as well as the overall transformation of Lower Manhattan into a live-work-play neighborhood according to reports at the time; however permits for the project have yet to be filed.

Equinox / 14 Wall Street (FiDi) – A lease renewal has reportedly been secured by the high-end fitness brand for its location of nearly 20 years at the base of the 37-sory, 1.05 million square-foot tower. The recent 20-year renewal for the 36,500 square feet at a reported asking rent of $100 per square foot will extend the gym chain's tenure into 2039.

Upper Manhattan

Food Bazaar / 201 East 125th Street (East Harlem) – The family-owned grocery market has committed to a 20-year lease for 45,885 square feet, adding to its 20 locations currently in operation across the Tri-State area. Expected to take occupancy in late 2021, the 2-level store will be situated at the base of the 19-story, 460,313-square-foot mixed-used development dubbed **One East Harlem**; and will fill a void in the neighborhood left by the 2015 closing of a nearby Pathmark store at 149-165 East 124th Street upon its former parent company A&P filing for bankruptcy. The project that broke ground in April is part of the large mixed-use development known as **E125** (formerly East Harlem Media, Entertainment and Cultural Center) conceived under the Bloomberg administration as a revitalization plan created in partnership with the East 125th Street Development Task Force. Upon expected opening in 2022, the new building will host 404 residential units, of which 300-units will reportedly be designated for affordable housing, 60,732 square feet of commercial space, 491 square feet for community facility use, as well as 9,990 square feet for a plaza area. Food Bazaar will have dedicated parking for staff and customers on the building's lower level as part of the deal to serve as anchor tenant for the retail component.



1134 Fulton Street - Rendering

Target / 600-614 West 181st Street (Washington Heights) – The Minneapolis, MN-based discount chain will be making its debut in the Upper Manhattan neighborhood sometime next year, having reportedly secured a 15-year lease for about 23,737 square feet at the 2-story, 53,000-square-foot retail center located on the corner of St. Nicholas Avenue. News of the deal comes less than one month following reports that sportswear and footwear retailer **Foot Locker** will be opening a 25,000-square-foot "Power Store" in the fall at nearby 605-609 West 181st Street. Over the past few years a total of (13) leases in Manhattan and Brooklyn have been reported for Target's small-format stores — (9) in Manhattan and (4) in Brooklyn, ranging in size from 20,400 square feet to 56,771 square feet in comparison to the company's typical 100,000-square-foot large-format stores. (2Q17-Retail) Looking ahead the retailer reportedly plans to open 130 small-format stores nationwide, and currently has (9) planned for New York City.

Leasing Activity (cont'd)

Uptown

Hex & Co. / 1462 First Avenue (Upper East Side) – Co-owners Greg May and Mark Miller have secured a lease for 4,000 square feet at the corner of East 76th Street. The space that includes 2,200 square feet on the ground level and 1,800 square feet of basement space will establish the 4th New York City location upon opening sometime in the fall. The deal that will bring a "board game café" to the neighborhood is somewhat significant in that it is part of a developing trend adding a new experiential retail that is gaining popularity among consumers. According to reported data compiled by research resource Research and Markets, over 5,000 board game cafés opened nationwide in 2016 alone

The retailer already operates Manhattan's largest board game café at 2871 Broadway at 112th Street, where "patrons gain access to a library of hundreds of board games to play during their visit, with even more available to purchase." In addition, the "store serves small plates, locally-roasted coffee, beer, wine and cider;" and is "set-up like a normal café, only there is a wall of games to choose from, and about 200 square feet of retail area" according to reports. The concept that provides an opportunity for patrons to be engaged socially and intellectually caters to all ages seeking a more personal gaming experience, and is among several other similar café and bar venues throughout the city including two that were founded by Miller prior to teaming up with May — **Brooklyn Strategist** at 333 Court Street in the Brooklyn neighborhood of Carroll Gardens, which opened 9-years ago; and **The Uncommons**, which opened 6-years ago in the Greenwich Village space at 230 Thompson Street, having formerly housed a chess shop that operated more like a club.

Outer Boroughs - Brooklyn

School of Rock / 294-300 Graham Avenue (Williamsburg) – The Canton, MA-based global music lesson franchise has established its second Brooklyn location. The concept launched in 1998 in Philadelphia has secured a lease for 3,500 square feet at an asking rent of reportedly $50 per square foot. The space formerly occupied by Khim's Millennium Market is located on the corner of Powers Street, within a portion of the approximately 8,710-square-foot retail condo at the base of the 4-story, 35,295-square-foot mixed-use **Glove Factory Lofts**.

Lincoln Market / 1134 Fulton Street (Bedford-Stuyvesant) – The Brooklyn-based grocer has reportedly secured a 20-year lease for a 12,656-square-foot portion of the roughly 18,781 square feet of total retail space situated at the base of the under construction 11-story, 186-unit mixed-use development that is slated to deliver in early 2020. The grocer is expected to take possession in September 2019 of the space that had a reported asking rent of $85 per square foot. Lincoln Market will be joining low cost fitness brand Blink Fitness, which earlier this year committed to 15,100 square feet under a 15-year term for the space that includes a 400-square-foot ground level entry, with the remainder located on the lower level. News of the recent signing comes just over a year after Lincoln Market opened in Prospect Lefferts Gardens at 33 Lincoln Avenue — a newly constructed 133-unit mixed-use development spread across a pair of connected 9-story buildings dubbed **Lincoln Apartments** that opened in 2017.


1134 Fulton Street - Rendering

Queens

Nan Xiang Xiao Long Bao / 39-16 Prince Street (Flushing) – The Shanghai dumpling house will re-open in a 5,113-square-foot space at the base of the mixed-use **One Fulton Square**, which opened in 2014 on the corner of Roosevelt Avenue; and hosts a mix of 43-unit residential condominiums, office space, and a 168-key **Hyatt Place Hotel**. Asking rent for the space secured under a 10-year term that will seat 150 diners was reportedly $125 per square foot, having previously served as the home of Asian eatery Rong Restaurant since 2015. News of the new location that is expected to open this fall comes about 6-weeks follow the reported announcement of the eatery closing its previous location just steps away at 38-12 Prince Street. The restaurant will be joining other Asian eateries including Pappa Rich, Iki Modern Japanese Cuisine, Guan Fu and Mister Hotpot.

Sale Activity

New to Market

Midtown

680 Madison Avenue (Plaza) – Thor Equities has reportedly introduced the $370 million ($10,571 per square foot) sale offering of the 35,000-square-foot retail component at the base of the **Carlton House** co-operative. Offering 367-feet of wraparound frontage along Madison Avenue, East 61st and 62nd Streets, the space is reportedly about 95% leased. Leasing activity over the past several years has attracted several fashion brands:

- Brioni – The Italian men's brand that is a division of luxury conglomerate Kering SAStore leased about 6,000 square feet in 2015 at a reported asking rent of $2,000 per square foot;
- Tom Ford – The fashion company leased a 2-level, 12,300-square-foot space in 2016 — 3,300 square feet on the ground level, asking $2,000 per square foot, and 9,000 square feet of 2nd floor space;
- Ralph & Russo – The British haute couture fashion house opened its first New York City store, having established the flagship in a 5,800-square foot space — 2,300 square feet on the ground level and 3,500 square feet on the 2nd floor under a 15-year lease secured in 2018; and more recently,
- Missoni – The Italian fashion brand leased 3,500 square feet in early 2019. Asking rent for the 15-year lease was reportedly $1,200 per square foot.

Thor acquired the retail unit in December 2012 for $262.375 million according to city records. Sellers Extell Development and Angelo, Gordon & Co. reportedly purchased the 17-story, 237,003-square-foot former **Helmsley Carlton House On Madison** 2-years prior for approximately $170 million, converting the upper floors into 68 residential co-operatives.

