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Robust job growth is supporting a healthy retail marketplace - by Tim Thompson

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In Boston, robust job growth, boosted by high-wage employment sectors such as biotech, finance and healthcare, is driving gains in household formation and wage growth, supporting a healthy retail marketplace. During 2017, payrolls are expected to expand by 70,000 new workers or by 2.6%. This significantly outpaces the 61,400 positions added last year and represents the strongest annual hiring activity this cycle. Employment growth and household formation will work to bolster retail sales, which will continue to attract retailers to the area, creating greater demand for new retail space.

As a result of strong retail demand, builders are accelerating construction efforts this year, particularly in the suburbs along Rte. 128 and Rte. 495, which will account for nearly half of all completions. One project close to completion is Meriel Marina Bay, a mixed-use development in the Boston suburb of Quincy, composed of two, five-story buildings, 352 apartment units, garage parking and 20,000 s/f of ground-level retail space. Also underway is the redevelopment of the Northshore Mall, which is slated for completion in April next year. Finally, one of the largest projects currently being built is the Hub on Causeway in the heart of the urban core. This development, located near North Station and TD Garden, will contain 235,000 s/f of retail space as part of a two-tower mixed-use office and residential project that spans 1.5 million s/f. The first phase is scheduled to open in late 2018.

In 2017, developers will deliver a total of 1.2 million square feet of retail space to the Boston metro, surpassing the 900,000 s/f completed last year. Despite increasing levels of construction, vacancy will be unaffected.

Although completions will rise this year, heavy pre-leasing activity will mute the effects of the uptick in supply, producing a decline in vacancy below 3%. Last year, the vacancy rate was trimmed by 30 basis points upon retailers' net absorption of nearly 1.5 million s/f of space. Continued high tenant demand in 2017 is anticipated to generate year-over-year vacancy compression to the tune of 40 basis points, allowing vacancy to reach a cyclical low of 2.7%. And, as occupancy improves, so too will rents.

As a result of incredibly tight conditions, average asking rents will advance at a low-single-digit pace this year, which is relatively subdued compared with the 3.6% gain that occurred in 2016. That said, significant rent appreciation in Boston's core will work to increase the metro's average asking rent by a projected 2.7% to $20.24 per s/f in 2017. This will support a healthy and active sales environment.

In general, urban core mixed-use assets remain a key destination for capital on the East Coast. Supported by the vibrant local economy and a diverse array of retail assets, Boston remains a top metro for the coast's institutional and private investors. Demand remains elevated primarily in the metro's core, where buyers seek mixed-use properties, which provide opportunities to upgrade apartments and ground-floor retail spaces. Grocery-anchored suburban assets in first-tier suburbs are also in high demand due to their stable cash flows and established household bases.

Deal flow has ebbed somewhat as listings have shrunk amid surging gains in rent and occupancy over the past several years, driving greater competition to deploy capital. Average cap rates, as a result, have fallen to the low 5% range metrowide, with marquee properties in core submarkets exchanging ownership below the average. More yield-driven investors target core-located, single-tenant assets that sit on parcels approved or primed for future high-density redevelopment. One such example is Marcus & Millichap's recent sale of the East Boston development site on Waldemar Ave. in the highly sought after Orient Heights neighborhood, which is undergoing a major gentrification effort.

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