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Northern New England retail real estate forecast for 2014

January 23, 2014 - Retail

With the holiday shopping season behind us, it's time to look ahead to what 2014 has in store for retail real estate in Northern New England. We can expect retail fundamentals such as strengthening consumer confidence and lower unemployment rates to accelerate as the economy slowly improves. As a result, retailers and restaurants should continue to ramp up their expansion plans, developers should increase deals in the pipeline, and retail shopping centers may see an increase in leasing activity. Expect internet retailers to keep traditional retailers and landlords on their toes, especially as they improve same day delivery capability. Investment sales activity within the sector will remain strong as investors seek alternatives to low rates; hedging their bets on retail real estate.

The past year saw more retail and restaurant openings than recent years. Look for this to continue in 2014 with retailers like Hobby Lobby, Nordstrom Rack, Bobs Furniture, Dollar Tree, and Tractor Supply looking to expand their presence. This could very well be the year we see meaningful retail expansion.

Restaurants, theaters, and other entertainment venues will continue their expansion with fast-casual and fast-food restaurants like Noodles, Chipotle, Five Guys, and Chick-Fil-A all seeking new locations. Two New Hampshire based movie theaters, Cinemagic and O'Neil Cinemas seek new locations with O'Neils' most recent opening in Epping, N.H. and Cinemagic poised to open in Portsmouth, N.H. Also, we can expect non-traditional uses like trampoline centers and play centers to continue leasing in shopping centers as landlords seek to use these to fill vacancies, lure shoppers and drive traffic to their centers. Entertainment venues and restaurants, not vulnerable to online retail competition, will remain integral to the shopping center industry. Other non-traditional tenants, including urgent care, dialysis and dental will continue to lease space in shopping centers. These tenants are increasingly gravitating towards shopping centers due to their visibility, convenience and ease of access.

The "grocery wars" between Hannaford, Stop & Shop, Market Basket, Whole Foods, Trader Joes, and the like will continue with all vying for the best sites in a hyper-competitive market. Specialty grocers will continue to win the hearts of consumers with convenient and unique shopping experiences not offered by more traditional grocers. All of these grocers seek to make the right strategic moves to ensure growth and stability.

Market Basket expanded into Maine, at the former Lowes in Biddeford challenging the long market dominance of Hannaford and Shaw's. Walmart continues to convert its stores into Supercenters by adding grocery. When it is not possible to expand, Walmart seeks to relocate. In Derry, N.H., Walmart built a 150,000 s/f store, selling the former site to Ocean State Job Lot. Walmart's grocery expansion puts significant pressure on traditional grocers.

Shaw's, owned by Supervalu until sold at a major discount last year, eased the bleeding by closing twelve locations in Mass. and N.H. Stop & Shop closed all six of its N.H. locations plus a few in Mass. Hopefully the closing spree is over. Hannaford leased two closed Stop & Shop locations in N.H. (Bedford and Exeter). Whole Foods makes its N.H. debut in Nashua at a former Market Basket, with more stores to follow.

New in-fill developments should continue as current sites under construction open at Market St. in Lynnfield, Mass.; Daniel Webster Shops in Nashua, N.H.; and Highland Commons in Berlin, Mass. Some have already opened, while others will open for shoppers this year. Other new developments that should open this year include Loudon Crossing in Concord, N.H.; Marketplace at Augusta in Augusta, ME (expansion) and Granite Ridge in Rochester, N.H. all of which aim to meet the demands of tenants looking for well-designed projects to meet their expansion needs.

Investing the in redevelopment of existing sites will continue to be a focus for landlords as they seek to attract new tenants, fill vacancies, and drive traffic to their centers. One example is Waterstone Retail's $24 million project in Portsmouth, N.H. at Southgate Plaza which should be completed this year.

Well located assets will remain in high demand as investors look to place capital in real estate investments taking advantage of low-interest, long-term financing.

According to Cushman and Wakefield, cap rates should remain flat throughout the year. As interest rates rise, cap rates will follow, but they generally lag interest rates by about six months. Institutional investors will continue to strengthen their portfolio's returns through refinancing, selling non-core assets, and acquiring new assets. The likes of Inland, Edens, and Kimco have been selling non-core assets over the past year and we expect that to continue. There are plenty of local and regional investors looking to buy those non-core assets. An example is GGP's recent sale of Burlington Town Center in Vermont to Devonwood for $25 million.

It is clear that retailers will pay a premium for quality sites and existing centers with the right fundamentals such as signalized intersections, visibility, high traffic counts, and aesthetically pleasing building designs. These premium locations are in high demand compared to locations that are older and have less of the criteria required by today's savvy retailers. As a result, less premium locations will see lower rents and higher vacancy. The key for the success of the traditional retail shopping center is to have the right mix of tenants - including non-traditional - that will keep shoppers coming back time and again.

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