

Special Report

The Importance of Restoring Midtown's Retail to the City's Recovery

**RETAIL
SPACE**



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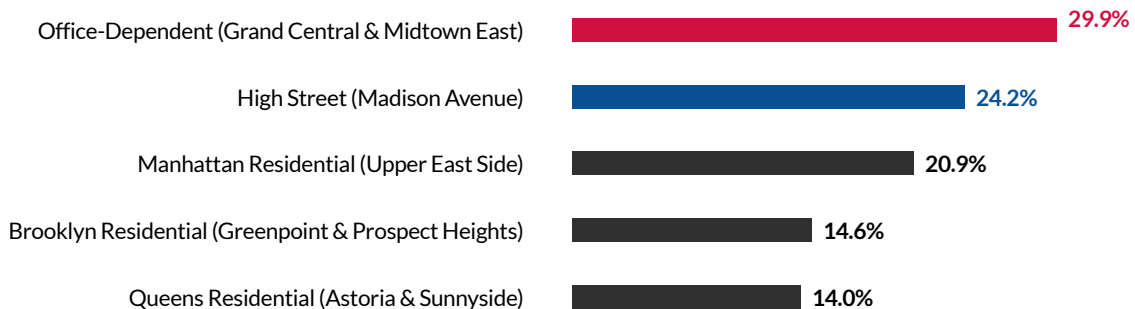
Executive Summary

This REBNY study focuses on the devastating impact of an unprecedented reduction in office occupancy on office-dependent retail. REBNY finds that nearly 30% of storefronts in office-dependent retail corridors are unoccupied as of the Summer of 2021. This includes more than 15 corner locations, several flagships and in some areas – entire blocks of vacant storefronts.

This is significantly higher than the vacancy rate in the surveyed residential neighborhood in Manhattan and roughly twice as high as the vacancy rates in surveyed residential neighborhoods in Brooklyn and Queens.

The week after Labor Day was supposed to kick off the “Great Return” – an exponential increase in the return of workers to offices in Manhattan. Instead, this summer’s surge in the Delta variant of COVID-19 has yet again blocked this critical step forward, leaving office occupancy at record low levels throughout the City.¹ The “Great Wait” has pre-empted the “Great Return.”²

Percentage of Unoccupied Storefronts*
Summer 2021



*Conducted between July and September, the survey counted ground-level storefronts on prime retail corridors. Storefronts that were unoccupied at time of the survey were counted as vacant. See page 18 for detailed methodology.

1) As of October 1st, The NYC Dept of Health reported that the daily average of cases in the last 7 days was 1,372, down from 1,631 in the prior 28 days. This represents a positive decline from the 1,800-plus cases averaged for most of August but is well above the daily average of 200-300 cases registered in June and July.

2) “The Great Wait” and “Great Return” are just the latest in phrases describing ongoing disruption due to work from home. Who originated these phrases is not always clear, but a CNBC article from September 2nd summarizes the discussion. [CNBC.com](https://www.cnbc.com)

New York City's retail sector is essential to employment, City tax revenues and the City's status as a top global tourist destination. Pre-pandemic, in 2019, the retail sector provided 344,600 jobs and contributed \$55 billion in taxable sales to New York City's economy.³

Based on sales tax data from 2018 and 2019, taxable sales at restaurants and other eating places were by far the top generator of sales in New York State – with \$39.8 billion in taxable sales. New York City accounted for \$21.9 billion of that total.

The spillover and multiplier effects for leisure and hospitality, luxury residential sales and New York City's ability to compete for and retain top talent and corporations are too many to explore here. It is worth noting, though, that leisure and hospitality (which includes food and lodging) employed just over 500,000 people prior to the pandemic.

Given the magnitude and duration of the severe impact on the retail sector, policymakers must take proactive steps to support the recovery of this segment of the economy. These solutions include:

- Taking aggressive action focused on widespread vaccination mandates to confront the virus;
- Encouraging employers to bring workers back to the office with sound public health protections in place;
- Adopting policies that reduce barriers to entry for retailers; and
- Avoiding regulations and initiatives that will discourage retailers from setting up locations in core office districts.

3) According to the Independent Budget Office, total tax revenue from the sales and use tax quintupled between 1996 and 2016, from \$4.7 billion to \$21.4 billion. New York City's total taxable sales base has grown from \$31 billion in 1996 to \$160 billion as of 2016. Of note, as a share of the \$160 billion, retail sales has fallen over the last 10 years. This is due to a long-term increase in property tax revenues from 39.2% in 1996 to 43.2% in 2016.

The Importance of Office-Dependent Retail and the Impact of COVID-19

The economics of brick- and-mortar retail ultimately still begins with maximizing the draw – the wider and more densely populated the trade area, the bigger the sales tally. Brand reputation for quality product and stellar service is also essential. Place a brand that buyers can’t get enough of – in a storefront on a busy street – and sales should prosper. New York City’s most vibrant and renowned retail streets have long been must-have locations for top brands. Prime retail corridors feature unrivaled synergy between multiple retailers and energy from thousands of shoppers, tourists and workers – all set amidst cultural and entertainment attractions. In turn, rents and property values are among the highest globally.

