



City Retail

Understanding North America's
prime urban corridors

Retail Research Point of View | 2018

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METHODOLOGY

A prime urban corridor is a nationally recognized shopping district distinguished by its mix of high-street, national and international tenants. Typically named for the most notable retail street within the corridor, the boundaries of these shopping districts were carefully drawn to include the most prominent retail spaces, as well as occurring and potential retail sprawl within these areas of focus. Prime urban corridors emerge organically and are not the product of a single master developer. We've identified and defined such North American corridors for this report, further segmenting them into "existing" and "emerging" corridors.

- Existing prime urban corridors are characterized by a concentration of national credit tenants and evolve around high-street retail.
- Emerging prime urban corridors include tenants of varying credit profiles. They have more local retailers and restaurants and feature a growing presence of national brands.

City Retail 2018

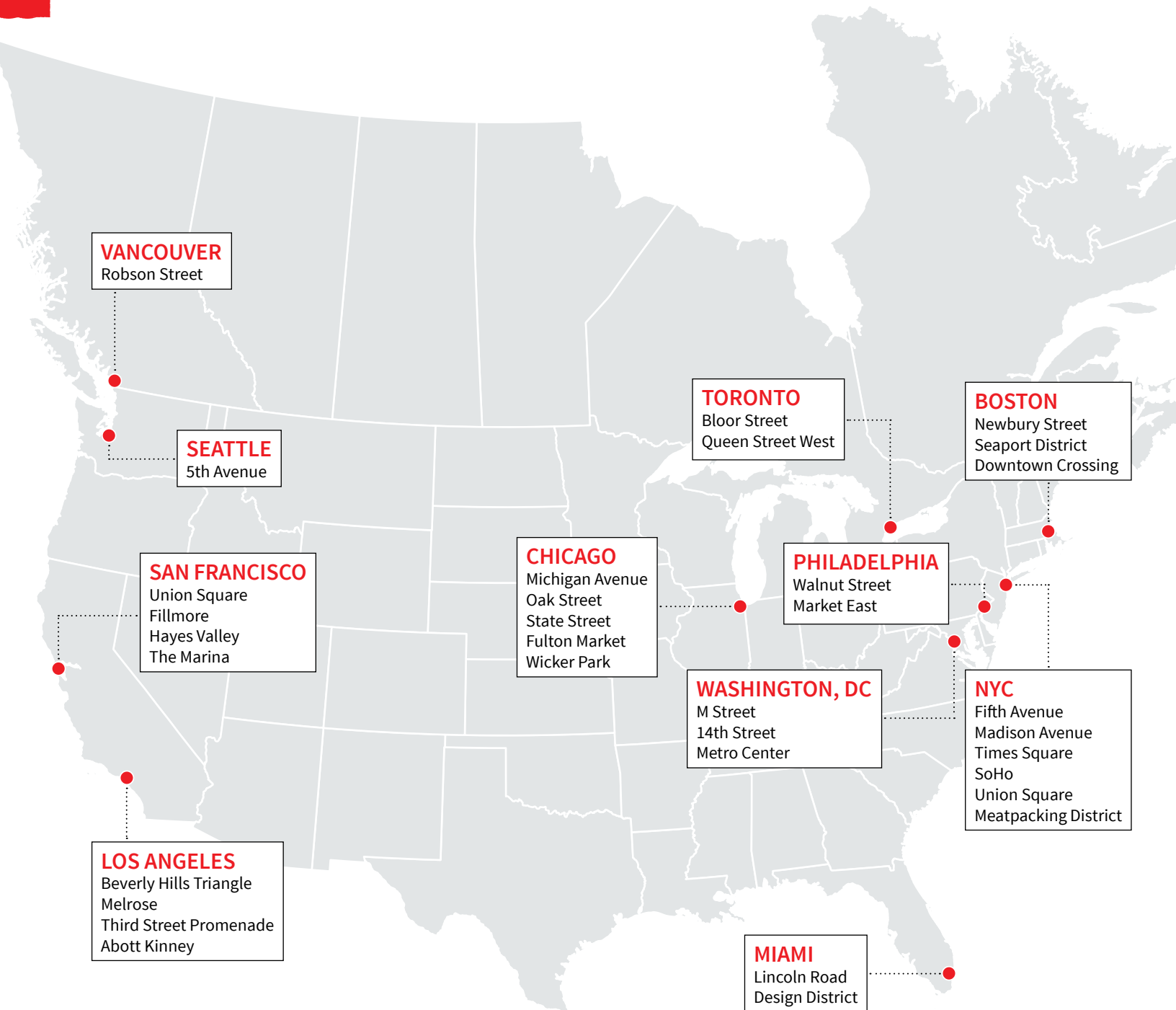
Understanding North America's prime urban corridors

