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KeyPoint Partners retail report shows recovery underway: higher occupancy, moderate expansion

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KeyPoint Partners has released The KeyPoint Report for Eastern Massachusetts/Greater Boston 2013. The report examines supply, occupancy, absorption, and retailer expansion and contraction for virtually every retail property in the region. This year's report includes an historical perspective from the relatively good times beginning in 2003 to the present. Here is a summary of our observations:

It's been quite a turbulent ride. The bottom line, however, is that recovery is underway. Although retail inventory showed only slight gains, the decline in vacancy more than made up for it. At year end, total retail inventory totaled 189.5 million s/f. The amount of retail space in the region has increased 13.1% during the past 10 years. However, the recession took a toll on new development, with only a slight gain of 0.1% in the past 24 months. This slowdown has benefitted the retail environment by increasing the demand for existing space. Nearly 2 million s/f of unoccupied space was filled during the year, which brought the vacancy rate to 7.8% from 8.9% a year ago, the largest drop in more than a decade. As a result, net absorption ended the year at 2.05 million s/f.

There was not much movement among the ten largest communities in terms of retail space, although Braintree replaced Leominster at number 10. The largest of course is Boston, followed by Cambridge. Natick, Brockton, and Danvers complete the top 5. Among towns with at least 500,000 s/f of retail space, those with the lowest vacancy rates are headed by Abington, followed by Wrentham and Bridgewater. The ranking no town wants is highest vacancy rate; moving up to the top spot this year is North Reading, followed by Belmont. We need to be cautious in judging the relative retail health of these towns, however, because each contains less than 700,000 s/f of retail space. Of greater concern is Malden, tied for 3rd with Westborough after avoiding a top 10 rank last year.

Vacancy in all size classifications dropped significantly. Despite improvement, the vacancy rates of the three smallest size classifications remain in double digits and well above the regional average, and all three have lost market share during the past decade. Conversely, retail units of 100,000 s/f or more have seen market share increase during the decade. Therefore, while total retail inventory has increased between 2003 and 2013, the numbers of retail properties and retail establishments have declined.

Market Basket led retailers in the region by opening three new units, expanding its Chelmsford store, opening larger format stores in Brockton and West Bridgewater, and adding a 60,000 s/f unit at Cornerstone Square in Westford, where it already operates an existing unit. The existing Westford Valley store is scheduled to close in 2016, to be replaced by a Whole Foods Market. In terms of expansion by store count, Subway, now the number one restaurant chain in the world, added the most stores.

Number one on the contraction list is Johnnie's Foodmaster, which closed all 10 of its stores. Fashion Bug closed 10 stores in the region, part of a chain wide shutdown. Bally Total Fitness also closed its four regional locations. Retailers closing the most stores last year included Bank of America and Fashion Bug. The Upper Crust closed 7 of its 16 locations. Other retailers ending operations included Blockbuster, Ritz Camera, Mattress Giant, and Bally Total Fitness.

When it comes to growth by retail category, it was food, food, and then some exercise. Eating places topped our rankings in both incremental square footage and store count. Food stores/grocery ranked 2nd. Health and fitness services came in 3rd, and also ranked 3rd in store count growth. Electronics stores experienced the largest square foot decline, followed by women's apparel.

This was a "rebuilding" year for the region. We can say with caution that while we're not fully recovered, recovery is underway, and barring another recession, things should feel more normal by the time we write next year's report.

The complete KeyPoint Report can be seen at KeyPointPartners.com under Publications, or email KP@KeyPointPartners.com for a hard copy.

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