Sale Activity (cont'd)

New to Market (cont'd)

Upper Manhattan

2864 Broadway aka 545 West 111th Street (Morningside Heights) – The entity SDSDR111LLC initially introduced the $34 million ($4,348 per square foot) sale offering in February of the 7,820-square-foot retail condominium located close to Columbia University's campus. The corner unit that includes 4,630 square feet of ground level space and 3,190 square feet of selling lower level space last traded in June 2006 for roughly $15.656 million ($2,002 per square foot) according to city records. Walgreen's Boots Alliance-owned Duane Reade pharmacy occupies the space in its entirety under a triple-net lease expiring April 30, 2029, paying $1,650,550 per year ($211 per square foot) through June 30, 2021, with the annual rent lowering to $1.5 million ($192 per square foot) for the remaining approximately 8-years per marketing material details.

Outer Boroughs - Brooklyn

1752 Shore Parkway (Gravesend) – Thor Equities has reportedly introduced the sale of the single-story, 139,256-square-foot big-box store offering 320-feet of frontage at an asking price in the mid-$70 million range. The waterfront store and 3-story, 60,000-square-foot, 690-car parking garage were constructed by Thor in 2012, replacing the former 10,400-square-foot structure used by the Amboy Bus Company to store its school buses. Thor acquired the 499,600-square-foot (11.47-acre) site in November 2005 for $10 million; and initially secured a lease with Westborough, MA-based BJ's Wholesale Club in 2007. The 20-year, reportedly triple-net lease that "includes 'significant' contractual rent increases" commenced in 2014; and initially included (4) 5-year extension options, but a lease amendment in 2011 increased it to a total of (5) 5-yr extension options "followed by a 6th option of extension ending on January 31 in the 49th year of the term of the lease," with the lease, including all extensions not to exceed 48-years, 11-months according to city record documents. In 2017 a $45 million loan secured from Signature Bank refinanced $22 million in outstanding principal of an existing debt and provided a new $23 million gap mortgage.

Sale Highlights

Midtown South

285-293 Lafayette Street (SoHo) – Kushner Companies has reportedly entered into contract to purchase the 32,135-square-foot retail condominium for $39.75 million. Situated at the base of 9-story, 30-unit mixed-use building located on the corner of Jersey Street, the multi-level unit offers selling space on the ground, cellar and sub-cellar levels. Seller Centurion Realty and Ashkenazy Acquisitions had acquired the unit in 2014 for $36.5 million, financing the transaction with a $24 million loan from Investors Bank according to city record documents. The nearly fully leased space is currently home to a 3-level branch of the New York Public Library, an Equinox gym, Pravda, and Italian cosmetics brand Santa Maria Novella.

242 Broome Street aka 82 Ludlow Street (Lower East Side) – The International Center of Photography (ICP) closed on the purchase of the pair of condominium units, having reportedly signed a contract back in October 2017 for the space at the 14-story, 180,646-square-foot mixed-use development that delivered last year within the 9-building **Essex Crossing** complex. The 17,759-square-foot retail unit spanning portions of the 1st through 3rd and 5th floors at the base of the tower traded for roughly $13.014 million ($733 per square foot); while the larger unit is a freestanding 6-story, 21,931-square-foot building designated for community facility use was purchased for roughly $15.986 million ($729 per square foot). The deal will enable the not-for-profit to establish its school and museum at the same location, the latter currently housed in an 11,000-square-foot condo unit at 250 Bowery acquired in 2015 for $23.5 million; while the school operates in 27,000 square feet of leased space that is primarily below-grade at 1114 Sixth Avenue (Times Square), where they have reportedly been located since 2001.


ICP, 242 Broome Street - Rendering

Lender ConnectOne provided ICP with a $13.3 million mortgage backed by both units; and a substitute enforcement mortgage collateralized by the community facility unit was issued from the New York City Department of Housing Preservation and Development (HPD) in the amount of $21.328 million payable in full April 16, 2059, having initially been issued in 2015 for $31.9 million to Delancey Street Associates, the developers of Essex Crossing. As part of the deal, the developers of Essex Crossing, purchased the condo unit on Bowery (BL: 507-1101) for $25 million reportedly planning to lease out the space that located across the street from the New Museum at 235 Bowery.

Sale Activity (cont'd)

Sale Highlights (cont'd)


196 Orchard Street - Rendering

196 Orchard Street (Lower East Side) – AR Global affiliate New York City REIT has reportedly purchased the multi-level, 60,636-square-foot retail-and-commercial condo unit for $88.75 million ($1,464 per square foot). The condo is situated at the base of the 94-unit mixed-use development that is nearing construction completion by co-sellers Magnum Real Estate and Real Estate Equities Corporation (REEC) on the corner of East Houston Street, adjacent to iconic Katz's Deli. Spanning the sub-cellar, cellar and 1st through 3rd floors of the 11-story, 178,376-square-foot structure, the space is currently 100% leased by CVS Pharmacy; discount retailer Marshalls; and high-end fitness chain Equinox, which committed to the 30,000-square-foot multi-level space back in mid-2015.

Outer Boroughs - Queens

96-41 Queens Boulevard (Rego Park) – An undisclosed buyer under the entity Richlen, LLC acquired the single-story, 8,793-square-foot retail asset located on the corner of 63rd Drive in May for $13 million ($1,478 per square foot). The unit is divided into 4-storefronts currently leased to Chic's Place, Paris Baguette, Dunkin Donuts and Rouge Nail. New Jersey lender Spencer Savings Bank provided a roughly $9.143 million financing package that includes the consolidation and refinancing of $6.67 million in existing debt and a new $2.473 million mortgage according to city records.

Lending

A Snapshot of Retail CMBS Loan Performance

Although ongoing press delivering news of major store closures, restructurings or defaults has raised concerns of the health of the U.S. retail market, it "continues to be a powerhouse sector of commercial real estate finance with retail loans currently making up 27% of all outstanding CMBS notes" according to reported data from CMBS-focused data provider Trepp. A study was completed of a total of 16,678 retail loans that were outstanding at some point within the past 5-year; and loan performance was measured using (5) metrics:

- Occupancy rate at securitization;
- Net operating income per rentable square foot (NOI PSF) at securitization;
- Minimum occupancy during the loan's life;
- Minimum NOI PSF over the loan's life; and
- The loan's worst delinquency status.

In addition, loan characteristics were divided into:

- Property subtype;
- The year that the property was built or renovated, which was broken down by decades between the 1940s and the 2010s;
- Square-foot exposure to the largest tenant; and
- Geographic region as defined by the U.S. Census.

Property Subtype:

- Strongest performing were drugstore and urban and street retail, with drugstore notes performing well due to their collateral's consistently high occupancy rates, high NOIPSF, and low delinquency rates.

- Lower performing were the community shopping centers, regional malls and neighborhood shopping centers, with all three subtypes sharing a pattern of mediocre occupancy rates and relatively low NOI PSF figures.

Retail CMBS (cont'd)

Year Built or Renovated:

- Strongest performing were the properties built before 1940, properties built in the 1940s, and properties built after the 2000s.

- Properties built before 1940 outperformed the other decades due to their high NOI PSF at securitization and the average minimum value exhibited by the property. Properties built during the 1940s behaved similarly; and it is likely that many of these older properties are in densely populated, high performing geographies. The high NOI exhibited appears to have offset concerns of higher upkeep expenses due to property age.

- Properties built in the 2010s exhibited the highest occupancy rates of all the decades observed.

Top Tenant Exposure

- Single-tenant properties exhibited the highest average NOI PSF, highest average occupancy rate, and the lowest delinquency rate; and nearly 20% of single-tenant loans were ranked in the top 20% of Trepp's CMBS rankings.

- The weakest performing were those properties where the largest tenant occupies less than 35% of the space, as they carried the lowest NOI PSF and the lowest minimum occupancy rates.

Region:

- Strongest performing was the Middle Atlantic properties that are bolstered by the massive volume of retail CMBS outstanding in New York, which has a tendency to perform above average. The large number of single-tenant properties in large cities like New York and Philadelphia further boosted performance. The next strongest regions were the Pacific and New England.

