



# New York Regional Retail Market Topics & Trends – Q1 2021

The demand for brick and mortar retail has been shifting in recent years as the rise of e-commerce has altered shopping patterns and societal preferences. As exhibited below, the RCA CPPI index increased for nearly 9 years, from 2011 through the end of 2019. The index decreased in 2020 as the COVID-19 Pandemic engulfed the market, and then began to increase slightly in 2021. It is important to note that the peak achieved in 2019 was lower than the peak seen prior to 2007, indicating the industry was already lagging.

## Regional Retail Market

This report analyzes the trends in market fundamentals and investment sales in the New York-Newark, NY-NJ-CT-PA combined statistical area (CSA) retail market, including all retail property sub-types. Investment sales volume has been trending downward since 2019 and vacancy rates have been increasing.

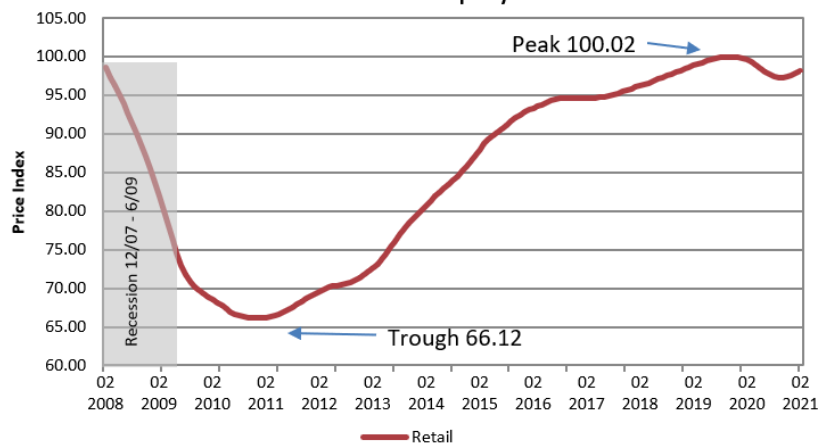
## FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the New York region to a halt. Retail is one of the industries currently being hit the hardest. Most retail is considered non-essential and there are concerns about being indoors and maintaining social distance. Among the hardest have been restaurants, who have been subject to indoor dining restrictions and capacity requirements, which have crippled the industry.

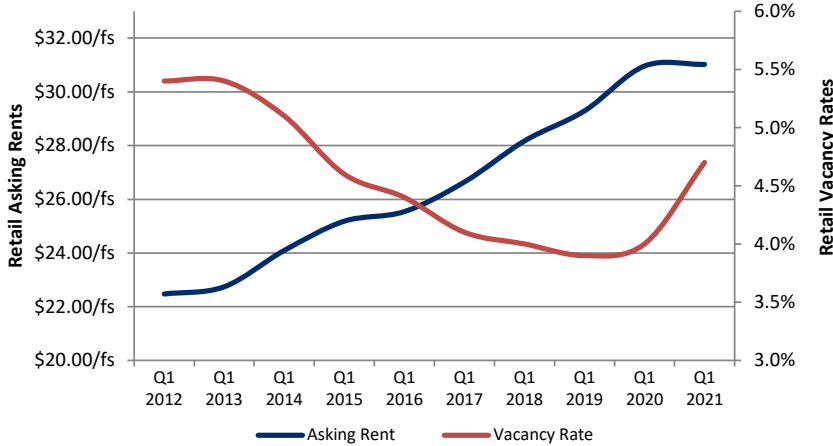
Regional Map



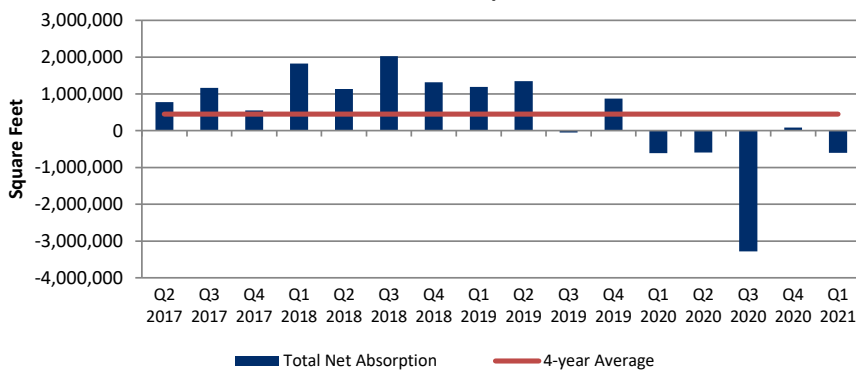
RCA CPPI US - Commercial Property Prices Indices