Individual store sales underscore the selling capacity of prime New York City retail locations. Fortune’s 2015 list of top in-store sales ranked Apple’s Manhattan store (Fifth Avenue) as the top-grossing location nationally with an average of \$5,000 PSF. Tiffany & Co. came in second with just over \$3,300. In comparison, mall department stores are happy to achieve \$300 PSF.⁴

By the weight of its population alone, New York City is a retail powerhouse. It has 8.8 million people packed into just over 470 square miles – or 27,000 people per square mile. This density is not spread out evenly across the region and retail is not always proportionate to density. Retail is critical to the region’s labor market and City revenues. In 2019, the retail sector comprised 12% (32,600) of New York City businesses and employed one of every eight (344,600) people.

During 2019, New York City’s retail sales contributed \$55 billion in taxable sales to the City’s economy.

2017	Population	Retail Trade (\$ Billions)	Retail Businesses	Retail Jobs
Brooklyn	2,601,048	\$19.1	12,883	77,477
Queens	2,312,381	\$16.9	18,552	63,823
Manhattan	1,641,547	\$57.3	8,106	158,014

Manhattan’s competitive advantage in retail, compared to the Outer Boroughs, is apparent. It has fewer residents than either Brooklyn and Queens, but its retail trade in 2021 (\$44.8 billion) is more than Brooklyn and Queens combined.⁵ In 2019, Manhattan accounted for nearly half of the City’s jobs in the retail sector. Additionally, retail jobs in Manhattan paid an average salary of \$59,400, exceeding the citywide average of \$46,600 by more than 25%.

⁴) QSRs, or quick service restaurants, can pack in very high sales (as high as \$2,000 PSF) when located in high traffic/transit-oriented locations. And compared to high street/flagship retail build-out costs are much lower.

⁵) Office of the State Comptroller Report: The Retail Sector in NYC: Recent Trends and the Impact of COVID-19, December 2020 – Retail provided about one in 11 private sector jobs. 65% of the retail businesses had fewer than 5 employees. Retail sector job growth between 2009-2015 grew by 21%, including a 27% jump in food and beverage. The sector lost 1% between 2015 and 2019.

2021	Population	Retail Trade (\$ Billions)	Retail Businesses	Retail Jobs
Brooklyn	2,567,163	\$17.5	11,578	71,171
Queens	2,283,222	\$14.8	15,052	56,532
Manhattan	1,633,977	\$44.8	7,274	107,789

Sources: U.S. Census, Commerce Department, ESRI

Apple, Tiffany, and a long list of other brands, pay top dollar for Manhattan storefronts due to two other unique features that explain its retail competitive advantage. First, the City’s high-street retail and entertainment districts enjoy exposure to a global trade area. Second, under normal conditions Manhattan’s weekday population swells by 1.6 million as commuters make their way to work.⁶ This jump in weekday population is the third leg of Manhattan’s position as a “transaction-maximizing place.”

It is also the platform for a very different retail ecosystem than the high-street retail of Madison Avenue, or the service-oriented retail of the Upper East Side. The eateries, coffee shops and service retailers that cater to the needs of office workers in core office districts number in the thousands.⁷ The COVID-19 pandemic suspended this dynamic to an extent few could have ever imagined. Some retail corridors have started to rebound, but the recovery, like COVID-19, has been highly uneven. Corridors that depend on daytime office commuters (Office-Dependent Retail Corridors) are still limping along as relatively few workers have returned to offices since leaving in March of 2020.

Office occupancy fell below 10% during the height of the pandemic and has remained well under 30% throughout 2021.⁸ Employers and the real estate industry anticipated that the week after Labor Day would kick off the “Great Return” – a significant increase in the return to office. Instead, this summer’s surge in the Delta variant of COVID-19 has pushed back the return, setting up what some are now calling the “Great Wait.” A nationwide survey of 238 executives, conducted by Gartner in late August, found that two-thirds of companies delayed return-to-office requirements, pushing them to late fall or even early 2022. In a recently released report, The Partnership for New York found that New York City employers expected only 41% of office-using employees to report into the office by September 30 – down from an expected 60% when the survey was conducted in May.