Looking ahead although uncertainty continues to shadow the future of the retail market, many industry people contend that the retail apocalypse has been vastly overstated, further commenting that the "fall of major retail giants was inevitable: a sign of a growing technological world weeding out players slow to adapt to the online marketplace."

Lending (cont'd)

Report Loans Secured

Midtown

730 Fifth Avenue (Plaza) – Wharton Properties and Brookfield Asset Management have reportedly signed a term sheet with lenders Natixis and Apollo Global Management for a $900 million loan to refinance the 88,545-square-foot retail condominium. If the deal closes, the new loan will refinance the $720 million portion in existing debt backing the retail unit as part of an initial $1 billion loan provided by Deutsche Bank in April 2015, which was modified upon the establishing of a condo declaration that divided the 26-story, 366,200-square-foot tower into a retail and commercial component. Initially the **Crown Building** was acquired by Wharton Properties along with General Growth Properties (later rebranded GGP) in 2015 for $1.775 billion, subsequently selling the 317,707-square-foot upper level portion spanning floor 4 through 26 to Russian hotel developer Vladislav Doronin of Amanresorts and developer Michael Shvo for a planned conversion to an 83-key **Aman Hotel** and 20 residential condominium, while retaining the 3-story 88,545-square-foot retail component at the base. In 2018 Brookfield joined Wharton upon taking full control of GGP's assets following its purchase of the remaining 66% of GGP's outstanding shares Brookfield didn't already own. Current retail tenants include luxury accessories label Bulgari, having secured a 15-year lease near the end of 2015 for 3,000 square feet at a reported asking rent of $5,500 per square foot; and men's fashion house Ermenegildo Zegna in 9,000 square feet at a reported $4,000 per square foot asking price under a 15-year term leased in early 2016.

747 Madison Avenue (Plaza) – Wharton Properties has secured a $90 million refinancing of the retail co-op at the base of the 17-story, 147,121-square-foot mixed-use co-operative located on the corner of East 65th Street. JPMorgan Chase provided the reportedly balloon mortgage that carries a LIBOR plus 1.25% interest rate that will require payment of the entire principal upon maturity in 2022. The new loan replaces a similar mortgage of the same amount issued by Goldman Sachs in 2014 that was nearing maturity; and reportedly carried a somewhat higher interest rate of LIBOR plus 1.75%. Wharton acquired the retail unit, along with SL Green Realty and reportedly Harel Insurance in September 2011; and subsequently in June 2012 and October 2013 purchased a pair of additional units on the 2nd floor for a combined total of $10.136 million, merging them with the ground floor unit to create a second high-ceiling storefront according to reports. Wharton reportedly completed a buyout of both equity partners in 2013, at the time valuing the property at about $160 million; while in the same year a pair of 15-year leases for the retail space were secured by fashion houses Alexander McQueen in 3,300 square feet and Givenchy in 2,800 square feet, having been previously been occupied by Valentino.

Upper Manhattan

East River Plaza (East Harlem) – Blumenfeld Development Group (BDG) has secured roughly $235 million to refinance the multi-level 500,000-square-foot waterfront retail project that opened in 2009 from ING Capital LLC. The complex which includes addresses 505 and 545 East 116th Street, and 509 and 520 East 117th Street spreads across approximately 6-acres and (3) city blocks in the Upper Manhattan neighborhood; and includes an attached 1,250-car parking facility. BDG co-developed the retail power center anchored by Costco and Target with Forest City Ratner following a rezoning of the site acquired by BDG in 1996. In late 2014 reports indicated ambitious plans to construct a trio of new residential towers connected by (2) skybridges on top of 2-podiums placed over the existing mall and parking garage; however plans never moved forward for the 47, 41- and 32-story developments that were expected to add 1,100 residential units, of which 25% were to be designated for below market rents, as well as 24,000 square feet of low-rise residences and 25,000 square feet of amenities and cultural space.

East River Plaza


Former Proposed Residential - Rendering

Lending (cont'd)

Downtown

South Street Seaport Project (FiDi) – The Howard Hughes Corporation has refinanced the 8-parcels within the historic waterfront district with a $250 million loan. Civitas Alternative Investments is serving as the administrator of the 5-year, interest only loan reportedly backed by a group of Korean financing institutions. The loan carries a 6.1% interest rate for the first 2-years, subsequently shifting to LIBOR plus 4.1% according to reports. The properties are part of a redevelopment project envisioned several years ago intended to revitalize the district. Currently controlled under a long-term ground lease secured from the city reportedly in 2010 that initially commenced December 15, 1981 expiring December 30, 2031, plus (2) extension options — a 21-year and a 20-year that if fully exercised will extend the lease through December 30, 2072 according to a 2017 lease amendment posted on city records.

Several roadblocks along the way have delayed progress of the $751 million project which to date Howard Hughes has reportedly invested $600 million. Ongoing progress has delivered:

Pier 17

iPic Theater

- **Pier 17** – The redeveloped pier offers 365,000 square feet spread across 5-stories hosting a mix of office space, restaurants, and event space; as well as a yet-to-open food-and-beverage area dubbed "**Pier Village**." **The Fulton** restaurant by Jean-Georges Vongerichten opened in the spring, and is expected to be joined at a later date by another restaurant operated by chef David Chang under his Momofuku restaurant group. Office tenants include cable sports broadcaster ESPN in 19,000 square feet and athletic footwear brand Nike in 23,000 square feet.

- **Fulton Market Building** – The landmarked building now serves as the home of a 46,000-square-foot, 8-screen **iPic** movie theater with cocktail bar **The Tuck Room**. The theater shares the building with Milan-based Italian-concept store **10 Corso Como**, which made its U.S. debut in the 13,000-square-foot space offering a retail store and restaurant.

- **Tin Building** – The landmarked structure that formerly house the **Fulton Fish Market** was dismantled last year as part of a plan to reconstruct it 18-feet southwest of its former location to situate it above the 100-year floodplain. The building will be fully restored and repositioned into a seafood-themed market to be operated by celebrity chef Jean-Georges Vongerichten.

Over the years Howard Hughes has increasingly scaled back the project. Initial plans to construct a high-rise residential tower along the waterfront, just north of Pier 17, were ultimately dropped at the end of 2015 amid opposition by local legislators and area residents. The tower that was initially expected to reach a linear height of 650-feet spread across 52-stories to host a mix of residential condominiums and a hotel component, was later downsized to 494-feet and 42-stories with revised designs eliminating the hotel component and instead offering the inclusion of a 3-story, 71,000-square-foot middle school.

Other developments envisioned as part of the initial **Master Plan** had included:

- Affordable housing on historic Schermerhorn Row, with a 210-220-unit development, of which 60-70 units would be designated for affordable housing had been proposed for a vacant lot at John and South Street. The project would also include space for the **South Street Seaport Museum** for which the developer had reportedly committed over $10 million to help sustain the museum that has struggled in recent years.
- A marina north of Pier 17 for predominantly smaller boat use.
- New retail pavilions to be constructed under the FDR Drive overpass with lighting added.
- An expansion of the existing esplanade through the Seaport to the Brooklyn Bridge at a projected cost of $53 million.

Manhattan West Retail View - Rendering

Development

New York Building Congress: Construction Outlook Update - Retail Construction Snapshot

Overall the U.S. has experienced a "substantial building boom across a variety of sectors" over the past decade, increasing 0.3% year-over-over year in 2018 with construction starts reaching a total of $789 billion according to the report released by NYBC in April. While the retail sector experienced moderate growth nationwide in 2012 and 2013, construction starts stalled from 2014 to 2016; subsequently declining over the past 2-years. A glut in retail space constructed over the previous decade, as well as the greater role played by e-commerce attributed to the 5% and steeper 21% decline in 2017 and 2018 respectively. Currently there is an estimated 69.5 million square feet of retail in the construction pipeline nationwide.

