New England Sails Ahead

Retail development in the New England region, especially Boston, continues to increase after a slowed pace during the Great Recession.

Scott Reid



Douglass Karp of New England Development believes the demographics of Chestnut Hill, Mass., have long called for a mixed-use project like Chestnut Hill Square (pictured above).

he Boston and New England markets historically have been slow to bring new development online, largely due to expensive land costs and bureaucratic hurdles. However, several developers and builders have been laboring over the past several years to bring large, mixed-use projects to these markets.

With several large retail projects coming online in Boston this year, retailers are trying to position themselves in the notoriously difficult-to-enter market in order to reap the benefits of an affluent and highly educated consumer base.

According to Marcus & Millichap's 2014 National Retail Report, Boston ranks seventh on the National Retail Index, a list that ranks 46 major retail markets based on their cumulative weighted-average scores for indicators that include forecast employment growth, vacancy, construction and rents.

The Boston area's tight vacancy rates and rising rents allow it to maintain its position at number 7, the same rank as 2013.

Marcus & Millichap also forecasts that new construction square footage will increase from 930,000 square feet delivered in 2013 to 1.7 million square feet in 2014 — a solid number for a market with notorious barriers to entry. Space demand will rise and vacancy will dip 50 basis points this year, settling at 4.2 percent. Last year, vacancy declined 30 basis points.

The report also predicts that rents in the metro area will rise to an average of \$16.12 per square foot in 2014, an increase of 3.5 percent from 2013. The report anticipates that the majority of the space that will be completed in 2014 will come online pre-leased, leaving many national retailers shut out from this competitive market.

Outside of the metro Boston area, the

Connecticut counties of New Haven and Fairfield will see its retail rents increase as the vacancy rates tighten, according to the 2014 National Retail Report. Marcus & Millichap forecasts that vacancy in New Haven and Fairfield counties will decline 30 basis points in 2014 to 4.7 percent; in 2013, vacancy dropped 90 basis points. This decreasing availability of space will allow landlords to raise asking rents of 2.1 percent to \$18.05 per square foot. In some instances, the limited vacancy will cause retailers to backfill existing space. For example, at General Growth Properties' Brass Mill Commons in Waterbury, Conn., Petco and TJ Maxx have filled a recently vacated Shaw's Supermarket.

Development is increasing in the area. Projects currently underway include Steel-pointe Harbor in Bridgeport, Conn., a 2.8 million-square-foot mixed-used development by Bridgeport Landing Development

ment LLC that will be anchored by the first Bass Pro Shops store in Connecticut. The project will eventually feature nearly 800,000 square feet of retail; 200,000 square feet of commercial/office space; 300,000 square feet of hotel/meeting area; a 250-slip marina with shore-side support; and up to 1,500 residential units.

The retail report also predicts that employment in the two-county market will increase 1.3 percent with the addition of 10,000 jobs. Builders will deliver 340,000 square feet of retail space in 2014, an enormous increase from the 68,000 square feet that was brought online in 2013.

BOSTON DEVELOPMENT

With such a limited supply of space and a high cost of entry in the Boston metro area, developers are entering the market through the pre-existing supply. The Wilder Companies, along with Jonathan Bush, the CEO of athenahealth, and Boyleston Properties purchased Arsenal Mall in Watertown, Mass., in 2013 from Simon Property Group. According to Wilder Companies Principal Andy LaGrega, the mall, now known as The Arsenal Project, will soon be upgraded.

"Currently the center is just a 'B' mall," says LaGrega. "Our goal is to convert it into an open-air, mixed-use development that will include specialty retail, offices, and if the zoning is changed, residential."

The Arsenal Project boasts a location directly on the Charles River. At the moment, residents of Watertown who want to shop specialty retail must drive to Boston, Dedham or Chestnut Hill, but, according to LaGrega, Watertown boasts a large population with more households in the over-\$200,000 income bracket than Chestnut Hill, which is largely regarded as one of the most affluent areas of Greater Boston.

The redevelopment will also add five or six restaurants, the majority of which will be locally owned. "We're getting away from the national chains," says LaGrega. "We think what makes our centers special is having that local entrepreneur or restaurateur."

Throughout all of Wilder's centers, a trend that LaGrega has noticed is the need to make centers special, to make them a destination for experiences the consumer can't order or visit from their home computer. Wilder has added or is planning to add to its centers experiential,

fitness-chain tenants such as LA Fitness, SoulCycle, Flywheel and BFX Studio. "These are things people can't get over the Internet," says LaGrega.

To Brian Sciera of WS Development, the importance of giving consumers a memorable experience is unparalleled. "There's so many things you can get on the Internet," says Sciera. "We are trying to separate ourselves by not only bringing great retailers to the site, but by creating experiences."