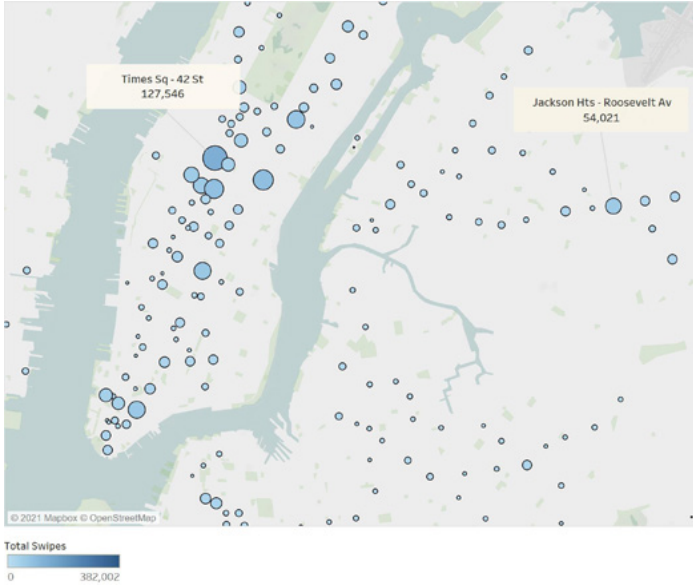
Subway ridership/turnstile data clearly indicate the drastic and rapid impact of lockdowns as people traded cubicles and offices for working at their kitchen tables. Average weekday turnstile entries across the five boroughs exceeded 5.7 million swipes during the first week of March. By March 23, that number had fallen to just over 700,000.

⁶ Most of these commuters are pulled from the surrounding boroughs and New Jersey, lowering the daytime population and spending power of these locations. The average weekday increase of 1.6 million does not include another 400,000 in tourists/business travelers; 18k in hospital patients and 70,000 in commuting students.

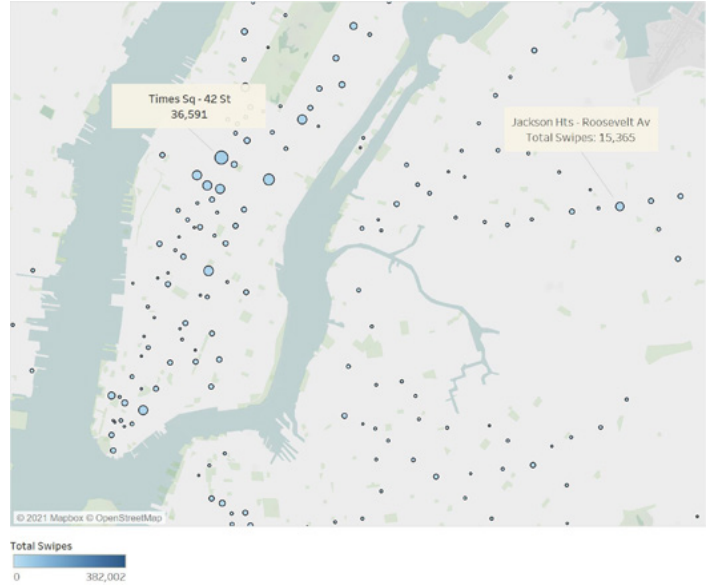
⁷ In addition to a very different set of retailers, the size of tenants and leasing patterns in office-dependent districts are very different. See Methodology in Appendix for further detail.

⁸ There is no precedent for this level of reduced occupancy during the modern (1970s and later) office market. Vacancy rates approached 30% during the 1970s due to oversupply and the exodus of businesses from New York City. The financial downturn of the early 1990s also pushed vacancy to elevated levels.

