New York Regional Retail Market Topics & Trends – Q2 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.

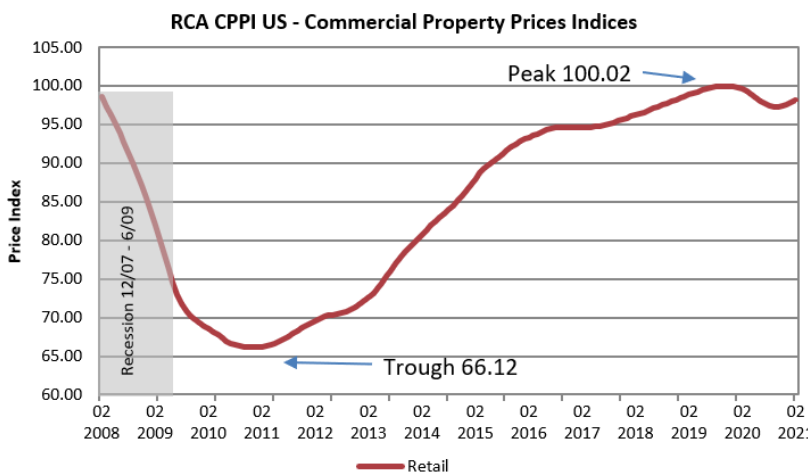
Regional Retail Market

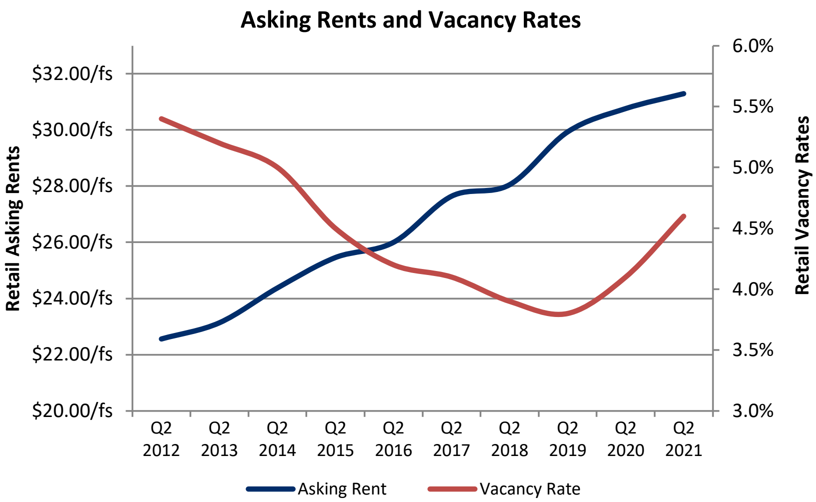
This report analyzes the trends in market fundamentals and investment sales in the New York-Newark, NY-NJ-CT-PA combined statistical area (CSA) retail market, including all retail property sub-types. Investment sales volume has been trending downward since 2019 and vacancy rates have been increasing.

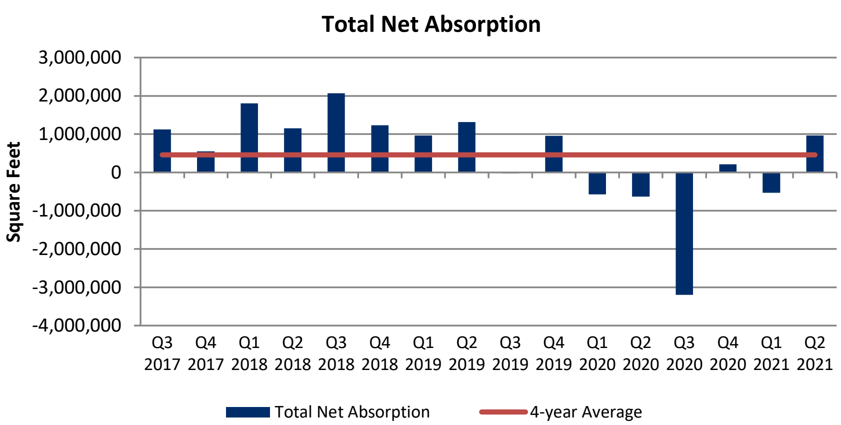
FEATURE: COVID-19 and its Impact on the Market

