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We are seeing retailers willing to take larger space to offset development risk and control costs - by William Greene

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William Greene,
Cushman & Wakefield |
Hayes & Sherry Real Estate

In today's retail world, things are not the same. There is a huge shadow hanging across the market brought on by the explosion of online retailing and what it is doing to "bricks and mortar" retailers.

This is a real threat and a threat not to be taken lightly. This new reality is influencing how we look at real estate, structure deals, consider new locations, and evaluate existing boxes. There is no doubt that more time and energy is being spent trying to retrofit, re-develop or re-purpose existing retail space. This is also a part of the reaction to the online beast.

The days of looking for the best site in the market, regardless of development cost, are gone with few exceptions. We are spending far more time trying to put existing space back to work. For lots of reasons this is the new reality.

Swansea Mall is an enclosed shopping mall at the junction of Rtes. 6 and 195 in Swansea, Mass. just east of Providence. The mall had been anchored by Apex, Sears and Macy's. Macy's is the last remaining anchor and is scheduled to close in early 2018. This 475,000 s/f enclosed mall is ripe for re-development and offers ownership possibilities for the anchor locations and an opportunity to take advantage of a fully developed site in a strategic, regional location. The cost to buy one of these anchor locations dwarfs the cost to build a new + 100,000 s/f box.

Discount retailers are prevalent throughout the demographically dense trade areas in southeastern New England, and want to open more stores to take advantage of these under-served populations. That said, the very nature of their business and their price points makes new development hard to do unless land costs are very low. Often, these retailers are trying to retrofit a box or find an existing solution that keeps rent and costs reasonable so they can move forward to open a new store. Site work can be shockingly expensive and remains a bit of an unknown quantity before a developer actually digs in. These deals cannot afford cost overruns because there is no room to move on rents when you are selling items for a dollar.

We are also seeing more traditional retailers and food users being flexible and taking on existing space. The development risk profile is steep and can quickly put a project on the wrong side of projections, dooming it. We are now seeing retailers more willing to take a larger space than they need to offset that risk and control costs. They will either box off the unused portion of the space for storage or future growth or they may even look to sublease some space to another retailer that works with them synergistically. There are plenty of 1,500-4,000 s/f retailers going larger to take advantage of an existing box.

There does remain some very specific uses that need to develop their own prototypes to run effective retailing programs. Gas and convenience is certainly on that list of unique users but even they can take advantage of a 2nd generation space to cut down on site costs and off-site improvements. Drive-thrus can be added, parking can be created with adjacent parcels and imperfection will be tolerated in existing boxes. This is very true in our market today and for the foreseeable future.

At the end of the day most development in southeastern New England is too expensive. The costs are heavier than the market rent one can achieve in the office and residential sectors and retail was the one area where it would pencil out with the best retailers at the best locations. There is a new found respect for the built environment, and retailers, developers and brokers will continue to look to existing product for new uses. It would be a mistake to under estimate the value of a box.

William Greene is a partner with Cushman & Wakefield | Hayes & Sherry Real Estate Services, Providence, R.I.