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E-Commerce: Winners and losers - by Rocco Quaresima

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E-Commerce has long been blamed for the weakening of brick and mortar retailers as we continue to witness big box stores close their doors. Landlords are typically left with large spaces that are often costly and difficult to reconfigure into smaller functional tenant areas. Although difficult, it is not impossible, and we have seen the successful reconfiguration of some big boxes that have been subdivided to house discount retailers and grocers such as Big Lots, Marshalls, Say-A-Lot, Aldi's, etc. The demographics surrounding a center will ultimately dictate the feasibility of repurposing the buildings for use by discount retailers and demolition may be the highest and best use. While property owners historically shied away from leasing spaces to gyms, we are currently seeing a shift in mentality as many centers target service-oriented users. In addition to larger traditional gyms, there is a boom in smaller boutique health clubs and studios that are filling the void in many vacant junior anchor spaces. Retail centers that are dominated my big box and junior anchor tenants are also selling at higher capitalization rates given the perceived risk associated with tenant renewals.

Not all is doom and gloom as new and existing centers are being filled with service-oriented retailers such as sit-down restaurants, fast food restaurants, prepared food retailers, mobile phone stores, branch banks, urgent care facilities, dental offices, hair salons, nail salons, spas, smoke shops, health clubs, real estate sales offices, and of course, liquor stores. Auto parts and dollar stores have also been expanding, albeit within new freestanding structures constructed to their specifications.

While e-Commerce has contributed to the demise of some brick and mortar retailers, it has also contributed to a spike in demand for warehouse users. This is clearly evident in the Hartford North submarket which has benefited from the availability of development sites, proximity to the airport and relative ease of travel along I-91. The Amazon Fulfillment Center was constructed in 2015 and is one of the more prominent buildings at over 1 million s/f. The strength of the warehouse market is also evident in the releasing of the former Hallmark distribution center in Enfield. The +1 million s/f building was acquired vacant and immediately re-tenanted. An additional 1 million s/f building is proposed on the site.

The area has experienced new construction over the past several years to include the Dollar Tree Distribution facility,
Federal Express, UPS, Tire Rack, Walgreens Northeast Distribution Center, Advance Auto Parts Distribution Center,
Pepperidge Farms, and others. Presently, a 690,000 s/f facility is under construction in Bloomfield and will house Trader Joes and Ford will occupy a new 234,000 s/f facility in Windsor, in addition to their current facility at 110 Old County Circle.

E-commerce has negatively impacted many retailers, especially larger big box users over the past few years as consumers have opted for the ease and speed of shopping on-line. Brick and mortar stores will not disappear as there is an entertainment component to shopping and certain consumers need to feel the merchandise. And then there is Wal-Mart, which has managed to attract and retain a large demographic as their stores have gotten even larger.

E-commerce has created a spike in demand for warehouse users and the lack of large existing warehouse buildings with good clear heights that accommodate the demand has led to a spike in rental rates and new construction. This has benefitted the Hartford North submarket given the supply of development sites and good highway access. As the supply of large development sites continues to dwindle in the Hartford North submarket, demand can be expected to increase in other submarkets that offer good highway access. This trend is not unique to the Hartford market and can be seen on a national level.

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