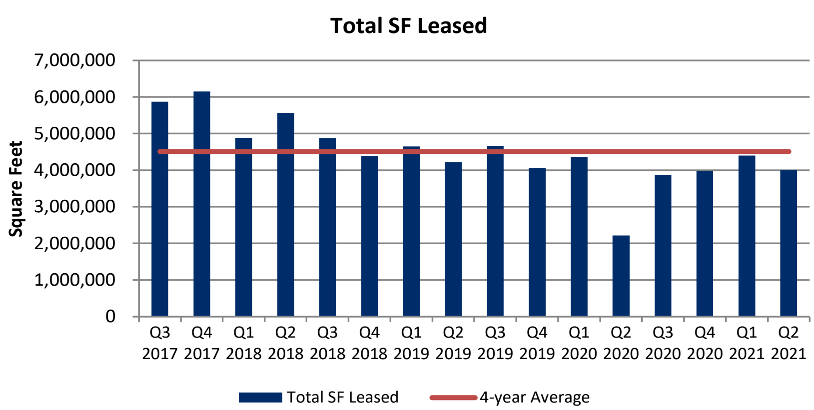
In Mid-March 2020, the Global COVID-19 Pandemic brought much of the New York region to a halt. The retail industry took the brunt of the losses in the early stages of the pandemic, as non-essential businesses were forced to close, and most were forced to operate under stringent guidelines. Although economies have reopened and vaccine distribution has helped mitigate concerns over social distancing and spread, many proprietors have closed their doors, unable to recoup the losses over the last year.

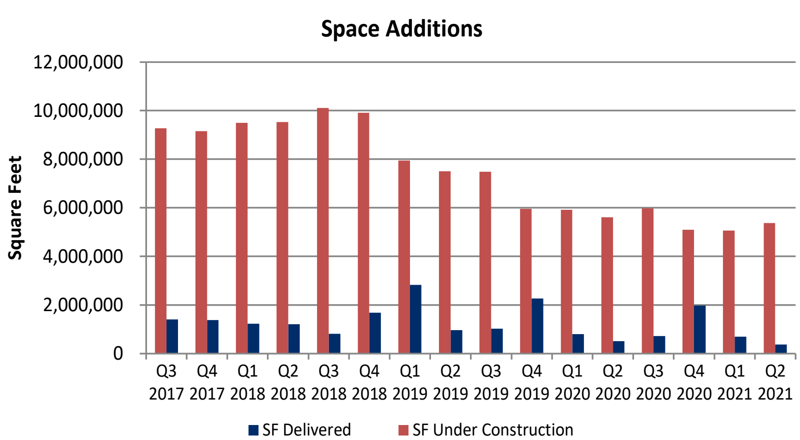
Regional Map











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MARKET FUNDAMENTALS:

Average Asking Rents & Vacancy

Vacancy rates trended downward from Q2 2012 to Q2 2019, before increasing each of the last two years, from 3.8% to 4.1% from Q2 2019 to Q2 2020, and from 4.1% to 4.6% from Q2 2020 to Q2 2021. Over the period, vacancy ranged from a low of 3.8% (Q2 2019) to a high of 5.4% (Q2 2012). Meanwhile, asking rents have been increasing gradually over time and continued to do so in Q2 2021 despite the rise in vacancy. 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 buildouts as a strategy to entice retail tenants and keep vacancies manageable.

