



# New York Regional Retail Market Topics & Trends – Q4 2020

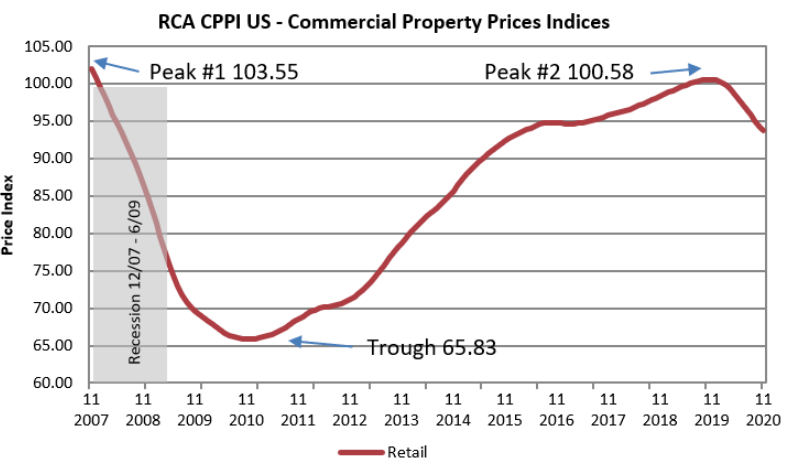
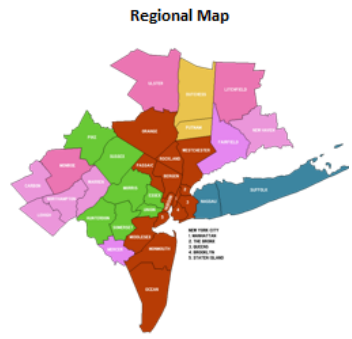
The demand for brick and mortar retail has been shifting in recent years as the rise of e-commerce has altered shopping patterns and societal preferences. As exhibited below, the RCA CPPI index increased for nearly 9 years, from 2011 through the end of 2019, but since the start of the COVID-19 pandemic, 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

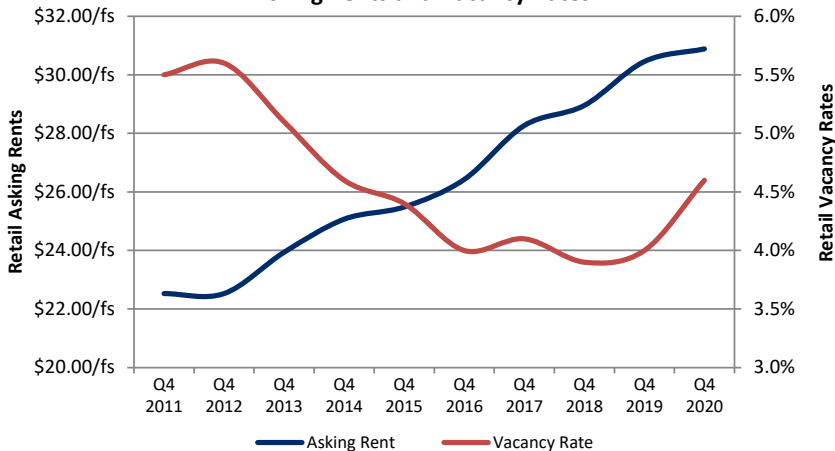
This report analyzes the trends in market fundamentals and investment sales in the New York-Newark, NY-NJ-CT-PA combined statistical area (CSA) retail market, including all retail property sub-types. Investment sales volume has been trending downward since 2018, and vacancy rates have been increasing. Traditional retail uses are currently viewed as one of the riskier property types.