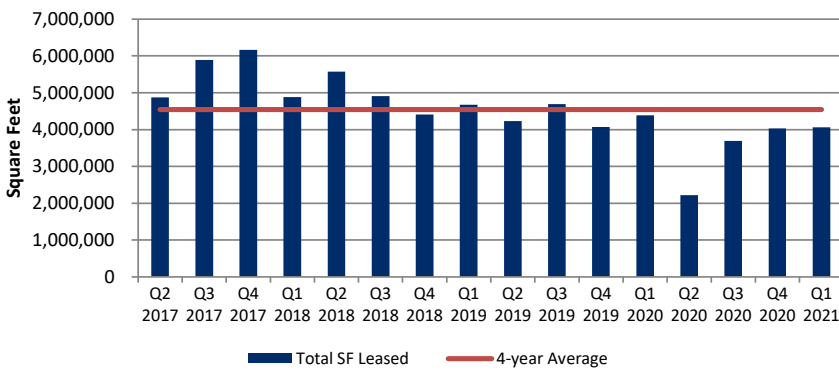
Asking Rents and Vacancy Rates



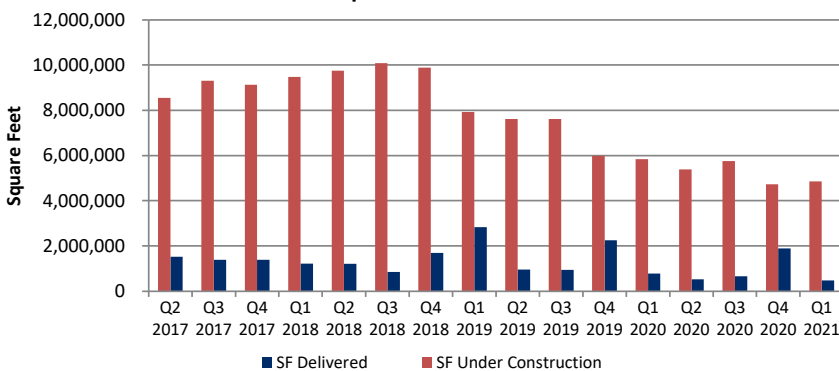
Total Net Absorption



Total SF Leased



Space Additions



**MARKET FUNDAMENTALS:**

**Average Asking Rents & Vacancy**

Between Q1 2012 and Q1 2019, vacancy rates generally decreased, ranging from a high of 5.4% (Q1 2012 & Q1 2013) to a low of 3.9% (Q1 2019). Vacancy increased slightly from 3.9% to 4.0% from 2019 to 2020, and more considerably, from 4.0% to 4.7% from 2020 to 2021. Asking rents have increased consistently from Q1 2011 through Q1 2021, but have since plateaued. If the pandemic causes an extended dip in demand, vacancies will continue to rise, and rents will flatten or decline. We are in a tenant’s market. Even pre-crisis, landlords were offering shorter term leases and more capital for tenant build-outs as a strategy to entice retail tenants and keep vacancies manageable.

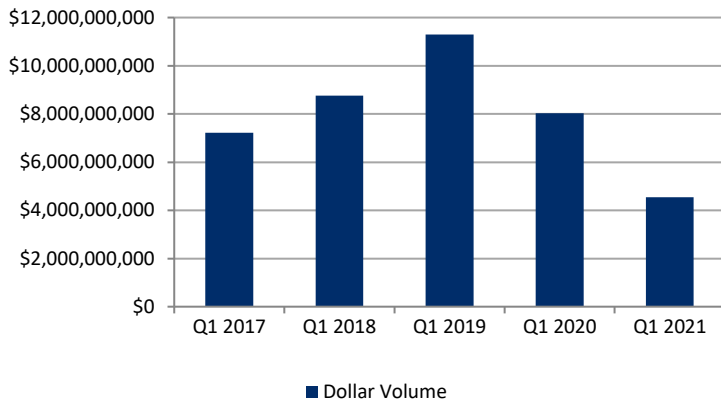
**Net Absorption and Leasing Activity**

Total net absorption was positive in every quarter from Q2 2017 to Q4 2019 outside of Q3 2019, which saw a small amount of negative absorption. From Q1 2020 to Q1 2021, absorption was negative in every quarter, with the exception of Q4 2020. The lowest level of net absorption was -3.3 million square feet, recorded in Q3 2020. Leasing decreased sharply in Q2 2020, and has since increased in three consecutive quarters, despite still being below the 4-year average.