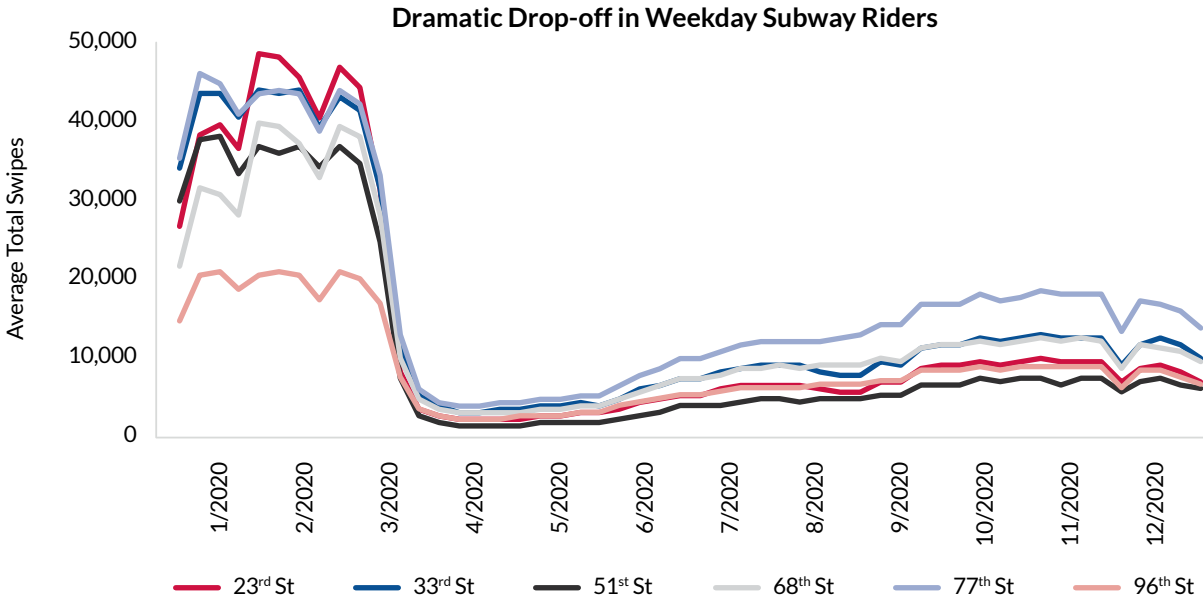
March 16th – Subway Turnstile Swipes



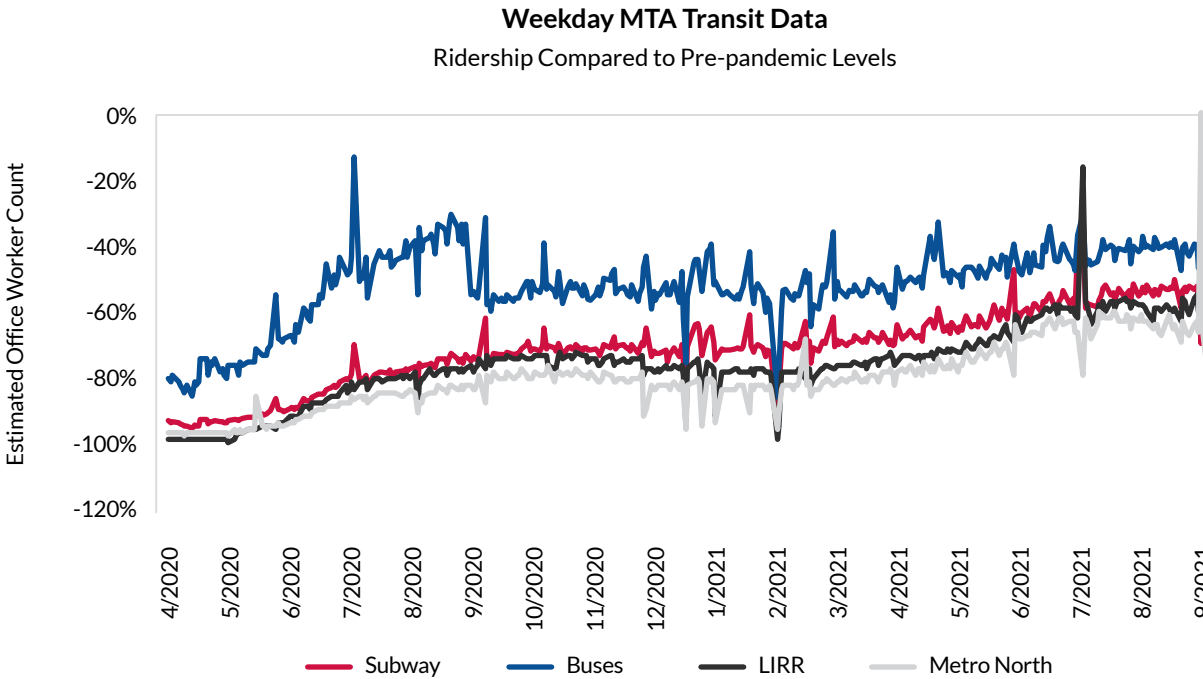
March 23rd – Swipes



At top daytime commuter stops, such as 51st Street & Lexington Ave, it was as though someone had turned the off switch. Total turnstile swipes (entries and exits) plummeted from an average of 34,040 in the first week of March, to only 3,105 during the week of March 22.



As people have grown more comfortable with the safety of subways and vaccination rates have risen, ridership has jumped from less than 20% of pre-pandemic levels in April 2020 to nearly 50% of those levels in early September 2021. The return of children to schools is pushing ridership in 2021 to its highest post-pandemic levels. Subway ridership totaled 2.9 million on September 14, though it is still well below the average of 5.5 million trips per day in 2019.