Net Absorption and Leasing Activity

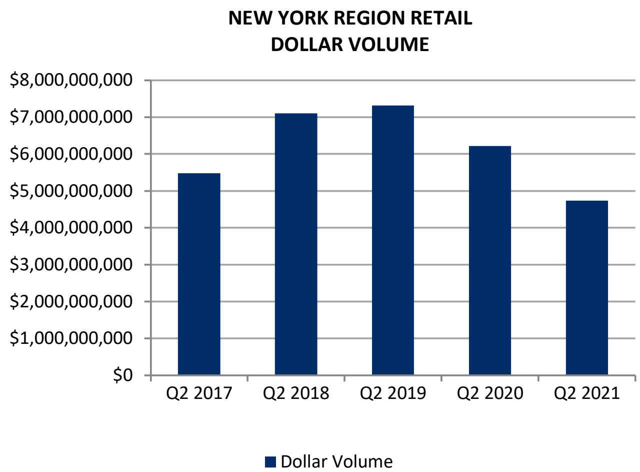
Total net absorption was positive in every quarter from Q3 2017 to Q4 2019 outside of Q3 2019, which saw a small amount of negative absorption. Absorption was negative in four of the six quarters from Q1 2020 to Q2 2021, including Q1 2021. Q2 2021 saw above average absorption, which is an encouraging sign. Meanwhile, leasing decreased sharply in Q2 2020 at the onset of the pandemic. Leasing has trended upward since but has not surpassed average levels since Q3 2019.

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 given the shift to e-commerce.

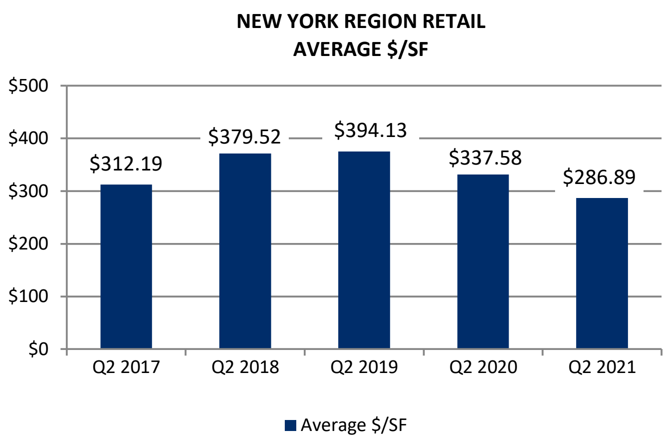
SALES (5 YEAR TREND): Volume

Total dollar volume for investment sales of retail real estate in the New York region trended upward from Q2 2017 through Q2 2019, ranging from $5.5 billion to $7.3 billion per fiscal year. Dollar volume decreased from $7.3 billion in FYE Q2 2019 to $6.2 billion in FYE Q2 2020, and again from $6.2 billion to $4.7 billion from FYE Q2 2020 to Q2 2021.



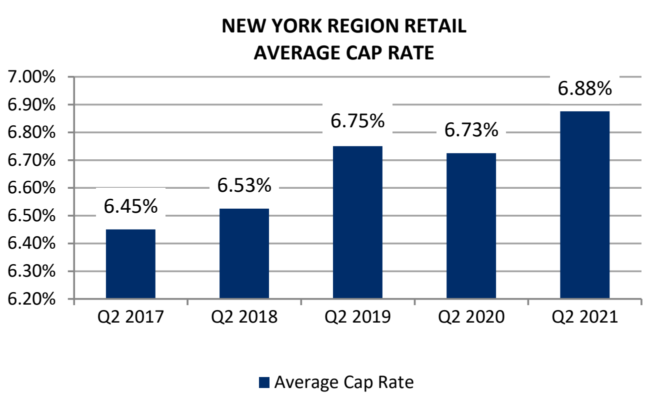
Average Pricing Per SF

Mirroring the trend in sales volume, price per square foot increased from FYE Q2 2017 through Q2 2019, before decreasing in FYE Q2 2020 and Q2 2021. Vacancies in this market have increased, which has translated to lower effective gross revenues, net operating incomes and sale prices. Many tenants have been unable to maintain rental obligations since the start of COVID-19 and have closed their doors.



Capitalization Rates

The average cap rate for retail transactions in the New York region has generally increased over the last five fiscal years. Over the period, capitalization rates have ranged from 6.45% (Q2 2017) to 6.88% (Q2 2021). Cap rates increased 15 basis points year-over-year, from 6.73% to 6.88%. Strip shopping centers have been hit hardest by changing consumer preferences and the rise of e-commerce.



SOURCE: CoStar, RCA, and Marshall & Stevens

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