Commercial RealEstate Direct

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Small-Cap Retail Properties Blossom in 3Q, See 8.4Mln SF of Absorption

The country's small-capitalization retail properties enjoyed roughly 8.4 million square feet of net absorption during the third quarter, according to analysis by Boxwood Means LLC. That makes the retail sector the best performing of the three major sectors tracked by the Stamford, Conn., valuation and research company.

Boxwood Mean, which relied on data compiled by CoStar Group, noted that the small-cap retail sector has benefited from healthy retail sales, which increased in September by 3.8 percent from a year ago.

It noted that the latest quarter was the 12th straight quarter in which the sector has had positive absorption, the leasing of previously vacant space.

Demand for space got crushed during the second and third quarters of 2020, largely as a result of the Covid lockdowns. It's been on a healthy upswing since. The overall occupancy rate for the small-cap sector improved by 10 basis points from the second quarter, to 3.4 percent.

The availability rate, which includes space that's actively being leased directly, even though it might be occupied, and space that's available for sublease, remained relatively flat at 4.5 percent, 10 bps from its all-time low.

Boxwood Means tracks small-cap properties, meaning those with 50,000 square feet or less.

The retail properties it tracks typically are stand-alone stores, strip centers and street-level retail stores. It noted that the sector has been bolstered by a relative lack of deliveries. This year, deliveries are at a 10-year low. As a result, asking rents are up 3.9 percent from last year and 16 percent since the Covid lockdowns.

Meanwhile, small-cap office properties continue to plod along, continuing to outperform their larger-cap brethren. The overall national vacancy rate is 21 percent, according to JLL.

But the country's small-cap inventory, which Boxwood Means estimates accounts for roughly half of the country's total office stock, was just 6.5 percent vacant, basically flat from the second quarter, with an availability rate of 8.5 percent. The latter is only 40-bps higher than the sector's all-time low recorded last year. The long-term availability average for the sector is 10.5 percent. In addition, the difference between the vacancy and availability rate is far less than the long-term average of slightly more than 2.5 percentage points.

Meanwhile, the small-cap office sector had 1.2 million sf of net absorption during the latest quarter, reducing the negative absorption for the year so far to 4.3 million sf. Negative absorption is the vacancy of previously occupied space.

In contrast, JLL estimated the overall office market to have suffered 18.3 million sf of negative absorption during the latest quarter, taking the year-to-date total to 51 million sf.

While both the small-cap retail and office sectors continue to perform relatively well, the industrial sector has suffered as a result of reduced imports, manufacturing activity, factory-order backlogs and customer inventories. Boxwood Means calculated that the sector suffered 6.1 million sf of negative absorption during the latest quarter, bringing the tally for the year so far to 18.4 million sf.

As a result, the vacancy rate had increased by 20 bps during the latest quarter to 3.4 percent. Availabilities, meanwhile, increased by 30 bps to 4.8 percent.

The last time that sector had suffered as much negative absorption was 14 years ago, but the availability rate remains well below long-term averages.