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Retail leasing and sales velocity continue to increase in the Eastern Mass. market

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As the last quarter of the year begins, retail leasing and sales velocity continue to increase in the Eastern Massachusetts market. The strong activity has been driven by up-ticks in consumer spending, which is a result of improvements in employment and low interest rates. National Security and election results can also impact consumer confidence, but it does not look as though it is affecting the long term decision making of retail tenants and landlords.

There are a few segments in the retail market to break down and examine, as each segment is affecting the marketplace differently. These categories include Strip & Lifestyle Centers, Enclosed Malls, and Urban retail. Of course, the adage philosophies of retailing still ring true; in order to be successful, location is paramount, but it is also critical to be in "good company" or in a desirable tenant mix, as well as knowing where the competing properties and alternative shopping destinations are located.

STRIP & LIFESTYLE CENTERS

The strip center environment is as strong as it has ever been. The big boxes seek the newest locations, such as ground-up developments or re-

rofitted older centers. An example is the Home Depot's new 140,000 s/f store located within Crossing at Walkers Brook in Reading. Jordan's Furniture is also opening a new store in the same center this fall. Additionally, there is abundant competition among smaller retailers to get into these quality strip centers.

Most of the new retail developments are in the strip/lifestyle center segment. However, the permitting process to build in New England is costly and time consuming. This creates a barrier to entry in the retail development marketplace. Recent examples of ground-up developments include the success of the S.R. Weiner Lifestyle Development called Derby Street Shoppes in Hingham, where Kohl's and Whole Foods anchor the center. Barnes & Noble will also be opening up a new 25,000 s/f store at this location. In addition, there are many centers in the process of coming to fruition, such as the Hingham Shipyard, Milford's Quarry Place, and Mashpee's South Cape Village.

Evidence of the red hot retail capital market of the strip center segment is seen in the recent Equity One acquisition of six Shaw's and Whole Foods anchored centers for \$120 million. As the chairman of Equity One, Chaim Katzman, said that "Our entry into the Boston market advances our goal of penetrating the best urban markets on the East Coast through the acquisition of properties, or portfolios of properties, anchored by leading supermarkets or other necessity-orientated retailers."

When it comes to the actual lease transactions of strip center and

lifestyle center space, deals in submarkets outside of Route 128 are being completed in the low to mid \$20's, with nets running from \$3 to \$7. Inside Route 128, strong anchored strip centers can reach \$50 per s/f. As a result of high retailer demand to be in these "new" strip centers, prices will continue to be strong, as the supply of quality centers remains low.

ENCLOSED MALLS

According to the ICSC Research Quarterly, consumers nationwide are visiting the malls less frequently, but are spending more money while there. They are also spending a longer time at the mall and spending more money on food. Mall visits are down by 6% from 2003, but spending per visit is up by 11%.

In Massachusetts, there are some exciting changes to watch closely, such as the Natick Mall which will add 500,000 s/f to include Nordstrom, Neiman Marcus, specialty shops and restaurants. In addition 250 condominium units will be added above the retail. In Boston, the Simon Property Group is looking to sign a lease with Barney's for space in Copley Place. Additionally, there is a new trend in mall lease transactions where owners are offering to include CAM fees in the price of the space.

URBAN

The urban market, encompassing Brookline, Back Bay, the Financial District, the Fenway and immediately surrounding areas, is also doing very well. The only vacancies in the market are redeveloping areas such as Downtown Crossing South, and properties with large price gaps

between landlords and retailers. We see heavy demand for top quality locations within the specialty retail sector (Newbury St./Boylston St.). Recent deals in this sector include 11 Bisonte (other locations include 120 Sullivan Street, New York, and 409 N Camden Dr., Beverly Hills), Polo (moving to 342 Newbury St.), and Shreve Crump & Low (moving from 330 Boylston (Arlington) to 440 Boylston (Berkeley)).

The Samuels & Associates mixed-use development, The Fenway Development, has broken ground. This will lease fast as Landmark Center has been a huge success. Leasing rates will surely be in the \$40's, if not higher. High profile locations in Back Bay and the Financial District will hit \$150 per s/f; however the average retail price will be in the \$50's. B and C retail addresses will demand a price per s/f between \$25 - \$40. Typical nets in the city run between \$7 - \$12 per s/f.

SUMMARY

Throughout the fall market, expect continued positive absorption of new retail developments and existing properties. Watch for retailers jockeying to get premium positions in new developments and urban locations. Prices will continue to rise for premium locations, while properties that have weaknesses will linger on the market. New construction will continue to do well as long as there is strong retailer demand, and that is expected.

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