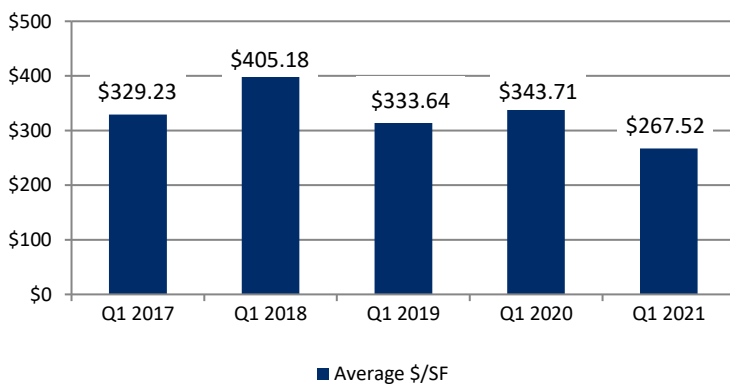
**Space Addition Activity**

Space addition activity is currently relatively low. Brick and mortar retail has taken a hit in recent years due to the expansion and success of the e-commerce market. Construction has resumed after a brief pause, but traditional clothing and flagship retailers are continuing to shift toward smaller, more interactive customer-driven experiences. There is a large amount of uncertainty in these trends going forward now that social-distancing and necessity-based shopping have become the norm.

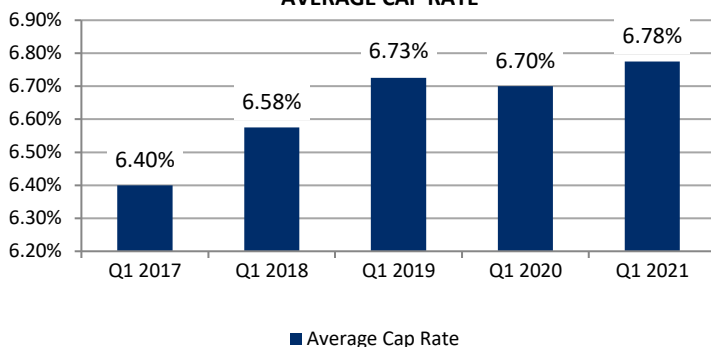
**NEW YORK REGION RETAIL  
DOLLAR VOLUME**



**NEW YORK REGION RETAIL  
AVERAGE \$/SF**



**NEW YORK REGION RETAIL  
AVERAGE CAP RATE**



**SALES (5 YEAR TREND- YE Q1): Volume**

Total dollar volume for investment sales of retail real estate in the New York region has been decreasing significantly since 2018, with the most recent year reflecting a 39% decline. Total dollar volume decreased from \$11.4 billion in 2018 to just \$5.3 billion in 2020. There have not been many transactions since the start of the COVID-19 crisis, although some transactions have closed. It is anticipated that sales volume will remain low continuing into 2021.

**Average Pricing Per SF (YE Q1)**

Average pricing per square foot has been fluctuating since the year ending Q1 2017. The average as of YE Q1 2021 was \$267.52 per square foot, which is a 22.2% decrease from the prior fiscal year. Market participants will be watching this metric carefully as we go deeper into 2021.

**Capitalization Rates (YE Q1)**

The average cap rate for retail transactions in the New York region has generally increased over the last five years. The average cap rate in the year ending Q1 2021 was 6.78%, equating to an 8 basis point increase from the prior fiscal year. Deal making is lagging due to COVID-19. We expect a period of uncertainty in terms of price discovery until the COVID-19 Pandemic abates and investment activity resumes at normal levels.

SOURCE: CoStar, RCA, and Marshall & Stevens



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