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2017 KeyPoint Report on Eastern Mass./Greater Boston retail real estate trends & analysis - by Bob Sheehan

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The following is an excerpt from the 2017 KeyPoint Report on Eastern Massachusetts/Greater Boston.

Supply, Occupancy, & Absorption: This year Eastern Mass. inventory grew moderately, reaching 194.6 million s/f, or an increase of 0.4%. No major center development occurred during the year. The largest gains came from the freestanding 136,000 s/f Life Time Athletic in Framingham and the 82,000 s/f Market Basket in Plymouth. Another addition was the expanded retail area at Prudential Center, to accommodate a 45,000 s/f Eataly food concept and Under Armour flagship. Eastern Mass. experienced a modest decrease in vacant space, with demolitions and mixed-use redevelopment beneficially impacting the vacancy rate. A number of large-space users filling vacant space have contributed to the improvement. These include At Home in Seekonk and Primark in Braintree. Several obsolete buildings that once served as retail space were removed from our year-end inventory. Adjusting for this, the vacancy rate in the region still improved versus last year from 8.8% to 8.6%. The region finished the year with positive net absorption of 1.2 million s/f. Positive absorption is good, but keep in mind that a significant number of announced store closings have not yet occurred.

Town Rankings: The five communities with the most retail space remain the same as last year, with Boston and Cambridge maintaining first and second position. Natick, Brockton, and Burlington follow. Randolph has the lowest vacancy rate, after ranking 65th last year. Taunton is again the community with the highest vacancy rate at 24.4%. The top 10 towns by retail s/f remains intact from a year ago, with one exception: Leominster replaces Fall River at 10th. One through five remain identical: Boston, Cambridge, Natick, Brockton, and Burlington. Framingham and Saugus moved ahead of Danvers into fifth and sixth place while Braintree continues to hold at ninth. Five towns are new to the top ten this year, including Bedford, Lynnfield, North Andover, Raynham, and Burlington. All had vacancy rates of 3.5% or lower. Taunton, Fairhaven, and Lawrence had the highest vacancy rates.

Retailer Activity: The retailer adding the most space in the region was Big Y, by way of its acquisition of eight Hannaford locations. Big Y currently occupies more than 500,000 s/f in the region. Runner-up was Life Time Athletic, which added a 136,000 s/f Framingham club. Market Basket is third with the addition of an 82,000 s/f store in Plymouth. Hannaford vacated the most space in the region by divesting eight stores in the Ahold/Delhaize merger, and closing another in Hudson, for a total of 445,300 s/f. Sports Authority was the runner-up, closing 10 stores, or 411,600 s/f. Kmart ended in third place as a result of four store closings. With respect to store count - and aside from acquisitions that converted brands (Mattress Firm/Sleepy's, 7-Eleven/Tedeschi's, Sprint/Radio Shack) Cricket Wireless, Metro PCS, and Starbucks added 10 units each, the most among retailer expansions. Big Y and European Wax Center both added eight stores. Closing the most stores was Radio Shack, which either vacated or converted to Sprint 24 locations. The overstoring of fro-yo shops reared its head with the closing of 13 Orange Leaf and 5 Pinkberry locations.

Retail Categories: Grocery led all retail categories in s/f gain. Health & fitness followed in second place. Restaurants ended the year in third, a category that continues to expand. Ending the year with the largest decline in space was department stores: Kmart closed four stores, Macy's closed two, and Sears another. After leading all categories last year, sporting goods was the second largest drop, with Sports Authority closings the notable cause. Family apparel came in third with Gap closing four stores and H&M vacating two units. Beauty salons & services led the way in new store count followed by health & fitness. Medical & dental services also continued strong growth. The category losing the most stores was women's apparel.

Conclusions: It was another trying year for retailers and landlords. Amazon and other online retailers have created a sea change in the way people shop – and the fallout will continue. One can only imagine what Amazon has planned following its Whole Foods acquisition. We're also coping with a new generation of millennial shoppers for whom shopping online is the norm. If retailers are unable to offer them a satisfying omnichannel experience, they'll be unable to retain them.

On the bright side, job growth and low unemployment have provided us with a relatively healthy economy which should result in increased spending potential. We're seeing investors buy up distressed property and repurpose it for mixed-use and other non-retail projects. We're also seeing developers acquire antiquated retail centers in quality locations and reposition them into viable projects.

While no brick and mortar retailer is immune to online shopping, some have found a way to be more Amazon-proof than others. Beauty and cosmetics retailers have mostly managed to stay out of harm's way. Off price retailers have continued to weather the storm as well. Although no TJX divisions added to their store count this year, TJX announced that its new concept, Sierra Trading Post, will open soon in Framingham and Newton. Saks Off Fifth and Nordstrom Rack also added stores. Dollar stores continue their march forward, with Dollar Tree and Family Dollar adding a combined seven stores. Auto parts and supply also do well in a digital world: both O'Reilly Auto Parts and Advance Auto added multiple units.

It goes without saying, though, that a number of retailers are approaching bankruptcy with little chance to recover. Department stores are under pressure to close more stores, and with prognosticators predicting that many malls will close within five years, we expect to see more bankruptcies among mall-based apparel chains. The bottom line is--survival of the fittest!

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