NATIONAL PERSPECTIVE

St. Louis retailers seeing growth

PAUL FUSZ
CBRE

The retail real estate industry had an exciting 2013. For the first time in five years, there is velocity in the market, positive rent growth, net absorption and new project announcements. This is a transformation from the store closures, selective expansion and overall uncertainty during the Great Recession. Lower vacancy rates and limited speculative construction will drive rates higher in 2014. It will prove to be a pivot year in the recovery that bodes well for all in the retail real estate industry.

Paul Fusz

Menards, the privately-held home improvement superstore, aggressively entered the market with two stores opening and three more under construction. Two outlet malls opened in Chesterfield Valley. The much-anticipated announcement of Ikea choosing a site in Midtown is a huge boon for the city of St. Louis and will surely lead to more retail development in the city. CVS, Walgreens, Quick Trip, U Gas and other fuel providers will continue to compete for well-traveled corners. Additionally, Gander Mountain, an outdoor lifestyle retailer chose Fenton as their first location in the St. Louis Metro.

There is increased activity in the grocery segment. St. Louis is fortunate to have two strong local grocers, traditional stalwarts Dierbergs and Schnucks, which have continued to open new stores. Specialty grocery stores Whole Foods, The Fresh Market, Fresh Thyme, Trader Joe's, Fields Foods and Lucky's have announced growth plans for St. Louis. Not to be outdone by the specialty grocers there is increased activity in the discount sector. Aldi has continued to expand and is now entering more affluent markets. Kroger has its eyes set on re-entering St. Louis with their Ruler Foods concept. Wal-Mart has completed their Supercenter renovations on all locations and Target is offering more perishable items.

Price gains in the retail sector are outperforming all other property types as investors have focused their attention on retail properties. St. Louis continues to be a favorable market for out-of-town investors seeking retail, as these buyers crave the stableness of our Midwest market. Manchester Highlands, Deer Creek, Mayfair Plaza and Cross Keys all traded in 2013. In addition to the power center activity, there have been numerous pharmacy, auto parts and fast food assets transact this past year. Secondary markets will see increased capital investment in retail due to shrinking supply in major markets. The out-of-town investor will continue to chase the favorable yield our market provides.

There are still hurdles in the recovery to overcome. Retailers such as Barnes & Noble, Best Buy, Sears and JC Penny will continue to face fierce competition from other retailers. The market will see a continuing trend of retailers right-sizing their stores. Retailers will prefer to locate stores at infill locations with closer proximity to rooftops and a focus on convenience. Grocery, discount, pet and office concepts have all economized their formats. In addition to smaller store sizes, we are seeing retailers embrace omni-channel retailing, combining all shopping channels into one unified campaign to meet consumer demands. The Internet poses a threat to traditional retail stores and accounted for 14 percent of all holiday shopping in 2013; however, the strongest retailers are embracing the Internet. It is the front door to their store, not an impediment to their success.

We are living in an era of immense change in the retail landscape surrounded by new and exciting technology. Retailers that can provide a comfortable environment and a unique experience will not only survive, but thrive.

INDUSTRIAL

Industrial explodes in 2013

ED LAMPITT, SIOR, CCIM
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By every statistical analysis, the St. Louis industrial market hit bottom in 2010. That was obvious. Not so obvious is the gains the market has made ever since. Like a volcano that has been active below ground for a couple of years, the market exploded in 2013. Consistent with the national industrial market, 2013 was a break out year for traditional industries like consumer products and automotive, but also the not so common, such as medical supply and health care.

Ed Lampitt

Absorption in 2013 totaled 1.4 million square feet, a total that is not only double from 2012, but more square foot than 2011 and 2012 combined, both respectable years in their own right. Companies continue to look to newer, more efficient buildings evidenced in the fact that 80 percent of the 2013 absorption was achieved in the Class A market.

North County, the submarket hit the hardest during the recession, experienced the largest comeback, with over 1.2 million Square foot of positive absorption. 3PL companies led the way with Jacobsen Companies leasing 494,000 Square foot and 73,000 Square foot in two buildings in Park 370 owned by WestCore, and Tagg Logistics leased 200,000 Square foot at the long-vacant Hazelwood Logistics Center, under new ownership as well. Both 3PL companies left behind older, antiquated buildings for newer, more efficient distribution space. Another positive sign of the times is the first build-to-suit to come to Aviator Business Park with International Foods leasing 227,000 Square foot from Panattoni.

Gateway Commerce Center continues to be the crown jewel of industrial submarkets in St. Louis and 2013 didn't disappoint with a couple of monsters grabbing the headlines. Proctor & Gamble built, combined, expanded and extended to develop its single largest distribution center operation in the world, leasing a state-of-the-art 2.1 million Square foot two building campus in the heart of Gateway Commerce Center. Not to be outdone, Unilever renewed its commitment to Gateway with a 1.2 million Square foot 10-year renewal and a 300,000 Square foot expansion lease across the street. Most believe Unilever is not done with these two deals, which will be fun to watch in 2014.

There is no question 2013 was the year of the "big" deals with 4.4 million Square foot of deal activity. This kind of leasing will obviously have an impact on vacancy and we saw some big jumps last year. The overall market of 234 million Square foot saw a 50 basis points drop in 2013 to an even 8 percent. Once again, the real story is in the Class A markets. St. Louis' overall Class A market dropped to 10.8 percent, a 14 percent drop from 2012. With current activity, the Class A market will drop below 10 percent, the first time since 2005. North County, with admittedly the longest road back, dropped to 14.4 percent from 24.6 percent in 2010. In 2012, North County Class A vacancy saw a 45 percent drop since 2012.

The Metro East vacancy has remained below 10 percent since 2008; with current leasing activity Gateway Commerce Center will have virtually no available space in the first quarter of 2014. More to come on that...

Not to be outdone, the St. Charles submarket is at all-time lows as well. It's overall market vacancy is at 2.8 percent and if you are looking for Class A space, you will have a tough time with a vacancy less than 1 percent. Fenton is still a safe bet as well; current numbers are not at jaw dropping lows as some other markets but that is driven primarily but one large vacancy. Leasing activity tells us that vacancy won't last long and Fenton will be grabbing headlines again with low vacancy and consistent demand.

This kind of news can only mean one thing: rent is on the rise. Positive absorption and declining vacancies has leveled the balance of power between tenants and landlords which may actually swing the way of the landlord in 2014. Very simply, rents have doubled in certain markets. Now, admittedly, they have doubled from all-time lows, but doubled nonetheless. Certain submarkets (Metro East and St. Charles County) fared better than others through the recession but they all have responded in 2013 with double digit gains across the board. Rents will return to prerecession highs of 10 years ago in 2014.

All of this leads us to one question: When will speculative construction return to St. Louis? We will discuss that and much more at the SIOR Metro Market Forecast Tuesday morning.