point of view

Over the past year, prime urban corridors have seen move-ins and move-outs of notable tenants, experiential concepts and new developments, and have felt the impacts of a changing retail landscape—all of which have affected the makeup of these streets. Six major themes have connected the recent changes on prime urban corridors, and they illustrate the state of urban retail in North America:

- The push and pull of retail and office uses: the crossover between these two uses is becoming increasingly common, with office users taking retail space and retail following new office submarkets.
- The center of gravity of these urban corridors is shifting, particularly within the luxury sector.
- Vacancy is rising in corridors where there are large floorplates as smaller format stores are on the rise.
- Despite rises in vacancy, prime urban corridors remain the top destination for retail innovation.
- Food and beverage operators are seeing luck in some markets but are struggling in others due to prohibitive pricing.
- Demand exists for prime urban retail assets, but investors are unable to find the supply.

PRIME URBAN CORRIDORS



Market	Prime Urban Retail Corridor	2018 Annual Prime Asking Rent (PSF)	2017-2018 Annual Rent Growth (%)	2018 Average Prime Product Cap Rate Range
Boston	Newbury Street	\$250	11.1%	4.25-5.00%
Boston	Seaport District	\$125	25.0%	4.50-5.50%
Boston	Downtown Crossing	\$150	20.0%	4.50-5.25%
Chicago	Wicker Park	\$70	27.3%	5.25-6.00%
Chicago	Fulton Market	\$85	13.3%	4.75-5.25%
Chicago	State Street	\$150	-14.3%	4.75-5.50%
Chicago	Oak Street	\$325	-7.1%	4.50-5.50%
Chicago	Michigan Avenue	\$475	6.0%	4.25-5.25%
Los Angeles	Abbott Kinney	\$215	0.0%	4.50-5.50%
Los Angeles	Melrose	\$240	-20.0%	4.50-5.25%
Los Angeles	Third Street Promenade	\$300	-16.7%	4.50-5.50%
Los Angeles	Beverly Hills Triangle	\$1,100	22.2%	3.50-4.50%
Miami	Design District	\$200	42.9%	5.75-6.25%
Miami	Lincoln Road	\$275	-8.3%	4.75-5.25%
New York	Meatpacking	\$325	-18.8%	4.75-5.50%
New York	Union Square	\$385	-6.1%	4.75-5.50%
New York	SoHo	\$480	-11.9%	3.75-4.50%
New York	Lower Fifth Avenue (42nd St - 49th St)	\$1,050	-0.9%	5.00-5.75%
New York	Upper Fifth Avenue (49th St - 60th St)	\$2,720	-1.1%	4.25-5.00%
New York	Madison Avenue	\$1,200	-16.6%	4.25-5.50%
New York	Times Square	\$1,800	-11.3%	3.50-4.50%
Philadelphia	Market East	\$50	0.0%	4.50-5.50%
Philadelphia	Walnut Street	\$175	16.7%	4.50-5.25%
San Francisco	The Marina	\$85	0.0%	4.50-5.50%
San Francisco	Hayes Valley	\$90	0.0%	4.75-5.75%
San Francisco	Fillmore	\$115	0.0%	4.75-5.75%
San Francisco	Union Square	\$600	-14.3%	3.50-4.50%
Seattle	5th Avenue	\$95	26.7%	4.50-6.00%
Toronto	Queen Street West	\$100	25.0%	3.75-4.50%
Toronto	Bloor Street	\$325	8.3%	3.50-4.25%
Vancouver	Robson Street	\$225	12.5%	2.50-3.00%
Washington, DC	Metro Center	\$95	-5.0%	4.25-5.00%
Washington, DC	14th Street	\$135	3.8%	4.00-4.75%
Washington, DC	M Street	\$275	10.0%	4.00-4.75%