New York City Outlook

- In the midst of its second and most robust building boom of the 21st Century, the city continues to experience construction growth in the residential, non-residential and public sector. Construction starts between 2015 and 2018 reached a total of $196 billion. Non-residential construction (which excludes public sector and residential construction) accounted for $81 billion of the total non-residential construction starts during the same period, with retail construction representing 6%, or $4.7 billion. Retail alterations and renovations (A&Rs) totaled roughly $2.5 billion; and the $2.5 billion in new retail construction added 7.5 million square feet, resulting in an average of $337 per square foot in terms of construction cost.

  However in contrast to non-residential construction, which experienced increasing dollar value year-over-year from 2015 to 2018, retail construction dollar value decreased year-over-year.

Year	NYC Non-Residential Construction	Yr-over-Yr Change	NYC Retail Construction	Yr-over-Yr Change
2015	$14.6B		$1.9B	
2016	$17.6B	20.5%	$1.2B	-36.8%
2017	$21.2B	20.5%	$777M	-35.3%
2018	$27.8B	31.1%	$773M	-0.5%

Moynihan Station Retail View - Rendering

New York Building Congress (cont'd)

Top 10 Retail Construction Starts in New York City by Value | 2015-2018				
Project	**Address**	**Borough**	**Value***	**Year**
The Shops and Restaurants at Hudson Yards	500 West 33rd Street	Manhattan	$600M	2015
South Street Seaport Pier 17	89 South Street	Manhattan	$200M	2015
Staten Island Mall (expansion)	2655 Richmond Avenue	Staten Island	$150M	2016
The Boulevard (redevelopment)	2600 Hylan Boulevard	Staten Island	$70M	2018
Neptune/Sixth	532 Neptune Avenue	Brooklyn	$63.145M	2015
Manhattan West	401 Ninth Avenue	Manhattan	$60M	2015
The XI	76 Eleventh Avenue	Manhattan	$54.96M	2016
The Market Line at Essex Crossing	115 Delancey Street	Manhattan	$54.5M	2015
Moynihan Train Hall	421 Eighth Avenue	Manhattan	$50M	2017
Kings Plaza Shopping Center	5100 Kings Plaza	Brooklyn	$49M	2016
*Includes only the retail portion of total development				


Neptune/Sixth - Rendering


The Boulevard - Rendering

Kings Plaza Shopping Center - Rendering


Staten Island Mall - Rendering

Borough Analysis

- Manhattan retail construction led the way in New York City between 2015 and 2018, accounting for 58% of citywide retail construction, of which both the turnover rate of Manhattan retail and the value developers are adding to modernize retail spaces attributing to 64% being A&Rs. Brooklyn followed at a distant 18%, with Staten Island, Queens and the Bronx accounting for 14%, 7% and 3% respectively. Staten Island was the only borough to experience retail construction increases during the previous 4-years, with the total dollar value of $56 million in 2015 increasing to $275 million by 2018.

The Shops & Restaurants at Hudson Yards

New York Building Congress (cont'd)

Retail Trends

- **Large mixed-use projects supporting retail construction** – Developers are building vibrant, live-work-play communities as underperforming anchors close and traditional malls struggle. Although mixed-use developments are nothing new for New York City, the city's top 10 largest retail projects from 2015 to 2018 are part of larger mixed-use projects. In addition, a bevy of uses to give residents, commuters and tourist a suite of options are being incorporated in large retail centers like those at Hudson Yards, Manhattan West and Essex Crossing.

- **Closure of several large retailers** – Although a nominal 0.3%, the total number of national-brand stores in New York City declined for the first time in a decade, lowering from 7,786 stores in 2017 to 7,849 stores in 2018, with a record 124 retailers reducing their footprint according to the Center for an Urban Future's 2018 State of the Chains report.

- **Renovations outpacing new construction** – The construction value of retail alterations and renovations began outpacing new construction nationally in 2013; and in New York City in 2016, when 64% of all retail construction was started on A&Rs. In 2018, the city's A&Rs were valued just above new construction, accounting for 51% of all retail construction.

- **Focus on "experience"** – The inclusion of an immersive experience for consumers has come to the forefront with developers building new retail spaces that are visually attractive, high-tech, while retailers are shifting from operating many different locations to a focus on fewer, more impactful ones that has translated to the investment in larger premium projects. Cited in example is athletic footwear brand **Nike's** Manhattan flagship at 650 Fifth Avenue, which features a Nile Expert Studio, Nike Arena and SNKRS lounge, with exclusive membership products and digital services throughout.

Nike, 650 Fifth Avenue

Development (cont'd)

Midtown South

New Museum (left)
233 Bowery (right) -Rendering

231-233 Bowery (Lower East Side) – Alteration plans were filed in April by 42-year old **The New Museum of Contemporary Arts**. Currently located at 235 Bowery, which opened in 2006, plans were initially announced in 2016 of an expansion into the adjacent 9,000-square-foot site that the museum acquired in 2008 for $16.6 million. The proposed 7-story enlargement of the existing 8-story, 56,344-square-foot museum would increase the structure's size to 115,594 square feet to create a total of 72,452 square feet of usable space — more than double the current 32,851 square feet. In addition demolition permits were secured in May for the adjacent 6-story, 47,067-square-foot mixed-use building to make way for new construction, a portion of which will serve as the new home of the museum's **NEW INC**. The museum-led cultural incubator launched in 2014 that is dedicated to supporting innovation, collaboration, and entrepreneurship across art, design and technology is currently housed in an 8,000-square-foot space within the building. Reports in 2016 indicated that the New Museum was well on its way to funding the project, having already raised $45 million at the time of its $80 million capital campaign. Groundbreaking for the project is scheduled for some time in 2020, with a tentative completion in 2022.

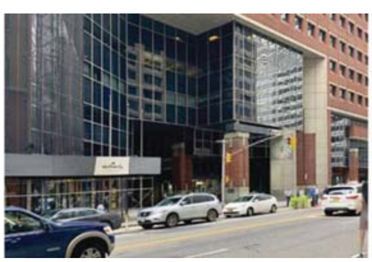
Downtown

7 Hanover Square (FiDi) – Developer GFP Real Estate (formerly Newmark Holdings) and the Northwind Group are seeking approvals from the Department of City Planning (DCP) to infill a large portion of building's surrounding arcade area, hoping to take advantage of the amended zoning that received city council approvals in June 2016. If the project moves forward as proposed, it will replace the through-block arcade with newly created retail space along Hanover and Water Streets. Three-story glass street walls would frame and brighten the building's two entrances, while providing space for a planned block-long 1,450-square-foot indoor public space with plantings, a food court to host 10 to 18 food and beverage retailers, and 167-seats and benches; as well as two new retail shops fronting Pearl Street and at least another two on Water Street according to reported statements by a GFP spokesperson.

The contract vendees are expected to close on the $310 million purchase of the 845,000-square-foot building from Guardian Life Insurance in the fall. A planned redevelopment of the building will rebrand the base 17 floors totaling 526,552 square as 50 Water Street, which have been pre-leased to NYC Health + Hospitals; while the remaining upper floors will be designated as a separate building with a dedicated entrance under the address 100 Pearl Street.

The application will be the second project filed as part of the amended zoning, among the 20 buildings designated along Water Street that are able to infill the arcade passageways in exchange for upgrades of the plazas around their properties by adding public amenities such as seating, tables and planters. In December 2017 Rockrose Development Corporation received DCP approvals for its full block **200 Water Street** property that fronts Fulton Street between Water and Pearl Street; however construction has yet to move forward for the proposed infill project that is expected to create 3,000 square feet of new retail space and a redesigned public plaza.

The adopted rezoning opened the door to the creation of approximately 110,000 square feet of new retail space, potentially benefitting the BID which collects fees from retailers to fund street cleaning and beautification efforts intended to further business development throughout Lower Manhattan. Reports at the time further indicated that arcades larger than 7,500 square feet are required to go through the Uniform Land Use Procedure's (ULURP) public review process. In addition, chain drug stores and banks are restricted to a maximum frontage of 50- and 30-feet respectively.