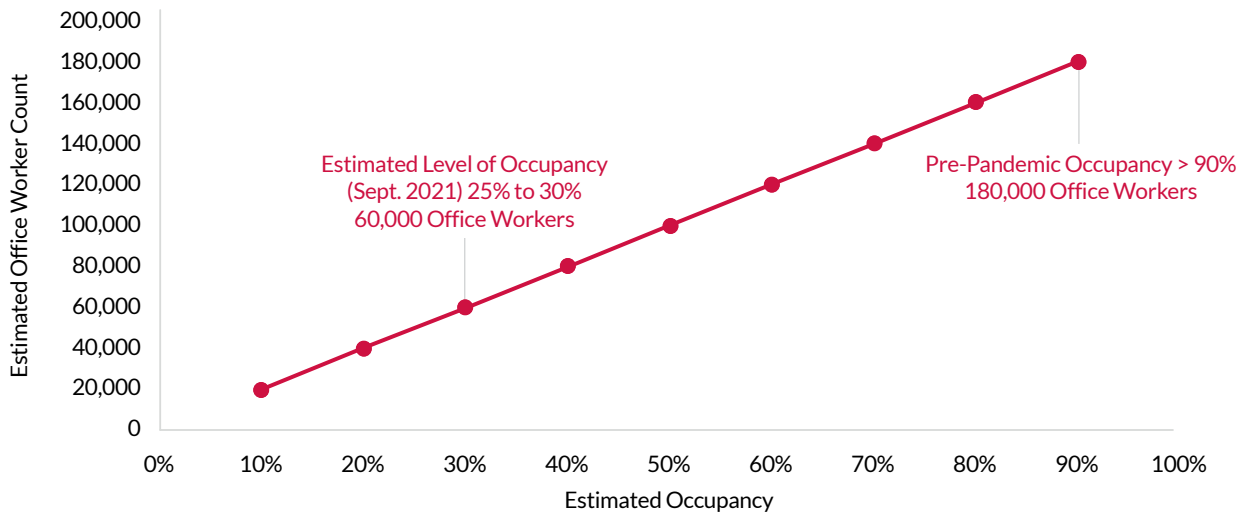


The Importance of Office-Dependent Retail Corridors

Restoring office occupancy levels within range of pre-pandemic levels is essential to City revenues, the survival of thousands of retail businesses and the quality of life and safety of New York City streets and subways.

Midtown East and Grand Central are among the most important job markets in the City, including for retail. These districts have a combined 73.0 MSF of office space (about 15% of New York City’s office stock). A conservative estimate of the number of office workers that would commute to these districts under normal circumstances is approximately 200,000.⁹ Based on this estimate, every 10% increase in office occupancy represents another 20,000 workers commuting to the City and supporting local retailers.

Estimated Impact of Increased Occupancy on Office Workers
Midtown East & Grand Central



Midtown East and Grand Central’s office sector supports thousands of retailers.¹⁰ The 2,579 businesses captured 11.4% (\$6.5 billion) of the \$57.3 billion in Manhattan’s retail sales during 2017. Some of the \$6.5 billion in retail sales came from tourists visiting the Rock Center and other attractions, as well as hotel dwellers and residents. **The majority of the \$6.5 billion came from office workers.**

Midtown East and Grand Central accounted for 9.4% of Manhattan’s 28,539 retail businesses in 2017.

9) This estimate is based on ESRI data and the amount of office space in the two submarkets. ESRI estimates a combined 253,000 of daytime workers in Grand Central and Midtown East. Not all these workers are office-using. Based on office square footage of 73.0 MSF and a generous SF per employee of 300 the estimated number of workers is 240,000.

10) More recent data from the Census in 2019 shows that the Chelsea/Clinton/Midtown Business District accounts for 3,301 of the 32,600 retail firms in the New York City region. Battery Park City/Greenwich Village/Soho with 2,072 was second. No other neighborhoods had close to 2,000 retail firms. This a larger area geographically than the two zip codes used throughout the report.

COVID-19 had a sharp, immediate impact on New York City's labor market. The 631,000 jobs lost during 2020 was the worst single-year decline in the post-WWII era. Leisure and hospitality accounted for 250,000 of the job losses. The retail sector shed 67,100 jobs, or 19% of its pre-pandemic employment level, and more than 10% of total job losses. (See [appendix](#) for additional details on job losses by industry). Until 2020, the prior highwater mark for losses was 620,000 jobs lost – but this occurred over eight years between 1969 and 1977.

New York City is still reeling. It has recouped only 49% of its jobs, well short of the 90% recovery nationally. Employment levels in the leisure and hospitality (40% below pre-pandemic levels) and entertainment (68% below) are still a fraction of pre-pandemic levels. Despite job gains throughout much of 2021, New York City is still 13% below its pre-pandemic levels (with a net loss of 473,000 jobs as of July). Based on preliminary employment data from New York State Department of Labor, retail trade employment in Brooklyn is at just over 90% of its levels in 2019. In comparison, retail trade employment has recovered only to 69% of its 2019 levels.

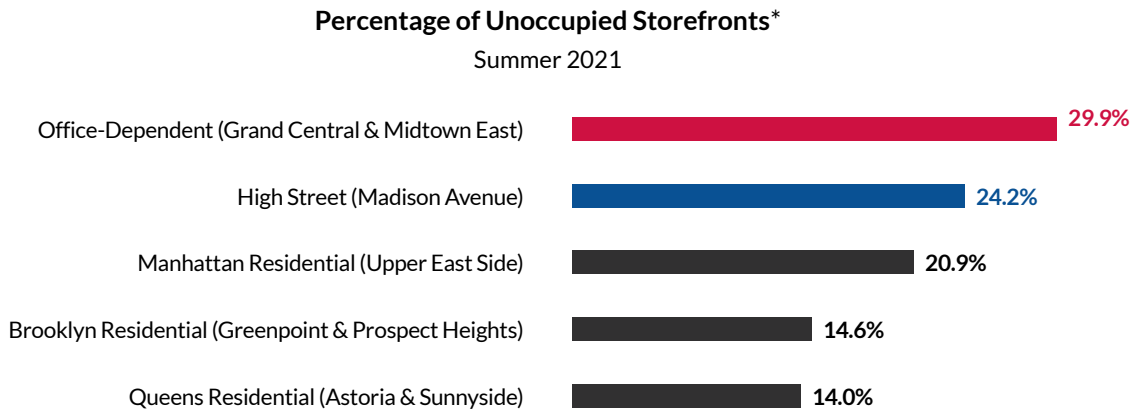
Beyond the fiscal and labor implications, and its support to retailers, the steady influx of commuters to Midtown is key to the quality of life and safety of mass transit and city streets. These issues are still very prevalent heading into the final months of 2021.