Rental rates reflect landlord asking rents for prime available space within the retail corridor.

A photograph showing a person's hands typing on a silver laptop keyboard. The laptop is on a wooden desk. To the left of the laptop is a black coffee cup with a white lid. The background is a blurred office setting with a window and a dark wall. A red vertical bar is on the left side of the page.

AT THE INTERSECTION OF OFFICE AND RETAIL

The push and pull between office and retail uses in urban markets is changing how people utilize spaces. Retail and office are also becoming increasingly intertwined as office workers demand better retail amenities in their buildings and retailers want to locate nearby to take advantage of the available daytime population these companies provide. Office users, including co-working concepts, are increasingly looking to urban corridors and have even taken over several floors of department stores to capitalize on their prime locations.



RAINIER SQUARE IS SET TO TRANSFORM DOWNTOWN SEATTLE AND THE 5TH AVENUE CORRIDOR

The Rainier Square development will deliver approximately 1.7 million square feet of office, retail, hotel and residential space to the Pike Street corridor in 2020. It was recently announced that Seattle's local grocery chain, PCC, will lease 20,000 square feet on the ground floor of the project. This will provide a much-needed service-based retail amenity for nearby workers and residents, as grocery options have been limited to Pike Place Market. PCC will join Equinox and Equinox's new hotel concept in the development. The Rainier Square development will also help to expand the 5th Avenue corridor south past Union Street.

Image Source: rawpixel.com from Pexels

The **Seaport District** in Boston has seen both a booming office and retail market over the past couple of years. The office market has been buoyed by a surge in amenities and retail, resulting in a diverse mix of office tenants eager to find space in the corridor. The population of the Seaport has risen 45.0 percent from 2017 to 2018, turning the corridor into a 24/7 neighborhood with quality retail to support both workers and residents.

In Seattle, Amazon announced late last year that it would lease the top six floors of Macy's downtown Seattle flagship within the **5th Avenue** corridor, furthering this intersection of retail and office uses. This move also increases the online giant's footprint in Downtown Seattle, which will serve to provide only a greater daytime population as the neighborhood continues to add significant residential and office space specifically from the Rainier Square project.

Companies like Spacious partner with restaurants in urban corridors to provide co-working space in restaurants during off-hours. Spacious has been working with Corkbuzz in **Union Square** in New York and Press Club in **Union Square** in San Francisco to bring these concepts to urban centers.

Office users in retail spaces are becoming common enough in San Francisco that the city is currently vetting a proposal to limit the amount of office space that can take over retail spaces in the Union Square corridor. Office uses have become solutions for landlords as vacancies have risen over the past several quarters. If the proposal is confirmed, office uses would be limited to the upper floors of the buildings and tenants would be required to pay a fee that goes toward supporting the local community.

SHIFTING CENTER OF GRAVITY

Retail tenants move in clusters, often following brands that sell similar goods. Luxury retailers in particular benefit from being in close proximity, and as soon as one relocates, the corridor's center of gravity may shift.