Existing View / Proposed Redeveloped View

Development (cont'd)

Outer Boroughs - Brooklyn

74-92 Bogart Street (Williamsburg) – Storage Deluxe acquired the 80,000-square-foot parcel in May for $45.5 million. The self-storage builder that "builds and owns — but does not operate — storage properties" reportedly plans to construct a nearly 220,000-square-foot self-storage facility on the site that last traded in August 2012 for $12.15 million according to city records. The full block site bound by Ingraham and Morgan Streets, Harrison Place, and Morgan Avenue currently hosts a single-story warehouse which will be demolished to make way for new construction according to demolition permits already filed.

Staten Island - Highly Anticipated Empire Outlets Opens its Doors

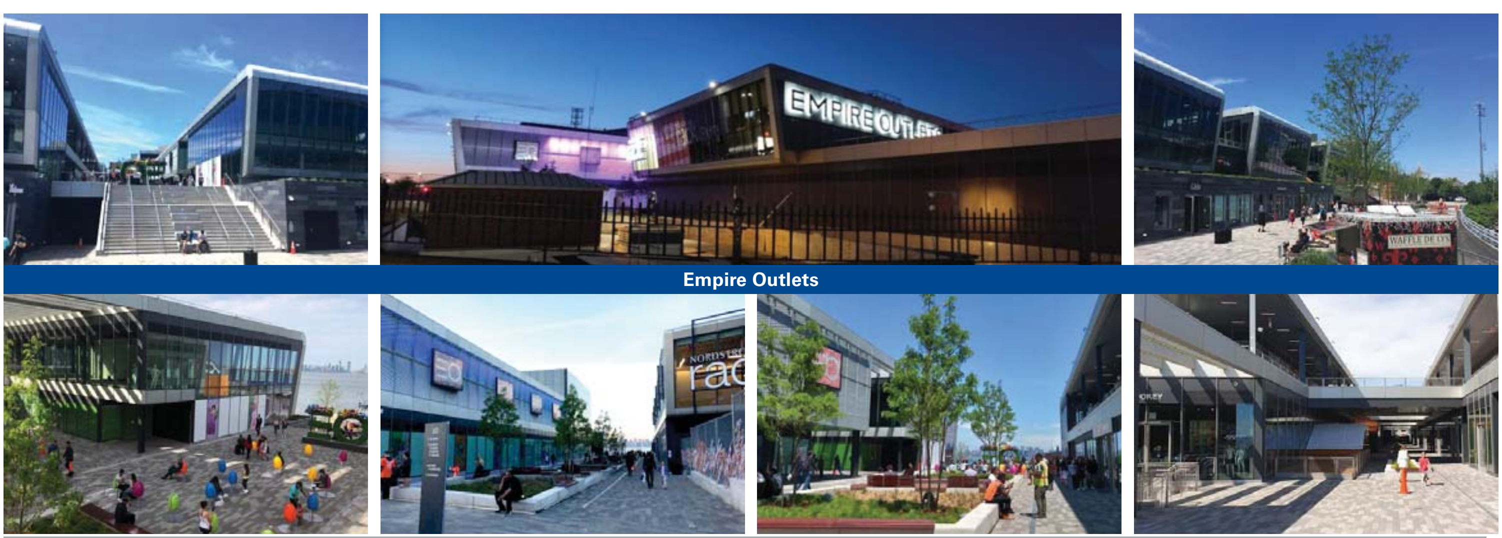
After a few opening delays, the approximately 1.1 million-square-foot waterfront shopping center located on Staten Island's North Shore at 55 Richmond Terrace reportedly welcomed its first 165,000 shoppers on opening weekend in May, with nearly 30 stores and food options. Constructed on city-owned former parking lots, **Empire Outlets** is over 75% leased; and will host 100 designer outlet retailers, a variety of restaurants and cafés, a 12,415-square-foot artisanal food hall dubbed **MRKTPL**, and eventually a 200-key hotel. A 1,250-car below-grade parking garage offers added convenience, as well as immediate access to the Staten Island Ferry Terminal.

Averaging about 20,000 visitors a day, as of late June reports, the remaining retail and eateries are expected to open in phases throughout the summer including the 28-vendor food hall, a virtual golf complex, a 600-seat beer garden, and anchor tenant **Nordstrom Rack** in a 30,000-square-foot space. Additional visitor volume is expected to come from a joining with tour operators which will establish Empire Outlets as an "add-on to Lower Manhattan tours."

The food offering roster includes Shack Shack, in 3,900 square feet; Ohio-based Wasabi Steak & Sushi, in 7,172 square feet; along with Two Boots Pizza, Mighty Quinn's Barbecue and Nathan's Famous; while the retail tenants include:

Retailer	Sq. Ftge.	Retailer	Sq. Ftge.
Old Navy (Gap Inc.-owned brand)	13,382	Crocs	2,000
Banana Republic(Gap Inc.-owned brand)	8,000	Samsonite	1,924
Gap	10,000	Nike Factory*	13,000
Brooks Brothers	4,040	Levi's	5,450
Jockey	2,744	H&M	33,000
American Eagle Outfitters	11,031	Lucky Brand	4,912
Flying Tee	22,000	*Plus 6,000 SF storage space	

The $360 million development constructed by BFC Partners is comprised of a "collection of retail buildings interspersed with 3-acres of outdoor space" as part of a 16-acre St. George Waterfront Redevelopment Project. BFC currently controls the Empire Outlets site under a 99-year lease from the city. Initially envisioned in 2012 when a request for expressions of interest (RFEI) was released by the New York City Economic Development Corporation (NYCEDC).



Empire Outlets

Sources: https://www.wsj.com/articles/new-staten-island-outlet-mall-buoyed-by-ferry-tourists-and-locals-11561471200

Hospitality Market

Lines Begin to Blur Across Home-sharing and Traditional Hospitality Lodging

The new breed of travel lodging that is developing offers the comforts of home and the predictable quality of a hotel. The developing "**apartment-hotel**" concept that aims to merge home rentals and traditional hotel rooms has attracted the interest of both established home-sharing operators such as Airbnb and major hospitality companies; as well as spurring the launch of new startups. These professionally managed lodgings are surfacing in both residential and commercial buildings; and offer the consistency expected from a hotel with the added convenience of an apartment, while eliminating the unpredictability of a "small-time host" where "experiences and services can vary depending on the host; and in some case can run afoul of local laws."

Marriott International – In early 2018 the hospitality giant launched a branded home-rental business called **Tribute Portfolio Homes**; and after positive customer feedback of a 5-month pilot tested in London in collaboration with London-based home rental sharing management company Hostmaker, decided to expand into Paris, Rome and Lisbon. Reports indicate that Marriott is planning to further expand the nascent business-line to eventually include 2,000 high-end homes in 100 markets across the U.S., Europe and Latin America.

In addition to handling operations, Hostmaker selects the homes which typically feature one bedroom or more, full kitchens and in-unit laundry. Guests also have access to 24/7 support as well as an in-person welcome/check-in experience. The startup business complements Marriott's current hotel portfolio; and provides travelers with a wider choice of accommodations while remaining under the Marriott umbrella, further driving incremental business. In addition, during the pilot period it was found that on average, guests stayed more than 2-times the typical hotel length of stay; and appreciated the convenience of the kitchen and in-unit laundry since 75% of the guests were traveling with friends and families according to the press release last year by Marriott.