Conditions hit their lowest point in the summer of 2020. Grand Central Station emptied out, Times Square was a ghost town and people were moving out of the City. A year later, the exodus of residents and businesses appears to have been averted. Based on residential sales and leasing activity in the first half of 2020, residents are coming back to New York City. A residential rebound is only part of key to New York City's comeback, though. Indeed, restoring the City's economy will not be complete without the retail sector.

Key Findings

The Devastating Impact of the Pandemic and Office Worker Exodus on “Office-Dependent” Retail in Manhattan

Based on a survey of storefront properties conducted this summer, REBNY found a vacancy rate of nearly 30% for retail in office-dependent corridors.



*Conducted between July and September, the survey counted ground-level storefronts on prime retail corridors. Storefronts that were unoccupied at time of the survey were counted as vacant. See page 18 for detailed methodology.

In order to more precisely measure the negative impact of the “Great Wait,” and to offer policy suggestions, this study explores several initial questions:

- 1) **Uneven Impact:** What is the magnitude of vacancy in office-dependent retail corridors and how does that compare to vacancy in residential retail and high street/destination retail?
- 2) **Before & After:** How much vacancy occurred pre-COVID (due to the impact of e-commerce/ demographic shifts) and how much occurred post-COVID?
- 3) **Outlook & Pro/Prescriptions:** How should legislators seeking to support the retail recovery design their policies, given the outlook for office-dependent retail?

Before & After: Separating Pre-COVID (E-commerce Vacancies) from Post-COVID Vacancies

Vacancy as of 9/10 – Compared to Pre-Pandemic and 2017

Manhattan’s retail sector peaked in 2016. Some of the spaces that are currently unoccupied were vacated well before the COVID-19 pandemic. Prior to the pandemic, some described retail in New York City as facing an “existential threat” from e-commerce. Many retailers also struggled with the changing preferences of millennials. By 2018 more retailers started to announce closures of flagship stores on Fifth Avenue and Madison Avenue, as well as in SoHo. Decision makers at some retailers found it increasingly difficult to justify the premium rent, extensive build-out and staffing costs associated with flagship spaces – particularly in light of falling revenues and reduced foot traffic in some locations.

Savvy retailers turned to experiential and lifestyle store concepts as an antidote to Amazon and other e-commerce brands. Service-oriented retail as well as health and fitness were also considered relatively immune to the disruption of e-commerce.¹¹

Vacancy Rates 2018



In contrast to Fifth Avenue and SoHo, Grand Central and Midtown East maintained consistently low retail vacancy rates (typically ranging from 10% to 15%) up until the pandemic. Office-dependent retail corridors are very much service-oriented. Quick-service restaurants (QSRs), coffee shops, restaurants, and bars, as well as barbershops and pharmacies, serve the needs of daytime commuters. Grand Central Station had two food halls. Urban Space added two more food halls within several blocks of the train station – a testament to the density of office workers in Grand Central and Midtown East. Grand Central and Midtown East lacked the variety of SoHo and the international flair of Madison Avenue, but weekday in and weekday out, the hundreds of stores were generally conducting very steady business.

11) The pandemic and lockdowns forced more brick-and-mortar retailers to incorporate ecommerce strategies such as BOPIS (buy online pick up in store). Ecommerce is a source of high-paying employment and venture capital investment in New York City. Prior to the pandemic non-store retailers employed 17,100 people, with an average salary of \$88,400. Between 2009 and 2015 employment in this subsector spiked by 72% (compared to 21% growth across the entire retail sector). Nonstore retail employment rose by 24% from 2015 to 2019 (compared to a loss of 1% industry-wide).

Outlook: Securing the Economic Recovery

Taking steps that will help bring foot traffic and demand back to office-dependent retail corridors is vital to the recovery of this sector and the City overall. Primarily, this requires reducing the spread of COVID-19 through continued vaccination and the implementation of other proven public health measures. Indeed, office workers, tourists and other patrons to retailers in office-dependent corridors will not return in large numbers until the spread of the virus is reduced.

At the same time, support for these businesses and their workforce will be enhanced by employers prudently requiring their workers to come back to the office. While this realistically will not happen in large numbers until virus transmission is reduced, it also requires effective public policy interventions to address issues such as street cleanliness, public safety and efficient public transit. Policymakers will need to prioritize these issues in the months ahead.