Toronto's **Bloor Street** corridor, also known as the Mink Mile, saw its peak from 2006 to 2008, when vacancies on the market came and went quickly as luxury retailers looked for an opportunity to be on the city's most prestigious street. As Bloor's popularity grew, retailers have had to look elsewhere due to lack of space, which has recently resulted in Toronto's luxury node shifting onto Yorkville Avenue just north of Bloor Street. Chanel took 8,700 square feet for its new flagship on Yorkville at the end of last year, and Jimmy Choo will be moving into a newly constructed space later this year. Versace will open its Toronto flagship at 102 Yorkville in early 2019 as well. These luxury brands join Christian Louboutin and Off-White, helping to solidify Yorkville as Toronto's luxury core.

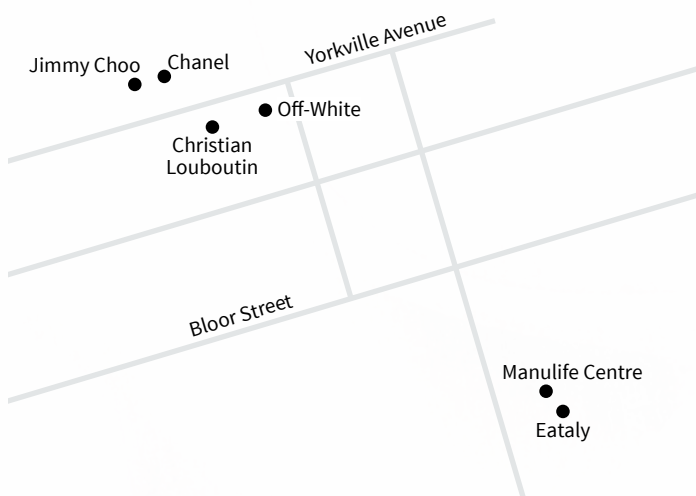
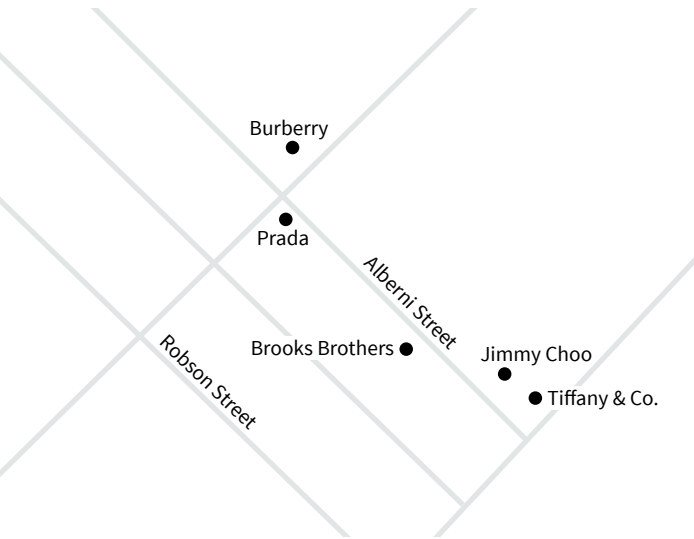




Image Source: Shutterstock

Similarly, in Vancouver, Alberni Street continues to bolster its desirability among luxury brands within the **Robson** corridor as Tiffany expands from 4,000 square feet to 12,000 square feet over two levels. Hublot opened its first standalone store in Canada late last year, and in June, Jimmy Choo took about 1,500 square feet of space at Alberni and Burrard, the first standalone Vancouver location for the brand. Luxury retailers are continuing to follow suit, bringing rents up along Alberni, now some of the highest rents in the corridor.



EATALY GOES TO CANADA
Pushing the center of gravity outward, Eataly will open in the Manulife Building at the southern end of the corridor in 2019.

Image Source: Shutterstock



Image Source: Shutterstock

SHADOW VACANCY MAKES FOR TRICKY RETAIL PRICING

Shadow vacancy is space available for lease by the tenant that currently occupies it. The existing retailer will look to sublease the space to cut costs. Shoppers on the street see the store as occupied, but in reality, the retailer is looking to exit the property. Prime urban corridors are witnessing a rise of shadow vacancy, and it's often on corridors that saw a significant rise in rents and have since become unaffordable. Depending on the market, shadow vacancy may double or triple the reported vacancy.

