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Is your crystal ball cloudy? The commercial retail real estate industry cycles and trends

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Try mine. The commercial real estate industry, retail in particular, follows the same trends and cycles as its residential counterpart. We are simply at the tip of the iceberg with much of the same flawed economic principles that caused the tremendous boom in new home construction and retail developments over the past 10 years and the sharp down-turns during the previous two decades.
We watched inflation and changes in the tax laws cause a total real estate/retail breakdown in the mid 80s. We've watched the banking fiascoes and the commercial foreclosure run in the 90s and learned nothing about changing the economic principles that caused each cycle. Now after the almost incredible run up in prices during the last ten years and the almost ubiquitous store expansion, the market is becoming less and less stable each day. Retail space in NYC is commanding prices unheard of before. $400,$800, $1000 a s/f, and up. Why? Because it is a Mecca. International travelers come here to shop because their money is worth half again or double our previously 'mighty' dollar.
For the retailers and their customers the same strategy applied: very high leverage, easily accessible credit, optimism about the country's economic condition and the "surety" that real estate values and rents "always go up". As the consumer starts to feel the pinch in their credit and the unemployment rate has its greatest one month jump in 26 years, the end simply cannot be around the corner.
Even though, at least for now, discounters like Kohl's, Target and the Warehouse clubs same-store sales are increasing, our main-line retailers are making moves to cut their losses. Linen's closing 16% of its stores, Talbots shutting all Kids and Mens, Pacific Sunwear closing 154, A.C. Moore closing 10, Home Depot closing 15, and on and on thru every part of the industry. Research shows that nationally in 2006 there was about 125 million s/f of vacant retail space and in 2007 that number surged to 140 million s/f.

Fairfield County is amazingly insulated from much of the nation's financial woes simply by the percentage of the population with an average household income over $100,000. Consequently when big chain stores close locations, they seldom close those in this market as same-store sales remain strong here generally. There are always the exceptions as Ann Taylor Loft will be closing in Westport and Banana Republic will close its Greenwich Ave. location before the end of the year.

Conn. as a whole is not immune to this recession as more and more stores close their doors. On the positive side, local and regional tenants are moving around seeking better rents in a soft market. Then there are the 'Rodeo Drives' of Fairfield County where vacancies are few and rents continue to escalate. Rents on Main St. in Westport are in the $150 per s/f range and are even higher on

Greenwich Ave. in Greenwich.

Since in today's world, retailers are having much of their products manufactured overseas, the devaluation of the dollar is even more relevant when the cost of production and shipping are based on the dollar vs. the Yen or the Euro.

This, of course, drives up the wholesale costs to retailers that they are ill-prepared to absorb when the consumer is already struggling with interest rate hikes, utility hikes and the incredible jump in gasoline prices; they are shopping for bargains not looking to pay more.
As to my crystal ball, I believe that the shake out of the undisciplined expansion throughout our retail industry will slowly be resolved as we move into 2010 and that 2008 and 2009 will show continued store closings for some of our majors and continued expansion of smaller chains and the Mom and Pop shops that couldn't compete in the hey-days of the late 90s and the earlier part of this decade.

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