The developer's MarketStreet Lynnfield project in Lynnfield, Mass., opened last year with 300,000 square feet of retail

including Whole Foods, Lululemon Athletica, Williams-Sonoma, Loft, and Yard House. Phase two of the retail portion will begin this year. Set to include 100,000 more square feet, it will open spring 2015. By the end of May of this year, 75 percent of phase two had already been pre-leased. According to Sciera, tenants will include Pottery Barn Kids, Banana Republic, Gap, Wahlburgers and Nike.

WS Development also has a hand in the Seaport Square project, which will include 20 city blocks and 6.5 million square feet. WS Development is leasing the 1.3 million square feet of retail that will



ASSEMBLY ROW: BREAKING THE RULES

Outlet retailers have traditionally been located outside of urban areas, away from brands' flagship location, but Rockville, Md.-based Federal Realty Investment Trust listened to consumer demand and convinced major retailers that the demand in Somerville, Mass., was high enough to lease at its Assembly Row project, just 4.5 miles from downtown Boston. "We've broken every rule that you can in the outlet retailing world, but the retailers have very much embraced it and they really like what they see so far. Most of the success we've had has been with vertical retailers," says Chris Weilminster, executive vice president of real estate and leasing at Federal Realty. "These outlet retailers are looking at ways to expand and get closer in [to the city], and they see this as a bridge to their full-line stores."

The retail outlet portion of Assembly Row is opening this year, with other retailers opening on a rolling basis between now and the early fall. This phase of the development will feature 300,000 square feet of retail outlets and restaurants, as well as 100,000 square feet of office space and 450 residential units. Tenants that will open in 2014 include Nike Factory Store, Legoland Discovery Center, AMC Theatres and Saks Fifth Avenue Off 5th, as well as Reebok and Clark.

Federal Realty bought the 22-acre site of a former Ford Motor plant in 2005, and retailers have already been operating for several years in Assembly Square Marketplace, the redeveloped space adjacent to Assembly Row. Anchors at Assembly Square Marketplace include Staples, Sports Authority and Bed Bath & Beyond, but Assembly Row is a massive undertaking from the ground-up.

"The fruits of our hard labor are about to pay off and we could not be more excited," says Weilminster.

Assembly Row has the distinction of being a truly transit-oriented development, an important factor in Boston retail. The MBTA station at Assembly Row is the first new stop added to the Orange Line in 28 years.

"It almost took a small act of Congress to do it," says Weilminster, "but the mayor of Somerville could not have been a better partner."

The public spaces and the infrastructure improvements, and the commitment of the city to help facilitate those things and help participate through the different public funding resources, very much aligned with Federal Realty's commitment to build a vertical mixed-use development where there would be retail, residential and office, which would help generate local jobs and provide the city with a whole new opportunity of commerce, according to Weilminster.

The development of The Outlets at Assembly Row was a long time coming, and Weilminster is confident that it will improve the landscape of Boston retail.

"We're very happy and pleased, and feeling very optimistic and bullish for Assembly Row and the potential for future development," says Weilminster. "We're very happy to be in Boston and constantly looking for opportunities to expand our portfolio in the metro area. We think it's a great market."

-Scott Reid

serve 2.6 million square feet of residential space; 1.3 million square feet of scientific research office space; 150,000 square feet of civic/cultural space; and 850,00 square feet of hotel rooms. Two of the blocks under construction now will open in fall 2015 and spring 2016, while two other blocks began construction this summer with a fall 2016 opening. The lengthy Big Dig construction project opened up waterfront real estate that, according to Sciera, "made it the easiest place to get to in all of the metro Boston area." The waterfront area is now accessible from Interstates 90 and 93, the Silver Line of the MBTA and the rest of downtown.

In Chestnut Hill, WS Development has been redeveloping Chestnut Hill Shopping Center since 2012. The company is transforming the center into a dynamic, modern project called The Street. The redevelopment will expand the current center to 406,000 square feet. One building, previously home to a Bloomingdales and Macy's, was torn down and rebuilt. The redevelopment of the other building was finished in 2013, and now a third building of 80,000 to 90,000 more square feet will be built on-site to house tenants. The tenant mix at The Street now includes some of the hottest retailers on the market, including Lululemon Athletica, Sports Club/LA, SuperLux Movie Theater, Shake Shack, Vince and Bluemercury.

New England Development's Chestnut Hill Square has opened tenants since the fall, but its anchor, a Wegmans grocery store, opened this spring to huge success. Douglass Karp, executive vice president of New England Development, predicts 100 percent of Chestnut Hill Square's tenants will open by the fall.

Karp feels that the Chestnut Hill area has long been in need of a mixed-use project, especially one with restaurants and supermarkets. "The combination of those, plus retail and a first-class health club, we thought, made for a great center," says Karp. "We also have 60,000 square feet of medical office that opened last fall that is complementary to the other tenants." When individuals visit health care providers, Karp explains, they are often accompanied by friends or family who seek out places to dine or shop during the medical appointment. Beth Israel Deaconess Medical Center will lease 30,000 square feet for urgent care, orthopedic sports medicine, physical and occu-



New England Development's University Station project will include 2 million square feet and include tenants such as Wegmans, Target and Nordstrom Rack.

pational therapy, primary care practices, obstetrics and gynecology, and radiology, and will open this summer.