Home-Sharing and Traditional Hospitality (cont'd)

Airbnb – Since its launch in 2008 the San Francisco-based controversial home-sharing platform reportedly valued at $35 billion has relied on individual hosts to list their homes for rent. However amid challenges faced in some cities that have restrictive short-term rental laws the company has begun to show increasing interest in the apartment-hotel industry. In April reports announced the establishing of a partnership with RXR Realty to convert 10 floors of the 33-story landmarked office tower at **75 Rockefeller Plaza** into apartment-style hospitality spaces with a diverse mix of amenities targeted towards professionals and business travelers. The build-out of the rooms and common areas will be done by Airbnb's in-house design team. Expected to offer 200-units for overnight stays, the project is still pending approvals from lenders and other parties according to reports. Considerations of a similar facility being created in Brooklyn at the developer's **47 Hall Street** site are also being discussed, with the 150-units to be located within the 10-building former printing press / linotype factory complex that RXR is repositioning into modern office space. Although the lodgings created through the partnership will be listing on the Airbnb platform, they will carry a name tied to the neighborhood of the building versus the typical Airbnb branding.

If the Rockefeller Plaza operation moves forward, it will be establish the home-sharing platform's first stand-alone Airbnb lodging; and hopes it will lead to fewer legal complications by reportedly closely following the city's strict building and fire codes for hotels, staffing it with unionized-labor, and taking advantage of the commercial use zoning. Representing a shift in strategies, the Rockefeller lodging will serve as the flagship of Airbnb's efforts to expand in markets such as New York City where they have encountered resistance from local governments. A recently formed venture with real estate developer Niido has led to the opening of Airbnb-branded lodging in Kissimmee, FL and in Nashville, TN, with many others planned as Airbnb becomes more involved in the design and operation of the short-term rental apartments. Further efforts to keep travelers within its network and bolster its valuation as Airbnb prepares for an initial public offering has led to the reported May more than $450 million acquisition of HotelTonight, a last-minute hotel booking platform that focuses on boutique lodging.

Some of the apartment-hotel management companies recently entering the New York City market include:

Lyric – The tech and data-powered real estate and lifestyle hospitality start-up launched in 2014 caters its spaces called **Creative Suites** to professionals seeking accommodations for between 2 and 200 days. Generally long-term leases are signed with local landlords of residential and commercial properties, with Lyric designing and furnishing the suites. Staff is hired locally to manage the operation, clean the room, and help guests with any issues during their stay. The suites feature custom wallpapers, record players with vinyl records produced by local musicians, and locally sourced coffee. Management of operations is facilitated through a dashboard and backend that secures each location, manages revenue, handles guest registration, and automates background checks and digital access. Each suite typically includes Wi-Fi, connected TVs, and keyless entry; as well as a fully stocked kitchen, in-suite washer and dryers, and access to amenities such as fitness centers, pools and business lounges. Earlier this year the startup reportedly raised $160 million in Series B financing and debt financing led by Airbnb, having previously raised $15.5 million in Series A funding in early 2018. Lyric currently operates around 500 rooms spread across (14) U.S. markets; and hopes to expand to 2,000 over the next 12 months.

Lyric will be opening its first New York City location before the end of the year, reportedly under a long-term lease at **70 Pine Street**. Previously the 132 extended-stay studio, 1- and 2-bedroom suites spanning the 3rd through 6th floors of the 67-story Lower Manhattan mixed-use tower were operated as the **Q&A Residential Hotel by Furnished Quarters**. However in May the independently-owned and operated provider of global temporary housing announced plans to end operation of the Q&A brand and replace it with San Francisco-based Lyric following an established alliance between the two companies. Operating under a standard hotel license at the New York City location, the rooms will range in size from 500 square feet for studios to 1,400 square feet for one-bedrooms; and range in price from the low $200s to the $500s per night according to reported statements by a Lyric spokesperson. Guests will have the convenience of the on-site City Acres Market and restaurant by renowned chef James Kent, as well as access to a bowling alley, New York Sports Club.

Sonder – Launched in 2012 the Montreal-based startup reportedly raised $85 million in a venture capital funding round in 2018, bringing total funding raised since its inception to $135 million, with additional funding close to being raised in a new round at a valuation of around $1 billion. Sonder currently operates in 14 cities across North America, as well as in London and Rome. Entering the New York City market in 2018, Sonder has established (2) locations — a 10-year lease for 169-units at **20 Broad Street** in the Financial District, which recently underwent a residential conversion; and 44-units at **The Nash,** 222 East 39th Street in Murray Hill. Sonder has also committed to operate all 72-units under a 15-year lease at the planned 9-story, 82,851-square-foot commercial development to be constructed in Long Island City at **23-12 Jackson Avenue**, with a location in the **Flatiron Hotel**, 9 West 26th Street being finalized. Sonder has reportedly been able to get around New York City's tight regulations and operate within the law by operating in locations that are zoned for hotel-use.

Domio – A technology platform focused on the travel sector serving apartment hotel accommodations to group travelers. Launched in 2016, the New York-based startup reportedly raised $12 million in Series A venture capital funding in 2018. Currently the start-up operates locations in (8) U.S. cities, with (7) in planning stages in the U.S. as well as in London according the Domio's website.

Hospitality Market (cont'd)

Sale Activity

Midtown

346 West 17th Street aka 355 West 16th Street (Chelsea) – The land beneath the 12-story, 183,484-square-foot **Dream Downtown** hotel has been acquired by the entity Worth Capital Holdings 52 LLC for $175 million ($954 per square foot) from longtime fee-owner Hampshire Hotels & Resorts. Bank America provided $160 million in financing to close on the transaction, which refinanced $120 million in existing debt and provided a new $40 million gap mortgage. The 315-key, 165,958-square-foot hotel, plus 6,664 square feet of retail space at the base is currently under a ground lease initially issued in September 2007 to Northquay Properties LLC; and in July 2012 Sahara Dreams LLC, an entity tied to India-based Sahara Group secured the assignment of the lease that extends through September 2112 for roughly $217.108 million ($1,183 per square foot) according to city record documents.

Outer Boroughs - Queens

183-15 Horace Harding Expressway / 183-31 Horace Harding Expressway (Flushing) – East West Realty Development Group LLC has introduced the sale offering of the pair of newly constructed 6-story hotels at an asking price of $65 million ($298,165 per key). The Marriott-branded portfolio that completed construction in 2018 offers a combined total of approximately 108,726 square feet and 218-keys; as well as on-site 42-car parking.

- 183-15 Horace Harding Expressway – The 59,520-square-foot **Courtyard Marriott** hotel hosts 123-keys; and
- 183-31 Horace Harding Expressway – The 49,476-square-foot **Fairfield Inn & Suite** hotel hots 95-keys.

183-15 Horace Harding Expressway / 183-31 Horace Harding Expressway

Lending

Midtown

520 West 42nd Street (Hell's Kitchen) – Merchants Hospitality and Roche Enterprises have reportedly secured a $42 million mortgage to refinance the 3-story, 105-key **Cachet Hotel**. The new debt provided by Taconic Capital Advisors refinances 2017 construction financing from Acres Capital Servicing used to completely renovate the hotel and retail spaces within the 78,333-square-foot structure; and had included Ares' assumption of an existing unpaid balance of roughly $9.264 million that was consolidated with a new $17.057 million gap mortgage, plus newly originated $3.369 million and $2.619 million building and project loans. Merchants and Roche reportedly funded an additional $45 million in equity for the recently completed redevelopment of the asset. The partnership controls the "suite lifestyle hotel" under a ground lease expiring September 29, 2058, paying $24.05 million in 2017 for the assignment and assumption of the lease originally issued in 2009 by fee-owner Wellington Hotel. The hotel features (3) outdoor spaces comprised of a Sky Deck and Retreat and an indoor/outdoor private event and conference space; as well as a Playboy Supper Club and ground level craft beer garden and café Treadwell Park.

