

New York Regional Retail Market Topics and Trends – Q3 2020

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, but since the start of the COVID-19 pandemic, the pricing index has been trending downward. Even pre-pandemic, the peak achieved 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 2018, and vacancy rates have been increasing. Traditional retail uses are currently viewed as one of the riskier property types.

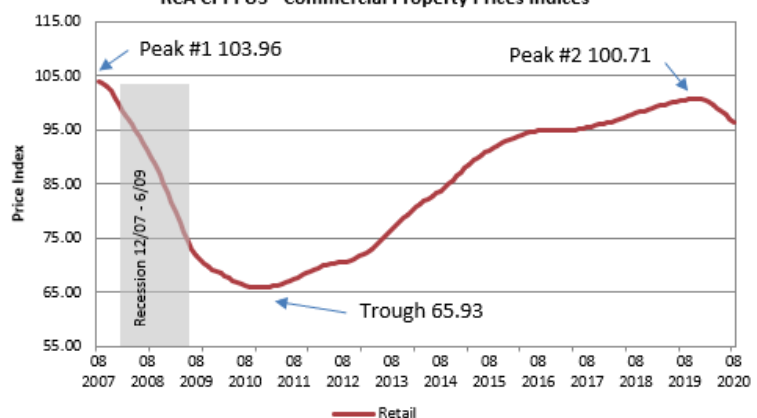
FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the New York region to a halt, but in June, many businesses opened again and resumed normal operations where possible. A large percentage of business are struggling as 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, especially as we get closer to the cold winter months.

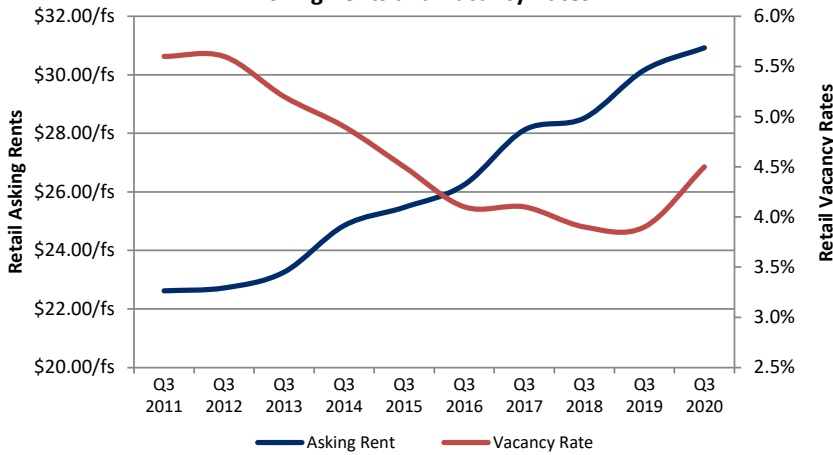
Regional Map



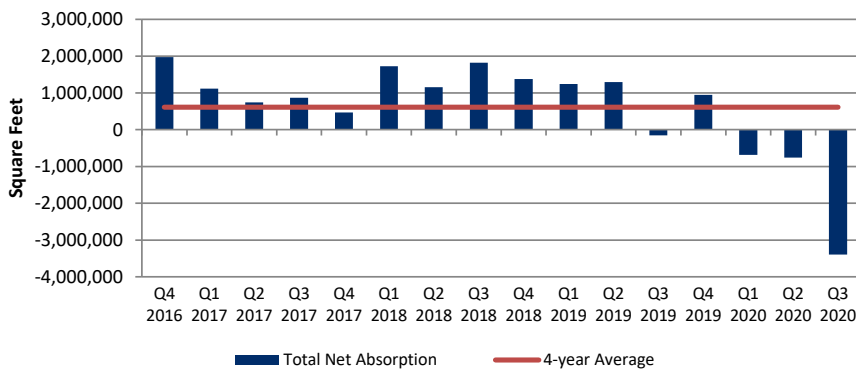
RCA CPPI US - Commercial Property Prices Indices