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

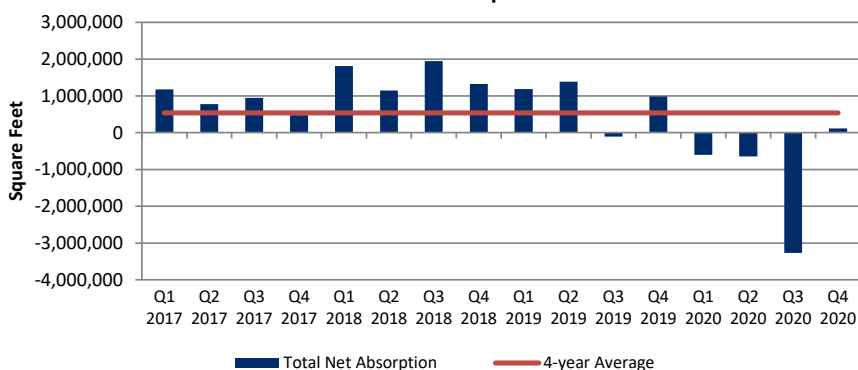
In Mid-March 2020, the Global COVID-19 Pandemic brought much of the New York region to a halt. Retail is one of the industries currently being hit the hardest. Most retail is considered non-essential and there are concerns about being indoors and maintaining social distance. In June, many businesses opened again and resumed normal operations where possible, but the recent, cold winter months have forced many to have limited outdoor operations or close their doors for the season.



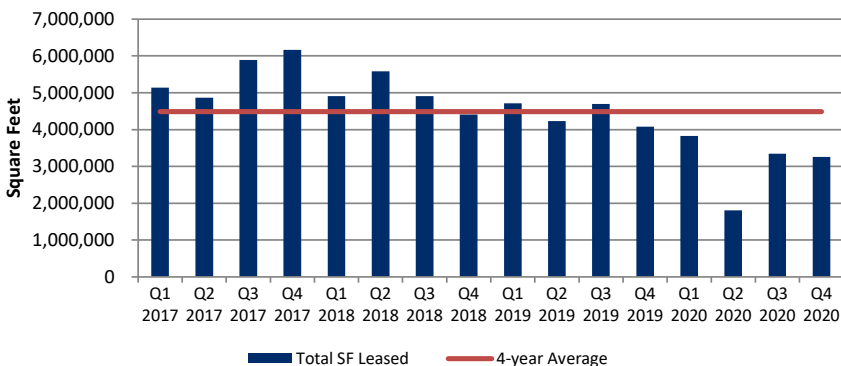
**Asking Rents and Vacancy Rates**



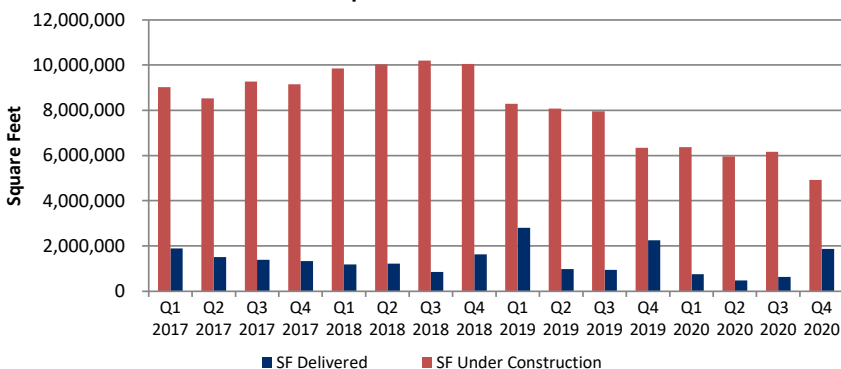
**Total Net Absorption**



**Total SF Leased**



**Space Additions**



**MARKET FUNDAMENTALS:**

**Average Asking Rents & Vacancy**

Between Q4 2012 and Q4 2018, vacancy rates generally decreased, ranging from a high of 5.6% (Q4 2012) to a low of 3.9% (Q4 2018). As of Q4 2020, vacancy rates increased to 4.6%. Asking rents increased relatively consistently from Q4 2011 through the most recent quarter, ranging from \$22.53 per square foot (Q4 2011) to \$30.89 per square foot (Q4 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.