Another project by New England Development, University Station in Westwood, Mass., is now under construction. It will include 2 million square feet of mixed-use development, with its first phase of retail that will open spring 2015 spanning roughly 500,000 square feet. It, too, will have a Wegmans, as well as Target, Nordstrom Rack and other notable tenants. The development's 130 acres will also include 350,000 square feet of office space, 250,000 additional square feet of retail to open in a later phase, 650 residential units, 150 hotel rooms and 100 units of assisted living.

Farther out from the Boston metro area, at Wilder's Garden City Center in Cranston, R.I., the tenant mix has shifted over the previous year. The 500,000-square-foot specialty center added Anthropologie and Pinkberry in the space that previously was filled by big-box retailers Borders, Linens N Things and Circuit City. Since the bankruptcy of those big boxes, Wilder has brought in Pottery Barn, Sephora, J. Crew, The Container Store, LA Fitness and more. "It changed the whole profile of the center," says LaGrega. "The center did great before, and it's doing great now."

BARRIERS TO ENTRY

Because of the geography and age of New England, sizeable retail properties are notoriously difficult to develop. Zoning is arduous and can often take several rounds to get approval. In Chestnut Hill, New England Development had to alter



The Seaport District will feature 1.3 million square feet of retail across 20 city blocks.

the zoning to get Chestnut Hill Square off the ground. To create the overlay district, they worked with the 24 members of the board of aldermen in Newton. With four members of the board absent, the rezoning was approved 20-0. For University Station in Westwood, representatives of New England Development went to a full town meeting to enact legislation to build the project. More than 1,200 residents attended the meeting, and between 90 and 95 percent of attendees

accepted the changes. The project will open spring 2015.

"New England Development values the communities in which we do business and works cooperatively with local officials and residents throughout the development process," says Karp. "We take our role as a good corporate citizen and our commitment to creating lasting value for communities very seriously."

Sciera of WS Development notes that the barriers to entry that developers encounter in New England are more a welcome challenge than a hindrance. "It's part of the reason we like New England," he says. "You always have to solve traffic issues because of the

density; you always have issues because of the supply and demand of the land; the land cost is expensive; and because the permitting process is arduous at best, you have to have staying power and marketing knowledge to get the permits."

When the developments are operational, they are worth any challenges WS faced, Sciera says. "We're selective about who goes into these centers and then we fill them and they stay filled, and in the process they become very productive gems."

THE UPPER HAND

Nancy Davids, a director with the Boston-based law firm Goulston & Storrs and co-chair of its retail, restaurant, and consumer group, has seen much of the change that's come to the Boston area. "One of the things we're spending a lot of time with is focusing on urban projects," she says, "and creating neighborhoods and community in places where it hasn't existed." For years, Pier 4 of the Seaport District consisted of parking lots and industrial and underutilized area. "All of the sudden," says Davids, "it's just taking off."

Asked if the current retail climate favors the tenant or the landlord in development, Davids says that it depends on where the project is located and how desirable it is for tenants. "A developer needs to feel like they have to make the deal there, not 'can I make this deal somewhere else?" says Davids.

"For a long time the leverage has been more for tenants with an oversupply of space, but I think in urban areas that's not really the case. In those projects we will see the leverage shift a little bit more to the landlord," she says.

Tenants, according to Davids, have to figure out how to do multi-channel retailing and be successful online and in bricks and mortar. "How many locations does a retailer need?" asks Davids. "Certain locations are critical to their brand, and retailers need to figure out where those are."

Goulston & Storrs recently worked with Garden City Center and The Street to retenant them and be creative to fill them with smaller stores. "They're not redividing space and backfilling with more sexy, hot retailers, but are changing what the center was, and making it a lifestyle center with smaller hot tenants."

New Turnover

Bill Rose, national director of Marcus & Millichap's National Retail Group, is encouraged by the turnover he sees in the New England market. "New England has historically been a very private capital market space," he says. "It appeared that private clients invested in properties, held them in their families and then reinvested."

This is changing, though, Rose says. "There's a lot of movement now. Maybe the new generation of family owners is saying, 'This is not our deal, let's look into selling it and doing something different."

Marcus & Millichap recently closed on multiple retail deals, including several Home Depot locations in Bridgewater, Mass., and New Hampshire, that closed in the mid-5 capitalization rate range. "People are really stepping up and investing in those markets for good quality single-tenant retail assets," Rose says. Marcus & Millichap also recently traded on the Walmart-anchored Charter Oak Marketplace in Hartford, Conn.

Retail development in New England is at full steam ahead for those with the capital and dedication to enter the market. It's getting more and more competitive by the week, but the demand is high and the demographic is eager for lasting retail experiences. **SCB**



WS Development's MarketStreet Lynnfield development includes experiential tenants, such as Whole Foods and Yard House, that offer something that can't be purchased online.

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