There are steps policymakers can take to improve the overall climate for retail to foster the recovery of this sector overall. Here are some recommendations for policymakers to consider:

Eliminate Commercial Rent Tax

The commercial rent tax is a 3.9% tax on gross rent paid by commercial tenants whose rent exceeds \$250,000 and are in Manhattan south of 96th Street. This tax cost businesses over \$840 million in Fiscal Year 2021 and is projected to rise to nearly \$1 billion by 2025.¹² With the City budget now more than \$100 billion, the City can easily afford to eliminate this tax that unfairly raises the cost of doing business in Manhattan and will make it harder for the retail industry to recover.

Cut the Red Tape

In 2015, the Mayor's Office reported that New York City has over 6,000 rules and regulations impacting businesses and over 250 different types of business licenses and permits.¹³ Consequently, it can take months – if not years – for businesses to open their doors. Rather than ask business owners to understand each and every type of permit and license they may need, the City should create a single small business permit for businesses with fewer than 100 employees. Entrepreneurs should be able to apply with a single form from their phone or computer and promptly get a response from the City. This type of plan, first put forward by then-Mayoral Candidate Kathryn Garcia, is the kind of policy change that will be needed to promptly fill vacant storefronts throughout the five boroughs.

Develop Small Business Lease Program

Rather than artificially seek to limit rents through some form of commercial rent control, policymakers could instead develop programs that support property owners who work to keep legacy businesses and businesses owned by women, people of color, immigrants, artists, and new entrepreneurs in their buildings. One way to do so would be a new property tax abatement program that supports owners who work to keep those types of business owners in their location at affordable rents. This program will be particularly appropriate when the market is very strong and competition for space is intense. It could provide a meaningful incentive to property owners to keep existing tenants rather than incur the cost and time of marketing the space.

¹²) Source: 1.nyc.gov

¹³) Source: 1.nyc.gov

Expand City Services

The City's Department of Small Business Services (SBS) administers several programs to help businesses get up and running, but more can be done. Specifically, SBS should strive to create a storefront presence in each business improvement district or community district to provide a visible presence in the neighborhood. Services provided should include help for new entrepreneurs starting a business as well as legal assistance to help businesses understand and enter commercial leases.

Street Vendor Enforcement

One of the challenges facing storefront retailers is the competition and disruption from street vendors who are not held to the same regulatory standards as storefronts and may not be operating legally at all. Indeed, in many parts of midtown Manhattan, street vending is not authorized during business hours. Yet, it occurs undeterred. For this reason, as the City sets up its new Street Vendor Advisory Group, it will be critical that enforcement of illegal vending be prioritized.

Address Land Use Barriers that Stifle Business Growth

There are several steps the City can take to make it easier for storefront retail and restaurants to open and succeed. The following initiatives are already in public land use review and should be completed as expeditiously as possible, including:

- **Adoption by the City Council of the Health and Fitness Citywide Text Amendment:** This amendment to the City's zoning resolution would eliminate the Physical Cultural Establishment special permit that adds time and costs to opening gyms and fitness centers. The removal of this permit was a recommendation by REBNY in the Mayor's COVID Economic Recovery Council;
- **SoHo/NoHo Neighborhood Plan:** This plan requires approval by the City Planning Commission and adoption by the New York City Council. Proposed changes would permit residential floor area, which would add a mix of users to support retail and would allow ground floor retail to operate in the area more easily; and
- **Open Restaurants:** A text amendment to eliminate geographic restrictions to sidewalk cafes is part one of the process to establish a permanent outdoor dining program for restaurants. The Department of Transportation should follow through with the necessary rule changes and associated public input process.

Other steps can be taken as well to address the challenges associated with opening storefronts in districts with special zoning and landmark rules, which are closely correlated with neighborhoods with higher vacancy rates. Finding ways to expedite the Landmark Preservation Commission review of storefronts (which occurs after the retailer has signed a lease and is paying rent but unable to occupy the space) and easing zoning standards on storefront size, depth, and length would help retailers more easily and efficiently fill space.

Conclusion

The pandemic touched every corner of retail in New York City, but the impact was highly uneven. Residential neighborhoods held up better, particularly in the Outer Boroughs. Some neighborhoods like Astoria and Park Slope may actually be capturing upstream benefits as the recovery gains tentative momentum.

From the perspective of the New York City economy and employment, as well as the City's tax base, the unprecedented reduction in office occupancy knocked off one of the three legs of Manhattan's status as a transaction-maximizing place. Tourism – the second leg – is still fractured.

The pandemic has highlighted just how many interdependent pieces – transit, public health, essential workers – it takes for the region's economy to operate at the levels attained in 2019. The office/retail ecosystem in Midtown East/Grand Central is potent but also vulnerable. Public and elected officials should focus their efforts on restoration – rather than re-invention – of this ecosystem.

