

# MARKET REPORT

RETAIL

Boston Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

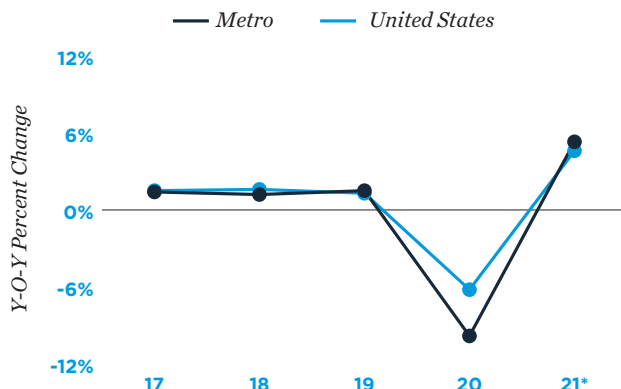
3Q/21

## Retail Properties Find Broad Stability in 2021 as New Jobs and Higher Spending Lift Outlook

**Retail sector emerges from pandemic shakeup.** After a challenging 2020 when the employment base contracted by nearly 10 percent and retail vacancy rose 50 basis points, tenant demand has markedly improved. Through the first six months of 2021 nearly 740,000 square feet of retail space was absorbed, aided by consumer spending that is roughly 20 percent above pre-pandemic levels. Some of the businesses occupying space include grocers and various fitness concepts. At the same time, the interruption of foot traffic pushed some long-beleaguered properties into redevelopment. This shakeup of inventory will ultimately strengthen Boston's retail landscape longer term, with accelerating household formation likely to bolster consumer spending and retail space demand in the years ahead.

**Suburbs ahead of central business district in recovery.** Property performance is strongest in the metro's suburban areas, where many households relocated during lockdowns. June vacancy was down annually in places such as Southern New Hampshire, along Route 128, and around Framingham. The latter submarket recorded double-digit rent growth, along with four of the market's 12 other submarkets. Closer to the core, availability has stabilized in Cambridge and in Suffolk County at 3.9 percent and 2.7 percent in June, respectively. Reopened businesses and returning college students bode well for shops here, although marketed rental rates have yet to make notable headway.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2021 Outlook



**135,000  
JOBS**

*will be created*

### EMPLOYMENT:

The hiring of over 106,000 personnel through the first seven months of 2021 will propel the market to a 5.3 percent increase in staff counts this year. The unemployment rate as of July was 4.4 percent, below the U.S. level but still above Boston's pre-pandemic low.



**1,100,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

While retail deliveries will rise to the highest level in four years in 2021, the market's total inventory will only expand by a modest 0.4 percent. Arrivals are focused along Route 128, spreading out north, west and south of the city of Boston proper.



**0  
BASIS POINT**

*change in vacancy*

### VACANCY:

After a net 515,000 square feet was relinquished last year, the absorption of space returned to a positive level in 2021. Demand is broadly expected to match supply, keeping the vacancy rate stable at 3.5 percent after a 50-basis-point jump in 2020.



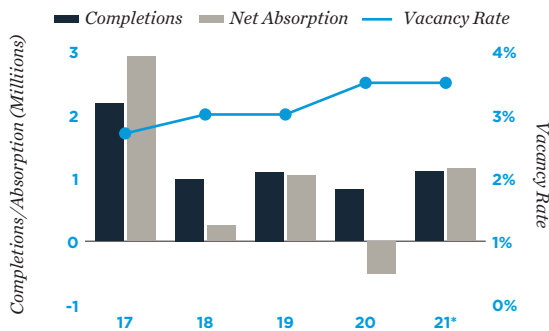
**1.4%  
INCREASE**

*in asking rent*

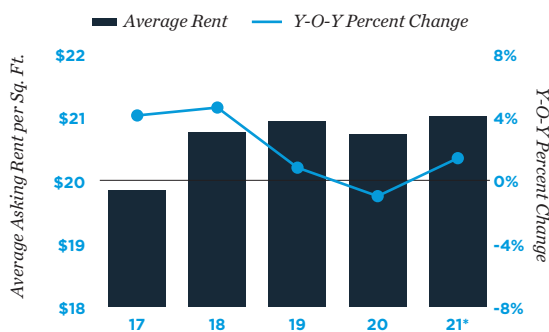
### RENT:

The addition of some new retail space as well as an improved level of leasing activity will help asking rates climb this year. By the end of 2021, the metro's average rate is expected to achieve \$21.01 per square foot, just below the previous high.

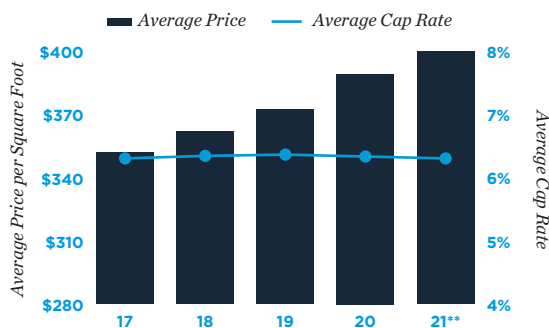
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

### IPA Retail

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Price: \$250

## 2Q21 – 12-Month Period



### CONSTRUCTION

**743,000** square feet completed

- About 320,000 fewer square feet was delivered between July 2020 and June 2021 than in the preceding yearlong span. Another 900,000 square feet is currently underway with opening dates through 2022.
- Of all submarkets, the most space opened in Suffolk County, led by the retail component of the Echelon Seaport residential community.



### VACANCY

**20** basis point increase in vacancy Y-O-Y

- Boston's vacancy rate was up moderately year over year in June at 3.4 percent but is down 10 basis points from the start of 2021.
- Multi-tenant vacancy has fallen 40 basis points since the end of 2020 to 4.5 percent at midyear, while availability among single-tenant properties dipped by a more modest 10 basis points to 3.1 percent.



### RENT

**2.3%** increase in the average asking rent Y-O-Y

- After dropping to a low of \$20.40 per square foot last year, the average asking rent has inched up to \$20.96 per square foot as of June.
- Multi-tenant asking rents have recovered from a drop last year, up by an average of 11.2 percent annually in June. The single-tenant mean inched up 0.6 percent in that span, having shifted minimally in 2020.

## Investment Highlights

- Despite the challenges imposed on retailers by the health crisis, transaction velocity for single-tenant assets for the 12-month period ended in June was only down about 12 percent relative to the previous yearlong span. The average sale price rose 3 percent to \$459 per square foot in that time, while the mean cap rate held steady at 6.2 percent.
- More single-tenant properties changed hands in Essex County than elsewhere in the metro, led by trades of restaurants and storefronts in Lawrence for first-year yields that could climb above 7 percent.
- Investor interest in multi-tenant assets continues to improve, with sales activity achieving a pandemic high in the second quarter. Competition for quality listings over the 12 months preceding July pushed the average sale price up 5 percent year over year to \$328 per square foot, with a corresponding cap rate average of mid-6 percent.
- As in recent years, multi-tenant transactions were most common in Middlesex County, including in high-priced Harvard Square. Investors seeking lower entry costs looked more toward Concord-Maynard.