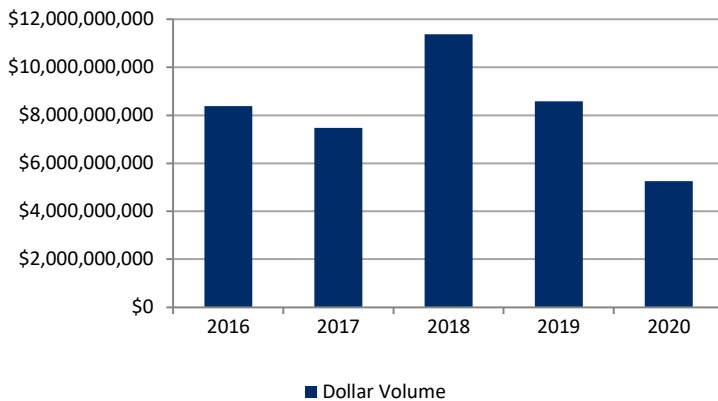
**Net Absorption and Leasing Activity**

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.

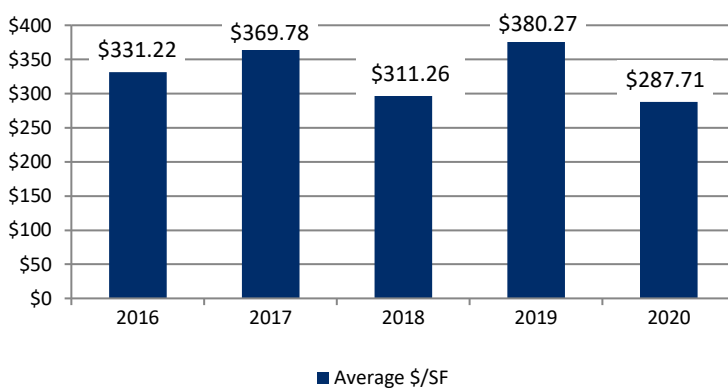
**Space Addition Activity**

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.

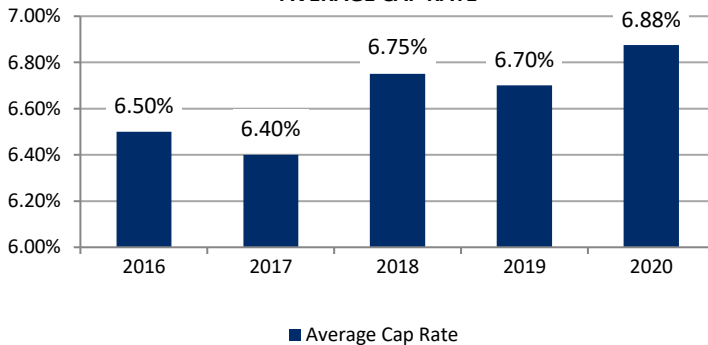
**NEW YORK REGION RETAIL  
DOLLAR VOLUME**



**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 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 be low continuing into the start of 2021.

**Average Pricing Per SF**

Average pricing per square foot has been fluctuating since 2016. The average as of 2020 was \$287.71 per square foot, which is a 24.3% decrease compared to the pricing seen in 2019. Market participants will be watching this metric carefully as we go into 2021.

**Capitalization Rates**

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 2020 was 6.88%, equating to an 18 basis point increase from 2019 and a 38 basis point increase from 2016. 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



**Patrick T. Craig, MAI, MRICS**  
Executive Managing Director  
Real Estate Valuation Practice  
212.897.9481  
ptcraig@marshall-stevens.com



**Emily Ferreira**  
Senior Associate  
Real Estate Valuation Practice  
646.438.7605  
eferreira@marshall-stevens.com



**Jacob Scott**  
Analyst  
Real Estate Valuation Practice  
646.438.7606  
jscott@marshall-stevens.com