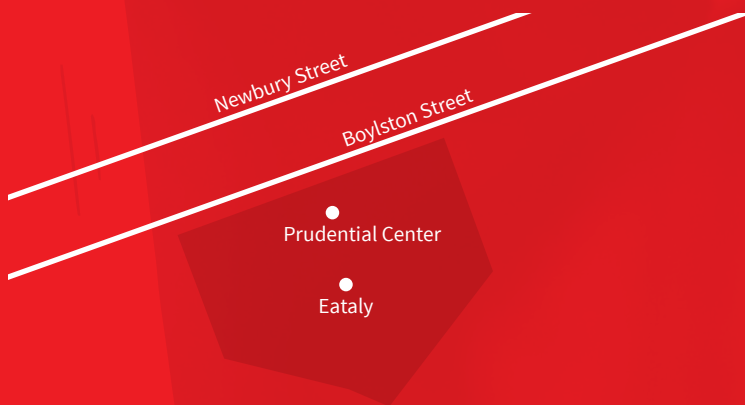
This is creating disparities in asking rents within the corridors since these shadow vacancy spaces are more likely to reflect the true market rents, compared to some building owners that must still ask for sky-high rents to cover their debt.

Traditionally, **Madison Avenue** between 60th and 79th streets served the luxury shoppers of the Upper East Side, but as more Manhattanites look to SoHo and Meatpacking for their shopping, the corridor has been struggling. Availabilities along the corridor have been hovering around 23.0 percent. As this shift occurs, some luxury retailers are starting to look closer to 62nd Street to pick up more tourist traffic on Fifth Avenue and take advantage of the activity found at the base of Central Park. British retailer Ralph & Russo will soon open the brand's first U.S. store on the southern end of the corridor at 62nd Street and Madison. Balenciaga has confirmed that it will open a store at 610–620 Madison next spring, and Celine will move one block north to 650 Madison.



BOYLSTON GROWS IN IMPORTANCE

Historically, retailers looking at the Newbury Street corridor wanted only to be on **Newbury Street** proper, but this is changing. Retailers are increasingly looking to Boylston Street due to the increased activity at the Prudential Center, a 1.2-million-square-foot commercial and retail space, home to Boston's Eataly. This changes Newbury's center of gravity as the peripheral streets become desirable.



DISCOUNT COMES TO FIFTH AVENUE

Madison Avenue isn't the only New York corridor seeing a shift in tenants. Five Below recently opened its first location in Manhattan on **Fifth Avenue**. While the location is on Lower Fifth Avenue by Bryant Park, which historically has seen some middle-priced retailers, this is a rare flagship discount retail location along a corridor known as one of the most expensive retail streets in the world.



SHRINKING STORES PROVE DIFFICULT FOR LARGE FLOORPLATE SPACES

Prime urban corridors are often known for large floorplates and experiential flagship retail locations. While these flagships have drawn in shoppers for years, consumer preferences have shifted over the last few years to brands that offer personalized experiences. These emerging brands tend to prefer smaller footprints—leaving larger floorplates empty where stores like Fred Segal and Lord & Taylor once existed. These spaces continue to sit vacant because neither tenants nor landlords are willing to carve them into smaller suites that might attract such emerging brands.

While some corridors continue to feel the impacts of these vacancies, it does provide an opportunity for creativity. After 27 years, home-furnishing retailer Crate & Barrel shuttered its four-story flagship space on **Michigan Avenue** in Chicago but will be replaced by the world's largest Starbucks Roastery in 2019. Broadway, the spine of the SoHo corridor in New York, continues to see high vacancies due to the larger-footprint spaces but, despite this, the neighborhood remains the most popular destination for clicks-to-bricks* brands looking to open pop-ups and permanent locations.