Hospitality Market (cont'd)

Lending (cont'd)

36 Central Park South (Midtown West) – The Witkoff Group and Emirati sovereign wealth fund Mubadala Investment, along with partners hotel manager Highgate Hotels and New Valley LLC, have secured a 5-year, $615 million financing packaging carrying a floating interest rate to refinance the 605-key, **Helmsley Park Lane** hotel. Deutsche Bank served as administrative agent, having teamed up with JPMorgan Chase to provide the new facility that refinanced $266.7 million in previous acquisition debt originated by Wells Fargo. A new $158.3 million gap mortgage was also provided as part of the deal; as well as $425 million in mezzanine debt reportedly provided by a syndicate of undisclosed lenders, with the hotel's ownership planning to reinvest additional funds into the asset.

In November 2013 at the time of the roughly $654.316 million purchase of the hotel, Hong Kong-based Jynwel Capital initially controlled an 85% interest, selling a portion of the stake for reportedly $135 million to Mubadala the same year; while Witkoff, Harry Macklowe, Howard Lorber's New Valley LLC, and Highgate Holdings retained control of the remaining minority interest. Redevelopment plans announced in 2015 were expected to lead to the construction of a luxury 88-unit, 350,000-square-foot residential condominium. According to reports at the time the project would have required a portion of the old Helmsley Building to be preserved in order to build a structure with the same air rights; however the estimated $1.7 billion project was ultimately put on hold in 2016 amid signs of a softening of the high-end residential market, the companies moving ahead with a renovation of the hotel instead. In 2018 Mubadala reportedly increased its stake in the asset, buying out Jynwel Capital's remaining interest for $140 million. The transaction was sparked amid allegations brought to light in 2015 that Jynwel's stake was acquired with stolen money from Malaysia's state-owned 1MDB fund, ensnaring the hotel in a forfeiture lawsuit that was later dropped upon Jynwel dropping claims to the property.

Midtown South

27 Grand Street (SoHo) – Thor Equities has reportedly secured a 3-year, $50 million loan from Amherst Capital Management. A portion of the debt includes a refinancing of the existing $44 million debt provided by Natixis in 2017, upon Thor acquiring the 114-key, 102,520-square-foot **St. James Hotel** for $65.75 million ($576,754 per key). Previous financing included a $33.65 million acquisition loan and roughly $5.58 million and $4.769 million building and project loans. According to reports, about $20 million of the new financing will fund renovations to the hotel's guest rooms and common area; as well as upgrades to the food and beverage department.

11-13 East 31st Street (NoMad) – Quadrum Global and Simon Baron Development have refinanced the 30-story, 108,120-square-foot **Arlo NoMad** hotel with a $73.5 million loan provided by Square Mile Capital Management. The new debt replaces a loan of the same amount — $25 million building loan, $9 million project loan, and $39.5 million gap mortgage provided in 2017 by Barings, the Charlotte, NC-based investment arm of Massachusetts Mutual Life Insurance Co. according to reports. Located between Madison and 5th Avenues, the 250-key hotel opened in 2016; and although it lacks room service or a fitness center, it offers quests free classes at a nearby gym and has a convenience store and the upscale Italian restaurant Massoni on-site.

Downtown


33 Peck Slip

33 Peck Slip (South Street Seaport) – The former 5-story, 39,747-square-foot **Best Western Seaport Inn Downtown** reportedly owned by the joint venture of an affiliate of California-based Atlantic Pearl Investments and the Howard Hughes Corp. was repositioned into a 66-unit luxury hotel. In May reports indicated that a 3-year, $41 million refinancing was provided carries an interest rate of 3.15 percentage points above the one-month LIBOR rate; and includes an option to extend to 42 months. Reopening last year, the Cipriani-branded **Mr. C Seaport** represents the New York City debut of the hotel brand launched by the Cipriani family in 2011.

Hospitality Market (cont'd)

Lending (cont'd)

Battery Maritime Hotel - Rendering

Battery Maritime Building, 10 South Street (FiDi) – The development team of Midtown Equities, Centaur Properties and high-end hospitality company Cipriani USA secured a floating-rate, $80 million construction loan package for the continued redevelopment of the recently branded **Casa Cipriani** boutique 67-key hotel and event venue atop the landmarked 1909 Beaux-Arts ferry building. ACORE Capital provided the loan that included a roughly $2.708 million senior leasehold mortgage, a $48.168 million building loan, and a $9.125 million project loan, plus reportedly roughly $20 million in mezzanine debt. The new financing will enable a restart of construction on the stalled project that has hit several road-blocks over the years.

The vision of the waterfront project dates back to 2006, when a group led by the Dermot Company (restaurateurs the Poulakakos family were minority partners) was awarded its construction under the Bloomberg Administration. However original plans to reposition the 140,000-square-foot, longtime underutilized structure were reportedly delayed due to the onset of the economic downturn, Hurricane Sandy and the abatement necessary after the storm hit, and a loss of $10 million in expected federal funding. The several year lapse of time had pushed estimated project costs up $25-$50 million from the originally projected $100 million figure. Subsequently the project's design was revised upon its resumption, and in July 2012 a 49-year leasehold that ran through the end of 2061 was secured by the Dermot-led team from the NYCEDC for $11.3 million according to city records, including (5) 10-year renewal options. However due to a lack of construction financing, the project stalled in 2015.

2016:

Efforts to move the project forward gave rise to negotiations between the New York City Economic Development Corporation (NYCEDC) and Stoneleigh Capital LLC following a letter of intent signed by the Connecticut-based private equity investment firm to take over and operate the project. A new 99-year leasehold was expected to be signed with Stoneleigh by the end of August 2016 at initially low rent payments that would increase to over $1.1 million annually by 2021, along with the stipulation the construction be completed by December 21, 2017 according to reports at the time. However ultimately negotiations broke down reportedly prompting the unidentified lenders going by the name New York City Waterfront Development Fund to reach out to the Witkoff Group, but a deal was never secured, leaving completion of construction in limbo.

2017:

The NYCEDC signed a letter of intent with Centaur Properties and Cipriani to take over the sublease from the Dermot Company; and amid the deal with Midtown Equities to join the team as an equal equity partner, a re-stated and amended long-term lease was finally secured in mid-August 2018.

According to original designs, in addition to the hotel, there will be a rooftop restaurant and bar, as well as a restoration of the building's Grand Hall to serve as event space. The planned opening of a **Nammos by the Sea** restaurant, renowned as one of the most famous beach restaurants in Europe located on the waterfront in Mykonos, Greece, was announced back in 2015; however it is uncertain if a deal remains in place. The project entailed a very complicated process reportedly involving several agencies including the NYCEDC lease, the Department of City Planning (DCP), the Governors Island Trust, The Department of Transportation, the Landmarks Preservation Commission (LPC), and national historic tax credits and lenders. The base of the Maritime Building, which underwent a $60 million restoration in 2006, is currently utilized as a ferry terminal for Governor's Island.

Hospitality Market (cont'd)

Lending (cont'd)

Outer Boroughs - Brooklyn

500 Metropolitan Avenue (Williamsburg) – The Chetrit Group has secured a $133 million financing package from Korea-based Hangang Asset Management to refinance the 14-story, 199,037-square-foot mixed-use development that completed construction last year. The new loan refinanced about $75 million loan of existing debt provided by Natixis Real Estate Capital 2016, consolidating it with a new roughly $59.744 million gap mortgage. Former financing by Natixis had consolidated roughly $8.595 million in previous debt with a new $3.993 million gap mortgage; as well as providing a new $53.5 million building loan and $8.832 million project loan according to city records. The new building known as **M500** hosts a mix of 56 residential condominiums spread across 57,708 square feet, a 188-key, 110,000-square-foot hotel component, 12,508 square feet of restaurant space, and 17,765 square feet of retail. The hotel spanning the ground through 7th floors was slated for a July 2019 opening, the **Indigo-branded** hotel to reportedly be operated by global hotelier Valor Hospitality Partners. Guest amenities include 20,000 square feet of flexible event space, a duel-level dining area, and open-air lounge areas; as well as a pool with sundeck, outdoor courtyard, a fitness center, and on-site parking.


