

MARKET REPORT

Retail
Boston Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

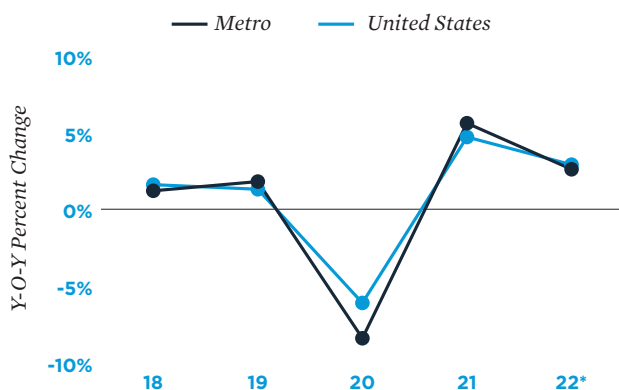
3Q/22

Boston Well-Positioned Against Lingering Inflationary Hurdles; Developers Look to Core

Retail activity strong through midyear, though headwinds arise. One of the nation's most highly-educated metros, Boston's concentration of high-income knowledge-based labor has helped insulate the local retail sector from inflationary headwinds. Consumer spending through the second quarter was up 9.5 percent over the previous year, exceeding the annual rate of inflation for this period. However, while local firms were expanding at a rapid clip in early 2022, hiring velocity has slowed in recent months as worsening economic outlooks and higher operating costs have caused some firms to re-evaluate personnel needs. Still, the market boasts a median income more than 50 percent above the national equivalent, propping up spending as many consumers ease discretionary purchases.

Tempered construction pipeline aids fundamentals. Development is proceeding at a measured pace when compared to pre-pandemic norms, when at least 1 million square feet were finalized per year. Additionally, less than 300,000 feet in the pipeline is scheduled for completion after 2022, suggesting that supply additions will decelerate further in the near term. However, development will increase in Boston proper and nearby municipalities, which should help alleviate tightness in urban zones. Of the three submarkets representing Boston and first-ring suburbs, Cambridge was the one locale entering July with availability above 2 percent. Low development should also restrain vacancy in Worcester and coastal New Hampshire, which have seen annual increases as of the second quarter.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**70,000
JOBS**

will be created

EMPLOYMENT:

Local firms continued to grow through midyear, but recruitment has dropped noticeably from early 2022. Though hiring has slowed in recent months, the employment base is on track to close out the year within 1.4 percent of the February 2020 level.



**975,000
SQ. FT.**

will be completed

CONSTRUCTION:

Annual completions fall below the 1 million-square-foot mark for the second time in three years. The average yearly construction total during the decade preceding the pandemic exceeded 1.75 million square feet.



**20
BASIS POINT**

decrease in vacancy

VACANCY:

A slower pace of development since the onset of the health crisis, in tandem with robust consumer spending, will drive availability back to the year-end 2019 rate, as vacancy closes out 2022 at 3.0 percent.



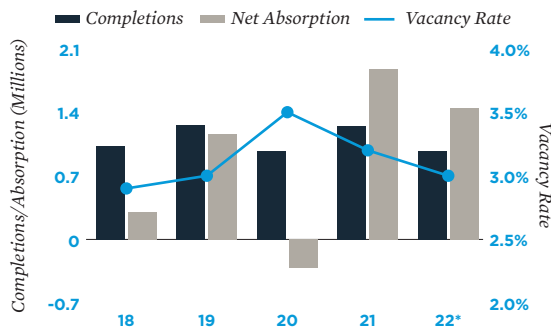
**6.4%
INCREASE**

in asking rent

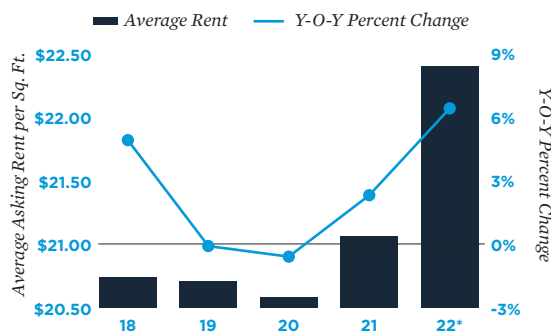
RENT:

The ongoing retail recovery will translate to the highest annual rent growth since 2016. The mean marketed rent will advance to \$22.40 per square foot, more than 7 percent above the pre-pandemic high.

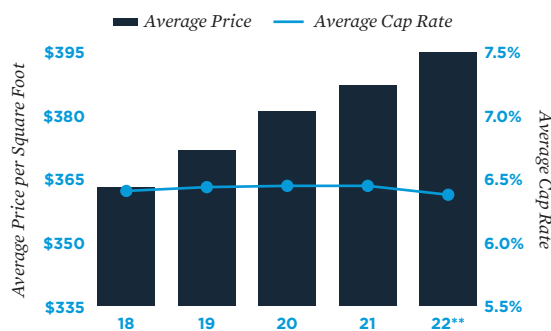
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

724,000 sq. ft. completed

- Builders finalized the second-lowest amount of space in an annual period since at least 2007 during the trailing year ended in June, only marginally exceeding a span when projects were delayed due to pandemic lockdowns.
- Less than 20,000 square feet came online in Boston-Suffolk County this period. Before the pandemic, completions averaged 160,000 square feet.



VACANCY

30 basis point decrease in vacancy Y-O-Y

- Net absorption has remained firmly positive since early 2021, bringing vacancy down to 3.1 percent entering July.
- Rescinded health restrictions drove leasing in Boston proper and its close-in northern suburbs, facilitating vacancy declines of no less than 70 basis points this span, driving availability to 1.9 and 1.3 percent, respectively.



RENT

6.1% increase in the average asking rent Y-O-Y

- Returning positive absorption supported a full recovery early in this term, leading to a record marketed rent of \$22.25 per square foot on average.
- Multi-tenant asking rents saw a double-digit gain this period, advancing 10.7 percent to an average of \$21.95 per square foot. Single-tenant rents grew just 5.1 percent, averaging at \$22.32 per square foot.

Investment Highlights

- Investors have maintained their pursuit of deals through midyear 2022, keeping transaction velocity during the trailing year ended in June well above pre-pandemic highs. Deal flow during this span surpassed the record achieved in 2017 by more than 30 percent, with multi-tenant and single-tenant assets both changing hands at an elevated rate.
- The multi-tenant segment led pricing gains during the trailing 12-month span ended in June, marking a 3.2 percent advance to an average of \$327 per square foot. Single-tenant pricing increased 2.6 percent to \$465 per square foot during this period, with growing trades of properties in lower-cost exurban zones contributing to slower price growth in this segment.
- Increasing trades of single-tenant assets in outlying regions may stem from a notable gap in cap rates between suburban and core-adjacent zones. High-credit national tenants will often trade in the high-4 to mid-5 percent band when changing hands in the city of Boston and first-ring suburbs, though similar opportunities in Worcester County and Southern New Hampshire typically feature yields above 6 percent.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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