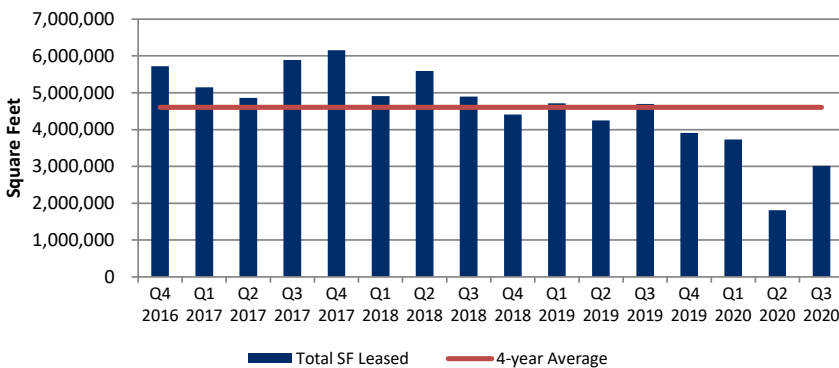
Asking Rents and Vacancy Rates



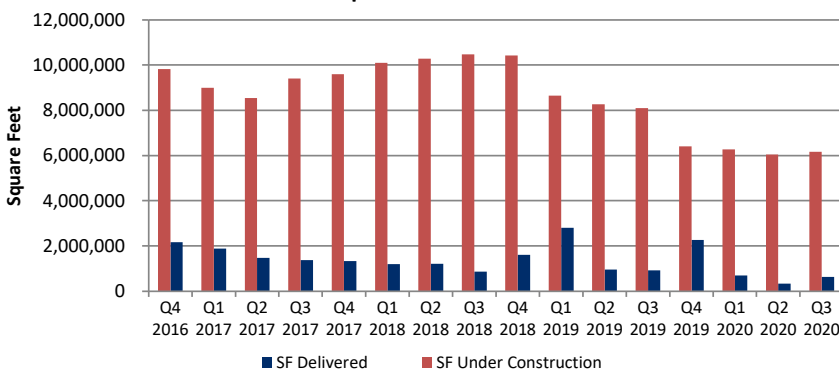
Total Net Absorption



Total SF Leased



Space Additions



MARKET FUNDAMENTALS:

Average Asking Rents & Vacancy

Between Q3 2011 and Q3 2019, vacancy rates generally decreased, ranging from a high of 5.6% (Q3 2011) to a low of 3.9% (Q3 2019). Over the past year, vacancy rates increased to 4.5%. Asking rents increased relatively consistently from Q3 2011 through the most recent quarter, ranging from \$22.62 per square foot (Q3 2011) to \$30.92 per square foot (Q3 2020). 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.

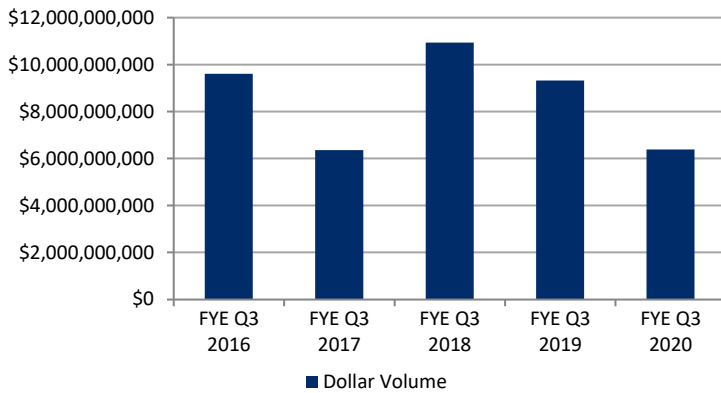
Net Absorption and Leasing Activity

Total net absorption was generally positive from Q4 2016 up until Q4 2019. Since the beginning of 2020, the region has been struggling to absorb space. Net absorption was abysmal in 3Q 2020. Total square feet leased has also decreased over the past year, although there was an increase in leasing activity in the most recent quarter, showing signs of optimism.

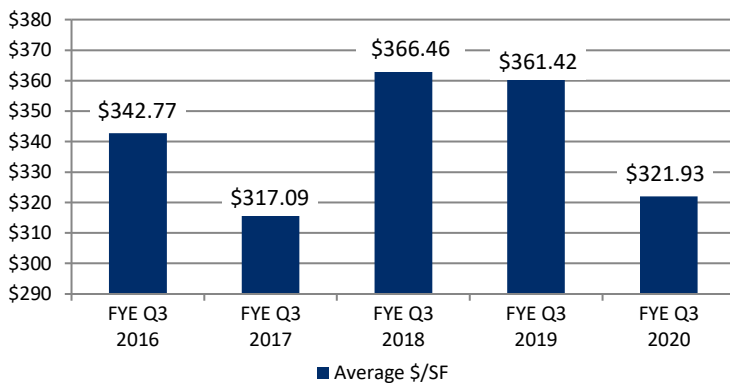
Space Addition Activity

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, and construction activity was briefly paused in response to the current pandemic. Construction has since resumed, 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 rapidly become the norm.

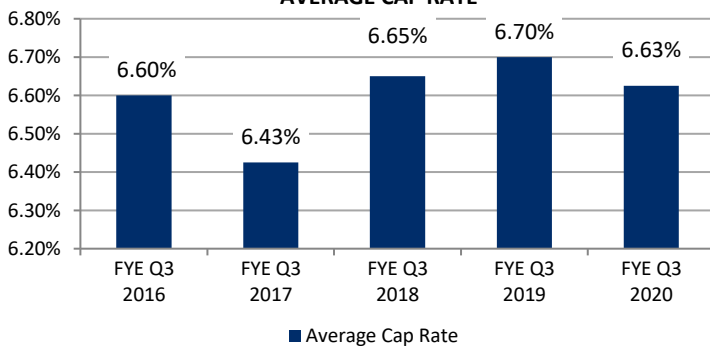
**NEW YORK REGION RETAIL
DOLLAR VOLUME**



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



**NEW YORK REGION RETAIL
AVERAGE CAP RATE**



SALES (5 YEAR TREND): 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 31% decline. Total dollar volume decreased from \$10.9 billion in 2018 to just \$6.4 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 be low in the coming months.

Average Pricing Per SF

Average pricing per square foot has been decreasing since 2018. The average as of 2020 was \$321.93 per square foot, which is a 10.9% decrease compared to the pricing seen in 2019. Market participants will be watching this metric carefully for the remainder of 2020.

Capitalization Rates

The average cap rate for retail transactions in the New York region remained relatively stable over the past three years, at approximately 6.66%, although the average has increased approximately 20 basis points since 2017. 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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