500 Metropolitan Avenue

Queens

148-18 Archer Avenue (Jamaica) – United Construction & Development Group has reportedly secured a 37 month, $58.5 million loan to refinance the 15-story, 202,314-square-foot duel-branded hotel development that is currently under construction. ACORE Capital provided the new debt that "begins with 18 months of interest-only payments at the head of a 25-year amortization schedule;" as well as (2) extension options according to reports. The financing package includes a refinancing of roughly $42.748 million in existing debt provided in 2017 by LaSalle Investment Management subsidiary Latitude Management Real Estate Capital III, Inc., a Beverly Hills, CA-based debt fund, and a new $11.593 million gap mortgage and $2.696 million project loan. Upon expected construction completion before the end of the year the hotel will add the Marriott International-branded 224-key **Courtyard Inn** spanning floors 2 through 10, and a 114-key **Fairfield Inn & Suites** on floors 11 through 15 to the Queens neighborhood. Guest amenities will include a café, fitness center, and on-site parking.


148-18 Archer Avenue - Rendering

Lending (cont'd)

Queens

TWA Hotel (Jamaica) – MCR Development has secured a $270 million loan from Bank of America to refinance the recently opened hotel located within JFK International Airport. The new debt includes the refinancing of an existing $230 million leasehold mortgage provided by M&T Bank in February 2018 and a new $40 million gap mortgage according to city record documents. A partnership of 22 government agencies was required to complete the $265 million redevelopment and restoration project that was initially envisioned about 2.5-years ago; and has brought a new life to the 310-foot-wide, 200,000-square-foot winged structure that opened in 1962 and formerly served as the **Trans World Flight Center.** Adding a modern amenity to the airport, the structure serves as a symbolic reminder of the "dawn of commercial jet aviation. The official New York City landmark was repositioned as a public entrance to the pair of newly constructed adjacent 512-key hotels that straddle each side of the structure located adjacent to Jet Blue's Terminal 5, the airline reportedly joining the project as a minority investor. MCR controls the site under a 25-year leasehold initially secured in December 2014 from the Port Authority of New York and New Jersey (PANYNJ) expiring December 18, 2041; and includes one 5-year extension option.

Built to LEED certification, the new 6-story hotel structures are reportedly powered by a $15 million system that generates its own electricity more efficiently via (4) Austrian-made, natural gas-fired electrical generators and a truck-size battery without any connection to Con Edison's power grid according to reports last year. Excess power during hours of low usage is stored in a large battery, which will then serve to supplement the power supply during peak hours of power usage, thereby eliminating the need to increase power production by the generators. In addition, waste heat from the generators is used to warm water for the property's plumbing, heating and ventilation systems.

The former flight center serves as the "heart of the hotel;" and hosts a 50,000-square-foot event and conference center, 10,000-square-foot fitness center, as well as a mix of retail outlets, (6) restaurants and (8) bars, one of which is located within a converted Lockheed Constellation L-1649A airplane. Additional guest amenities within the hotel complex include a 63-by-20-foot infinity pool located on a 10,000-square-foot rooftop observation deck that will reportedly be open 365-days a year; and can be heated to up to 100-degrees during the winter months. In addition travelers can access JetBlue's Terminal 5 directly through the renovated flight tubes made famous by the 2002 film *Catch Me If You Can*. The structure had remained in limbo since its closure in 2001 following American Airlines' acquisition of Trans World Airlines (TWA), with the PANYNJ preserving the building over the years with a reported initial investment of $20 million plus $1.5 million per year in operational costs.

In order to retain the spirit of site's history, there are several nostalgic features including a "custom solari split-flap analog display manufactured in Italy that shows flight arrivals and departures." There are also museum exhibits throughout the hotel curated by the New York Historical Society that will showcase a rotating display of the 2,010 piece collection of TWA artifacts; while the guest rooms and lobby area include rotary dial phones and 1960s-era 10-cent pay phones. MCR had also secured the license for the T.W.A name and logo from American Airlines, opening the door to TWA-branded items throughout.

TWA Hotel

Shrinkage & Expansions

Looming Closures

Dressbarn to Wind Down Operations

Dressbarn

The women's clothing brand owned by New Jersey-based retailer Ascena Retail Group, which also owns Ann Taylor, Loft and Lane Bryant, plans to commence a wind down of Dressbarn operations due to the brand falling short of an acceptable level of profitability according to reported statements by a company spokesperson. Launched in 1962 in Stamford, CT, Dressbarn reportedly operates 650 stores spread across 47 states and D.C. employing about 6,800 people. A timeline of the closures was not disclosed, the retailer currently operating (8) stores in New York City.

Location	Approx. Sq. Ftge.
Manhattan: - 1180 Sixth Avenue - Water Street Plaza, 125 Maiden Lane	 9,511 SF - expiring 2/2020 6,498 SF
Queens: - 9524 63rd Road, Rego Park - 89-89 Union Turnpike, Glendale	 10,125 SF – expiring 3/2026 7,000 SF
Brooklyn: - Gateway Center, 410 Gateway Drive - Georgetown Shopping Center, 2117 Ralph Avenue - 1100-1114 King Highway	 7,942 SF – expiring 8/2024 1,500 SF 7,500 SF
Bronx: - 1451 Metropolitan Avenue	 7,000 SF

Topshop to Shutter U.S. Stores Following Bankruptcy Filing

TOPSHOP

The women's and men's fast-fashion brand will be exiting the U.S., reports in late May announcing that London-based retailer Arcadia Group had filed for Chapter 15 bankruptcy in the U.S. The filing is typically used by "foreign companies with U.S operations or dollar-denominated debt, often to combine proceedings in their home countries." Among the 11 state-side Topshop and Topmen locations, (2) are in Manhattan, with a total of about 800 employees spread across cities also including Chicago, Las Vegas, Atlanta, Houston and Los Angeles according to reports. Back in the fall of 2018, reports indicated that the apparel chain was quietly marketing the sublease of its 40,000-square-foot flagship at 608 Fifth Avenue (Plaza), which the retailer had leased in 2014. Topshop had initially debuted in the U.S. in 2009 at 478 Broadway (SoHo), the 4-level, 40,000-square-foot space spanning the lower level through 3rd floor of the 5-story, 58,922-square-foot building includes 28,000 square feet on the ground level according to reports at the time. Arcadia reportedly "plans to restructure and concentrate on digital growth;" and adjust rent levels and abandon unprofitable stores among its U.K. and Irish stores which will remain in operation.

Sources: https://www.ascenaretail.com/investors/

Notable Retail Transactions

Lease - Manhattan

Address	Submarket	District	Sq. Ftge	Tenant
14 Wall Street	Downtown	FiDi	36,500	Equinox (renewal)
The Olivia 305-328 West 34th Street	Midtown	Penn Plaza	95,341	AMC Theatres (renewal)
218-232 West 40th Street	Midtown	Penn Plaza	15,508	KFF, Inc (new)
1204 Broadway	Midtown South	NoMad	11,000	Yet-to-be-Name Restaurant by The Smith operators
201 East 125th Street	Upper Mnhtn	Harlem	45,885	Food Bazaar (new)
600-614 West 181st Street	Upper Mnhtn	Washington Heights	23,737	Target (new)

Lease - Outer Boroughs

Address	Borough	District	Sq. Ftge	Tenant
1134 Fulton Street	Brooklyn	Bedford-Stuyvesant	12,656	Lincoln Market (new)
One Fulton Square 39-16 Prince Street	Queens	Flushing	5,113	Nan Xiang Xiao Bao (relocation)

Sales

Address	Submarket	District	Sq. Ftge	Sold Price	Purchaser
242 Broome Street	Midtown South	Lower East Side	17,759 21,931	$13,014,003 15,985,998	International Center of Photography (condo units)
196 Orchard Street	Midtown South	Lower East Side	60,636	$88,750,000	New York City REIT (retail-and-commercial condo unit)
96-41 Queens Boulevard	Queens	Rego Park	8,793	$13,000,000	Richlen, LLC

The Mid-Quarter Retail Report is produced by:
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