Vacancy in the **Lincoln Road** corridor of Miami has reached roughly 15.0 percent over the last year. Some of the buildings that have come to market are older assets in need of major renovation to draw in tenants. These larger floorplates and needed upgrades are deterring emerging brands from the corridor but attracting larger retailers like Sephora and Skechers, who can pay the higher upfront costs.

In markets like Washington, DC, specifically along **M Street**, much of the retail inventory is in historic buildings, which has made renovations costly. However, landlords recently have begun to renovate spaces to accommodate different types of users and to offer more flexible and economically advantageous lease terms, which has attracted tenants like Aritzia to the corridor.

*CLICKS-TO-BRICKS

Retailers that started online but have since opened physical locations.



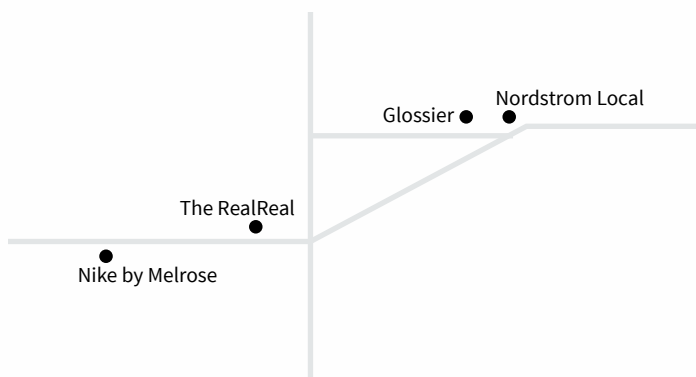
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TOP DESTINATIONS FOR RETAIL INNOVATION

Urban corridors remain a top choice for brands to open and test new concepts despite news of rising vacancies. These corridors are global tourist destinations that receive high national and international foot traffic and provide significant social media hotspots. Because of this, most clicks-to-bricks brands' pop-ups and first permanent locations still locate on prime urban corridors to capitalize on the global spotlight that these areas command.

In Boston's emerging prime urban corridor, **Seaport District**, the Current features a regularly rotating collection of themed pop-ups. The first installment is She-Village, which comprises nine female-founded companies, including apparel and accessories retailer Cynthia Rowley and an interior design startup, Havenly.

The heart of **Melrose** in Los Angeles is home to some of retail's newer concepts. Last fall, Nordstrom opened Nordstrom Local at the edge of Melrose Place. The 3,000-square-foot store doesn't carry merchandise and advertises itself as a convenient drop-in service and style boutique with curbside pickup, onsite alterations, dry cleaning and easy returns.



Nordstrom



Image Source: Lindsey Henwood from Unsplash

Nike Live, Nike’s newest concept store that blends physical and digital experiences in one store, opened on the corridor this past summer. Luxury consignment retailer the RealReal also opened this summer, the second physical store for the brand.

This past spring in Philadelphia, Endeavor Athletic, a clicks-to-bricks athletic apparel brand, debuted a pop-up space on **Walnut Street** where people can test workout clothes at an actual workout class before purchase.

In San Francisco, digital native retailers are choosing to locate within the city’s prime urban corridors to capitalize on the tech-savvy consumers that the Bay has to offer. Within the **Hayes Valley** corridor, Outdoor Voices, a clicks-to-bricks activewear retailer that opened at the end of 2017, hosts jogs, beer tastings, barre classes and “pop-ins” by various designer brands. Away—another clicks-to-bricks retailer that sells luggage—hosts screenings, panels and workshops and has a reading lounge stocked with travel books. Just north in the **Marina** is Hint Water, an experiential water bar that opened its first physical location on Union Street this summer. The store allows customers to sample flavors and learn more about the Hint brand.

RESTAURANTS EXPAND BUT FACE HEADWINDS IN SOME MARKETS

In Miami, the **Design District** continues to see a proliferation of restaurants with celebrity chefs, like Niven Patel's Ghee Indian Kitchen and the late Joel Robuchon's La Boutique, opening soon. Its reputation as a high-end tourist destination keeps this corridor a desired location for top-tier restaurateurs.

