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Connecticut retail real estate market is on the road to recovery

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A couple of weeks ago, I was speaking with an acquaintance of mine about the retail end of the real estate business and he asked me "Where has all the retail business gone"? I raised my eyebrows at him and replied "What are you talking about?" "Retail is back"! If he had asked me this question just six months ago, I probably would have been singing a different tune.

It has been, what seems like, an extended hiatus from deal making in the retail industry. For the last several years, landlords, developers, brokers, retailers, appraisers and anyone else connected to retail (or any other sector of real estate) have felt a pinch in their wallets for some time now. I'm sure that most of us have been humbled to some extent as well. Wall Street reports had been dim and dreary: Earnings were low, which led to low stock prices. In turn, our 401Ks and nest eggs have shrunk. This leads us to stop spending in an effort to hold on to every red cent we possibly can. It was a time of conservation; we needed to take damage control and preserve everything that we have been working so hard for all our lives.

During the beginning of the recession, we experienced the meltdown of companies such as Bear Sterns and Merrill Lynch. It seemed like the only deals being made involved banks, drug stores, and fast food concepts. The reasons for these expansions are due to a variety of factors. The banks, for example, were more focused on taking bailout money and using the proceeds for expansion, not lending. In regard to the drug stores, our aging demographics and the fact that we are living longer has aided their activity. We are buying more medications and for a longer period of time, a trend that is surely to continue into the future. As for the fast food concepts, they offered more price conscientious meals that attracted consumers who were watching their bottom line.

Today, banks are starting to lend again along with the life & pension companies. In turn this is opening up the levy that has had the CMBS markets frozen for some time now. With the backlog of demand and virtually no supply in primary markets, these sectors have not been able to meet their expansion goals. They are all still very active today, along with other newly active retailers.

Grocers and their specialty counterparts are active in the marketplace, positioning them for the next leg of the recovery. Certain grocers have adapted and created new concepts by varying space requirements so they can gain access into difficult markets with barriers to entry. In dense, developed communities, large tracts of land are difficult to find, and land assemblages are the makings of a typical deal. They are reducing their space needs to fill in their market gaps.

We have had numerous indications of a recovery during the last couple of fiscal quarters. Latest construction starts have increased 19% which equates to an increase of 95 million s/f, (According to McGraw-Hill Construction). Wall Street indexes have had a roaring recovery from their lows a couple of years ago. Companies have been reporting strong or record earnings, unemployment is showing signs of stability and recovery but, most importantly, people are out spending again. The key to continued recovery in a consumer driven economy is to keep spending.

The sales price of property transactions of more than $5 million increased to only $160 per s/f from $154 per s/f a year ago, although the number of properties sold at this level increased 50% from one year ago. Cap rate expectations are mixed for the sector. The expected going-in cap rate for the national mall sector is 8.0%, up 40 basis points from the previous quarter, while the neighborhood/community retail sector rate is 7.4%, 60 basis points lower than the previous quarter.

One major roadblock that could hinder the recovery is energy prices. We have seen a major jump in petroleum prices during the last few weeks, which will have a broad effect on every aspect of the economy, from cost of goods sold to distribution of product. This would reduce discretionary spending that correlates directly to sales for all retailers.

Another potential roadblock is budget shortfalls. Governments are proposing tax increases from Washington to Hartford. There are numerous other bills being proposed, which could decrease the amount of discretionary income in our pockets as well.

Our activity is proof of a continued recovery. We have had a difficult time meeting the demands of our clients' needs for quality sites and properties. We have over a dozen tenant rep site requirements all over Connecticut, and have a tremendous amount of capital to place for quality investments.

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