Appendix

Methodology

During the summer of 2021, REBNY Research surveyed storefronts in two of Midtown’s most “office-dependent” retail corridors. Research counted vacant and occupied storefronts on Madison Avenue, Park Avenue, Lexington, and Third Avenues between 39th and 57th Streets.¹ This grid encompasses two of the City’s most office-dependent retail areas: Grand Central (39th to 45th Streets, zip code 10017) and Midtown East (46th to 57th, zip code 10022). REBNY Research also surveyed a residential retail corridor (Upper East Side, Madison to Third Avenue, 73rd to 96th, zip codes 10075; 10028 and 10128) and a high street retail corridor (Madison Avenue, 30th-37th zip codes 10021 & 10065).

We classify Grand Central and Midtown East as two of the most office-dependent retail corridors based on the following:

- 1) **Ratio of Daytime Office Workers to Residents:** The number of daytime office workers exceeds the resident population by 8.8 to 1 in Grand Central, 3.4 to 1 in Midtown East.
- 2) **Ratio of Office Space to Housing Units:** Grand Central and Midtown East have a combined 72 MSF of office space, the ratio of office space to housing is 8.7 in Grand Central, 2.7 in Midtown East.
- 3) **Subway Commuter Patterns:** Based on subway ridership/turnstile data, more than 90% of the pre-pandemic ridership at key stops in Grand Central and Midtown East is weekday.
- 4) **Retail Profile:** Retail business profiles and spending patterns show that retail in office-dependent corridors is highly service-oriented – catering to the demands and needs of daytime office workers.

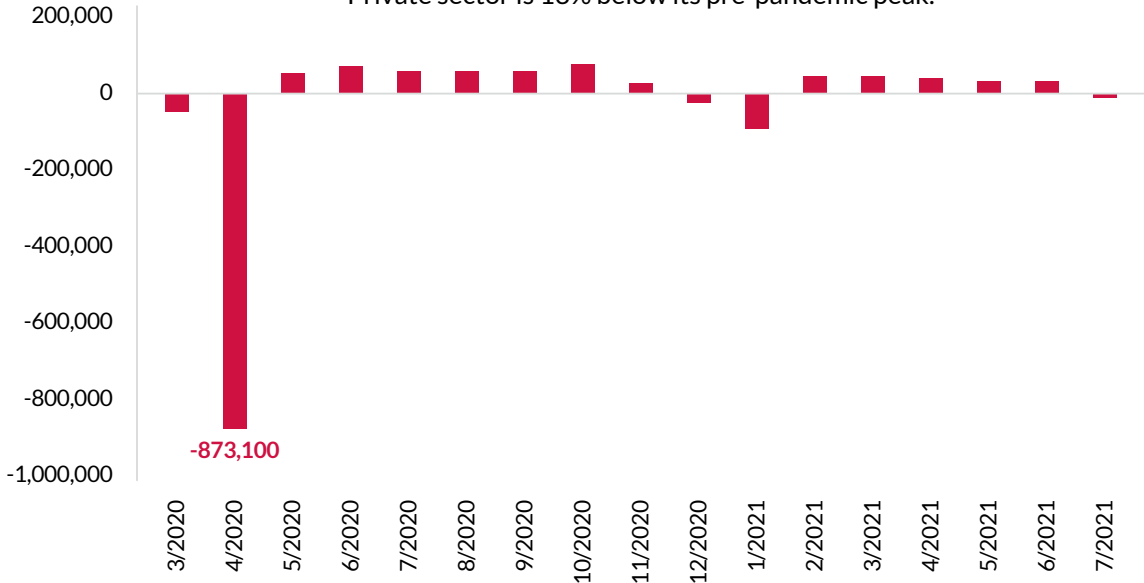
	Office-Dependent	Residential/Local Services	High-Street/Destination Retail
Examples	Grand Central; Midtown East	Upper East Side	Madison Avenue (57th- 80th)
Ratio Daytime Commuters/ Residents	8.8 Grand Central; 3.4 Midtown East	0.51 – 0.69	0.85
Ratio Office Space/ Housing RSF	8.7 Grand Central; 2.7 Midtown East	0.85	.02-.05
Subway Ridership – % Weekday	90% range	75% range	N/A
Retail Profile	QSRS, Coffee Shops; Pharmacies; Shoe repair; Office supply; Banks; Wine/Liquor	Full-service Restaurants; Grocery Store; Apparel, Home Goods/Furniture; Hardware; Insurance/Accountant; Dry cleaners; Wine/Liquor	International Retailers; Luxury Apparel/Accessories Jewelry; Art Galleries

1) Storefronts that were unoccupied at time of the survey were counted as vacant. Development sites, basement units and second-floor (or higher) units were excluded. In some corridors, such as Madison Avenue, there are a significant number of second-floor spaces, as well as side-street retail (not tracked in this report). The occupancy rate does not account for spaces that have been leased since this summer or spaces that are vacant/off market.

Employment Data

Private Sector

431,500 of the 873k lost recovered, loss of 8,500 in July is concerning.
 Private sector is 13% below its pre-pandemic peak.



Retail Trade

69,000 of the lost retail jobs recovered but sector still 19% below its pre-pandemic seasonal peak.
 Impact of Delta on holiday season TBD.