Emerging corridors continue to see an influx of restaurants and bars: Washington, DC's **14th Street** corridor has some of the highest food and beverage sales in the DC market, helped by new entrants like the Meatball Shop, the Smith, and Dacha Beer Garden. And 14th Street has seen some of the highest rent growth in the city since 2010 while boasting some of the lowest vacancies. Most tenants are local and regional food and beverage concepts, but as the corridor continues to get attention, expect to see more national and global retailers enter the street.

In the **Meatpacking** corridor in New York, Restoration Hardware opened the brand's signature RH Rooftop Restaurant atop the 90,000-square-foot, six-floor retail showroom. Pastis, one of Meatpacking's original restaurants that helped the corridor gain popularity in the early 2000s, will be reopening in the corridor at 52 Gansevoort Street. Starbucks Roastery is also set to open in Vornado's 61 Ninth Avenue and is described as a 20,000-square-foot coffee experience.





F&B

While some corridors have seen a large growth of F&B, others are suffering from price restrictions. On **Lincoln Road** in Miami, restaurants are looking elsewhere in the market, searching for cheaper rents. Within the **Oak Street** corridor in Chicago, restaurants have taken second- and third-floor spaces as they can no longer afford to be on the ground floor.

Labor issues are also impacting the F&B sector, particularly in West Coast markets. San Francisco's minimum wage rose to \$15/hour in July, but even at this higher wage, restaurants have difficulty hiring, training, and retaining workers, partially because the city's high cost of living does not allow many restaurant workers to live and work in the City. As a result, the city has seen more counter-service format food options. Souvla, a popular San Francisco quick-service restaurant that has a space in the **Hayes Valley** corridor and will soon open in the **Marina**, uses tablets to take customers' orders, reducing the need for behind-the-counter employees.

INVESTORS WANT PRIME URBAN RETAIL BUT PRODUCT REMAINS LIMITED



Image Source: Artem Bali from Pexels

While the appetite for prime urban product persists, assets continue to be rare to market as investors hold onto properties that may prove strong investments to maintain during a recession. The scarcity of product on the market leads to further compressing cap rates, typically below 5.0 percent in existing corridors, and increasing price tags.

Image Source: Artem Bali from Pexels

Investors

Existing corridors like the Beverly Hills Triangle and Times Square have seen increased retail investment over the last year, with specific interest from foreign investors who are comfortable with the stability of these marquee corridors. **Times Square** has notably outperformed many New York corridors due to tourist demand. In the third quarter of 2018, Vornado Realty Trust purchased a 46.0 percent interest from Host Hotels & Resorts in the retail condominium located at the base of the New York Marriott Marquis Times Square Hotel for \$442.0 million. Vornado now owns 100.0 percent of the retail condo, which maintains the largest digital sign in New York and is tenanted by T-Mobile, Levi's and Sephora.

In the first quarter of this year, the **Beverly Hills Triangle** corridor saw its largest sale of 2018 when LVMH purchased a two-story, 6,200-square-foot retail property on Rodeo Drive for \$245.0 million (\$11,011 per square foot). More recently, 457-459 Rodeo Drive, which houses Italian menswear retailer Brioni and British retailer Alexander McQueen, traded for \$96.0 million (\$8,240 per square foot).

Smaller existing corridors have seen increased attention over the past year as the few assets in the higher-profile corridors are swept up. The **Oak Street** corridor in Chicago has seen aggressive purchases followed by tear-down and ground-up development. While this is a higher-risk strategy, the returns tend to be strong, with fully upgraded buildings designed to suit the needs of today's retailers. In the first half of this year, L3 Capital bought a 10,000-square-foot building in the corridor for \$23 million (\$2,268 per square foot). In the third quarter in the Walnut Street corridor in Philadelphia, Asana Partners purchased the 1500 block of **Walnut Street** from Blatteis & Schnur for \$20.1 million. This asset is home to digital-native menswear brand Bonobos and to Govberg Jewelers.



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